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Islamic Economics, Finance, Entrepreneurial Development & Public Policy for the Ummah's Socio-economic Wellbeing

Under the above theme, the speakers / paper presenters will discuss the vision of Islamic economics, business and finance, public policy for entrepreneurial development and to enhance social inclusion and good governance, meaning how to develop Islamic countries' economies giving fair opportunity to all segments of the society and provide them not only suitable jobs / employment but also dignity and respect in the society and falah in this world and the Hereafter. As it is possible only through application of the principles of the Shariah, in letter and spirit, in all socio-economic disciplines and business and finance affairs, Shariah compliance of all institutions, products and activities would also be covered in the Theme of the ICIB-2016 event.

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The Financial Growth of Islamic banks and Maqasid Al-Shariah Fulfillment

BY

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Some Facts

- ▶ International Islamic banking assets with commercial banks set to exceed US\$778b in 2014.
- ▶ The global profit pool of Islamic banks is set to triple by 2019.
- ▶ Islamic banking assets in six core markets Qatar, Indonesia, Saudi Arabia, Malaysia, UAE, Turkey on course to touch US\$1.8t by 2019.
- ▶ Global Islamic banking assets witnessed a compounded annual growth rate (CAGR) of around 17% from 2009 to 2013.
- ▶ Islamic banks in Saudi Arabia, Kuwait and Bahrain represent more than 48.9%, 44.6% and 27.7% market share respectively.
- ▶ Positive progress has been made in Indonesia, Turkey and Pakistan, with 43.5%, 18.7% and 22.0% CAGR respectively from 2009-2013.

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- ▶ However, despite the impressive current and projected growth estimates, the Islamic banking industry continues to face criticism.
- ▶ It is felt that the operations of the current Islamic banking industry (IBI) are not in complete consonance with the rules of Shariah, failing to fulfill the ‘Maqasid Al-Shariah’: the *raison deter* of their existence.

The aim of the present study is to empirically examine the strength of the criticism and assess the gap, if any, between the recent financial growth of Islamic banks and its compatibility with Maqasid Al-Shariah fulfillment.

the study then introduces and applies the freshly designed *FGMS grid matrix* which helps rate the Banks accordingly, jurisdictions and region wise.

Financial Growth

Profitability Ratios

The profitability can be judged by the following criteria.

- ▶ Cost to income (**C/IN**) = cost/total income
- ▶ Return of equity (**ROE**) = Profit after tax/ equity capital
- ▶ Return on asset (**ROA**) = Profit after tax/ total asset

Whereas ROA and ROE are the indicators of measuring managerial efficiency, a high C/IN indicates that a bank is less cost efficient and makes relatively less income with a given expense.

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Liquidity Ratios

- ▶ Net Loans / Tot Dep & Bor (**NL/D&B**): higher rate will indicate that firm has some liquidity issues.
- ▶ Loan deposit ratio (**L/D**): Higher rate will show firm has liquidity issues.

Cont.

Risk and Solvency Ratios

A bank is solvent when the total value of its asset is greater than its liability. A bank becomes risky if it is insolvent.

Impaired Loans (NPLs) / Gross Loans (NPL/GL):

this will help to look at the solvency. Higher ratio indicate that firm has higher risk of insolvency.

Reserves for Impaired Loans / Gross loans (RIL/GL):

high rate will show firm is prepared and will mitigate the risk of insolvency.

Equity / Total Assets (E/TA):

higher percentage of equity will show that firm is financed more by equity and less exposed to insolvency.

Net Loans / Tot Assets (NL/TA): higher rate indicate higher risk.

Equity / Liabilities (E/L): higher rate will indicate solvency.

Countries & Regions	C/IN	ROE	ROA	NL/D&B	L/D	NPL/GL	RIL/GL	E/TA	NL/TA	E/L
<u>GCC</u>										
Bahrain	74.6	2.67	1.49	57.1	141	15.6	8.92	17.4	40.9	90.6
Saudi Arabia	50.3	17.4	2.68	67.9	84	4.52	4.98	16.8	61.4	19.6
Qatar	26.3	20.5	3.55	74.6	93.9	2.27	2.13	7.88	59.3	23.4
Kuwait	41.8	11	1.46	65.1	87.8	4.08	4.61	10.5	53.3	15.8
UAE	46.3	11.9	1.51	73.6	87.3	9.54	7.11	13.5	60.7	17.3
<u>SOUTH ASIA</u>										
Bangladesh	56.9	14.2	-0.21	75.7	85.5	12.6	6.96	8.97	67.1	1.9
Iran	66.8	16	1.11	64.4	95.5	5.71	3.22	10	55.7	11.1
Pakistan	97.8	21.3	-1.62	84.6	61.5	6.52	3.46	9.04	42.2	24.5
<u>SOUTH EAST ASIA</u>										
Malaysia	58.2	13.3	0.25	62.7	81.5	4.95	3.7	15.4	55.1	15
Indonesia	64.5	6.71	1.26	87	230	8.99	5.06	7.71	65.1	38.4
Thailand	113	-91.4	-2.59	86.7	82.7	15.2	3.73	13	66.1	21.4
<u>EUROPE</u>										
Britain	303	-17	-3.48	26.5	74.3	11.8	30.2	4.13	4.08	203
<u>TURKEY & OTHERS</u>										
Turkey	66	12.3	1.56	88.5	100	5.7	3.3	14.4	72.8	11.8
Jordan	57.2	8.92	1.35	95.7	156	19.5	7.35	8.32	50.3	35.2
Sudan	69.8	17.7	2.78	45.1	94.5	1.3	5.7	16.3	31.2	21.2
Tunisa	48.1	8.56	1.7	57.6	73.8	5.81	6.34	10.4	48.9	28.9
Syria	56.7	3.75	0.32	25.5	55.7	22.8	8.87	16.6	26.8	25.4
Yemen	73.2	5.78	0.39	20.9	98.8	8.63	6.37	4.89	33.5	15.1
Egypt	70.8	-5.58	-0.26	55.8	59.2	19.19	18.63	3.86	46.2	5.83
AVERAGE	75.8	16.1	1.55	63.9	97	9.6	7.4	11	49.5	32.9

Maqasid Al Shariah

Maqasid Al-Shariah serves to do two essential things, namely *tahsil*, i.e. the securing of benefit (*manfaah*) and *ibqa*, i.e. the repelling of harm or injury (*madarraah*) as directed by the Lawgiver.

This achieved by the preservation and protection of the basic necessities in Islamic Law: (*daruriyat*) of man without which life would probably be filled with anarchy and chaos and thus become meaningless.

Preservation/protection of religion (*Din*),

Preservation/protection of Life (*Nafs*),

Preservation/protection of Family (*Nasl*),

Preservation/protection of Intellect (*'Aql*) and

Preservation/protection of Property (*Mal*).

For example via the Quranic ordainment in Al-Baqara, 275-279

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Fulfilling the *Maqasid Al-Shariah* should therefore serve as the underlying principle of Islamic financial innovations and the full compliance to the same lays at the very heart of Shariah compliance.

This study shall adopt Ibn 'Ashur's definition of the general objectives of Shariah and Abu Zaharah's classification of specific objectives as the basis for the objectives of Islamic banking.

Tahdhib al-Fard (Educating the individual)

Iqamah al-`Adl (Establishing justice)

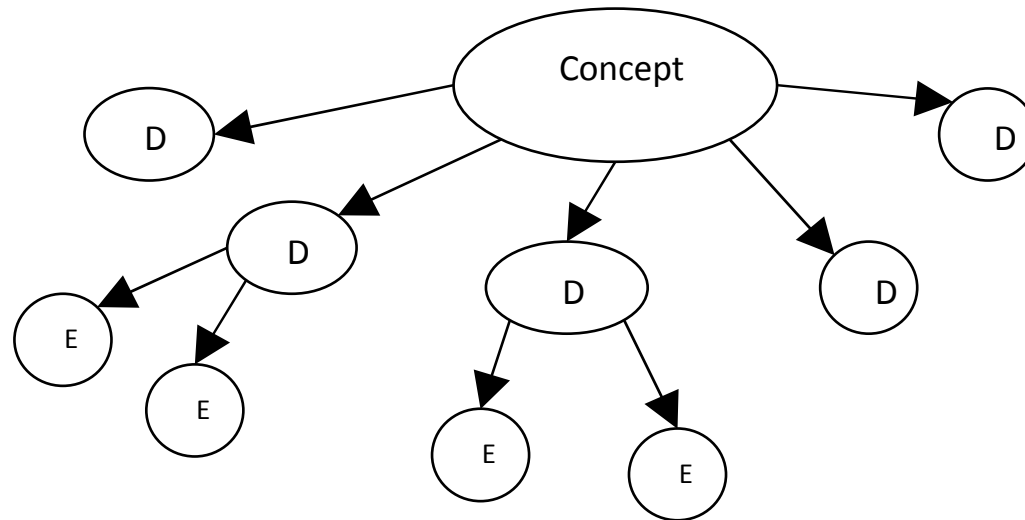
Jalb al-Maslahah (Promoting Welfare)

Sekaran's concepts of Operationalization Method

Sekaran's method breaks down abstract notions or **concepts (C)** into observable characteristic behaviors, which she termed as **dimensions (D)**.

The dimensions are then further broken down into measurable behaviors that she referred to as **elements (E)**.

She cited the example of thirst as a 'concept'. The behavior of thirsty people is to drink a lot of fluid (Dimension). The degree of thirst can be measured by the number of glasses drunk by each thirsty individual (Element).

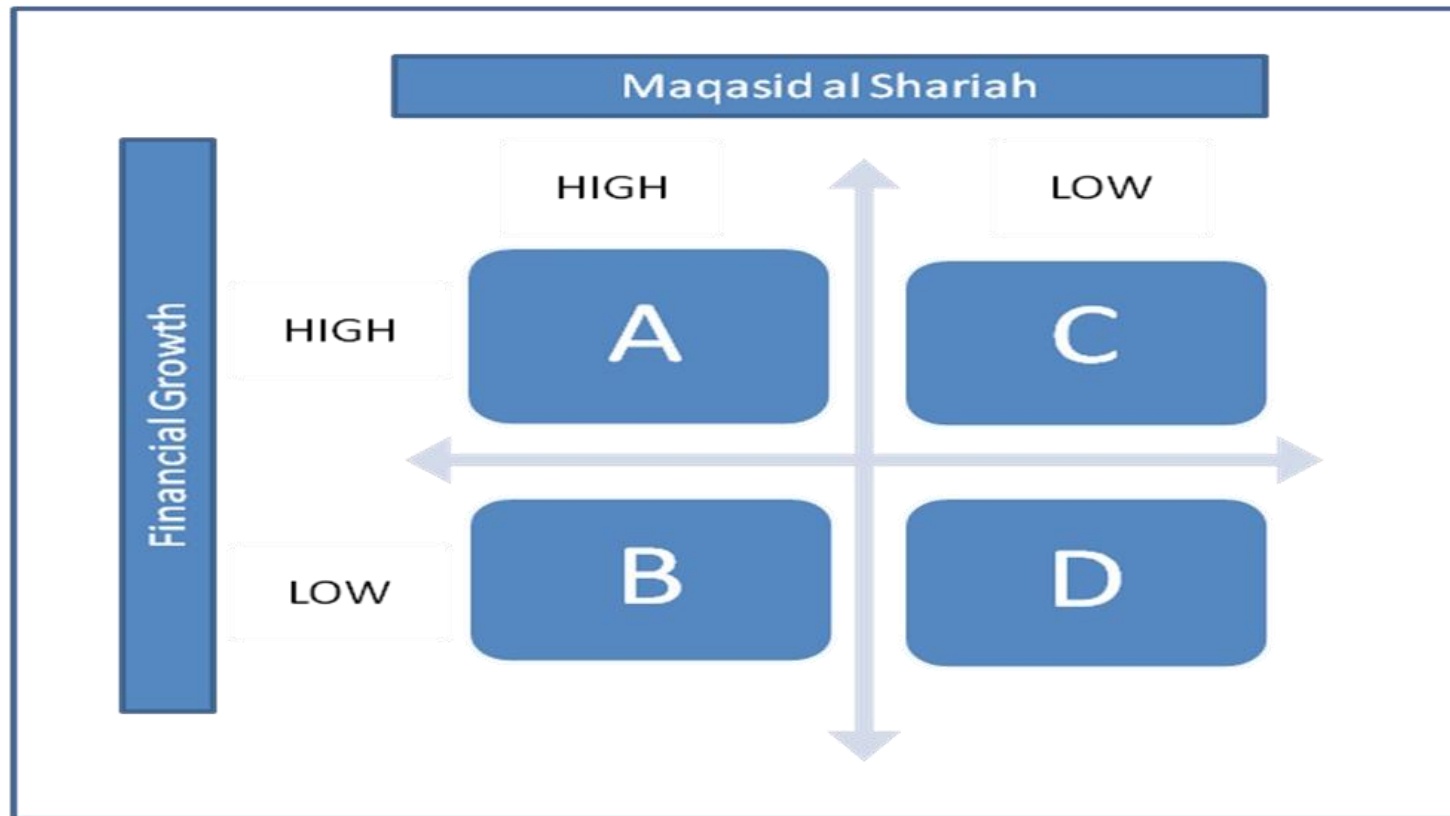


CONCEPTS (OBJECTIVES)	DIMENSIONS	ELEMENTS	PERFORMANCE RATIOS	SOURCES OF DATA
1. EDUCATING INDIVIDUAL	D1. Advancement Of Knowledge	E1.Education grant	R1. Education grant/total income	Annual Report
		E2.Researc h	R 2. Research expense/total expense	Annual Report
	D2. Instilling new skills and improvements	E3.training	R 3. Training Expense/total expense	Annual Report
	D3. Creating Awareness of Islamic banking	E4.Publicity	R 4. Publicity expense/total expense	Annual Report
2. ESTABLISHING JUSTICE	D4. Fair dealings	E5. Fair Returns	R 5. Net Income/Risk Weighted Asset	Bank Scope
	D5.Affordable products and services	E6. Affordable price	R 6. Non-Performing Loans/Gross Loans	Bank Scope
	D6. Elimination of injustices	E7. Interest free product	R 7. Interest free income/ total income	Bank Scope

CONCEPTS (OBJECTIVES)	DIMENSIONS	ELEMENTS	PERFORMANCE RATIOS	SOURCES OF DATA
3. PUBLIC INTEREST	D7. Profitability	E8. Profit ratios	R 8. Net profit/ total asset	Bank Scope
	D8. Redistribution of income & wealth	E9. personal income	R 9. Zakah/ Net Income	Annual Report
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R 10. Short Term Funding/Total Assets	Bank Scope

COUNTRIES	PRs of the 1 st Objective, Average Ratios (%)				PRs of the 2 nd Objective, Average Ratios (%)			PRs of the 3 rd Objective, Average Ratios (%)		
	R ₁	R ₂	R ₃	R ₄	R ₅	R ₆	R ₇	R ₈	R ₉	R ₁₀
GCC										
BAHRAIN	0.98	0.91	0.89	n.a.	0.01	15.6	50.6	0.15	2.5	63
SAUDI ARABIA	0.65	0.45	0.57	n.a.	3.20	4.52	35.6	3.17	2.9	81
QATAR	0.93	0.55	.70	n.a.	4.22	2.27	24.0	4.38	1.7	76
KUWAIT	0.26	n.a.	0.48	n.a.	1.78	4.08	31.7	1.96	1.1	80
UAE	1.1	0.87	0.77	n.a.	1.69	7.02	27.7	1.92	2.2	78
SOUTH ASIA										
BANGLADESH	n.a.	n.a.	n.a.	n.a.	0.01	12.6	22.6	1.18	n.a.	88
IRAN	n.a.	n.a.	n.a.	n.a.	2.17	5.71	48.7	2.54	n.a.	78
PAKISTAN	0.33	0.09	n.a.	n.a.	0.12	6.52	21.3	0.01	n.a.	95
SOUTH EAST ASIA										
MALAYSIA	1.1	1.07	0.94	n.a.	0.50	4.95	17.0	0.82	2.4	90
INDONESIA	n.a.	n.a.	0.63	n.a.	1.73	8.99	23.9	2.49	n.a.	86
THAILAND	n.a.	n.a.	n.a.	n.a.	-4.19	15.2	24.2	-4.17	n.a.	100
EUROPE										
GREAT BRITAIN	n.a.	n.a.	n.a.	n.a.	-12.6	11.8	55.8	-12.3	n.a.	56
TURKEY & OTHERS										
TURKEY	0.04	0.13	n.a.	n.a.	1.98	5.77	29.0	2.32	n.a.	79
JORDAN	0.43	n.a.	n.a.	n.a.	91.5	19.5	43.3	87.4	n.a.	81
SUDAN	n.a.	n.a.	n.a.	n.a.	6.36	1.30	62.7	6.17	n.a.	60
TUNISA	n.a.	n.a.	n.a.	n.a.	n.a.	5.81	32.6	n.a.	n.a.	79
SYRIA	n.a.	n.a.	n.a.	n.a.	0.41	22.8	74.7	0.37	n.a.	70

FGMS GRID MATRIX



COUNTRIES/REGIONS	RELATIVE RATINGS
GCC	A
BAHRAIN	A
SAUDI ARABIA	A
QATAR	A
KUWAIT	A
UAE	A
SOUTH ASIA	C
BANGLADESH	C
IRAN	C
PAKISTAN	C
SOUTH EAST ASIA	C
MALAYSIA	A
INDONESIA	C
THAILAND	C
EUROPE	C
BRITAIN	C
TURKEY & OTHERS	C
TURKEY	C
JORDAN	C
SUDAN	C
TUNISA	C
SYRIA	C
YEMEN	C
EGYPT	C
AVERAGE	C

Conclusion

- ▶ The greatest significance of this study is that it proposes the objectives of Islamic banks from the Maqasid al-Shariah perspective.
- ▶ It has tried to prove a gap in the growth of Islamic banks in terms of their financial progress and how much of it driven to meet their foundational merits of Maqasid Al-Shariah fulfillment.
- ▶ Moreover, it has also suggested a methodology that could be used to measure Islamic banks performance via the designed Maqasid ratios viz-z-viz financial growth.
- ▶ The study then introduced the 'Financial growth to Maqasid Al-Shariah'-FGMS- Grid Matrix' which rates/rated the banks, the regions and the overall sample as per the relative performances on both grounds.