

THE ROLE OF MEEZAN BANK IN THE DEVELOPMENT OF ISLAMIC BANKING SECTOR IN PAKISTAN

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ABSTRACT

The main objective of this study is to analyze the role of banking sector in the economic development of Pakistan particularly the role of Islamic banking and its prospects in the country in future. The Meezan bank emerged as the prime Islamic bank of the country and also played a vital role in the economic growth and development of Pakistan. The process of Meezan Islamic banking also brought specialization in the Islamic banking sector which developed and produced expertise in the operation which leads to efficiency. Since the establishment of Pakistan as a new country the main focus of banking industry was based on conventional but after words with the passage of time and being a Islamic country the need of alternate banking system based purely as per Islamic shariah and laws and it was felt to also established some Islamic banks in Pakistan. Hence the government of Pakistan with the collaboration of state bank of Pakistan started Islamic banking slowly and gradually. Initially Islamic banking licence issued to Meezan bank in 2002 which started full fledged Islamic based banking all over the country. The study further reveals that the Meezan bank which started with six branches in 2002 reaches/ increased to 1304 branches in 2013 which shows that the Meezan bank has played a major role in the development and progress of Islamic banking in Pakistan which is also evident from the result produced by the above bank in recent years.

Key term:

Islamic banking

Meezan bank

Development

Efficiency

Operation

Role

1 Introduction**1.1 Definition of Riba**

The Islamic banking is defined as banking in accordance with the culture and values control under the system of Islam by adding good governance and rules managed by risk as per laid down principles (Imran M.Ashraf,2002). The Islamic banking can also be defined in different ways the general secretariat of OIC (organizational Islamic countries) has approved as under, the financial status of Islamic bank having rules and mode of action which states its commitment to the Islamic shariah and its principles and to restrict the receipt and payment of riba on any of its function (Ali and Sarkar, 1995). Generally speaking the Islamic banking which is a substitute to interest based banking in common words is not banking. The Islamic banking is of the inspiration concluded from the spiritual addicts of Islam and has to carry out its business transaction purely as per directed of Shariah (Ahmed, 1983)

1.2 Prohibition of Riba

As per Quranic sayings Riba is Interest. The meaning of Riba means increase of money from his original amount, however in Riba all the amount increases cannot be considered as Riba

in Islam (Maududi, 1979). When a loan is granted by a lender the Riba is fixed. The Holy Quran has restricted Riba in four places. There are various Hadiath on Riba wherein the Riba has not allowed to adopt (Siddiqui Shahid Hasan, 2008). In Arabic, the increase, growth and rise means Riba and it is the extra amount which the borrower pays to the lender and the rate is fixed above the actual amount paid (Manzur, 1968). As far as restriction of Riba is concerned there are number of Hadiath narrated by our Prophet (PBUH), most of the Hadiath on Riba have also being endorsed by top most Islamic scholars like Imam Malik, Bukhari, Abu daud and Tirmazi Such as from Jabir- The Prophet (PBUH) states that the one who receive and pays Riba are equal. Abu Hurrarah quote the sayings of Prophet (PBUH) that on the night of Shab-e-Miraj some people whose stomach were like houses full of snake inside which can be seen from outside. The Prophet (PBUH) enquired from Hazrat Gabriel about these people, he replied that these are those people who have received Riba. Another Hadiath quoted by Ibn Masud that the Prophet (PBUH) said even if the amount of Riba is very high it is of no use (Musnad Ahmed).

1.3 Basic Principles Of Islamic Banking

Some of the basic principles of Islamic banking are narrated as under:

- To Fix the repayment and accrued interest before taking loan
- The profit and loss sharing system is the main concept of Islamic banking
- Increasing the money without any assets is not acceptable
- I restrict the attitude to increase money in speculation

- Only the Islamic laws are acceptable in Shariah
- The sanctilines of contrast

2 Method Of Islamic Financing

Generally speaking, there are three methods of Islamic financing.

- Islamic financing through lending
- Islamic financing through business
- Islamic financing through investment

These can be further defined as under

2.1 Islamic Financing through lending

Islamic financing can be done either through service charges or without any charges. As per this type of financing the bank will provide finance and will receive service charges in addition of finance amount. The service charges will be recovered equal to administrative cost. This administrative cost does not include the cost of deposit or expected loss if any. The maximum limit of service charges to be recovered is fixed by state bank of Pakistan.

2.2 Islamic banking through business

Different ways are adopted under this type of financing. For instance, Trading with Markup, Trading with Markup down, Trading with Murabaha, Trading with buy back agreement, Lease financing, Hire purchase, Bai salam etc. Trading with markup is sale and purchase of commodities on agreed price between a seller and purchaser. Trading with

markup down, a customer purchases trade hundis on agreed price which is less than the actual face price and the difference in both the prices shows the profit between them. Trading with buy back agreement in which the purchaser purchases some movable or immovable commodities on a fixed price. In lease financing an agreement or contract is made between a customer and an Islamic bank which provide various equipment, building or other asset to its customer by undergoing a rental agreement along with a undertaking by the bank/ client that at the maturity of the lease agreement the ownership of the goods or building or any other assets will be transferred in favour of customer who is called the lessee. Under Hire purchase the vehicles, machinery and other tools are provided to a person who is called as hirer for short term or long term period, provided the person or company give insurance and guarantee as security. Bai salam is a contractual agreement between the seller and the purchaser under which the seller provides the commodities to the purchaser in future and receive the payment in advance.

2.3 Islamic financing through Investment

Through this financing investment are carried out by way of Musharaka, investment on basis of equal participation and purchase of shares, investment in participation of term certificate, investment in mudaraba, investment on rent sharing basis and agricultural financing. Under this type of investment a relationship is made under an agreement or contract by mutual undertaking of the parties which relates to sharing a profit and loss in the business. Investment through equity means sharing of ownership in the company, which means participation in gains or risks. By this way the bank or the investor purchases the companies shares from market on market or agreed rates. The investment in participation terms

certificate is of medium or long term investment which replaces through debantures. This document/ contract is transferable. The profit sharing is as per proportion where as the loss sharing is as per investment by bank/ company.

3 Modes of Islamic Banking

There are some modes of Islamic banking such as Mudarabah, Ijarah, Murabaha etc. Which can be further defined as under:

3.1 Mudarabah

In Mudarabah one person provides funds to some other person who run the business and practically utilizes the funds provided by the investors who is the actual owner of the funds, and both the parties execute agreement in this respect with the condition that he will get a certain amount of profit from the business he run. However the total loss if any will be borne by the fund provider. In Mudarabah there may be a number of investors and a number of people who run the business or it may be one investor and more than one person who run the business. All above these conditions are applicable. In simple words Mudarabah is a specific type of partnership where one partner provides funds to another in order to invest it in a business enterprise. The provider of the funds who is the first partner is called Rubb ul Maal whereas the second partner is responsible for providing management and expertise and it called Mudarib.

3.2 Ijarah

Ijarah is a contract which is signed for a specific and lawful return based on the services or return which include the proposed benefits which are known as Ijarah. It can also be defined as the transfer of some property of rent in case of hiring of assets. Ijarah also means rent, wage or lease. Normally the ijarah is based on selling the benefit of use or services for a certain price or wage. Under this concept the bank provide to the customer to use the services of assets or equipments. For example plant, office automation, motor vehicle for a certain period on a fixed price. It means something on rent. Ijarah is comparable to conventional reasoning contact. Under this system it is simple to lease than to borrow for short term requirement in order to avoid various type of risk which do not need any credit rating and provides more liberty for changing the equipments as per growing advance technology. The main difference in ijarah is the risk and benefit of ownership which are with the owner. It means that the lesser will bear any loses sustain to the assets which are not under the control of the lesser. All the agreements that is lease and sale agreement should be made separately.

3.3 Murabaha

Its not a financing but it is a specific kind of sale where the dealing is carried out on a cost along with profit bases. In other words the seller informs the purchaser after fixing its cost and by adding certain amount of profit into it. In order to arrive at a selling price. The most important feature of murabaha from normal sale is that the seller discloses the cost to the purchaser and also at a certain amount of profit as such the payment of murabaha may be paid in one go on the spot or in shape of instalment or in lump sum after a specific time. The

basic rule of this financing is that assets which are to be sold must have a same price before it is sold. Murabaha is mainly used as working capital.

4 Role of Meezan Bank:

Meezan bank limited was incorporated in Pakistan on 27 January 1997 as a public limited company under the companies' ordinance 1984, and its shares are quoted on the Karachi stock exchange. The bank was registered as an investment finance company on 8 August 1997, and carried on the business of investment banking as permitted under S No.585(1)87 dated 13 July 1987, in accordance and in conformity with the principles of Islamic Shariah. The certificate of commencement of business was issued to the bank on 29 September 1997.

Meezan bank is a leading full fledged and one of the Islamic commercial bank of the country which commenced banking operation in 2002 after being issued the first ever Islamic commercial banking licence by state bank of Pakistan. Its vision is to establish Islamic banking as banking of first choice and its mission is to be premium Islamic bank, offering one stop shop for innovated value edit products and services to its costumer within the boundaries of Shariah since than it is providing a large range of Islamic banking products and services.

The bank was granted a scheduled Islamic commercial bank licence on 31 January 2002 and formally commenced operations as a scheduled Islamic commercial bank with effect from 20 March 2002, on receiving notification in this regard from State bank of Pakistan under

section 37 of the State bank of Pakistan Act 1956. Currently, the bank is engaged in Corporate, Commercial, Consumer, Investment and retail banking activities.

Meezan bank showed remarkable progress and growth in all the other sector of Islamic banking for instance the total assets which were 11 billion in 2003 increased to 155 billion in 2010 and 437 billion in 2014 similarly the total deposit of Meezan bank increases from 8 billion in 2003 to 131 billion in 2010 and 380 in 2014. The net financing and investment also shows remarkable growth from very beginning which was 9 billion in 2003 and increases to 2115 in 2010 and 249 billion 2013 .

The bank is operating through 430 branches as on 31 March 2015 and based on the financial statement of the bank for the year ended 31 December 2013, the JCR-VIS Credit rating company limited has reaffirmed the bank's long term rating as AA and the short term rating as A-1+ with stable outlook.

The bank provides Islamic financing are related assets mainly through Murabaha, Istisna, Tijarah, Ijarah, Diminishing Musharakah, Running Musharakah, Bai Muajjal, Musawammah and export refinance under Islamic export refinance scheme and service Ijarah.

The bank maintains general reserve (provision) in accordance with the applicable requirements of the prudential regulations for consumer financings and prudential regulations for small and medium enterprises financing issued by the State bank of Pakistan.

In addition the bank has also maintained a general provision of Rs.1125 million as on 31 December 2014 against financings made on prudent basis.

Now as far as the results of 1st quarter ended 31 December 2015 are concerned, the Meezan bank has maintained its growth momentum and recorded good results for the first quarter ended 31 March 2015. Profit after tax increased to Rs.1313 million from Rs.1106 million resulting in a growth of 19%.

The Deposit of the bank increased to Rs.391 billion as at 31 March 2015 from Rs.380 billion as at 31 December 2014.

Profit on financings, Investments and placement was Rs.8.3 billion during the current period reflecting an increase of 30% from 6.4 billion recorded in the comparative quarter last year only due to growth in earning assets.

Non fund based income decreased by 10% from Rs.1282 million to Rs.1156 million mainly due to decrease in foreign exchange income and lower capital gain. Thus the bank earning per share was Rs.1.31, a growth of 19%.

State bank of Pakistan continued its open market operations for Islamic banks using Bai Muajjal structure which helped Islamic banks to replay their excess liquidity. Meezan bank toatal outstanding under Bai Muajjal made with State bank of Pakistan at the quarter end amounted to Rs.130 billion deployed at rates slightly lower than the discount rate.

5 Conclusion:

The basic idea of study is to determine the role of Meezan bank in the economic development of banking sector in Pakistan with particular reference to Islamic banking few of the specific purposes which are covered and taken into consideration are

- To review the historical performance of Meezan bank in the Islamic banking sector of Pakistan
- To evaluate the Meezan bank as per the development and competitive structure of the Islamic banking sector in Pakistan
- To determine the Meezan bank Islamic dynamics by evaluating historical performance and its back ground
- To identify the factors that drives the growth and capacity and expansion cycle.
- To access the problem and its solution for providing the Islamic banking to end User.

From the above study it is concluded that since the start of the Islamic banking in Pakistan the Meezan bank played its role very effectively and motivated the general public to invest in various Islamic products introduce by Meezan bank which automatically boost up the economy of the country. The share of Meezan bank in Pakistan is 30% among all the other Islamic banking branches now operating in Pakistan the measure share is being enjoyed and captured in all the sectors of Islamic banking to Meezan bank. The credit of implementation of the Shariah rules in Islamic banking goes to Meezan bank. The shriah and supervisory board is managed and looked after by high level team of Islamic scholar.

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