GROWTH OF ISLAMIC BANKING IN PAKISTAN USING AID MODEL

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Abstract

Islamic banking is developing in Pakistan rapidly like all over the world since January 1981 by the structural development made by government. Like other banking authorities Islamic banking authority keep under consideration financial stability. From last thirty years, Islamic banks are increasing in number due to high demand for the products offered by these banks according to Shirah. Now more than 200 Islamic banks provide services according to Shirah to almost 70 nations which not only include Islamic countries but also include many western countries. In Pakistan strength of Islamic bank is analysed through AID model.

Key Words: Conventional Banks, Shariah Complaint, Islamic Banks, Financial stability, AID model

Introduction

There has been done many research work on the development of banking and finance work on the Islamic basis. Many researches have showed that purpose of Islamic banking and finance is different from the conventional banks from both socialism and capitalism view.

Islamic banks run on Shirah in which interest, gambling and sale of prohibited items are not allowed. Due to strong demand of Shirah, Islamic banks are increasing in number rapidly. Now more than 200 Islamic banks provide their services to almost 70 countries which include both Muslim and non-Muslim countries. Overall value of these banks asset value is more than $265 billion per anum with growth rate of 15% per anum. (Hassan & Lewis, 2007). (Hassan & Lewis, 2007) say that demand of Islamic banks is high and how these banks work different from conventional banks.

In Pakistan Islamic banks are on the path of success. Many Islamic banks like Mezaan bank, Burj bank, Faysal bank, bank al Barka are increasing in their size and also their number of customer are increasing. Many commercial banks promotes Islamic product. Like other government, Pakistani government also provide basis for Islamic banking system and also provide infrastructure. Researches have showed that even at the time of financial crises Islamic banking work effectively and increasing the return on asset. Due to availability of highly protected markets, Islamic banks exploit these opportunities more effectively than conventional banks. Islamic banks in Pakistan give a very tough competition to conventional
banks. In many countries, one or two banks work and create monopoly or duopoly thus making profit for themselves. And provide purely Islamic Shirah compliance products.

Now financial crises are due to conventional banking system because these banks increase shareholder wealth through interest. In practical term, Islamic bank is different from conventional banks and the main difference between both banks is interest. Due to more regulatory advantage of Islamic banking products against conventional banking product, Islamic banks get better position in both qualitative and in quantitative term.

**Research objectives**

Purpose of this study is to look in to growth of Islamic banking in Pakistan based on Shirah. Than analysed the result in term of its profits, market share and on deposits.

**Problem statement**

In Islam, profit earning is allowed and considered as a lawful activity. This study is considered to study whether IB are growing in Pakistan or not? For this purpose three variables are taken under consideration.

**Literature Review**

We study performance of the banks on the basis of return on assets in both Islamic and conventional banks, than the results are mixed. Islamic banking are developing more rapidly because of many factor which include liberalization of financial regulation, globalization of financial institute, change in technology, innovation in products. Product innovations helped Islamic scholar to develop new products in Islamic banks and also in insurance.

It is estimated that Islamic banks have almost $250 to $800 billion worth of assets. And almost 300 Islamic banks exist in the worldwide. Islamic bond is increasing in its value to the value of $30 billion. In Malaysia and in Pakistan value of Islamic product gained over 50% share of overall market share. According to (IMF Survey Magazine, 2010) many Islamic banks are work more effectively than conventional banks.

However, when the economic crises arise Islamic banks are effected more than conventional banks. According to (El-Gamal, 2006), Islamic banks are increasing in number due to awareness among Muslims. A lot of researches have been conducted on the religious point of view. From the mid of 20 century concept of Islamic finance and economist is included in the literature. For this purpose many scholars from Pakistan and India have work on this and influence Arab scholars. According to Ayyub 2007 Islamic finance give a different concept in which there prohibition of interest. (Hassan and Lewis, 2007) say that Islamic banks don’t effected by socialism or capitalism society.

According to (Ayyub 2007), will Islamic economics and finance provide alternatives to the world at a large scale? (Hassan and Lewis, 2007) say that many people in the world are trying to understand the concept and operations of Islamic banking and finance. However the matter of IB is still in ambiguity.

There are various information found relevant to Islamic banking and finance. As under Islam, there is prohibition of ribah so Islamic banks have to introduce their product and services which are according to Islamic teaching. There are many product introduced which are in accordance with strict orders of Islamic shirah like Islamic bond (sukak) (Ali and Ali, 1994).

Islamic banking and finance is based on ethics and justice as compared to modern economics. Modern economics is based on just profit maximizing without keeping under consideration moral values. In conventional banking, investors are assured that they will
receive a pre-fixed amount without considering what will happen with their investment, where they are spend. (Lewis and Algaoud, (2001) and Iqbal & Llewellyn, 2002).

Al-Salem (2008) say that in conventional banks many activities which are prohibited in Islam and also not well on ethical basis like gambling is allowed. (Rahman, 2010) say that Islamic banking is based on profit / loss sharing bases which is more acceptable, justifiable and profitable way of doing business. With use of this system one party cannot enjoy profit on the loss of other party. Now economies almost based on interest.

According to Khan and Bhatti (2008), main purpose of investment is to share profit and loss and there is predetermined profit. According to Parekh, Benaissa and Wiegand (2005), say that if look in to present scenario than we can realize that Islamic banks are increasing on a tremendous manner and earn a large amount of profits. Following three aspect effect on Islamic banking performance.

A. Shape Of Market
Factor which impact is include customers profitability, demand for the particular product, labour cost and competition.

B. Business Shape
Business shape also impact, banks which offer its services to retail customers are in more benefit than banks which offer their services to corporate sector.

C. Stipulation Of Islamic Banking
There are different demand structure in different markets for different customers. It is said that Islamic banks charge a fee which they treat as a transaction cost as said by Salem (2008). But some scholar say that banks cannot charge fee but if banks do not charge fee then they will became a charity institute.

Conclusion
1. Suggestions offered throughout this paper be given proper attention for implementation to ensure a sound foundation of IBIs in Pakistan.
2. Differentiated products be developed. Some Islamic Banks have taken correct initiatives in this respect. This areas needs to be logistically well cushioned with demonstrated results.
3. Islamic Banks must show growth with profitability. The top management must evolve the process to translate the above challenges.
4. 15,000 people are needed in the next five years to equip Islamic Banks. In this respect, Universities in Pakistan must respond to this challenge. Curricula must be changed in management education. Higher Education Commission should provide motivation in this respect for Universities to positively respond.
5. Shariah compliant financial services be expanded. Awareness be created in this respect and logistics be developed as cushion to achieve the above objective.
6. The scope of services for users may be extended to such areas as micro finance, agriculture and small & medium enterprises. This will widen the base of socio-economic development in our country and will address to the two vital issues in our country namely, promotion of self-employment opportunities and alleviation of poverty.

Reference


