# Impact of Islamic Banking Example

## Abstract

This study finds out the realistic or any factual impact caused by the introduction of Islamic Banking on the consumer financing sector generally, while keeping its main focus explicitly on House Financing and Car Financing through banks in Pakistan. The total banks involved in consumer financing whether Islamic or Conventional where included in this research, keeping 2003 as the base year of data initiation. Since 53% of Consumer financing was being defined by House and Car financing so they were kept in focus. Independent T-Tests were run on the investments as well as the growth of both the sectors that is Islamic and Conventional banking sectors. The data was collected from the Statistical & Data Ware House Department of State Bank of Pakistan. The results show that the variances in the investment sectors of both Islamic and Conventional differed from each other where H0 was rejected on the basis of value of t stats where as in the growth comparison the variances were said to be same at 10% significant level but the means of growth stood at 29% and 9% in cases of Islamic and Conventional banking respectively proving the positive impact of Islamic Banking on Consumer Financing's bulky sector of House and Car Financing in Pakistan . In case of any incongruity to State Bank of Pakistan or the AAOFI standards, the latter

shall prevail.

## Chapter one: Introduction

The intent to write this research was to undermine the factual understanding as well as affect caused due to the introduction of Islamic Banking in Pakistan. It was acclaimed by the people related to the industry that Islamic Banking had positively affected the banking sector here and across the globe. The numbers were quoted and percentages claimed but no real research supported the declarations. So the author thought of doing a research to dwell on the issue and conduct a research with respect to Pakistan hence, configure the true standings of the conterparts known commonly as Islamic Banking and Conventional Banking.

Islamic Banking though has a mere institutionalised history of 35 years across the globe but has gained tremendous recognition in this short tenure which shall be wittnessed in the literature review ahead in this paper. The evolution of Islamic Banking in Pakistan started as late as 2000 - 01 after the historical judgement of the Supreme Court of Pakistan in1999 against the prevailing interest based banking system. The Islamic banking emerged, though after a valiant effort which continued over two decades prior to its surfacing. Different reports, articles, awareness sessions, books and other relative material endowed to this very existence of Islamic Banks in Pakistan. Though the clouds of uncertainity have lingered on this newly instigated initiative ever since its emergence, but then again that has always remained a norm for innovative things in Pakistan. Though Islamic Banking has come a long way after its start almost a decade ago but it still has a lot to prove to its spectators with respect to shariah compliance and market effectiveness in the Pakistan's lucrative but stingent souk.

Consumer Financing is a sector which has its part of exuberance attached to it in the banking and financial sector. When ever the financial markets are flooded with accessive liquidity the first thing that magnetizes the banker is the consumer financing sector specially in Pakistan where the yeilds were as high as 15% on proceeds. The magnitude of House and Car finance together tend to weigh around at almost 53% of this sector so the proceedings in this neighborhood can be established by analysing these mentioned sectors. In view of the fact that the House & Car financing sector provide a level playing field for the conterparts that is Islamic and Conventional players, was another reason for this assortment.

In the paper further the comparative analysis is conducted as well as the background of both Islamic Banking and Finance with Consumer Financing has been discussed in comprehensive detail.

## Statement of the Problem

Islamic Banking ever since it's emergence in Pakistan has raised eyebrows of related and non related players. Is there a difference? Which banking system shall prevail? Does Islamic Banking have enough weight to outset its conterpart? Can Islamic Banking loose the tag of being a parellel banking system and become the prefered banking operation in Pakistan? The researcher answers to these questions in the light of the literature review as well as by testing the viability of Islamic Banking sector to its conterpart Conventional Banking in the asset backed sectors of House and Car finance (through banks) in Pakistan.

## Objective

Basic purpose of this research is to determine the differential impact of Islamic Banking in contrast to Conventional Banking on House & Car Financing through Banks in Pakistan.

## Research Model

## Hypotheses

H0: Islamic Banking does not impact House & Car Financing through Banks In Pakistan.

H1: Islamic Banking directly impacts House & Car Financing through Banks In Pakistan.

## Chapter Two: Literature Review

This segment will appraise the comprehesive literature review with respect to Islamic Banking globally while Consumer Banking Sector in Pakistan.

## Islam as a Code of Life

Islam acclaims its self to be a Deen which provides "a complete code of life" to its practitioners. According to its claim Islam not only helps its followers rather also those who seek for help without believing in its core essence for day to day hinderances. May it be a name for a believer's child or be it the purpose of life, Islam alone tends to answer to all the versatile queries of its disciple. This is the beauty of Islam but it can only lead to enlightenment only if all the resources of Islam are kept in view or an adherent may astray from the righteous path.

The main resources of Islam can be categorized as follows:

- Quran e Karim - The Holy Book sent upon Hazarat Muhammad
- Ahadith e Mubarakah (Sayings of Hazarat Muhammad)
- Shariah (Implementation of Islam) Lives of Hazrat Muhammad and the Sahaba (Companions of Hazarat Muhammad)

Hence the Deen, Islam, can be categorized into three main branches:

- Beliefs (Aqaaid)
- Reformation and Rectification (Tassawuf) &
- Islamic Laws and Principles (Fiqha).

Since my paper would be coming under the third bough of a healthy hierarchy, that is, Islamic laws and Principle - Jurisprudence (Fiqh). Further elaborating this division known as Fiqh (Islamic Laws and Principles) can be further sub-divided into the following sections:

- Prayers (Forms of submissions to Allah Tallah, Ibadaat)
- Societal or Civil Laws (Ma'amlaat)
- Criminal Laws
- Constitutional laws

Since my paper discusses the Societal or Civil laws (Ma'amlaat) or rather absolutely specifying it would be dealing with financial aspects of this vast sub branch of Fiqh. Coming to the financial aspects of a Muslim or even an Oriental who believes in the fairness of Islamic laws, the main concern of this individual is to abide by Islamic law and principles while earning bread and butter for himself and his family.

The things permissible by Islamic Jurisprudence are referred to as 'Halal' while the things that are prohibited in Islamic Fiqh are known as 'Haram'. It is by obligation that a Muslim or even an Oriental who believes in Islamic laws can earn his living only through 'Halal' ways. One way of distinguishing 'Halal' is by identifying the prohibitions while the rest remains permissible.

## Prohibitions in Islam for Financial Procedures

The two of the main ills identified by Islam in financial procedures are:

1. Riba (Interest)
2. Gharar.

## Riba (Interest)

In perspectives of Shari'ah money is considered to be a assessing means for value or worth rather than an 'asset' within itself, it necessitates that an investor should not be able to obtain income from capital (or everything that is treated as a kind of money) alone. This production of money from money (commonly known as interest) is 'Riba', which is prohibited in Islam. Prohibation of Interest (Riba) in Quran

Following are the verses where Quran has out rightly identified interest as a prohibition. In the following verse our Creator nullifies the visual increase of wealth earned through interest.

- And whatever Riba you give so that it may increase in the wealth of the people it does not increase with Allah Subhanahu Tallah (30:39)

At another place it has been identified that the Jews weren't allowed to indulge in interest.

- And because of their charging Riba while they were prohibited from it (4:161)

A verse which identifies the prohibition of interest and its form whether it be compounded.

- O those who believe do not eat up Riba doubled and redoubled (3:130)

Riba's eminent prohibition can be seen in the following verse while at the same time the permissible alternative of trading has been offered. Another important factor which can be witnessed here is that giving of charity is being encouraged while interest is being regarded as a curse.

- Those who take Riba (usury or interest) will not stand but as stands the one whom the demon has driven craze by his touch. That is because they have said:" Trading is but like Riba" and Allah Subhanahu Tallah has permitted trading and prohibited Riba. So, whoever receives an advice from his lord and stops, he is allowed what has passed, and his matter is up to Allah Subhanahu Tallah . And the ones who revert back, those are the people of fire. There they remain forever.
- Allah Subhanahu Tallah destroys Riba and nourishes charities. And Allah Subhanahu Tallah does not like any sinful disbeliever. Surely those who believe and do good deeds, establish Salah and pay Zakah, have their reward with their lord, and there is no fear for them, nor shall they grieve.

O those who believer, fear Allah and give up what still remains of 'Riba' if you are believers. But if you do not, then listen to the declaration of war from Allah and his messenger. And if you repent, yours is your principal. Neither you wrong, nor be wronged. And if there be one in misery, then deferment till ease. And that you leave it as alms is far better for you, if you really know. And be fearful of a day when you shall be returned to Allah, then everybody shall be paid, in full, what he has earned. And they shall not be wronged. (2: verses 275-281)

Identifying one of the greatest ills of Interests 'concentration of wealth' the rich becoming wealthier and the poor becoming underprivileged, the verse tends to unfold one of the many aliments caused by going against the prohibition.

- So that this wealth should not become confined only to the rich amongst you.(59:7)

During the tenure of 1984 to 1994, $ 719 Billion dollars were sanctioned as interest based loans while $ 749 Billion were returned during the same tenure still leaving behind a liability of $ 1258 Billion. 225 people possess 47% of the wealth of the world at the same time 1 Billion and 30 Million people earn $ 1 daily while 32% of the population of this world earns $ 4 daily. These facts show that the present financial system has the above mentioned illness known as the 'concentration of wealth'.

## Prohibation of Interest (Riba) in Hadith

The second source of Islam is the sayings of the Holy Prophet MuhammadSallalaho Alaihi Wassallam. Ahadith of ProphetSallalaho Alaihi Wassallam which are on the prohibition of Riba (Interest) are as follows:

In the following Saying the excess on either sides is regarded as riba.

- Gold for gold, silver for silver, wheat for wheat, barley for barley, date for date, salt for salt, must be equal on both sides and hand to hand. Whoever pays more or demands more (on either side) indulges in Riba.1.( Sahih Muslim, Karachi, V.2, P.25)

As per the following saying commercial interest's existence is exhibited.

- Ibn Juraij says: "in the pre-Islamic period, the tribe of Banu Amr bin auf used to take interest from the tribe of Banu-al-Mughira, and the Banu-al-Mughira used to pay this interest. When islam came,the later owned considerable amount of money to the former". And further on:"the Banu-al-mughira used to pay interest to Banu-thaqif."

All the people involved in the transaction of riba are found to be guilty and at fault as per quoted saying below.

- From Jabir: the Prophet,Sallalaho Alaihi Wassallam, may cursed the receiver and the payer of interest, the one who records it and the two witnesses to the transaction and said:"they are all alike [in guilt]" (Muslim,Kitab-al-Musaqat, Bab la'ni akili al-Riba wa mu'kilihi;also in Tirmidhi and Musnad Ahmed)

The implication or the inference of sins that a person attains on indulging himself in interest based transactions is emphasized in the following quotes.

- From'Abdullah ibn Hanzalah:the Prophet,Sallalaho Alaihi Wassallam,said : "a dirham of Riba which a man receives knowingly is worst than committing adultery thirty-six times"(Mishkat al-Masabih, Kitab al-Buyu',Bab al -Riba,on the authority of Ahmed and Daraqutni)
- From Abu Hurayrah: the Prophet,Sallalaho Alaihi Wassallam said: "Riba has seventy segments, the least serious being equivalent to a man committing adultery with his own mother."(Ibn Majah)

Interest based transaction reap no profits here or hereafter. The misery that one is bound to go through after death just for indulging himself in interest based proceeds in visible in the following quote.

- From Abu Hurayrah: the Prophet,Sallalaho Alaihi Wassallam, said: " On the night of Ascension I came upon people whose stomachs were like houses with snakes visible from the out side. I asked Gabriel who they were. He replied that they were people who had received interest" ( Ibn Majah, Kitab al-Tijarat, Bab al

Taghlizi fi al-Riba; also in Musnad Ahmad)

## Prohibation of Interest (Riba) in Bible

It is not that only in Islam, interest is prohibited even in Christianity, the prohibition of interest is eminent. We have even seen above that even Jews were prohibited from interest based activity according to the Quran's verse. Following are the quotes from the Bible proving the prohibition of Riba.

- "Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury. "[Deuteronomy 23:19]
- "Lord, who shall abide in thy tabernacle? Who shall dwell in thy holy hill? He that walketh uprightly, and worketh righteousness and speaketh the truth in his hearth. He that putteth not out of his money to usury, not taketh reward against the innocent."[Psalms 15:1, 2, 5]
- "He that by usury and unjust gain increaseth his substance, he shall gather it for him that will pity the poor". [Proverbs 28:8]
- "Then I consulted with myself, and I rebuked the noble, and rules and said unto them, ye exact usury, every one of his brother. And I set a great assembly against them."[Nehemiah 5:7]

After identifying that interest has been prohibited in the past as well as in the contemporary era by the Creator of mankind as He tends to proscribe this act, it would be important to understand the types of Riba which are as follows:

## Riba Al Jahiliya/ Riba An Nasiyah

"That type of debt where specified reimbursements period and an amount in surplus of capital is fixed." (Usmani, 2002)

## Riba Al Fadl / Riba Al Hadees

Riba Al Fadl means that the amount or goods paid back in excess other than the Qard (Loan) or which is taken in exchange of explicit homegenous products and are utilized in their hand to hand purchase and sale as explained in the Hadees. (Sahih Muslim, Karachi, V.2, P.25). (Usmani, 2002)

## Gharar

The second of the ailments identified by the Islamic Juriprudence is known as Gharar. Gharar, is usually understood to denote ambiguity in the contractual conditions and/or the uncertainty in the survival of an essential good in an agreement and this creates concerns for Islamic scholars in the light of Islamic Jurisprudence. Shari'ah does include the ideology of 'Public benefit', denoting that, if something is tremendously in the public favor, it may be executed - and so hedging or alleviation of preventable business threats, do come into this class but further elaboration is as follows by Islamic Scholars: Gharar is where the participants that is the buyer and seller, don't know what one bought and what the other sold. Professor Mustafa Al-Zarqa the researcher of Shariah has written Gharar can be defined as the sale of possible goods whose characteristics or individuality can not be established, due to the dicey character which makes this form of business related to gambling". Hadith forbidding this prototype of trading in Gharar (jeopardy) are available in books of Hadith. Some examples of Gharar transactions are (e.g. trading " any fish swimming in the sea or a bird from a collection of species flying in the sky" "an unborn calf in cow's womb", are some of the saleable goods which cannot be probed and examined as their true traits are unknown. Islamic Jurisprudence researchers have given many complete definitions of Gharar. They have also evolved with the idea of Yasir (minor risk); a financial deal with an insignificant risk is believed to be Halal (permissible) while transactions' involving significant risk (Bayu-ul-Gharar) is deemed to be Haram.

Gharar is one of those impediments which limit the power of decision making. An agreement that has any element of Gharar is not valid from the Islamic Jurisprudence view, irrespective of whether the parties to the agreement agree upon the agreement.

The lexical meaning of Gharar is to deceive, cheat, delude, lure, entice and uncertainty.

Gharar can be defined as follows:

" The uncertainty that is present in the basic elements of an agreement, wording, subject matter, consideration and the liabilities."

Example of events which have been prohibited in Ahadith because of Gharar are:

- Sale of unborn Camel's baby still in the mother abdomen.
- Sale of flowers before they appear on the plant.
- Sale of fish that comes in one throw of net.
- Sale of wool on the body of the animal.

Qimar is that event in which there is a possibility of total loss to one party.Every gambling is a form of Qimar but Qimar is not limited to gambling. "The Contract in which the participants, at the moment of implementing the agreement, cannot determine or rather decide as to how much it would give or receive."

## Causes of Gharar

Though the conditions can be many but the most commonly occuring causes can be identified in (Samadani, 2007) are as follows:

- Uncertainity relating to the existence of thing sold
- Uncertainity relating to the possession of thing sold
- Uncertainity relating to the thing sold itself
- Uncertainity relating to the price

- Uncertainity relating to the payment of price
- Uncertainity relating to both thing sold as well as the price

## Types of Gharar

Some types of Gharar are as follows:

- Baitan fi Bai (Twin sales)
- Safaqa fi Safaqa (Twin contracts)
- Bai urban/urboon
- Forward contract
- Superficial bull whip effect

In the dark ages, many contracts were in vogue, where that condition would turn trade into treasure hunt. Like the seller would have different pieces of cloth and the buyer would cast a stone and would get the cloth where the stone would land. The Holy ProphetSallalaho Alaihi Wassallam has disallowed all such contracts.

After identification of the prohibitions in the current financial system where interest and Gharar (Uncertainity) are a part and parcel of day to day proceedings. The need for a system which eliminated such illnesses was required. Another reason was that, after the jolts of 1930s and other economic crisis of 1970 and now of 2008 that followed, the financial world started talking about alternatives to the present systems of (Communism, Socailism and Capitalism). Though Capitalism is the largest spread system across the globe but by all means its jolting has been witnessed since 1839, 1930, 1970 and 2007. Is it at the verge of its end? Nobody knows but people have started looking for options.

## Islamic Economics

Islam provides an economic system based on rules and principles defined by Islamic Jurisprudence. Human being is just a custodian of wealth and the true ownership is with Allah Tallah. Islamic Economic's point of difference is that it not only deals with the materialistic needs of human being rather it also fulfills the spirtual needs at the same time. The main theory behind the Islamic economics is that money is only a means of exchange (in other words money tends to serve as an intermediary between the transaction of asset) and not a product that can be sold or discounted. Here it is noteworthy that a human being is not the true owner of wealth as it belongs Allah Tallah rather he has been given only the right to use it as the second owner, keeping in mind that he would be questioned on the day of judgement of his usfruct. Islam doesn't deny the forces of law of demand and supply but does emphasis on the consumer as well as the government to abide by the rules of Islam. Islam as a Deen has the capability to accomadate all good things that life has to bring accept those which are outrightly against its divine principles.

To summarise Islamic economics can be defined as the humanitarian goal of achieving the well-being of all members of the human family which cannot be attained by concentrating primlairly on the materialistic needs of comfort and creating maximisation of riches as the core intention of economics. Hence it is part and parcel to raise the spirtual content of well being of the whole society and reduce all symptons of anomie, like family disintegration, heavy interest based debt payments, conflict and tension, crime, alcholism, addiction to drugs and psychological illness, all signifying lack of internal delight and satisfaction in the life of human beings. Captialism similar to socialism, both have fallen short to show the way to their followers such an overall welfare. As a prospective measure, it is seems almost inevitable to put down the outlines of a new scheme of operations which helps maximise human well being as per the divine guidelines of Allah Tallah.

As per (Khan, 1993) that since the unavailibilty of an Islamic society anywhere in the world the Islamic economics at present is scarely able to express or articulate Islamic position on economic issues as per its connotations.

Islamic economics implies a serious execution of the Islamic strategy to raise the spirtual as well as the material well being of all people and to establish socio-economic justice, which is the vital objective of the Islamic message. On the spirtual side, the peace of mind that is fundamental to inner happiness cannot be attained except by increasing the nearness of the human being to his Creator, which Islam is capable of bringing about but secularism doesnot even aspire to. (Chapra, 1992).

## Islamic Banking

Banks serve as the heart of any economy as they pump funds into the economic veins of a country. The four main functions that the bank performs are:

1. lending and deposit business
2. securities issuing
3. asset management and
4. foreign exchange trading.

Trading has been given as an alternative to interest based transactions by Quran e Kareem as mentioned above. In the light of this fact the comtemporary Islamic scholars after reviewing the current financial system have comeup with different modes of financing to fulfill the much needed requirement. In the futher discussion we shall discuss those modes of financing. But first we would define Islamic banking as per the State Bank Of Pakistan.

Islamic banking has the same utility as of conventional banking except that it asserts to function in agreement with the rules of Islamic Jurisprudence, called Fiqh ul Muamalat (Islamic regulations for transactions). The indispensable law of Islamic banking is the sharing of gain and loss and the prohibition of interest and Gharar. The Islamic concepts, that are mainly used in Islamic banking are profit sharing combination of isolated investor and worker (Mudharabah), safekeeping (Amanah), joint venture (Musharkah), Diminishing Musharkah, cost plus profit (Murabahah), asset finance (Ijarah), manufacturing (Istisna) and agricultural goods (Salaam). Islamic banking proposes to a structure of banking or participatory pooling actions that is dependable on Islamic Jurisprudence (Sharia'h) and channeled by Islamic economics. Islamic law prohibits interest the collection and payment of Usury. Islamic law also disallows trading in financial risk (since it is a form of gambling) discussed above as Gharar. In addition, Islamic Jurisprudence excludes participation in businesses which are deemed Haram (a going concern which deals in pork or alcohol). At the verge of 20th century, quite a few Islamic banks were crafted, to cater to this specific banking market. (Hassan, 2002)

In an Islamic mortgage transaction, instead of giving debt to the buyer, money is utilized to purchase the item that is, money is a medium of exchange and not a commodity. Money cannot be rented, is a fact of Islamic Economics. The supplier acts as a direct vendor for the bank, after acquiring the goods the bank proceeds it to the customer at a gain, while allowing the buyer to payback the bank in installments (assets backed financing). However, for any delay in payment the bank cannot charge additional costs as profit or compensation. To mitigate its risk and close in on the vulnerability of the customer's default, the bank keeps strict collaterals as its bail out. After the possession of goods the tangible asset is listed in the name of the buyer, by the Islamic banks. Such a bargain is known as Murabaha.

Likewise Ijara wa Iqtina or Ijara bi Tamleek, which is alternative to real estate capital finance. Islamic banks handle proportionate income financings for means of transportations in a likewise manner (vending the automobile at a price, which is higher than the current value of the asset in the market, to the lessee and then holding up the title of the medium until the pre-agreed proceeds are paid up).

The previous profits are taken into consideration setting up a profit and loss sharing ratio. Consequently the bank's profit on the proportionate income financing is equivalent to a specific proportion of the company's revenues. As soon as the investment amount of the proportionate income financing is reimbursed, the earning-distribution arrangement is terminated. This specific exercise is entitled as Musharaka.

Supplementary to this, Mudaraba is venture capital financing where a talented worksman who provides labor while funding is offered by the bank, so that one executes business on behalf of the other. Such participatory indulgence between capital and labor reflect the Islamic conceptions that the borrower should not absorb the peril/price of a collapse, since it is Allah Tallah who determines that failure or success, and intends that all those involved reap or bear it as per their obligations.

Last, Islamic banking is bounded within Islamically permissible transactions, which eliminate those involving alcohol, pork, gambling, etc. Thus Islamic investing is the only acknowledgeable form of investment, and asset backed transactions are encouraged at the same time the social illnesses are not propped up.

The concepts and financing modes in Islamic banking are as follows:

## Shari'ah Advisory Council/Consultant

Islamic banks and banking organizations that offer Islamic banking products and services (IBPS banks) are required to establish Shari'ah advisory boards/ consultants to recommend them and to ensure that the procedures, activities and systems of the bank comply with Shari'ah doctrine.

## Amanah (Safekeeping)

In Amanah, a bank is reckoned as a warden and custodian of endowments. Person deposits money in the bank and the bank assures to repay the whole amount of the belongings, or any portion of the remaining sum, when the depositor claims it. In this situation the Bank becomes the Amin (the Guardian) while the saver is known as Rab-ul-Maal. In Amanah the bank cannot consume this money until and unless the depositor permits it's Amin.

## Mudarabah (Profit Loss Sharing)

Mudarabah is a form or contract established between an investor and an entrepreneur, whereby the entrepreneur can finance the investments for its business proceedings. Any gains generated shall be distributed between the investor and the entrepreneur as per the consented ratio, while only the investor stands all the losses if transpired, it has to be bared in mind that the due attentiveness of the entrepreneur will be evaluated and in case of carelessness he/she would have to bear the consequences. The profit-sharing maintained until the proportionate income financing is reimbursed. The bank receives its share for the time value of its money through a set proportion in profit earned that is attached to the debtor's profits. (Hassan, 2002)

It is a corporation in proceeds between investment and skill, where one provides funds whereas the other supplements proficiency, expertise and administration. The latter is called as the Mudarib. Any profits accumulated are distributed amongst the participants on a pre-settled ratio, while loss is borne only by the investor.

It is noteworthy that any increase in capital shall be the property of Rab-ul-Maal the capital provider according majority of jurist. For example if the sheep provided by rab-ul- maal investor and sheep gave birth to lamb, the lambs would be in the ownership of Rab-ul-Maal not the Mudarib (entrepreneur). The capital provider earns profit from the business on the basis of providing capital while the entrepreneur gets his share with respect to his efforts and endeavors. (Usmani T. M., 2004)

## Musharkah (Joint Venture)

This conception is normally applied for business partnerships or mutual ventures. The profits made are shared on a settled ratio, while if losses are sustained they will be divided on the equity funds allocation ratio. This model is different from fixed-income endowing (i.e. proceeds of propotionate income financings). The two different types of Musharkah modes are Shirkat ul Ooqud and Shirkat ul Milk as per Islamic Jurisprudence. Further elaborating the types can be divided into specific main categories with further sub types each.

In Islamic finance the things taken into consideration are Shirkat ul Ooqud (Partnership in Trade) and Shirkat ul Amaal (Partnership in Services).

1. Shirkat ul Amwal (Partnership in trade)
2. Shirkat Ul Amal (partnership in services)

Shirkat ul Amwal (partnership in trade) is the mode of partnership where all partners invest some capital into a commercial enterprise. Shirkat Ul Ammal (partnership in services) is the form of partnership where all the partners jointly undertake to render some services for their customers and the fee charged from them is distributed among them accordingly to an agreed ratio. (Usmani T. M., 2004)

Musharkah translates itself into a relationship established under a pact by the joint approval of the participants for distribution of proceeds generated from the multiparty business. Musharkah is the contract through which the Islamic bank present funds, which are assorted with the investments of the company and others. Every contributor of capital is eligible to take part in management, but it is not obligatory to do so. The profit is disseminated amongst the participants in pre-consented ratios, though the negative proceeds are borne by each participant stringently in proportion to respective capital contributions.

## Diminishing Musharkah

In Diminishing Musharakah, the participants create subsistence either through shared ownership of an asset, or in a mutual business associate. The investor tends to sell his share or portion of asset to the partner periodically while the participant tends to share in the profit of the business as per his proportion. The asset is divided into units where as one participant tends to buy out the other participants units through pre agreed mutual consent so as acquire the complete owner this of the asset or business.

It can be also defined as the gradual buyout/sell out of any asset over a period of time, through purchase/sale of units into which the actual unit has been broken down into.

The application of this specific mode of finance has been implied for the following:

* Venture Financing * Project Financing

The application of Musharkah and Mudarabah can be easily applied for the following financing modes such as project financing, securitization of businesses, financing of a single transaction, financing of working capital and not only these but product development of different Islamic banks have innovated various uses of these modes. It is noteworthy that these modes don't need to be used in isolation rather they can be integrated according the business needs of the participants. The flexibility provided by these Islamic modes of financing is by surely the most unique proposition offered in the financial world to date.

## Murabahah (Cost Plus Profit)

This mode of financing refers to the trade of commodities at a cost that includes a profit proportion concurred to by both counterparts. The procuring and vending cost and other costs including the yield margin must be determined at the instance of sale. The bank cannot charge further cost on late payments despite the fact that, the possession of the asset is retained with the bank until the proportionate income financing proceeds are fully recovered.

Factually it means a sale on dually consented yield. In principle, it is an agreement of sale in which the supplier of goods pronounces his expenditure and earnings. Islamic banks have implemented this mode as an instrument of financing. The bank performs this act for a clear-cut profit which is predetermined in advance at the time of sale. The business agreement which is similar to "hire-purchase" contracts for equipment for furnishing of homes or domestic devices that are a norm in North American stores are a real life example of Murahaba. (Zaheer & Hassan)

## Musawamah

Musawamah is a common and customary kind of sale in which cost of the goods to be transacted are negotiated amongst the supplier and the customer without any point of reference to the price remunerated or cost sustained by the prior. This makes it dissimilar from Murabaha as costs are not disclosed. The counterparts confer with each other on the price. All other state of affairs pertinent to Murabaha remains the same for Musawamah. Musawamah can be utilized where the vendor does not or at times cannot ascertain precisely the costs of goods that he is proposing to vend. Both the above mentioned modes of financing are valid for:

- Asset Financing

- Import Financing
- House Financing
- Raw material
- Inventory
- Equipment

## Bai' Bithaman Ajil (Deferred Payment Sale)

This notion suggests to the transaction of goods on a deferred payment, which contains a profit edge consented by both participants. It is similar to Murabahah, except that the customer makes a final installment at the verge of the contractual date settled in the contract. By the relevance of an agreed rate, an Islamic bank can redeem the profit s according to market rates.

## Wakalah (Agency)

A person assigns an agent to undertake transactions on his/their behalf, akin to a power of attorney. Since Islamic banks usually lack the expertise of different trades they usually hire the participative customer as their agent or outsource the purchasing of goods through a well known third party. In both cases the bank incurs a cost of acquiring the expertise of an experienced agent to acquire the said goods for respective trades.

## Qardul Hassana (Supportive Income Financing)

This proportionate income financing is provided on a goodwill cater, and the debtor is expected to repay only the explicit sum sponged. Nevertheless, the participant may possibly, at their respective willingness, disburse an extra amount other than that of the principal (without promising it), this gesture of appreciation to the creditor can not be practiced on regular basis. As it may happen that the debtor does not or can not repay an surplus sum to the creditor, this operation will be treated as a pure interest-free proportionate income financing. Muslims consider this proportionate income financing to be the only kind of proportionate income financing that does not breach the prohibition of Riba. For Islamic Banks all the current account funds are treated as Qardul Hassana.

## Ijarah Thumma Al Bai' (Hire Purchase)

Ijarah (renting) contract is the consent of customer or rather a requisition and the second contract, Bai' (sale/procure); these agreements are embarked upon one after the other in different sittings.

For example, in a car financing product, a customer agrees to the Ijara contract and rents the asset from the owner (bank) at a concurred rental for the decided time by the participants. When the rent period terminates, the second contract comes into effect, which allows the lessee to acquire the asset at a concurred price.

Through this the bank, sells the asset to the lessee, at an agreed price with a yielding edge, the yield margin on the let out is corresponding to the pre-consented rate of return.

It is an agreement of a recognized and proposed usufruct against a determined and legitimate rate of return and compensation in case of services or benefit proposed to be utilized. To elaborate, Ijarah or capital finance is said to be the transmission of usufruct for a cost which is rent in case of acquiring assets and salaries in case of receiving services of individuals.

## Ijarah-wal-iqtina

An agreement through which an Islamic bank vends equipments, land, built structures or other forms of unconsumable goods to the customer alongside a settled rental together with an independent responsibility by the vendor or the purchaser that by the closing stages of the let out period, the title of the asset is shifted to the renter. The responsibility to transfer or the pledge does not become an associated part of the let out agreement, so that the agreement doesn't become conditional. The installments including the rent as well as a part of the principal amount are secured in such manner that the bank receives its primary investment as well as the rentals over the tenure of let out.

This type of contract is particularly reminiscent of contractum trinius, a legitimate strategy exercised by European bankers and merchants through the middle ages that implicated three isolated legal indentures so as to bring about a transaction, to avoid interest bearing loan (something that the Church said was illegal in the light of Bible).

## Hibah (Gift)

This is a gesture of complying with the said conditions without failing at any stage. Hibah is offered willingly to a participant by the investing participant without any pre-agreement and compulsion keeping in mind that no contract has been done in this regard. Hibah generally occurs in practice whilst Islamic banks willingly (voluntarily) reward their customers in form of offering an asset which had been rented by them over a period of time.

## Takaful (Islamic cover against risk)

In present day businesses, one of the customs to minimize the jeopardy of loss owed to calamities, is through insurance. The fundamental concept in the wake of insurance is the distribution of threat, known as risk. In the theory of indemnity where funds are pooled in, in order to help the deprived in the times of need does not challenge Shari'ah; rather it is an act of appreciation.

Conventional insurance engages the elements of uncertainty (Al-Gharar discussed above) within the bond of insurance, gambling (Al-Maisir) is the upshot of the occurrence of vagueness and interest (Al-Riba) in the speculation fund operations of the conventional insurance companies that refuse to comply to the rules of Shari'ah. A realized fact accepted by Muslim Jurists that the procedures of conventional insurance don't comply with the rules and requirements of Shari'ah.

Takaful is an equivalent to the contemporary insurance contract whereby a set of people concur to contribute to a definite risk (for example, loss of inventory through burning of warehouse or loss caused due to natural clamities) by accumulating a precise sum from everyone. As per Takaful if loss is incurred or goods are damaged of any person attached to the group the loss is amended through the accumulated as well as the gains received through investment of these funds in light of Islamic Jurisprudence. (Pakistan's Islamic Banking Sector Review 2003 - 2007, 2008)

Takaful is a substitute form of cover through which a Muslim can benefit the entity besides the threat of loss owing to calamities. The concept of Takaful is not an innovative approach; historically, Takaful had been under taken by the Ansar and Muhajrin shadowing the Hijra (migration) of the Prophet dating back to 1400 years.

Takaful, a design founded on an entity, that has its rules and regulations known as 'Waqf'. Waqf is a body in Islamic Jurisprudence which has its known set of rules through which it helps those people who contribute towards it in their times of need. Hence Takaful by merging the dangers of many inhabitants permits each individual to benefit from the gain granted by the scope of hefty numbers. Here it is noteworthy that the investments made under the head of Takaful are also Shariah compliant and they are bound not to violate the rules of Islamic Jurisprudence.

## Sukuk (Islamic Investment Participation Certificates)

Sukuk is the Arabic name for a monetary certificate but can be witnessed as an Islamic correspondence of debentures. Nevertheless, definitely assured earnings, interest bearing bonds are not acceptable by Islam; therefore, securities that abide with the Islamic law are Sukuk. Sukuk: Plural of 'Sakk', this refers to a financial paper illustrating entitlement of the holder to the amount of money shown on it. The English word "cheque" is a derivative from it. Technically, Sukuk are financial apparatus entitling their holders to some financial asserts.

The Liquidity Management Centre is designed to manage the asset liquidity mismatch, to create a pool of quality assets for Islamic financial institutions (IFIs) and an Islamic interbank money market collaterally with enhancing Shariah credibility and achieving higher returns for investors and shareholders. It also facilitates the pooling of assets acquired from the government, financial institutions and companies to be securitized through the issuance of tradable instruments (sukuk), where Islamic Financial Institutions will invest their surplus liquidity. (Islamization of Financial System in Pakistan, 2003)

Corporate sukuk issuance, reported by International Islamic Financial Market (IIFM), an industry association grew from USD 0.4 billion in 2000 to USD 24.5 billion in 2006 alone. Growth in this specific commodity topped 122% in 2006 alone. (Is Islamic finance at tipping point?, 2008)

## The Need for Tangible Assets

Sharia'h necessitates that investments should only be hoisted for transacting in, or construction of, explicit and certain assets. Transacting in 'indebtedness' is prohibited and since the conventional bond are based on the mentioned criteria issuing of conventional bonds by any means wouldn't be Shariah compliant. Thus all Sukuk returns and cash flows will be based on assets bought or built making all the incom free from interest. It is noteworthy that Equity investment is Sharia'h compliant and adjusts quite good enough among the risk/return guidelines of Islam.

## Islamic Equity Funds

In the Islamic financial market the equity funds for investments are the most swiftly growing sector. To date, there are almost 100 Islamic equity funds operating worldwide. The accumlated assets handled through these funds currently surpass US$5 billion while the growth rate of these funds can be estimated at 12 - 15% per annum. Keeping in view the current prospects of these funds it can easily be said that very soon investments would be diverted towards this specific sector in tandom. Looking at this very lucrative market some of the majors from the west have intiated or are planning to deploy parallel Musharkah certificates. (Zaheer & Hassan)

Islamic funds prospective markets differ in nature; Malaysia accomadates its own in house financial bazaars e.g. Malaysia and Gulf founded investment funds. Since the commencement of Musharkah certificates in the beginning of 90's, it has been observed that Dow Jones Islamic Market index and the FTSE Global Islamic Index Series act as reliable benchmarks for equity investments. Failaka.com monitors the routine bullish and bearish progress of Islamic equity funds and provides a widespread list of the Islamic funds worldwide.

## Istisna' a

Istisna'a is a promise to sell exchange where a article of trade is executed before it's true existence occurs. Istisn'a is an exchange where an order is placed to a manufacture of an explicitly identified article of trade for the procurer. The producer utilizes his possessed material to produce the said goods.

The price of the goods must be predetermined with assent of all participants involved. All required provisions of the goods must also be fully settled at the time of agreement. A specification in this regard is that the time of delivery should necessarily be specified. It is permissible that if the parties agree to an instance of delay in deliverance of goods, the value/fee shall be lessened as per preagreed regulations.

Istisna'a can also be defined as an agreement of contractual nature for producing commodities and supplies, permiting cash imbursement in advance along with future deliverance or a future proceed with a future delivery time frame. Istisna'a is utilized for proficiency of financing the constructor or producer of homes, projects, buildings, bridges, railways, roads and highways.

Istisna' a can used for the following:

- House financing
- Financing of plant, factory and building
- Booking of apartments
- Built operate transfer (B.O.T)

## Bai Muajjal

Literally it confers to a defered sale. Basically, it is a financing tool implemented by Islamic banks which turns out in shape of Murabaha Muajjal. Bai muajjal is an agreement through which a bank yields profit on its procuring cost and permits the purchaser to pay the worth (inclusive of profit) of the asset at a prospected preagreed date in whole or in installments. Both the cost as well as the margin of profit have to be explicitly mentioned and consented. The price of commodity can be fixed, same as the market price or greater or lesser as per forecasts assumed by the participants consent.

Bai muajjal deals in all those instances where quality as well as the intrinsic value can be defined through standardization or benchmarking. This mode of financing facilitates the manufacturers inadequate availibility of capital. Bai muajjal doesn't encompass the assets where features can be compensated for. According to Islamic jurists it is permissible to demand a higher price in deferred payment.

## Bai Salam

The agricultural sector is usually financed through the product of Salam where in the contemprory financial institutions yield profits through trading of cultivated commodities. As per this mode of financing the supplier agrees to deliver precise supplies to the procurer at a prospective date in leiu of an advance imbursement completely remunerated at spot. For the procurement of these deferred goods the price paid is in form of cash or rather at the soonest, in light of the commencement of the contract.

## Parallel Salam

Usually the banks after doing Salam, tend to sell the procured goods to a customer who is obviously not the vendor of salam rather a third party. This contract which is known as Parallel Salam has be an independent contract without any condition attached to the fudamental agreement of Salam. The tie up and operation of this contract cannot be contingent upon the primary contract of Salam. A Salam agreement can not be utilized as a buy back ability where the vendor in the prior agreement becomes the customer or procurer in the latter contract.

## Istijrar

It means purchasing of goods from time to time in different quantities. According to Islamic Jurisprudence it is a contract where a buyer acquires the alleged goods at different instances, for every instance there is no offer and acceptance. There is one prime contract in which the entire terms and conditions are settled. The two kinds of Istijrar which are performed are as under:

- The price is settled after the completion of all procurement transactions
- The price is settled in advance while the procurement transaction takes place at various instances as per requirement. (Usmani D. I., 2002)

Specific Islamic laws pertaining to the validation of the above types are there which are not being discussed here due to the limitation of scope of the study.

## Hawalah (Assignment of debt)

It is an agreement by which a provider of fund is relieved from a receivable by making or transferring his right to another person who becomes responsible for it vis a vis the reassignment of a liability by reallocating the liability from one individual to another - indenture of obligation to debt. The agreement through which the claim of responsibility is shifted. Hawala is the name of this very contract through which debt or claim is transferred.

## Kafalah

Kafalah is a contract in which a third party becomes surety i.e. provides guarantee for the payment of debt on behalf of the debtor. It is a pledge given by a third party to a creditor to the effect that if the debtor defaults in payment of the debt, it will be paid by such third party as Kafeel i.e. Surety.

## Tawarruq

Tawarruq literally means to liquidate. In the fiqhi term it is to sell a commodity at spot after its purchase on deferred basis. In practice, Tawarruq is an arrangement in which one party sells a commodity to the other party on deferred payment at cost plus profit. The other party, namely, the buyer, then sells the commodity to a third party on cash with a purpose of having access to liquidity.

## Project Participation

Project participation in accordance to Musharkah and Mudarabah is based on the following principles:

- This participation means sharing in the business and as for Musharkah sharing in the ownership of the business as per the participation ratio.
- The investor/financer has to bear the loss sustained by the business to the degree of his investment.
- The partners with joint agreement allocate the proportion of profit to each one of the participants.The proportion may diverge from the share of participation. Nevertheless the participant who has explicitly excluded himself from the operations of business can't acclaim in access of the percentage of his participation.
- If loss suffered, shall be borne by each partner in the proportion of his investment.

## Working Capital Investment

The paidup capital of the going concern is estimated the reciprocated assent of the participants. The share of the participants is ascertained by treating the value of business as the share of the participant who wants the Islamic Bank to be its partner in profit and loss of the said business. While the Islamic Bank's share is valued as per its investment.

Participation in the net profit (Proceeds - Principle = Gross Profit, Gross Profit - Costs - Expenses = Net Profit) is allowed as per the pre agreed ratio. The appreciation or depreciation if any of the fixed assts during the financing tenure shall be reaped by the debtor, while at the same the any operational gain or loss will be shared by both parties.

## Export Participation

The functions performed by banks are two in this regard. One it performs as a settlement bank and charges a commission for its processing of documents or it can be deducted from the gross profit as cost of transaction, which is permissible in Shariah. In conventional banking, the bank charges interest for providing export-financing ability to the exporters, which is obviously prohibited.

Islamic banking caters to the Export financing facility with the following bifurcation:

- Pre Shipment Participation
- Post Shipment Participation

Pre Shipment participation can be done through Musharkah and Mudarabah. The specific mode shall be opted as per requirements and investing circumstances of the exporter. Post shipment participation the seller with the bill of exchange can select the bank as his partner if a contract of Musharkah is in place, so the bank can collect receivable on the exporter's behalf. The profit shall be divided through the proceeds received.

## Import Participation

The two types of bank fee or charges leived by conventional banks on the letter of credit (L/C) offered to the importer are:

- LC's service charges indicted by the bank.
- Interest leived on LC's, which are not opened on full margin.

For import financing Musharkah can be used by Islamic Banks. Keeping in view the above, the service charges as in case of export, charging a fee for its processing of documents, it can be deducted from the gross profit as cost of transaction, this is permissible but interest charging is proscribed by Islamic Jurist, so the following is suggested:

- Based on Musharkah/ Mudarabah
- Based on Murabaha

At present Islamic banks are using Murabaha to finance LC. The bank imports the said goods on the behalf or rather promise of the customer who intends to purchase the goods and then sells the goods to the importer on Murabaha agreement.

Though new concepts and innovative products as well as procedures are a part and parcel of Islamic financial industry but the above discussed concepts and modes of financing are fundamentals which represent the Islamic financial industry to date.

## Other types of Financing

A few more modes of financing are:

- Muzara for cultivation of crops.
- Musaja for agricultural goods.
- Mussaqa for irrigational needs
- Hawania for animal farming requirements

At the end of this somewhat comprehensive study of different modes of financing we would conclude by saying that the flexibility as well as the adaptability offered by these modes of participation are such that they can cater to all the needs of the economic world today. Trading is by all means the most authentic and natural way towards earning of money in the Shariah complaint way rather than risk ones belongings in a superficially augmented market because as soon as the air of the balloon give away there is nothing to be found contrasting to asset backed financing.

Here it is indispensable to state that there are people who comment that the end result of both Islamic Banking and Conventional are same but it is noteworthy that Islam is a Deen which asks its believer to follow the divine procedure and looking at end results is not the name of the game. A cow is slaughtered while a cow is sacrificed though both will reap you meat but one is prohibited while the other is permissible. Similarly, the Islamic Financial Products will reap you profit through permissible means of trade.

Now we would be discussing the history and evolution of Islamic Banks. We would be taking into account the international as well as the domestic development of Islamic Banking since their evolution.

History of modern Islamic banking

The first contemporary experiment with Islamic banking was undertaken in Egypt under cover, without foretelling an Islamic image, for the fear of being seen as a demonstration of Islamic fundamentalism which was abhorrence to the political regime. The initiating and ground breaking effort, led by Ahmad El Najjar, took the form of a savings bank based on profit-sharing in the Egyptian town of Mit Ghamr in 1960 - 1963. Though this assessment ended until 1967, by which time there were nine similar banks in that country. The second in line was Interest free Cooperative Bank in Karachi, piloted by Mr. Mangi. Later on different Muslim countries came up with such experiments some of which did fail because of not complying purely to shariah standards but the tables did turn and to date the countries leading the parade are Bahrain, Malaysia, Saudi Arabia and Pakistan. Though the waters are still very shallow for Islamic Banking but this liner has enough weight to cross the ocean and reach the off coasts.

Interest free Economic Experiences

Here we need to keep in account that there have been instances where the experimentation of keeping the interest rate zero have been done, though the element of Gharar was still there. Some of these occurrences are as follows:

1. The first attempt was a revolutionary attempt of Lenin who suggested that the profit or loss should be owned by the investor while the entrepreneur should be given wages for his work rather being charged interest. (Diehl, Proudhon, II, 200, quoted from the compilation "Industry." Articles from HandwArterbuch der Staatswissenschaften, Moscow, 1896, p. 101.)
2. Binary Economics is an innovative concept of economics that approves both private property and a free market but suggests considerable reforms to the banking system. The aspiration of binary economics is to make certain that all individuals obtain income from their own independent capital estate, via interest-free lendings proceeded by the central bank to support the broadening of employee-owned institutions. These advances are intended to: divide infrastructure enhancement expenses, decrease business intialization costs, and extend stock ownership.
3. JAK(Jord Arbete Kapital) operates as an interest-free savings and debt system since 1970. It transformed itself into a bank by acquiring license for banking in 1997. JAK has 35,000 (as of 2008) members and the growth is 5% per year in Europe. The JAK Members Bank, or JAK Medlemsbank, is bank based in Skovde, Sweden. Parallel to Islamic banking the JAK Members Bank does not indict or compensate interest on its proceeds. As for 2008, JAK cooperatives saved 97 million Euros, out of which 86 million were proceeded as loans to affiliates.
4. Japan's interest free elucidation:

In 2003 - 2004, Japan faced a severe recession where the economic pundits suggested that the only way to revive the economy was through bringing down the interest rate to 0%. As the economy was suffering the superficial chronically viable syndrome known as the interest based hazards, the way out suggested was one and that was elimination of Interest. The paradigm shift was not an innovative idea rather it has been accounted for many times in the past by different states but since no long term plan as well as the utilization of funds in trade based products wasn't a norm then, so they shifted back to the old system (The Economy, 2004) which has again jolted in recent times 2007 - 2008.

It is an explanation of a famous Hadith that a Momin (a true Muslim) never gets bitten by the same fissure twice, but obviously it for those who learn from their mistakes not keep repeating them every now and again. The above are some of the experiences mentioned otherwise the concept of interest free economics is a celebrated phenomenon.

## Some of the Achievements reaped by Islamic Banking

Some successes of Islamic Financial Sector made Internationally and in Pakistan for the past two decades are as follows.

Escalation Rate

Last few years have witnessed striking enhancement in Islamic banking through out the globe. Around 200 Islamic banks and financial institutions have emerged. Research reports prove that the escalation rate of these Islamic institutes is 15% per annum. At least 200 billion US dollars are devoted in this system. (Usmani D. I., 2002)

## SBP chief lauds Islamic banks performance

The SBP Governor Salim Raza affirmed that the state wanted to promote Islamic Banking in the country with the intention of augmenting the share of Islamic Banking to 12% of the total assets of the banking sector by 2012. After confirming the above as the Government's target the Governor of the state bank also commended the performance of the Islamic Banks vis-A -vis to their conventional counterparts for the previous couple of years. The Governor also statisticated that the assest of Islamic banking industry had swelled upto Rs323 billion as on September 2009 while their deposits hiked to Rs245 billion. Shedding light on market shares further, the whole assets and funds of Islamic banks gradually cultivated to 5.3 % and 5.5 % of the conventional banking industry, correspondingly. The accumulative augmentation rate of Islamic banking industry remained above 55 % though a healthy growth was wittenessed in conventional banks.

The Islamic Banking branches tallied up to 560 and counting. The central bank supreme official said that the state was resoluted to guarantee a fair-playing turf for the Islamic banking industry. Tags: Islamic banking, banking sector, sukuk (By Dawn Staff Reporter , 2009) (https://www.sbp.org.pk/)

Vatican offers Islamic finance system to Western Banks

The Vatican suggests Islamic finance scheme may facilitate Western banks in calamity as a substitute to capitalism. Author Loretta Napoleoni and Abaxbank Spa fixed income strategist, Claudia Segre in the Daily Vatican newspaper, 'L'Osservatore Romano' suggested that Islamic Financial laws and products could save the day for the Western conventional interest based banks.The Vatican alleged banks should undertake the ethical rules of Islamic finance to refurbish self-reliance amongst their customers at a time of global financial predicament. The daily found itself claiming that the present financial system could only be resurrected by following the just ideology on which Islamic finance stands, this would bring banks nearer to their consumers and to the factual spirit which would mark every financial service, the Vatican's official newspaper Osservatore Romano said in an article. Islamic sukuk were offered as an instrument to fund the car industry and even the next olympics. Islamic sukuk system is akin to bonds of capitalist system. But in sukuk, money is endowed in tangible developments and profit share is disseminated to clients as a substitute of interest earned. (Sera, 2008)reported.

## Scope of Islamic Banking

According to IINA, Islamic banking is now an important segment of the global financial markets as Islamic financial Institutions are diverse and becoming increasingly innovative. They are operating in over 70 countries in one form or the other and the value of their assets has reportedly exceeded US $ 250 billion with a steady growth rate of about 15 percent per annum. (Pakistan: Impact of Islamic Banking Highlited, February 11, 2004)

## Islamic Banking survives the dip

Present international economic mayhem has not sternly affected the Islamic banking industry since it was not implicated in paper-based dealings, which escorted the conventional financial system to the current catastrophe. Said the Business Recorder. It is believed that Islamic banking has been observering an annual escalation velocity of 15 percent on worldwide altitude and Islamic financial institutions observes only asset-based transactions furthermore currently masses are glancing at Islamic Financial System with high optimism and anticipation. (BHATTI, 2008)

## Islamic Banking in United Kingdom

It is a challenge for a new entrant such as the Islamic Bank of Britain to compete in a mature market for banking services with the major conventional banks offering Islamic products, notably HSBC through its dedicated Amanah Islamic finance division and Lloyds TSB. Which entered the market in a major way in 2004, with 17 branches already having trained staff to cater for local demand for Shariah compliant financial products. Being able to offer Islamic deposits and home finance through existing branches is a major advantage, with participating Lloyds TSB branches including Luton, Slough, Birmingham, Basingstoke, Southampton, as well as four in London and four in West Yorkshire including three in Bradford alone. (WILSON, 2007 )

## Forecasts for Islamic Banks

The Islamic financial assets are expected to cross $1 trillion by 2010, as per the recent research report published by Morgan Stanley. Interestingly the conventional banks are increasing their Islamic Banking branches, recognizing the enormous prospective market backed by the unexploited and gradually mounting eagerness for Islamic banking products; hence the force for inflowing this souk is supported by business contemplations in accumulation to religious reflections. (Analysis of Financial Statements Financial Year 2003 - H 2001 2008, 2008)

## Islamic Banking for Agricultural Sector

The State Bank of Pakistan (SBP) has now published 'Guidelines on Islamic Financing for Agriculture' to facilitate the banks extend precise Shariah-compliant products to congregate the financing requirements of the farming society. These 'Guidelines' have been evolved in agreement with stakeholders at the same time as keeping in view the prospective and insistive market for Islamic banking products in the meadow of agriculture sector. The course of action generally swathe Islamic modes of financing such as Salam, Istisna, Musharaka, Diminishing Musharaka, Murabaha, Ijara, Musawamah, Mudaraba, Muzara'a, Musaqa and Mugharasa that can be utilized for summiting the financing necessities of farm and non farm sector actions together with poultry, orchards, livestock, fisheries, etc. (Guidelines on Islamic financing for agriculture issued, 2009)

## Dow Jones Islamic Market World

The Dow Jones Islamic Market World (DJIM World) Index was the pioneer—and relics the first—benchmark of financial presentation for the universal existence of Shari'ah-compliant equities. As the commencement of this comprehensive index in 1999, the Dow Jones Islamic Market Index has stretched out to endow with a wide assortment of benchmarks tracking Shari'ah-compliant securities togethering with indexes for explicit countries, regions, and market capitalization variety.

Effective July 27, 2009, the assortment world for the DJIM Indexes embraces the mechanism of 69 country-level benchmark indexes. A company as an obligation convenes Shari'ah rationals for permissible products, business operations and liability levels. The methodology is approved by the independent DJIM Index Shari'ah Supervisory Board. (Dow jones islamic index).

## Evolution of Islamic Banking

Today, Islamic banking is by no means is a far-fetched dream. Muslims jurists and economists are working on diverse features of Islamic banking. Islamic Banking has now become a fundamental part of the global economy.

As per the statistics of 1998 - 99, the number of Islamic banks and financial institution's number grew to more than 200 across 65 states of the globe with an ample sustainance of US$ 90 billion as its capital, augmenting with a growth rate of 15% p.a. By the year 2000 the Islamic financial business was anticipated to be a US$ 100 billion plus business, which it did achieve. (Usmani J. M., 2001)

Islamic development bank [IDB] Jeddah is a research centre laboring on diverse areas of Islamic banking and economy. The data compilations indicate that there were 176 Islamic Banks and Institutions in the world by late 90's. As per their distribution 47% of these bodies are contemplated in South and South East Asia, 27% occur in GCC and Middle East, 20% are situated in Africa while 6% co-exsit in Western countries. (Usmani J. M., 2001)

Islamic Banking has also attracted the attention of Western central banks like the Federal Reserve Board and the Bank of England, along with international financial institutions like the IMF and the World Bank, and prestigious centers of learning like Harvard and Rice Universities in the United States and the London School of Economics and Loughborough University in the United Kingdom. It has also received favorable coverage in the Western press.

Though Islamic banking, has been existing as an institution for around last 25 years but that doesnot at all mean that interest-free banks have not been unraveled before. Malaysia had one in the mid-forties and Pakistan experimented with another in the late-fifties. None of them survived due to inadequate support. Malaysian government in 1962 came up with the ''Pilgrim's Management Fund'' to assist probable pilgrims accumulate, save and yield profits for their religious journey ahead. The investments bank instituted in 1963 at Mit-Ghamr in Egypt was well admired and flourished preliminary, though it had to close down for assorted rationales. Nevertheless, this trial escorted to the establishment of the Nasser Social Bank in 1972. The bank is still operational, its intentions are more societal than business oreintation. It can easily be concluded that early seventies witnessed the institutional participation.

In 1970, at Karachi, the conference of Finance Ministers of Islamic Countries was called, other than that Egypt (1972) was an exemplary case study, in 1976 at the Sacred city of Mecca Mukaramah the first International

Conference on Islamic Economics was held and soon after the International Economic Conference at London in 1977 were all the happenings which led to the establishment of the Islamic Development Bank the first state owned interest free bank launched in 1975. The theory turned itself into practice and establishment of Islamic Banks was initiated.

The first privately owned interest-free bank, Dubai Islamic Bank, was founded in 1975 by a set of businessmen from various countries. In 1977, two more Islamic Banks were created that is, Faisal Islamic Bank in Egypt and Sudan. Similarly, in the same year the Kuwaiti government was not far behind their counterparts as they established the Kuwait Finance House. In the past twenty-five years since the creation of the first Islamic bank, more than 250 Islamic financial institutions have emerged in financial arena. Although these instituions mostly exist in Muslim countries, other than that there are some in North America, Asia and Western Europe.

Islamic banks have arrived a long distance in a comparatively diminutive time span and have taken over a significant market share from their conventional contenders. Some of the penetration rates of Islamic banking services in Muslim countries are 5% in Malaysia, 12% in Saudi Arabia and 30% in Kuwait. It is anticipated that the Islamic banking industry will be in charge for administrating around 40 - 50% of the entire investments of Muslims globally in 8 to 10 years. It is significant that Islamic banks tend to spotlight on their local bazaars while western organizations such as Merrill Lynch aim the high-net-worth sector.

The pioneers of full Islamization were Pakistan, Iran, and Sudan. Sudan proclaimed Islamization in 1983. A guideline for banking systems was outlined and taxation was also included in this act. The entire banking system took a new turn in 1983 when it was fully Islamized and interest was outlawed. Another political wave hit the country and again the Islamic model failed.

The Malaysian Islamic system is different than the other three models because it does not attempt to fully dissolve conventional banking. In fact, both systems work together. The Malaysian Islamic model incorporated Islamic banking into the financial system and harmonized it with the western practice. This is because an Islamic system should be recognized as a tool for effective financial practice. This smooth implementation is probably the result of Malay's tolerance of other traditions and nations. Unlike other countries, Malay had not attempted to fully Islamize its institutions. The authority promoted its Islamic banking by setting up institutions that operated on Islamic principles. By making credit instruments like bills and bonds Islamic , it opened up a new channel of innovative products for its customers who were previously attracted by Islamization but reluctant to try it again. Universities and research centers were opened up to inform and educate the country of this new method of financing. The result was surprisingly positive both from the Western investors as well as the East.

Bahrain has enjoyed some success in marketing itself as the region's Islamic financial center because of its internationally respected regulatory system. In Bahrain, there is a greater emphasis on investment banking. However, more competition with international banks is expected in the future.

Advocates of Islamic banking argue that many Islamic banks operate according to the profit and loss sharing principle and that the profit-sharing contracts equity are the superior financial security to debt for many rationales including the risk-sharing characteristics of equity Ebrahim and Safadi 1995 . They also debate that by granting long-term financing to growth oriented-sectors of the economy, Islamic banks will prop up augmentation in the Islamic countries Chapra 1992, and Siddiqi 1983 .

Pakistan's Islamic banking concept began as early as in the 1950s when economists were keen on the ideology of Islamic banking. It was the first country to embark upon a full Islamic financial system. Pakistan had been persistent in making this concept work through change and reaffirming measures to achieve its goals. However, twenty years later, the picture had changed when the leaders realized that the country's inherent British system could not be changed. Pakistan was trying to change too much too quickly.

The first phase of the economic reform in Pakistan began in 1979 when Zakat was levied on all savings accounts in various kinds of banks. In Pakistan, we have two very comprehensive reports on Islamic banking system given by Islamic Ideology Council 1980 and the commission for Islamization of Economy in 1992. (Usmani D. I., 2002)

Federal Shariah Court declared that interest based banking is not Islamic and therefore should be banned. Finally, in 1998 it decided to eliminate Riba from its banking system. Since 2001 till 2008 it has been a success story for Islamic Banking overall though the banking sector has been jolted severely by the recession 2007 - 08.

## Islamic Banking Players in Pakistan

To date there are some what 13 Islamic Banks operating in Pakistan which include the merged banks as well as the Islamic operational banks of conventional counterparts. In Pakistan the major Islamic banking players can be identified as follows:

Islamic Banks as on December 2008.

- Askari Bank Limited
- Bank Al-Habib Limited
- Royal Bank of Scotland (RBS)
- Bank Alfalah Limited
- The Bank of Khyber
- MCB Bank Limited
- Habib Metropolitan Bank Limited
- Meezan Bank Limited
- BankIslami Pakistan Limited
- Emirates Global Islamic Bank Ltd
- Dubai Islamic Bank Pakistan Limited
- Dawood Islamic Bank
- AlBaraka Islamic Bank B.S.C(E.C)

(Statistical & DWH Department SBP, 2008)

Since the growth of the Islamic Banking Industry has been nurturing at a staggering rate of 12% to 15% for the past 9 and more years it is perceptible that new emerging banks are just round the corner.

## Boston Consulting Group

As per the world famous Boston Consulting Group (B.C.G) who presented the B.C.G matrix. It can be easily said that Islamic Banking serves as a star in the banking industry today as it has maintained its growth above 10% for the past 9 nine years defying the claims of bullwhip effect ever since its emergence. Now after discussing Islamic Banking and its perks at length I would like to confer to other main component of my research that is consumer financing, the second most important category after corporate sector.

## Consumer Banking & Finance

Banking can majorly be divided into two comprehensive sectors that is corporate and consumer financing. I would futher elaborate on consumer banking only confining to house financing and automobile financing since corporate financing is beyond the scope of the study.

Consumer finance in the majority's wisdom of the expression which relates to any category of lending to consumers.Consumer Financing by its name suggests the interaction between an end-user of fund and an investor or capital provider. Similarly Consumer Banking can be defined as the branch or type of banking where banks tend to extend loans or investments to consumers. Consumer financing means "any financing permitted to customers for their individual, relational or domestic needs". Consumer banking is also known as Retail Banking which comprises of the following operations in the brackets are the prospective alternatives for the conventional modes :

1. Savings accounts maintenance (Participation Accounts)
2. Current or Checking accounts (Qard)
3. Mortgages (Musharkah, Diminishing Musharkah, Ijarah and Murahabah)
4. Leasing (Ijarah, Murahabah)

5. Credit Cards (None)
6. Debit Cards (Permissble without over draft facility)
7. Personal Loans (If asset backed, then allowed)

Further we would be discussing in detail the pre and post scenarios of consumer financing making 2003 the base year of this discussion.

## Consumer Banking in Pakistan

Consumer Financing exclusively embraces credit cards, auto loans, housing finance and personal loans (other than for business purposes). This, (other than personal loans) was a comparatively new sector for Pakistani banks, as the prior restriction on housing finance and lease finance reserved the banks absent from this market fragment. However, banks were permitted to create separate subsidiaries for housing finance and lease finance. This is why many banks established their own leasing, Modaraba and housing finance companies. As a result, consumer finance activities were largely falling in the purview of Non-Bank Financial Institution (NBFIs). With the materialization of the notion of worldwide banking and in a bid to pool accessible fragmented funds, financial sector has observed significant changes since 1997. Banks were buoyant to widen in-house operations to cater to consumer financing products. The SBP, through discussion with stakeholders, has assisted banking sector by making pertinent changes in the prudential system.

Nevertheless, banks usually did not spotlight on consumer credit until 2000 owing to a diversity of causes, including: (1) lack of aptitude and supporting infrastructure for consumer financing; (2) elevated start-up overheads of definite operations akin to credit cards; (3) reluctance to extend long-term loans; and (4) adequate convenience of discretionary assets contributing striking (risk adjusted) proceeds.

It was only 2001, when banking sector facing a liquidity surplus and decreasing profit in their customary business ranks that banks started to heart more robustly on the probable offerings by this comparatively untapped and privileged yielding market sector. As an outcome, Pakistan saw a significant growth in consumer finance over the last few years. Particularly, banks' coverage towards consumer financing amplified to Rs 45.1 billion by end-June 2003, as compared to the mere Rs 6.1 billion by end-June 2000. A break up of the consumer financing by category shows that, by end-June 2003, personal loans (others) were in access of 40 percent of total credit, pursued by the auto finance whereas further products were still in their early life though these too appear to be growing strongly then (2003).

## Credit Cards

History of credit cards dates back to 1966, when the Habib Bank Limited introduced its credit card for the first time. However, the credit card market was quite insignificant, until the mid-1990s, when a foreign bank began actively marketing its credit card. Outstanding financing through credit cards reached to Rs 6.7 billion by end-2003.

## Auto Loans

Although a few banks had been extending auto loans since the mid-1990s, the business segment remained largely in the domain of leasing companies until recently. Over the last few years many banks had initiated car financing schemes and marketing aggressively. Combined net credit of all banks for auto financing reached at Rs 15.8 billion by end of 2003. This is substantially higher in contrast to the cumulative total of mere Rs 3.5 billion in 2001.

## Housing Finance

In sharp contrast to the credit cards and auto loans market where banks were free to undertake these business activities, housing finance by banks was barred until the May 5, 1998, prior to the issuance of a National Housing Policy. Policy guidelines first issued in July 2001 were further liberalized in June 2003 keeping requirements of stakeholders and risk managing capacity of the banks in mind. Another very important development was the Financial Institutions (Recovery of Finance) Ordinance, 2001, which empowered the banks to recover collateral without recourse to potentially lengthy and expensive court proceedings. The investments reached to Rs3.8 by end-2003. This commotion was likely to thrive as diverse banks had tailored their housing finance products according to the targeted groups. The banks are also encouraged to float long-term housing bonds having maturity of 10 year or more (but not less than 10 years) to ensure asset-liability matching.

## Personal Loans

Another important area of consumer finance is the personal loans, which has witnessed tremendous growth over the past two years, with net outstanding credit reaching Rs 18.4 billion by end-2003. Although banks were already allowed to "clean" (uncollateralized) lending upto Rs 0.1 million and Rs 0.5 million (in case of credit cards) to individuals, the real impetus to such loans came during 2002 and 2003, when banks aggressively marketed their tailored products for personal loans.

In sum, besides other factors, this impressive growth in consumer financing played an important role in exceptional net credit expansion by the banking sector during 2003. Furthermore, these activities are likely to record higher growth in future, as the banks build required infrastructure and human resource capacity for this relatively new business area. In this regard, SBP is also playing an active role by making required policy changes to facilitate consumer finance activities on sustainable basis and for prudent risk management. Specifically, the SBP has drafted a set of Prudential Regulations for consumer financing, which is expected to be implemented soon after extensive consultation with stakeholders.

## Consumer Financial Sector of Pakistan

An Islamic Bank also offers consumer banking virtues to its client but the difference is same as mentioned above that is, no advances are forwarded on the basis of interest as well as goods prohibited by Islam are also a limitation.

## Consumer Financing at a Glance

By analysing the above table it can easily be visualised that house financing and car financing tend to dictate the terms as far as the consumer financing sector in Pakistan are concerned. This bulk of almost 53% tends to translate the happenings in the consumer financial sector thats why the further study of these sector would be the focus of the research. Another reason for selecting these sectors is that since they are asset backed financial playgrounds, it would be a level playing field for both contenders that is Islamic financial institution as well as Conventional counterparts. Though the results generated would only pertain to these sectors but due to the size of these sectors it can be suggested that how the consumer financing tends to unfurl over the years in Pakistan and does Islamic Financial sector really affects the cosumer financial sector in Pakistan or is it only a myth?

## Chapter Three: Research Methodology

## Data Collection

In this research secondary data has been used collected through State Bank of Pakistan based on quantitative data of investments done by both kinds of Banks in House and Car Finance sector. Here it is necessary to mention that the data was provided by SBP on the condition where the original data wouldn't be disclosed or published, so due to this constraint the original data has been consolidated and attached, of which the permission was granted. The meetings with the SBP officials and e-mail correspondence led to the suppling of the said data.

## Statistical Technique & Instruments

For the purpose of data collection the State Bank of Pakistan's Statistical & DWH Department was contacted to provide the secondary data pertaining to investments done by Islamic and Conventional banks in the sector of House and Car finance sector from 2003 to 2009. Here the researcher did ask for previous data but was told that the data available was from 2003 June only. To establish different relationships amongst the investment done in the pertaining sector various complied table have also been established with assistance of the provided data. The tool being used was SPSS 13. An Independent Samples T-Test analysis was carried out keeping in view the nature of the hypothesis and the data.

## Operationalization of the Constructs

The methodical variables that have been gathered for processing and interpreting the "Impact" of Islamic Banking as compared to its Conventional interest based counterpart were taken to be four. The first variable was the respective number of for each Islamic and Conventional respectively. The second variable was the specific investments that the banks of each sector made in the sector of House and Car financing sector in Pakistan. The third variable was the coding of data where '0' denoted the investments of Conventional Banks while '1' represented the investments of Islamic Banks. Last and fourth varible's constituents were the specific growth that each sector had as per every six months since July 2004. The growths were calculated by dividing the differences of investments with the financing of the preceding year.

The data includes the following variables:

1. Variable 0001 = NoB = Number of Banks
2. Variable 0002 = CIB = Consolidated Investment of Conventional and Islamic Banks for every six months since July, 2004.
3. Variable 0003 = Codes = Coding or rather differential codes for Conventional and Islamic Banks
4. Variable 0004 = GoB = Growth of Conventional and Islamic Banks respectively.

## Methodology

The data was acquired from the Statistical & DWH Department of SBP, Karachi situated at I.I.Chundrigar road. Though the procedure was a little time taking and few documents of authentications had to be provided the data was finally attained after the approval of the Directors of the respective department through e-mail. This process took around 120 days to complete where as the data was absolutely according to the requirements made. As per the limitation of publishing the detailed data which is not permissible as per the regulatory authority of Pakistan only the consolidated data has been included in this research.

## Data acquiring format

Though a format for acquiring the data was also sent to SBP's department but since the said department was already gathering data on its MS-Excel data sheet for its record the pertaining sheets from June 2004 were e-mailed which the researcher sorted on his part distinguishing the Conventional Banks and Islamic Banks into their respective categories. The format consisted of the following heads:

1. Year of Investment with months identification
2. Name and Mode of Bank
3. Investments made in House Financing
4. Investments made in Car Financing
5. Total investment made in the sector

After acquiring the data the it was consolidated to the research requiring varibles mentioned above as NoB, CIB, Codes & GoB. After the completion of the data required Independent Sample T - Tests were run to first determine the variance differences between the investments made by Conventional and Islamic Banks respectively. In consequence to this following results were obtained.

## Chapter Four: Results And Analysis

To determine the impact of Islamic Banks on the House & Car finance sector Independent Samples T -Test is run on the above data sheet. The results obtained are disscussed as under.

The mean differences in the above table are caused due to the higher magnitude of the Conventional Banks. In the given tenure of 9, six month time spans the average number of banks for Conventional sector was around 28 while Islamic Banks tally remained 10, so due to the indifference of the magnitude as well as the limitation of outreach, the variances were to be analyzed to undermine if the Islamic Banking made an impact or not. For this Independent Sample T - Test were run due to the size of the available data.

The results of Independent Sample T - Test show that the equal variances hypothesis has been rejected due to the value of insignificance which means that there is some kind of impact made by the Islamic Banking sector on the overall House & Car financing segment in Pakistan. Now the question arises that is the impact positive or negative? Has the Islamic sector enhanced growth or rather absorbed the Conventional's customer base? To analyze this perspective of impact we shall run Independent Sample T - Test on the growth percentages witnessed by each of the sectors in these 9 time spans, the results show the following statistics. The results of Independent Sample T - Test show that the equal variances hypothesis has been rejected due to the value of insignificance which means that there is some kind of impact made by the Islamic Banking sector on the overall House & Car financing segment in Pakistan. Now the question arises that is the impact positive or negative? Has the Islamic sector enhanced growth or rather absorbed the Conventional's customer base? To analyze this perspective of impact we shall run Independent Sample T - Test on the growth percentages witnessed by each of the sectors in these 9 time spans, the results show the following statistics.

According to the above stats the growth incorporated by the Conventional sector is 9.3% while the Islamic counterpart has a colossal growth of 29.1% in contrast to its competitor which shows that Islamic Banking has positively affected the House & Car Financing sector in Pakistan.

As for the analysis of variances, for the growth levels in the pertaining sectors the variations can be seen as equal at 90% significance level, since the researcher has set the significance level at 95% the variances are said to be different. Another reason for the variances to be assumed equal is owed to the overall growing sector of House & Car financing sector in Pakistan. Though both the sectors have witnessed over all growth in the respective sector but the huge impact of Islamic Banking can be distinguished comprehensibly.

## Chapter Five: Conclusion

After analyzing the results we can simply conclude that Islamic Banking has directly affected the House & Car financing sector in Pakistan. As well as the impact deposited is enormous and constructive. Though it is early time for Islamic Banking but it has started to show its vibrant color across the sectors of banking especially in the case of House & Car financing sector as witnessed above. It can be also comfortably said that at level ground playing fields it might not serve as a parellel banking option rather a prefferable banking solution to muslims of Pakistan who are looking for Shariah complaint products to fulfill their requirements. As the State Bank of Pakistan aims that the Islamic Banking caters to a 12% share of the whole banking industry by 2012 (IBD, State Bank of Pakistan, 2008 - 2009; IBD, State Bank of Pakistan, 2008 - 2009) but interestingly with respect to House and Car financing sector the Islamic Banking Sector had already achieved that milestone in 2008. Islamic Banks had a market share of 12.25% as of their conventional counterparts in the pertaining sector. Here I would also like to commend the State Bank of Pakistan which has tried to create a level playing field for its Islamic adolescent. SBP (State Bank of Pakistan) has also been recognised for its efforts and has been regarded as the second best Central Bank in promoting Islamic Finance Category pursing the Bank Negara Malaysia for the first position while leapfrogging the Central Bank of Bahrain which was at this position in 2007 (Islamic Finance Poll 2008, 2009). Although SBP started late but is gaining pace and momentum with time. After discussing this fact that Islamic Banks have an impact on the banking sector in Pakistan and that the SBP tends to provide a level playing field for this very industry, there some recommendations and suggestions in this regard for all, that is customers, bankers, Shariah advisors and last but not least the State Bank of Pakistan.

## Suggestions & Recommendations

As a concluding note the futuristic approach as well as the expectation from different participants is discussed to set a anticipated plan for Islamic Banking in days to come.

## Customers/ Consumers

For customers of Islamic Banking it is of ultimate concern that they realise this system is a new kid on the block. Though it is trying to contend with a competitor who is many a times bigger than its own size, in doing so it is bound to face a tough time, it will hit highs and lows of all kinds but in the end it will see through the ordeals faced. So all one needs to do in such circumstances as brand loyal consumer of Islamic Banking is become a part of solution rather than creating old problems with a new prespective. Islamic Banking has the depth vis a vis the magnitude to outrun its competitor only if the level playing grounds are arranged for it to perform. All in all if the customers keep prefering this Islamic mode of Financing it is bound to prosper, the key to success can be only attained by being the part of solution and not vice versa.

## Islamic Bankers

Since these personel are at the operational side of doing things both their word as well as their act carry impact on all the sectors of the industry. To walk on this very thin and fine wire they need to keep their diginity, honesty, ethical instincts and composer at a high. As they say if you point a finger to your brother the rest are directed towards you, yourself. The blame will lead us nowhere as well as authencity of work will be at stake. The higher value we give to our Islamic virtues the better way we would be able to proceed. We have got this chance of proving that Islamic Banking can and will outrun it's counterpart, we shouldn't give it away. As we don't know that whether we may get another chance or not.

## Shariah - Advisors

The authencity of the whole system lies with these authoritarians and since the responsibilty is of the highest cater it requires the untrying effort and zeal to sustain. If at any time the system's survival would be questioned then this sector would be a crucial factor. Due to this high value strategic importance the people serving in this regard should strive forward in understanding both the playing fields at their best whether it be conventional or

Islamic . It has been witnessed that potential Shariah advisors tend to enhance the Shariah complaince simultaneously working out different permissible ways to create compatibility for the operational needs. A well learned advisor has been and will be treated as a great asset for it's Bank.

## State Bank of Pakistan

Uptill now the intent has been very clear and motivating from the central bank which is trying hard to create level playing fields for both contestors. Anyhow the benchmarks as well as the standards have to be made as clear and updated as possible. They should incorporate the day to day requirement as well as collobrate with its other counterparts in tandom to create a globally accessible, trustworthy and reliable Islamic Banking System.

## Researchers of Islamic Banking

Last but the most important of all, the reserchers of this field need to make valiant effort to fulfill the gap and short comings of this system. For this extensive research is the only solution. For example introduction of a standard instrument instead of LIBOR or for that matter KIBOR. Cost Price Indexes was an attempt made, though fell short. Anyhow the researchers are the ones who can transform this system into a preffered system than being a parellel system. Crossfunctional teams of all the people mentioned above will lead to the systems success and being part of the solution can only help us attain the lost glory of excellence.

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