

ISLAMIC BANKING IN BANGLADESH

Adapting to change in a dynamic financial environment

PRIYAM PAUL

Over the past four decades, Islamic banking has firmly established itself as a significant financial sector in Bangladesh, operating in accordance with Islamic principles and providing a secure platform for transactions. However, like the broader banking sector, Islamic banking currently faces a range of challenges. Despite these obstacles, there exists a strong sense of optimism for recovery and growth, contingent upon effective leadership and strategic oversight.

"Just as Islam has been established as a universally acceptable way of life that embraces all the beauty and perfection of the world, in the same way, Islami Bank is moving forward by facing all contemporary challenges," shares Sohail R K Hussain, Managing Director and CEO at Bank Asia.

At present, ten full-fledged Islamic banks operate across 1,672 branches nationwide. In addition, 15 conventional commercial banks have set up 31 dedicated Islamic banking branches, and 16 conventional banks maintain 646 Islamic banking windows to offer Shariah-compliant financial services throughout the country.

"The Islamic banking system is well-positioned to thrive in our country due to its considerable appeal. Consequently, traditional banks are also establishing Islamic branches and windows, thereby allowing conventional and Islamic banking to coexist equally. Nevertheless, the S Alam Group has caused substantial damage to Islamic banks, particularly Islami Bank, which has suffered the most. In response, Bangladesh Bank is providing liquidity support to help these banks endure, and there are emerging signs of recovery. Islami Bank has already navigated much of the crisis, and other Islamic banks are also on the

path to recovery," stated Prof. Dr. Mainul Islam, former professor of economics at Chittagong University.

According to the latest Bangladesh Bank Quarterly Report on Islamic Banking, total deposits in the Islamic banking system reached BDT 4,394.65 billion at the end of March 2024, reflecting a decrease of BDT 39.38 billion, or 0.89 percent, compared to December 2023. However, this figure represents an increase of BDT 278.34 billion, or 6.76 percent, compared to the same quarter of the previous year. During the reporting

The number of Islamic bank branches, including the Islamic windows of conventional commercial banks, increased to 1,703 at the end of March 2024, compared to 1,700 in December 2023 and 1,684 in March 2023. Similarly, the number of Islamic banking windows rose to 646 by March 2024, up from 624 in December 2023 and 550 in March 2023.

period, Islamic banks accounted for 26.23 percent of total deposits in the entire banking sector.

The total investments (loans and advances) in the Islamic banking system rose by BDT 120.20 billion, or 2.70 percent, reaching BDT 4,569.94 billion at the end of March 2024 compared to December 2023. This increase also represented a rise of BDT 445.97 billion, or 10.81 percent, compared to the same quarter of the previous year. At the end of March 2024, Islamic banks constituted 28.24 percent of total loans and advances in the entire banking sector.

Additionally, the Investment-Deposit Ratio (IDR) of Islamic banks stood at 0.97

at the end of March 2024 (excluding EDF and refinance), up from 0.93 in December 2023 and 0.92 in March 2023.

Notably, the excess liquidity of Islamic banks declined by BDT 51.25 billion, or 77.14 percent, bringing it down to BDT 15.18 billion at the end of March 2024, compared to BDT 66.43 billion at the end of December 2023. This figure was also BDT 5.85 billion, or 27.82 percent, lower than the same period last year.

Meanwhile, the number of Islamic bank branches, including the Islamic windows of conventional commercial

accounts for over a quarter of the total banking sector regarding deposits, loans, and advances, which suggests a promising outlook.

Banks are currently optimistic about the revival of Islamic banking in the prevailing political context, provided there is appropriate guidance from Bangladesh Bank and strategic measures are refined to address the ongoing crisis.

According to industry insiders, the Islamic banking and finance sector in Bangladesh encounters several structural challenges despite its significant opportunities. These include the lack of an Islamic Banking Act, insufficient Sukuk and Shari'ah-compliant investment options, inconsistent Shari'ah rulings, and no apex training bodies for professionals. Additionally, the absence of a secondary securitization market, insufficient syndication efforts for Shari'ah-compliant public project financing, the lack of an Islamic money market, and the need for updates to the Shari'ah governance framework present significant challenges.

"At the governmental level, there is an absence of clear policy, strategy, and a roadmap for the development of Islamic banking over the next five years. A cohesive plan is essential for guiding the industry forward," opines Syed Ibne Shariar, Head of Islamic Banking Division at Prime Bank.

He also highlighted that a prevalent misconception exists regarding the similarity between Islamic and conventional banking, and it is essential to address this mindset.

There is also a notable

shortage of banking professionals who possess both technical finance expertise and a profound understanding of Islamic jurisprudence. Besides, there is general lack of understanding of Islamic banking principles and products limits potential customer engagement, consumer uptake, confidence, and market growth. The research and development budgets are also inadequate.

The major players in the country's Islamic banking industry are facing a challenging liquidity position.

"Conventional banks can access interbank markets and central bank liquidity windows, while Islamic banks face difficulties in liquidity management due to their inability to utilise interest-based instruments," shares Farman R Chowdhury, Managing Director and CEO at Al-Arafah Islami Bank, a dedicated Shariah-based Islamic bank in the country.

"However, several conventional banks offering Islamic banking services possess adequate liquidity. For instance, City Islamic, the Islamic banking wing of City Bank, has even provided liquidity support of BDT 500 Crore to two full-fledged Islamic banks," states Md Afzalul Islam, Executive Vice President and Head of Islamic Banking at City Bank Plc.

SEE PAGE J11

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