

ORIGINAL ARTICLES

Importance of Commercial Banks

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ABSTRACT

The commercial banks has development in many aspects In the practical performance of banks function, this was a limited activity in service Banks and commercial processes. Later, it came to They possess financial power and ability to create commercial loans. They possess financial power and ability to create loans. The economical union supported by banks is not restricted to a domestic sphere, but has expanded internationally as its operations enjoy fidelity and fulfilment between banking organizations in different countries. As the banking systems commercial banks had developed, they are no longer restricted to the role of being financial and service organizations, but have become money market within the public sector. Furthermore, they follow up monetary flows and banking securities, by playing the positive role of providing the organised money market with enough information about commercial activities. In addition, as a financial mediator who has adequate statistics about other economical units, besides its main role in creating successful development plans, and riskless investment. Commercial banks operations have their own characteristics, which are intensive, multiple and influential on each other. Many operations are based on trust, such as receiving large deposit, but also with many banking risks, related to its rights or the rights of others. It is also a well known fact that banks within commercial banks rarely commit major mistakes, as the consequences of these mistakes will not be restricted to the same bank, but will expand to include whole banking system. This leads to mistrust between the many parties that will increase hazards in dealings in money.

Key words: Definition, historical, development, Importance, objective and Services of commercial Banks.

Definition of Commercial Banks and Historical Development:

According to Ziad (1996), Bank is an institution, which processes credit and lending operations, as well as accepting deposits and making advances. It also allows for the issuance of money and facilitates payment processing including automatic payment. It facilitates all forms of electronic banking services internally and externally.

As explained in the dictionary, it is described with terms bank and banking, financial investment that bank company authorized by the state for all financial activities, which include accepting deposits. It also provides expenditure of funds and granting of loans. It engages in business investment, advice, and keeping safe deposit boxes. It provides trusteeship, agency, and a number of financial services, which bear stamp of a bank.

The word 'bank' is itself a space for the disbursement of funds. The meaning of word 'exchange' in economy is the swap of national currency of any other foreign currency or viceversa, and this process is called the exchange rate or currency exchange rate.

As a result of conditions and requirements that global economic developments have emerged from the past commercial banks, banker sin Europe and Italy as traders and businessmen have placed their money. And in this way appeared a job placement and it is function of bank, where if applicant wanted to deposit gold in his possession gave it to jeweller with a receipt as proof. This resulted in accumulation of gold in coffers of goldsmith, who has become a lending jeweller with gold in return for interest. Thus emerged classic lending banks, money creation or issuance is in form of a receipt issued by goldsmith versus real gold, which in turn gives borrower great confidence, as these receipts can be converted into gold any time.

Shaker (1989) point out that, modern existing banks are results of developments in Great built on a lot of primitive past systems and which include credit operations in its primitive adults traders, usurers and men of chapel, then while enlarging affecting nature of modern banks, and in their operations, where credit is due, as mentioned on outset that their roots date back to big traders, goldsmiths almoravids.

Banks are institutions where natures of credit receive a non- specialized retail deposits Ductile upon request or after short-term and dealing mainly in short-term credit and called in terminology as 'bank deposits'. (Zeinab, *et al.*, 2005). Daiff (1995) Stated that, Commercial banks are a financial institution based on trade funds, craft their basic as they act as an intermediary between capital and investments and with the investments seek access to private capital.

The institutions that accept cash deposits at any time by the people and state institutions are known as commercial banks. (Mahmud, 1987).

As capital projects are essential to achieve profits, much of profits should be at lowest cost possible and on road to provide banking services or creation of cashed money commercial banks. (Mustafa,1999).

Shaker (1989) indicates that a financial institution, which focused its major operations to collect money in excess of needs of people or institutions of state or state itself for purpose of lending to others according to certain grounds or selected investments in securities are primarily under commercial banks.

From above, it can be deduced that bank is a financial institution, which focuses its major operations to collect money in excess of need for public institutions by nature of services, as well as state. Thus trend of banking development in general has expanded within scope of operations performed by commercial banks, which are no longer limited to this type of banks to do short-term credit operations, such as receipt of current deposits from individuals and enterprises, state institutions and discount bills of exchange and provision of short-term loans for trade and industry to provide capital and banking development which didn't go beyond this but further than in previous year's trading.

Historical Development of Commercial Banks:

According to what is mentioned by Mohammad (2005), Commercial banks originated and evolved since time ago, whereby started beginning of banking operations in reign of Babylon in Iraq, known as Mesopotamia in fourth millennium BC. knew beginning of operations of existing banks, exchange of currencies, save deposits and grant loans. The idea in exchange of money, which in middle Ages uprooted idea of teller who gained income from currency exchange, whether foreign or local currencies.

Commercial banks in its present form emerged in last period of middle Ages, specifically in thirteenth century and fourteenth century. This was due to crusades within that period, with their wars which required huge amounts of money intended to equip armies, As a result of these wars, especially at end of increase and accumulation of wealth. Growth of increasing Events banking and spread of idea of accepting deposits and certificates of deposit emerged out of check and paper money of its modern version.

Mohammad(2005) show that Money Changers showed that it was not enough to accept deposits, but also worked on investment deposits and profiteering from behind. As money-changers allow their customers to withdraw amounts in excess of balances and deposits deposited with, which is currently known in commercial bank overdraft, this in turn caused a type of operation known as 'bankruptcy'. As a number of houses banking Result could not fulfil debt, leading thinkers in late sixteenth century to call for establishment of houses of a purely governmental saving deposits, and thus evolved practice of financial ATM-to-house purely to Commercial Bank. The oldest bank to carry name of bank was "Bank of Barcelona" in (1401) and it accepted deposits and discounted bills of exchange, while first state bank has been established in city of Venice, Venice 1587, the municipality of Amsterdam established Bank under name "Bank of Amsterdam" in 1609 for purpose of filing excessive and providing content to public. Thus, started in sixteenth century all major trade transfers between Mediterranean, Atlantic Ocean and with coast of European overlooking Atlantic Ocean, many countries such as Spain and Portugal, Netherlands, England and France have flourished banking business in these countries as a result of flow of goods and precious metals in sixteenth and seventeenth centuries beginning of eighteenth century started with a significant growth in number of banks in Europe that have increased functionality of bank. In addition discount has expanded to lending and credit facilities and creation of money. According to Abdullah(1996) process of money creation is possibility of Bank in bringing his pledge to pay actual money and that includes granting loans, where pledges to pay in place of money which is in a written form such as,a check accepted by others in transactions and other forms of writing issued by Bank in that period and this process is "Money creation "with emergence of industrial developments and entry in era of large-scale production, banks have been expanding since onset of nineteenth century, where they participate by lending medium-and long-term as well as emergence of specialized banks which have increased in forms of great development of industry and production.

The end of nineteenth century saw increasing dependency on banks as a pioneer of progress and thus, emerged mergers between banks and companies to buy most of shares of other companies, and this densely increased after First World War in most countries in world of capitalism, where state intervention is clear on shaping work organization. This resulted in banks specializing in financing of business operations and private money creation and deposits, and created a state central bank entrusted with the right to issue money as well as giving private banking to other banks. Stated that in addition to work of normal banking and issuance of banknotes, and in nineteenth century AD, advantage of state without other Commercial banks was to issue money and control over other commercial banks and named this as 'bank of banks'. (Mohammad, 2005).

Thus arose need by banks to facilitate transactions on basis of term and trust and to fulfil terms of synchronizing emergence of capitalism and contributed to developments of all aspects of industrial, financial and monopolistic and continued to era of socialism, which aimed to serve and benefit entire community without discrimination. The above mentioned a brief history of banks; rules of engagement demonstrated how they inherited event of merchant who accepted deposits or goldsmith who accepted deposits, mineral or morphological, who commuted currencies to lend to others and then added other events.

So is bank most important sector of economic activity, and that economic developments played an important role in emergence of several new variables at time was money-changers, goldsmiths, who first appeared on face of these variables?

So are first nucleus of birth of commercial banks retention money of traders, businessmen, owners cash deposits against receipts, and by those money-changers, goldsmiths gradually to transfer deposits from account of applicant to pay expense of another applicant for commercial transactions and to allow some of their customers overdraft which has led to bankruptcy of number of institutions?

Proliferation of these transactions and its interaction with economic developments, he noted that money changers or gold funds have increased in their accumulation; this is what caused them to think about fully or partly investing in return for interest.

Gradual emergence of banks was mostly institutions owned by individuals, families, and there were laws provided for protection of depositors in case of bankruptcy, for return of private capital to owners of these banks. Those laws and modifications led to establishment of banks with joint stock companies, thanks to spill over effects of Industrial Revolution in Europe, which led to growth of companies with their continuous span of their activities. The need for large banks to be able to do financing of these companies have been established by a number of these banks, which expanded its business to set up branches all over world, and had a great influence in use of bank checks in settlement of transactions and withdrawals automated from anywhere, at any time in all countries of world. (Abdullah, B, M, 1996).

The Importance of Commercial Banks:

Salah El-Din (1997) Notes that, Commercial Banks put a set of Importance objectives as follow:

- The most important dealing is to accept all types of deposits, and therefore provide a variety of investment opportunities. There are term, current and savings deposits, certificates of deposit and other types of financial transactions.
- Importance in their public services from which to save cash, wealth, care contributions, enrich their resources and provide safeguards.
- Importance stems from the methods of granting various types of loans. Whether short, medium or long term is what gives corresponding opportunities to a variety of lenders.
- Importance of including its provision of banking services to all customers without discrimination, which is not limited to service a particular segment of customers and not other.
- Importance in contributing to, and accelerating in all types of development activities undertaken by State and support national economy
- Importance in ability to create money, whether alone or together with other banks.
- That the task of compilation of national savings and directing them towards investment in economic projects, in line with policy of State credit, and have absolute freedom in financing of a variety of local and international projects.
- Based on their importance as one of pillars of national economy and that by doing guarantees, to provide for implementation of large projects, and their role in financing foreign trade; especially in provision of documentary credits, which guarantee rights of exporters.
- Importance reflected in spread in community, which makes it easier for individuals to obtain service banking and to meet customer and students needs, various services and facilities and other transactions of a bank according to laws and regulations applicable in State. (Salah El-Din, 1997).

Properties and Characteristics of Commercial Banks:

Properties of Commercial Banks:

According to Lester (1996) requirements of Commercial Banks Properties must include what follows:

- The property of banks to rely on mega-funds in their dealings, compared with its capital.
- Characteristics of diversity of clients of these banks from individuals and institutions because of type of services provided by instruments, trading accounts and other special services
- The characteristics of commercial banks as more risky types of banks in performance of their activities, making them bear responsibility of managing money.
- Due to these facilities. These banks are under great demand deposits and short-term loans, which are very susceptible to liquidity risk.

Characteristics of Commercial Banks:

Suleiman,et (1997) has stated that, commercial banks are banks that handle credit and deposits and what distinguishes them from others that is that they accept demand deposits and current accounts, this process is to create money upon mere acceptance of deposits common to different types of banks, central bank, a SAMA for a country which is accepted from commercial banks and their deposits. However requirement is that deposit has a specific part of their funds, which is considered as a cash reserve, and some specialized banks accept different types of deposits for, or subject to notice. But what distinguishes commercial banks, is acceptance of current accounts and this makes them fully prepared to pay these funds to their owners at any time when these latter request a withdrawal, while not dealing banks, other non-commercial with this type of calculations in practice, since only treating them as term deposits. It is not possible for depositary to withdraw money only after a period of time agreed upon with customer or beneficiary and prior notice, and result in creation of money is important for dealing with commercial banks on credit that distinguishes them from others, and handle credit is re-lending part of their deposits under certain conditions imposed by bank to customers.

Objectives of Commercial Banks-services:

Objectives of Commercial Banks:

All commercial banks seek to accomplish three main objectives:

• *Profitability:*

The bank seeks to maximize value of his fortune by any appropriate profit of not less than those achieved by other projects which are subject to same degree of risk, and distribution of part of those profits to shareholders and retain a portion in form of reserves.

To achieve this profit, bank employs his money obtained from different sources and works to reduce expenses because reality of profit is difference between revenues and expenditures. Bank Revenue is sum that consists of results of operations by Bank to lend to others and to invest in projects and other services generated as coffee benefit, in addition to capital gains that result from high market value for some assets. expenditure unknowingly relates to operations and benefits paid by individuals as addition of capital losses that appear in lower value of assets market, defaulting loans, and centres on interest of bank in achieving largest surplus as possible between total income and expenses of various terms of Bank is working to achieve this Goal by reducing expenses on one hand and through greatest possible total income on other hand. (Mohsen 1999).

- The safety of banks funds are rights of depositors.

The bank's capital trade is small compared to a net asset, which gives index margin of safety for depositors zero when compared to their net assets; bank cannot afford to lose more than its capital. Has bank resorts to be covered by funds of depositors; administration is seeking to achieve maximum return, which may have a negative impact on level of liquidity and degree of security. The depositors in the bank who hold a great deal of liquid funds, and direct their financial resources to investment consist of low risk degree which impact adversely on profitability.

Therefore, management of commercial bank that focuses its goal on achieving a maximum return, and objectives of depositors on liquidity and safety can be achieved through legislation and directions of Central Bank.(Salah al-Din 1998). Cash and cash similarities must be on commercial banks to keep liquidity to meet their daily financial obligations which are in form of requests for depositors to withdraw deposits, meet the demands of credit and hand out cash and quasi-cash.

All in all to provide basic objectives of commercial banks, to spare bank a lot of losses, gain confidence of depositors and to eliminate spectre of bankruptcy.(Suleiman 1997).

Services of Commercial Banks:

Mohammad (2005) show that, Commercial banks are financial institutions whose most important function is to collect savings for reinvestment in form of loans and banking facilities, Banks developments have evolved in different historical stages, but main function of banks is to maintain funds. Developments that have occurred have enlarged its services to varied services from old to modern contemporary, in order to serve their customers and motivate them and remind them this:

- ▶ Accepting deposits from clients, private and public institutions in form of current accounts or deposits payable upon demand or after order.
- ▶ The granting of loans to all various economic activities in various formats and certain guarantees, for a reasonable return from this process.
- ▶ Investment in deposits of various kinds, especially surplus in financial market and the employment of bank's resources in form of loans granted to clients and investments taking into account multiple foundations invest funds with bank profitability, liquidity and safety.
- ▶ Version: buy and sell all kinds of checks, securities, letters of credit and purchase of personal foreign exchange sale and purchase of traveller's checks and internal and external transfers.
- ▶ Collection: All types of bonds and checks through clearing house and payment of checks drawn upon other banks.
- ▶ Leasing funds for rail customers and put at their disposal work in operations of stocks and bonds, and securities and acceptance of secretariats and resolution of commercial paper and acceptances, guarantees and letters of guarantee.
- ▶ Advising clients with regard to their work and development projects to achieve confidence in bank.
- ▶ Management of customer operations by proxy.
- ▶ Service cards and from which bank card automation of any immediate cash withdrawal ,to inquire about balance and account statement request, checks and transfer funds, as well as bank card machine Premier, which includes all previous service, in addition to immediate servicing of loan automation and deposit foreign and local currency.

Conclusion:

Commercial banks are important addition to banking sector, and its contribution to economic increase and financial services to this sector is immense, such, it is considered as major part and parcel of this sector as are conventional banks. Both strive towards achieving similar goals despite differences in their working styles. Commercial banks and financial institutions sides their share goals with commercial banks have introduced to market new mechanisms and some important characteristics which made it different from conventional banks and unique in mobilizing saving and attracting investments in countries where they operate.

They may also determine the needs of different group of a public who prefer to keep their money to be employed commercial banks ;so it is used in services for financial and economic development, their money in that case contribute immensely to development of societies.

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