

EXCLUSIVE INTERVIEW



“To fully transition Pakistan's financial system to an Islamic model, it is crucial to implement legal reforms, establish Shariah-compliant solutions for deficit financing, create an Islamic taxation system, and engage in international collaboration with other Islamic countries to standardize Islamic trade terms”



Dr. Mufti Irshad Ahmad Aijaz
Chairman, Shariah Advisory Committee
State Bank of Pakistan (SBP)

ICMA: How do you assess the progress of Islamic banking and finance in Pakistan over the past decade?

Dr. Mufti Irshad: Over the past decade, Islamic banking and finance in Pakistan have experienced substantial growth across multiple areas, including Islamic banking operations, the conversion of conventional banks, Takaful (Islamic insurance), and Islamic mutual funds. This progress has been facilitated by strong regulatory support from institutions such as the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP), both of which introduced Shariah governance frameworks for banking and non-banking financial sectors.

Notably, the market share of Islamic banking expanded from 11.6% in 2014 to over 24% by 2024, while the number of Islamic banking branches grew from approximately 1,574 to more than 6,000. This impressive growth reflects a combination of effective regulatory backing, continuous innovation in Islamic financial products, and increasing public demand.

ICMA: What are the biggest challenges in transitioning Pakistan's economy to a fully Islamic system, and how can they be addressed?

Dr. Mufti Irshad: Pakistan's transition to a fully Islamic economy faces several key challenges, including the dominance of conventional legal frameworks, limited legislative backing, and the complex process of converting both domestic and international government debts to Shariah-compliant alternatives.

ICMA: How does the Shariah Advisory Committee (SAC) of SBP ensure that Islamic banking products strictly adhere to Shariah principles?

Dr. Mufti Irshad: The Shariah Advisory Committee (SAC) of the State Bank of Pakistan (SBP) is generally responsible for advising on government Sukuk structures and addressing issues related to the Islamic banking industry, as presented by SBP's Islamic Finance Policy Department. However, the individual products of Islamic banks are reviewed and monitored by their respective Shariah Boards.

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ICMA: How does SAC collaborate with financial institutions to improve Islamic banking practices?

Dr. Mufti Irshad: The Shariah Advisory Committee (SAC) collaborates with financial institutions through the Islamic Banking Policy Department (IBPD) of the State Bank of Pakistan. Any query or request for approval or opinion from an Islamic bank is routed to the SAC through the IBPD.

ICMA: What role do finance professionals, including accountants, play in advancing Islamic finance?

Dr. Mufti Irshad: Finance professionals, including accountants, play a vital role in advancing Islamic finance, as accounting involves the accurate recording of financial transactions in their true essence. Given the unique nature of Islamic banking transactions, proper accounting is essential. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has developed specific accounting standards for the Islamic finance industry.

ICMA: How can Pakistan's Islamic banking sector remain competitive with conventional banking?

Dr. Mufti Irshad: In the true sense, there may not be direct competition between them, as they offer different types of products—Shariah-compliant and non-compliant. However, as part of the broader financial sector, they do operate as competitors. The Islamic banking sector can enhance its competitiveness through innovation, digitalization, and improved customer service.

ICMA: What recent government initiatives do you see as most impactful in advancing the Islamization of the economy?

Dr. Mufti Irshad: Over the past decade, Pakistan has made significant progress in the Islamization of its

economy through initiatives such as the Shari'ah Governance Framework (2015), Sukuk issuances, and tax reforms that incentivize Islamic financial products. However, further improvements are still required.

ICMA: What are the essential steps required to fully transition Pakistan's system to an Islamic model?

Dr. Mufti Irshad: To fully transition Pakistan's financial system to an Islamic model, it is crucial to implement legal reforms, establish Shariah-compliant solutions for deficit financing, create an Islamic taxation system, and engage in international collaboration with other Islamic countries to standardize Islamic trade terms.

ICMA: How can institutions like ICMA Pakistan contribute to strengthening Islamic finance?

Dr. Mufti Irshad: ICMA Pakistan, as a local accounting body, can play a significant role within its scope by contributing to the development of accounting

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standards for Islamic financial transactions in Pakistan. Additionally, it can provide specialized training in Islamic accounting, promote research on Shariah-compliant financial solutions, and foster collaboration among industry stakeholders to enhance best practices..

The Editorial Board thanks Dr. Mufti Irshad Ahmad Aijaz, Chairman, Shariah Advisory Committee, State Bank of Pakistan (SBP) for sparing from his precious time to give exclusive interview for Chartered Management Accountant Journal.