ISLAMIC & CHRISTIAN FINANCE:

A shared heritage

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By: Samer Hijazi

Today, islamic finance is widely accepted as a global USD 2 trillion industry offering banking, insurance and asset management services in over 75 countries around both the Islamic and non-Islamic world.

In recent years, it has captured headlines in the Financial Times and Wall Street Journal and some of its leading executives have been interviewed by the BBC, CNN and Bloomberg. Most people today have some knowledge of Islamic finance but how many people have heard of its counterpart, Christian Finance?

Like Islamic Finance, Christian Finance operates alongside modern-day conventional financial services which, with its recent history of governance, remuneration, Libor-rigging and other scandals, could not be more different to both of them. Islamic Finance comprises those institutions which seek to comply with Islamic law in all their operations. Similarly, Christian Finance represents a small collection of financial institutions which strive to conduct their business in accordance with the Holy Bible and the teachings of the Church.

An example of this is Reliance Bank in the UK which was founded by the Salvation Army in 1890. Reliance Bank offers loans and mortgages and a range of personal and business banking services. It is dedicated to ethical banking and uses its profits, not to pay huge bonuses to its senior staff, but to support the Salvation Army's evangelical and charitable work.

In fact, staff bonuses are capped at a GBP 2,000 maximum, and amongst its investment principles, it avoids dealings with any company whose main source of income is derived from sales of tobacco, alcohol, gambling, pornography and armaments. Sound familiar?

The last statement could have been lifted from the annual report of nearly every Islamic financial institution in the world. However, Reliance Bank does charge interest at market rates on its products and that is where the similarity ends to some extent.

Another example is JAK Bank which was officially founded in 1965 in Sweden on the then revolutionary principle that no interest would be charged on loans. JAK Bank founders believed that interest was harmful to society, damaging to the economy and akin to usury as described by the Catholic Church. JAK Bank instead fully matches loans up to the extent of its deposits and instead only charges an administrative cost per loan and supplements its income with membership fees from borrowers and depositors. Surplus funds are invested in assets which are deemed to help improve or sustain the wider good of the economy and society.
Other institutions include Kingdom Bank in the United Kingdom, Pax Bank and Liga Bank in Germany, the Catholic Family Federal Credit Union and Holy Rosary Credit Union in the United States and the Institute for the Works of Religion in Italy (more commonly known as the Vatican Bank). While global Islamic finance is believed to comprise 2-3% of global financial services, the share of modern-day Christian finance is even smaller. And yet, this was not always the case.

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Islam and Christianity share much in common when it comes to financial services. While an aversion to entities which are involved in areas such as tobacco, alcohol, gambling, pornography and armaments would be expected from most religions, usury (or interest-based transactions) were historically, deemed to be as evil in Christianity as it is in Islam.

As far back as 325 AD, the First Council of Nicaea forbade all clergy from practicing usury. In doing so, it quoted Psalm 15:5 from the Bible: “He does not put out his money at interest, nor does he take a bribe against the innocent. He who does these things will never be shaken.” And that was only the beginning. The Third Council of the Lateran in 1179 excommunicated those engaged in usury while Pope clement V likened usury to heresy in 1311. Usury was thus deemed to be a sin of the most extreme nature in most of Europe for more than a thousand years, earning Usurers a place in Dante’s Seventh Circle of hell, alongside murderers and blasphemers.

Going further back, both Plato and Aristotle argued passionately against the use of interest. Aristotle made the same argument against interest as Islam which is money is to be used as a medium of exchange and not to increase at interest.
Roman thinkers such as Cicero, Seneca, and Cato also disdained it, with the latter likening it to murder. In fact, the legal origins on the prohibition of usury can be traced back to the Code of Hammurabi in 1760 BC. While the Code did not prohibit usury it did seek to regulate it and fix the rates at which it took place. These trading practices and views then spread throughout the rest of the Middle East. So, if usury symbolised an abominable sin within Christian circles then, as it does within Islamic finance today, how did people access credit? There were several ways. Firstly, while usury was forbidden, lending was not and creditors could still charge a fee for costs incurred in administering the lending and collection process. Secondly, transaction structures were devised which made any return on capital provided linked to an underlying asset or service being provided. Thirdly, the Crusaders actually brought back to Europe some Islamic financial techniques such as Mudaraba risk and reward sharing contracts (or known as ‘Commenda’ to the Europeans). Indeed, some historians believe that it was the use of the Commenda contract which helped Venice become a European trading superpower.

Fourthly, they found ways around it. There were large Jewish communities throughout Europe who had their own teachings to follow, some of which permitted them to engage in interest based transactions with people outside their community but not within their community. Finally, every now and then, the Church seems to have been prepared to turn a blind eye. Enter the Knights Templars who were set up by the Crusaders as a humble monastic order to protect the surge of European pilgrims going to the Holy Land after the capture of Jerusalem in 1099. The Order had about nine knights and had few financial resources, relying on donations to survive. They soon received the blessing and support of some of the most powerful people in the Catholic Church and became a favoured charity throughout Christendom, receiving money, land, businesses and sons from noble families who were eager to fight in the Crusades. In 1139, Pope Innocent II exempted them from all authority other than that of the Pope and they were well on their way to becoming one of the most powerful financial groups in Christendom with a network throughout Europe and the Middle East.

Apart from charitable donations; wealthy crusaders, pilgrims and other travellers would deposit their wealth with a local Templar office and withdraw it on arrival in the Holy Land, this being the precursor to the modern cheque. Using similar methods, they established a flourishing letter of credit business, acquired real estate, factories and ships. At one point they owned the Island of Cyprus - indeed, they were the medieval version of a multi-national company and many of their financial techniques are still in use today.

With all this wealth, they began lending vast sums of money to other crusaders, businessmen and European royals. Much of this lending was with interest but at a time when there was no greater priority than the struggle against Islam. Ultimately, their downfall came in a reverse form of the 2008 banking crisis. Operating effectively as a bank, the French King Philip IV found himself heavily indebted to the Templars as a result of wars with the English. Philip, for this and other reasons, determined the Templars were ‘too big not to fail’ and ordered many of them to be arrested, charged and executed.

Ironically, usury was not one of the crimes they were accused of - still, it remains one interesting way of how a state dealt with troublesome bankers. After the Templars, interest based lending continued in Europe but at lower levels until the 17th century when a comeback was driven by various factors such as the Protestant Reformation and the Industrial Revolution. To understand what changed, we need to take a closer look at interpretations of the words usury and interest. Many modern Christian financial thinkers view them to be different. The former is akin to ‘loan-sharking’, exploitation or charging someone for something that has no value. Interest, on the other hand, is deemed to be a reasonable, market driven return for the use of capital and which compensates the provider for the opportunity cost of not investing this capital elsewhere. The Catholic Church continues to condemn usury but even the Vatican Bank participates in the global interest based financial services system.

Islamic and Christian finance have ultimately evolved from the same roots and a shared history. They share much in common and divergent views on interest and usury will probably remain the key difference for the near future.