



## **Growth of Islamic Banking and Finance in Bangladesh: A Critical Review**

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### **Abstract**

The purpose of this paper is to discuss Islamic banking practices in Bangladesh. It will also cover the roles of Islamic banking in economy as well as in poverty reduction in Bangladesh. This paper is both descriptive and analytical in nature describing the evolution of Islamic banking, its progress and roles in the economy and analyzing trends and performance of Islamic banking in Bangladesh. These are the new issues that deserved exploring. This paper focuses on the different developments of the Islamic banks in Bangladesh. Islami Bank Bangladesh Limited (IBBL) was the first Islamic bank established in 1983 in Bangladesh. The successful operation of IBBL has been acting as an influencing factor for setting up other Islamic banks and Islamic financial institutions in Bangladesh. At present eight (8) full-fledged Islamic banks are operating in the country. This study identifies a strategic element of building organizational capacity and ensuring the congenial financial structure for the financial institutions. The paper initiates to present the practices of Islamic finance in banks in Bangladesh. It also focuses a new issue on the way forward.

**Keywords:** Islamic Finance, Takaful, Islamic Banking, Shariah Principles, Islamically approved.



## Introduction:

Islam covers all the aspects of human life, financial management is not the exception. Islamic finance is closely related to the interest free financial services industry. According to figures released by the International Monetary Fund, there were more than 300 financial institutions with operations based on Shariah rules in 75 countries as at end of 2007 (Sudin & Nursafiza, 2009).

Banking industry contributes a lot in the economic development of our country. Islamic Banks have significant contributions towards the growth and economic development of Bangladesh. This study is an attempt to produce a constructive report performance with special reference to growth and development of Islamic Banking in Bangladesh.

## Objectives of the Study:

The objectives of the study are as follows:

- To find out the growth of Islamic Banking in Bangladesh
- To evaluate the performances of Islamic Banks.
- To find out the problems of Islamic Finance Practicing in Bangladesh.
- To give some suggestions to overcome the problems.

## Methodology:

To make the effort a success, researchers have collected data from both primary and secondary sources. Primary data have been collected through pre-designed questionnaires with interview schedule with 50 personnel associated with Islamic banking operations. Deliberate sampling has been used to involve purposive or deliberate selection of participatory branches of the Islamic banking industry for constituting a better representative. The study is mainly based on secondary data. The data collected from various secondary sources have been tabulated first manually and then they have been analyzed by employing both statistical and financial techniques such as percentage and diagrammatic presentation.

## Islamic Banking in Bangladesh:

Islamic finance was practiced in the banking first in Bangladesh. In 1983, Bangladesh established its first Islamic bank. At present, in Bangladesh, out of 56 banks, 8 are full-fledged Islamic banks: Islami Bank Bangladesh Limited, ICB Islamic Bank Limited,

Al-Arafah Islami Bank Limited, Social Islami Bank Limited, Shahjalal Islami Bank Limited, Export Import Bank of Bangladesh Limited, First Security Islami Bank Limited and Union Bank Bangladesh Limited. Islami Bank Bangladesh Limited (IBBL) was established in March 1983. The second interest-free Islamic bank, Oriental Bank Bangladesh Limited was established in July, 1987. The Oriental Bank Limited had been taken over and renamed as ICB Islamic Bank Limited. Formerly it was known as Al-Baraka Bank Bangladesh Limited. The third Islamic Bank of Bangladesh namely Al-Arafah Islamic Bank Limited started its business from September 27, 1995. The fourth Islamic bank of Bangladesh established in November 25, 1995 as the name Social Investment Bank Limited. Now it is operating its services as the Social Islami Bank Limited after renaming. In 2001, the fifth Islamic Bank, Shahjalal Islamic Bank Limited, began its banking operation. The sixth Islamic Bank is the EXIM bank of Bangladesh Limited which initially started as traditional bank and then switched over to Islamic banking in July 2004. The seventh Islamic Bank is the First Security Islami Bank Limited which was established in 2006. The eighth Islamic bank in Bangladesh is Union Bank Limited established in 1st April, 2013 with an Authorized Capital of Tk. 10,000 million and paid up capital of Tk. 4,280 million.

## Growth in paid-up capital of Islamic Banks:

The 5-years (from 2013 to 2017) average growth rate in paid up capital of IBBL is 2.5%. The paid-up capital of IBBL remains constant from 2014 to 2017 and it is Tk. 16100 million. The authorized capital of IBBL is now TK. 20000 million. AIBL has the average growth rate of 9.52% for 5 years from 2013 to 2017. The authorized capital of AIBL is now TK. 15000 million and the current paid-up capital of the bank is Tk. 9943 million. EXIM bank's average growth rate in paid-up capital for the five years is 5.25%. It had the lowest growth rate 0% both in 2016 and in 2017. EXIM bank has the current authorized capital and paid-up capital is Tk. 20000 million and Tk. 14123 million respectively. SJIBL's average growth rate in paid-up capital for the 5 years period is 3.75%. The authorized and paid-up capital of the bank in 2017 is Tk. 10000 million and Tk. 7714 million respectively. FSIBL has the highest average growth rate in paid-up capital for the period from year 2013 to 2017 and it is 20.13%. FSIBL's authorized capital is now Tk. 10000 million. SIBL's average growth rate in



paid-up capital for the 5 years period is 1.25%. The authorized and paid-up capital of the bank in 2017 is Tk. 10000 million and Tk. 7383 million respectively. Union Bank's average growth rate in paid-up capital for the 5 years period is 5.5%. The authorized and

paid-up capital of the bank in 2017 is Tk. 10000 million and Tk. 5273 million respectively. ICBIBL's average growth rate in paid-up capital for the 5 years period is 0%. The authorized and paid-up capital of the bank in 2017 is Tk. 15000 million and Tk. 6647 million respectively.

**Table: I-Paid-up capital and authorized capital (Million BDT)**

		IBBL	AIBL	EXIM	SJIBL	FSIBL	SIBL	Union Bank Ltd.	ICBIBL
Auth. Capital	2013	20000	15000	20000	10000	10000	10000	10000	15000
Paid-up Capital	2013	14636	7131	11566	6679	4114	7031	4280	6647
Auth. Capital	2014	20000	15000	20000	10000	10000	10000	10000	15000
Paid-up Capital	2014	16100	8343	12839	7347	4114	7031	4280	6647
Auth. Capital	2015	20000	15000	20000	10000	10000	10000	10000	15000
Paid-up Capital	2015	16100	9470	14123	7347	6789	7031	4280	6647
Auth. Capital	2016	20000	15000	20000	10000	10000	10000	10000	15000
Paid-up Capital	2016	16100	9943	14123	7347	6789	7383	4708	6647
Auth. Capital	2017	20000	15000	20000	10000	10000	10000	10000	15000
Paid-up Capital	2017	16100	10200	14123	7714	7841	7383	5273	6647
5-year's average growth in paid-up capital		2.5%	9.52%	5.25%	3.75%	20.13%	1.25%	5.5%	0%

Source: Calculated by authors

## Growth in Total Deposit:

Growth rate in deposit of IBBL through 2013 to 2017 lies from 9.86% to 18.55%. Highest growth rate was in 2014. In 2015, AIBL had the lowest growth rate of 1.82% in deposit collection. It had highest growth rate 18.78% in 2013. Growth rate in deposit of EXIM bank limited through 2013 to 2017

lies between 10.43% and 20.85%. Highest growth rate was in 2014. SJIBL had highest growth in 2017 and rate was 16.86%. Lowest growth rate in deposit of SJIBL was -4.84% in 2013. SIBL has the steady growth rate in deposit collection from year 2013 to year 2017. Average growth rate of SIBL is 24%.

**Table: 2- Deposit Performance**

Year	IBBL		AIBL		EXIM		SJIBL	
	Deposit	Paid -up capita	Autho. capital	Paid-up capita	Autho. capital	Paid-up capita	Autho. capital	Paid-up capital
2013	In million	Growth rate %	Deposit	18.78	165733	19.53	96481	-4.84
2014	In million	Growth rate %	Deposit	18.35	200294	20.85	98601	2.2
2015	In million	Growth rate %	Deposit	1.82	225065	12.37	109259	10.81
2016	In million	Growth rate %	199704	17.55	248540	10.43	124410	13.87
2017	753914	10.70	-----	--	284026	14.28	145382	16.86
Year	SIBL		FSIBL		Union Bank Ltd.		ICBIBL	
	Deposit	Paid -up capita	Autho. capital	Paid-up capita	Autho. capital	Paid-up capita	Autho. capital	Paid-up capital
2013	102104	26.53	139504	32.47	12165	61.32	11970	5
2014	124535	21.97	182503	30.82	34767	185.80	12016	.38
2015	149774	20.27	231259	26.72	55568	59.83	11107	-7.56
2016	190565	27.24	274225	18.58	74251	33.62	10894	-1.92
2017	-----	-----	-----	----	114,050	53.60	11294	3.67

Source: Collected and calculated by authors

FSIBL has the highest growth rate in deposit collection in 2013 and the rate is 32.47%. Its lowest growth rate is 18.75% in 2016. Union Bank Ltd has

the supernormal growth in deposit collection during the period. Growth rates are between 33.62% and 185.80%. The highest growth rate is in the year



2014. Average growth rate in deposit collection of the bank is 78.84%. Average growth rate in deposit collection of ICBIBL is very poor and its average rate is -.09%. From this discussion, it is found that

deposit growth of Union Bank Limited is the highest during the period from 2013 to 2017. But IBBL has the highest amount of deposit collection during this period.

## Investment Growth Rate:

**Table: 3- Investment Growth Rate (%)**

Year	IBBL	AIBL	EXIM	SJIBL	SIBL	FSIBL	Union Bank	ICBIBL
2013	9.03	17.88	18.87	-10.89	23.17	31.23	43.76	6.07
2014	14.24	16.72	23.70	-1.92	25.58	33.27	286.95	-5.71
2015	14.06	10.74	10.32	15.19	24.30	22.88	61.23	-0.44
2016	16.26	20.93	13.17	27.02	29.88	20.64	47.28	1.77
2017	15.42	11.43	14.24	29.31	17.03	21.64	50.04	-5.53
Mean( $\mu$ )	13.80	15.54	16.06	11.74	23.99	25.93	97.85	-0.77
Std. dev	2.81	4.35	5.26	17.70	4.65	5.87	105.91	5.01
C.V.	0.20	.28	3.05	1.51	.19	.23	1.08	-6.51

Source: calculated by author

The average investment growth rate ( $\mu$ ) for five years of IBBL, AIBL, EXIM, SJIBL, SIBL, FSIBL, Union Bank Ltd. and ICBIBL are 13.80%, 15.54%, 16.06%, 11.74%, 23.99%, 25.93%, 97.85% and -0.77% respectively. It represents the efficient management of the companies in investing, administering and selling the products. It also indicates the firms' capacity to withstand adverse economic conditions. They are in an advantageous position to survive in the face of global economic crisis and national political and economic adverse situation. According to the co-efficient of variation SIBL's investment growth rate is most stable than other Islamic banks' growth rate.

## Profit Rate Structure of the Islamic Banks:

**Table-4: Profit Rate Structure of the Islamic Banks, 2017**

Nature of Deposits	Islami Bank BD	Al-Arafah Islami Bank	Social Islami Bank	ICB Islamic Bank	Shahjalal Islami Bank	Union Bank	Bank Alfalah	EXIM Bank	First Security Islami Bank	Bank having highest rate
1) <i>Mudaraba Savings Deposits</i>	3.80	2.69	3.00	4.00	3.33	5.36	3.50	3.91	3.27	UBL
<b>2) Mudaraba Term Deposits</b>										
a) 3 years	6.74	6.18	7.00	8.00	...	9.71	5.00	5.96	7.06	UBL
b) 2 years	6.55	5.91	7.00	8.00	...	7.60	5.00	5.96	7.06	ICBIB
c) 1 year	6.43	5.37	7.00	7.50	5.25	7.41	5.00	5.96	7.38	ICBIB
d) 6 months	6.31	5.11	6.75	7.00	5.25	7.53	5.00	5.71	7.07	UBL
e) 3 months	6.13	4.84	6.50	6.50	5.18	7.16	4.75	5.46	6.82	UBL
f) 1 month	5.02	2.69	3.00	5.00	2.96	5.93	4.00	5.15	3.08	UBL
<b>3) Mudaraba Special Notice Deposits</b>			4.50						SIBL	
a) Monthly Term Savings Deposit	...	6.18	...	...	...	9.77	1.75	8.44	...	UBL
b) Monthly Savings Investment Deposit	...	6.18	...	...	...	...	...	...	...	AIBL
c) Monthly Profit Based Deposits	...	6.18	...	...	...	...	...	...	3.89	AIBL
d) Savings Bond (Islami Bond)		...	...	...	...	...		...		
i) 3 years	...	6.18	...	...	...	...	...	...	...	AIBL
ii) 5 years	6.86	6.18	...	...	...	...	...	...	...	IBBL
iii) 8 years	7.66	6.18	...	...	...	...	...	...	...	IBBL



Nature of Deposits	Islami Bank BD	Al-Arafah Islami Bank	Social Islami Bank	ICB Islamic Bank	Shahjalal Islami Bank	Union Bank	Bank Alfalah	EXIM Bank	First Security Islami Bank	Bank having highest rate
e) Benefit Scheme	...	...	...	...	...	...	...	...	...	
i) Double Benefit Scheme	...	6.18	8.00	10.50	...	11.85	...	...	12.21	FSIBL
ii) Triple Benefit Scheme	...	6.18	...	...	7.02	...	...	...	12.63	FSIBL
f) Millionaire Scheme Deposit	...	...	...	...	7.39	...	...	...	...	SJIBL
i) 12 years	...	6.18	8.00	...	...	10.78	...	8.32	11.07	FSIBL
ii) 15 years	...	6.18	8.00	...	7.02	...	...	8.38	...	EXIM
iii) 20 years	...	6.18	...	...	7.17	...	...	...	...	SJIBL
iv) 25 years	...	6.18	...	...	7.39	...	...	...	...	SJIBL
g) Mudaraba Special Deposit Pension Scheme	...	...	...	...	7.76	...	...	...	...	SJIBL
i) 5 years	6.74	6.18	8.00	...	...	...	...	8.13	...	EXIM
ii) 8 years	...	6.18	...	...	6.36	...	...	7.95	...	EXIM
iii) 10 years	7.66	6.18	8.00	...	6.65	11.01	...	7.95	11.30	FSIBL
iv) 12 years	...	6.18	...	...	6.88	...	...	7.88	...	EXIM
h) Mudaraba Education Deposit Scheme	3.80	...	8.00	5.00	...	...	...	7.08	10.75	FSIBL
i) Mudaraba Steady Money	...	...	...	...	...	...	...	...	...	
j) Mudaraba Super Savings	...	...	...	6.00	...	...	3.75	7.64	...	EXIM
k) Mudaraba Multi Plus Savings	...	...	...	...	...	...	...	7.26	...	EXIM
l) Mudaraba Smart Saver Deposits	...	...	...	...	...	...	...	...	...	
m) Mudaraba Lakhopati Deposits Scheme	...	6.18	8.00	...	...	9.93	...	8.51	...	UBL
n) Mudaraba Future Deposits Scheme	...	...	...	5.00	...	...	...	...	...	ICBIBL
o) Mudaraba Housing Savings Scheme	...	...	8.00	9.00	...	...	...	8.32	...	ICBIBL
p) Children Savings Scheme	...	...	5.50	9.00	6.29	...	4.00	...	...	ICBIBL
q) Mudaraba Muhar Savings(10yrs.)	7.66	6.18	8.00	...	...	10.49	...	7.95	...	UBL
r) Mudaraba Muhar Savings(5yrs.)	6.74	6.18	8.00	...	...	9.17	...	8.13	...	UBL
s) Mudaraba Monthly Profit Deposit Scheme (5 yrs.)	7.23	6.18	...	...	2.96	...	...	7.14	...	IBBL
t) Mudaraba Monthly Profit Deposit Scheme (3 yrs.)	6.74	6.18	8.00	7.50	...	10.30	...	7.14	10.19	UBL
u) Mudaraba Marriage Savings Scheme	...	6.18	8.00	...	...	9.96	...	...	10.64	FSIBL
4) <b>Mudaraba Short Term Deposits</b>	2.69	...	4.00	6.14	4.03	3.50	3.85	...	SJIBL	
5) <b>Mudaraba Hajj Savings Deposits :</b>	...	...	...	7.39	...	...	...	...	SJIBL	
a) Hajj Deposit (Term)	...	...	...	...	...	...	...	...	...	



Nature of Deposits	Islami Bank BD	Al-Arafah Islami Bank	Social Islami Bank	ICB Islamic Bank	Shahjalal Islami Bank	Union Bank	Bank Alfalah	EXIM Bank	First Security Islami Bank	Bank having highest rate
i) 1 to 10 years	7.66	6.18	...	9.00	...	9.28	...	...	11.26	FSIBL
ii) 11 to 25 years	7.96	6.18	...	...	7.02	9.62	...	...		UBL
iii) One Time Hajj Deposits	...	6.18	...	...	...	...	...	...	...	AIBL
b) MMPDR / Hajj Deposit (Monthly)	...	6.18	8.25	...	...	9.34	...	6.83	...	UBL
c) Cash Waqf.	8.27	6.18	8.25	...	...	...	...	7.39	...	SIBL

Source : Statistics Department, Bangladesh Bank

From the above table, it is found that FSIBL gave the highest rate of profit in the year 2017 and it was 12.63% in triple benefit scheme. Second highest profit rate 12.21% also was given by FSIBL in the double scheme benefit. FSIBL again gave next highest rates which were 11.30% and 11.26% of ten years pension scheme and 1 to 10 years hajj deposit scheme respectively. For the mudaraba savings deposit, UBL gave the highest rate among all the Islami banks and it was 5.36%. Highest profit rates of mudaraba term deposit were given by UBL and ICIBL in the year 2017. It is very interesting that though IBBL is performing well but the bank is not paying highest rate of profit.

### Key Challenges:

For the development of Islamic Banking and Finance in Bangladesh, the following key areas of challenges will need to be solved. Challenges are “difficulties to devise a successful interest-free mechanism to place their funds on a short-term basis, lack of ensuring adequate and comprehensive legal infrastructure, lack of Capital Market and Interest-free Financial Instruments, lack of Unified Shariah rulings, absence of Islamic Inter-Bank Money Market, shortage of Skilled and Trained Manpower in Islamic Shariah banking, lack of Co-operation among the Islamic Banks, lack of Familiarity by International Financial and Non-financial Sector with Islamic Products and procedures, absence of Infrastructure for International Islamic Trade Financing, lack of Specialized Islamic Banks and Non-Bank financial Institution, lack of Coordinated Research Work on Islamic Economics, Banking and finance, excess Resort to the Murabaha Mode of Financing, utilization of Interest Rate of fixing the Profit Margin in Bai-Modes, failure of Islamic Banks to Finance High Return Projects, lack of Full-fledged Shariah

Audit, Fraud-Forgery or corruption in Islamic Banks, Insufficient Budget for Research and Development, lack of Shariah Manual or Guidelines and lack of Intention of the Management to be strict with Shariah Guidelines.”

### Way Forward and Conclusion:

In view of the mudaraba and asymmetric information related problem, installing a support system is necessary to see the mudarabah mechanism effectively implemented. A detailed and costly monitoring system is an important factor to manage the moral hazard problem. The Islamic finance wing of Bangladesh Bank needs to set up a monitoring agency to detect financial distress in the enterprises and taking proactive measures to restructure or reorganize or liquidate distressed companies for making mudarabah or musharakah a viable investment tool in interest-free banking. This will help nurture trust and confidence, thus reducing transaction costs and promoting healthy coordination as entrusted in the mudarabah contract between banks and non-bank companies.

The Islamic banks should reduce over dependence on credit sale instruments; otherwise they will fall in the risky position if market interest rate increases rapidly. Introducing mudarabah and musharakah facilities as well as salam, istisna and al ijarah into Islamic bank's product line must be taken seriously. Islamic banks, with a view to facing the growing competition either fellow-Islamic banks or the conventional banks which have launched Islamic banking practices, will have to adapt their functioning in line with modern business practices, though improvement and expansion of the range of dealing in the banking sector. Thus, it is necessary for them to provide comprehensive banking and investment services to clients and simultaneously to take advantage of



modern technological breakthroughs in areas such as electronic communication, computerization etc.

All Islamic banks should come forward to help each other's and adopt a perspective long term plan for Islamization of the banking system of Bangladesh. To actualize this mission, they should establish a common platform as a Research Academy and Training Institute designed with modern tools, books and other accessories.

The Bangladesh Government may follow the Malaysian Government's ten year master plan for financial sector which comprises of three stages of plan: "i) to strengthen the operational and institutional infrastructure ii) to focus on stimulating competition and iii) to gear towards progressive liberalization and effective infrastructure. Building institutional capacity and the development of the supporting financial infrastructure are the main focal points of the master plan. Government should think actively for the promotion of Islamic banking in Bangladesh considering its pro-development role. It should amend existing financial laws, acts and regulations to create favorable environment conducive to smooth operation of Islamic banks. An ample legal support should be given by the government. The bank Reforms Committee may be entrusted to draft an Islamic Banking Act. Government should also allow establishment of Islamic insurance and other subsidiary companies in order to facilitate their operation. Bangladesh Bank should develop some Islamic Monetary and Saving instruments and create separate window for transactions with the Islamic banks and a full-fledged Islamic banking Department for analyzing, supervising, monitoring and guiding purpose, thereby facilitating Islamic banks for their smooth development in Bangladesh." At present, interest payments are considered an expense item, and therefore it saves tax. As the same does not apply to dividends, (i.e. when Islamic banks participate in mudarabah and musharaka) companies would choose debt financing over equity. To see that both conventional and islamic banks run on a competitive basis, the same incentives must be given by the legal authority to both (Rosly, 2010). To further put Islamic banking into mainstream financial markets, the education system must allow Islamic economics and banking education to begin early in schools. The Ministry of Education can do so by forming a national taskforce to secure Islamic economics and banking a respectable place in the

school, college and university curriculum. 

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