CHALLENGES FOR SHARIAH SCHOLARS[1]

(Key note address at Third Shariah Advisors Forum organized by SBP and IBA-CEIF at Karachi on July 15, 2026)

Ishrat Husain

I am delighted to be back at IBA for an event which is being jointly organized by SBP and IBA where I spent 14 years of my professional life and an additional six years as Founder Chairman IBA-CEIF. It is a great honour and privilege to address this august gathering of Shariah scholars. This is my first opportunity to exclusively interact with you. I Would seek your indulgence if I may make some unpardonable mistakes in my enthusiasm to convey my candid message about the wider spread of Islamic banking.

Let me first concede that my interest in Islamic banking arises from my belief as an Economist that the global economic disorder and instability can be effectively addressed if we follow the fundamental precepts of Islamic Economic system. This system is superior to capitalist system where efficiency is the main outcome but equitable distribution is missing. Rising Income inequalities have reached an alarming proportion. Socialist system promises that the state would provide free services from cradle to grave but hollows out the economy. The collapse of the Soviet Union in 1990 is a testimony to this phenomenon. The Islamic system aims at fairness, justice, efficiency and equity and fills in the gaps existing in the other two competing systems . To support my above assertions I have to

[1] Key note address delivered at third Shariah Advisors Forum organized by SBP and IBA-CEIF at Karachi on July 15, 2026

provide real world examples. Unfortunately none of the 57 OIC countries follow an Islamic Economic system.

I therefore focus my attention on Islamic finance which is an integral sub set of the larger Islamic economic system. I have made presentations to the regulators and the Governors of the Western countries' Central banks that the distinguishing feature of IF is not only that it is faith driven but can be a strong pillar for financial stability. Capital structure is more resilient, reliance on common equity minimizes the loss absorbency, and lower leverage with greater incentive for risk management. But the question they rightly ask me is : If it is so attractive why is that none of the six most populous Muslim countries--- Indonesia, Pakistan, Nigeria, Bangladesh, Egypt , , Türkiye have made a switch to Islamic financial system fully and IF has remained at periphery rather than the core . Here also I have difficulty in justifying my claim. Iran claims 100 percent , the other countries such as Saudi Arabia, Malaysia, Bahrain and UAE are much smaller in population and there are differing interpretations by Shariah scholars about the authenticity of the systems being practiced in these countries. Once there is a critical mass of countries which go through complete transformation it would be easy to substantiate this argument of superiority of our system over others. International transactions are carried out outside the ambit of the system we would like to see spread except a few sukuk issuances which are becoming popular.

With your assistance and that of SBP Islamic banking has made considerable progress in Pakistan and the trend is positive. But till to date the share captured during last two decades or so is only 25 percent. Would we be able to complete the full transition by

December 2027 or may have to move the Court to grant some more time is something you as Shariah scholars would have to assess seriously and advise us .

As you know my constant theme has been that I would have preferred to see a differentiated financing portfolio of Islamic banks compared to the conventional banks. In true spirit of our teachings we have to provide financing to the underserved and neglected sectors of the economy and backward regions of the country. But the record of Islamic banks is no better than conventional banks in respect to Microentrepreneurs, SMEs, Small holder agriculture, Low cost housing, Balochistan , Merged districts, and KP. So far we haven't touched the bottom of the pyramid and the poor segment which has reached almost 30 percent of the population. Our ADRs are low , investment in Government securities high and Export financing almost negligible. We haven't yet integrated Social Finance—Zakat, Waqf, Sadqah, Qarz e Hasna—with formal finance to create blended products for Education, Health, Social Welfare, Climate change, Renewable energy, Ebikes, Smart phones, Lithium ion batteries, . Such an integration will protect individuals from unforeseen risks with emphasis on the value of collective support and assistance for securing the well being of those affected adversely.

The themes selected for this Forum today i.e. Transitioning to Maqasid based Financial Intermediation , Enhancing the role and effectiveness of Shariah Boards and Strengthening the Shariah compliance Eco system are quite appropriate for reflection as we prepare for December 2027. I am confident that the discussion at this Forum would come up with some practical recommendations on each one of these themes.

Unlike positive economics, the entire edifice of Islamic economics is built upon a set of objectives or maqasid. In other words, Islamic economics is normative in nature, with the objective of the Shariah being to promote the well-being of all. Al-Ghazali, a prominent Muslim scholar, classified the maqashid into five major categories, such as faith (deen), human self (nafs), intellect (aql), posterity (nasl), and wealth (maal). The five elements of the maqashid Sharia should become the framework of an Islamic financial institution by transforming the concept directly into the aspect of management and governance. The indicators commonly applied to conventional banking do not consider the aspects and objectives of Shariah. A research study that was published in Journal of Islamic Banking and Management in 2023 has constructed a Maqasid ul Shariah Index (MSI) consisting of Tahzib Al Fard (Education), Iqama Al Adhl (Justice) and Masalaha (Welfare of the society). The authors found that although, Meezan Bank achieves the highest level of MSI, nevertheless all banks are required to improve the MSI scores . Another study Compared the index for Pakistan, Indonesia and Bangladesh I would like to draw your attention to this analytical tool. You may wish to look at this index and similar other studies and refine it further but the Shariah Board of SBP should develop standardized, measurable metrics so that Maqasid performance can be benchmarked, reported and improved over time.

I would avail of this opportunity of your presence to leave some questions for your consideration. First, I have been pleading for quite some time that there is a need to harmonize fiqh opinions across institutions to reduce market confusion and enhance the predictability and precedent usage for applying common agreed standards. Is the growth of innovative products that characterize Islamic banking being held back due to fragmentated approach followed by Shariah advisers in different jurisdictions and different institutions?

Second, it is time to move from Compliance to Enabling Growth and understanding Customer need. Customers want faster service, better mobile apps, quicker approval and wider acceptance, How can Shariah Governance framework not only prevent non compliance but also actively enable halal financial solutions? We do not want to fall in the trap of financial engineering but remaining within the confines of Shariah are other ways to respond to the customer need for risk mitigation .

Third, I have heard many complaints from the users of Islamic banking that they are inundated with too much paper work, and documentation to satisfy the Shariah scholars . Is it possible for you and SBP to reduce documentation, make it simpler and present contracts in plain Urdu and English? At the same time the transaction cost and time taken to process it along the hierarchical chain from the Board, Executive Management, Shariah Board, Resident Shariah Board Member, Internal Shariah Audit, External Shariah Audit, Product Development and Shariah Compliance Department poses another dilemma. Can automation and integration into core banking system reduce manual review and human error?

Fourth, Shariah advisers should educate themselves in new technologies, particularly AI for market predictive analytics, credit scoring models, and enable the banks to produce Digital contracts, Smart overboarding, Video KYC, Digital signatures, Tokenization and Embedded Finance. If this is agreeable, who should organize these trainings and where? Should the certification in these skills be linked to the basic qualifications for becoming a Shariah Adviser .

Fifth, Islamic Finance should be extended to Educational institutions, Scholarships and stipends to talented students from poor families and backward regions, Research and Innovation, Health care facilities, raising Agriculture productivity, Supply chain and vendor financing, E Commerce and Retirement Planning. Some of these can be accomplished in conjunction with Social Finance. Can you help in designing such products ?

Sixth, there is still lot of misgiving, misperceptions even among some Islamic scholars, Mosque prayer leaders, Madrassah teachers and highly educated professionals about Islamic Finance, They still believe that the present system is just whistles and bells wrapped around Conventional banking. Critics point out that Musharaka and Modaraba modes have not taken off and most transactions are Murabha and Ijara based. What can be done to raise awareness about the distinct features and authenticity of Islamic Finance?

Finally, I am concerned whether the annual inflow of trained Shariah scholars is adequate to meet the heavy requirements that would emanate after December 2027. They should also be well versed in Accounting, Finance, Economics. Are the existing Advisors and Auditors , Compliance heads going through continuous professional development to upskill and adapt themselves to the changing environment? [2] Have any plans been made to increase the supply without compromising the quality of advice?

I wish successful deliberations at this Forum.