

Revised Instructions on Islamic Banking Window Operations

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**Islamic Banking Department
State Bank of Pakistan**

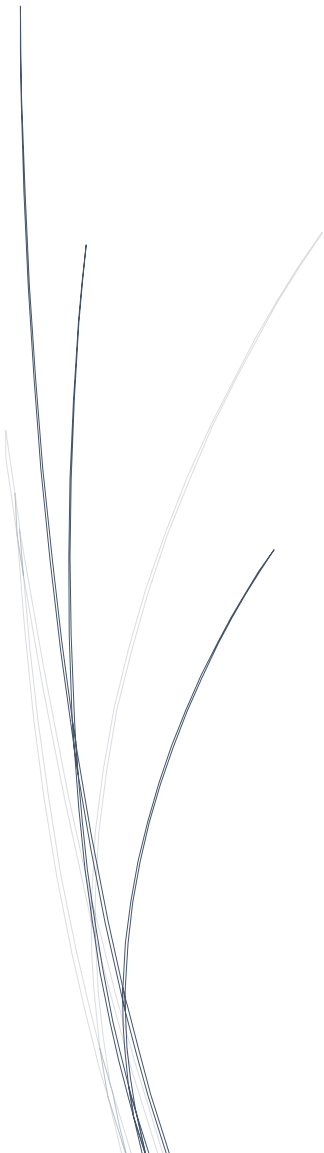


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A. Objective

The objective of revised instructions on Islamic Banking Windows (IBWs) is to enhance the share and outreach of Shariah compliant banking services to the people of Pakistan and contribute in overall financial inclusion.

B. Scope

- i. Applicable to all conventional banks having Islamic Banking Branches (IBBs).
- ii. The instructions cover operations of IBWs like opening, shifting, closure and enhanced scope of operations of IBWs.

C. IBWs Policy

IBBs operating or desiring to operate IBWs shall develop a Policy (or revise existing one, if any) containing details on functioning of IBWs duly approved by their Shariah Board (SB) and BoD before approaching SBP for permission. The approved IBWs Policy shall be submitted to IBD-SBP as per the timelines mentioned in this circular.

The *IBWs Policy* shall at least cover the following:

- a. **Objective:** The objective of IBWs operations Policy.
- b. **Systems & Controls:** Systems and Controls in place like segregation of funds, duly approved procedure manual, real time connectivity of IBW with its hub/controlling branch, and allied activities etc.
- c. **Standard Operating Procedures (SOPs):** SOPs for overall arrangements with concerned group/division of the bank for use of Conventional Banking branches.
- d. **Service Level Agreement (SLA)&Transfer Pricing Mechanism:** SLAs with regard to support functions/arrangements between the Islamic Banking Division (IBD)&relevant departments/divisions of the Bank to ensure smooth functioning of IBWs. Moreover, transfer-pricing mechanism with regard to the functions/services required from departments/division of conventional bank shall be specified.
- e. **HR/Staff Arrangements:** Staff/HR arrangements (e.g. dedicated IBW Staff or mixed staff or staff of conventional branches under SOP/SLA) with regard to deputed/posted/transferred. Further, Transfer/Posting mechanism from/to IBW shall also be covered.
- f. **Plan for Training& Capacity Building:** Islamic banking trainings and capacity building arrangements covering enhanced Shariah compliant operations at IBWs with regard to designated/posted/transferred staff of the proposed IBWs in line with SBP instructions/guidelines issued from time to time.
- g. **Marketing/Sales Arrangements:** Marketing/sales arrangements (e.g. separate marketing/sales staff or mixed marketing or staff of conventional branches under SOP/SLA).
- h. **Shariah Compliance:** Shariah compliance environment of IBWs shall be ensured keeping in view the products and services to be offered via IBWs in line with SBP instructions issued vide IBD Circular No. 1 of 2018 amended from time to time and other applicable instructions.
- i. **Branch Conversion through enhanced scope of operations at IBWs:** Those IBBs which intend to enhance the scope of operations at their IBWs (i.e. offering both deposits & financing products) shall seek SBP's prior permission and after grant of permission the host conventional branch(es) (where IBWs situated) shall be required

to convert into Islamic banking branch(es) within three years from the date of start of the enhanced operations. The conversion process of the branch(es) shall be in line with the instructions issued vide IBD Circular No. 2 of 2010 and as amended from time to time.

D. Annual IBWs Expansion Plan (AIBWEP)

Following information shall be submitted to SBP for seeking permission to operate IBWs:

- i. IBBs shall submit to BPRD consolidated Annual Plan incorporating details of required number of IBWs/branches/sub-branches etc. to be opened, and conversions to be made during a particular year in line with the requirements specified with regard to Annual Branch Conversion Plan (ABCP), Annual Branch Expansion Plan (ABEP), and revised instructions on IBWs operations amended from time to time.
- ii. IBBs shall specify details like business location, address, city, district etc. Further, the plan shall specify/identify the said places as either deposit only IBWs or both deposit & financing IBWs.
- iii. The consolidated Annual Plan along with requisite information shall be submitted to the Director – BPRD with a copy to Director – Islamic Banking Department for consideration and approval by 31st October of each preceding calendar year.
- iv. IBBs shall submit SB's opinion/certificate with regard to sufficiency of HR capacity and the overall systems/arrangements in place for the operations of proposed IBW(s).
- v. Details of products & services to be offered by IBBs through proposed IBWs.
- vi. A business plan showing at least three years business projections for the proposed IBWs along with necessary/basic assumptions in respect of the projections. Further, an assessment of the areas to be served by the proposed IBWs should be made part of the plan.
- vii. Details of Islamic Banking Branches/IBWs functioning in the vicinity of proposed IBWs i.e. within the radius of 1 Km.

E. Evaluation of AIBWEP

- i. The AIBWEP shall be evaluated keeping in view the needs of the Islamic Banking System and other requisite information/documents in line with applicable instructions.
- ii. Whether the IBB has provided comprehensive Islamic Banking training to designated/nominated Staff, Operation Manager, Branch Manager and related marketing/sales staff of the proposed IBW at the host conventional branch in line with applicable instructions.
- iii. The permission for operations of IBWs shall be made only on annual basis. However, the requests of IBBs may be considered in exceptional cases, if the same is received with the objective of promoting Islamic banking, expansion in predominantly rural/remote areas and places where dire need of banking facilities exists.
- iv. SBP shall take final decision on IBB request after taking into account all other factors in terms of IBW Policy of an IBB and other applicable SBP instructions issued from time to time.

F. Physical set-up and Display

- i. Each IBW shall carry a name, and shall prominently display the name to clearly indicate the nature of branch to customers. Further, the signboard of conventional banking

branches having IBWs shall contain words “Islamic Banking Window” with logo covering at least 1/4th portion of the board unless any exception is granted by SBP.

- ii. The branch shall also display a prominent notice on entrance stating, “Islamic banking services also available (both in English or Urdu)” to clearly indicate the nature of branch to customers.
- iii. The bank shall also provide details/updated list of its Islamic banking windows on its website.

G. Closure or Shifting of IBWs

- i. In general, all instructions (as a place of business) on shifting/closure of IBWs shall be applicable on IBBs operating IBWs, issued vide BPRD Circular No. 4 of 2016 as amended from time to time. However, the IBWs hosting branches offering both deposits and financing products (tagged for conversion into Islamic banking branches) shall not be closed without prior approval of SBP.
- ii. IBWs (deposit only or both deposits & financing) may be shifted with prior permission from SBP, however, this would be subject to reasonable explanations necessitating the shifting. Further, the processing and annual fee for shifting an IBW shall be equal to fee required for opening of an IBW.
- iii. While shifting an IBW, the IBB shall ensure that existing customers have a choice of a nearby Islamic banking branch or an IBW or the shift is within a radius of 10 KM.

H. Products & Services to be offered by IBWs

- i. IBWs can either offer Shariah compliant deposit products (only) OR both deposits & all types of financing products and services in line with their approved ‘IBWs Policy’.
- ii. No third party products & services shall be offered by IBWs without prior approval of SBP.
- iii. IBBs are encouraged to offer Shariah compliant program based financing products and one-window operation products with a view to reduce turnaround time (TAT) & quick access to finance especially the financing needs of farmers and SMEs.
- iv. All products & services offered by IBWs shall be in line with applicable prudential regulations and other guidelines/instructions issued by SBP from time to time.
- v. IBBs shall ensure that SB approved product brochure/*Key Facts Sheet* with regard to the products & services is available at IBWs for customers. Further, product manuals/SOPs of all financing products and deposit schemes being offered by an IBW are available/accessible to the concerned staff for any reference and use.

I. Fee Structure for Operations of IBWs

The processing, shifting, annual fee structure and its payment timelines/procedures for IBWs operations shall be in line with specifications given in these instructions and Chapter-9 on ‘*Processing, Annual & Shifting Fee*’ issued vide BPRD Circular No. 4 of 2016 amended from time to time.

J. Reporting

- i. IBBs shall intimate BPRD with a copy to IBD (PD.IBD@sbp.org.pk) about commencement of IBW operations after completion of all requirements given in these instructions.
- ii. All IBBs operating IBWs shall submit consolidated information on quarterly basis through SBP Portal/ email (IBD.Reporting@sbp.org.pk) as per enclosed Annexure-II.

Appendix - Process Flow

Following will be the process flow with regard to operations of IBWs:

