Islamic Banking in Pakistan: Legal Framework, Challenges and Growth Prospects

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Abstract

This research paper suggests that Islamic Banking is spreading its wings in Pakistan and is positioning itself for growth. Islamic banking in Pakistan is also facing challenges because conventional banking in the country is more penetrative and holds a larger share of the economy. A qualitative study was conducted by sending questionnaires to 15 banking and non-banking professionals in our network holding middle to top management positions. Also, six in-depth interviews were carried out during July - August 2010. Three interviews were made with Islamic bankers holding middle management positions in three different Islamic banks, and three detailed discussions were made with customers of those three other banks. Questions asked during the interview were based on the basics of Islamic banking, challenges faced, distinguishing features, comparison with conventional banking, product and market development, challenges faced, and future growth. Through both ways of qualitative research (i.e., questionnaire and detailed interview), it is extracted that Islamic banking in Pakistan is positioned for growth since the Muslim community in our society is eager to know more about it and want to spend their lives in the light of Islamic preaching and fundamentals of religion. The need is, however, felt to arrange a platform to increase and share the knowledge base in our country, increase awareness, introduce new products as per the need and requirement of the society, and introduce courses and programs in all colleges, Universities, and Business Schools to familiar students about Islamic banking so that their learning curve built before they enter in the job market and finally improve quality of the human resources particularly those working in Islamic Banks.

Keywords: Islamic Banking, Sharia, Islamic Finance, Legal Framework, Challenges.

Introduction

The emergence and evolution of Islamic banking in Pakistan represent a critical facet of the country's financial landscape. Rooted in the principles of Sharia, Islamic banking has become an integral part of Pakistan's economic fabric, catering to the financial needs of a predominantly Muslim population. This research paper aims to comprehensively examine Islamic banking in Pakistan, focusing on three key dimensions: the legal framework, the challenges the industry faces, and its growth prospects. Islamic banking, characterized by its adherence to Islamic principles and ethical financial practices, has experienced remarkable growth in Pakistan over the past few decades. This section introduces the overarching theme of the research paper: the exploration of Islamic banking in Pakistan through the lenses of its legal framework, challenges, and growth prospects. The research aims to contribute valuable insights to academic, regulatory, and industry stakeholders by understanding these dimensions.

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The legal framework governing Islamic banking in Pakistan plays a pivotal role in shaping the operations and practices of financial institutions adhering to Sharia principles. Research by Ahmad and Hassan (2015) critically analyzes the legal and regulatory framework of Islamic banking, providing a foundational understanding of the structural basis of the industry. Siddiqui et al. (2018) contribute to this discussion by examining the evolution of the regulatory environment and its impact on the operations of Islamic banks. Iqbal et al. (2017) delve into a qualitative analysis of the challenges Islamic banks face, shedding light on the practical implications of the legal framework. Furthermore, Saleem et al. (2018) investigate the impact of the regulatory framework on the performance of Islamic banks, offering insights into the effectiveness of existing regulations.

The coexistence of Islamic and conventional banking systems introduces a unique set of challenges for Islamic banks. Khan and Ahmed (2019) explore the market perception of Islamic banking, addressing customer acceptance and understanding issues. Rizvi et al. (2015) contribute a case study on risk management in Islamic banking, highlighting the challenges and strategies employed by banks in mitigating risks. To further understand the intersection of Sharia compliance and financial performance, Azam et al. (2016) provide empirical insights into the relationship between adherence to Islamic principles and the economic success of Islamic banks. These studies collectively offer a nuanced view of the challenges faced by Islamic banks, ranging from risk management to market acceptance.

In navigating the intricate landscape of Islamic banking in Pakistan, it is essential to explore the growth prospects that lie ahead. Mirakhor and Krichene (2010) present a broader perspective on the recent developments in Islamic banking, offering a historical context for understanding the sector's growth trajectory. Ahmed et al. (2021) focus on innovative financial instruments, providing a glimpse into potential growth and product diversification avenues. The role of Islamic banking in economic development is a critical aspect explored by Riaz and Meo (2019) as they conduct a case study to assess the impact of Islamic banking on the economic landscape of Pakistan. Additionally, Usmani (2002) provides foundational knowledge on Islamic finance, outlining the principles that guide the sector's development.

A comparative analysis between Islamic and conventional banking systems is essential to discern the unique challenges and opportunities within the banking sector. Iqbal and Llewellyn (2002) contribute a comprehensive perspective on profit-sharing and risk in Islamic banking, allowing for a nuanced understanding of how Islamic financial practices differ from conventional models. El-Gamal (2006) expands this comparative lens by offering insights into Islamic finance's broader legal, economic, and practical aspects.

The importance of this research lies in its potential to inform key stakeholders about the intricacies of Islamic banking in Pakistan. Policymakers can utilize the findings to refine regulations, ensuring they align with the ethical and operational requirements of Islamic banking. Financial institutions can gain insights into strategies for overcoming challenges and capitalizing on growth prospects. Academics can build upon this research to deepen their understanding of Islamic finance in national and global contexts.

The coexistence of Islamic and conventional banking systems in Pakistan poses challenges that require careful examination. From regulatory intricacies and market perception to risk management and economic impact, these challenges must be addressed systematically to ensure the sustainable growth of Islamic banking. This research seeks to unravel these complexities, offering solutions and strategic insights to pave the way for Pakistan's robust and harmonious coexistence of Islamic and conventional financial systems. This research paper explores Islamic banking in Pakistan, examining its legal framework, challenges, and growth prospects.

The most essential element of Islamic economic society is the prohibition of Interest. Synonymous terms are used, such as Usury and Riba for Interest. All covers the meaning of loading additional money on funds lent to borrowers. As such, it is fundamental to understand Islamic economics to have a fair idea about Islamic banking. If we try to focus on countries like Pakistan, Iran, and UAE, we will come to know that these countries are practicing Islamic banking based on Islamic Financial laws.

In contrast, other countries like Malaysia, Indonesia, Bangladesh, Egypt, and Jordan are working on Islamic banking alongside conventional banking. Foreign governments are also experiencing the taste of Islamic banking. Some countries like the USA, UK, and Australia are taking the lead and exploring new avenues in Islamic banking. If we look at the crux of Islamic banking, it is based on Islamic Sharia Laws that help identify solutions to various financial and non-financial problems. Islam has stipulated that Interest (Riba) is unlawful (Haram) since it causes a lot of harmful impacts on society, such as poverty, concentration and unequal distribution of wealth, unethical practices, and disparity in the purchasing power of consumers. In conventional banking, the utilization of money advanced is unimportant; they are concerned with the return on cash gone. On the contrary, Islamic banks take risks while venturing with their business customers. Islamic banks neither take Interest nor give it to their clients. All activities are Sharia-based and in line with ethical standards of life. Islamic banking is a new area to explore in our country, particularly for Muslims, but non-Muslims are also contributing to it and taking full advantage of Islamic banking. Although challenges are in the way of Islamic banking, emerging opportunities in this field must be considered.

Research Objectives

Pakistan, being a Muslim country, is a favorable ground for the growth of Islamic banking. As per Islamic teachings, 'Interest' (Riba) is haram; as such, it was a solid ground after independence to practice and preach Islamic banking, but there was no setup available. After independence, our country was arrested with many teething problems; as such, much attention was given to those issues, leaving the essential banking requirement per Islamic norms and ethics. Lately, it has been realized that Islamic banking is neglected altogether in an Islamic state. Therefore, all attention was diverted to forming a system in our country to formalize Islamic banking. Up to 2002, the stakeholders dealt with the framework and other critical issues. From 2002 to 2010, substantial growth was witnessed. Although the share of growth is 5%, it is expected to reach around 15% in the next 2 to 3 years. During this transition, Islamic banking is facing many challenges; at the same time, it invites many opportunities for scholars and stakeholders to explore the new dimension of banking and utilize it as per the needs of our country. The Research study aims to identify the opportunities for Islamic banking in Pakistan. The main areas of the Research Paper are hereunder:

- Does Islamic banking have the potential to grow and contribute to the economy of Pakistan?
- Are there investment opportunities in Islamic Banking?
- Is Islamic banking ready to cope with the changing circumstances around the globe?
- Is Islamic banking catering to the needs of banking and non-banking customers?
- Is Islamic banking getting support from regulators?
- Is the HR (Human Resources) of Islamic banks capable enough to accept the challenges of Islamic banking and explore ways to meet the challenges?
- Is the product being offered by Islamic banks sufficient to attract customers?

- Does Islamic banking have all the capabilities for product development?
- Identify ways to utilize funds in Riba-free Islamic State.

Evolution of Islamic Banking

The evolution of Islamic Banking started initially in Egypt. It was due to the efforts of Ahmad El Najjar, who began a savings bank based on profit sharing in one of the towns in Egypt named Mit Ghamr in 1963. Within four years, i.e., until 1967, nine more banks were developed in Egypt. All these banks were functioning on the same pattern, i.e., none were charging or paying Interest. These banks partnered with other institutions/persons/ entities to invest in trade and industry. The return so derived is shared with investors/depositors. These were not exclusively Islamic or Conventional banks but were categorized as Saving Investment Institutions. In 1971, The Nasir Social Bank was established in Egypt. It was named an 'Interest-Free Commercial Bank' without disclosing any reference to Islamic Banking, Non-Interest Banking, or Shariah principles in its charter. Later, in 1974, the Islamic Development Bank (IDB) was established by the Organization of Islamic Countries (OIC) efforts. It was not found to promote Islamic Banking only but it came into being mainly to finance development projects in member countries. However, the principle for its formation was interest-free operations based on Shariah principles.

After that, the winds of change were institutionalized in Muslim countries. Some of the following banks were established during the late seventies: -

- Philippine Amanah Bank in 1973
- Dubai Islamic Bank in Middle East in1975
- Faisal Islamic Bank of Sudan in 1977
- Faisal Islamic Bank of Egypt in 1977
- Bahrain Islamic Bank in 1979

The swing in Islamic Banking took place in Malaysia in 1983.

Initially, in 1963, a saving corporation was set up in Malaysia for the welfare of Muslim pilgrims to facilitate them to perform Hajj. These saving corporations later acted as finance companies to invest the savings of pilgrims in line with Shariah. Later, these ventures proved to be the primary catalyst in promoting full-fledged Islamic Banking in Malaysia. Pakistan's history of Islamic banking started in 1980 following changes in the Banking Companies Ordinance 1962.

Some of the key developments in the field of Islamic Banking during this period are mentioned hereunder:

ICP (Investment Corporation of Pakistan) and NIT (National Investment Trust), government-owned mutual funds, started investing in Profit and Loss sharing basis in 1979-1980.

HBFC (House Building Finance Corporation) eliminated Interest during their operation effective July 1, 1979.

PTC (Participation Term Certificate), instrumental in corporate financing, started issuing interest-free instruments for their clients in June 1980.

Shariah-compliant business structures for Modarabas were introduced through the Modaraba Companies and Modarabas Ordinance, 1980, along with Modaraba Companies and Modaraba Rules, 1981.

For recovery of loans made on interest-free financing methods, changes were made in 1984 in the Banking and Financial Services Ordinance, 1984 and the Banking Tribunal Ordinance, 1984.

Nationalized commercial banks started interest-free counters for their customers effective January 1, 1981.

BCD Circular No. 13 of 1984, issued by the State Bank of Pakistan, advises that all financing to Federal and Provincial Governments, Public Sector Corporations, and public or private joint stock companies would be made through interest-free mode. This action was implemented by issuing a circular on January 1, 1985.

Similarly, from July 1, 1985, banking in Pak Rupees was made interest-free as such banks introduced Profit and Loss sharing schemes for their large net of depositors.

Although these measures were fair enough to promote Islamic Banking in Pakistan, it was later realized that preparation and homework from financial institutions needed to be done adequately. Federal Sharia Court challenged some of the Islamic products and processes and termed them un-Islamic.

The Principles of Islamic Banking

To know the principles of Islamic banking, we need to understand some basic terms of economics such as Interest, time value of money, cost of Capital, economic growth, theory of Interest, risk five premium, and its main categories. While explaining these concepts, we will link them to Islamic ideology to better understand Islamic banking and finance.

The Concept of Riba

Riba means excess / gain in a monetary form derived from the loan on a given principal amount. As per Quran1: 'The Interest that you provide to increase people's wealth does not grow in the sight of Allah, and the zakat you pay to win Allah's approval, its prayers do indeed increase their wealth.

Referring back to the pre-Islamic era and comparing it with the present age, we see that financial institutions charge Interest, which is strictly prohibited in Islam. As per Quran 2,' Allah deprives Interest of all blessing and develops charity; and Allah does not like an ungrateful, sinful person.' Muslim scholars focus on the moral development of society. They emphasized that material effect is also necessary for human evolution, but moral development can only achieve its true essence. Two factors can be considered essential for moral action, i.e.:

- Efficiency and
- Equity

Islam also preaches the same philosophy that if individual preferences are subordinated to social priorities, moral development is possible, which finally leads to material development.

Core Issue: Application of Time Value of Money

The outcome of the time value of money is Interest. Using cash for a defined time frame will fetch some charge, i.e., Interest. Islam, on the contrary, denies applications of the time value of money and pronounces it as Riba, being unlawful. Islam, however, ensures that investment must pass through a business and economic activity process, including risk-taking and other ventures associated with the business. Hence, the return will depend on the outcome of business activity. Therefore, an arbitrary increase in the cost of using money without taking risks is not applicable in Islam and thus is the main selling point of Islamic Banking.

Scarcity of Capital

Due to the 'interest' component, Capital becomes scarce. As a result, oligopoly enters capital goods industries, and monopolistic competition enters consumer goods industries. Both end up in an economic slowdown and decrease Aggregate Demand (AD). A decrease in AD pushes down the

Monetary Policy to increase AD. Despite the ease in Monetary Policy, the impact is not transferred, and AD remains low because Capital remains scarce. If it is followed by cost-push inflation, then it ends up in stagflation with decreased output due to a shortage of Capital and an increase in interest rates. As such, this aggravated situation can be eased by focusing on supply chain management and allowing a progressive taxation system that may remove market imperfections. Mr. Atif Salahuddin3 has mentioned ways to solve the current economic crisis in the country by referring to the Islamic way. For the taxation system, he said in his article that the Islamic principle of taxation is based on the amount of wealth a person has, and zakat applies to the wealth a person has, as per Nisab. He mentioned that in Islam if any landowner uses his land for less than three years, it is handed over to a poor farmer who can cultivate the land. Mere keeping the resources and not utilizing them for economic activity is prohibited, per Islamic ideology.

Economic Growth

Through economic growth, capital formation and investment opportunities are developed. Capital formation is, however, created in business activity through the following forms:

- Paid-up Capital
- Retained Earnings
- Borrowed Funds / Long-Term Debt

The first two forms are making equity to generate profit/loss, whereas borrowed funds / long-term debt earns Interest. Islam favors improving overall society through spiritual and worldly preaching for economic betterment. Some of those preaching are here under:

- Put off wasteful expenditure and focus on moderate consumption.
- Idle accumulation of wealth is not allowed, and
- Redistribution of income and wealth to enhance the Aggregate Demand (AD) level in the society at large. Islamic Banking encourages growth without instituting 'interest' in its financial setup.

Rationalization Between Interest and Riba

Interest-free element is the distinguishing feature of Islamic banking, apart from two elements being vital in Islamic Banking, i.e., equal distribution of income and wealth and increase in equity participation of the economy.

The preaching of Islam is focused on avoidance of Interest (Riba), disregarding the fact of the purpose and rate of Interest charged. Specific thoughts were developed to differentiate between usury and Interest. Similarly, attempts were made to distinguish between consumption loans and production loans. Arguments were made on the 8 points. Riba refers to usury when money lenders give loans to borrowers.

In contrast, Interest is different from it, which is taken by modern banks, and if such loans are for productive purposes, Interest (Riba) is not involved in it. However, due to the low intensity of this argument, it has yet to win the acceptance of most scholars. Muslim scholars, however, are not shaky over the understanding that there is any difference between Riba and Interest. Hence, these terms are used interchangeably.

At four different places in the Quran, the prohibition of Riba is mentioned, i.e.:

- Interest deprives wealth of God's blessings.
- Incorrect appropriation of property belongs to others.
- Please stay away from Interest for one's benefit.

- The distinction between trade and Interest emphasizes Muslims take back the principal amount from the borrowers without concentrating on return. Those who take Interest are at war with God.

  There is also debate on why Interest is considered lawful (halal) in the case of rent of property and considered unlawful (haram) in the case of borrowing/loan. But, it is spelled out that it is subject to physical existence and calls for wear and tear, whereas money lent out is not. The concern over attrition in the value of money is ruled out by Islamic scholars in the light of Hadith, which says that goods must be returned by their like, i.e., ' gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt.' In short, Muslims need no reasoning, logic, or proof for rejecting causes of classifying Interest as haram (unlawful) due to divine wordings. It is just a matter of faith (Iman). Islam does not support the concept. Interest does not qualify that Islam is not investing Capital as one of the factors of production. Islam, however, does not allow the factor to make prior arrangements of surplus in the form of Interest. To this, profit sharing is the most suitable and viable alternative. More specifically, in Islam, the owner of Capital can share the profit made by the entrepreneur. The profit-sharing ratio has adequately allocated resources nicely, influenced by market forces. One of the eccentric views is that replacing profit sharing for Interest is not perfect, although there is no distinctive form for the alternative to the interest rate.

Composition

Islam emphasizes that the owner of capital has no right to fix a predetermined rate of return as interest. Instead, Islam concentrates that only one is qualified to charge any addition to the principal sum once unless risk in undertaking business is involved. The owner of the capital, Rabbul-Mal, has the right to use his expertise to use the money for the best purpose, particularly for productive purposes, and share the profit, if any, with the borrower (called Mudarib). It is one of the essential modes of financing in Islamic banking and, according to jurists, was approved by the Prophet even in the pre-Quranic days. Another Islamic mode of financing is Musharaka, i.e., equity participation, whereby partners use their capital in a joint venture to earn profit/surplus. This profit and loss is predetermined as per their equity contribution. Musharaka and Mudarba hold the lion's share in Islamic Banking and are construed as two fundamental pillars. If we look at Musharka, we can link it with the concept of partnership and Joint Stock Companies as applicable in modern times. Likewise, as trustees of the funds placed by depositors in financial institutions, Islamic banks act as Mudarib for deposits placed by Rabbul-Mal with them to venture lead to profit generation to share with their depositors, in addition, to put those funds in other modes of Islamic financings. It is essential to mention that Mudarba and Musharaka are used as assets and Liability. More specifically, Islamic bank works as Mudarib in the case of the deposit-taking institute and at the same time as Rabbul-Mal while venturing such capital into Islamic modes of finance. Similarly, in Musharaka, the Islamic Bank acts as a partner with depositors regarding liability management of the bank. In contrast, Islamic Bank works as partners while financing their clients.

The Fundamentals and Principles of Islamic Banking and Finance

The following are the fundamentals of Islamic Finance:

- Lending to attract Interest is Riba and is haram (Unlawful).
- Sale of debt is not allowed.
- Finance and venturing into speculative activities are not allowed.

- They are not supposed to be involved in transactions that call for uncertainty.
- Money does not beget money.
- Promote an honest and productive economy.

As far as modes of financing in Islamic banking are concerned, the following are the standard modes of finance in Islamic banking:

a) Murahaba (Cost Plus Financing)
b) Musharka (Partnership Financing)
c) Mudarba (Trust Financing
d) Ijarah (Leasing)
e) Bai Muajjal (Deferred Payment Sales)
f) Quard Hassan (Welfare loan)
g) Istisna
h) Salam
i) Hawla
j) Kafala
k) Diminishing Mutharika
l) Sukuk

As far as the principles of Islamic finance five are concerned, it is based on the following six basic principles: -

- Avoidance of Interest
- Risk Sharing
- Treating money as potential capital
- Prohibition of speculation
- Sanctity of contracts, and
- Release of prohibited activities (such as those connected with alcohol and gambling)

Difference Between Islamic and Conventional Banking

Keeping the markup factor in mind, people usually mix the Islamic mode of financing with conventional banking and try to fix Islamic Banking as a copied approach practiced by Conventional Banks. Let me clarify. In the case of Murabaha financing, an Islamic bank appoints its customer as a client to purchase the goods on the bank's behalf. Since the bank needs to possess skills in purchasing Islamic / Sharia-compliant goods, the Islamic bank appoints the clients as an agent. Once goods are purchased, Islamic banks sell them to their clients, adding a markup on a cost-plus basis, owing to risk-taking in buying goods. This act of purchasing, safekeeping, taking risks, and handing over goods to clients is an entirely different feature that does not exist in Conventional banking. Conventional Banks usually lend money to the client, disregarding the fact that for what purpose the client is using the loan amount since its concentration is on interest, the predetermined fixed amount. Bai' Muajjal, i.e., sales made on a deferred payment basis, is another form of Islamic finance. Here, Islamic Bank engages in the sale and purchase of properties on a deferred payment basis. It is lawful to charge a higher price for a good if payment is made at a later date. People may consider it interesting. However, it is not. In such transactions, Islamic banks are not carrying out lending transactions; instead, trading transactions are made. 11 Likewise, Ijarah is one of the Islamic modes of finance. Ijarah may be for services as well as for goods. Ijarah is derived from Ujrat, which means compensation. Here again, Islamic banks buy their clients' goods (equipment or machinery) and obtain rentals for using them. Salam and Istisna are other commonly used modes of finance in Islamic Banking. In salam transactions, Islamic banks finance production activities. In Salam, the price is paid when entering into a contract, but goods are delivered on a predetermined fixed date. Whereas the same process is used in manufacturing processes and is called Istisna. Keeping the details given in some of the Islamic modes of finance, it is clear that Islamic banks go beyond the financing process and involve themselves in trading, equity, and economic activities in line with Sharia principles. Farhan Ahmad6 explained the difference between Islamic and Conventional banking through three terms that are not practiced in Islamic banks but are used widely in conventional banking, i.e.:

- Riba (Interest)
- Gharar (Uncertainty)
- Maisir (Speculation)

Emerging Interest in Islamic Banking and Finance

As a viable alternative to the global financial system, Islamic Banking is emerging interest in following non-Muslim and Muslim countries:

Non-Muslim Countries: UK, Germany, France, Malta, South Korea, Japan, Hong Kong, Thailand, Singapore.

Muslim Countries: Iran, Saudi Arabia, Qatar, Bahrain, UAE, Kuwait, Sudan, Malaysia, Indonesia, Jordan, Brunei, Pakistan.

Policy Formation to Promote Islamic Banking in Pakistan

State Bank of Pakistan started reviewing and formalizing its financial sector strategy to promote Islamic banking in Pakistan in December 2001. It was a balanced move from regulators to promulgate Islamic Banking steadily. Licenses were issued to Islamic banks, and Al-Meezan Investment Bank became the first Islamic investment bank in the country. Conventional banks were also asked to open their Islamic banking window branches to assist regulators in promoting Islamic banking in Pakistan.

After learning from the experience in the first phase of Islamic banking in 1980, the State Bank of Pakistan implemented a comprehensive program to boost Islamic Banking. In this regard, the Sharia Compliance mechanism was introduced for Islamic Banking with the following broad objectives:

- Setting up a Sharia Board at SBP to approve proper Islamic banking products and policies guidelines.
- Formulating 'Fit and Proper Criteria' for Sharia Advisor.
- Provide guidelines to all banks related to Islamic Banking for the convenience of customers.
- Implement Sharia Audit
- Preparation of model agreements and contracts used in Islamic mode of financing.

Scope and Development of Islamic Banking in Pakistan

Quaid-e-Azam made his speech at the foundation laying stone of the State Bank of Pakistan on July 1, 1948, and mentioned that 6 Articles published on the topic 'Cutting edge Islamic Finance' in Dawn dated July 10, 2006

> "I shall watch with keenness the work of your Organization in evolving
> banking practices compatible with Islamic ideas of social and economic life.
> We must work our destiny in our way and present to the world an economic
> system based on the true Islamic concept of equality of manhood and social justice."

Although Pakistan's Islamic banking was taken off late in 2001, its present progress and future expectations are very high. Suppose we see the statistics of December 2003 and compare them with the statistics of December 2009. In that case, we can see that in 2003 number of Islamic bank and branches were only 17, which reached 649 in 2009, and the total asset composition went from 0.5% of the entire banking asset size to 5.6%. A comparative statement prepared below considering Islamic banks and Islamic branches of commercial bank positions as of March 2007 (total 217, i.e., 160 Islamic banks and 57 conventional bank Islamic windows) and September 2010 (total 714, i.e., 429 Islamic banks and 285 traditional bank's Islamic windows.

Financial Crisis and Islamic Banking

The international financial crisis, which occurred last year, still impacts the world economy, including Pakistan. It is worth trillions of dollars in impact, and it may take worse shape, especially after the debacle of Lehman Brothers. However, it is interesting to note that Islamic Banking remains unaffected by the subprime mortgage crisis. Many foreign bankers and scholars are turning to Islamic banking since it is safe from the evils of interest (Riba). Mr. Atif Salahuddin8 suggested that the government ban appeals and introduce Gold and Silver as monetary standards to control the money supply rather than printing money per internal requirements and increasing unending inflation. It is essential to mention that the Malaysian state launched the Islamic Dinar and Dirham as alternate currency9, allowing the golden and silver coins to be used as legal tender alongside conventional banknotes. Saad Sarwar Muhammad10 mentioned that Islamic banking remained away from the current financial crisis due to underlying transactions where interest (Riba) is unlawful.

Challenges of Islamic Banking

Islamic banking remains under various challenges, whether it is from third-world countries or developed nations, and this has been witnessed during the last three decades and more. One such challenge is the procedure of sentencing fatwa, which is usually, acceptable by one school of thought, and then declined by another school of thought. No one institute shall be used to issuing Fatwa (Islamic verdict) to be used by all nations in letter and spirit. In Malaysia, the Sharia Board is supported by the Government. A voluntary body in Bahrain on Accounting and Auditing Organization for Islamic Financial Institutions has been established by religious scholars authorized to issue Fatwa on Islamic financial products. Again, its binding on other countries is unrestricted as few countries refer to their verdict and others do not. As such, lack of authentication is a big challenge for the Islamic banking industry. Another challenge is the need for more qualified professionals in banking and the Sharia side. The legal framework is another challenge for this industry. In a few countries like in UK, there is no legal framework to deal with Islamic Banking.

Legal Framework

Some general laws and guidelines are issued by regulators regarding promoting Islamic Banking in Pakistan. However, there is a need to pay attention to the introduction of necessary changes in the banking laws and other related laws that affect Islamic Banking.

Conclusions & Recommendations

However, much theory and practical work is required to address issues related to the promulgation of Islamic Banking in Pakistan. But, if policymakers adequately address these issues, Islamic Banking will grow in Pakistan with more velocity. Some of the possible solutions are hereunder:

- Setting up unresolved Fiqh Issues
- Development of high-potential resources well-versed in Islamic Banking and Finance
- Increase the knowledge base of customers, staff, and the general public about the importance of Islamic banking and finance.
- Availability of Sharia Compliant products
- We are institutionalizing legal, regulatory, and other policy frameworks complying with the Sharia Principle.
- A penalty clause should be incorporated for delayed repayment of finance.
- Pricing of the product should be through the Islamic benchmark.
- Advancement in technology to support Islamic Financial solutions and design.

During the review of all this literature, I understand that Islamic banking is at a growing stage in Pakistan. A lot of development has taken place in some Muslim and non-Muslim countries. Still, new avenues are expected to achieve in the long run. In Pakistan, Islamic banking is meeting the requirements of the general public, although the level of awareness could be better. The pace of growth is slightly slow, but it is assumed that it will gain momentum after the passage of time. Islamic banks offer various products that meet consumer and business requirements. However, the need is still felt to develop more products to reduce banks' concentrations in Murabaha and Musharaka. Some of the challenges Islamic banks face include:

- A lack of qualified workforce
- Lack of customer awareness
- One window operations of conventional banks
- Lack of standardization of products
- Structure of Sharia Board and its implementation

In addition to that, we should understand that Islamic Banking is equity-oriented and not credit-oriented. However, it is still in its infancy as far as its application to present-day problems is concerned. There are different approaches to applying Islamic principles to modern situations based on the interpretation of Islamic philosophy and early historical precedents. Based on Islamic understanding, pure capital cannot exist as a factor of production; however, there is a combination of Capital and Enterprise. All funds will have to be in the form of equity, and there can be no capital funds in the form of debt. Not all Islamic Scholars and economists agree on it. Still, it is said that Capital and Enterprise combined would constitute a factor of production, and profit would be its reward.

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