

# Challenges of Islamic Banking Practices in Sri Lanka (With Special Reference to Amana Bank Limited)

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## Abstract

*The rapid development of Islamic banking is viable worldwide. However, the Islamic banking industry has to face a number of challenges in its practices. Thus, Islamic banking Institutions of Sri Lanka also faces remarkable challenges while growing rapid in the nation. This is because of lack of awareness of Islamic finance techniques, Islamic finance operations and human resources. This Study was examined the challenges of Islamic banking practices in Sri Lanka. The purpose of this study is to investigate major challenges of Islamic banking in Sri Lanka. Therefore, this Study examines the relationship of major challenges on practices of Islamic banking. Quantitative method was carried out which include questionnaire and secondary data materials. The population for this study considers the bankers and Shari'ah supervisory board members of all the branches of Amana Bank Limited. A simple random sampling technique was used to select the respondents surveyed for this study. For data analysis, descriptive statistical techniques were used. For hypothesis testing, spearman correlation and multiple linear regressions analysis were used. Findings reveal that there is a significant negative relationship between major challenges and practices of Islamic banking from the sample point of view. Furthermore, it reveals that bankers at Amana Bank Limited have perceptions that the major challenges are negative impacted on practices of Amana Bank Limited.*

**Key words:** *Challenges of Islamic banking, Islamic banking, Practices of Islamic banking and Shari'ah*

## INTRODUCTION

One of the fastest growing industries in the world today is the Islamic Finance industry. Analysts and rating agencies are confirming that it is growing at a rate of 20-25 percent every year and that it will hold assets totaling US\$ 4 trillion by 2012. Moreover it has tapped less than 20% of the potential market according to the experts in the industry. In addition to this another strong example is that 7 out of top 10 conventional banks with an international presence have commenced Islamic banking. (www.sailanmuslim.com). The origin of Modern Islamic Banking could be said to have commenced 1400 years ago when Prophet Muhammad himself acted as an agent for his wife's trading activities. And this has been mostly

practiced in the form of partnership according to the research of Geniza Archives of Cairo. In the late 17th century there were some statistics for the evolution of Islamic Business Partnership as evident from Islamic financing practices. This kind of partnership was practiced in those times in various ways. The emergence of modern Islamic Banking can be seen in 19<sup>th</sup> century. (www.sailanmuslim.com)

The attempt to open an Islamic bank in Sri Lanka started in 1997 it had spread with the origination of Amana Investment Limited (AIL). Today it is running with permission of Central Bank of Sri Lanka (CBSL). In 2005-12-10, the schedule II of banking Act No.30 of 1988 was amended and the permission for running Islamic banks in Sri Lanka

was given (Annual Report of Central Bank, 2005). In accordance with, Islamic banking is facing challenges faced by other Islamic banks worldwide in its path of success. Muslims are minority in this country hence challenges are being dealt with simultaneously.

In recent years, there has been an increasing trend to undertake commercial activities according to Islamic principles. Islamic banks and windows are growing at rapid tendency in Sri Lanka. The full support of the government and the entrance of many conventional banks in to this market show the unparallel demand for it and it also leave the proven track record with the positive sign for the viability of Islamic banking and finance transaction which is not confined to Muslims only rather it goes beyond the religion and races. (Marikkar, 2010)

Today Sri Lankan Islamic banking is suffering from shortage of qualified resource persons. The level of success the Islamic banking achieves will depend at the micro level on the quality of management and the level of staff training. On the other hand, most staffs come to Islamic banks from conventional banks and are familiar only with the conventional approach. Many of staffs do not have the commitment required to implement the Shari'ah guidelines. "shari'ah" literally means "a way." In Islamic terminology, it means the legal system of Islam. The fundamental religious concept of Islam, namely its law, systematized during the 2nd and 3rd centuries of the Muslim era (Al-Omar and Haq, 1996, Chapra). Globalization has become an accepted fact. The forces of globalization have increasingly effected economic and financial developments in all countries: through trade in goods and services, financial flows, labor movements, distant policy decisions and more (Askari, H., Iqbal, Z. & Mirakhor, 2009). Financial engineering means the creation of new and improved financial products through innovative design of existing financial instruments ([www.investopedia.com](http://www.investopedia.com)). The term financial engineering is being used here in its broad sense to mean development of new financial products in all areas of financial operation including resource mobilization, placement of funds and risk management, etc. (Iqbal, M., Ahmed, A. & Khan, T., 1998).

According to the Islamic legitimacy, Islamic banking is growing at a rate and this growth has been facilitated by the *Shari'ah* scholars and other professionals in Sri Lanka. There is always a suspicion in the growth of Islamic banking because questions are formed in the matter where Islamic banking is following the Islamic *Shari'ah* in its entire works. (Marikkar, 2010). The major challenge and drawback of Islamic banking in Sri Lanka is due to various reasons and most importantly, according to that, the researchers explain some selected challenges of Islamic banking in Sri Lanka. This study attempts to explain challenges faced by Islamic banking industry in Sri Lanka in its practices.

A research done by Abdul Jabbar Karimi (2000), he penned that there are few challenges more critical for Islamic banking sector such as legal support and implementation of Islamic law into an existing system, risks and transparency. Some important variables identified by Professor Abdul Wassay Haqiqi. The first challenge relates to building the capacity to manage the increasing uncertainties generated by financial innovation, the increasing prominence of the non-regulated sector and the increasing interconnectedness between financial institutions and markets. The second challenge concerns the effective implementation of financial safety nets and the effective coordination of the different components of the safety net to maintain public confidence and to support continuous financial intermediation. The third challenge relates to the increasingly and highly complex financial and economic integration associated with globalization. This has resulted in a significant expansion in cross-border financial activities and introduced new sources of risks to domestic financial systems and the fourth challenge in Islamic Banking & finance is accounting & auditing standards. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has made an important regulatory beginning. It seeks to support the faith of Islam by developing accounting standards for Islamic investment vehicles and by conducting related training and publicity.

Another research indicates some more challenges for Islamic banking are lack of Shariah knowledge, lack of financial engineering and lack of fair treatment in taxation. According to Sri Lankan context, Shari'ah knowledge, lack of financial

engineering and lack of fair treatment in taxation and lack of globalization which are most closed variables for analyzing the challenges. (MM. Shiraj, Manager, Amana Bank, Akaraippattu Branch). So we analyze those variables for this study.

### RESEARCH QUESTIONS

This study is concerned with the following research questions:

1. What kind of challenges does Islamic banking mostly face in Sri Lanka?
2. Do these challenges affect the practices of Islamic banking in Sri Lanka?
3. Are these challenges as obstacle for Islamic banking system in Sri Lanka?

### OBJECTIVES

From above research questions the researchers develop, the major objective of this study is to explain challenges of Islamic banking in Sri Lanka. And also secondary objective of this study is to find out the challenges likely to be faced in operating interest free banking services in Sri Lanka. The readiness and awareness of such challenges will ensure Islamic banking system to fully utilize its potential.

### METHODOLOGY

This study is an exploratory study design to find out the challenges of Islamic banking by providing better understanding. Therefore, Amana Bank Limited (ABL) was taken for this study.

### Data and Method of Data Collection

The data collected for this study are both primary and secondary sources. Primary data is collected by some of the senior managers of ABL and Shari'ah scholars were interviewed and discussed with and had recorded their collective information. In addition, needed information was collected through a self-designed structured questionnaire. Questionnaires were distributed directly and by E-mail among bankers and Shari'ah Supervisory Board (SSB) members of ABL by random sampling. The questionnaires contain questions that are related to selected challenges of Islamic banking in Sri Lanka. The questionnaire is designed into two parts: Part-I is with demographic

information (job status, current position, length of period, experience and educational qualification) Part-II is component with questions related to dependent and independent variables. It is divided into five sections of the study to examine the variables. Therefore, Section I contained questions related to lack of Shari'ah knowledge. Section II contained questions related to lack of globalization. Section III contained questions related to lack of financial engineering. Section IV contained questions related to lack of fair treatment in taxation. Section V contained questions related to practices of Islamic banking which is dependent variable. Also five liker-types scales were used to score the responses.

### Population and Sample

The target population for this study comprised staff and SSB (*Shari'ah* Supervisory Board) members of all the branches of ABL. The staff and SSB members from 10 branches of ABL are chosen to this study. The sample of 100 of them is randomly selected and data were collected. Only 68 samples were responded.

Table 1 Populations and Sample of ABL

Category	No. of Population	Sample	Selected Percentage (%)
Staff	197	66	33.50%
SSB members	5	2	40.00%
Total	202	68	33.66%

### Method of Measurement

For data analysis, descriptive analytical techniques such as column charts, line charts, pie charts, graphical illustration etc were used. For the statistical analysis, the researchers applied MS-Excel, Statistical Package for Social Sciences (SPSS) 16.0 and Mini Tab computer software packages to analyze the primary data. Primary data was obtained from the questionnaire. The reliability of data collected instrument was measured using Cronbach's alpha coefficient.

### Hypothesis

The challenges and practice of Islamic banking are taken for the hypothesis testing. Islamic banking

sector in Sri Lanka is affected by these challenges. Therefore, the challenges have been considered as independent variables. Practice of Islamic banking has been considered as dependent variable.

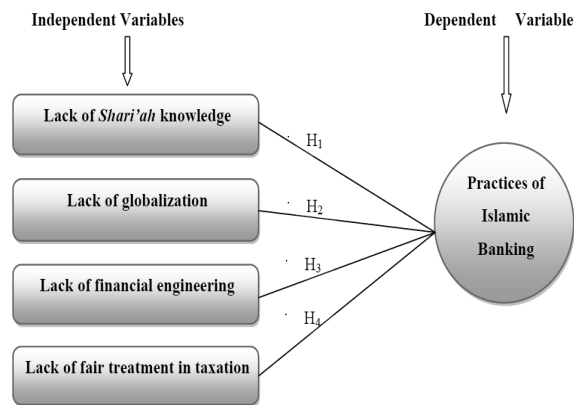


Figure 1 Study Variables

1. Lack of Shari'ah knowledge

- H<sub>01</sub> There is no relationship between lack of Shari'ah knowledge and practices of Islamic banking
- H<sub>A1</sub> There is a relationship between lack of Shari'ah knowledge and practices of Islamic banking

2. Lack of globalization

- H<sub>02</sub> There is no relationship between lack of globalization and practices of Islamic banking
- H<sub>A2</sub> There is a relationship between lack of globalization and practices of Islamic banking

3. Lack of financial engineering

- H<sub>03</sub> There is no relationship between lack of financial engineering and practices of Islamic banking
- H<sub>A3</sub> There is a relationship between lack of financial engineering and practices of Islamic banking

4. Lack of fair treatment in taxation

- H<sub>04</sub> There is no relationship between lack of fair treatment in taxation and practices of Islamic banking

- H<sub>A4</sub> There is a relationship between lack of fair treatment in taxation and practices of Islamic banking

RESULTS AND ANALYSIS

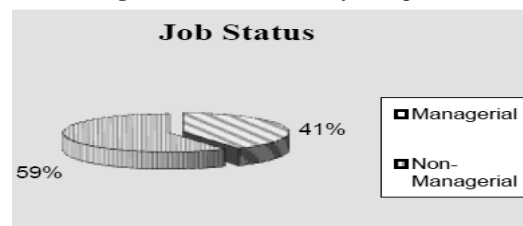
1. Job Status

The job status, which was considered as the sample from bankers of this study, was categorized into two divisions, which have been shown in following table.

Table 2 Job Status of Samples

Job Status	Frequency	Percent (%)
Managerial	28	41.2
Non-managerial	40	58.8
Total	68	100.0

Figure 2 Job Statuses of Samples



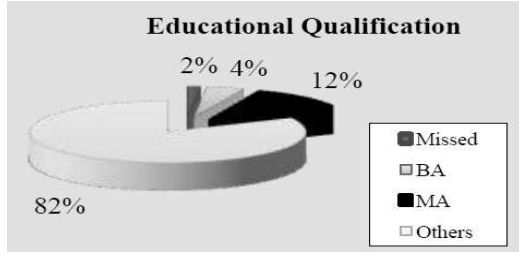
2. Educational Qualification of Employees

Data presentation carried out among the 68 respondents, 4.4% of respondents represent the BA degree holders, 11.8% of respondents have done MA, 82.4% of respondents have done other courses or non and 1.5% of respondents have missed to give this details. However, any of the respondents did not follow MBA or BBA degree. This exemplifies that most of the ABL employees are not graduates. They have very poor knowledge of Economic, accounting, finance and *Shari'ah*, and it towards to major challenge to ABL

Table 3 Educational Qualification

Qualifications	Frequency	Percent (%)
Valid	1	1.5
Bachelor Degree	3	4.4
Master Degree	8	11.8
Others	56	82.4
Total	68	100.0

Figure 3 Educational Qualification



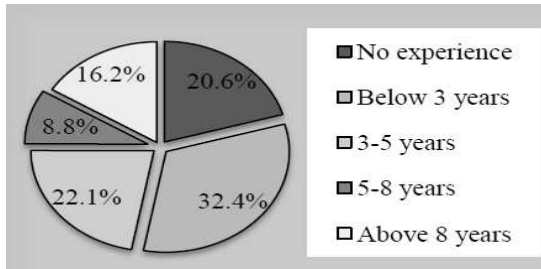
### 3. Working Experience

For a successful financial institution, employees must have enough experiences in their career fields. According to Islamic banks, as recent to Sri Lanka, the employees should have at least conventional banking experience. However, according to graph 20.6% of bankers, nothing experiences and only 16.2% of bankers have above 8 years experience. They are senior executive in their fields.

Table 4 Working Experience

Working experience	Frequency	Percent (%)
No experience	14	20.6
Below 3 years	22	32.4
3-5 years	15	22.1
5-8 years	6	8.8
Above 8 years	11	16.2

Figure 4 Working Experience



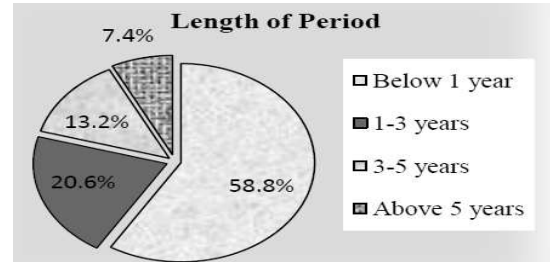
### 4. Length of Period

Based on the analysis carried out among the 68 respondents in ABL, only 7.4% of the respondents are contributing their services above 5 years. A large number of 58.8% respondents are working below 1 year. It shows that ABL is recruited large number of employees recently.

Table 5 Working Experience

Period	Frequency	Percent (%)
Below 1 year	40	58.8
1-3 years	14	20.6
3-5 years	9	13.2
Above 5 years	5	7.4
Total	68	100.0

Figure 5 Working Experience



### Check Reliability Coefficient of Research Measures

The reliability of data collected instrument was measured using Cronbach's alpha coefficient; the reliability test was conducted to check for inter-item correlation in each of the variables in the questionnaire. The following table shows Cronbach's alpha coefficients of the major research measures.

Table 6 - Reliability of Research Measures (Cronbach's Alpha)

Variable Measures	Variable Type	Cronbach's Alpha
Lack of Shari'ah knowledge	Independent	0.768
Globalization	Independent	0.633
Financial engineering	Independent	0.657
Unfair treatment in taxation	Independent	0.738
Practice of Islamic banking	Dependent	0.646

According to the table, Cronbach's alpha of all independent and dependent variables are more than 0.6 is indicates that the reliability of data is good. Therefore, subject to the specific and usual limitations associated with this study, the study instrument appears reliable and valid.

### Descriptive Statistics

Descriptive Statistics							
	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Shariah_Knowledge	68	1.9676	.56316	1.088	.291	.839	.574
Globalization	68	2.1088	.48183	.426	.291	-.442	.574
F_engineering	68	2.0471	.51730	.756	.291	.146	.574
Taxation	68	2.1324	.41982	.514	.291	.111	.574
Valid N (listwise)	68						

Table 7 - Descriptive Statistics of the Independent Variables

If the mean value close to 1, so the challenge highly affects on practices of banking. Examination of the mean value listed in the above table reveals that most dangerous challenges are lack of Shari'ah knowledge (1.97) and lack of financial engineering (2.05) which are least than 3 (three). Dangerous challenges are lack of fair treatment in taxation (2.13) and lack of globalization (2.11) which is less than 3 and near to 3.

Table 8 - Descriptive Statistics of the dependent Variables

Descriptive Statistics							
	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Practices	68	4.0412	.64698	-1.150	.291	.606	.574
Valid N (listwise)	68						

The mean value of the practice of Islamic banking is 4.04. It exposes that the challenges affect the practices of Islamic banking in high level. SD lies on 0.6470.

### Correlation Analysis and Hypothesis Testing

Table 9- Correlation Analysis and Hypothesis Testing

Correlations						
		Y	X1	X2	X3	X4
Spearman's rho	Y	1.000	-.715**	-.338**	-.710**	-.469**
	Correlation Coefficient					
	Sig. (2-tailed)		.000	.005	.000	.000
	N	68	68	68	68	68
X1	X1	-.715**	1	.447**	.734**	.694**
	Correlation Coefficient					
	Sig. (2-tailed)	.000		.000	.000	.000
	N	68	68	68	68	68
X2	X2	-.338**	.447**	1	.608**	.283*
	Correlation Coefficient					
	Sig. (2-tailed)	.005	.000		.000	.019
	N	68	68	68	68	68
X3	X3	-.710**	.734**	.608**	1	.509**
	Correlation Coefficient					
	Sig. (2-tailed)	.000	.000	.000		.000
	N	68	68	68	68	68
X4	X4	-.469**	.694**	.283*	.509**	1.000
	Correlation Coefficient					
	Sig. (2-tailed)	.000	.000	.019	.000	
	N	68	68	68	68	68

\*\* . Correlation is significant at the 0.01 level (2-tailed).  
\* . Correlation is significant at the 0.05 level (2-tailed).

Where

Y – Practices of Islamic banking, X1 – Lack of Shari'ah knowledge, X2 – Lack of globalization, X3 – Lack of financial engineering, and X4 – Lack of fair treatment in taxation

The Pearson Correlation of **lack of Shari'ah knowledge** and practices of Islamic banking is -0.715, is strongly negative. Therefore, there is a strongly negative correlation of coefficient between lack Shari'ah knowledge and practices of Islamic banking. Therefore, hypothesis  $H_{01}$  is rejected and  $H_{A1}$  is accepted. It means that there is a negative relationship between these two variables. Therefore, it can be statistically concluded that there is a significant negative relationship between lack of Shari'ah knowledge and practices of ABL.

The Pearson Correlation of **lack of globalization** and practices of Islamic banking is -0.338, is weak negative. Therefore, there is a weak negative correlation of coefficient between lack of globalization and practices of Islamic banking. Hence, hypothesis  $H_{02}$  is rejected and  $H_{A2}$  is accepted. It means there is a negative relationship between these two variables. Therefore, it can be statistically concluded that there is a weak negative relationship between lack of globalization and practices of ABL.

The Pearson Correlation of **lack of financial engineering** and practices of Islamic banking is -0.710, is strongly negative. Therefore, there is a strongly negative correlation of coefficient between lack of financial engineering and practices of Islamic banking. Therefore, hypothesis  $H_{03}$  is rejected and  $H_{A3}$  is accepted. It means there is a negative relationship between these two variables. Therefore, it can be statistically concluded that there is a strongly negative relationship between lack of financial engineering and practices of ABL.

The Pearson Correlation of **lack of fair treatment in taxation** and practices of Islamic banking is -0.469, is negative. Therefore, there is a weak negative correlation of coefficient between lack of fair treatment in taxation and practices of Islamic Banking. Hypothesis  $H_{04}$  is rejected and  $H_{A4}$  is accepted. It means there is a weak negative relationship between these two variables. Hence, it can be statistically concluded that there is a weak negative relationship between lack of fair treatment in taxation and practices of ABL.

## Multiple Regression Analysis of Challenges and Practices

Table 10- Multiple Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.775 <sup>a</sup>	.601	.576	.30283

a. Predictors: (Constant), X4, X2, X3, X1

Coefficient of determination (R squared) is the proportion of variation in the dependent variable explained by the regression model. If R-square is relatively higher than 50% then the model can be adequate. According to the Model summary table R squared = 0.601. If R squared higher than 75%, then the model can be very good adequate and if R squared higher than 50%, then the model can be good adequate. Since, R squared = 60.1%, which indicates 60.1% of the variability in practices of Islamic banking (dependent variable - Y) is explained its linear relationship with the challenges (independent variables - Xs).

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.699	4	2.175	23.716	.000 <sup>a</sup>
	Residual	5.777	63	.092		
	Total	14.477	67			

a. Predictors: (Constant), X4, X2, X3, X1

b. Dependent Variable: Y

According to the ANOVA table, since P-Value = 0.000 < 0.01, then reject H<sub>0</sub>. Therefore, at 1% significance level, statistically conclude that, there is significant relationship between challenges and practices of Islamic banking.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.262E-16	.037		.000	1.000
	X1	-.500	.152	-.462	-3.298	.002
	X2	-.998	.192	-.941	-5.024	.000
	X3	-.580	.155	-.493	-3.733	.000
	X4	-.878	.173	-.660	-4.546	.000

a. Dependent Variable: Y

Fitted multiple regression line is:

$$Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + e_i$$

According to the coefficient table:

$$\beta_0 = 1.262E-16 \text{ (Constant)}$$

$$\beta_1 = (-0.500) \text{ (Lack of Shari'ah knowledge)}$$

$$\beta_2 = (-0.998) \text{ (Lack of globalization)}$$

$$\beta_3 = (-0.580) \text{ (Lack of financial engineering)}$$

$$\beta_4 = (-0.878) \text{ (Lack of fair treatment in taxation)}$$

$$\hat{Y} = (1.262E-16) - 0.500 X1 - 0.998 X2 - 0.580 X3 - 0.878 X4$$

If lack of Shari'ah knowledge is increased by one, practices will be decreased by 0.500. If lack of globalization is increased by one, practices will be decreased by 0.998. If lack of financial engineering is increased by one, practices will be decreased by 0.580. If lack of fair treatment in taxation is increased by one, practices will be decreased by 0.878. In this multiple linear regression model, the constant value is 1.000 indicates, where the regression line intercepts the y axis. The regression coefficient is -0.500 means there is strongly negative relation between the practice of Islamic banking and lack of Shari'ah knowledge. The regression coefficient is -0.998 means there is normal negative relation between the practice of Islamic banking and lack of globalization. The regression coefficient is -0.580 means there is strongly negative relationship between the practice of Islamic banking and financial engineering. The regression coefficient is -0.878 means there is normal negative relation between the practice of Islamic banking and lack of fair treatment in taxation.

## CONCLUSION AND RECOMMENDATIONS

The result of this study concludes the relationship of these challenges on practices of the Islamic banking. The study examined that Islamic banking could not operate with its full efficiency level if it operates under a conventional banking framework.

### 1. Lack of Shari'ah Knowledge and Practices of Islamic Banking

According to the study, it is concluded that the importance of scholars with Islamic Shari'ah knowledge is outstanding for the development of Islamic banking. In the study, most of the bankers agree that Islamic banking industry faces the shortage of Islamic banking scholars. Because of this one scholar, take part in various poses and various banks. The users of Islamic banking are worried about lack of scholars in this field because Islamic finance is a fast growing sector and it contains solutions of all financial problems. Due to this shortage of scholars, it is difficult to update the

system according to current requirements of the society and this problem will affect the growth of Islamic banking in Sri Lanka. The study statistically examines the lack of Shari'ah knowledge, with practices of ABL. The result based on five questions in the questionnaire, the frequency tables evident that ABL faces the challenge the lack of Shari'ah knowledge is very high.

Islamic banks should give the awareness programmes for public and especially their customers by issuing handbills and make the prospectus including the Islamic banking policies. Universities and private institutions have to conduct the courses and seminars to produce quality graduates with the dual specialization. Islamic banks have to find reasonable number of suitable managers from the graduates of those universities and institutions, any one of them find a place in the Shari'ah board of Islamic banks.

## **2. Lack of Globalization and Practices of Islamic Banking**

Islamic banking is facing the difficulty of its service network throughout the country because of few Islamic banks and there are no technology providers. Muslims are third largest community in Sri Lanka. This study reveals that lack of computerized banking system and lack of technology of Islamic banking in Sri Lanka. Although Islamic banking in Sri Lanka has ineffective globalization, it is not a major problem. Currently, Islamic banking software providers are developing in Muslim minority countries more than Muslim majority countries. It is resulted from the analysis, according to questionnaire based on five questions related to lack of globalization; ABL is facing this challenge in lower level. Due to the lack of globalization affected on practices of Islamic banking is keeping reduce in Sri Lanka. Therefore, presently it is not major challenge to Islamic banks.

Islamic banks have to make the global network connection within the branches. Islamic banking needs to improve the branch network throughout the country. It should introduce online and virtual banking and establish global branches in worldwide.

## **3. Lack of Financial Engineering and Practices of Islamic Banking**

Lack of financial engineering is a challenge for Islamic banks to introduce new Shari'ah-compatible products that enhance liquidity, risk management, and portfolio diversification. Engineers in Islamic banking have designed several new ways such as derivatives, options, credit cards, hedging, insurance pension plans and mortgages, etc. to meet the needs of customers for various banking services. In addition, this study evaluates according to questionnaire based on five questions related to lack of financial engineering, ABL is facing this challenge highly. It examines the impact of this challenge on practices of ABL. The result of this that affect of this challenge on practice is mostly faced by ABL.

Islamic banks should prepare well-organized risk management committee. It needs to understand about risks. To build capable and innovative management teams committed to Islamic banking, the employment of experienced and qualified staff, including expatriates to facilitate transfer of knowledge and expertise will be encouraged. The recruitment of expatriates will complement the efforts made to build the skills of the domestic industry players.

## **4. Lack of Fair Treatment in Taxation and Practices of Islamic Banking**

This study concludes about several taxes implementing in Sri Lanka. The Sri Lankan tax system has developed over several hundred years in an environment of interest based financial transactions. Accordingly, it does not cater naturally for Islamic finance. After, the growth of Islamic banking in Sri Lanka, both on wholesale and retail business level, there is much debate about the tax rules applicable. When compare this challenge with lack of *Shari'ah* knowledge and lack of financial engineering it is not a big challenge. However, this study reveals that there is a negative relationship with practices of Islamic banking and it affects on the practices.

Taxation is much closed with government. It is the duty of the government to enact laws or amend the existing legislation needed for sustainable economic development in the country. As Islamic banking is relatively a new area, with a potential for economic development, it is necessary to make suitable laws in order to provide it a level playing field. Formulation and amendment tax policies to



take into consideration the impact on Islamic banking to avoid creating barriers in adopting Islamic banking concepts. Islamic banks are should advised about tax calculation, tax rate and standards of taxes. There are no taxes for some incomes of Islamic banks called tax exemption, this must informed to Islamic banks.

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