

What RBS and the banks can learn from early Islam

By [Dr Peter Frankopan](#) Apr 11, 2013

The disastrous results released by RBS earlier this year were bad from a financial perspective – a loss of £5.2bn in 12 months. But they were even worse morally.

Contained in the 318-page report, and listed in the unfortunately named section "Highlights", are a catalogue of sins, including fines for [fixing Libor](#), for mis-selling "structured collar products by the cartload and the systemised scandal of PPI [payment protection insurance]".

If the sentence that follows is not meant as a joke, it is certainly a brave one: "RBS is committed to serving its customers well and helping them realise their ambitions." Who knew that those ambitions included being ripped off?

Nevertheless, the report does try to seek penance for past deeds. This been a chastening year, it says. A time "to put right past mistakes." RBS is lucky it was not in the banking business around the time of the birth of Islam – or it would have found things much more uncomfortable than a light grilling by the Financial Services Authority and the series of humiliating fines and provisions. The bankers would not have been losing their bonuses; they'd have been losing their hands.

One of the great secrets of early Islam was the store that was set by justice and on fairness in commerce. It was significant that the spiritual revelations delivered to Muhammad promised a new way of doing things, a way that protected private individuals as well as businesses from being exploited by those with access to credit. Of particular concern was the issue of the principles of lending money – a topic that appears repeatedly in the Koran.

The customers of RBS and the other banks implicated in the current scandals would recognise the sins that Islam's holy book warns about. Those who set out to exploit their customers by excessive borrowing charges are no different to "those controlled by the devil", records the Koran.

The glee captured by the internal telephone recordings released during the various rate-rigging enquiries may not be demonic, but the principle is the same. "It's amazing", one delighted trader at RBS noted, "how libor-fixing can make you that much money." The rewards were intoxicating.

In early Islam, it was recognised from the outset that for the community of believers to flourish, a structure that provided protection for all was essential. This meant aligning the interests of the most powerful – those, that is, who had capital to lend. If money was loaned on disproportionate terms, the rich would get richer while those who had borrowed did all the hard work, and worse, had to pass on the fruits of their labour.

Once a former trader himself, it is little surprise that the Prophet Muhammad recognised the pattern of exploitation all too well and sought to do something about it.

So a firm line was taken to prevent this from happening. Excessive interest charges and market manipulation were not just banned by jurists, but declared to be sinful activities. The punishment did not involve fines and settlements with an equivalent of a regulator in late antiquity, but with a higher authority. Those who persist in lending in a way that prejudices the borrower "will incur Hell where they shall live forever."

It is not all bad, however, as the Koran makes clear, for those who saw the error of their ways could still find their way back to God's favour – both through true repentance and through charitable acts. There was, unfortunately, not enough space in the 318-page Annual Report to allow RBS to show the good works that it does for charity, even if there are flickers of regret about how things have been done in the past and talk of putting things right.

So, it may not be too late – if RBS and the other banks finally get on with compensating customers trapped in the vast web of one-sided deals and put the bad practices behind them.

Modern economists rarely look at the Islamic world for inspiration when it comes to assessing the impact of austerity measures or central government spending, and seldom look in this direction for tips about how to stimulate an economy. But it is perhaps no coincidence that the strict mechanics insisted on from the first days of Islam concerning lending coincided with one of the biggest financial booms in history that saw the Muslim world blossom into an intercontinental superpower.

Getting the balance right to allow small businesses to grow on terms that are fair and reasonable is the bedrock of any successful political system. But then again, being able to threaten vengeance from on high for greedy bankers can be rather useful too.