

**Islamic banker's perception regarding regulatory challenges of
Islamic banking in Pakistan**

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**Submitted in partial fulfilment of the requirements for the
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CERTIFICATE OF APPROVAL

The thesis entitled “**Islamic Banker’s Perception Regarding Regulatory Challenges of Islamic Banking in Pakistan**” by **Ms Rozeen Shaukat** has been accepted in partial fulfilment of the requirements for the degree of MS in Islamic Banking and Finance by the Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

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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 my supervisor Muhammad Mahmood Shah Kahn, Assistant Professor, School of Business and Economics, Former, Director, Institute of Islamic Banking, University of Management and Technology, Lahore, Pakistan.

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

Mahmood Shah Khan

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ABSTRACT

This current study seeks to investigate the regulatory challenges of Islamic banking in Pakistan. The research aimed to examine whether or not regulatory challenges was present among the practitioners of Islamic banking in Pakistan, and if so which dimensions contributed towards regulatory challenges. This study research design was quantitative in nature and survey method was used. The selection of each bank was made through random sampling procedure.

A close ended questionnaire was used to collect data from the practitioners of Islamic banking working in Lahore. One hundred fifty two questionnaires were screened for data analysis. Descriptive and inferential statistics were applied for analyzing quantitative data by using SPSS (Statistical Package for Social Sciences). Descriptive analysis was done for frequencies, percentages, and graphical interpretation to make summaries. Data normality was checked and inferential statistics were used to test the statistical significance between groups of the study.

The study using quantitative technique provided useful insights for factors causing regulatory challenges among IB practitioners. The study results indicated that the raise of employment opportunities is a good indicator but the quality to deal with practical realities of IB, as per Islamic law still challenge for many. For reliable and timely information the practitioners are required to stay informed for quality discourse with IB stakeholders. The results determined that practitioners, having high level of education regarding Islamic banking having more ability to understand and deal with challenges. Liquidity in banks resulted adequate but the issue is to manage excessive liquidity. This issue can be resolved by organizing

Islamic interbank money markets for the utilization of resources, along with establishing Islamic benchmarks, and tax incentives for investors and this cannot be done with the support of regulatory government bodies.

The role of Shariah advisors has high importance as he is the one who procure structure for Shariah compliance activities and resolve issue. Results reported that performance of regulatory structure can be monitored and evaluated through proper Sharaih screening and Shariah based auditing. It was suggested that SBP with the help of Shariah experts should resolve this issue on priorities.

It is imperative to invite and engage academic institutions on board by the SBP and industry for quality research, products innovation and financial engineering for the betterment of Islamic banking industry. This action will also result with adequacy IB services availability in urban and rural areas. For exceptional results, regular training of the staff (Shariah professional and banking professional) was highly demanded through combined efforts of central bank, and academic institution national and internationally. This effort may result with positive direction for harmony and standardization of operating procedures, as well as for improved market development of IB industry in Pakistan.

Serious efforts for the promotion of research culture' consisting empirical evidences of the IB industry was highly recommended. An effective and efficient presence of Islamic banking is recommended along with strong and logical arguments considering practical approaches to attract the potential customers for Islamic banking services.

It is suggested that for development of Islamic banking industry, additional research on the same topic may also be required and it can also be extended for overall Islamic banking and finance industry including capital and financial markets.

The study findings will also be helpful researchers, policy makers and financial institutions to conduct more detailed inquires based on the issues of Islamic banking in Pakistan.

CHAPTER 01

INTRODUCTION

1.1. Introduction

Over a long history of Islamic finance in Pakistan and after its re-launch in 2001, a viable growth of Islamic finance has raised its importance and a serious debate on the stability of Islamic finance and banking is in discussion in Pakistan and all around the globe. National and international bodies of Islamic finance are putting efforts to stable the mechanism of Islamic banking industry. Currently Islamic banking assets reached to USD 2.4 tln (Inciéf Industry growth, 2014) globally that is 12% of conventional banking. It is estimated that nine core markets of Islamic finance are offering Islamic banking products and services at a large pace including Bahrain, Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, Turkey, Kuwait and Pakistan respectively (World Islamic Banking Competitiveness Report, 2016).