

THE PREVALENT PRACTICES OF ISLAMIC BANKING

By

Syed Nayyar Azam Saifi
Muhammad Zeeshan Farrukh

Abstract

Islamic Financial Industry is experiencing a good high pace and many Islamic financial products have been introduced in a very short span of time as compared to conventional financial products but in fact the present prevalent Islamic financial system, around the world, has been developed keeping in view the products of conventional banking in order to attain same results/profit margins in a Shari'ah Compliant way. Consequently, the product becomes Shari'ah compliant but the core attributes of Islamic Economic System i.e. Justice and Social Welfare etc. are overlooked by the Industry. In other words, the conventional thinking of banking has an existence in Islamic Banking and only profit maximization concept is being considered rather than the concept of profit maximization with social welfare. This paper discusses all of such concerns and highlights the flaws and issues in the prevalent Islamic banking system and proposes suggestion/solution in this regard. The current depression in the Capitalist System of Economy has proved that the only viable alternative and solution is the economic system derived in the light of Qur'an and Sunnah. Over the past few decades, all the efforts were devoted to Islamize the current concept of conventional system. A model for Islamic Banking has been suggested that would be independent from the systematic mode of conventional thinking and regulations. The dissemination of charity, accrued by the Islamic Banks is a matter of great concern that fails to create a just society which is the major purpose of Islamic banking.

Controversy About Bank Job

By

Uzair Riaz Cheema

Abstract

Choosing banking as a career seems to be the rising trend among job seekers. The prohibition of riba has direct implications for the banking and financial industry. The aim of this study is to uncover the awareness percentage on prohibition of interest/riba/usury in Islam among bankers or bank employees and to find the perception of the bank employees about the prevailing myths and conflicts about the bank job. A survey was conducted by using structured questionnaire. The required information was collected from bank employees who were selected from both public and private sector banks. The level of satisfaction among bank employees was measured. The research was designed to estimate the desire among bank employees to quit working in banks. The results of the study reveal that a large percentage of bank employees are aware of the prohibition of interest in Islam. Most of the bank employees do not believe that working in banks is forbidden in Islam and tries to validate and authenticate their job with self-constructed rationale.

Role and Functions of Central Banks in Islamic Finance

By

Salman Ahmed Shaikh

Abstract

The rapid growth in Islamic finance industry urges us to not only look for alternatives in the Islamic commercial banking, but also focus on the regulator and its role and functions to enable it to work in conformity with Islamic principles. This study reviews limited, but precious academic literature on central banking and monetary management in Islamic finance and the practices followed by central banks in some of the Muslim countries where Islamic banking has been established. Refinance ratio and Qard-e-Hasan ratio and Mudarabah between central bank and Government/Multilateral FIs is in line with Islamic principles. Mudarabah can be used in Public Finance with profit sharing ratio benchmarked with the whole economy i.e. Nominal GDP growth rate. Equivalency of means test shows Nominal Interest rates and Nominal GDP growth rate are not significantly different from each other. Therefore, it is plausible to use growth in Nominal GDP as the benchmark for making and refining instruments for money market and provide a base instrument for the conduct of OMO in an interest free economy. The Nominal GDP linked benchmark can be used to benchmark domestic debt as well as foreign debt. Loans from IMF, WB and IDA and from rest of the world can be benchmarked using nominal GDP growth rate of the lender's country of origin or benchmarked with weighted Nominal GDP growth rate in major donor countries to enable foreign debt management by central banks.

The Profitability and Determinants Efficiency of World Islamic Banks

By

MOHAMAD AKBAR NOOR MOHAMAD NOOR*^a
Universiti Utara Malaysia

NOR HAYATI BT AHMAD^b
Universiti Utara Malaysia

ABSTRACT

The paper investigates the efficiency of the Islamic banking sectors in 25 countries during the period of 1992-2009 consists of 78 Islamic banks involved. The efficiency estimates of individual banks are evaluated using the non-parametric Data Envelopment Analysis (DEA) method. The empirical findings seem to suggest that the World Islamic banks have exhibited high pure technical efficiency. A multivariate analysis based on the Tobit model reinforces these findings and significantly associated with operating expenses against asset, size, equity, NPL, Asia Financial Crisis and national income level (GDP). We also find positive correlation between bank profitability and technical efficiency levels, indicating that the more efficient banks tend to be more profitable with strong result at Asian Islamic banks. The profitability analysis by Fixed Effect Model (FEM) proposed that profit efficiency is positively and significantly associated with operating expenses against asset, equity, high income countries and non performing loans against total loans specifically for model 8 & 9 that positively at 1% level. Interestingly, the empirical results show that more profitable banks are those that have higher operating expenses against asset, more equity against asset and concentrated at high income countries demonstrating close relationship between monetary factors in determining Islamic banks profitability.

TOWARDS A COMPREHENSIVE LEGAL IMMUNIZATION OF ISLAMIC BANKING

By

A. S. ORISANKOKO

ABSTRACT

As a result of the most recent financial crisis or recession particularly in the conventional banking industry in Nigeria, the focus of practitioners and researchers in the academia alike have shifted mainly to the causes of the operational malfunctions leading to the crisis with little attention on the defective legal framework. The focus of this paper therefore is to inquire not only into the operational and institutional failures resulting in the crisis but also investigate the series of ways by which the defects in the existing legal framework have contributed to the emergence of this situation with a view to making the much suggested adoption of Islamic Banking (or Non-Interest Banking) system insulated from being affected in like manner.

Empirical Evidence of Financial Soundness of Islamic Banking System

By

Faiz.M.Shaikh
Nisar Ahmed Pahore
Saeed Ahmed Buriro

Abstract:

This research investigates the Islamic banking and financial soundness some empirical evidence. Data were collected from various secondary sources. It was revealed that as the presence of Islamic banks grows in a country's financial system, there is no significant impact on the soundness of other banks. This suggests that Islamic and conventional banks can co-exist in the same system without substantial 'crowding out' effects through competition and deteriorating soundness. These findings are subject to several caveats relating to the cross-country data. Databases are often incomplete in coverage of Shariah-compliant and conventional banks. Moreover, we focused only on fully-fledged Islamic banks and did not cover Islamic branches operated by some conventional banks. Data limitations also prevented the study from fully taking into account all aspects of Islamic financial contracts, for example, by distinguishing between PLS and other investments. Nonetheless, the main results are encouragingly robust with respect to a range of sensitivity tests, such as using different measures of financial soundness and different estimation methods. Our findings provide some comfort regarding the financial soundness of small Islamic banks. At the same time, they underscore the importance for regulators of paying attention to the prudential risks of Islamic banks, in particular those that are large.

Islamic Finance – As It Travelled Through 1400 Years Prior Landing in Pakistan amid Scholastic Controversies

By
Shafiq ur Rahman

Abstract

There is strong urge among Muslim these days to Islamize economy and particularly banking. The main factor which triggered this desire is the political independence of Muslims from colonial yoke and also windfall of petro-dollars in Arab countries. Emphasis on Islamization of banking appears to be due to the commercial banking system being based on interest whereas interest is strictly banned in Islam. The literature of economics is traceable in each Muslim period but under different names and not under economics. Even the sayings of the Prophet contain guidance in economic matters. These were compiled and codified under Shariah which is Islamic law.

The history of finance is divided into four phases – two registered development, the third one was a period of stagnation and the last brought awakening, which resulted in the establishing of Islamic banking in which interest has been abolished and trade in Haram merchandise is banned. This system has made phenomenal progress and solved the problem of Muslim Ummah to avoid interest which had come to pervade every facet of life. However some schools of Ulema have expressed their reservations about the Islamicity of the Islamic banking whereas others disagreed with them. This controversy will impede the progress of Islamic banking. It would be in the interest of Muslims if this conflict is resolved amicably.