

### **Islamic banking: Shariah-compliant deposit protection mechanism unveiled**

With the approval of the Shariah Advisory Committee, the State Bank of Pakistan (SBP) Monday announced Shariah compliant deposit protection mechanism for Islamic Banking Institutions (IBIs). A Deposit Protection Waqf (DP Waqf) will be established under this mechanism for protection of depositors of IBIs. The nature of DP Waqf will be as an account established by the corporation to receive premium contributions from participatory IBIs for the purpose of reimbursement of protected deposits of a failed participatory IBI.

The objective of the DP Waqf is to provide a Shariah compliant mechanism for protected depositors of IBIs up to an amount prescribed under Section 7(1) of the Act, in the event of failure of a participatory IBI as notified by the State Bank in terms of Section 21 (1) of the Act.

Islamic Banks, Islamic Banking Subsidiaries of Conventional Banks and Islamic Banking Branches of Conventional Bank will be members/ participants of the DP Waqf and its structure will be based on Waqf-Wakolah model.

DP Waqf will be created with an amount of Rs. 1,000,000 (Rupees One Million only) as a seed money (As/-e-Waqf) contributed by the Corporation, with approval of its Board. While, member IBIs will participate into the DP Waqf in the form of premium contributions, on donation basis, which will become the property of the DP Waqf.

Each participating IBI will pay premium contribution amount, from their own sources with no cost to the depositors, into the DP Waqf as determined by the Corporation in terms of the Deposit Protection Rules and Deposit Protection Regulations/Instructions.

The premium contribution will be on donation/Tabarru basis along with any return thereon. After payment of premium contribution by participatory IBIs, the ownership of the premium contribution along with any return thereon will be transferred into the DP Waqf and this will no longer remain in the ownership of member IBIs.

The Board will ensure Shariah compliance of the deposit protection mechanism for the IBIs. The matters of Shariah compliance related to day-to-day affairs of DP Waqf may be supervised by the internal compliance/ audit arrangement of the Corporation or as advised by the Board. However, matters requiring Shariah opinion/ rulings will be referred to SBP to seek opinion/rulings of the Shariah Advisory Committee of SBP, if the same is advised by the Board.

The Corporation may raise funding and/ or meet shortfall for the DP Waqf through financing through Islamic modes as approved by the Board, financing facility from conventional deposit protection fund of the Corporation subject to Shariah compliant mechanism, Financial arrangements from SBP, special allocation from the budget and increase in premium contribution to be received from members participant.

Subject to Section 21 of the Act, the payment to any depositor(s) will be made from the DP Waqf by the Corporation, up to the protected amount, against the balances held in their accounts with the relevant member IBI.

In case of liquidation, the outstanding assets of the DP Waqf will be vested with State Bank, which will be utilized for any arrangement as advised by the Shariah Advisory Committee. The seed money will be transferred to any other Waqf as advised by the Shariah Advisory Committee.

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