

## **An Empirical Study of Shariah Legitimacy of Islamic Banking Operations in Pakistan**

**Authors :** Muhammad Khaleequzzaman, Muhammad Mansoori, Abdul Rashid

**Abstract :** The legitimacy of Islamic banking refers to the compliance with the precepts of Shariah (Islamic law) of the pronouncements and their implementation, requisites of various contracts, as well as, observance of the welfare objectives. Therefore, the Islamic banks are supposed to follow the Islamic values focused to bring benefit to the society alongside the commercial motive. These distinguishing features establish identity of the Islamic banks separate from their conventional counterparts and require pursuing normative values of Islamic injunctions instead of profit maximization merely through commercial motive. Given this, the efficiency of the Islamic banks should be evaluated against the value judgements prescribed by the Islamic economic philosophy and their role in establishing the just economy. Nevertheless, the empirical evidence on such value-oriented role of Islamic banking is limited that is filled by this research. The primary focus of the research is two folds; developing a theoretical framework that affords a holistic approach of Shariah legitimacy of Islamic banking practices, including welfare pursuits in addition to the usual compliance mechanism, to help evaluating legitimacy of Islamic banking practices in Pakistan. Therefore, the research has been commissioned by developing the constructs of Shariah legitimacy through extensive review of the relevant literature. At the same time, the empirical analysis based on the opinion of 836 customers of Islamic and conventional banks in all the four provinces and the capital city of Pakistan has produced important conclusions regarding their perception about legitimacy of the Islamic banking practices. The results have helped to know as to how the legitimacy through Shariah perspective is viewed by them. The data analysis using various statistical techniques has yielded results consistent with the objectives of the study. The key findings of the theoretical framework conclude that the value judgements have been grossly ignored by the Islamic banks. The empirical research achieves that about half of the customers perceived Islamic banking as Shariah legitimate. On overall basis, the other half viewed contrary to this or preferred to remain indifferent. There is a need that Islamic banks should look into the desired goals of Shariah legitimacy in both contexts; the value judgement and the perception of the customers.

**Keywords :** Islamic banking, Shariah legitimacy, Maqasid al Shariah (higher purposes of the lawgiver), value judgment, distributive justice

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