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SBP developing mechanism for IBIs to manage surplus liquidity: Yaseen Anwar

Mr. Yaseen Anwar, Acting Governor, State Bank of Pakistan has said that the central bank is working actively with the stakeholders to develop Shariah-compliant instruments which will provide some flexible and convenient mechanism for managing the surplus liquidity in the Islamic banking industry.

Delivering a welcome note at a talk by Dr. Zamir Iqbal, a renowned scholar on Islamic Finance, on 'What Needs to be Done for Islamic Finance to Succeed' at State Bank of Pakistan, Karachi today, Mr. Anwar said that Islamic Banking Institutions (IBIs) in the country are facing the issue of short-term liquidity management. "This not only adversely impacts the profitability of IBIs but also inhibits aggressive deposit mobilization by them," he added.

However, he said with the development of new Shariah-compliant instruments, this problem will be resolved and they will also be instrumental in the development of Islamic interbank money market besides providing a platform for developing benchmark for pricing of Islamic finance products.

Talking about some of the challenges being faced by IBIs, Mr. Anwar said that the gross absence of participatory modes of financing is amongst the key challenges faced by the industry as presently the industry has an exclusive and overwhelming focus on debt/trade based modes of Murabaha and Ijarah. He said although these modes minimize the Islamic banks' risk to almost equivalent to that of conventional banks, they are not sufficient to achieve the socio-economic objectives of Islamic finance. The participatory modes like Musharka and Mudaraba, on the other hand, not only ensure risks sharing between the banks and entrepreneurs but also promote equitable distribution of rewards amongst the entrepreneurs and investors (the IBIs and their depositors), he added.

SBP Acting Governor, however, pointed out that there are inherent risks that include moral hazards, adverse selection, none or limited record keeping, etc. that discourage IBIs to build Islamic finance portfolios based on participatory modes. "SBP has plans to facilitate and catalyze gradual movement of the industry towards build-up of PLS based financing portfolio and I hope the discussion today would explore possible strategies for moving towards participatory modes of financing," he added.

Mr. Anwar also pointed out that limited capacity, particularly the scarcity of trained Islamic bankers, is another important challenge that poses a serious threat to the growth and development of the industry on sound footings. Most Islamic bankers have a conventional

banking background and thus we need to develop a better understanding of Islamic finance and its inherent strengths and benefits for the business community and society as a whole, he added.

He informed the participants that SBP has taken a number of initiatives in the past to train the Islamic bankers. However, the pace of growth of the industry is much faster than the supply of trained and well qualified Islamic bankers. "A multi-pronged strategy is therefore, being developed to improve the skills of the Islamic banking industry which includes collaboration with reputed national and international institutions offering/sponsoring Islamic banking training," he added.
