

The Development of Islamic Finance in Bangladesh

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Abstract:

The purpose of this paper is to discuss the development of Islamic finance industry in Bangladesh based on the three main sectors which are increasingly gaining popularity and visibility: banking and finance; takaful and securities. This paper shows the growth in Islamic banking sector, takaful sector and Islamic securities sector from 2015 to 2019. It represents that the development is in the banking sector mainly along with the takaful sector. Recently fully fledged shariah based Islamic bond named 'sukuk' is being introduced. This paper also shows the challenges for the development of Islamic finance in Bangladesh.

Keyword: Islamic Finance, Bangladesh, Islamic Banking, Takaful, Islamic Securities

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I. Introduction:

Islamic finance is an increasingly important means for the financing of physical and social infrastructure that supports economic development and job creation in an expanding group of emerging economies. For the past three to four decades the world has seen a robust growth in the Islamic financial industry through both the demand for and the provision of products and services. In 27 countries Islamic shariah based institutions are working with their various Islamic products¹. Bangladesh has a long history in Islamic finance. In 1983 with the establishment of Islami bank, Bangladesh entered into Islamic finance era. This paper will show the growth in Islamic financing in three sectors over the years in Bangladesh.

Objectives:

The objectives of the study are as follows:

- ✓ To find out the current scenario of Islamic banking in Bangladesh.
- ✓ To find out the current scenario of Islamic insurance in Bangladesh
- ✓ To find out the current scenario of Islamic securities in Bangladesh
- ✓ To find out the overall development in Islamic finance industry in Bangladesh.

II. Methodology:

The study is mainly based on secondary data. The data collected from various secondary sources such as- articles, magazines, books, webportalsetc have been tabulated first manually and then they have been analyzed by employing both statistical and financial techniques such as percentage and diagrammatic presentation.

III. Literature Review:

The United States' subprime crisis in 2007 had caused a vigorous blow on the global economy. Although both Islamic and conventional banks were equally impacted by this crisis, Islamic deposits were never affected due to its profit sharing nature which was not influenced by external policies, interests and banking instability risks.²

In 2008, Laldin and M. Akram represented some data about the growth of Islamic banking. They showed that in Bangladesh Islamic banking is practiced mostly as a mode of Islamic finance. They showed that there is a huge growth in Islamic banking in Bangladesh.³

In 2009, in their book named 'Islamic Finance and Banking System-Philosophies, Principles and Practices'- Haron, Nursofiza and Azmi introduced the Islamic banking as a tool for economic development. They also called the takaful industry and Islamic securities market as vibrant and thriving.⁴

In 2010, Rosly and Azhar analyzed Islamic banking practices in Malaysia. They found some critical issues regarding application of Islamic economics. They provided the principles underlying the shariah financial instruments and presented them in actual and practical form.⁵

Dusuki and Abdullah (2007) examined how Islamic banking paradigms and model is different to conventional banking. Islamic banks aim to create a fair and balanced society as prescribed by the Islamic economics. ⁶ In 2017 Abdul, Saba and Mohammad investigated the relative financial strength of Islamic banks and their contribution towards the financial stability. ⁷

Islamic Finance Fundamentals:

Islamic finance is an instrument for reaching out to under-served segments of society, which include the poor as well as the vulnerable non-poor, amongst whom are significant number of people who have voluntarily limited their access to an interest based financial system.

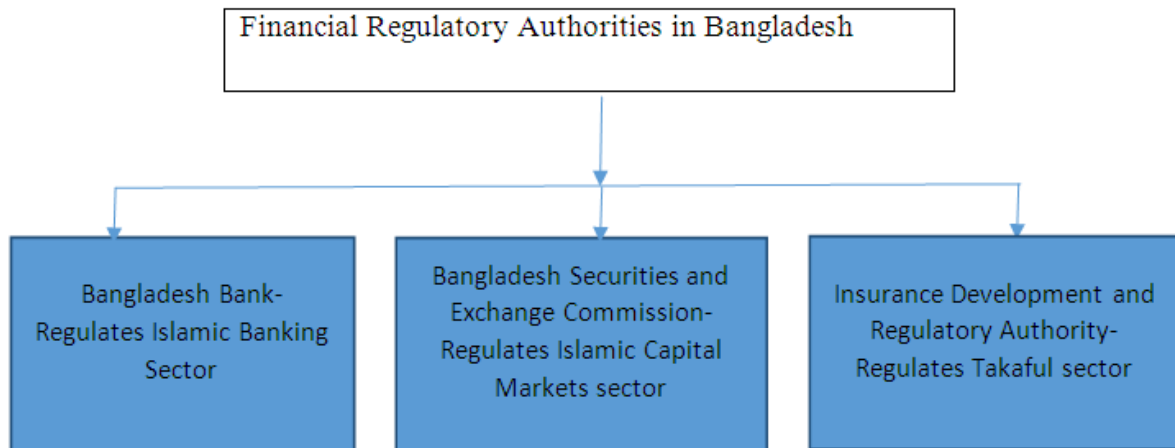
The prohibition of interest (riba), gharar (ambiguity) and maysir (gambling) elements in financial transactions are derived from the teachings and understanding of Islamic traditional literature including the Quran, Sunnah and early scholarly texts. These elements make up the fundamentals of Islamic finance which distinguishes it from conventional finance.

Muslims are directed by the holy Quran with specific verses regarding riba. Some of them are: ‘O you who believe!(Do) not eat Riba doubled, re-doubled, And consciously revere Allah so that you may be successful’. [Al-Quran: 3/130].

‘The standing of those who eat Riba is like standing of the one who is confounded by Devil’s stroke- that’s because they say trade is just like Riba, whereas Allah has permitted trade and forbidden Riba. Hence those who have received the admonition from their Lord and desist, may keep their previous gains, their case being entrusted to Allah; but those who revert shall be the inhabitants of the fire and abide therein forever’. [Al-Quran: 2/275]

Development of Islamic Finance in Bangladesh:

Although Bangladesh is a muslim country with about 90% muslims, here financial system is not fully Islamicshariah based. In Bangladesh, Islamic finance is practiced by some private commercial banks and insurance companies. Some conventional banks also have Islamic wings. In this this paper we will have a brief overview of the development of Islamic finance in Bangladesh.



In global Islamic financial system Bangladesh has a remarkable share. The following table shows the latest Islamic Finance Country Index:

LATEST IFCI SCORES & RANKS

COUNTRIES	2019 SCORE	2018 SCORE	CHANGE IN SCORE	2019 RANK	2018 Rank	CHANGES IN RANK
INDONESIA	81.93	24.13	+57.80	1	6	+5
MALAYSIA	81.05	81.01	+0.04	2	1	-1
IRAN	79.03	79.01	+0.02	3	2	-1
SAUDI ARABIA	60.65	66.66	-6.01	4	3	-1
SUDAN	55.71	17.09	+38.62	5	11	+6
BRUNEI DARUSSALAM	49.99	10.11	+39.88	6	14	+8
UNITED ARAB EMIRATES	45.31	39.78	+5.53	7	4	-3
BANGLADESH	43.01	17.78	+25.23	8	10	+2

Source: Global Islamic Finance Report 2019

The following table shows the growth rate in Islamic Finance Country Index of Bangladesh along with other countries from 2012 to 2019.

GROWTH IN IFCI: 2012-19

COUNTRIES	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	GROWTH IN IFCI	Average annual growth in IFCI
	(2012-13)	(2013-14)	(2014-15)	(2015-16)	(2016-17)	(2017-18)	(2018-19)	(2012-19)
AFGHANISTAN	3.85	-1.4	-1.14	31.2	0.4	2.35	65.07	14.33
ALGERIA	16.99	-1.33	0.88	-18.19	-0.49	1.11	37.81	5.25
AUSTRALIA		-1.33	104.73	-0.3	-2.61	0.92	-0.82	16.77
AZERBAIJAN		16.97	2.59	-9.08	3.12	1.86	41.79	9.54
BAHRAIN	-3.32	18.15	7.88	-8.47	0.22	1.84	25.72	6.00
BANGLADESH	77.99	8.58	11.39	45.26	3.6	6.33	58.66	30.26

Source: Global Islamic Finance Report 2019

1. Islamic Banking:

Currently 8 private commercial banks are running fully based on Islamicshariah.

They are:

Table :Fully-fledged Islamic Banks in BD

Name of the Bank	Establishment year
1. Islami Bank Bangladesh Limited	1983
2. Oriental Bank Limited (Present name- ICB Islamic Bank Limited)	1987
3. Al –Arafah Islamic Bank Limited	Septemer,1995
4. Social Investment Bank Limited (Current name- Social Islami Bank Limited)	November,1995
5. Shahjalal Islamic Bank Limited	2001
6. EXIM Bank of Bangladesh Limited	2004
7. First Security Islami Bank Ltd	2006
8. Union Bank Limited	2013

Source: Annual Reports of the Banks

Recently Standard Bank and NRB commercial Bank have got permission to become fully-fledged Islamic shariah based bank. Besides 18 conventional banks have Islamic banking branches and windows currently in Bangladesh. ⁸.

To check out the growth in Islamic banking this paper will show the change in authorized capital and paid up capital, total deposits, total assets and total investments overtime.

Table: Paid-up Capital (Million BDT)

Year	IBBL	ICBIBL	AIBL	SIBL	SJIBL	EXIM	FSIBL	UNION
2015	16,099.91	6647.023	9,469.58	7,031.42	7,347	14,122.51	6,788.74	4280.00
2016	16,099.91	6647.023	9,943.06	7,382.99	7,347	14,122.51	6,788.74	4,708.00
2017	16,099.91	6647.02	9,943.06	7,382.99	7,714	14,122.51	7,128.17	5,272.96
2018	16,099.91	6647.02	10,440.22	8,121.29	8,485	14,122.51	7,840.99	5,272.96
2019	16,099.91	6647.02	10,649.02	8,933.41	9,334	14,122.51	8,625.09	5,272.96
Average growth	-	-	2.5%	5.4%	5.4%	-	5.4%	4.6%

Source: Annual reports of the banks and Calculated by author

Table: Authorized Capital (Million BDT)

Year	IBBL	ICBIBL	AIBL	SIBL	SJIBL	EXIM	FSIBL	UNION
2019	20,000	15,000	15,000	10,000	10,000	20,000	10,000	10,000

Source: Annual Reports of the Banks

Table: Total Asset (Million BDT)

Bank Name	2018	2019	Growth rate
IBBL	462,921.48	491,020.47	6.07%
ICBIBL	11,429.69	11,240.14	-1.66%
AIBL	338,465.30	381,051.81	12.58%
SIBL	307,305.32	345,056.23	12.28%
SJIBL	243,660	266,104	9.21%
EXIM	371,510.07	433,017.99	16.56%
FSIBL	372,183.32	437,831.59	17.64%
UNION	148,583.76	180,023.94	21.16%

Source: Annual reports of the banks and Calculated by author

Table: Total Deposits (Million BDT)

Bank Name	2018	2019	Growth rate
IBBL	822,573	946,292	15.04%
ICBIBL	11,518.75	11,960.39	3.83%
AIBL	266,205.48	297,241.81	11.66%
SIBL	224,339.78	267,828.58	19.39%
SJIBL	176,862	203,384	15%
EXIM	300,378.01	355,689.16	18.41%
FSIBL	320,011.19	376,609.70	17.68%
UNION	124,898.503	150,219.920	20.27%

Source: Annual reports of the banks and Calculated by author

Table: Total Investments (Million BDT)

Bank Name	2018	2019	Growth rate
IBBL	805,760	899,013	11.57%
ICBIBL	8633.64	8458.07	-2.03%
AIBL	274088.8	304656.54	11.15%
SIBL	238,654.17	264,268.59	10.73%
SJIBL	186,090	197,286	6.02%
EXIM	306,264.57	344,557.65	12.50%
FSIBL	311416.52	364029.96	16.89%
UNION	119,934.385	146,459.574	22.12%

Source: Annual reports of the banks and Calculated by author

2. Takaful sector:

In January 19, 2008 a shariah council

Islami Insurance Bangladesh Limited (IIBL) was the first General Insurance company (Takaful) based on Islamishariah which was registered and established under the Bangladesh Company Act, 1994 and The Bangladesh Insurance Act, 1938 in 1999. It started functioning in 1st January, 2000.

Padma Islami Life Insurance Limited emerged as the first full-fledged islami life insurance company in Bangladesh in 2000.

There are eight full-fledged Islamic insurance companies and 13 Islamic insurance windows operating takaful in Bangladesh. (IDRA)

Serial no.	Name of Islamic insurance company	Year of establishment	Branch
1	Islami Insurance Bangladesh Limited	25 October 1999	42
2	Takaful Islami Insurance Limited	21 December 1999	42
3	Islami Commercial Insurance Company Limited	01 January 2000	28
4	Padma Islami Life Insurance limited	26 April 2000	8
5	Fareast Islamic Life Insurance Company limited	29 May 2000	1012
6	Prime Islami Life Insurance limited	22 April 2002	385
7	Alpha Islami life Insurance limited	After July 2013	-
8	Trust Islami Life Insurance Company limited	After July 2013	20 (Agents)

Source: Annual reports-2019 of the companies

For lack of information only the data of 5 companies are being evaluated here.

Table: Total Investment (Million BDT)

Year	Islami IBL	Takaful IIL	Padma ILIL	Fareast ILICL	Prime ILIL
2015	343.71	619.42	555.10	26937.26	5768.31
2016	383.63	699.97	999.67	26231.94	5619.47
2017	467.1	765.23	671.34	27,507.02	3963.23
2018	497.18	768.79	396.81	25,128.62	3831.55
2019	532.88	810.79	458.26	260,89.48	3779.82
Average growth	55.04%	30.9%	-17.45%	-3.15%	-34.47%

Source: Annual reports-2019 of the companies and calculated by author

Total Assets (Million BDT)

Year	Islami IBL	Takaful IIL	Padma ILIL	Fareast ILICL	Prime ILIL
2015	793.11	795.55	36,372.52	40,697.27	8525.47
2016	875.07	889.35	33,133.85	41,140.63	8960.67
2017	961.95	951.06	23,894.04	42,397.01	9395.11
2018	1026.47	1001.25	22,386.66	42,406.36	9923.63
2019	1119.55	1053.67	22,388.77	43,282.02	9778.99
Average growth	41.16%	32.45%	-38.45%	6.35%	14.70%

Source: Annual reports-2019 of the companies and calculated by author

3. Islamic Securities:

In the newspaper DhakaTribune it was published that Bangladesh is set to introduce Shariah based bond 'Sukuk' as a new investment tool in December 2020. Sukuk is related with particular investment activity

which represents undivided share in the ownership of tangible assets. A sukuk investor carries right to profit, responsibility of loss and ownership of the underlying asset proportionate to the investment made. ¹⁷

The Financial Express published that although Bangladesh is preparing to launch its first sukuk bond this year, it needs to formulate a comprehensive legal and regulatory framework for getting optimum benefit from the instrument. There should be a market ready and trust building work among the people for sukuk before launching the product and the regulator should work on that. ¹⁸

Challenges in the Development of Islamic Finance:

In Bangladesh conventional interest based financial system has been functioning from a longer time period. From the last 37 years Islamic finance is being practiced here in a smaller part of the economy. These are some of the challenges in the development of Islamic finance:

- a. Lack of ensuring a legal framework
- b. Lack of Islamic capital markets and interest free instruments
- c. Lack of unified shariah rulings
- d. Absence of infrastructure for international Islamic trade financing
- e. Shortage of trained and skilled manpower in Islamic finance
- f. Lack of coordinated research work in Islamic finance
- g. Lack of intention of the management to be strict with shariah guidelines
- h. Insufficient budget for research and development.

IV. Conclusion:

An increasing number of countries are integrating Islamic finance into public spending and public financing decisions through issuance of sovereign Islamic securities that further helps to provide a benchmark for corporate Islamic securities. This is happening in those countries which are strongly committed to develop a broader Islamic financial system. Bangladesh is also developing in Islamic finance at a significant rate. Bangladesh government may follow the Malaysian government's ten year master plan for establishing full fledged Islamic financial system. To fight with the challenges a detailed monitoring system is necessary. Central Islamic Shariah Council must be more functioning to control the moral hazard problem in the organizations.

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