

## **Al-Saudia Virtual Academy**

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#### **EVOLUTION OF COMMERCIAL BANK.**

As the civilization found its ways from barter economics towards market economy and price mechanisms it met commercial banking. Today we live in an extremely complex network of globalization and information technology. But what even today holds a key position is the art and functioning of a commercial bank. At present commercial banks hold an extremely important position in deciding the economic fate of the masses in every book and corner of this global village.

#### **EVOLUTION:**

The origin and genesis of commercial banking can be traced back to before Christ. Infact there was on fundamental desire that paved the way for the development of commercial banking and that was the desire for credit.

The granting of the credit began thousands of years ago. In Babylon credit was given about 2000 B. C.

Dr. Crawther writes in his famous “An outline of Money”.

He present day bankers has three ancestors namely merchants, moneylenders and goldsmiths. A modern bank is something of each of these. It is said money has two properties, it is flat so that it can be piled up and it is round so that it can circulate. The progeny of money lenders is concerned with flat money, piled up money and savings. The progeny of the goldsmith is concerned with bound money, circulating and cash.

Form the above it is clear that moneylenders, goldsmith and merchants all contributed in the evolution of commercial banking.

#### **THE PROCESS:**

The process of evolution runs as follows:

Goldsmiths developed the practice of accepting people’s gold for its safe custody. The depositor was given a receipt by the goldsmith after such acceptance. Later in time of need,

depositor can take back his gold by presenting this receipt before goldsmith and paying a fee for safe guarding.

The experience length goldsmith 2 basic facts.

First there is no need to worry about returning exactly the same piece of gold that each depositor had left. Depositor could accept any piece of gold as long as it was equivalent in value to what they had deposited.

Secondly goldsmith noticed that all the depositors never care to take back their gold at the same time. Thus he could satisfy the demand of depositors by keeping minute proportion factual deposits. Furthermore he can also lend out from extra deposits.

Apart from this the receipts issued by the goldsmith became medium of exchange with the passage of time Depositors started using such receipts for the purpose of making payments.

However because of the absence of any central organizing body, the issuance of the receipts by the goldsmiths and their usage as a medium of exchange led to large scale confusion. Some goldsmiths failed to return the deposits and this caused great distress among the public.

In order to confront all this a conference was held at Weinberg in 1548. It was decided that a bank should be established in order to eradicate widespread distress and confusion. The first central bank was formed in Geneva in 1587 and then chain started that has not found its end yet.