

GENERAL PRINCIPLES FOR VALIDITY OF MUAMLAT

SHARI'AH HAS FORBIDDEN ALL BUSINESS TRANSACTIONS, WHICH CAUSE INJUSTICE IN ANY FORM TO ANY OF THE PARTIES.

1. Permissibility as a General Rule
2. Free Mutual Consent
3. Prohibition of Gharar
4. Prohibition of Riba
5. Prohibition of Qimar & Maisir (Games of Chance)
6. Prohibition of Two Mutually Contingent Contracts
7. Profit with Risk & Liability
8. Conformity of Contracts with the Objectives of Shari'ah

1. Permissibility as a General Rule

- (Everything that is not prohibited is permissible.)
- The principle of permissibility establishes the fact that all agreements and conditions contained in them are permissible as long as they do not contradict any explicit text of the Quran or Sunnah.
- Individuals are not always in a position to conduct exchange transactions on a spot payment basis. Many times, one of the two counter values to an exchange transaction is not exchanged simultaneously, as happens in credit (Mu'ajjal) or forward (Salam) transactions. The validity of these transactions requires certain rules.

2. Free Mutual Consent

- In order to be valid and enforceable must be based on free mutual consent of the parties. The consent that is required for the formation of a valid contract is free consent.
- Consent obtained through pressure, fraud and misperception renders a contract invalid as per Islamic law.
- It also requires that consenting parties have certain and definite knowledge of the subject matter of the contract and the rights and the obligations arising from it.

3. Prohibition of Gharar

- Gharar conveys the meaning of uncertainty about the ultimate outcome of the contract, which may lead to dispute and litigation.
- **Examples of transactions**
 - ✓ Fish in water, Fruits of trees at the beginning of the season when their quality cannot be established or the future sale of not fully defined or specified products of a factory which is still under construction.

- ✓ All valid contracts must be free from excessive uncertainty (Gharar) about the subject matter or the consideration (price) given in exchange.
- **Types of Gharar:**
 - GHARAR YASEER:** Natural or normal Gharar (that is there in human dealings and does not usually lead to conflicts) is acceptable.
 - GHARAR QASEER:** Unnatural or abnormal Gharar (that generally leads to conflicts) is not acceptable.
- By these words “generally leads” we mean such uncertainty becomes a reason of conflict in most human dealings.
- If a contract with Gharar between two persons does not lead to a conflict but usually it does, then such Gharar would not be acceptable.
- The reason is that rule of generality applies here i.e. if an act becomes reason of conflict in general then it would be disallowed even though it may not lead to conflict in a few cases.

4. Prohibition of Riba

- **Definition**

“The Arabic word ‘Riba’ means excess, increase or addition in any form. In the light of Shari’ah it means any excess compensation without due consideration is called ‘Riba’.
- In Hadith of Prophet (S.A.W) it defined as: Every loan that draws profit is the kind of Riba.

RIBA WILL BE DISCUSSED IN DETAIL

5. Prohibition of Qimar & Maisir (Games of Chance)

- **Qimar** includes every form of gain or money, the acquisition of which depends purely on luck and chance.
- **Maisir** means getting something too easily or getting a profit without working for it. All contracts involving Qimar and Maisir are prohibited.
- Present-day lotteries and prize schemes based purely on luck come under this prohibition. Dicing and wagering (Betting) are rightly held to be within the definition of gambling and Maisir. Therefore, Islamic Finance cannot facilitate through such schemes or products.

6. Prohibition of Two Mutually Contingent Contracts

- Two mutually contingent contracts have been prohibited by the Holy Prophet (PBUH). This refers to:
 1. The sale of two articles in such a way that one who intends to purchase an article is obliged to purchase the other also at any given price.
 2. The sale of a single article for two prices when one of the prices is not finally stipulated at the time of the execution of the sale.

3. Contingent sale.
 4. Combining sale and lending in one contract.
- In order to avoid this prohibition, jurists consider it preferable that a contract of sale must relate to only one transaction, and different contracts should not be mixed in such a way that the reward and liability of contracting parties involved in a transaction are not fully defined.
 - Therefore, rather than signing a single contract to cover more than one transaction, parties should enter into separate transactions under separate contracts.

7. Profit with Risk & Liability

- A person is entitled to profit only when he bears risk of loss.
- This principle states that a person is entitled to profit only when he bears the risk of loss in business. It operates in a number of contracts such as the contract of sale, hire or partnership.
- Any excess over and above the principal sum paid to the creditor by the debtor is prohibited because the creditor does not bear any business risk with regard to the amount lent. In sale and lease agreements, parties have to bear risk as per the requirements of the respective contracts.

8. Conformity of Contracts with the Objectives of Shari'ah

- The injunctions of the Shari'ah are directed towards the realization of various objectives for the welfare of mankind.
- The objectives of the Shari'ah have been emphasized in a large number of the texts of the Quran and Sunnah.
- Any contract or transaction that influences against any of these objectives is invalid in Shari'ah.
- It is quite obvious that the rights of fellow beings have to be honored in respect of all transactions.
- The rights of Allah(SWT) in Shari'ah also refer to everything that involves the benefit of the community at large.
- In this sense, they correspond with public rights in modern law. Therefore, any contract should not be against the benefits of the public at large.

CHARACTERISTICS/SALIENT FEATURES OF ISLAMIC ECONOMIC SYSTEM & PRINCIPLES OF ISLAMIC FINANCIAL SYSTEM

Characteristics/Salient Features of Islamic Economic System

1. Allah is the Sustainer
2. God is Real Owner of Everything and Man is Merely a Trustee
3. Everything Created for Service and Use of Man
4. Concept of Halal and Haram
5. System of Sadaqat and Zakat
6. Prohibition of Interest
7. Ban on Hoarding of Wealth 8
8. Policy of Moderation
9. Condemnation of Monasticism and Materialism
10. Equity and not Equality

1. Allah is the Sustainer

- One of the major features of Islamic economic system is the concept that Allah, the Almighty God of universe, is the sustainer and provider. Allah provides livelihood and subsistence to all of His creatures in the universe. It is Allah who has created all means and resources through which man earns his livelihood. Allah, in fact, has committed to feed, sustain and nourish all creatures including human beings. It is Allah who expands or curtails rizq (sustenance).
- The conception of God's Dispensation does not, however, suggest that one should sit idle and wait for sustenance which would automatically come to him. Instead of giving up struggle, Islam rather inspires a person to do his best in order to earn his livelihood by using all lawful (Halal) and fair means. The Qur'an encourages struggle when it says: "And that man hath only that for which he make the effort, and that his effort will be seen"—(53: 39-40). The revealed book of Islam encourages its followers even on Friday to disperse in the land after finishing their prayer and seek of the bounty of God (62:10). Ahadith of Prophet Muhammad (PBUH) also emphasize the importance of struggle and hard work put in for earning livelihood for oneself and one's family.
- This concept only emphasizes some basic truths, namely: God provides sustenance to all His creatures by placing sufficient and infinite resources in the earth, everything has been created by God for service of man, and man should exploit these resources and things in lawful manner to earn his subsistence without violating the rights of others.

- **Concept of Entrepreneurship in Islam**

- I. The Qur'an encourages struggle when it says: "And that there is not for man except that[good] for which he strives. And that his effort is going to be seen" (53:39-40).
- II. O you who have believed, when [the adhan] is called for the prayer on the day of Jumu'ah [Friday], then proceed to the remembrance of Allah and leave trade. That is better for you, if you only knew. And when the prayer has been concluded, disperse within the land and seek from the bounty of Allah, and remember Allah often that you may succeed.(62:9-10).
- III. In a famous Hadith Prophet (pbuh)said, "Alkasibu habibullah" the laborer or worker is dear to Allah Almighty.

2. God is Real Owner of Everything and Man is merely a Trustee

- The heavens and the earth and everything in the universe belongs to Allah. God is the real owner of everything, al-though He has given some rights to man for use of things required by the latter for his existence on the earth. However, the rights given to man are very limited, the real position of man being that of a trustee and a beneficiary. Some of the relevant verses of the Qur'an which highlight this concept are given as under:
 - I. Unto Allah belongs whatsoever is in the heavens and whatsoever is in the earth; and unto Allah all things are returned. (3:109)
 - II. Unto Allah belongs whatsoever is in the heaven sand whatsoever is in the earth. Allah ever surrounds all things. (4:126)
 - III. Believe in Allah and His Messenger and spend out of that in which He has made you trustee. For those who have believed among you and spent, there will be a great reward. (57:7)
- This limited ownership or trusteeship bestowed on man by Allah in respect of the wealth which is given to him is not without significance. The divine wisdom underlying this principle of trusteeship is that man should not hoard his wealth treating it as his absolute ownership and deprive others from its use. Rather the surplus wealth of man must go to his fellow beings who are in want. This principle has been made more clear when the Qur'an says: "..... and bestow upon them of the wealth of Allah which He has best owed upon you....."(24:33).

Thus, the whole scheme of circulation of wealth through charity and Zakat and distribution of wealth through other equitable means envisaged by Islam is based on man's limited rights as a trustee of wealth which has been bestowed on him by His Lord.

3. Everything Created for Service and Use of Man

- It is God who has created everything in this universe. Many of the things created by God in the earth are of benefit to man directly or indirectly. Animals, plants, minerals, metals, water, air, fire, land, river, mountains, sea, and even sun, moon, stars, day and night, etc. are all for

service to man. Many economic benefits have been placed by God in these things for man. The Qur'an brings this fact to light in its following verses:

- I. It is He who created for you all of that which is on the earth. Then He directed Himself to the heaven, [His being above all creation], and made them seven heavens, and He is Knowing of all things. 2: Al-Baqarah:29
- II. And it is He who placed for you the stars that you may be guided by them through the darkneses of the land and sea. We have detailed the signs for a people who know. 6:AlAn'am:97.

4. Concept of Halal and Haram

- Islam has introduced concept of Halal (lawful) and Haram (unlawful) in its economic system. In fact, the foundations of the Islamic economy have been laid on this concept. This concept reigns supreme in the realm of production as well as consumption. Certain means of earning livelihood and wealth have been declared unlawful such as interest, bribery, gambling and games of chance, speculation, short weighing and short measuring, business malpractices, etc. Unlawful means of earning are strictly forbidden and a follower of Islam is permitted to earn through lawful and fair means. Similarly, in the field of consumption certain items of food are unlawful such as dead animals, blood, swine flesh and animals slaughtered in the name other than that of Allah. Even expenses on certain items such as drinks, narcotics, debauchery, prostitution, pornography, things that promote obscenity and vulgarity, lotteries and gambling are strictly inadmissible.

5. System of Sadaqat and Zakat

- Islamic economic order has introduced a comprehensive system of sadaqat which comprises: compulsory contributions like Zakah, sadaqat ul Fitr, monetary atonements; and voluntary contributions such as alms-giving, spending in the way of Allah on the poor, donations to charitable cause, waqf, etc. Charity and alms giving is sometimes called by the Qur'an a goodly loan to God Who Himself would compensate the giver manifold and also reward him in the Hereafter. Islam has declared that the poor and destitute have due share in the wealth of the rich and the rich are bound to return the share of the poor without stint.
- The system of sadaqat ensures equitable distribution of wealth in the Muslim community and makes it certain that the wealth does not remain hoarded in idle channels. Circulation of wealth in productive channels is ensured by enhancing the purchasing power of the poor. Concentration of wealth in few hands is discouraged and the gap between the rich and the poor is bridged.

6. Prohibition of Interest

Interest, which forms the foundation of capitalistic system of economy and which has not been eliminated even in the socialist system, has been completely abolished by Islam. Charging of interest is a major sin and the usurers have been given the notice of war from God and His messenger. Following are some of the verses of the Qur'an and Ahadith of Muhammad (PBUH) dealing with interest.

7. Ban on Hoarding of Wealth

Hoarding of wealth has been condemned by Islam in very clear terms, and those who hoard wealth and do not spend it for good cause have been threatened with painful doom. Hoarding of wealth is a great evil as it tantamount to obstruction of flow of God-given wealth from the rich to the poor who are in genuine need of it. Therefore, Islam discourages hoarding of wealth and instead encourages circulation of wealth among all the sections of society.

8. Policy of Moderation

Islam follows policy of middle way or moderation and avoids extremes. The two extremes of every action are bad and moderation between them is the best policy according to Islam. Following verses of the Qur'an and Ahadith of Muhammad exhort the Muslims to follow the way of moderation.

9. Condemnation of Monasticism and Materialism

- Islam condemns Monasticism as well as Materialism and recommends its followers to adopt middle way between these two extremist ways of life. A spiritual or a monastic lay all the emphasis on moral and spiritual aspect of life and ignores completely material aspect. He regards all economic activity as a vice and economic struggle as a sinful act.
- The Qur'an, the revealed scripture of Islam, expresses its dislike explicitly for the monastic way of life in its following verses:
 - I. O you who have believed, do not prohibit the good things which Allah has made lawful to you and do not transgress. Indeed, Allah does not like transgressors. (5 : 87)
 - II. and monasticism, which they innovated; We did not prescribe it for them except [that they did so] seeking the approval of Allah. But they did not observe it with due observance. So We gave the ones who believed among them their reward, but many of them are defiantly disobedient. (57 : 27)
- The Prophet of Islam has also discouraged the monastic way of life among his followers. Once he learnt that some companions had taken a vow to fast during the day, pass the night in worship, abstain from meat and fat and renounce intercourse with women. Thereupon he (peace be on him) delivered a sermon in the course of which he

observed: “This is not my creed. Your body has rights over you. You should fast, but eat and drink also. Pray at night, but sleep also. Look at me. I sleep and I pray also. I both keep and omit fasts. I eat both meat and fat. So whoso does not subscribe to my way, he is not of mine.

10. Equity and not Equality

- Islam establishes equity, fairness and justice in the production and distribution of wealth, and in ownership of means of livelihood. However it recognizes that like other natural things there is no equality among human beings as regards the economic means and possession of worldly wealth. This inequality has been presented by the Qur'an as a part of Divine Economic order. The Qur'an does not consider these inequalities in the distribution of Divine sustenance as punishment or reward and does not try to eliminate them, because no two individuals have been blessed with hundred percent equal mental and physical abilities.

Taking the existence of inequalities as a part of divine scheme, the Qur'an advises its followers not to covet those things in which Allah has made some of them excess others. By exalting some of you over others in rank or by favoring some of you over others in provisions, God in fact tries and tests the human beings whether they are thankful to Him in good circumstances and patient in bad circumstances.

- The existence of economic inequalities among the people is not only natural but is also a blessing for the purification of human soul and development of human personality. Those who have scarce means of sustenance should thereby learn to be patient and contented and not to be jealous; while those who have abundant resources should thereby learn to be grateful to God, to be kind and benevolent to the poor and to sacrifice their possessions for the cause of God.

Islam, in fact, teaches the people to regard the existence of differences in wealth as a test by which God tries them in this world. By granting abundance of wealth to some, God observes how they spend it; whether they consider it as their personal property denying the poor any share in that or they consider themselves as trustees in respect of the wealth bestowed by God and spend it in the way of God for the welfare of their poor brothers. And God tries the poor by straitening their sustenance whether they lose their trust in God and become jealous of the rich or whether they keep their faith in God and remain patient in the adverse circumstances.

Principles of Islamic Financial System

Basic idea of Islamic Financial System is prohibition of receipt and payment of interest. Literature based on the divine guidance about Islamic financial system suggest the following principles.

1. Money as potential capital
2. Prohibition of Interest
3. Risk Sharing
4. Sanctity of Contracts
5. Sharia Approved Activities
6. Individual Liberty
7. Right to Own Property
8. Economic Inequality and Charity
9. Social Equality
10. Circulation of Wealth

1. Money as Potential Capital

- Money is not an asset by itself; it becomes capital only when it joins hands with other resources to undertake a productive activity.
 - Money is not an asset but a piece of document or a claim.
 - It becomes capital only when it joins hands with other resources to undertake a productive activity.
 - Money cannot be bought and sold as a commodity.
 - Money not backed by assets cannot increase in value overtime.
- Islamic Currency is Dinar and Dirham made of Silver and Gold.
 - The Islamic Dinar can be used for saving because they are wealth in themselves.
 - They are used to pay Zakat as they carry value in itself. Instead of paying Zakat in paper currency gold and silver is used to pay Zakat as part of wealth.
 - They are used to buy and sell since they are a legitimate medium of exchange.
- Gold cannot be inflated by printing more of it.
- It cannot be devalued by government decree.
- Unlike paper currency it is an asset which does not depend upon any body's promise to pay.
- Portability and anonymity of gold are both important, but the most significant fact is that gold is an asset not the liability.

2. Prohibition of Interest

- Islam categorically Prohibits the payment or receipt of any predetermined, guaranteed rate of return (Riba). And this act of involvement of interest or Riba, is declared as an act of war against the Almighty Allah and his Prophet.
- What is interest or RIBA?
Literal meaning are expansion, increase, addition and growth Technical meaning are a predetermined increase as a condition for the loan, irrespective of whether the increment is small or big.
- When any one of you grants a loan and the borrower offers him a dish [of food], he should not accepted it; and if he offers him a ride on an animal, he should not ride, unless the two of them are accustomed to exchanging such favours mutually (reported by Al-bayhaqi in his Sunan from Anas ibn Malik)
- Contemporary definition of interest is a fee paid by a borrower of assets to the owner as a form of compensation for the use of the assets. It is most commonly the price paid for the use of borrowed money, or money earned by deposited funds.
- Islamic sharia considers the Riba and interest as same thing.
- Quran and Hadith categorically prohibited riba.
Four revelations have prohibited riba:
 1. Surah al-rum (30:39)
 2. Surah al-nisa' (4:161)
 3. Surah al-'imran (3:130-2)
 4. Surah al-baqarah (2:1275-281)

3. Risk Sharing

Because interest is prohibited, the suppliers of capital become investors instead of creditors. The provider of financial capital and the entrepreneur share business risk in return for shares of the profits.

4. Sanctity of Contracts

Islam upholds contractual obligations and the disclosure of information as a sacred duty. This feature is intended to reduce the risk of false information and moral hazard. Quran clearly emphasize the importance of the contract and say;

1. “O you who believe! Fulfill your obligations.” (5:1)
2. “... and fulfill your promise, surely you will be questioned about your promises.” (17: 34)

5. Sharia Approved Activities

In an Islamic economy, speculative behavior, anti-social and harmful practices in the society are forbidden. For example Islam, does not allow gambling, drinking, hoarding, interest, and black marketing etc.

Allah says in Quran “O you who believe! Intoxicants and games of chance and (sacrificing to) stones set up and (dividing by) arrows are only an uncleanness, the Satan's work; shun it therefore that you may be successful” (5:90).

Islamic economy rules out the speculative behavior, anti-social and harmful practices in the society.

At the same Islam, does not allow unfair means to promote one's business, for example bribery, rights violation, damaging others property etc.

6. Individual Liberty

The liberty that Islam grants is based on commitment and responsibility without which there can be no true freedom. In an Islamic state the individual has a

- complete liberty in his/her thoughts and activities
- but are not allowed to pose threats or creates problems for the society

7. Right to Own Property

Islam recognizes one's right of private ownership of wealth but this right has some limitations as to render it absolutely harmless to the greater good of the society. There are several verses in Quran explaining the relationship of individual and the property, which explain the rights and wrongs for the individuals to claim and earn property. For example;

- Do not devour one another's property by foul means; (instead of it) do business. (4:29)
- Allah has made trade lawful and interest unlawful. (2:275)
- Islam does not make any distinction between the earned and unearned income. For example, everyone has the right to inherit the property, accept lawful gifts and Zakat which is unearned income.

8. Economic Inequality and Charity

Quran describes the economic inequality among people in these words, “We portion out among them their livelihood in the life of this world, and We exalt some of them above others in rank, that some of them may take others in service. (43:32)

Islam recognizes economic inequalities but does not let them grow wider; it tries to maintain differences in reasonable, equitable and natural limits. Economic inequality is a natural phenomenon as it produces labor for the economic activities but at the same time Islam encourages the wealthy people in the society to help the poor and needy people through charity and Zakat.

9. Social Equality

- So long as the differences in wealth and rank do not create classes in the society, it is permissible.
- Tagging a part of the community as rulers, masters or superiors and the others as ruled, servants and inferiors is strictly forbidden.
- Individual and the community are dependent upon one another. The prosperity of one means the prosperity of the other.

10. Circulation of Wealth

- Islam emphasizes the circulation of wealth and at the same is against the accumulation of wealth in few hands and remains unproductively blocked there. The Quran condemns hoarders in the strongest language.
- Islam condemns hoarding in a very strong language; Allah says,
“And there are those who bury gold and silver and spend it not in the way of Allah: announce unto them a most grievous penalty On the Day when heat will be produced out of that (wealth) in the fire of Hell, and with it will be branded their foreheads, their flanks, and their backs. "This is the (treasure) which you buried for yourselves: taste you, then, the (treasures) you buried! (9:34-35)”

ISLAMIC BANKING GLOBALLY AND IN PAKISTAN

- Global View
- Achievements Globally
- International Groups
- Many Foreign Banks Now Have Islamic Windows.
- Countries with Islamic Banking & Their Market Share
- Islamic Banking Market Share in Pakistan
- 5 Year's SBP Strategic Plan.
- New Strategy.
- Islamic Banking & Islamic Banks in Pakistan.
- Full Fledged Islamic Banks –5*
- Conventional Banks Operating Islamic Banking Branches.

GLOBAL VIEW

The Size of the Islamic Finance Market Estimates of the current size of the Islamic Finance market range from \$1.66 Trillion to \$2.1 Trillion with expectations of market size to be \$3.4 Trillion by end of 2018. Based on \$1.66 Trillion, Islamic Finance assets represented 1% of the global financial market of \$127 Trillion in assets. Other estimates have placed the size of the Islamic Finance market in terms of assets at \$2.1 Trillion as of the end of 2014, with growth at a compounded annual growth rate (CAGR) of 17.3% between 2009 and 2014. Ernst & Young, and the Malaysia Islamic Financial Centre predict the size of the market to hit \$3.4 Trillion by end of 2018, whilst Price water house Coopers predict a \$2.7 trillion market by 2017. / \$294 trillion market of Global Financial Religion is an organized collection of beliefs, faith, cultural system, ethics, morality and way of life. Almost all religion believes in God The global sensor 2012 reports that the world population has reached 6.9 Billion of which 2.0 Billion 31% Christians, 1.7 Billion 23% Muslims, 13.8 Million 0.2% Jews and 59% are religious and 41% non-religious. There are 1.7 billion Muslims in the world (23% of total world population) with annual growth of 15% (in 2020 Muslim population expected 25% of the world population), Making it 2nd largest religion after Christianity.

ACHIEVEMENTS GLOBALY

- Recognition by IMF, World Bank and Basel Committee.
- Establishment of Islamic indices (Dow Jones, FTSE, All Share Islamic Index etc.)
- Total size \$3.4 Trillion at end of 2018.
- Over 90+ Shari'ah, Accounting, Auditing, & Governance Standards for Islamic financial institutions (by AAOIFI).
- Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has issued a total of 94 standards for the international Islamic finance industry: Accounting

Standards 26, Auditing Standards 05, Governance Standards 07, Codes of ethics 02, Shari'ah Standards 54.

- 790 + Islamic financial institutions {The Banker (Special Report November 2015)}
- No of Commercial Banks 198. 25%
- Number of Conventional Institutions with Shari'ah Windows 111. 14%
- Number Insurance (Takaful) Companies 90. 11%
- Number of Foreign-owned subsidiaries 33. 04%

INTERNATIONAL GROUPS

- DMI, Al Baraka, Al Rajihi, Kuwait Finance House, Noor Financial, Abu Dhabi Islamic bank.
- Many foreign banks now have Islamic windows.
- Citibank, ANZ, RBS, Goldman Sachs, Hong Kong Shanghai bank (Amanah), Saudi American bank, Saudi British Bank, Standard Chartered Bank (Sadiq), UBS AG.

COUNTRIES WITH ISLAMIC BANKING & THEIR MARKET SHARE

- More than 85 countries have ISLAMIC BANKING Institutions,
- Approximately 60 Muslim countries.
- Approximately 25 non-Muslim countries including USA, UK, Canada, Switzerland, Srilanka, South Africa and Australia.
- Islamic financial advisory company, EDBIZ Consulting, has formulated the Islamic Finance Country Index (IFCI), which ranks about 50 countries of the world in terms of their role in developing, promoting and advocating Islamic Banking and finance.
- Pakistan comes after eight countries, namely Iran, Malaysia, Saudi Arabia, Bahrain, Kuwait, United Arab Emirates (UAE), Indonesia and Sudan.

IFCI Rank	1	2	3	4		6	7			
Country	Iran	Malaysia	Saudi Arabia	Bahrain	Kuwait	UAE	Indonesia	Sudan	Pakistan (1.2%) (E&Y)	Qatar

IFCI Rank	11	12	13	14	15	16	17	18	19	20
Country	Bangladesh	Turkey	UK	Egypt	USA	Jordan	Brunei	Yemen	Lebanon	Singapore

ISLAMIC BANKING MARKET SHARE IN PAKISTAN

- Market Share is approximately on average 11.8% (Assets) 13.3% (Deposit).
- Growth of Islamic banking in the country has been over 15% in the last few Years. (Islamic Banking Bulletin, September 2016, Islamic Banking Department State Bank of Pakistan)
- Pakistan ranks number nine in the world in terms of development of the Islamic financial services industry in the country. (Global Islamic Finance Report 2014 Washington USA)

5YEAR'S SBP STRATEGIC PLAN 2014-2018 New strategy

The newly unveiled Islamic banking strategy by the State Bank of Pakistan attempts to double the number of Islamic banking branches from 1,314 in the next four years, and to increase its market share from 10% to 15%. Islamic banking, increasing the share to 15% is a modest aim. Indeed, if Islamic banking fails to achieve 20% share in the market by 2018. By all indicators, it has failed to reach its potential.

ISLAMIC BANKING & ISLAMIC BANK IN PAKISTAN 1948:

"We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice." Quaid-e-Azam Mohammad Ali Jinnah, Founder of Islamic Republic of Pakistan. On the Occasion of the Opening Ceremony of the State Bank of Pakistan on July 1, 1948.

1970s:

Some efforts started to Eliminate Riba from the Socio-Economic Landscape of Pakistan.

1980s:

Bold and comprehensive initiatives were undertaken. Pakistan was ranked amongst the three countries of the world for commencing non-interest based banking.

Various legislations (Companies Ordinance, 1984, Negotiable Instruments Act, 1882, State Bank Act and Recovery of Loans Laws etc. were reviewed to bring these in line with the tenants

of Islam. A new interest free Instrument namely; PTC (Participation Term Certificate) for Corporate Financing was introduced and was later replaced with TFC (Term Finance Certificate). Non-Interest Based Instruments (NIB) Numbering 12 were announced.

In the Conventional Banks separate interest free counters were opened on January 01, 1981.

For meeting working capital needs of trade and industry, Musharakah was introduced on July 01, 1982. Profit and loss sharing basis was introduced in Conventional Banks on April 01, 1985.

1990s:

In November 1991, Federal Sharia Court was established. An announcement was made on December 23, 1991 that transactions involving interest in banks would cease to have effect finally by June 30, 2001.

1999:

Shariah Appellate Bench of Supreme Court rejected all appeals against the previous and called for the establishment of an interest free financial system.

2002:

SBP issued license for first Commercial Islamic Bank (Meezan Bank)

2003:

Establishment of Islamic Banking Department at SBP

2007:

Adapted Accounting Standards for Murabaha

2008:

- SBP issue Instruction & Guidelines for Shariah Compliance in Islamic banks.
- Government of Pakistan issue Ijarah based sukuk to finance its needs.

2010:

6 Full fledged Islamic banks & 14 Islamic banking windows were operating and had over 5% market share in a very short span of time

2012:

990 Islamic Banking Branches (including sub branches), 500+ Branches of Islamic Windows, 5 Takaful operators and 30+ Islamic Mutual Funds.

2015:

1,783 Islamic Banking Branches (including sub branches) (Sep 2015)

2016:

2,226 Islamic Banking Branches (including sub branches) (Sep 2016) + Strategic Plan 2014 –

2018:

- **Full Fledged Islamic Banks –5***

Meezan Bank, Bank Islami Pakistan, Al-Baraka Islamic Bank {(+ Emirates Global Islamic Bank Limited Bank, Burj Bank (Dawood Islamic Bank))}, Dubai Islamic, MCB Islamic Bank Ltd.

- **Conventional banks operating Islamic Banking Branches:**

Bank of Khyber, MCB Bank, Bank Alfalah, Habib Metro Bank, Bank Al Habib, and Standard Chartered Bank, Soneri, HBL, UBL, Askari, NBP, Faysal, Silk Bank etc. etc.

STEPS TAKEN FOR PROMOTION:

- Shariah Board established at SBP.
- Islamic products available to cover 90% of the services offered by conventional banks.
- Shariah compliant export refinance scheme launched.
- Model agreements for products developed by IBD of SBP.
- Shariah Audit/Compliance manuals have been developed.
- Various training courses and degree programs at universities.
- IBD-SBP has issued comprehensive frame work for profit and Loss distribution.

CHALLENGES TO ISLAMIC BANKING INDUSTRY:

The global Islamic finance industry has undergone major transformations in the last few years in its quest to boost international competitiveness and to build a sustainably profitable business model. There has been a focus on product innovation efforts that aim to provide a more comprehensive array of Shariah-based products for the market. The global as well as domestic Islamic finance industry has also seen significant developments in regulatory frameworks and Shariah standardization initiatives-making trans-jurisdictional market connectivity that much more achievable but there are still many challenges for sustainable growth of Islamic Finance Industry.

➤ **Operational efficiency**

- Customer centric operating model
- Improved data management
- Updated Shariah compliant systems and processes

➤ **Growth**

- Emphasis on core businesses
- Consolidation, conversions and new start-ups
- Relationship growth with key clients, vendors and partners

➤ **Innovation**

- Embracing new technology
- Product research for development & structuring
- Minimize reputational and regulatory risk

➤ **Shariah Compliance & Risk**

- Shariah Compliance and regulation to drive change in business models & Capital management.

Top Risks for Islamic Banks

1. Managing the transformation, to customer centric business model.
2. Reduced profits.
3. Geopolitical, macroeconomic shocks.
4. Human capital (Lack of Islamic Finance Professionals).
5. Product risk, Balancing innovation (law of the land and Shariah compliance).
6. Technology risk, including absence of fully compliant/ certified systems.
7. Liquidity and associated cost.

Some of the challenges that the Islamic banking industry faces today and requires immediate solutions includes:

- Lack of awareness & skepticism at different levels – including investors, bankers, regulators, researchers & customers.
- Being a new industry, a major challenge in its growth is the worldwide shortage of trained Human Resource in Islamic banking & finance.
- Limited number of Shariah Scholars that create over-reliance and raise questions about Shariah compliance of the institutes involved.
- Focus efforts needed for New Product Development & Research
- Solutions for Liquidity Management & creation of Islamic Inter-bank Market
- Absence of a separate Regulatory, Legal & Risk Management framework to cater the specific need of Islamic banking Institutes.

KEY DRIVES FOR GROWTH AND COMPETITIVENES

- Product Innovation, Development and Research.
- Flexible and practical application and enforcement of Shariah principles and injunctions and its acceptability by public.
- Creation of global financial hubs and regulators' support for Islamic finance industry.
- Separate governance and prudential regulations and supervisory guidance for Islamic banks.
 - Development and adoption of simple, standard and cost effective legal frameworks for contracts associated with the existing & new products.

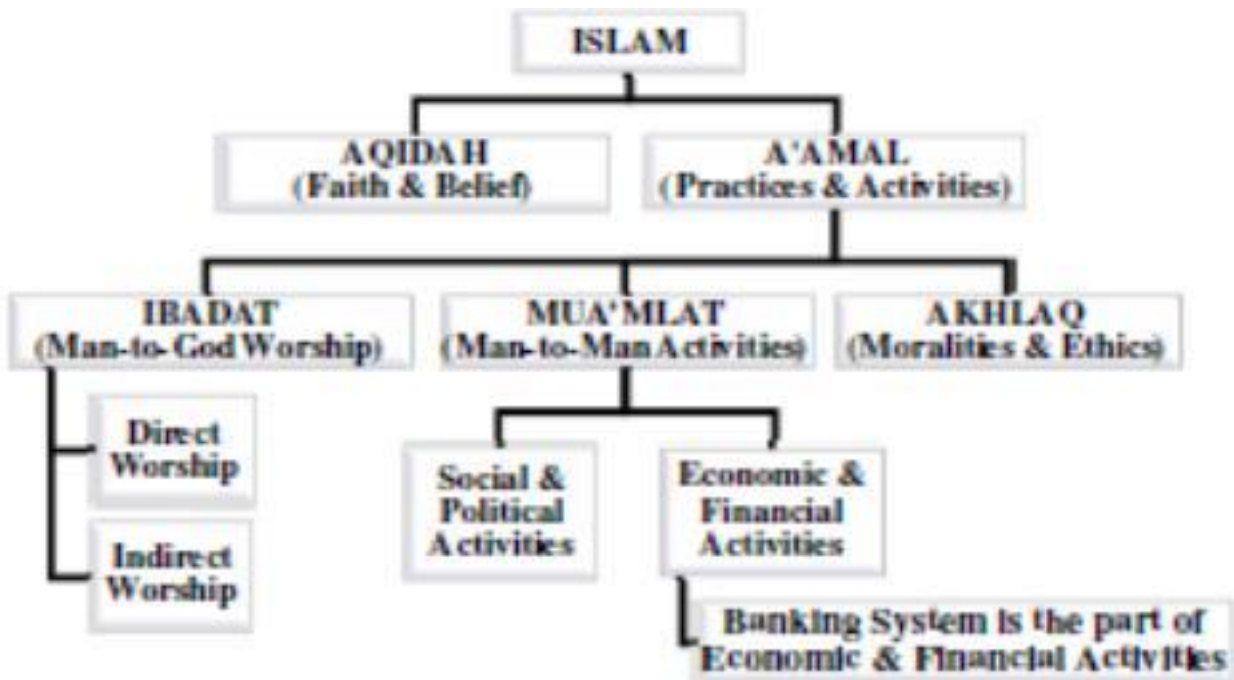
FAQ

1. Islam is a religion so what religion has to do with financial system or banking?
2. What is the logic of religion's involvement with financial activities?

عَدَا لِرُسُلَاتِنَا فَبِئْسَ مَا لَكُمْ وَلَقَدْ جَاءَكُمْ رَسُولٌ مِنْ أَنْفُسِكُمْ يَتْلُو عَلَيْكُمْ آيَاتِ اللَّهِ وَيُزَكِّيكُمْ وَيُخَلِّصُكُمْ مِنَ الظُّلُمَاتِ وَأَلْجَأَكُمْ إِلَى الْحَقِّ وَالْحَقُّ لَا يُظْلَمُونَ

اسی طرح ہم نے تمہارے اندر تمہیں میں سے (اپنا) رسول بھیجا جو تم پر ہماری آیتیں تلاوت فرماتا ہے اور تمہیں (نقا و پاک) پاک صاف کرتا ہے اور تمہیں کتاب کی تعلیم دیتا ہے اور حکمت و دانائی سکھاتا ہے اور تمہیں وہ (سرار معرفت و حقیقت) سکھاتا ہے جو تم نہ جانتے تھے

Likewise, we have sent to you (Our) Messenger from among yourselves who recites to you Our Revelations and purifies and sanctifies (your hearts and ill-commanding selves) and teaches you the Book and inculcates in you logic and wisdom and enlightens you (on the mysteries of spiritual gnosis and divine truth) which you did not know.



3. Do you think financial system & banking was in practice 1400 years ago?

- As current it was not in practice but we have rules and laws.

4. Why not Christian or Jewish Finance or banking?

- Because conventional banking is not based on Christian or Jewish laws and Islamic banking is based on Islamic laws.

5. Where this conventional banking has come from?

- Conventional Banking has come from Goldsmith of UK investment.
- Now we must think, is there any comparison between
- Man Made Laws and God Made Laws

6. Is there Superiority of God-made Laws over Man-made Laws?

- **The superiority of Islamic laws over man-made laws:**
 - ✓ Man-made laws are by necessity influenced by the law-makers' social and racial biases.
 - ✓ The United Nations Organization is the best example of how policies are enforced only when it suits the interest of the super-powers.
 - ✓ The rule of the game in man-made laws is not honesty and justice, it is “the might is right”.
- **God-made laws are superior because of the following facts:**
 - ✓ God is above class status, racial prejudice (Influence) & gender rivalry
 - ✓ God, as the Creator, fully knows humans as well as the world in which they live.
 - ✓ God-made laws will be just and based on fully informed decisions.

7. What are the main Laws/Rules for Islamic finance?

- The rules lie in the principles of Islam's Shariah law, taken from the Qur'an and the Sunnah, (the way) referring to the way in which the prophet Muhammad lived his life.

8. What is meant by Shariah/Islamic Law?

- Shariah lexically means a way or path
- In Islam Shariah refers to the divine guidance and laws given by the Holy Quran, the Hadith (sayings) of the Prophet Muhammad (Peace Be upon Him) and supplemented by the juristic interpretations by Islamic scholars.
- Islamic Shariah or the divine law of Islam is derived from the following four sources: The Holy Quran, The Sunnah of the Holy Prophet (Peace Be upon Him), and Ijma' (consensus of the Ummah) & Qiyas (Anology).

9. What are the Sources of Shariah? (Sources of Knowledge in Islam)

