

SHARIAH AND REGULATORY ISSUES FACED BY INTEREST-FREE BANKING IN PAKISTAN

(Suggestions and Recommendation)

الصعوبات الشرعية و الرقابية التى تواجه البنوك الإسلامية فى باكستان
(الاقتراحات والتوصيات)

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**University of Management
and Technology**



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Islamic Banking**

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ



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MS degree in Islamic Banking and Finance**



**University of Management
and Technology**



**Institute of
Islamic Banking**

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CERTIFICATE OF APPROVAL

DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application for another degree in qualification to this or any other university or institution of higher learning.

This thesis is a presentation of my original research work. Wherever contributions of others are involved, every effort has been made to indicate this clearly, with due reference to the literature and acknowledgement of collaborative research and discussions.

The work was done under the guidance of Dr Talat Hussain, Assistant Professor, Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

Mahmood Ahmad

Date: _____

In my capacity as supervisor of the candidate's thesis, I certify that the above statements are true to the best of my knowledge.

Dr. Talat Hussain

Date: _____

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DEDICATION

I dedicate my research work to my respected parents and all my teachers who encouraged me, supported me and also prayed for me, Thanks to all.”

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LIST OF ACRONYMS

- (AAIOFI) Accounting and Auditing Organization for Islamic Financial Institutions
- (GOP) Government of Pakistan
- (HCF) Hujjaj Compensation Fund
- (HGO) Hajj Group Organisers
- (IFIs) Islamic Financial Institutions
- (IFA) Islamic Fiqh Academy
- (IBI) Islamic Banking Institution
- (IFSB) Islamic Financial Services Board
- (IIFM) International Islamic Financial Market
- (IOSCO) international organization of securities commissions
- (IAIS) international association of insurance supervisors for insurance
- (IDB) Islamic Development Bank
- (IFI) Islamic Financial Institution
- (IBG) Islamic Banking Group
- (KIBOR) Karachi Interbank Offer Rate
- (RSBM) resident Shariah Board member
- (REPO) reverse repurchase agreement
- (SGF) Shariah Governance Framework
- (SBM) Shariah board member
- (SB) Shariah Board
- (SLR) Statutory Liquidity Reserve
- (REPO) reverse repurchase agreement
- (SBP) State Bank of Pakistan
- (TDR) Term Deposit Receipt

Introduction

الحمد لله رب العالمين والصلاة والسلام على أشرف الأنبياء والمرسلين، وبعد

The most prominent areas where Shariah gave a clear statement of its provisions and regulations are financial transactions. The Islamic financial system is very beautiful in its composition, strong in provisions, firm in its principles, to achieve justice and prevent injustice. It is based on strong rules that achieve the goodness and righteousness of Islamic societies and for all humanity if it prefers to act upon it.

Islamic societies lived so much time under the captivity of ideas and financial systems imported from the capitalist west that extended usurious bank system across the Islamic countries, and put the system derived from Western capitalist systems, and remained for decades, until the people have become of two viewpoints about it. Some of them carrying a banner defends it and believes that there is no way for economic progress except usury system, whereas some others rejected the idea of banks altogether, seeing it as incubators for Riba that cannot be repaired. Even that God has chosen and appointed for the reformation of this nation, reformers of scholars and thinkers and traders those stood to reform these institutions and rebuilt them according to the foundations of legitimacy, so there appeared interest free banks that offer various financial services, financing, investment and play their role of financial intermediation according to rules of Shariah, committed to avoiding usury and other forbidden financial transactions. Islamic Finance is being known as an excellent alternative for explaining the structural flaws of interest based system that are only accountable for resent global financial crises.