

More Experts in ISLAMIC ECONOMICS & BANKING NEEDED

In conversation with Farman R Chowdhury, Managing Director, Al-Arafah Islami Bank

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TDS: What is the current state of Islamic banking in Bangladesh?

Farman R Chowdhury (FRC): The total bank deposit in the banking sector is BDT 17,340.30 billion, out of which the Islamic banking system has reached BDT 4,394.65 billion, accounting for around 25% of the total banking deposit. The total investment in the banking sector is BDT 20,854.49 billion, with Islamic banking investment amounting to BDT 4,569.94 billion, which represents around 22% of the total investment (loans and advances) in the banking sector.

Total export receipts by the Islamic banks are BDT 321.31 billion, while total import payments by the Islamic banking system are BDT 504.36 billion. On the other hand, total remittances mobilized by the Islamic banks stand at BDT 258.97 billion.

The number of branches of Islamic banks, including the Islamic branches of conventional commercial banks, increased to 1,703 at the end of March 2024. Simultaneously, the number of Islamic banking windows rose to 646 at the end of March 2024, up from 624 at the end of December 2023. Total employment in the Islamic banks stood at 51,272 at the end of March 2024.

TDS: What types of Shariah-compliant services does your bank offer?

FRC: Banks mainly perform two types of interest-free Shariah-compliant activities: collecting deposits and providing investments. Islamic banks



offer different deposit modes, such as Al-Wadiah Current Deposit accounts and Mudarabah Savings Deposit accounts. Investment modes include Bai mechanisms (Bai-Muajjal, Bai-Murabaha, Bai-Salam, Bai-Istisna), sharing/partnership mechanisms (Mudarabah, Musharakah), and Ijarah/leasing mechanisms (HPSM).

TDS: What challenges does Islamic banking currently face that need to be addressed?

FRC: There are several challenges that need to be addressed within the Islamic banking sector. Firstly, there exists a significant gap between the law and its practical implementation. Inconsistencies in Shariah interpretations across various

banks can lead to a lack of credibility in Islamic banking. Additionally, there is a shortage of banking professionals who possess both technical finance expertise and a deep understanding of Islamic jurisprudence.

Furthermore, while conventional banks can access interbank markets and central bank liquidity windows, Islamic banks struggle with liquidity management due to their inability to utilize interest-based instruments. The current offerings of Islamic banks in Bangladesh are largely limited to basic financing modes, such as Murabaha and Ijarah, which restricts their competitive edge and reduces the range of financial products available to customers.

Moreover, there is a lack of

understanding among Bangladesh consumers regarding Islamic banking, resulting in a disconnect between potential customers and the services provided by these banks, which hinders market penetration. Islamic banks also face tough competition from conventional banks, which have larger capital bases, a wider array of products, and established infrastructures, making it difficult for Islamic banks to compete effectively in terms of pricing and service delivery.

Additionally, Bangladesh's Islamic banks are less connected to the global Islamic finance network, limiting their opportunities for cross-border investments and international market growth.

TDS: Do you have any plans to add more features to the Islamic banking channel at your bank to enhance customer service?

FRC: Firstly, developing a financial literacy program is an excellent strategy to boost customer service. Banks should transition from merely being lenders to becoming financial advisors by providing comprehensive services.

A bank's customer base provides valuable data. CRM technology enables extensive information collection for targeted marketing and improved sales opportunities. Moreover, the financial services industry has been slow to adopt self-service capabilities that allow customers to access support 24/7. Therefore, banks should offer more self-service options to improve customer service further.

Additionally, Islamic banks ought to enhance their customer service by seamlessly integrating multiple digital and physical channels, creating an omnichannel customer experience.


Finally, as the financial services landscape is constantly evolving, organizations must remain updated and adaptable to emerging trends. This necessitates continuous improvement, integration of solutions, and embracing digital transformation.

TDS: What are the prospects for the overall growth of Islamic banking in the country?


FRC: Shariah-based banks in Bangladesh must connect with traditional banking infrastructure to provide smooth customer service and efficiently promote Islamic banking while ensuring compatibility and interoperability to guarantee its swift expansion.

Like Malaysia's success in the Sukuk issuing market, Bangladesh must grow its Islamic bond market. Bangladesh can spread awareness of Islamic asset management with the help of foreign organizations and assistance. Innovation and market share may be increased by creating supporting organizations and establishing research and development facilities.

One of the biggest issues facing Islamic banks in Bangladesh is the lack of Shari'ah scholars with expertise in Islamic economics and banking. Additionally, the Shari'ah board needs to have a significant impact on the bank's strategic and operational planning.



AL ARAFAH ISLAMIC BANK




Current Portfolio (BDT/Crore)
as of September, 2024

LAUNCHING YEAR 1995

Initial Authorized Capital (1995)
BDT 1000 million

Initial Deposit
BDT 201.45 million

Initial Investment
BDT 12.48 million



Total Investment	46,864	Total Inward Remittances	6,517	Total Deposits	49,512
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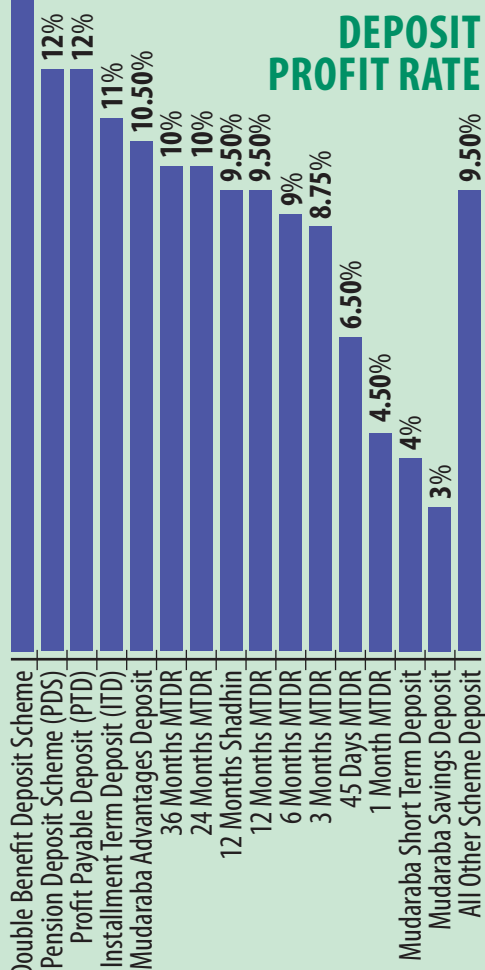
MAJOR DEPOSIT PRODUCTS

- Al-Wadiah Current Deposit (CD)
- Al-Arafah Monthly Hajj Deposit (MHD)
- Al-Arafah Termed Hajj Deposit (THD)
- Cash Waqf Deposit Scheme (CWD)
- Locker Account
- Mudraba Savings Deposit (MSD)
- Mudaraba Term Deposit (MTDR)
- Mudaraba Short Notice Deposit (MSND)
- Mudaraba Advantage Deposit Scheme

TOP SHARIAH-BASED LENDING SECTORS THAT AIB FINANCE

Sectors	BDT/Crore
Agriculture, Fishing and Forestry	696.05
Industry	28,724.92
Construction	2,843.39
Waterworks & Sanitary Service	518.22
Transport & communication	882.94
Storage	183.81
Trade Finance	10,246.42
Miscellaneous	2,465.65
Total	46,864

DEPOSIT PROFIT RATE



Double Benefit Deposit Scheme	13.78%
Pension Deposit Scheme (PDS)	12%
Profit Payable Deposit (PTD)	12%
Installment Term Deposit (ITD)	11%
Mudaraba Advantages Deposit	10.50%
36 Months MTDR	10%
24 Months MTDR	10%
12 Months Shadhin	9.50%
12 Months MTDR	9.50%
6 Months MTDR	9%
3 Months MTDR	8.75%
45 Days MTDR	6.50%
1 Month MTDR	4.50%
Mudaraba Short Term Deposit	4%
Mudaraba Savings Deposit	3%
All Other Scheme Deposit	9.50%

ISLAMIC MICROFINANCE PORTFOLIO

Client	72,270
District covered	62
Total Disbursement	443.01 (BDT/Crore)

SPECIALIZED PRODUCTS

- Startup Uddog Scheme for Students
- Startup Fund Scheme for Students
- Small Enterprise Scheme for Women
- Pension Deposit Scheme (PDS)
- Mudaraba Denmohor Deposit Scheme
- Farmers & Freedom Fighters Account
- Mudaraba Probashi Kallyan Deposit Pension Scheme (MPDPS)
- Mudaraba Saving Account for Garments Workers

SERVICE COVERAGE

Total Number of Branches	226	Total Number of Sub-Banches	77
Total Number of Agent Outlets	742	Total Number of ATM Booths	243

INVESTMENT PRODUCTS

- Bai Istisna
- Bai Muajjal
- Bai Murabaha
- Bai Murabaha TR
- Bai Salam
- Bai-Murabaha Post Import (MPI)
- Foreign Bill Purchase
- Hire Purchase Under Shirkatul Meilk
- Mudaraba
- Musharaka
- Quard against Inland Bill Purchase
- Special investment schemes

CMSME PRODUCTS

- Al-Arafah Women Entrepreneurs
- Micro Enterprise Investment Scheme
- Rural Agricultural Investment Scheme
- Small Enterprise Investment Festival
- Small Enterprise Investment Scheme

UNIQUE FEATURES

Zakat and Sadaqah payments through a dedicated Cash Waqf Account	Fast, secure and affordable transactions through Islamic Wallet
School Banking: Account 1,44,000	Startup investment at 4% rate
Women Enterprise under refinancing scheme. They get special training and investment at 5% rate	

STRENGTH

- Strong Shariah Compliance
- Comprehensive Product Offerings
- Ethical Financing
- Customer-focused Services
- Community Engagement
- Innovative Banking Solutions
- Proven Track Record