

Section 5.—Commercial Banking

Subsection 1.—Historical

Since one of the chief functions of the early banks in Canada was to issue notes to provide a convenient currency or circulating medium, it has been expedient to cover both currency and banking in the one historical sketch which is given at pp. 901-905 of the 1938 Year Book. However, the function of note issue is no longer as important as it was. Latterly, the services of the chartered banks in gathering deposits from innumerable sources have emphasized the importance of deposit banking by which the savings of the people are put to immediate productive and commercial use. With the development of commercial banking, other necessary commercial banking facilities have been given more importance. Among these is the mechanism of bills of exchange by means of which foreign trade is financed. The normal peace-time mechanism of this function has been affected, since the outbreak of war in September, 1939, by the establishment of the Foreign Exchange Control Board, whose operations are described in a special article at pp. 833-835 of this edition. The principal features of this development of commercial banking facilities in the evolution of the Canadian banking system may be summarized as follows: (1) its origin, closely related to the Montreal produce and export trade, and to the commerce of Halifax and Saint John; (2) the development of the branch bank system in order to meet the demands of a rapidly moving frontier of settlement; (3) the adaptation to the requirements of the grain and cattle trade of the West; and (4) the consolidation during later years of the features that tended towards its early success. The development of a stable system has been accompanied by failures, particularly marked about the middle of the 19th century, but progress has nevertheless been steady and based on sound principles.

The branch bank is perhaps the most distinctive feature of the Canadian system as it exists to-day, and for a country such as Canada, vast in area and with a small population, the plan has proved a good one. A result of the growth of branch banks was the development of a partly centralized system—centralized as to banks, of which there are now ten, rather than as to districts as in the partly centralized system of the United States. There were 28 chartered banks in existence at Confederation. The elimination of weaker banks or their amalgamation with more stable institutions has been a progressive move towards greater security and confidence. A list of the banks at Confederation appears at p. 897 of the 1940 Year Book. A table at pp. 894-895 of the 1937 Year Book shows the insolvencies since Confederation; there have been no further changes reported.

8.—Bank Absorptions in Canada since 1867

Purchasing Bank	Bank Absorbed	Date ¹
Bank of Montreal.....	Exchange Bank, Yarmouth, N.S.....	Aug. 13, 1903
	People's Bank of Halifax, N.S.....	June 27, 1905
	Ontario Bank.....	Oct. 13, 1906
	People's Bank of New Brunswick.....	Apr. 15, 1907
	Bank of British North America.....	Oct. 12, 1918
	Merchants' Bank of Canada.....	Mar. 20, 1922
	Molson's Bank.....	Jan. 20, 1925

¹Dates later than 1900 are those of the Orders in Council authorizing the absorptions.