

5 Islamic Banking

5.1 Overview

The Islamic Banking Industry (IBI) continued its growth trajectory and improved its share in country's overall banking industry during FY18. Assets and deposits of IBI increased to Rs 2,482 billion and Rs 2,033 billion with substantial annual growth of 22 percent and 18.2 percent respectively at end June 2018. Resultantly, IBI share in overall banking assets and deposits witnessed an increase to 12.9 percent and 14.8 percent from 11.6 percent and 13.7 percent respectively (**Table 5.1**).

	Islamic Banking Industry Progress		Annual Growth (Percentage)		Share in Overall Banking Industry (Percentage)	
	Jun-17	Jun-18	Jun -17	Jun-18	Jun-17	Jun-18
Total Assets	2,035	2,482	16.6	22	11.6	12.9
Deposits	1,720	2,033	17.7	18.2	13.7	14.8
Total IBIs	21	21	–	–	–	–
Total Branches**	2,320	2,685	16.3	15.8	–	–

Source: Data/information submitted by banks under quarterly Reporting Charts of Accounts (RCOA)
 *Provisional data
 **Number includes sub-branches

One of the main components of IBI assets, financing (net) recorded an impressive growth of 35.4 percent i.e., to Rs 1,323 billion at end June 2018 from Rs 977 billion of corresponding period. The IBI financing to deposit ratio (FDR) also improved to 65 percent in FY18 from 56.8 percent recorded in FY17. The ratio is much higher than the conventional banking industry's advances to deposits ratio of 53.1 percent at end June 2018, thereby showing continuous endeavors of IBI for strengthening its core banking business and a promising future ahead.

In terms of outreach, IBI further strengthened its footprint across the country. At the close of FY18, 21 Islamic banking institutions (5 full-fledged Islamic banks and 16 conventional banks having Islamic banking branches) were operating in the country. The IBI branch network reached 2,685 at end June 2018, thus recording an addition of 365 branches during FY18. In addition to the branches, 1,284 Islamic banking windows were operated by conventional banks having standalone Islamic banking branches at end June 2018.

5.2 Initiatives for Promotion of Islamic Banking during FY18

SBP took following measures during FY18 for the promotion of Islamic banking in the country:

5.2.1 Guidelines for Conversion of a Conventional Bank into an Islamic Bank

In order to promote Islamic banking and facilitate the process of conversion of an existing conventional bank into an Islamic bank, SBP issued detailed guidelines vide IBD Circular No. 01 dated July 06, 2017. The guidelines include eligibility criteria, necessary measures and the process of conversion comprising three stages i.e., i) In-principle approval to start conversion process, ii) Conversion of existing conventional banking branches into Islamic banking branches and iii) Issuance of full-fledged Islamic bank license. The guidelines are a step forward in the existing policy framework comprising detailed criteria for establishment of full-fledged Islamic banks, Islamic banking subsidiaries, Islamic banking branches/ divisions and Islamic banking windows.

5.2.2 Shariah Governance Framework for IBIs

SBP revised 'Shariah Governance Framework' for Islamic banking institutions vide IBD Circular No.01 dated June 07, 2018. In view of the industry practices and considering the feedback received from various quarters, the framework, applicable since July 01, 2015 has been further refined. The framework covered the role of various constituents of Islamic banking institutions, including board of directors, executive management, Shariah Board, resident Shariah Board member, Shariah compliance department and outlines guidance for product development, conflict resolution and internal and external Shariah audits.

5.2.3 Enhanced Training and Capacity Building Measures for IBIs

SBP advised IBIs vide IBD Circular No. 02 dated June 29, 2018 to enhance their training and capacity building measures in order to encourage the culture of continuous learning for development of Islamic banking industry and improve the processes and services provided by them. The IBIs are required to maintain, update and enhance knowledge and skills set of their staff at strategic, functional and operational levels. It is aimed that the same would result in higher quality of service delivery standards and greater awareness of Islamic banking amongst existing and potential customers.

5.2.4 Issuance of Sovereign Sukuk and Eurobonds

Pakistan issued Sovereign Sukuk and Eurobond papers in November 2017 and raised USD 2.5 billion from international market. The five-year Sukuk valuing USD 1 billion was floated with a profit rate of 5.6 percent. The funds were raised to support balance of payment and buildup foreign currency reserves.

5.2.5 Awareness and Capacity Building Programs for IBI

SBP remained actively engaged in raising awareness amongst masses and building capacity of industry by arranging various local programs/ events as per recommendations of the high-powered Steering Committee constituted by the GOP. Accordingly, awareness creation and capacity building remained vital towards SBP's strategy to spearhead growth momentum of IBI. Following initiatives were taken in this context:

- SBP collaborated with various reputed national and international institutions for organizing seminars, training programs and workshops on Islamic banking. SBP in collaboration with National Institute of Banking and Finance (NIBAF) offered ten iterations of a training program titled as "Fundamentals of Islamic Banking Operations". The customized training program, designed to target branch managers, operation managers, relationship managers of banks, academia and Shariah scholars was offered at various geographical locations across the country including Abbottabad, Bahawalpur, D.I. Khan, Gujrat, Karachi, Lahore, Muzaffarabad, Sukkur and Swat.
- SBP collaborated with Finance Division to establish a Focus Group on Islamic Finance at Finance Division to serve as a center point to deal with matters related to Islamic banking and finance. To equip them with necessary toolkit, a series of capacity building programs have been planned to be held in collaboration with NIBAF.
- SBP facilitated a religious school to offer six customized training programs for such Shariah scholars who were not associated with Islamic financial industry to broaden talent pool of Shariah scholars for IBI by upgrading their level of understanding. During the year, a 4-month certificate

program and three programs of 3-days duration were held at various cities. In the next fiscal year, remaining three programs of 3-days duration would be held in different cities. The initiative was quite successful wherein a platform was provided to scholars to learn practical aspects of Shariah principles.

- SBP arranged an “Islamic Banking and Finance Conference” in February 2018 at Lahore. It was attended by more than 230 participants representing Islamic banking institutions, academia, auditors, asset management companies and takaful firms. The conference covered themes like latest innovations in Sukuk structuring, external Shariah audit, conversion of conventional banking branches into Islamic banking branches and structuring Shariah compliant capital raising instruments.
- SBP collaborated with Islamic Financial Services Board (IFSB) in arranging ‘Facilitating the Implementation of the IFSB Standards Workshop’ in January, 2018 at Karachi. The workshop was conducted by a delegation representing IFSB, led by their Assistant Secretary General. The workshop covered IFSB Standards/ Technical Note on Capital Adequacy, Liquidity Risk Management, and Stress Testing for Institutions offering Islamic Financial Services. The workshop was warmly received by participants including regulators and practitioners from local industry.

5.3 Global Participation

SBP is recognized as an important global partner due to its representation and active participation in various fora of international institutions dealing with Islamic finance. SBP has been actively represented in various working groups, task forces, technical committees and Council of IFSB and has actively contributed towards development of prudential standards for global Islamic finance industry. Further, SBP participated in various senior level programs arranged by international institutions including IFSB, Accounting and Auditing Organization for Islamic Financial Institutions, Islamic Research and Training Institute, and Islamic Development Bank.

5.4 Global Recognition

SBP has been voted as the Best Central Bank for 2017 for promoting Islamic finance through a poll conducted by Islamic Finance News (IFN), an arm of RED money Group, Malaysia. SBP also won this award in 2015.