



## External Relations Department

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November 4, 2015

### **State Bank of Pakistan reiterates its policy for Promotion and Development of Islamic Banking**

In order to remove any ambiguity and doubt among the general public, State Bank of Pakistan has reiterated its commitment for promotion and development of Islamic banking in Pakistan. Due to persistent efforts of the State Bank and the Federal Government, the share of Islamic banking in total deposits of the banking industry has surged to 12.8% as of 30<sup>th</sup> June, 2015 and is consistently growing with a cumulative average growth rate of over 50% during the past 12 years. To-date 5 full fledged Islamic banks, one Islamic Banking Subsidiary and 17 banks with dedicated Islamic Banking Branches are operating in the country with over 1700 branches spread all over the country.

Under the close supervision of State Bank's Shariah Board, Islamic banking in Pakistan is soundly founded on injunctions contained in the Holy Quran and the Sunnah of the Holy Prophet (Peace and blessings of Allah be upon him). State Bank has developed regulatory and supervisory framework to ensure Shariah compliance of Islamic banking based on rulings of its Shariah Board. Further, it has developed Shariah compliant open market operations for managing liquidity of Islamic banking sector, which is quite unique in the Islamic world. State Bank Shariah Board has also approved structure of Government of Pakistan Ijara Sukuk issued in the past and all such structures for future issues will be approved by SBP Shariah Board before their launch.

In December 2013, the Government of Pakistan had constituted a Steering Committee to promote Islamic banking in the country and appointed Mr. Saeed Ahmad as the Chairman of this Committee. Later on, Mr. Saeed Ahmad was appointed as Deputy Governor at State Bank of Pakistan to spearhead promotion of Islamic banking. This created synergy between the Steering Committee and the State Bank in their efforts to pave way for advancement of Islamic finance. There is no precedence in the past that a Deputy Governor has been appointed in State Bank of Pakistan with extensive mandate for Islamic banking in the country. Later on, additional disciplines have been assigned to him for better coordination on Islamic banking in those areas.

After completion of its first year, the Steering Committee has submitted its interim progress report with set of recommendations to Federal Government. The mandate of the Steering Committee was extended by the Minister of Finance Mr. Mohammad Ishaq Dar for another year till December 2015 and it will present its final report to the Federal Government by January 2016.



## External Relations Department

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Several major initiatives pertaining to promotion of Islamic banking have been taken by the Steering Committee which included establishment of separate Islamic Finance Department at SECP to promote Islamic capital market developments.

With these efforts at State Bank, the share of Islamic banking is expected to grow to 20% by the year 2020 and thereafter Islamic banking is to build momentum to achieve faster growth. To provide further impetus, State Bank is finalizing the draft amendments in the relevant banking laws. In order to promote quality research and development in the field and to address the capacity constraints in the Islamic banking industry, three Centres of Excellence in Islamic Finance are being established in renowned institutions like Institute of Business Administration, Karachi (IBA), Lahore University of Management Sciences, Lahore (LUMS) and Institute of Management Sciences (IMS), Peshawar. Numerous other initiatives have been taken by State Bank to enhance awareness about Islamic banking through launching of two media campaigns, focus group meetings and seminars and programs in numerous chambers of commerce and universities throughout Pakistan covering various cities.

In order to develop the necessary financial infrastructure and capacity building of Islamic banking industry, State Bank has been collaborating with world renowned international institutions like Islamic Financial Services Board (IFSB-based in Malaysia), Islamic Research and Training Institute (IRTI-a subsidiary of Islamic Development Bank, Jeddah), International Islamic Financial Market (IIFM-based in Bahrain), Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI-based in Bahrain), INCEIF – Malaysia and various central banks of Muslim countries devoted to develop Islamic banking. State Bank has played an active part in development of international standards for Islamic finance industry by institutions like IFSB, IIFM and AAOIFI.

Equity financing provides the route to establish Islamic finance in its true spirits. Emphasis on participatory modes /equity financing is being made to establish sustainable footings of the industry as well as enable Islamic banking institutions (IBIs) to contribute towards economic growth and financial inclusion. In the context of Pakistan, Islamic Banking has a great significance as large segment of the population is still financially excluded. In this regard, the Government has launched National Financial Inclusion Strategy early this year and identified Islamic banking as a key area to focus on besides Agriculture, SME and Microfinance. It is important to note that promotion of Agriculture, SME and Microfinance is well suited to be carried out by Islamic banking.

State Bank is fully aware of the rulings of Holy Quran and Ahadith of the Holy Prophet (Peace and blessings of Allah be upon him) and all products of Islamic banking institutions are required to be approved by Shariah Board of each IBI which is cleared by State Bank of Pakistan's Fit and Proper Criteria for Shariah Board. A sound Shariah Governance Framework has been implemented in all Islamic banking institutions. Pakistan is also the first country which has been conducting Shariah compliance inspection of IBIs since 2008. This is also a



## External Relations Department

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unique feature of supervisory framework in the countries having Islamic banking. This is all being done to ensure close adherence to Sharia principles in conducting Islamic banking.

Islamic banking in Pakistan is gaining significant recognition in the world which is evident from the growing number of world renowned Islamic finance awards given to various Islamic banking operators in the country including the recent Global Islamic Finance Awards (GIFA) in Bahrain, awarded to Finance Minister Mr. Ishaq Dar with a special award in recognition of the Ministry of Finance's advocacy role in promoting Islamic banking and finance in the country. Further, there were three Pakistani banks that received the awards during this year.