

# **CORPORATE GOVERNANCE IN THE ISLAMIC BANKING INSTITUTIONS OF PAKISTAN: WAKING LEGAL AND REGULATORY CHALLENGES**

**By**

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## **ABSTRACT:**

In the last decade Islamic banking industry as a parallel system to the conventional banking system experienced a rapid growth not only in Pakistan but also at global stage. Islamic banking sector has attracted special attention and emerged as an alternative system due to collapses of financial giants in various jurisdictions working under conventional banking system. Pakistan as one among worldwide pioneers of Islamic banking contributed major part in this sector and introduced various structural changes. But there are still vacant spaces which need to be filled. Absence of Sharia-compliant legal framework, weak regulation and issues in corporate governance are posing questions on future targets of this industry. These are major snags in Islamic banking which are causing low level of penetration not only at global scale but also in the overall financial industry of Pakistan. Pakistan as a leader has main responsibility to remove these impediments and to present acceptable robust Islamic banking modal before other jurisdictions.

This paper is discussing in detail these waking challenges which can create many issues in future. It is presenting a brief historical overview of Islamic banking industry in Pakistan. Major aim of this study is to examine various legal, regulatory and governance issues and to suggest various reforms which can be introduced in this sector.

## **INTRODUCTION:**

Islamic banking industry is showing continuous growth in the presence of current global financial crisis and debacles in the financial sector of various jurisdictions. Developing country like Pakistan and many other countries are forecasting high targets in this sector. Islamic banking is not only for certain community or sect. Asset based and interest free characters of Islamic banking are attracting various non-Muslim countries due to failures of big giants in conventional banking. Financial hubs like UK and Singapore are also introducing amendments in their legal and regulatory framework to inject these institutions in their overall financial sector (Imam and Kpodar, 2010). Presently overall assets of Islamic banking at global level have reached at USD 1.2 trillion (The Economic Times, 2011). Pakistan as one among worldwide pioneers of Islamic banking has contributed major part in this sector and also introduced various structural changes (Rammal & Parker, 2010, Khan and Bhatti, 2006: Ahmad, 1995). But unfortunately governance in Islamic banking institutions is a largely ignored area because the researchers and policy makers have main focus on the development of features of Islamic financial products. These include profit and loss sharing products (*Mudaraba and Musharaka*); mark-up based products (*Murabaha*); leasing (*Ijarah*); and Islamic bonds (*Sukuk*) (Rammal, 2004). In addition emerging legal and regulatory issues are also posing points of concerns and have strength to slow down current growth and to make future targets difficult. State Bank of Pakistan (SBP) as a regulator of Pakistani banking sector expecting 12% share of total Pakistani banking industry, 1200 branches and assets around one trillion rupees (approximately USD 11.5 billion) in year 2012 (State Bank of Pakistan, 2008a) . But in the presence of major snags there is question mark on these goals.

This paper is examining these waking challenges which can affect this sector in future. First part of this paper is presenting a brief historical overview of Pakistani Islamic banking institutions. Next two parts are discussing the governance, legal and regulatory issues by pointing out various weaknesses. Fourth part is suggesting some reforms which can be introduced in Pakistan in order to present best modal before other countries as a leader.

## **ISLAMIC BANKING INSTITUTIONS IN PAKISTAN: A HISTORICAL OVERVIEW**

Pakistan is the only country in the world which came into being in 1947 on the basis of religion Islam and declared as Islamic Republic under Article 1 of *The Constitution of Pakistan, 1956*. In

*The Constitution of Pakistan, 1962* country was declared as republic only but made again Islamic republic under Article 1 of *The Constitution of Pakistan, 1973*. Islam as a state religion of country was recognized under Article 2 of same document (National Assembly of Pakistan, 2010). Right after from independence various important steps were taken to form financial system of Pakistan on Islamic basis. Islamic banking as a major constituent of this system emerged due to economic, religious and constitutional needs of Pakistan. Islamic banking is a Riba (Interest) free banking. Current as well as all previous constitutions of Pakistan incorporated provision of elimination of Riba (interest) as an important objective of the state policy. Riba is not allowed under Islamic economic jurisprudence and considered as major sin due to its character of unjust gains in trade or business through exploitation (Thomas, 2006).

To eliminate Riba in Pakistan major efforts were started in 1970s by prohibiting interest bearing transactions from the operations of specialized financial institutions. In 1980s important practical steps were taken by introducing interest free banking in conventional commercial banks (State Bank of Pakistan, 1984). To get sustainable structure of Islamic banking various arrangements were made such as amendments in legal framework of banking sector, establishment of separate interest free counters in all commercial banks, launching markup based financing for all sectors as well as for individuals, introducing new products and new modes of financing in various categories. During this period banks were prohibited to accept any interest bearing deposits and new terminology of *Profit and Loss Sharing (PLS)* was introduced (State Bank of Pakistan, 1984). This system showed satisfactory results but two important areas like government borrowings and foreign exchange was left unaddressed. In addition absence of evolutionary approach, rigidity, no mechanism of Sharia (Islamic Law) compliance and less attraction of stakeholders became fundamental reasons of low level performance (State Bank of Pakistan, 2008a).

In 1990s *Enforcement of Shari'ah Act 1991* was promulgated in which Shari'ah was declared as supreme law of the country under section 3. In the same year overall set up and procedures adopted under new arrangements by banks for Islamic financing was challenged in *Federal Shariat Court (FSC)* in the case *Dr. Mahmood ur- Rehman Faisal etc. v. Secretary Ministry of Law, Justice and Parliamentary Affairs, Government of Pakistan, Islamabad etc. (1992)*. Under constitution of Pakistan role of FSC is to bring all Pakistani laws in conformity with the injunctions of Islam (National Assembly of Pakistan, 2010). FSC examined the whole matter and

declared it un-Islamic due to unclear mark-up based system of financing. Government and various banks collectively took matter before the *Shariat Appellate Bench (SAB)* of the *Supreme Court of Pakistan (SCP)* in the case *Dr. M. Aslam Khaki etc. v. Syed Muhammad Hashim etc* (2000). But same verdict came and SCP rejected the appeals. In the judgment, SCP directed the government to bring radical changes in legal framework in conformity with the Sharia. In addition SCP also ordered to form *Commission for Transformation* of whole system as well as establish two *Task Forces* for the implementation of process. Later this decision was set aside regarding transformation of whole system in review petition in SCP and remanded back to FSC in the case *United Bank Ltd etc. v. Messers Farooq Brothers* (2002). Nevertheless government and SBP advanced to encourage this sector in parallel with conventional banking.

In 2001 SBP re-launched Islamic banking in the country having gradual developmental plans by setting up subsidiaries of existing banks, specifying branches of commercial banks and setting new full-fledge Islamic commercial banks (State Bank of Pakistan, 2008a). *Al Meezan Investment Bank Limited* converted itself to first full-fledge Islamic bank as *Meezan Bank Limited (MBL)* under new criterion issued by SBP and declared as modal premier bank in this sector. In the same year SBP established *Islamic Banking Division* in *Banking Policy Department*. In 2002 amendments in *Banking Companies Ordinance 1962* were introduced in order to strengthen Islamic Banking system. Next year SBP issued criterion to establish private Islamic banks in the financial market (State Bank of Pakistan, 2003). In order to strengthen regulation of this sector a separate *Islamic Banking Department (IBD)* was established in 2003 (IBD, 2011). Currently IBD is doing excellent work with the vision *to make Islamic banking the banking of first choice for the providers and users of financial services*. If we look at the industry progress reports issued by SBP relating to Islamic banking industry, we can say that this sector has made remarkable achievements in the overall banking industry of Pakistan. Share of this sector in total assets of overall banking industry has increased from 0.5% in 2003 to 6.7% in 2010. Deposits share in industry has jumped from 0.4% in 2003 to 7.2% in 2010. Net financing and investment has showed an excellent boasting figure of 49.8% growth in last quarter of 2010 with 6.2% banking industrial share in 2010 as compared to 0.5 % in 2003. Currently there are 479 branches of five (5) full fledge Islamic banks in Pakistan namely Meezan Bank Ltd, Al Baraka Bank (Pakistan) Ltd, Bank Islamic (Pakistan) Ltd, Burj Bank Ltd and Dubai Islamic Bank (Pakistan) Ltd are providing Islamic banking services to their customers (State Bank of

Pakistan, 2010). In addition 223 Islamic banking branches of twelve (12) conventional banks are also working in this sector (State Bank of Pakistan, 2010). SBP have plans to double these figures in next few years in order to increase share of IBIs in overall banking sector.

### **QUESTION MARK ON CORPORATE GOVERNANCE:**

Subject of governance in the Islamic banking institutions is quite new issue in the current debate of corporate governance in financial sector. Various guidelines and codes all around the world have formulated and introduced to promote good standards of corporate governance.

Pakistan as a major developing country has also taken important steps in corporate governance. First corporate governance code in Pakistan was promulgated in Pakistan in 2002 by *Securities and Exchange Commission of Pakistan (SECP)*. SBP made it as part of various regulations and stock exchanges adopted this code by incorporating it in listing regulations. Major aim behind the introduction of this code was to strengthen governance framework in corporate sector of Pakistan. The code deals with the matters relating to board of directors, management, financial reporting, corporate ownership, audit-committee, internal audit and external audit (Securities and Exchange Commission of Pakistan, 2002). But unfortunately this code does not cover Islamic banking industry and only deals with the governance issues of conventional banking sector and non-financial sector. Islamic banking industry has its own governance framework and follows *two tier approach* (Aldohni, 2008). Under this approach every Islamic banking institution contains an extra supervisory body with the general operational or conventional board of directors as in conventional banks.

All the actions of Islamic financial institutions are guided by this religious control body known as Shariah Supervisory Board (SSB), which consists of a number of Shariah advisors (Rammal, 2006). SSB makes sure that the operations of financial institution are in conformity with guided principles of Shariah (Islamic Law). In other words it is also called as religious audit of all accounts (Karim, 1990). Main functions of SSB are to issue formal legal opinions, review dealings, to hold meetings with managers, respond enquiries of management and to prepare contracts (Banaga et al, 1994). This kind of board in Islamic banking organizations are formed to act as an internal control body and to enhance the credibility of the bank in the eyes of its customers (Aldohni, 2008; Algaoud and Lewis, 1997). This board is considered as supervisory board but in reality this board has indefinite powers in operations too. They can reject any

product and decision made by operational board. In Pakistan minimum one member works as Sharia advisor (State Bank of Pakistan, 2008b). This is clear indication of powers in one hand relating to religious rulings. Sharia board can be set-up at the bank's discretion but with the approval of SBP (State Bank of Pakistan, 2008b). Mostly banks in Pakistan are family owned and governance of these banks is in the hands of these charismatic leaders. Appointment, term of reference and termination are in the hands of board of directors (State Bank of Pakistan, 2008b). In majority boards of financial institutions they have complete decision making powers. Hence these leaders have unprecedented influence on SSBs in formal way through board which poses questions on independence of these advisors. As a result interests of various stakeholders including minority shareholders and depositors are put in risky activities. Absence of balanced powers between both boards is a potential problem in Islamic banking governance framework of Pakistan. Both boards have different targets and tasks in the same organization. But both always try to overlap the powers of each other. In future this issue can affect this sector at more extensive level when share of this industry will increase in overall financial sector of Pakistan. Any wrong decision regarding deposits, loaning sanctioning policy or risk taking activity can put in danger the goodwill as well as interests of various stakeholders in Islamic banking Institutions (IBIs) of Pakistan. Hence there should be clear separation of powers between both boards.

There are various other issues in the appointments and workings of SSBs. In 2004 SBP issued a circular titled *Fit & Proper Criteria for Appointment of Shariah Advisors* to tackle with this problem (State Bank of Pakistan, 2004). Various amendments were also introduced in it with the passage of time and continued to add more principles. Currently this document states eight essential requirements to become a member of SSB in any IBI (State Bank of Pakistan, 2007a). *First two parts* of this document deals with the minimum qualification and experience in which every prospective member is required to have at least four years of experience in religious rulings or five years experience in teaching, research or development of banking and finance. Darse-e-Nizami (course in religious schools of South Asia) with bachelor degree having sufficient understanding of financial aspects or post graduate degree in Islamic jurisprudence with banking and finance are educational requirements. In the first case familiarity with banking industry has not been made compulsory element. This is major weakness in this document which is creating various issues and gaps between bank staff and Sharia advisors. If any IBI wants to develop its banking product than lack of knowledge of such product by Sharia advisor generate

the potential approval hurdle in upcoming product. On the other hand it is compulsory for every IBI to get clearance from its SSB before offering any product to general public. *Third part* of this document gives unlimited discretion to SBP to relax rules of education and experience which can raise governance issues in future like influential role of central bank on decision making in SSBs and lack of homogenous products in market due to different religious rulings in product development. *Next three parts* of this guideline requires that every Sharia advisor have elements of impeccable track record, solvency, integrity, honesty and reputation. But no point in this document has been mentioned to check and measure these required elements. *Seventh and Eighth* parts are considered as most important parts relating to corporate governance in this document which requires that no member should have conflict of interest and it is essentially for advisor to submit a declaration under section 33A of Banking Companies Ordinance, 1962 (State Bank of Pakistan, 2007b) to maintain fidelity and secrecy. In the provision of conflict of interest every Sharia advisor working in board of Islamic financial Institution (IFI) has been prohibited to act as advisor in the board of other IFI. But in reality SBP has allowed itself such conflicting interest by allowing these advisors to work in central Sharia board of SBP. Central Sharia board consists of five members. Two members in this board are Sharia advisors from IBIs of Pakistan while remaining are as one chartered accountant, one lawyer and one banker (State Bank of Pakistan, 2008a). Due to this permission Sharia advisors have also ignored prohibitory guideline of SBP to act as advisor in other IBI (State Bank of Pakistan, 2007a) and still many members are working in more than one IBIs. It gives the chance to access the proprietary information of other, possibly competing institution (Grais and Pellegrini, 2006). This is clear violation of regulation issued by SBP and against the general principle of expectations of unbiased and independent advisor. Other reason behind this attitude is the shortage of appropriate Sharia scholars in the field of banking and finance. SBP has amended the provision of conflict of interest in September 2008 to refrain from this attitude but there is need to do long-term planning to get permanent solution of this problem.

Various problems at management level like lack of knowledge about Islamic principles, training gap between SSB and management, influence of management on Sharia advisors are serious concerns of corporate governance in Islamic banking institutions. Managers have no such qualifications and experience to deal with the Islamic banking products. Generally persons having conventional banking experience are hired and no training is provided to such

individuals. In result these officials failed to deal with the customers who want to run their financial operations through Islamic banks. Moreover problem of disagreement with Sharia advisors also leads to delay in clearance and introduction of new financial products in market. Shortage of professional educational institutions in Islamic banking industry is a biggest reason of this issue in Pakistan. Other countries are trying to improve these arrangements. In Britain there are 55 colleges and professional institutions offering education in Islamic finance but only a handful of such institutions in Pakistan (Beckford, 2009). In Pakistan, SBP and only few other institutions are involved in this sector which is not considered as sufficient according to market requirements.

Full disclosure and transparency are essential to form robust corporate governance. It is need of hour to focus on this issue especially in Islamic banking sector of Pakistan. According to regulatory guideline of central bank of Pakistan every Sharia advisor has duty to prepare Sharia compliance report regarding operations of organization and submit it to SBP with annual accounts (State Bank of Pakistan, 2008b). SBP does not clearly require from these institutions to publish all religious rulings (fatwas) relating to various transaction issued by SSB. It poses a question on transparency of process of such rulings. Publication of such internal activities will give an arrangement for public education and enhance confidence among investors. Lack of independence and influence of operational board on Sharia advisors are impediments in way of discloser and transparency. This leads to loss of shareholder and stakeholders confidence (Grais and Pellegrini, 2006).

#### **LEGAL & REGULATORY ISSUES AND FUTURE CHALLENGES:**

Islamic banking institutions in Pakistan emerged without clear legislative and regulatory framework. But due to non-interest based character attracted society at large to use services of this sector. Islamic banking re-launching in Pakistan brought new pragmatic approach and discarded regulatory approach. This new approach effected legal and regulatory developments at larger extent. Currently Islamic banking sector is showing remarkable figures with distinctive features as compared to conventional banks but in future problems are clearly evident in legal and regularity matters. Therefore it is time to rethink beyond the simple extension of existing legislation and regulation applying to conventional banking institutions (Grais and Pellegrini, 2006).



Absence of appropriate statutory laws is creating serious concerns and adding enforcement costs of financial transactions in Islamic banking industry in Pakistan. Currently there is no statutory law in the country which deals with the establishment and workings of Islamic banking institutions. A full fledged sector is working under few guidelines, directives and circulars issued by central bank of the country. Laws dealing with the conventional banking sector have been extended to this newly formed sector. On the other hand Banking Companies Ordinance 1962 as a formal law deals with the operation of conventional banks only. It is also considered as outdated law which only dictates banking sector to make banking business according to Islamic principles but does not mention the mechanism for this sake (State Bank of Pakistan, 2007b). Legal developments relating to Modaraba business have only been made in the shape of Modaraba Companies and Modaraba (Floatation and Control) Ordinance 1980 but statutory laws relating to other banking products are absent.

Moreover presently there is no statutory law in the country which deals with appointment, remuneration, removal and operations of SSB which is a major distinctive feature of Islamic banking institutions. SBP has granted these powers to board of directors in its Shariah compliance guideline (State Bank of Pakistan, 2008b) which has comply and explain approach. Such discretionary nature and absence of formal law gives freedom to Sharia advisors to work according to their will. Therefore they have involvement in the matters relating to conflict of interest, wrong disclosures and insider dealings in these institutions. In addition no law prohibits family controlled boards to exhibit institutional power on Sharia advisors. As a result control of this sector is in few hands. Such arrangement endorses an unaccountable structure of corporate governance in Islamic banks of Pakistan.

In Pakistan various corporate, commercial and banking laws have also been narrowly defined and only cover conventional business. For example various provision in Companies Ordinance 1984 states the rights, duties and liabilities of directors in a corporate entity but do not discuss the aspects of Sharia board members who also act as directors in parallel board with ordinary operational board . An effort has been made to address this problem by SBP but it only deals with subjects of product approval, reporting, access to information and relation with other advisors (State Bank of Pakistan, 2008b). These have not been comprehensively discussed and missed various elements like relation of SSB with organization, operations of SSB, relation with management and working with co-advisors in matters relating to Sharia rulings.

Increasing banker-customer disputes and Non-performing loans in the environment of continuous expansion in Islamic banking sector also putting question mark on current judicial arrangements in this field. In 2001 separate banking courts having special nature were established in Pakistan under Financial Institution (Recovery of Finances) Ordinance, 2001. Sole objective of this Ordinance was to provide a speedy summary procedure for the recovery of loans, advances, credits and finances extended by the financial institutions operating in Pakistan to their borrowers and customers (Chohan and Chohan, 2011). But unfortunately these courts have failed to meet the needs due to narrow scope, burden of work, procedural impediments and low level of performance. In addition problem of inexperienced and unqualified judges in the matters of Islamic banking also create backlog of pending matters in these courts. Currently there are only 29 banking courts in Pakistan working for overall banking sector of Pakistan (Chohan and Chohan, 2011). Non-Performing Loans (NPLs) are continuously increasing and showing a figure of Rs.594 billion of overall Pakistani banking sector (State Bank of Pakistan, 2011) including over Rs 13 billion in Islamic Banking (The News, 2011). It is not possible for these limited courts to resolve matters present at such extent. Disputes related to Islamic banking are presented before the same court and judge as the conventional one while the nature of the legal system of Islam is totally different (Karimi, 2007).

SBP as a regulator of Pakistani Islamic banking sector has played a pivotal role. SBP has issued various guidelines and regulations for this sector through specially formed Islamic Banking Department (IBD) as discussed in proceeding parts of this paper. But there are still many regulatory issues which are calling for special focus. These can be resolved by keeping in view market situation, international guidelines and Islamic norms. SBP has formed a central Sharia Board to standardize Sharia interpretations, monitoring of Sharia compliance and to settle Sharia disputes. Main motive behind this board is to achieve humanization and convergence in Sharia rulings. But problems like less powers and conflicting interests prohibiting it to work efficiently. Currently Sharia advisors are allowed to work in the central Sharia board in SBP which is against the provision of conflict of interest. When at the same time advisor will work in both boards then matters will not remain confidential. To make sure independence well rewarded and independent Sharia advisor are required at central board.

Absence of standard Islamic banking products is another issue in IBIs. Application of Islamic laws varies across different IBIs (Rammal & Parker, 2010). Inconsistent interpretation of Islamic

principles and diversity of jurisprudence are the biggest reason of this problem. Different schools of thoughts like Hanfi, Hanbili, Maliki and Shafi have different interpretations of Quran and Sunnah. SBP has issued a document regarding Islamic banking products in order to bring consistency and to resolve this issue (State Bank of Pakistan, 2009). But problem still lies at the development of products because it is in the hands of SSB. In addition Islamic banks have tendency to use bench mark of conventional banks which led to confusion and uncertainty in the minds of the perspective customers about Islamic banking. Tight regulation is required from central bank to address this issue and in order to differentiate products of both sectors.

### **NEW STEPS FOR NEW FOUNDATION:**

We have to take some decisive steps in legal, regulatory and governance field of Islamic banking sector of Pakistan to promote healthy competition and efficiency. Sharia-compliant legal framework is the key factor to extend its outreach and to bring at the level of conventional banking (Karimi, 2007).

Islamic banking is relatively a new area therefore new laws and regulation will be prefect option for this sector. Codification in form of formal law regarding criteria to establish new institutions, conversation of existing institutions, permission to form subsidiaries of conventional banks and to open stand alone branches are necessary in order to create judicial enforcement power on the activities of these institutions. As a result there will proper implementation of Islamic banking and financial contracts (Karimi, 2007). Strong laws and regulations to penalize board and management in case of interference or to put influence in matters of Sharia board should be introduced. Furthermore law relating to fines and punishments should be imposed on advisors in case of untrue statements and wrong disclosers.

For this purpose there is need to introduce amendment in laws relating to banking organizations. Part I of the Banking Companies Ordinance, 1962 dales with the aspects of conventional banking and ignores the Islamic banking modal. Section 7 and 9 in this part have narrowly been designed and does not prohibit organizations from interest oriented activities. In addition these provisions also prohibit banking organization to own property which is against the Islamic principles of Ijara, Murabah etc. Legislatures have to accommodate these new concepts according to guidelines issued by international Islamic financial agencies (like IFSB, AAOIFI etc.) in order to bring consistency. It is need to lay legal and regulatory foundation in such a manner it has broad

acceptance not only in Islamic countries but also in other common law as well as civil jurisdictions. Convergence on interpretations of Islamic products and services will facilitate to resolve this matter.

In various jurisdictions Islamic banking is considered as more risky than conventional banking due to unclear returns on investment. The fear of loss is the biggest barrier to deposit mobilization in Islamic banks (Karimi, 2007). Central bank should pursue risk measurement approach to supervise risk taking activities of Islamic banking institutions. Deposit protection can be a good option to create confidence among investors and to remain safe from any banking failure. Establishment of deposit protection fund to protect deposits has become a common answer in addition to increased regulation and supervision (Chohan, 2010). Deposit protection in banking institutions is major lacking area in Pakistan. At this initial phase of Islamic banking it is vital to introduce strict deposit protection scheme by promulgating a comprehensive law in Pakistan.

New corporate governance code is a need of hour to promote good standards of governance in the corporate sector of Pakistan. There should be a comprehensive code covering all aspects of financial and non-financial sector. In Islamic financial sector it should have guidelines to implement provisions relating to selection, dismissal, remuneration, rotation and to diffuse the clause of conflict of interest in SSBs. In this code role of implementation of Sharia ruling should be assigned. For this sake Sharia compliant committee will be best option in the board. There is also need to add governance committee in the overall governance frame work to make sure implementation of governance standards in Islamic banking institutions.

Central bank and government has to play pivotal role to answer the dilemma of shortage of Sharia scholars in Islamic banking institutions. Currently there is no option to use experienced and qualified available Sharia advisors but for future this shortage will be at more extent. Therefore right now we have to take practical steps in this regard. SBP has to devise policy with the help of international organizations (like IFSB, AAOIFI etc.) to form and promote new educational institutions to produce new Sharia scholars. There is need to establish chain of accredited Islamic banking educational institution across Pakistan with the vision to train upcoming as well as current business leaders relating to interpretations of Islamic principles in Islamic jurisprudence and commercial aspects. As a result new Sharia advisors and managers

will emerge in Islamic banking industry that will be able to handle operations of these institutions in better way. In addition these institutions will be in a better position to launch research and development arrangements. For this government and private entities should invest in this sector. Pakistan can collaborate with other countries like Malaysia, Bahrain and UK that have invested considerable resources to establish such institutions.

Supporting institutions like public rating agencies, Islamic banking courts, chartered audit firms, independent consulting companies, law firms, and supporting financial media are also need of hour to form positive climate and to create confidence among investors in this sector.

## **CONCLUSION**

In conclusion we can say, historically Pakistan has introduced various reforms in Islamic banking to present best modal of this sector before other counties of world. But currently Islamic banking institutions in Pakistan are not at mature level. Therefore at this nascent stage legislature, government, regulator, judiciary, researchers, practitioners and educational institutions have to play their active role to establish strong and sound base for this sector. Constraints like limited pool of Sharia advisors with divergent views, balance of powers between dual board structures, inefficient management and discloser issues are calling for immediate response in corporate governance. In addition, absence of strong legal and regulatory issues can stifle the penetration of Islamic banking in overall financial sector of Pakistan. Therefore there is need to vanish or overcome these impediments to make it exemplary and competitive industry. For this sake new laws and corporate governance code covering all aspects of Islamic banking can be the best options in Pakistan. Tight regulation and supporting institutions can also help to get future targets and challenges in this sector. It is need of hour to take instant action in these fields to attract more investment in these institutions in present crisis which is wreaking havoc in conventional banking.

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