

RECONCILING LAW AND FAITH: REGULATORY HURDLES IN PAKISTAN'S ISLAMIC BANKING FRAMEWORK

Saad Ameen^{*1}, Dr. Tansif Ur Rehman², Furqan Ansari³

^{*1,2,3}Department of Law, Dadabhoy Institute of Higher Education, Pakistan

¹samsopara111@gmail.com, ²tansif@live.com, ³furqaanali000@gmail.com

DOI: <https://doi.org/10.5281/zenodo.15796399>

Keywords

challenges, Islamic banking, opportunities, Pakistan, Shariah

Article History

Received on 26 May 2025

Accepted on 26 June 2025

Published on 02 July 2025

Copyright @Author

Corresponding Author: *

Saad Ameen

Abstract

In spite of the fact that Islamic banking in Pakistan is conforming to the country's Islamic identity, Islamic banking implementation has met hurdles in the form of legal challenges. The biggest issue is the dual banking system; Islamic banks coexist with other conventional banks, which adds many complexities to regulation. Because there is no overarching legal framework specifically for Islamic finance, this is found in conflict with existing laws applicable to interest-based banking. Moreover, the absence of industry-standardized Shariah compliance mechanisms has been highlighted as a potential source of irregularity and lack of credibility. There is also a problem of insufficient judicial expertise in Islamic jurisprudence in interpreting Islamic financial contracts like Murabaha and Musharakah, which often lead to legal disputes. In addition, Islamic banking structures are generally not catered for in tax laws and financial regulations. To address these challenges, Pakistan will require robust legislative reforms, specialized training of legal professionals, and a centralized Shariah regulatory authority to provide consistency and build trust in Islamic banking.

INTRODUCTION

Islamic banks have also become a powerful means against typical banks, with a focus on ethical money lending and interest-free deals (Gunawan, 2023). It is boosted by the rising number of Sharia-based services (Alkhayyal & Parveen, 2024), and nations have developed novel models (Bimantara et al., 2025). Its character is differentiated by the role that risk-sharing and asset-backed financing play (Ergashovich, 2024; Saadaoui & Khalfi, 2022). According to scholars, it has been helping to bring financial inclusion (Amuda & Al-Nasser, 2024; Hashim et al., 2024). Nevertheless, there remain problematic issues in operation (Al-Hanandeh et al., 2024; Glebova, 2025), and they need to be fixed by policy (Kholid & Adam, 2025) and society (Hakim, 2023; Irwansyah et al., 2024; Septiani et al., 2022).

In Pakistan, a country based on Islamic ideals, Islamic banking, which is based on Shariah principles, has caught on like wildfire. Islamic banking has been slowly but steadily growing since the early 1970s, established with the aspiration to offer a financially zero-interest financial system according to religious beliefs (Ali et al., 2019). In effect, however, its implementation has been accompanied by legal wrangles that limit its realization (Ayyub et al., 2019). It is due to the fact that in Pakistan, being a dual system, Islamic banks have to exist with conventional banks, creating problems of regulation and operation (Iqbal et al., 2023). Islamic financial principles are also often faced with conflicts of duality between these principles and the existing legal frameworks designed for systems of interest, which create massive hurdles for the development of this sector (Ali et al., 2022).

The most significant legal challenge is that there is no single, comprehensive, consistent, and tailored legal framework for Islamic finance (Khan et al., 2025). The existing laws, e.g., Banking Companies Ordinance 1962, are found to be less effective in dealing with special structures of Islamic financial products like Murabaha, Ijarah, and Musharakah (Raza et al., 2021). The gap typically leads to legal disputes and discrepancies in judicial interpretations (Mehmood et al., 2024). Furthermore, the lack of a single Shariah regulatory body has resulted in different interpretations as regards Shariah compliance, thereby diminishing the credibility and uniformity of Islamic banking practices (Hassan et al., 2020). Additionally, tax laws and financial regulations in Pakistan are mainly built for conventional banking, which creates operational inefficiencies for Islamic banks (Desk, 2023). For example, Islamic financial transactions are still plagued by double taxation, which prevents potential investors from participating (Hassan et al., 2024). To achieve the sustained growth of Islamic banking in Pakistan, legislative reforms are necessary for the specialized training of legal professionals, and a robust regulatory framework needs to be established (Aziz & Afaq, 2018). All these challenges need to be addressed.

Islamic banking in Pakistan provides a challenging legal challenge for the attempt with respect to how best to reconcile Shari'ah teachings and current-day financial frameworks. Prohibition of riba (interest), gharar (acceptable uncertainty), as well as haram (forbidden), conducts most of the time go contrary to the legal and institutional structures of conventional banking buildings that have been based on traditional banking enactment from the basis of Islamic banking (Hassan et al., 2020). Pakistan's judicial system, which was primarily based on British colonial laws, has not been designed to accommodate Islamic financial instruments of contracts such as mudarabah, musharakah, and ijarah; thus, there remains some uncertainty with regard to contract enforcement and compliance (Ali et al., 2022).

Moreover, additional legal complexity has been added by repeated judicial judgments, including judgments of the Federal Shariat Court and of the Supreme Court (Aziz & Afaq, 2018). The judiciary itself has, from time to time, called for outright removal of

interest from the economy, but sparring actions in uniform implementation and Shariah standards have stymied progress (Raza et al., 2021). The duality of the law has confused the financial institutions, the regulators, and the judiciary as to precisely what legal architecture is needed to accommodate Islamic banking in a hybrid financial setup (Ali et al., 2019).

Research Justification

The proliferation of Islamic banking in Pakistan is under research on account of its socio-economic and religious importance; as such application of Islamic banking is an essential field of study. In view of its being a state based on Islamic values, Pakistan maintains a moral and legal obligation to introduce financial systems compatible with Shariah. Having both Islamic and conventional banking systems running parallel is the cause of regulatory and legal issues that curb the sector's growth and efficiency. The challenges are so fundamental to any effort geared towards a successful integration of Islamic banking into the national economy.

The need to clarify the legal inconsistencies and uncertainties that have plagued the Islamic banking industry from the onset is what makes this study justified. For instance, one such example is the absence of a legal framework, like Islamic finance, that is specific to Islam, which poses conflicts with the existing laws and results in operational inefficiencies and legal disputes. Also, the absence of a single, overarching Shariah regulatory authority has inequity to the credibility and consistency of Islamic banking services. The research is also essential for policymakers, regulators, and financial institutions that intend to create an enabling set of environments for Islamic banking.

The research, therefore, is aimed at identifying and resolving these legal issues in a bid to support the evolution of a sound regulatory framework that will foster trust, transparency, and development of the Islamic banking system. It will improve overall not only the financial sector in Pakistan but also its obedience to Islamic practices.

Research Objectives

1. To discuss the historical context of Islamic banking in Pakistan.

2. To highlight the theoretical context of Islamic banking in Pakistan.
3. To analyze the leading laws that govern Islamic banking in Pakistan.
4. To identify the key challenges regarding Islamic banking in Pakistan.
5. To explore the opportunities for Islamic banking laws in Pakistan.
6. To propose effective prevention and intervention strategies.

Research Methodology

This study employed a systematic review methodology with research objectives established accordingly. A comprehensive literature review was conducted (Komba & Lwoga, 2020). Research findings were categorized based on their content (Hiver et al., 2021; Petticrew & Roberts, 2006), and classified information was incorporated into the study by organizing it into headings (Gan et al., 2021; Pawson et al., 2005). The evaluation of classified information and titles formed the basis of the study (Page, 2021; Rahi, 2017), ensuring the integrity of the research subject and its contents (Egger et al., 2022; Victor, 2008). The criteria for selection are enlisted.

1. **Relevance:** Researches that directly addressed the questions posed by this study are included.
2. **Quality:** Studies that meet a certain quality threshold (e.g., methodological rigor, bias risk) are included. Most of the research is from Scopus-indexed and Clarivate Analytics journals and reputed publishers.
3. **Recency:** Consideration of the publication date to ensure that the review reflects the most current evidence. Most of the studies are from the last three years.
4. **Language:** Only studies published in English are included.
5. **Data Completeness:** Previous studies must provide sufficient data on outcomes of interest for

practical synthesis; it is also ensured in this research.

This study did not use primary data from human participants; therefore, no ethics clearance letter from the ethics committee was required.

Literature Review

Islamic banking has been a topical issue in the last ten years because it has ethical grounds and complies with the Sharia laws, especially the prohibition of interest (Gunawan, 2023; Hakim, 2023). In contrast with traditional banking, Islamic banking encourages the concept of risk-sharing, asset-based finance, and ethical investment (Saadaoui & Khalfi, 2022; Fasa & Putri, 2025). Research highlights its capabilities to increase financial inclusion, particularly in Muslim-dominant cultures (Amuda & Al-Nasser, 2024; Irwansyah et al., 2024). Nevertheless, some obstacles involving societal awareness and regulatory restrictions still exist (Abasimel, 2022; Al-Hanandeh et al., 2024). Researchers also emphasize the necessity of the legal framework harmonization that will help to develop the industry (Kholid & Adam, 2025; Randyantini & Saputri, 2024).

Recent technological changes in banking can further offer newer prospects to Islamic finance with increased reach and operational effectiveness (Glebova, 2025; Alkhayyal & Parveen, 2024). In the meantime, consumer confidence and the verity of Sharia adherence remain fundamental issues (Ergashovich, 2024; Hashim et al., 2024). There is also the development of financial instruments according to Islamic precepts (Bimantara et al., 2025; Asmawi et al., 2024). Finally, the literature shows an increased division on the necessity of strategic development and education to assist the sustainable growth of Islamic banking (Septiani et al., 2022; Syarif & Setiadi, 2024). The study of the evolution of Islamic banking in Pakistan is an essential part of the overall objective of Pakistan to align its overall financial system according to the principles of Shariah. However, an entirely Islamic banking system would still face substantial legal challenges, though, by virtue of the last couple of decades' advancement. A key fundamental issue is the coexistence of conventional banking and Islamic banking within a legal framework originating in

conventional interest-based finance. This duality creates regulatory inconsistency and structural incompatibility, making possible the full development of a Shariah-compliant financial system (Ali et al., 2022).

Current financial legislation is not sufficient for addressing Islamic financial contracts (such as *mudarabah*, *ijarah*, etc.), leading to legal uncertainties and operational challenges (Iqbal et al., 2023). One of the most significant legal barriers lies in the absence of a harmonized legislative system that incorporates Islamic commercial law in a nation's legislation (Aziz & Afaq, 2018). The Federal Shariat Court ruled that interest (*riba*) was repugnant to Islam and had to be removed from the financial system. Still, most crucial banking legislation, such as the Banking Companies Ordinance of 1962 and the Contract Act of 1872, are based on traditional principles of finance (Hassan et al., 2020).

By not providing for these Islamic banking contracts by name, these legal tools do not know or uphold Islamic banking contracts, and hence, there is uncertainty with respect to the resolution of disputes as well as the enforcement of contracts (Raza et al., 2021). Secondly, there is no central Shariah supervisory body in the absence of which the banks practice Shariah differently and deploy their understandings of Islamic finance with the result of lesser regulatory coherence (Desk, 2023). The other problem is that the judiciary and legal sector are not able to deal with disputes related to Islamic finance effectively (Ali et al., 2019). There does not exist a prevalent network of specialized courts and trained judges that separate cases of the transactions of sophisticated Islamic financial instruments into sharia questions and civil law components (Khan et al., 2025).

On the subject of Islamic commercial law (*fiqh al muamalat*), judges and lawyers tend not to receive the training required to interpret and pass judgment accurately on the contracts of Islamic banking (Mehmood et al., 2024). As a result of this, Shariah-based claims are interpreted incorrectly or outright rejected in doctrine-controlled conventional courts (Hassan et al., 2024). Secondly, there are no precedents of Islamic banking, which in turn hinders the growth of a robust body of case laws, limiting its

way to strengthen the Islamic legislative vehicle accordingly and reducing the level of legal outcome certainty (Ayyub et al., 2019).

The framework is also fragmented and underdeveloped in the regulation of Islamic banks. Even though the State Bank of Pakistan has issued specific Shariah governance rules to facilitate Sharia-compliant issuing banks, such rules tend to be over-imposed on standard compliance guidelines, which leads to redundancy and contradiction in law (Ali et al., 2022). For example, Islamic contracts are not explicitly covered in law when it comes to taxation and accounting, which results in Islamic banks presenting higher costs and operational inefficiencies (Raza et al., 2021). An underlying legal barrier to the development of the industry in Pakistan is the lack of a sound legal framework dealing with the nature and requirements of Islamic financial instruments (Aziz & Afaq, 2018).

Historical Context of Islamic Banking in Pakistan

Islamic banking in Pakistan emerged as the whole of the Islamization of the nation in the 1970s. The government introduced interest-free banking in 1979 on instructions from the Federal Shariat Court, which declared interest (*riba*) un-Islamic in 1980 (Aziz & Afaq, 2018). Such attempts were initiated in the Islamic financial sector on the basis of certain Shariah principles (Ali et al., 2019). Nevertheless, the shift was resisted strongly because of the very entrenched conventional banking system and the lack of clearly defined legal frameworks (Iqbal et al., 2023). Indeed, the initial attempts at the implementation of Islamic banking were experimental and partly successful in the achievement of the Islamization process (Hassan et al., 2020).

Islamic banking has been rapidly growing so much that chains of Islamic banking branches and windows were selling such instruments as *Murabaha*, *Ijarah*, and *Musharakah* (Raza et al., 2021). However, the industry is dual banking based, which is the source of regulatory and operational problems (Desk, 2023). This lack of a single legal framework developed for Islamic finance is incompatible with the mainstream banking legislation and courts' disagreement over Shariah compliance (Mehmood et al., 2024). Despite the challenges, Islamic banking has made inroads (in fact, it constitutes a substantial part of the banking

industry of Pakistan), mainly owing to the demand of the public for Shariah-compliant financial products (Khan et al., 2025; Ayyub et al., 2019).

Theoretical Context of Islamic Banking in Pakistan

Islamic banking in Pakistan is founded on the theoretical and financial bases put forth by shariah-compliant finance, namely, the rejection of interest (riba) and advocacy of risk-sharing, ethical investment, and social justice. However, this incorporation into a modern finance system brings many legal problems. Pakistan has coexistence of a dual banking system wherein Islamic and conventional banks operate together, which inevitably gives rise to regulatory conflicts arising because the prevailing laws were drafted majorly with an interest-based banking system in view. This disconnect leads to legal uncertainties in the implementation of such Shariah-compliant contracts as Murabaha and Musharakah, which have essential distinctions from conventional financial products. There are, however, some other conceptual issues, foremost among which is the absence of a single legislative framework for Islamic finance.

Traditional banking regulations are created, while Islamic banking requires to have different rules in order to combine its peculiar structures and moral aspects. It becomes more difficult because there is no central Shariah regulatory body, so the interpretation of Shariah compliance varies from institution to institution. It also causes delays and unevenness in the settlement of disputes due to the fact that the judiciary, in most cases, does not have expertise in Islamic jurisprudence. Therefore, these theoretical shortages convince us that an enabling environment for Islamic banking in Pakistan is in need of extensive legal reforms.

Laws Regarding Islamic Banking in Pakistan

The Islamic banking business in Pakistan runs in accordance with guidelines formulated to maintain conformity between the concepts of Islamic financial conduct and Islamic Shariah principles, mainly avoiding interest (riba) and substituting it with risk sharing and asset-backed transactions. It has been developed through a combination of legislative measures, judicial pronouncements, and regulatory guidelines.

1. Constitutional Provisions and Early Initiatives

Elective Islamic banking in Pakistan came down to elective constitutional mandates. Further brought by the Objectives Resolution of 1949, which emphasized the harmonization of laws with the principles of Islam. Riba was also banned by the Constitution of 1973, and this was reiterated by the document as a state goal. Major Islamization of the economy took place under General Zia-ul-Haq's rule in the late 1970s, and early 1980s when profit and loss-sharing accounts were opened, and Shariah benches in the courts were started to ensure that the financial practices adhered to the teachings of Islam.

2. Federal Shariat Court (FSC) Rulings

The FSC has formed the legal framework of Islamic banking. In 1991, the FSC said that interest-based banking is unlawful according to Shariah and should be eradicated. It was under a number of reviews and appeals before a historic ruling in April 2022. The FSC re-enforcement of the ban on riba and gave an ultimatum to all the banks of the country to convert the existing interest-based banking system into an interest-free system by December 2027 since it is unIslamic. To revise concerned laws accordingly, the federal as well as provincial governments were directed to do so.

3. Regulatory Framework by the State Bank of Pakistan (SBP)

As the central bank, the SBP had an essential role in formulating and enacting the regulations for Islamic banking. In 2001, a comprehensive legal framework on the development of Islamic banking alongside conventional banking was issued. It comprised full-fledged Islamic banking licensing guidelines for traditional banks, Islamic banking subsidiaries, and single Islamic banking branches of conventional banks. The Islamic Banking Department was also created by the SBP, which was given the task of regulating the growth and upscale of the industry following Shariah compliance.

4. Shariah Governance Mechanisms

As a condition for Shariah compliance, banks are supposed to establish Shariah supervisory boards (SSBs) comprised of scholars well-versed in Islamic

jurisprudence and finance. The boards review and approve products, services, and operations and certify compliance with Shariah. The elaborate guidelines by the SBP on the constitution, functions, and duties of these boards are intended to set industry standardization in practice.

5. Recent Developments and Future Outlook

The Pakistani government and financial institutions have moved at almost lightning speed to wipe out riba from the economy since the verdict of 2022 by the FSC. SBP and the National Bank of Pakistan withdrew their appeals against the FSC's decision and expressed willingness to proceed towards their transition to an interest-free banking system no later than December 2027.

To sum up, the operational framework for Islamic banking in Pakistan represents the product of constitutional mandates, juridical decisions, and regulatory undertakings to harmonize the financial system with Islamic lines. Cooperation of the judiciary, regulatory bodies, and financial institutions is key to setting in place a holistic and viable Sharia-compliant banking system in the country.

Challenges for Legal Implementation of Islamic Banking in Pakistan

There have been many legal challenges in implementing Islamic banking in Pakistan, which is consistent with the country's Islamic identity. The multiple challenges facing Islamic capital markets are due to the two banking systems, regulatory gaps, and an absence of a unified legal framework for Islamic finance. The following describes these challenges in detail.

1. Dual-Banking System

Islamic banks in Pakistan operate as a dual banking system through the coexistence with conventional banks. Although public banking provides consumers with a choice between Shariah-compliant and interest-based banking systems, it poses challenges at the regulatory and operational levels. Existing laws, for instance, the Banking Companies Ordinance 1962, are mainly meant for regular banking, and most cannot often contain Islamic financial products like Murabaha, Ijarah, and Musharakah. Because of this

misalignment, there are legal ambiguities and operational inefficiencies in the process of operating with an Islamic bank; Islamic banks must cope with a regulatory environment that is not entirely applicable to their needs.

2. Lack of Comprehensive Legal Framework

The absence of a unified legal framework dedicated to Islamic finance is one of the most critical challenges. Unlike conventional banking, Islamic banking is not covered by traditional banking laws as it exerts itself through ethical and structural peculiarities like profit-and-loss sharing (PLS) models and the prohibition of interest (riba). This gap leads to disputes by the parties over the interpretation and enforcement of Shariah-compliant contracts, as conventional legal precepts are applied to Islamic financial instruments. For example, most Murabaha contracts or the distribution of profits in Musharakah agreements are not covered well under the existing laws, and disputes over these frequently occur.

3. Inconsistent Shariah Compliance

In Pakistan, the absence of a central Shariah regulatory authority has given rise to diverging Shariah interpretations among different Islamic financial institutions. There is a lack of uniformity in practices as part of each bank has its Shariah board, and they may interpret Shariah principles differently. It makes Islamic banking less credible and confusing to those intending to bank or those required to regulate the industry. It could provide for some centralization of Shariah authority in order to standardize practice and improve transparency and trust in the system.

4. Judicial Expertise Gap

Furthermore, the judiciary in Pakistan doesn't have sufficient knowledge of Islamic banking and jurisprudence; hence, it hinders the solving of Islamic banking disputes. In the area of conflict resolution, commonly judges trained in conventional law may find it challenging to interpret a Shariah-compliant contract, leading to delays and inconsistent rulings. It shows the necessity for judges and legal professionals in Islamic finance to receive special training to enforce the adjudication of disputes fairly and informally.

5. Taxation and Regulatory Issues

The tax laws and financial regulations of Pakistan are primarily concerned with everyday banking and lack a perfect fit for the distinctors of Islamic finance. For example, Islamic transactions, being more asset transfer-centric, often consist of multiple asset transfers, which lead to double taxation under the existing tax laws. It adds extra costs for Islamic banks and acts to ward off potential investors. These issues need regulatory reforms and a neutral ground for Islamic banks.

6. Public Awareness and Trust

Yet Islamic banking has yet to penetrate nationally, though its merits still remain unknown to most consumers. However, the lack of awareness as to what Shariah compliance actually means, supplemented with concerns about the validity of Shariah compliance, deter the expansion of the sector. For the sustainable development of Islamic banking in Pakistan, it is essential to build a trusting public by being transparent, educating the public, and regulating on robust terms.

Opportunities for Legal Implementation of Islamic Banking in Pakistan

The legal challenges Islam faces when trying to implement Islamic banking in Pakistan are numerous; however, that doesn't mean that it also doesn't have growth opportunities, innovation opportunities, and the opportunity to understand and embrace the Islamic identity that lies at the essence of a significant part of the country. Addressing these issues, with some strategic moves, Pakistan could be poised to achieve the full potential of Islamic banking and lead the way to becoming a leader in global Islamic finance. Some of the essential opportunities for the legal implementation of Islamic banking in Pakistan are listed below:

1. Development of a Unified Legal Framework

The dearth of a legal framework complete to that of Islamic finance makes Pakistan a perfect instance where laws existing unique for Shariah-compliant banking can be developed and implemented. The unique structures of Islamic financial products like Murabaha, Ijarah, and Musharakah could come under a unified legal framework, following which the

Islamic financial products would have clarity in terms of enforcement. The reduction in legal ambiguities would also increase the confidence of the investors and provide a better environment for Islamic banking to flourish.

2. Establishment of a Centralized Shariah Regulatory Authority

A challenge is the lack of a unified Shariah regulatory authority, but it is also an opportunity for the industry to standardize Shariah compliance. The establishment of a centralized body (for example, the National Shariah Board) will guarantee uniformity in the interpretation and application of Shariah in all financial transactions. It would increase the credibility of Islamic banking, which would, in turn, increase public trust, and such banking could attract both domestic and international investors in search of Sharia-compliant financial solutions.

3. Judicial Reforms and Capacity Building

Due to the gap in ensuring the quality of judicial expertise in Islamic jurisprudence, capacity building, and training programs are recommended to be developed for judges and legal professionals. With the judiciary equipped to enforce rulings in Islamic banking by having expertise in Islamic finance, Pakistan can make sure that the rulings are fair and well-informed. Moreover, as a result, the legal system is likely to be more efficient, while the rule of law will be better fortified in the Islamic finance context.

4. Alignment with Global Best Practices

Pakistan should learn from the experiences of other countries where Islamic banking is working, like Malaysia and Saudi Arabia. A robust and internationally competitive Islamic banking sector can be created by Pakistan by virtue of adopting global best practices in legal and regulatory frameworks. It would, in addition, facilitate cross-border Islamic financial transactions and attract foreign investment.

5. Innovation in Islamic Financial Products

Growing demand for Shariah-compliant financial solutions makes way for the innovation of Islamic finance products. Islamic banks can include the needs of the entire society and the tiny entrepreneur while

catering to SME, agriculture, and microfinance customers by developing new products for diverse customer segments. Legal reforms facilitating innovation whilst ensuring Shariah compliance would be key.

6. Economic and Social Development

Pakistan has the potential to drive economic and social development through Islamic banking, which is a risk-sharing and ethical investment-based banking system. Islamic banking through equitable wealth distribution and finance of socially responsible projects can be part of poverty eradication and sustainable development. If allowed, Islamic banking should play a bigger role in the country's socio-economic development. Its growth can be encouraged through legal reforms.

7. Enhanced Public Awareness and Trust

However, there is a very low awareness of Islamic banking principles in the public domain; hence, an educational campaign and outreach programs would be necessary. Therefore, by raising awareness and understanding of Shariah-compliant finance, Pakistan can build public trust and encourage more people and businesses to move towards Islamic banking solutions. It would increase demand for Islamic financial products and services, which in turn will fuel the growth of the sector.

Discussion

Islamic banking adoption in Pakistan—A specific blend of challenges and opportunities. One of the main challenges is that we do not have a dual banking system (there are Islamic banks, but not by law), and we do not have a legal framework suitable for the nature of Islamic finance; hence, it constitutes an opportunity to develop a strong regulatory environment based on Islamic finance which suits Islamic finance and Western finance. The lack of a single Shariah regulatory body has given way to different compliance interpretations with Shariah, but the creation of such a body would normalize Shariah-compliant standards and enhance credibility. In the same light, the deficit in judicial expertise calls for special training to be improved, which, in that case, will contribute to the dispensation of dispute resolution and the rule of law in Islamic finance.

Also, the greater need for Shariah-compliant financial products allows for the exploration of Islamic financial product innovation as the Islamic banks introduce new products. The market base becomes broadened, and the financial inclusion causes pushed. Also, following the global best practices may put Pakistan behind the world in the international Islamic finance space as a force to reckon with to attract foreign direct investment and cross-border transactions. However, if success is to be achieved, it must be accompanied by systematic legal changes and increased public awareness.

Restoring public confidence and encouraging the use of Islamic banking solutions requires campaigns through education and outreach programs. Facing these challenges and opportunities, Pakistan could build up a sustainable and inclusive Islamic banking system consistent with its Islamic identity and, at the same time, make a contribution to socio-economic growth.

Conclusion

Although initial banking in Pakistan conforms with Pakistan's Islamic heritage and, because of Pakistan's nationalism, suitable for its Political leadership to promote Pakistan, it is faced with tremendous legal hurdles, including regulatory gaps, uneven Shariah compliance, and judicial incompetence. Nevertheless, they are barriers to expansion, innovation, and socio-economic progress. Pakistan can overcome these challenges by creating a consistent legal infrastructure, establishing a central Shariah regulatory body, and investing in building judicial capabilities capable of fulfilling the objectives outlined in the law.

Likewise, compliance with international best practices, as well as enhancing public awareness, will improve the credibility and outreach of Islamic financial products. The improvement of the finance system in Pakistan is significant for these problems to be easily solvable and change people with unethical and non shariah compliant finance to ethical and Shariah-compliant as their resolve economic growth and social justice follow.

Recommendations

1. Work out a coherent Legal Framework: Provide a specific Islamic finance law that is comprehensive and

aimed at dealing with the peculiar structures of Shariah-compliant products in solving any conflict over-regulation.

2. Make a Centralized Shariah Regulatory Authority: This must be a National Shariah Board regulating regulations and making uniform interpretations of the concepts of Shariah so as to bring uniformity in observance of the rules among Islamic financial institutions.

3. Improve The Judicial Experiences: The judges and conveyance experts ought to be given specialized training in Islamic jurisprudence that will enhance the determination of the disputes that arise in Islamic banking.

4. Improve Tax Laws: Alter tax laws to avert the case of Islamic financial transactions being taxed twice and establish competition between Islamic banks and other institutions.

5. Create Awareness of the Population: Form information campaigns to teach people about the Islamic banking concept and make them trust the Shariah-compliant financial instruments.

6. Introduce the Best Practices Used Around the World: Study the best practices already applied in other countries, such as Malaysia and Saudi Arabia, to enhance Pakistan's regulatory frameworks and operations in Islamic banking.

7. Promote innovation: Facilitate the creation of new Islamic securities to satisfy a variety of client groups, which include SMEs, agriculture, and microfinance.

8. Empower Regulatory Regime: Build the ability of the State Bank of Pakistan to regulate and supervise the Islamic banks adequately, making the process transparent and accountable.

9. Build Teams: Promote cooperation among Islamic bankers, regulators, and scholars in order to resolve issues and promote innovation in the industry.

10. Bring about Financial Inclusion: Use Islamic banking to increase access to financial services to needy populations, helping them alleviate poverty and become socioeconomically developed.

Research Limitations

There are some limitations benefitted from this study of the legal challenges of implementing Islamic banking in Pakistan. Secondly, the secondary data (reports and literature) used may not completely capture the dynamic on-the-ground realities and the evolving dynamics of the sector. Second, recent data on Islamic banking practices and legal disputes are limited, which limits the depth of analysis. Third, the study is mainly within the context of Pakistan, which might be constraining in generalizing the findings to other countries in which the legal and regulatory environment is different.

Further, the views of key stakeholders, including Islamic banking practitioners and Shariah scholars, while based on a review of available literature, may not reflect the full range of opinions. The study also fails to thoroughly investigate the socio-cultural factors that would obviously bring more insights to the adoption of Islamic banking. It calls for future research, which includes primary data collection and a more extensive comparative analysis.

Research Implications

The implications of this study are essential for policymakers, regulators, and Islamic banking practitioners in Pakistan. The research identifies the legal problems and opportunities of introducing Islamic banking and can act as a building block for the development of Islamic banking institutions with a unified legal framework for Shariah-compliant finance. It brings into focus a need for a central regulatory Shariah in order to standardize the practices and add more credibility. They show why judicial reforms and capacity building are crucial to providing fair and informed adjudication of disputes. The study's recommendations then for policymakers are actionable and can contribute to bridging regulatory gaps, reforming tax laws, and enhancing public awareness to promote a conducive environment for Islamic banking. The research offers that there is scope for innovation in the design of

financial products as well as in expanding financial inclusion for Islamic financial institutions. In the end, this study helps promote the sustainable growth of Islamic banking in Pakistan, and it conforms to Islamic identity as well as some socio-economic development goals of the country.

Future Research Directions

Therefore, future work on the legal issues of introducing Islamic banking to Pakistan should be undertaken to investigate a number of critical areas. Second, gathering primary data by means of surveys and interviews with Islamic banking practitioners, Shariah scholars, and regulators can provide more insights into on-ground issues and opportunities. Second, by carrying out a comparative evaluation of Pakistan's Islamic banking infrastructure with those of the principal Islamic banking nations like Malaysia and Saudi Arabia, it can enable it to spot the most excellent practices and areas for enhancement. Third, further understanding their behavior and attitude from the research into socio-cultural determinants of Islamic banking uptake would help us better understand consumers.

Fourth, the potential of how technology, for example, in the form of fintech and blockchain, to enable Shariah integrity and effectiveness could open new solutions. Finally, longitudinal studies on the effect of changes in legal and regulatory frameworks on the expansion of Islamic banking would be 'worth its gold' to policymakers and practitioners. These can add to the guidelines already available, which will help in comprehending and formulating Islamic banking in Pakistan.

References

Abasimel, N. A. (2022). Islamic banking and economics: Concepts and instruments, features, advantages, differences from conventional banks, and contributions to economic growth. *Journal of the Knowledge Economy*, 14, 1923-1950. <https://doi.org/10.1007/s13132-022-00940-z>.

Al-Hanandeh, A., Othman, A., & Mastor, N.H. (2024). A comparative study of implementation Basel III between commercial and Islamic banks: A bibliometric analysis and systematic literature review. *Journal of Islamic Accounting and Business Research*. <https://doi.org/10.1108/jiabr06-2024-0234>.

Ali, M., Raza, S. A., Pua, C. H., & Amin, H. (2019). Consumer acceptance toward takaful in Pakistan. *International Journal of Emerging Markets*, 14(4), 620-638. <https://doi.org/10.1108/ijoem082017-0275>

Ali, W., Ibrahim Alasan, I., Hussain Khan, M., Ali, S., Cheah, J. H., & Ramayah, T. (2022). Competitive strategies-performance nexus and the mediating role of enterprise risk management practices: A multi-group analysis for fully fledged Islamic banks and conventional banks with Islamic window in Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management*, 15(1), 125-145.

<https://doi.org/10.1108/IMEFM-06-2020-0310>

Alkhayyal, R., & Parveen, R. (2024). The impact of implementing value-added tax on the Islamic banking practices. *International Journal of Religion*, 5(2), 452-458.

<https://doi.org/10.61707/4ced4k55>.

Amuda, Y., & Al-Nasser, S. (2024). Exploring encounters and prodigies of Islamic banks in non-Muslim states: towards enhancing regulatory frameworks of the Islamic banking system. *International Journal of Law and Management*. <https://doi.org/10.1108/ijlma-11-2023-0250>.

Asmawi, M., & Rasyid, D., & Wilestari, M. (2024). Implementation of the Islamic banking concept on customers as partners of Islamic banks in the perspective of Islamic da'wah. *Al-Risalah*, 16(1), 1-24. <https://doi.org/10.34005/alrisalah.v16i1.4233>.

- Ayyub, S., Xuhui, W., Asif, M., & Ayyub, R. M. (2019). Determinants of intention to use Islamic banking: A comparative analysis of users and non-users of Islamic banking: Evidence from Pakistan. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(1), 147-163. <https://doi.org/10.1108/IMEFM-05-2017-0135>
- Aziz, S., & Afaq, Z. (2018). Adoption of Islamic banking in Pakistan an empirical investigation. *Cogent Business and Management*, 5(1), 1-18. <https://doi.org/10.1080/23311975.2018.1548050>
- Bimantara, A. R., Naurah, N. S., & Nisa, N. F. (2025). Comparative study: Implementation of green banking in Islamic banks in Southeast Asia and Middle East country. *Proceeding of International Summit on Science, Technology, and Humanity*. <https://doi.org/10.23917/iseth.5429>
- Desk, N. (2023). Islamic banking assets surge 22pc in Q3, deposits exceed Rs6tn - Profit by Pakistan Today. *Profit Urdu*. <https://profit.pakistantoday.com.pk/2024/01/05/islamic-banking-assets-surge-22pc-in-q3-deposits-exceed-rs6tn/>
- Egger, M., Higgins, J. P., & Smith, G. D. (Eds.). (2022). *Systematic reviews in health research: Meta-analysis in context*. John Wiley & Sons
- Ergashovich, A. (2024). Implementing Islamic banking services in Uzbekistan. *Journal of Economics, Finance, And Management Studies*, 7(8), 8-12. <https://doi.org/10.47191/jefms/v7-i8-12>
- Fasa, M., & Putri, M. (2025). Implementation of e-business in realizing green banking in sustainable Islamic banking: A literature study. *Islamic Economics and Finance Journal*, 3(2), 109-116. <https://doi.org/10.55657/iefj.v3i2.211>
- Gan, J., Xie, L., Peng, G., Xie, J., Chen, Y., & Yu, Q. (2021). Systematic review on modification methods of dietary fiber. *Food Hydrocolloids*, 119, 106872. <https://doi.org/10.1016/j.foodhyd.2021.106872>
- Glebova, A. (2025). Islamic banking in BRICS countries: Current state and development prospects. *Theoretical Economics*, 3, 53-67. <https://doi.org/10.52957/2221-3260-2025-3-53-67>
- Gunawan, A. (2023). Implementation of Minimum Mandatory Giro (Gwm) in Sharia banking perspective analysis of Siyasaah Syar'iyah Maliyyahtitle. *Legalis : Journal of Law Review*, 1(1), 71-88. <https://doi.org/10.61978/legalis.v1i1.47>
- Hakim, M. (2023). Financial technology strategy for Islamic banking competitiveness. *Al-Arbah: Journal of Islamic Finance and Banking*, 5(1), 99-104. <https://doi.org/10.21580/al-arbah.2023.5.1.17998>
- Hashim, M., Umarov, S., Tlemsani, I., & Matthews, R. (2024). Implementing Islamic banking in Uzbekistan. *Journal of Islamic Business and Management*, 14(1), 21-36. <https://doi.org/10.26501/jibm/2024.1401-003>
- Hassan, M.T. , Anwar, R., & Shahid, M. (2024). Navigating the adoption of Islamic banking in the base of pyramid market of Pakistan. *Journal of Policy Research*, 10(3), 360-371. <https://doi.org/10.61506/02.00354>
- Hassan, M. T., Nosheen, S., & Alam, T. (2020). Adoption of Islamic banking: A comparative analysis of the moderating effect of religiosity and Islamicity of product in the base of pyramid markets of Pakistan. *Academic Journal of Social Sciences*, 4(3), 612-631. <https://doi.org/10.54692/ajss.2020.04031081>

- Hiver, P., Al-Hoorie, A. H., Vitta, J. P., & Wu, J. (2021). Engagement in language learning: A systematic review of 20 years of research methods and definitions. *Language Teaching Research*, 13621688211001289. <https://doi.org/10.1177/13621688211001289>
- Iqbal, R. J., Khan, A., & Yasin, H. M. (2023). Financial stability and monetary framework under interest-free DSGE settings for Pakistan. *Islamic Banking and Finance Review*, 10(1), 109-151. <https://doi.org/10.32350/ibfr.102.05>
- Irwansyah, I., Marinsah, S., Yusmad, M., Ayyub, M., & Muang, M. (2024). Revitalization supervision of Islamic banking in enhancement compliance in Indonesia and Malaysia. *Samarah: Jurnal Hukum Keluarga Dan Hukum Islam*, 8(1), 468-494. <https://doi.org/10.22373/sihk.v8i1.20524>
- Khan, S., Wahab, A., & Ullah, I. (2025). The impact of Islamic banking on financial inclusion: A study on the effects of Islamic banking in Muslim-Majority countries. *Social Sciences Spectrum*, 4(1), 660-675. <https://doi.org/10.71085/sss.04.01.249>
- Kholid, K., & Adam, S. (2025). Islamic banking. *Al-Thiqah : Jurnal Ilmu Keislaman*, 8(1), 435-450. <https://doi.org/10.56594/althiqah.v8i1.352>
- Komba, M. M. & Lwoga, E. T. (2020). Systematic Review as a Research Method in Library and Information Science. In P. Ngulube (Ed.), *Handbook of Research on Connecting Research Methods for Information Science Research* (pp. 80-94). IGI Global Scientific Publishing. <https://doi.org/10.4018/978-1-7998-1471-9.ch005>
- Mehmood, R. M. A., Batool, S., & Riaz, A. (2024). Impact of Islamic banking on global commerce and business. *Journal of Asian Development Studies*, 13(2), 568-579. <https://doi.org/10.62345/jads.2024.13.2.46>
- Page, M. J., McKenzie, J. E., Bossuyt, P. M., Boutron, I., Hoffmann, T. C., Mulrow, C. D., Shamseer, L., Tetzlaff, J. M., & Moher, D. (2021). Updating guidance for reporting systematic reviews: Development of the PRISMA 2020 statement. *Journal of Clinical Epidemiology*, 134, 103-112. <https://doi.org/10.1016/j.jclinepi.2021.02.003>
- Pawson, R., Greenhalgh, T., Harvey, G., & Walshe, K. (2005). Realist review - A new method of systematic review designed for complex policy interventions. *Journal of Health Services Research Policy*, 10(1), 21-34. <https://doi.org/10.1258/1355819054308530>
- Petticrew, M., & Roberts, H. (2006). *Systematic reviews in the social sciences: A practical guide*. Blackwell Publishing. <https://doi.org/10.1002/9780470754887>
- Rahi, S. (2017). Research design and methods: A systematic review of research paradigms, sampling issues, and instruments development. *International Journal of Economics Management Sciences*, 6(2), 403. <https://doi.org/10.4172/2162-6359.1000403>
- Randyantini, V., F., & Saputri, I. (2024). The role of green banking implementation in Sharia banking performance from an Islamic perspective. *International Journal of Management and Business Intelligence*, 2(2), 71-86. <https://doi.org/10.59890/ijmbi.v2i2.1494>
- Raza, S. A., Umer, B., Ali, M., & Ashfaq, M. (2021). Do customers adopt auto Ijarah financing? The case of Pakistan. *Asian Academy of Management Journal*, 26(2), 75-100. <https://doi.org/10.21315/aamj2021.26.2.4>
- Saadaoui, F., & Khalfi, M. (2022). Revisiting Islamic banking efficiency using multivariate adaptive regression splines. *Annals of Operations Research*, 334, 287-315. <https://doi.org/10.1007/s10479-022-04545-2>

Septiani, D., Nurlaela, L., Nasim, A., & Mediawati, E. (2022). Good corporate governance in Islamic banking during the fourth Industrial Revolution era. *Islamic Research*, 5(1), 98-107.

<https://doi.org/10.47076/jkps.v5i1.125>.

Syarif, A., & Setiadi, I. (2024). Implementation of the 5C financing principle in Islamic banking in the perspective of the Qur'an. *Jurnal Multidisiplin Madani*, 4(1), 117-131.

<https://doi.org/10.55927/mudima.v4i1.7502>.

Victor, L. (2008). Systematic reviewing in the social sciences: Outcomes and explanation. *Enquire*, 1(1), 32-46.

<https://www.nottingham.ac.uk/sociology/documents/enquire/volume-1-issue-1-victor.pdf>.

