



Islamic Banking Industry – Pakistan

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Outline



2

- Financial Landscape of Pakistan
- Current Islamic Finance Scenario
- Strategic Framework for Islamic Banking 2014-18
- Enabling Policy Environment and Other Initiatives under Strategic Framework
- Risk Based Supervisory Framework
- SBP Vision 2020 and Financial Inclusion Targets
- Regulatory and Supervisory Challenges
- Way Forward



Financial Landscape of Pakistan

3

- Banks
 - Nationalized Banks
 - Islamic Banks
 - Private Banks
 - Foreign Banks
 - Islamic Banking Subsidiaries
- Development Finance Institutions
- Microfinance Banks

State Bank of
Pakistan



- Non Bank Financial Institutions
 - Investment finance companies
 - Leasing companies
 - Fund Management
 - Modaraba companies
- Insurance & Takaful Companies

Securities and
Exchange
Commission of
Pakistan

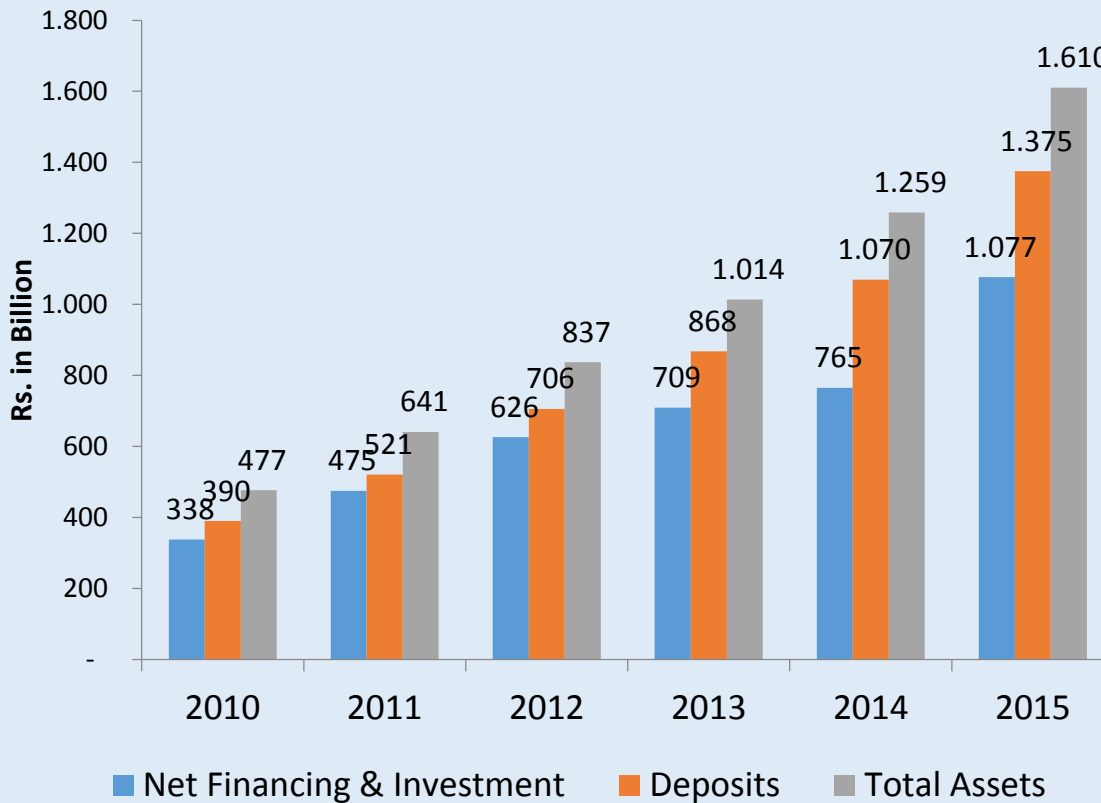


Others: Un-regulated Microfinance Institutions both Islamic & Conventional



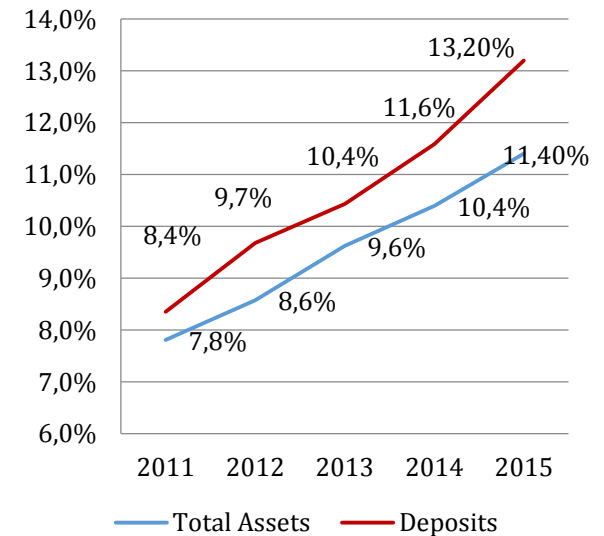
Islamic Banking Industry Trend - Last 5 years

Islamic Banking Industry Progress



As of Dec 2015
 Number of IBIs: 23
 Number of Branches: 2075

Market Share



Source: Quarterly Unaudited Data



Historical Growth of Islamic Banking Industry (IBI)

5

(Rs in Billion)

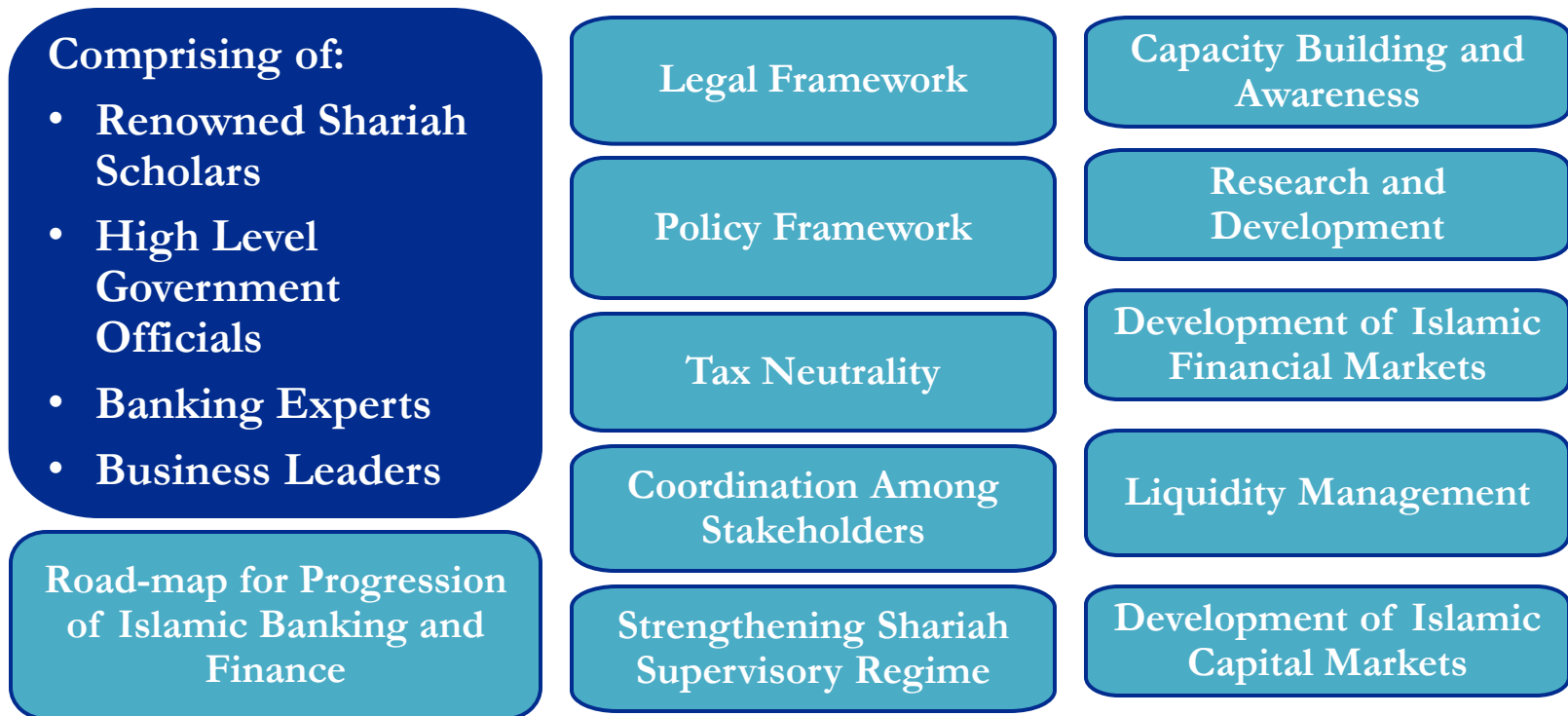
Description	Dec-15	Dec-14	Dec-13	Dec-12	Dec-11	Dec-10	Dec-09	Dec-08	Dec-07	Dec-06	Dec-05	Dec-04	Dec-03
Total Assets	1,610	1,259	1,014	837	641	477	366	276	206	119	71	44	13
%age of Banking Industry	11.3%	10.4%	9.6%	8.6%	7.8%	6.7%	5.6%	4.9%	4.0%	2.8%	2.0%	1.5%	0.5%
Deposits	1,375	1,070	868	706	521	390	283	202	147	84	50	30	8
%age of Banking Industry	13.2%	11.6%	10.4%	9.7%	8.4%	7.2%	5.9%	4.8%	3.8%	2.6%	1.8%	1.3%	0.4%
Financing. & Invest.	1,077	765	709	626	475	338	226	186	138	73	48	30	10
Full fledged Islamic Banks	6	5	5	5	5	5	6	6	6	4	2	2	1
Conventional Banks with IBBs	17	17	14	13	12	12	13	12	12	12	9	9	3
No. of Branches	2,075	1,574	1,304	1,097	886	751	649	515	289	150	70	48	17

Commitment of Government of Pakistan Towards Development of Islamic Finance



6

Formation of High Level Steering Committee – Dec 2013



SBP Strategic Plan for IB 2014-18



7

- ❑ Islamic Banking (IB) is an important, integral and evolving part of banking & finance
- ❑ Requires ownership and coordination of all stakeholders
- ❑ Specifies responsibilities and obligations of stakeholders
- ❑ Maps how to achieve the set targets
- ❑ Helps sustain the growth momentum

Four Key Reform Areas:

- ❖ Enabling Policy Environment
- ❖ Shariah Governance & Compliance
- ❖ Awareness & Capacity Building
- ❖ Market Development



SBP Strategic Plan for IB 2014-18

8

Functional Strategies and Action Plan

**Amendments in
Taxation and
Legal Framework**

**Shariah
Compliance
Framework**

**Rationalization of
MCR**

**Liquidity
Management
Framework**

**Financial
Accounting &
Reporting
Framework**

**Awareness &
Capacity
Building**

**Adoption of
International
Standards**

**Financial
Inclusion**

**Coordination
Among
Stakeholders**



Enabling Policy Environment

9

Amendments in Taxation and Legal Framework

Efforts to create level playing field for IBIs

Review of BCO 1962 and SBP Act 1956

Taxation / Legal Proposals

Recovery Ordinance

Shariah Compliance Framework

Shariah Governance Framework

Thematic Inspections

Revise 'On-site' inspection Manual for Shariah Compliance

Rationalization of MCR

Facilitating expansion and consolidation in Islamic banking industry

MCR for Islamic banking subsidiary to begin with Rs. 6 billion and gradually reach Rs. 10 billion



Enabling Policy Environment

10

Development of Liquidity Management Framework

Open Market Operations Based on Bai Muajjal of GOP Sukuk

- State Bank has developed mechanism to absorb surplus liquidity from IBIs

Shariah Compliant Provider of Last Resort

- Development of Shariah compliant LOLR mechanism for Islamic banking industry is currently underway

Issuance of Long-term and Short-term Sukuk by the Government

- The State Bank of Pakistan is working closely with the Federal Government of Pakistan for issuance of long-term and short-term sukuk in order to facilitate the liquidity management of IFIs, meet the financing needs of the Government and for conversion of Government financing.

Reporting Framework for IBIs

11

To address issues of transparency, disclosure and true risk profiling, SBP works in coordination with Institute of Chartered Accountants of Pakistan (ICAP) and other stakeholders.

Islamic Financial Accounting Standards (IFAS) on Murabaha (IFAS 1), Ijarah (IFAS 2) and PLS deposits (IFAS 3) have been developed and notified by SECP.

IFAS 1
(Murabaha)

IFAS 2
(Ijarah)

IFAS 3
(PLS Deposits)

Work has been initiated on other Islamic Financial Accounting Standards.

Capacity Building & Talent Development



12

Three Centers of Excellence in Islamic Finance (CEIF)

Research Infrastructure in Partnership with **LUMS**, **IBA** and **IM Sciences**



Incubator for research
on contemporary
issues

Comprehensive
source of education,
training and degree
programs

International
orientation and
collaboration

Mobilizing local and
international
expertise

Strong quality
assurance network

Innovation & capacity
building



Adoption of International Standards

13

SBP has successfully adopted / adapted 6 AAOIFI Shariah Standards and 4 IFSB Prudential standards. Further work is in progress for adoption of more international standards

AAOIFI-3

- Default in Payment by a Debtor

AAOIFI-8

- Murabaha to the Purchase Orderer

AAOIFI-9

- Ijarah & Ijarah Muntahia Bittamleek

AAOIFI-12

- Mudaraba

AAOIFI-13

- Sharika (Musharaka) and Modern Corporations

AAOIFI-17

- Investment Sukuk

IFSB-1

- Risk Management for IIFS

IFSB-3

- Corporate Governance for IIFS

IFSB-4

- Disclosures to Promote Transparency and Market Discipline for IIFS

IFSB-10

- *Shari`ah* Governance System



Other Major Achievements

14

Awareness Campaigns

- Nation-wide Islamic Banking Mass Awareness Campaigns
- Specialized Training Sessions For Legal Experts, Journalist Community, Shariah Scholars and Various Stakeholders
- Seminars and Focus Group Sessions round the year

KAP Survey

- Quantifying Demand for Islamic Banking
- Analyzing Faith Based Financial Exclusion
- Identification of Critical Areas

Technical Assistance

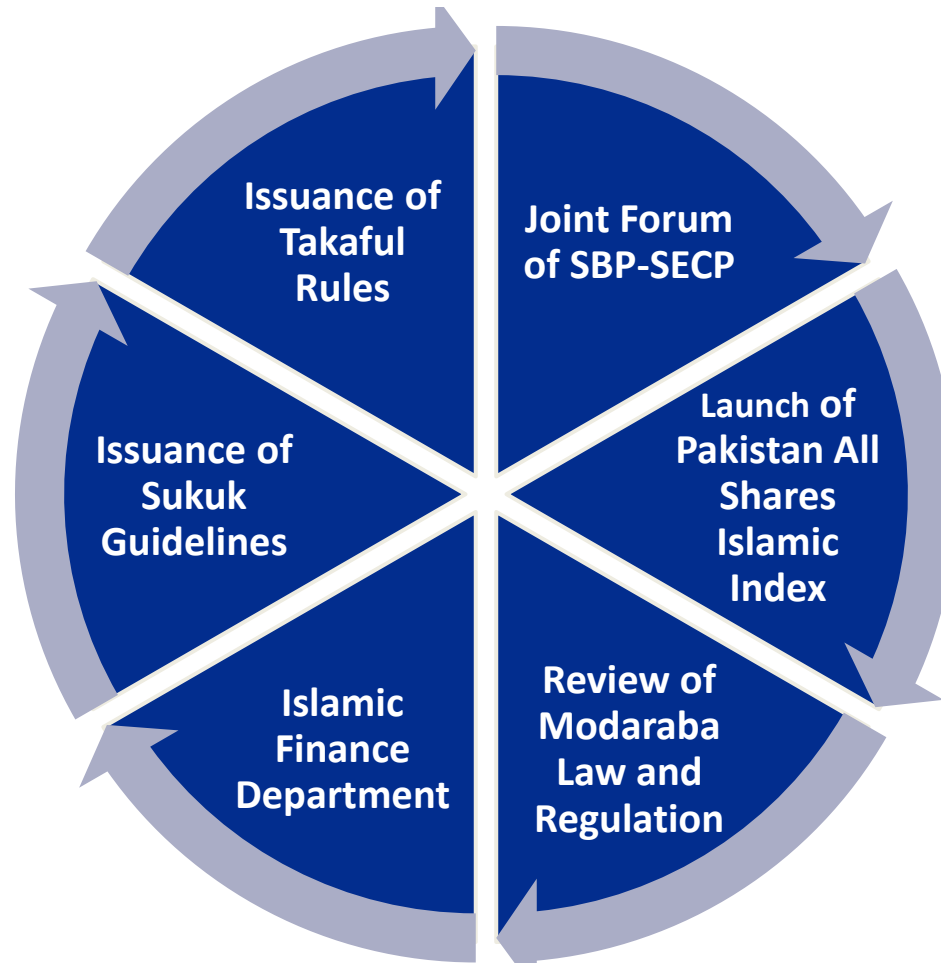
- Technical Assistance to countries in collaboration with IRTI & World Bank
- Technical input on research papers /studies of IFSB, AAOIFI, IIFM, IRTI, IILM and other international bodies
- Sharing of expertise through Technical Committee/Working Groups of IFSB.

Other Major Achievements in Islamic Finance



15

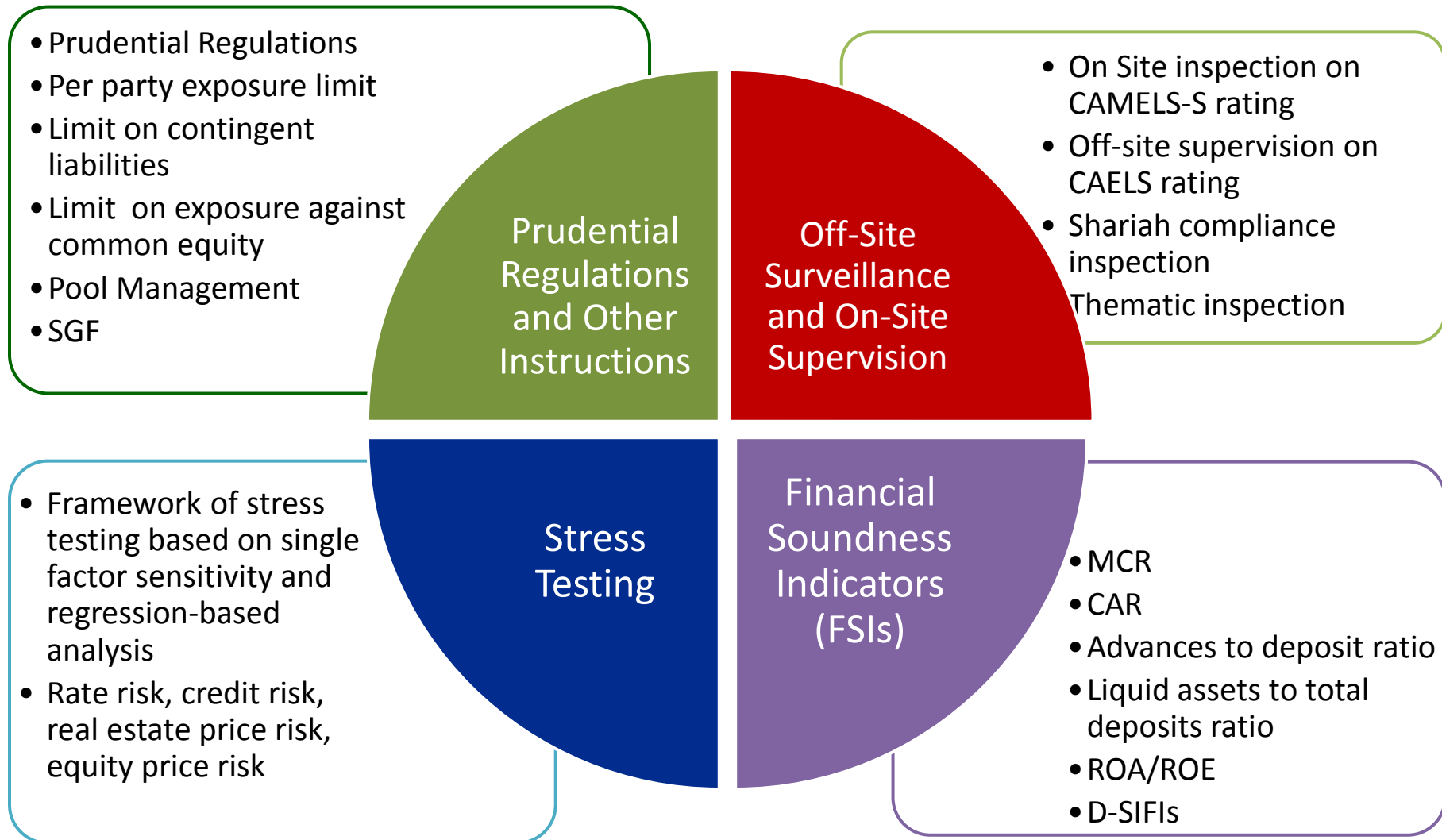
Development of Islamic Capital Markets



Supervisory Framework (Risk Based Macroprudential Approach)



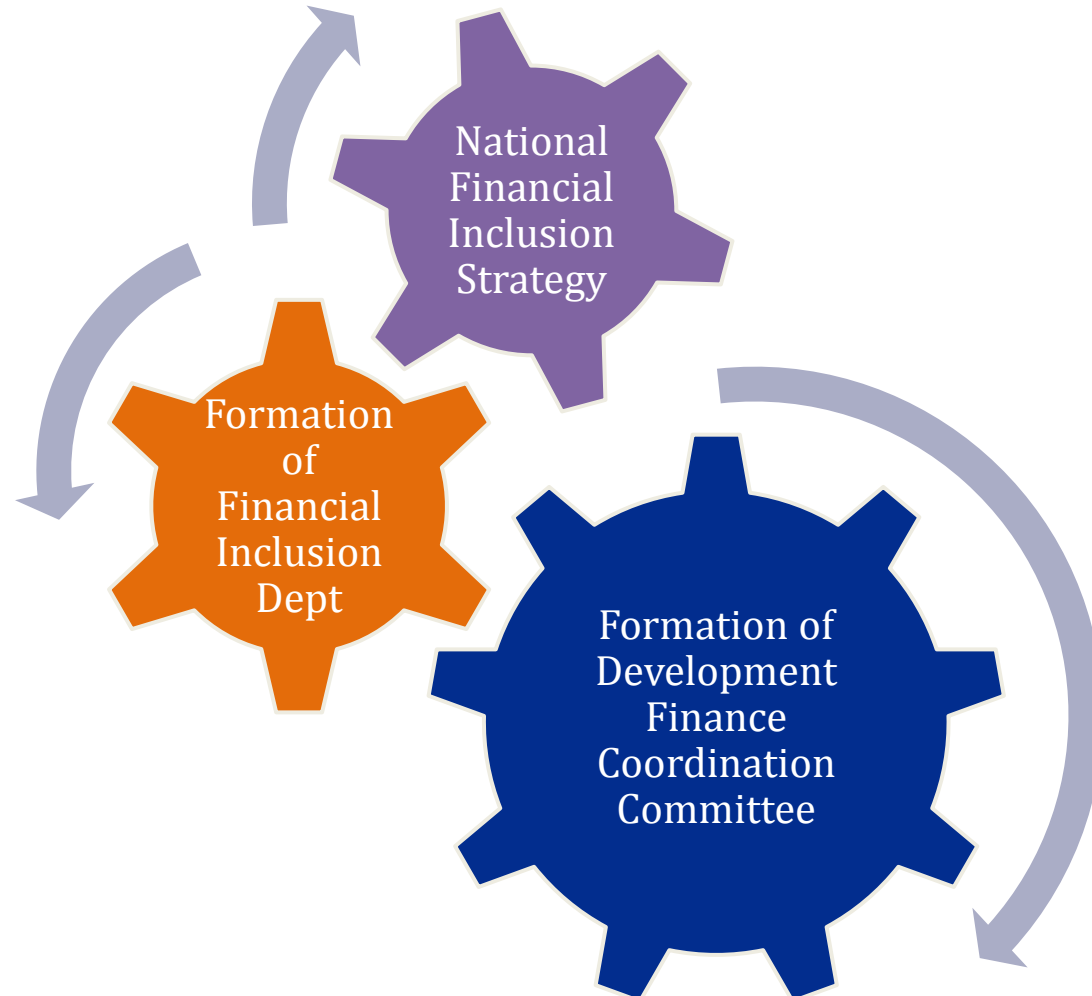
16



SBP Strategic Plan 2020 - Vision

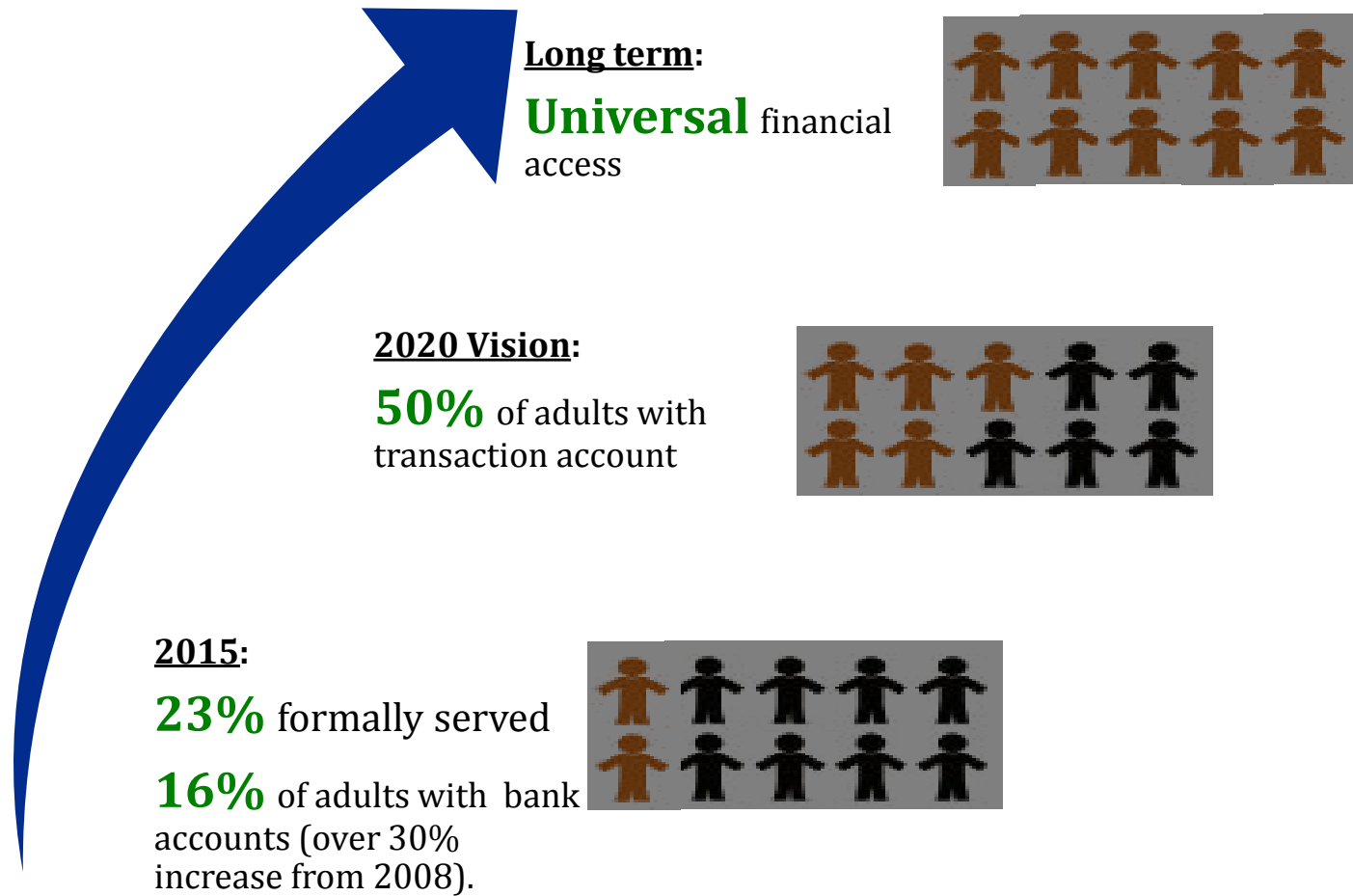
17

Islamic Finance highlighted as a priority area



National Targets for Financial Inclusion

18





Global Regulatory and Supervisory Challenges For IBIs

Different
Shariah
versions

IFIs are
working
under non
Shariah
compliant
legal and
regulatory
frameworks

Lack of
standardized
disclosures,
regulatory
clarity and
harmonization

Lack of
awareness
among the
providers
and potential
users of
Islamic
financial
services

Dearth of
adequately
trained
human
resources



General Regulatory and Supervisory Challenges

Development
of early
warning tools

Consolidated
supervision

Strengthening
IFI's capital
and Reducing
procyclicality

Development
of financial
safety nets
(especially for
IFIs)



Way Forward

Strengthening Islamic financial regulatory infrastructure

Role of multilateral institutions-IMF, World Bank, IFC, ADB and IDB

Implementation/adoption of Islamic international prudential, accounting and Shariah standards

Efforts to bring more standardization/harmonization in Shariah interpretation



Way Forward

IFIs should engage in more profit & loss sharing and real trade transactions for which an enabling legal & regulatory environment need to be developed

Need a paradigm shift in order to reap the real benefits of an Islamic economic and financial system

Promote Research and Development in the fields of Fiscal and Monetary policies in Islamic framework

More coordination and cooperation for public awareness, capacity building and talent development



THANKS