

Policies For Promotion Of Islamic Banking

In order to promote Islamic Banking in Pakistan, State Bank is following a three-pronged strategy as under:

- I) Establishment of full-fledged Islamic bank(s) in the private sector;
 - II) Setting up of subsidiaries for Islamic Banking by existing commercial banks; and
 - III) Allowing Stand-alone branches for Islamic banking in the existing commercial banks.
2. In line with Part-I of this strategy, on 1st December, 2001, State Bank of Pakistan had issued detailed criteria for setting up of Scheduled Islamic Commercial banks based on Shariah Principles in the Private Sector in the form of a Press Release, which is reproduced at Annexure-I.
3. As regards Part-II of this strategy, in terms of Banking Companies (Amendment) Ordinance, 2002 notified in the Gazette of Pakistan dated November 4, 2002, inter alia, a new clause (aa) has now been inserted in sub-section (1) of section 23 of the Banking Companies Ordinance as follows:
- “(aa) the carrying on of banking business strictly in conformity with the Injunctions of Islam as laid down in the Holy Quran and Sunnah”.
4. Therefore, the scheduled commercial banks are henceforth allowed to open subsidiaries for Islamic Banking operations. Accordingly, a Detailed Criteria for setting up of Islamic Banking Subsidiaries by existing Commercial Banks has been prepared, which is enclosed at Annexure-II.
5. For Part-III of this strategy, Guidelines for opening of Stand-alone branches for Islamic banking by existing commercial banks, enlisting Eligibility Criteria, Licensing Requirements and other operational guidelines on the subject have been prepared. These Guidelines are enclosed at Annexure-III.
6. Those interested in establishing Scheduled Islamic Commercial Banks in the Private sector, Subsidiaries or Stand alone branches for Islamic banking, may apply to the Director, Banking Policy Department, State Bank of Pakistan, I.I. Chundrigar Road, Karachi in line with the above-mentioned policies.

Islamic Banking through Stand-alone Branches

For Part-III of the strategy, guidelines for opening of stand-alone branches for Islamic banking by existing commercial banks, enlisting eligibility criteria, licensing requirements and other operational details on the subject were issued on January 1 2003 vide the above-mentioned circular. The applying bank is required to submit proposal to the State Bank, outlining the following details:

- Number of branches along with name of city where the Islamic Banking Branch (IBB) is to be offered within the next financial year.
- Products and services to be offered by the IBB including deposits, financing, investment, etc.

- Method of segregating the funds of IBB from the funds of commercial banking of the applying bank.
- Infrastructure and logistic requirements, including manpower and training programs.
- The name, qualification and experience of Shariah Adviser (s), and
- Accounting aspects, such as accounting policies to be followed, profit and loss sharing mechanism, manuals, etc.

The bank will also be required to set up Islamic Banking Division at the Head Office/Country Office in Pakistan. The responsibilities of this Division have been depicted in detail. The bank would also appoint a Shariah adviser/Shariah Supervisory Committee consisting of Shariah scholar(s) of repute to advise the Islamic Banking Division on matters pertaining to Shariah. Moreover, the bank shall ensure that proper systems and controls are in place in order to ensure segregation of funds and to protect the interest of depositors. The banks shall ensure proper maintenance of records for all transactions for disclosure of assets, liabilities, expenses and income of IBD/IBB(s). The Islamic Banking Division will also comply with statutory liquidity and cash reserve requirements determined by SBP.¹

¹ For detail see: BPD Circular No. 01, 1st January, 2003.