

Historical Perspective of the Role of Religion (Faith) in Banking

Adnan Malik¹, Karimullah², Arif Ul Haq³, Mansoor Khan⁴

^{1,2,4} Institute of Management Sciences, Peshawar, Pakistan, ³Islamia College University Peshawar, Pakistan

Received: July 8, 2024

Last revised: November 15, 2024

Accepted: December 28, 2024

Abstract

This study aims to review historically the literature on the perspective of divine religions about *riba* in banking. This study reviews the existing literature in the form of research papers, books, and documents covering banking-like activities from ancient times to contemporary Islamic banking in the 21st century. This historical review covers the period of warehouse and temple banking, the arrival of Judaism, the development of banking practices, and the prohibition of *riba* in Judaism, Christianity, and Islam. The study divides the history into two parts. Part A covers the Pre 20th Century history and Part B covers recent or contemporary history starting from 20th Century onwards. This study divides the long history of banking for convenience into following eight periods starting from 3000 BC to Contemporary Islamic banking from the 19th century onwards. This is one of the few studies which gives the divine religions perspective of banking with a focus on *riba*.

Keywords: *Riba*, Commodity banking, *Gharar*

1. Introduction

This paper reviews the history of banking and banking-like activities from ancient times to contemporary Islamic banking in the 21st century. This historical review covers the period of warehouse and temple banking, the arrival of Judaism, the development of banking practices, and the prohibition of *riba* in Judaism, Christianity and Islam.

Since Islamic banking derives its base from religion Islam and mainly aims to avoid *riba*. Therefore, for bringing the context, stance of Abrahimic religions (Judaism, Christianity and Islam) on *riba* is important to find which is explored through reviewing literature in historical perspective. The study divides the history into two parts. Part A covers the Pre 20th Century history and Part B covers contemporary history starting from 20th century onwards. This

Corresponding author: Adnan Malik, adnan.malik@imsciences.edu.pk



progression confirms that current Islamic banking is its re-emergence and has an impact on people's attitude towards joining it and at their practices when they work.

The review is divided into two sections. The first section reviews the history of banking and the role of faith in its development. To set the stage for the recent Islamic banking history, history of banking with a link with three divine religions is reviewed. Therefore, the history is divided into two parts namely, Part A covers pre 20th century history of banking with respect to divine religions and part B reviews recent Islamic banking history starting from 20th century onwards and reviews the structures, models and governance practices in Islamic. This history is divided into eight eras. It begins with ancient history and covers the periods of warehouse and temple banking, the arrival of Judaism, the development of banking practices, and the prohibition of *riba* in Judaism, Christianity and Islam. It ends with a brief history of contemporary Islamic banking. The second section outlines the constructs for this paper. In doing so, it reviews the structures, models and governance practices in Islamic banking, the role of knowledge diffusion, *Shari'ah* financial principles, and conventional banking principles.

2. Literature Review

PART A

2.1 Historical Review of Literature about Banking and Faith Interaction

The history of banking is as old as that of human civilisation, and throughout that history knowledge about banking has gradually diffused around the world. Before the invention of money, buying and selling operated on a bartering system and commodities would be stored and lent. People wanted to keep their commodities secure, so they would often store them in religious temples. The ancient Greeks and Romans made considerable use of temples for storing commodities and loaning them to people in need (Donaldson, Piacentino & Thakor, 2016). Present-day knowledge and practices relating to cash deposits and the safe storage of money may be based on the learning from these ancient methods of storing commodities. Given that the aim of lending commodities in ancient times was to help people in need, charging extra on these loans was considered immoral and unethical (Klein, 2020). The use of sanctuaries (temples) for lending and borrowing shows a link between faith (religion) and banking that existed from the very beginning. The literature terms this banking commodity and temple banking.

History reveals that the first divine prohibition on charging extra on loans came from Prophet Jacob when the Old Testament (the Torah) was revealed to the

Hebrews in around 2000 BC. Later, Christianity and Islam also prohibited charging extra on loans. Therefore, most of the divine religions provided guidance that promoted charity, donations and alms to encourage people to take care of the poor (Lincoln et al., 2008).

The divine religions, including Judaism, Christianity and Islam, remained engaged with banking-like activities as time progressed, and preached that people should avoid charging extra on loans (Bayindir & Ustaoglu, 2018). This contributed to the development of the *Shari'ah* principles of banking. This engagement still exists in Islamic banking, which claims to be compliant with Islamic law. Experts in banking and *Shari'ah* work together to ensure that Islamic banking complies with *Shari'ah* as well as banking norms. This seems to have encouraged the cross-diffusion of *Shari'ah* knowledge and banking knowledge, leading to the emergence of Islamic banking principles and practices that contain elements of both.

Economists often consider banking to be a product of modern business that began in the 12th century when lending institutions were established in parts of Italy (for instance, in Venice and Florence). Indeed, the word *bank* is believed to be derived from the Latin word *banco*, which means *bench* or *table*. However, history reveals that banking is even older than money, and that banking knowledge gradually spread across different civilisations (Chachi, 2005; Donaldson et al., 2016). As mentioned earlier, historically, banking began with the warehousing of commodities. People maintained deposits of barley, rice and other commodities which they would exchange for other commodities in Mesopotamia and ancient Egypt. Lending also began with these warehouses (Donaldson et al., 2016). The practices of providing credit and loans were followed by people who would lend seeds, agricultural tools, animals and food items to others (Donaldson, 2016).

Given that banking has such a long history, for convenience we can divide it into the following eight periods:

1. Before 3000 BC to 1900 BC
2. 1900 BC to 300 BC
3. 300 BC to the 5th century CE
4. The 5th century CE to 632 CE
5. The 7th century CE to the 12th century CE
6. The 12th century CE to the 15th century CE
7. The 15th century CE to the 19th century CE
8. Contemporary Islamic banking from the 19th century onwards

2.1.1 Before 3000 BC up to 1900 BC

Evidence exists that in approximately 3400 BC (Knopf, 1928), the Sumerians were already practising some activities that are considered to be banking activities (Mews & Abraham, 2007). In Indus valley, around 3000 BC (Khan et al., 2020) banking-related activities also existed, agriculture and trade were flourishing, and cows were used as a measure of value. The lending of harvesting tools was also practised in ancient Egypt (Richet, 2020).

2.2.2 From 1900 BC to 300 BC

The ancient Greek Empire was established at some point between 1500 BC and 900 BC, and it ended in 500 CE (Morris, 2005). The Greeks also practised banking activities, using temples for deposits and lending. The business of exchanging money and making remittances between various cities was also carried out under the Greek system (Hoggson, 1926). The Greeks used silver for minting coins, while the Persians used a mixture of gold and silver (Root, 1988).

When King Croesus of Lydia (560–546 BC) developed gold coins, this expanded banking activities in Greece. Deposit banking has existed in Greece since the 5th century BC (Andreau, 1999). The use of coins gradually spread from Greece to Persia, Egypt and Sicily.

Later, the Babylonians expanded on these activities. In turn, the Persians adopted banking practices from the Babylonians in approximately 700 BC. The Babylonians made significant contributions in the sphere of credit, specifically agricultural credit (Jursa, 2010). They too used temples as banks. The Babylonian elite engaged in lending money and food items on interest; in cases of default, the borrower and his family members were forced into slavery (Dubberstein, 1934). The Babylonian king Hammurabi introduced several laws inscribed on clay tablets concerning the irrigation of water for agriculture, wages of labourers, rent for land, and an interest rate fixed around 33% (Hoggson, 1926). The historical progression of depositing and lending activities that resulted from the diffusion of knowledge contributed to the establishment of storage houses and money being used in exchange for commodities.

Lending money on the basis of interest is a practice that was introduced more than 4000 years ago. Before the arrival of divine religions (Judaism, Christianity and Islam), there were no restrictions on charging extra on loans (Kirschenbaum, 2013), although it was considered immoral and unethical (Klein, 2020). Religious elements were introduced through the Old Testament, or the Hebrew Bible. The Hebrews, also referred to as the Jews, are the descendants of Prophet Ibrahim, who lived sometime between 2165 BC and

1990 BC, first in Mesopotamia and later in Palestine (McClellan, 2017). When the religious guidance issued, people were asked not to lend money on interest. Therefore, Judaism, the oldest divine religion, was the first to place restrictions on charging extra on loans, adding a religion-based component to financial transactions (Najmi, 2020). In the Old Testament, charging additional money on the repayment of a loan was called *Ribit* (Shurin, 2016).

Exodus, Chapter 22, verse 24 says:

“When you lend money to any of my people, to the poor among you, you shall not be to him as a creditor, nor shall you impose upon him any interest”.

As mentioned above, the old Jewish teachings did not allow lenders to take any benefit from the borrower. The lender was not allowed to live in the property of the borrower for free or at discounted rate. In the present day, Jews who still observe these teachings have established free loan societies, which provide interest-free loans to Jewish people who are in need (Rapaport, 2007).

Later, when businesses began to expand and the need for capital arose, Jewish religious scholars, Rabbis, out of necessity, drafted a document entitled *heteriska* in which the relationship between the lender and the borrower was transformed into that of an investment partnership (Forest, 2000). The lender became the provider of capital, and the borrower became the provider of skills in which to invest (Najmi, 2020). In return for their investment, the provider of capital would receive a specified percentage of the profit made by the borrower from using their skills (Forest, 2000). Further amendments were made to the document to ensure that the provider of capital was not exposed to increased risk and to introduce the contractual arrangement whereby the borrower paid a fixed profit to the capital provider. Therefore, *heteriska* paved the way for charging a fixed amount on loans issued among Jews (Feitman, 1989; Klein, 2020). Today, *Halaka*, the Jewish equivalent of *Shari’ah* (Klein, 2020), still finds it difficult to accommodate stock options and futures (Feitman, 1989).

2.2.3 From 300 BC to the 5th Century CE

In the 3rd century BC, Ptolemy I, ruler of Egypt and a companion and bodyguard of Alexander the Great, introduced a coinage and banking system while developing Alexandria into a hub of maritime trade near the Mediterranean Sea (Baker, 2017).

Ancient Rome spans the period from the 8th century BC to the 5th century CE. During this period, Rome made significant contributions to developments in agriculture, transport, construction and business (Galli, 2017). By the 2nd century BC, Rome had dominated Europe and was contributing to business and

banking all over the continent. The first coin made in Rome was minted after 269 BC. Banking activities commenced in Italy in the 1st century BC (Davies, 2002). The Romans made significant contributions to regulating the conduct of private banks. Banks were mostly patronised by the elites, which gave people a high level of confidence in these banking institutions (Hoggson, 1926).

With this development, the Roman rulers introduced formal laws for managing money; for example, only the government was allowed to mint coins. The temples where money was kept were heavily guarded, and robbers were more likely to be afraid to steal something from a religious building, making them safe places to store money. People also used the Temple of Peace to deposit their valuables for safekeeping (Johns, 1996).

A risk of this practice was revealed when a fire broke out in the Temple of Peace in 191 CE and destroyed many of the valuables that had been deposited there for safe keeping (Claridge, Toms, & Cubberley, 2010). Wealthy members of society whose deposits had been destroyed by the fire suddenly found themselves destitute. Later, people began keeping their valuables and coins in another sanctuary- the Temple of Vesta. At that time, people who lent money on the basis of interest were considered despicable by wider society, and there is no historical evidence that temples and churches charged interest on money that was deposited there (Bromberg, 1940). Moreover, money that was the subject of a dispute used to be deposited in temples because doing so would prevent any further interest being added to that money (Bromberg, 1940).

Although the Church was against charging interest in loans, people and governments were involved in it. In 301 CE, the Roman Empire issued a list of prices (Michell, 2020). The empire also managed to establish a proper banking system with term and demand deposits, issuance of exchange bills, letters of credit and so forth (Hoggson, 1926). Collins & Walsh (2015) mention two types of banking deposits that existed in ancient Rome in the 1st or 2nd century CE. The first was *mutuum* which provided interest for the depositor that could then be used for business. The second was *abailment* deposit which was only for safe keeping and earned no interest like the present-day current account. The Romans developed formal agreements that were enforceable through the courts for such business relationships. Later, they also developed a fractional reserve system in which banks would hold part of the deposit and lend the rest (Collins & Walsh, 2015). However, the development of banking activities suffered setback when the Roman Empire fell in the 5th century CE (Gibbon & Milman, 2003). After that, Europe remained in the Dark Ages until the 12th century CE (Chachi, 2005).

The Israelites (also referred to as the Jews) started by following the teachings of Moses, but later diverged from these in many respects, including on matters of finance. Hoggson (1926) mentions that Jewish people were charging interest during the lifetime of Jesus. The teachings of Christianity also prohibited charging extra on loans which meant that Christians were not allowed to deal in interest (Jafri & Margolis, 1999). Thus, the market was open to the Jews, and they began to earn money by lending to the business community (Schoon & Nuri, 2012). Tempted by interest-based earnings, the Christians also began engaging in this practice. To prevent Christians from doing so, however, in 1146 Pope Eugenius banned them from dealing in interest (Hoggson, 1926).

Bromberg (1940) claims that unlike in other countries, in Rome, the temples did not lend money on interest due to the prohibition in Christianity, but he does not rule out charging a fixed fee in return for the safekeeping of deposits.

Before the arrival of Islam, most Arabs were engaged in agriculture and trade. The holy city of Makkah (a city in Arab Peninsula) was a hub of world trade (Awan, 2009). The Arabs had expertise in growing corn, spices, and vegetables (Lacy, 1927). Makkah was on a trade route to India. Chinese silk and Indian spices and clothing were traded through the Arab world (Chew, 2018). With financial transactions taking place on a larger scale, new forms of business emerged. People who were comfortable with taking a risk developed partnerships for the purpose of trading goods over long distances. Here, the concepts of *sleeping* and *active* partners prevailed (Schoon & Nuri, 2012). Those who were more risk-averse but had capital became involved in extending credit to businesses and farmers on interest. Borrowers who were unable to make repayments in time were given additional time to do so, but they also faced a financial penalty. With the trading of goods in far-flung places, insurance-related schemes also began to arise. Business caravans would contribute a set amount to a mutual fund, which would be used to compensate those who were affected by looting during the journey (Hitti, 1970).

2.2.4 From the 5th century AD to 632 CE

Prophet Muhammad ﷺ was born in 571 CE (Budiwati, 2019). At that time, the Arabs worshipped idols, and tribal wars over minor disputes prevailed (Al-olaqi & Raiyah, 2012). Practices involving usury were common, mainly among the Jews. Prophet Muhammad ﷺ did not involve himself in these practices, even before he became a prophet (El Syam, 2017). As a messenger of God, Prophet Muhammad ﷺ announced the arrival of Islam in 613 CE at Arab (Gait & Worthington, 2007). *Riba*-based credit was forbidden (Ahmad, 2015). In the final sermon given by Prophet Muhammad ﷺ, *riba*-bearing loans were also

forbidden. Prophet Muhammad ﷺ wrote off the interest on loans issued by his cousin Hazrat Abbas, and asked others to do the same; otherwise, they would need to expect a punishment from Allah (Haque, 2020). Prophet Muhammad ﷺ also forbade unequal exchange in the same commodities, which involves uncertainty (*Gharar*) (Usmani, 2002). Prophet Muhammad ﷺ was well versed in business knowledge as well as the divine commandments, which put him in the best position to guide humanity.

Rahahleh, Bhatti and Misman (2019) divide the Islamic era (from 571 CE to 1258 CE) into the following three phases:

1. The era of Prophet Muhammad ﷺ, from 571 CE to 632 CE
2. The era of the Caliphs, from 632 CE to 681 CE
3. The Ummayah and Abbasid era, from 681 CE to 1258 CE

Prophet Muhammad ﷺ established a welfare state in Madina which protected the people according to Divine instructions (Saeed, 2003). During Prophet Muhammad era, collected revenues including Zakat, Jizya etc were immediately distributed. Later on, Caliph Umar established *Bait-ul-Maal* for keeping the revenues and distributing among the needy (Ahmad, 2015).

Prophet Muhammad ﷺ practised a range of financial transactions in his lifetime. He practised business and provided safe keeping of money. He practised a partnership form of business (*Mudarabah*), in which he provided the skills and other partner, who later became his wife, provided the capital (Rahim & Rahman, 2010). He also allowed people to sell crops in advance, referred to as *Bai Salam* (Gait & Worthington, 2007). Moreover, the safe keeping of money was common practice in Arab countries, and Muslims as well as non-Muslims entrusted their money to Prophet Muhammad ﷺ for safe keeping (Awan, 2009). Today, current accounts in Islamic banks operate on similar principles. Many Muslims, including Hazrat Abd Ur Rehman bin Auf, a companion of Prophet Muhammad ﷺ, earned money through business using profit and loss modes (Chapra, 1985).

Caliph Umer established another financial institution named *Dewan*, which was used to pay pensions to widows, orphans and elderly people in need (Imamuddin, 1984).

2.2.5 From the 7th Century CE to the 12th Century CE

Between the 7th century CE and the 12th century CE, the Islamic empire covered an area reaching from Europe to the Far East (Chachi, 2005). Muslims were encouraged to earn a living through business and trade, and Muslim merchants soon became dominant in global trade (Visser, 2019). When trade and business flourished, money-related skills and processes also thrived. Ways of recording

transactions evolved, and the double-entry accounting system was introduced (Hamid, Craig & Clark, 1995). Banks in their institutional forms did not yet exist, but transactions such as money exchanges, money transfers and bills of exchange were already being carried out (Chachi, 2005a). With the purpose of avoiding *riba* and uncertainty (*Gharar*), financial innovations emerged, especially during the Umayyad era (661 CE –750 CE), and flourished during the Abbasid era (750 CE –1258 CE) (Osman & Mohadi, 2018). A separate institution, *DeewanulAmwal*, was established for collecting tax and converting gold into silver (Malik, 2014). Udovitch (1975) mentions the use of “*Hawala*” and “*suftaja*” as financial instruments. Malik (2014) relates “*Suftaja*” to letters of credit.

The *sarafeen*, or bankers, of that time developed their skills in confirming the authenticity of coins. After counting coins, they would seal them in bags; thus, people were not required to count the coins again (Chachi, 2005).

2.2.6 From the 12th Century CE to the 15th Century CE

The 12th century CE witnessed the decline of Muslim dominance, which happened for several reasons (Bosker et al., 2013). In 1258 CE , the Mongol ruler Halaku Khan destroyed Baghdad and ended the Islamic Caliphate (Cobb, 1963). As an outcome, Muslim financial institutions were weakened and Western institutions began to dominate (Hefner, 2006). In the 13th century, the Turks established the Ottoman Empire, which soon ruled over vast areas of Europe, Asia, and Africa. The empire introduced several new forms of financial institution including *Waqf* (trust) and *Mudarabah*-based limited companies (Malik, 2014).

2.2.7 From the 15th Century CE to the 19th Century CE

From the 15th century onwards, the Western influence spread further across the globe (Russell, 1945). The declining Muslim world accepted its influence (Chachi, 2005b). Alongside other systems, the Western banking system progressed and Muslims soon began to adopt it (Gait & Worthington, 2007). In addition, several Muslim countries were colonised by Western powers which imposed their own financial systems (Chachi, 2005). In 1856, the first conventional bank in Egypt was established; this was a branch of a UK bank (Alharbi, 2015). Western banking systems were based on the practice of charging interest, which was not acceptable in Islam (Hefner, 2006). In the aftermath of these changes, Islamic scholars began to focus on developing a banking system that was free of interest (Shinsuke, 2012).

In Jewish law, a person is not allowed to charge *riba* on loans to other Jews, but they are allowed to charge it on loans provided to non-Jews if doing so would enable them to satisfy a dire need to make a basic living (Rapaport, 2007). For

example, some Rabbis allowed Jews to charge interest in countries where their income was being restricted by those in power preventing them from entering certain professions or forcing them to pay more tax than non-Jews (Klein, 2020).

In Christianity, like in Judaism, initially interest was forbidden (Schoon & Nuri, 2012). However, in the 15th century, for various reasons, a low rate of interest was declared acceptable (Rubin, 2011; Campbell, 2020). Usury (excessive interest) was still not permitted, however; and this is still the case in Christianity today (Lewis, 2007). In the 12th century, a movement among Christians against the ban on interest emerged. People needed to take out loans to be able to grow their businesses, but the Christian church had banned interest, so those with capital were discouraged from providing the loans people needed (Rubin, 2010). These people therefore turned to Jewish lenders who were allowed to provide loans to them on interest (Botticini, 2000). Christian business owners who had capital, tempted by the possibility of earning more through interest, felt themselves at disadvantage because they were prevented from making money in this manner. As a result, they started pressurizing the Church to allow them to charge extra on loans. The lenient attitude of the reformist theologians at the time also paved the way for lifting the ban on charging interest. Eventually, the Church softened its stance and allowed lenders to charge extra on loans, although exorbitant interest (usury) was still forbidden (Hassan & Lewis, 2007; Ustaoglu & Incekara, 2014).

Adopting this lenient approach towards interest, Christianity initially declared that some forms of taking extra on loans were no longer forbidden and that the lender should receive fair compensation for the use of their money, which could include a low rate of return on a loan (Lewis, 2007). If a loan repayment was not made when it was due, the lender was allowed to claim compensation from the borrower to cover any loss they had suffered due to the delay in the repayment. This form of compensation was referred to as *interest*, and its introduction opened up a way for lenders to charge interest (Hassan & Lewis, 2007). The word *interest* became associated with charging extra at a lower rate, which was allowed, while the word *usury* was associated with a higher rate of return, which was not allowed. The word *interest* is derived from the Latin word *interstee*, which means a penalty on late payment (Moser, 1997). In a 1601 essay entitled "Of Usurie", Francis Bacon endorsed a system of state regulation that fixed a lower interest rate (5%) for most loans and a higher rate (9%) for loans issued to merchants in large business centres (Persky, 2007).

PART B

2.3 Contemporary Islamic Banking from the 20th Century Onwards

In 1950's, several Muslim scholars were endeavouring to research the Islamisation of financial transactions (Philipp, 1990). In terms of the researchers who made significant contributions through their research on the Islamisation of business in the first half of the 20th century, Kuran (2004) mentions Modoodi (1903–1979), Sayyad Qutb (1906–1966) and Muhammad Bad Al Sadr, while Alharbi (2015) highlights Modoodi (1937), Hasan Al-Banna (1939), Hifz Al-Rahman (1942), Muhammad Hamidullah (1944), Anwar Qureshi (1946), Naiem Siddiqi (1948) and Mohammad Yousuf Al-Dean (1950).

In this era, Islamic economics was presented as a system for developing financial solutions to social problems. A series of conferences and meetings held in the 1970s and 1980s focused on implementing the research work of the scholars mentioned above (Shinsuke, 2012). These events included the First International Conference on Islamic Economics held in Makkah in 1976, the New International Economic Order held in London in 1977, seminars on the Monetary and Fiscal Economics of Islam held in Makkah in 1978 and in Islamabad in 1981, a conference on Islamic Banking and Strategies for Economic Cooperation held in West Germany in 1982, the Second International Conference on Islamic Economics held at Islamabad in 1983 (Chapra, 1985), the Fiqah Academy (1985), the Karachi conference (1970), and the Conference on Monetary and Fiscal Economics of Islam held in Islamabad in 1981 (Iqbal, Ahmad & Khan, 1985).

Based on earlier intellectual work and to meet the demand for Islamic methods of saving and investment in the Middle East, Islamic banks were established. The earliest Islamic bank was established in Egypt in 1964 (Ullah, 2012). The first commercial Islamic bank was established in Dubai in 1975. The first Islamic bank in Sudan was established in 1976, the Faisal bank in Egypt was established in 1979 and the Kuwait Finance House was established in 1979 (Malik, 2014). In 1983, the Irani Parliament passed a law that banned interest-based banking, and since then only Islamic banking is practised in Iran (Parveen, Zadeh and Muzakkir, 2015). Significant growth was noted in this sector in the 1980s and 1990s (Shinsuke, 2012).

The first Islamic bank in Malaysia was established in 1983, while at present, around 29 banks are offering Islamic banking services in Malaysia (Halim, Hamid, Azmin & Nordin, 2000).

In Pakistan, as part of a government initiative, in 1979 the Islamic Ideology Council issued a report that suggested a road map for converting the conventional financial system into an Islamic one (Kennedy, 1990). Consequently, the operations of major specialised lending institutions, including the House-building Finance Corporation, the National Investment Trust and the mutual funds of the Investment Corporation of Pakistan were converted to operate in an Islamic mode (Riaz, 2018)). In 1980, the State Bank of Pakistan directed the commercial banks to open non-fixed profit accounts (profit and loss basis accounts) for depositors (Khan & Mirakhor, 1990). However, due to the absence of a regulatory framework for Islamic banking and a lack of government interest at the time, the attempts to Islamise the economy that were initiated in the 1980s eventually failed (Khan & Bhatti, 2006).

In 1991, the Federal *Shari'ah* Court of Pakistan gave its verdict against the prevailing *riba*-based banking in the country and directed the government to remove *riba* from the economy (Ali & Hussain, 2022). The government filed an appeal against the decision to the *Shari'ah* Appellate Bench of the Supreme Court of Pakistan. In 1999, the bench upheld the court's decision and directed the government to remove *riba* from the law by 30th June 2001. A high-level commission was established to implement the court's decision. The commission recommended creating a parallel banking system that would enable Islamic and conventional banks to operate simultaneously. Therefore, the Central Bank of Pakistan framed a set of rules for Islamic banking and issued licences to fully-fledged Islamic banks while allowing conventional banks to establish Islamic banking branches (Husain, 2004).

The Albaraka bank established an Islamic banking branch in 1991 in Pakistan and the Meezan bank was established in 2002 as the first dedicated Islamic bank in Pakistan (Hassan, 2007). This was soon followed by the establishment of a few more dedicated Islamic banks. More of the conventional banks also began to offer Islamic banking services through window operations (Mansour & Bhatti, 2018). By the end of June 2024, six fully-fledged Islamic banks and sixteen conventional banks were offering Islamic banking services in Pakistan (SBP, 2024). The number of Islamic banking branches stood at 5196 (SBP, 2024).

In November 2024, an amendment was made in the constitution of Pakistan requiring complete removal of interest up to 2028. Presently, Iran and Sudan are the only countries having completely interest free system (Mohsin, 2005). Somaliland, an African country also has an interest free system (Sulub, 2023). Pakistan will become 4th interest free country if it manages to remove interest from its financial system up to 2028.

3. Methodology

This study reviews the existing literature in the form of research papers, books, and documents covering banking-like activities from ancient times to contemporary Islamic banking in the 21st century. This historical review covers the period of warehouse and temple banking, the arrival of Judaism, the development of banking practices, and the prohibition of *riba* in Judaism, Christianity and Islam.

4. Findings and Conclusion

The study divides the banking history into two parts. Part A covers the Pre 20th Century history and Part B covers recent or contemporary history starting from 20th Century onwards. Part A & B are then divided into sub parts for better understanding as under:

1. Before 3000 BC to 1900 BC
2. 1900 BC to 300 BC
3. 300 BC to the 5th century CE
4. The 5th century CE to 632 CE
5. The 7th century CE to the 12th century CE
6. The 12th century CE to the 15th century CE
7. The 15th century CE to the 19th century CE
8. Contemporary Islamic banking from the 19th century onwards

The study narrates the history of banking and the role of faith in that history. It divides this history into eight eras, from ancient times through periods of warehouse and temple banking, the arrival of Judaism, the development of banking practices, the prohibition of *riba* in Judaism, Christianity and Islam, to a brief history of contemporary Islamic banking. It is a common perception that banking began with the Romans in the 12th century when banking institutions were established in the cities of Venice and Florence. However, history reveals that in fact banking-like activities existed as early as before 3000 BC among the Sumerian and Indus civilisations.

The chronological review of the literature on banking history along with the roles of divine religions (faith) in different eras is, therefore, one of the contributions of this paper to the existing literature. It establishes that interest was prohibited in all three Abarahimic religions including Judaism, Christianity and Islam. However, later on, religious scholars of Jews and Christians allowed interest-based dealing while Islamic scholars still disallow interest-based dealings. This paper also reports the 3rd country Somaliand where interest-based dealings are not allowed while up to 2028, Pakistan will become the 4th interest free country of the world.

References:

- Ahmad, M. (2015). Cash Waqf: Historical Evolution , Nature and Role as an Alternative to Riba -Based Financing for the Grass Root. *Journal of Islamic Finance*, 4(1), 63–74.
- Ahmad, M. (2015). Cash Waqf: Historical Evolution , Nature and Role as an Alternative to Riba -Based Financing for the Grass Root. *Journal of Islamic Finance*, 4(1), 63–74.
- Ali, U., Hussain, K., & Sheikh, R. (2023). Performance Analysis of Islamic Banking in Pakistan Using DEA Technical Efficiency and Maqasid-e-Shariah Index. *Journal of Islamic Business and Management*, 13(1).
- Al-olaqi, F., & Raiyah, M. (2012). English Literary Portrait of the Arabs English Literary Portrait of the Arabs. *Theory and Practice in Language Studies*, 9(2), 1767–1775. <https://doi.org/10.4304/tpls.2.9.1767-1775>
- Andreau, J. (1999). *Banking and Business in the Roman World*. Cambridge University Press.
- Awan, A. G. (2009). Comparison of Islamic and conventional banking in Pakistan. *COMSATS International Business Research Conference*, 1–36.
- Baker, C. (2017). “The Lighthouse at Pharos - A Narrative,” Tenor of Our Times". *Harding University*, 6, 24–36. <https://scholarworks.harding.edu/cgi/viewcontent.cgi?article=1026&context=tenor>
- Bayindir, S., & Ustaoglu, M. (2018). The issue of interest (riba) in the Abrahamic religions. *International Journal of Ethics and Systems*, 34(3), 282–303. <https://doi.org/10.1108/IJOES-09-2017-0148>
- Bromberg, B. (1940). Temple Banking in Rome. *The Economic History Review*, 10(2), 128–131.
- Budiwati, A. (2019). Historical-astronomic provision of birth and death Prophet Muhammad saw. *Journal of Islamic Astronomy*, 1(1), 1–20.
- Chachi, A. (2005). Origin and Development of Commercial and Islamic Banking Operations. *Islamic Economics*, 18(2), 3–25. <https://doi.org/10.4197/islec.18-2.1>

- Chachi, A. (2005a). Origin and Development of Commercial and Islamic Banking Operations. *Islamic Economics*, 18(2), 3–25. <https://doi.org/10.4197/islec.18-2.1>
- Chapra, M. Umer. (1985). *Towards a Just Monetary System*. The Islamic Foundation.
- Chew, S. C. (2018). The Southeast Asian Connection in the First Eurasian World Economy 200 BC AD 500. *World-Systems Evolution and Global Futures*, 5(1), 91–117. https://doi.org/10.1007/978-3-319-68219-8_5
- Claridge, A., Toms, J., & Cubberley, T. (2010). *Rome: an Oxford archaeological guide*. Oxford University Press.
- Collins, A., & Walsh, J. (2015). Debt deflationary crisis in the late Roman Republic. *Ancient Society*, 125-170.
- Davies, G. (2002). *A History of Money From Ancient Times to the Present Day*. University of Wales Press Cardiff.
- Donaldson, J. R., Diamond, D., Ferraris, L., Friel, C., Gârleanu, N., Goel, A., Goldstein, I., Gromb, D., Kahn, C., Keaton, B., Koudijs, P., Leitner, Y., Lester, B., Malenko, N., Maug, E., Oehmke, M., Otto, C., Pennacchi, G., Rajan, U., ... White, L. (2016). Warehouse Banking. *Journal of Financial Economics*, 129(2), 250–267.
- Dubberstein, W. H. (1934). *Price and interest rates in Babylonia*. The University of Chicago.
- El Syam, R. S. (2017). Prophetic leadership: The leadership model of Prophet Muhammad in political relation of social–ummah. *Jurnal Pendidikan Islam*, 6(2), 371–396.
- Feitman, Y. (1989). Holocaust Calendar of Polish Jewry. *A Journal of Orthodox Jewish Thought*, 24(4), 109–111.
- Forest, W. (2000). *Islamic and Jewish perspectives on interest*.
- Gait, A. H., & Worthington, A. C. (2007). A primer on Islamic finance: Definitions, sources, principles and methods.
- Galli, M. (2017). Beyond frontiers: Ancient Rome and the Eurasian trade networks. *Journal of Eurasian Studies*, 8, 3–9. <https://doi.org/10.1016/j.euras.2016.12.001>

- Gibbon, E. & H. H. M. (2003). *The Decline and Fall of the Roman Empire*. Modern Library.
- Halim, A., Hamid, A., Azmin, N., & Nordin, M. (2000). A study on Islamic banking education and strategy for the new millenium - Malaysian experience. *International Journal of Islamic Financial Services*, 2(4), 2–11.
- Haque, M. A. U., Fazli, S. K., & Aqib, M. (2020). Islamic Banking System in the Light of Sharia and the Contemporary Fatwa. *COMSATS Journal of Islamic Finance (CJIF)*, 5(1).
- Hassan, M. (2007). People' s Perceptions towards the Islamic Banking: A Fieldwork Study on Bank Account Holders ' Behaviour in Pakistan. *School of Economics, Nagoya City University Japan*, 153–176.
- Hoggson, N. F. (1926). *Banking through the ages* (3rd Editio). Dodd, Mead & Company.
- Hoggson, N. F. (1926). *Banking through the ages* (3rd Editio). Dodd, Mead & Company.
- Husain, I. (2004). *Evolution of Islamic Banking*. https://www.meezanbank.com/wp-content/themes/mbl/downloads/evolution_of_islamic_banking.pdf
- Imamuddin, S. M. (1984). A historical background of modern islamic banking. *Journal of the Pakistan Historical Society*, 32(4).
- Iqbal, M. (1985). Zakah, moderation and aggregate consumption in an Islamic economy. *Journal of King Abdulaziz University: Islamic Economics*, 3(1).
- Jafri, S. H. A., & Margolis, L. S. (1999). The treatment of usury in the holy scriptures. *Thunderbird International Business Review*, 41(4–5), 371–379. <https://doi.org/10.1002/tie.4270410405>
- Johns, C. (1996). The Classification and Interpretation of Romano-British Treasures. *Britannia*, 27, 1. <https://doi.org/10.2307/527037>
- Jursa, M. (2010). *Aspects of the Economic History of Babylonia in the First Millennium BC*.
- Kennedy, C. (1990). Islamization and Legal Reform in Pakistan , 1979-1989. *Pacific Affairs*, 63(1), 62–77.

- Khan, S., Dialynas, E., Kasaraneni, V. K., & Angelakis, A. N. (2020). Similarities of Minoan and Indus Valley Hydro-Technologies. *Sustainability*, 12(12), 1–16. <https://doi.org/10.3390/su12124897>
- Kirschenbaum, A. (2013). Jewish and Christian Theories of Usury in the Middle Ages. *The Jewish Quarterly Review*, 5(2), 348–350.
- Klein, D. (2020). The Islamic and Jewish Laws of Usury: A Bridge to Commercial Growth and Peace in the Middle East. *Denver Journal of International Law & Policy*, 23(3), 535–554.
- Knopf, C. S. (1928). *Civic Ideals of Long Ago*. University of Southern California.
- Lacey, A., & Luff, D. (2001). *Qualitative data analysis*. Sheffield: Trent focus.
- Lincoln, R., Morrissey, C. A., & Munday, P. (2008). Religious giving: A comprehensive review of the literature. In *Review of Religious Research* (Issue May).
- Malik, M. I. (2014). An Introduction to Islamic Banking (Rise and Development). *Journal of Islamic Banking and Finance*, 2(1), 261–268.
- Mansoor Khan, M., & Ishaq Bhatti, M. (2006). Why interest-free banking and finance movement failed in Pakistan. *Humanomics*, 22(3), 145–161.
- Mansour, W., & Bhatti, M. I. (2018). The new paradigm of Islamic corporate governance. *Managerial Finance*, 44(5), 513–523.
- Mcclellan, M. (2017). Abraham and the Chronology of Ancient Mesopotamia. *Answers in Genesis*, 5(2012), 141–150.
- Mews, C. J., & Abraham, I. (2007). Usury and just compensation: Religious and financial ethics in historical perspective. *Journal of Business Ethics*, 72(1), 1–15. <https://doi.org/10.1007/s10551-006-9151-0>
- Mitchell, S. (2014). *A history of the later Roman Empire, AD 284-641* (Vol. 10). John Wiley & Sons.
- Mohsin, M. I. A. (2005). The practice of Islamic banking system in Sudan. *Journal of Economic Cooperation*, 26(4), 27–50.
- Morris, I. (2005). *Princeton / Stanford Working Papers in Classics* (Issue December).
- Najmi, A. (2020). Religion and Finance: Usury in Judaism and Islam. *UCLA Journal of Religion*, 4, 14–29.

- Parveen, T., Zadeh, E. L., & Muzakkirsyed, A. (2015). Evolution of Islamic Banking in Iran: Prospects and Problems. *Journal of Business and Management*, 17(9), 61–66. <https://doi.org/10.9790/487X-17926166>
- Philip K. Hitti. (1970). *History of the Arabs* (10th ed.). Macmillan Publisher Limited.
- Rahahleh, N. Al, Bhatti, M. I., & Misman, F. N. (2019). Developments in Risk Management in Islamic Finance : A Review. *Journal of Risk and Financial Management*, 12(37), 22. <https://doi.org/10.3390/jrfm12010037>
- Rahim, A., & Rahman, A. (2010). Islamic microfinance : an ethical alternative to poverty alleviation. *Humanomics*, 26(4), 284–295. <https://doi.org/10.1108/08288661011090884>
- Rapaport, C. B. R. (2007). *Israeli Financial Gemachs: Interest-Free Loan Associations*.
- Riaz, S. (2018). *The Case of Islamic Banking in Pakistan The Case of Islamic Banking in Pakistan*. University of Lisbon.
- Richet, J. L. (2020). A loose coupling perspective on Ancient Egypt economy and society. *Business History*, 1–23. <https://doi.org/10.1080/00076791.2020.1754802>
- Root, M. (1988). Evidence from Persepolis for the dating of Persian an archaic Greek coinage. *Numismatic Chronicle*, 148, 1–12.
- Saeed, R. A. (2003). Fundamental principles of Islamic welfare state and it's key differences from the modern secular states. *Pakistan Journal of Islamic Research*, 49–73.
- Schoon, N., & Nuri, J. (2012). Comparative Financial Systems in Judaism, Christianity and Islam: The Case of Interest. *SSRN Electronic Journal*, June. <https://doi.org/10.2139/ssrn.2126503>
- Shaari Hamid, R. C. & F. C. (1995). Bookkeeping and accounting control systems in a tenth-century Muslim administrative office. *Accounting, Business & Financial History*, 5(3), 321–333. <https://doi.org/10.1080/09585209500000049>
- Shinsuke, N. (2012). Critical Overview of the History of Islamic Economics: Formation, Transformation, and New Horizons. *Asian and African Area Studies*, 11(2), 114–136.
- Usmani, I. (2002). *Meezan Bank's Guide to Islamic Banking*. Darul - ishaat urdu bazar Karachi, Pakistan.

- Shurin, J. (2016). Hetter Iska. *Rabbinical Council of America*, 49(1), 31–35.
- Ullah, S. (2012). Fatwa Repositioning: the hidden struggle for Shari’ah compliance within Islamic Financial Institutions. In *PhD Thesis*. University of Southampton, UK.
- Visser, H. (2019). The Islamic economy: its origin, its world view and its claims. *The Central European Review of Economics and Management*, 3(4), 53-89.