

THE JOURNEY FROM BENCH TO BANK AND ITS ISLAMIZATION PHASES FROM BAITUL MALL TO CONTEMPORARY INTEREST FREE BANKS

- Qaisar Bilal
- Zeeshan

Abstract:

The Banking Industry has a fast Market Growth for his depth involvement in almost all life businesses. Nobody can deny the importance of this sector and even in the Present day world not a soul can avoid dealing with banks. Starting from payment to the hospital, on the birth day of a child till payment to the cloth shop for coffin and payment to the laborer entrusted for the digging of grave for the dead body, one has to deal with financial transaction and surely, the banks.

It is wrong to say that introduced Banking system came into being in a jiffy. But to reach this state of condition took hundreds of years afterward these Banks got firmness and strength and become concrete and well established and chain up the whole world in its curse web and clamp whole.

The present study investigates different aspects and dimensions of the journey started from benches and kept on shaping till the contemporary forms coupled with highlighting the concept of Baitul Mall that propagated across different phases from the era of Muhammad pubh till contemporary interest free banks.

Keywords

Riba: Interest, **Quaida-al-Azahab:** Gold Standard, **Baitul Mal:** Islamic financial body

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- Lecturer Islamiyat, National University of Computer & Emerging Sciences, Peshawar
 - MPhil Scholar, Deptt: of Islamic Studies & Research, University of Science & Technology, Bannu

Introduction

The word *bank* was borrowed in Middle English from Middle French *banque*, from Old Italian *banca*, from Old High German *banc*, *bank* "bench counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transaction atop desk covered by green table cloth.¹

According to the Hartley Wither,² "the Bank is a manufacturer of credit and a machine for facilitating exchanges and Banking is the machinery where capital, then, is wealth invested in industry, finance is the machinery by which this process of investment is carried out."³

The Bank also defines as every financial institution which involve with receiving of trust, provide different types of services like collecting deposits and giving different loans to different people in order to get profit."⁴

John McKinley⁵ commented on Bank and defines the Bank as "An establishment which makes to individual such advances of money or other means of payments, as may be required and safely made and to which individuals entrust money or the mean of payment when not required for use by them and According the oxford dictionary of business, definition of bank is the reservoir or collection of anything."⁶

Taqi Usmani⁷ defines as "Bank is the name of business institution which collects the savings from the individuals and provides to others for business and need purposes with agreed terms and conditions."⁸

Initial Phase of Trade

Man has been using different ways in order to satisfy his needs from the very first day and has been using all the available resources of that time. In the beginning, there was no concept of cash. Therefore, the barter trade that is goods for goods system prevailed. Normally people act accordingly and exchange commodities for fulfilling their needs but this system had complexities and had a large number of drawbacks and defects. One of the main flaws facing people of that era was the transportation, that was not easily available and therefore, it was very difficult to carry the goods from one place to other; moreover, demand and supply had not be satisfied in one place. Similarly, there was lacking of desires and wants matching from either sides or parties. The satisfaction is needed for exchange from the parties. For example if one bull would be exchange for four goats. It was necessary that a person with bull should find the man who wants to exchange goats with the bull. So the arrangement of this exchange was a big problem of this system. It was also very difficult to store goods for a long time. They lose their value at time passes. Under barter system some goods had not be subdivided and also there was difficulty in determine the ratio of exchanged commodities. Due these limitations people switched from this system.

Taqi Usmani (1943), commenting on the situation, states:

In the beginning of human life people would deal in goods for the exchange of goods which was called Barter System but it had so many defects and flaws. Transportation was main problem as well as demand and supply could not be satisfied at one place. For example a person wanted to purchase cloth in exchange of wheat but the owner of cloth did not want wheat, so commodities could not be sub divided into smaller units or pieces in order to make them foundation of trade.⁹

Bimetallic Standards as Mode of Exchange

With the passage of time, human society evolves likewise the method of trade also revolutionized. Therefore, the barter system, due to its drawbacks at last, came to an end and was replaced in which some precious commodities were declared as standard and become the means of exchange. The people had started using these standards for buying and selling their needs and in short these standards become the mode of exchange.

After that certain commodities were declared as standard, like wheat, barley and leather soon after that gold and silver replaced. These two commodities were internationally acceptable and the transportation did not create any problem. Initially the exchange of goods took place on the direct weight of gold without coining. After that minting of coins begin. At first everyone were allowed to mint a coins. This era is called gold standard in general history and in Arabic called Qaida-al-Azahab. After that the coins of silver besides gold were added and these silver coins became the tool of exchange likewise gold. This system of banking in which both silver and golden coins were used was known as bimetallic standard.

This system prevailed for a long time till they were replaced by the receipts of goldsmiths and people started purchasing commodities in return of these receipts. After that the receipts were modified into notes but those were absolutely different from the notes we used today and they were made of gold instead of paper. The Banking system got start since that time when goldsmiths realized that people usually do not come to take their gold back. So they started lending the gold of other to other people.

One of the basic factors, lying behind to this system, was the psychological phenomena of human being that man had always been trying to secure his wealth. It is common observation that man is greedy for wealth; therefore, he is always worried about the safety of his wealth along with his health/life. Man of early ages solved this problem by burying his savings underground. But this process did not prove useful and affective. So he adopted an alternative path by keeping his saving with rich and powerful people of their areas .With increasing and developing of this trend, number of trustees also increased and many trustees

appeared, a competition started among them for keeping the wealth of the others safe. During this period the trustees started lending these saving to needy people on interest and thus they had a permanent source of income .With the increase of their income the trustees started paying the interest to the actual owners of wealth. So in this way the concept of banking took start which improved into the present status which is before us.

Establishment of Official Banks & the Bank of Venus

As a result of these struggles for making safe and secure place for his wealth, the banking system came into being and had being passed through number of growing stages and finally got the essential and important position of developed society as almost every individual and organization has a firm connection with it in order to lead daily activities in a smooth way. In today scenario this Banking system holds the position of backbone of the present economics system. Keeping in view the role and importance of Banking Sector, its existence is considered the life blood for world's economy. First of all a bank was established officially in 12th century. "The Bank of Venus" is perhaps the first bank established in 1157 and the other banks established after it are the "Bank of Geneva (Italy) in 1407" and "Bank of Barcelona."¹⁰

It is not correct to say that Modern Banking System is the invention of western world and they link it to Europe. The reality is that the history of business banks in western world is not very old but this development is very near to Industrial revolution. The first Bank established in Europe, situated in one of the city of Holland that is Amsterdam, was "Bank of Amsterdam" in year 1609.¹¹ After that, in the reign of Charles –II (1660-1685), the Whig Government established, a finance company in British which dealt in banking.

After that in 20th century a numbers of commercial banks were established in British which were merged into four big banks known as big four. The names of these banks are:

- 1) Lloyds bank
- 2) Barclays bank
- 3) Midland bank
- 4) National Westminster bank¹²

Besides these, some small banks also came into being in Europe such as Bank of England becomes one the most prominent Bank among them.

The establishment of banks also took place in indo-Pak subcontinent. The first bank, bank of Bengal was established in 1809 in indo-Pak subcontinent. Afterwards, a chain of banks came into being there in Madras in 1840 and in Mumbai in 1863. Imperial bank was established in 1921 wheer Habib Bank was established in 1941 in Mumbai and Muslim Commercial Bank was established in 1947 in Kolkata.

In Pakistan Habib Bank which was shifted in 1947 to West Pakistan at Karachi and Muslim Commercial Bank shifted to East Pakistan at Chittagong in 1948, started the process of Banking.¹³

Concept of Bait ul Mal

By the comparison of conventional financial system with Islamic one, the clear and bright beam can be observed in the era of Sahaba (R.A).The history shows that the earliest Islamic financial body is Bait ul Mal, which refers to place or home use for fund collection or payment. The main function of this institution is to manage government expenditure, collection of taxes and receiving and distribution of zakat. Zakat is actually the specific amount deducted from wealth. During the prophet Mohammad (PBUH) and Rashideen caliphate, the first one Abu Bakr AL Siddique, all revenues collected were distributed straight away without any delay; for that reason, there was no need for a separate house of Bait ul Mal. During the reign of the second caliph, Omar Bin Al Khetab, definite institution of Bait ul Mal was organized. During this, there was a great boost in state income from the concord areas, dire need is felt to be supervised and managed. A central treasury officer was made to look after and for particular areas, sub branch of treasury was made to tackle the financial matters. For maintain the record that is book keeping and accounting, further sub divisions of accounts i-e Account department was documented.

The most important, key sources of earning or financial collection for Bait ul Mal were income from concord land, Jizia [a wealth deduction to be paid by non-Muslims in lieu of zakat], zakat [a wealth deduction to be paid by Muslims at the rate of 2.5%]. Secondary sources of income other than the mentioned sources incorporated Sadaqah (Donations) and any valuable thing or commodity, of which the owner is not known. Omar Bin Al Khetab (R.A) established institute commonly known in present day's welfare society or center in order to support the orphans and other poor people like, widowed, aged and disabled. The other function of it to confer the financial assistance to retired one. Besides these all heads cited above, this house or institution is also responsible to provide fund for all type of salaries and government spending. During that period, one of the activity performed that are very near to existent banking structure is of safekeeping of money or any other things having value. Beside this non-Muslims were also supported via stipend and giving relaxation them in the form waiving Jazia are such activities occurred at that time.

Islamic code of Qard [loan]

The first personality to apply Islamic code of Qard [loan] was one of the great companions of Allah's Messenger, the way he used to use this process, collecting money from people in his own city in Mecca and deal with them to receive the

money from my brother and his brother was there in other city i.e. Iraq, the people when reached Iraq, they got their deposits from him. This Allah's messenger name is Abdullah Ben Al Zubair.¹⁴

During the bright era of Muslims ruling, which remains for almost twelve hundred years started from the near the beginning days of Islam until the fall down of the ottoman kingdom in 1922, there was a great extent of the Islamic doctrine (shariah) that administrate all phases of the lives of the Muslims concentrating the basic code of the commercial and financial activities in many areas of the world. It is mentioned in the book, Islamic Banking, How to manage Risk & improve Profitability;

The Islamic empire, within the first 100 years of the death of Prophet Muhammad (PBUH), was larger than the Roman Empire, reaching Spain in the west and India in the east. In addition, this Era witnessed flourishing economic and commercial activities, as well as with the sciences, particularly at the golden era of the Abbasid caliphate from 750 to 1258. Despite the availability of all elements needed, Muslims failed to establish and develop a financial system that caters for the financial needs of both Muslims and non-Muslims. It was not until the seventeenth century when the conventional interest-base financial system was established in Europe as a result of the economic and commercial activities revival as well as the development in mathematics and statistics, which provided powerful tools for financial mathematical science.¹⁵

Contemporary Islamic Banking

Early efforts regarding Modern Islamic Banking System started from about 19th century and ongoing through to the current date. This division highlights the progress of Islamic banking system or it may called Interest Free banking system in three most prominent countries, one is Pakistan and other two are Sudan and Egypt. The major reason behind these countries is very clear and the Islamic banking in Egypt, lead the way and take initiative by local saving bank, Mit Ghamr, which was recognized in 1963, is considered the signpost in the progress of contemporary Islamic banking for the reason that it has showed that shariah set of laws are enough to meet up the financial requirements of Muslim of in the present day. The remaining two countries selection is because of the base that these two have initiated to entirely convert their banking system to Sharia stream lines. Moreover, one of the fact about Malaysia, it is believed that this is the mostly populated country accepted the challenge to hold the Islamic banking system.

Beginning of Islamic banking system, to a great amount, is credited to the wave of restructuring believes and thoughts of the Islamic resurgence movements. Muslims scholars and reformers re-energized and encouraged the thoughts of reapplication of Shariah's teachings and principles to the entire phases of living

and that adherence to shariah ideology is essential for religion Islam and its believers and this was the time of early twentieth century. Amr Mohamed El tiby states;

One of the main issues that concerned Muslim scholars was how to eliminate Riba from their lives and how they could make their financial dealings compliant with their shari'ah. Rashid Rida (1865-1935) was a Syrian scholar and jurist who joined Jamal Al Din Al Afghani (1838-1897) and Mohammad Abdul (1849-1905) in their newspaper Al-Urwa al-Wuthqa and the later-launched Al Manas weekly newspaper in Cairo, where they published articles that discussed the legitimacy of interest. This period has also witnessed thinkers such as Hassan Al Banna (1906-1949), the founder of the Muslim brotherhood (the foremost of Egypt's resurgent Islamic organization), Sayed Qutb (1906-1966), one of the most figures in modern sunni Islamic revivalism and thinker of the Muslim brotherhood in Egypt, and Syed Abdul Ala Mawdudi its party jamaat-e-Islam and major Islamic thinker and revivalist leader. Their ideas and writing on how to establish the Islamic shari'ah into all aspects of Muslims lives have helped in enhancing awareness of the importance of establishing the Islamic financial system in Muslims minds.¹⁶

The proposal of interest-free banking or Islamic banking is very old because Islam restricted the interest base transaction as Riba is Haram and the suggestion for the establishment of such financial institution that run according to shariah has been for about sixty to eighty years old. The first effort to launch shariah based financial institute or bank which finished fruitlessly and ineffectively was in Malaysia in the mid-1940s. The plan was to spend pilgrim's saving in plantations and any other sector like real estate in accord shariah teachings. In the rural areas of Pakistan, the subsequent testing has also been conducted by few religious scholars with intention to get rid from interest but unfortunately this testing was also failed in 1950. One other positive step taken by Malaysian government in 1962 with intention to support and help out the people who want to perform the Haj and established the institute named Pilgrim's Management Fund. The most victorious and innovative experiment, was the foundation of small financial institution in a very small town in Egypt in 1963, Mir Ghamr Local Saving Bank, considered the signpost for development of the contemporary interest free banking system. Afterward, the next Islamic financial institution was Nasir Social Bank which was in 1973. In fact it is not fine clear that it was working with direction of Islamic Teachings or not but it was considered that this was second Islamic institution.¹⁷

Then the third step which was a land mark in the setting up of Islamic financial system is the establishment of the Islamic development bank, Jeddah in 1973. This Islamic development bank was set-up by the OIC comprising of all the Muslim countries and it has a wide membership of the Muslim countries and mostly finances them. But fortunately as early as in 1973 when Islamic

development bank was established, it was decided that this Islamic bank was to be run according to Islamic principles. So therefore, right from the very beginning, this Islamic development bank is working under the Islamic modes of financing. Although this Islamic development bank has no permanent Sharia board, but it has been consulting different Muslim scholars at different stages and with the great efforts of the different Islamic expert and Muslim scholars the documents of this Islamic Bank are up to optimum extent according to the Sharia's Principles. This era also observed the foundation of a number of Islamic banks in the Arab countries, for example, by team of businessmen from a number of countries, the interest free bank, known as United Arab Emirates, established and that was believed the first Islamic private bank in the world in 1975. Similarly the other bank named, Dubai Islamic bank in Dubai was established. After two years, Faisal Islamic banks were established as private banks in two different countries that is in Egypt and Sudan in the years 1977. Government of Kuwait in the same year in 1977, established an Islamic financial institution, named the Kuwait finance house.

The next episode which has duration of about twenty five years, from seventies of twentieth century to the start of twenty first century, stepped up as a result of quick boost in black gold i-e oil worth that carried massive capital and prosperity towards the areas of Middle East and become core reason for the broaden the volume and frequency of Islamic banks in the world of different Islamic and non-Islamic countries. In this phase, more than hundred Islamic banks were established and working across the world. In adding up, other than Islamic banks started to present and recommend the shariah based different type of services and products via specific subdivision currently became identified are Shariah or Islamic Counters. In this duration, few countries converted the entire banking system to Islamic one like Sudan and the other country is Iran. These two countries have converted the financial system in less time to Islamic or shariah based system but unluckily, Pakistan due to some of the external and internal factors did not persist. The process of conversion here in our country is very slow, that initiate with beginning of Pakistan existence i-e in 1947 and then it became formal in round about 1970 and was in broad spectrum in decade of late eighties and till date the struggle is continue and most of the positive steps were taken by the State Bank of Pakistan.

The next phase seems which has duration of about five to six years, lengthened from 2003 until the mid of 2009. This period is prominent among all previous phases for its two distinct features; one of these is the universal recognition of shariah based complaint's financial resolution by the dictatorial establishment in United States and Western Europe, and predominantly by FSA i.e. Financial Services Authority and this is the only finance regulators in the Europe. The other one is the emergent attention and contribution of the global finance giants in

Western World in general and specifically in Europe, United States and Japan in the Islamic finance dealing. These include a number of banks like Citibank, Credit Swiss and UBS i.e. Union Bank of Switzerland. Similarly, in Japan, Islamic Finance got aware and several Japanese banks have also got entry in Shariah based banking.

During this period, Financial Services Authority authorized three completely Shariah based financial institution and the Islamic Banks established by the investors from Middle East in order to meet the needs and to fulfill the emergent demands for Shariah complaint's financial solutions in the United Kingdom. The name of the three banks approved by the cited above authority i-e FSA, in 2007, the Bank of London, in 2004 the Islamic Bank of Britain and the other one is the Bank of European Islamic Investment, in 2006. The tendency towards Islamic financial institutions and Banks go sky-high in the last quarter of the year, 2009, where regulators, overseer and bankers throughout the Universe, assessing the grounds, basis and results of worldwide economically downfall and crunch observing all the financial markets. Many regulators as well as bankers assessing the reality that only one sector, Interest free financial Institutions remains safe and the slightest harmed due to these crises facing the entire world because of its such nature totally based on assets or it may say asset-based nature.

This may prove that the establishment of Islamic financial institutions is no longer a dream. It has been translated into a reality, not only in a small area but in a large number of countries, both Muslims and non-Muslim. The main groups who came forward for this purpose were the Dar-ul-Mall Al Islami based in Geneva, Al-Barakaha, Al-Rajih based in Saudi Arabia and Kuwait Finance House- based in Kuwait. These are main groups and they have established a large number of Financial Institutions and Islamic Banks in different parts of the world. The move towards establishing Islamic Financial Institutions went on progressing and now, for the present these countries in which you can find the Islamic banks and financial institutions. Among the Muslim countries there is Pakistan, Bahrain, Dubai, Kuwait, Abu Dhabi, Saudi Arabia, Iraq, Qatar, Iran Jordon, Philistine, Yemen, Lebanon, Malaysia, Indonesia, Bangladesh, turkey, Albania, Brunei, Egypt, Senegal, Sudan, Niger, Tunis, Djipute, Gonia, and Mauritania. The non-Muslim countries which have Islamic financial system or financial institutions or banks are UK, USA, Canada, Luxemburg, Switzerland, Denmark, South Africa, Australia, Indi , Srilanka, Sypris, Bahamas, Virgin island Cayman island.

There is tremendous elevated rate of 28.6 percent observed of assets growth of world high rated five hundred Islamic financial institutions. The volume is of about more than US\$ 1.2 trillion of existent Islamic financial institutions. The Islamic Banking sector of Pakistan raised by seven percent in the middle of current year i-e 2013. According to the official statement of the Central Bank of Pakistan i-e State Bank of Pakistan, the growth rate abridged technically because

of a huge deposit invested in the Islamic division. Presently, the deposit base position at Rs. 771 Billion, while the asset section improved to Rs. 903 Billion for the period of 2013. As a whole the Islamic Banking shares rises to 9.9 percent in Pakistan. On the other hand, profit stage have float down to Rs. 4.3 Billion as measure up to Rs. 5.9 Billion in the previous year.

Islamic Banking, strongly endorsed by the Central Bank, has displayed stronger performance as compared to the conventional banking sector. Its asset ‘quality’ is sounder than conventional institutions, and the rising share in Pakistan’s market is evidence of an aggressive outlook for its future.¹⁸

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