

RESEARCH NOTE

Islamic Banking-Pakistan, the Pioneer, but No More a Leader

Munir Mansuri *

Former Member of the Team Working for Regulating Islamic Banking Industry at the State Bank of Pakistan

Currently, Working for the Central Bank of Oman, Muscat for Islamic banks regulation, Muscat, Oman

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INTRODUCTION

Though not formally acknowledged/recognized, Pakistan (and its institutions like Islamic Ideology Council and central bank-State Bank of Pakistan (SBP) played pioneering role in initiating the idea of Islamic banking and finance in the modern world, providing operational guidelines, regulatory basis and trainings in Islamic banking.

Pakistan started the process of Islamisation of banking system in late 1970s much before than any other country and gradually shifted over to interest free banking system in 1984.

The first ever blueprint on how to eliminate interest from the economy and replace it with Islamic was provided by the Pakistan's Council of Islamic Ideology in its "Report on Elimination of Interest from the Economy" in June 1980.

To launch/offer Islamic banking and finance products, the central Bank of the country provided detailed regulations in early 1980s (through its Banking Control Department (BCD) circulars) suggesting more than thirteen modes for Interest free banking to replace conventional set up. Other countries inspired by the Pakistan's efforts, while deciding to introduce Islamic banking, sent their officials to Pakistan for learning and orientation in Islamic banking.

Pakistan is the only country which experienced both country wide Islamic banking as also dual or parallel banking. After failure in its nation-wide launch, due to several reasons, the country decided in a high level meeting held on September 4, 2001 with the then President of Pakistan, General Musharaf, in Chair, to go for a paradigm shift in its policy of single (Islamic) banking system to parallel functioning of both interest based and Islamic systems. Accordingly, the State Bank issued detailed criteria in December 2001 for establishment of full-fledged Islamic commercial banks in the private sector. A "Three-pronged" strategy for promotion of Islamic banking (allowing Islamic banks, Subsidiaries, and Stand-alone sys-

*Corresponding author: Munir Mansuri

†Email: munir1957@yahoo.com

tem in conventional banks) was adopted in 2002¹. As such, Meezan Bank Limited (MBL) commenced full-fledged commercial banking operations from March 20, 2002.

Besides much efforts as discussed above and despite being pioneer in many aspects of Islamic banking (i.e., the literature, the idea, practical initiative and providing sound basis) unluckily, the leadership role is no longer with Pakistan due to several reasons, including, lack of commitment at government level, lack of coordination between relevant authorities, ad-hocism and lack of required higher level of commitment at the central bank level.

It is yet an encouraging point that the Central Bank of Pakistan and banking sector are still providing support to several countries in introduction, developing and running their Islamic banking sector.

On the basis of its real contribution in the initiative of introducing Islamic banking and finance, Pakistan deserves to be recognized as pioneer. However, to get its due place in international set up, all relevant authorities including Government, relevant ministries, central bank, Securities and Exchange Commission of Pakistan (SECP), Shari'ah Courts, Islamic Banking Institutions (IBIs) and their Shari'ah boards and Shari'ah scholars not associated with the IBIs have to be on the same page, with high level of commitment and increased coordination.

The central bank, being responsible for supervision and regulation of IBIs, has to be in the driving seat with regard to coordination among all relevant quarters. SBP needs to review its policies in the light of its own and other central banks experiences. To start with, SBP may consider reviewing its main/pioneer works done in 1980s and then in (second phase of Islamic banking) during the period of 2003 to date. State Bank prepares and issues "5-year Strategy" for promotion of Islamic banking and it is really a much appreciated effort. The measures to be taken in coming years can be included in the next strategy plan for the years 2019-2023.

The essentials of Islamic modes and model agreements (adopted and used by various institutions worldwide), are the most acknowledged and base providing works of SBP. There is a need to update these two important categories of documents in the light of Accounting and Auditing Organization for Islamic Financial Institutions' (AAOIFI) Shari'ah standards and Resolutions of Jeddah based Islamic *Fiqh* Council. The central bank may also keep in view almost 15 years' experience of IBBs while preparing a plan to strengthening the process of promoting Islamic banking in the country.

In addition to updating essentials of modes and model agreements available in its current list, the essentials and model agreements for other commonly used modes such *wakalah al-istithmar*, Assignment of Debt (*Hawalah*), *Kafalah* (Guarantee) and *Tawarruq* while ensuring that the funds of IBIs are not transferred to the conventional banks, need to be introduced.

SBP, the central bank, has been the world leader in Islamic banking training area during 1980s. The lost role could be revived easily as the central bank already has its training wing - its subsidiary called 'National Institute of Banking and Finance' (NIBAF). The institute

¹For details, see: Janjua, M. Ashraf (2002, 2004); History of the State Bank of Pakistan, SBP, Karachi; Vol. 3 (1977-1988), 2003 and Vol. 4 (1988-2003), 2004 (Chapters on Islamisation of Economy).

offers very productive and useful training courses in Islamic banking too that may be offered at global level.

In order to be recognized internationally, NIBAF needs to chalk out a plan/strategy, prepare and offer international level courses in Islamic banking and finance by inviting central banks and IBIs of other countries to send their staff to attend and benefit from the Pakistan's rich experience through these training courses. Fresh courses need to be designed for the Shari'ah scholars, auditors and for other practitioners and professionals.

Luckily Pakistan has a good team of trainers comprising learned Shari'ah scholars, experienced and knowledgeable Islamic bankers and academicians who have expertise and abilities to train the IBIs' staff.

Centres for Excellency (CEIFs) established at Institute of Business Administration (IBA) in Karachi, Lahore University of Management Sciences (LUMS) (Lahore) and IMSciences, Peshawar, could be used for developing human resources for Islamic finance industry. This is, no doubt, a great effort done at the national level. But, world Islamic banking community is not much aware of this great source of knowledge and training in Islamic banking. All three CEIFs should consider designing proper training and education programs and launching campaign to introduce them in the world by giving details of the courses, degrees or certificates they may offer. SBP has also to support their coordinated efforts for domestic and international recognition.

In order to play leadership role in the World of Islamic finance, coordinated efforts by various institutions in Pakistan are a prerequisite. On the top, central bank has to play active and effective role in coordination between all higher educational and training institutions (including NIBAF and CEIFs) and relevant authorities in the State institutions.
