

## A review on: The world banking and the Iranian share in its arising

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... continued from last part

Dr. Jahanshahi in his book, the 30 years history of Melli Bank indicates that “during the past history, foreign exchange brokers were practicing the banking in small scale, each merchant or moneychanger had a current account, that is to say, moneychanger used to keep record of all merchant’s transactions in a special account book. They had been using the small ordinary hand-written money orders instead of drawing cheques. All payments and receipts would have been done by currency exchange brokers through drafts in near and far cities.”<sup>10</sup> Small drafts which were substitution to the modern cheque would have been called “Bijak”.

At the same time a significant event occurred in Iran, which made big changes in the pattern of Bank industry, that was innovation of bank- note (paper money) called Chav, which was printed 720 years ago for the first time<sup>11</sup>.

Before printing bank-notes, banks were administered as a small local units, because trans-



ferring money unit, consisted of gold and silver coins and other metals were almost impractical due to their excessive weights, and also unsafely of transport passages. But innovation and circulation of bank-notes paved the way for developing the banking systems (network).

The first paper money was printed in Tabriz on Saturday 19th of month of Shawal in 693 A.H (1244 A.D). The above mentioned bank-note was in rectangular figure, having the phrase “there is no god except Allah” printed on its both side top and also name and the title of “The king” printed on its underneath. There was also a cir-

cle printed on the center of the bank note, showing the nominal (value of the bank-note ranging from ½ Derham up to 10 dinars)<sup>12</sup>. There also was warning sentence on the lower part of the bank-note, saying “the king circulated this blessed “Chav” through out the states in the year 693 (A.H), Forfeiterers would be subject to punishment and confiscation of their wealth”<sup>13</sup>.

After Tabriz, Chav printing houses were established in the cities khorasan, shiraz, kerman, Iraq (Arabic and Persian Iraq), Diarbakr, Mossel and Miafar-gein<sup>14</sup>. It is worth to say that Persian Iraq which is the same as current Iraq was located in Iran’s geographic domain.

Let’s remind you as the parenthetical phrase that innovation of the print industry is in turn highly important. As European believes, Gotamberg was the innovator of print industry. Whereas there had been at least 10 Bank-note print houses in Iran 7 centuries ago<sup>15</sup>. China was also pioneer in this regard. Hence one should consider the

print industries one of the main joint innovation and invention of Iran and China.

John Wall, an American researcher who has done some investigation in Iran, writes that; When Iranians and Chinese invented Print Industry, Europe was sunken with barbarity<sup>16</sup>.

Iranian also enacted some international regulations for Chav, in the sense that if foreign traders wanted to travel to Iran, they must have delivered all their silver and gold coins they had with them to the treasurer in the capital city against receiving equivalent amount of Chavs upon their arrivals. Thus they could buy goods and services during their staying in the city, and if there were any Chavs left they could exchange it again with gold and silver in their departure. Certainly the phenomenon of the creation of the bank-note was far ahead of time that is why; it was not suitably welcome by the people<sup>17</sup>. But the innovation of bank-note by Iranians had a profound effect on the bank industries future and made huge changes in the banking system.

### **Creation of Banking and its effect on the European Countries**

As it was indicated, after West European tribes invaded Roman Empire, the trend of flourishing civilization, among them the young bank industry was

halted.

The stoppage continued up to the occurrence of the crusades which caused for European to get acquainted with the banking system once more.

Banking was propagated in the west Rome and current Italy, due to the existence of historical records of the banking in Florence, Lombardy and Veins. From then on the bank industry started to flourish which caused west to get ahead of us in the bank industry and their sciences and techniques rapidly.

### **Iranian banking in middle age**

Banking was continued in Iran in traditional way up to 18th century. The first new European bank started to work in Iran at the end of 19th century. That was English Bank under the name of "New Oriental Bank" which was the branch of the main bank located in India. The New Oriental Bank inaugurated its branch in Tehran in the year 1887 A.D. without receiving any concessions from the Iranian government.

After 2 years, the mentioned Bank was bought by the new established Imperial Bank of Persia in the year 1889.

Oriental Bank did a good job during its staying in Iran. The Bank fixed the interest rate, which was previously off track,

at 12 percent and also circulated certified or bank cheque for the sum of 5 Rials which was the first type of Bank-note or certified cheque in the new course of Banking in Iran.

Antecedent of establishment of Imperial Bank of Iran refers to the time that Mirza Hassankhan Sepahsalar (commander in chief) the Nasereddin shah's chancellor, a broad-minded man who had been living in Istanbul for many years, got acquainted with European changes and was informed that the Peter the Great the Emperor of Russia who had traveled to Europe for the first time, was impressed by the fundamental changes in there. Hence when he came back to Russia started to make the same changes which had been occurred in Europe. In view of the above matter, Mirza Hassan khan encouraged the shah to visit Europe in the hope of, he might be impressed and follow the same pattern of European transitions in Iran. By the start of the year 1873 A.D, the shah took 3 trips to France. Before his first trip, Sepahsalar was trying to provide money sources to finance his travel expenditures. So Mr. Alison the Britain Ambassador was informed of the case and got in touch with Mr. Baron Julius Royter who was an investor and investing agent.

Baron Julius Royter, which was connected to the Royter news agency, succeeded to receive a letter of concession

during one of Shah's journey to Europe by the help of Britain Ambassador and presenting gifts to the Shah. But the concession was unprecedented due to its broad scope and low amount of the contract up to that time. Among others, the concession of bank establishment, publication of bank-bill, construction of railroad and tramcars, the monopolistic right for extracting all mines except gold and precious stones, exclusive right for excavation of subterranean and producing tools for watering, construction of roads, even allocation of custom revenues. In short as Lord Crosswell, the British foreign minister has pointed out, The contract meant the complete transferring of all the vital resources of the country. But when Shah stopped in Russia in his way back to Iran, the Russians who were also rivals to the British nations notified him about the disadvantages of the omen Contract and encouraged him to cancel it. Therefore by virtue of one article in the contracts, which indicated "Primary works must begin within 15 months. Otherwise the concession is no longer valid." The Shah terminated the contract after returning from Europe. Since the work had not been started on time. But a few years later, the Shah signed another letter of concession, once again with the Royter family in the time of premiership of Amin Soltan in Jan. 1889 A.D, in order to appease British Government. Ap-

parently the new contract was signed merely for establishment of a bank, but there were other privileges cleverly included in the contract which were irrelevant to the bank affairs, for instance one article read as the following: In order to develop the trade and increase the wealth of Iran's protected states, the Imperial Bank, in addition to the banking affairs, may perform all kinds of industrial and commercial activities at the cost of herself or others provided that it is not against the customary religion of the country". The next article of the contract is even more noteworthy; "the Imperial Bank of Iran is prepared to devote herself to take any measures in regard to development of wealth resources of the country by exploitation of mines such as iron, copper, lead, magnesium, coal, mercury, oil and asbestos mines"

Fortunately since Royter could not take any action in respect to the concessions other than establishment of the bank, therefore the rest of his privileges became subject to time barred. He only was able to establish a company under the title of Persian Mining Rights Corp. and did some drilling for exploration of crude oil. But since nothing was explored, he gave up the job. The aforesaid Bank was inaugurated in a two floor building, belonged to the branch of modern Oriental Bank, located in Toopkhaneh Square in Jan. 1890. This Build-

ing was destroyed later and a new building, similar to small European churches, was built in the same place which is still partly existed. The central bank office was located in London, Lord W. Kosheick was the bank president, there were some English high rank Bank officer dispatched to Iran to manage the Bank, which in fact acted as Central Bank of Iran and had license to print bank-note. The bank president was an English race person named Josef Rabino, who was the former president of a joint English-Egyptian Bank in Egypt. Since he was acquainted with Eastern culture so he was appointed to the job<sup>18</sup>. The title of the new bank was "the Imperial Bank of Persia" in English version, at the beginning. But it was translated to Persian language later under the title of "Sarafi-e-Shahi-e-Iran".

Two bank-notes were designed for the sums of 20 Shahi<sup>19</sup> and 50 pahnabady<sup>20</sup>, as it is shown below:

Afterwards the Persian name of the bank was changed to "Bank-e-Shahi" and finally to "Bank-e-Shahanshahi-e-Iran".

Then "Tooman" was selected as money unit instead of Pahnabady and Shahi<sup>21</sup>. According to these changes, the first series of Persian paper money was printed by Bradbury Wilkinson Press in England in the year 1890 A.D. and circulated in Iran gradually.

Among the bank notes printed in 1890, the 10 and 25 toman bills were only circulated for the first and last time. The complete series of bills in value order consisted of 1-2-3-5-10-20-25-50-100-500, and 1000 toman. 10 toman bills and more had no signature on since those were to be signed by the bank president at the time of delivery. The 500 and 1000 toman bills did not practically go in circulation due to their high values.

The Shahi Bank expanded its branches during the first 3-4 years of its activities. The Bank opened honorable branches in all large cities of Iran and also in Basra and Bombay which all had been governed by English managers. As the Bank expanded the Russians and Ottoman Empire Government who were considered as everlasting rivals to Iran put Aminolmolk Cabinet under pressure, and soon after, two more foreign banks under the title of Ottoman Bank and Russian loan Bank started to operate in Iran very soon. The competition among the 3 foreign banks was accomplished which led them to make some under-the-table deals against the Bank-e-Shahi.

Although it was mentioned in the Iran-Royter contract that the Bank-e-Shahanshahi was obliged to pay off her "Token"<sup>22</sup> at sight in the same places had been circulated, but all Bank notes could also be paid in Tehran which meant any branches

was required to immediately pay back the equivalent amount of Gold and Silver against all bank notes upon customers demand of exchange.

By having through knowledge of above procedure, the Russian loan Bank started to collect big amounts of bank-notes from the large branches, with the help of moneyexchangers who were not contented with the Bank-e-shahanshahi, in order to present them to one of the small branches in a faraway town, in return for the equivalent amounts of gold and silver. Since the small bank was not prepared to provide the amount of demanded gold and silver. Therefore, they proclaimed every where that Bank-e-Shahi was bankrupted.

The Bank authorities tried to find a way to neutralize the conspiracy, so they provided two stamps each embodying the phrase "payable at .....only" in English and Farsi languages separately. The Farsi stamp was made for sealing the front side and the other stamp for sealing the back side of the notes. Another stamp showing day, month, and A.D year, was also made for dating bank-notes. So each branch was only allowed to exchange the bills, which had been printed and sealed in the same branch. The bank continued her activities, accompanied with fluctuations, up to 1930 A.D but on the whole succeeded in her job. In addi-

tion to the Russian Loan Bank and Ottoman Bank, there were a large numbers of Iranian moneychangers who were also competing with the Bank-e-Shahi, and providing bank services as the small banks. They also had branches in Shiraz, Isfahan, Tabriz and even in Bombay and Basra. They issued "Bijak" instead of cheque, payable to their branches. The most famous large moneychangers or small banks were Toomaniance, Jahanian, Jamshidian firm, Fars Co., Union Co., and Iran's public Co. The year 1309 shamsi can be considered as the beginning of the new era in banking history of Iran. In the same year, the monopolistic right for circulation of Bank-notes was taken away from Bank-e-Shahi under some circumstances. But the proposal for establishment of Bank-e-Melli (National Bank) became mooted in the year 1300 shamsi, which finally was ratified by the parliament with the capital sums of 2 million toman.

As it was mentioned above, the concession for printing Bank-note was granted to Bank-e-Melli, in the month of Ordibehesht 1309 Shamsi. Bank Melli started to offer Bank services as a commercial bank and also as the Central Bank. Afterwards, Bank of Agriculture, Bank-e-Tehran, Bank-e-Kargoshaee (helping out Bank), Bank-e-Omran, Bank-e-pars, Bank of industrial development, Bank of export and mines of Iran, Iran-Russia

Bank, Iran- Japan Bank, Bank-e-Bimeh Bazarganan ( Bank of Insurance ), Iran- Holland Bank, Labor Bank (Bank-e-kar) were gradually established. Dating from 1350 up to outset of the revolution, numbers of small Banks were also founded. But since this essay is in respect to the banking history during the ancient times and the Middle Ages, therefore the detailed of the modern Banking of Iran and the world will be discussed in other writings.

### Footnotes:

1. The word "money" should not be Iranian, although this terminology had been used in middle Farsi language but it meant "Jasar" which later on was changed to pol and pool which is now customary in modern Farsi. There is a huge river which is called "Nahr-e-taleb" which originates from Samirom and passes under the pol (which means Bridge in English) (Farsnameh ebn-e-Balkhi P.148)

Ferdousi the great Iranian poet in his book Shahnameh says another bridge (Pol) should be constructed to make a passage for people to come and go.

Apparently the term of (pool) money in current implication has come from Greece to Persian language (Christian Seen first Edition p.27) and Ebrahim poordavood, Hormoznameh p.233.

2. The ignorant prince resembles "Shahrava" which is worthless in other cities ( Saadi, the famous Iranian poet)

3. Daraya Vahi

4. Bank Sepah Magazine No.1 first year.

5. Iran Bastan History compiled by Hossein Pirnia (Moshir Aldouleh) Tehran press co. , year 1311, 2nd volume,

p.950-951.

6. As above p.533-544 and 950-951

7. Bank and Banking compiled by Dr. Abdolhamid Zangeneh, Tehran 1318, p.1-3

8. As above p.6-9

9. Safarnameh Naser Khosro printed by Dabir Siaghi, p.144

10. 30 years history of Melli Bank , Dr Jahansahi, p.36

11. The Terminology of paper money basically is the same as French word "assignai" which is changed to "assignas" in Russian and then altered to Eskenas in Persian Language. Ebrahim poor Davood, Hormoznameh.

12. Derham is apparently arabicized version of the word "Deram" which is Persian term and is equivalent to one-tenth of Dinar. "Dinar" is also originated from Greece word "Dinarius" which means ten times thus each Dinar is equal to 10 Derham or Deram.

13. For more information in regard to the first printed paper money, look at the History of Vassaf (Shhabeddin Vassaf). Bonyad-e-Farhang-e-Iran Press, 1336

14. Miafargein has been a city located in Bein-Alnahrein, which is attributed to Noshiravan (King of Sasani Empire). The second part of the word Miafargein had probably been Pargin which is pronounced fargin by Arabs. (The margin of Naser Khosro, Safarnameh (Travel account), p.291, 2nd edition

15. Basically the term of Chap and Chap-khaneh (print Shop) which is used today, is the altered terminology of the word "Chov" and "Chov-khaneh"

16. John Well, "the paper money of Persian in the currency collection" vol.14, no.2, 1973, p.61

17. For more information in regard to the first paper money printed in Iran,

look at Iran-Nameh Magazine 11th year, no.4 and also Iran Chamber of Commerce Magazine no.5, 10. 1386

18. There is a valuable article written by this person in regard to the historical past record and the share of Iranians in the world Banking system, look at the Institute of Bankers Magazine London Jan.1892

19. "Shahi" had been money unit, equivalent to 50 "Dinar" during the Gajaar Monarchy. Afterward, shahi became equal to 5 Deram in the time of Phlavi Kingdom, also each 50 Shahi coin was equal to 1/2 Rial

20. Pahnabad or Panabad which is short form of Panah Abad, is the name of a coin which has been minted in Panah Abad (Shooshi Fort) and was equal to 10 shahi, also 2 panabadi was equal to 1 grame.

21. Tooman is a Turkish terminology. The Turks who migrated to Iran about 7-8 centuries ago propagated the word Tooman in Iran. It is basically an army term and means 10 thousand, Amir Tooman is the one who has 10 thousand soldiers under his command. In banking literature, one tooman was equal to 10000 Dinar, and also ten Geraan was identical to one tooman.

22. At the time of signing contract, the term of paper money was not customary, thus in Farsi transcription of the contract, the word Bank note was translated to Token money. More interesting, when the Russian Paper money (Menat) reached Iran in the year 1883 Nasereddin Shah considered them filthy pieces of papers and issued a charter which said, the people who accept these filthy and unclean pieces of papers instead of gold and silver are stupid.