

DIB Coaching: Part 106



Theory and Practice of Banking:
Islamic and Conventional
(Marks- 100)

Presented by

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DIB Exam Result Analysis:



• **Sob: Theory and Practice of Banking: Islamic & Conventional**

Sl.	Session	Apeared	Passed	% of passed
1	April-2019	304	191	62.82
2	October-2019	750	440	58.67
3	April-2021	383	197	51.43
4	October-2021	924	435	47.08
5	May-2022	922	327	35.47

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- (A) Theory of Banking: Sl. 1 - 3
- (B) Practice of Banking: Sl 4 - 7
- Broad Questions 7
- Short Notes 1 (Compulsory)

Cash Management



- (A) Theory of Banking: Sl. 1 - 3
- 1. Concepts of Banks & Banking Systems: - History of Banking; Functions of Bank; Classifications of Banks– Unit, Branch & Chain Banking; Central ,Commercial, Specialized Banking; Retail & Wholesale Banking; Relationship & Transactional and Virtual Banking; Universal Banking ; Green Banking; Mortgage Banking; Merchant Banking; E - Banking; Non Banking Financial Institutions..

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- 2. Concepts of Islamic Banking: Meaning & Objectives, Shariah Concepts & Principles of Islamic Banking, History & Present Status of Islamic Banking in Bangladesh & around the World, Difference & Superiority over the Conventional Banking, Concepts of Profit & Interest (Riba) based Transactions, Distortion in Islamic Banking, Resources Mobilization Principles & Process, Profit Earning & distribution system, Problems of Islamic Banking in dual Banking system & Prospects of Islamic Banking in Bangladesh and Role of Shariah Supervisory Committee, Central Shariah Board, AAOIFI..

Brief History



- Concept and development of Bank
- Conventional And Islamic Bank
- Principles of Islamic Bank
- Definition of OIC, Prohibition of Riba (Interest)
- Reference from the Verse of the Holy Quran
- 1st. Sura ar Room 39, 2nd. An Nisa 161
- 3rd. Ale Imran 130, 4th. And final al Bakara 274-281
- Riba in Hadith. 1. Aan Nasiah 2. Al Fadal

Kye Points for Discussion:

- History and definition of Banking
- Definition of Islamic Bank
- History of Establishment of Islamic Banking
- Main Feature of IB
- Present Status of IB in Bangladesh
- Problems & Future prospects

History of bank



W. Frankace (German)

Bench- Bank

**Banco- Bancus - Bangk-
Banque (Latin words) which
means bench**

First modern banking was
introduced in 1668 in
Stockholm as 'Svingss Pis
Bank'

Definition of bank.

- A **bank** is a financial institution that accepts deposits from the public and creates a demand deposit while simultaneously making loans / **investment**. Lending activities can be directly performed by the bank or indirectly through capital markets.
- A bank is an office or institution for the keeping, lending and exchanging of money. **Professor Chamber**
- **RP kent defined:** A bank is an institution, the principal function of which is to collect the unutilized money of the people to lend it to others
- **Prof. Cairncross** A Bank is a financial intermediary, a dealer in loans and debts.
- **Definition of banking:**
 - Banking is the business of a banker, the keeping or management of a bank. **Oxford English Dictionary**.
 - **Stamp Act 1881 (British)** : Any person carrying on the business of banking is a banker

Definition of Islamic Bank:

- "An Islamic bank is a financial institution whose status, rules and procedures expressly state its commitment to the principle of Islamic Shariah and to the banning of the receipt and payment of interest on any of its operations“ **OIC 1978 Dakar Conference**
- **Islamic Banking Act 1983 in Malaysia:**
- *Islamic Banking is a company which carries on Islamic banking business– Islamic banking business means banking business whose aims and operations do not involve any elements which is not approved by the religion Islam.*
- **Dr. Ziauddin Ahmed**
- *Islamic banking is essentially a normative (an ideal) concept and could be defined as conduct of banking in consonance with the ethos of the value system of Islam.*

Main Features of IB



- 1. All activities *are conducted interest free*
- 2. *Investment is made as per shariah approved modes*
- 3. *Investment income is shared with the Mudaraba depositors*
- 4. *To introduce a welfare-oriented banking system*
- 5. *To take part in Human Resources Development*
- 6. *To connect unbanked people in banking network*
- 7. *Equal development in all area of the country specially underprivilege area.*
- 8. *Ensure Shariah Compliance by establishing Shariah council/board*

History and Development of Islamic Bank



- **International initiatives:**
- in the 19th century that Muslims started to realize that the current system of banking and economy was based on riba that is interdicted in Islam and is categorically forbidden in all its shapes whether commercial or non-commercial; and there should be an alternate system where its operations, products and services conforms to the principles of Shariah (Ali, 2015). For that reason, the Islamic banks had emerged in the middle of 1970s. Islamic bank have undergone into three phase of development.
- 1. Pre Islamic Er
- 2. Islamic Era

History and Development of Islamic Bank



• 3. Modern Islamic Era

- The late 19th and early 20th century is widely known as the beginning of the era of Islamic resurgence (পুনরুত্থান). Some of those responsible for this resurgence are Muhammad Abduh (1849), Rashid Reda (1865), Muhammad Iqbal (1975), Abul Aala Maududi (1937), Hasan AlBanna (1939), Hifz Al-Rahman (1942), Muhammad Hamidullah (1944), Anwar Qureshi (1946), Naiem Siddiqi (1948), Mohammad Yousuf Al-Dean (1950) and Muhammad Uzair (1955). Their thoughts became the impetus for Muslims to apply Islamic teachings in all aspects of life including political, social and economic. Since Islam prohibits riba, it is obvious that elimination of riba from the economic and banking system became the most popular topic among contemporary Islamic scholars. The first attempt at Islamic banking system can be seen in Malaysia in the mid 1940s and Pakistan in the late 1950s

History and Development of Islamic Bank



● Internationally

- 1962 Pilgrims Saving Corporation Malaysia
- 1963 Egypt Mitgamar Bank
- Dr. Ahmad Al Naggar
- 1963 – 1967; Estt. 9 IB in Egypt.
- 1969 Tabung Haji Malaysia
- 1969 25 September OIC declaration
- February 1974, Finance Minister Conference in Jeddah, Signed the charter of IDB 26 Muslim Countries were present
- 20 October, 1975 IDB stated operation in Jeddah
- Duabi Islamic Bank UAE in 1975
- 1977 Faisal Islamic Bank and Kuwait Finance House
- 1978 Jordan Islamic Bank for Finance and Investment
- The world is now operating around 250 IB & IFI in more than 50 countries both Muslim and non-muslim countries.

History and Development of Islamic Bank



Islami Bank
Bangladesh Limited

History and Development of Islamic Bank

● National initiatives

- Initiative starts Feb/1974 – signed IDB charter by the then Finance Minister Mr. Tajuddin Ahmed.
- 1978- Dakar Conference
- July, 1979 –Seminar on Islamic Economics by Islamic Economic Research Bureau, Dhaka at TSC
- 22 Nov.1979 Formed an Working Group with M. Khaled Chairman and M Azizul Haque Sec. Gen.
- December 15-17, 1980 International Seminar at TTC Auditorium
- A committee was formed for establishing IB under the leadership of Mohammad Abdur Razzak Laskar , a prominent business man.
- On 18,19 March 1981, BIBM organized a seminar on Islamic Banking
- 13 March 1983 IBBL was registered with RJSC as IBBL. Before it rename BB issued licence in the name of :International Islamic Bank of Dhaka limited.
- 30March 1983 Started function at 2nd. Floor of 75 Motijheel, Dhaka

Bangladesh Part



Sl	Name of banks	Estt. Year	Remarks
1	Islami Bank Bangladesh Limited	1983	
2	ICB Islamic Bank Limited	1987	
3	Al Arafa Islami Bank Limited	1995	
4	Social Islami Bank Limited	1995	
5	Shahjalal Islami Bank Limited	2001	
6	First Security Islami Bank Limited	2004	Converted
7	Exim Bank limited	2004	Converted
8	Union Bank Limited	2013	
9	Standard Bank Limited		Converted
10	Global Islami Bank Limited		Converted

Difference between IB & CB



SL.	Elements	Islamic Bank	Conventional Bank
1	Principle		
2	Interest		
3	Relationship		
4	Risk		
5	Invest only permissible under Shariah		
6	Welfare oriented		
7	Profit Sharing		
8	Confirmation of buying & selling		
9	CRR	4	4
10	SLR	5.5	13
11	IDR	92	88

Present Status of Islamic Banking in Bangladesh & around the World,

- Developments of Islamic Banking Segment in Bangladesh April-June 2022:
- Islamic financial sector is now considered as a global industry in terms of its assets like Islamic banks, Islamic bonds, Islamic mutual fund and Islamic insurance etc. The sector is growing globally based on its risk sharing, optimism, inclusiveness and real asset backed transaction features. In line with global trends, Islamic banking sector in Bangladesh has also been witnessing robust growth due to policy supports from the Bangladesh Bank and strong public demand.

Present Status of Islamic Banking in Bangladesh

- **Overview of Islamic Banking Segment** in Bangladesh At present, 10 full-fledged Islamic banks have been operating with **1682 branches** out of total **10963 branches** of the whole banking system. In addition, **45 Islamic banking branches** of **9** conventional commercial banks and **480 Islamic banking windows** of **13** conventional commercial banks are also providing Islamic financial services in Bangladesh

Table 1: Number of Islamic Banks, Branches and Windows

Sl. No	Full-fledged Islamic Banks	Islamic Banking Branches in Conventional Banks	Islamic Banking Windows in Conventional Banks
1	Islami Bank Bangladesh Limited (384)	The City Bank Limited (1)	Sonali Bank Limited (58)
2	ICB Islamic Bank Limited (33)	AB Bank Limited (1)	Janata Bank Limited**
3	Social Islami Bank Limited (172)	Dhaka Bank Limited (2)	Agrani Bank Limited (47)
4	Al-Arafah Islami Bank Limited (201)	Premier Bank Limited (27)	Pubali Bank Limited (17)
5	EXIM Bank Limited (141)	Prime Bank Limited (5)	Trust Bank Limited (15)
6	Shahjalal Islami Bank Limited (132)	Southeast Bank Limited (5)	Bank Asia Limited (5)
7	First Security Islami Bank Limited(197)	Jamuna Bank Limited (2)	Standard Chartered Bank (1)
8	Union Bank Limited (104)	Bank Alfalah Limited (1)	Mercantile Bank Limited (45)
9	Standard Bank Limited (138)	NRB Bank Limited (1)	Midland Bank Limited (2)
10	Global Islami Bank Limited (180)		NRBC Bank Limited (259)
11			One Bank Limited (2)
12			United Commercial Bank (11)
13			Meghna Bank Limited (3)

Position of Islamic banks



Products	December 2022	December 2021	% of + (-)	% of Market Share
Deposit	4099.49	3931.11	4.28	25.81
Investment	4052.02	3534.48	14.64	29.20
Export	340.98	498.57	-31.61	
Import	378.25	863.05	-56.17	
Remittance	256.91	203.68	26.13	54.53
Total branch	2217	2080	6.59	19.88
Manpower	49851	45260	10.14	
IDR	92%	90%	2.32%	

Highlights: Quarterly Report on Islamic Banking in Bangladesh October-December 2022



- Total Deposits:
- Total deposits of Islamic banking system reached to BDT **4099.49** billion at the end of December 2022 with a decrease of BDT **114.26** billion or **2.71** percent as compared to the end of September 2022. But it was BDT **168.38 billion or 4.28 percent** higher as compared to the same quarter of the last year. The share of total deposits of Islamic banks accounted for **25.81 percent of total deposits** of the entire banking sector during the period under report.



- Total Investment
- Total Investment of Islamic banking system stood at BDT **4052.02** billion at the end of December 2022 which went up by **BDT 189.81** billion or **4.91** percent and **BDT 517.54 billion** or **14.64** percent as compared to the end of September 2022 and the end of same quarter of the last year respectively. The share of total investment of Islamic banks accounted for **29.20 percent** of total loans & advances of the whole banking sector.

Problems & Future prospects of IB



- Challenges
- Problems
- Prospects

Modern Concept of Bank



- Booth Banking
- Sub Branch Banking
- Agent Banking
- Branch Banking
- Retail Banking
- Wholesale
- Corporate and Institutional Banking
- Chain Banking
- Virtual Banking and e-Banking
- Green Banking

NBFI 34
Merchant Bank
Offshore Bank

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- 3. Central Banking: Concepts, Objectives, Functions & Role of Central Bank; Banks Examinations & Supervisions: On Site & Off Site, Banks Performance measuring & evaluation - CAMELS Rating, Credit Control, Bank Rate Policy, Open Market Operation; Regulatory Framework & Regulations by Central Bank, Reforms in Banking & Financial Sectors; Guidelines for Islamic Banking; Central Banking in Islamic Framework.

Central Bank of Bangladesh (BB)

- History of Bangladesh Bank
- The previous name of Bangladesh Bank, the central bank of Bangladesh, was "**State Bank of Pakistan, Dhaka**". It was the central bank of East Pakistan (which later became Bangladesh) during the period of Pakistan. After the independence of Bangladesh in 1971, the bank was renamed as "Bangladesh Bank".
- Bangladesh Bank, the central bank and apex regulatory body for the country's monetary and financial system, was established in Dhaka as a body corporate vide the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) with effect from 16th December, 1971. At present it has ten offices located at Motijheel, Sadarghat, Chittagong, Khulna, Bogra, Rajshahi, Sylhet, Barisal, Rangpur and Mymensingh in Bangladesh

Functions of Central Bank of Bangladesh (BB)

- BB performs all the core functions of a typical monetary and financial sector regulator, and a number of other non core functions. The major functional areas include :
- Formulation And Implementation Of Monetary And Credit Policies.
- Regulation And Supervision Of Banks And Non-Bank Financial Institutions, Promotion And Development Of Domestic Financial Markets.
- Management Of The Country's International Reserves.
- Issuance Of Currency Notes.
- Regulation And Supervision Of The Payment System.
BACH, EFTN, NPSB, RTGS
- Acting As Banker To The Government.
- Money Laundering Prevention.
- Collection And Furnishing Of Credit Information.
- Implementation Of The Foreign Exchange Regulation Act.
- Managing A Deposit Insurance Scheme .

Function of a Commercial Bank



- Main functions:
- i. General Banking
- ii. Investment/Loan/Advance
- iii. International Trade &
- iv. Other Services related functions

AAOIFI (The Accounting & Auditing Organization for Islamic Financial Institutions)

- Estt. 26 February 1990 in Algiers
- Registered in Kingdom of Bahrain, 27 March 1991
- It is a non profit making corporate body.
- Objectives.
- Structure/ Secretariat
- Code of ethics
- Standards/ General Banking Standard 28.
- 2/1-
- 2/2-
- 2/3
- 2/4-Service of conducting studies and consultation.

GB as per s-28



- 2/5-Collection and Payment services.
- 2/6Accounts' service
- 2/7- Service of safe deposits vault.
- 2/8-Service of cards and their related boodies.
- 2/9-Zakah account service
- 2/10-Suretyship services
- 2/11-Cheque services
- 3. Date of issuance of the Standard 8June 2006.

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- (B) Practice of Banking: Sl | 4 – 7
- 4. Branch Banking Operation: Different Types of Deposit, Deposit A/Cs / Deposit Products, Deposit A/C Holders; Types, Uses and Handling of Cheques, Cheque Collection Methods (Clearing, OBC / IBC, Internal Transfer, IBCA / IBDA, Online Transfer); Collecting & Paying Banker; Remittance & Different Ancillary Services; Cash Management; IBG A/C Reconciliation; Customer Services, Banker Customer Relationship;.

Cash Management



- What do you mean by cash Management
- Importance of cash Management
- Sorting procedure under BB guideline
- Definition of various counterfeit notes like charred Notes, Damp Note, Alteration Notes.
- Characteristics of Non issuable, Mutilated, and Claims Notes.
- What do you mean by IBG Profit
- Walking Customers
- Customer on boarding

Definition as per NI Act 1881



- Promissory note (Sec.. 4),
- Bill of Exchange (Sec.. 5),
- Types of Cheques (Sec.-6),
- Crossing cheque
- Definition, Classification
- As per the Negotiable Instruments Act, 1881, crossed cheques can be classified into the following types:
- General Crossing: Special Crossing Restrictive Crossing: Double Crossing
- It's worth noting that a cheque can be crossed both generally and specially, or generally and restrictively at the same time.
- What is the procedures to make payment of a Crossed/Special Crossed cheque.
- Drawer (Sec.-7), Holder (Sec.-8), Holder in due course (Sec.-9), Payment in due course (Sec.-10), Negotiable Instrument ec.- 13). What is negotiation
- Endorsement (Section 15.)
- Types of Endorsement; putting signature on the back of the Instrument by the holder or negotiator.
- Who can make Endorse

Types of Cheques (Sec.-6),



- According to the Negotiable Instruments Act 1881, cheques can be classified into the following types:
- Bearer Cheque
- Order Cheque:
- Crossed Cheque:
- Open Cheque:
- Post-Dated Cheque:
- Stale Cheque.
- Self Cheque.
- .
-

Types of Endorsement



- **Mainly 2(Two) types**
- 1.Black Endorsement 2.Full Endorsement
- Full Endorsement
 - i. Partial Endorsement
 - ii. Conditional Endorsement
 - iii. Restricted Endorsement
 - iv. Facultative Endorsement
 - v. San-recourse Endorsement
 - vi. San-fri Endorsement
 - vii. Pre-pro Endorsement

Clearing:



- BACH
- BEFTN
- RTGS
- NPSN
- Conducting of Ancillary Services, earn Ancillary Income.

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- 5. Internal Control & Compliance: Concepts, Functions, Statutory Audit, Preparation & Handling of Audit Report.
- Function of ICCW
- Compliance is a tools of good governance
- Role of Statutory Audit
- Types of BB Audit

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- 6. Fund Management: Asset – Liability Management (ALM) Techniques: Demand for & Supply of Bank Liquidity in Conventional & Islamic Banking system, Liquidity Problems – Liquidity Management strategies, Factors determining cash reserves of Banks, Profit Rate Risk, Managing Funds: Deposit & Non Deposit Funds, Off Balance Sheet Sources, Management of Capital under Basel Framework; Deposit- Inv Mix, Deposit - Inv Ratio, CRR, SLR.

Basel-III



- What is BASEL –it is an International accord – Committee on Banking Supervisory
- Esstt. In Basel on 1974 by CB from the G10Countries.
- HQ Basel Switzerland
- What is Capital Adequacy?
- Capital Tire –I Core Capital- Paid up Capital, Non repayable share capital, Statutory Reserve,, retain earning, Dividend Equalization account
- Tire –II General Proviton, Assets revaluation Reserve, Mudaraba sub ordinate Bond
- Tire -III -

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- 7. Money & Capital Market: (a) Conventional System: Operation by Bank in Money Market Instruments (like Treasury Bill / Bonds, Commercial Papers, Mutual Funds, Certificate of Deposit, Repo / Reverse Repo etc), Call Money Market, Share Trading & Brokerage House Operations etc. (b) Islami Money Market: Islamic Bonds, Mutual Funds etc.

- Money market and capital market are two important components of the financial market, where different types of financial instruments are traded.

- Money market is a market where short-term debt securities such as Treasury bills, certificates of deposit, commercial papers, and short-term bonds are traded. It is mainly used by banks and financial institutions to manage their short-term liquidity needs. Money market securities typically have a maturity of less than one year.

- On the other hand, capital market is a market where long-term securities such as stocks, bonds, and other financial instruments are traded. It is mainly used by companies and governments to raise funds for their long-term investment projects. Capital market securities typically have a maturity of more than one year.

- An example of the money market in Bangladesh would be the trading of Treasury bills (T-bills) by the Bangladesh Bank, which is the central bank of Bangladesh. The Bangladesh Bank issues T-bills with different maturities ranging from 14 days to one year, and these bills are traded among banks and financial institutions in the secondary market. The interest rates on T-bills serve as a benchmark for other short-term lending rates in the country.

- An example of the capital market in Bangladesh would be the trading of stocks on the Dhaka Stock Exchange (DSE) and the Chittagong Stock Exchange (CSE). The DSE and the CSE are the two main stock exchanges in Bangladesh where publicly listed companies issue stocks to raise funds from investors. Investors can buy and sell stocks in the secondary market, and the prices of these stocks are determined by the demand and supply forces in the market. The capital market in Bangladesh has been growing rapidly in recent years, and it has played a significant role in mobilizing savings and channeling them into productive investments.

Short notes



- 1.FintTech
- AAOIFI
- Financial Inclusion
- Islamic Money Market
- Islamic Capital Market
- Call money market
- NI Act 1881
- ICRRS
- CAR/CRAR. RWA
- Holder in Due Course
- Payment in Due Course
- Predicate offences
- Repo & Reverse Repo
- Mandate, P/A (power)
- Security (Lien Mortgage, etc)
- Gharar. Maisir
- CRR SLR Bank Rate
- Sukuk, BGIB
- Green Banking. Virtual Banking
- Mudaraba, Al Wadia
- BACH, EFTN, BPSN, RTGS
- Merchant Bank, NBFIs
- CAMELS Rating, Credit Control, Open Market Operation
- Chain Banking
- AML, CFT, CDD EDD SCDD, Peps
- BFIU 26
- Mutual Fund, Compensation
- Eligible Security

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• Books Recommended

- (1) Bedi, et. al. Theory & Practice of Banking. Jeevandeep Prakashan, Bombay.
- (2) Tannan's Banking Law & Practice in India, India Law House, New Delhi.
- (3) Shekhar & Shekhar, Banking Theory & Practice, Vikas Publishing, New Delhi.
- (4) M. Kabir Hassan, Text Book on Islamic Banking, IERB, Dhaka.
- (5) অধ্যাপক আব্দুল মান্নান ইসলামী ব্যাংক ব্যবস্থা।
- (6) Umer Chapra, Towards a Just Monetary System.
- (9) Md. Mahfuzur Rahman, Islamic Financial System, Welfare Publication, Dhaka
- BB website
- NI Act 1881



Thank
you

