

State Bank developing comprehensive liquidity management solution for IBIs: SBP Governor

The Governor, State Bank of Pakistan, Mr. Yaseen Anwar has disclosed that the central bank is currently at an advanced level of development of a comprehensive liquidity management solution for Islamic Banking Institutions (IBIs) following extensive efforts made both by the industry and the SBP.

Delivering his keynote address at a two-day international conference – Oman Islamic Economic Forum – in Muscat, he said that this comprehensive liquidity management solution would include i) development of Islamic interbank money market, ii) development of Islamic Interbank Offered Rate (IIBOR) for use as a benchmark for pricing of Islamic finance products, iii) transformation of a sizeable portion of conventional sovereign debt in the books of central bank into Shariah-compliant debt, iv) allowing IBIs to place surplus liquidity with the central bank to be remunerated based on the central bank's earnings on Shariah-complaint assets and investment portfolio, and v) lender of last resort facility for IBIs.

The most challenging and time consuming aspect of this mechanism is the transformation of sovereign debt into Shariah-complaint debt as it involves identification of the assets to be used for transformation, their valuation and documentation etc, he said. 'However, I am confident that with the help and grace of Almighty Allah, we should be able to finalize this mechanism in the near future. This would be a major milestone and would give a big boost to the already buoyant Islamic finance industry in Pakistan,' he added.

SBP Governor emphasized that innovation remains the corner stone of Islamic banking. 'IBIs need to increase their product mix in order to meet the needs of their ever increasing client base. Research and development which has been long ignored in our part of the world should be the hall mark of IBIs,' he said, adding that we need to change our perceptions and invest in research as a core ingredient of our strategic objectives.

Mr. Anwar said that there is huge potential for development of Shariah based agriculture financing in Pakistan being an agro-based economy. 'The central bank is working with the industry to develop Shariah-compliant agriculture finance products to be offered by IBIs after necessary customization. We have recently circulated a model Shariah-compliant agriculture finance product based on 'Salam' to facilitate IBIs' entry in the country's agri-finance markets, which so far have remained grossly un-served or under served,' he added.

He said that the Islamic economic system is not just about prohibition of interest, it also promotes values such as accountability, transparency and social responsibility. 'We in Pakistan adopted an evolutionary approach for establishing Islamic finance in the country in 2001 whereby both conventional and Islamic banks were allowed to operate in parallel. This enabled the masses to choose between the two systems that best serves their banking and financial services needs and is also in conformity with their faith,' he said, adding that the approach has worked well since then and the industry starting from almost scratch in 2001, has gradually improved its share to more than 7.5 percent of the country's banking system.

'We have now 5 full-fledged Islamic banks and 13 conventional banks having stand-alone Islamic banking branches. Given the strong growth momentum, which is over 30 percent annually for the last 6 years, we are hopeful of more full-fledged Islamic banks in the country in the near future,' he said and added that the State Bank of Pakistan has been at the forefront of all the major initiatives for development of the industry.

Mr. Anwar said: 'we are one of the few regulators who have introduced a comprehensive legal, regulatory, and Shariah compliance framework for the Islamic Banking Industry. The framework allows three types of institutional models for offering Islamic banking services; (i) Full-fledged Islamic banks (2) Islamic banking subsidiaries of conventional banks and (3) Stand alone Islamic banking branches of conventional banks.' Moreover, to encourage and facilitate conversion of conventional branches into Islamic banking branches, a detailed criterion has also been issued, he said, adding that presently the conventional banks' Islamic banking portfolio constitutes about 40 percent of the industry.

He said that in order to enhance the breadth and depth of the industry, the framework also allowed establishment of full-fledged Islamic Microfinance banks, Islamic microfinance services by full-fledged Islamic banks and Islamic microfinance Divisions in conventional microfinance banks. Considering the growing awareness and acceptability of Islamic microfinance coupled with its inherent controls to ensure end use of the funds provided by Microfinance Institutions (MFIs), the outlook for growth and development of Islamic microfinance in Pakistan is highly positive and 'we may see establishment and operations of new Islamic microfinance banks in very near future.'

Mr. Anwar said that a comprehensive and mutli-tiered Shariah-compliance framework is another very important feature of our Islamic banking framework, which comprises: (a) centralised Shariah Board at the central bank, which is the apex Shariah Body in the country for Islamic banking institutions; (b) the Shariah Advisor at bank's level to be appointed in accordance with the State Bank of Pakistan's Fit and Proper criteria with the responsibility to ensure that the bank's operations are in conformity with Shariah principles; (c) mandatory internal Shariah audit; and (d) periodic Shariah inspections by the Central Bank along with routine annual inspection of IBIs.

He said that SBP is one of the very few central banks that have initiated Shariah inspections. 'Before the formal launch of the Shariah inspection, a comprehensive Shariah inspection manual was developed by engaging a reputed Shariah consulting and auditing firm and comprehensive training was imparted to the Shariah inspectors,' he said, adding that the central bank has also notified the essentials of major Islamic finance products and instruments along with their model agreements. 'This arrangement not only allows necessary flexibility to IBIs to develop their own products but also helps in achieving much needed standardization and Shariah harmonization,' he said, adding that to further strengthen the Shariah harmonization drive, we are in the process of adopting the AAOFI Shariah standards.

SBP Governor congratulated the Central Bank of Oman for initiating Islamic banking and wished them every success in their efforts to develop a vibrant Islamic banking industry.
