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Perceptions of Bankers towards Issues of Islamic Banking in Pakistan

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Abstract

This study intended to investigate the current issues in the regulation of Islamic banking from the perspective of Islamic bankers in Pakistan. A cross-sectional survey of 165 bankers, recruited through stratified convenient sampling procedure, working at different Islamic banks in Lahore was conducted using a questionnaire. Descriptive statistics were applied using SPSS for data analysis. The results indicated that a large majority of the survey participants had postgraduate level of education, experience from six to fifteen years, and belonged to either middle management or senior management. These participants perceived that limited role of policy institutions, gap in theory and practice, poor perception of people about Islamic banking, lack of short-term and long-term IB avenues, regulators' preference of *Shari'ah* auditing rather than *Shari'ah* supervision, lack of financial services availability/branch network, limited product offering, non-availability of IB courts to resolve disputes, non-availability of research centres for Islamic banking, lack of trained staff, shortage of training opportunities and inadequacy of the curriculum for Islamic banking were the key issues faced by Islamic banking in Pakistan. However, the least issues that Islamic bankers faced were related to IB institutional and regulatory structures. The results generated evidence based pragmatic insights for policymakers and regulators in making strategic decisions for the development and growth of Islamic banking in Pakistan. This research makes a worthy contribution to the existing literature as no such study has addressed particularly the regulatory issues of Islamic banking in Pakistan.

Keywords: challenges, Islamic banking, Islamic finance, issues, Pakistan, regulations

Introduction

Pakistan, a developing country with a Muslim majority population, is ranked fourth most developed Islamic financial market in the world. Total assets of Islamic Banking (IB)

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are 10.4% in Pakistan¹ which is 1.3%² of global finance.³ INCEIF (2014) reported that the combined worth of the assets of IB is USD 2.4 trillion and these assets comprise 12% of conventional banking worldwide. Bahrain, Qatar, Indonesia, Saudi Arabia, Malaysia, United Arab Emirates, Turkey, Kuwait and Pakistan are the prime markets offering IB products and services (World Islamic Banking Competitiveness Report, 2016). In Pakistan, the State Bank of Pakistan (SBP) is the sole governing body responsible for preparing banking protocols of Islamic banking and conventional banking under different sections. If there are ambiguities in the instructions prepared for banking service providers and other stakeholders of Islamic banking, then conflicts may arise which may jeopardise its sustainability for future. Although, IB has proved its viability since its re-launch but its sustainability is still debateable in Pakistan and around the globe due to its transformational phase and parallel practise with conventional banking.⁴ The sustainability of Islamic banking products and services can only be ensured if its practices are in compliance with the principles of Islamic law. Ensuring the unique position of Islamic banking is the prime responsibility of the regulatory body.⁵ Hawary, Grais, and Iqbal emphasized the clarity of rationale needed to pursue Islamic business activities. They suggested that regulation of IB policies must be in compliance with Islamic law.⁶ Khattak and Rehman⁷ expressed the need of a competitive economic system equally suitable to satisfy the financial needs of Muslim and non-Muslim communities. An extensive search for literature available on issues of Islamic banking resulted in revealing a small amount of research which mainly investigated

¹World Islamic Banking Competitiveness Report, *New Realities New Opportunities* (Ernst and Young Limited, 2016), 12.

²<https://www.statista.com/statistics/649269/distribution-of-global-islamic-banking-assets-by-country/>

³<https://ceif.iba.edu.pk/pdf/Reuters-Islamic-finance-development-report2018.pdf>.

⁴State Bank of Pakistan, *Strategic Plan* (2014).

⁵Rozeen Shaukat "Regulatory Challenges of Islamic Banking in Pakistan," *Journal of Islamic Thought and Civilization* 7, no. 2 (2017): 79-98.

⁶El-Hawary Dahlia, Wafik Grais, and Zamir Iqbal, *Regulating Islamic Financial Institutions: The Nature of the Regulated* (World Bank Policy Research Working Paper, 2004), 49.

⁷Khattak Naveed Azeem and Kashif-ur-Rehman, "Customer Satisfaction and Awareness of Islamic Banking System in Pakistan," *African Journal of Business Management* 4, no. 5 (2010): 662-671.

barriers in service quality,⁸ customer satisfaction, perception of users and non-users,⁹ IBF controversies,¹⁰ and operational and institutional barriers.¹¹

1.1. Problem Statement

The perusal of published research indicated the need for further research focusing specifically on the regulatory issues of Islamic banking as it was frequently reported in the previous researches. No study appeared to have been conducted which addressed the issues about Islamic banking regulations in Pakistan. The regulation of Islamic banking is one of a primary challenge that Islamic banking is facing which cannot be overlooked. The current research was designed to investigate the views of Islamic bankers about the regulatory issues facing Islamic banking in Pakistan, as Islamic banking holds great potential and is rapidly growing in the country. This research achieved its objective by addressing the following research question.

- What are the issues with the regulation of Islamic banking in Pakistan as perceived by those who are involved in its practice?

2. Literature Review

The perusal of published research on issues regarding Islamic banking indicated a number of challenges faced by Islamic banking in Pakistan that need to be resolved. It requires the attention of authorities mainly at the regulatory level to strengthen Islamic banking services and operations, adequately.

⁸Mohammed N. Chaker, and Jabnoun Naceur, “Barriers to Service Quality in Islamic Banks in Qatar,” *International Journal of Commerce and Management* 20, no. 4 (2010): 296-307.

⁹Butt, et.al “Barriers to Adoption of Islamic Banking in Pakistan,” (2011).

¹⁰Malik, et.al “Controversies that make Islamic Banking Controversial: An Analysis of Issues and Challenges,” *American Journal of Social and Management Sciences* 2, no. 1 (2011): 41-46; 2011; Mohammad, Mansoor Khan and M. Ishaq Bhatti, “Why Interest-Free Banking and Finance Movement Failed in Pakistan,” *Humanomics* 22, no. 3(2006): 145-161.

¹¹Abdul, Malik Mirza, and Abdel-Karim Halabi, “Islamic Banking in Australia” (2003); Md. Abdul Awwal Sarker, “Islamic Banking in Bangladesh: Performance, Problems and Prospects,” *International Journal of Islamic Financial Services* 1, no. 3 (1997); Muhammad Z. Mamun, “Prospects and Problems of Islamic Banking from Bank’s Perspective: A Study of Bangladesh,” Paper presented at the 8th International Conference on Islamic Economics and Finance (2011); Rodney Wilson, “Challenges and Opportunities for Islamic Banking and Finance in the West: The United Kingdom Experience,” *Islamic Economic Studies* 7, no. 1 and 2 (2000): 35-59; Abdul Malik Mirza, and Abdel-Karim Halabi, “Islamic Banking in Australia,” (2003); Munawar Iqbal, Ausaf Ahmad, and Tariqullah Khan, *Challenges Facing Islamic Banking*, Occasional Paper No. 1: (Islamic Research and Training Institute and Islamic Development Bank, 1998).

The research findings of Iqbal, Ahmad, and Khan¹² revealed that the globalization of Islamic banking is yet too small to play a significant role in socioeconomic internationalization of foreign and domestic markets by the Islamic banks. They highlighted the concern that “*If Islamic banking is not perceived to be Islamic*’, it will not be long when the existing Islamic banks will lose much of their market.”¹³ They emphasized the importance of product innovation to make Islamic banking stable in alternate markets. Furthermore, the dearth of skilled manpower in IB questions the authenticity of products, their service quality and delivery in all aspects. Autonomous supervision of Islamic banks is also crucial to ensure true understanding of the Islamic finance industry. Butt et.al. Identified that limited branch network, less understanding of the principles of Islamic banking and the lack of provision of financial services are major barriers for Islamic banking industry in Pakistan.¹⁴ Tahir¹⁵ described that the lack of standardization with regard to vocabulary (users’ knowledge about words), ambiguity in financial reporting and calculation formulae against each product are particular issues for Islamic banking in Pakistan. Islamic banking is feasible but not sustainable due to the lack of public awareness about Islamic modes of financing. He highlighted the need for diversified campaigns to make public familiar with Islamic banking.

Ahmed (2011) said that the lack of tax incentives reforms and subsidies are causing delays in establishing new markets for Islamic banking. He suggested a focused attention for Islamic banking growth with passionate support, and in conjunction with religious and business school / institute to disseminate the real meaning of IBF and its implementation.¹⁶ Ahmad and Hassan¹⁷ (2009b) found that support structure for the smooth functioning of Islamic financial practices is missing at government level. Mirza and Halabi¹⁸ (2003) highlighted the lack of harmonization in regulatory standards. Khan and Shah¹⁹ (2015)

¹²Munawar Iqbal, Ausaf Ahmad, and Tariqullah Khan, “Challenges Facing Islamic Banking,” Occasional Paper no.1 (Islamic Research and Training Institute and Islamic Development Bank, 1998).

¹³Ibid., 48.

¹⁴Irfan Butt, et.al. “Barriers to Adoption of Islamic Banking in Pakistan,” *Journal of Islamic Marketing* 2, no. 3 (2011): 259-273.

¹⁵Sayyid Tahir, “Current Issues in the Practice of Islamic Banking,” *Paper Presented at the Course on Islamic Banking and Finance* (Iran: Tehran, 2003).

¹⁶Umer Ahmed, “Challenges Facing Islamic Banking,” *Economic Review* 42, no. 2 (2011):18-20.

¹⁷Abu Umar Faruq Ahmad, and M. Kabir Hassan, “Regulatory Challenges and Opportunities: A Case of Australia,” *Paper Presented at the Practitioner Symposium - Islamic Financial Services: What Role for Australia?* Melbourne, 2009b.

¹⁸Abdul Malik Mirza, and Abdel-Karim Halabi, “Islamic Banking in Australia: Challenges and Opportunities,” *Journal of Muslim Minority Affairs* 23, no.2 (2003).

¹⁹Asad Khan, and Abdul Qadir Shah, “A Comparative Analysis of Regulatory and Supervisory Islamic Banking: Evidence from Pakistan, Malaysia, Bahrain, and the UK,” *The Lahore Journal of Business* 4, no.1 (2015): 37-60.

critically discussed the regulatory and supervisory concerns of IB in Pakistan in comparison with other countries. Akhter, Orangzab, and Akram (2011) reported about the weak regulatory system in Pakistan indicating that the pace to accept interest free banking among bankers and regulators is slow due to its infancy phase.²⁰ Hassan and Dicle²¹ (2005) stated that the operations of Islamic banking are in line with the *Shari'ah* but they should also fulfill the expectations of customers. They emphasized the protection of investors' and customers' rights in different investment funds and the issues regarding deposit insurance, current account, profit and loss sharing, capital adequacy, *Shari'ah* knowledge and liquidity in Islamic banks. Siddiqi (1983) recommended that Islamic banking can be Islamized only when markets are free from monopolies and speculations for societal welfare and equal distribution of wealth.²² Hawary, Grais, and Iqbal²³ (2004) drew attention of policymakers towards policy issues for better delivery of financial services. Challenges facing Islamic finance are universal in their nature and they need more sound reflection to implement international standards, as standardization will provide a sound footing to compete with conventional finance. Research insights of Ahmed²⁴ indicated that the limited number of trained staff, *Shari'ah* scholars, weak financial engineering, absence of separate regulatory, legal and risk management, Islamic pricing benchmarks, lack of an adequate legislative framework, and lack of a developed Islamic money market and capital market are issues that need to resolve and to ensure the sustainability of Islamic banking in Pakistan.

3. Research Design

3.1. Methods

Survey method using a questionnaire was utilized to investigate current issues in the regulation of Islamic banking as perceived by Islamic bankers. A questionnaire was developed by reviewing previous studies and strategic plan for Islamic banking 2014-2018 by the State Bank of Pakistan. The newly developed questionnaire was submitted to a panel of experts for review and revised accordingly. Afterwards, it was pilot tested with 15 bankers who were not part of the study sample. There were 68 statements (Cronbach's Alpha = $\alpha = .892$) distributed into nine categories namely the Scope of regulatory authorities (12 statements, $\alpha = .572$), Development issues with the regulatory framework (6 statements,

²⁰Waheed Akhter, Ali Raza Orangzab, and Muhammad Akram, "Efficiency and Performance of Islamic Banking: The Case of Pakistan," *Far East Journal of Psychology and Business* 2, no. 2(2011): 54-70.

²¹M. Kabir Hassan, and Mehmet F. Dicle, "Basel II and Regulatory Framework for Islamic Banks," *Journal of Islamic Economics and Finance* 1, no.1 (2005): 17-36.

²²Muhammad Nejatullah Siddiqi, *Issues of Islamic Banking-Selected Papers* (Leicester: The Islamic Foundation, 1983).

²³El-Hawary Dahlia, Wafik Grais, and Zamir Iqbal, "Regulating Islamic Financial Institutions: The Nature of the Regulated," *World Bank Policy Research Working Paper* (2004): 49.

²⁴Hafiz Iftikhar Ahmed, and Samreena Akbar Khan Barikzai, "Objectives of Islamic Finance Achieved by Islamic Banks," *al-Adwa* 31, no. 45 (2016): 45-64.

$\alpha=.719$), Licensing and authorization (14 statements, $\alpha=.668$), *Shari'ah* supervision (6 statements, $\alpha=.725$), Supervisory framework (7 statements, $\alpha=.755$), Institutional harmonization (5 statements, $\alpha=.726$), Information disclosure (4 statements, $\alpha=.803$), Market development (6 statements, $\alpha=.750$), and Capacity building (8 statements, $\alpha=.865$). These statements were measured on the 5-point Likert scale where 5=strongly agree, 4=agree, 3=not sure, 2= disagree, and 1= strongly disagree.

3.2. Population and Sampling

All bankers working at the Islamic branches of conventional banks and Islamic banks at Lahore were considered as the study population. The selection of Islamic bankers was made purposively because of their active participation in decision making and responsible for the development of Islamic banking in Pakistan. There were 165 bankers who participated in the survey. The selection of survey participants was carried out using a stratified convenient sampling procedure and managers (credit, operational, risk), branch heads, unit heads, *Shari'ah* advisors and executives from ten banks were selected.

3.3. Data Collection and Analysis

The survey questionnaire was personally administered by visiting different branches of each bank with written permission. Participation in the survey was on a voluntary basis. There were ten banks who participated in the survey including Islamic banks, their branches and Islamic branches of conventional banks. There were 96 (63.15%) respondents in total who belonged to pure Islamic banks including Al Baraka Bank 11 (7.2%), Bank Islami 36 (23.7%), Dubai Islamic Bank 8 (5.3%), Meezan Bank 31 (20.4%), and MCB Islamic Bank 10(6.6%) whereas 56 (36.84%) respondents belonged to Islamic branches of conventional banks such as Bank of Khyber 9 (5.9%), Bank of Punjab 4(2.6%), Bank Al-Falah 7(4.6%), Allied Bank 32(21.1%) and Faysal Bank 4 (2.6%).

The researcher herself distributed the questionnaire in each bank and collected the filled questionnaire from each participant. The returned questionnaires were carefully screened for accuracy and completeness of information. Thirteen questionnaires were eliminated due to incomplete information resulting in a total of 152 questionnaires to deal with. Each questionnaire was coded into the Statistical Package for Social Sciences (SPSS). Data were analysed by applying descriptive statistics including frequency, percentage, mean score, and standard deviation. The mean score and standard deviation for each statement from all nine categories were calculated for item-based analysis.

4. Data Analysis and Results

4.1. Demographic Composition of Survey Participants

4.1.1. Education. Participants were divided into four categories based on their level of education namely Graduation (14 years education), Post-graduation (16+ year education), Graduation and Madrasa Education, and Post-graduation and Madrasa Education. Table 1 presents the details of the participants' responses. It shows that a large majority of the

respondents (n=126, 82.9%) did post-graduation, followed by those who did graduation (n=18, 11.8%). There were only a small number of respondents who received madrasa education along with their graduation and post-graduation.

Table 1. Educational level of survey participants (N=152)

Education	Frequency	%
Graduation	18	11.8
Post-graduation	126	82.9
Graduation and Madrasa Education	2	1.3
Post-graduation and Madrasa Education	6	3.9

4.1.2. Professional Experience. The participants were asked to specify the number of years of professional experience with Islamic banks. Table 2 outlines their responses. It shows that the majority of participants 60(39.5%) had an experience of 6-10 years followed by those participants 56(36.8%) who were working with Islamic banks from 1-5 years. A good number of participants 26(17.1%) had a professional experience with Islamic banks spanning 11-15 years. There were only 10 participants who had more than 16 years of Islamic banking experience.

Table 2. Professional experience of study participants (N=152)

Experience	Frequency	%
1-5 years	56	36.8
6-10 years	60	39.5
11-15 years	26	17.1
16-20 years	6	3.9
20+ years	4	2.6

4.1.3. Career Levels. The Participants were classified into three categories based on their level of career namely Junior Management, Middle Management and Senior Management. A large majority of the participants 80 (52.6%) belonged to the middle management, followed by those who were in the senior management 64(42.1%). There were only 8 (5.3%) participants who belonged to the junior level of management.

Table 3. Career levels of study participants (N=152)

Career levels	Frequency	%
Junior Management	8	5.3
Middle Management	80	52.6
Senior Management	64	42.1

4.2. Bankers' Perceptions about Issues with Islamic Banking Regulations

An item level analysis of 68 statements distributed in nine categories was performed to explain the current issues in the regulation of Islamic banking from the perspective of those who are practicing it. The details of the responses with regard to each category are presented below.

4.2.1. Scope of Regulatory Authorities. Table 4 shows that the participants strongly agreed with items one to seven, as their obtained values are above from the cut-off score. The result of statement eight regarding the role of policy institutions ($M=3.51$, $SD=1.073$) shows that bankers consider it a challenge to some extent. Furthermore, the participants disagreed with the statements about the lack of unified *Shari'ah* ruling ($M=3.47$, $SD=1.17$), IB governance through a conventional regulatory framework ($M=3.29$, $SD=1.16$), confused and conflicting institutional structure ($M=3.13$, $SD=1.26$) and structural difficulties in banking operations ($M=3.08$, $SD=1.23$), respectively. Moreover, the overall trend indicates that the participants agreed with the extent of working for Islamic banking performed by authorities in Pakistan. However, these participants were not sure about the limited role of policy institutions, IB governance through conventional regulator, conflicting and confusing institutional and regulatory structure creating difficulties in banking operations.

Table 4. Item analysis based on the scope of regulatory authorities

Rank	Items	Mean	SD
1	IB industry in Pakistan truly represents Islamic banking.	4.11	.70
2	IB performance and stability is ensured regularly by State Bank of Pakistan.	3.99	.90
3	Regulatory framework ensures uniqueness of IB as compared to conventional banking.	3.97	.81
4	Regulatory framework explicitly recognizes Islamic banking practices and products.	3.96	.85
5	IB practitioners and regulators have freedom to give feedback to improve performance.	3.92	.89
6	Regulatory policies are user-friendly for Islamic banks in Pakistan.	3.78	.88
7	Regulatory framework of IB industry is compatible with global practices.	3.76	.84
8	The role of policy institutions is limited due to divergence in theory and practice of IB.	3.51	1.07
9	Islamic banks are facing lack of unified <i>Shari'ah</i> rulings.	3.47	1.17
10	Islamic banking in Pakistan is governed by a conventional regulatory framework.	3.29	1.16
11	IB institutional structure is conflicting and confused.	3.13	1.26
12	IB regulatory structure creates difficulties in banking operations.	3.08	1.23

4.2.2. Development Issues with Regulatory System. The second category consisted of six items related to the participants' perceptions regarding issues with regulatory systems for IB development. The figures in Table 5 show that the participants strongly agreed with IB unique entity and enable policy environment respectively in statement one ($M=4.03$, $SD=.86$), two ($M=4.00$, $SD=.76$), followed by statement three ($M=3.91$, $SD=.94$) and four ($M=3.86$, $SD=.99$). The value of item five ($M=3.70$, $SD=1.10$) is above the cut-off score and determines that participants perceived it as a challenge, followed by difference of opinion in schools of thought ($M=3.29$, $SD=1.27$). After reviewing the participants' responses, it can be inferred that there is a need to improve IB practices in conjunction with the theoretical perspectives of Islamic law to foster development under its unique framework.

Table 5. Item analysis based on development issues with the regulatory system

Rank	Items	Mean	SD
1	IB regulatory frameworks ensuring unique aspects of Islamic banking.	4.03	.86
2	SBP and SECP enable policy environment for Islamic banking.	4.00	.76
3	Regulatory policies for Islamic banks are transparent.	3.91	.94
4	Central bank supports to achieve standardization and harmonization in IB practices	3.86	.99
5	Differences in theory and practices of IB are a major obstacle for uniform regulations.	3.70	1.10
6	Variation in IB practices is due to difference of opinion in various schools of thoughts.	3.29	1.27

4.2.3. Licensing and Authorization. The participants' perception regarding the licensing of product, authorization and prevailing conditions were measured through fourteen statements given in Table 6. The participants strongly perceived the absence of adequate avenues for short-term and long-term investments as a challenge in statement five ($M=3.88$, $SD=.89$) and eight ($M=3.68$, $SD=.99$), respectively. Furthermore, the participants agreed with the role of regulator to encourage interbank money market ($M=3.55$, $SD=.97$) but perceived that not enough opportunities ($M=3.30$, $SD=1.02$) to lend or borrow money in the interbank market are available as stated in statements eleven and twelve, respectively. While the majority of participants expressed their disagreement with the availability of tax incentives for investors ($M=3.30$, $SD=1.18$).

Table 6. Item analysis based on licensing and authorization

Rank	Items	Mean	SD
1	Licensing of IB products and procedures is ensured before operationalization.	4.09	.83
2	Capital Adequacy Ratio (CAR) caters the risk specificities of Islamic banks.	3.97	.71

3	Capital requirements are fulfilled and applicable to all IB.	3.93	.83
4	Licensing requirements clearly address the issues of <i>Shari'ah</i> compliance.	3.91	.94
5	Lack of short-term investment avenues is a challenge of liquidity management for Islamic Financial Institutions (IFI).	3.88	.89
6	Financial services mechanism for long-term financing is adequate.	3.71	.99
7	Liquidity Management is adequate in IB than conventional banks.	3.68	1.01
8	Lack of long-term investment avenues is a challenge of liquidity management for IFI.	3.68	.99
9	Financial services mechanism for short-term financing is adequate.	3.68	.97
10	IB regulator is accountable if any Fraud or Mistake happens.	3.59	1.06
11	IB regulators encourage interbank money market dealing.	3.55	.97
12	IB regulators provide opportunities for dealing in interbank money market.	3.30	1.02
13	Tax incentives for investors are available in Pakistan's Islamic banking industry.	3.30	1.18
14	Effective prudential regulations are lacking in Pakistani IB industry.	3.29	1.15

4.2.4. Shari'ah Supervision. The figures in Table 7 indicates the opinion of Islamic bankers related to *Shari'ah* supervision by regulators. Islamic bankers seemed strongly agree with all statements except item 6. The bankers perceived that the preferences of *Shari'ah* auditing rather than *Shari'ah* supervision is a challenge ($M= 3.71, SD=.1.027$).

Table 7. Item level analysis regarding *Shari'ah* supervision

Rank	Items	Mean	SD
1	<i>Shari'ah</i> board has the legislatives authority over <i>Shari'ah</i> issue by the regulatory bodies.	4.04	.913
2	Customer protection under <i>Shari'ah</i> principles is ensured.	4.04	.833
3	<i>Shari'ah</i> permissible modes and guidelines are explicit to Islamic bankers by IB regulators.	3.92	.903
4	Standardization of <i>Shari'ah</i> practices in IB industry is followed strictly.	3.91	.800
5	Harmonization of <i>Shari'ah</i> practices in IB industry is followed strictly.	3.86	.792
6	IB regulators prefer <i>Shari'ah</i> auditing instead of highly reliance on <i>Shari'ah</i> supervision.	3.71	1.027

4.2.5. Supervisory Framework. Table 8 indicates that Islamic bankers tended to agree with all the statements related to supervisory framework. The mean score of all items indicates the appropriateness of supervisory framework as *Shari'ah* compliance financial transactions (M= 4.09, SD=.848), followed by the examination of *Shari'ah* compliance practices (M= 4.07, SD=.819), upgradation of manuals (M= 4.05, SD=.796), customize products and solutions (M= 4.00, SD=.846), Islamic banks' accountability and performance (M= 3.99, SD=.789), appropriate corporate governance structure (M= 3.93, SD=.803) and adequate onsite inspection (M= 3.83, SD=.753).

Table 8. Item analysis based on supervisory framework

Rank	Items	Mean	SD
1	IB regulators ensure that all financial transactions are in conjunction with <i>Shari'ah</i>	4.09	.848
2	IB supervisory framework ensures auditing with relation to <i>Shari'ah</i> compliance.	4.07	.819
3	IB supervisory tools (inspection manuals) are upgraded regularly.	4.05	.796
4	IB industry provides customize products and solutions.	4.00	.846
5	Accountability and performance of Islamic banks is ensured.	3.99	.789
6	IB supervisory framework ensures appropriate corporate governance structure.	3.93	.803
7	On-site inspection is performed adequately.	3.83	.753

4.2.6. Institutional Harmonization. Table 9 presents the participants' responses regarding statements related to institutional harmonization. It shows that Islamic bankers agreed with the prevailing conditions of institutional harmonization, as regulations are monitored strictly (M= 3.97, SD=.813), followed by the uniformity of IB contracts and products (M= 3.89, SD=.807), product innovation and standardization (M= 3.88, SD=.829), and coordination and collaboration among regulators and banks (M= 3.84, SD=.991). While in the statement related to benchmarks for product pricing and profit calculations, bankers are perceived to be less agreed (M= 3.57, SD=.1.071) as compared to other statements in the stated category.

Table 9. Item analysis based on institutional harmonization

Rank	Items	Mean	SD
1	IB regulations are monitored strictly.	3.97	.813
2	Central bank measures and monitor uniformity of Islamic banking contract and products.	3.89	.807
3	Regulators are keenly interested for product innovation and standardization.	3.88	.829

4	Coordination and collaboration among regulators and banks of IB is adequate	3.84	.991
5	Benchmarks for product pricing and profit calculations are adequate.	3.57	1.071

4.2.7. Information Disclosure. Table 10 presents the participants' responses regarding information disclosure. It consists of four items related to Islamic bankers' knowledge regarding medium of instruction, quality of available information, availability of branch networks and technology for IB end users. The figures indicate that there is a need to increase the number of branches of Islamic banks in rural and urban areas ($M= 3.50$, $SD=1.266$). Furthermore, the participants agreed with the remaining three statements regarding the availability of clear instructions ($M= 4.08$, $SD=.724$), use of advance technology ($M= 3.99$, $SD=.899$) and quality of available information ($M= 3.93$, $SD=.851$).

Table 10. Item analysis based on information disclosure

Rank	Items	Mean	SD
1	Clear Instructions are available to develop Islamic Financial Institution by SBP.	4.08	.724
2	Regulators encourage the use of advanced technology.	3.99	.899
3	Quality of information (financial reports) in terms of relevance, reliability, understandability, comparability, timeliness and materiality is appropriate.	3.93	.851
4	Availability of Islamic Financial Services/branch networks are adequate to urban and rural areas.	3.50	1.266

4.2.8. Market Development. IB industry has come a long way in terms of market development and there is an essential need for the promotion of Islamic banking because its outreach is still limited. A huge segment of the population is not fully aware of the prospects of Islamic banking. The issue of market development is stated in six statements. Table 11 shows that the participants agreed with the development of Islamic products ($M=3.84$, $SD=.950$), followed by IB collaborations ($M=3.84$, $SD=.815$). The participants' shows their agreement about the limited outreach of products ($M=3.76$, $SD=.847$). Furthermore, the result of the remaining items indicate that participants strongly disagreed with the availability of adequate academic institution ($M=3.20$, $SD=1.116$), followed by the availability of IB courts to resolve disputes ($M=3.16$, $SD=1.261$) and the presence of adequate research centres for product innovation ($M=3.12$, $SD=1.103$).

Table 11. Item analysis based on market development

Rank	Items	Mean	SD
1	IB development have witnessed development of more Islamic products.	3.84	.950
2	International collaborations are encouraged (academic and industrial).	3.84	.815

3	Product offering and extent of outreach is limited.	3.76	.847
4	Academic institutions are adequate for imparting IB education.	3.20	1.116
5	Islamic banking courts are available to resolve any dispute.	3.16	1.261
6	Adequate research centres are available for innovation in IB products innovation.	3.12	1.103

4.2.9. Capacity Building. The category of capacity building was measured through eight statements dealing with issues related to collaboration with stakeholders and provision of trainings for the capacity building of human resource for Islamic banking. Table 12 shows that participants agreed with the statements regarding linkages and collaborations of Islamic banks internationally ($M=3.92$, $SD=.987$) and nationally ($M=3.92$, $SD=.858$), respectively. The participants also agreed with the technical expertise of *Shari'ah* advisors regarding financial issues ($M=3.80$, $SD=1.004$). The result of statement four and five shows that the participants were not sure about training sessions held for *Shari'ah* advisors ($M= 3.50$, 1.157) and collaborative trainings with IFIs ($M=3.50$, $SD=1.110$). Moreover, the participants disagreed with the statement about the presence of professionally trained staff in IB institutions ($M=3.47$, 1.156), training for trainers ($M=3.47$, $SD=1.156$) and adequate training for working staff ($M=3.37$, $SD= 1.290$), respectively.

Table 12. Item analysis based on capacity building

Rank	Items	Mean	SD
1	Linkages and Collaborations of Islamic banks are strong with Accounting and Financial bodies, internationally. (IFSB, AAOFI, ICAP, IFIs etc).	3.92	.987
2	Linkages and Collaboration of Islamic banks are strong with Accounting and Financial Bodies nationally (SBP, SECP etc).	3.92	.858
3	<i>Shari'ah</i> board/advisors having technical expertise of financial treatments other than <i>Shari'ah</i> .	3.80	1.004
4	Training sessions are arranged regularly on IB for the understanding of <i>Shari'ah</i> advisors.	3.50	1.157
5	Islamic Financial Institutions do collaborative trainings.	3.50	1.110
6	Technical staff is professionally trained and qualified at IB institutions.	3.47	1.156
7	IB regulators provide the training to trainers regularly.	3.47	1.156
8	Islamic Banking Institutions (IBIs) provide adequate certifications / trainings to <i>Shari'ah</i> advisors and technical staff.	3.37	1.290

5. Conclusion

The analysis provided useful insights regarding issues with the regulation of Islamic banking from the perspective of those who practicing it. A closer look at the results revealed that the survey participants perceived the limited role of policy institutions, gap in theory and practice, poor perception of people about Islamic banking, lack of short-term and long-term avenues, regulators' preference of *Shari'ah* auditing rather than *Shari'ah* supervision, lack of availability of financial services / branch network, limited product offering, non-availability of IB courts to resolve disputes, non-availability of research centres for Islamic banking, lack of trained staff, shortage of training opportunities and inadequacy of the curriculum designed for Islamic banking were the key challenges for Islamic banking in Pakistan. The results generated evidence based pragmatic insights for policymakers and regulators involved in making strategic decisions for the development and growth of Islamic banking in Pakistan. The regulators need to pay attention towards creating harmony and uniformity in theory and practice of IB, increase the number of avenues for short- and long-term investments, provide tax incentive reforms, create opportunities for interbank money market, research and development, and an appropriate setup for sufficient outreach to avail IB services. Moreover, training of trainers and staff trainings, either technical or *Shari'ah*, is needed for reliable information.

There is a need for creating awareness among people regarding Islamic banking services and products so that they may be able to distinguish Islamic banking from conventional banking. Islamic and conventional banks should open more Islamic banking branches to increase their business opportunities. These results may help policymakers and regulators in policy formulation regarding Islamic banking in Pakistan. Such results may also induce scholars from several disciplines to conduct more detailed inquires focusing on the issues of Islamic banking in Pakistan. The current study can be further replicated in other areas, not only in Pakistan but also in other Muslim countries of the world. Qualitative inquiry focused on the same geographical area can also be conducted to explore other challenges faced by the practitioners of Islamic banking and finance. This research makes a worthy contribution in the existing literature as no such study appeared addressing particularly the regulatory issues of Islamic banking in Pakistan.

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