

No opportunity to abuse bank loans in Islamic banking

Mohammad Abdul Mannan has been holding the post of Managing Director of Islami Bank Bangladesh Limited (IBBL) since 2010. Earlier he held the position of Deputy Managing Director of the same bank. He left his job as a journalist and joined IBBL in 1983. Recently he spoke to The Asian Age on IBBL and Islamic banking system.

The Asian Age (AA): What is the difference between Islamic banking and other interest-based banks?

Mohammad Abdul Mannan (MAM): There are differences between Islamic banking and other conventional interest-based banks in terms of objectives and methods. The main feature of Islamic banking is that the bank conducts investments through products instead of directly paying money to anyone. In this system, there is no opportunity to utilize bank loans for any other purpose, which is different from the sector for which loans are issued. At the same time this system blocks clients from taking loans more than the required amounts. Besides, Islami bank provides more loans to small enterprises rather than large ones for services towards public welfare. On the other hand, interest-based banks have originated from the past feudal money-lending system. The main characteristic of interest-based banks is that they deal in money. They sell and buy money like other commodities.

AA: Islami Bank Bangladesh Limited (IBBL) has brought massive changes to its board of directors. Do these changes have any effect on the bank's management?

MAM: The changes in IBBL board of directors are positive things because it is easier to protect the



interest of depositors with more independent directors in the bank's board. Earlier foreign entrepreneurs used to hold higher shares of IBBL at the very beginning. As a result of the obligation to hold at least 2% shares to become a director just one domestic entrepreneur and one organization could qualify to become directors of IBBL. However, at present IBBL audit committee and executive committee have been working more effectively because of having more

local directors. The board of directors has no negative effects on the management of IBBL.

AA: Islamic banking is supposed to be regulated in terms of partnership of profits and losses. Is Islamic banking being conducted in Bangladesh in this way?

MAM: Islamic banking system follows Islamic Shariah for all sorts of banking like taking money from clients, investments, paying loans

etc. Eliminating interest and introducing authentic business are the main principles of this banking system. IBBL's current accounts are handled on the basis of Al Wadia dictum under Islamic Shariah. On the other hand, partnership for profits and losses are conducted on the basis of Mudaraba principle. IBBL follows different Islamic codes like Mudaraba, Musharaka, Murabaha, Bay-E-Muazzal, Bay-E-Salam and some more Islamic regulations for dealing with activities related to investments. IBBL avoids interest while making transactions with the central bank as well as while transacting money with foreign interest-based banks. Moreover, in Islamic banking system profits and losses of clients are connected with the profits and losses of the bank itself. In addition, profits and losses of the bank depend on the business outcomes of investors. In this way under Islamic banking depositors, bankers and investors are bonded with each other. Under this system reciprocal relations are tied through partnership, not through just paying and receiving money. All people concerned with Islamic banking utilize their merit, innovative qualities, experience and wisdom to work together. This inclusive approach to clients is known as the main strength of IBBL.



AA: Please tell us something about the overall functions of IBBL.

MAM: IBBL has been conducting its activities very transparently with confidence from all clients. IBBL currently holds deposits of 67 thousand crore taka and 55 thousand crore taka is at present held by IBBL as investments. One-third of the total remittance of the country comes through the 312 branches of IBBL. A remarkable portion of export and import business is also being conducted through IBBL. IBBL has higher profit margin than other banks too. A part of IBBL's profit is being spent to carry out the bank's corporate social responsibility (CSR) to

cooperate with distressed people during times of disasters and crisis.

AA: How do you evaluate defaulted loans?

MAM: Defaulted loans are a major problem for any bank. IBBL is always working with dynamism to control defaulted loans. Currently 4.85% of total distributed loans of IBBL is on defaulted list whereas over 10% loans on average are defaulted in the whole banking sector of Bangladesh. Moreover, IBBL's security reserve is one thousand crore taka higher than the security deposit requirement of Bangladesh Bank.