

## Comparing the Theory to the Practice of Islamic Banking: A Case Study of Pakistan

**Authors :** Zareen Khan

**Abstract :** Islamic Banking has experienced high growth in Pakistan in recent years and has successfully survived the economic downturn of 2009-2011. Despite the increase in branch network and expansion of services, it is unclear if Islamic banks are truly following the theory and practical application of Shariah Law. This paper explores the theological basis of Islamic finance and examines the discrepancies between the theory and practice of Islamic banking using Pakistan as a case study. It discusses areas where Islamic banks lack proper Shariah compliance and analyzes the financial weaknesses of Islamic banks in terms of the services offered. Furthermore, the paper offers plausible explanations for the clientele of Islamic banks. The case study has three major findings. Firstly, most of the employees of Islamic banks come from conventional banking backgrounds and the banks have to invest in additional trainings to specialize employees in Islamic Banking. Secondly despite the efforts of State Bank of Pakistan, there is a lack of accounting and auditing standards tailored for Islamic Banking. Thirdly, majority of the clients of Islamic banks in Pakistan are accustomed to conventional banking causing the bankers to “speak the conventional banking language.” Combined, these three factors can create gaps in the practical application of Islamic finance in Islamic banks in Pakistan.

**Keywords :** islamic finance, comparing theory with practice, islamic banking, Pakistan

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