

Meet your new Islamic Banker, the same as your old Islamic Banker? Assessing Pakistan's rebooted Islamic Banking System

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Abstract: In 1999, the Pakistani Supreme Court's Shariah bench ruled that the existing Pakistani banking system—ostensibly “interest free” since 1985— was insufficiently Islamic, and ordered it to become fully Islamic by implementing Islamic venture capitalism as the main financing mode by June 2001. While the ruling was remanded back on final appeal, the State (i.e., central) Bank of Pakistan decided to reboot Islamic banking and finance in 2002 anyway. Rather than Islamic venture capitalism, it used the ‘Shariah-compliance’ standards of the Bahrain-based Accounting and Auditing Organization for Islamic Financial Institutions and the Malaysia-based Islamic Financial Services Board to guide Pakistani banking. Since 2002 this now-fully ‘Shariah compliant’ system has been the fastest growing part of Pakistani banking.

How different is Pakistan's ‘new’ Islamic banking system from the ‘old’ one? A common charge against Islamic Banking and Finance (IBF) is that is a ‘distinction without a difference’ once one accounts for the Islamic terminology not found in conventional banking/finance. By closely analyzing the actual lending practices of Islamic and conventional banks, this paper shall show that the rebooted Pakistani Islamic banking system does not materially differ from the old one, and that the new Islamic banker is the old one still.