

The Role of the Shari'ah Board in the Islamic Banking Industry of Bangladesh



**A Thesis Submitted in Fulfillment of the Requirements for the Degree of Doctor
of Philosophy at University of Dhaka**
Department of Islamic History and Culture, University of Dhaka

Researcher

Md. Thowhidul Islam

B.A. (hons) & M.A. in Islamic History & Culture
University of Dhaka &
Associate Professor of Bangladesh Studies
Center for General Education (CGED)
International Islamic University Chittagong

Supervisor

Dr. Md. Aatur Rahman Miazi

Professor
Department of Islamic History and Culture
University of Dhaka

Dhaka, May, 2023

Dedication

To my Parents and Teachers

DECLARATION

I, Md. Thowhidul Islam, hereby declare that this thesis is solely and originally my own work. The work presented in this dissertation is original, except where otherwise acknowledged. All sources used in the study have been cited in the text. This thesis is being submitted for the degree of Doctor of Philosophy at the University of Dhaka.

I also declare that this thesis contains no material that has been previously submitted or is not currently being submitted, either in whole or in part, for the award of any other degree.

Md. Thowhidul Islam

Registration No. 10

Session: 2014-15

Professor Dr. Md. Aaur Rahman Miazi
Department of Islamic History and Culture
University of Dhaka
Dhaka-1000
Bangladesh.

Date: May 30, 2023

CERTIFICATE

This is to certify that this study titled ‘The Role of *Shari’ah* Board in the Islamic Banking Industry of Bangladesh’ is an original research work carried out by Mr. Md. Thowhidul Islam (Registration No. 10/2014-15) under my direct supervision. So far I know the work is his genuine investigation and not submitted to any university or institution for any degree. I have gone through the final draft and approved it for submission to the University of Dhaka for the award of the degree of Doctor of Philosophy.

Professor Dr. Md. Aaur Rahman Miazi
Supervisor

ACKNOWLEDGEMENT

Alhamdulillah, at first, I would like to thank the Almighty Allah (SWT) Who gave me the opportunity and showered me with endless blessings for accomplishing this study entitled “The Role of *Shari’ah* Board in the Islamic Banking Industry of Bangladesh”.

My sincere gratitude and heart-felt thanks to my most respected teacher, supervisor of this research Professor Dr. Md. Ataur Rahman Miazi, department of Islamic History and Culture, University of Dhaka, for his sincere supervision, guidance and constant encouragement from the very inception to the completion of this research work. Without his repeated inspiration, invaluable guidance and insightful criticisms, it would not have been possible to complete this arduous research work. I am highly indebted to all of my respected teachers and faculty members of the department of Islamic History and Culture, University of Dhaka for their sage advices and important suggestions that have added enormous value to the quality of this study.

I am also grateful to the authority of International Islamic University Chittagong for its kind support in pursuing this study. I also owe to the central libraries of the University of Dhaka, Asiatic Society of Bangladesh, International Islamic University Chittagong, Islamic Foundation Bangladesh, Islami Bank Training and Research Academy (IBTRA), Central *Shari’ah* Board of Islamic Banks of Bangladesh, Hajji Mahsin College, Chittagong, and Darul Ulum Madrasha, Chittagong. I also take the opportunity to express my thanks to A.K.M. Iftekharul Islam, Associate Professor, department of Islamic History and Culture, University of Dhaka, for his tremendous support. My sincere thanks to all of the respondents from the members of *Shari’ah* boards as well as branch managers of different Islamic banks in Bangladesh for their time and valuable feedback that played the vital role to complete this research work. My gratitude also goes to the *Shari’ah* departments of Islamic banks in Bangladesh, who supported me with lots of documents to do the research. This note would remain incomplete if I do not show my gratitude to all those authors and researchers whose work I used in designing the research and in preparing this thesis.

My heartfelt gratitude goes to my parents, Maulana Abu Shama, my father and my mother Razia Khanom who have been the source of inspiration behind this thesis. I shall remain thankful to all of my family members, relatives and all of my friends for their supports and inspirations. I am also grateful to all other people who have helped me in one way or another in completing the study but I could not remember their name.

(Md. Thowhidul Islam)
May, 2023

ABSTRACT

Islamic banking has now become an integrated part of global financial industry with a remarkable growth rate. The main distinguishing feature of Islamic banking system is the compliance of all of its products, services and arrangements with the principles and values laid down by *Shari'ah*. *Shari'ah*-compliance is the single most important motivation for choosing Islamic banking by its clients and stakeholders. To ensure this *Shari'ah*-compliance, every Islamic bank is required to establish a *Shari'ah* Board with adequate mandated authority to perform its role. Identifying the governance function and role of *Shari'ah* board based on Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Service Board (IFSB) standards, this study empirically investigates the crucial issues regarding the role, independence, accountability and effectiveness of the *Shari'ah* Board in the Islamic banking industry of Bangladesh. Eight full-fledged Islamic banks of Bangladesh were taken as the sample and both primary and secondary data were used for the study. Two separate questionnaire surveys were conducted. One was distributed among the members of *Shari'ah* Board with the aim of assessing the current *Shari'ah* governance practices by the *Shari'ah* Boards. The second was distributed among the branch managers of Islamic banks operating in Bangladesh with a view to ascertain their expectations regarding the issues under investigation surrounding the role of *Shari'ah* board. Besides reviewing a good number of related literatures, standards and guidelines of AAOIFI, IFSB, Bangladesh Bank and sample institutions were evaluated with a view to examining the legal framework of governance function of the *Shari'ah* Boards. It is observed that the guidelines of Bangladesh Bank for Islamic banks in Bangladesh, as the principal regulatory authority, are not comprehensive and moderate compared with the AAOIFI and IFSB standards. There is no mandatory requirement for Islamic banks in Bangladesh to comply their regulations with that of AAOIFI and IFSB standards.

The results of this study indicate that the *Shari'ah* Boards mostly perform traditional advisory role that include advising the board of directors on *Shari'ah* issues, providing training to the *Shari'ah* department officers, preparing *Shari'ah*-compliance manual, examining *Shari'ah*-compliance by auditing the activities of bank etc. But, it has no significant contribution in determining bank's strategic issues, i.e. designing corporate objectives. In regard to the development of Islamic banking products, the boards' involvement seem to be limited to the conceptual, designing, implementation and review stages; but not the technical aspects such as pricing, marketing etc. On the other hand, *Shari'ah* Boards' involvement in accounting related issues such as profit distribution, *Zakat* calculation etc. was found significant in most of the banks. Additionally, *Shari'ah* Boards are frequent in publishing *Shari'ah* reports, resolutions and responding to queries. This study reveals that personal integrity and fiduciary duties are simultaneously important in determining the accountability and independence of

Shari'ah Board. The ethical value, reputation and scholarly background of *Shari'ah* Board members, were found to be important in influencing its accountability and independence. All of the banks have 'fit and proper' criteria in appointing *Shari'ah* Board member as suggested by Bangladesh Bank, but in practice these aren't maintained properly. The *Shari'ah* Boards have not been given adequate power to undertake its duties independently and effectively. It has no power to stop the bank from undertaking non-*Shari'ah*-compliant transactions. There is no reporting channel for any possible conflict between the *Shari'ah* Board and board of directors or management. Interestingly, *Shari'ah* Boards were also perceived by branch managers of not providing the required level of involvement. Although *Shari'ah* Boards were found to be the sole authority for *Shari'ah* review function, but they have not been prescribed appropriate operative procedures. However, the *Shari'ah* reviews were found not to be effectively implemented by the management and thus, raising concern regarding the quality of the *Shari'ah* reports. There is also lack of adequate guidelines issued by Bangladesh Bank. Despite these deficiencies, Most of the *Shari'ah* Boards receive professional support, ample time and direct access to information for *Shari'ah* review and undertaking its duties.

The study provided some recommendations to ensure independent and effective role of *Shari'ah* boards of Islamic banks in Bangladesh. The recommendations include: to develop a single set of comprehensive rules and regulations regarding the *Shari'ah*-compliance based on AAOIFI and IFSB standards and make it mandatory for all Islamic banks to comply with; to monitor its strict implementation by Bangladesh Bank to develop the confidence of stakeholders; to formulate a complete 'term of reference' for *Shari'ah* Board to run the *Shari'ah* governance function effectively; to mandate the board with adequate power to perform its duty independently; to maintain the 'fit and proper' qualification criterion in appointing *Shari'ah* Board member; to compose *Shari'ah* Board with various experts of related disciplines; to uphold an effective mechanism for *Shari'ah* Board to offer its advice to the board of directors and management of the bank on *Shari'ah* matters; to encompass the accounting, strategic and technical issues within the role of *Shari'ah* board; to provide effective support to *Shari'ah* Board from all the concerned parties within the bank; to develop an active communication channel among the *Shari'ah* board, management of the bank and Bangladesh Bank to ensure effective *Shari'ah* compliance; to disclose all the *Shari'ah* issues as suggested by AAOIFI and IFSB in the *Shari'ah* compliance report or annual report of the bank; and to initiate programs by the regulatory authorities for producing competent *Shari'ah* scholars and develop knowledge and skill of *Shari'ah* Board members.

TABLE OF CONTENTS

Declaration	i
Certificate	ii
Acknowledgement	iii
Abstract	iv
Table of Contents	vi
List of Tables	xii
List of Figures and Chart	xv
List of Acronyms	xvi
Glossary	xviii

Chapter One: Introduction		
1.1	<i>Background of the Study</i>	1
1.2	<i>Rationale of the Study</i>	6
1.3	<i>Objectives of the Study</i>	7
1.4	<i>Research Questions</i>	8
1.5	<i>Scope of the Study</i>	9
1.6	<i>Limitations of the Study</i>	10
1.7	<i>Research Design and Methodology of the Study</i>	11
1.8	<i>Review of Literature</i>	12
1.9	<i>Contribution of the Study</i>	20
1.10	<i>Structure of the Thesis</i>	21
1.11	<i>Summary</i>	24

Chapter Two: Shari'ah: The Religious Foundation of Islamic Banking		
2.1	<i>Introduction</i>	25
2.2	<i>Definition of Shari'ah and Its Basic Components</i>	26
2.2.1	<i>The Sources of Shari'ah</i>	28
2.2.1.1	<i>The Primary Sources</i>	29
2.2.1.1.1	<i>The Qur'an</i>	29
2.2.1.1.2	<i>The Sunnah</i>	30
2.2.1.2	<i>The Secondary Sources</i>	31
2.2.1.2.1	<i>The Ijma</i>	31
2.2.1.2.2	<i>The Qiyas</i>	32
2.2.1.3	<i>Minor sources</i>	33
2.2.1.3.1	<i>The Ijtihad</i>	33
2.2.1.3.2	<i>The Istihsan</i>	34
2.2.1.3.3	<i>The Istislah</i>	34
2.2.1.3.4	<i>The Urf</i>	35

2.2.1.4	Schools of Islamic law (<i>Madhhab</i>)	35
2.2.1.4.1	The <i>Hanafi</i> School.....	36
2.2.1.4.2	The <i>Maliki</i> School.....	36
2.2.1.4.3	The <i>Shafi'i</i> School.....	36
2.2.1.4.4	The <i>Hanbali</i> School.....	36
2.2.2	<i>Maqasid al-Shari'ah</i> (Objectives of the <i>Shari'ah</i>)	37
2.3	<i>Concept of Ownership in Islam</i>	38
2.4	<i>Distribution of Wealth in Islam</i>	42
2.5	<i>Zakat</i>	44
2.6	<i>Principles of Islamic Economics and Banking</i>	45
2.6.1	Economic Prohibitions in Islam.....	45
2.6.1.1	Prohibition of <i>Riba</i> (Interest)	46
2.6.1.1.1	Differences between <i>Riba</i> and Profit.....	49
2.6.1.2	Prohibition of <i>Gharar</i> (Uncertainty)	50
2.6.1.3	Prohibition of <i>Maisir/ Qimar</i> (Gambling/Games of Chance)	51
2.6.1.4	Prohibition of dealing in certain forbidden commodities.....	51
2.6.2	Ethics for Acceptable Economic Forms in Islam.....	51
2.6.2.1	Trade-based Activities.....	52
2.6.2.2	Profit and Loss Sharing.....	52
2.6.2.3	<i>Halal</i> (Legal in Islam) Instruments.....	53
2.6.2.4	Welfare Approach.....	53
2.6.2.5	Justice and Fair Dealing.....	54
2.6.2.6	Honesty and Gentleness.....	54
2.6.2.7	Free Marketing and Fair Pricing	55
2.6.2.8	Prohibition of <i>Najash</i> and <i>Khalabah</i>	55
2.6.2.9	Disclosure, Transparency and Facilitating Inspection.....	56
2.6.2.10	Fulfilling the Covenants and Paying Liabilities.....	56
2.6.2.11	Mutual Cooperation and Removal of Hardship.....	57
2.7	<i>Concept of Money and Capital in Islam</i>	57
2.8	<i>Trust and Accountability in Islam</i>	58
2.9	<i>Summary</i>	59

Chapter Three: Islamic Banking: Concept and Features		
3.1	<i>Introduction</i>	61
3.2	<i>Conceptual Development of Islamic Banking</i>	62
3.2.1	Definition of Islamic Banking.....	63
3.2.2	Principles of Islamic Banking.....	64
3.2.3	Objectives of Islamic Banking.....	64
3.2.4	Modes of Islamic Banking Contracts.....	65
3.2.4.1	<i>Mudarabah</i>	67
3.2.4.2	<i>Musharakah</i>	69
3.2.4.3	<i>Musharaka Mutanaqisa</i>	72
3.2.4.4	<i>Murabaha</i>	72
3.2.4.5	<i>Ijarah</i>	74
3.2.4.6	<i>Ijarah thumma al-Bai'</i>	76
3.2.4.7	<i>Bai' Muajjal</i>	76
3.2.4.8	<i>Bai' al-Salam</i>	77
3.2.4.9	<i>Istisna'</i>	77

3.2.4.10	<i>Qardh-al-Hasan</i>	80
3.2.4.11	<i>Tawarruq</i>	80
3.3	<i>Risks of Islamic Banking</i>	82
3.3.1	Credit Risk.....	83
3.3.2	Liquidity Risk.....	84
3.3.3	Market Risk.....	85
3.3.4	Operational Risk.....	86
3.4	<i>Differences between Islamic and Conventional Banking</i>	87
3.5	<i>Summary</i>	90

Chapter Four: History of the Development of Islamic Banking		
4.1	<i>Introduction</i>	92
4.2	<i>Historical Background of Islamic Banking</i>	92
4.3	<i>The History of Modern Islamic Banking</i>	95
4.3.1	Theoretical Emergence of Islamic Banking.....	96
4.3.2	The Establishment of Islamic Banks (1963–1975)	99
4.3.3	The Expansion of Islamic Banks (1976 to 2000)	100
4.3.4	Recent Development in Islamic Banking (2001 to 2015)	103
4.3.4.1	Trend of Islamic Banking in Asia Pacific and Australia.....	104
4.3.4.2	Trend of Islamic Banking in South Asia.....	107
4.3.4.3	Trend of Islamic Banking in the Middle East and Turkey.....	108
4.3.4.4	Trend of Islamic Banking in Africa	113
4.3.4.5	Trend of Islamic Banking in Europe	117
4.3.4.6	Trend of Islamic Banking in the USA and Canada	120
4.4	<i>Islamization of National Banking Industry</i>	121
4.5	<i>Development of Islamic Banking in Bangladesh</i>	122
4.5.1	Islami Bank Bangladesh Limited (IBBL)	125
4.5.2	ICB Islamic Bank Limited (ICBIBL)	126
4.5.3	Al-Arafah Islami Bank Limited (AAIBL)	127
4.5.4	Social Islami Bank Limited (SIBL)	128
4.5.5	Export Import Bank of Bangladesh Limited (EXIMBL)	128
4.5.6	First Security Islami Bank Limited (FSIBL)	129
4.5.7	Shahjalal Islami Bank Limited (SJIBL)	129
4.5.8	Union Bank Limited (UBL)	130
4.5.9.	Islamic Banking in Conventional Banks of Bangladesh.....	130
4.6	<i>Growth and Performance of Islamic Banking in Bangladesh</i>	131
4.7	<i>Summary</i>	138

Chapter Five: Shari'ah Board and its Role in the Islamic Banking Industry		
5.1	<i>Introduction</i>	140
5.2	<i>Shari'ah Board and its Standardization</i>	141
5.2.1	AAOIFI.....	142
5.2.2	IFSB.....	145
5.3	<i>Characteristics of the Shari'ah Board</i>	147
5.3.1	Qualification of the Members of <i>Shari'ah Board</i>	147
5.3.1.1	AAOIFI and IFSB Standard on the Qualification of the Members of <i>Shari'ah Board</i>	148

5.3.2	Appointment and Composition of the <i>Shari'ah</i> Board.....	149
5.3.2.1	AAOIFI and IFSB Standard Appointment and Composition of the <i>Shari'ah</i> Board.....	150
5.3.3	Independence of the <i>Shari'ah</i> Board.....	151
5.3.3.1	AAOIFI and IFSB Standard on the Independence of <i>Shari'ah</i> Board.....	152
5.4	<i>The Role and Function of the Shari'ah Board</i>	155
5.4.1	Advisory Role of the <i>Shari'ah</i> Board.....	156
5.4.1.1	AAOIFI and IFSB Standard on the Advisory Role of the <i>Shari'ah</i> Board...	156
5.4.2	Review Role of the <i>Shari'ah</i> Board.....	157
5.4.2.1	AAOIFI and IFSB Standard on the Review Role of the <i>Shari'ah</i> Board ...	158
5.4.3	Product Innovation and Standardization of Islamic Banking.....	163
5.5	<i>The Role of Centralized Shari'ah Board</i>	165
5.6	The Guideline of Bangladesh Bank Regarding the Role of <i>Shari'ah</i> Board.....	166
5.7	<i>Summary</i>	168

Chapter six: Research Methodology

6.1	<i>Introduction</i>	169
6.2	<i>Purpose of the Study</i>	169
6.3	<i>Study Population</i>	171
6.4	<i>Research Methodology</i>	172
6.4.1	The Questionnaire Design and Development.....	173
6.4.2	Structure of Questionnaire and Types of Questions.....	174
6.4.3	Piloting the Questionnaire.....	177
6.4.4	Questionnaire Administration.....	178
6.4.5	Statistical Analysis Techniques Employed.....	180
6.5	<i>Summary</i>	181

Chapter Seven; Analysis of the Survey on *Shari'ah* Board; Responses of the *Shari'ah* Board Members

7.1	<i>Introduction</i>	182
7.2	<i>Profile of the Respondents and Characteristics of Banks</i>	182
7.2.1	Gender and Age Range of the <i>Shari'ah</i> Board Members.....	182
7.2.2	Experience of the <i>Shari'ah</i> Board Members.....	183
7.2.3	Training Received by the <i>Shari'ah</i> Board Members.....	184
7.2.4	Size of the <i>Shari'ah</i> Departments.....	185
7.3	<i>The Role of the Shari'ah Boards</i>	186
7.3.1	Standards and Guidelines Used by the <i>Shari'ah</i> Boards.....	187
7.3.2	The Scope and Role of the <i>Shari'ah</i> Boards.....	187
7.3.3	Involvement of the <i>Shari'ah</i> Boards in the Corporate Objectives of the Banks.....	189
7.3.4	Involvement of the <i>Shari'ah</i> Boards in the Development of Islamic Banking Products and Services.....	191
7.3.5	Involvement of the <i>Shari'ah</i> Boards in the Accounting Issues.....	192
7.3.6	Relevant Parties Assisting the <i>Shari'ah</i> Boards.....	194
7.3.7	Commitments of the <i>Shari'ah</i> Board Members.....	196
7.4	<i>Accountability and Independence of the Shari'ah Boards</i>	197

7.4.1	Factors Influencing the Accountability of the <i>Shari'ah</i> Boards	198
7.4.2	Factors Influencing the Independence of the <i>Shari'ah</i> Boards	199
7.4.3	Relevant Parties to whom the <i>Shari'ah</i> Board is Accountable.....	201
7.4.4	The Appointment and Mandated Authority of the <i>Shari'ah</i> Board.....	202
7.5	<i>The Nature of Shari'ah Review by the Shari'ah Boards</i>	204
7.5.1	Structure of the <i>Shari'ah</i> Review	204
7.5.2	Implementation of the <i>Shari'ah</i> Review.....	206
7.6	<i>Summary</i>	209

Chapter Eight; Analysis of the Survey on <i>Shari'ah</i> Board; Expectations of Branch Managers		
8.1	<i>Introduction</i>	212
8.2	<i>Profile of the Respondents and Characteristics of Banks</i>	212
8.2.1	Gender and Age Range of the Branch Managers.....	212
8.2.2	Experience and Education of the Branch Managers.....	213
8.2.3	Training Received by the Branch Managers.....	214
8.3	<i>Branch Managers' Expectation on the Role of the Shari'ah Board</i>	215
8.3.1	Expectation of Branch Managers on the Scope and Role of the <i>Shari'ah</i> Boards.....	215
8.3.2	Expectation of Branch Managers on the Involvement of <i>Shari'ah</i> Boards in the Corporate Objectives of the Banks.....	217
8.3.3	Expectation of Branch Managers on the Involvement of <i>Shari'ah</i> Boards in the Development of Islamic Banking Products and Services.....	219
8.3.4	Expectation of Branch Managers on the Involvement of <i>Shari'ah</i> Boards in the Accounting Issues.....	220
8.3.5	Expectation of Branch Managers on the Relevant Parties Assisting the <i>Shari'ah</i> Governance Function of <i>Shari'ah</i> Boards.....	222
8.3.6	Expectation of Branch Managers on the Commitments of <i>Shari'ah</i> Boards.....	223
8.4	<i>Expectation of Branch Managers on the Accountability and Independence of the Shari'ah Boards</i>	225
8.4.1	Expectation of Branch Managers on the Factors Influencing the Accountability of the <i>Shari'ah</i> Boards	225
8.4.2	Expectation of Branch Managers on the Factors Influencing the Independence of the <i>Shari'ah</i> Boards	227
7.4.3	Expectation of Branch Managers on the Relevant Parties to whom the <i>Shari'ah</i> Board is Accountable.....	228
8.4.4	Expectation of Branch Managers Relating to the Appointment and Mandated Authority of the <i>Shari'ah</i> Board Members.....	229
8.5	<i>Perception of Branch Managers Regarding the Nature of Shari'ah Review by the Shari'ah Boards</i>	231
8.5.1	Perception of Branch Managers Regarding the Structure of <i>Shari'ah</i> Review.....	231
8.5.2	Perception of Branch Managers Regarding the Implementation of the <i>Shari'ah</i> Review.....	233
8.5.3	The Branch Managers' Perceptions of Relevant Stakeholders within the <i>Shari'ah</i> Governance Framework.....	236
8.6	<i>Summary</i>	238

Chapter Nine: Conclusion		
9.1	<i>Summary and Review of Findings.....</i>	244
9.2	<i>Theoretical Implications and Recommendation for Practice.....</i>	250
9.3	<i>Limitations and Scope for Further Research.....</i>	252
Bibliography.....		255
Appendices		280

LIST OF TABLES

Table No.	Table Content	Page No.
Table: 1.1	List of full-fledged Islamic Banks and conventional banks with Islamic Banking branch or windows in Bangladesh	3
Table: 2.6.1.1.1	Differences between <i>Riba</i> and Profit	49
Table: 3.2.4.2.2	Differences between <i>Musharakah</i> and <i>Mudarabah</i>	70
Table: 3.2.4.2.3	Differences between <i>Musharakah</i> and Interest based Financing	71
Table: 3.2.4.11	Summary of Main Features of Islamic Financing Techniques	82
Table: 3.4	Differences between Islamic and Conventional Banking	88
Table: 4.3.3	List of Islamic Banks established in the 1970s	101
Table: 4.3.4.1	Geographical distribution of <i>Shari'ah</i> compliant asset	103
Table: 4.3.4.2	Top Islamic Banks by asset	104
Table: 4.3.4.3.1	Islamic Banks in the Middle Eastern countries	108
Table: 4.3.4.3.2	Islamic Banking in Turkey	112
Table: 4.3.4.4	Overview of Islamic banking in Africa as of 2012	114
Table: 4.5.1	Nature of banking institutions in Bangladesh	123
Table: 4.5.2	List of full-fledged Islamic Banks in Bangladesh	124
Table: 4.5.3	List of Conventional Banks having Islamic Banking Branches	125
Table: 4.5.4	List of Conventional Banks having Islamic Banking Windows	125
Table: 4.6.1	Growth of Branch of Islamic Banks in Bangladesh	131
Table: 4.6.2	Growth of Employee of Islamic Banks in Bangladesh	131
Table: 4.6.3	Growth of Deposit of Islamic Banks in Bangladesh	132
Table: 4.6.4	Growth of Profit of Islamic Banks in Bangladesh	132
Table: 4.6.5	Growth of Loan and Advance of Islamic Banks in Bangladesh	133
Table: 4.6.6	Growth of Import Business in Islamic Banks of Bangladesh	133
Table: 4.6.7	Growth of Export Business in Islamic Banks of Bangladesh	134
Table: 4.6.8	Growth of Investment of Islamic Banks in Bangladesh	134
Table: 4.6.9	Growth of EPS (Earnings per share) of Islamic Banks in Bangladesh	135
Table: 4.6.10	ROA (Return on Assets) of Islamic Banks in Bangladesh	135
Table: 4.6.11	Return on equity (ROE) ratios of Islamic Banks in Bangladesh	136
Table: 4.6.12	Deposit and Investment Structure and Remittance Share of Islamic Banks	136
Table: 4.6.13	Islamic Banking as compared with all banks in Bangladesh	137
Table: 6.3	List of Banks Included in the Present Research	172
Table: 6.4	The Questionnaire Survey used in this research	173
Table: 6.4.5.1	List of full-fledged Islamic Banks in Bangladesh	178
Table: 6.4.5.2	Analysis Showing the Responses from Questionnaire Survey 1	179
Table: 6.4.5.3	Sample Size of Questionnaire Survey 2 and Analysis of Responses	180
Table: 7.2.1	Gender and Age Range of the <i>Shari'ah</i> Board Members	183
Table: 7.2.2	Experience of the <i>Shari'ah</i> Board Members and its comparison with the age of the Islamic banks'	183
Table: 7.2.3	Training Received by the <i>Shari'ah</i> Board members	184
Table: 7.2.4	Number of Officers in the <i>Shari'ah</i> Departments of Islamic Banks	185
Table: 7.3.1	Analysis Showing the Standards used by the <i>Shari'ah</i> Boards	187

Table: 7.3.2	Analysis Showing the Scope and Role of the <i>Shari'ah</i> Board	187
Table: 7.3.3	Involvement of the <i>Shari'ah</i> Board in Corporate Objectives	190
Table: 7.3.4	Involvement of the <i>Shari'ah</i> Board in Developing Islamic Banking Products and Services	191
Table: 7.3.5	Analysis Showing the Involvement of <i>Shari'ah</i> Board in Accounting Issues of the Bank	192
Table: 7.3.6	Analysis Showing the Relevant Parties Assisting the <i>Shari'ah</i> Boards	194
Table: 7.3.7	Analysis Showing the Commitment of the <i>Shari'ah</i> Boards	196
Table: 7.4.1	Analysis Showing the Importance of the Factors Influencing the Accountability of the <i>Shari'ah</i> Board	198
Table: 7.4.2	Analysis Showing the Importance of the Factors Influencing the Independence of the <i>Shari'ah</i> Board	199
Table: 7.4.3	Analysis Showing the Parties to whom the <i>Shari'ah</i> Board is Accountable	201
Table: 7.4.4	Analysis Showing the Nature of Appointment and Mandated Authority of the <i>Shari'ah</i> Board	202
Table: 7.5.1	Analysis Showing the Structure of <i>Shari'ah</i> Review	204
Table: 7.5.2	Analysis Showing the Features on Implementation of the <i>Shari'ah</i> Review	206
Table: 8.2.1	Analysis Showing Branch Managers' Gender and Age Range	213
Table: 8.2.2	Analysis Showing Level of Experience and Education of the Branch Managers	213
Table: 8.2.3	Analysis Showing Aspects of Training Received by the Branch Managers	214
Table: 8.3.1	Analysis Showing Expectation of Branch Managers on the Scope and Role of the <i>Shari'ah</i> Boards	217
Table: 8.3.2	Analysis Showing Expectation of Branch Managers on the Involvement of the <i>Shari'ah</i> Board in the Corporate Objectives of the Banks	218
Table: 8.3.3	Analysis Showing Expectation of Branch Managers on the Involvement of the <i>Shari'ah</i> Boards in the Development of Islamic Banking Products and Services	219
Table: 8.3.4	Analysis Showing Expectation of Branch Managers on the Involvement of the <i>Shari'ah</i> Boards in the Accounting Issues of the Bank	221
Table: 8.3.5	Analysis Showing Expectation of Branch Managers on the Relevant Parties Assisting the <i>Shari'ah</i> Boards	222
Table: 8.3.6	Analysis Showing the Commitment of the <i>Shari'ah</i> Boards	223
Table: 8.4.1	Analysis Showing Expectation of Branch Managers on the Factors Influencing the Accountability of the <i>Shari'ah</i> Boards	225
Table: 8.4.2	Analysis Showing Expectation of Branch Managers on the Factors Influencing the Independence of the <i>Shari'ah</i> Boards	227
Table: 8.4.3	Analysis Showing the Parties to whom the <i>Shari'ah</i> Boards is to be Accountable	228
Table: 8.4.4	Analysis Showing Expectation of Branch Managers Relating to the Appointment and Mandated Authority of the <i>Shari'ah</i> Board	229

Table: 8.5.1	Analysis Showing Perception of Branch Managers Regarding the Structure of <i>Shari'ah</i> Review by the <i>Shari'ah</i> Boards	231
Table: 8.5.2	Analysis Showing Perception of Branch Managers Regarding the Implementation of the <i>Shari'ah</i> Review	234
Table: 8.5.3	The Branch Managers' Perception of Relevant Stakeholders within the <i>Shari'ah</i> Governance Framework	237

List of Figures

Figure No.	Figure Content	Page No.
Figure: 1.10	Structure of the thesis	23
Figure: 2.2	<i>Shari'ah</i> as the Source of Islamic Banking	28
Figure: 2.2.1	Overview of the sources of <i>Shari'ah</i>	28
Figure: 3.2.4.1	Bank Finances <i>Mudarabah</i> for Client and Client Finances <i>Mudarabah</i> for Bank	67
Figure: 3.2.4.2.1	<i>Musharakah</i> financing	69
Figure: 3.2.4.4	<i>Murabaha</i> Financing	73
Figure: 3.2.4.5	<i>Ijarah</i> Financing	75
Figure: 3.2.4.9	<i>Istisna'</i> Financing	78
Figure: 3.2.4.10	<i>Qardh-al-Hasan</i>	80

List of Charts

Chart: 5.2.2	Key Milestones of a typical standard development process of IFSB	146
Chart: 5.4.2.3	Integration of <i>Shari'ah</i> Board in Product Innovation Process	163

List of Appendices

Appendix-1	Questionnaire to the Members of <i>Shari'ah</i> Boards of Islamic Banks (QS1)	280
Appendix-2	Questionnaire to the Branch Managers of Islamic Banks (QS2)	288
Appendix-3	Some images of headquarters of different international Islamic banks, Islamic banks of Bangladesh and <i>Shari'ah</i> Board meetings.	296

ACRONYMS

AAIBL	: Al-Arafah Islami Bank Limited
AAOIFI	: Accounting and Auditing Organization for Islamic Financial Institutions Asian
ABIDCO	: Al-Baraka Investment and Development Company
ADB	: Asian Development Bank
ASEAN	: Association of South East Asian Nations
BAJ	: Bank Al-Jazeera
BB	: Bangladesh Bank
BIBA	: Bangladesh Islamic Bankers' Association
BIFC	: Brunei International Financial Centre
BIMB	: Bank Islam Malaysia Berhad
BMI	: Bank Muamalat Indonesia
BoD	: Board of Directors
CIBAFI	: Council for Islamic Banks and Financial Institutions
DMI	: Dar-al-mal-al-Islami
EPS	: Earnings Per Share
EXIMBL	: Export Import Bank of Bangladesh Limited
FSIBL	: First Security Islami Bank Limited
GCC	: Gulf Cooperation Council
HRB	: Higher Religious Board
HSBC	: Hongkong and Shanghai Banking Corporation
IAIB	: International Association of Islamic Banks
IB	: Islamic Banking
IBB	: Islamic Bank of Brunei
IBBL	: Islami Bank Bangladesh Limited
ICBIBL	: ICB Islamic Bank Limited
ICFAL	: Islamic Cooperative Finance Australia Limited
ICM	: Islamic Capital Market
IDB	: Islamic Development Bank
IERB	: Islamic Economics Research Bureau
IETF	: Islamic Exchange Traded Fund
IFSB	: Islamic Financial Service Board
IICC	: Islamic Investment Corporation Limited
IIFS	: Institutions offering Islamic Financial Services
IIFA	: International Islamic Academy of <i>Fiqh</i>
IIFM	: International Islamic Financial Market
IILMC	: International Islamic Liquidity Management Corporation
IMF	: International Monetary Fund
IIRA	: Islamic International Rating Agency
IRTI	: Islamic Research and Training Institute
ISRU	: Internal <i>Shari'ah</i> review Unit
KFH	: Kuwait Finance House
KTB	: Krung Thai Bank
LCB	: Luxembourg Central Bank
LIBOR	: London Inter Bank Offered Rate
MCCA	: Muslim Community Cooperative Australia
MCCU	: Muslim Community Credit Union Ltd
MCSN	: Muzakarah Cendekiawan <i>Shari'ah</i> Nusantara
MENA	: Middle East and North Africa
MSI	: Maybank Syariah Indonesia
MGISB	: Mit-Ghamr Islamic Savings Bank
NBP	: National Bank of Pakistan

NCB	:	National Commercial Bank
OCBC	:	Oversea-Chinese Banking Corporation
OIC	:	Organization of Islamic Countries
PAB	:	Philippine Amanah bank
PBUH	:	Peace Be Upon Him
QS1	:	Questionnaire Survey One
QS2	:	Questionnaire Survey Two
RBI	:	Reserve Bank of India
ROA	:	Return on Assets
ROE	:	Return on Equity
SAIB	:	Saudi Investment Bank
SABB	:	Saudi British Bank
SB	:	<i>Shari'ah</i> Board
SGF	:	<i>Shari'ah</i> Governance Function
SIBL	:	Social Islami Bank Limited
SJIBL	:	Shahjalal Islami Bank Limited
SME	:	Small and Medium Enterprises
SSB	:	<i>Shari'ah</i> Supervisory Board
TAIB	:	Tabung Amanah Islam Brunei
TKBB	:	Participation Banks Association of Turkey
UBL	:	Union Bank Limited
WAEMU	:	West African Economic and Monetary Union
WB	:	World Bank

GLOSSARY

Arabic Term	Translation
<i>Ahadith</i>	: Plural form of <i>Hadith</i> ; sayings and actions of the Prophet Muhammad (PBUH).
<i>Akhirat</i>	: Life in the hereafter.
<i>Al-Qirad</i>	: Loan.
<i>Ansar</i>	: Helpers, specially, the people of Medina who provided supports to the migrants from Mecca.
<i>Aqd</i>	: Contract.
<i>Aqd Fasid</i>	: Invalid contract.
<i>Aqd Sahih</i>	: Valid contract.
<i>Aql</i>	: Intellect.
<i>Asl</i>	: Original case.
<i>Ayah</i>	: A verse in the Holy Qur'an.
<i>Bai' al-Inah</i>	: Sale of an asset on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa.
<i>Bai' al-Musawaammah</i>	: A sale on deferred payment where the parties bargain on price.
<i>Bai Muajjal</i>	: Sale on deferred payment in a pre-agreed period, whereby the delivery of goods is immediate and the payment is deferred.
<i>Bai'-Salam</i>	: Spot payment for future delivery. It is a sales contract, whereby the seller undertakes to supply specific goods to the buyer at a future date in exchange for an advanced price fully paid at the time of contract
<i>Bait-al-Maal</i>	: Central state treasury during Muslim Caliphate.
<i>Da'if</i>	: Weak.
<i>Darul Ifta'</i>	: Board of Islamic jurisprudence.
<i>Daruriyyat</i>	: Essentials.
<i>Dawra</i>	: Post Graduate Degree in <i>Qaumi Madrasha</i> education system in Bangladesh.
<i>Deeni</i>	: Related to the life after world.
<i>Dharar</i>	: Detriment.
<i>Dunyawi</i>	: Related to this material world.
<i>Fard</i>	: Obligatory duty in Islam at first category.
<i>Fasid</i>	: Void.
<i>Fatwa</i>	: Islamic verdict.
<i>Faqih</i>	: Muslim jurist.
<i>Fiqh</i>	: Islamic Jurisprudence.
<i>Fiqh-al-Mua'malat</i>	: Islamic commercial jurisprudence.
<i>Fuqaha</i>	: Plural form of <i>Faqih</i> ; Muslim jurists.
<i>Gharar</i>	: Uncertainty.
<i>Hadith</i>	: The sayings and actions of the Prophet Muhammad (pbuh).
<i>Hajj</i>	: Pilgrimage to Makkah. It represents one of the five tenets of Islam.
<i>Hajiyyat</i>	: Complementary requirements.
<i>Halal</i>	: Legal in Islamic law.
<i>Haram</i>	: Illegal in Islamic law.
<i>Hasanah</i>	: Good or beautiful.
<i>Hasan</i>	: Fair.
<i>Hawalah</i>	: Assigned debt.
<i>Ibadah</i>	: Worships and devotional practices.
<i>Ijara</i>	: A rental arrangement.
<i>Ijarah thumma al-Bai'</i>	: A contract where the parties enter into two contracts that come

	into effect serially. The first is a rental contract for a fixed period, and the second is a sale contract that triggers a sale once the term of rent is complete.
<i>Ijarah wa Iktina</i>	: The agreement with which the lessor signs a separate promise to gift the leased asset to the lessee at the end of the lease period, subject to his payment of all amounts of rent.
<i>Ijma</i>	: Collective reasoning or consensus of Muslim jurists.
<i>Ijtihad</i>	: Individual reasoning for a legal opinion in Islam.
<i>Illah</i>	: The effective cause.
<i>Ird</i>	: Dignity.
<i>Istisna'</i>	: It is a sales contract where the seller is the manufacturer and the customer is the purchaser of future manufactured goods. The seller commits to manufacture the goods as specified in the contract for the buyer.
<i>Istihsan</i>	: Juristic preference.
<i>Istislah</i>	: Benefit. Unrestricted public interest.
<i>Iwad</i>	: Equivalent counter-value.
<i>Jaiz</i>	: Permissible.
<i>Jizyah</i>	: Tax on non-Muslims living in Islamic state.
<i>Kamil</i>	: Post Graduate Degree in <i>Madrasha</i> education system in Bangladesh.
<i>Kafalah</i>	: The guarantee provided by a person to the owner of the goods, who has placed his goods with a third party.
<i>Khalabah</i>	: Misleading unconscious clients by over-projecting the quality of a commodity.
<i>khalifah</i>	: Vicegerent.
<i>Kharaj</i>	: Land tax in Islamic state.
<i>Ma'loom</i>	: Quantified.
<i>Maal</i>	: Wealth.
<i>Madrasha</i>	: Islamic educational center.
<i>Malik</i>	: Owner of a property.
<i>Madhhab</i>	: Schools of Islamic law.
<i>Makruh</i>	: Undesirable.
<i>Mandub</i>	: Pleasing.
<i>Maslahah</i>	: Benefits.
<i>Maslahah Mursalah</i>	: Public interest.
<i>Maqasid-al-Shari'ah</i>	: Objectives of Islamic law.
<i>Maysir</i>	: Gambling.
<i>Milkiyah/ al-Milk</i>	: Ownership.
<i>Mu'amalah</i>	: Man to man dealings and practices.
<i>Mubah</i>	: Indifferent.
<i>Mufti</i>	: A jurist who interprets Islamic law.
<i>Mudharabah</i>	: A partnership between two parties where one provides the capital and the other, <i>Mudharib</i> , manages the project. Profits are distributed according to a predetermined ratio while losses are borne by the supplier of capital.
<i>Mudharabah-al-Muqayyadah</i>	: Restricted <i>Mudharabah</i> .
<i>Mudharabah-al-Mutlaqah</i>	: Unrestricted <i>Mudharabah</i> .
<i>Mudharib</i>	: Entrepreneur within the <i>Mudharabah</i> contract.
<i>Muhajireen</i>	: Migrants, specially, who migrated from Mecca to Medina with the Prophet (PBUH).
<i>Mujtahidun</i>	: Muslim scholars.
<i>Mujir</i>	: The lessor.

<i>Murabaha</i>	: A sales contract where goods are sold at a price that includes a pre-determined mark-up profit agreed by both parties.
<i>Muraqib</i>	: <i>Shari'ah</i> instructors or supervisors.
<i>Mustarsal</i>	: An unknowing entrant into the market.
<i>Mustahab</i>	: Desirable.
<i>Mustajir</i>	: The lessee.
<i>Musharaka</i>	: A partnership contract where partners contribute the capital and share profits on a pre-agreed ratio but losses are shared on the basis of equity participation.
<i>Musharaka Mutanaqisa</i>	: A form of partnership contract where the partners enter into two contracts: a joint ownership contract and an <i>Ijarah</i> (lease) contract in which the bank will gradually sell its shares to the client at an agreed price within an agreed schedule. As a result, the withdrawing partners share diminishes gradually along with the share of the profits, in line with their declining equity stake.
<i>Musaqah</i>	: A partnership in which one party presents designated plants/trees that produce edible fruits to another (irrigating worker) who undertakes irrigation works in consideration for a common defined share in the fruits.
<i>Muta'aiyan</i>	: Specified.
<i>Muzara'a</i>	: A partnership in crops whereby one party (land owner) presents a piece of land to another (agricultural worker) to cultivate and maintain in return for a common defined share in the crop.
<i>Nafs</i>	: Life.
<i>Nasl</i>	: Lineage.
<i>Najash</i>	: Bidding up the price without an intention of buying the commodity.
<i>Nazat</i>	: To get release.
<i>Najish</i>	: The person who serves as an agent to bid up the price in an auction.
<i>Nisab</i>	: A threshold figure specified in Islamic law.
<i>Qardh al-Hasan</i>	: Charitable loan with no interest.
<i>Qimar</i>	: Games of chance.
<i>Qiyas</i>	: Analogical reasoning.
<i>Rabb-ul-Maal</i>	: Owner of the capital.
<i>Reqaah al-Sayarifah</i>	: Promissory notes.
<i>Riba</i>	: Interest / Usury. Technically, it denotes any increase that must be paid by the borrower to the lender along with principal sum as a condition for the loan or loan extension.
<i>Riba al-Fadl</i>	: <i>Riba</i> by virtue of excess in terms of the quantity of the counter values.
<i>Riba al-Nasiah</i>	: <i>Riba</i> by virtue of deferment in the time of exchange.
<i>Ribawi</i>	: Usurious items.
<i>Sadaqat</i>	: Voluntary alms-giving.
<i>Sahih</i>	: Authentic.
<i>Salat</i>	: Five time prayers daily by a Muslim. It represents one of the five tenets of Islam.
<i>Sarraffeen</i>	: Plural form of <i>Sarrafi</i> . Financial clerks, experts in money examination and money exchanges.
<i>Sawm</i>	: Fasting during the month of Ramadan in Arabic calendar. It represents one of the five tenets of Islam.
<i>Shafayat</i>	: Appeal, especially in the day judgment.
<i>Shahadah</i>	: Testimony of God and Prophethood.
<i>Shari'ah</i>	: Islamic law.
<i>Shirkah</i>	: Partnership.

<i>Shirkat-ul-Ainan</i>	: Restricted partnership, where equality in capital, management or liability might be equal in one case but not in all respects.
<i>Shirkat-ul-Aamal</i>	: Partnership in services.
<i>Shirkat-ul-Amwal</i>	: Partnership in capital.
<i>Shirkat-ul-Aqd</i>	: Partnership based on a contractual relationship.
<i>Shirkat-ul-Milk</i>	: Partnership based on joint ownership of a particular property.
<i>Shirkat-al-Mufawada</i>	: Universal partnership where all partners share capital, management, profit, and risk in absolute equals.
<i>Shirkat-ul-Wujooh</i>	: Partnership in goodwill.
<i>Suftaja</i>	: Bills of exchange.
<i>Sukuk</i>	: Islamic bond.
<i>Sunnah</i>	: The traditions and practices of the Prophet Muhammad (pbuh)
<i>Surah</i>	: A chapter in the Holy Qur'an.
<i>Tahsiniyyat</i>	: Embellishments.
<i>Takaful</i>	: Islamic insurance.
<i>Taqlid</i>	: Denoting the conformity of one person to the teaching of another.
<i>Tawliyah</i>	: A sale based on cost price.
<i>Tawarruq</i>	: A contract to obtain money, whereby someone buys a commodity on deferred payment, in order to sell it to a third party on credit at a lower price to obtain cash.
<i>Ujrah</i>	: The rent paid to the lessor.
<i>Ulama</i>	: Plural form of <i>Aalim</i> ; Islamic scholar.
<i>Ummah</i>	: Nation.
<i>Urf</i>	: Customary practice.
<i>Usul-al-Fiqh</i>	: The philosophy of Islamic jurisprudence.
<i>Wajib</i>	: Obligatory duty in Islam at second category.
<i>Wakalah</i>	: A person nominates another person to act on his behalf.
<i>Waqf</i>	: The permanent endowment by a Muslim of any of his property for a purpose recognized by the Muslim Law as religious or charitable.
<i>Warik</i>	: A type of currency made from silver and turned into dirham.
<i>Zahannam</i>	: The hell.
<i>Zakat</i>	: Compulsory alms-giving by a Muslim; represent one of the five basic pillars of Islam.
<i>Zannat</i>	: The paradise.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Islamic Banking (IB) is a financial system which conducts its operations, services and products consistent with the principles of *Shari'ah* and avoids acceptance and disbursement of *Riba* (interest/usury). IB has confirmed its compact position in the modern economic world, while it has been expanding fast around the globe with 17% annual growth rate which is two to three times faster than the rate at which conventional banks grew (Yueh, 2014). Nowadays, *Shari'ah*-compliant financial properties are valued at approximately US\$2.6 trillion (World Bank, 2015). It is expected that IB products and services will conform to the regulations of *Shari'ah* and thus, contribute towards attaining the *Maqasid-al-Shari'ah* (objectives of *Shari'ah*) by (1) conducting banking transactions based on Islamic regulations, (2) maintaining wealth and actions according to *Shari'ah*, and (3) confirming that the innovation and application of banking products and services are compliant with the *Shari'ah*. The objectives of *Shari'ah* comprise of advancement of welfare and avoidance of evils and corruption toward achievement of entire wellbeing of the nation (discussion on the *Shari'ah* principles for IB and concerned components including *Maqasid-al-Shari'ah* has been detailed in chapter two of this thesis).

The concept of IB dates back to the early 1930s, but actual practice began a bit later. Primarily, the launch of IB was in response to the rising demand of the Muslims to involve with banking operations in line with the Islamic principles. In the initial phase, the foundation of IB aimed at fulfilling the desires of Muslims to credit their money and be guaranteed that the cash credited would be maintained following the *Shari'ah* principles. The first endeavor to found an IB was made in Pakistan in the 1950s. In the early 1960s, IB practice achieved a greater success in Egypt with the foundation of Mit Ghamr Savings Bank in 1963. An urban-based bank, named as Nasser Social Bank was founded in Cairo in 1971 with the aim of granting interest-free loans to small projects. In the following years a quantity of Islamic banks were opened throughout the Muslim countries for example, Dubai Islamic Bank in 1975, Faisal Islamic Bank in Egypt in 1977, United Arab Emirates Islamic Investment Company Limited in 1978, Kuwait Finance House in 1979, Bahrain Islamic Bank in 1979, Qatar Islamic Bank in 1981, Islami Bank Bangladesh Limited in 1983 and many more Islamic banks were established during 1970s to 1980s. The Islamic Development Bank (IDB)

in Jeddah, KSA was founded in 1975. IB spread westward with the opening of an Islamic bank in Bahamas in 1977 and the establishment of the IB System International Holding, a joint-stock company, in Luxembourg in 1978, Dar-al-mal-al-Islami (DMI) in Geneva in 1981, Kuwait Finance House (KFH) in 1978, Al-Baraka, the first Islamic financial enterprise obtained license to operate in London in 1982. In the mid of 1980s, Iranian government passed a law *Riba*-free banking, giving a deadline for all of the banks to convert their operations into IB system. The government of Pakistan adopted a gradual transformation of its banking system to Islamic one over a five to eight year period. Thus, the growth and development of Islamic banks amplified over time to meet the growing demand of clients (details history of the emergence, development and expansion of IB system has been discussed in chapter four of this thesis).

The sector has reached significant milestones in terms of the legal and regulatory framework, *Shari'ah* governance, standards, and infrastructure after fifty years of its development and growth on a global scale. More than a thousand Islamic banks and financial organizations exist today. As an alternative to traditional banking, the IB system is expanding quickly as a result. However, their establishment still lacks an appropriate legal and regulatory framework. Some Muslim nations still lack the infrastructure needed to operate IB, and some Islamic banks face difficulties running and managing their businesses because of ambiguous legal and regulatory frameworks. As a result of their roots in the conventional economic system, the fundamental regulatory and financial structures are unable to completely support the entire operations and managements of IB in adhering to *Shari'ah* compliance. This reality makes it more difficult for IB products and services to evolve and innovate.

The distinguishing feature of IB system is, basically, all of its products, services and arrangements are free of interest and based on profit-loss-sharing mechanism which is permitted by the *Shari'ah*. It is expected that profit-loss-sharing mechanism in IB will significantly remove the inequitable distribution of wealth and lead to a more optimal and effective distribution of resources. Public welfare has always been taken into consideration in producing any IB product or service. The principal objectives of IB are: (1) to provide contemporary financial services consistent with the laws of *Shari'ah*, (2) to establish a direct relationship between the banks return and investment because of its profit-loss-sharing nature, (3) to give priority to the public and social welfare, (4) to ensure equitable distribution of resources to all the parties, and (5) to provide an Islamic substitute to the traditional system that is grounded on *Riba*. The goal of IB is not only the abolition of interest based

transactions, but also the creation of just and balanced social order free from all kinds of corruption (the concept and features of IB has been discussed in chapter three of this thesis). Bangladesh's banking system is made up of a variety of institutions, including private commercial banks, foreign commercial banks, nationalized commercial banks, and specialized development banks. Against the backdrop of tremendous public demand and support for the system, as well as its steadily rising popularity throughout the world, IB has witnessed extraordinary growth in Bangladesh. Two professional organizations, the "Islamic Economics Research Bureau" (IERB) and the "Bangladesh Islamic Bankers Association" (BIBA), had taken concrete steps to train a group of bankers in Islamic banking and to organize national and international seminars and workshops to encourage local and foreign people and attract investors to come forward and establish Islamic banks in Bangladesh. IB was founded in the early 1980s as a result of the consistent and devoted work of the aforementioned organizations and people, as well as the enthusiastic support of the government. In 1983, Islami Bank Bangladesh Limited, the nation's first Islamic bank, was founded. After that, a number of full-fledged Islamic banks have been established, while a good number of conventional banks have come forward to offer IB products and services either opening of IB branches or windows alongside the conventional banking. The list of full-fledged Islamic banks and conventional banks with IB branch or windows has been presented in the table below (history of IB in Bangladesh has been discussed in chapter four of this thesis):

Table 1.1: List of full-fledged Islamic Banks and conventional banks with Islamic Banking branch or windows in Bangladesh

SL	Name of Bank	Year of Establishment
1	Islami Bank Bangladesh Limited (IBBL)	1983
2	ICB Islamic Bank Limited (ICBIBL)	1987
3	Al-Arafah Islami Bank Limited (AAIBL)	1995
4	Social Islami Bank Limited (SIBL)	1995
5	Export Import Bank of Bangladesh Limited (EXIM)	1999
6	First Security Islami Bank Limited (FSIBL)	1999
7	Shahjalal Islami Bank Limited (SJIBL)	2001
8	Union Bank Limited (UBL)	2013
List of Conventional Banks having Islamic Banking Branches		
1	The City bank Limited	
2	AB Bank Limited	
3	Dhaka Bank Limited	
4	Premier Bank Limited	
5	Prime Bank Limited	
6	Southeast Bank Limited	
7	Jamuna Bank Limited	
8	Bank Alfalah Limited	

9	HSBC Limited
List of Conventional Banks having Islamic Banking Windows	
1	Sonali Bank Limited
2	Janata Bank Limited
3	Agrani Bank Limited
4	Pubali Bank Limited
5	Trust Bank Limited
6	Standard Bank Limited
7	Bank Asia Limited
8	Standard Chartered Bank

The most distinguishing feature of IB is to properly maintain its entire activities including products, services and operations in accordance with the guidelines of *Shari'ah* and thus, *Shari'ah* forms the basis to govern the IB. The *Qur'an* (Allah's revelation), the *Hadith* (the sayings and deeds of the Prophet Muhammad, pbuh), *Ijma'* (the consensus of Muslim scholars), and *Qiyas* (analogical inferences from the other three sources) are the four main sources of *Shari'ah* law. Among the basic fundamental doctrines of IB, the prohibition of *Riba* (interest), the prohibition of *Gharar* (uncertainty), the profit-loss-sharing framework, preferment of trade and commerce as the root of products and services, and payment of *Zakat* are remarkable. As a result, the IB system provides a different arrangement for Muslims in terms of beliefs, tools, and problems related to banking business dealings. Since the *Shari'ah*-compliance has become the single most distinguishing characteristic of IB, the necessity to form a regulatory body to guide, oversee and ensure the *Shari'ah*-compliance of Islamic banks has emerged. With this perspective, the Higher Religious Board (HRB) was formed with the creation of International Association of Islamic Banks (IAIB). The board was entrusted with the duty of making sure that Islamic banks scrupulously followed *Shari'ah* law. The board proposed that a religious board be appointed by every Islamic bank in the world to assess the operations of the banks and make decisions and suggestions about compliance with *Shari'ah*. Thus, the concept of *Shari'ah* Board (SB) in IB to ensure *Shari'ah*-compliance has emerged.

Islamic banks in Bangladesh have also been facing many challenges in their operations regarding their compliance with the codes of *Shari'ah*. They frequently come across the doubtful matters regarding *Shari'ah*-compliance for which they require interpretation, clarification and judgment from a competent authority. With this necessity, the demand for the formation of an authoritative body like SB has badly been perceived to ensure and scrutinize the *Shari'ah*-compliance of the activities and transactions of Islamic banks. Accordingly, all of the Islamic banks in Bangladesh gradually initiated to form *Shari'ah* Supervisory Board, which has been termed in this thesis as *Shari'ah* Board (SB). It is

mentioned that the SB ensures the Shari'ah-compliance of Islamic banks' activities and products in order to ensure their dependability. The board is empowered to give judgment and clarification on any *Shari'ah*-related issue of Islamic banks. The first SB for Islamic bank in Bangladesh was formed by Islami Bank Bangladesh Limited (IBBL) with ten members to supervise and advise the authority for further actions to safeguard *Shari'ah*-compliance of its operations and products. The board is entrusted with the authority to inspect the operations at branch level, verify the incomes and expenditures, and report to the Board of Directors of the bank. Out of ten members of the board, six should be Islamic scholars who are well-versed in the *Qura'n* and *Hadith*, one economist, one banker and one lawyer. In the line of this practice, all other Islamic banks have also formed SB to supervise activities of the respective banks. Despite the IB sector's positive growth in Bangladesh, more attention and effort are still needed to guarantee that the sector's expansion and development can guarantee the achievement of the objectives of *Shari'ah* and that its products and services are *Shari'ah*-compliant. IB is projected to move towards achieving the goals of *Shari'ah* with the devotion to the Shari'ah's tenets. In addition, it will increase community confidence and trust in the reliability and efficiency of Islamic banks.

The formation, power, function, role, responsibility, independence, and accountability of the SB of all Islamic banks in Bangladesh are not similar. Some boards have more functional power and independence, while some others enjoy only nominal power and responsibility. Some boards are formed with qualified members following international standards, while some boards have less-qualified members or have no representation from various concerned disciplines as recommended by international standards. Very few boards can play effective role by performing their responsibilities independently. Some boards have access to the information of accounts, while some of them have restriction. No SB has the authority to stop any banking transaction, though it is found to be violating the principles of *Shari'ah*. In most cases, these boards have only to approve the proposals made by the Board of Directors (BoD) of the banks. Regarding scrutiny, some boards can audit banking activities at branch level, while some boards can't. SBs are accountable to the Board of Directors of the respective banks, not to the shareholders.

With this perspective, it has become a debate whether are the SBs of Islamic banks in Bangladesh practically effective or only nominal bodies? How are the SBs of different Islamic banks in Bangladesh composed of and what are their role and functions? By which methods, SBs ensure that the banking products, services and operations are compliant with the principles of *Shari'ah*? What kind of power and authority, the boards can enjoy in

performing their responsibilities? How are the boards formed, reformed or dissolved? What power the boards really need to ensure the *Shari'ah* compliance of the activities, products, instruments and operations of the IB industry in Bangladesh? What are the challenges, the SBs are facing in the IB business of Bangladesh? How will the SBs properly be a functional and effective institution and play meaningful role to guarantee the *Shari'ah*-compliance and reliability of the IB? With these perspectives, the current study explores the governance function, role, independence, accountability and efficiency of the SBs in the IB industry of Bangladesh through questionnaire surveys. The surveys are conducted among two different groups of respondents i.e. the members of SB and Branch Managers of Islamic banks. Through rigorous review of related literature and data collected from questionnaire surveys, and various other primary and secondary sources, the present research aims at finding the answer of research questions, identifying challenges and finally offering recommendations to make the SB practically effective institutions in ensuring *Shari'ah*-compliance of Islamic banks in Bangladesh and thus, contributing to the protection of public interest in this regard and sustainable growth of the industry with confidence and credibility.

1.2 Rationale of the Study

The trustworthiness of IB is significant to guarantee the sustainability of the industry. It can be described by the legality of its performances and the accountability of its principal actors. One of the major components of its legitimacy is that its products, services and operations are compliant with the *Shari'ah*. Furthermore, key actors in the industry have a duty to practice appropriate accountability (Abdul-Rahman, 1998: 55-69) in confirming that the administration, processes, products and services are compliant with the *Shari'ah*. The prime body to look after the *Shari'ah*-compliance of Islamic bank is its SB. This study is aimed at investigating the governance function, role, independence and effectiveness of the SB in IB industry of Bangladesh. An analysis of concerned literatures specifies that there is a deficiency of wide-ranging study in this subject. The existing literatures have a tendency to be limited in scope and provided only a constricted knowledge of the topics concerning the SB. Although some studies have been done in some countries like Malaysia, Indonesia, but no empirical study has been conducted in Bangladesh accumulating all of the full-fledged Islamic banks in the country. Hence, the present study deems important and crucial. The central inspiration for accomplishing this empirical research is to report this cavity by investigating the critical aspects regarding the formation, governance function, role, power, independence and effectiveness of the SB of fully-functional Islamic banks in Bangladesh.

The country, currently (2018), has eight fully-functional Islamic banks, while some traditional banks maintaining IB branch or window. This competitive atmosphere has produced the availability of a variety of products and services with which the involvement of SB is crucial to confirm their compliance with the *Shari'ah*. Hence, investigation into the SB issues for the IB industry in Bangladesh would offer a scenario of the current status of the *Shari'ah* governance function of the industry.

Contrarily, the most current global financial crisis, which began in 2007, affected numerous economic and financial institutions globally including the collapse of these organizations brought on by the effects of the global economic crisis. The primary argument for what caused the crisis has focused on the flaws in corporate governance and legislation, highlighting how they have shown to be insufficient (Kirkpatrick, 2009: 1-30). Prominently, the economic crisis created the necessity for the immediate assessment of prevailing governance instruments of the financial institutions. The function and role of SB forms a significant part of governance mechanisms of the IB industry. Hence, investigation of the governance function of SB that has been endeavored in this study is estimated not only to be rational, but also significantly crucial and important. The present study will look at the SBs of eight full-fledged Islamic banks in Bangladesh to see how efficient, independent, and effective they are.

1.3 Objectives of the Study

As compliance with the *Shari'ah* is the central feature of IB, like all other Islamic banks in the world, Islamic banks in Bangladesh are also obligatorily responsible to ensure that all of their operations, products, and services comply with *Shari'ah*. It is the principal basis upon which an Islamic bank invites the people or clients either to buy shares of its capital or to transact with it in any form. Therefore, the *Shari'ah* compliance of Islamic banks is a significant public concern since many who conduct business with Islamic banks feel that they are entirely compliant with *Shari'ah* concepts. The SB is the main authoritative body within the bank that is responsible to ensure this public concern of *Shari'ah*-compliance. Therefore, the SB should be in a position with authoritative power and ability to secure this public commitment and to confirm that the activities and products of the Islamic banks are compliant with the *Shari'ah*. The Board should also be accountable for any shortcomings or irregularities in the *Shari'ah* -compliance process. The primary goal of this study is to conduct a comprehensive investigation into the present practice among Islamic banks in Bangladesh regarding the formation, composition, governance function, power, role,

independence, and effectiveness of their SBs. Critically examining the above mentioned crucial issues surrounding the SBs through empirical study based on questionnaire surveys, the research finally aimed at identifying its regulatory lapses and obstacles and then giving recommendations to make this institution as a practically effective one and thus contribute in protecting a public concern in the IB industry in Bangladesh. The following is a list of the study's goals:

- a) To determine the current role and practices i.e. formation, composition, power, function, and responsibility of the SB in safeguarding *Shari'ah*-compliance in IB industry of Bangladesh with a view to confirming its reliability and addressing the concerns of the stakeholders and investors.
- b) To investigate into the current governance mechanism of the SB and processes for safeguarding the *Shari'ah*-compliance in the Islamic banks of Bangladesh.
- c) To scrutinize the independence, efficiency and effectiveness of the SB in the context of banking environment in Bangladesh.
- d) To identify the difficulties and challenges that the SBs of the Islamic banks in Bangladesh are facing in performing its role and the managing the *Shari'ah*-compliance.
- e) And finally, to make suggestions for ways to raise the bar for *Shari'ah* governance mechanisms and to develop the SB as a realistically useful entity for ensuring *Shari'ah*-compliance of products, services, and activities of Bangladesh's IB sector.

1.4 Research Questions:

In order to attain the above mentioned research objectives, this study attempts to find answers of a quantity of definite research questions, as follows:

- a) How is a SB formed in an Islamic bank in Bangladesh? Is there any 'fit and proper' criterion to select a member in the SB?
- b) How is the *Shari'ah* governance tool accomplished in the IB industry of Bangladesh? Is there any governance standard followed by the Islamic banks in this regard?
- c) What kind of functional power has the SB to perform its duty? Is this enough to ensure *Shari'ah*-compliance effectively?
- d) What is the role of SB as currently practiced in the Islamic banks of Bangladesh?
- e) What is the role of a member of the SB of an Islamic bank in Bangladesh? Are the members of SB competent and capable enough in performing their responsibilities and playing their role effectively?

- f) How independent are the members of SB in accomplishing their duties? What are the issues that influence their independence?
- g) To whom are the members of SB accountable? What are the factors that influence their accountability?
- h) What have the stakeholders seen about the anticipated role of SB in Bangladesh's IB industry?
- i) How the role does played by the SB impact the trustworthiness of Islamic banks and replicates the expectations of stakeholders for *Shari'ah*-compliance?
- j) How do the SB members interact with other participants in an Islamic bank within the *Shari'ah* governance mechanisms of an Islamic bank in Bangladesh?
- k) What are the insights of the stakeholders about the governance arrangement and efficiency of the SB of Islamic banks in Bangladesh?
- l) What are the efforts completed and activities conducted in the IB industry to ensure *Shari'ah*-compliance in the Islamic banks of Bangladesh?
- m) What is the role of Bangladesh Bank in ensuring *Shari'ah*-compliance of Islamic banks? Does it have any guidelines in this regard? If yes, is that comprehensive and complete one to ensure the role of SB?
- n) What issues and difficulties does the SB of Islamic bank in Bangladesh have in ensuring that all of its activities and products comply with *Shari'ah*? How may these obstacles be overcome?
- o) Which are the major obstacles to make the SB independent, functional and effective in playing its role? How these obstacles could be removed?
- p) How could the *Shari'ah* governance mechanism be improved in order to ensure *Shari'ah*-compliance effectively in the Islamic banks of Bangladesh?

1.5 Scope of the Study

Corresponding to the goal of the foundation of IB industry to realize the goals of *Shari'ah*, one of its main obligations is to ensure *Shari'ah*-compliance. Islamic banks in Bangladesh are also committed to *Shari'ah*-compliance of its products and activities. The people are conducting transactions with Islamic banks based on this commitment. SB of Islamic banks is the responsible body to ensure this commitment. So, Islamic banks can only survive as long as they continue to follow the regulations *Shari'ah*. But, several studies revealed that *Shari'ah*-compliance has not been properly ensured in many Islamic banks, while SBs facing several challenges in ensuring *Shari'ah*-compliance. SBs have not been empowered with

enough authority to perform their role and responsibilities effectively. In some cases, it has been found that these boards are hand-picked by the bank authorities and some of them are composed of incompetent members. Even the boards that have competent scholars as members, their role remains largely advisory, as they have no functional power to enforce the bank authorities to implement SBs' decisions. Sometimes, the duties of the SBs are confined to passing *Fatwas*¹ on issues referred to them by the bank authorities only or they lack the power to oversee the implementation of any resolution adopted by the SB. The IB industry is also being questioned and criticized on its role to confirm *Shari'ah*-compliance. Therefore, this empirical study which is chiefly encompasses an investigation into the role, power, governance function, independence and effectiveness of the SB of IB industry in Bangladesh with the aim of identifying the obstacles in this regard and limitations of the SB. Finally, the study shall offer recommendations to make the SB practically effective. The scope of present study involves the SBs of eight full-fledged Islamic banks in Bangladesh.

1.6 Limitations of the Study

The present research has some limitations which are to be considered in case of using the findings of the study. The mentionable limitations are as below:

- a) The study is only limited to eight fully-functional Islamic banks in Bangladesh. The findings may slightly be different, if the whole IB industry including the conventional banks that offer IB products is taken into consideration.
- b) The study considered only selected categories and limited number of respondents for the questionnaire surveys. But the quality of disclosure could be evaluated with diverse dimensions, if more classes and more number of respondents could be considered for the survey.
- c) Collection of data by a questionnaire survey in the context of Bangladesh is not an easy task. Many of targeted respondents were unwilling to participate in this kind of survey and so, the number of respondents was not as much as expected. The respondents, who participated in the survey, were also not enthusiastic enough in providing appropriate data. Moreover, some of them have refused to provide some relevant data on the ground of confidentiality.

With having these limitations, the study has made efforts to obtain research objectives.

¹ Fatwa is the Arabic term for 'Islamic verdict'. A decree by a competent *Shari'ah* scholar qualified to issue decrees (mufti) on a matter giving an opinion about the position of the matter in the light of the *Shari'ah* rules and principles (Muhammad Akram Khan, *Islamic Economics and Finance: A Glossary*, 2nd edition, 2005, Routledge, London, p. 62).

1.7 Research Design and Methodology of the Study

With the aim of achieving the above mentioned study objectives, a good number of literatures have been reviewed on concerned topics. It includes *Shari'ah* principles for IB, theoretical framework of IB products and operations, history and development of IB industry globally and in Bangladesh etc. In-depth study has been undertaken for the preparation of conceptual frameworks pertinent to the inception and development of SB, its governance function, problems and challenges. In discussing the efficiency, effectiveness and independence of SB, the credibility of IB in terms of *Shari'ah*-compliance, the concept of accountability and trust in Islam were also discussed. The study has heavily drawn on the relevant primary sources i.e., the official documents of the sample Islamic banks in Bangladesh containing resolutions, reports, information brochures and the proceeding of its various meetings. Besides this, some secondary sources like reports and speeches referred in various books, newspapers, periodicals and journals on the subject were also consulted which have been detailed in the bibliography. In order to make the study more meaningful, the subject has been dealt with objectively and empirically, using both descriptive and analytical techniques in accordance with the requirement of the research. With regard to research design, this study employed mixed-method research strategy using both the quantitative and qualitative research instruments. A thorough empirical research was accomplished by questionnaire surveys aiming at to gain an overall scenario of the issues under study, particularly, the role of the SB. Two questionnaire surveys were distributed; one (QS1) to the members of SB and another (QS2) to the Branch Managers of the Islamic banks in Bangladesh. QS1 is designed to investigate how the issues inspected are being practiced by the SB, while the QS2 assesses how the issues are anticipated to be practiced.

It is argued that data collection employing a mixed-method research approach will improve the rationality of the comprehensive exploration and facilitate to create a complete and overall portrayal of the topics under study (Mason, 1994: 89-110). Henceforth, The research methodology adopted in this study is anticipated to provide an in-depth evaluation and broaden comprehension of the role, independence, effectiveness, and governance function of the SB. It should be noted that the research work would deal with only eight full-fledged Islamic banks of Bangladesh. A detailed research design and methodology has been discussed in chapter six. The research design followed in this research work is summed-up below:

- a) A rigorous review of the literature on the subject.

- b) Collection of data from Bangladesh bank and sample Islamic banks in Bangladesh.
- c) Collection of data and information from several reports and documents of different governmental, non-governmental and international research organizations working in the relevant field.
- d) A thorough empirical investigation with the two questionnaire surveys among the members of *Shari'ah* Board and Branch Managers of Islamic banks in Bangladesh.
- e) To compile and analyze data by using statistical tools.
- f) Parallel with the statistical analysis of the data of questionnaire survey, a descriptive analysis of the research questions has also been formulated.
- g) To do a crucial review of entire research study and findings to identify the challenges of *Shari'ah* governance and offer policy recommendations to make the SB of Islamic banks of Bangladesh as an effective institution.

1.8 Review of Literature

In addition to being one of the biggest monotheistic religions, Islam is also a comprehensive way of life. It lays forth a comprehensive set of rules for how people should behave in all spheres and expressions of daily life (Memon, 2007: 2). The recommended Islamic set of rules is usually refers to *Shari'ah* or Islamic law. Accordingly, *Shari'ah* serves as IB's primary set of guiding principles for all of its operations, services, and products. (Siddiqi, 1983; Siddiqi, 1985; Ahmad, 1984; Khan and Mirakhor, 1986: 32-36; Ahmad, 2000: 57-82; Siddiqui, 2001). The term *Shari'ah* is an Arabic word which means "system of divine law; way of belief and practice" in the *Qur'an* (Omar, 2010). The four main sources of *Shari'ah* are as follows (Ahmad, 2010: 29-38):

- a) *Qur'an* (the reveled book to the Prophet Muhammad (pbuh));
- b) *Sunnah/Hadith* (the utterances and deeds of Prophet Muhammad (pbuh));
- c) *Ijma'* (consensus of the Muslim jurists/collective reasoning); and
- d) *Qiyas/Ijtihad* (analogical deduction/individual reasoning).

The religious foundation of IB and its basic elements have been described by Anwar (2008: 3-9) and Visser (2009: 10-80). Al-Shatibi identified *Maslahah* (benefits) as the single *Maqasid al-Shari'ah* (objectives of *Shari'ah*) in his book *Al-Muwafaqat fi Usul al- Shari'ah* (the congruences of the sources of *Shari'ah*), a concept attained by endorsing *Daruriyyat* (essentials), *Hajiyyat* (complementary requirements), and *Tahsiniyyat* (desirables) (Kamali, 2008: 32). The ultimate aim of *Shari'ah* is to achieve the complete wellbeing of the Muslim

nation and the mankind as a whole. Haron (1997: 11) elaborated the philosophy of IB saying that

“The Islamic economic order is based upon a set of principles found in the *Qur’an*. No matter what aspect of the Islamic economics order is introduced, for practical operations it has to base itself on the *Qur’anic* concept of social justice. The Islamic financial system, therefore, cannot be introduced merely by eliminating *Riba* but only by adopting the Islamic principles of social justice and introducing laws, practices, procedures and instruments which help in the maintenance, dispensation of justice, equity and fairness.”

Ayub (2007: 21-72) and Gait (2009: 28-47) explained the distinguishing features and principles of Islamic economics for example prohibition of *Riba* (interest/usury), *Gharar* (uncertainty), *Maysir/Qimar* (gambling/games of chance), preferment of profit-loss-sharing method, use of *Halal* (legal in Islam) instruments, welfare approach, just dealing, free-marketing, fair pricing, and freedom from *Dharar* (Detriment). Siddiqui (2004) summed up the salient features of Islamic economics as follow:

- a) “While permitting the individual the right to seek his economic well-being, Islam makes a clear distinction between what is *halal* and what is *haram* in pursuit of such economic activity. IB is restricted to Islamic acceptable deals, which exclude those involving alcohol, pork, gambling, etc. Thus ethical investing is the only acceptable form of investment, and moral purchasing is encouraged. In broad terms, Islam forbids all forms of economic activity, which are morally or socially injurious.
- b) While acknowledging the individual's right to ownership of wealth legitimately acquired, Islam makes it obligatory on the individual to spend his wealth judiciously and not to hoard it, keep it idle or to squander it.
- c) While allowing an individual to retain any surplus wealth, Islam seeks to reduce the margin of the surplus for the well-being of the community as a whole, in particular the destitute and deprived sections of society by participation in the process of *Zakat*. While making allowance for the ways of human nature and yet not yielding to the consequences of its worst propensities, Islam seeks to prevent the accumulation of wealth in a few hands to the detriment of society as a whole, by its laws of inheritance.
- d) Viewed as a whole, the economic system envisaged by Islam aims at social justice without inhibiting individual enterprise beyond the point where it becomes not only collectively injurious but also individually self-destructive.”

Hanif and Iqbal (2010: 475-489) grouped Islamic modes of financing objectively into two: *Shari’ah*-compliant and *Shari’ah*-based. Later, Hanif (2011: 166-175) discussed the terms used for modes of financing briefly. The *Shari’ah*-compliant products include *Murabaha* (cost plus profit sale), *Ijara* (a rental arrangement), *Bai-Salam* (spot payment for future delivery), *Bai-Muajjal* (sale on deferred payment), *Istisna* (order to manufacture) and Diminishing *Musharaka* (house financing). *Shari’ah*-based transaction means the financing modes on profit-loss-sharing basis including *Musharaka* (partnership in capital) and *Mudaraba* (partnership of capital and skill).

With a very quick development rate, IB expanded from being a purely theoretical idea to include hundreds of banks with multi-billion dollar deposits globally. Initially being

concentrated in the Middle-Eastern and South-East Asian countries, IB practices are now increasingly found elsewhere (El-Qorchi, 2005). A study on a large number of respondents by Dusuki and Abdullah (2006) discovered that Islamic bankers should not only rely on promoting the Islamic factors but also the necessary service quality. The three most important factors found in their study that promoted IB were competence, friendliness and service quality to the customer.

Many academics, like Siddiqi (2002), think that there are three modern factors that might explain the rapid expansion of the IB business. The first is the widespread dissatisfaction with the global financial and monetary sectors' activities and outcomes following the conclusion of World War II, especially during the 1970s. The second is the fact that Islamic financial movement emerged as a byproduct of far larger Muslim resurgence. The third component is the Islamic viewpoint, which has always had a strong moral undertone, on money, banking, and finance.

Although the works of Erol and El-Bdour (1989: 31-37) and Erol, Kaynak and El-Bdour (1990: 25-35) revealed three key selection criteria for Islamic banks: instead of a religious reason, prioritize reputation, confidentiality, and quick and efficient services, on the other hand, the findings of a good number of studies for example, Ahmad and Haron (2002); Naser, Jamal and Al-Khatib (1999: 135-150); Metawa and Almosawi (1998: 293-313); Rashid, Hassan and Ahmad, 2004: 109-131); Archer and Karim (2002); Briston and El-Ashker (1986: 120); Tomkins and Karim (1987: 101-115); Karim (1990a: 34-44); Karim (1990b: 299-305); Bhambra (2002: 198-212); Rammal (2006: 204-208); Ghayad (2008: 207-216); Laldin (2008: 54-56) showed that Compliance with *Shari'ah* is the single most principal factor for choosing IB. *Shari'ah* compliance promotes confidence among shareholders and other stakeholders and assures the reliability of Islamic banking institutions. Chapra and Khan (2000) clarified the significant differences between the Islamic and conventional banking system, while the studies of Chapra (1992) and Ariff (1988: 48-64) elaborated the features of Islamic banks as interest-free banks. Mahal and Rahman (2013: 22-35) conducted a comparison of Bangladesh's conventional and Islamic banks discussing the dissimilarities between the two in terms of product or service and business efficiency. Their main conclusions on the differences in the product or service include: business principles, variations in aims, variances in deposit, etc. Similarly, some other scholars in their studies such as Kader (1993); Kader (1995); Othman and Owen (2001: 1-26); Othman and Owen (2002: 1-12); Wakhid and Efrita (2007) discovered same findings in their studies in Indonesia, Kuwait and Malaysia. The studies of Jalil and Rahman (2010: 219-233), Imam

and Kpodar (2010), Rarick (2009), Bidabad and Allahyarifard (2008) and Abdul Rahman (2007: 123-141) showed that the *Riba*-free IB system removed economic cruelty and injustice and ensured socio-economic growth through the adoption of *halal* business practices.

But the study of Malik, Malik and Mustafa (2011) argued that many of the financing options provided by Islamic banks are more closely related to debt instruments than profit-loss sharing. Yusof and Fahmy (2008) said that the most prevalent defense of current IB in Malaysia is that there is “no difference at all” other than a name change and the substitution of “profit rate” for “interest rate.” In addition, new studies on the Islamicity of the contemporary IB model have created a great deal of uncertainty regarding *Shari’ah* compliance and the achievement of *Shari’ah*’s goals. The study of Meera and Larbani (2009: 101-116) revealed that the current methods of IB functioning are similar to conventional banking, contravene *Shari’ah*, and impede the fulfillment of *Shari’ah*’s goals. Yousef (2004: 63-80), Abozaid and Asyraf (2007), Meera and Dzuljastri (2005: 7) and Kuran (2004) have also expressed confusions about the Islamicity of the present activities of Islamic banks. Usmani (2008) asserts that the majority of products offered by Islamic banks do not adhere to *Shari’ah*, and that those that do adhere to it structurally but not spiritually are the subject of discussion. Similar to this, Febianto (2010) stated that while Islamic banks typically position themselves as offering morally sound financial services and being more capable than their conventional counterparts, in fact these claims are not always true. Theoretically, IB is a profit-loss-sharing plan, but in practice, it is not all that different from traditional banking, according to Chong and Liu (2009, 125–144). Their study on Malaysia revealed that only few products of Islamic banking are strictly based on profit-loss-sharing method. Their research revealed that deposits in Islamic banks are closely related to conventional schemes rather than interest-free deposits. Although the purpose of forming IB was to provide *Shari’ah*-compliant banking products, Iqbal and Molyneux (2005) and Meera and Dzuljastri (2005) highlighted that they are not religious organizations but rather profit-oriented companies. Studies by Abdullah (1996: 84), Obaidullah (2008), Ansari and Memon (2008: 24-27), and others explained that when the mark-up on a *Murabaha* transaction is fixed, interest rates are taken into account since they are measured and compared to one another. They finally contended, based on this declaration, that the profit rate fixing in *Murabaha* financing is based on the rate established by conventional banks. Additionally demonstrating interest in the notion of *Murabaha* finance is the dependence on LIBOR (London Inter-Bank Offered

Rate) (Usmani, 2002a: 126). Furthermore, Iqbal (1997: 42-45) thought that IB should practically put emphasis on the prohibition of *Riba*.

According to Ahmad and Hassan (2007: 251-277), the biggest barrier to *Shari'ah* compliance is the absence of a well-defined supervisory and regulatory framework for Islamic banks in Bangladesh that would allow for their efficient operation in accordance with *Shari'ah* teachings. Though Bangladesh bank has recently declared separate guidelines for Islamic banks, but that is insufficient as a comprehensive regulatory framework. Although IB has become an significant part of banking sector of the country, Bangladesh has no IB law yet. The *Shari'ah* audits were found not to be effectively carried out by the SBs, according to Hassan (2012). As a result, there is a major need for Islamic banks and their SBs to deliberately examine their existing governance system, behaviors, and methods (Kahf, 2004). While there is a central SB in Malaysia and Sudan, some countries like Bangladesh do not have one. Another challenge the IB has is the lack of qualified personnel at all levels, particularly SBs who are knowledgeable about both conventional banking and Islamic law (Malik, Malik and Mustafa, 2011; Grais and Pellegrini, 2006). According to a poll conducted by Khaleej Times in 2008, there are approximately 250–300 *Shari'ah* scholars, of which about 15–20 are in high demand, making the approval process difficult because the SBs are typically overworked (Malik, Malik and Mustafa, 2011; Grais and Pellegrini, 2006). Chapra and Khan (2000) and Chapra and Ahmed (2002) noted the time constraints and helpful staff that *Shari'ah* scholars faced when doing their duties effectively. Fatwa shopping, different explanations of current *Shari'ah* rulings, manipulating or tempting or unseen hand of management on the decision of SB (Grais and Pellegrini, 2006; Ullah, 2012), and the lack of specifically designed financial products that adhere to *Shari'ah* (Koch and Stenberg, 2010) have all been found to result in *Shari'ah* violations.

In this regard, the study of Hassa, Kayed and Osein (2013: 241-242), Anwar (2008: 185-192), Abdul-Rahman (2010: 81-83), and Jaffer (2005) explained the role of the SB in the IB industry. They determined that an SB's primary job is to attest to the *Shari'ah* compliance of the bank's operations, goods, and services. The role of the SB, according to Briston and El-Ashker (1986), includes advising the Board of Directors on matters of *Shari'ah*, developing IB products, reviewing the operations of an Islamic bank, figuring out how to calculate and pay Zakat, and describing *Shari'ah* compliance in the *Shari'ah* report.

With this perspective, empirical study on the governance function and role of the SB deemed important and essential for the sustainable growth of IB industry. The number of empirical studies on the issue is not as much as expected. Abumouamer (1989), Abdul Rahman et al.

(2005), Al-Sadah (2007), Alhabshi and Bakar (2008: 167-206), Faizullah (2009), Safieddine (2009: 142-158), Hassan et al. (2010), Rammal (2010), Hasan (2011: 30-51), and Hassan (2012) are notable empirical studies on the governance function and role of the SB. The most recent study on the subject is that of Abumouamer (1989). He investigated the function of SB members in fifteen Islamic banks and finance firms from various states using a questionnaire survey and interviews. His research showed that the majority of SB members believed they were independent and had a good connection with management. Additionally, it was said that SB had permission from the shareholders. Compared to an SB whose compensation is set by the board of directors, one whose compensation is set by the shareholders is seen as having greater independence. The members of SB having an executive role in the management were found to have more entrance to financial documents than those who hold a non-executive role. Abumouamer (1989) did not clearly define the advisory role of SB. Regarding review role, he called it '*Shari'ah Auditing*' and categorized it as: pre-audit, during audit, and the post-audit. This '*Shari'ah Auditing*' was conducted by the SB in spite of the fact that the SB members were mainly belonged to *Shari'ah* scholars having no adequate skill in auditing accounting documents. The majority members of SB were found as working part-time. According to Abumouamer's study (1989), even if customers frequently are unaware that the SB has issued a *Shari'ah* report, they continue to trust that the operations of Islamic banks are Halal since they depend on the management of the banks.

An empirical research on the independence of the SB in Malaysia's Islamic banks was carried out by Abdul Rahman et al. (2005). It was based on a questionnaire survey that was distributed to ten conventional banks that provide IB services as well as two fully operational Islamic banks. According to the study's respondents, SB's responsibilities are more important to shareholders, depositors, customers, regulatory bodies, and Muslims than they are to creditors and management. The parameters that raise the level of independence of the SB were identified through an analysis of the mean values. These include the SB members' backgrounds in *Shari'ah*, their standing, and their non-executive roles. While this was going on, Al-Sadah (2007) examined four Islamic banks from three different countries as case studies to examine issues with corporate governance of Islamic banks. He found that the SB was mainly undertaking its advisory role and for *Shari'ah* review function, it relied on the management. All four studied Islamic banks had no official communication between the audit committee and the SB. The SB members were appointed and remunerated in these banks based on the resolution of Board of Directors upon the endorsement of management. Al-

Sadah (2007) suggested that these viewpoints might endanger the SB's efficacy and independence since the SB might be vulnerable to managerial influence.

The study of Alhabshi and Bakar (2008: 167-206) examined various governance issues of sixty seven Islamic financial institutions mostly from Middle Eastern and Southeast Asian countries. Majority of the respondents in this study specified the involvement of SB in its traditional role of articulating and approving *Shari'ah* opinion and monitoring *Shari'ah*-compliance. SB was regarded as the chief decision making body on *Shari'ah* issues, while disagreements on *Shari'ah* issues were reported to the SB. Evidence from each of the nations under study suggested that the involvement of SB in product development was found mostly confined within conceptual, designing and documentation levels, while it is poor at testing, implementation and review levels. Additionally, Alhabshi and Bakar (2008: 167-206) discovered that the authority, appointment, and *Shari'ah* reporting systems of SB can be affected by the presence of centralized SB. The study of Safieddine (2009: 142-158), based on questionnaire survey and interviews, highlighted the question of independence of SB is in its appointment mechanism. A majority of the institutions under study used general assemblies to choose its SB members. The majority of SBs reported to both the shareholders and the board of directors in terms of the reporting channel. The SBs' rulings are regarded as obligatory.

Meanwhile, Hassan et al. (2010) investigated the role of SB in Malaysian IB and *Takaful* industries by interviewing thirty seven participants from SB members; *Shari'ah* officers, and regulators. This study specified that the role of SB was restricted to: product approval, making *Shari'ah* decisions, and as a platform of experts in IB. Review duty of the SB was to: review of new products, including their concepts, structure, and documentation; examination of current *Shari'ah* problems and implementation of *Shari'ah* resolutions; organize frequent meetings and verify the institutions' possession of a *Shari'ah* manual. Additionally, In order to maximize the efficacy of SB, this study emphasized the relevance of adequate operating procedures, acceptable credentials, and relevant experience for SB members. SB should comprise a blend of both the experts of *Shari'ah* and general subjects. According to Hassan et al. (2010), issues that might hamper the efficiency of *Shari'ah* review activities of the SB were: (a) time restriction owing to the part-time working nature of SB; (b) incapability of its members; (c) insufficient interaction between the SB and interior parties; (d) scarcity of human resources; and, (e) intrusion from the Board of Directors. Two full-fledged Islamic banks and four conventional banks with Islamic windows used as case studies for Rammal's (2010) study on the function of SB in Pakistan's Islamic banks. *Shari'ah* governance function

of the SB was narrowly understood in this study and various kinds of *Shari'ah* advisory and review role were not ascertained. He discovered that the role and function of SB comprise of developing IB products and approving new products. But, Rammal (2010) did not stipulate the stages of development where SB got involved. However, this study explained the structure of *Shari'ah* review jobs of SB by distinguishing it between Islamic banks and conventional banks with an Islamic window. Furthermore, it stated that since the majority of the resolutions had already been created by the bank, the SB members' duties were only to "rubber stamp" them. Furthermore, Rammal (2010) asserted that the SB members were unlikely to reject the bank's decisions because they were paid by the bank.

Hasan (2011: 30-51) studied the issues of *Shari'ah* governance in Islamic financial institutions from the regulatory framework viewpoint deriving data from thirty one institutions in Malaysia, UK, and GCC countries. It found that majority SBs performed traditional *Shari'ah* advisory and review role; involved in developing IB products and conducting institution review, structure of *Shari'ah* review, and in the execution of *Shari'ah* review. But the advisory and review role of SB were not specified in this study. However, it became clear that concerns about the independence of SB members were restricted to the legal system in place. Aspects of the SBs' appointment and authority such as the presence of 'fit and proper' qualification standards for the employment of SB member, communication frequency and authority of the SB were studied in Hasan (2011: 30-51). The study of Faizullah (2009) pertaining to the issues of governance, transparency and standardization in IB was based on the questionnaire survey of ten Islamic financial institutions in Bangladesh. He briefly described that the key role of SB was: advising on all issues of *Shari'ah* law, product development and issuing *Shari'ah* endorsement. He also studied the SB members' engagement in accounting issues of the institutions that encompassed the disbursing or receiving interest; the segregation of funds; profit and loss distribution. Faizullah (2009) discovered that 40% of SB members had multiple memberships and that the majority of SB members do not occupy leadership positions inside the bank.

The study of Hassan (2012) investigated the role, independence and effectiveness of SB in the Islamic banks in Malaysia based on two stages of questionnaire surveys and in-depth interviews. He used statistical packages and technical tools to analyze the research findings. Hassan's (2012) study revealed that the SBs were mostly involved in advising the Board of Directors and *Shari'ah* officers and endorsing *Shari'ah* compliance manual. Indeed, SBs' engagement in developing products and services inclines to be confined to the conception, documentation and review levels. Regarding the accounting-related issues, the SBs were seen

to be selectively involved in tasks including approving the computation and distribution of Zakat, certifying banks' annual reports, and verifying papers in contracts. Regarding the issues influencing independence and accountability of SB, the respondents emphasized on the individuals integrity of the members than SBs' fiduciary duties. Regarding the appointment of SB members and its mandated authority, the analysis determined that there was no conflict of interest in the appointment of SB members and its statutory jurisdiction because the hiring decisions were conducted using "fit and proper" standards. There were indications that the SBs were not granted sufficient authority, that there was no reporting mechanism to mediate the issue between the various Shari'ah governance parties inside the bank, and that the SBs' tasks were not separated from one another. The study of Zamil (2014), while investigating the challenges of IB industry in Malaysia, focused on the *Shari'ah* governance issues such as *Shari'ah*-compliance structure in the Islamic banks in Malaysia, *Shari'ah* auditing and reporting. He revealed the knowledge gap among the *Shari'ah* scholars during conceptualization and approval of a product, lack of *Shari'ah* audit expertise, lack of professional bodies and code of ethics and lack of cooperation among the Muslim countries in regard to meet the challenges of the industry.

After carefully analyzing earlier empirical research on the governance function of SB, it can be said that previous studies, especially the one on Islamic financial institutions in Bangladesh by Faizullah (2009), were primarily narrow in scope. Because the governance responsibilities of SB, as stated in chapter five of this thesis, are fairly broad in terms of their function, authority, role, responsibility, independence, and effectiveness. Due to the rapid development of the IB business and the rising consumer demand for these goods and services internationally, notably in Bangladesh, there is a dearth of literature that gives an in-depth understanding of the Shari'ah governing role of SB. Thus, the present study aims at investigating the role of the SB in the IB industry of Bangladesh with an in-depth and broader understanding of governance function of SB. However, in designing research model, this study followed the structure and model of Hassan (2012) that empirically investigated the role, independence and effectiveness of the SB in the IB industry of Malaysia.

1.9 Contribution of the Study

Implementing a suitable Shari'ah governance system that verifies the Shari'ah-compliance of its operations, products, and services is a fundamental requirement for the IB sector. As the primary Shari'ah governing body of an Islamic bank, SB has been established in this regard. Therefore, the role of SB is very vital in ensuring *Shari'ah*-compliance of IB activities. The

weakness of governance mechanism of SB would undoubtedly hinder the *Shari'ah*-compliance program, while an effective governance mechanism of SB would gear up the *Shari'ah*-compliance activities of Islamic Bank. Hence, the study on the governance mechanism and role of SB in the IB industry deemed important. Considering these significances, the present research examines the issues regarding the role, power, function, governance mechanism, independence and effectiveness of the SB in the IB industry of Bangladesh. It is, therefore, anticipated that this study will obviously contribute to an improved understanding of the current scenario of the governance functions of the SB. It will identify the difficulties and challenges facing the SBs of Islamic banks in Bangladesh concerning legal and regulatory framework, management and *Shari'ah* compliance. Therefore, the study will provide evidences to improve the efficiency of the SB in confirming *Shari'ah*-compliance and offer policy recommendations and possible measures for strengthening the *Shari'ah* governance function of SBs in the IB industry of Bangladesh. Thus, it will undoubtedly contribute to the sustainable development and strengthening credibility of IB industry in the country.

On the other hand, IB's main mission is to fulfill *Shari'ah's* requirements. It highlights the need of preserving the dependability and accountability of organizations like Islamic banks. Concerns about the legitimacy of Islamic banks were raised among the stakeholders due to a number of situations that are not in accordance with *Shari'ah*. This study focused on how important ethics are, how they should be implanted in accordance with *Shari'ah*, and how they should be further reinforced in IB conducts. From this perspective, the study also incorporated the basics of *Shari'ah* together with the Islamic concept of accountability, trust, morality and ethics. Therefore, it is believed that this study would aid in determining the policy implications for the IB business not only in Bangladesh but also for other states that are preparing to create the required regulatory framework for the IB industry. Practically speaking, it is expected that a better comprehension of the barriers and difficulties associated with SB, the current regulatory framework and how it is put into action, the process of products and services, will also result in a better and more reliable attitude taken into account by the management and regulators of the banks in order to ensure *Shari'ah*-compliance.

1.10 The Structure of the Thesis

There are nine chapters in the dissertation. The first chapter primarily focuses on the context of the study, the justification for the study, the study's goals, a review of related literature, an explanation of the research problems and questions, the theoretical and methodological

approaches used in this study, the importance of carrying out such research, and the significance of this study.

The second chapter attempts to provide an outline introduction about the religious foundation of IB-the *Shari'ah*, which includes the sources of *Shari'ah*, *Maqasid-al-Shari'ah* (objectives of the *Shari'ah*), concept of ownership in Islam, distribution of wealth and *Zakat*, economic prohibitions in Islam such as *Riba* (Interest) and *Gharar* (Uncertainty), differences between *Riba* and profit in Islam, concept of money and capital in Islam. It also discusses the ethics for acceptable economic forms in Islam for example, trade-based activities, profit-loss sharing, *Halal* (legal in Islam) instruments, welfare approach, justice and fair dealing, free-marketing and fair pricing, freedom from *Dharar* (detriment) etc. Islamic concepts of trust, morality and accountability have also been incorporated in the first chapter. The third chapter is a review of the conceptual and theoretical framework of IB including its features, objectives, functions, modes of financing, sources of funds, the application of funds etc. It also sheds light on the risks of IB and differences between Islamic and conventional banking. The fourth chapter reviews the historical background of IB. It includes the initial attempts for the establishment of an Islamic bank, gradual expansion and development of IB in different countries of the world over ages and process of Islamization of banking at national level. The chapter includes history of IB in Bangladesh since her independence in 1971, gradual development of the industry in the country together with profiles of eight full-fledged Islamic banks in Bangladesh which are the institutions under investigation of this research.

Concept of SB for Islamic banks and literatures on its role has been elaborated in the fifth chapter. It discusses the standardization of SB, its characteristics, basic components, formation, power, role, independence and effectiveness. The chapter focuses on the examination of legal and institutional frameworks linked to *Shari'ah* governance system and the SB in the banks under investigation in order to clarify the issues and challenges associated with *Shari'ah* governance, compliance, and management. Discussions of the IB regulatory framework for in Bangladesh and the pertinent requirements for the SBs' *Shari'ah* governance role have also been assessed.

Research design and methodology of the study has been explained in chapter six. It elaborately discusses the questionnaire design and development, its structure, types of question, analysis techniques and tools used in this study. Results of the first questionnaire survey (QS1) which was distributed among the members of SB has been analyzed in chapter seven and second questionnaire survey (QS2) which was distributed among the branch managers of Islamic banks has been analyzed in chapter eight. Chapter nine incorporates

concluding discussion that includes review of research findings, theoretical Implications and policy recommendations for practice. The study's weaknesses have been recognized, and a number of comments and ideas for more research have also been put up. The pertinent appendices and bibliography are included at the conclusion of the thesis. To make accessing the various sections and chapters easier, the thesis' structure has been created. The following Figure 1.10 illustrates this:

Figure 1.10: Structure of the thesis

Introduction and Literature Review
Chapter One: Introduction
Background Rationale of the Study Objectives of the Study Research Questions Research Design and Methodology Review of Literature Contribution of the Study
Chapter Two: <i>Shari'ah</i>: The Religious Foundation of IB
Definition of <i>Shari'ah</i> and Its Basic Components The Sources of <i>Shari'ah</i> <i>Maqasid al-Shari'ah</i> Concept of Ownership in Islam Distribution of Wealth in Islam <i>Zakat</i> Principles of Islamic Economics and Banking Economic Prohibitions in Islam Ethics for Acceptable Economic Forms in Islam Concept of Money and Capital in Islam Trust and Accountability in Islam
Chapter Three: IB: Concept and Features
Conceptual Development of IB Forms and Modes of IB Contracts Risks of IB Differences between Islamic and Conventional Banking
Chapter Four: History of the Development of IB
Historical Background of IB The History of Modern IB Islamization of National Banking Industry Development of IB in Bangladesh Growth and Performance of IB in Bangladesh
Chapter Five: <i>Shari'ah</i> Board and its role in the IB Industry
<i>Shari'ah</i> Board and its Standardization Characteristics of the <i>Shari'ah</i> Board The Role and Function of <i>Shari'ah</i> Board The Role of Centralized <i>Shari'ah</i> Board The Manual Regarding the Role of the <i>Shari'ah</i> Board of Islamic Banks in Bangladesh

Research Methodology
Chapter Six: Research Methodology
Purpose of the Study Study Population Research Methodology The Questionnaire Design and Development Statistical Analysis Techniques Employed
Analysis and Conclusion
Chapter Seven: Analysis of the Survey on <i>Shari'ah</i> Board; Responses of the <i>Shari'ah</i> Board Members
Profile of Respondents The Role of <i>Shari'ah</i> Boards Accountability and Independence of <i>Shari'ah</i> Boards The Appointment and Mandated Authority of <i>Shari'ah</i> Board The Nature of the <i>Shari'ah</i> Review by <i>Shari'ah</i> Boards
Chapter Eight: Analysis of the Survey on <i>Shari'ah</i> Board; Expectations of Banks Branch Managers
Profile of Respondents Branch Managers' Expectation on the Role of the <i>Shari'ah</i> Board Expectation of Branch Managers on the Accountability and Independence of <i>Shari'ah</i> Boards Expectations of Branch Managers Relating to the Appointment and Mandated Authority of <i>Shari'ah</i> Board Members Perceptions of Branch Managers Regarding the Nature of the <i>Shari'ah</i> Review by <i>Shari'ah</i> Boards
Chapter Nine: Conclusion
Summary and Review of Findings Theoretical Implications and Recommendation for Practice Limitations and Scope for Further Research

1.11 Summary

This introductory chapter delineates the introductory aspects of this research. This chapter discusses the background, rationale of the study, its objectives, scope, limitations, research design and methodology of the study, review of literature, contribution of the study and structure of the thesis. The objective of this chapter is to provide its readers an overview of this research.

CHAPTER TWO

SHARI'AH: THE RELIGIOUS FOUNDATION OF ISLAMIC BANKING

2.1 Introduction

Islam is one of the largest monotheistic faiths, exhibiting surrender to Allah's will, as well as a complete philosophy of life. It promotes a thorough code of conduct for all aspects of day-to-day living (Memon, 2007: 2). Shari'ah is typically used to refer to the required Islamic code of conduct. As a result, the Shari'ah serves as the cornerstone of every law of conduct in Islam, including business transactions. The ultimate purpose of *Maqasid al-Shari'ah* (objectives of *Shari'ah*), is to ensure the whole well-being of the Muslim people in particular and of all people in general. Creating economic justice in society based on the *Shari'ah* concept of social justice for the wellbeing of humans is the aim of the Islamic economic code of conduct. Therefore, in order to portray the Islamic financial system, it is necessary to start with the Islamic principles of social justice and then provide laws, practices, processes, and other tools that support the upholding and dispensing of justice, equity, and fairness (Haron, 1997: 11). Islamic economics therefore aims to establish a reasonable and balanced social order free from all forms of exploitation as well as to abolish interest-based transactions. The growth of the IB business is ultimately attributable to the optimal utilization of economic actions through permissible Islamic practices (Ahmad, 2002: 15). IB is a financial system that operates in accordance with Shari'ah law to ensure fair resource allocation across society. It combines the financial system with the Islamic faith (Iqbal and Molyneux, 2005: 153). According to the World Bank (2017), there are currently about US\$2.6 trillion worth of financial assets that are compliant with *Shari'ah*, including insurance, capital markets, money markets, and bank and non-bank financial organizations. In addition to having a well-established traditional interest-based banking system, the emergence and growth of interest-free IB indicates that there has been an increase in demand for a different financial system, particularly among Muslims who prefer financial products and services that are *Shari'ah*-compliant. The potential for Islamic banking to assist in addressing the issues of eradicating extreme poverty and promoting shared prosperity is being increasingly recognized by major financial markets as credible proof (World Bank, 2015). In essence, the IB system has severe requirements that all of its goods, deals, and services adhere to Shari'ah law. Understanding the *Shari'ah* and its main elements, such as its sources and goals, Islamic ethics, and limitations on commercial and financial activity, such as prohibition of *Riba* (interest),

Gharar (uncertainty), *Maysir/Qimar* (gambling/games of chance), promotion of trade-based activities, profit-loss-sharing method, welfare approach, free marketing, fair pricing, transparency etc. is the goal of this chapter. The chapter also briefly discusses the Islamic concepts towards the economic behaviors such as ownership, distribution of wealth, *Zakat*, money, capital, accountability etc.

2.2 Definition of *Shari'ah* and Its Basic Components

According to Wehr (1976: 424–425), the Arabic word *Shari'ah* is derived from the verb *Shara'a*, which literally means “to chalk out or mark out a clear path to water”. Literal translations of the word “*Shari'ah*” are “the path that leads to the spring” (Ramadan, 2004: 31), “path leading to the water” (Wehr, 1976: 425). It refers to "a clear path to be followed and observed" metaphorically (Visser, 2009: 10). According to Omar (2010): 13, it is a system of divine governance; a manner of believing and acting in the Qur'an. Every aspect of a Muslim's life is governed by a system of rules and laws (Schoon, 2009: 19). It is the approach that directs one's life in the proper direction (Rahman, 1982: 42). Although some people only consider *Shari'ah* to be Islamic law, it is unquestionably a full and all-encompassing code of conduct that regulates the ethical, moral, social, and spiritual aspects of a Muslim's public and private transactions in addition to their legal obligations (Anwar and Millar, 2008: 3). All of IB's activities and output are governed primarily by *Shari'ah* (Ahmad, 2000a: 57-82). *Shari'ah* includes transactions and rules and encompasses all facets of a Muslim's life, including their religious, economic, and political spheres. The *Qur'an* and the *Sunnah* are the sources of its directives (Izzi Dien, 2004: 35). According to Ahmad (2002: 46–47), " *Shari'ah* is the path not only leading to God but also the path believed by all Muslims to be the path shown by God, through God's Messenger Prophet Muhammad (pbuh)". *Shari'ah* encompasses all aspects of human activity, whether they be physical, mental, or spiritual, and not only gives guidance on how to live with the intention of attaining the divine will. Consequently, the *Shari'ah* teachings go beyond the letter of the law and encompass all aspects of human conduct as well as legal and social interactions (Haron, 1997: 29). *Shari'ah* has five degrees of provisions, such as:

- a) *Fard* or *Wajib* (obligatory) a mandatory duty, the lapse of which is punishable.
- b) *Mandub* or *Mustahab* (desirable) which is remunerated, but the lapse of which is not punishable.
- c) *Jaiz* or *Mubah* (indifferent) which is allowed and to which the law is indifferent.

- d) *Makruh* (undesirable) which is disliked of, but which is not a punishable crime, though its lapse is rewarded.
- e) *Haram* (forbidden) which is unquestionably prohibited and punishable (Venardos, 2005: 28).

In essence, the Holy *Qur'an* and the Prophet's (pbuh) *Sunnah* are the sources of Shari'ah. It defines people's interactions with God, the cosmos, and society. What is permitted and what is not is determined by *Shari'ah* (Hassan and Lewis, 2007: 404). The development of banking and financial operations allowed Muslims to affirm that the economic activities of the *Ummah*² are carried out effectively, which satisfied their criteria. Thus, it is made clear that Islam does not distinguish between worldly and spiritual issues, viewing trade as an ethically significant activity governed by Shari'ah (Karim, 2001: 169–193). The principles deduced from the Holy *Qur'an* and *Sunnah* for doing business should be carried out simultaneously and without any misunderstanding. As a result, Islamic banks were established with the mandate to carry out their business strictly in accordance with Shari'ah principles and regulations (Karim, 2001: 169-193).

Figure 2.2 explains the connection between the IB and the Shari'ah. It includes both *Mu'amalah* (man-to-man practice), which is connected to society, and *Ibadah* (worship and devotional rituals), which are tied to the Almighty Allah. Every social, political, and economic action that takes place in society is included in *Mu'amalah*.

² *Ummah* is an Arabic word meaning 'community' or 'nation'. It is commonly used to mean either the collective nation of states. In the context of Islam, the word *Ummah* is used to mean the 'Community of the Believers' (*ummat al-mu'minin*), and thus the whole Muslim community of the world.

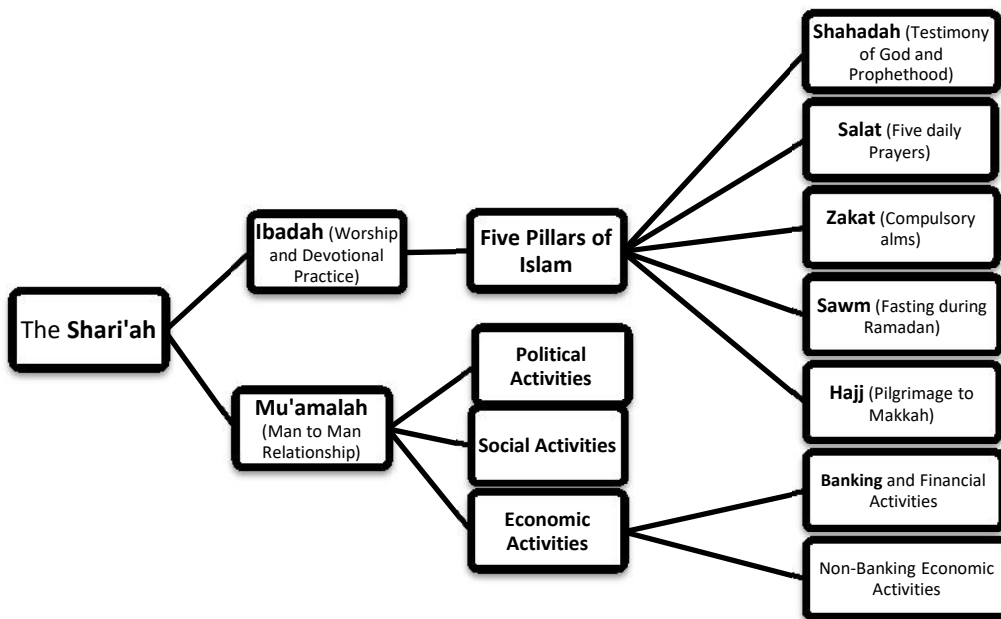
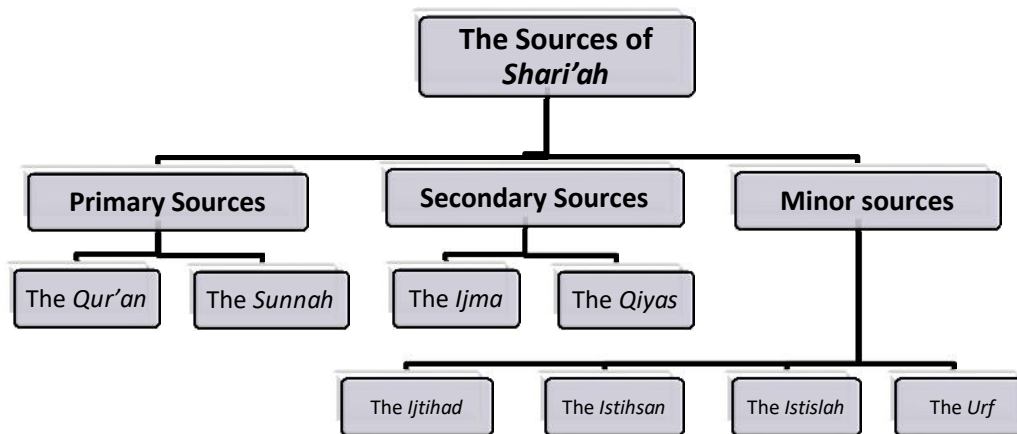


Figure 2.2: *Shari'ah* as the Source of IB (Hassan, Kayed and Oseni, 2013: 5)

2.2.1 The Sources of *Shari'ah*

In addition to primary or divine sources, secondary or human sources are also used to determine the criteria of *Shari'ah* (Izzi Dien, 2004: 51). The major or ultimate sources of divine law, which are primarily textual in character according to the *Shari'ah*, are the *Qur'an* and the *Sunnah*. *Ijtihad*, or legal reasoning, on the other hand, is the interpretation of the *Shari'ah* by Muslim jurists who create a law based on the proof discovered in its fundamental sources, namely the *Qur'an* and *Sunnah*. Because there are an endless number of everyday actions, judgment on those that are not covered in the *Qur'an* and *Sunnah* is reached via legal analysis based on Islam's spirit of justice and knowledge. Because of this, secondary sources are important for *Ijtihad*, the secondary source of the Islamic legal system. The secondary sources of the *Shari'ah* include: *Ijma* (collective reasoning/ consensus of Muslim jurists), *Qiyas* (analogical reasoning), *Istihsan* (juristic preference), *Maslahah Mursalah* (public interest), and *Urf* (customary practice). It has been shown in the following figure:

Figure 2.2.1: Overview of the sources of *Shari'ah* (Source: generated by the author deriving information from Kamali, 1989)



2.2.1.1 The Primary Sources

The divinely revealed regulations are the primary sources of *Shari'ah*. These are the Holy *Qura'n* and *Sunnah* of the Prophet (pbuh).

2.2.1.1.1 The *Qur'an*

The *Qur'an* is the most essential and fundamental source of *Shari'ah*. It is the primary Islamic text and agreed by all Muslims as being the original words of Allah as revealed to the Prophet Muhammad (pbuh) and that is infallible (Anwar and Millar, 2008: 3). The Holy *Qur'an* says: “This is the Book (*Qur'an*), there is no doubt in it, a guidance to those who fear Allah” (Al-*Qur'an*, 2: 2). “Nor does he say (anything) of (his own) desire. It is no less than inspiration or revelation sent down to him” (Al-*Qur'an*, 53: 3-4). The Holy *Qur'anic* teachings serve as a Muslim's primary source of guidance in all area of life. The Holy *Qur'an* further says: “We have sent down to you the Book (*Qur'an*) as an exposition of everything, a guidance, a mercy, and glad tidings for those who have submitted themselves (to Allah as Muslims)” (Al-*Qur'an*, 16: 89).

It makes up a singular and comprehensive text, each letter of which is the result of Allah's will and design. As a result, it outlines the intellectual, social, political, economic, and moral principles that should underpin the establishment of an Islamic society. (Ahmad, 2002: 49-50). The *Qur'an* begins with *Surah al-Fatihah*, and ends with *Surah Al-Naas*. It is divided into 114 *Surah* or chapters, and every chapter consists of several verses (*Ayah*). The Prophet (pbuh) personally articulated it to others and it was preserved in literature during his lifetime (Doi, 1984: 52). In order to meet the demands of time and address the problems that arose before him, these revelations were spaced out during the Prophet's 23-year life. Out of 114,

92 chapters were revealed during his life in Makkah known as 'Makkan chapters' and the rest 22 chapters were revealed during his life in Madinah known as 'Madinah's chapter'. The Qur'anic verses broadly fall under the headings of "science of speculative theology," "ethical principles," and "rules of human conduct." The third group of verses, which were revealed in Madinah and designed to transform human behaviour and transform society in accordance with divine mandates, directly relate to Islamic law (Qadiri, 1986: 186). As a result, the Holy Qur'an's teachings serve as the primary guide for all Muslim behavior, including financial and business dealings.

2.2.1.1.2 The Sunnah

The *Sunnah* is the second main source of Shari'ah. It consists of the actions, sayings, and unspoken endorsements of the Prophet Muhammad (pbuh), as recorded in the *Ahadith* or traditions (the singular hadith is sometimes used for tradition in general) that have been passed down through a trustworthy network of transmitters (Visser, 2009: 10). The term "Sunnah" is occasionally used in a more general meaning to refer to the actions of the Prophet's (pbuh) companions and successors.³ The Prophet Muhammad's (pbuh) sayings and speeches, which he delivered for various reasons and on various occasions, are collected in the *Sunnah* (El-Gamal, 2006: 28). The *Sunnah* is documented in the *Hadith*. "It is a report or a verbal tradition, transmitted from person to person and from generation to generation by word of mouth, of what Prophet Muhammad (pbuh) said or did, or his reaction to something said or done by others" (Ahmad, 2002: 52). The Prophet (pbuh) is praised in the *Qur'an* as the finest model of character and the best person to treat everyone, according to the *Sunnah*. It says: "You have indeed in the Messenger of Allah a beautiful pattern (of conduct) for any one whose hope is in Allah and the final day, and who engages much in the praises of Allah" (Al-Qur'an, 33:21). The Prophet (pbuh) never spoke a lie, according to the Qur'an, but rather relayed what Allah had revealed to him. As a result, the *Sunnah* is regarded as the second source of *Shari'ah*, following the Holy *Qur'an*. The Holy *Qur'an* states: "Whatever the Messenger has given you take; and what he has forbidden you refrain from it, And fear Allah; indeed, Allah is severe in penalty" (Al-Qur'an, 59:7). The Holy *Qur'anic* verses are explained and interpreted by *Sunnah*. It demonstrates the goals of the Holy *Qur'an's* interpretations as well as its divine commands and prohibitions. In actuality, everything the

³ The Prophet's companions were people who interacted with Muhammad (pbuh). Muslims consider them the most authoritative sources of information about the views and conduct of Muhammad (pbuh). They, themselves, are also seen as guides for the believers ((Visser, 2009: 10).

Prophet Muhammad (pbuh) did and said was in accordance with the principles of the Holy *Qur'an*. As a result, when his life and teachings are considered together, they form a full exegesis of the Holy *Qur'an* that he himself put into effect. As a result, the *Hadith* (Sunnah) or tradition of the Prophet (pbuh) is crucial for the advancement of the Islamic judicial system and hence, Muslims can always turn into this source of *Shari'ah*, be they legal or religious (Ahmad, 2002: 52). As far the *Shari'ah* is concerned, not all *Hadith* can be used as a source in formulating law. *Hadith* in the category of *Sahih* or sound are the primary source of *Shari'ah* law. *Hadith* in the category of *Hasan* or fair are not considered quite strong enough, but they are necessary for establishing points of law. Indeed, most of the *Hadith* concerning legal matters are of this type. *Hadith* which falls into the category of *Da'if* or weak and deals with matters of law, or with things which are allowable or forbidden will be rejected. Allowance is made, however, if the *Hadith* deals with exhortations, stories, and good behavior (Ahmad, 2002: 53-54). The famous six acceptable compilations of *Hadith* or *Sunnah* are: *Sahih-al-Bukhari*, *Sahih Muslim*, *Sunan Ibn-Majah*, *Sunan Abu-Dawood*, *Jami al-Tirmidhi*, and *Sunan al-Nasai*.

2.2.1.2 The Secondary Sources

There are two other significant sources of *Shari'ah*, referred to as secondary sources, in addition to the Holy *Qur'an* and *Sunnah*. Because the two major texts do not completely address every legal topic and instead provide room for various interpretations, the *Shari'ah* frequently turns to supplementary sources. They are two of the four main sources of *Shari'ah*, along with the major sources. Which are:

- a) *Ijma* (consensus of scholars on a particular issue); and
- b) *Qiyas* (analogical deduction from rulings already derived from the *Qur'an*, *Sunnah* and *Ijma*).

2.2.1.2.1 The *Ijma*

Ijma, the verbal noun form of the Arabic word *ajma'a*, has the meanings of both to determine, and to agree upon something..... *Ijma* is characterized as the unanimity of the *Mujtahidun* (scholars), or Muslim society, on any issue during any time after the Prophet Muhammad (pbuh) (Kamali, 1989: 156). *Ijma* is the third important source of *Shari'ah*, after the Holy *Qur'an* and *Sunnah*. It is the unanimous agreement of Muslim academics at a given time on a certain issue, often as expressed by the jurists. Most scholars have always regarded it as an independent source of *Shari'ah*, alongside the *Qur'an*, *Sunnah*, and *Qiyas*. (Izzi Dien, 2004:

46). The passages of the Holy *Qur'an* and the Prophet (pbuh)'s *Hadith* are where *Ijma* gets its start. *Qur'an* says: "Those who have responded to their lord and established prayer and whose affair is [determined by] consultation among themselves" (Al-Qur'an, 42:38). "And they were not divided until after the knowledge came unto them, through rivalry among themselves" (Al-Qur'an, 42: 14). "O believers, obey God and obey the Messenger and those in authority among you. If you should quarrel on anything, refer it to God and the Messenger" (Al-Qur'an, 4: 115). Prophet Muhammad (pbuh) reinforced the *Ijma* saying that: "My community shall never agree on an error" (Esposito, 2003: 134). The Prophet (pbuh) also said: "I beseeched Almighty Allah not to bring my community to the point of agreeing on error and he granted me this" (Kamali, 1989: 240).

Ijma, in contrast to the *Qur'an* and *Sunnah*, is a logical proof rather than a direct expression of divine revelation (Kamali, 1989: 155). It starts with the personal *Ijtihad* of individual jurists and ends with the gradual, widespread adoption of a certain viewpoint. There is no space for coercion or the imposition of ideas onto the society throughout this process; disagreements are allowed until a consensus is reached (Kamali, 1989: 157). The underlying idea of *Ijma* as a source of law is that truth is safe with the community of believers (Cragg, 1964: 145). *Ijma* validates the *Sunnah's* legitimate understanding and transmission, the Qur'anic interpretation, and the permissible application of *Ijtihad* (Kamali, 1989: 158). Once an *Ijma* is established, it tends to take on a life of its own and lose sight of its historical roots in the main sources. It therefore becomes customary to paraphrase the legislation without citing the pertinent references. The agreement of contemporary Muslim scholars and jurists at both the national and international levels has served as a foundation for current IB, among other things. (Ahmad, 2002: 56).

2.2.1.2.2 The *Qiyas*

The word "Qiyas" literally means "to measure or ascertain the length, weight, or quality of something," which is why scales are called *Miqyas*... *Qiyas* also means to compare, implying resemblance or equality between two things... As a result, *Qiyas* implies that two items are equivalent or very comparable, with one being used as the standard for judging the other... Theoretically, "*Qiyas* is the extension of a *Shari'ah* ruling from an original case, or *Asl*, to a new case, because the latter has the same effective cause as the former. The original case is regulated by a given text, and *Qiyas* seeks to extend the same textual ruling to the new case. It is by virtue of the commonality of the effective cause, or *Illah*, between the original case and the new case that the application of *Qiyas* is justified" (Kamali, 1989: 180). Only when

the solution to a novel problem cannot be found in the *Qur'an*, the *Sunnah*, or a clear *Ijma* is *Qiyas* applicable. If the new issue could be settled by a judgment of the existing law, then using *Qiyas* would be ineffective. Only in areas where the *Qur'an*, *Sunnah*, and *Ijma* do not include it may the law be extrapolated from any of these sources using *Qiyas*, or analogical reasoning. (Kamali, 1989: 180). According to Doi (1984: 70–71), *Qiyas* began during the time of Prophet Muhammad (pbuh) and continues to this day. *Qiyas* is reached by the legal and philosophical analogy technique, in which a divine law revealed for one situation is applied to another when there is a common element between the two (Jabbar, 2009: 1). It is regarded as a source of Islamic law and one of the *Ijtihad's* instruments (Ayub, 2007: 22).

2.2.1.3 Minor Sources

There are several minor additional sources of *Shari'ah* in addition to the basic and secondary sources. These are discussed below in brief:

2.2.1.3.1 *Ijtihad*

Ijtihad literally translates as effort or self-exertion in any task that involves some difficulty. In terms of law, *Ijtihad* mostly entails an intellectual effort on the side of the lawyer. *Ijtihad* is defined as the whole amount of effort put forth by a jurist in order to reasonably derive the *Shari'ah* laws from the sources' rich documentation. *Ijtihad*, according to certain scholars, is the process by which a jurist employs all of his faculties to determine the norms of *Shari'ah* based on their sources or to put those rules into practice and apply them to specific issues. (Kamali, 1989: 315). In addition to the *Qur'an* and the *Sunnah*, *Ijtihad* ranks as the most significant source of Islamic law. *Ijtihad* and the disclosed sources of *Shari'ah* vary most in that *Ijtihad* is an ongoing process of growth whereas divine revelation and prophetic law came to an end with the passing of the Prophet (pbuh). *Ijtihad* remains the primary means of understanding the divine word and connecting it to the shifting circumstances of the Muslim community in order to fulfill its objectives for justice, redemption, and truth. (Kamali, 1989: 315). The several sources of Islamic law that appear alongside the *Qur'an* and the *Sunnah* are all examples of *Ijtihad*, albeit they do differ in mostly procedural ways. Consensus of opinion, analogy, legal preference, considerations of public interest (maslahah), etc., are all connected in this way, and they all fall under the general category of *Ijtihad*, which in turn connects to the *Qur'an* and the *Sunnah* (Kamali, 1989: 315). *Ijtihad* is a source for answers that have become more and more vital as the modern world, including IB, has advanced. The creation of new financial goods plainly leads to circumstances in which there are no direct

quotations from the main sources of Shari'ah due to the fact that these sophisticated financial instruments are modern innovations. Therefore, the acceptance of *Ijtihad*, *Ijma*, and *Qiyas* is crucial for the advancement of contemporary IB.

2.2.1.3.2 *Istihsan*

Literally, *Istihsan* signifies “to approve, or to deem something preferable”. It is derived from *Hasana*, which denotes excellence or beauty. from a legal standpoint, “*Istihsan* is a method of exercising personal opinion in order to avoid any rigidity and unfairness that might result from the literal enforcement of the existing law. ‘Juristic preference’ is a fitting description of *Istihsan*, as it involves setting aside as established analogy in favor of an alternative ruling which serves the ideals of justice and public interest in a better way” (Kamali, 1989: 218). *Istihsan*, a significant subset of *Ijtihad*, has been helpful in adjusting Islamic law to contemporary social demands. It has given Islamic law the tools it needs to promote adaptability and development. (Kamali, 1989: 218).

2.2.1.3.3 *Istislah*

Istislah literally, means ‘benefit’ or ‘interest’... According to Kamali (1989), who cited Khallaf, *Istislah* refers to public interest that is unrestrained in the sense that it has not been ruled by the Lawgiver insofar as no scriptural reference can be discovered on its legality or otherwise. Al-Ghazali believed that the *Maslahah* (*Istislah*) had aspects that guaranteed a benefit or prevented damage while also being in harmony with the *Shari'ah's* goals... *Istislah's* legitimacy stems from the principle that the basic objective of Islamic law (*Shari'ah*) is to protect the welfare of the populace by advancing their wellbeing or shielding them from harm. There are several methods and mechanisms through which people can benefit. (Kamali, 1989: 235).

2.2.1.3.4 *Urf*

Urf, which is Arabic for "that which is known," It is something that many individuals do collectively. *Urf* is not the behavior of a small, or even a sizable, minority, inside a community. It is defined as “recurring practices which are acceptable to people of sound nature.” This concept makes it apparent that custom must be sound and fair in order to serve as a legitimate foundation for legal decisions. Therefore, repeated behaviors among certain people for which there is no reward or which engage in bias and corruption are not

considered to be *Urf*. (Kamali, 1989, p. 248). Customary law that is in accordance with *Shari'ah* principles is legitimate and enforceable. (Kamali, 1989: 249).

2.2.1.4 Schools of Islamic law (*Madhhab*)

There was no need to consult anybody else on the rules of Islam during the lifetime of the Prophet Muhammad (pbuh), who was the source of *Shari'ah*. However, following the passing of the Prophet (pbuh) in 632 A.D., a number of situations arose that called for the practice of Islam, although the guidelines were not specifically stated in the verses of the Holy *Qur'an* and *Sunnah*. As a result, there was a growing need to address new problems, whether they were theological or legislative, as well as to fulfill the requirements of the populace and provide them with answers. With this historical context and need, Islamic jurisprudence gradually evolved, leading to the emergence of various schools of Islamic law known as *Madhhab* under the supervision of numerous well-known Muslim scholars and teaching the populace about Islam's precepts (Venardos, 2005: 31). According to the regulations and tenets of Islamic jurisprudence, each of these schools gets its rules from the evidence of the basic and secondary sources of *Shari'ah*. There are primarily four *Madhhabs*, or schools of jurisprudence, named after the founding masters. These schools gained widespread acceptance among Muslims across the world and were recognized as official schools of Islamic law. These are (according to historical order):

- a) The *Hanafi* School founded by Imam Abu Hanifa (690–760 A.D.)
- b) The *Maliki* School founded by Imam Malik ibn Anas al-Maliki (711–795 A.D.)
- c) The *Shafi'i* School founded by Imam Muhammad ibn Idris al-Shafi'i (767–820 A.D.)
- d) The *Hanbali* School founded by Imam Ahmad ibn Hanbal (781–855 A.D.).

2.2.1.4.1 The *Hanafi* School

The *Hanafi* School of thought draws its jurisprudence primarily from the *Qur'an*, but when absolute law cannot be found there, it turns to other illustrious sources, such as the *Sunnah*, to support its conclusions. Secondary sources like *Ijma*, *Qiyas*, *Ijtihad*, *Urf*, and *Istihsan* are used when a decision is still insufficient (Doi, 1984: 88-92). India, Iraq, Egypt, the Levant, Morocco, Turkey, Pakistan, Afghanistan, and Bangladesh are countries where the *Hanafi* School is well-established. Following Abu Hanifa's death in 760 A.D., Abu Yusuf and Muhammad al-Shaybani continued to uphold his legal opinions. (Hallaq, 2009: 37).

2.2.1.4.2 The *Maliki* School

Out of the four schools of Islamic jurisprudence still in use today, the Maliki School is the second one that Sunni Muslims adhere to (Ahmad, 2010: 78). With the exception of Imam Malik giving the *Qiyas* precedence over the weak *Sunnah* (Hadith), the Maliki School is comparable to the other schools in terms of the fundamentals of *Fiqh* (Visser, 2009: 15). Abu Dhabi, Dubai, Kuwait, Libya, Bahrain, Mauritania, Tunisia, and Algeria are hotspots for the Maliki *Madhhab* (Visser, 2009: 16).

2.2.1.4.3 The *Shafi'i* School

The third is the *Shafi'i* School. The *Qur'an*, *Sunnah*, *Ijma*, and *Qiyas* are the primary sources from which the principles of the *Shafi'i* school of law have been drawn. Imam *Shafi'i* preferred *Ijma* over *Istihsan*, *Istislah*, and *Ijtihad* (Visser, 2009: 16). The *Shafi'i* school is second only to the *Hanafi* in terms of followers. Many nations, including Indonesia, Malaysia, Ethiopia, Egypt, Sudan, Somalia, and Yemen, adhere to the *Shafi'i Madhhab*. (Visser, 2009: 16).

2.2.1.4.4 The *Hanbali* School

The fourth and last branch of Islamic legal theory is known as the *Hanbali* School. According to Doi (1984:108), this *Madhhab* and the *Shafi'i* were quite close. The *Qur'an*, *Sunnah*, *Ijma*, and *Qiyas* were the tenets of the *Hanbali* School. Imam Ahmad had a different perspective on the *Qiyas* than the other schools because he would take the *Qiyas* into consideration in an emergency. He upheld *Ijtihad* and agreed with the lone companion's sayings, but he rejected the views of other academics (Taqlid). The *Hanbali* School has the most economic latitude. *Hanbali* became prevalent in Saudi Arabia and Qatar, and Saudi courts follow the *Hanbali Madhhab* (Visser, 2009: 16).

2.2.2 *Maqasid al-Shari'ah* (Objectives of the *Shari'ah*)

The precise translation of *Maqasid al-Shari'ah* is "the objectives of *Shari'ah*." These have been designed to "promote benefits and repel harms" (Zuhayli, n.d.: 92). Nyazee (2005: 235) quoted Al-Shatibi's view on the objectives of *Shari'ah* as to "liberate man from the clutches of his own whims and fancy, so that he may be the servant of Allah by choice, as he is one without it." Al-Shatibi singled out *Maslahah* (welfare) as the overall *Maqasid al-Shari'ah* (Kamali, 2008: 32). The main goals of *Shari'ah*, according to Abdul-Rahman (2003: 1–18), are to educate the populace, create justice, and achieve the wellness (*Maslahah*) of the

populace. *Maqasid al-Shari'ah* refers to upholding the lawgiver's or *Shari'ah's* directives to seek benefits and refrain from damage. (Dusuki and Abozaid, 2007: 143-165).

Imam Ghazali has categorized the objectives of *Shari'ah* into two primary categories; the *Deeni* (related to the life after world) and the *Dunyawi* (related to this material world). The *Dunyawi* purposes are further divided into four types; these are protection of *Nafs* (life), *Nasl* (lineage), *Aql* (intellect), and *Maal* (wealth) (Nyazee, 1998: 165). Al-Shatibi further categorized these *Maqasid* into three broad categories, the *Daruriyyat* (essentials), the *Hajiyyaat* (complements), and the *Tahsiniyyaat* (embellishments) (Al-Qardawi, 1993: 55). The *Daruriyyat* are the basic needs on which people depend to survive, and the removal of which would cause pandemonium since they. Al-Shatibi considered the five essentials mentioned above among the *Daruriyyat*. Al-Qaradawi (1993: 55) and many other scholars have added a sixth essential, namely *Ird* (dignity). Kamali (1998: 2) suggested examples which include encouragement of work and trading activities for smooth flow of living and economic development, and similarly commandment of education is for the interest of intellectual wellbeing, advancement in science, arts and cultures. The *Hajiyyaat* or complementary interests which are required for the betterment of the society, absence of which though may not create chaos, however may lead to hardship and difficulty. For instance, smoking may not result in complete dysfunction but may increase a user's susceptibility to illness and have an impact on others. Anything that accompanies a person's basic requirements falls under the category of complementary interests. It is in accordance with *Shari'ah* and aims to make life easier or eliminate hardships (Kamali, 1989: 190). The *Tahsiniyyaat* or embellishments are the interests that nourish the current values of an individual and lead to a desirable status. Since they want to attain perfection and refinement in people's habits and behaviors, it is therefore a matter of expectation at this level of interest (Kamali, 1989: 233). As an illustration, consider controlling unwarranted desire by living moderately, providing *Sadaqah* in addition to making *Zakah* payments, or offering additional prayers on top of the five required ones.

These agreements can be utilized as a guide for making decisions such that the *Ummah* benefits. In order to defend the *Maslahah* (interest), Abdul-Rahman (2003: 1–18) uses the three classes as an ethical filtering mechanism that may be applied as a way of resolving ethical disputes. They can also serve as the foundation for establishing appropriate priorities for the task that will be started. Additionally, Dusuki and Abozaid (2007: 143-165) suggested that the categories serve as a framework the management may use to address any conflicts brought on by the diverse expectations and interests of the stakeholders in a firm. Therefore,

using these classifications as a checklist can help you make judgments that are in keeping with *Shari'ah's* goals.

The overall aim of the IB system is the obtainment of *Maqasid al-Shari'ah*, and this may be accomplished via promoting justice and economic development (Siddiqi, 2004: 18). In the framework of the IB system, the idea of *Maqasid al-Shari'ah* has been utilized in a number of ways. A system for classifying Islamic financial products has been developed using it (Ahmed, 2011: 149–160).

2.3 Concept of Ownership in Islam

The inherent right of an individual to exercise his or her rights over property that is in his or her possession or under his or her control comes with duties related to the property that was obtained, such as the responsibility to utilize or terminate the individual's right through a transfer. Hibert asserts that ownership entails four rights: “the right to use the object, the right to prevent others from using it, the right to dispose of the thing, and the right to destroy the thing” (Mahajan, 1991: 327). According to Austin, “a right indefinite in point of user, unrestricted in point of disposition, and unlimited in point of duration” (Mahajan, 1991: 325) is what is meant by complete ownership.

In Islamic jurisprudence, *Milkiyah* or *al-Milk* is the word used for ownership, while the word *Maal* is used for property and *Malik* is for the owner. According to Muslim legal scholars, *Milkiyah*, or ownership, is “the relationship that exists between a person and a thing that gives absolute control and right of disposal over it to the exclusion of others.” It was described by some of them as “the relationship between man and property that has been established by the Shari'ah through which he exercises exclusive control and right of disposal over it as long as there is no Shari'ah restriction” (Nyazee, 1998: 237).

According to Islam, the Almighty Allah, who is both the creator and sustainer, is the exclusive proprietor of everything.⁴ On earth, man serves as the Caliph, viceroy, or vicergerent of Allah,⁵ and as a result, the man has some usufruct rights to specific items that were made for the benefit of mankind. However, Allah is the true owner of all of these goods, with humans just acting as trustees. The human being uses these things for his own benefit as well as for the benefit of the society. Over certain things, individual has been allowed to exercise his limited right of ownership, whereas over certain other things right of joint ownership of the community has been recognized. “Thus, subject to the sovereignty of Allah,

⁴ See Al-Qur'an, 2:25, 107; 3:189; 5: 17,18,40,120; 7:158; 9:116; 10:38; 24:42; 44:39; 49:42; 85:43.

⁵ I am making a caliph (human being) on the Earth. (Al-Qur'an, 2: 30).

man has been granted the right to own property. As man is not its ultimate owner, so the mode of its utilization has also been defined by the real owner (i.e. God Almighty). At the termination of this worldly life everyone shall have to account for the resources provided to him in this worldly life and placed at his disposal as vicegerent to Allah” (Khan, 1989: 7). Ownership, in essence is that of God while some rights only, under specific conditions, vest on man so that he may fulfill the purpose of God, that is, the purpose of community by acting as a trustee for those in need (Muslehuddin, 1978: 12). In the words of M. A. Mannan (1980: 91): ‘What Allah has created belongs collectively to the whole human society. Legal ownership by the individual, that is to say, the right of possession, enjoyment and transfer of property is recognized and safeguarded in Islam, but all ownership is subject to the moral obligation that in all wealth, all sections of society and even animals have the right to share.’ Thus, the nature of ownership in Islam is that of trusteeship and subject to the terms of that trust. Human beings are given the authority to take benefit of all things as God’s trustees on earth (Ahmad, 2002: 62-63). These trustees are answerable before Allah for the manner in which they discharge the trust reposed in them (Al-Qur’an, 16: 71).

The individuals’ private ownership is established by their efforts and earnings in Islam. The Holy *Qur’an* says: “Unto men a fortune from that which they have earned, and unto women a fortune from that which they have earned” (Al-Qur’an, 4: 32). It also says “Take from their property charity” (Al-Qur’an, 9:104). The term ‘their property’ shows that there is no contradiction between God’s ultimate ownership and individuals’ private ownership. It clarifies that the individuals can enjoy their right on property alone without any objection or restriction (Iqbal, 1988: 12). Islam allows an individual to acquire property, movable or immovable, through lawful means. *Al-Qur’an* (53:39-41) says: “And that man hath only that for which he maketh effort. And that his effort will be seen. And afterward he will be repaid for it with fullest payment.” Islam incites the believers to do acts of charity, pay *Zakat* and alms, and spend in the way of Allah, which confirms the right of an individual to own Property.⁶ Islam permits the individual to alienate or dispose of his property by any means like sale, exchange, gift, bequeath, etc. Some restrictions are imposed here for the interest of family or of religion or the community. The property rights mentioned above are sacrosanct and no one is permitted to take away these rights. The Prophet (pbuh), in his famous farewell address declared: “O, people! Surely, your blood, your property and your honor are as sacred

⁶ “Spend your wealth for the cause of Allah.....” (Al-Qur’an, 2:195), “O ye who believe ! Spend of that wherewith We have provided you..... “ (Al-Qur’an, 2:254), “O ye who believe ! spend of the good things which ye have earned.....” (Al-Qur’an, 2:267).

and inviolable as the sacred inviolability of this day of yours, this month of yours and this very town of yours. Surely you will soon meet your Lord and you will be held answerable for your actions.” He continued: “their lives and their properties are sacred to us except when they violate the sanctity of the life and property of others, and Allah alone is the Judge of their intentions” (Abdullah, 2007).

Ahmad (2002: 63-64) provides a summary of the Shari'ah regulations governing the behavior of private property owners. As follows:

- a) Islam prohibits the non-use of property. Because it wastes resources and deprives both the owner and the community at large of resources. The state has the power to step in and take ownership away from them in this circumstance. The general guideline is that property should always be utilized lawfully and for the benefit of the owner as well as the larger society. The Qur'anic commandment states that wealth must continue to circulate through all facets of society and must not become the exclusive possession of the wealthy (Al-Qur'an, 59: 7).
- b) Property owners are required to pay *Zakat* in proportion to the amount of real estate they hold.
- c) The use of property must always advance the interests of the society at large and contribute to its prosperity and wellbeing. It is constantly based on societal demands and core principles, and it adapts as conditions change.
- d) Property owners are prohibited from using their land in a way that endangers people or the neighborhood. By enacting legislation, the state should actively work to avoid an excessive concentration of wealth in the hands of a small number of individuals (Mannan, 1980: 91).
- e) It is forbidden to acquire property by any illegal methods, including deception, fraud, and theft. In that circumstance, the state has the authority to take legal action against unethical behavior.
- f) The property's owners are required to make balanced use of it. In other words, they shouldn't utilize it in an ostentatious or careless manner.
- g) Property should only be used to ensure that the owners receive their just rewards. It has been noted that many people really use their property to get unfair particular benefits for themselves while ignoring the larger interests of the society. In Islam, the government must make sure that no property is ever exploited to further an egotistical goal.

- h) The appropriate use of Islamic law of inheritance for the benefit of the living is the last guideline provided by *Shari'ah* about the behavior of private property owners.

Khan (1994: 6) describes the concept ownership in Islam saying that:

“Islam recognizes the right of absolute ownership for God only. Man has been granted the right to benefit from the resources of the earth. He can earn his livelihood through lawful (Halal) means. He is not totally free to consume, save or invest his earnings in any way he likes. There are definite moral limits on his right to earn, consume, save and invest. Within this general framework, Islam accepts the right of a person to sell, bequeath and leave for his heirs the property which he happens to own. Thus the Islamic concept of property limits human freedom to the use of the resources of the earth. It holds everyone accountable to God for the proper use of those resources.”

Islam, thus, allows private ownership in principle with certain limitations. It authorizes the community to enact necessary legislation to organize private ownership. Siddiqi (2004: 18) remarks, ‘The individuals, state and society each have claim on property rights in view of the principle that Islamic state has jurisdiction over individual rights, being embodiment of God’s vicegerency on earth and representatives of people. This jurisdiction is however, functional, depending upon values and objectives cherished by Islam.’ Keeping in view of all these rules it can be said that the uniqueness of the Islamic concept of ownership lies in the ethical and moral injunctions attached to it.

2.4 Distribution of Wealth in Islam

One of the most crucial factors affecting a person's and a society's economic existence is the distribution of wealth. Islam sees a person's means of subsistence as important but not their ultimate goal in life. The Quranic perspective holds that the means of support are only stops along man's trip to his ultimate destination, which will either be the *Zahannam* (hell) or the *Zannat* (paradise) in the hereafter. The primary goal of human existence is to win Allah's favor in order to get *Zannat* in the life after death. All the necessities for this worldly existence are required for humans since one cannot achieve this without traveling through this world. The means of support are Allah's goodwill as long as they are employed as a route leading to the ultimate goal, but as soon as a person gets lost on this pathway and forgets his true aim, the same support becomes a "temptation, or trial."⁷

According to the Holy *Qur'an*, all the wealth in principle is “the property of Allah”. It says: “Give to them from the property of Allah which He has bestowed upon you” (Al-Qur’an, 24:

⁷ “And know that your possessions and your children are but a trial” (Al-Qur’an, 8:28); “Seek the other world by means of what Allah has bestowed upon you” (Al-Qur’an, 28:77).

33). Man can only use this wealth as a trustee. Thus, man's right of property in Islam is not absolute; rather it has certain restrictions enforced by the wealth's true owner and it should be spent following His guidelines and should be abstain spending from which He forbids.⁸ This sets the Islamic perspective on the topic of property apart from the capitalist and socialist perspectives. Since capitalism grants man an unalienable right to his money and socialism completely forbids the concept of private property, Islam rejected both of these ideologies. Islam, which recognizes the right to private property, is positioned halfway between these two extremes, but with restrictions that it should be for the benefits of human being and the society. Everyone will receive their fair share based on the work and resources they contributed. The Holy *Qur'an* says (43: 32): "We have distributed their livelihood among them in worldly life, and have raised some above others in the matter of social degrees, so that some of them may utilize the services of others in their work." From the Islamic point of view, there are two kinds of people who have a right to wealth:

- a) Those who have a primary right that is to say, those who have a right to wealth directly in consequence of participation in the process of production.
- b) Those who have a secondary right, that is to say, those who have not taken a direct part in the process of production, but it has been enjoined upon the producers to make them co-sharers in their wealth (Usmani, 2002a: 7-8).

According to the Holy *Qur'an's* instructions, the Islamic system of wealth sharing appears to have three goals:

- a) The distribution of wealth in Islam would be the means of establishing a natural and practicable system of economy in the world which, without using any compulsion or force, allows every individual to function in a natural way according to his ability, aptitude and choice, so that his activities may be more fruitful, healthy and useful.⁹
- b) It is aimed at enabling everyone to get his due rights. According to the Islamic point of view, not only those who have directly participated in the production of wealth but those to whom Allah has made it obligatory upon others to help, are the legitimate sharers in wealth. Hence, the poor, the needy, the paupers and the destitute have a right to wealth too. Allah has made it obligatory on all those producers of wealth among whom wealth is in the first place distributed that they should pass on to

⁸ "Seek the other world by means of what Allah has bestowed upon you, and do not be negligent about your share in this world. And do good as Allah has done good to you, and do not seek to spread disorder on the earth" (Al-Qur'an, 28:77).

⁹ "We have distributed their livelihood among them in worldly life, and have raised some above others in the matter of social degrees, so that some of them may utilize the services of others in their work" (Al-Qur'an, 32:43).

them some part of their wealth. And the Holy *Qur'an* makes it quite explicit that they only discharging their obligation and the poor and the needy are entitled to a share in wealth as a matter of right. The Holy *Qur'an* says (70: 24-25): “In their wealth there is a known right for those who ask for it and those who have need for it.”

c) Islam views that wealth, instead of becoming concentrated in a few hands, should be allowed to circulate in the society as widely as possible, and so that the distinction between the rich and the poor should be narrowed down as far as is natural and practicable. Islam has not permitted any individual or group to have a monopoly over the primary sources of wealth, but has given every member of the society an equal right to derive benefit from them. The Holy *Qur'an* says (59: 7): “So that this wealth should not become confined only to the rich amongst you” (Usmani, 2002a: 12-13).

The first of these three means of wealth distribution sets Islamic economics apart from Socialism, the third from Capitalism, and the second from both at once.

2.5 Zakat

One of Islam's five pillars is *Zakat*. The Arabic term *Zakat* means purity, cleanness, growth and increase and the idea is that *Zakat* purifies one's wealth as well as one's heart by donating some of one's fortune to the underprivileged. It also increases the growth of wealth by its distribution. Giving *Zakah* means “giving a specified percentage on certain properties to certain classes of needy people” (Khair, Gupta and Shanmugan, 2008). In other terms, it's a portion of extra funds that are given to the underprivileged. It is a required tax as well as a system for economic transfer to make sure that every Muslim is guaranteed a decent quality of life. One-fourth (2.5%) of a Muslim's annual income in cash or kind from all types of assessed wealth surpassing *Nisab* (a threshold level) is the commonly acknowledged minimum amount of *Zakat*. It is levied from adult, sane, free Muslims on productive assets that are held for at least one lunar year, above *Nisab*. *Zakat* is generally imposed on:

- gold and silver, in any form; not on other metals
- financial assets such as cash, banknotes and stocks
- merchandise for business
- livestock
- income derived from rental business (Visser, 2009: 27).

Personal needs are not taxable. These include, among other things, clothing, houses, furniture, utensils, cars, etc. Machinery, land, fixtures and fittings, buildings and so on are exempt from *Zakat*, as only property intended for trade is included, and one is allowed to

subtract these from the value of the shares. For shares held in a company, *Zakat* is based upon the current market value. As for newer assets, banknotes, for instance, are included on the basis of *Qiyas*, as are bank deposits (Sadeq, 2002: 29).

The Holy *Qur'an* specifies a number of recipients for the *Zakat*, including the needy and poor, indigent debtors who are unable to pay their debt, people who have just converted to Islam and are in need of basic necessities and would benefit from Muslim encouragement, volunteers who have devoted their time and effort to promoting Islam, and those designated to collect *Zakat*. As the Holy *Qur'an* says (9:60): “In fact the *Sadaqat* (*Zakat*) collection is for the poor, the helpless, those employed to administer the funds, those whose hearts need to be won over (to the truth), ransoming the captives, helping the destitute, in the Way of Allah and for the wayfarer. That is a duty enjoined by Allah; and Allah is All-Knowledgeable, Wise.” *Zakat* could not be used for payments to descendants of the Prophet Muhammad (pbuh), to parents, grandparents, children, grandchildren or one’s husband or wife.

Islam also mandates that Islamic corporations (such as Islamic banks) pay *Zakat* on behalf of owners and depositors once a year in order to advance social justice (Gambling and Karim, 1991). The *Zakat* system reduces the wealth gap, decentralizes economic activity, and so assures wealth transfer in accordance with Islamic social justice.

2.6 Principles of Islamic Economics and Banking

Islamic economics is built on the ideas of economic prosperity, universal brotherhood and justice, equitable income distribution, and individual freedom in the framework of social welfare (Chapra, 1979: 6). The fundamentals of Islamic economics work to create a society where everyone is committed to justice, equality, and freedom. Islamic economics discourages some types of transaction and activity while encouraging others that fall within the boundaries of permissibility in order to achieve these goals:

2.6.1 Economic Prohibitions in Islam

The Holy Qur'anic verse (2: 275) “Allah has permitted trade; that is because they say trade is just like interest. But Allah has permitted trade and has forbidden interest” accepts the right to conduct business and make financial transactions, unless they are expressly prohibited by *Shari'ah*, such as paying interest or *Riba*. The most notable restrictions on business dealings in the Islamic framework are those of *Riba*, *Gharar*, *Qimar*, or *Maisir*. These restrictions are all founded on the principles of legitimacy. (Jabbar, 2009: 2).

2.6.1.1 Prohibition of *Riba* (Usury/Interest)

The IB systems' primary trait is their ban of *Riba*. According to *Shari'ah* terminology, the word *Riba*, which means "excess," "increase," or "addition," signifies any excessive remuneration without sufficient consideration. (Usmani, 2002a: 7-41). Muslim legal scholars translate the phrase as interest or usury (Khalil, 2006: 54). According to El-Sharif (1990: 33), *Riba* is the rise in wealth over the initial amount without trade. It refers to any illegitimate capital growth, including those resulting from sales or loans (Greuning and Iqbal, 2008: 7). *Riba* might likewise stand for any predefined or fixed return in a financial transaction, claim Aggarwal and Yousef (2000: 93-120). *Riba*, for instance, is a loan with the requirement that the borrower repay the loan to the lender with interest. The *Hadith* in which the Prophet (pbuh) stated might be used to deduce the most exact and complete definition of what constitutes *Riba* from the standpoint of *Shari'ah*: "Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates and salt for salt, like for like, equal for equal, and hand-to-hand. If the commodities differ, then you (may) sell as you wish provided that (the exchange) is hand-to-hand" (Al-Hajjaj, 1999: 4063). From the perspective of Islamic legal doctrine, the *Hadith* therefore adds two components of *Riba*, namely deferral in the time of exchange and distinct counter values in the trade of two comparable *Ribawi* or usurious things (the commodities listed in the Hadith). According to the *Shari'ah*, *Riba* is classified as *Riba al-Nasiah* for delaying the period of exchange and *Riba al-Fadl* for having too much of the counter values. Many *Shari'ah* scholars concur that all goods utilized as a form of commerce should be regarded as *Ribawi* products in light of the aforementioned Hadith (Mirza and Baydoun, 2000).

In several passages of the Holy *Qur'an* and the Prophet's (pbuh) sayings, it is expressly forbidden to accept or pay *Riba*. The Holy *Qur'an* says: "Ye, who believe, fear God and leave up what remains of your demand for *Riba* if you are indeed believers. If you do not do it, take a notice of war from God and his apostle, but if you turn back, you shall have your principal; deal not unjustly and not be dealt with unjustly" (Al-Qur'an, 2:278-279). "O, you who believe, devour not *Riba*, doubling and redoubling, and keep your duty with Allah, that you may be successful" (Al-Qur'an, 3:129). "Whatever you give for usury, for increase through the property of people, will not increase with Allah. But what you give in *Zakah*, desiring the countenance of Allah- those are the multipliers" (Al-Qur'an, 30:39). "Those who take *Riba* will not stand (on the day of resurrection) except as one stands who is being beaten by Satan into insanity. That is because they say, 'Trade is (just) like interest.' But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his

Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to (dealing in interest or usury) - those are the companions of the Fire; they will abide eternally therein" (Al-Qur'an, 2:275). "Allah deprives *Riba* of all blessing but blesses charity" (Al-Qur'an, 2:276). "Oh believers, fear Allah, and give up what is still due to you from *Riba* if you are true believers" (Al-Qur'an, 2:278). In a same vein, the Prophet (pbuh) has made various statements that forbid *Riba*. The Prophet (pbuh) commanded Muslims to abstain from all sums derived from usury and forbade *Riba* in all its forms, including paying, accepting, charging, and even serving as a witness (Yahia, 2010: 41). The Prophet (pbuh) pronounced a curse on those who receive and pay interest, as well as those who record it and those who saw the transaction, saying: "They are all alike in guilt" (Al-Hajjaj, 1999: 4093). In his final sermon delivered on his final pilgrimage, the Prophet (pbuh) said that "Every type of *Riba* is annulled; capital is truly yours which you shall enjoy. Don't wrong anyone, and they won't wrong you. Interest is absolutely banned according to the commandments that God has revealed. I begin by canceling the whole amount of interest that people owe Abbas (Abu-Dawood, 1999: 3334). The Prophet (pbuh) said, "Avoid the seven great destructive sins." When that happened, the populace questioned, "O Allah's Apostle, what are they?" To gobble up *Riba* was one of the worst seven things he listed. 6857) (Al-Bukhari, 1999).

Despite the fact that some scholars claim that *Riba* is usury and the majority believe it to be interest (Chong and Liu, 2009: 128), all Muslim jurists agree that *Riba* is forbidden, whether it is paid or received and whether it is classified as interest or usury (Khalil, 2006: 53). Its prohibition is primarily intended to stop injustice brought on by exploitation. *Riba* involves a wealth transfer from the poor to the affluent, discourages individuals from engaging in productive activity, promotes a tendency for wealth growth to be concentrated in a small number of hands, and results in unjust enrichment (Visser, 2009: 38). There are two varieties of *Riba*, including *Riba al-Nasihah* and *Riba al-Fadl*:

a) *Riba al-Nasihah* (Excess of Delay): According to Muslim jurists, *Riba al-Nasihah* refers to loans that build credit over the principle and provide the lender with a defined increment after a set length of time (Rosly, 2005; Nawawi, 1999). This includes any loans or obligations in which the creditor gains more, as well as the imposition of excessive late payment penalties (Venardos, 2005: 73). It is referred to be excess when a lender gets preset interest in addition to the principal (Ra's ul-Maal) (Usmani, 2002a: 41). In addition to interest, *Riba al-Nasihah* also refers to the premium, which is given to the lender as a condition of the loan in exchange for his patience and is technically the same thing (Usmani, 2002a: 43). It is a form

of usury that develops when a trade is delayed, whether or not one of the countervalues is excessive. The giving and taking of any extra amount in exchange for a loan at an agreed-upon rate is included in interest, regardless of whether the rate is high or low, according to the definitions above. In modern times, money lending is characterized as interest-based lending, compensation for lending, selling money for profit, or a planned payment for a loan that may be a loan of money or a loan of products included within the definition of *Riba al-Nasiah*. (Venardos, 2005: 73). An illustration of *Riba al-Nasiah* is when a creditor extends a loan to a debtor for a predetermined time period at a predetermined rate of interest that is to be paid monthly; ordinarily, this interest happens through interest-bearing loans in typical financial transactions (Jabbar, 2009: 2). This is the authentic and fundamental form of *Riba*. The Holy *Qur'an* explicitly prohibited this type of *Riba* and there has never been a dispute among the Muslim jurists.

b) *Riba al-Fadl (Excess of Surplus):* This happens when the debtor pays the creditor an addition in return for goods of the same sort or when low-quality goods are exchanged for goods of higher grade (Ayub, 2007: 53). According to Usmani (2002a: 41), *Riba al-Fadl* is defined as extra compensation received without receiving anything in return for the sale of products. According to Usmani (2002a: 45), it truly refers to the surplus that is acquired in exchange for certain homogeneous goods and experienced during their hand-to-hand acquisition and sale. According to Nawawi (1999), *Riba al-Fadl* is defined as *Riba* in excess of the amount of the commodity that the lender has advanced to the borrower. *Riba al-Fadl* was forbidden by the Prophet (pbuh) when he said: “Gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, equal for equal, and hand to hand; if the commodities differ, then you may sell as you wish” (Al-Hajjaj, 1999: 4063). This Hadith categorically forbade *Riba al-Fadl*, particularly for the goods listed above as well as salt for salt. With the exception of the fact that *Riba al-Nasiah* pertains to loan transactions and *Riba al-Fadl* relates to exchange transactions, there isn't much of a distinction between the two terms.

The *Hadith* mentioned six commodities namely: Gold, Silver, Dates, Wheat, Salt and Barley, which are known in *Fiqh* terminology as *Amwal-i-Ribawi* or usurious items. These may only be purchased and sold immediately in identical amounts. *Riba al-Fadl* will be committed if these goods are sold inequitably or at a later date. Majority of Islamic scholars opined that the commodities with same characteristics or same cause (*Illat*) which are common amongst these six items should also be added with these six. Imam Abu Hanifa viewed only two

common characteristics namely; weight and volume. Therefore, the norms of *Riba al-Fadl* will apply to commodities that have weight or volume and are being traded with another commodity of the same kind. The two shared qualities, according to Imam Shafi'i, are being a medium of trade and edible. As a result, *Riba al-Fadl* will be applicable to anything consumable or with the inherent capacity to serve as currency. The two qualities were named by Imam Malik as being eatable and preservable. Imam Ahmad Bin Hanbal has been linked to three citations, the first of which supports Imam Abu Hanifa's position, the second of which supports Imam Shafai's opinion, and the third of which simultaneously mentions edible, weight, and volume (Usmani, 2002a: 47–49).

Following a thorough investigation, Islamic scholars have concluded that if a commodity possesses both the qualities of weight and medium of exchange, the following types of transactions are prohibited when the same goods are being exchanged: a deferred sale of goods and the sale of different amounts of the same goods (Usmani, 2002a: 47–49).

2.6.1.1.1 Differences between *Riba* and Profit

Riba is categorically forbidden in Islam, yet commercial profits are permitted. Though profit is occasionally used to explain or compare *Riba*, there are important distinctions between the two from an Islamic perspective. The key distinctions between profit and *Riba* are briefly illustrated in the following table (Ahmad, 2012: 5):

Table 2.6.1.1.1: Differences between *Riba* and Profit

<i>Riba</i>	Profit
<i>Riba</i> is always positive since it is pre-fixed—a guarantee made in advance. It is always connected to the length and size of the loan. However, <i>Riba</i> can, at best, be nil or extremely low.	Profit is post-determined, thus it isn't known how much it will be until the action is over. However, profit could be zero, positive, or even negative.
<i>Riba</i> , whether it refers to consumer loans or production loans, is by definition an increase in a loan or debt that "pays money for the use (rent) of money."	Profit is the acknowledged compensation for capital when capital is used solely in legal productive activity, according to definition. It symbolizes the work and dangers a capital supplier in an organization has taken on.
The <i>Riba</i> , which the borrower must pay the lender along with the main amount as a requirement for the loan, is the premium.	Profit is the difference between production value and production cost.
Lending on interest does not increase value	Only in cases when the risk of loss has been

since <i>Riba</i> is the Arabic word for "surplus value without counterpart" or "easily obtained profit." Only the temporary use of money is transferred from one person to another.	accepted or the effort has been made, can profit be claimed.
When money is 'charged', it is imposed, positive and defined and the result is <i>Riba</i> .	When money is used in trading, it is uncertain and result is profit.

2.6.1.2 Prohibition of *Gharar* (Uncertainty)

Gharar is another element that is to be avoided in transaction. It literally means 'stake' or 'chance' and 'hazard' (Ayub, 2007: 57-58). According to Kir, Gupta, and Shanmugan (2008) and Rosly (2005), *Gharar* refers to the uncertainty, hazard, chance, or risk brought on by a contract's or an exchange's lack of clarity on the subject matter or the pricing. Similar to the selling of birds or fish before they are captured, it is a sort of transaction that includes uncertainty (Doi, 1984: 359). According to Mustafa Al-Zarqa (El-Gamal, 2006: 59), *Gharar* is "the sale of probable items whose existence or characteristics are not certain, the risky nature of which makes the transaction akin to gambling." *Gharar* is the selling of anything that is not physically present, something whose consequences are unknown, or a transaction that involves risks that one is unsure will materialize (Iqbal and Mirakhor, 1999: 381). Examples include the sale of fish in water or birds in the air. According to Kir, Gupta, and Shanmugan (2008) and Rosly (2005), *Gharar* refers to uncertainty or contingency in the fundamental components of any contract, such as buyer and seller, price, the item being purchased, delivery, and quality. A contract is defective if there is any degree of doubt, ambiguity, or non-disclosure on a subject matter (Jabbar, 2009: 3). Islamic jurists have said categorically that the presence of *Gharar* renders any transaction unlawful (Rosly, 2005). *Gharar* sales and fraudulent sales were forbidden by the Prophet (pbuh) (Doi, 1984: 359). In addition, Muhammad (pbuh) prohibited selling items that are absent at the moment of a contract (Kamali, 1989: 374–376. He said: "He who buys food grain should not sell it until he has taken possession of it" (Al-Hajjaj, 1999: 3640). Gambling, the purchase of unborn animals, and the selling of assets before taking control are a few instances of *Gharar* transactions that are forbidden (Ayub, 2007: 60-61). Transactions using *Gharar* are unquestionably extremely dangerous and may have unfavorable outcomes. The contracts must be devoid of excessive ambiguity, and the commodity must be specified, deliverable, well understood by the contracting parties, and decided (Ayub, 2007: 60–61) in order to prevent *Gharar*.

2.6.1.3 Prohibition of *Maisir/ Qimar* (Gambling/Games of Chance)

For gambling and chance-based games, the Arabic words *Maisir* and *Qimar* are employed. Gambling is defined as the wagering of cash or other assets obtained via games of chance (Jabbar, 2009: 4). The moral code governing Islamic finance forbids it (Schoon, 2009: 133). The Holy *Qur'an* says (2:219): "They ask you about wine and gambling. Say, in them is great sin and yet, some benefit for people. But their sin is greater than their benefit." It expressly forbids winnings from gambling. According to this rule, any contract that has a *Qimar* or *Maisir* element is null and invalid because, in Jabbar's words (2009: 4), "it involves speculation and an attempt to amass wealth without putting (in) any productive effort."

2.6.1.4 Prohibition of Dealing in Certain Forbidden Commodities

In Islamic *Shari'ah*, there are some commodities such as alcoholic product, drugs and pork that are forbidden. Thus, people should not use or exchange these items that are banned by the *Shari'ah*. Lewis and Algaoud (2001) point out that people, individuals, institutions cannot trade, finance, enterprises that include or deal in forbidden items. The goal of *Shari'ah* in this area is to encourage ethical investing that doesn't negatively impact people or society.

2.6.2 Ethics for Acceptable Economic Forms in Islam

The general *Shari'ah* rule for *Ibadah* (worship activities) is that anything that the *Shari'ah* does not validate is considered to be forbidden. In contrast, *Mua'malat* (social activities) follows the rule that everything is permitted unless it is specifically prohibited by the *Shari'ah* (Kamali, 1989: 20). All Islamic commercial legislation should be approved on the basis of permissibility, according to Kamali (2000: 69–70), as long as they do not conflict with the fundamentals of *Shari'ah*. In addition to the primary prohibitions mentioned above, the *Shari'ah* has established a set of guidelines for business dealings and money transfers. Valid contracts must be based on principles of fairness, cooperation, free agreement, honesty on the part of the parties, avoidance of fraud, distortion of the facts, and denial of exploitation (Ayub, 2007: 64). Islam established a set of moral standards that must be followed for all forms of commerce to be sanctioned by the *Shari'ah*. Below, a few key standards are described:

2.6.2.1 Trade-based Activities

Islam's economic practices involve both the implementation of trade-based activities and the prohibition of *Riba* as well. To avoid *Riba*, one might do commerce through trade. The Holy *Qur'an* says (2:275): “Allah has permitted trading and forbidden *Riba*.” Trading activities are not only permitted in Islam but also encouraged. The Prophet (pbuh) said: “The trustworthy, honest Muslim merchant will be with the Prophets, the honest men, and martyrs on the Day of Resurrection” (Ibn-Majah, 1999: 2139). In essence, Islam permits commerce since it presupposes gaining profits by comparable counter-value (*Iwad*), which entails risk, work, effort, and liability; in contrast, acquiring profits through a loan (i.e., *Riba*) rejects the notion of risk-sharing and risk-taking (Rosly, 2005). A variable return on capital provided for business purposes is permissible under *Shari'ah*, provided that the profits to be shared among the parties to the contract are agreed upon in advance and that losses, if any, are shared in strict proportion to the capital contributed by each party (Ahmad, 2000b: 83–96). A predetermined return on an amount of money (i.e., interest) is prohibited. Through different underlying *Shari'ah* principles, trade-based activities are employed to substitute interest-based activities through the operations of Islamic banks.

2.6.2.2 Profit and Loss Sharing

Islam forbids financial gain unless the recipient is exposed to the risk of prospective loss (Rosly, 2005). A structure based on profit-loss sharing is recommended as the best method of finance by the *Shari'ah*. According to the financing model, the entrepreneur (i.e., the borrower) and capital provider (i.e., the lender) should jointly share the business's risks via profit and loss (Pramanik, 1993). Profit should be unknown, fluctuating, and may even be negative rather than preset and fixed (Qureshi, 1991: 11). Risk, work, effort, and liability should also be included (Rosly, 2005). According to Islamic teachings, money must be spent productively and incentives for wealth should come through agreements on profit-loss sharing, which implies risk-sharing (Anwar and Millar, 2008: 3). The owner of capital who invests in a business by giving the entrepreneur credit on a profit-loss-sharing basis is anticipated to be more concerned with how his funds are being used than if he were to lend them at fixed interest rates (Karsten, 1983: 32–50). Furthermore, compared to an interest-based system, profit-loss sharing may result in a more effective and optimum distribution of resources (Siddiqui, 2001: 10). Additionally, this framework is anticipated to greatly lessen the unequal distribution of income and wealth and is anticipated to somewhat manage inflation (Pramanik, 1993).

2.6.2.3 Halal Instruments

Certain items are prohibited from consumption or usage according to Islamic *Shari'ah*. These prohibited products should not be used by the populace in trade, commerce, entrepreneurship, financing, manufacturing, or exchange. Islam forbids, among other things, the selling of alcohol, gambling, casino games, narcotics, the manufacture of pork, and pornographic material. According to verses 5:90 and 91 of the Holy Qur'an, "O you who have believed, indeed, intoxicants, gambling, [sacrificing on] stone alters [to] other than Allah], and divining arrows are but defilement from the work of Satan, so avoid it that you may be successful." *Shari'ah* wants to encourage ethical investing.

2.6.2.4 Welfare Approach

Islam requires that all economic transactions be conducted fairly and honestly, that commerce be done in a loyal and useful manner, and that work be done with sincere efforts (Haron, 2000: 55–58). Al-Nawawi, 1991: 7 quotes the Prophet (pbuh) as saying, "Religion (Din) is sincerity (Nasiha) (corrective advice, wise counsel, and sincere conduct)." According to Allah, I am a third partner in a relationship between two men unless one of them does a dishonest deed toward the other. In such case, I resign from the partnership (Abu-Dawood, 1999: 3383). Islam's ethical principles should guide all commercial endeavors, and any investments in illegal enterprises are forbidden (Ali, 2000: 62–68). Any commercial operations that try to make a profit by stockpiling, profiteering, short-weighting, or concealing product flaws are forbidden. The Prophet (pbuh) said: "No one hoards but the traitors (i.e. the sinners)." He further said: "The importer [of an essential commodity] into the town will be fed [by Allah], and the hoarder will have [Allah's] curse upon him" (Al-Hajjaj, 1999: 1605). Profit maximization in Islamic company is only possible within the bounds of moral and ethical behavior. As a result, both the operation of IB and Islamic economic activities should be focused on achieving the socio-economic goals of an Islamic society, namely the welfare of the Muslim community and of all people (Ahmad, 1991: 155–171).

2.6.2.5 Justice and Fair Dealing

Islam places a strong emphasis on the need of justice and treating everyone fairly in all of its economic endeavors. The Holy *Qur'an* states (5:8): "...And let not the enmity and hatred of others make you avoid justice. Be just; that is nearest to piety." "You who believe stand steadfast before Allah as witness for (truth and) fair play" (Al-Qur'an, 4:135). "And eat up not one another's property unjustly (in any illegal way, e.g. stealing, robbing, deceiving, etc.)

nor give bribery to the rulers that you may knowingly eat up a part of the property of others sinfully” (Al-Qur’an, 2:188). “Then make peace between them with justice, and be fair: for Allah loves those who are fair and just.” (Al-Qur’an, 49:9). “O Believers! Whenever you lend money for a particular period, write and someone among you must write it justly. And the one who can write must not refuse” (Al-Qur’an, 2:282). The aforementioned passages make it very obvious that whoever believes in Allah must treat everyone justly and behave honorably. "The Islamic financial system cannot be introduced simply by abolishing Riba, but only by adopting the Islamic principles of social justice and introducing laws, practices, procedures, and instruments that aid in the maintenance, dispensation, and enforcement of justice, equity, and fairness" (Haron, 1997: 11). Muslims must promote justice and morality as guiding principles in all of their commercial activities, according to all revelations (Haron, 2000: 55–58). By outlawing all sources of illegitimate transactions, justice can be attained (Nawawi, 1999). unjustifiable transactions will lead to unjustifiable methods of making money and accumulating riches. Additionally, businesses should treat the other party fairly and forbid unfair practices like tyranny, dishonesty, and fraud.

2.6.2.6 Honesty and Gentleness

Among the fundamental teachings of Islam are honesty, truthfulness, and consideration for others. The Holy *Qur’an* states (17:35): “And measure full when you measure. And weigh with a perfectly right balance. This is better and its end is good.” The Prophet (pbuh) said: “Whosoever sells a defective product without disclosing its defect to the purchaser, shall earn the permanent anger of Almighty Allah and the angels continuously curse such a person” (Ibn-Majah, 1999: 2247). One of the worst crimes in Islam is lying, along with deceiving people. The Holy *Qur’an* says (83:1-4): “Woe to those that deal in fraud. Those who, when they have to receive by measure from men, exact full measure. But, when they have to give by measure or weight to men, give less than due. Do they not think that they will be called to account?” In order to guarantee that the seller offers the thing in accordance with its known and obvious features and charges the fair price, it is also forbidden to misappropriate or swindle others while specifying the goods and their pricing. A good businessman should be kind to others and refrain from being rude. As quoted by the Prophet (pbuh), "May Allah have mercy on a person who is gentle when he sells, when he buys, and when he demands his rights" (Ayub, 2007: 66).

2.6.2.7 Free-Marketing and Fair Pricing

According to Islamic economic beliefs, only a free market with justly and fairly established pricing is acceptable. Both the buyer and the seller should have complete freedom. According to the Prophet (pbuh), "The seller and the buyer have the right to keep or return the goods as long as they have not parted or till they part; and if both the parties spoke the truth and described the defects and qualities (of the goods), then they would be blessed in their transaction, and if they told lies or hid something, then the blessings of their transaction would be lost" (Al-Bukhari, 1999: 2079). To prevent fraud against either the buyer or the seller, the price of the product should be reasonable. A person will ultimately cause problems for others if they sell their products for less than their actual cost, which might lead to issues with the commodity's supply. For this reason, Caliph Umar (R) commanded a dealer who was offering a price below the going rate to either raise it to the going rate or quit the market. Only legitimate enterprises are supported by Islam (Ayub, 2007: 69).

2.6.2.8 Prohibition of *Najash* and *Khalabah*

Without intending to purchase the product, *Najash* is raising the price. A *Najish* (someone who acts as an agent to increase the price in an auction) is a cursed taker of *Riba*, according to the Prophet (pbuh) (Ayub, 2007: 66). Additionally, he declared: "God has the right to cast him face down in Hell if anyone interferes in the market to raise prices" (Ayub, 2007: 66). In accordance with the Prophet (pbuh), "It is forbidden for a person to offer to buy anything for which another person has already made an offer" (Kamali, 1989: 427). The Prophet (pbuh) said: "Do not go in advance to meet *Rukb'an* (grain dealers coming to the town to sell goods) to buy their goods, nor should one of you sell over the head of another nor increase the price to excite another to buy *Najash*" (Ayub, 2007: 67). In addition to being against Islamic law, this activity is immoral, damaging to society, and creates market disruptions. *Khalabah* is Arabic for deceit, as in deceiving unknowing customers by exaggerating a product's quality. Islam forbids it as well. Ayub, (2007: 66) quotes the Prophet (pbuh) as saying, "Refrain from swearing much while selling or doing business, for it may increase business (in the beginning) but brings destruction (ultimately)" Thus, Islam forbids the use of deceptive advertising.

2.6.2.9 Disclosure, Transparency and Facilitating Inspection

The market depends heavily on information. The customer must be given adequate accurate information about the product. Information that is untrue, deceptive, or misleading is prohibited. The customer must be given sufficient time to inspect the product. Deceiving a

Mustarsal (an unaware newcomer to the market) is *riba*, according to the Prophet (pbuh) (Suyuti, n.d.: 205). The disadvantaged party has the right to cancel the contract if any important information is withheld. This is regarded as a contract breach. The Prophet (pbuh) once saw a guy selling grain as he walked by. "How are you selling it?" he questioned. Then the guy told him. The Prophet (pbuh) then reached into the grain pile and discovered that it was damp within. Following that, he declared: "He who deceives other people is not one of us" (Ayub, 2007: 68). As a result, according to Islamic ethics, the client must be informed of all facts pertinent to the commodity's worth. Thus, among the ethical foundations of the Islamic economic system are the revelation of accurate information, transparency, and enabling the client to inspect the goods.

2.6.2.10 Fulfilling the Covenants and Paying Liabilities

"And uphold the pact", the Holy Qur'an states (17: 34). "Lo! The covenant will be brought up". One of the characteristics of hypocrites, according to the Prophet (pbuh), is that they break their pledges. In addition, he stated that the worst evil was for someone to pass away in debt with nothing left to use as collateral (Malik-ibn-Anas, 1999: 1494). Islamic business principles therefore mandate that the culpable parties perform their obligations in accordance with the contract. The promisee has the right to sue the promisor for the actual damages he has suffered because they failed to keep their end of the bargain.

2.6.2.11 Mutual Cooperation and Removal of Hardship

Islam places a high value on unity and mutual collaboration. Islam encourages helping others and forbids acting in a detrimental way against them. As stated in the Holy Qur'an (5: 2), "Assist one another in practicing righteousness. Don't aid one another in immorality or wrongdoing, and uphold your obligations to Allah. According to the Prophet (pbuh), "the believers are like one human body in their love, mercy, and sympathy for one another; if one of its organs suffers and complains, the entire body responds with insomnia and fever" (Al-Hajjaj, 1999: 2586). Additionally, he stated: "Whoever eases a believer's burden from this life's difficulties, Allah will also ease his burden from the difficulties of the Day of Judgment; likewise, whoever makes a difficult situation simple, Allah will make things simple for him in this life and the next; and likewise, whoever covers a Muslim, Allah will cover him in this life and the next." And Allah helps His servant in proportion to (or in the same measure that) the servant helps his brother (Ibn-Majah, 1999: 4303). Al-Hajjaj, (1999: 1563) quotes the Prophet (pbuh) as saying, "If anyone would like Allah to save him from the tribulations of the

Day of Resurrection, he should give more time to his debtor who is short of money, or remit his debt entirely." "May Allah's mercy be on him who is tolerant in his buying, selling, and demanding repayment of his money [or debts]," he said (Al-Bukhari, 1999: 2076). Thus, among the ethical precepts of Islam are compassion for the vulnerable, alleviation of suffering, and mutual collaboration.

2.7. Concept of Money and Capital in Islam

Islam views money as a means of trade and a store of value rather than a commodity because it is unable to serve any purpose on its own. Money has inherent worth; it only has value when it is traded for a physical good or when used to pay for a service. In order to create "surplus value by itself," money cannot be sold or rented out (Presley and Sessions, 1994: 586). Islam prohibits the sale or purchase of money on credit, therefore it can only be used to pay for products and services. Only legitimate commerce and investment, where partners split the risks and profits, can produce it. Only when money is coupled with other manufacturing elements does it become capital. The opportunity cost of money is zero (Ayub, 2002: 12). A creditor is not permitted to make a loan as payment for the credit period. The concept of temporal value for money is completely rejected by Islam (Usmani, 2002b: xvi). The Prophet (pbuh) not only prohibited interest on loan but also banned exchange of money and some other valuable items for an unequal quantity and on deferred payment basis if the commodity or currency was the same (Khan, 1989: 7). Islam's view on money may be summed up as follows: Money has no intrinsic worth and merely serves as a means of trade; all units of the same denomination are completely equal to one another; and commodity sales and purchases can only be carried out in relation to designated and particular commodities. According to Mohsin (2009) and Ahmad (1983), money has a standard of value that quantifies the relative value of various products and services.

Islam acknowledges the importance of capital in the industrial process. Islam merely acknowledges its contribution to the nation's wealth, which is calculated as a variable percentage of profits rather than a set amount of capital. Since labor produces more when capital is present than when it is absent, Islam views capital as productive. Profits, once more, are the outcome of production investments. An individual is motivated by profit to save and invest money. As a result, compared to the current understanding of capital, the Islamic concept of capital appears to be more complete, practical, and moral. It is practical because production realities, which are meant to be movable in the dynamic environment of growth, are tied to the productivity of capital, which is susceptible to change. It is comprehensive

because it considers all factors, including money, population, innovations, customs, tastes, living standards, and time lag, among others. It is ethical because in an Islamic community, the variable share of capital must be reasonable, equal, and free from exploitation of other producers who contribute to the development of national wealth. (Mannan, 1980: 165).

2.8 Trust and Accountability in Islam

An essential component of a social structure is trust. Having a decent amount of trust on other people's word is quite effective; it saves a lot of hassle (Arrow, 1974: 23). According to the Islamic viewpoint, man is accountable for the assets Allah has given to him as His *khalifah* (vicegerent). Humans are trustees for the management of resources and are expected to act in accordance with Islamic ethical principles and the Shari'ah, particularly with regard to the principles of Halal and Haram, brotherhood, socioeconomic justice, equitable distribution of wealth and income, and promoting the common good (Siddiqi, 2006). Stakeholders in IB operations have faith that Islamic banks would use resources in conformity with Shari'ah standards. It must ensure that every facet of the business' administration, operations, and offerings complies with *Shari'ah* (Errico and Farahbaksh, 1998: 1-32). The stakeholders in the bank view their expectations of the management as a sort of trust. As a result, in the framework of IB, trust is regarded as a divine sign (Triuwono, 2004).

Accountability is a notion that results from the obligations handed to humans. Islam's fundamental tenet is that everyone will answer to Allah for all of their acts on the Day of Judgment. The Holy *Qur'an* says (3: 30): "On the Day when every person will be confronted with all the good he has done, and all the evil he has done, he will wish that there were a great distance between him and his evil." "Then he who is given his records in his right hand soon will his account be taken by easy reckoning" (Al-Qur'an, 84: 7-8). It is acknowledged that all people are answerable to Allah for their actions, and that Allah will either reward or punish people according to their good or wicked activities. Humans are therefore responsible for the good or ill uses of resources they make for themselves or for society. In contrast to the western economic system, this idea of accountability to Allah symbolizes a distinct aspect of accountability that goes beyond personal and community responsibility (Haniffa, Hudaib, and Mirza, 2004: 1-27). Due to its reach into society, it implies a wider range of accountability. Thus, in Islam, accountability extends beyond the immediate stakeholders to include the society as well as the Almighty Allah. The world, environment, riches, and all living things are all under human control, and this duty should be grounded on fairness and trust (Abu-Sulayman, 1993). If IB's management violates the trust placed in them, the depositors will

hold them liable both in this life and the next (Samad and Hassan, 1999: 1–14). In order to enhance corporate performance and build long-lasting confidence among shareholders, stakeholders, society, and Allah, accountability in Islamic banks must be properly controlled (Triyuwono, 2004).

2.9 Summary

The *Shari'ah* is an all-inclusive and all-encompassing framework for humanity, including both *Ibadah* (worship) and *Mua'malat* (human relations) issues. The *Qur'an*, *Sunnah*, *Ijma*, *Qiyas*, and other minor sources of Islamic jurisprudence are among the main sources of *Shari'ah*. *Ijtihad*, or legal reasoning based on the interpretation of the revealed law (i.e., the Qur'an and Sunnah), is permitted under *Shari'ah*. Four schools of Islamic law known as *Madhab* emerged as a result of the evolution of Islamic law based on these sources. Following the guidelines of *Shari'ah*, the objectives of *Shari'ah*, or *Maqasid al-Shari'ah*, are to build social justice, realize welfare, seek advantages from and eliminate harms to individuals. IB is driven by the same goal since social welfare is the ultimate goal of *Shari'ah*. Islam's core economic principles, such as property ownership, wealth distribution, and *Zakat*, serve as the foundation of the Islamic economy. Because man is God's caliph or vicegerent on earth and because Islam believes that Allah, the Almighty God, is the exclusive proprietor of everything, man is granted specific usufruct rights with regard to certain objects that have been made for his or her benefit. As a result, the person is acting as a trustee for these items. Therefore, all of the riches should be used in accordance with the Almighty Allah's divine directives for the benefit of society as a whole. Every Muslim who has a specific amount of excess income that is being allocated to the needy and the poor is required to pay *Zakah*. In addition to these, Islam provides a variety of ethical guidelines for engaging in economic activity, some of which are mandatory and others of which are not. The fundamental principle of IB is the prohibition of *Riba* (interest), while other key principles include the prohibition of uncertainty, gambling, and prohibited goods. Islamic instructions promote trade-based activities, sharing in profit and loss, dealing in a just and fair manner, marketing freely, pricing fairly through very transparent ways of covenants, without any secrets, harms and hards. Fundamentally, Islam has a distinct view on money and property. According to Islam, every person is answerable to the All-Powerful Allah for all of their acts, whether good or bad, in the hereafter. For good actions they will be rewarded, and for bad deeds they will be punished. Islam's distinctive view of responsibility encourages people to take responsibility and accountability for themselves. As a result, when managing resources,

humans are expected to be fair to one another and to society as a whole. The cosmos, environment, riches, and all living things are all under the control of mankind, and this obligation should be founded on fairness and trust. A bank could not legitimately claim to be an Islamic bank if it did not follow these guidelines and principles. Therefore, the IB business, which is currently quickly growing around the world, should keep all these principles and rules in mind while creating and overseeing all of its operations and goods.

CHAPTER THREE

ISLAMIC BANKING: CONCEPT AND FEATURES

3.1 Introduction

Islamic Banking (IB) refers to a system which offers banking products and services consistent with the principles of *Shari'ah*. Set of principles based on *Shari'ah* clearly differentiate IB from that of conventional, theoretically and practically. The same tasks are performed by the Islamic banks like conventional banks maintaining the strict requirements for their transactions to follow the ethics of *Shari'ah* (Iqbal and Mirakhor, 2004: 43-63). *Shari'ah* doesn't permit any investment in those businesses that are unlawful in Islam such as drug, pork production etc. Moreover, the Islamic concept for the distribution of wealth is considered to be the important basis for IB. Islam views that the wealth should not be concentrated in few hands. Islam permits maximizing the wealth as long as it doesn't create any harm to the society and violate the Islamic values of social justice (Dusuki, 2006). In addition to eradicating *Riba*, IB seeks to build a fair, moral, and socially inclusive financial and banking system that benefits all segments of society. The principal functions of IB are: to provide contemporary financial services in conformity with *Shari'ah* law, to establish a direct relationship between the banks return and investment because of its profit-loss-sharing nature, to give priority to the public and social welfare, to ensure fair resource allocation to all parties and to offer an Islamic alternative to the conventional interest-based system. IB system, since its inception, gradually introduced theoretical and operational reforms into the banking institutions, products, services, instruments and contracts on the basis of *Shari'ah* regulations. The fundamental tenet in this respect is that "every transaction is permitted, with the exception of those expressly forbidden by the *Shari'ah*." Over the last few decades, IB has rapidly been expanding around the globe. In 2014, the World Bank¹⁰ developed a special link on its website to report some features about IB institutions. This link includes a new platform that is still in progress. According to this platform, there are about 395 Islamic financial institutions distributed in 57 countries around the globe. The main objective of this chapter is to have a clear idea about the conceptual development of IB and its application models. It explores the theoretical concepts of the IB, its fundamental principles and features. It also discusses the forms and modes of IB contracts shedding light on their *Shari'ah* basis.

¹⁰ See for details, <http://econ.worldbank.org/>

The chapter also examines the fundamental distinctions between Islamic and conventional banking. Finally, it identifies the significant risks connected to IB.

3.2 Conceptual Development of Islamic Banking

The Holy Qur'an's many passages and the Prophet's (pbuh) traditions served as the foundation for the formation of the IB idea. Although the concept of modern IB system has become a reality in the 1960s, the beginning of IB, in its wider sense, dated back to the early days of Islam and the rise of the Islamic empire. Different types of banking activities had been practiced, which were similar to modern banking transactions. But the fall of Islamic empire caused the decay of these Islamic financial practices. However, from the mid of the 20th century, Islamic financial practices again started to be emerged being accommodated with the modern banking concepts. The struggles for independence in different Muslim countries from colonialism accompanied with the growing demand in Muslim society to have banking services consistent with *Shari'ah*, created the perspective for the conceptual development of modern IB. Several Islamic scholars contributed in this regard which has finally been resulted in the emergence of modern IB in the 20th century (for details, chapter 4.3.1). IB has become successful in achieving unexpected and continuous growth in recent years (Siddiqui, 2008: 680). It is expanding at a 15% yearly growth rate (Chong and Liu, 2009: 126). It now ranks among the financial industries with the highest rates of growth globally (Ishigaki, 2009: 3). In addition to emphasizing the advantages, it also offers banking services and engages in the practice of finance and investing on the grounds that all transactions must be free of interest (Ayub, 2007: 27). Islamic banks carry out the same financial intermediation as conventional banks while adhering to *Shari'ah* rules and structuring transactions to prevent paying and collecting interest. IB services include a broad range of profit-loss-sharing, safekeeping, leasing, cost-plus financing and joint venture agreements. Islamic banks have developed ways and procedures employing the most recent technology available, delivering exceptional financial services, and keeping up with contemporary technical changes (Al-Rawashdah, 2009: 192) and now, virtually every product and service offered by conventional banks has a *Shari'ah*-compliant alternative ranging from loans to mutual funds and from electronic payment systems to stock indices.

3.2.1 Definition of Islamic Banking

The Islamic economic system outlines a whole financial system and specifies particular economic behavior patterns (Khan and Mirakhor, 1986: 36), which institutionalized with the

emergence of IB system. It is the banking system which conducts all of its transactions, operations, products and services following the principles and guidelines of *Shari'ah*. 'IB, enlightened with the guidance of *Shari'ah* principles, emerged as an alternative financial system that neither gave nor took interest, thereby introducing a fair system of social justice and equality, while fulfilling the financial needs of people and maintaining high standards of ethics, transparency and a sense of responsibility' (Dubai Islamic bank, 2016). An entity known as a "Islamic bank" is one that mobilizes financial resources and invests them in an effort to realize predefined social and financial goals that are acceptable to Islam. The principles of *Shari'ah* should be followed when raising money and making investments. (Al-Baraka Bank, 2018). Its foundation is the total ban on the payment or receipt of any rate of return that is fixed or guaranteed (*Riba*). This effectively bans the usage of debt-based instruments and puts a stop to the idea of interest (Van Greuning and Iqbal, 2008: 5). In IB, every financial transaction must be in a lawful (*Halal*) position (Maali, Casson and Napier, 2006: 267). Islamic banks must finance in the projects that are socially useful and involved in *Halal* (lawful in Islam) business and also beneficial to the client as well as to the society. Islamic banks promote the development of society by respecting the codes of ethical finance conceived from *Shari'ah*. Islamic banks function by stressing moral and ethical ideals that promote equality and the growth of economies, even if they serve the same purpose as conventional banks (Institute of banking and Insurance, 2018). Thus, *Riba* is forbidden, money lending is prohibited, and the connection between the institutions and their clients is crucial in IB. With a focus on the ethical and moral aspects, IB's ultimate goal is to promote human happiness and improve social justice (Elmelki and Ben Arab, 2009: 129). The IB system would uphold the interests of all parties to contracts and encourage social peace among all parties (Ahmad, 2000: 57-82). Al-Jarhi and Iqbal (2001: 23) offered an exhaustive description of an Islamic bank with the following statement:

“An Islamic bank is a deposit-taking banking institution whose scope of activities includes all currently known banking activities, excluding borrowing and lending on the basis of interest. On the liabilities side, it mobilizes funds on the basis of *Mudarabah* contract. It can also accept demand deposits which are treated as interest-free loans from the clients to the bank, and which are guaranteed. On the assets side, it advances funds on a profit-and-loss sharing or a debt-creating basis, in accordance with the principles of *Shari'ah*. It plays the role of an investment manager for the owners of time deposits, usually called investment deposits. In addition, equity holding as well as commodity and asset trading constitute an integral part of IB operations. An Islamic bank shares its net earnings with its depositors in

a way that depends on the size and date-to-maturity of each deposit. Depositors must be informed beforehand of the formula used for sharing the net earning with the bank.”

Thus, the IB system gives Muslims a platform to conduct their financial transactions in accordance with the *Shari'ah* laws that have been established by the holy *Qur'an* and *Sunnah*.

3.2.2 Principles of Islamic Banking

The principles of IB have been derived from the *Shari'ah*. The Holy *Qur'an* and *Sunnah* both expressly forbid accepting and paying *Riba*. Business transactions that are based on the idea of *Gharar*, or uncertainty, are likewise prohibited. It includes dangerous activities like gambling, buying animals when they are still in the womb, or selling possession-less goods. Any earning through *Qimar* (gambling) and *Maisir* (games of chance) are not allowed in Islam. Islamic banks are bound to finance only in the business activities that are *Halal* (lawful in Islam). Therefore, it is unable to fund the alcoholic beverage, gambling, pork, and pornographic industries, among others. The IB principle advocates an equitable distribution of risk and reward among all stakeholders to a financial transaction. Business transactions should be fair to all parties involved in a setting that is free, transparent, honest, and welfare-focused, in accordance with the spirit of justice found in Islam. It rules out every unjust dealing, oppression and deceit or fraud. Commitment on payment of *Zakat* is also one of the fundamental principles of IB.¹¹

3.2.3 Objectives of Islamic Banking

Primarily, the objective of IB is to promote socio-economic development by utilizing the financial resources in keeping with the tenets of *Shari'ah* and the ultimate aim is to realize the *Maqasid al-Shari'ah* (objectives of *Shari'ah*) and that is to ensure the overall well-being of the Muslim world in general and all people.¹² However, there are many other sub-objectives which have been described by several scholars. Haron categorized the principal objectives of IB into five, these are: (i) to provide contemporary financial services in conformity with *Shari'ah* law, (ii) to establish a direct relationship between the banks return and investment because of its profit sharing nature, (iii) to give priority to the public and social welfare, (iv) to make sure the equitable distribution of wealth to all the parties, and (v) to offer an Islamic alternative to the established *Riba*-based system (Haron, 1995: 26-39). Chapra (1992: 209)

¹¹ For details, see the section 2.5 and 2.6.

¹² For details, see the section 2.2.2.

describes it saying that The goal of IB is to create a reasonable and balanced social order free from all forms of exploitation in addition to eliminating interest-based transactions. Socioeconomic justice and distributive justice, both of which are free from exploitation of any form, are the two main goals of IB. These are significant for all religions, not just from an Islamic perspective (Abd Jabbar, 2008: 29). In its declaration from 1990, the International Association of Islamic Banks (IAIB) elaborates on the goals of Islamic banks as follows:

The IB system involves a social implication, which is necessarily connected with the Islamic order itself, and represents a special characteristic that distinguishes Islamic banks from other banks based on other philosophies. In exercising all its banking or developmental activities, the Islamic bank takes into prime consideration the social implications that may be brought about by any decision or action taken by the bank. Profitability-despite its importance and priority is not therefore the sole criterion or the prime element in evaluating the performance of Islamic banks, since they have to match both between the material and the social objectives that would serve the interests of the community as a whole and help achieve their role in the sphere of social mutual guarantee. Social goals are understood to form an inseparable element of the IB system that cannot be dispensed with or neglected (Al-Omar and Abdel-Haq, 1996: 27).

The IAIB emphasized that the major role of Islamic banks is tied to the Islamic order and is related to its unique qualities of social implication while describing the goals of the IB system. Islamic banks are anticipated to be financial institutions that can effectively serve as an intermediary between finance providers and finance users and, in doing so, establish Islamic socio-economic justice and the equitable distribution of wealth in society. Islamic banks are expected to do this by putting into practice the ethical principles of Islam that are either directly or indirectly expressed in the Holy *Qur'an* and *Sunnah*.

3.2.4 Modes of Islamic Banking Contracts

In IB, both the customer and bank should make a contract in all modes of finance, investment, deposit or any other transaction. *Aqd* or contract in Islam means “the conjunction of an offer emanating from one of the two contracting parties with the acceptance by the other in a manner that affects the subject matter of the contract” (Ayub, 2007: 103). Fulfilling the covenant and maintaining contract is one of the fundamental principles of Islamic ethics.¹³ The essential elements for a valid contract in *Shari'ah* are:

- ◆ Offer from one party and acceptance by another.

¹³ For details, see the section 2.6.2.10.

- ◆ The offer and acceptance must be together in the same meeting and must not be conditional as conditional contract is invalid in *Shari'ah*.
- ◆ The contract should be in clear and decisive language.
- ◆ The subject matter and fundamental components of the contract must be lawful.
- ◆ The contracting parties must have the ability to execute the terms of the contract (Shanmugam and Zahari, 2009: 16).

If any contract complies these conditions, the contract is called *Aqd Sahih* or valid contract and if does not, the contract is *Aqd Fasid* or invalid contract. All the components of a contract in IB must be valid in accordance with the principles of *Shari'ah*.

Islamic banks primarily provide two different types of contracts: exchange contracts and profit-loss sharing agreements. The two categories of contracts of exchange are those in which products are exchanged for cash and those in which services are exchanged for cash. Spot sale (i.e., *Bai' al-Musawaammah*), deferred sale by credit (i.e., *al-Murabahah*, *Bai' al-Muajjal*), and deferred sale by order (i.e., *Istisna*, *Salam*) are the three types of contracts used to trade products for money. Services-for-money agreements include: *Ijarah*, *Kafalah*¹⁴ and *Wakalah*¹⁵. Profit-sharing contracts are *Mudarabah* and *Musharakah*. Anwar (2003: 63) calculated twenty one operational modes of IB which, besides mentioned above, also includes *Musharakah Mutnaqisah*, *Ijarah wa Iktina*, *Bai' al-Inah*¹⁶, *Muzara'a*¹⁷, *Musaqah*¹⁸, *Qardh al-Hasan*, service charge, sale on installments, development charges, equity

¹⁴ *Kafalah* means guarantee. It refers to the guarantee provided by a person to the owner of the goods, who has placed or deposited his goods with a third party; whereby any subsequent claim by the owner with regards to his goods must be met by the guarantor, and not by the third party (Sudin, 1997).

¹⁵ This refers to a situation where a person nominates another person to act on his behalf (Sudin, 1997).

¹⁶ *Bai' al-Inah* refers to an arrangement that involves sale of an asset to the purchaser on a deferred basis and subsequent purchase of the asset at a cash price lower than the deferred sale price or vice versa, and which complies with the specific requirements of *Bai' al-Inah*." (Bank Negara Malaysia, http://www.bnm.gov.my/documents/SAC/03_Bai%20Inah.pdf)

¹⁷ *Muzara'a* is a partnership in crops whereby one party (land owner) presents a piece of land to another (agricultural worker) for the latter to cultivate and maintain in return for a common defined share in the crop. In essence, *Muzara'a* is a form of *Mudharabah* which is confined to agricultural activities, specifically sharecropping.

¹⁸ *Musaqah* is a partnership in which one party presents designated plants/trees that produce edible fruits to another (irrigating worker) who undertakes irrigation works in consideration for a common defined share in the fruits. In essence, *Musaqah* is a form of *Mudharabah* which is confined to irrigation activities.

participation, sale and trade bills, and financing through *Awqaf*.¹⁹ The major modes of IB are elaborated here with their *Shari'ah* basis:

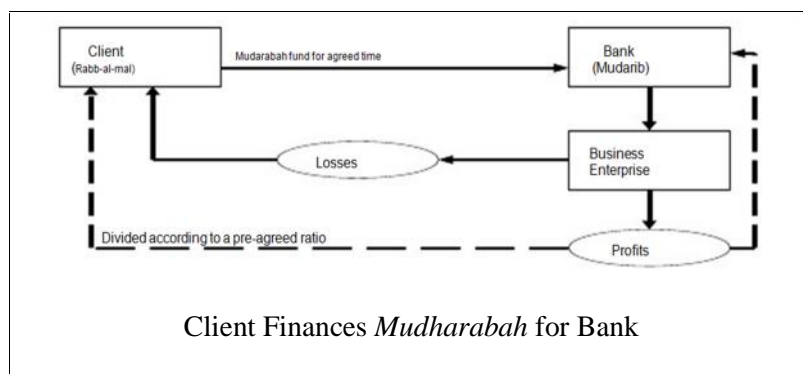
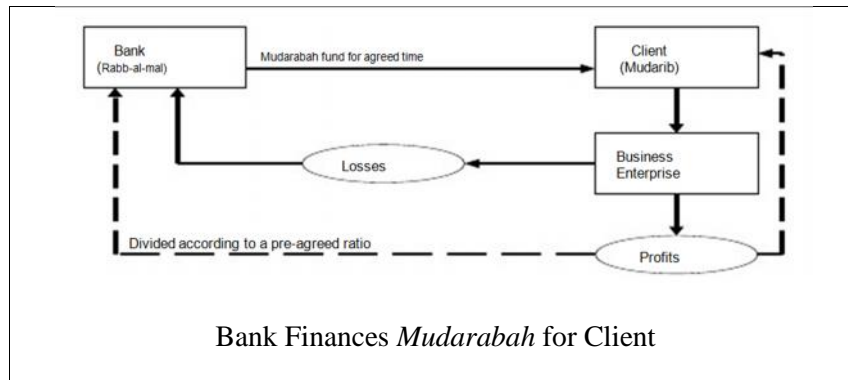
3.2.4.1 *Mudharabah* (Passive Partnership)

Mudharabah contract is one of the most widely used financial instruments in IB. It is collaboration where one partner contributes funds in exchange for the other investing them in a business. The partner, who invests money, is called '*Rabb-ul-Maal*', and the partner, who is responsible for managing the enterprise, is called '*Mudharib*'. The *Mudharib* contributes his time, efforts and expertise and the *Rabb-ul-Maal* provides capital to use it to engage in business ventures that adhere to *Shari'ah* principles (El-Gamal, 2006: 120). A *Mudharabah* contract combines a sleeping partnership with trust financing, equity sharing, and trustee profit sharing (Abd Jabbar, 2009: 1). It is founded on the profit-loss-sharing tenets. The two parties divide the profit according to a previously agreed-upon ratio, but the *Rabb-ul-Maal* bears the entire loss and the *Mudharib* will lose the "opportunity cost" of his own efforts. However, the *Mudharib* shall be responsible for the loss if it results from a breach of the contract. If a firm has experienced a loss in certain transactions while experiencing a profit in others, the profit must first be utilized to offset the loss before the remaining funds are divided between the parties in accordance with the pre-determined proportion. The *Mudharib* cannot demand a regular wage or payment for the work he performed outside of the agreed-upon profit percentage. The *Shari'ah* regulations and the capital provider's requirements should be followed by the *Mudharib*. The *Mudharabah* contract would be null and unlawful if the investment violated any *Shari'ah* standards, such as trading in swine or wine (Ayub, 2007: 322). If the profit is set in any way, the *Mudharabah* would likewise be null and void (*fasid*). The contract will stand terminated when the tenure mentioned in the contract expires. The agreement may also be canceled at any moment by either of the parties with notice.

Mudarabah contract could be made on two methods. In one method, the bank will supply capital as *Rabb-ul-Maal* and the client will be a *Mudharib*, while in another, the bank will be a *Mudarib* and client will be *Rabb-ul-Maal*. These are shown in the following figures:

¹⁹ *Waqf* is "the permanent endowment by a Muslim of any of his property for a purpose recognized by the Muslim Law as religious, pious or charitable." (Article 2 of the Mussalman Waqf Validating Act, 1913, Accessed May 28, 2018, <http://bdlaws.minlaw.gov.bd>)

Figure 3.2.4.1: Bank Finances *Mudharabah* for Client and Client Finances *Mudharabah* for Bank (Gait, 2009: 42)



There are three forms of *Mudharabah* contract: simple or one-tier *Mudharabah*, two-tier *Mudharabah* and multilateral *Mudharabah*. There are two varieties of *Mudharabah*: *Mudharabah-al-Muqayyadah* (restricted *Mudharabah*) and *Mudharabah-al-Mutlaqah* (unrestricted *Mudharabah*). If *Rabb-ul-Maal* directs the *Mudharib* to invest in a certain enterprise or location, this is called *Mudharabah-Al-Muqayyadah*. But if *Rabb-ul-Maal* grants *Mudharib* the authority to do whatever business he sees suitable; this is called *Mudharabah-al-Mutlaqah*. *Mudharib* is authorized to do anything only consistent with the contract or with the permission from *Rabb-ul-Maal*. In IB, depositors act as *Rabb-ul-Maal* and the bank acts as *Mudharib* on its liability side, when someone deposits money in an Islamic bank. The bank performs the role of *Rabb-ul-Maal* in relation to the final recipients of the monies. In a two-tier *Mudharabah*, the bank serves as a go-between for the depositor and the clients it lends money to.

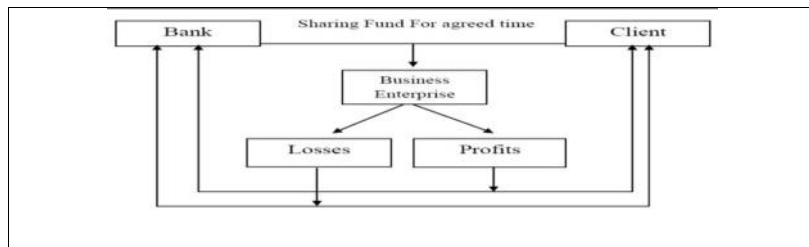
The *Shari'ah* basis for *Mudharabah* is found in the Holy Qur'an, *Sunnah* and *Ijma*. Numerous Qur'anic verses²⁰ subtly suggest that engaging in business is generally permitted including *Mudharabah*. Ibn Abbas reported that: "When our leader Abbas Ibn Abd al-Mutallib gives his property to someone for *Mudharabah*, he stipulated conditions for his partner not to bring the capital throughout the sea; and not to bring with him the capital crossing a valley; and not to buy livestock with the capital; and if his partner violates the conditions, he should guarantee the loss occurred. These conditions have been brought to the attention of Prophet (pbuh) and he approved them" (Al-Bayhaqi, 2013: 111). The Prophet (pbuh) said: "Three matters that have the blessing (of Allah): A deferred sale, *Muqaradah* (*Mudharabah*), mixing the wheat with barley for domestic use and not for sale" (Ibn-Majah, 1999: 2289). With no opposition from other companions, the Prophet's (pbuh) companions Umar, Uthman, and Ali put the property of orphans under a *Mudharabah* contract. The Muslim jurists made *Ijma* on the permissibility of *Mudharabah* contract. The profit should be split between the two parties according to a pre-determined ratio rather than a predetermined sum for a *Mudharabah* that complies with *Shari'ah*. (Ayub, 2007: 322).

3.2.4.2 *Musharakah* (Active Partnership or Joint Venture)

Shirkah, which meaning "sharing" or "being a partner" in Arabic, is the root of the term *Musharakah*. For this reason, sometimes it is called *Shirkah*. In Islamic jurisprudence, a joint venture is referred to as a *Musharakah* when two or more people pool their resources, either financial or labor or both to launch a project in which everyone involved splits the profits in accordance with a predetermined ratio and bears equal responsibility for the venture's losses. (Usmani, 2002a: 87). The Islamic bank and a client choose to pool their financial resources through a *Musharakah* contract in order to start a business (Ayub, 2007: 307). One of the most trustworthy models in Islamic law is the *Musharakah* contract, and various theoretical IB models have been constructed using this model (Ahmad, 2010: 187).

Figure 3.2.4.2.1: *Musharakah* financing (Mirzhaywire, 2013)

²⁰ "...others travelling through the land, seeking of Allah's bounty..." (Al-Qur'an, 73: 20); "And when the Prayer is finished, then may ye disperse through the land, and seek of the Bounty of Allah..." (Al-Qur'an, 62: 10).



There are two basic categories of *Musharakah*; *Shirkat-ul-Milk* (Partnership based on joint ownership of a particular property) and *Shirkat-ul-Aqd* (Partnership based on a contractual relationship) (Rosly, 2005: 183). *Shirkat-ul-Aqd* is further broken down into three categories:

- A. *Shirkat-ul-Amwal* (Partnership in capital): where each partner makes a financial investment.
- B. *Shirkat-ul-Aamal* (Partnership in services): when all of the partners together anticipate providing some services.
- C. *Shirkat-ul-Wujooh* (Partnership in goodwill): a partnership where the share of profits and losses is dependent on the amount of obligation carried and is depending on the creditworthiness of one or both parties (Abd Jabbar, 2009: 4).

Each of the above three types of *Shirkat-ul-Aqd* are further divided into two types:

- a) *Shirkat-al-Mufawada* (universal partnership): Capital, management, risk, and profit are all shared equally by all partners. The relationship becomes *Shirkat-ul-Ainan* if any one of these four components is missing.
- b) *Shirkat-ul-Ainan* (restricted partnership): In certain cases, but not all, capital, management, or responsibility may be equal meaning, profit may be equal but not labor, or vice versa. It is regarded as the *Musharakah* utilized the most frequently in IB. (Abd Jabbar, 2009: 4).

All the partners should maintain the following principles to form a valid *Musharakah* contract:

- I) The partners must be sane and mature. The parties must freely consent to the contract and there cannot be any deception (Ayub, 2007: 312).
- II) The partners will equally split any gains or losses. It is best to predetermine the profit ratio. In the event of a loss, each partner will be required to contribute a certain amount (Ayub, 2007: 316).
- III) Most Muslim jurists contend that the capital must take the form of liquid assets (Ayub, 2007: 313). However, *Imam Malik* views that the liquidity of capital is not a

condition and the commodities are also permissible in *Musharaka* (Usmani, 2002b: 8). The capital should also be Quantified (Ma'loom) and Specified (Muta'aiyan) and it is not necessarily to be merged.

IV) Each partner is entitled to participate in the company's management. However, the partners may make one of them responsible for the management by mutual consent and another party will be a sleeping partner (Ayub, 2007: 316).

Although *Musharakah* and *Mudharabah* are seemed similar in nature; but there are some basic differences between them. These are summed up below:

Table 3.2.4.2.2: Differences between *Musharakah* and *Mudharabah*

<i>Musharakah</i>	<i>Mudharabah</i>
Every partner provides capital.	Only <i>Rabb-ul-Maal</i> invests.
Every partner partakes in the management.	<i>Mudharib</i> is only responsible for management.
According to the previously negotiated ratio, the parties divide the profit and loss.	Only <i>Rabb-ul-Maal</i> suffers the loss of capital. <i>Mudharib</i> only loses his labour.
The partners' liability is often uncapped. All excess obligations must be paid by all partners if the firm goes into liquidation due to liabilities that exceed its assets.	Except in cases when he has authorized the <i>Mudharib</i> to incur obligations on his behalf, <i>Rabb-ul-Maal's</i> liability is restricted to his investment..
The partnership is based on both capital and profit.	<i>Mudharabah's</i> relationship is in the revenue, not the capital. Only <i>Rabb-ul-Maal</i> is the owner of the capital, and only the <i>Mudharib</i> is eligible to receive a portion of the profits.

Although *Musharakah* financing and interest both are having pre-determined return; but there are some basic differences, these are:

Table 3.2.4.2.3: Differences between *Musharakah* and Interest based Financing

Interest based financing	<i>Musharakah</i>
Regardless of the profit or loss incurred by the debtor, a certain rate of return on a loan granted	There is no predetermined rate of return in <i>Musharakah</i> . The payout is based on the joint

by the financier is pre-fixed.	venture's actual earnings.
The investor cannot lose money.	If the joint venture doesn't make money, the funder might lose money.
causes injustice to the creditor or the debtor, depending on the situation. It is unfair to assert a fixed rate of profit if the debtor experiences a loss. Furthermore, it is unfair to provide the creditor only a tiny percentage of the profit while keeping the remainder for the debtor if the debtor generates a very high profit rate.	The creditor's returns are correlated to the real profits generated by the business. The rate of return to the creditor is higher the more profits the business generates.

The legality of *Musharakah* is based on the Qur'an, *Sunnah* and *Ijma*. In the verse underlining the principles of inheritance, the Holy Qur'an said (4: 12): "...but if more than two, they share in a third..." Muslim scholars have interpreted the passage as generally condoning all forms of partnership. "Verily many are the partners (in business) who wrong each other except those who believe and work deeds of righteousness and how few of them..." (Al-Qur'an, 38: 24) clearly indicates the validity of partnership. During the early time of Islam, *Musharakah* was widely practiced and the Prophet (pbuh) did not forbid from it. The Prophet (pbuh) recognized the *Muhajireen* and the *Ansar* to be brothers after *Hijra*. They then collaborated as business partners, engaging in various *Musharakah* activities. The Prophet (pbuh) said: "Allah says: I am the third [partner] of the two partners as long as they do not betray each other. When one of them betrays the other, I depart from them" (Sulayman, n.d., 3383). "Profit return is shared according to conditions determined freely by partners. And the loss is dealt with according to ratio of their capitals" (Ibn-Majah, 1999: 2273). Abu al-Minhal narrated that "Zayd Ibn Arqam and al-Barra' Ibn 'Azib were partners, and they bought silver in cash and credit. Their practices were brought to the Prophet (pbuh) and the Prophet (pbuh) pronounced that what was bought on cash then they could benefit from it and what was bought on credit then they should reject it" (Al-Bukhari, 1999: 2060). It is learned that Prophet (pbuh) approved the partnership.

Muslims have engaged in *Musharakah* throughout their history with no resistance from the legal community. Imam Ibn al-Munzir states in his book 'al-Ijma': "And they (Muslim jurists) agree on the validity of partnership where each of the two partners contributes capital in dinar or dirham, and co-mingles the two capitals to form a single property which is

indistinguishable, and they would sell and buy what they see as (beneficial) for the business, and the surplus will be distributed between them whilst the deficit will be borne together by them, and when they really carry out as prescribed, the partnership is valid” (Ismayi, 2012: 17). As a result, jurists from all schools of Islamic thought agree that the *Musharakah* is an acceptable and lawful contract in Islam. There is criticism that *Musharakah* is a very old form and unfit for modern banking. However, it is not required to apply *Musharakah* just in its conventional forms. Every new form or partnership, suitable for modern banking, is acceptable as long as it complies with *Shari'ah* principles (Usmani, 2002b: 19). Therefore, *Musharakah* is completely based on *Shari'ah* principles having no forbidden element. Muslim scholars have opined that more *Musharakah* instruments should be developed and used for the future development of IB.

3.2.4.3 *Musharakah Mutanaqisa* or Diminishing *Musharakah* (Co-ownership):

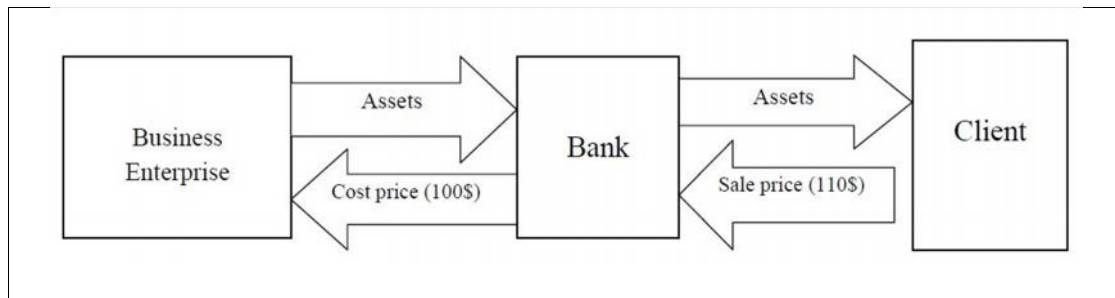
Musharakah Mutanaqisa is a form of *Musharakah*, which is being widely used in modern IB. The bank and beneficiary have entered into a partnership to jointly own the property, with the bank as the financier, who will progressively sell his share to the beneficiary at a predetermined price over the course of a certain period of time. As a result, in proportion to their falling equity interest, the withdrawing partners' share eventually decreases along with their share of the profits.

3.2.4.4 *Murabaha* (Trade with Mark-up Sale)

Literally, the word *Murabaha* means profit. *Murabaha* refers to the sale of a good at a price that includes a pre-determined markup profit that is known to both parties. In a *Murabaha* contract, the seller makes clear the price of the item being sold and, with the agreement of both parties, sells it to the buyer at the item's cost plus profit. The payment in a *Murabaha* contract may be on cash or deferred price. In IB, *Murabaha* refers to the act of a bank purchasing a good on behalf of a client and then reselling it to that client at a profit. The bank discloses to the client its costs and profit margin. An Islamic bank buys the items from the market and sells them to the client for a pre-agreed price rather than providing money to a borrower as is done in traditional banking. As a result, the foundation of *Murabaha* is the incremental cost or cost-plus-profit-of-sale idea (Abd Jabbar, 2009: 5). This contract accounts for around 59% of the value of all IB goods, making it the most common one (Lee, Kun-Ho and Ullah, 2007: 245).

A *Murabaha* contract involves three parties: the retailer or receiving party (the Islamic bank) who purchases the good; the buyer or ordering party (the client) who wants to acquire the good from the seller; and the provider or facilitator who acts as the intermediary between the seller and the buyer. (Siddiqui, 2008: 682).

Figure 3.2.4.4: *Murabaha* Financing. (El-Gamal, 2006).



The *Murabaha* contract is processed following these procedures in an Islamic bank. The client makes an application to the bank with the request of *Murabaha* finance declaring the certain product with a definite price and specifics. A preliminary agreement is written between the bank and the applicant, in which the bank promises to sell and the customer promises to buy the good for a predetermined profit added to the purchase price. The bank then performs a risk analysis and a feasibility assessment of the customer's application. The request might then be approved or rejected by the bank. If the request is granted, the bank will buy the item from the supplier. The consumer has the option to accept or reject the offer after the bank has purchased and acquired ownership of the item. The sale is made to the customer as a delayed sale at a pre-negotiated rate. Both sides sign the final *Murabaha* agreement if the client accepts it. Either from the bank or the supplier, the goods is delivered to the customer. The consumer pays the *Murabaha* price on the scheduled day, either entirely at once or in installments. (Abd Jabbar, 2009: 6-8). *Murabaha* has been the most frequently practiced model in Islamic banks. It is not a loan; but a type of sale, and usually at a deferred payment. The following conditions should be maintained to form a valid *Murabaha* contract:

- A. The item must be in existence and under the seller's ownership at the time of the transaction.
- B. The seller must really own the object or have constructive possession of it. Although the owner has not physically received the product, it has fallen under his control and all of its rights and obligations have been transferred to him in a condition known as "constructive possession."

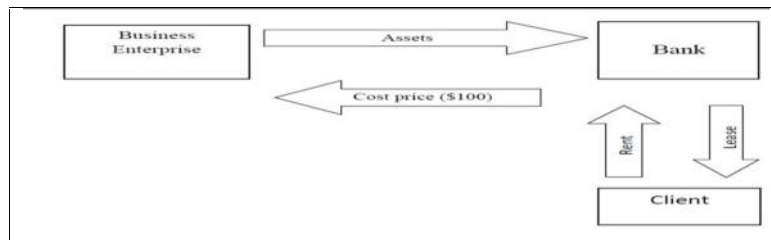
- C. The transaction must be immediate and final. A sale that is ascribed to a future occasion or one that depends on one is invalid.
- D. The subject matter should be a property having value.
- E. The subject of sale must be *Shari'ah*-approved, specified and identified to the buyer. The vendor must properly outline all the drawbacks and advantages of the product.
- F. The commodity delivery must be certain.
- G. The price of the commodity and profit of the seller should be certain, known and agreed by both the parties (Kettell, 2010: 27; Ayub, 2007: 217-218).

The *Shari'ah* foundation of *Murabahah* is found in the Qur'an, *Sunnah*, *Ijma* and *Qiyas*. Several verses of the Holy Qur'an such as "Allah permitted trade and prohibited usury" (2: 282) allow the sale contract generally. On the admissibility of *Murabahah*, the *Sunnah* offers no concrete legal guidance. Based on the general permissibility of sale under Islamic law, it is seen as legal. The Muslim people have inherited the *Murabahah* transactions for ages without any objection and that would constitute *Ijma* on the permissibility of *Murabahah*. The *Qiyas* in this regard is that as the Prophet (pbuh) permitted the *Tawliyah* sale (sale based on cost price), the sale on mark-up will be similarly acceptable on the basis of analogy on the *Tawliyah* sale. Cost calculation and disclosure to the buyer are regular practices in both the *Tawliyah* and *Murabahah*. The *Shari'ah* principle for *Mua'malat*, "everything is permitted except those explicitly forbidden by the *Shari'ah*" also supports the validity of *Murabahah* contract. Thus, *Murabahah* is a *Shari'ah*-compliant contract and widely practiced in modern IB.

3.2.4.5 *Ijarah* (Leasing Contract)

Ijarah literally means 'to give something on rent' (Lewis and Algaoud, 2001). It is an agreement between the customer, who needs the asset, and the bank, who is the lessor or owner of the asset (Kettell, 2010: 55). In Arabic terms, the lessor is called *Mujir*, the lessee is called *Mustajir*, the rent paid to the lessor is called *Ujrah*, and the rent is called *Ijarah* (Kettell, 2010: 54). The *Ijarah* contract is quite similar to an operational lease contract (Khan and Porzio, 2010: 97). With this agreement, an Islamic bank buys the property from the seller and rents it to the contractual party for a set length of time at a fixed rental fee at an agreed-upon price plus profit (Chong and Liu, 2009: 129).

Figure 3.2.4.5: *Ijarah* Financing, El-Gamal (2006)



Ijarah is used in two different forms: to engage the services of a person on salaries or to handover the usufruct of a property in return for rent (Kettell, 2010: 55). In this instance, *Ijarah* is equivalent to the term ‘leasing’ of conventional banking. The rules, in this case, are close to the rules of sale as both agreements contain handover of some assets to another (Ayub, 2007: 380). In order to be valid, an *Ijarah* contract should maintain the following conditions:

- a. The agreement must be able to be carried out well and performed.
- b. The products' usufruct should be valuable.
- c. The leased properties must be legitimate under *Shari'ah*.
- d. The lessor should have full possession of the property and be able to deliver on the agreed date.
- e. The lessor must provide the asset to the lessee in accordance with the predetermined terms.
- f. The lessee must be able to do the task and in good physical condition.
- g. The property and its rent should be specified, known and identified (Ayub, 2007: 380).

The legality of *Ijarah* is deduced from the Qur'an, *Sunnah* and *Ijma*. Describing the story of the Prophet Musa (pbuh) of being hired to undertake a specific task, the Holy Qur'an said: "And said one of them (the two women): 'O my father! Hire him! Verily, the best of men for you to hire is the strong, the trustworthy'. He said: 'I intend to wed one of these two daughters of mine to you, on condition that you serve me for eight years, but if you complete ten years, it will be (a favor) from you..." (28: 267). This verse acknowledges the legality of *Ijarah*. The Prophet (pbuh) said: "Pay the hired worker his wages before his sweat dries off" (Ibn-Majah, 1999: 2443). "He, who hires a person, should inform him of his fee" (Al-Nasai, n.d.: 3857). Abdullah ibn Umar narrated: "Allah's Apostle gave the land of Khaibar to the Jews to work on and cultivate and take half of its yield. The land was used to be rented for a certain portion" (Al-Bukhari, 1999: 678). So, the prophetic traditions approved the permissibility of *Ijarah* contract. The Companions of the Prophet (pbuh) and distinguished

jurists of the acknowledged schools of Islamic law have universally endorsed *Ijarah*. According to them, the need to use various articles (properties and services) is analogous to the desire to use the articles themselves. When a contract for the sale of such goods and services is allowed, the leasing of its usufruct is also allowed on the basis of Islamic law and requirements.

3.2.4.6 *Ijarah thumma al-Bai'* (Hire Purchase):

Ijarah thumma al-Bai' (hire purchase), a kind of *Ijarah*, has now been used in IB. In this procedure, the parties sign two contracts that take effect one after the other. The first is an *Ijarah* contract that specifies the terms of leasing for a predetermined amount of time, and the second is a *Bai'* contract that initiates a sale once the *Ijarah* term has expired. For instance, in a vehicle finance, the client signs a first contract to lease an automobile from the owner (the bank) for a predetermined sum and for a predetermined time frame. The second contract, which permits the consumer to purchase the vehicle at a certain price, takes effect after the leasing time finishes. The cost of the item, its residual worth, and the profit margin for the investment are all calculated in advance by the bank to make a profit.

3.2.4.7 *Bai' Muajjal* (Deferred Payment Sale)

Bai' Muajjal means 'sale based on deferred payment'. It is the sale of goods and purchase transaction based on a deferred payment in a pre-agreed period, wherein the goods are delivered immediately and the payment is deferred (Abd Jabbar, 2009: 7). The deferred payment turns into a debt that must be repaid by the buyer over time or in installments. The asset is sold to the customer by an Islamic bank after it has paid the owner in cash for it and added a profit for the specified time period. Nature of repayment and period are being determined by agreement of the bank and client (Rosly, 2005: 90). This contract is used for financing other client assets, real estate, cars, and homes (Chong and Liu, 2009: 129).

Three distinct contracts are involved. The first describes the property that has to be purchased and is known to the customer. The second applies in cases where the bank sells the client's property. The third is relevant when the bank sells the asset in the event that the client defaults on payment (Venardos, 2005: 78). Abd Jabbar (2009: 7) described the procedure of *Bai' Muajjal* financing as follow:

- a) Client recognizes the property that is to be purchased;
- b) The funding duration and kind of reimbursement are set by Islamic banks;

- c) An Islamic bank pays the owner cash for the property;
- d) The property is sold to the customer by an Islamic bank at the original price plus profit;
- e) The client pays the bank in installments within the predetermined time frame.

At the moment of sale, the deferred price must be decided. Once the price has been set, it cannot be altered in any way, not even in the event of default. *Murabaha* and *Bai' Muajjal* are quite similar. Contrary to *Murabaha*, where the consumer should be notified of the bank's profit margin, the bank is not required to disclose its profit margin to the client in *Bai' Muajjal* (Rosly, 2005: 90).

3.2.4.8 Bai' Salam (Forward Selling)

Bai' Salam is an agreement on the basis of forward sale concept (Chong and Liu, 2009: 129). It refers to “an agreement between the seller (Islamic bank) and the buyer (client), whereby the seller undertakes to supply specific goods to the buyer at a future date in exchange for an advanced price fully paid at the time of the contract” (Abd Jabbar, 2009: 9). In this agreement, the payment is paid in advance and the goods delivery is deferred (Rosly, 2005: 139). Although silver, gold, or any kind of currency cannot be the output of this contract, commodities can. Agricultural items and fungible manufactured goods are most affected (Visser, 2009: 61). The following conditions should be maintained to form a valid *Bai' Salam* contract:

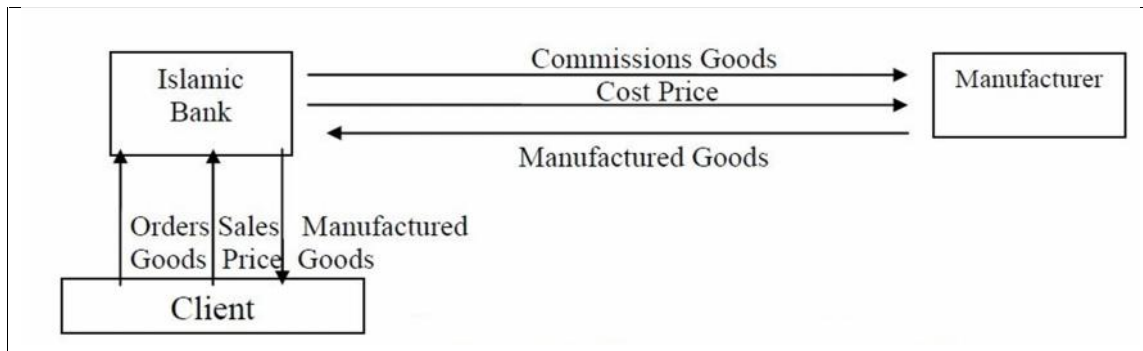
- i. At the time of the contract, the buyer must pay the whole amount in advance.
- ii. The item must be fungible, of high quality, and precisely described in terms of its volume, size, and color.
- iii. Gold, silver and currency are not allowed to be object in this agreement as these are considered as monetary value exchanges.
- iv. The agreement must specify the delivery date and location.
- v. The items may be supplied by the deadline.
- vi. The buyer cannot benefit from ownership rights to the asset prior to possession (Ayub, 2007: 255; Abd Jabbar, 2009: 9; Rosly, 2005: 139).

3.2.4.9 Istisna' (Order to Manufacture)

It is “a contract of sale where the seller is the manufacturer and the customer is the purchaser of future manufactured goods” (Chong and Liu, 2009: 129). It is based on the idea of a

manufacturing agreement, whereby the seller agrees to make the goods for the buyer in accordance with the terms of the agreement. To be more specific, a customer provides a producer with clearly stated requirements for non-existent products that are to be manufactured and then given at a mutually agreed-upon future date (Khan and Porzio, 2010: 53). An Islamic bank may act in this contract as both a funder and an arbiter between the parties, ordering the items on the client's behalf or as a producer.

Figure 3.2.4.9: *Istisna'* Financing, (Sandstad, 2009)



In *Istisna'*, the following conditions should be maintained:

- i. Determining the delivery time is not essential. However, the customer may choose a maximum delivery time.
- ii. The specification of the good and its price should be known and fixed.
- iii. The price can be paid at once or in installments at different phases of the project according to the agreement.
- iv. Constructive possession may result in the delivery of the items.
- v. The risk to the goods remains with the seller before delivery and with the purchaser after delivery.
- vi. Any party may cancel the agreement with advance notice before the production process begins, but not once the producer has begun work; because it is an ethical responsibility of the producer to produce the items and on the buyer to respect the agreement (Iqbal, 2009: 92; Ayub, 2007: 263,269; Abd Jabbar, 2009: 10; Hassan and Lewis, 2007: 120).

Though the *Istisna'* agreement seems very close to *Bai' Salam*, there are some basic differences. In *Istisna'*, the object is always something that needs to be manufactured or processed, while the item of *Bai' Salam* involves agricultural products. It is not necessary to pay the sum in full up front under the terms of *Istisna's* contract. However, in *Bai' Salam*, the buyer is required to pay the whole amount up front when the deal is made. The time of delivery must be fixed in *Salam*, but a maximum time can be fixed in *Istisna'*. Before

beginning the manufacturing process, either party may cancel the *Istisna'* agreement, but this is not possible in *Bai' Salam* (Iqbal, 2009: 92; Rosly, 2005: 139; Usmani, 2002b: 89).

Bai' Salam, *Istisna'* and *Muajjal* are very similar in nature with minor differences in deferred payment or delivery. The *Shari'ah* basis of these modes is derived from the Holy Qur'an, *Sunnah* and *Ijma*. The Holy Qur'an says (2: 282): "O Believers! When you contract a debt for a fixed term, you should put it in writing." The Prophet (pbuh) forbade the sale of goods, if the seller does not currently own them, however he created an exception in the case of *Salam*. He said: "When a man involves in *Salam* and pays for goods to be delivered later, the parties should settle the weight and measure and date of delivery of goods" (Al-Bukhari, 1999: 2240). The Prophet (pbuh) saw individuals in Medina prepaying for fruit or dates that would be given over a period of one, two, or three years without mentioning the item's quality, measure, or amount or the date of delivery.. Then, the prophet (pbuh) instructed: "whoever pays money in advance for fruit to be delivered should pay it for a known quality, specified measure and weight of course along with the price and time of delivery" (Al-Bukhari, 1999: 2241). "The Prophet (pbuh) bought some foodstuff on credit from a Jew and mortgaged an iron armor to him" (Al-Bukhari, 1999: 571). The Prophet (pbuh) bought a camel for him from outside Medina whereby the payment was settled later on in Medina (Ibn al-Hajjaj, n.d.: 3886).

These *Qur'anic* verses and Prophetic traditions theoretically acknowledged the contract on deferred payment or delivery upon the fulfillment of basic conditions. These financing modes i.e. *Bai' Salam*, *Istisna'* and *Muajjal* are unanimously declared legitimate by all schools of Islamic law, with mere differences in duration issues. Thus, the Muslim jurists constituted *Ijma* for the legality of these contracts as these have not involved in any forbidden element. The *Shari'ah* principal "for *Mua'malat*, everything is permitted except those explicitly forbidden by the *Shari'ah*" also supports the legitimacy of these contracts as the main objective of these contracts is the benefit and welfare of the society by easing the everyday dealings within the *Shari'ah* framework. Legitimacy of these contracts also recognized by the established *Shari'ah* bodies such as the International Islamic Academy of *Fiqh* (IIFA) of OIC²¹ & Accounting and Auditing Organisation of Islamic Financial Institutions (AAOIFI).²²

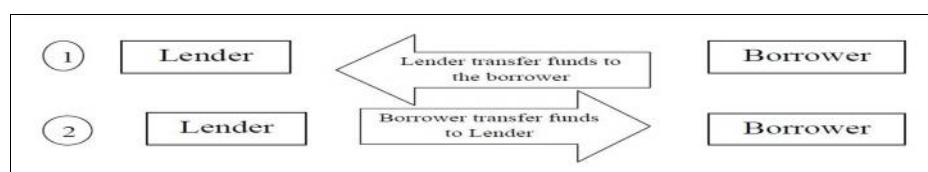
²¹ International Islamic Fiqh Academy (IIFA) is an Academy for advanced study of Islam based in Jeddah, founded by OIC with its resolution No.8/3-C, (I.S.). Besides traditional Islamic sciences, the IFA seeks to advance knowledge in the realms of culture, science, and economics. For details, see: <http://www.iifa-aifi.org>.

²² The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) is an Islamic international autonomous non-profit corporate body that prepares accounting, auditing, governance, ethics and

3.2.4.10 *Qardh-al-Hasan* (Benevolent Loan)

Qardh-al-Hasan is a form of *Sadaqah*.²³ It is a benevolent loan provided free from all kinds of interest or profit. The borrower is only needed to pay back the principal amount borrowed and it is extended on the basis of welfare. In IB, *Qardh al-Hasan* is a loan agreement between the bank (lender) and the client (borrower), which is applied as a social support to help the needy, poor, widows, or small farmers (Siddiqui, 2008: 684). It is returned at the conclusion of the predetermined time frame without reward, interest, or participation in the company's profit or loss (Venardos, 2005: 83).

Figure 3.2.4.10: *Qardh-al-Hasan*, (El-Gamal, 2006).



Qardh al-Hasan has not only been permitted, but also highly encouraged with due reward in the hereafter in Islam. Almost in all the verses in which it is mentioned, it is stipulated that it is made directly to the Almighty Allah instead to the recipient. The Holy Qur'an says: "He who will give Allah *Qardh al-Hasan*, which Allah will double into his credit and multiply many times" (2: 245).²⁴ The *Sunnah* of the Prophet (pbuh) is also very clear in this regard. The Prophet (pbuh) said: "At night during which I was made to perform journey, I saw at the door of the Paradise written, "A sadaqa is equivalent to ten like that (in reward) while lending has eighteen times reward." I said, "O Gabriel, what is the reason that lending is more excellent than Sadaqa?" He said, "The beggar asks while he possesses it (money) while the one who demands loan does not demand it but because of his need" (Ibn-Majah, 1999: 2431). *Qardh al-Hasan*, being an interest free loan, may ensure the movement of wealth amongst all classes of people in the society.

3.2.4.11 *Tawarruq* (Monetization of Commodities)

It is a contract to obtain money whereby someone purchases a good on credit with the intention of selling it to a third party on credit for less money (Abd Jabbar, 2009: 11).

Shari'ah standards for Islamic financial institutions. It founded in 1991 based in Bahrain. Its standards are currently followed by all the leading Islamic financial institutions across the world. For details, see: <http://aaoifi.com>

²³ A comparison of the contents of Al-Qur'an, 2:261 with any of *Qardh al-Hasan* represents nothing but spending (infaq) in the way of Allah.

²⁴ "If you give Allah *Qardh al-Hasan*. He will double it to your credit and he will grant you forgiveness (64: 17). "And give Allah *Qardh al-Hasan*, it will be increased manifold to their credit" (Al-Qur'an, 57: 18). "Who is he that will give Allah *Qardh al-Hasan*? For Allah will increase it manifold to his credit" (Al-Qur'an, 57: 11). "Establish regular prayer and give regular charity and give Allah *Qardh al-Hasan*---" (Al-Qur'an, 73: 20).

Tawarruq contract involves three parties i.e. an Islamic bank, who plays an intermediary role, the client who wishes to obtain money and the supplier. For instance, the customer purchases a car from the bank on a payment plan and sells it right away to a third party to get cash. For a valid *Tawarruq* contract, other than the original seller, a third party should purchase the products (Ayub, 2007: 349). Due to how simple it is to receive income, this contract is becoming more and more popular in IB (Visser, 2009: 70). In the financing process based on *Tawarruq* contract, the bank buys the product and sells it to the client on deferred payment. The customer requests that the bank put it up for sale. The bank's function in this situation is that of the client's agent. The bank pays the customer the proceeds of the transaction after selling the product to a third party (El-Gamal, 2006: 72; Abd Jabbar, 2009: 11; Ayub, 2007: 350). The following requirements must be met in order for this agreement to be deemed enforceable:

- i. Before offering the product to the customer, the vendor must be the owner of it.
- ii. The seller should explain the details of the product to the buyer.
- iii. The vendor must be capable of delivering the item at the scheduled time.
- iv. The modes of payment should be clearly mentioned (El-Gamal, 2006: 62-63; Ayub, 2007: 350).

The *Shari'ah* legality of *Tawarruq* contract is based on *Maslahah Mursalah* (public interest). The use of *Tawarruq* seems as *Hajiyyat*, which's absence might have a negative impact on communal life. A *Hadith* indirectly supports the implications of *Tawarruq*. It says: When the governor of Khaibar brought to the Prophet (pbuh) *Janib* (a high quality of dates), He asked "Are all the dates of Khaibar like this?" He responded "No, by Allah, But we take one Sa' of these (dates of good quality) for two or three Sa's of other dates (of inferior quality)". The Prophet (pbuh) replied, "Do not do so, but first sell the inferior quality dates for money and then buy *Janib* with that money" (Al-Bukhari, 1999: 1936). Here, the Prophet (pbuh) approved two separate sales which are also in the case of *Tawarruq*. Ali ibn Abu Taleb said: 'I would not abandon the *Hajj* even if I had to do it through *Tawarruq*' (Ibn al-Athir, n.d.: 301-302). This statement implies that he would not use *Tawarruq* except if that was the last option. It indicates the permissibility of *Tawarruq*. The explicit usage of the term *Tawarruq* in the post-Prophetic period and the edicts on it by Muslim jurists suggest that it was practiced in the periods after the Prophet (pbuh), the companions and their followers (Ahmed and Aleshaikh, 2014: 285). Major well-known fatwa issuing bodies including AAOIFI and IIAF held that *Tawarruq* is permissible (AAOIFI, 2010e: 531-33; IIFA, 2009). Due to the nature of this contract, it has become the most controversial contract in IB. Some scholars are

worried about the *Shari'ah* compliance of *Tawarruq* practice, while other scholars permit it noting that the majority jurists of different schools of Islamic law considered *Tawarruq* as legally permissible (Lasasna, 2015). When required, the *Tawarruq* contract should be employed to prevent interest, particularly when the client's goal is only to receive money rather than to buy things. (Ayub, 2007: 349).

Table 3.2.4.11: Summary of Main Features of Islamic Financing Techniques (Mirza and Halabi, 2003: 352):

Feature	Techniques				
	<i>Mudharabah</i>	<i>Musharakah</i>	<i>Ijarah</i>	<i>Murabahah</i>	<i>Bay' Salam</i>
Nature of financing	Investment based Not required to reimburse the whole amount of funding	Investment based Same as in <i>Mudharabah</i>	Leasing based Only rent is paid	Combination of debt and trading Obligated to repay the whole amount of finance	Combination of debt and trading Same as in <i>Murabahah</i>
Role of capital provider in management of funds	Nil	Full control	Full control on the use of the finance	Same as in <i>Ijarah</i>	Nil
Risk bearing by the capital provider	i. To the full extent of the capital as well as of the opportunity cost of capital ii. For the entire duration of the agreement	Depending on how much of the enterprise's overall investment is made using capital Same as in <i>Mudharabah</i>	Same as in <i>Mudharabah</i> Until the asset completes its life or is finally disposed of	To the full extent of the capital Only for a short period until the goods are purchased and taken over by the finance user	Same as in <i>Mudharabah</i> Even after the expiry of the contract until the goods are finally disposed of

Uncertainty of rate of return	Complete uncertainty	Same as in <i>Mudharabah</i>	Same as in <i>Mudharabah</i>	Uncertainty only for a short period of the contract	Same as in <i>Mudharabah</i>
Cost of capital	Uncertain <i>ex-ante</i>	Same as in <i>Mudharabah</i>	Fixed and predetermined	Same as in <i>Ijarah</i>	Same as in <i>Mudharabah</i>
Implications for the firm's financing choice	Between the two profit-sharing methods, <i>Musharakah</i> has the edge over <i>Mudharabah</i> as capital owner in the former case has the right to interfere in the management and have some control over problems created by informational asymmetry and moral hazard.		Between the two fixed cost of capital techniques, <i>Ijarah</i> has the edge over <i>Murabahah</i> as capital user in the former case is responsible only for the payment of the cost of capital and not responsible for the capital goods themselves		<i>Bay' Salam</i> Provides the advantage to the seller of receiving cash in advance and the buyer the benefits of lower cost of purchase.

3.3 Risks of Islamic Banking:

IB operates with risks similar to traditional banking, yet there are changes in how these risks are applied because of the two types of banking's dissimilar natures. The *Shari'ah* principles are applied in IB contracts unlike the conventional banking. For example, *Riba* or interest is strictly prohibited in IB while conventional banking is based on interest. Due to religious prohibitions, Islamic banks cannot open conventional banking windows based on *Riba*, while conventional banks may offer IB products through Islamic windows alongside their own (Hassan and Lewis, 2007: 144). As a result, it is feasible to categorize risks in Islamic banks into two categories. Risks of the first kind are those that are comparable to those experienced by traditional banks. Other risks unique to Islamic banks include certain risk traits, such the asset and liability (Hassan and Lewis, 2007: 144). Islamic financing agreements typically involve market, liquidity, operational, and credit risks in addition to other risks brought on by the distinctive asset and liability structures of Islamic finance (Mounira and Anas, 2008: 29).

3.3.1 Credit Risk

Credit risk is the most prevalent form of risk that both conventional and Islamic banks must deal with (El Tiby, 2011: 29). It is the risk of not receiving a financial benefit as a result of

the borrower's inability to pay back a loan or fulfill a contractual obligation by the due date (Schoutens and Cariboni, 2009: 3). This is the risk associated with a debtor's capacity to make payments by the date specified in the contract (Elgari, 2009: 9). If the borrower does not return the loan within the time period specified in the contract, the creditor or bank may suffer a loss as a result of the borrower's payment delay, and this poses a credit risk to the bank. As in all the modes of investment in conventional banks, the relationship is creditor-debtor, the conventional banking faces credit risk in almost all of their operations. Conventional banks add additional interest, if the debtor fails to repay on time, while this increasing interest is prohibited in *Shari'ah*. As a result, Islamic banks have greater credit risk than traditional banks (Elgari, 2009: 9; Visser, 2009: 131).

In the majority of the financing methods they typically utilize, Islamic banks are subject to credit risk. In the *Murabaha* contract, the goods are delivered by the Islamic bank before receiving payment. For instance, a client wishes to purchase a vehicle through a *Murabaha* contract from an Islamic bank. Following the application, the Islamic bank acquires the vehicle based on the client's promise to purchase it, however the client is free to decline delivery of the acquired vehicle (Van Greuning and Iqbal, 2008: 126), which creates a credit risk for the bank. In *Mudharabah* and *Musharakah* contracts, when the capital involved in a deferred sale or payment, the Islamic bank as the owner of capital, faces an indirect credit risk. Here is the possibility of failure to pay the banks share by the entrepreneur which causes credit risk for Islamic banks (Hassan and Lewis, 2007: 145). These three contracts are regarded as having the biggest credit risk in IB operations (Khan and Porzio, 2010: 103). After payment is made under the *Salam* contract, the Islamic banks are liable to credit risk if the commodities are not delivered at the scheduled time or are not in accordance with the customer's demands. Additionally, the *Salam* contract results in a commodities obligation rather than a monetary liability, which increases the credit risk for Islamic banks (Elgari, 2009: 9). An Islamic bank is exposed to credit risk under the *Istisna* contract if the subcontractor does not adhere to the agreed-upon quality requirements, the supplier does not deliver the items on schedule, or the quality does not satisfy the agreed-upon criteria. In this agreement, Islamic banks take a risk by paying in advance for items that they would get at a later time (Elgari, 2009: 9).

3.3.2 Liquidity Risk

The current and potential risk to earnings and the market value of stockholders' equity resulting from banks' failure to pay commitments as they become due is known as liquidity risk. This is especially true when a bank's net cash flow unexpectedly declines or when it is unable to swiftly and efficiently settle commitments. Liquidity concerns may relate to a bank's capacity to quickly and affordably borrow money (Koch and MacDonald, 2009). It is regarded as one of the primary reasons for bankruptcy. Liquidity risk often arises when depositors elect to withdraw their money from the bank but the bank is unable to pay them back or when the bank decides to stop making payments on a loan but the borrower is unable to pay (Van Greuning and Iqbal, 2008: 154).

Funding liquidity risk and market liquidity risk are the two different categories of liquidity risk. The risk of funding liquidity is that a company won't be able to effectively fulfill both anticipated and unforeseen current and future cash flow and collateral demands without impairing the company's day-to-day operations or financial situation (Van Greuning and Iqbal, 2008: 154). A firm's inability to quickly offset or reduce a position at the market price is known as the market liquidity risk (Van Greuning and Iqbal, 2008: 154). The traditional banking system offers a wide range of instruments that the banks can utilize since it has a well-developed interbank market. A bank has a lot of flexibility to change its short-term cash flow since it has access to interbank money markets for borrowing money on short terms. Banks may now rely on secondary markets for financial instruments as a significant source of liquidity for managing their liquidity situation (Abdul Majid, 2003). But in order to satisfy their liquidity demands in a *Shari'ah* compliant manner, Islamic banks have extra difficulties that need to be addressed (Malik, Malik and Mustafa, 2011: 41-46). Islamic banks are not permitted to utilize the traditional procedures of liquidity management since they are dependent on interest. Comparatively speaking, Islamic banks face more risks than conventional banks due to the enormous loans they now handle as bank assets. Liquidity risk may thus be more severe in Islamic financial transactions than it is in traditional institutions. Following are the primary factors that contribute to liquidity risk in Islamic financial contracts:

- ◆ There is small number of participants in IB.

- ◆ Islamic banks are prohibited from borrowing money at interest to meet their liquidity needs (El Tiby, 2011: 37).
- ◆ Islamic banks are unable to sell the loan at first since *Gharar* and *Riba* are involved (Ayub, 2007: 146).
- ◆ Like with conventional banks, the central bank should act as a lender of last resort for Islamic banks. But there is there is *Shari'ah* restriction because of interest. So, it is of no lender of last resort (El Tiby, 2011: 37).
- ◆ Most deposits are made in current accounts at Islamic banks (Khan and Porzio, 2010: 68).
- ◆ Islamic banks' financial development is gradual, which prevents them from being able to swiftly raise money from the markets (Hassan and Lewis, 2007: 145).
- ◆ There is absence of Islamic secondary market and Islamic inter-bank market.

3.3.3 Market Risk

Market risk is the current and future risk that adverse changes in market rates or prices pose to profitability and shareholder equity. It is the possibility of suffering losses as a result of negative changes in market prices, including interest rates, commodity prices, currency rates, and other economic and financial factors. There are four common market risk factors as a result: interest rates, stock prices, foreign exchange rates, and goods prices (Fraser and Simkins, 2010: 239). Due to various factors, such as the fact that their financial instruments are asset-backed, Islamic banks are more vulnerable to market risk than conventional banks (El Tiby, 2011: 34). The markup price of delayed sales and lease-based transactions exposes Islamic banks to interest rate risk even if they are not directly exposed to it. Islamic deposit and financing accounts must offer effective returns on par with those offered by conventional counterparties. The difference in real returns can pose a danger to the investment banking sector (Sarker, 2006: 78-84). Profit rates that are paid to *Mudharabah* depositors must adapt to shifts in the market's markup percentage. However, since the price was determined based on the mark-up rates of the prior period, the profit rates received on assets cannot be increased. To put it another way, any rise in new earnings must be distributed to depositors; however, it cannot be adjusted on the asset side by raising the rates on the receivables

(Sarker, 2006: 78-84). Due to the *Murabaha* contract's length, it is subject to market risk. The mark-up is fixed for the term of the contract due to the nature of *Murabaha* contracts. As a result, these fixed income contracts' interest rates cannot be changed in the event that the benchmark rate changes (Hassan and Lewis, 2007: 145). The Salam contract is subject to market risk as a result of changes in the price of products. In order to fulfill their obligations, if the Islamic banks are unable to provide the goods, they will have to buy them from the market at a higher price (El Tiby, 2011: 34). According to the conditions of the *Ijarah* contract, the lessor is subject to market risk regarding the residual value of the leased asset, which may be less than the agreed-upon price or rent or if the lessee cancels the lease sooner (by defaulting, within the length of the contract). Due to its swings, foreign exchange is also subject to market risk (El Tiby, 2011: 34).

3.3.4 Operational Risk

Operational risk has been considered as a dominant risk in the banking industry. It alludes to the potential for operational expenditures to differ materially from what is anticipated, which might result in a fall in net income and the value of the bank (Koch and MacDonald, 2009). Operational risk is the possibility of financial loss brought on by internal (events involving people and systems) or external occurrences that are inadequate or fail. The danger of technology, systems, and analytical models failing is also included (Van Greuning and Iqbal, 2008: 174). Operations risk in Islamic banks, according to the IFSB, is connected to losses brought on by "inadequate or failed internal processes, people and system, or from external events, including losses resulting from Shari'ah non-compliance and the failure in fiduciary responsibilities."

Some Islamic financial contracts, including the *Murabaha* and *Istisna* contracts have a non-binding cancellation risk (El Tiby, 2011: 40). There are various programs, such as computer software, that may not be suited for Islamic banks due to the particular nature of the company, the environment, specific procedures, and competition. As a result, Islamic banks face systemic risks while creating and utilizing informational technology (Van Greuning and Iqbal, 2008: 174). Failure to adhere to Shari'ah criteria might affect how much money the Islamic banks make (El Tiby, 2011: 40). Islamic banks may be susceptible to operational risk as a result of the SBs' lack of defined procedures in various countries (Van Greuning and Iqbal, 2008: 175). In order to identify and address any issues in operational processes, Islamic

banks do not have a sufficient internal control system (El Tiby, 2011: 40). Operational risk affects Islamic banks in several ways, and it varies depending on the kind of Islamic finance used. In contrast to *Istisna* and *Mudharabah* contracts, operational risk is minimal in *Murabaha* and *Ijarah* contracts and high in those contracts (Van Greuning and Iqbal, 2008: 176).

Operational risks in the Islamic framework may result from a variety of factors, such as the non-standard character of Islamic financial goods and services, the distinctive corporate governance and control activities that Islamic banks should do internally, and others (Sundararajan and Errico, 2002). Due to the substantial *fiqh*-related risks and the lack of an effective *Shari'ah* system to enforce financial contracts, Islamic banks are unable to use many real risk management strategies that may not necessarily be in conflict with the *Shari'ah*. As a result, both supervisory staff and banks are not well-oriented in *fiqh* knowledge (Chapra and Ahmed, 2002). In general, operational risks that arise in Islamic banks cause the bank's net income to fall short of expectations, which poses serious management challenges (Chapra and Khan, 2000).

Thus, it may be said that Islamic banks have to face several types of risks in their financing contracts as conventional banks. The risks encountered by Islamic banks are complicated and challenging to avoid since there are nature-based distinctions between Islamic and conventional banking's funding methods. IB contracts occasionally carry greater risks than traditional banking does.

3.4 Differences between Islamic and Conventional Banking

From a conceptual point of view, Islamic banks have a number of significant differences compared to the conventional banks. Islamic banks perform financial intermediations differently which are compliant with the *Shari'ah*. IB is strictly prohibited from *Riba* or interest, while the conventional banking system uses interest as a primary source of remuneration of depositors' savings (Schaeffer, 1984: 651). Islamic banks' depositors undergo true investors' risk and they share losses and profits unlike the conventional banks depositors. Islamic banks use a return rate instead of an interest rate (depositors are treated like investors; they receive returns on their investments). In this case, a borrower (*Mudharib*) ensures the daily management of the financed project while the account holder (*Rabb-al-Mal*)

provides the needed funding (Mudharabah) or equally participates in the management of the project (Musharakah). The outcome of such investment is shared between the bank and the borrower, and between the bank and the depositor according to a predetermined ratio of profits and losses (Bitar and Madiès, 2013: 293-310).

In Islamic finance methods, the rate of return is not predetermined, while in conventional banks' depositors receive a fixed rate of interest. All transactions in Islamic banks should be linked to the real economy through a tangible asset. Therefore, Islamic banks' products must be asset backed unlike the conventional banks. Islamic banks are prohibited from engaging in islamically sinful transactions such as weapons, alcohol, drugs, pornography, and the porcine industry. Accordingly, Islamic banks must use their funds in non-harmful sectors as defined by the *Shari'ah* (Lewis, 2001: 103-127). The most distinguishing differences between IB and conventional banking have been shown in the following table (Ahmad, 2012: 15; Ahmad and Hassan, 2007: 251-277):

Table 3.4: Differences between Islamic and Conventional Banking

Characteristics	Conventional Banking System	IB System
Operating Principle	The operational procedures and corporate processes are based on artificially man-made secular ideas.	All IB operations must comply with the <i>Shari'ah</i> criteria since the business functions and operational models are founded on Islamic <i>Shari'ah</i> principles.
Aims and Purpose	The goal of investing is to increase wealth and profit without any limitations. The primary focus is placed on the clients' creditworthiness.	In accordance with <i>Shari'ah</i> regulations, it also seeks to maximize profit. But the fundamental goal of investing is to increase good things for the entire community. As a result, it places more focus on the initiatives' feasibility.
Fundamental Function	The primary purpose of conventional banks is to lend money and collect interest on it.	The main purpose of Islamic banks is to participate in partnership business.
Interest charging and	A fixed or variable interest rate is charged for the usage of money since	Since framework financing is not interest-based (<i>Riba</i>), it should be based on a

Payment Guarantee	financing is interest-oriented. The capital (the amount of deposits) and rate of return (the interest rate) are guaranteed by conventional banks.	profit-loss split between the capital supplier (investor) and the beneficiary (enterprise). Islamic banks are unable to provide a certain rate of return on deposits. Depositors are guaranteed to receive their money back from Islamic banks as long as the deposit account is founded on <i>Al-Wadiah</i> . Clients must partake in a losing position, nevertheless, if the account is founded on <i>Mudharabah</i> , for instance.
Zakat	Conventional banks do not levy or pay any <i>Zakat</i> or other forms of religious tax.	The collection and distribution of <i>Zakat</i> by Islamic banks has evolved into one of its service-oriented roles in the current IB system.
Base of Transaction	Transactions involve money based on financial assets. Bankruptcies and the squandering of financial resources are caused by debt burdens brought on by excessive usage of credit. When money is distributed, there are no commodities or a service to back it up, which leads to money expansion and inflation. Long-term loans and bridge finance are provided based on the feasibility of the entrepreneur's window-dressed projects rather than the availability of capital goods.	Real assets serve as collateral for financing, which is intended to lower total debt. Because goods and services are available, there is no increase of the money supply, which prevents inflation. For instance, before allocating cash for a capital project, a <i>Musharakah</i> and Diminishing <i>Musharakah</i> agreement is created after verifying the presence of capital goods.
Product and Value of Money	A thing other than a means of exchange and a store of value is money. Money is frequently employed to earn more money. Interest is calculated on capital based on time value.	The product is the true asset. Making money out of money is not permitted in Islam. Simply put, money is a means of transaction. Profits from the trade of products and services provide the foundation of profit-making.
Risk sharing in equity financing	Although it is uncommon, risk sharing is possible through venture capital firms and participation, where profit is divided according to a pre-	For a project or business, Islamic banks provide equity funding with risk sharing. Equity is used to determine how profits

	determined ratio. Banks may take involvement in management as well.	and losses are split.
Growth with Equity and Expertise Development	It frequently makes the bank's own interests clear. It makes no attempt to guarantee equity-based growth. It places minimal significance on gaining competence in project appraisal and reviews because the revenue from the advances is fixed.	The public interest is given the appropriate weight. Its ultimate goal is to guarantee equitable growth. Islamic banks provide project analysis and evaluations more thought since they share in profit and loss.
Relationship	In general, there is a debtor and creditor relationship between the bank and its client. The majority of the time, conventional banks serve as a middleman between lenders and borrowers, earning nearly risk-free spreads. In particular, banks often refrain from engaging in equity financing. They are substantially less risky since the majority of those risks are passed on to the borrowers.	The role of an Islamic bank in regard to its customers is that of a partner, trader, investor, and buyer. The main duty is to take part in partnership business that is founded on the ideas of equity financing and actual economic activity. Islamic banks must manage possible risks with greater professionalism in order to guarantee returns that are superior to those of conventional accounts. Depositors and investors may be able to receive larger returns, but they also run the risk of losing money.
Penalty on default	The bank may impose extra fees (at a compound punitive rate of interest) if debtors default. Depositors are compensated before stockholders in bankruptcies.	The Islamic banks are not allowed to impose any additional fees on defaulters. However, they may permit the application of default or late payment penalties on the grounds that they deter these actions, which add to the bank's administrative expenses for handling and collecting the debt. If so, the money is donated to a good cause. Holders of investment accounts will have rights comparable to those of shareholders.
Borrowing Money from the Money Market	The money market offers comparatively simpler terms for commercial banks, and in some circumstances it serves as their	It is comparably challenging for Islamic banks to borrow money from the money market.

	primary source of liquidity.	
Debt Financing	Due to interest expenses being a deductible cost from taxable earnings, debt financing benefits from leverage for an organization. For those who earn a living, this results in enormous tax burdens. People's savings and discretionary income are negatively impacted as a result. The real GDP declines as a result.	The Federal Government receives additional revenue from the sharing of earnings in <i>Mudharabah</i> and the participation in the commercial venture. As a result, the tax burden on wage earners is reduced. Because people are saving more and having more money available to them, the GDP rises as a result.
Restriction	Conventional banks may finance in any lawful product or service.	Only <i>Shari'ah</i> -compliant commercial activities are permitted for Islamic banks to engage in.
Speculative Investment	Derivatives trading and dealing are sometimes seen as the primary source of liquidity in the traditional capital, commodities, and financial markets. The Speculative investments are allowed.	It is against the law for a contract to have any doubt. In contracts, "full disclosure" by both parties is typical. Trading in derivatives is said to have <i>Gharar</i> -like features. Transactions with elements of <i>Gharar</i> such as gambling or speculation are discouraged or forbidden.
<i>Shari'ah</i> supervisory Board	Conventional banks do not have such requirements.	A supervisory board is required for Islamic banks in order to guarantee that all company operations adhere to <i>Shari'ah</i> regulations.
Statutory requirements	Conventional banks are required to adhere to the Central bank's regulations and the applicable banking laws of the nation in which they conduct business.	An Islamic bank must adhere to both <i>Shari'ah</i> regulations and the legal requirements of the central bank of the nation in which it conducts business.

3.5 Summary

The *Shari'ah* offers a framework to control economic practices as an all-encompassing and all-pervasive system of existence. The development of the IB system represents the optimal

use of economic transaction within the *Shari'ah* framework. The *Shari'ah* should be scrupulously followed in all of the Islamic banks' operations, goods, and services. This chapter has reviewed the fundamental knowledge and laws concerning IB. It has elaborately described the conceptual development of IB, which included the definition of IB, its principles and objectives. It has also explained in details the major modes of IB contracts together with their *Shari'ah* foundation to examine their *Shari'ah* basis. These have either been directly deduced from the text of the Holy Qura'n and *Sunnah* or by the *Ijtihad* of contemporary Muslim jurists. The basic principal in this connection is that "everything is permitted except which is explicitly prohibited by the *Shari'ah*". A banking product could not be declared as prohibited until it is explicitly found contradict to a *Shari'ah* instruction. It also made an effort to comprehend any hazards associated with IB goods. The essential distinctions between Islamic banks and their conventional equivalents are provided as the chapter comes to a close. The fact that Islamic banks operate under rigorous *Shari'ah* guidelines whilst serving the same role as traditional banks as financial intermediaries has been stressed.

CHAPTER FOUR

HISTORY OF THE DEVELOPMENT OF ISLAMIC BANKING

4.1 Introduction

Islamic instructions concerning the economic affairs inspired the early Muslim scholars to initiate research on the Islamic methods of economic transaction. At the same time, the expansion of local and international trades with the dawn of early Islamic Empire led to the creation of several Islamic financial tools such as deposit, money transfer, check, bill of exchange, etc. to cope with these commercial developments. Thus, the beginning of Islamic banking (IB), in its wider sense, dated back to the early days of Islam and the rise of Islamic Empire. But the gradual weakening and the fall of Islamic Empire accompanied with the pale of these Islamic financial practices until its replacement by the western financial models. However, Islamic financial practices again started to be emerged from the mid of 20th century being accommodated with the modern banking concepts, tools and technologies. A number of factors shaped the perspectives for the development of IB in the modern era that includes the colonization of Muslim states, struggles for independence, emergence of various economic theories such as capitalism, communism, socialism, the need to respond to assertions of the superiority of western knowledge, increasing materialism, changing attitudes towards poverty, and the development of capitalism (Zaman, 2008: 16). From a humble beginning in the 1960's in Egypt, IB has witnessed a significant development in terms of growth and size. With 17% annual growth rate which is two to three times faster than the rate at which conventional banks grew (Yueh, 2014), IB has widened its horizons to all major parts of the world.

4.2 Historical Background of Islamic Banking

Although the establishment of modern IB has become a reality in the 1960s, some forms of banking activities had been practiced even since the very early days of Islam, which were similar to modern banking transactions. The Arabians of that era would lend their money to a third party for trade using *Al-Qirad* or *Mudharabah* techniques in order to make money (Karim, 1996). Mecca served as a hub for trade and a route for merchants traveling from the north and south during the pre-Islamic era. Trade-related operations including loans, deposits,

and currency exchange grew quickly. (Haron, 1996: 4). Historical books (e.g. *Kitab Al-Tabaqat Al-Kubra* written by Ibn Sa'ad) written during the early years of Islam indicated that during the 1st century of Islam, there were several earlier versions of banking that resembled contemporary banking today, including accepting deposits, loaning money, exchanging money, exchanging bills, etc. (Taqiuddin, 2013).

Before the time of his prophethood, Muhammad (pbuh) was called 'Al-Amin' or trustworthy for his noble honesty. The wealthy Arabians used to keep their wealth to him. Ali was chosen by the Prophet (pbuh) to serve as the trust keeper to return all the properties to their rightful owners upon his migration to Medina (Hamoud, 1985). Ibn Sa'ad revealed that Al-Zubair Ibn al-Awam (one of the most famous personalities in Islam) was accepting deposits from people as loans and investing that money, and at the time of his death his debt had reached 2,200,000 dinar²⁵ as counted by his son Abdullallah Ibn al-Zubair (Omar, 2001: 101-102). According to Abdullallah Ibn al-Zubair, his father would inform individuals who handed him money to keep that it was being borrowed rather than deposited because he was concerned he could misplace it (Haron, 1996: 4). At the same time, with borrowing money, he got the authority to use or invest it, which is not allowed with the deposits. Ibn Sa'ad also stated that Al-Zubair Ibn al-Awam had several branches in different parts of the Islamic Empire to return deposits to their owners (Ahmad, 2015: 13). Some contemporary scholars like Al-Ali called this collection of branches Al-Zubair Bank (Nasser, 1996). Al-Zubair's activities resulted in few banking concepts. First, the idea of a deposit, which was formerly a trust held by the borrower, has been altered. Now, all persons can access the money that has been placed. Second, he obtained the right to utilize the funds by using the deposit as a loan. Third, the owner will suffer loss if the deposit is not utilized. Fourthly, because the deposit is seen as a loan, it is safer because the borrower must repay the money (Haron, 1996: 4). Moreover, the people of Mecca of that time widely practiced to use the money only in two ways; either giving it to a third party to trade through *Mudharabah* or *Al-Qirad* and splitting the earnings, or lending the funds on *Riba*. After the advent of Islam, all activities that involve *Riba* were prohibited (Haron, 1996: 4).

Bait-al-Maal was another important institution which geared up the banking activities. During the time of Prophet (pbuh) and four pious caliphs, *Bait-al-Maal* was developed as a central state treasury, which also played the role like the central bank of modern times. Caliph Umar (634-644) reorganized the operation of *Bait-al-Maal* by making it a separate

²⁵ The dinar was in the era of the Prophet (pbuh), equal to 12 dirham. Today, one dinar equals to four grams and a quarter of gold (24 carat).

entity. The resources for *Bait-al-Maal* primarily came from *Zakat*, *Kharaj* (land tax), *Jizyah* (tax on non-Muslims living in Islamic states), individual donation, property without owner, property of apostates, and property of individuals without legal heir etc. (CIFP Study Material, 2006). The funds of *Bait-al-Maal* were used for national duties such as defense, the salary of government employees, public welfare, infrastructural development, irrigation etc. (CIFP Study Material, 2006). *Bait-al-Maal* primarily did neither receive deposits nor lend money to people. There are indications that *Bait-al-Maal* occasionally did lend money to certain people, though. Abdullah Ibn Umar and Ubayed, the sons of the Caliph Umar, received loans from *Bait-al-Maal*, this might be considered as an example. According to Caliph Umar, the deal between his two sons and Bait-al-Maal was founded on the *Mudharabah* concept, and he requested that his sons provide a portion of their income to Bait-al-Maal. (CIFP Study Material, 2006). Additionally, throughout that period, money orders and bill exchanges were conducted. For example Ibn al-Abbas had once taken *Warik*²⁶ and noted the receipt of acceptance to Kufah (CIFP Study Material, 2006). Abdullah Ibn Al-Zubair (624-629) was another instance. He once collected money from the people of Mecca and sent the receiver confirmation to his brother Mus'ab Ibn Al-Zubair in Iraq, where the depositors could reclaim their money (Haron, 2005: 49).

Furthermore, the writings of Al-Djahshiyari (1938), Al-Kubaisi (1979), Al-Ali (1953, 1981), Al-Duri (1986: 894-909), Fischel (1992), and Al-Hamdani (2000: 15-41) show that there were bankers called *Sarraffeen* or *Sayarifah* (singular *Sarraf*) or *Jahabidhah* (banks called *Dawawin al- Jahabidhah*) in the Islamic Empire (Chachi, 2005: 3-25). During the Abbasid Caliphate (750-1258), the term *Sarraffeen* was used to refer to financial clerks, experts in matters of coins, skilled money examiners, treasury receivers, government cashiers, money changers, or collectors to designate the well-known, licensed merchant bankers in those times (Chachi, 2005: 3-25). In addition, the first check in history was drawn by a *Sarraf* in Baghdad in 970 A.D., and it was cashed by the prince of Aleppo, Saif Al-Dawla Al-Hamadani (Hamoud, 1985). In the 12th and 13th centuries, non-interest-based borrowing and lending, the *Mudharabah* partnership, and the *Musharakah* facility served as the cornerstones of Mediterranean trade and manufacturing (Abedifar, Ebrahim, Molyneux and Tarazi, 2015: 3). The thriving of commercial activities during the Abbasids, led to the establishment of banks. The funding sources of those banks were deposits made by the public and state and banks' profits from money exchange, currency evaluation, lending etc. There were two types

²⁶ A type of currency made from silver and turned into dirham.

of banks: state and private. The state banks were established to advance loans to the government. The first state bank was incorporated in 912 A.D. by the vizier Ali Ibn Isa (908 – 912) during reign of Abbasid Caliph Al-Muqtadir (908-932) (Islam, 1984: 780-789). Ali Ibn Isa requested two Jewish merchant and banker, Yusuf Ibn Pinkhas and Harun Ibn Imran, to establish a bank to advance loans to the government (150,000 Dirham in the beginning of each month), and they will collect the tax revenues of Ahwaz region in return. This implies that they will get an amount above the principle as an administration fee. The bank operated for 16 years (Alharbi, 2016: 110). As a result, early Muslims made a significant contribution to the growth of banking techniques during the Islamic Empire. The main perspectives behind this development as there were:

1. A legislative system, which included firm rules and regulations to govern all transactions
2. A strong judicial system, which was capable of enforcing all legitimate contracts
3. Different kinds of commercial papers and banknotes that were widely accepted, such as promissory notes (Reqaah al-Sayarifah), bills of exchange (Suftaja), and goods Sukuk and
4. licensed bankers, who had offices or agencies in different parts of the Islamic Empire and accepted deposits, assigned debt (Hawalah), exchanged money, issued banknotes, and performed many other services (Nasser, 1996: 15-16).

4.3 The History of Modern Islamic Banking

The decline of the Islamic Empire from about 12th Century caused the gradual fade of the financial and banking practices in Muslim territories. Western influence gradually started to be increased throughout Muslim countries, particularly through the process of colonization. Nearly the whole Islamic world was colonized by Europeans throughout the 18th, 19th, and first part of the 20th centuries. They ran these nations' economy and finances according to their own preferences and methods, and thus, many Islamic countries started gradually to adopt western banking model. The process began either by opening branches of foreign banks or by establishing banks within the countries. For example, 'Bank of Egypt', the first conventional bank in Egypt was launched in 1856, which was a branch of an English bank, but was closed in 1911. The National Bank of Egypt was established in 1898 by Ralph Suarez and Constantine Salvagos with an English partner (Nasser, 1996: 15-16). The British Empire established the Imperial Ottoman Bank in the Ottoman Empire's territory and the Imperial Bank of Persia in the Qajar dynasty's territory, respectively, in 1856 and 1889 (Shinsuke, 2012: 115). This trend continued in almost all Islamic countries until the mid of 20th century. The Muslim people avoided interest-based financial organizations due to

religious prohibition, with the exception of local elites who had to get engaged. In these nations, the desire to run their affairs in line with their own religion, values, and traditions also evolved as the national consciousness of these nations increased and freedom movements grew during the second half of the 20th century. Algeria achieved independence in 1963, whereas Indonesia did so in 1945. Almost all of the Muslim-majority countries gained independence between these two dates. The Islamic financial movement was created as a result of discussions on how these nations' economies and finances should be managed in line with their ideals to further their own interests. The trend of attaining the independence of colonized Islamic countries during the period also fueled the conceptual and practical development of IB system. With these circumstances, from the early decades of 20th century, the concept of IB has started to be discussed among the Islamic scholars, which gained momentum in the mid of 20th century.

4.3.1 Theoretical Emergence of Islamic Banking

Although the theoretical concept of interest-free banking started to develop in the early 20th century, it practically appeared during the 1940s through 1960s by some Islamic scholars in different languages such as Urdu, Arabic and English. Among the notable early contributions, the writings of Sayyid Abul Aala Maududi (1937), Hasan Al-Banna (1939), Hifz Al-Rahman (1942), Muhammad Hamidullah (1944), Anwar Qureshi (1945), Naiem Siddiqi (1948), Mohammad Yousuf Al-Dean (1950) and Mohammad Baqir Al-Sadr (1961) were landmark in this development (Al-Ansari, Hasan, and Metwaly, 1988: 24-25). Their contribution stressed the need for a distinct Islamic economic system which resulted in developing the conceptual basis of IB. The idea acquired academic traction in the 1940s, focusing on the entire economic system rather than just banking and finance in the narrow sense. The intellectuals criticized both capitalism and socialism and pushed the creation of a system based on Islamic economic precepts, such as the prohibition of interest, Zakat, moderation in consumption, aiding the needy, encouraging economic entrepreneurship, justice and fairness, avoiding waste, etc. Sayyid Abul Aala Maududi investigated Islamic methods of reviving contemporary economic institutions while conducting a critical analysis of them (Maududi, 1937: 16-17; 36-39), with which he used to present a clear illustration of the updated Islamic economic system (Nasr, 1996: 103). He, therefore, has been regarded as a founder of modern Islamic economics (Kuran, 2004: 39; Wilson, 2004: 196).

The trend of achieving independence during the 1940s and 1950s throughout the Muslim world also influenced the Muslim intellectual community to rethink about the social, political

and economic alternatives of Islamic system to replace that of western. It was necessary to argue that Islam offered a better way of life than the dominant western system. This forced Muslim scholars to explore Islamic socio-political and economic structure and, accordingly, the concept of IB emerged. In his book "Islam and Theory of Interest," Qureshi (1945: 158–159), viewed banking as a social service that the government should support, similar to other public institutions like public health and education. He also suggested that both Islamic bank and entrepreneur can create partnership saying "there is no objection against such banks in the Islamic system if the banks, rather than allowing loans to the industry, become its partners and share the loss and profit with it" (Qureshi, 1945: 159). Ahmed (1952) in his book 'Economics of Islam,' expressed his view with a proposal for establishing Islamic bank based on joint stock company with limited liabilities. According to his proposal, in addition to current accounts, on which no dividend should be given, there is another account in which individuals might deposit their money under the terms of a partnership, with shareholders getting bigger dividends than the account holders from the profit. Ahmad (1952), like Qureshi, mentioned a potential cooperation with an entrepreneur looking for funding from an Islamic bank (Ismaili, 2011: 10). Later contributions such as Uzair's (1955) 'An Outline of Interest-less Banking', Irshad's (1964) 'Interest Free Banking', Al- Arabi's (1966) 'Contemporary banking transactions and Islam's views thereon', suggested that *Mudharabah* should be the main pivot for IB. Uzair (1978) disclosed the practical idea of two-tier *Mudharabah*. He proposes to combine two *Mudharabah* deals into a single plan. The first *Mudharabah* is performed by depositors (Rabb al- Maal) and a bank (Mudharib), whereas the second *Mudharabah* is performed by a bank (Rabb al-Maal) and a borrower (Mudharib). In the first *Mudharabah*, the parties split the bank's profit, whereas in the second *Mudharabah*, the parties split the borrower's profit. Al-Arabi (1966: 10-16) also advanced the idea of two-tier *Mudharabah*. However, Irshad's (1964) interpretation of *Mudharabah* was very unlike from the conventional one. He believed that labor and capital should contribute equally to output, sharing both profit and loss (Ismaili, 2011: 11). This trend of intellectual discourse continued in the 1950s and so on, when the early Islamic banks were established.

A pioneering attempt at providing an elaborate theoretical foundation of IB and detailed framework of financial intermediation were made by Siddiqi in Urdu in 1968, which was translated in 1983 titled "Banking without Interest" and "Issues in IB" (Siddiqi, 1983). He enlarged the two-tier *Mudharabah* theory's application to the connection between a commercial bank and a central bank in addition to developing it; therefore, his contribution was to present a complete image of an IB based in *Mudharabah* as a result. His proposed IB

mode on the basis of *Mudharabah* and *Musharakah* classified the operations of Islamic bank into three categories: service-based on fees, commission and other fixed charges; financing on the basis of *Mudharabah* and partnership; and services provided free of charge (Ismaili, 2011: 11). Chapra's (1982) model of IB was also based on the *Mudharabah* principle. For the first time, he promoted the idea that Islamic financial institutions are investment institutions rather than typical financial institutions. His idea of banking was in line with the proposal of earlier scholars and provided a much more fertile ground for profit and loss sharing arrangement in the banking models. He expanded on the notion that Islamic banks should serve the greater good rather than just the interests of any one person or group. They should play a social-welfare oriented role rather than a profit-maximizing role. Contemporary writings also emphasized that IB should participate activities towards achieving the socio-economic objectives of poverty eradication, equal distribution of wealth and crediting ample employment opportunities. During the 1980s and 1990s, the other models of IB based on *Ijara*, *Salam*, and *Murabaha* were developed and refined.

IB and finance were widely discussed in academic and professional circles. Many Muslim nations began to think about putting the concept into practice and created expert groups to iron out the intricacies. Numerous institutions began offering classes on the topic and promoting study, which produced hundreds of PhD dissertations. In cities as diverse as Kuala Lumpur, Dhaka, Islamabad, Bahrain, Jeddah, Cairo, Khartoum, Sokoto (Nigeria), Tunis, Geneva, London, and New York, a number of seminars and conferences brought attention to the issue. Islamic economics has become a focus for several academic institutions, with banking receiving particular emphasis. Some of these started academic publications that served as platforms for ideas to be shared and knowledge to be spread globally.

4.3.2 The Establishment of Islamic Banks (1963–1975)

Although the theoretical discourse of IB emerged in the 1940s, but it started to be materialized in the late 1950s. A local Islamic Bank was established in a rural area of Pakistan in the late 1950s as the first attempt in this direction, though it had no lasting impact (Traute, 1983: 79-80). The land-owners used to deposit their money to the bank at no interest and later that was loaned to other small land-owners to use in agricultural practice. The borrower had not to pay any interest, but a small charge to meet the bank's operational cost. However, the bank was unsuccessful due to a number of challenges (CIFP Study Material, 2006). The Mit-Ghamr Islamic Savings Bank (MGISB), which is recognized as the first Islamic bank in history, was founded in Egypt in 1963. It was established thanks to Ahmad

al-Najjar's efforts in the town of Mit-Ghamr, in the Nile River Delta region, 40 kilometers from Cairo (Mouawad, 2009: 74). Within the context of Islamic tenets, the MGISB blended the concept of a German savings bank with rural banking principles (Ahmed, 1992: 66-107). It mobilized the idle savings of the Muslim population without violating the *Sha'riah* laws. The bank also helped the people around the Nile to no longer depend on loans on high interest. The experiment proved quite successful having 53 branches with 85,000 customers (Shehata, 2005). However, it was shut down in February 1967 due to political reasons, and the National Bank of Egypt and the Egypt Central Bank took control (Rodney, 1983).

Tabung Haji- a pilgrim fund corporation was established in Malaysia in 1963 with the objective of enabling the Muslims to save gradually for expenditure during *Haji*, facilitating effective participation in investment activities that are permissible in Islam through their savings (Ahmad, Mohammed, and Razak, 2012: 18). During the same time period, the Philippine Amanah Bank was formed to assist Muslims in meeting their financial needs without the use of interest. Nasser Social Bank was founded in Egypt in 1971 with interest-free banking. Its functioning was first exempted from the 1957 Law on Banking and Credit (Ausaf, 1995: 23). The Ministry of Social Welfare and Egypt Insurance now oversees this bank, which was formerly under the Egypt Treasury Ministry. The first Islamic bank in the city to promote social initiatives such interest-free financing for modest enterprises based on the profit-loss-sharing concept, aiding the underprivileged, and meeting the needs of college students was Nasser Social Bank (CIFP Study Material, 2006).

The Organization of Islamic Conference (OIC)²⁷ countries spearheaded the creation of the Islamic Development Bank (IDB) in 1973, with the assistance of the king of Saudi Arabia, at their first summit. Its operation started in 1977 headquartering at Jeddah with paid-up capital of 2 billion *Dinars*. IDB's primary goal is to promote the economic and social advancement of its member nations and Muslim communities on an individual and collective level in conformity with *Shari'ah* principles (Mannan, 1988). IDB was formerly regarded as the first global Islamic bank. Since its founding, it has been essential in the growth of the IB business by fostering commerce, offering resources for training, and carrying out vital research (Raqiq, 2007: 45). IDB promoted technological collaboration among its member nations and set up many organizations for this purpose, including the Islamic Foundation for Science, Technology, and Development and the Islamic Chamber of Commerce. It has created the

²⁷ The Organization of the Islamic Countries (OIC) is an organization of 57 Islamic countries, which was founded in 1969 in a special meeting of Islamic countries in Rabat, Morocco on September 25, 1969. For details, www.oic.org

Islamic Research and Training Institute (IRTI), which carries out internal and external research, publishes scholarly journals, runs training programs, plans seminars and conferences, and maintains a database on the economies of member nations. IDB works with all regional and global financial organizations, including the World Bank, the Asian Development Bank, and the International Monetary Fund, among others. In the following years of 1970s, a number of Islamic banks were established in different Muslim countries that were aimed at offering an alternative in the form of IB to the conventional banking system. Dubai Islamic Bank was established in 1975 with paid-up capital of 50 million AED, which is generally considered to be the first private Islamic bank (Al-Marwyne, 1985).

4.3.3 The Expansion of Islamic Banks (1976 to 2000)

Since Dubai Islamic Bank's founding as the first Islamic trading bank, the industry has started to expand rapidly, which can be seen around 1980s and 1990s (Abdeen and Shook, 1984: 167). In the private sector, a sizable number of Islamic banks were established during this time. Within 10 years of the founding of the Dubai Islamic Bank, 27 more banks had been formed in the Gulf states, Egypt, Sudan, and other nations, and many more would follow across the Muslim world.

Table 4.3.3: List of Islamic Banks established in the 1970s:²⁸

Name of the Bank	Country	Date of establishment	Date of operations began
Dubai Islamic Bank	UAE	March 10, 1975	September 15, 1975
Kuwait Finance House	Kuwait	March 22, 1977	August 31, 1978
Faisal Islamic Bank of Sudan	Sudan	April 4, 1977	May 10, 1978
Faisal Islamic Bank of Egypt	Egypt	August 27, 1977	July 5, 1979
Jordan Islamic Bank for Finance and Investment	Jordan	November 28, 1978	September 22, 1979
Bahrain Islamic Bank	Bahrain	March 7, 1979	November 22, 1979

International Islamic Bank for Investment and Development of Egypt was founded in the early 1980s, while Masyraf Faysal al-Islami, Bahrain, and Islami Bank Bangladesh Limited were created in 1982 and 1983, respectively (Traute, 1983: 79-80). Iran, Pakistan, and Sudan, three Muslim nations, resolved to convert their whole banking sector from a conventional one to an Islamic one. The foundation of Al-Rajhi Banking Investment Corporation in 1985 that conducted foreign money exchange and trading in Saudi Arabia was a significant step for the development of IB (Mustafa, 2005). The Saudi government granted it an IB license as a result

²⁸ Prepared by the author based on the date collected from the websites of the respective banks.

of its success (Mangla and Uppal, 1998: 123-142). More importantly, in the 1980s, several multinational banks such as Citibank, ABN AMRO, HSBC, Barclays, BNP Paribus, Deutsche Bank, Standard Chartered, and others established their own Islamic windows or subsidiaries, which was a clear recognition of the viability of IB model and its acceptance by international players. In addition to growing in Muslim nations, it has also been spreading in non-Muslim nations. In 1973, the Philippines Trust Bank and International Islamic Bank of Denmark were founded. The IB International Holding in Luxemburg was then created in 1978 (Ausaf, 1995: 23). The concept of IB was still being processed in nations with Muslim minority, such as the US, Australia, and Thailand (Ali and Sarkar, 1995: 4). The IMF and the World Bank also recognized Islamic financial products as alternative means of financial intermediation (Sundararajan and Errico, 2002; Iqbal and Mirakhor, 2013).

Besides the growth of IB industry, the non-banking Islamic financial institutions such as insurance companies and investment funds also started to develop. The Islamic Investment Corporation Limited (IICC) was established in 1977 as a multinational investment company in Bahamas (CIFP Study Material, 2006), having two branches in Sharjah, UAE and Pakistan. United Arab Emirate Islamic Investing Corporation was established in 1979.

Several bodies were founded to regulate and promote IB industry. IB institutions initially had certain comparative disadvantages since they had to operate inside the institutional environment that enabled traditional banking. In the 1990s, efforts on creating a network of institutions to assist the international business sector began (Abedifar, Ebrahim, Molyneux and Tarazi, 2015: 5). The International Union of Islamic Banks was established in 1977 headquartering at Mecca with the aim of strengthening cooperation among Islamic banks (Alharbi, 2015: 15). The Union founded the International Institute of Islamic Banks and Islamic Economics in 1981 to support the sustained growth of Islamic banks and the need for qualified staff (Shehata, 2006: 19). However, the union was reorganized and the General Council for Islamic Banks and Financial Institutions was established in 1999 with its headquarters in Bahrain. Its operations started at the end of 2001 as one of the organizations of OIC (El-Shiekh, 2010).

At the turn of the 20th century, IB had practically reached every significant region of the globe. Many western nations have likewise focused on IB. While some conventional banks have fully converted to IB, several have opened Islamic windows and branches. 200 Islamic financial organizations with over US\$ 8 billion in capital, over \$100 billion in deposits, and assets of over \$ 160 billion existed in the year 2000. The Persian Gulf and the Middle East account for around 40% of these, South and South-east Asia for another 40%, and Africa,

Europe, and America make up the remaining 50% each. With an average 10-15% annual growth rate since 1990s, these institutions and industry as well continued to flourish. Nowadays, IB is being practiced with the following perspectives and nature:

1. Islamic banks operate in the countries with active government support
2. Islamic banks compete with traditional banks in the private corporate sector
3. IB is practiced by conventional banks via Islamic windows or branches
4. Multinational financial institutions like IDB operates IB services
5. Islamic non-banking financial institutions and capital market instruments (mutual funds, *Sukuk*), and insurance (*Takaful*) are becoming more popular and prominent day by day (Abedifar, Ebrahim, Molyneux and Tarazi, 2015: 5).

4.3.4 Recent Development in Islamic Banking (2000 to 2015)

The trend of expansion of IB in the late 20th century continued to flourish in the early decades of 21st century. Islamic finance is currently available in virtually every nation, although it primarily exists in three regions of the world: the Middle East, South and Southeast Asia, and the Pacific area. The Middle East is home to the majority of the institutions that regulate and support IB. IB is being practiced in South Asia under the dual banking system in Pakistan, however it has been vigorously developed in Bangladesh due to rising market and public demand. Indonesia, Malaysia, and Singapore are pushing the most complete and sophisticated form of IB among Southeast Asian nations, not just in the area but also globally. Sudan has taken a more practical approach to promoting IB across Africa. The US and European nations are also seeing growth in the sector. The total assets of the Islamic financial industry (banking and non-banking) exceeded \$1 trillion at the end of 2009 and stood at \$2.143 trillion at the end of 2015 and \$2.293 trillion at the end of 2016 of which 80% is accounted for by Islamic banks (including Islamic windows of conventional banks), 15% *Sukuk* (Islamic bonds), 4% Islamic mutual funds and 1% *Takaful* (Islamic insurance) with an average annual growth rate of 15% (GIFR, 2017: 36-39). Based on the current growth momentum, the asset of global IB and finance industry is estimated to reach \$6 trillion by the year 2020 with a growing number of new market entrants (MIFC Report, 2017: 2). It is also expected that the industry is forecasted to remain growing worldwide in the near future (Ernst and Young, 2014). As of November 2013, it was reported that 245 *Shari'ah*-compliant

financial institutions (banking and non-banking) operating globally. Statistic of the Islamic financial institutions for the year 2012 and 2013 are as follows (Hancock, 2013):

	2012	2013	Growth
Number of countries	35	37	2
Number of Institutions with <i>Shari'ah</i> compliant assets	307	349	42
Number of <i>Shari'ah</i> compliant Institutions	225	245	20
Number of conventional institutions with <i>Shari'ah</i> compliant windows	82	104	22
Total	614	698	

Table 4.3.4.1: Geographical distribution of *Shari'ah* compliant asset (The Banker, 2013):

Regions	<i>Shari'ah</i> compliant assets (US\$ in billion) 2013	<i>Shari'ah</i> compliant assets (US\$ in billion) 2012	Asset growth from 2012 to 2013	Percentage of total (2013)
GCC Countries	496.9	404.9	22.73	39.2
Non-GCC MENA (Middle East North Africa)	489.8	487.4	0.48	38.6
MENA total	986.7	892.3	10.58	77.9
Asia	248.6	208.5	19.24	19.6
Australia/Europe/North America	21.7	54.7	-60.33	1.7
Sub-Sahara Africa	10.3	10.7	-3.42	0.8
Global total	1,267.4	1,166.3	8.6	1000.0

Table 4.3.4.2: Top Islamic Banks by asset (The Banker, 2013):

Rank	Bank	Country	Total asset in US\$ billion
1	Al Rajhi Banking and Investment Corporation	Saudi Arabia	76.8
2	Bank Mellat	Iran	42.5
3	Bank Saderat	Iran	41.1
4	Kuwait Finance House	Kuwait	39.4
5	Bank Tejarat	Iran	34.5
6	Bank Sepah	Iran	25.0
7	Dubai Islamic Bank	UAE	23.0
8	Bank Maskan	Iran	19.3
9	Agricultural Bank of Iran	Iran	17.8
10	Abu Dhabi Islamic Bank	UAE	17.5
11	Al-Baraka Banking Group	Bahrain	13.2
12	Islamic Development Bank	Saudi Arabia	11.5
13	Qatar Islamic Bank	Qatar	10.8
14	Maybank Islamic Berhad	Malaysia	9.7
15	Asya Katilim Bankasi	Turkey	7.9
16	Bank Islam Malaysia Berhad	Malaysia	7.8
17	Emirates Islamic Bank	UAE	6.9
18	Masraf al Rayam	Qatar	6.6

4.3.4.1 Trend of Islamic Banking in Asia Pacific and Australia:

IB has been expanding quickly across the Asia-Pacific area, not just in countries where Muslims make up the majority, such as Malaysia and Indonesia, but also in Muslim-minority nations, including Australia, New Zealand, and Singapore. Malaysia has been considered as the second hub of the IB industry. With *Tabuqn Haji* in 1962 as the pioneering effort for IB, the country approved the Islamic Bank Act in 1983 (Joni, 2001; Hadenan, 2006: 70). Bank Islam Malaysia Berhad (BIMB) was founded in March 1983 (Ismail, 2005: 283). The asset of BIMB increased from RM 325.5 million in 1984 to RM 13.7 billion in 2003, with an annual increase of 16.3%. It was marked as a very sustainable banking institution in Malaysia (Bank Negara Malaysia, 2008). Interest-free Banking Scheme (Skim Perbankan Tanpa Faedah or SPTF), created by Malaysia's National Bank (Bank Negara Malaysia), was made available to traditional banks on March 4, 1993 (Joni, 2001: 107). Malaysia's effort in this regard is unique as it introduced a dual banking system which was first of its kind. In order to assist Islamic financial services, the Islamic Financial Services Board (IFSB) was founded in 2002. It does this by publishing worldwide prudential norms and guiding principles. International Islamic Liquidity Management Corporation (IILMC) was established in Malaysia in October 2010 to enhance cross-border liquidity of *Shari'ah*-compliant financial instruments. Malaysia founded a legal framework for the Islamic finance industry by passing the "Islamic Finance Services Act 2012". Currently, IB institutions operate alongside conventional banking institutions, while having separate regulations for each. As of December 2017 (Bank Negara Malaysia, 2018), Malaysia has a total of 26 commercial banks, 16 Islamic banks, 2 international Islamic banks, and 11 investment banks. The country has significantly influenced contemporary IB industry developments, innovations, regulations, and standardization.

With the foundation of Bank Muamalat Indonesia (BMI) in 1992, Indonesia, the nation with the largest proportion of Muslims in the world, became a participant in the IB initiative. Bank Syariah Mandiri, the largest Islamic bank by assets in the country, was established in 1999, Bank Syariah Mega Indonesia was established in 2003 and PT Bank and Maybank Syariah Indonesia (MSI) were established in 2010. Besides these, Hong Leong Islamic Bank and CIMB Islamic Bank of Malaysia and Dubai Islamic Bank of UAE are also conducting IB in Indonesia. Several conventional banks have also been offering IB in the country. The banking laws and regulations of the country also supported the promotion of IB. In 2009, the total asset of Islamic banks was Rp 66 trillion, in 2013, it raised to Rp 242.3 trillion. Based on total assets, the market share of Islamic banks in 2013 was 4.8% of the total share of the national bank and in 2015, it remained at 5%. Total assets of Indonesia Islamic banks

amounted to Rp. 272 trillion in 2014 (Bank of Indonesia, 2014; Sari, Bahari, and Hamat, 2016: 178-184).

In 1992, Tabung Amanah Islam Brunei (TAIB), the first Islamic bank in Brunei was established. International Bank of Brunei was named as Islamic Bank of Brunei (IBB) in 1993 and started to offer IB services (Shahid and Kain, 2001: 314-337). With the formation of Brunei International Financial Centre (BIFC), the country turned into a platform for International Islamic financial products. Philippine Amanah bank (PAB) was founded in Philippines in 1973 as a specialized government institution which at the beginning offered modes of IB together with conventional banking (Ariff, 1988: 48). In 1989, it changed its name to Al-Amanah Islamic Investment Bank and became the only Islamic bank in the country.

Singapore has actively promoted IB throughout Southeast Asia. IB practice in Singapore was introduced by the Oversea-Chinese Banking Corporation (OCBC) in 1998 by opening its Islamic window (Musyarafah, 2010). Malaysian Islamic bank-Maybank began operating in Singapore in 2005. The first Islamic bank in Singapore, Islamic Bank of Asia, was formed in 2007. 2008 saw the introduction of the Islamic Exchange Traded Fund (IETF) in Singapore. In 2005, the Singapore Stock Exchange debuted the "Lion 30," a first-of-its-kind Islamic index, and in 2006, the "FTSE-SGX Asia Shari'ah 100 Index" (Venardos, 2006: 10-12). IB and finance operations are progressively taking shape in the Singaporean financial industry thanks to Singapore's growing collaborative involvement with major international Islamic financial organizations. In Thailand, several conventional banks such as Oosim Bank introduced Islamic windows in 1998, Agriculture and Cooperative Bank in 1999 (Haron, and Ku Majdi, 2003: 7). Krung Thai Bank (KTB), a state-owned and second largest banking group in the country launched IB in 2002 (Haron, and Ku Majdi, 2003: 7). Islamic Bank Act was approved by the cabinet in 2002 (Islamic Bank of Thailand, 2011). This regulation made it possible for the first fully functional Islamic bank, Islamic Bank of Thailand, to be founded in 2003. In 2009, a law was implemented in Japan allowing banks to provide IB.

The first financial service provider in Australia to be based on Shari'ah was the Muslim Community Cooperative Australia (MCCA), which was founded in 1989 (MCCA, 2017). The Muslim Community Credit Union Ltd (MCCU) was founded in 1999 as demand increased. In 2006, MCCA had more than 8000 members and was in charge of managing assets valued AUS\$28.536 million (US\$ 23.09 million) (Sharif, 2006: 11-12). Currently, there are three Australian organizations offering IB and finance products: the MCCA, Islamic

Cooperative Finance Australia Limited (ICFAL),²⁹ and Iskan Finance.³⁰ To bring IB to Australia, National Australia Bank is creating its own system. IB institutions have been steadily thriving in various nations in the Asia-Pacific area.

4.3.4.2 Trend of Islamic Banking in South Asia

Among South Asian countries, the Muslim population is forming majority in Afghanistan, Bangladesh, Maldives, Pakistan, while it is the largest minority in India. The earliest effort to establish Islamic financing institution not only in South Asia but also in the world began in southern India,³¹ though it did not flourish. Presently, IB is practiced in Bangladesh and Pakistan. IB practice began in Pakistan in the early 1970s, which expanded gradually. Pakistan initiated to Islamize the country's entire banking industry between 1979 and 1985. This will elaborately be discussed in the section 4.4 (Islamization of National Banking Industry) of this chapter. IB has been practiced in Pakistan under the dual banking system since 2002. Al Baraka Islamic Bank, Bank Islami Pakistan, Dubai Islamic Bank Pakistan Limited, Meezan Bank, and MCB Islamic Bank Limited are the five fully operational Islamic banks in Pakistan as of June 30, 2017, according to the State Bank of Pakistan. 16 conventional banks have established a total of 967 IB branches, 1255 windows, and 134 sub-branches throughout the nation (State Bank of Pakistan, 2017). According to recent instructions from the State Bank of Pakistan, all traditional banking branches must open IB windows. Pakistan's stock market has also introduced an Islamic equities index. According to the State Bank of Pakistan, IB industry in Pakistan has made a profit with 35% growth in the outgoing year of 2017. It increased to Rs. 23 billion in 2017, as compared with Rs. 17 billion recorded in 2016 (Rahman, 2017). IB and financial institutions in India do not function under banking regulations; rather they are licensed under Non-Banking Finance Companies (Amendment) Act 1997 as non-banking institutions, and operate based on *Shari'ah* principles. The number of Islamic financial institutions operating in India is estimated to be around 300 with total demand deposits of around Rs. 800 million (Mazhar and Tripathi, 2013: 3). Limited IB services are provided by a variety of domestic and international financial institutions, including Citibank, Grindlays, Standard Chartered, HSBC, ICICI Bank India, and Kotak Mahindra. The Reserve Bank of India (RBI) recently conducted a feasibility

²⁹ For details, see <https://icfal.com.au/>.

³⁰ For details, see <http://www.iskan.com.au/>.

³¹ An effort to establish an interest free institution in the southern India was traced back to the 1890s. This was mainly a welfare association collecting donations and animals sacrificed from the public to provide interest free loans to the needy.

study, the results of which have not yet been made public, on the establishment of a full-fledged Islamic bank in India. Renowned Islamic economist Dr. Nejatullah Siddiqi founded Indian Center for Islamic Finance, which has been striving to develop Islamic economics and banking in India.³² The IB industry in Bangladesh started to develop in the early 1980s. With the establishment of Islami Bank Bangladesh Limited in 1983, IB has remarkably been developing. Currently, there are eight full-fledged Islamic banks, while good numbers of conventional banks have IB branches or windows. This will elaborately be discussed in the section 4.6 (Growth and Performance of IB in Bangladesh) of this chapter.

4.3.4.3 Trend of Islamic Banking in the Middle East and Turkey

With the founding of Mit-Ghamr Islamic Savings Bank in Egypt in 1963, IB acquired its first institutional structure in the Middle East and North Africa (MENA)³³ region. Having overwhelming Muslim population, the Middle East gradually turned into the hub of IB industry. The major regulatory and supporting institutions of IB are located in the Middle East region. IDB was established in 1973 headquartering at Jeddah. The first private Islamic commercial bank was founded in 1975 and is called Dubai Islamic Bank. In the following years, several Islamic banks were established such as Kuwait Finance House in 1977, Bahrain Islamic Bank in 1979, Qatar Islamic Bank in 1982, Al-Raji Financial Company in 1988, Bank Nizwain Oman in 2013 etc. Several conventional banks converted into IB such as National Bank of Sharjah in UAE converted into Sharjah Islamic Bank in 2002, National Commercial Bank in Saudi Arabia in 2005, The Kuwait Real State Bank into The Kuwait International Bank in 2006, Al-Jazeera Bank in Saudi Arabia in 2007, Emirates NBD in UAE in 2007, Bank of Kuwait and Middle East into Ahli United Bank 2010 etc. Iran started the Islamization of entire banking system of the country since 1979. It approved the Usury-Free Banking Operation Law in 1983. IB Act was passed in UAE in 1985, in Kuwait in 2003, in Bahrain in 2006, in Oman in 2012 and in Qatar in 2013. The GCC³⁴ countries acquired the greater portion of IB industry not only in the region, but also in the world. It occupied 41% of the total *Shari'ah*-compliant assets in the world and the non-GCC MENA countries occupied for 38.8% of the total market (The Banker, 2008; Wilson, 1983).

Table 4.3.4.3.1: Islamic Banks in the Middle Eastern countries:

³² See for details, <http://icif.in/>

³³ MENA refers to Middle East and North African countries extending from Morocco to Iran that include Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Palestine, Qatar Saudi Arabia, Somalia, Sudan, Syria, Tunisia, UAE, Yemen.

³⁴ GCC or Gulf Cooperation Council is a regional intergovernmental union of all Arab states of the Persian Gulf except Iraq. Its member states are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE.

Name of the Country	Total Number of Banks	Number of Islamic Banks
Kuwait	10	5
Saudi Arabia	14	4
UAE	28 foreign and 23 national	
Bahrain	23	
Qatar	16	4
Oman	18	3
Turkey	52	5

Saudi Arabia is one of the pioneers of IB industry in the world. Saudi Arabia's banks are all either totally Islamic or have IB windows. Currently, there are 13 commercial banks in Saudi Arabia among which six are full-fledged Islamic banks. Al-Rajhi Banking and Investment Corporation and Bank Al-Jazeera are two of the leading participants in IB in Saudi Arabia. With \$90.6 billion in total assets and a net profit of \$2.2 billion as of 2016, Al-Rajhi Bank is the largest Shari'ah-compliant financial institution in the world (CFI, 2018). Headquartering at Riyadh, Al-Rajhi Bank has a vast network of over 500 branches across the kingdom (Al-Rajhi Bank, 2018). In 1976, Bank Al-Jazeera (BAJ), which had been founded in 1975, took over The National Bank of Pakistan's (NBP) Saudi Arabian branches and officially launched its operations. BAJ has finished the process of becoming fully Islamic. The National Commercial Bank (NCB), known as Al-Ahli Bank, was founded in 1953 as the first Saudi Arabian bank, the largest bank by asset in the Arab world with a paid-up capital of US\$8 billion (Al-Ahli Bank, 2018). It has changed to become a fully functional Islamic bank. In 2004, Bank Al-bilad was founded as a fully functional Islamic bank (Bank Al-Bilad, 2018). Among the banks offering Islamic and conventional banking together, the important are: the Saudi British Bank (SABB) was established in 1978 as an associated company of the HSBC Group, which offer IB products besides conventional banking (Saudi British Bank, 2018). The Saudi Investment Bank (SAIB) was established in 1976. Ten fully operational IB branches have been opened, accounting for more than 50% of its overall activities (Saudi Investment Bank, 2018). The IB operations in Saudi Arabia capture 64% of the total financial market of the country (Arab News, 2006).

Following the Islamic revolution in 1979, Iranian banks were nationalized and banking system gradually transformed into Islamic one. The Usury-Free Banking Operation Law was passed in the *Majlis* of Iran in 1983 (Hassani, 2010). According to this law, Iranian banks can only engage in interest-free transactions. Iranian banking was quite centralized in the early years of IB practice. Iran's private banking industry did not begin to grow until the beginning of the twenty-first century. The first private bank in Iran, Bank Karafarin, was created in December 2001. After that Persian Bank and Eqtesdae-e-Novin started their operations in

Iran. To promote the private banking in Iran, the government denationalized two banks the Saderat and Bank Rfah-e-Kargaran (Shahzad, 2014: 219). Bank Milli Iran is one of the largest Islamic banks of the world with having assets more than US\$ 59 billion (Shahzad, 2014: 220). Some other Islamic banks in Iran are Bank Sepah, Bank Mellat, Bank Saderat Iran and Post Bank of Iran. IB in Iran follows perhaps the most liberal interpretation of Islamic instructions than the Malaysian model that has already been perceived more liberal than the Middle Eastern practice, especially the GCC countries (Ashraf and Giashi, 2011: 33). A Persian-speaking newspaper 'Iran' quoted a report by the Business Monitor International saying that the total capital of Iran's banks in 2013 stood at rials 9.4 quadrillion (\$343 billion) having annual growth of 17%, while the deposits for 2014 had reached rials 5.9 quadrillion (\$214 billion) with 34% growth rate (Parveen, Zadeh and Syed, 2015: 66).

Bahrain is known as the home of IB regulations, research, and inventions since it is home to the most of these institutions. The International Islamic Financial Market, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Islamic International Rating Agency stand out among them. The first Islamic bank in the nation, Bahrain Islamic Bank, was founded in 1978. First Energy Bank Bahrain was founded in 2008, Elaf Bank in 2007, and Al Baraka Islamic Bank Bahrain in 1984. Investment banks, offshore banking divisions, and full-service commercial banks all conduct IB activities in Bahrain. Bahrain serves as a foundation for a sizable number of Islamic banks that operate in Gulf, EU, and North American nations. The Bahrain Monetary Agency has created infrastructure, rules, and standards that are acknowledged globally for Islamic financial organizations.

The formation of Kuwait Finance House in 1977 served as the impetus for the establishment of IB in Kuwait, which has since achieved notable success. In 2011, its entire assets amounted to 4832 million USD (Shahzad, 2014: 222). In Kuwait, a variety of IB products and services are offered by the National Bank of Kuwait and a few other traditional banks. The Central Bank of Kuwait established IB legislation in 2003, ensuring highly regulated and open banking practices throughout the nation. Boubyan Bank, the first Islamic bank licensed under this law, launched in 2004 (Boubyan Bank, 2018) and Jaber Islamic bank in 2006. Kuwait Retail Estate Bank changed its identity to become an exclusively Islamic bank. The Shari'ah supervisory boards of Islamic financial institutions are fully supervised and guided by the Ministry of Awqaf and Islamic Affairs. In contrast to other Middle Eastern nations, IB practice has just recently started in Lebanon. 2004 saw the passage of IB legislation. BLOM Development Bank, Arab Finance Investment House, Al-Baraka Bank Lebanon, Credit Libanie, Arab Banking Corporation, Gulf International Bank, Lebanese Islamic Bank, Byblos

Bank Africa Ltd., Gulf International Bank B.S.C., and National Bank of Kuwait are among the ten Islamic banks that had opened in Lebanon by the end of 2017 (GBFR, 2013).

Qatar, being the smallest but the richest country in the region, has been an important center of IB in the Middle East. The nation's first Islamic bank, Qatar Islamic Bank, was founded in 1982 and it is still the largest today with total assets reaching 42.1 billion USD as of end of 2018 (Qatar Islamic Bank, 2018). Doha Islamic Bank and Al Rayan Bank, both founded in 2006, are among the other significant Islamic banks in Qatar. Qatar International Islamic Bank was founded in 1991. Syria entered into the IB club only in 2005 with the approval of IB law in the Syrian Parliament. Al-Sham Bank, Al-Baraka Bank, and Syrian International Islamic Bank were able to begin operations in Syria by the end of 2006 thanks to permission from the Syrian government.

The founding of Dubai Islamic Bank in 1975 as the first contemporary commercial Islamic bank worldwide gave IB activity in the UAE an international flavor. In the United Arab Emirates, there are four additional full-fledged Islamic banks: Sharjah Islamic Bank, Emirates Islamic Bank, Abu Dhabi Islamic Bank, and Dubai Bank. A number of mainstream banks also provide Islamic products, either through a subsidiary or Islamic window. A number of traditional banking institutions have increasingly transitioned into IBs, either fully or partially. As an illustration, the National Bank of Sharjah was turned into the Sharjah Islamic Bank, the Middle East Bank into the Emirates Islamic Bank, the Dubai Bank, and Amlak Finance into Islamic lines. Many intellectual events, including seminars, conferences, and trainings for IB, have been heavily sponsored by the UAE.

In Turkey, IB has not, traditionally, made up a remarkable part due to the country's secular tradition. But the situation started to be changed gradually with the beginning of 21st century, when pro-Islamic Justice and Development Party (AKP) assumed the power. IB has been practiced in Turkey under the name of 'participation banking'. In 2005, Banking law no. 5411 replaced 'special finance house' with 'participation bank', while the Union of Special Finance Houses became the 'Participation Banks Association of Turkey (TKBB)' (Sayim, 2012). The Participation banking has been developing considerably since 2000, although asset share is not very large compared to conventional banking. The legislation has been harmonized so that, now, both Islamic and conventional banks operate according to the same law (Kansoy and Karlıoglu, 2013: 134). As of 2016, there are five participation banks operating according to *Shari'ah*, these are; Al-Baraka Turk, Kuveyt Turk, Turkiye Finans, Bank Asya and Zirrat Katilim. Al-Baraka Turk, the first Islamic bank was established in 1984. As of 2017, the bank has 220 branches (Al-Baraka Turk, 2018). Kuveyt Turk started its

activity as a Private Finance House in 1989 and started to provide services from 1999. It comes into prominence through its powerful capital structure having a paid capital of 2.8 billion Turkish liras (TR) with 377 branches as of 2017 (Kuveyt Turk, 2017: 4). Turkiye Finans Participation Bank was established in 2005 merging together two finance houses; Family Finans and Anadolu Finans. In 2008, the National Commercial Bank of Saudi Arabia acquired its majority share and the Bank entered into a period of transformation and development. As of 2017, it has 287 branches with total asset of 39.08 billion TR (Turkiye Finans, 2017: 10). Asya Katilim Bankasi A. . (Bank Asya) commenced its activities in 1996, and as of 2017, it has 202 branches (Bank Asya, 2017). Zirrat Katilim, founded in 2015 with a paid-up capital of 72 million, which reached to 1,75 million TL with 63 branches as of 2017 (Zirrat Katilim, 2017: 4). The latest addition in the field is Vakif Katilim Bankasi, founded in 2016 sponsored by the Turkey's Prime Ministry General Directorate of Foundations (Vakif Katilim Bankasi, 2017). The trend of development of IB in Turkey can be understood from the following tables (2015).³⁵

Table 4.3.4.3.2: Islamic Banking in Turkey

	2014	2015	Increase%
Funds Collected (TL)	38,979	40,740	4.52
Funds Collected FC (including precious metals)	26,426	32,622	36.52
Total	65,405	74,362	13.70
Funds Allocated	69,408	79,191	14.10
Total Assets	104,073	120,252	15.27 (5.1% in total Turkish banking)
Shareholder's Equity	9,265	10,642	10.01
Net Profit	144	405	181.25
Number of Branches	990	1080	9
Number of Personnel	16,270	16,554	1.7

4.3.4.4 Trend of Islamic Banking in Africa

The second-most populated continent in the world is Africa with over 1.2 billion, half of which is Muslim (MIFC Report, 2017: 4). Although Africa has prospective potentials for IB resulted from its demographic structure and financial deepening, it still remains small compared to other Muslim regions. IB practice was initiated in an African Muslim country Egypt with the foundation of Mit-Ghamr Islamic Savings Bank in 1963. The next attempt began in 1982, when the international Islamic finance organization Dar Al-Maal Al-Islami

³⁵ Generated by the author collecting data from Participation Banks Report 2015, Participation Banks Association of Turkey, Accessed December 30, 2018, http://www.tkbb.org.tr/Documents/Yonetmelikler/Participation_Banks_2015_ENG.pdf

Trust (DMI)³⁶ applied to the West African Economic and Monetary Union (WAEMU) to offer IB in the member countries.³⁷ Following the report submitted by the committee formed by the central banks of the WAEMU countries, WAEMU amended Article 2 of its treaty in 1982 allowing the member governments to grant exceptions to IB and financial institutions. As a result, a number of Islamic financial and banking organizations, including the Islamic Investment Company of Niger (1983), the Faisal Islamic Bank of Senegal (1983), and the Islamic Investment Company of Niger (1983), were established.

Several regulatory initiatives to assist IB have been made in several African nations in recent years. As of mid-2017, Nigeria, Sudan, South Africa, Senegal, Kenya, Morocco and Niger, among others, have put in place necessary legal and regulatory framework to enable domestic IB, while countries such as Uganda, Ethiopia and Zambia are on the process of exploring and developing the system (The Gulf times, 2017). Currently, there are more than 50 IB and financial institutions in Africa, while many conventional banks have begun to provide IB products through distinct windows, including National Bank of Egypt, FinBank of Nigeria, Absa Bank of South Africa, and First Community Bank of Kenya. Out of 54 African countries, IB is being practiced in 21 countries. 116 institutions are offering Islamic financial services, while IB is offered by 74 institutions (MIFC Report, 2017: 2).

Table 4.3.4.4: Overview of Islamic Banking in Africa as of 2012 (Faye, Triki, and Kangoye, 2013: 138):

Country	Number of commercial Banks	Number of Islamic Banks	Banks with Islamic windows
Algeria	20	2	0
Egypt	39	3	1
Libya	16	0	0
Mouritania	12	2	0
Morocco	19	0	4
Tunisia	21	2	0
Gambia	14	1	0
Ghana	27	0	0

³⁶ Dar Al-Maal Al-Islami (House of Islamic Funds) Trust (DMI) was founded in 1981 by prince Mohammed Al-Fisal Al-Saud. It has an extensive network stretching over four continents, with well integrated regional subsidiaries enabling it to respond to local business needs and conditions. Based on this geographic structure, the DMI Group and associates act as a financial bridge between the world's leading financial centres and Islamic countries. The Group comprises three main business sectors: Islamic banking, Islamic investment and Islamic insurance. For details please visit: <http://www.dmitrust.com/>

³⁷ The *West African Monetary Union* (WAMU) was primarily founded in 1962. Its constituting treaty was only ratified by November 14, 1973. It converted into the *West African Economic and Monetary Union* (WAEMU) in 1994. It is a trade zone agreement between Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo to encourage internal development, improve trade deficits, establish uniform tariffs for goods imported from non-member nations, establish a regional stock exchange and banking system. For details, please visit: <http://www.uemoa.int/en>

Guinea	12	2	0
Nigeria	21	1	1
Niger	10	1	0
Senegal	20	1	0
Djibouti	7	4	0
Kenya	43	2	5
Sudan	32	32	0
Tanzania	30	1	4
Mouritius	20	1	1
South Africa	73	1	2
Total	485	56	18

It is Egypt, where IB has got its first footing in the early 1960s and also has the greatest potentials being the most Muslim populous country in the region. Following the demise of MGISB in 1971, the government established Nasser Social Bank. Although it offered interest-free loans, it was not fully Islamic bank in terms of its products. In 1977, Central Bank of Egypt passed the law number 48 of 1977 permitting the establishment of Islamic banks in the country. Faisal Islamic Bank of Egypt was established in 1979, Al Baraka Bank of Egypt and Al Watany Bank of Egypt both were established in 1980. Although Egypt has the longest experience of IB, the concerning laws still remain unsatisfactory. Even the recent banking law number 88 of 2003, contains no provision for Islamic finance, but, the Central Bank of Egypt has embraced a flexible strategy for IB regulation (African Development Bank, 2011: 24). Egypt has the highest proportion of *Shari'ah* compliant assets in the region in relation to total bank assets, approaching the 5% level (African Development Bank, 2011: 23).

IB in Sudan began in 1977 with the founding of Faisal Islamic Bank Sudan under the dual banking system. In 1983, three further Islamic banks—Tadamon Islamic Bank Sudan, Sudanese Islamic Bank, and Islamic Cooperative Bank—were founded. Islamic *Shari'ah* Act of Banking was passed in 1984 to abolish interest, which initiated to transform the country's entire banking system into Islamic line. Several laws were made to allow conventional banks to offer IB products. In 1989, dual-banking system was abolished and entire national banking system transformed into IB. (See for details; section 4.4 Islamization of National Banking Industry of this chapter). The new political developments in the country at the beginning of 21st century changed its banking structure. Under the 2005 Comprehensive Peace Agreement, it was agreed that the Republic of South Sudan which has Christian majority will have a conventional banking system while the Republic of Sudan (Northern Sudan) which has Muslim majority will maintain the IB system.

Tunisia has three Islamic banks, namely, Al Baraka Bank Tunisia launched in 1983, Noor Bank in 2008 and Bank Zitouna in 2010. Two others namely Tunisian Solidarity Bank and Bank of Financing to Small and Medium Enterprises have both conventional and Islamic financial products (Taktak and Slama Zouari, 2014: 2-14). In Algeria, Al Baraka Bank was established in 1991 and Al Salam Bank in 2008 (African Development Bank, 2011: 25). In Morocco, IB is offered only through the Islamic windows of conventional banks as there is no full-fledged Islamic bank. Morocco passed a law allowing banks to offer Islamic products (MIFC Report, 2017: 6). Mauritania hosts Al Baraka Bank as the only Islamic bank in the country established in 1985 (African Development Bank, 2011: 25). Senegal has four Islamic banks namely: Faisal Islamic Bank of Senegal, Islamic Investment Company of Senegal, Sosar Al Amane, and Banque Islamique du Senega (GBFR, 2013a) and Niger has only one Islamic bank (Gelbard, Hussain, Maino, Mu and Yehoue, 2014). South Africa has three full-fledged Islamic bank namely: Al-Baraka Bank South Africa, Jordan Islamic Bank and Absa Islamic Bank, while several conventional banks maintain IB windows (Gelbard, Hussain, Maino, Mu and Yehoue, 2014). The South African Reserve Bank awarded licenses to the Al Baraka Group and the Islamic Bank in 1989, and the Islamic Bank was dissolved in 1998. WesBank and First National Bank launched Islamic windows in 2004 and the bank ABSA in 2005 (Buksh, 2006). Uganda approved the Financial Institutions (Amendment) Bill 2015, to offer *Shari'ah*-compliant services (MIFC Report, 2017: 6). Tanzania offers IB through two Islamic banks namely: Amana Bank Limited and Kenyan Islamic Bank and four Islamic windows. In Nigeria, Habib Bank (now Bank PHB) was the first bank operating IB window in 1992. The Law Governing the Operation of Islamic Banks was introduced by the Central Bank of Nigeria (CBN) in 2009. In 2011, CBN issued the guidelines for IB and Jaiz International Bank was established as the country's first full-fledged Islamic bank in 2012 (Sapovadia, 2015: 1). Now, it has four Islamic banks including Access Bank Plc., Diamond Bank Plc., and Fidelity Bank Plc (GBFR, 2013b). Kenya hosts two Islamic banks, First Community Bank was established in 2007 and Gulf African Bank in 2008. Some conventional banks such as Kenya Commercial Bank, Standard Chartered Bank offer *Shari'ah* compliant products through IB windows. In Mauritius, the Banking Act was amended in 2007 and amendments were brought to the Finance Act 2008 to allow IB activities. HSBC Bank Mauritius launched IB products in 2009 as the first conventional bank offering *Shari'ah*-compliant banking services in the country (Faye, Triki, and Kangoye, 2013: 139-140). Century Banking Corporation became the country's first full-fledged Islamic bank in 2009. Ethiopia's central bank permitted interest-free banking in 2008 and the Oromia

International Bank became the first to offer interest-free banking in Ethiopia. Now, most of Ethiopia's big commercial banks offer IB products. Zemzem Bank wants to be the country's first full-fledged Islamic bank, but was unable to start operations as the central bank's directive requires that interest-free banking be given alongside conventional banking services (Merhatsidk, 2014). Kenya, with a much smaller Muslim population than Ethiopia, has three Islamic banks, while five conventional banks offer IB products through windows (The Economist, 2017). In Guinea, Islamic Bank of Guinea was established in 1983.

Besides its presence in a number of countries, IB is still at a very primary stage of development in Africa. The main reasons behind this are political instability, small Muslim population in some countries, and lack of awareness. According to the World Bank, as many as 350 million Africans do not have a bank account (The Economist, 2017). Nevertheless, the prospects of IB in Africa are promising. The MIFC report states that IB in Africa is driven by four components: First, economic growth in many African countries. Second, its demography, with more than 1.2 billion population, Africa is currently developing a middle-class society, expected to boost demand for IB. Additionally, financial literacy is improving across the continent. Third, Islamic finance in Africa is heavily backed by the continent's urgent demand for alternative ways to fund the much-needed infrastructure. Fourth, Small and Medium Enterprises (SME) and microfinance instruments are working to alleviate poverty (The Gulf times, 2017).

4.3.4.5 Trend of Islamic Banking in Europe

The growth of IB has also appeared to be very promising in European countries. Luxembourg has been believed as the laboratory of Islamic finance and banking in Europe. The first IB institution in Europe, Islamic Finance House Universal Holding S.A, was established in Luxembourg in 1978 (Alharbi, 2016: 120). Dar Al-Maal Al-Islami Trust (DMI) started its activities in Luxembourg in 1981, but making its headquarters in Switzerland (Alharbi, 2016: 112). Luxembourg Central Bank (LCB) joined the IFSB in 2009 as the first European central bank and became a founding member of the International Islamic Liquidity Management Corporation in 2010. By 2015, Islamic assets in Luxembourg stood at more than € billion (Ernst and Young, 2015).

In order to access Europe, IB has used the UK as a gateway. Headquarters of majority IB and regulatory institutions that operate in Europe are located in the UK. Islamic finance practice in the UK was begun in the 1980s, when several Middle Eastern Islamic banks used *Murabaha* transaction through London Metal Exchange as a tool for liquidity management

(Alharbi, 2016: 121). The DMI opened an office in London in 1982 and established Takaful UK Limited in 1983 (Belouafi and Chachi, 2014: 37-78). Al-Baraka Bank was established in the UK in 1983. However, due to regulatory issues the bank was closed in 1993, but continued to operate as an investment company (Belouafi and Chachi, 2014: 48). The United Bank of Kuwait³⁸ established an IB branch in London in 1991 with the name of Islamic Investment Banking Unit (Belouafi and Chachi, 2014: 49). Islamic Bank of Britain was established in 2004, as the first full-fledged Islamic bank in the country and the European Islamic Investment Bank in 2006. The Bank of England has joined the IFSB in 2015. Since the early 2000s, the British government has introduced several legal changes to remove obstacles for IB activities. The Finance Act of 2003 exempted Islamic banks from being taxed twice on the purchase and sale of property (Belouafi and Chachi, 2014: 50). The Finance Acts of 2003, 2005, 2006, 2007, 2009, and 2013 provided the necessary adjustments to the UK Tax Law to eliminate obstacles to the use of certain IB products (Belouafi and Chachi, 2014: 38-71). The UK has six fully operational Islamic banks by 2015: Bank of Al Rayan (formerly known as Islamic Bank of Britain: 2004), European Islamic Investment Bank (2005), Bank of London and the Middle East (2007), Gatehouse Bank (2008), European Finance House (2008), and Abu Dhabi Islamic Bank (2013). The total assets of these banks stood at \$3.6 billion by the end of 2014 (Harrison, 2018). Several conventional banks such as Friends Provident International, HSBC *Amanah*, Lloyds, Lloyds TSB, Mortgage Insurance UK, United National Bank etc. also offer IB products in the UK (Harrison, 2018).

France changed its tax laws in 2008 to secure IB modes from extra tax penalties (Alharbi, 2016: 114). EUROPLACE, the organization that promotes Islamic finance in Paris, established the Islamic Finance Commission in 2007 (Alharbi, 2016: 114). The French government's positive initiatives encouraged some IB institutions such as Al-Baraka Islamic Bank from Bahrain, Qatar Islamic Bank and Kuwait Finance House to move to France (Grassa and Hassan, 2015: 65-77). Chaabi Bank- the only bank offering Islamic financial products in French was launched in 2011 (Ercanbrack, 2011: 29).

In Germany, Islamic financing practice was initiated in the 1990s by several Turkish companies (i.e. Kombassan Holding, Yibitas Holding and Yimpas Holding). But, because of defaulting clients and poor management, these companies lost the estimated amount from € to €50 billion (Farhoush and Mahlkecht, 2013: 203-212). This negative experience

³⁸ In August 2000, the United Bank of Kuwait merged with Al-Ahli Bank and formed Al- Ahli United Bank.

hampered the development of IB in Germany. The German Commerz bank -the first local bank offering IB product, launched in 2001. The country's Federal Financial Supervisory Authority (BaFin) organized its first Islamic finance conference in 2009 and another one in 2012 signaling Germany's slow, but growing interest in IB (Bahnasawy, 2017). In 2012, Kuveyt Turk Participation Bank, a Turkish Islamic bank obtained license to offer IB product and opened a branch in Frankfurt. In 2015, the BaFin granted KT (Kuveyt Turk) Bank AG a full banking license under German law for the provision of deposit and credit business in Germany. KT Bank AG is the first bank in Germany to introduce IB products and services (KT Bank, 2018). Its total assets nearly doubled from 54.4 million Euros (\$65.5 million) in 2015 to 108 million Euros (\$130 million) in 2016 (Bahnasawy, 2017). Bahrain-based Al-Baraka launched Islamic digital bank in Germany in 2018 (Reuters, 2018). In Italy, the first step for IB took place in 1994 when a conference on IB in Italy held in Roma (ASSIAF, 1994). Mediobanca (investment bank), a conventional bank in Italy, has offered first Islamic financial products in the country. In order to improve collaboration between Italian and Arabic banks, the Italian Banking Association and the Union of Arab Banks signed a Memorandum of Understanding in 2008 (Colditz, 2009: 84). Italian regulatory system is also not in a position to support the expansion of IB in the country (Colditz, 2009: 85). When Oasis Global Management Company (Ireland) Limited was granted permission to establish two open-ended investment firms, IB was first established in Ireland in 2003.³⁹ In 2011, the first *Shari'ah* compliant instrument was approved by the Central Bank of Ireland, and by July 2014, ten *Shari'ah* compliant funds and a corresponding 31 sub-funds also approved by the Central Bank of Ireland (Moloney, 2015). The Irish government amended its Tax laws, section 39 of the finance Act 2010 and section 36 of the finance Act 2012 to make Islamic financial products competitive. The government also published "Strategy for the IFSC in Ireland 2011-2016" in 2010 which emphasized on the importance of Islamic finance to Irish economy (Moloney, 2015). The Swiss Federal Banking Commission, in Switzerland, licensed Faisal Private Bank in 2006 as the first Islamic bank in the country. In Denmark, the International Islamic Bank of Denmark was established in 1983 (Grais and Pellegrini, 2006). In Bosnia and Herzegovina, IB practice was initiated in 1992, when Vakufska bank d.d. Sarajevo was formed (Ergun and Djedovic, 2011). Orient bank d.d. Sarajevo was established in 1996 to operate IB, but closed due to the lack of required capital. Currently, the only

³⁹ Oasis Global Investment Fund (Ireland) plc and Oasis Crescent Global Investment Fund (Ireland) plc comply with the European Communities Undertakings for Collective Investment in Transferable Securities (UCITS) as well as the Irish Financial Services Regulatory Authority.

Islamic bank in the country is Bosna Bank International (BBI), established in 2000 by IDB, Dubai Islamic Bank, and Abu Dhabi Islamic Bank with headquarters in Sarajevo. BBI Bank recorded an average annual growth of 19.3% and is among the fastest growing banks in Bosnia and Herzegovina. The bank's assets from KM 144 million from 2006 increased to KM 1 billion by the end of 2018 (Bosna Bank International, 2018).

Aside from well-known international Islamic banks, IB practice in Europe was also supported by Citibank, ABN AMRO, Goldman Sachs, and Kleinwort Benson. These organizations have either set up Islamic subsidiaries or windows. In some nations, small local financial institutions have just lately begun to provide IB products. The main reasons behind the potential of IB across Europe are: the increasing number of Muslim population in Europe; growing demand for ethical products and socially responsible services; initiatives to attract investors from Islamic nations; Islamic bank's proven strength during the recent economic crisis; and many investors are looking for new instruments and products (Husain, 2005; Nouri, 2009).

4.3.4.6 Trend of Islamic Banking in the USA and Canada

Islamic finance practice in the USA began with the establishment of the Amana Funds in 1986, located in Washington, and American Finance House-LARIBA in California in 1987. Since 1987, LARIBA has been engaged in Islamic financing practices based on joint venture or leasing modes used in autos, home mortgages, medical clinics, etc. LARIBA gained financing clearance from the Federal Home Loan Mortgage Corporation in 2001, which is seen as a turning point for the growth of the Islamic finance sector in the USA (Alharbi, 2016: 124). The New York branch of United Bank of Kuwait obtained approval of the Office of the Comptroller of the Currency to offer Islamic retail banking services through *Ijarah* contract in 1997 and to offer *Murabaha*- based financing products in 1999 (Alharbi, 2016: 124-125). But the bank ceased its operation in the USA in 2000 after its merger with the Al-Ahli Commercial Bank of Bahrain (Sachs, 2001). HSBC was permitted by the New York State Banking Department to offer several IB products in 1999. However, it had limited success and finally, stopped offering them in December 2006 (Pincus, 2007). Guidance Financial was incorporated in 2002 to provide retail home financing using diminishing *Musharakah* transactions. By the end of 2015, its financing amount rose to more than \$3.5 billion having its presence in 32 states (Guidance Residential, 2015). University Bank of Michigan opened the first IB subsidiary 'University Islamic Financial' in 2005 and Chicago-based Devon Bank launched its Islamic division in 2003 (Ranzini, 2007: 10-11).

In Canada, the first Islamic financial institution- the Islamic Co-operative Housing Corporation Ltd. was established in Toronto in 1979. In 1990, three Islamic financial institutions were founded in Quebec, Qurtuba Housing Cooperation, Al-Ittihad investments (Investment Company) and Al-Yusr (RRSP investment). After 12 years, An-Nur Cooperative Corporation was established in Ontario. Assiniboine Credit Union started to offer Islamic mortgagees in 2010 as the first Canadian financial institution. United Muslims Financial in Ontario was founded 2004. It formed collaboration with Credit Union of Canada to offer mortgage finance that is compliant with Islamic law utilizing *Musharakah* contracts. As of 2007, it provided \$86.1 million in home financing (Ranzini, 2007: 10-11). However, it had some problems and had to declare bankruptcy, which was a big blow to the development of Islamic financing in Canada. Several Canadian banks have applied to the Office of the Superintendent of Financial Institutions in Canada to offer Islamic financial services (Carruthers, 2008). Islamic finance seems to have a potential future in the USA and Canada and will likely be driven by the growing number of Muslims in both the countries.

4.4 Islamization of National Banking Industry

In addition of establishing Islamic banks at private and public nature worldwide, efforts have also been made to introduce IB at national level. By eliminating interest-based banking activities, Pakistan, Iran, and Sudan implemented extensive changes in the 1980s to islamize their whole national financial systems. Through a number of laws and circulars issued by the federal government and the State Bank of Pakistan, Pakistan was a pioneer in the process of Islamizing national banking, beginning in 1979 with state-owned banks and moving on to private banks in 1981. The project was completed in 1985 (Khan and Mirakhor, 1990: 353-375; Anwar, 1992: 1089-1097). Though the banking was Islamized in Pakistan, but several problems were remained within the system. Time deposits and savings accounts no longer use interest as their foundation; instead, they now use profit sharing; the exact rates paid are not market-determined. Some profit-loss sharing products were launched but they could not play significant role in the market. Government finances continued to be standard, with substantial interest-based domestic and international loans. The Federal *Shari'ah* Court ruled in 1991 that the interest rates used in banking operations were in conflict with the principles of *Shari'ah*. It demonstrated that interest-based banking persisted even after the process of Islamization. The inability to use IB instruments in several crucial sectors of banking, such as public and external debt, was cited by Al-Omar and Abdel-Haq as the biggest challenge to

Islamizing banking in Pakistan (Al-Omar and Abdel-Haq, 1996: 101-102). Khan and Bhatti identified a number of shortcomings and issues with IB practice in Pakistan, including:

- (1) Modifications to the Islamization plan from its original intent,
- (2) Lack of adequate training for Islamic bankers,
- (3) Public worries and skepticism over Islamization, and
- (4) Insufficient actions by the government (Khan and Bhatti, 2008: 121-125).

Iran began the process of Islamization of its banking system immediately after the Islamic revolution in 1979 (Anwar, 1992: 1089-1097) (Amin, 1986). At the initial phase from 1979 to 1982, the banking system was nationalized, restructured, and reorganized. After passing the Usury-Free Banking Operation Law in 1983, the banks were given one year to convert their deposits and three years to convert all other operations into *Shari'ah* compliant system. Iranians who deposit money may get "rewards" on their savings as long as they are not committed in advance, according to the school of Islamic law that is practiced there. Both domestic and international trade are financed by markups. However, profit-loss-sharing arrangements have been crucial in funding the agricultural and industrial sectors.

In Sudan, IB was launched in 1984 and several steps were taken to Islamize its entire banking system which was completed in 1989. The Islamic *Shari'ah* Act of Banking was passed in 1984 which abolished interest and required the whole banking sector to be transformed into Islamic one by 1 July 1984. But the banks faced several difficulties in converting conventional contracts into Islamic contracts as well as in forming Islamic contracts (Muhammed, Saleh, Ahmad, Satti, and Bakhit, 2006). In 1985, the government passed an act that allowed banks to offer Islamic and conventional products simultaneously. This dual-banking system continued until the mid of 1989, when the government issued some laws that led to the elimination of dual-banking system. The real implementation of IB happened between 1989 and 2005 as the government issued several laws that confirmed IB as the only banking method in the country (Shaaeldin and Brown, 1988: 121-140).

Although Malaysia officially did not Islamize national banking system of the country, it has become the hub of global IB. With enacting IB Act in 1983, Malaysia introduced IB system. Besides Islamic banks, almost all conventional banks offer Islamic financing products and thus, Malaysia became the first country to offer dual-banking system. Bank Negara Malaysia, the nation's national bank, is in charge of overall supervision. It is guided by a board of Shari'ah academics. In this respect, Indonesia adopted the Malaysian model. Thus, some countries completed the Islamization of their national banking system, although

the process still has several challenges. Some other countries initiated the Islamization process or introduced dual-banking system.

4.5 Development of Islamic Banking in Bangladesh

Bangladesh achieved independence in 1971 after a nine-month long bloody struggle. It inherited an interest-based banking system, which was introduced during the colonial era. A variety of banks, including private banks, international banks, specialty banks, and development banks make up Bangladesh's financial system (Sarker, 1999: 272). Bangladesh Bank, the central bank of the country, is the chief regulatory body to control and guide the activities of all banking institutions. Immediately after the independence, the government nationalized most of the banking institutions within a short period, but, due to the failure in administering these banks properly, many of them were returned to their owners (Alam, 2000). Presently, Bangladesh has different natures of banking institutions.

Table 4.5.1: Nature of banking institutions in Bangladesh

Nature of banking institutions in Bangladesh	
1	Central Bank
2	Government owned commercial banks
3	Locally incorporated private commercial banks
4	Islamic banks
5	Overseas banks operating in Bangladesh
6	Government -owned specialized banks
7	Non-banking financial institutions
8	Cooperative bank

Bangladesh has seen a new trend in the banking business since gaining its independence, both domestically and internationally. IB had been effectively establishing itself and growing in various regions of the world. A number of Islamic banks were founded in several countries and IDB was established as a milestone for the development of IB. In 1974, Bangladesh ratified the IDB Charter and pledged to restructure its financial system in accordance with Islamic law. This dedication was demonstrated by the government's many actions in the years that followed. At the foreign ministers' conferences held in Dakar and Islamabad, respectively, in 1978 and 1980, the OIC members agreed to the suggestions to establish IB in their respective nations. The OIC endorsed the proposal put up by Bangladesh to establish a distinct financial system based on Shari'ah principles during its third summit, which was held in Makkah in 1981. Bangladesh had earlier in 1980 sent a mission to the Middle Eastern nations to research the current IB system.

Several Islamic organizations worked hard in the private sector to implement IB in the nation (Sarker, 1999: 274). IB was introduced in the nation with the help of two professional organizations, the Islamic Economics Research Bureau (IERB) and the Bangladesh Islamic Bankers' Association (BIBA). As the pioneering organization in this area, the IERB organized a national symposium on Islamic finance and economics in 1979. It was followed by the formation of 'Islami Bank Working Group' by some local bankers. A second international conference was organized by the IERB in 1980, and as a result, the 'Muslim Businessman Society' (later known as the businessman and Businessmen Association) was established under the leadership of famous businessman Abdur Razzaque Lasker. The IERB and BIBA were taking practical steps to impart training on IB to a group of bankers with a view to fill-up the vacuum of future IB leadership in Bangladesh. They also arranged several international, national and regional seminars, conferences symposia and workshops. It attracted investors to establish Islamic bank on the one hand (Sarker, 1999: 274), mobilized the public opinion in favor of IB on the other. The "Muslim Businessman Society" worked on raising equity capital and requested authorization from the government to form an Islamic bank. A group from the IDB visited Bangladesh in November 1982 and indicated interest in starting a joint venture Islamic bank. In 1983, it was granted authorization by the government, and the country's long-running effort to create an Islamic bank finally succeeded. The first Islamic bank in Bangladesh, Islami Bank Bangladesh Limited (IBBL), was founded in March 1983. It was supported by 19 Bangladeshi nationals, four Bangladeshi institutions, and 11 banks, financial institutions, and governmental organizations from the Middle East and Europe, including IDB and two prominent Saudi Arabians. In South-East Asia, it is the region's first Islamic bank. IB has since experienced substantial growth throughout the nation. Eight fully operational Islamic banks, 19 IB branches of eight conventional banks, and 25 IB windows in seven conventional banks are all present as of December 2017.

Table 4.5.2: List of full-fledged Islamic Banks in Bangladesh

Full-fledged Islamic Banks in Bangladesh⁴⁰			
SL	Name of Bank	Year of Incorporation	Number of Branches (as of Dec 2017)
1	Islami Bank Bangladesh Limited (IBBL)	1983	332
2	ICB Islamic Bank Limited (ICBIBL)	1987	33
3	Al-Arafah Islami Bank Limited (AAIBL)	1995	138
4	Social Islami Bank Limited (SIBL)	1995	154

⁴⁰ Prepared by the author collecting data from the Report on Developments of Islamic Banking in Bangladesh, Research Department of Banglaesh Bank, October- December, 2017.

5	Export Import Bank of Bangladesh Limited (EXIM)	1999	118
6	First Security Islami Bank Limited (FSIBL)	1999	113
7	Shahjalal Islami Bank Limited (SJIBL)	2001	168
8	Union Bank Limited (UBL)	2013	68
		Total	1124

Table 4.5.3: List of Conventional Banks having Islamic Banking Branches

Conventional Banks having IB Branches			
1	The City bank Limited		1
2	AB Bank Limited		1
3	Dhaka Bank Limited		2
4	Premier Bank Limited		2
5	Prime Bank Limited		5
6	Southeast Bank Limited		5
7	Jamuna Bank Limited		2
8	Bank Alfalah Limited		1
9	HSBC Limited		0
		Total	19

Table 4.5.4: List of Conventional Banks having Islamic Banking Windows

Conventional Banks having IB Windows			
1	Sonali Bank Limited		5
2	Janata Bank Limited		0
3	Agrani Bank Limited		5
4	Pubali Bank Limited		2
5	Trust Bank Limited		5
6	Standard Bank Limited		2
7	Bank Asia Limited		5
8	Standard Chartered Bank		1
		Total	25

4.5.1 Islami Bank Bangladesh Limited

On March 14, 1983, Islami Bank Bangladesh Limited (IBBL) was established, and on March 30, 1983, it began operations. IBBL is regarded as South-East Asia's first Islamic bank. A public limited company has been registered for it under the Companies Act of 1913. It was established as a global joint venture bank with 64% of its shares coming from foreign sources. It consists of IDB, Kuwait Finance House, Al-Rajhi Company for Currency Exchange and Commerce of Saudi Arabia, Jordan Islamic Bank, Islamic Investment and Exchange Corporation, Qatar, Bahrain Islamic Bank, IB System International Holding S. A., Luxembourg, Dubai Islamic Bank, Public Institution for Social Security, Kuwait Ministry of Awqaf and Islamic Affairs, and Ministry of Justice, Department of Minors Affairs, Kuwait. Additionally, among the foreign supporters of the IBBL were two prominent Saudi Arabians, Fouad Abdul Hameed Al-Khateeb and Ahmed Salah Jamjoom. The local sponsors owned 36% of the bank's shares. However, over time, this ratio has undergone variations. As of the

end of 2016, the bank had 44,126 shareholders and authorized capital of Tk. 20,000 million and paid-up capital of Tk. 16,099.91 million. A board of directors made up of 23 people and chosen by the shareholders runs the bank. The bank's daily operations are managed by an executive committee made up of eight directors and a management committee made up of the senior executives. In the committees, a *Shari'ah* Council representative also participates. The bank also includes a ten-member *Shari'ah* Council made up of Islamic lawyers, economists, and jurists (Fuqaha). The council makes judgments about Islamic matters, evaluates the operations of certain bank branches annually, identifies irregularities, and makes suggestions for how to clean up financial transactions. The bank has largest branch network (288 branches and 30 SME/Krishi branches i.e. total 318 branches) among the private sector banks in Bangladesh as of December 2016 (IBBL, 2018). IBBL's mission statement reads, "To establish IB through the introduction of welfare-oriented banking system and also ensure equity and justice in the field of all economic activities, achieve balanced growth and equitable development in through diversified investment operations, particularly in the priority sectors and least developed areas of the country." "To always strive to achieve superior financial performance, be considered a leading Islamic Bank by reputation and performance," reads the bank's mission statement (IBBL, 2018).

4.5.2 ICB Islamic Bank Limited (ICBIBL)

The Oriental Bank Limited, which was established in April 1987 and began operations in May 1987 under the name Al-Baraka Bank Bangladesh Limited, is now known as ICB Islamic Bank Limited (ICBIBL). Al-Baraka Investment and Development Company (ABIDCO) of Saudi Arabia, the IDB, a group of notable Bangladeshi businesspeople, and the Government of Bangladesh founded it as a joint venture. In 2004, Al-Baraka Bank Bangladesh Limited started functioning under the name 'The Oriental Bank Limited'. Because of massive corruption, the Bangladesh Bank dissolved the board of directors of Oriental Bank in June 2006 and took over its full control and issued 'The Oriental Bank Limited (Reconstruction) Scheme 2007'. The bulk of the bank's shares were to be sold in a tender that the Bangladesh Bank announced in August 2007. As of February 28, 2008, ICB Group Holdings AG, a company located in Switzerland, took over as the bank's new main owner. In 2008, the bank changed its name to ICB Islamic Bank (ICBIBL, 2012). The bank has 600 million Tk in authorized capital. The bank's paid-up capital was originally Tk 150 million; as of December 31, 2016, it was BDT 6,647 million. A fifteen-person Board of Directors, chosen by the shareholders, is in charge of running it. A group of seven directors

known as the Executive Council is in charge of running the bank's daily operations. Similar to IBBL, it has a *Shari'ah* Council that renders judgments on matters pertaining to the *Shari'ah*. The Bank has thirty-three (33) branches spread around the nation in visible and practical locations. According to ICBIBL, the bank's vision is "to create and maximize sustainable values for all of its customers, employees, partners, and shareholders and especially for the society it operates in by delivering excellence in its offerings in all areas of banking and financial services complying with Islamic *Shari'ah*". The mission of the bank is "to constantly meet and exceed our customers' expectations by challenging status quo and crafting innovative *Shari'ah* compliant Islamic products and services to cater the diverse requirements of our customers by constantly framing and refreshing transparent policies and processes to keep our customers delighted" (ICBIBL, 2018).

4.5.3 Al-Arafah Islami Bank Limited (AAIBL)

The third Islamic bank in the nation, Al-Arafah Islami Bank Limited (AAIBL), was established on June 18, 1995, and it began operations on September 27, 1995. Some of the country's most prominent business figures and manufacturers created the bank. As of December 2016, it has a paid-up capital of Tk 9,943.06 million and an authorized capital of Tk 15,000.00 million. A Board of Directors of 23 members oversees the bank. Additionally, it has a *Shari'ah* Council with seven members made up of *Fuqaha*, attorneys, and Islamic economists. By December 2016, AAIBL has 140 branches (AAIBL, 2016). The Mission of AIBL is "by establishing an interest-free atmosphere in day to day business transactions, the promoters, sponsors and directors expect the *Shafayat* from our beloved Prophet Hadrat Muhammd (pbuh) and the ultimate emancipation in the Afterwards." The Vision of the bank is to establish an interest free transaction in the economy. Objectives of AIBL include: to establish an interest free economy; to establish a modern banking system for all kinds of people; to take part in the economic growth of the country; to eradicate the poverty and to do social services by establishing schools, Madrashes, University, Hospitals, Public Library etc.; and finally, to achieve ultimate goal i.e. *Nazat in Akhirat*" (AAIBL, 2018).

4.5.4 Social Investment Bank Limited (SIBL)

The fourth Islamic bank in the nation, Social Investment Bank Limited (SIBL), was established on July 5, 1995, and began doing business on November 22, 1995. It is a joint venture bank, owned by various international Islamic organizations, some renowned personalities of the Muslim World and the Government of Bangladesh. Among them, Dr.

Hamid Al Gavid, Former secretary General of OIC, Dr. Abdullah Omar Nasseef, Deputy Speaker of Saudi Arabia, Ahmed M. Salah Jamjoom, Former Commerce Minister of Saudi Arabia and Prof. Dr. Ahmed El-Naggar of Egypt are remarkable. As of December 2016, the bank has a Tk 10,000 million authorized capital and a Tk 7,382.98 million paid up capital. A Board of Directors with 24 members oversees it. The bank also has an eight member *Shari'ah* Council consisting of *Fuqaha*, Islamic economists, and lawyers. By December 2016, Social Investment Bank has 125 branches within the country (SIBL, 2016). The Vision of SIBL is “working together for a caring society” and missions include: “establishing three sector banking model; transformation to a service oriented technology driven profit earning Bank; fast, accurate and satisfactory customer service; balanced and sustainable growth strategy; optimum return on shareholders’ equity; introducing innovative IB products; attracting and retaining high quality human resources; empowering real poor families and creating local income opportunities; and providing support for social benefit organizations by way of mobilizing funds and social services” (SIBL, 2018).

4.5.5 EXIM Bank Limited

EXIM Bank Limited was established on 3 August 1999 as a conventional bank with the initiative of a group of successful entrepreneurs. Bengal Export Import Bank Limited was the bank's first name. On November 16th, 1999, it underwent a name change to Export Import Bank of Bangladesh Limited. The bank has converted all of its operation into Islami banking in July 2004. The bank has an authorized capital of taka 20,000.00 million and paid-up capital of taka 14,122.51 million with 113 branches as of December 2016 (EXIMBL, 2016). The Vision of Exim Bank is “Together Towards Tomorrow”. In its pursuit of development and success via service, the bank believes in working together with its clients (EXIMBL, 2018). The banks missions include: “extracting the full benefit of IB system for its customers; providing with quality financial services especially in Foreign Trade; maintaining and upgrading a technology-based professional banking environment; maintenance of corporate and business bethics and transparency at all levels; sound capital Base; ensure sustainable growth for the honorable stakeholders; fulfillment of corporate social commitments, and above all, to add to the national economy” (EXIMBL, 2018).

4.5.6 First Security Islami Bank Limited (FSIBL)

First Security Islami Bank Limited (FSIBL) was established as a traditional bank on August 29, 1999. At the beginning, the name of the bank was First Security Bank Ltd. It changed its

name on 01 January, 2009 as First Security Islami Bank Ltd. and the modes of banking also transformed from conventional into IB. The banks authorized capital is Taka 10,000.00 million and paid-up capital 6788.74 million; while it has 158 branched around the country as of December 2016 (FSIBL, 2016). The Vision of FSIBL is “to be the premier financial institution in the country by providing high quality products and services backed by latest technology and a team of highly motivated personnel to deliver excellence in banking” (FSIBL, 2018). The Mission of the banks include: “to contribute to the socio-economic development of the country; to attain the highest level of satisfaction through the extension of services by dedicated and motivated professionals; to maintain continuous growth of market share by ensuring quality; to ensure ethics and transparency in all levels; to ensure sustainable growth and establish full value of the honorable shareholders and above all, to contribute effectively to the national economy” (FSIBL, 2018).

4.5.7 Shahjalal Islami Bank Limited (SJIBL)

On May 10, 2001, Shahjalal Islami Bank Limited (SJIBL) was established in accordance with the Bank Companies Act, 1991. The authorized capital of the bank is 10,000.00 million and paid-up capital is 7714.00 million, while it has 113 branches around the country as of December 2016 (SJIBL, 2016). The Vision of SJIBL is “to be the unique modern Islami Bank in Bangladesh and to make significant contribution to the national economy and enhance customers’ trust and wealth, quality investment, employees value and rapid growth in shareholders’ equity” (SJIBL, 2018). The Mission of SJIBL include: “to provide quality services to customers; to set high standards of integrity; to ensure sustainable growth in business; to make quality investment; to ensure maximization of Shareholders' wealth; to extend our customers innovative services acquiring state-of-the-art technology blended with Islamic principles; and to ensure human resource development to meet the challenges of the time” (SJIBL, 2018).

4.5.8 Union Bank Limited (UBL)

The youngest addition to this industry is Union Bank Limited (UBL). It was founded on 01 April, 2013 with the aim of ‘to become socially committed world class financial institution’ and started its operation on 20 May, 2013 with an authorized capital of Tk. 10000 million, paid up capital of Tk.4280 million. The bank has succeeded to open 36 branches at various important locations of the country as of December 2016 (UBL, 2016). The Vision of UBL is “to become socially committed world class financial institution” and the Mission is to

“emancipate our poor people from abject poverty by empowering them with smooth banking service; be the leading provider of Islamic *Shari’ah*-compliant banking services in Bangladesh; provide fast, accurate and satisfactory customer service by maintaining corporate and business ethics and transparency at all levels; ensure technology based professional banking environment with strong capital base; and thrust on investment facilitating banking product” (UBL, 2018).

4.5.9. Islamic Banking in Conventional Banks of Bangladesh

Besides having full-fledged Islamic banks, several conventional banks also started to offer different IB products either opening IB branches or windows. Prime Bank Limited pioneered the practice by opening two IB branches; one in Dhaka in 1995 and another in Sylhet in 1997. Now it has five IB branches in the major cities of the country (Prime Bank Limited, 2018). In 1995, Dhaka Bank Limited built an IB deposit counter at its main location in Dhaka. Due to customer demand, the bank established two full-fledged IB branches in Dhaka and Chittagong. Many other banks also followed the practice such as Southeast Bank has opened five IB branches, Premier Bank Limited and Jamuna Bank Limited have two IB branches each, while The City bank Limited, Bank Al-Falah Limited and AB Bank Limited has one each. Seven more conventional *banks operate twenty five IB windows*. Sonali Bank Limited, Agrani Bank Limited, Trust Bank Limited and Bank Asia Limited have five IB Windows of each, while Pubali Bank Limited and Standard Bank Limited have two each and Standard Chartered Bank has one IB window.

4.6 Growth and Performance of Islamic Banking in Bangladesh

In the banking industry of Bangladesh, 86% belongs to conventional and 14% belongs to IB. Currently, a total of 23 public and private commercial banks are operating full-fledged or partially IB operations in the country. As of December 2017, eight full-fledged Islamic banks are operating with 1124 branches out of total 9955 branches of the banking industry. In addition, 19 IB branches of 9 conventional commercial banks and 25 IB windows of 8 conventional banks are also providing IB services (Bangladesh Bank, 2017). Since its inception, IB industry has been growing in the country with an upward trend in every parameter of development such as branch, employee, deposit, profitability, loan and advance, import and export, investment, earning per share (EPS), return on asset (ROA), return on equity (ROE) etc. From the following tables, it becomes clear that IB industry in Bangladesh has rapidly been advancing in every definition.

Table 4.6.1: Growth of Branch of Islamic Banks in Bangladesh

Name of the Banks	Number of branches									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	206	231	251	266	276	--	--	--	--	332
Growth		12.13%	8.65%	5.97%	3.75%	--	--	--	--	
ICBIBL	--	--	--	--	--	--	--	--	--	33
AAIBL	50	60	78	88	100	--	--	--	--	138
Growth		2%	3%	12.82%	13.63%	--	--	--	--	
SIBL	28	52	64	76	86	--	--	--	--	154
Growth		85.71%	23.07%	18.75%	13.15%	--	--	--	--	
EXIM	42	52	59	62	72	--	--	--	--	118
Growth		23.81%	13.46%	5.1%	16.12%	--	--	--	--	
FSIBL	29	52	66	84	100	--	--	--	--	113
Growth		79.31%	26.92%	27.27%	19.04%	--	--	--	--	
SJIBL	33	51	63	73	84	--	--	--	--	168
Growth		54.54%	23.52%	15.87%	15.06%	--	--	--	--	
UBL						--	--	--	--	68
Total					718	--	--	--	-	1124

Table 4.6.2: Growth of Employee of Islamic Banks in Bangladesh

Name of the Banks	Number of Employees									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	9397	9588	10349	11465	12188	--	--	--	--	--
Growth	--	0.02%	0.07%	10.78%	0.06%	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	1080	1296	1711	1807	2110	--	--	--	--	--
Growth		2%	32.02%	0.05%	16.76%	--	--	--	--	--
SIBL	750	950	1252	1375	1625	--	--	--	--	--
Growth		26.66%	31.78%	0.09%	18.18%	--	--	--	--	--
EXIM	1312	1440	1686	1724	1909	--	--	--	--	--
Growth		0.09%	17.08%	0.02%	10.73%	--	--	--	--	--
FSIBL	485	775	929	1342	2090	--	--	--	--	--
Growth		59.79%	19.87%	44.45%	55.73%	--	--	--	--	--
SJIBL	878	1299	1521	1624	1881	--	--	--	--	--
Growth		47.94%	17.09%	0.06%	15.82%	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total										

Table 4.6.3: Growth of Deposit of Islamic Banks in Bangladesh

Name of the Banks	Deposits (In Millions)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	202,115.45	244,292.14	291,934.60	341,853.67	417,844.14	--	--	--	--	--
Growth	--	20.86%	19.50%	17.09%	22.22%	--	--	--	--	--

ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	29,690.12	38,355.50	53,882.96	82,186.98	118,683.39	--	--	--	--	--
Growth		29.18%	40.48%	52.52%	44.40%	--	--	--	--	--
SIBL	24,099.82	31,588.16	44,850.77	66,852.55	93,594.29	--	--	--	--	--
Growth		31.07%	41.98%	49.05%	40%	--	--	--	--	--
EXIM	58,833.06	73,835.46	94,949.40	107,881.21	140,369.66	--	--	--	--	--
Growth		25.49%	28.59%	13.61%	30.11%	--	--	--	--	--
FSIBL	25,854.54	42,423.09	56,344.95	78,145.04	109,905.56	--	--	--	--	--
Growth		65.63%	32.81%	38.69%	40.64%	--	--	--	--	--
SJIBL	34,280	47,459	62,965	83,850	102,177	--	--	--	--	--
Growth		38.44%	32.67%	33.16%	21.85%	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total						--	--	--	--	--

Table 4.6.4: Growth of Profit of Islamic Banks in Bangladesh

Name of the Banks	Profits (In Millions BDT) ⁴¹									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	2,674.80	3,403.55	4,485.48	4,624.59	5,616.75	--	--	3,290.75	4,464.97	--
Growth		27.25%	31.11%	0.08%	14.10%	--	--	--	--	--
ICBIBL	(776.74)	(2,062.21)	(1,358.24)	(1,796.15)	(1,061.04)	--	--	(141.09)	(270.84)	--
AAIBL	668.24	858.99	1,816.14	1,992.87	1,945.41	2,276.68	2,324.95	2,465.88	3,349.40	--
Growth		28.54%	28.06%	12.23%	-13.02%	--	--	--	--	--
SIBL	202.07	431.52	640.10	1,032.46	1,465.22	--	--	3,443.23	3,798.07	--
Growth		13.54%	49.01%	68.48%	33.01%	--	--	--	--	--
EXIM	1,096.63	1,682.99	3,458.02	2,017.72	2,083.08	1,885.61	2,465.68	2,086.55	3,039.76	--
Growth		54.48%	105.05%	-72.99%	0.07%	--	--	--	--	--
FSIBL	104.28	326.84	548.60	579.94	762.29	776.48	694.28	853.54	1410.33	--
Growth		13.41%	67.85%	0.057%	31.51%	--	--	--	--	--
SJIBL	817.71	1,070.57	2,072.34	1,168.65	1,730	1,305	747	1,290	1,557	--
Growth		30.92%	93.34%	-77.39%	48.11%	--	--	--	--	--
UBL	N/A	N/A	N/A	N/A	N/A	--	110.55	488.31	--	--
Total										--

Table 4.6.5: Growth of Loan and Advance of Islamic Banks in Bangladesh

Name of the Banks	Loan and Advances (In Millions)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	43,781	55,342	76,234.90	98,840.56	--	--	--	--	--	--
Growth		26.40%	37.35%	29.65%	--	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	19,109	30,187	45,981.34	73,433.81	--	--	--	--	--	--
Growth		57.97%	52.32%	59.70%	--	--	--	--	--	--
SIBL	34,561	49,781	55,826.09	78,355.07	--	--	--	--	--	--

⁴¹ Calculated by the author collecting data from the websites of the banks.

Growth	--	44.04%	12.14%	41.72%	--	--	--	--	--	--
EXIM	--	--	--	--	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
FSIBL	26,891	34,126	54,981.56	67,233.45	--	--	--	--	--	--
Growth		26.90%	61.11%	22.28%	--	--	--	--	--	--
SJIBL	38,781	51,563	65,471.89	80,592.04	--	--	--	--	--	--
Growth		32.95%	19.99%	23.09%	--	--	--	--	--	--
UBL					--	--	--	--	--	--
Total										

Table 4.6.6: Growth of Import Business in Islamic Banks of Bangladesh

Name of the Banks	Import business (In Millions)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	168,329	161,230	246,281	301,207	--	--	--	--	--	--
Growth		5.80%	52.75%	22.30%	--	--	--	--	--	--
ICBIBL					--	--	--	--	--	--
AAIBL	32,685.13	34,074.80	55,934.10	76,112.10	--	--	--	--	--	--
Growth		4.25%	64.15%	36.07%	--	--	--	--	--	--
SIBL	45,561	57,452	66,341	74,678	--	--	--	--	--	--
Growth		26.09%	15.47%	12.57%	--	--	--	--	--	--
EXIM	--	--	--	--	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
FSIBL	31,645	39,673	45,562	63,897	--	--	--	--	--	--
Growth		25.36%	14.84%	40.24%	--	--	--	--	--	--
SJIBL	42,551	39,543	60,066	82,341	--	--	--	--	--	--
Growth		2.72%	51.90%	37.08%	--	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--	--	--

Table 4.6.7: Growth of Export Business in Islamic Banks of Bangladesh

Name of the Banks	Export business (In Millions)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	--	--	--	--	--	--	--	--	--	--
Growth		13.26%	39.46%	20.09%	--	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	--	--	--	--	--	--	--	--	--	--
Growth		16.69%	36.08%	62.92%	--	--	--	--	--	--
SIBL	--	--	--	--	--	--	--	--	--	--
Growth		42.82%	19.84%	82.64%	--	--	--	--	--	--
EXIM	--	--	--	--	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
FSIBL	--	--	--	--	--	--	--	--	--	--
Growth		10.41%	13.06%	22.84%	--	--	--	--	--	--

SJIBL	--	--	--	--	--	--	--	--	--	--
Growth		11.72%	65.98%	62.16%	--	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--	--	--

Table 4.6.8: Growth of Investment of Islamic Banks in Bangladesh

Name of the Banks	Investment (In Millions)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	180,053.94	214,615.8	263,225.13	305,840.56	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	27,742.57	36,134.08	53,582.96	77,714.95	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
SIBL	19,376.09	22,544.00	36,680.00	53,908.00	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
EXIM	--	--	--	--	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
FSIBL	1,332.00	1,852.00	2,859.00	4,044.00	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
SJIBL	32,919.00	43,958.00	61,440.00	80,592.00	--	--	--	--	--	--
Growth	--	--	--	--	--	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--	--	--

Table 4.6.9: Growth of EPS⁴² (Earnings per share) of Islamic Banks in Bangladesh

Name of the Banks	EPS ⁴³									
	Earnings per share (EPS) = Net income - preferred dividend / Average common share.									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	5.63	5.51	6.02	4.84	4.42	--	--	--	--	--
Growth		-2.13%	9.25%	-19.60%	-8.67%	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	3.72	2.00	4.14	3.73	2.38	--	--	--	--	--
Growth		-46.24%	107%	-82.36%	-36.19%	--	--	--	--	--
SIBL	1.72	1.84	2.15	1.81	2.25	--	--	--	--	--
Growth		6.97%	16.84%	-15.81%	24.30%	--	--	--	--	--
EXIM	40.95	50.21	3.77	2.18	2.05	--	--	--	--	--
Growth		22.61%	-92.49%	-42.17%	-13%	--	--	--	--	--
FSIBL	7.35	1.42	1.61	1.71	2.04	--	--	--	--	--
Growth		-80.68%	13.38%	16.1%	33%	--	--	--	--	--
SJIBL	2.98	3.91	4.65	2.10	3.11	--	--	--	--	--

⁴² EPS refers to the portion of a company's profit allocated to each outstanding share of common stock. It serves as an indicator of a company's profitability.

⁴³ Calculated by the author collecting data from the websites of the banks.

Growth		31.21%	18.93%	-54.83%	48.09%	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total						--	--	--	--	--

Table 4.6.10: ROA⁴⁴ (Return on Assets) of Islamic Banks in Bangladesh

Name of the Banks	ROA = Net Income/Average total asset ⁴⁵									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	1.27	1.34	1.47	1.35	1.27	0.991	--	--	--	--
Growth		5.51%	9.70%	-8.16%	-5.93%	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	1.80	1.77	2.65	2.06	1.30	--	--	--	--	--
Growth	--	-1.67%	49.72%	22.26%	-36.89%	--	--	--	--	--
SIBL	1.19	1.24	2.39	2.70	2.75	0.964	--	--	--	--
Growth	--	4.20%	9.27%	12.97%	1.85%	--	--	--	--	--
EXIM	1.83	2.19	3.54	1.65	1.45	1.050	--	--	--	--
Growth	--	19.67%	61.65%	-53.38%	-12.12%	--	--	--	--	--
FSIBL	0.61	1.56	1.89	1.75	1.50	--	--	--	--	--
Growth	--	155%	21.15%	-7.41%	-14.28%	--	--	--	--	--
SJIBL	2.26	2.08	3.01	1.26	1.44	0.991	--	--	--	--
Growth	--	-7.96%	49.03%	-59.35%	14.29%	--	--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--	--	--

Table 4.6.11: Return on equity⁴⁶ (ROE) ratios of Islamic Banks in Bangladesh

Name of the Banks	ROE=Net income/Shareholders equity ⁴⁷									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
IBBL	19.02	16.93	19	17.42	13.90	1.086	--	--	--	--
Growth	--	-10.98%	12.23%	-8.32%	-20.21%	--	--	--	--	--
ICBIBL	--	--	--	--	--	--	--	--	--	--
AAIBL	24.70	24.10	20.01	18.34	13.51	--	--	--	--	--
Growth	--	-2.43%	-16.97%	-8.35%	-26.34%	--	--	--	--	--
SIBL	10.82	12.14	15.31	11.51	14.15	9.198	--	--	--	--
Growth	--	12.19%	26.11%	-24.82%	22.94%	--	--	--	--	--
EXIM	21.98	25.22	27.86	13.87	12.96	11.907	--	--	--	--
Growth	--	14.74%	10.47%	-50.22%	-6.56%	--	--	--	--	--
FSIBL	4.11	11.41	13.99	12.75	13.35	--	--	--	--	--

⁴⁴ ROA gives an indication of the capital intensity of the company, which will depend on the industry; companies that require large initial investments will generally have lower return on assets.

⁴⁵ Calculated by the author collecting data from the websites of the banks.

⁴⁶ ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth.

⁴⁷ Calculated by the author collecting data from the websites of the banks.

Growth	--	176.62%	22.61%	-8.86%	4.71%	--	--	--	--	--
SJIBL	25.58	25.10	30.71	13.80	17.01	11.288	--	--	--	--
Growth	--	-1.87%	22.35%	-55.1%	23.26%		--	--	--	--
UBL	--	--	--	--	--	--	--	--	--	--
Total	--	--	--	--	--	--	--	--	--	--

Table 4.6.12: Deposit and Investment Structure and Remittance Share of Islamic Banks (as of December 2017) (Bangladesh Bank, 2017)

	Share of Deposit of Islamic Banks	Share of Investment of Islamic Banks	Share of Remittance of Islamic Banks
IBBL	35.08%	34.86%	54.02%
ICBIBL	0.53%	0.44%	0.02%
SIBL	9.38%	10.12%	19.78%
AAIBL	12.12%	11.48%	18.70%
EXIM	11.90%	12.08%	1.22%
SJIBL	6.79%	7.89%	0.91%
FSIBL	13.96%	13.24%	2.65%
UBL	5.32%	5.01%	1.88%
IB Branches	2.74%	2.78%	0.52%
IB Windows	2.19%	2.11%	0.30%

Table 4.6.13: Islamic Banking as compared with all banks in Bangladesh (as of December 2017) (Bangladesh Bank, 2017)

Items	All Banks	Islamic Banks	Share of Islamic Banks
Total Deposits (In Crore Taka)	926179.30	214259.42	23.13 %
Total Credit (In Crore Taka)	844435.60	201101.96	23.81 %
Remittances (In Crore Taka)	28903.28	11070.85	38.30 %
Total Excess Liquidity (In Crore Taka)	97122.96	8719.91	8.98 %
Total Profit		29.89.64	
Total Number of Bank Branches	9955	1168	11.73 %
Total Manpower		30606	
Total Agricultural Credit (In Crore Taka)	40148.89	3317.05	8.26 %

From the above tables, it has been evident that most of the Islamic banks have been showing remarkable progress in terms of deposit, profitability, loan and investment. In terms of deposits and investments, IB had more than a fifth of the market for banking as a whole as of December 2017 (Bangladesh Bank, 2017). Total deposits of IB industry reached at Tk. 214259.42 crore; total Investments stood at Tk. 201101.96 crore; and Surplus Liquidity stood at Tk. 8719.91 crore. IBBL leads in term of net profit for the last two decades not only among the Islamic banks but also among all private banks including conventional and Islamic. IB industry of the country has been playing a vital role in collecting foreign remittance. The

industry accounted for 38.30% share of remittance collected by the entire banking industry as of December, 2017 (Bangladesh Bank, 2017). Total remittance mobilized by the IB sector stood at Tk. 11070.85 crore at the end of December 2017 (Bangladesh Bank, 2017). The EPS of all the Islamic banks showing ups and down scenario. The ROA and ROE of Islamic banks, though sometimes, showing jumble of growth pattern, but on an average are in good position. This scenario supports the upward trend of performance of the IB industry in Bangladesh.

5. Summary

This chapter focused on the historical development of IB and its expansion around the globe. Though IB is a modern phenomenon, but some forms of banking activities were developed within the 1st century of Islam such as receiving deposits, loans, money exchange and other exchange bills etc. that were similar to modern banking transactions. But, the decline of the Islamic Empire from about 12th Century caused the gradual fade of the financial and banking practices in the Muslim territories. Western influence gradually started to be increased throughout Islamic countries through the process of colonization. In many Muslim nations, the desire to run their governments in line with their own beliefs and traditions began to develop in the second half of the 20th century as the nationalist movement for independence from colonialism grew. With these circumstances, the concept of IB started to be discussed among the Islamic scholars from the beginning of 20th century. It gained momentum in the mid of 20th century. The trend of achieving independence during the 1940s and 1950s throughout the Muslim world influenced the Muslim intellectual community to rethink about the economic alternatives of Islamic system to replace that of western. These efforts finally resulted in the emergence of IB in the second half of 20th century. With the modest beginning with Mit-Ghamr Islamic Savings Bank in 1963 in Egypt, the asset of IB industry now crossed the US\$2.6 trillion while about 400 Islamic financial institutions are conducting their operations in 57 countries around the globe. Iran, Pakistan and Sudan embarked upon the project of adopting the IB order at the national level. There is no doubt that IB industry is booming worldwide. Besides major Muslim countries, the industry has also been expanding in many Western non-Muslim countries. Additionally, several Western banks introduced IB products to cater to their Muslim clients. In its early years, the IB sector advanced steadily. But in recent years, it has seen unheard-of growth as a result of fundamental causes including consistently high oil prices globally, the developing economies of the Middle East, the growing diversification of IB goods, clients, and markets, as well as other political shifts. IB

started in Bangladesh in 1983 with Islami Bank Bangladesh Limited. Eight fully-fledged Islamic banks, 19 IB branches of eight conventional banks, and 25 IB windows of seven conventional banks are all in operation at the moment. In terms of asset growth, deposit growth, investment growth, and account holder growth, the IB category continues to exhibit significant progress. It has more than one-fifth of the country's total banking market share and contributes significantly to deposit mobilization and funding for various Bangladeshi economic sectors.

CHAPTER FIVE

SHARI'AH BOARD AND ITS ROLE IN THE IB INDUSTRY

5.1 Introduction

“Islamic banking (IB), being enlightened with the guidance of *Shari'ah* principles, emerged as an alternative financial system that neither gave nor took interest” (Dubai Islamic bank, 2016). Islamic banks perform the similar roles like conventional banks maintaining the strict requirements for their services and transactions to follow the doctrines of *Shari'ah* (Iqbal and Mirakhor, 2004: 43-63). The most distinguishing characteristic of IB is to follow the principles of *Shari'ah* for their products, transactions, and services (Lewis and Algaoud 2001). The most important aspect of IB is confirming *Shari'ah* compliance, and any failure in this regard might put IB at systemic danger (Ayub, 2007: 363). Numerous research have shown that the *Shari'ah* compliance is the single most significant factor luring customers to IB. Thus, the review of *Shari'ah* compliance of IB services and products has been considered to be a vital governance mechanism to safeguard the reliability and practicality of an Islamic bank. To maintain, oversee and review the compliance of banking products, services and transactions with the principles of *Shari'ah*, every Islamic bank is supposed to have a SB. No new product would have been introduced until they are reviewed and approved by the SB. With regards to the governance arrangements applicable to Islamic financial activities, one common feature is their use of SB (Millar and Anwar, 2008: 164). It strengthens the bank's reputation among its clients and establishes its Islamic credentials (Warde, 2000; 226). As a result, the SB is a crucial component of the corporate governance structure in an Islamic bank. IFSB says that:

“Considering that the foundation of every IIFS is the offering of financial services in strict compliance with the requirements of Islamic *Shari'ah*, it would not be acceptable if any IIFS functioned without *Shari'ah* supervision of any sort. An IIFS bank without any access to *Shari'ah* scholars may not be able to distinguish itself as an institution that offers Islamic financial services and will not be able to attract investors and entrepreneurs who wish to invest their funds according to *Shari'ah* precepts. Hence, it is of primary importance for IIFS to understand that, only when they establish appropriate *Shari'ah* monitoring mechanisms would customers be convinced that the IIFS offer only *Shari'ah* - compliant financial products and the customers will become involved only in transactions that comply with the rules and principles of Islamic *Shari'ah*” (IFSB, 2006: 23).

Formation of SB, its membership, governance function and hierarchical position are deemed very different from other kinds of supervisory boards in the banking administration. Despite

the high anticipation that the board is being entrusted with high authoritative governance function, several studies identified that the governance function, and role of the SB is not satisfactory and effective enough (Khan, 2007: 285-307; Kahf, 2002). A significant number of studies also identified the challenges that face Islamic banks with regard to the SB's function (e.g., Khan, 2007: 285–307; Siddiqi, 2006a; Rammal, 2006: 204–208; Grais and Pellegrini, 2006), as well as its connections to Islamic banks' financial reporting transparency (e.g., Iqbal et al., 1998; Karim, 1996: 111–138) and socioeconomic implications (e. g., Karim, 1996). The *Shari'ah* governing role of the SB is similarly lacking in empirical data. In recent decades, some IB regulatory institutions, particularly, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) have set up the standard regarding the formation, governance function, independence and role of the SB. With these circumstances, this chapter aims at providing an in-depth study on the formation, function and role of the SB in the IB industry. Consistent with the objective of the study, relevant standards formulated by AAOIFI and IFSB will be evaluated. In addition, the standardization of IB practice and its association with the SB and the centralized SB will be reviewed with a view to understanding its role.

5.2 *Shari'ah* Board and its Standardization

SB of an Islamic bank refers to a religious supervisory board which entrusted with the responsibility of ensuring the compliance of the bank's products, services and activities with the principles of *Shari'ah*. Having a SB in the governance structure of banking became one of the most distinctive features of modern IB industry. It primarily oversees the products and services of the Islamic bank and investigates the possible violation of *Shari'ah* principles and provides the guidelines to ensure *Shari'ah* compliance. The board generally includes the contemporary scholars of *Shari'ah* together with the members from other disciplines related to banking.

Shari'ah law is very open for interpretation and even the SBs often have divergent views on the same issue. A product may be accepted by one SB but rejected by another. There has been no uniform guideline for an acceptable IB instrument. Regarding the formation, composition and responsibilities of the SB, there has also not been any unique standard until the recent years. Subsequently, many boards were composed of the incompetent members with inadequate functional power, which practically hampered the Islamicity of the Islamic banks and handicapped the development of the new products. With this perspective and worldwide rapid growth of the industry, there has been an increasing demand for a unique

standardization of IB products as well as governance issues including the SB. Some international IB research organizations have taken the initiatives to harmonize essential standards regarding the banking products and governance issues. The Islamic Financial Services Board (IFSB) and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) developed the most broadly embraced standard. The norms and directives established by AAOIFI and IFSB are not required to be modified by Islamic banks. However, the majorities of Islamic banks and financial institutions as well as the banking regulatory bodies of many Muslim nations have matched their laws and regulations with the AAOIFI and IFSB guidelines (Gassner and Wackerbeck, 2007).

5.2.1 AAOIFI

The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which was founded in 1991 and is headquartered in Bahrain, is the premier non-profit organization in the world and is primarily in charge of developing and issuing standards for the global Islamic finance sector (AAOIFI, 2019). It was created in accordance with the 1989 Agreement of Association amongst Islamic financial institutions. The founding members are the organizations that ratified the formation agreement. These include the Islamic Development Bank, the Kuwait Finance House, the Al-Rajhi Banking and Investment Corporation (Saudi Arabia), the Faysal Group (Dar Al Mal Al Islami, Switzerland), the Dallah Al Baraka Banking Group (Bahrain), and the AlBukhary Foundation (Malaysia) (AAOIFI, 2019d). The goals of AAOIFI are as follows:

- a) “To develop accounting, auditing, governance and ethical thought relevant to Islamic financial institutions;
- b) To disseminate the accounting, auditing governance and ethical thought relevant to Islamic financial institutions and their applications through training, seminars, publication of periodical newsletters, preparation of reports, research and through other means;
- c) To harmonize the accounting policies and procedures adopted by Islamic financial institutions through the preparation and issuance of accounting standards and the interpretation of the same to the said institutions;
- d) To improve the quality and uniformity of auditing and governance practice relating to Islamic financial institutions;
- e) To promote good ethical practices relating to Islamic financial institutions through the preparation and issuance of codes of ethics to these institutions;

- f) To achieve conformity or similarity –to the extent possible- in concepts and applications among the *Shari'ah* supervisory boards of Islamic financial institutions to avoid contradiction and inconsistency between the *Fatwas* and applications of these institutions, with a view to activate the role of the *Shari'ah* supervisory boards of Islamic financial institutions and central banks through the preparation, issuance and interpretation of *Shari'ah* standards and *Shari'ah* rules for investment, financing and insurance;
- g) To approach the concerned regulatory bodies, Islamic financial institutions, other financial institutions that offer Islamic financial services, and accounting and auditing firms in order to implement AAOIFI standards, statements and guidelines;
- h) To offer educational and training programs, including professional development programs on accounting, auditing, ethics, governance, *Shari'ah*, and other related areas, so as to promote knowledge on, and to encourage greater professionalism in IB and finance.
- i) To carry out other activities including certification of compliance of AAOIFI standards, so as to gain wider awareness and acceptance of AAOIFI standards” (AAOIFI, 2019).

The vision of AAOIFI is “to guide Islamic finance markets operation and financial reporting on *Shari'ah* principles and rules; to provide Islamic finance markets with standards and guidelines that can support the growth of the industry.” Its mission is “standardization and harmonization of international Islamic finance practices and financial reporting in accordance to *Shari'ah*” (AAOIFI, 2019).

The hiring of consultants to create the exposure drafts is the first of more than 10 steps that make up the development process. The *Shari'ah* Standards Committee reviews the document after which it is sent to the SB for additional evaluation, resulting in the draft standard. The draft standard is then presented at a public hearing (one or more), where Islamic finance institutions, *Fuqaha*, experts, and professionals from these institutions can discuss it in order to make the draft standard meticulous and of the highest quality, covering all practical issues faced by those working in the industry. The SB will review the public hearing comments in order to incorporate any revisions it deems necessary and ultimately approve the standard (AAOIFI, 2017: 6-7). Twenty eminent *Shari'ah* scholars from throughout the world make up the SB. This guarantees the universality and broad geographic applicability of these standards while also taking different locales, jurisdictions, applications, and customary practices into

account. As all main schools of Islamic law are fairly represented and different specialties are taken into account in their formulation, the standards also reflect the diversity of academic backgrounds among board members (AAOIFI, 2015: 7).

57 Shari'ah standards, 35 accounting standards, 5 auditing standards, 9 governance standards, 2 codes of conduct, and 2 auditing guidance notes were all published by AAOIFI as of April 2019 (AAOIFI, 2019b). These guidelines have gained widespread recognition throughout the international banking and finance sector and are regarded as the best *Shari'ah* reference for this sector and its many players, including governmental and regulatory agencies, financial institutions, and other professional organizations. Several central banks and financial authorities have formally embraced the AAOIFI Standards, either as a requirement or as advise. As a result, these criteria are seen as one of the Islamic banking sector's greatest achievements and a prominent brand marker (AAOIFI, 2017: 6).

AAOIFI standards are adopted as mandatory regulatory requirements in many countries and jurisdictions across the globe such as Bahrain, Qatar, Jordan, Lebanon, Sudan, Syria, Kyrgyz republic, Mauritius, Nigeria, Oman, Pakistan, United Arab Emirates, Yemen as well as being implemented by the Dubai International Financial Centre and Qatar International Financial Centre (AAOIFI, 2019c). Based on the AAOIFI criteria, the regulatory bodies in Saudi Arabia, Indonesia, Malaysia, Australia, and South Africa have released recommendations. Afghanistan, Iraq, Libya, Palestine Astana Financial Services Authority and Islamic Development Bank Group follow AAOIFI standards fully or partially as guidance (AAOIFI, 2019c). In Kazakhstan, Pakistan, and Indonesia, national accounting standards have been developed based on AAOIFI accounting standards, while it has been recommended as guidance in jurisdiction in Kuwait. In Bangladesh, Individual banks apply AAOIFI accounting standards voluntarily. Thus, most of the global Islamic financial institutions implement the AAOIFI standards in practice in jurisdictions (Millar and Anwar, 2008: 24).

5.2.2 IFSB

The Islamic Financial Services Board (IFSB), which was formally established in Kuala Lumpur in 2002 and began operating in 2003, is another global organization devoted to standards in the IB and financial sectors (IFSB, 2019). The mission of the IFSB is “to promote the stability and resilience of the Islamic financial services industry” (IFSB, 2019a). This international standard-setting organization seeks to achieve its mission by issuing global prudential and supervisory standards and guiding principles for the industry and facilitating their implementation (IFSB, 2019). The objectives of the IFSB are:

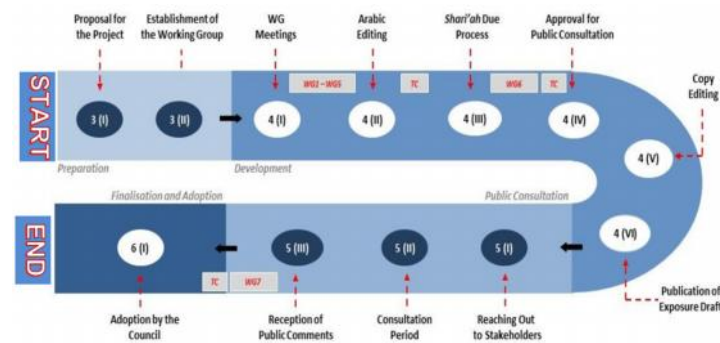
- a) “To promote the development of a prudent and transparent Islamic financial services industry through introducing new, or adapting existing, international standards consistent with Shari’ah principles, and recommending these for adoption.
- b) To provide guidance on the effective supervision and regulation of institutions offering Islamic financial products and to develop for the Islamic financial services industry the criteria for identifying, measuring, managing and disclosing risks, taking into account international standards for valuation, income and expense calculation, and disclosure.
- c) To liaise and cooperate with relevant organizations currently setting standards for the stability and the soundness of the international monetary and financial systems and those of the member countries.
- d) To enhance and coordinate initiatives to develop instruments and procedures for efficient operations and risk management.
- e) To encourage cooperation amongst member countries in developing the Islamic financial services industry.
- f) To facilitate training and personnel development in skills in areas relevant to the effective regulation of the Islamic financial services industry and related markets.
- g) To undertake research into, and publish studies and surveys on, the Islamic financial services industry.
- h) To establish a database of Islamic banks, financial institutions and industry experts” (IFSB, 2019b).

The IFSB encourages the application of new or modified international standards that are in line with *Shari'ah* principles. It collaborates closely with worldwide organizations of securities commissions, such as the Basel Committee on Banking Supervision, the worldwide Organization of Insurance Supervisors, and the International Organization of Securities Commissions. According to the specifics of IB, it modifies the current norms and policies of these international bodies (IFSB, 2019; Millar and Anwar, 2008: 24).

The Islamic Financial Services Board (IFSB) has published thirty Standards, Guiding Principles, and Technical Notes as of April 2019. As at December 2018, the 180 members of the IFSB comprise 78 regulatory and supervisory authorities, 8 international inter-governmental organizations, and 94 market players (financial institutions, professional firms, industry associations and stock exchanges) operating in 57 jurisdictions (IFSB, 2019c). Among the full members, central banks of almost all Muslim countries including Bangladesh,

Indonesia, Malaysia, Iran, Pakistan, Bahrain, Kuwait, Jordan, Iraq, Egypt, Sudan, Mauritania, Nigeria, Oman, Turkey, UAE, Kazakhstan, Qatar, Tanzania, Uganda, Zambia, and among the regulatory bodies International Monetary Fund, the World Bank, IDB, Banking Regulation and Supervision Agency of Turkey, Astana Financial Services Authority, Capital Markets Board of Turkey, Capital Market Authority of KSA, Dubai Financial Services Authority, Indonesia Financial Services Authority, Monetary Authority of Singapore, Saudi Arabian Monetary Agency, Securities Commission of Malaysia are remarkable. Besides 35 full members, it has 36 associate and 109 observer members (IFSB, 2019c). The procedure for the development of standards and guidelines are maintained through a very strong methodology, which includes about 18 stages.

Chart 5.2.2: Key Milestones of a typical standard development process of IFSB (IFSB, 2018).



The IFSB works to provide common standards for identifying, measuring, managing, and disclosing financial institution risks (Gassner and Wackerbeck, 2007). It provides guidance to regulators on how to manage Islamic banks and other financial institutions that adhere to Shari'ah law as well as how to modify international regulatory standards to account for this unique class of banking institution and financial products (Millar and Anwar, 2008: 24). The IFSB is working to spread awareness of regulatory challenges within and beyond the Muslim world. As the Islamic finance industry involves many cross-border transactions, the need for international standards has become more urgent, and the IFSB has been playing a major role in facilitating harmonization and convergence of regulatory practices (Millar and Anwar, 2008: 24).

5.3 Characteristics of the *Shari'ah* Board

Every Islamic bank should have a SB obligatorily (Iqbal and Mirakhor, 2007) to exhibit *Shari'ah* governance mechanism. It is basically characterized with three distinctive features:

the qualification of its members, its power and functional independence and the executing nature of its decisions for the respective institution (Iqbal and Mirakhor, 2011).

5.3.1 Qualification of the Members of *Shari'ah* Board

The articles of association of the relevant Islamic bank would normally provide a clear definition of the qualification, appointment, and duties of the SB (Briston and El-Ashker, 1986: 120). Some studies such as Arbouna (2007: 341-369) asserted that the members of the SB should be limited within the scholars of *Shari'ah*, while Siddiqi (2006a) contended that the *Shari'ah* experts' education did not enlighten them enough to evaluate IB goods outside of the confines of *Shari'ah*. Siddiqi (2006a) and many other researches (such as Gambling et al. 1993: 195-207; Grais and Pellegrini, 2006; Ghayad, 2008: 207-216; Laldin, 2008: 56-58) advocated that the SB should comprise of members from *Shari'ah* scholars as well as scholars related to banking practice that include finance, economics, accounting and law. IAIB remarked, "SB is formed of a number of members chosen from among Jurists and men of Islamic Jurisprudence and of comparative law who have conviction and firm belief in the idea of Islamic Banks" (El-Nagar, 1980; 20). A SB consisting of variety of qualifications would help to offer better oversights on IB (Ghayad, 2008: 207-216). Several contemporary Islamic banks view different skill requirements from Islamic scholars, such as familiarity with the banking sector, proficiency in the Arabic and English languages, being dynamistic and capable of fusing the legal and *Shari'ah* aspects of financing to distinguish IB from conventional and to help the industry grow (Laldin, 2008: 56-58; 2008a: 54-56). If such kind of SB receives good assistance from several parties within the bank, it would definitely ensure a better *Shari'ah* decision to make as well as speed up the banking governance (Laldin, 2008: 56-58). The SB members should be updated with its development by strengthening their training and up-to-date knowledge and getting involved in continuous professional education conforming with the rapid growth of IB industry (Grais and Pellegrini, 2006; Siddiqi, 2006a).

Regardless of qualification background, the members of SB should uphold high ethical standards and have a good character and noble qualities such as honesty, trustworthiness, accountability and responsibility (Laldin, 2008a: 54-56). They are frequently people with respectable reputations and significant social roles (Ghayad, 2008: 207-216). One of the most important criteria for joining SB is having a good public reputation, which is attained by superior education and a prominent place in society (Altundag and Nadia, 2005). As members must evaluate financial instruments, goods, and procedures that are getting more

and more sophisticated, their financial competence is becoming more and more crucial nowadays (Iqbal and Mirakhor, 2011).

5.3.1.1 AAOIFI and IFSB Standard on the Qualification of the Members of *Shari'ah* Board

AAOIFI standard suggests that “A *Shari'ah* supervisory board is an independent body of specialized jurists in *Fiqh-al-Mua'malat* (Islamic commercial jurisprudence). However, the *Shari'ah* supervisory board may include a member other than those specialized in *Fiqh-al-Mua'malat*, but who should be an expert in the field of Islamic financial institutions and with knowledge of *Fiqh-al-Mua'malat*” (AAOIFI, 2010: 4). Additionally, it implies that the SB can comprise specialists in business, law, accounting, and other fields (AAOIFI, 2010: 4). AAOIFI and IFSB both suggested that there should be “fit and proper” criteria condition for the appointment of a member in the SB (AAOIFI, 2010b: 58; IFSB, 2006; 12). IFSB offers a very comprehensive standard on the qualification for being a member of the SB in an Islamic Bank. It says:

“An Institution offering Islamic financial services (IIFS) shall carry out a background check and verify that any person to be appointed to serve as a member of the SB shall at least have the following competencies:

1. Academic Qualifications

He or she must at least hold a bachelor's degree from a recognized university in the sciences of *Shari'ah*, including Islamic transaction/commercial law (*Fiqh al-Muamalat*), and be able to demonstrate an adequate understanding of finance in general and Islamic finance in particular.

It is reasonable to expect a member of the SB to have:

strong skills in the philosophy of Islamic law (*Usul al-Fiqh*), as he or she must know exactly the appropriate *Fiqh* methodologies for deriving juristic opinions; and
good knowledge of written Arabic, as he or she needs to be very conversant with the primary sources of the *Shari'ah*.

It is highly recommended that a member of the SB be able to converse in English, as this could help improve the clarity of communication between him or her and stakeholders of the IIFS.

2. Experience and Exposure

The level of knowledge expected from a member serving on a SB may vary according to the level of responsibility and the type of regulated activity to be carried out by the IIFS. However, a member of the SB is generally expected to be able to display an understanding of:

the *Shari'ah* rules and principles that apply to the IIFS's proposed activities;
the general legal and regulatory framework that may apply to the functions that it would perform; and
the broad impact of introducing financial products to the market and the public generally based on the *Maqasid al-Shari'ah*.

Preferably, only a member of the SB who has at least three years' experience of making *Shari'ah* pronouncements/resolutions, or at least four years' post-qualification experience in teaching or research in Islamic finance, should be appointed as Chairman of the SB.

He or she should be able to demonstrate specific skills in the financial services industry in accordance with the line of business of the IIFS; be it banking, capital markets or *Takaful*.

3. Track Record

He or she must have a respectable character and be of good conduct, particularly in terms of honesty, integrity and reputation in his or her professional business and financial dealings” (IFSB, 2009: 30).

5.3.2 Appointment and Composition of *Shari'ah* Board

Several literatures (such as Karim 1990a: 34-44; Rammal, 2006: 204-208; Laldin, 2008: 56-58) promoted the approach of the appointment of SB members by the shareholders. This strategy is believed to safeguard the SB's integrity and address any potential conflicts of interest surrounding the SB's involvement in overseeing the bank's administration in addition to that of the board of directors (Laldin, 2008: 56–58). It is expected to be more effective in protecting interest of the shareholders. The SB members are chosen by the shareholders on the advice of the Board of Directors, despite the fact that there are many processes used throughout the world. According to the International Institute of Islamic Thought, the Board of Directors chooses 58.4% of the SB corpus of members (Khan, 1997). Khan also noted that because the SB members are positioned as subordinates to the Board of Directors, such appointment attitudes might result in conflicts of interest. A *Shari'ah* scholar holds membership in different SBs simultaneously. That is mainly because of the paucity of adequate competent *Shari'ah* Scholars having expertise in IB, which undoubtedly hinders the development of this industry. International Association of Islamic Banks (IAIB) recommended that “(a) They are appointed by the general assembly. (b) The general assembly fixes their remunerations. (c) The Legitimate Control Body has the same means and jurisdictions as the auditors of accounts. (d) They must not be working as personnel in the bank.” (El-Nagar, 1980: 20). Some studies (Alhabshi and Bakar, 2008: 167-206; Wilson, 2009: 59-75) found the cross boarder representation of *Shari'ah* scholars advantageous as it supports the harmonization effort of *Shari'ah* clarification and IB practices across the globe. Correspondingly, the multiple employments of SB members could hamper the quality of the Board. The time allocated for the Shari'ah evaluation may be constrained since the responsibilities involved might be enormous. Additionally, the compound relationships increase the danger of the SB members' private, confidential data disclosure (Grais and Pellegrini, 2006; Alhabshi and Bakar, 2008: 167–206).

5.3.2.1 AAOIFI and IFSB Standard on the Appointment and Composition of *Shari'ah* Board

Regarding the appointment and composition of SB, AAOIFI governance standard says that “every Islamic financial institution shall have a *Shari’ah* Supervisory Board to be appointed by the shareholders in their annual general meeting upon the recommendation of the Board of Directors taking into consideration the local legislation and regulations. Shareholders may authorize the Board of Directors to fix the remuneration of the *Shari’ah* Supervisory Board” (AAOIFI, 2010: 4). It further says that “the *Shari’ah* Supervisory Board shall consist of at least three members. The Board may seek the service of consultants who have expertise in business, economics, law, accounting and/or others. The Board should not include Directors or significant shareholders of the Islamic financial institution” (AAOIFI, 2010: 4-5). Regarding dismissal, AAOIFI says that “the dismissal of a member of the *Shari’ah* Supervisory Board shall require a recommendation by the Board of Directors and be subject to the approval of the shareholders in a general meeting” (AAOIFI, 2010: 5). AAOIFI and IFSB both prefer the idea that the individual Islamic bank has the right to choose the number of members depending on its capacity and services required, but should not be less than three. As there is shortage of competent scholars to undertake the SB function, the AAOIFI and IFSB standards support the idea that a scholar may act as a member of SB in more than one organization simultaneously but not hindering the individual organizations duty.

5.3.3 Independence of the *Shari’ah* Board

Regarding the SB's governance role, independence has been a crucial concern. To make the board meaningfully effective in performing its duty and role, it should be given enough authority to perform independently without any interference. The *Shari’ah* Board must be completely independent in order to maintain the integrity of an Islamic bank's image, and its members must not hold managerial positions or have significant financial ties to the business (Algaoud and Lewis, 2007: 21-37). The ethical independence of SB members should also be taken into consideration, as *Shari’ah* scholars are expected to be committed to their ethical convictions and Islamic principles in carrying out their duties (Karim, 1990a: 34–44). Religious commitment plays a significant role in shaping the publicly perceived trustworthiness of an ethically established institution like Islamic bank. The bank’s management is also ethically obliged to comply with the *Shari’ah* principles, as it is a public commitment. Any infringement of the *Shari’ah* principle might harm the bank's reputation for integrity. According to Karim (1990a: 34–44), the SB members should be free from the impact of financial interests and managerial pressure to perform independently. The SB must not be “subject to instruction by management, Board of Directors and shareholders” (Iqbal

and Mirakhor, 2007). A crucial issue regarding the independence of SB is the absence of ample terms of reference in regard to the duties and mandated authority of the SB. When performing their duty as religious auditors, SB members should be permitted to attend general meetings and have access to the bank's records and accounts, much like external auditors do when examining an organization's financial statements to do independent work (Briston and El-Ashker, 1986; Tomkins and Karim, 1987; Rammal, 2006: 204-208). Clearly, these independence requirements are significantly important for the SB to perform its duties perfectly and truthfully.

5.3.3.1 AAOIFI and IFSB Standard on the Independence of *Shari'ah* Board

Both the AAOIFI and IFSB emphasized on the functional independence of SB in their standards. In the previous two sections (5.3.2 and 5.3.2.1) regarding the appointment and composition of the SB, AAOIFI and IFSB have taken the issue of independence into consideration in formulating the standard. For instance, it was advised that SB members should not be involved in the executive functions of Islamic banks, nor should they or any members of their family hold major stock in the bank or hold key executive positions. A SB member may be selected by the Board of Directors but only with the approval of shareholders. Only the shareholders have been regarded as the perfect party to employ SB member (AAOIFI, 2010: 4-5; IFSB, 2009: 30). The IFSB said that “to safeguard the credibility and integrity of the Islamic financial services industry at large, and the IIFS in particular, the professionalism and independence of the *Shari'ah* scholars must be upheld with the highest respect” (IFSB, 2006: 25). It further said that “Each Islamic Financial Institution must ensure that the SB has: a) clear terms of reference regarding its mandate and responsibility; b) well-defined operating procedures and lines of reporting; and c) good understanding of, and familiarity with, professional ethics and conduct” (IFSB, 2009: 9). All these are to support the SB to perform its responsibilities independently. Furthermore, IFSB developed a separate standard dealing with the independence of SB. It says:

“The SB should play a strong and independent oversight role, with adequate capability to exercise objective judgment on *Shari'ah*-related matters. No individual or group of individuals shall be allowed to dominate the SB's decision-making.

1. In order to uphold the integrity and credibility of the SB, its members must not only be able to exercise independent judgment without undue influence or duress, especially from the management of the IIFS, but also be *seen* to be truly independent. In this respect, it would be desirable for an IIFS to formalize the independence of the SB and its members by recognizing the SB's roles and mandate. IIFS shall have in place an appropriate and transparent process for resolving any differences of opinion between the BOD and the SB. This process may include having direct access (after duly informing the supervisory authority) to the shareholders as a “whistle-blower”. The supervisory authorities may be

- involved in this process of resolving differences, without compromising the binding nature of the pronouncements/resolutions of the SB.
2. A SB can only be deemed “independent” when none of its members has a blood or intimate relationship with the IIFS, its related companies or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of independent judgment in the best interests of the IIFS by the SB. In the case of *Shari’ah* advisory firms, it can only be deemed independent from the IIFS if they are not related parties, such as in terms of having common shareholders or common directors.
 3. Adapted from international best practices usually applicable to independent, nonexecutive members of the BOD, the following are examples of relationships that would deem a member of a SB as lacking independence from the IIFS he or she is serving, and thus must be avoided:
 - a) a member of the SB being under full-time employment by the IIFS or any of its related companies for the current or during the last financial year;
 - b) a member of the SB who has an immediate family member such as spouse, children or siblings who are, or who were during the last financial year, employed by the IIFS or any of its related companies as a senior executive officer;
 - c) a member of the SB, or his or her immediate family member, accepting any compensation or financing from the IIFS or any of its subsidiaries other than compensation for service on the SB; or
 - d) a member of the SB, or his or her immediate family member, being a substantial shareholder of or a partner in (with a stake of 5% or more), or an executive officer of, or a director of any for-profit business organization to which the IIFS or any of its subsidiaries made, or from which the IIFS or any of its subsidiaries received, significant payments in the current or immediate past financial year.
 4. The relationships set out above are not intended to be exhaustive, and are examples of situations that would deem a member of the SB or a *Shari’ah* advisory firm to be perceived as not independent. If the IIFS wishes still to consider a member of the SB or *Shari’ah* advisory firm as independent, in spite of the existence of one or more of these relationships, it should disclose in full the nature of that relationship and bear the responsibility for explaining why the member or the firm should be considered independent. The disclosure can be made, where appropriate, to the supervisory authority, or to the public through the annual report of the IIFS.
 5. In addition, wherever a conflict of interest is unavoidable, the member of the SB or *Shari’ah* advisory firm should declare it in writing to the IIFS. They must similarly report any such conflict in regard to members of their family, business associates or companies in which they have an interest. Where there is such a conflict of interest, or a duty to another party, then they should abstain from participating in the relevant decision or action on behalf of the IIFS. Where a notification is made of a conflict, it should be recorded and retained by a designated officer.
 6. When a member of the SB has multiple SB responsibilities/ appointments, he or she must ensure that sufficient time and attention is given to the affairs of each IIFS. The IIFS should decide if a member of the SB is able to and has been adequately carrying out his or her duties in serving his or her SB. Internal guidelines should be adopted that address the competing time commitments that are faced when members of the SB serve on multiple SBs” (IIFS, 2009: 15-16).

AAOIFI has developed a specific standard entitled “Independence of *Shari’ah* Supervisory Board”, which exclusively provided independence standard. It says:

“The importance of the independence of *Shari’ah* Supervisory Board (SSB) members for an Islamic financial institution emanates from its role in:

- a) Enhancing the public confidence in the Islamic financial institution as compliant in its application of *Shari’ah* rules and principles.

- b) Achieving the fundamental objectives of an Islamic financial institution by enhancing independence and objectivity of its SSB.

SSB members have a responsibility to the public who rely on the services provided by them that require independence. The public includes clients, credit grantors, governments, employers, employees, investors, and others who rely on the objectivity and integrity of SSB members to ensure *Shari'ah* compliance with regard to activities of Islamic financial institution.

Objectivity: Objectivity is an independent mental attitude which SSB members should maintain in performing *Shari'ah* supervision. SSB members are not to subordinate their judgment on *Shari'ah* supervision matters to that of others.

Objectivity requires SSB to perform *Shari'ah* supervision in such a manner that they have an honest belief in their work. SSBs should avoid potential and actual situations that impair their ability to make objective professional judgments.

SSB members should not be employee of the same Islamic Financial Institution.

SSB and its members should not be involved in any manner with regard to managerial decisions and operational responsibilities of the Islamic Financial Institution.

When SSB members are or were within the engagement or immediately preceding an engagement period, an officer of a client or partner/employee of an Islamic financial institution, the preceding period should be not less than three years.

Continuous assessment: SSB members should continuously assess their relationships with their institutions to identify any situations that may impair independence and resolve it or report to the SSB such situations in which an issue of independence impairment is present or may reasonably be inferred, and how to resolve it.

Basis of SSB independence: Similar to AAOIFI Code of Ethics for Accountants and Auditors of Islamic financial institutions and the Code of Ethics for the Employees of Islamic financial institutions, SSB independence standards and rules are derived from the Islamic *Shari'ah* rules and principles. Accordingly, this standard should be read in conjunction with these two codes.

Resolution of issues of independence impairment: When faced with potential and/or actual issue of independence impairment SSB members should follow the following to resolve the issue:

- a) Document the issue.
- b) Review the issue internally within the SSB.
- c) If the issue still exists after the internal review by the SSB, the SSB member with the issue of independence impairment must resign and General Assembly of the institution must be notified.
- d) In all above levels of conflict resolution, consideration must be given to local laws and regulations.

Responsibility for implementation of this standard lies with the management of an Islamic Financial Institution” (AAOIFI, 2010c: 44-45).

It further says that “*Shari'ah* Supervisory Board members, during their engagement period, should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with independence, objectivity and integrity” (AAOIFI, 2010c: 47). Additionally, it has given a few examples of factors that could compromise the independence of the SB, such as long-standing ties between SSBs and Islamic financial institutions, personal and family ties, financial ties, contingency fees, goods and services, performance-related bonuses, and actual and threatened litigation (AAOIFI, 2010c: 47-48).

5.4 The Role and Function of the *Shari'ah* Board

In order to provide believers the confidence to invest or deposit in line with their religion, an SB's primary role is to certify that the bank's products, services, and operational procedures are consistent with Shari'ah principles (Jaffer, 2005). It is liable for supervising the business of the Islamic banks in its entirety, and to safeguard the compliance with the *Shari'ah*, including reviewing the products and services offered by the firm (Millar and Anwar, 2008: 164). Every IB product, financing model, and service are certified by the SB, which also verifies that every transaction strictly complies with *Shari'ah*. (Rahman, 2010: 77). The role of SB has occupied an important position in the governance function of an Islamic bank. Its hierarchical position has been urged as unique and no parallel with other managerial position or Board of Directors. It serves as an extra body in addition to the standard governance framework in charge of regulating the Shari'ah-related facets of Islamic banks. Traditionally, the purpose of the SB has been to provide guidance to the Board of Directors on matters of Shari'ah, create IB products, examine the operations of an Islamic bank, determine how to calculate and pay for *Zakat*, and provide clarification of *Shari'ah* compliance in the *Shari'ah* report (Briston and El-Ashker, 1986: 120). Rahman (2010: 77-78) provided an abbreviated list of duties of a SB that include:

- Maintain a complete record of the SB's deliberations and the reasons for and against a specific fatwa ruling.

- Help in the process of innovating, manufacturing, and devising new *Shari'ah* -based banking products and services.

- Help in devising a detailed set of operating manuals and transactional procedures that will be competitive with conventional banking.

- Review and analysis of IB contracts to ensure their *Shari'ah* compliance.

- Participation in the bank's training programs on *Shari'ah* compliance and Islamic financing models and their distinction from that of conventional.

- Supervision of the bank's day-to-day operations, interaction with the staff, and pursuit of the highest quality of work in processing customers' applications and communicating with the outside world regarding truthful representation of the products and services.

- Attention to developments pertaining to *Shari'ah* issues and new products and services at other competing banks, as well as *Riba*-based banks.

- The SB is required to submit a complete annual report to the Board of directors of the bank, summarizing all the issues referred to the Board, as well as the Board's opinion on the bank's transactional procedures.

Briston and El-Ashker (1986) further categorized SB's role into two: advisory and review. Most of the later studies more or less used this categorization or extended it. According to Iqbal (2001), the SB is "entrusted with directing, reviewing and supervising the activities of Islamic bank, in order to ensure compliance with Islamic *Shari'ah* principles". Iqbal (2001) also classified it into Constitutive and Operative function. The Constitutive function refers to the idea that before starting operation of a new Islamic bank, its SB has to certify the *Shari'ah* conformity of all products and services. This process has been described by Iqbal

and Mirakhor (2007) as “ex-ante *Shari’ah* audit”. The Operative function refers to the role that is played by the SB after inaugurating the operation of an Islamic bank, which is divided into advisory and review roles.

5.4.1 Advisory Role of the *Shari’ah* Board

Regarding the *Shari’ah* concerns of Islamic banks, the SB should play an advisory role (Ghayad, 2008: 207-216; Tomkins and Karim, 1987; Haniffa and Hudaib, 2007: 97-116). This advisory role includes a number of issues such as: advising to design operational procedures, corporate strategies, to ensure good organizational reputation etc (Briston and El-Ashker, 1986; Ahmed, 2006: 79-101; Alhabshi and Bakar, 2008: 167-206; Ghayad, 2008: 207-216). SBs should be in a place to propose suggestions as to how to modify the proposed scheme of any product with the aim of making it *Shari’ah*-compatible and feasible. They should complete the model documents and contracts for the various financing modes and work to ensure that banks adhere to them both in text and spirit throughout all of their transactions. When a situation develops where there are difficulties implementing any of the formats, management should notify SB of the problem so that SB can fix it (Ayub, 2007: 363). Some earlier decisions of SB might be inapplicable and in that case the Board can play corrective role by issuing a new *Shari’ah* decision (Siddiqi, 2006a). Besides direct advisory role, the Board can also promote the image of IB to the general public by fostering its distinctive features (Laldin, 2008a: 54-56). SB should also respond to any query regarding the operation or product of Islamic bank asked by the community (Banaga et al., 1994). It is also expected to be actively engaged in developing IB products and services and guiding them for being compliant with the *Shari’ah* values (Tomkins and Karim, 1987; Karim, 1996: 111-138; Laldin, 2008a: 54-56). Thus, the SB of Islamic bank plays a dynamic advisory role to suit the modern developments of the industry.

5.4.1.1 AAOIFI and IFSB Standard on the Advisory Role of the *Shari’ah* Board

AAOIFI and IFSB explained the advisory role of SB in their governance standards. AAOIFI says that “the *Shari’ah* Supervisory Board is entrusted with the duty of directing, reviewing and supervising the activities of the Islamic financial institution in order to ensure that they are in compliance with the Islamic *Shari’ah* rules and principles” (AAOIFI, 2010: 4). AAOIFI’s “Governance Standards for Islamic Financial Institutions No. 2: *Shari’ah* Review”, which is exclusively designed to explain the review role of the SB, indicates the further scope of advisory role that should be played by the SB. It says that “the *Shari’ah*

Supervisory Board shall assist (the management) by providing guidance, advice, and training relating to compliance with the *Shari'ah*" (AAOIFI, 2010a: 14). IFSB has also offered similar recommendations. It says:

“As *Shari'ah* compliance is central in assuring the integrity and credibility of Institution offering Islamic Financial Services (IIFS), and is one of the ultimate responsibilities of the BOD, the Board needs to establish a mechanism that can be mobilized swiftly and efficiently, as and when required, to obtain rulings from *Shari'ah* scholars and monitor *Shari'ah* compliance. The *Shari'ah* scholars may be external or internal, depending on the requirements of the IIFS's business model.

The mechanism for obtaining rulings from *Shari'ah* scholars, applying *fat w* and monitoring *Shari'ah* compliance shall cover:

- a) both ex-ante and ex-post aspects of all financial transactions carried out by the IIFS – that is, to ensure *Shari'ah* compliance of the contracts and, later, the performance of obligations under the contracts; and
- b) Operations of the IIFS, including aspects such as *Shari'ah* compliance review, investment policies, disposal of non- *Shari'ah* -compliant income, charitable activities, etc” (IFSB, 2006: 11).

Among the primary duties of SB, as IFSB recommends, “advising the Board of Directors on *Shari'ah*-related matters” (IFSB, 2009:23). As a result, the Board provides advice, especially about the products and services provided by Islamic banks' compliance with *Shari'ah*.

5.4.2 Review Role of the *Shari'ah* Board

The SB's primary responsibility is to evaluate the *Shari'ah* conformity of Islamic banks' products and services. The Board should review and evaluate the execution of SB's decisions by the management. This review role encompasses wide range of activities of Islamic bank and requires the involvement of several parties. The two types of review roles are institution reviews and reviews of products. Product review refers to the review of an IB product throughout its life cycle starting from its conceptual development, designing, documentation, testing, execution and product review. The evaluation of an Islamic bank's administration, operations, transactions, and financial accounts is referred to as "institution review." (Alhabshi and Bakar, 2008: 167-206). Besides this review role, SB should also strive for innovating new products, to involve in defining the formula on profit distribution, to validate and develop Islamic financial contracts, documentations and transactions (Siddiqi, 2006a). The Board has to “vet all new contracts, audit new contracts, approve new product developments and overseas the collection and distribution of Zakat” (Algaoud and Lewis, 2007). It is concerned with the “disposal of *Shari'ah* non-compliant earnings and the advice on the distribution of income or expenses among the bank's shareholders and investment account holders” (Iqbal and Mirakhor, 2007). The Board must also publish an annual *Shari'ah* report that details the bank's *Shari'ah* compliance and regulatory concerns. This report gives

stakeholders a wise assurance on the integrity of the Islamic bank's administration and supports depositors in their deposit decisions (Briston and El-Ashker, 1986; Tomkins and Karim, 1987; Karim, 1990a: 34-44; Haniffa and Hudaib, 2007: 97-116; Rammal, 2006: 204-208). The Board shall have effective assistance from all parties concerned, including the Board of Directors, *Shari'ah* officials, management, audit committee, internal auditor, external auditors, etc., and access to all financial records and paperwork, in order to carry out the review process effectively (Briston and El-Ashker, 1986; Tomkins and Karim, 1987).

5.4.2.1 AAOIFI and IFSB Standard on the Review Role of the *Shari'ah* Board

AAOIFI has developed a specific standard dealing with the review role of SB “Governance Standards for Islamic Financial Institutions No. 2: *Shari'ah* Review”. The matters pertaining to the *Shari'ah* report have been categorized under a different standard “Governance Standards for Islamic Financial Institutions No. 1: *Shari'ah* Supervisory Board: Appointment, Composition and Report”. And the “Governance Standards for Islamic Financial Institutions No. 3: Internal *Shari'ah* Review” focuses in particular on matters related to the internal *Shari'ah* review. A number of IFSB standards such as “IFSB-3: Guiding Principles on Corporate Governance for Institutions Offering Islamic Financial Services, IFSB-5: Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services, IFSB-10: Guiding Principles on *Shari'ah* Governance Systems for Institutions Offering Islamic Financial Services, IFSB-16: Revised Guideline on Key Elements in the Supervisory Review Process of Institutions Offering Islamic Financial Services” focused on several issues concerning the review role. Three AAOIFI standards and four IFSB standards have together dealt with the issues concerning the review role of SB as well as *Shari'ah* report. AAOIFI defines *Shari'ah* review as:

“*Shari'ah* review is an examination of the extent of an Islamic Financial Institution’s compliance, in all its activities, with the *Shari'ah*. This examination includes contracts, agreements, policies, products, transactions, memorandum and articles of association, financial statements, reports (especially internal audit and central bank inspection), circulars, etc.

The *Shari'ah* Supervisory Board shall have complete and unhindered access to all records, transactions, and information from all sources including professional advisers and the IFI employees.

The objective of a *Shari'ah* review is to ensure that the activities carried out by an IFI do not contravene the *Shari'ah*” (AAOIFI, 2010a: 14).

IFSB categorically described the review role of SB while discussing the duties of the SB. It says that among the primary duties of SB:

- “Reviewing and endorsing *Shari’ah* -related policies and guidelines. For this purpose, the IIFS should also have a *Shari’ah* Process Manual which specifies the manner in which a submission or request for *Shari’ah* pronouncements/resolutions should be made to the SB, the conduct of meetings of the SB, and the manner of ensuring operational compliance with any decision of the SB.
- Endorsing and validating relevant documentation for new products and services, including contracts, agreements or other legal documentation used in the IIFS’s business transactions.
- Overseeing the computation and distribution of zakat and any other fund to be channeled to charity.
- Put on record, in written form, any opinion that it gives on *Shari’ah* -related issues” (IFSB, 2009: 23).

AAOIFI divided the procedures of *Shari’ah* review into three stages:

1. Planning review procedures.
2. Executing review procedures and preparation and review of working papers.
3. Documenting conclusions and reports.

Planning review processes recommended that the *Shari’ah* review be prepared in order to complete and execute the work successfully. It must be sufficiently developed to contain a thorough grasp of the IFI’s activities, including its subsidiaries, branches, and divisions as well as its operations’ products, locations, and size. All actions, items, and places shall be covered by the review procedures (AAOIFI, 2010a: 15). Executing review processes indicated carrying out each and every scheduled review procedure. Usually, it will contain:

- “Obtaining an understanding of the management’s awareness, commitment and compliance control procedures for adherence to the *Shari’ah*;
- Reviewing of contracts, agreement, etc.;
- Ascertaining whether transactions entered into during the year were for products authorised by the SSB;
- Reviewing other information and reports such as circulars, minutes, operating and financial reports, policies and procedures, etc.;
- Consultation/co-ordination with advisors such as external auditors; and
- Discussing findings with an IFI’s management” (AAOIFI, 2010a: 15).

Documenting conclusions and reports recommended that “the Board shall document their conclusions and prepare their report to the shareholders based on the work done and discussions held. The report shall be read at the annual general meeting of the bank. A detailed report, when warranted, shall also be issued to the management” (AAOIFI, 2010a: 16). The IFSB explained the reporting of SB as:

- “The SB shall have the discretion to produce its reports in the form of:
- a fact-finding report;

- (an ex-ante) report in relation to product design and development;
- (an ex-post) internal *Shari'ah* audit/review report on products offered to customers; and
- an annual *Shari'ah* compliance report.

Fact-finding reports and reports in relation to product design and development shall be submitted to the CEO/Managing Director of the IIFS. An internal *Shari'ah* audit/review report should be made available to the Audit Committee of the IIFS. The annual *Shari'ah* compliance report should be submitted to the BOD for onwards distribution to shareholders, and upon request, should be made available to the supervisory authority and members of the public, including investment account holders” (IFSB, 2009: 25).

AAOIFI’s “Governance Standards for Islamic Financial Institutions No. 1: *Shari'ah* Supervisory Board: Appointment, Composition and Report” specified the essential elements to be included in the report. The report should confirm that the Board has performed all the responsibilities and *Shari'ah* review work perfectly. It should also confirm that the transactions, dealings, contracts and documentations of the institution, sources of earning, profit allocation, charging of loses etc. have been complied with the moralities of *Shari'ah*. The incomes by *Shari'ah*-prohibited means have been disposed of to charitable causes. The report should attest to the report's conformity to *Shari'ah* with regard to the report's sources, computation of *Zakat*, uses of *Zakat*, and charity fund. The report should also identify any instances where the Board found that the management had broken any *Shari'ah* rules or regulations that the SB had established. The report must be included in the institution's annual report together with any *Fatwas*, decisions, and directives issued by the SB (AAOIFI, 2010: 5-8). For internal *Shari'ah* review, AAOIFI’s “Governance Standards for Islamic Financial Institutions No. 3: Internal *Shari'ah* Review” specified the related issues. These include:

- An independent division should conduct the internal *Shari'ah* evaluation;
- It must have a purpose, authority, and responsibility declaration;
- It will examine and assess the degree of adherence to *Shari'ah* principles;
- Its duties include examining and evaluating the effectiveness of the IFI's internal *Shari'ah* control system and the level of performance in carrying out assigned tasks;
- The reviewers won't be in charge of the actions they're reviewing;
- The reviewers shall have independent attitude in performing their duties;
- The reviewers must fulfill their tasks with proper professional care;
- They must possess the necessary education, abilities, and training;
- Proficiency in *Shari'ah* principles, particularly *Fiqh al-Muamalat* is required;
- The internal *Shari'ah* review's organizational standing cannot be lower than that of the internal audit or internal control departments;

- It shall have direct communication with all levels of management and SB;
- There shall not be restriction of access to documents and reports required;
- The head of the internal *Shari'ah* review shall ensure full *Shari'ah* review coverage and appropriate action for implementing recommendations;
- The review procedure will be carried out in accordance with a step-by-step strategy, beginning with careful preparation and concluding with the internal *Shari'ah* review;
- A written report must be created when the internal *Shari'ah* evaluation is finished. The report must include the reviewer's opinion as well as suggestions for prospective changes and remedial action. It must also state the report's goal, scope, and outcomes;
- The internal *Shari'ah* reviewers will monitor to make sure the recommended actions are carried out;
- The SSB will decide on any disputes involving internal *Shari'ah* reviewers and management that concern *Shari'ah*-related issues (AAOIFI, 2010d: 22-26).

The IFSB standards have also provided a detailed recommendation for internal *Shari'ah* review and report. It says:

“(a) An internal *Shari'ah* compliance review/audit for verifying that *Shari'ah* compliance has been satisfied, during which any incident of non-compliance will be recorded and reported, and as far as possible, addressed and rectified

(b) IFSB-3 sets out that *Shari'ah* pronouncements/resolutions issued by the SBs should be strictly adhered to. The internal *Shari'ah* review would therefore be assigned to someone adequately trained in *Shari'ah* compliance review/audit, so that he or she would have a competent grasp of the process.

(c) The internal *Shari'ah* review/audit unit/department (ISRU) may be established to function in a similar manner to the internal audit team. The major difference is that while the internal auditor will usually report to the Audit Committee, the ISRU shall report to SB. Where appropriate, the internal *Shari'ah* review/audit reports shall require or recommend the management of the IIFS to address and rectify any issues of *Shari'ah* compliance.

(d) An annual *Shari'ah* compliance review/audit for verifying that the internal *Shari'ah* compliance review/audit has been appropriately carried out and its findings have been duly noted by the SB.

(e) The SB who issued the *Shari'ah* pronouncements/resolutions can take charge of this process, having received feedback and reports from the ISRU. Alternatively, this task may be assigned to an appropriately competent external auditor or external *Shari'ah* firm.

(f) The SB or *Shari'ah* advisory firm that carries out the *Shari'ah* compliance review/audit shall produce reports, indicating whether the IIFS has complied with *Shari'ah* requirements throughout the financial year. Where appropriate and if deemed necessary, there could be two sets of reports produced: a general statement of compliance that should be included in the annual report of the IIFS; and a more detailed account of compliance work undertaken addressed specifically to the supervisory authorities” (IFSB, 2009: 3-4).

The AAOIFI and IFSB further mandated that an external auditor disclose their assessment of whether the financial accounts are organized in accordance with *Shari'ah* standards.

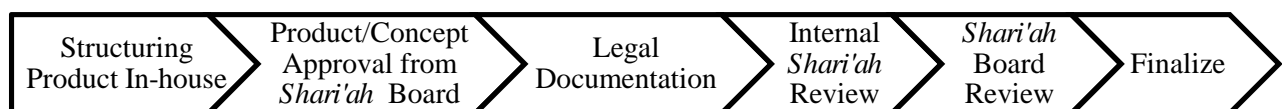
According to an IFSB survey, only a very tiny percentage of IIFS have external ex-post *Shari'ah* compliance checks, and even those are often conducted by their controlling central banks (IFSB, 2006: 23).

Regarding the effectiveness of the *Shari'ah* review conducted by the SB, there are also reservations and criticisms. The absence of task separation in the SB's job is highlighted by the SB's position in first authorizing, then evaluating, and finally guaranteeing *Shari'ah* compliance of the actions of Islamic banks (Alhabshi and Bakar, 2008: 167-206; Antonio, 2008). According to a poll done by Alhabshi and Bakar (2008: 167–206), the SB members' contribution to completing the *Shari'ah* review has significantly decreased. Hasan (2011: 30-51) has shown that a number of SBs did not take on this duty. In these circumstances, the *Shari'ah* report is seen to constitute just a partial validation of the Islamic bank's operations' adherence to *Shari'ah* law (Abdul Rahman, 2008). Confusions were raised on the calculation and distribution of profit, *Zakat*, and undeclared fund (Grais and Pellegrini, 2006). The *Shari'ah* review role of the SB hasn't been perceived to include the *Shari'ah* audit (Ibrahim and Mulyany, 2007). To ensure a higher level of independence and *Shari'ah* compliance, Chapra and Ahmed (2002) recommended that the *Shari'ah* audit be carried out by an outside *Shari'ah* auditor. It is possible that these types of deficiencies in the governance structure and application of *Shari'ah* review in Islamic banks run the danger of undermining the trust of those who utilize those banks' services as well as other stakeholders.

5.4.2.3 Product Innovation and Standardization of Islamic Banking

IB is a recent developing industry. It needs continuous development through innovating attractive products and services by using the *Shari'ah* scope of *Ijtihad* (legal reasoning) to compete the modern banking. Hence, inventing new products is of great importance in an Islamic bank. The SB can play an important role in this regard. It aids in developing Islamic financing methods that complement and take on traditional banking (Rahman, 2010: 77). Schoon (2011) provided more details on the SB's integration into the process of product innovation.

Chart: 5.4.2.3: Integration of SB in Product Innovation Process



The new product or service is first developed as a basic blueprint by the management or the relevant operational unit. The SB is then shown the proposed framework, which it reviews and essentially accepts. Following this, business professionals can improve the concept, and a lawyer is hired to draft the appropriate paperwork. The finished product or process description is then once more given to the SB, who then begins the in-depth examination. Before making the product available to the general public, it either accepts the proposal or makes rectification recommendations that need be implemented (Schoon, 2011).

One of the essential components for the success of an industry is uniformity and standardization. Standardization could make the supervisory control easy in terms of observing activities, investigating the fulfillment of requirements by certain authority, and enhance the comparability and transparency of the reporting practice by Islamic banks. But, the invention requirement and many other circumstances hindered the standardization of IB practice globally. The existence of disagreements among shari'ah experts over a product's acceptability due to the nature of *Ijtihad*, differences of *Madhhab* (School of law) in Muslim society, influence of local culture, the domestic law etc. are resulting in the differences of theory and practice (Laldin, 2008: 56-58). These perspectives create a blockade to a global unique standard for IB. Different judgment by the SB on similar issues makes a difference among Islamic banks on the same issues and it impacts on the financial reporting of the bank (Karim, 1996: 111-138). This lack of standardization of IB products and services creates confusion among the regulators and concerned stakeholders. Such confusion caused the loss of banking license of Al-Baraka in London, the first Islamic bank in the UK (Karbhari et al., 2004: 521-543).

Shaffai (2008) identified the key drivers for standardization of IB practices. Firstly, the market influence of the industry. Because of the intense rivalry in the market, Islamic banks should harmonize their procedures to protect their viability. The second is the establishment of standardization bodies like the AAOIFI and IFSB, which have been praised for their remarkable work in creating *Shari'ah*-compliant governance, reporting, and banking standards for Islamic financial institutions. Thirdly, ongoing Shari'ah discussions and forums (such as those sponsored by the International Islamic Financial Market (IIFM), Islamic International Rating Agency (IIRA), Multaqa Dallah al-Barakah, and Muzakarah Cendekiawan Shari'ah Nusantara (MCSN), a gathering of eminent Shari'ah scholars from the South East Asian (ASEAN) region) have sought to find a common ground for standardizing the application of *Shari'ah* in the IB industry (Shaffai, 2008).

Several monetary authorities and central banks in different countries have also put their efforts to safeguard consistency of the *Shari'ah* clarification by founding centralized SB and issuing the procedures for Islamic banks. A variety of Islamic Market Indices have also been produced over the past few decades, including the Dow Jones Islamic Market Indexes, FTSE Global Islamic Index, the Jakarta Islamic Indexes, and the Islamic Capital Market (ICM) of the Malaysian Securities Commission. These indices also provide investment opportunities through Islamic financial institutions that weed out businesses whose practices do not adhere to the *Shari'ah* guidelines set out by the relevant indexes' SB.

On the contrary, there are also arguments against the standardization efforts. Standardizing *Shari'ah* opinion would limit the use of *Ijtihad*, which allows for the application of *Shari'ah* at various periods and perspectives, according to Zaidi (2008: 10–11), which would be in opposition to *Shari'ah's* goals. According to Wilson (2009: 59–75), uniformity would simply stifle IB development's innovative spirit. The uniformity can cause some *Madhhabs* to be prioritized over others in terms of opinion.

Despite the aforementioned difficulty, Grais and Pellegrini (2006) cited research from the Council for Islamic Banks and Financial Institutions (CIBAFI), which found that 90% of the 6000 *Fatwas* it sampled were uniform across Islamic banks. This research was published in the proceedings of the Fourth Harvard University Conference on Islamic Finance. Thus, the inconsistency and differences in *Shari'ah* opinion are not remarkable; rather uniformity and consistency of *Shari'ah* interpretations are dominant. However, the standardization efforts of IB practices have significantly been developed and the process is still consistently developing towards the goal of complete standardization. This would not hamper the innovation or use of *Ijtihad*, rather promotes the innovation and the best use of *Ijtihad* for the development of a sustainable IB industry.

5.5 The Role of Centralized *Shari'ah* Board

Existence of a centralized SB in a country, besides having the SB of individual Islamic banks, is another important issue regarding the *Shari'ah* governance mechanism of Islamic banks. The SB of an individual Islamic bank functions as the authority of *Shari'ah* governance at bank's level, while the centralized SB functions the same at national level. Several countries such as Bahrain, Bangladesh, Brunei, Jordan, Sudan, Malaysia, Qatar, Kuwait, Indonesia, and Pakistan have centralized SB for the Islamic banks of respective countries. However, the authority and governance mechanism of the centralized SBs of these countries differ from one another. For instance, the centralized SB in Malaysia operates at the level of the central

bank, and its members are not permitted to serve on the SB of any Islamic financial institution. The Central Bank's involvement gives the decisions more weight and credibility. Additionally, there is no chance of a conflict of interest because the Central Bank manages and oversees the SB (Rahman, 2010: 79). However, Kuwait has a Fatwa Board inside the Ministry of Awqaf and Islamic Affairs that serves as the central SB for Islamic banks, and its members could serve as a member of the SB in any individual Islamic bank unlike Malaysia. A centralized SB can contribute to the standardization of IB practices through coordinating the *Fatwas* and financing products (Grais and Pellegrini, 2006; Laldin, 2008a: 54-56, Shaffai, 2008). AAOIFI and IFSB also recommended for the establishment of centralized SB to oversee the IB practices at national level (AAOIFI, 2020: 329; IFSB, 2009: 2, 8). IFSB standard listed the responsibilities of the SB that include “Adopt any *Shari’ah* pronouncements/resolutions issued by the Central *Shari’ah* Body and address any arising issues” (IFSB, 2009; 24). IFSB further says that

“In countries where there is a central authority issuing the *Shari’ah* pronouncements/resolutions, the SB at the IIFS is usually required to follow and adopt such *Shari’ah* pronouncements/resolutions as are issued by that central *Shari’ah* authority. In jurisdictions where there is no such body, it is recommended that the SB follows and adopts the *Shari’ah* pronouncements/resolutions issued by internationally recognized bodies that issue authoritative opinions on *Shari’ah* matters” (IFSB, 2009; 20).

In Decision Number 177 (19/3), the International Council of Fiqh Academy of the OIC also recommends the creation of a national *Shari’ah* body to regulate all Islamic financial institutions' SB operations. The ruling further suggests that the central *Shari’ah* authority should be in charge of hiring and dismissing SB members as well as creating the SB's role and overseeing its performance (Fiqh Academy, 2009).

As it is usually composed of experts of *Fiqh al-Mua’malat*, it can significantly assist the concerned parties (i.e. Islamic banks, supervisors and regulators) in understanding the *Shari’ah* doctrines and its application in the Islamic banks, eliminating any potential regulatory issues between them. Wilson (2009: 59-75) opined that the centralized SB should also comprise of experts from other fields (such as finance) for better decisions. As a result, the establishment of a centralized SB might improve Islamic banks' adherence to *Shari’ah* law and further their standardization strategy. It could also act as a go-between to resolve any disagreements or differences of opinion between the internal SB members of a certain Islamic bank. (Alhabshi and Bakar, 2008: 167-206; Laldin, 2008a: 54-56; Grais and Pellegrini, 2006). Due to the nature of *Ijtihad*, if there are any disagreements among the SB members over how Islamic banks should operate, they may be brought before the centralized SB for

resolution. The Malaysian model of having one SB appointed, run, and supervised as an independent entity in the central bank of the country involved represents an alluring option to emulate in order to minimize confusion and conflicting opinions passed by various *Shari'ah* scholars and various SBs (Rahman, 2010: 81). Thus, the reference role of a centralized SB can remarkably contribute to the standardization of IB at national level as well as globally, while it can preserve the integrity of the SBs of Islamic banks (Laldin, 2008: 56-58).

5.6 The Guideline of Bangladesh Bank Regarding the Role of *Shari'ah* Board

The primary regulating body for Bangladesh's banking sector is Bangladesh Bank, the country's central bank. Every bank is required to abide by the rules and regulations set out by Bangladesh Bank. It provided an IB guideline for the nation's Islamic banks to adhere to. Regarding the *Shari'ah* compliance, composition and role of the SB, Bangladesh Bank's guideline says:

It will be the responsibility of the board of directors of the respective banks to ensure that the activities of the banks and their products are *Shari'ah* compliant. The Board of the Islamic banks/ Subsidiary company/Conventional commercial banks having Islamic branches, therefore, be constituted with directors having requisite knowledge and expertise in Islamic Jurisprudence. The Board may form an independent *Shari'ah* Supervisory Committee with experienced and knowledgeable persons in Islamic Jurisprudence. However, the Board shall be responsible for any lapses/irregularities on the part of the *Shari'ah* Supervisory Committee (Bangladesh Bank, 2019: 10).

Bangladesh Bank recommended for a “fit and proper criteria” for selection of members of SB. The criteria include:

“Educational Qualification:

The member of ‘*Shari'ah* Supervisory Committee’ must have the following qualification: Kamil or Dawra or Post Graduate Degree in Islamic Studies, Arabic, Islamic Law, Islamic Economics or IB with profound knowledge in Arabic language.

Experience and exposure:

- a) Must have at least 3 years’ experience of teaching or research work in Islamic Jurisprudence/Islamic Law/IB related subject.
- b) 3 years’ experience as a Member of any ‘Darul Ifta’/ Fatwa Board in giving *Shari'ah* rulings on Islamic trade and commerce/banking and financial matters, or
- c) Publication of 3 exclusive articles on Islamic trade and commerce, IB, Islamic Economics and Islamic Commercial Jurisprudence in any recognized journal or publication of 3 books on the same subjects.

Track Record:

- a) Must have an impeccable track record in social, economic and financial dealings;
- b) Has not been terminated or dismissed in the capacity of an employee or director/chairman from any institution, firm or a company;

Solvency and financial integrity:

- a) Has not been involved in any illegal/ improper activity particularly relating to banking business;
- b) Has not been in default of payment of dues owed to any bank or financial institution and/or default in payment of any taxes in individual capacity or as proprietary concern.

Integrity, honesty and reputation:

- (a) Has not been convicted in any civil/criminal offence or involved in financial impropriety and moral turpitude;
- b) Has not been subject to any adverse findings or any settlement in civil/criminal proceedings particularly with regard to investments, financial / business, misconduct, fraud, etc.;
- c) Has not contravened any of the requirements and standards of regulatory system or the equivalent standards of requirements of any regulatory authority;
- d) Has not been debarred from giving religious rulings by any religious institution/body” (Bangladesh Bank, 2019: 30-31).

5.7 Summary

A survey of the literature on the rules and regulations for the *Shari'ah* governance role of the SB is presented in this chapter. The AAOIFI and IFSB requirements for this governance mechanism have been explored, with an emphasis on the function, independence, and efficiency of the SB. The standardization of the SB and the functions of the AAOIFI and IFSB have been discussed in detail. Additionally, it has been highlighted that different *Shari'ah* explanations made by *Shari'ah* experts have led to contradictions in the operations of Islamic banks and other related issues with key parties. A structured IB practice is essential since it helps with effective oversights, efficient execution, and consistency, as this chapter argues. Additionally, it raises the standard of Islamic banks' financial reporting and boosts the industry's overall credibility.

AAOFIFI and IFSB standards concerning different features of SB such as qualification of the members of SB, appointment and composition of the SB, and independence of the SB have been explained. Since SB is responsible to ensure *Shari'ah* compliance of IB activities, SB members are anticipated to carry out their function efficiently and independently. The role and function of SB has also reviewed in the view of AAOFIFI and IFSB standards. Advisory and review role of the SB and AAOFIFI and IFSB standards in this regard has been explained. In addition, the role of the centralized SB has also been studied in this chapter. The crucial point is that this centralized SB plays a vital role in standardizing the practice of IB within a particular jurisdiction as part of its regulatory and supervisory responsibilities. Evaluation of SB's anticipated contribution to the invention and development of IB goods and services. *Shari'ah* scholars must be innovative when developing IB products and services that satisfy customer demand in order for the IB to operate today. Finally, the guideline of Bangladesh Bank regarding the role of SB has been placed. It clearly specified that the foundation of a SB is mandated and the employment of its members is the duty of the Board

of Directors. Board of Directors shall be liable, if any irregularity is committed in this regard. It also presented “fit and proper” criteria for the appointment of SB members.

CHAPTER SIX

RESEARCH METHODOLOGY

6.1 Introduction

The previous chapters have studied the literature on the theoretical and historical aspects of IB and *Shari'ah* issues which is generating the scope of the present research. This chapter aims to discuss the study's objectives, clarify the choice of Islamic banks, and describe the research's methodology. This study made use of information that was mostly gathered from primary sources via questionnaire surveys. Additionally, the researcher also used annual reports of the institutions investigated to find their descriptive information and the participants engaged. It will also describe the secondary data sources that were utilized for this study. This chapter will go into detail on the research approach that was employed for this study. It will also clarify the study's limitations and the research methodology used in this investigation.

6.2 Purpose of the Study

IB is a rapidly growing business globally, and it attests to an increase in the demanding demands of stakeholders and investors. Islamic banks in Bangladesh have said that their products and services are compliant with *Shari'ah* law as their main and defining characteristic, and on the basis of this, they have urged the public to acquire shares or conduct business with them. *Shari'ah* compliance is thus not just the most crucial aspect of Islamic banking but also a significant source of public anxiety. People who conduct business with Islamic banks feel that these institutions completely adhere to *Shari'ah* law. The primary governing body at the bank charged with upholding this public interest is the *Shari'ah* Board (SB). Therefore, the SB ought to be able to get this public commitment and guarantee that the bank's activities and offerings comply with *Shari'ah*. For any violations of *Shari'ah* compliance, the Board shall also be held accountable. With this perspective, this study tends to discover the nature, formation, power, responsibilities, and, most importantly, the governance function of the SBs of Islamic banks in Bangladesh with a view to have a comprehensive understanding about present status of the governance function of the SBs of Islamic banks in Bangladesh. After exploring the surface understanding of *Shari'ah*

governance, the study aims to go in-depth on the key concerns relating to the function, independence, and efficiency of the SB. critical analysis of the SB's function, independence, and efficiency through empirical investigation by questionnaire survey, the study, finally, aims at identifying its regulatory lapses and obstacles and then giving recommendations to make this institution as an effective one to ensure the *Shari'ah* compliance of products and services of Islamic banks in Bangladesh. As a result, the research would be in favor of outlining an evaluation of the *Shari'ah* governance for the IB sector in Bangladesh. The study is, therefore, believed to contribute for sustainable development of IB industry in Bangladesh. Sketching from this circumstance, the research objectives of this study have been summed up as below:

- f) To ascertain the current role and practices i.e. formation, power, responsibility and function of the SB in safeguarding the *Shari'ah* compliance in the IB industry of Bangladesh with a view to confirming the reliability of the industry and attending the concerns of the stakeholders and investors.
- g) To investigate into the current governance function of the SB and processes of guaranteeing *Shari'ah* compliance in the IB industry of Bangladesh.
- h) To examine the independence, efficiency and effectiveness of the SB in the context of the Bangladeshi banking environment.
- i) To identify the difficulties, obstacles and challenges facing the SB of the Islamic banks of Bangladesh in the management of *Shari'ah* compliance.
- j) And finally, to make recommendations to develop the SB as an effective institution in confirming the *Shari'ah* compliance of the IB industry in Bangladesh.

The following research questions are addressed in this study with the aim of reaching the aforementioned objectives:

- q) How is a SB formed in an Islamic bank in Bangladesh? Is there any 'fit and proper' criterion to select a member in the SB?
- r) How is the *Shari'ah* governance appliance experienced in the IB industry of Bangladesh? Is there any governance standard followed by the Islamic banks in this regard?
- s) What kind of functional power has the Board to perform its duty? Is this enough to ensure the *Shari'ah*-compliance in the respective banks effectively?
- t) What is the role of SB as currently practiced in the Islamic banks of Bangladesh?

- u) What is the role of a member in the SB of an Islamic bank in Bangladesh? Are the members of SB competent and capable enough in performing their responsibilities and playing their role effectively?
- v) How independent are the members of SB in accomplishing their duties? What are the elements that impact their independence?
- w) To whom are the members of SB accountable? What are the factors that influence their accountability?
- x) How do the various parties involved see the envisaged role of the SB in Bangladesh's IB sector?
- y) How does the SB's role influence Islamic banks' reputation and how does it reflect stakeholder expectations for Shari'ah compliance?
- z) How do the SB members interact with other parties within the *Shari'ah* governance apparatuses of an Islamic bank in Bangladesh?
- aa) How do the stakeholders in Bangladesh's Islamic banks see the governance structure and the performance of their SBs?
- bb) How are Islamic banks ensuring *Shari'ah* compliance via their efforts and actions?
- cc) What is the role of Bangladesh Bank in ensuring *Shari'ah*-compliance of Islamic banks? Does it have any guidelines in this regard? If yes, is that comprehensive and complete one to ensure the role of SB?
- dd) What issues and difficulties do the SB of Islamic banks in Bangladesh have in ensuring that all of its activities comply with *Shari'ah*? How may these obstacles be overcome?
- ee) Which are the major obstacles to make the SB independent, functional and effective in playing its role? How these obstacles could be removed?
- ff) How could the *Shari'ah* governance mechanism be improved in order to guarantee the *Shari'ah*-compliance effectively in the Islamic banks of Bangladesh?

6.3 Study Population

In Bangladesh, the IB sector first appeared in 1983. Since that time, there have been increasingly more Islamic banks. Eight fully operational Islamic banks, 19 IB branches of eight conventional banks, and 25 IB windows in seven conventional banks are all present as of December 2017. Since the main focus of this research is to examine the crucial governance issues of the SBs of Islamic banks in Bangladesh, it selected SBs of eight full-fledged Islamic banks as research subject instead of investigating all banks having IB branch or window.

Members of the SBs of eight full-fledged Islamic banks and Branch Managers of these banks are the main study population of this research. The banks that made the focus of this investigation are shown in Table 6.3 below.

Table 6.3: List of Banks Included in the Present Research

SL	Name of Bank	Year of Incorporation
1	Islami Bank Bangladesh Limited (IBBL)	1983
2	ICB Islamic Bank Limited (ICBIBL)	1987
3	Al-Arafah Islami Bank Limited (AAIBL)	1995
4	Social Islami Bank Limited (SIBL)	1995
5	Export Import Bank of Bangladesh Limited (EXIMBL)	1999
6	First Security Islami Bank Limited (FSIBL)	1999
7	Shahjalal Islami Bank Limited (SJIBL)	2001
8	Union Bank Limited (UBL)	2013

6.4 Research Methodology

This study followed the mixed method of research strategy combining quantitative and qualitative approach. The mixed method approach of research symbolizes a more effective way of responding research questions and produces outcomes that are stronger in implications than that of a sole method (Tashakori & Teddlie, 2003). Certainly, combining qualitative and quantitative research methodologies may produce a comprehensive picture of the issues being studied. Due to the fact that using just one approach might clarify and broaden our knowledge of the results of using the other way (Mason, 1994). This study's mixed method approach uses a two-stage research design, starting with the collection and analysis of quantitative data and moving on to the analysis of qualitative data. The study strategy has employed both primary and secondary sources for data collection. The primary data was gathered using questionnaire surveys. Survey research, which typically involves asking a sample of individuals about certain themes, is thought to be the most common kind of research used to shape public policy (Fowler, 2002). An efficient and useful method of gathering data is thought to be a questionnaire survey (Ary, 1972). It allows all study participants to be exposed to the same questions and eliminates any possibility of researcher bias (Oppenheim, 1992). The following two stages of questionnaire survey have been conducted:

Table 6.4: The Questionnaire Survey Used in This Research

<p>Questionnaire Survey 1: Targeted respondent: Members of the SBs of eight full-fledged Islamic banks in Bangladesh.</p>
<p>Questionnaire Survey 2: Targeted respondent: Branch Managers of eight full-fledged Islamic</p>

banks in Bangladesh.

Parallel with the survey research, a descriptive analysis of the research questions has also been formulated. It is important to note that a descriptive study aims to respond to the questions of who, what, when, and how (Zikmund, 2000: 50; DeVaus, 2001: 1). The survey aims to determine the degree of agreement and disagreement within the context of the current mixed method research technique in order to provide an overall impression of the Shari'ah governance function of the SBs under examination, while descriptive analysis is aimed at in-depth understanding and answering the research questions. Additionally, the approach taken in this study is a cross-sectional research. It has also been suggested that a cross-sectional study might work well in a descriptive research (Babbie, 1990; Devaus, 2001).

The members of SBs of eight fully operational Islamic banks in Bangladesh were the focus of Questionnaire Survey 1 (QS1), while Questionnaire Survey 2 (QS2) was directed at the branch managers of these institutions. Both of the questionnaires were created using the identical SB topics with a few modifications made to match the respondent's exposure to *Shari'ah* governance in order to answer the study objectives. In order to comprehend the intricate process of *Shari'ah* governance and the issues under investigation of the SBs, a qualitative technique including an in-depth study and descriptive analysis of the data that has been gathered has been used in the second stage.

6.4.1 The Questionnaire Design and Development

One of the major trials of using questionnaire survey is the necessity to be cautious during scheming the questionnaire because the reply is completely dependent on the quality of the questions that have been developed for them to respond (Fowler, 2002). There are four important steps to be considered to construct a good questionnaire as identified by Evans (1984): First, the questionnaire's purpose must be clearly explained. Next, the researcher must use the data that the questionnaire provides. thirdly, the questionnaire's sections that include its component parts must be examined; and finally, a set of questions should be prepared with the aim of eliciting the proper responds from the respondents. Hence, essential considerations have been given and the above-discussed features have been incorporated to construct a good questionnaire to attain its goal in meeting the study questions of the present study. This questionnaire aims to gather respondents' opinions on the vital governing function, role, independence, and efficacy of the SB of Islamic banks in Bangladesh. Two

sets of questionnaire (i.e. QS1 and QS2) for two directed respondents were developed: QS1 for the members of SBs and QS2 for Branch Managers of Islamic banks.

In order to address the study issues, both questionnaire surveys were designed categorizing on three themes: (1) the role of the SB; (2) the accountability and independence of the SB; and (3) the nature of the *Shari'ah* review in the Islamic banks in Bangladesh. These three topics, which can be found in the guidelines and standards produced by the AAOIFI and IFSB and arguments in the previous literatures, have been acknowledged as the key components underlying the scope of the current research. The questions structured in these two surveys have been articulated to produce the thoughts of the respondents on the issues described above based on the AAOIFI and IFSB standards. Besides these three themes, another section has also been added asking the respondent's demographic details. Since different groups of targeted respondents are involved in QS1 and QS2, it was important to ensure that the questions would address the different *Shari'ah* governance exposures of the respondents on the issues of the structure and implementation of the *Shari'ah* review function of the SB. Intrinsically, few of the questions in QS1 have no corresponding question in QS2, and vice versa, as they are personalized to those targeted respondents. By developing the questionnaire in this manner, the research aims to evaluate how *Shari'ah* governance is now being used and how it is predicted to be applied. The questionnaire also includes a section where responders can add any additional comments or observations they may have regarding the topic covered there. Alphanumerical coding has been assigned to the questionnaire surveys for the purpose of identification. Copy of both questionnaire surveys is attached in Appendix 1.

6.4.2 Structure of Questionnaire and Types of Questions

Due consideration should be given to the substance, organization, structure, and sequence of the questions while developing a questionnaire. The design of these questions should make it easier for respondents to respond in the least amount of time and with the least amount of work while yet emphasizing the importance of maintaining the quality of their answers (Nachmias and Nachmias, 1996). In this study, closed-ended questions were employed, and respondents received alternative answers to the questions. In addition to being more suited to respondents, closed-ended question types would be appropriate when the study involves asking respondents a large number of issues in a similar form (Fowler, 2002). To elicit the respondents' opinions, an ordinal degree of data collection using questions of the Likert scale type has been adopted. This study used two different types of Likert scale measurements: a

continuous scale, where respondents were asked to choose between strongly agree and strongly disagree; and a categorical scale, where they were asked to rank items by importance, from highest to lowest. The use of both types of Likert scales in this study is seen as suitable since it enables the researcher to compare measurements of the relationship between the connected parties' existing practices and the SB's *Shari'ah* governance function. Sections A, B, and C of QS1 and QS2 contain questions that responders must answer using a scale, including: (1) strongly disagree; (2) disagree; (3) uncertain; (4) agree and (5) strongly agree. In addition, questions 1, 2, and 3 in Section B of both questionnaire surveys as well as question 3 of Section C in QS2 contain inquiries that attempt to gauge respondents' opinions using the following scales: (1) very unimportant; (2) unimportant; (3) uncertain; (4) important and (5) very important. Both questionnaire surveys include Section D, which asks respondents to provide some demographic information, including their gender, age range, educational background, and specific training they have had. Respondents are required to check the alternative responses listed in the questionnaire while answering these questions.

As mentioned earlier, both the questionnaires have four sections encompassing the similar themes with similar contents: (1) the role of the SB; (2) the accountability and independence of the SB; (3) the nature of the *Shari'ah* review; and (4) the respondent's demographic details. In order to compare how these concerns are currently being practiced (QS1) to how they are predicted to be performed (QS2), they were sent to the two separate respondent groups. Some of the questions in QS1 did not, however, correlate to those in QS2. Because each of the intended respondent groups have differing *Shari'ah* governance exposure. For instance, Section A of QS1 contains one supplemental question, whereas QS2's equivalent section contains none. Due to the fact that they have been tailored to each responder group, several of the questions in Section C do not have an equivalent in the other questionnaire. Section D contains the questions on the demographic details to assess the diverse background of the respondents. It should be emphasized once more that the standards and guidelines published by the AAOIFI and IFSB served as a basis for developing the questions. Below are the specifics of the questionnaire's defense.

Section A: Role of *Shari'ah* Board: On the basis of the researched literature and AAOIFI and IFSB standards, this part was designed to elicit thoughts from the respondents on topics pertaining to the function of SB. This section contains an appropriate question for QS1, which asks respondents (i.e., members of SB) to assess if the SB's policies and standards in their respective banks were in line with AAOIFI, IFSB, and Bangladesh Bank. The QS1's

remaining questions are matched with QS2's, where respondents were asked to rate their level of agreement on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree). The questions include:

- 1) Scope of *Shari'ah* advisory role;
- 2) Involvement in designing corporate objectives of Islamic banks;
- 3) Development of IB products and services;
- 4) Accounting issues of the banks;
- 5) Relevant parties who assist the SB; and,
- 6) General commitments of the SB.

Section B: Accountability and independence of the *Shari'ah* Board: It covers issues relating to the SB's independence and accountability. Although the two issues may appear to be closely related, the researcher has made an effort to evaluate the factors that affect accountability and independence separately because doing so may help in determining whether accountability can have a significant impact on the SB's independence. The queries comprise:

- 1) Factors influencing the accountability of SB;
- 2) Factors influencing the independence of SB;
- 3) To whom the SB is accountable; and
- 4) Natures of SB member's appointment and mandated authority.

Section C: Nature of *Shari'ah* review: It aims to elicit the respondents' observations about the nature of the *Shari'ah* review carried out by the SB based on review structure and its execution. There is a unique question in QS2 by which the Branch Managers were required to rate the role of a number of parties, whose involvement is crucial in the *Shari'ah* governance of Islamic Banks in Bangladesh, in order of priority from 1 to 5. There have been similar inquiries like the ones below:

- 1) Structure of *Shari'ah* review; and
- 2) Implementation of *Shari'ah* review.

Section D: Respondent's demographic details: It has been planned to determine the background of the respondents. This information would also explain the individual as well as organizational behavior towards the *Shari'ah* governance implementation of the bank.

6.4.3 Piloting the Questionnaire

Both the questionnaires have gone through numerous phases of development prior to distribution among the directed respondents. First, the researcher's primary supervisor was heavily consulted throughout the questionnaire development process. After wording and formatting, these were sent to a competent proof-reader to confirm the quality and standard of the questionnaires. After finishing all of these jobs, the researcher carried out pilot testing to support the validity of the investigation's topics' substance and advance the questionnaire's question layout. The questionnaires were sent to 10 people as pilot testing, including two PhD candidates in finance and IB; two are teaching this subject in the universities of Bangladesh; two are Branch Managers; two are SB members and another two are officers of *Shari'ah* division of an Islamic Bank. These diverse groups of people were preferred as they have understanding and knowledge of the IB atmosphere in Bangladesh and possess capacity to contribute in improving the questionnaires for this research. They were asked if the instructions and questions were consistently straightforward and understood during this exercise. They were also asked to assess the quality of questionnaires as a whole and offer their comments. The discussion and remarks received from the practitioner were very useful and some minor changes occurred following their comments. Thus the pilot testing was found very beneficial.

6.4.5 Questionnaire Administration

The questionnaire surveys were self-administered by the researcher. Both of the surveys were sent to the respondents through email and personally delivered and collected as well. From November 2019 to the end of April 2021, this technique was carried out with the main supervisor of the researcher's approval. In order to ensure that the questionnaire reached the greatest number of the intended respondents, the researcher also got support from a number of relevant accountable authorities. For QS1, remarkable assistance received from the Central SB for Islamic Banks in Bangladesh to get the contact details of the members of SBs of Islamic Banks in Bangladesh. For QS2, the researcher received highest assistance from the officers of *Shari'ah* department of Islami Bank Bangladesh Limited. After getting contact information, both the questionnaires were directly mailed to the respondents. The researcher went to the offices of a good number of targeted respondents, specially, for QS1, who are not frequent in using email, to deliver the questionnaire personally. The researcher also maintained frequent communication with the targeted respondents physically or by phone call to insist response. Among the 1124 branches of eight full-fledged Islamic banks in Bangladesh (as listed below), the researcher has given priority the branches located in the

capital city of Dhaka and major divisional cities such as Chattogram, Rajshahi, Sylhet, Khulna, Barishal, Rangpur and Mymensingh. The branch location was determined from the bank's website. Based on how many branches each bank had available, the branches were chosen. Thus, the researcher tried to get highest possible response from the respondents. Due to the shortage of fund and time for this research, it was difficult for the researcher to travel all of the districts of the country.

Table: 6.4.5.1: List of full-fledged Islamic Banks in Bangladesh

SL	Name of Bank	Year of Incorporation	Number of Branches (as of Dec 2017)
1	Islami Bank Bangladesh Limited (IBBL)	1983	332
2	ICB Islamic Bank Limited (ICBIBL)	1987	33
3	Al-Arafah Islami Bank Limited (AAIBL)	1995	138
4	Social Islami Bank Limited (SIBL)	1995	154
5	Export Import Bank of Bangladesh Limited (EXIMBL)	1999	118
6	First Security Islami Bank Limited (FSIBL)	1999	113
7	Shahjalal Islami Bank Limited (SJIBL)	2001	168
8	Union Bank Limited (UBL)	2013	68
		Total	1124

Three weeks were allowed to the respondents of the two questionnaire surveys to complete and submit the questionnaire. The non-respondents were then identified, and phone calls were made to them to follow up and serve as a gentle reminder of the importance of their replies for the successful completion of the research study. The researcher returned the questionnaire in cases when QS2 had not been received. A follow-up phone contact was made to the non-responders after a week, underlining the importance of the respondents' involvement as previously noted. For both questionnaire surveys, the researcher finished administering the questions five months after they began in November 2019.

The quantity of replies needed to generate a meaningful clarification during data analysis is one of the key considerations for research based on questionnaire surveys. According to Nachmias & Nachmias (1996; 226), a questionnaire survey should typically have a response rate of 20% to 40%. It was much better to get a long-lasting study result because the number of responses for QS1 was significantly higher than 47%. The QS1 survey answer is detailed in the table that follows:

Table: 6.4.5.2: Analysis Showing the Responses from Questionnaire Survey 1

SL	Name of Bank	Number of members of SB	Number of Respondents	% of Number of Respondents
1	Islami Bank Bangladesh Limited	12	6	50

	(IBBL)			
2	ICB Islamic Bank Limited (ICBIBL)			
3	Al-Arafah Islami Bank Limited (AAIBL)	8	4	50
4	Social Islami Bank Limited (SIBL)	9	5	55
5	Export Import Bank of Bangladesh Limited	11	5	45
6	First Security Islami Bank Limited (FSIBL)	8	4	50
7	Shahjalal Islami Bank Limited (SJIBL)	10	5	50
8	Union Bank Limited (UBL)	9	3	33
	Total	67	32	47.76

A total of 450 QS2 were distributed, and 157 of them were returned with a response. As a result, QS2's response rate is 34.88%. The sample size and response rate for the QS2 distribution are summarized in Table 6.4.5.3 below.

Table: 6.4.5.3: Sample Size of Questionnaire Survey 2 and Analysis of Responses

SL	Name of Bank	Number of Branch Managers	Number of Recipients	Number of Respondents	% of Number of Respondents
1	Islami Bank Bangladesh Limited	332	121	33	9.93
2	ICB Islamic Bank Limited	33	--		
3	Al-Arafah Islami Bank Limited	138	62	20	14.49
4	Social Islami Bank Limited	154	59	22	14.28
5	Export Import Bank of Bangladesh Limited	118	54	18	15.25
6	First Security Islami Bank Limited	113	48	21	18.58
7	Shahjalal Islami Bank Limited	168	73	30	17.85
8	Union Bank Limited	68	33	13	19.11
	Total	1124	450	157	13.96

6.4.5 Statistical Analysis Techniques Employed

After completing collection of data, the process comes with analyzing and interpreting the data. In social science research, statistical packages are frequently utilized as a crucial tool for analytical goals. Kerlinger (1986) identified three primary motivations for employing statistical analysis:

- (1) To condense huge amounts of data into a form that can be handled and understood;

- (2) To aid in the analysis of samples and the population; and,
- (3) To aid in drawing accurate conclusions.

As was previously indicated, the purpose of this study is to investigate the Shari'ah governance role of the SBs of Islamic banks in Bangladesh; as a result, the research's design includes a cross-sectional study. In this study, there were two analytical phases. A descriptive analysis has been performed first. According to DeVaus (1996), descriptive analysis, which counts the respondents who hold a certain viewpoint, is best suited for cross-sectional surveys. Zikmund (2000) mentions two methods of descriptive analysis: employing tabulation to summarize data and using measures of primary tendency (such as mean, median, or mode). When comparing trends, using counts and percentages to summarize the data in the former might be incredibly useful (Zikmund, 2000). The analysis of the results was done after the descriptive analysis. Although the responses were grouped into three categories for presentational purposes, the statistical analysis was conducted using a five-point Likert scale.

6.5 Summary

In this chapter, the research objectives, study population, research methodology, the design, development, method and structure of questionnaire, justification for the choice of cross-sectional survey and rationale for using statistical tools have been critically described. The research objectives primarily endeavor to assess the *Shari'ah* governance function of the SBs for the Islamic Banks in Bangladesh. It investigates the current practice regarding the formation, power, responsibility, role, functions accountability, independence and effectiveness of the SBs. It also investigates the structure and implementation of *Shari'ah* review systems in these banks. And then identifying the challenges, the study is designed to offer recommendations to develop the SBs as effective institutions in confirming *Shari'ah* compliance of the IB industry of Bangladesh. The design, development and process of implementing the questionnaire survey that has been used in attaining these research goals have been explained. Once more, the precedent for developing the questions was the AAOIFI and IFSB standards and recommendations. The chapter also emphasizes the actions done to ensure that the research design and data gathering strategies align with the study's goal. It also explains why statistical software was used to assess the survey results.

CHAPTER SEVEN

ANALYSIS OF THE SURVEY ON SHARI'AH BOARD: RESPONSES OF THE SHARI'AH BOARD MEMBERS

7.1 Introduction

The overall responses to the first questionnaire survey, Questionnaire Survey 1 (QS1), which was conducted from the *Shari'ah* Board (SB) members of Islamic banks in Bangladesh, are discussed in this chapter. The purpose of the survey is to learn respondents' thoughts on three issues relating to the SB's *Shari'ah* governance role. (1) its role, (2) its accountability and independence, and (3) the nature of the *Shari'ah* review. This chapter is divided into six sections. The features of the banks and profile of the respondents are covered in section 7.2. The role of the *Shari'ah* Boards in section 7.3; accountability and independence of the *Shari'ah* Boards in section 7.4; and the nature of the *Shari'ah* review in section 7.5 have been delivered. These subjects' details of the analyses and discussions of the results are also included in these sections. The summary is provided in section 7.6.

7.2 Profile of the Respondents and Characteristics of Banks

Profile of the members of SB represents its' quality, distinction and ability to perform its role independently. Majority literatures and several standards strongly supported the idea that personal integrity, affiliation and profile can influence the governance function of SB in many ways. AAOIFI, IFSB and Bangladesh Bank offered a "fit and proper" criteria for the appointment of a member of SB. Therefore, evaluations of the background and profile of the SB members of Islamic banks in Bangladesh who took part in this survey are shown in the discussion below.

7.2.1 Gender and Age Range of the *Shari'ah* Board Members

There is no female member in the SBs of Islamic Banks in Bangladesh. Among the thirty two respondents, the age of fifteen (46.9%) ranges between 55-64, ten (31.3%) between 45-54, two (6.3%) between 35-45, and five (15.6%) 65 and above. The analysis of the background of the SB members of Islamic Banks in Bangladesh by gender and age is presented in Table 7.2.1 below.

Table 7.2.1: Gender and Age Range of the *Shari'ah* Board Members

Member of SB	Age Range				
	25-34	35-44	45-54	55-64	65 and above
Male	0	2 (6.3%)	10 (31.3%)	15 (46.9%)	5 (15.6%)
Female	0	0	0	0	0
Total		2	10	15	5

7.2.2 Experience of the *Shari'ah* Board Members

The study of respondents' knowledge and expertise in the IB sector is shown in Table 7.2.2 below. It also compared it with the number of years of offering IB products and services by the sample Islamic Banks. It was discovered that the majority of SB members (11 individuals) have between 10 and 11 years of experience working in the IB sector, while the lowest number (4 persons) fall in the category of 16 years and above experience. 9 members are classified as having 11 to 15 years of expertise, while 8 members have only 0-5 years' experience. Excitingly, the table also shows evidence that the banks which have been offering IB products for 11-15 years' category, have the most number of experienced members in their SBs. Out of 14 respondents of the category, 6 members have 11-15 years' experience, 5 members have 10-11 years', 2 members have 0-5 and 1 member has 16 years' and above experience. 11 respondents have come from the banks that have been providing IB products and services for 6-10 years'. 4 of them have experience of 0-5 years', another 4 have 6-10 years', 2 have 11-15 years' and 1 has 16 years' and above experience in IB industry. 7 respondents came from the banks that have been offering IB products and services for 16 years' and above. 2 of them have experience of 0-5 years', another 2 have 6-10 years', 1 have 11-15 years' and 2 has 16 years' and above experience.

Table 7.2.2: Experience of the *Shari'ah* Board Members and its comparison with the age of the Islamic banks'

Number of Years of offering IB	Experience in Islamic Banking Industry									
	0-5 years		6-10 years		11-15 years		16 years and above		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
0-5 years	--	--	--	--	--	--	--	--	--	--
6-10 years	4	12.5%	4	12.5%	2	6.25%	1	3.12%	11	34.37
11-15 years	2	6.25%	5	15.62%	6	18.75%	1	3.12%	14	43.75
16 & above	2	6.25%	2	6.25%	1	3.12%	2	6.25%	7	21.87
Total	8	25%	11	34.37%	9	28.12%	4	12.5%	32	100%

From the above statistics, it has also been observed that the range of experience of SB members is positively good. It combined the senior experienced persons with the junior scholars. But, the number of highest experienced members (16 years' and above) is not satisfactory enough to guide the industry properly. They constitute only 12.5%, while the lowest experienced members (0-5 years') constitute 25%. It has also been observed that the banks which have been offering IB for 6 to 10 years', 72% of their members of SBs have experience of less than 10 years, while only 28% have more than 10 years working experience. It is possibly due to the fact that the newly established Islamic banks included majority young members in their SBs. Alternatively, the banks with 11 to 15 years of their age, have equally 50% of SB members with less than 10 years' experience, while another 50% have more than ten years' experience in the industry. Paradoxically, the oldest Islamic banks with the age of 16 years' and above have only 28.5% of SB members with the similar years (16 & above) of experience. 57.14% of their SB members have less than 10 years' of working experience.

7.2.3 Training Received by the *Shari'ah* Board Members

The training and education of SB members can be utilized as a metric to assess the efficacy of *Shari'ah* governance of the SBs. As argued earlier, to ensure effectiveness of SB, the members should have a certain level of competency as recommended by AAOIFI, IFSB and Bangladesh Bank. Following Table offers the findings on the issues of training accepted by the respondents.

Table 7.2.3: Training Received by the *Shari'ah* Board members

Fields of Training	No.	%
<i>Shari'ah</i>	23	71.87
<i>Fiqh Al-Mua'malat</i>	24	75
Management	1	3.12
Accounting and Finance	0	0
Economics	3	9.37
Law	3	9.37

It is found that 71.87% of respondents (23 persons) demanded of having knowledge of together *Shari'ah* and *Fiqh Al-Mua'malat*. This is may be due to the fact that in the academic disciplines of Islamic Studies or *Shari'ah* studies, naturally *Fiqh Al-Mua'malat* is included. Only one member who has specialized knowledge in Economics, also has the knowledge of *Fiqh Al-Mua'malat*. 9.37% respondents (3 persons) have expertise in Economics and Law, while 3.12% (1 person) has expertise in Management.

Training on *Shari'ah* and *Fiqh Al-Mua'malat* are vital for the SB members, as knowledge of these two fields is fundamental in their role. At the same time, combination of other skills that are related to banking such as Accounting, Law, Economics, Management, etc. in the Board is also essential to perform the role effectively as recommended by AAOIFI and IFSB standards. A SB would be more efficient and effective in performing its role only when the Board is combined with experts of different concerned subjects. The statistics clearly discovered that majority SBs of Islamic banks in Bangladesh are formed with only *Shari'ah* experts and accordingly it couldn't perform its role efficiently as it would be expected.

7.2.4 Size of the *Shari'ah* Departments

The number of *Shari'ah* officers in the *Shari'ah* department is another concern with relation to the efficacy of the *Shari'ah* governance framework of Islamic banks. This study compared the number of branches with the size of the *Shari'ah* departments. The distribution of the number of *Shari'ah* officers in the *Shari'ah* departments maintained by the banks belonging to the 32 respondents is provided in Table 7.2.4 below. Islami Bank Bangladesh Limited, the leading Islamic bank in the country has 36, the highest number of *Shari'ah* officers, while ICB Islamic Bank Limited has only 3. The rest banks have *Shari'ah* officers ranging from 10 to 20. As seen in the table, only a small number of banks have substantial *Shari'ah* department officials, whereas the majority of banks have a small number of officers in their *Shari'ah* departments.

Table 7.2.4: Number of Officers in the *Shari'ah* Departments of Islamic Banks

SL	Name of Bank	Year of Establishment	Number of Branches	Number of officers in <i>Shari'ah</i> department
1	Islami Bank Bangladesh Limited	1983	332	36
2	ICB Islamic Bank Limited	1987	33	3
3	Al-Arafah Islami Bank Limited	1995	138	20
4	Social Islami Bank Limited	1995	154	18
5	Export Import Bank of Bangladesh Ltd.	1999	118	16
6	First Security Islami Bank Limited	1999	113	12
7	Shahjalal Islami Bank Limited	2001	168	21
8	Union Bank Limited	2013	68	10
	Total		1124	136

(Ref: Table 4.6.1)

The aforementioned results also provide an important indication of the effectiveness of the *Shari'ah* governance system used by Bangladesh's Islamic banks. Since the *Shari'ah* officers serve as the SB's secretariat, a substantial *Shari'ah* department would help the SB's duties and operations run more smoothly. It is projected that the *Shari'ah* governance system of each bank will be more thorough the more *Shari'ah* officials the bank employs. Furthermore, it is asserted that the amount of *Shari'ah* officials needed depends on how extensive the IB

activity actually is. As a result, it is predicted that banks with a large business and a variety of IB products and services would need more *Shari'ah* officials in their *Shari'ah* department. The requirement to assist the SB in its functions as a *Shari'ah* advisory and review body might help to clarify this obligation. As the SB's secretariat, the *Shari'ah* officers might act as a liaison for the SB when communicating *Shari'ah* decisions to other relevant organizations inside the bank. Additionally, *Shari'ah* officers might assist the SB by carrying out its research tasks and organizing the necessary paperwork for brand-new IB products and services. Accordingly, *Shari'ah* officials are anticipated to assist the SB in certifying that the bank's management is adhering to the *Shari'ah* judgments. Additionally, the *Shari'ah* officers would bring any problems affecting the bank's network operation to the SB's attention for discussion if there were any. Alternately, if the IB products and services and the operation of the bank are relatively small, a larger number of *Shari'ah* officers are not necessary, and as a result, the number of officers should not be the basis for evaluating the *Shari'ah* governance system of the bank.

7.3 The Role of the *Shari'ah* Boards

With a view to analyzing the significant subjects adjoining the role of SBs, this study developed questionnaire based on the AAOIFI-IFSB standards and previous literatures. The questionnaire is divided into seven sections: an overview of the standards adopted by the SBs; an analysis of the scope and role of the SBs; the contribution of the SBs to the design of the corporate goals of Islamic banks; an analysis of the involvement of the SBs to the development of IB products and services; the involvement of the SBs to accounting concerns of the banks; a discussion of the relevant parties that support *Shari'ah* governance, and an analysis of the *Shari'ah* governance commitment undertaken by the SBs.

7.3.1 Standards and Guidelines Used by the *Shari'ah* Boards

In Chapter Five, it has been discussed that several organizations i.e. AAOIFI and IFSB have created standards and guidelines to practice in the industry. Therefore, in this study, respondents who were SB members were asked to rate their agreement with the guidelines and standards of AAOIFI, IFSB and Bangladesh Bank used by the SBs in their respective banks on a five-point Likert scale. Table 7.3.1 below highlights the outcomes.

Table 7.3.1: Analysis Showing the Standards used by the *Shari'ah* Boards

Standardization Institute	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	No.	%

AAOIFI	--	--	1	3.1	31	96.9	32	100
IFSB	--	--	1	3.1	31	96.9	32	100
Bangladesh Bank	--	--	--	--	32	100	32	100

It is observed from the table that almost all of the respondents indicated positively that both standards of AAOIFI and IFSB are used by the SBs of their respective banks, but not obligatorily, rather voluntarily. On the other hand, the guidelines issued by the Bangladesh Bank, are used mandatorily. It is found that, there is no mandatory requirement for any Islamic bank in Bangladesh to follow the standards of AAOIFI and IFSB, rather it is entirely on a voluntary basis, while adherence to the guidelines issued by Bangladesh Bank is mandatory requirement for all banking institutions including Islamic banks in the country. As a result, none of the respondents indicated a level of agreement with the Bangladesh Bank's guidelines lower than agree.

7.3.2 The Scope and Role of the *Shari'ah* Boards

The critical part for this research is to assess the scope and role of SB by offering some indicators to the respondents that gathered from AAOIFI and IFSB standards. A five-point Likert scale with the options of strongly disagree (1) and strongly agree (5) was used to ask the respondents to express their level of agreement. Table 7.3.2 presents the investigation of the results.

Table 7.3.2: Analysis Showing the Scope and Role of the *Shari'ah* Board

The Scope and Role of SB	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Advise the Board of Directors on <i>Shari'ah</i> matters	8	25	1	3.1	23	71.9	3.56	5
Assist other parties on <i>Shari'ah</i> matters	5	15.6	1	3.1	25	78.1	3.53	6
Advise the <i>Shari'ah</i> Department officer on the scope of <i>Shari'ah</i> review	--	--	--	--	32	100	4.65	2
Provide training to the <i>Shari'ah</i> Department officers to ensure effective <i>Shari'ah</i> review	1	3.1	--	--	31	96.9	4.28	4
Report to Bangladesh Bank on <i>Shari'ah</i> matters	30	93.8	1	3.1	1	3.1	1.15	8
Prepare the <i>Shari'ah</i> compliance manual to be used in the Islamic bank	--	--	--	--	32	100	4.43	3
Endorse the <i>Shari'ah</i> compliance manual prepared by the management of the bank	11	34.4	1	3.1	20	62.5	3.15	7
Audit the activities of bank to	--	--	--	--	32	100	4.71	1

confirm the implementation of <i>Shari'ah</i> compliance manual								
---	--	--	--	--	--	--	--	--

The data shows that the majority of respondents agreed that Bangladesh's SBs of Islamic banks had taken on various roles as *Shari'ah* advisors. The table clearly shows that all of the respondents agreed on the three responsibilities of the *Shari'ah* advisory role, which include advising the *Shari'ah* department officer on the scope of the *Shari'ah* review, creating the *Shari'ah* compliance manual, and auditing the activities of the bank to verify the *Shari'ah* compliance manual's implementation. Auditing the activities of the bank is graded 1st with a mean score of 4.71, advise the *Shari'ah* department officer is graded 2nd with a mean value of 4.65, and prepare the *Shari'ah* compliance manual is graded 3rd with a mean value of 4.43. Meanwhile, giving the *Shari'ah* Department officials training to ensure successful *Shari'ah* review, that is rated 4th with a mean score of 4.28 and 96.9% agreement from the respondents. Additionally, with a mean score of 3.56 and 71.9% of respondents agreeing, advise the board of directors on *Shari'ah* concerns is ranked fifth. With a mean score of 3.53 and 78.1% of respondents marking their agreement, assistance to other parties on *Shari'ah* matters is ranked sixth. Endorsing the *Shari'ah* compliance manual prepared by the bank's management is graded seventh, with a mean score of 3.15 and 62.5% of the respondents expressing their agreement, while report to Bangladesh Bank on *Shari'ah* matters is graded eighth, with a mean score of 1.15 and 93.8% of the respondents expressing their disagreement.

The table clearly shows that the SBs of Islamic banks in Bangladesh perform four scopes of advisory role with good score, namely auditing the bank's activities to confirm the implementation of *Shari'ah* compliance manual, advising the *Shari'ah* department officer on the scope of *Shari'ah* review, creating the *Shari'ah* compliance manual, and training the *Shari'ah* department officers to ensure effective *Shari'ah* review. These four are direct advisory role of the SBs.

The next two items on the list of eight, advising the board of directors on *Shari'ah* issues and assisting other parties with *Shari'ah* issues, are likewise approved by a majority, but only received a mean score of 3.56 and 3.53, respectively. It indicates that there are some restrictions or limitation in advising the Board of Directors by the SBs, which is very crucial for ensuring *Shari'ah* compliance of the banks. Endorsing the *Shari'ah* compliance manual prepared by the management of the bank, although agreed by majority, but with significant (34.4) disagreement together. In this instance, the SB is required only to endorse their

approval of the *Shari'ah* manual that is already arranged by the management. Regarding report to Bangladesh Bank on *Shari'ah* matters, 93.8% respondents strongly disagreed and thus, it is evident that there is no scope to report to Bangladesh Bank, if anything is found contradict to the *Shari'ah* principles. It is evident that SB can prepare *Shari'ah* compliance manual, conduct audit to confirm its implementation and provide training and advise the *Shari'ah* department officers for effective *Shari'ah* compliance and review. But, the SB could not advise the Board of Directors at expected level, which is a matter of concern as it has not only been recommended by AAOIFI and IFSB standards, rather it has also been included in most of the 'terms of reference' of Islamic banks in Bangladesh. It could also not report to Bangladesh Bank directly, if any conflicting issue arises between the management of the bank and SB. It was mentioned earlier that the Bangladesh Bank serves as the supreme regulatory authority of banking system in Bangladesh. However, it is argued that in regard to *Shari'ah* compliance, Bangladesh Bank only approves the products and services proposed by the Islamic banks and the compliance issues are entrusted upon the Board of Directors through SBs. Hence, the respondents might not find the further involvement of SB in this regard.

7.3.3 Involvement of the *Shari'ah* Boards in the Corporate Objectives of the Banks

As recommended by Alhabshi and Bakar (2008) and described in chapter five, this research also examined the role that SB played in developing the corporate objectives of Islamic banks in Bangladesh, which included the banks' mission, vision, goals, objectives, corporate brand value, and long-term strategic direction. Initial analysis of the results revealed that every reaction may be categorized as disagreeable. Table 7.3.3 provides a thorough examination of the findings.

Table 7.3.3: Involvement of the *Shari'ah* Board in Corporate Objectives

Corporate Objectives of the Banks	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
The bank's mission	26	81.3	1	3.1	5	15.6	1.84	2
The bank's vision	26	81.3	1	3.1	5	15.6	1.84	2
The bank's goals	26	81.3	1	3.1	5	15.6	1.84	2
The bank's objectives	25	78.2	1	3.1	6	18.8	1.93	1
The bank's corporate brand value	30	93.8	1	3.1	1	3.1	1.43	3
The bank's long-term strategic direction	30	93.8	1	3.1	1	3.1	1.40	4

The aforementioned table makes it clear that the overwhelming majority of respondents vehemently opposed the SB's involvement in providing advice or developing the corporate objectives of their local Islamic banks. Although there are variables of rank, mean value, and

percentage, but all are with very low mean values of less than two. The average percentages of the responses indicating agreement across all listed corporate objectives is only 11.96%, while that of disagreement is 84.95%. Therefore, the study discovered that the majority of the SBs have no significant involvement in designing the corporate objectives of the Islamic banks in Bangladesh. This outcome is consistent with the findings of Alhabshi and Bakar (2008). However, 11.96% agreement indicating that some of the SBs have involvement in designing the corporate objectives of the respective banks, but, the number is, definitely, very poor.

As an alternative, the outcome demonstrates that without the engagement of SB members, the bank's management or board of directors create the majority of its corporate objectives. The AAOIFI and IFSB standards suggested that the SB members should be given importance in advising the board of directors on *Shari'ah* issues, strategic aspects such as the corporate objectives mentioned above. But, the result of this study is inconsistent with the recommended standards of AAOIFI and IFSB. Additionally, it also indicates that the function of SB members' tend to be restricted to the traditional role relating to the development and review of banking product and service issues only. They have no significant involvement with the technical and strategic issues of the banks.

7.3.4 Involvement of the *Shari'ah* Boards in the Development of Islamic Banking Products and Services

Development of IB product and services is an integral part of the activities of SB. To determine the engagement of SB in this significant role, the members were requested to indicate their grade of agreement on diverse phases of development of IB product and services. The following Table shows the findings.

Table 7.3.4: Involvement of the *Shari'ah* Board in Developing Islamic Banking Products and Services

Involvement of SB in the Development of IB Products and Services	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Conception level	--	--	--	--	32	100	4.65	2
Design level	--	--	1	3.1	31	96.9	4.56	3
Pricing level	15	46.9	1	3.1	16	50	3.03	5
Legal documentation level	9	28.2	1	3.1	22	68.8	3.46	4
Testing level	23	71.9	3	9.4	6	18.8	2.15	6
Marketing level	30	93.7	1	3.1	1	3.1	1.43	8
Implementation level	23	71.9	2	6.2	7	21.9	2.18	7

Review level	--	--	1	3.1	31	96.9	4.78	1
--------------	----	----	---	-----	----	------	------	---

The table clearly shows that there are specific stages in the development of IB goods and services that seem to be given importance by the SB members, with the majority of respondents (97.93%) stating their agreement. These include development of IB products and services at conceptual level, design level, and review level with 4.65, 4.56 and 4.78 mean scores accordingly. None of the respondents objected to SB's engagement in these three development stages. As such, these stages of development received full commitment by the SB which also required scholarly attention by the SB members. Regarding legal documentation level (mean score, 3.46), majority (68.8%) of the respondents agreed positively, but with significant number of disagreement (28.2%). About pricing level, half of the respondents indicated agreement while 46.9% indicated disagreement. It indicates to the fact that the involvement of SB in development of IB products and services at legal documentation and pricing levels is not as it is recommended by the standards.

Alternatively, the majority of respondents opposed SB's engagement in the development of IB products and services at testing level with 2.15, implementation level with 2.18, and marketing level with 1.43 mean scores. Proofs of disagreement on these definite phases of development of products and services advances concerns about the deficiency of attention by the SBs. Otherwise, these results seem to suggest that the bank's management, not SB, is in charge of these development stages. Previous research (Table: 7.2.3), which revealed that the majority of SB members have degrees in *Shari'ah* or *Fiqh Al-mua'malat*, may suggest that SB members abdicate their responsibility for these technical tasks and hand them over to the secretariat. This is supported by the findings in Table 7.3.6 which revealed that SB was found to obtain high support from the banks' *Shari'ah* department, management and Boards of Director. Furthermore, the aforementioned results also support earlier findings that SB members frequently limit themselves to playing the traditional role of only dictating how *Shari'ah* principles and schemes should be applied to goods and services and conducting their evaluation rather than dealing with technical issues like pricing, testing, marketing, or even implementation. But, the pricing and implementation stages are crucial after determining the *Shari'ah* notions and designs to be practical. In essence, the bank would have to confirm in scheming the product in accordance with the *Shari'ah* concept that IB products and services should not impose unreasonable pricing to confirm its legality from the Islamic point of view.

7.3.5 Involvement of the *Shari'ah* Boards in the Accounting Issues

It was underlined in previous literatures and AAOIFI and IFSB standards that the role of SB comprises issues relating to the accounting features of the IB operations. Accordingly, the members of SB were requested to indicate their degree of agreement with the contribution of the SBs in vital accounting issues linking to the IB operations. The findings are provided in the Table below.

Table 7.3.5: Analysis Showing the Involvement of *Shari'ah* Board in Accounting Issues of the Bank

Involvement of SB in the Accounting Issues	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Determining the formula for profit distribution	2	6.3	--	--	30	93.8	4.18	3
Approving the calculation and distribution of <i>Zakat</i>	--	--	--	--	32	100	4.34	1
Approving the accounting policy to be applied	11	34.4	--	--	21	65.6	3.43	7
Validating documentation used in Islamic financing contracts	2	6.3	--	--	30	93.8	4.12	4
Validating the IB transaction records	6	18.8	1	3.1	25	78.1	3.84	6
Issuing the <i>Shari'ah</i> compliance report of the bank	--	--	1	3.1	31	96.9	4.21	2
Endorsing the annual report prepared by the bank management	1	3.1	1	3.1	30	93.8	4.03	5

It is evident from the table that the participation of SB has been found in five accounting concerns out of seven significantly positive with an average 95.66% agreement and with 4.17 average mean score. These include the calculation and distribution of *Zakat*, publishing the *Shari'ah* compliance report of the bank, determining the formula for profit distribution, validating documentation used in Islamic financing contracts, and endorsing the annual report prepared by the bank management. Accounting issues concerning profit distribution and calculation of *Zakat* have direct relation with the *Shari'ah*. As a result, SB's involvement in these two issues ensured that the bank is correctly carrying out this significant Islamic practice in the interests of the shareholders. It is crucial to verify the legal documents for Islamic finance arrangements. The documents that detailed business dealings between the bank and client are correctly specified the terms and conditions consistent with the *Shari'ah* concept. It also ensures that the possession of properties has rightly been allocated between the contracting parties as the issue of asset ownership is very important from Islamic point of view. By participating in the production of the *Shari'ah* compliance report and endorsing the annual report, SB ensures that any proceeds from non-*Shari'ah* events have been

appropriately donated to charitable causes rather being recorded as profit for the bank. As a consequence, only the bank's true profit is declared. The literature (for example Briston and El-Ashker, 1986; Tomkins and Karim, 1987; Rammal, 2006; Laldin, 2008a) and AAOIFI and IFSB standards suggest that the *Shari'ah* compliance report provides assurance of the integrity of the IB operation, supporting the depositors' choices.

Validating the IB transaction record and approving accounting policy by the SB are similarly important. These two were indicated with agreement by 78.1% and 65.6% of the respondents respectively, with 3.84 and 3.43 mean scores. Although, majority of the respondents agreed with the two important issues, but significant number of respondents expressed their disagreement. It indicates to the probability of some Islamic banks' negligence in validating transaction records and approving accounting policy by the SBs. It has also been observed that SB members showed specific concern for those accounting issues that are related to relating to *Shari'ah* knowledge such as calculating and distributing *Zakat*, determining the formula for profit distribution, validating the documentations of IB contracts, and endorsing the annual report. Further accounting concerns, on the other hand, seem to be given less priority because they may be assigned to the bank's *Shari'ah* officers or handled at the management's discretion. These results could have resulted from the SB members' lack of accounting knowledge. Earlier findings (Table: 7.2.3), revealed that most of the SB members are skilled in the field of *Shari'ah* or *Fiqh Al-mua'malat*. Out of 32 respondents of the members of SB, none has been found with accounting skills. However, above findings provide evidence that the involvement of SB in most of the accounting-related issues are significantly positive and thus ensures that accounting issues of Islamic banks in Bangladesh are mostly carried out consistent with the principles of *Shari'ah*.

7.3.6 Relevant Parties Assisting the *Shari'ah* Boards

SB, the responsible body for supervising the *Shari'ah* issues of an Islamic bank, needs active assistance from several relevant parties in performing its roles and functions. The respondents were asked to identify whether they agreed with the pertinent parties who they believed could help SB accomplish its role and duties in this regard. The analysis of the results is shown in Table 7.3.6.

Table 7.3.6: Analysis Showing the Relevant Parties Assisting the *Shari'ah* Boards

Relevant Parties who Assist SB	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
<i>Shari'ah</i> Department	--	--	--	--	32	100	4.90	1

Audit Department	8	25	4	12.5	20	84.3	3.37	6
Internal auditor	8	25	4	12.5	20	84.3	3.37	6
External auditor	4	12.5	17	53.1	11	34.4	3.21	7
Board of Directors	1	3.1	1	3.1	30	93.8	4.37	2
The management	--	--	--	--	32	100	4.03	3
“Shared services”	--	--	7	21.9	25	78.1	3.78	4
Consultants	--	--	8	25	24	75	3.75	5

With a testified mean value of 4.90, it is apparent from the table that the Shari'ah department personnel favor the SB the most. The second highest support comes from the board of directors (mean score 4.37) and management of the bank (mean score 4.03). The third highest assistance comes from audit department (mean score 4.0) and internal auditor (mean score 3.93). All of the respondents unanimously agreed with the support from *Shari'ah* department and management of the bank, while only one has disagreement in regard to the assistance from board of the directors. 15% of the respondents have either disagreement or uncertainty regarding the assistance from audit department and internal auditors. In regard to the assistance from 'Shared Services' and Consultants, although majority expressed their agreement but with about 25% respondents uncertainty. 65.6% of the respondents expressed either disagreement or uncertainty about the assistance from external auditors.

The aforementioned outcome demonstrates how crucial it is for the SB to have the backing of the bank's management, board of directors, and *Shari'ah* department in order to carry out its duties. These findings could potentially have an impact on the effectiveness of the bank's Shari'ah governance system. The effectiveness of the bank's *Shari'ah* governance system may be reflected in the size of the department's Shari'ah department personnel, whose support has been proven to be essential. The larger the size of the *Shari'ah* department, the more effective the *Shari'ah* governance mechanism is anticipated to be. The board of directors' support for the SB also demonstrates the efficacy of the *Shari'ah* governance system because it is thought that the SB's effectiveness is hampered by the board's lack of backing. Moreover, it is significant for SB to draw a stroke in regard to the engagement of the parties whose supports are regarded as essential so that the *Shari'ah* pronouncements completed by them are not be prejudiced by an over dependence on the latter.

The data also showed that SB members were unsure about receiving assistance from other parties, including the audit department, internal auditor, external auditor, consultants, and shared services. It shows that only internal organizations having a direct association with the SB, such as *Shari'ah* department personnel, management, and the board of directors, were able to provide help for the SB's Shari'ah governance role. Alhabshi and Bakar (2008) found

that there was a communication gap between the audit committee, the SB, and the internal and external auditors at the Islamic banks they studied. Indeed, the AAOIFI and IFSB recommended the support of these bodies. Hence, the cooperation between the SB and the internal-external auditors, which is evident from the findings, is insufficient.

7.3.7 Commitments of the *Shari'ah* Boards

This research evaluates the SB members' dedication to strengthening the bank's *Shari'ah* governance in line with AAOIFI and IFSB recommendations. An analysis of the results is shown in the table below.

Table 7.3.7: Analysis Showing the Commitment of the *Shari'ah* Boards

Commitments of SB Members	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Publishing the <i>Shari'ah</i> resolutions & rulings of SB and the mechanism of <i>Shari'ah</i> compliance that is applied in the bank to the public	8	25	--	--	24	75	3.75	3
Actively engaging in innovating the IB products and services through discussion with the management, accountants, lawyers and other concerned parties to meet the demand of time and compete with the conventional banking innovations	4	12.5	--	--	28	87.5	3.96	2
Actively engaging in workshops and meetings with the <i>Ulama</i> of <i>Fiqh al-Mua'malat</i> to have intensive discussion about the <i>Shari'ah</i> resolutions and banking innovations	23	71.8	7	21.87	2	6.25	2.15	6
Adequately analyzing whether IB products & services would be beneficial to the <i>Ummah</i> before they are launched	17	53.1	--	--	15	46.8	2.84	4
Enhancing <i>Shari'ah</i> review skill by attending appropriate trainings and workshops for SB's continuous professional development	24	75	5	15.6	3	9.37	2.18	5
Responding to any question pertaining to pronouncements and resolutions issued by the SB	2	6.2			30	93.7	4.06	1

The table clearly shows that there are a variety of replies from SB members on their promises to improving the *Shari'ah* governance practices of Islamic banks in Bangladesh. There are some evidences of certainty with some uncertainty. The highest number of respondents (93.7%) expressed their agreement in their engagement in responding to any query relating to announcements and verdicts issued by the SB with a mean score of 4.06.

The second-highest (87.5%) responses, with a mean score of 3.96, strongly agreed that they were actively involved in innovating IB products and services through dialogue with management and other relevant groups. It demonstrates how SB actively contributes to the advancement of IB through attempts at innovation and by rearranging the ideas necessary for this push with other important parties inside the bank. With a mean score of 3.75, 75% of respondents agreed with their commitment to making public SB's *Shari'ah* decisions, judgments, and procedures for compliance. AAOIFI strongly recommends for the resolutions and pronouncements of SB to be unveiled openly with a view to enhancing the transparency. SB members also hold a social duty of informing the public about the characteristics of IB. But, 25% of the respondents' disagreement regarding the issue is a matter of concern. More than half of the respondents (53.1%) expressed their disagreement in analyzing adequately the IB products and services to be beneficial to the *Ummah* before they are inaugurated with a mean value of 2.84. According to Laldin (2008), SB members must decide whether the IB product and service plan would be beneficial to the *Ummah*. This analysis suggests that Laldin's (2008a) call for high-quality IB goods and services has not received the attention it deserves among SBs. Meanwhile, majority of the respondents expressed uncertainty about their involvement in meetings and workshops with the *Ulama* of *Fiqh al-Mua'malat* to encourage consistency and innovation of IB products and services and their attendance in appropriate trainings and workshops to enhance their *Shari'ah* review skill with mean values of 2.15 and 2.18 respectively. It indicates that there is a gap of communication with the *Ulama* and skill development of the SB members. The lack of experienced scholars with the necessary leadership skills to serve as the *Shari'ah* governance authority has been a problem for modern IB. It strongly suggests that the SB members should be well versed and skilled in *Fiqh al-mua'malat* together with modern banking knowledge. But, this study indicates that the SB is not serious in developing the skill of its members.

7.4 Accountability and Independence of the *Shari'ah* Boards

The most commonly discussed topic in relation to the *Shari'ah* governance role is the accountability and independence of the SBs of Islamic banks in Bangladesh. This is examined in the poll as well. The accountability and independence of the SBs are divided into four categories. The first two provide a study of the factors affecting the SB's independence and accountability, respectively. A section concerning the associated parties to which SB members are considered liable follows these. The final one hides a study of the SB member's appointment nature and its mandated powers.

7.4.1 Factors Influencing the Accountability of the *Shari'ah* Boards

The respondents were asked to provide their thoughts on the moral dilemmas surrounding the SB members' responsibility. On a scale from very unimportant (1) to very important (5), they were asked to rate the significance of five major elements that are thought to affect the responsibility of SB members. An analysis of the results is given in the following table.

Table 7.4.1: Analysis Showing the Importance of the Factors Influencing the Accountability of the *Shari'ah* Board

Factors Influencing Accountability of the SB members	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Ethical values of the members of SB	--	--	--	--	32	100	5	1
Scholarly background of the members of SB	--	--	--	--	32	100	5	1
Reputation of the SB	4	12.5	--	--	28	87.6	4.06	5
Stakeholders' reliance on the SB	--	--	--	--	32	100	4.25	4
SB's responsibility to ensure <i>Shari'ah</i> compliance	--	--	--	--	32	100	4.31	2
Legal framework of SB	--	--	--	--	32	100	4.28	3

It is observed from the table that all of the respondents provided feedback indicating importance positively with five out of six factors that were provided in the questionnaire. Two factors i.e. ethical values and scholarly background of the members of SB are unanimously agreed as 'very important' by all of the respondents with an equal mean value of 5.00. Three factors i.e. stakeholders' dependence on the SB, SB's responsibility to safeguard the *Shari'ah* compliance, and legal framework of SB are also unanimously indicated as important with mean scores of 4.25, 4.31, and 4.28 respectively. The rest factor i.e. reputation of the SB was also indicated as important by 87.6% of the respondents. Therefore, all of the elements listed as affecting SB members' responsibility are thought to be pertinent and important. The first three factors i.e., the SB member's ethical values, scholarly background, and reputation represented the factors relating to the personal integrity of the members. On the other hand, the final three variables—the reliance of stakeholders on the SB, the requirement for the SB to ensure *Shari'ah* compliance, and the legal framework of the SB—could be seen as issues relating to the fiduciary obligations of SB members. Hence, the findings revealed that the fiduciary duties together with personal integrity are equally important to influence the accountability of SB members in performing their responsibilities. This is in line with the

claims made in a number of studies, including those by Karim (1990a), Kahf (2002), and Laldin (2008).

7.4.2 Factors Influencing the Independence of the *Shari'ah* Boards

SB members are strongly expected to be independent to carry out its functions effectively. Therefore, this study looked at the factors that respondents said were crucial to SB's independence. The results are analyzed in Table 7.4.2 below.

Table 7.4.2: Analysis Showing the Importance of the Factors Influencing the Independence of the *Shari'ah* Board

Factors Influencing Independence of the SB members	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Clearly defined responsibilities of SB	--	--	--	--	32	100	4.56	2
Perceived high ethical status of the members of SB	--	--	--	--	32	100	4.78	1
Scholarly background of the members of SB	--	--	--	--	32	100	4.78	1
Adequate mandated power to the SB	3	9.37	3	9.37	25	81.3	3.78	3
Top management's participation in the SB meeting	25	78.12	--	--	7	21.8	2.12	5
The remuneration received by the SB member	31	96.87	--	--	1	3.12	1.40	6
Involvement of a SB member in other industry	25	78.12	3	9.37	5	15.62	2.15	4

In the above Table, there are three factors, none of the respondents indicated them as unimportant, which proved that these elements were seen to be crucial in shaping the SB's independence. It suggests that these issues are vital in defining the independence of the SB and their absence could raise questions about the functional independence of the SB. The perceived high ethical status of the SB (mean value of 4.78), the members' scholarly backgrounds (mean value of 4.78), and the SB's clearly defined scope of responsibilities (mean value of 4.56), in that order, are the most significant factors. Adequate mandated power to the SB (mean value of 3.78) has although been identified as important factor by majority of the respondents, but 18.74% of the respondents expressed either unimportance or uncertainty. It means, there is a lack in mandating adequate legal power to the SB to perform its role independently. The three other factors have been identified as unimportant by the majority of the respondents. The compensation that SB members received, has been identified as the most unimportant factor (mean value of 1.40) in this regard. Involvement of

a SB member in other industry (mean score 2.15) and top management's participation in the SB meeting (mean score 2.12) have been identified as unimportant factor influencing the independence of SB.

The perception of the SB members' high ethical status and their scholarly background, which were placed first combined, and unanimously agreed as most significant factors, replicate the significance of personal integrity of SB members in the independent role of SB.

These two elements have been cited in several research (including Abdul Rahman et al. (2005) and Karim, 1990a) as being crucial in establishing the independent role of SB members. These results also highlight the importance of developing a scheme that would enable continuous performance reviews of SB members, which would be used to confirm the extension of their contracts. Additionally, it is past due for the authorities to establish clear rules that would act as a code of behavior for SB members alike to those existing to other professionals. Second in importance is the existence of a clearly defined set of responsibilities which no unimportant marked by any respondent. It represents its importance in determining the independent role of SB. It would attend as a guideline and term of reference for the SB in performing its role. It can also be utilized to specify the SB's and other relevant groups' accountability under the *Shari'ah* governance framework (SGF). AAOIFI and IFSB do suggest the need for a clearly defined scope of tasks as a means of protecting SB's independence. This conclusion suggests that it would be challenging to hold the SB accountable for any violations or negligence of obligation on their side in the absence of this independence device. The findings also revealed that there is a lack in mandating adequate power to the SB by the banks authority. It is inconsistent with the recommendation forwarded by AAOIFI and IFSB. It shows that the authority currently allocated to the SB members is insufficient for them to independently carry out the *Shari'ah* governance role. The policy maker would need to reevaluate the current rules and make the necessary adjustments in order to provide the SB enough power to carry out its duties on its own. The majority of respondents thought the senior management's attendance at the SB meeting was unimportant, while 21% of them thought it was crucial.

They most likely claimed that the contact that may arise from the top management attending the SB meeting, which is also advised by the IFSB, was crucial in affecting the SB's independence. 78.12% of the participants felt that it was unimportant for SB members to participate in SBs from various industries. Due to a lack of qualified scholars, *Shari'ah* scholars now hold SB membership in multiple organizations simultaneously, which may cause issues with the standard of *Shari'ah* review and SB independence (Antonio, 2008;

Grais and Pellegrini, 2006; Alhabshi and Bakar, 2008). The data from this study does, however, suggest that the presence of SB members in various organizations does not have a significant impact on the independence of SB members. This conclusion emphasizes the need for the sector to create more skilled *Shari'ah* scholars. The respondents all saw the element of the compensation SB members got as being unimportant. It implies that the SB's independence could not be compromised by the compensation received by its members.

7.4.3 Relevant Parties to whom the *Shari'ah* Board is Accountable

The important role SB plays in ensuring the Islamic bank complies with *Shari'ah* is related to its strong ethical standing. For the stakeholders, the role and purpose of SB are extremely important. In this study, the respondents were asked to describe the significance of the recognized parties that they believed the SB should answer to. The analysis of the results is shown in the table below.

Table 7.4.3: Analysis Showing the Parties to whom the *Shari'ah* Board is Accountable

Parties SB is Accountable	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
The Shareholder	--	--	2	6.25	30	93.75	4.25	2
The Client	--	--	1	3.12	31	96.87	4.31	1
Board of Directors	11	34.37	6	18.75	15	46.87	3.12	4
Public	--	--	1	3.12	31	96.87	4.31	1
Bangladesh Bank	2	6.25	2	6.25	28	87.5	3.96	3

It is evident from the table that the client and the public (mean value 4.31) got the highest rank in this regard with no unimportant is marked by any of the respondents. End users of Islamic banks include both customers and the general public. Though their functional obligation to these two parties is, perhaps, less than their accountability to other parties, the SB members are ethically responsible for maintaining the public and customer confidence in the activities of Islamic banks. The shareholder of the bank is the following party (mean value 4.25). AAOIFI and IFSB standards recommended that the appointment of the SB member, remuneration and issuance of *Shari'ah* report by the SB should be approved by the shareholders. Bangladesh Bank, the supreme regulatory authority of banking institutions of Bangladesh got the third position with a mean score of 3.96. It is the supreme regulatory authority of banking industry of Bangladesh. All the banking institutions including Islamic banks of the country are obliged to comply with the resolutions made by the Bangladesh Bank. In this connection, the professed high significance given to Bangladesh Bank could be defined as limited to the connection between regulators and regulatees. Interestingly, the

findings discovered uncertainty regarding the accountability of SB to the Board of Directors. More than 50% respondents expressed either uncertainty or unimportant with the issue (mean score 3.12). This study's findings about the perceived lack of importance accorded to the Board of Directors may be related to what appears to be a compressed direct functional connotation between SB and the Board of Directors.

7.4.4 The Appointment and Mandated Authority of the *Shari'ah* Board

This research investigates important issues related to the appointment process and required powers of the SBs. On a scale ranging from strongly disagree (1) to strongly agree (5), the respondents were asked to indicate how much they agreed or disagreed with various aspects of these topics. Analyses of the results are shown in Table 7.4.4.

Table 7.4.4: Analysis Showing the Nature of Appointment and Mandated Authority of the *Shari'ah* Board

Nature of Appointment and Mandated Authority	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Appointment of SB member is based on 'fit and proper' criteria	5	15.62	3	9.37	24	75	3.84	2
No conflict of interest on the appointment of SB members	6	18.75	2	6.25	24	75	3.71	3
SB members are subject to certain assessment by the Islamic bank	--	--	5	15.62	27	84.37	3.87	1
Adequate power has been mandated to the SB	25	78.12	--	--	7	21.87	2.12	5
Existence of reporting channel for any conflict between SB and Board of Directors or the management	30	93.75	--	--	2	6.25	1.59	6
Proper segregation of duties of the SB	23	71.87	1	3.12	8	25	2.43	4

The Table shows that 75% of the respondents specified their agreement with 3.84 mean score that SB members are appointed according on "fit and proper" qualifying standards. AAOIFI and IFSB guidelines, the previous literatures and the Bangladesh Bank made consensus that for the appointment of SB members, there should be a "fit and proper" qualifying criteria. The majority of the literature recommended that it include experts in accounting, finance, law, and other relevant subjects in addition to those who specialize in *Fiqh al-mua'malat*. Henceforth, the results of this study indicate that most banks use such a significant appointment instrument going forward. 25% of the respondents' disagreement proved that some banks don't follow this important appointment mechanism, which is a serious violation not only of AAOIFI and IFSB standards, but also the guidelines of Bangladesh Bank. It was previously mentioned that it is suggested that the SB members be chosen by the bank's

shareholders. The boards of directors of Islamic banks in Bangladesh designate SB members, but they do so in accordance with Bangladesh Bank regulations. Then it was asked of the respondents if a guarantee had been provided that the appointment of SB members was free from any conflicts of interest, such as being a sizable shareholder or having a close relationship with a bank employee. Similarly, 75% of respondents indicated they agreed that this requirement should be taken into account when choosing SB members. 25% respondents' disagreement indicates that there are conflicts of interests are existing in the appointment of SB members in some Islamic banks. Is the bank required to value the SB members? is another intriguing topic. The availability of such a performance review, which comes in first place in this section with a mean score of 3.87, was indicated by 84.37% of the respondents. This result makes it quite evident that the SB members are not exempt from performance reviews and may also serve as support for complaints. Additionally, it illustrates how the presence of such a check and balance system would guarantee the SB's successful performance. The respondents were also asked if they agreed that SB had been given enough authority to carry out its duties well. On this issue, 78.12% of the respondents indicated their disagreement, while 21.87% agreed. It is a matter of concern that the SB members perceive that the boards are not entitled with adequate functional power to play its role effectively. The existence of a reporting route for the SB in the event of a dispute occurring between the SB and the bank's board of directors or management was also asked of the replies. Only 6.25% of respondents said they agreed with the issue, compared to 93.75% who opposed. The importance of such a reporting method is considered crucial since it would increase the SB's independence and usefulness, as proposed by the IFSB. The findings reveal that the possible disputes between the important groups within the *Shari'ah* governance framework occur. It could affect the SB in performing its roles. Several studies found that the nonexistence of appropriate segregation of SBs' duties relating to their product endorsement and *Shari'ah* compliance review function hinders the effective role of the SB. In this regard, the study's findings show that 71.87% of respondents expressed disagreement and 25% expressed agreement. Hence, it can be said that the vast majority confirm that there is no proper segregation of duties of the SB in majority Islamic banks in the country that could jeopardize the independence of SB.

7.5 The Nature of *Shari'ah* Review by the *Shari'ah* Boards

The *Shari'ah* review work is one of the crucial functions of the SB, which has also been the focus of this study. By examining its structure and SB execution, this study has closely

examined several areas of the *Shari'ah* review. The two aforementioned aspects of the *Shari'ah* review are examined and discussed in detail for this goal in the following subsections.

7.5.1 Structure of the *Shari'ah* Review

This study examines the key concerns regarding the design of the *Shari'ah* review process for SBs. On a scale from strongly disagree (1) to strongly agree (5), the respondents were asked to rate their level of agreement with a number of important problems related to this topic. The data below are analyzed in Table 7.5.1.

Table 7.5.1: Analysis Showing the Structure of *Shari'ah* Review

The Structure for <i>Shari'ah</i> Review	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
SB is the sole authority of <i>Shari'ah</i> review	3	9.37	--	--	29	90.62	4.28	1
SB is prescribed the appropriate operative procedures on its role and function	26	81.25	2	6.25	4	12.5	2.25	4
SB comprises various experts	15	46.8	--	--	17	53.12	3.28	3
Existence of effective communication channels to deliberate <i>Shari'ah</i> review issues	2	6.25	1	3.12	29	90.62	4.06	2
Adequate, and appropriate guidelines have been issued by Bangladesh Bank	27	84.3	--	--	5	15.62	1.68	5

If the SB is the exclusive authority for the *Shari'ah* review scheme, the respondents were asked if this is their belief. Only 9.37% of respondents disagreed with the SB's stated viewpoint, compared to 90.62% who indicated their agreement. The vast majority of respondents believed that the SB was the sole *Shari'ah* review scheme body that could affirm the legitimacy of Islamic banks by evaluating whether Islamic bank activities in Bangladesh complied with *Shari'ah*. However, the fact that 9.37% of respondents disagree with the SB's classified viewpoint raises questions about whether SB members at such banks subcontract parts of their duties to other divisions, such as the officers of the bank's *Shari'ah* department. Contrarily, this outcome can also imply that the SB members were unable to carry out their duties completely independently from the bank's management. In such circumstances, the *Shari'ah* governance structure would expose the banks to severe *Shari'ah* risk, rendering the SB members impotent to fulfill their duty and responsibility of ensuring the *Shari'ah* compliance of the activities of the banks they represent. The responses were then asked to affirm that the bank had provided the SB with the proper operational procedures regarding its duties and functions. Table 7.5.1 data demonstrates that 81.25% of respondents disagreed, while just 12.53% agreed. It is worth noting that AAOIFI and IFSB (IFSB, 2009: 1.2)

standards require Islamic banks to produce a *Shari'ah* compliance manual that should prescribe appropriate operative procedures on the SB's functions and roles. Despite responses from a few banks indicating differently, the study's findings show that the majority of Bangladesh's Islamic banks haven't created a suitable framework for the *Shari'ah* review in terms of the function and responsibility of the SB. The following concern was on whether the SB included a variety of specialists, whose importance was discussed in Chapter Five. According to the study's findings, there were nearly similar numbers of respondents (53.12%) with SBs made up of numerous experts and those with SBs made up solely of *Shari'ah* scholars (46.8%). Henceforth, this study delivers evidence that the proposal to form the SBs of diverse experts has been exercised partially. The Table 7.2.3 earlier revealed that only 21.86% of the respondents belonged to expertise in the disciplines other than *Shari'ah* and *Fiqh Al-Mua'malat*, while 75% of them have expertise in *Shari'ah*. A SB would be more efficient and effective in performing its role only when the Board is combined with experts of different concerned subjects. However, it should be recognized that the gap in practice was likely produced by the current dearth of qualified *Shari'ah* scholars paired with understanding of other pertinent fields. The respondents were also asked whether a channel of active contact existed for discussing various topics of the *Shari'ah* review. This communication channel is a crucial governance tool for the SB members to discuss *Shari'ah*-related concerns about the functioning of Islamic banks, as was mentioned in Chapter Five. According to this study's findings, 91.62 percent of respondents expressed their agreement, while just 6.2 percent did the same for their disagreement. Such a high level of agreement mirrors Islamic banks' dedication to setting up the necessary framework to support the *Shari'ah* governance system of this moral banking activity.

In response to the final question, 84.3% of the respondents disagreed that there are appropriate guidelines of Bangladesh Bank to use in the IB industry, while Only 15.62% indicated contrary. The findings indicate that the guidelines issued by the Bangladesh Bank, the principal governing authority of banking industry in the country, are remarkably insufficient. This exposure challenges the role of Bangladesh Bank, especially when an earlier finding (Table 7.4.3) ranked Bangladesh Bank as the third most important party to whom SB was perceived to be accountable (87.5%). It could create a communication gap among the interrelated parties of *Shari'ah* governance framework of entire IB industry in Bangladesh.

7.5.2 Implementation of the *Shari'ah* Review

Additional topics connected to the SB's execution of the *Shari'ah* review were looked at in this research. The range between strongly disagree (1) and strongly agree (5) was used to ask the respondents to express their level of agreement. Analyses of the results are shown in Table 7.5.2.

Table 7.5.2: Analysis Showing the Features on Implementation of the *Shari'ah* Review

Implementation of <i>Shari'ah</i> Review by the SB	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
SB has full authority to stop bank from non- <i>Shari'ah</i> compliant transactions	24	75	3	9.37	5	15.62	1.81	6
SB has been given ample time in their decision making and review process	13	40.62	--	--	19	59.37	3.18	4
SB gets professional support to perform its function	4	12.5	--	--	28	87.5	3.90	1
SB has access to relevant, adequate and timely information	8	25	--	--	24	75	3.65	2
Working part-time does not hinder the effective <i>Shari'ah</i> review process	6	18.75	4	12.5	22	68.75	3.46	3
Existence of active communication among SB, management & Bangladesh Bank	25	78.12	1	3.12	6	18.75	2.43	5

First, it was determined if the respondents admitted that the SB had the entire power to prevent the bank from engaging in *Shari'ah*-incompatible transactions. As is discovered in the above Table 7.5.2, 75% of the respondents expressed their disagreement while only 15.62% agreed that such authority has been given to the SB. The results indicated that the respondents did not view the SB as the sole authority on the *Shari'ah* governance mechanism of Islamic banks and, as a result, as having the full authority to prevent banks from materializing *Shari'ah* non-compliant transactions, so it appears that the feedback was unexpected. As an alternative, the respondents stated that the SB lacks the jurisdiction to prevent the bank from engaging in activities that are prohibited by *Shari'ah*, even if it were aware that the bank was doing so. The fact that SB members seem to be under the authority of other groups inside the bank highlights a fundamental lack of independence on their part to carry out their duties. However, this conclusion indicates that there are just a few SBs with the authority to forbid banks from doing transactions that are against *Shari'ah*. The respondents were also asked if they believed that the SB was given enough time to consider the *Shari'ah*-related matters and make decisions. 40.62% of respondents disagreed, while 59.37% of respondents said they agreed. Therefore, even while the majority of respondents agreed that the SB members had enough time to do their duties, the proportion of dissenters is concerning. 40.62% of the respondents perceived that they are not given satisfactory time to

accomplish their tasks efficiently. It is asserted that these respondents may have believed that the SB members were unable to make their *Shari'ah* judgments by the deadline because of the fast-paced nature of the banking industry. Additionally, the fact that the SB members had part-time jobs at the bank may have influenced the result. In response to another question whether the SB receives professional support, such as on accounting, legal and finance issues to accomplish its role efficiently in executing the *Shari'ah* review. 87.5% of the respondents agreed which is graded first in this category with a mean value of 3.90. It demonstrates that the essential professional support is provided to the SB, as was professed by the bulk of the respondents. It also highlights the fact that all associated groups within the bank have established channels of communication and collaboration for ensuring the proper implementation of *Shari'ah* governance concerns for Islamic banks. The next issue of investigation was whether the SB members have straight access to related, exact, satisfactory and timely information while carrying out of their *Shari'ah* review responsibilities. According to Table 7.5.2, 75% of respondents stated their agreement with the facility of such information, while 25% disagreed. The requirement for Islamic banks to provide the SBs with information that has the qualities listed was discussed in Chapter 5 (AAOIFI, 2010a: 3). Despite the majority of respondents giving good feedback, one-fourth of them were negative, which represents a setback for banks' compliance with the regulatory obligation and raises questions about the SB's independence and effectiveness. Additionally, the availability of such information has a misleading effect on the Islamic banks' openness and the SB members' impartial *Shari'ah* judgment. The subject of SB members' part-time employment is another one that is frequently discussed. The respondents were asked if they believed that working part-time did not interfere with the SB's ability to provide an effective *Shari'ah* review. 68.75% of respondents indicated their agreement, while 18.75% indicated their disagreement, as shown in Table 7.5.2. These results show that the majority of respondents believed that working part-time did not prevent SB members from successfully carrying out their tasks and functions. Additionally, it implies that the part-time employment status and non-executive responsibilities of the SB members were accepted. However, the fact that 18.75% of the respondents had an unfavorable opinion on this suggests that the SB members should not be working part-time to fulfill their extremely important tasks and functions. Finally, the respondents were asked if the SB, the bank, and the Bangladesh Bank actively discuss and communicate with one another. According to the results (Table 7.5.2), 18.75% of respondents were in agreement, whereas 78.12% of respondents were in dissent. Less than 20% of respondents agreed on the existence of active consultation and communication among these

three main groups, as can be seen from the table, while the clear majority disagreed. Interestingly, in a previous question of this section, 87.5% of the respondents indicated that they receive professional supports from different concerned parties within the bank. Hence, the findings indicated to an apparent gap in effective and direct communication between the SB and Bangladesh Bank. Additionally, it implies that communication between these three groups is frequently impeded.

7.6 Summary

The results of Questionnaire Survey 1 (QS1), which included 32 members of the SBs of Islamic banks in Bangladesh, were discussed in this chapter. It was discovered that males held the majority of these positions in these banks, with the majority being armed with knowledge of *Shari'ah* and *Fiqh Al-Mua'malat* and only a select minority additionally possessing expertise in non-*Shari'ah* areas, such as management, economics, and law. The nature of the *Shari'ah* department's work also appears to have an impact on its size. The *Shari'ah* divisions of large Islamic banks seem to have more *Shari'ah* personnel. Additionally, it was discovered that 25% of the SB members had between 0 and 5 years of IB job experience, while more than 60% had between 6 and 15 years. These SB members were asked to comment on three crucial topics pertaining to the SB's governance role: (1) the SB's role; (2) the SB's accountability and independence; and (3) the nature of *Shari'ah* review by the SB's.

The banking industry, including the IB, appears to be perpetually under the authority's control and subject to regulatory standards and guidelines, particularly those of AAOIFI and IFSB, which are essentially the best suggested governance practices for the IB sector. Henceforth, this research scrutinized the issues of governance function of the SBs based on the standards set by AAOIFI and IFSB. The results of QS1 show that the SB typically emphasizes the *Shari'ah* advisory role primarily by endorsing the *Shari'ah* compliance manual created by management, by advising the board of directors and other parties, and by advising the officers of the *Shari'ah* department on the *Shari'ah* review's scope. Most of the members responded negatively regarding the engagement of SB in developing strategic issues such as designing the corporate objectives. The results show that SBs' roles have been restricted to typical advisory roles including counseling *Shari'ah* department personnel, creating *Shari'ah* compliance manuals, and auditing bank operations. But, it has no significant contribution in determining bank's strategic issues, such as designing the corporate objectives of the banks. The SB is expected to pay more attention to and get more involved in the theoretical as well

as technical concerns surrounding the IB operation in order to dispel the misconception that it only serves as an Islamic banks' rubber stamp. The SB's involvement in the creation of IB products and services appears to be restricted to the conception, designing, implementation, and review phases—not the technical elements of pricing, testing, marketing, and IB product and service design. These might be given to management. This study's accompanying findings, which showed that SBs received strong support from the management, boards of directors, and officers of the *Shari'ah* department, might be used to support the assertion that SBs delegated responsibility to *Shari'ah* officials or management. The relevance of the SB getting the required backing, notably from the *Shari'ah* department officers, is claimed to have been demonstrated by the fact that SB members work part-time. However, it should be recognized that an excessive reliance on these organizations might mean that the *Shari'ah* resolutions that the SB has drafted are affected, which would be detrimental to the SBs' independence. On the other hand, SB's engagement in accounting related issues such as profit distribution, *Zakat* calculation, etc. was found significant. Although, a positive approach towards stability of IB products and services was apparent, but there exists a significant gap between the SB and contemporary Islamic scholars through organizing workshops, seminars etc. for the development of IB product and services. Majority of the SBs are frequent in publishing the *Shari'ah* resolutions and responding to queries. This study reveals that personal integrity such as ethical values, scholarly background etc. and fiduciary duties are simultaneously vital in determining the accountability of the SB members. It is important to note that, as is widely discussed in the literature, the issue of the SB members' independence is usually linked to the compensation they get. However, this study determined that it was the less significant element in this respect. The most significant elements affecting the independence of SB were determined to be those related to a clearly defined scope of tasks, legislated power, and the personal integrity of the SB members. Most of the banks have been maintaining “fit and proper” criteria to appoint a SB member and their performances are assessed by majority bank. Evidence also showed that hiring SB members only happens once it has been established that they don't have any conflicts of interest. Alternatively, there appear to be some flaws in SB's mandated authority. Majority of the respondents responded that the SBs haven't been entitled with adequate power to undertake its duties independently. It lacks the authority to prevent the bank from carrying out *Shari'ah* non-compliant transactions. Any potential conflict between the SB and the board of directors or management is not reported in any way. Additionally, it appears that issues relating to the lack of any separation of SB functions prevail. It was found that the SB is the sole authority for *Shari'ah*

review function, but it hasn't been prescribed appropriate operative procedures in majority cases. All of the SBs are not properly composed of diverse scholars, besides *Shari'ah* scholars as recommended by AAOIFI and IFSB. Rather, majority of the SBs are composed of only *Shari'ah* scholars. There is also lack of adequate guidelines issued by the Bangladesh Bank. Despite these deficiencies, SB gets professional support, ample time and direct access to information for *Shari'ah* review and undertaking its duties with few exceptions. This exposure by the massive majority of the respondents specified decent communication and collaboration among all interconnected groups within the bank. However, the management should offer a satisfactory time frame, and direct entrance to relevant, exact, satisfactory and timely information for the SB to accomplish its function efficiently and effectively.

Overall, QS1's findings seem to indicate that the SBs have not progressed beyond their traditional position as *Shari'ah* advisors, with issues like the SBs' independence and accountability being said to be heavily reliant on the moral character of the SB members themselves. Some of the findings raise questions regarding the importance of important parties inside the bank, including Bangladesh Bank, and concerning crucial aspects of *Shari'ah* governance that limit the SB's ability to conduct effective governance operations. The all issues under investigation is covered in the next chapter from the perspective of branch managers of Islamic banks.

CHAPTER EIGHT

ANALYSIS OF THE SURVEY ON SHARI'AH BOARD: EXPECTATIONS OF BRANCH MANAGERS

8.1 Introduction

The responses to second questionnaire survey, Questionnaire Survey 2 (QS2), are discussed in this chapter. QS2 was disseminated among the branch managers of Islamic banks in Bangladesh to elicit their opinion on different issues relating the governance functions of the SBs. Similar to QS1, QS2 sought to assess respondents' perspectives on three subjects related to the SB's *Shari'ah* governance function: (1) its role, (2) accountability and independence, and (3) the nature of the *Shari'ah* review. This chapter is divided into six sections. The backgrounds of the respondents and the characteristics of Islamic banks are provided in section 8.2. Sections 8.3, 8.4, and 8.5 provide the specifics of the studies and a discussion of the conclusions in relation to the three themes mentioned above. The summary is provided in Section 8.6.

8.2 Profile of the Respondents and Characteristics of Banks

This section gives a brief overview of the background of the branch managers whose expectations regarding the SB's function, responsibility, independence, and character of the *Shari'ah* review were assessed. The characteristics of the banks represented by the branch managers are also examined in this section. This study sought to compare how the issues examined in the three themes that organized the questionnaire survey (both QS1 and QS2) are actually practiced (as indicated by responses from members of SBs in Chapter Seven) and are anticipated to be practiced by the branch managers, which is the primary focus of this chapter.

8.2.1 Gender and Age Range of the Branch Managers

The branch managers' backgrounds are broken down by gender and age range in Table 8.2.1 below. The table clearly shows that all 157 branch managers who answered to the questionnaire survey were male, with no female branch managers. Additionally, it was found that 61.14% of branch managers are between the ages of 45 and 54, 22.29% in the range between 35 and 40, 10.82% in the range between 55 and 64, 3.18% in the age range between

65 and above and only 2.45% of the branch managers falls in the age category between 25 and 34.

Table 8.2.1: Analysis Showing Branch Managers' Gender and Age Range

Branch Managers	Age Range				
	25-34	35-44	45-54	55-64	65 and above
Male	4	35	96	17	5
Female	0	0	0	0	0
Total	4	35	96	17	5

8.2.2 Experience and Education of the Branch Managers

The study's composition of the branch managers' qualifications and experience is another important demographic factor. It could be utilized to investigate the eminence of the branch managers' decisions about the under consideration concerns in relation to their level of training and experience. In light of this, Table 8.2.2 analyzes the branch managers' years of professional experience and degree of education. More than half of branch managers have between 11 and 15 years of IB experience, according to the table, while 28.66% of branch managers have more than 16 years of IB experience. This degree of expertise is thought to possess the necessary abilities and knowledge of IB operations, making it very practical for someone holding a job as the branch manager of an Islamic bank. 18.47% of the respondents have 6 to 10 years of experience. This level of experience is not at expected level to have enough skills as a branch manager.

Table 8.2.2: Analysis Showing Level of Experience and Education of the Branch Managers

Experience in IB	Level of Education				Total
	Bachelor's Degree	Bachelor's & Master's	Bachelor's & Prof. Certificate	Master's & Prof. Certificate	
1 to 5 years	--	--	--	--	--
6 to 10 years	--	18	--	11	29
11 to 15 years	--	58	5	20	83
16 and above	--	40	--	5	45
Total	--	116	5	36	157

Meanwhile, 116 out of 157 responses (73.88%) received indicated that the branch managers had bachelor's or master's degrees, which appear to be the most frequent levels of education. Interestingly, there is no branch manager with only bachelor's degree, rather they possess master's or professional degree associated with the bachelor's degree. Besides having the bachelor's and master's degrees, 36 branch managers (22.92%) possessed professional

certificate and only 5 respondents (3.18%) have bachelor's and professional certificate. This level of education is also at expected level as a branch manager of an Islamic bank.

8.2.3 Training Received by the Branch Managers

In order to evaluate the caliber of the branch managers' QS2 opinions, the study accumulated particulars of the features of training attained by the respondents. Table 8.2.3 below offers the findings.

Table 8.2.3: Analysis Showing Aspects of Training Received by the Branch Managers

Training Received by the Branch Managers	No.	%
<i>Shari'ah</i>	13	8.28
Management	20	12.73
Accounting and Finance	24	15.28
Economics	18	11.46
Law	13	8.28
<i>Shari'ah</i> with general subject	62	39.49
Others	7	4.45
Total	157	100

As it is found that 24 branch managers (15.28%) are trained in Accounting and Finance, 20 branch managers (12.73%) are trained in Management, and 13 branch managers (8.28%) are trained in Law. 7 branch managers (4.45%) are trained in other discipline, such as English, Marketing, and Social Science. The branch managers' training in these areas is not surprising because they are thought to be very important and provide the necessary skills for interacting with financial institutions like banks. However, the highest number (62) of branch managers (39.49%) are trained in the *Shari'ah* together with any of the non-*Shari'ah* disciplines. There are only 13 (8.28%) branch managers who have training only in *Shari'ah* subjects. The significant amount of ratings for training in the field of a blend of *Shari'ah* with general subject makes it apparent that most of the branch managers are simultaneously skilled in Islamic knowledge with having knowledge of other disciplines. This study is examining institutions that conduct banking operations on Islamic principles. Hence, it can be said that the combination of training of Islamic and general disciplines attained by the high number of branch managers is very relevant to play role as branch managers of Islamic banks. This conclusion would suggest that branch managers be knowledgeable about IB operations and the distinctions between IB and regular banking. More importantly, it also suggests that the branch managers are quite likely aware of the SBs' existence and role in *Shari'ah* governance.

8.3 Branch Managers' Expectation on the Role of the *Shari'ah* Board

This section's goal is to evaluate how branch managers described the expected function of the SB of Islamic banks. The findings of this section will be closely examined in light of the distinctions between the SB's actual *Shari'ah* governance practices, as revealed in QS1, and the expectations of the stakeholders, as demonstrated by the branch managers in QS2, about the same issues. Six questions from Section A of QS1's Section A were included in Section A of QS2, and vice versa. This subsection will now discuss the six questions in the six subsections that follow. First, a review and discussion of the branch managers' expectations regarding the scope of the SB's role in providing *Shari'ah* advisory role will be provided. The branch managers' expectations for SB's involvement in providing advice and designing the corporate goals of the banks will next be analyzed and clarified. Thirdly, there will be a look at what branch managers anticipate from SB's involvement in developing IB goods and services. The investigation of the branch managers' expectations about SB's involvement in accounting-related parts of the bank is covered in the next section. A segment that closely examines the branch managers' expectations with regard to the pertinent parties who support the SB's *Shari'ah* governance role follows. The branch managers' expectations in relation to the SB's commitment to *Shari'ah* governance are finally examined.

8.3.1 Expectations of Branch Managers on the Scope and Role of the *Shari'ah* Board

The branch managers were asked to rate their level of agreement with the SB's projected definition of the *Shari'ah* advising role, which is shown in Table 8.3.1. Based on the respondents' level of agreement, which they expressed on a 5-point Likert scale between strongly disagree (1) and strongly agree (5), the analysis assigned a rank to each scope. Intriguingly, it shows that the rank of some advisory scopes of the SB's does not parallel to their rank in QS1 when the branch managers' expectations in regard to the extent of the *Shari'ah* advisory function are studied and compared with a comparable grading done in QS1. This draws attention to the discrepancy between the stakeholders' expectations about the scope of the SBs' *Shari'ah* advisory functions and their actual practical implementation by the SBs.

For instance, receiving the highest rating, with a mean score of 4.80 and 100% of branch managers indicating agreement, is advising the board of directors on *Shari'ah*-related matters and auditing the bank's operations to ensure *Shari'ah* compliance. Auditing the activities of bank to confirm the implementation of *Shari'ah* compliance has also been ranked first grounded on the responses delivered by the members of SB in QS1; but, giving *Shari'ah*

advice to the board of directors received a fifth-place grade in QS1 with a mean score of 3.56. The branch managers considered the succeeding precedence for the SB to train the officials of the *Shari'ah* department and advise them on the parameters of the *Shari'ah* review to safeguard efficient *Shari'ah* review with an equal mean score of 4.63. Meanwhile, to advise the *Shari'ah* department officer was positively ranked second in QS1 with mean score of 4.65 and giving the *Shari'ah* department officers training received a grade of 4, with a mean of 4.28. Considering mean value, both of these two are implemented as expected by the branch managers. With corresponding mean scores of 4.36 and 3.59, the preparation of a *Shari'ah* compliance manual and endorsing the *Shari'ah* compliance manual were both closely graded in third and fifth place, respectively. On the other hand, these two facets of the *Shari'ah* advising role received grades from the SB members of third and seventh respectively, with corresponding mean values of 4.43 and 3.15 in QS1. It is suggested that the branch managers believed the SB should be in charge of preparing and endorsing the *Shari'ah* compliance handbook rather than some other party. SB members might have also indicated positively, but in regard to endorsement, SB members considered its preparation should not be by the management rather by the Board. Assist other parties on the *Shari'ah* matter is ranked fourth in QS2 with a mean score of 3.85, but sixth in QS1 with a mean score of 3.53. In terms of mean value, both are positioned closer. Meanwhile, reporting to the Bangladesh Bank on *Shari'ah* issues ranked sixth in QS2 with a mean value of 2.63 as responded by the branch managers, while it ranked eighth in QS1 with 1.15 mean score by the SB members.

Table 8.3.1: Analysis Showing the Expectation of Branch Managers on the Scope and Role of the *Shari'ah* Boards

The Scope and Role of SB	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Advise the board of directors on <i>Shari'ah</i> matters	--	--	--	--	157	100	4.80	1
Assist other parties on <i>Shari'ah</i> matters	5	3.18	7	4.45	145	92.35	3.85	4
Advise the <i>Shari'ah</i> department officer on the scope of <i>Shari'ah</i> review	--	--	--	--	157	100	4.63	2
Provide training to the <i>Shari'ah</i> department officers to ensure effective <i>Shari'ah</i> review	--	--	--	--	157	100	4.63	2
Report to Bangladesh Bank on <i>Shari'ah</i> matters	93	59.23	29	18.47	35	22.29	2.63	6
Prepare the <i>Shari'ah</i> compliance manual to be used in the Islamic bank	--	--	2	1.27	155	98.72	4.36	3
Endorse the <i>Shari'ah</i> compliance manual prepared by the management of the bank	8	5.09	16	10.19	125	79.61	3.59	5
Audit the activities of bank to confirm the implementation of <i>Shari'ah</i> compliance manual	--	--	--	--	157	100	4.80	1

The results of QS2 seem to indicate that branch managers' expectations regarding the scope of the SBs' *Shari'ah* advisory role go beyond the typical advising and auditing functions. Instead, it seems that the branch managers view the expected components of the SB's *Shari'ah* advising functions as bureaucratic in nature and not limited to *Shari'ah* advice alone. This can be inferred from the fact that the branch managers stressed preparing and endorsing the *Shari'ah* compliance manual in addition to the issues of advising the board of directors and *Shari'ah* department officers. This, taken together, suggests the projected need for the SB to put *Shari'ah* advice and the *Shari'ah* governance mechanism in order. On the other hand, the revelations in Chapter Seven's section 7.3.2 about QS1 provided evidence that the SB appear to emphasize giving *Shari'ah* advice and training, auditing the activities of Islamic banks, and preparing *Shari'ah* compliance manual. Hence, there seems to be consistency in some issues, while inconsistency in some others between the *Shari'ah* advising role of the SB's real and anticipated extent, as revealed by evidence found in both QS1 and QS2.

8.3.2 Expectation of Branch Managers on the Involvement of *Shari'ah* Boards in the Corporate Objectives of the Banks

This part looks into what branch managers anticipate from SB's engagement in designing the corporate objectives of the banks. The branch managers were asked to indicate their level of agreement in this regard using a five-point Likert scale that ranged from strongly disagree (1) to strongly agree (5). The analysis of the results is displayed in Table 8.3.2.

Table 8.3.2: Analysis Showing the Expectation of Branch Managers on the Involvement of the *Shari'ah* Boards in the Corporate Objectives of the Banks

Involvement of SB in the Corporate Objectives of the Banks	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
The bank's mission	6	3.82	--	--	151	96.17	4.56	1
The bank's vision	7	4.45	--	--	150	95.54	4.22	3
The bank's goals	6	3.82	--	--	151	96.17	4.56	1
The bank's objectives	6	3.82	--	--	151	96.17	4.24	2
The bank's corporate brand value	65	41.40	--	--	92	58.59	3.49	5
The bank's long-term strategic direction	60	38.21	--	--	97	61.78	3.55	4

As it is evident from Table 8.3.2, four corporate objectives out of six that were given in the questionnaire, have been indicated of a more than 95% degree of consent for the SB to participate in designing the corporate objectives of Islamic banks in Bangladesh, while the rest two also agreed by more than 50% of the respondents. The banks mission and goals have been ranked first with 4.56 mean score. The banks objectives and vision have been ranked

second and third correspondingly with mean scores of 4.24 and 4.22 accordingly. The bank's long-term strategic direction has been graded fourth with 3.55 mean score and the bank's corporate brand value has been graded fifth with 3.49 mean score.

According to the members of SBs in QS1 (Table 7.3.3) and the branch managers in QS2 (Table 8.3.2), there is a significant difference between the practical and expected engagement of the SB in developing the corporate goals of Islamic banks. The vast majority of SB members in QS1 stated that the SB was not fundamentally involved in any of the corporate goals of their respective Islamic banks, in contrast to what the branch managers anticipated. The mean values of the responses given by the SB members were less than two, which is an indication of disagreements strongly, according to Table 7.3.3 of QS1. In contrast, the branch managers' mean values in Table 8.3.2 of QS2 are higher than 4.00 in four objectives, and above 3 in the rest two objectives, which indicating to strong agreement and agreement accordingly on the expected involvement of the SB. These results highlight a serious flaw in the SBs' failure to implement *Shari'ah* governance mechanisms and show how stakeholders view the SBs' crucial role in developing the corporate goals of Islamic banks in Bangladesh. Regarding the SB's involvement in designing the corporate goals of the banks, there also seems to be a disparity in terms of priority between what the SB has assumed and what the SB is expected to give importance to. For example, in QS1 (Table: 7.3.3), responses given by the SB members, priority seems to be given to the bank's objectives, mission, vision, goals, corporate brand value and long-term strategic direction consecutively, while the branch managers expected priority list as shown in QS2 (Table: 8.3.2) the bank's goals, mission, objectives, vision, long-term strategic direction, and corporate brand value consecutively.

8.3.3 Expectation of Branch Managers on the Involvement of *Shari'ah* Boards in the Development of Islamic Banking Products and Services

From the perspective of the branch managers, this section is related to how the SB is projected to be involved in the development of IB products and services. The branch managers were asked to rate their level of agreement with respect to the SB's involvement at different phases of the creation of IB products and services on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). The analysis of the results can be seen in Table 8.3.3 below.

Table 8.3.3: Analysis Showing the Expectation of Branch Managers on the Involvement of *Shari'ah* Boards in the Development of Islamic Banking Products and Services

Involvement of SB in the Development of IB Products and	Disagree	Uncertain	Agree	Total
---	----------	-----------	-------	-------

Services							Mean	Rank
	No.	%	No.	%	No.	%		
Conception level	--	--	--	--	157	100	4.95	1
Design level	--	--	--	--	157	100	4.82	3
Pricing level	7	4.45	15	9.55	135	85.98	4.45	5
Legal documentation level	19	12.10	18	11.46	120	76.43	4.15	6
Testing level	95	60.50	20	12.73	42	26.75	2.92	7
Marketing level	133	84.71	12	7.64	12	7.64	2.22	8
Implementation level	12	7.64	5	3.18	140	89.17	4.51	4
Review level	--	--	--	--	157	157	4.89	2

The table clearly shows that six of the eight phases of development for IB products and services provided mean values that were higher than 4.0, indicating that the branch managers were in complete agreement with what they expected the SB to contribute to each of these stages of development. These mean values suggest that the branch managers give the SB's involvement in the conceptualization stage priority. This stage received the greatest mean value (4.95) and is given first position, followed by the review stage (mean value of 4.89), and the design stage (mean value of 4.82). These three stages are agreed by all and disagreed by none of the respondents. Implementation stage (mean value: 4.51), price phase (mean value: 4.45), and legal documentation stage (mean value: 4.15), in that order of importance, occupy the fourth, third, and second spots, respectively. Two stages secured mean scores less than 3 and thus, considered less important by the respondents. These are testing phase (mean value of 2.92) and lastly, marketing stage (mean value of 2.22).

An examination of the disparities between the outcomes for the intended engagement of the SB in this matter as shown in Table 8.3.3 and those of the SBs' actual practice, as attested in Table 7.3.4, reveals that the two parties disagree in terms of the priority and involvement specified. The phases of products and services development at conceptual, design and review stages received mean scores above 4 in the responses of both parties. Thus, it could be said that the SBs involvement at these stages are at expected level. At legal documentation stage, expectation of branch managers scored 4.15, but in actual practice it scored 3.46. There is slight difference between the two. But, significant differences are found at two stages; implementation and pricing. At implementation and pricing stages, expected mean scores are 4.51 and 4.45, while actual practice mean scores are 2.18 and 3.03. So, the difference is significantly alarming between the expectation and practice. At the rest two i.e. testing and marketing stages, there is also no big difference. Expectation mean scores are 2.92 and 2.22 respectively, while the actual practice scores are 2.15 and 1.43. These two stages are

basically carried out by the officials of bank at branch level having no significant involvement of SB is required as understood by both the parties.

8.3.4 Expectation of Branch Managers on the Involvement of *Shari'ah* Boards in the Accounting Issues

This section's goal is to examine the branch managers' expectations regarding SB's engagement in the bank's accounting operations. In order to determine their level of agreement on the SB's engagement in specific accounting areas of individual Islamic banks, the branch managers were asked to use a five-point Likert scale between strongly disagree (1) and strongly agree (5). Table 8.3.4, which summarizes the findings, is shown below.

Table 8.3.4: Analysis Showing the Expectation of Branch Managers on the Involvement of the *Shari'ah* Boards in the Accounting Issues of the Bank

Involvement of SB in the Accounting Issues	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Determining the formula for profit distribution	--	--	--	--	157	100	4.82	2
Approving the calculation and distribution of <i>Zakat</i>	--	--	--	--	157	100	4.95	1
Approving the accounting policy to be applied	10	6.36	6	3.82	141	89.80	4.21	5
Validating documentation used in Islamic financing contracts	--	--	--	--	157	100	4.79	3
Validating the IB transaction records	13	8.28	9	5.73	135	85.98	4.09	6
Issuing the <i>Shari'ah</i> compliance report of the bank	--	--	--	--	157	100	4.95	1
Endorsing the annual report prepared by the bank management	--	--	--	--	157	100	4.76	4

The Table 8.3.4 shows that the majority of the branch managers expressed their agreement with the SB's anticipated involvement in all named accounting concerns. The table also demonstrates that the average scores for all accounting-related problems were higher than 4. It shows that the branch managers anticipated the SB's thorough involvement in every aspect of Islamic banks' above-mentioned accounting. The branch managers tend to give the SB's involvement in approving the calculation and distribution of *Zakat* and issuing the *Shari'ah* compliance report top priority, as seen in the table (mean value of 4.95). The accounting issue that gets second in priority relates to determining profit distribution formula (mean value of 4.82) which is followed by validating the documentation on Islamic financing contracts (mean value of 4.79). Endorsing the annual report prepared by the bank management positioned fourth (mean value of 4.76) which is followed by approving

accounting policy (mean value of 4.21) and lastly, validating IB transaction records in the sixth position (mean value of 4.09).

In addition, a cross-examination of the answers given by the two groups during the testimony in Table 7.3.5 (of QS1) and Table 8.3.4 (of QS2) revealed that the branch managers' answers contained higher mean values than those of the SB members for all of the mentioned accounting issues. It draws attention to the discrepancy between actual practice and the anticipated level of SB engagement in the listed accounting concerns. Most particularly, two issues (approving the accounting policy and validating the IB transaction records) have significant differences of mean scores between the two tables which clearly direct that there is significant dissimilarity between the expectation and actual practice regarding these two accounting issues.

Only slight differences are noticed between the two sets of respondents in terms of the priority given to the SB's genuine and anticipated involvement in accounting matters as indicated by the ranking positions in Tables 7.3.5 and 8.3.4. For instance, approving the calculation and distribution of *Zakat* has been ranked 1st in both of the tables. Issuing the *Shari'ah* compliance report has been graded 2nd in Table 7.3.5, while it also ranked 1st in Table 8.3.4. Determining the formula for profit distribution has been ranked 3rd in Table 7.3.5, while it ranked 2nd in Table 8.3.4. Validating documentation has been ranked 4th in Table 7.3.5, while it ranked 3rd in Table 8.3.4. Endorsing the annual report has been ranked 5th in Table 7.3.5, while it ranked 4th in Table 8.3.4. Validating the IB transaction records has been ranked 6th in Table 7.3.5, while it also equally ranked 6th in Table 8.3.4. Approving the accounting policy has been ranked 7th in Table 7.3.5, while it ranked 5th in Table 8.3.4.

8.3.5 Expectation of Branch Managers on the Relevant Parties Assisting the *Shari'ah* Governance Function of the *Shari'ah* Boards

In this section, the branch managers were asked who, among the pertinent parties, they believed would help the SB fulfill its tasks and functions. As a result, they were asked to rate their level of agreement with respect to the pertinent parties who ought to aid the SB on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). In Table 8.3.5, analysis of the results is presented.

Table 8.3.5: Analysis Showing the Expectation of Branch Managers on the Relevant Parties Assisting the *Shari'ah* Boards

Relevant Parties who Assist the SB	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank

<i>Shari'ah</i> Department	--	--	--	--	157	100	4.89	1
Audit Department	--	--	8	5.09	149	94.90	4.84	2
Internal auditor	--	--	13	8.28	144	91.71	4.74	3
External auditor	39	24.84	9	5.73	109	69.42	3.44	6
Board of Directors	--	--	--	--	157	100	4.89	1
The management	--	--	--	--	157	100	4.89	1
'Shared Services'	--	--	67	42.67	90	57.32	3.57	4
Consultants	33	21.01	19	12.10	105	66.87	3.45	5

According to Table 8.3.5, the majority of branch managers expressed agreement with the majority of pertinent parties who offered support to the SB. The *Shari'ah* department officers, bank management, and the bank board of directors should all provide support to the SB, all branch managers agreed. These three parties have been ranked 1st together with similar mean score of 4.89. It is evident that without full assistance from these three parties, it would be challenging for SB to oversee the Islamic banks' Shari'ah governance. Therefore, the officials of the Shari'ah department, the management of the bank, and the board of directors are the most crucial parties anticipated to help the SB members in carrying out their tasks and obligations. This is consistent with the support the SB essentially received, as shown in Table 7.3.6, where *Shari'ah* department personnel had the top spot, followed by the board of directors in second place and the management of the bank in third. The importance of the board of directors, management, and personnel of the *Shari'ah* department within the Shari'ah governance framework of Islamic banks is highlighted by this consistency. There is also no disagreement in regard to the assistance from audit department and internal auditor that ranked 2nd and 3rd respectively. In addition, Table 8.3.5 make it apparent that the audit department and the internal auditor are the two most next important parties ranking 2nd and 3rd, while Table 7.3.6 reveals that the SB actually received very poor assistance from these two departments ranking 6th together. It clearly reveals the significant gap between the expectation and practice. There is remarkable number of uncertainty in regard to the assistance from 'shared services' that ranked 4th. This is may be due to the confusion about the 'shared services' among the respondents. More than 30% of the respondents disagreed about the assistance from external auditors and consultants, while 69% and 66% expressed agreement respectively.

8.3.6 Expectations of Branch Managers on the Commitments of *Shari'ah* Boards

The branch managers were asked to rate their expectations regarding whether SB members should fulfill designated commitments similar to those that were posed to the members of

SBs, as stated in section 7.3.7 of Chapter Seven, on a five-point Likert scale alternating from 1 (strongly disagree) to 5 (strongly agree). Reporting the analysis of the findings is Table 8.3.6 below.

Table 8.3.6: Analysis Showing the Commitment of the *Shari'ah* Boards

Commitments of the SBs	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Publishing the <i>Shari'ah</i> resolutions & rulings of the SB and the mechanism of <i>Shari'ah</i> compliance to the public	12	7.64	--	--	145	92.35	4.63	6
Actively engaging in innovating the IB products and services through discussion with the management, accountants, lawyers and other concerned parties	--	--	--	--	157	100	4.95	1
Actively engaging in workshops and meetings with the <i>Ulama</i> of <i>Fiqh al-Mua'malat</i> to have intensive discussion about the <i>Shari'ah</i> resolutions and banking innovations	--	--	--	--	157	100	4.89	4
Adequately analyzing whether IB products & services would be beneficial to the <i>Ummah</i> before they are launched	--	--	--	--	157	100	4.82	5
Enhancing <i>Shari'ah</i> review skill by attending appropriate trainings and workshops	--	--	--	--	157	100	4.90	3
Responding to any question pertaining to pronouncements and resolutions issued by the SB	--	--	--	--	157	100	4.92	2

Most branch managers responded that they agreed with all of SB's commitments listed in QS2 in general, though a small number of them expressed disagreements in one of the commitments as exposed in Table 8.3.6. Additionally, the data shows that the mean values of the replies are greater than 4.50, indicating that the branch managers firmly agreed that the SB should fulfill these pledges. The mean value testified in the former was much higher when the mean value for each commitment in Table 8.3.6 was compared to its parallel mean value in Table 7.3.7.

Table 8.3.6 discloses that the highest mean value was testified for branch managers' expectations relating to SB members' engagement in innovating IB products and services with 4.95 mean values. Apparently, this same commitment ranked 2nd in Table 7.3.7 with 3.96 mean scores. In Table 8.3.6, it was agreed unanimously, while in Table 7.3.3, 12.5% responses disagreed. Although majority of SB members agreed, but the mean scores indicated the significant gap between practice and expectation. Answering to any question relating to pronouncements and resolutions issued by the SB obtained 2nd position with 4.92 mean scores in the expectations of branch managers Table 8.3.6, the same commitment was positioned 1st with 4.06 mean score in Table 7.3.7. Although, there is also gap, but it's not too

significant. In Table 8.3.6, the branch managers unanimously expected the enhancement of *Shari'ah* review skill of SB members by attending appropriate trainings and workshops with 4.90 mean score ranking 3rd, the same commitment ranked 5th with 2.18 mean score and agreed by only 9.37% of the respondents. So, the gap between actual practice and expectation is remarkably significant. Engaging in workshops and meetings with the *Ulama* to have intensive discussion about the *Shari'ah* resolutions and banking innovations gained 4th position with unanimous agreement and 4.89 mean scores in Table 8.3.6. The same issue gained 6th position with only 6.25% of respondents' agreement and 2.15 mean score in Table 7.3.7. It indicated that the gap between expectation and practice is very significant. Analyzing IB products as beneficial to the *Ummah* ranked 5th position in Table 8.3.6 with unanimous agreement and 4.82 mean scores, while it was ranked 4th with 2.84 mean scores in Table 7.3.7. It also indicated the significant gap between the two. Publishing the *Shari'ah* resolutions to the public, obtained 6th position in Table 8.3.6 with 4.63 mean scores, on the other hand it secured 3rd position with 3.75 mean scores in Table 7.3.7. The gap is relatively insignificant between the expectation of branch managers and actual practice conducted by SB members.

8.4 Expectation of Branch Managers on the Accountability and Independence of the *Shari'ah* Boards

The branch managers' expectations for the SB's accountability and independence are examined in this section. From the perspective of the stakeholder, in this case the branch manager, it gives a comprehension of these two crucial challenges. It has four significant subsections: the first two examine factors that are anticipated to affect the SB's accountability and independence, respectively; the third examines expected appropriate parties to whom SB members are believed accountable; and the fourth examines the expected process of appointment of SB members and their mandated authority.

8.4.1 Expectations of Branch Managers on the Factors Influencing the Accountability of the *Shari'ah* Boards

The branch managers were asked to rank the significance of five major elements that are thought to affect the SB members' accountability on a scale from extremely minor (1) to very important (5). The results are analyzed in Table 8.4.1 below.

Table 8.4.1: Analysis Showing the Expectation of Branch Managers on the Factors Influencing the Accountability of the *Shari'ah* Boards

Factors Influencing the Accountability of the SBs	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
SB members Ethical values	--	--	--	--	157	100	5	1
SB members Scholarly background	--	--	--	--	157	100	4.98	2
SBs Reputation	26	16.56	5	3.18	126	80.25	4.27	6
Stakeholders' reliance on the SB	11	7.00	5	3.18	141	89.80	4.59	4
SB's responsibility to ensure the <i>Shari'ah</i> compliance	--	--	--	--	157	100	4.95	3
Legal framework of the SB	19	12.10	--	--	138	87.89	4.33	5

As is perceived from Table 8.4.1, most of the branch managers delivered their response in the important type of almost all factors, although there are evidences of disagreement. On the basis of the responses' mean values, it is discovered that the SB members' ethical value has the highest mean value of 5, while their scholarly background has also very close mean values of 4.98 securing the 2nd highest position. Therefore, the branch managers believed that the most important criteria affecting the SB's accountability were the members' ethical values and scholarly backgrounds. This finding is very consistent with the findings in Table 7.4.1, where the members of SB also ranked these two in the 1st position with 5.00 mean scores as the most significant factors influencing the SB's accountability. The branch managers rank SB's obligation to ensure *Shari'ah* compliance with 4.95 mean scores as the next most important element. It is also very consistent with the findings in Table 7.4.1, where it was ranked 2nd important factor with similarly no disagreements from any of the respondents. Stakeholders' reliance on the SB was perceived by the branch managers as the 4th important factor with 4.59 mean scores having disagreements from about 10% of the respondents. Simultaneously, it was also ranked 4th in Table 7.4.1 with 4.25 mean scores and no disagreement. Legal framework of SB was ranked 5th with 4.33 mean score in Table 8.4.1, where 12.10% of branch managers expressed their disagreement. The same factor was ranked 3rd with 4.28 mean scores and no disagreements from any of the members of SB. Although minor disagreements are evident on the part of branch managers, the mean scores indicated to the fact that the gap is not too significant between the practice and expectation. SBs' reputation was ranked 6th and 5th in Table 8.4.1 and Table 7.4.1 respectively. It shows that the branch managers and SB members who responded both rated it as the least significant factor affecting the SB members' accountability.

8.4.2 Expectations of Branch Managers on the Factors Influencing the Independence of the *Shari'ah* Board

The branch managers were asked to provide details regarding their observations regarding the degree of importance based on a five-point Likert scale from very unimportant (1) to very important (5) on seven crucial factors that were thought to affect the independence of the SBs in addition to the accountability issue mentioned above. Table 8.4.2 below presents an analysis of the findings regarding the degree of relevance as claimed by the branch managers.

Table 8.4.2: Analysis Showing the Expectation of Branch Managers on the Factors Influencing the Independence of the *Shari'ah* Boards

Factors Influencing the Independence of the SBs	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Clearly defined responsibilities	--	--	--	--	157	100	4.76	3
Perceived high ethical status	--	--	--	--	157	100	5	1
Scholarly background	--	--	--	--	157	100	4.98	2
Adequate mandated power	--	--	--	--	157	100	4.76	3
Top management's participation in the SB meeting	13	8.28	--	--	144	91.71	4.30	4
The remuneration received	137	87.26	4	2.54	16	10.19	2.22	6
Involvement of SB member in other industry	15	9.55	9	5.73	133	84.71	4.25	5

The branch managers' assessments of the significance of practically all of the elements impacting the SB's independence are shown in Table 8.4.2 that appears to be consistent with that given by the members of SBs in Table 7.4.2 except one factor. In addition, the mean values given by the branch managers seem to be higher as provided in Table 8.4.2, than that of the SB members provided in Table 7.4.2 which indicates to the fact that the importance of these criteria appears to be given higher weight by the branch managers. Table 8.4.2 ranked the SB members' reputedly strong ethical value and scholarly background first and second, respectively, while Table 7.4.2 ranked both 1st as the factors influencing the independence of the SB. None of the respondents disagreed with the importance of these two factors from both of the respondent groups. Thus, SB members' personal integrity was emphasized as a vital factor that influences the independence of SB members. The 'Clearly defined responsibilities of the SB' was ranked 3rd in Table 8.4.2, and 2nd in Table 7.4.2 with no disagreements from any of the respondents. Regarding the 'adequate mandated power to the SB', branch managers unanimously agreed its importance to influence the independence of SB ranking 3rd with 4.76 mean scores in Table 8.4.2. Although it equally ranked 3rd in Table 7.4.2, but with only 3.78 mean scores and disagreements from 18.76% of the SB members. It indicates that there is remarkable gap in mandating adequate power to the SB, which highly perceived as important factor as influencing the SBs' independence. Top management's

participation in the SB meeting was ranked 4th with 4.30 mean score and disagreement only from 8.28% of the branch managers in Table 8.4.2. On the other hand, it was ranked 5th in Table 7.4.2 with 78.12% of the SB members disagreements. Involvement of SB members in other industry was ranked 5th with 4.25 mean scores and 85% of branch managers' agreement in Table 8.4.2, but in Table 7.4.2 it was ranked 4th with 2.15 mean score and only 15% of the SB members' agreements. There are also remarkable gap in the perception of SB members and branch managers regarding the importance of these two factors i.e. top management's participation in the SB meeting and involvement of the SB members in other industry to influence the independence of SBs. The remuneration received by the SB members was equally ranked 6th in both of the Tables and accordingly, as the most unimportant factor to influence the independence of SB as perceived by both of the respondent groups; the SB members and the branch managers.

8.4.3 Expectation of Branch Managers on the Relevant Parties to whom the *Shari'ah* Board is Accountable

The SB receives support from a number of individuals within the bank in order to carry out its *Shari'ah* governance duties. In this study, branch managers were asked to rate the importance of the relevant parties, for whom the SB is thought to be responsible, on a scale of extremely unimportant (1) to very important (5). Analyses of the results are shown in Table 8.4.3 below.

Table 8.4.3: Analysis Showing the Expectation of Branch Managers on the Relevant Parties to whom the *Shari'ah* Board is to be Accountable

Parties to Whom the SB is Accountable	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
The Shareholder	33	21.01	3	1.91	121	77.07	4.19	3
The Client	19	12.10	--	--	138	87.89	4.58	1
Board of Directors	123	78.34	--	--	34	21.65	2.43	5
Public	23	14.64	--	--	134	85.35	4.47	2
Bangladesh Bank	46	29.29	--	--	111	70.70	3.41	4

The majority of branch managers, as can be seen from Table 8.4.3 above, saw all of the identified relevant parties as important, with the exception of the board of directors, to which the SB is thought to be answerable. However, there is evidence that some respondents claimed these relevant parties were inconsequential. As is evident, the branch managers recognized the client and public, ranking 1st and 2nd respectively, as the most important parties to whom the SB is accountable. This is very consistent with the findings in Table

7.4.3, where the SB members also recognized these two parties as the most important ones ranking 1st together. The final consumers of banking products and services are the clients and general public. They have faith in the SB's ability to uphold *Shari'ah* law. So, ethically, the SB is accountable to the client and public as perceived by the branch managers as well as the members of SB. The shareholder was ranked 3rd in Table 8.4.3 by the branch managers, while it was graded 2nd in Table 7.4.3 by the members of SB. But, there is no disagreement by any of the SB members, while 21% of branch managers disagreed about the shareholder as important party to whom the SB is accountable. Bangladesh bank was ranked 4th by the branch managers with 29.29% of disagreements, while it was ranked 3rd by the members of SB with only 6% disagreements. The branch managers' level of dissatisfaction with each of the aforementioned four parties is higher than that of the SB members'. The board of directors was recognized by both of the respondent groups as the most unimportant party to whom the SB seems to be accountable. It is may be due to the concept that the direct accountability to the board of directors can hamper the independent and effective role of the SB.

8.4.4 Expectation of Branch Managers Relating to the Appointment and Mandated Authority of the *Shari'ah* Board

The research of the designated feature about the appointment of SB members and their mandated authority is provided in Table 8.4.4, where branch managers have indicated their agreement based on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5).

Table 8.4.4: Analysis Showing Expectation of Branch Managers Relating to the Appointment and Mandated Authority of the *Shari'ah* Board

Nature of Appointment and Mandated Authority	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
Appointment of SB member should be based on 'fit and proper' criteria	--	--	--	--	157	100	4.92	1
There should be no conflict of interest on the appointment of SB members	14	8.91	--	--	143	91.08	4.39	5
SB members should be subject to certain assessment by the Islamic bank	--	--	--	--	157	100	4.76	3
Adequate power should be mandated to the SB	--	--	--	--	157	100	4.82	2
The existence of reporting channel should be for any conflict between the SB and board of directors or the management	17	10.82	--	--	140	89.17	4.30	6
There should be proper segregation of duties of the SB	13	8.28	--	--	144	91.71	4.47	4

The appointment of the SB members being based on particular "fit and proper" qualification standards, with 4.92 mean scores and ranking first in this area, has the full support of all branch managers, as can be seen in Table 8.4.4. Compared to the responses of the members of SB as testified in Table 7.4.4, 75% of them expressed their agreement with 3.84 mean scores and ranking 2nd. Although, both parties of respondents can be said to establish a shared agreement in regard to the SB members being employed according to the "fit and proper" qualification criteria, the mean scores and percentage of agreement indicate that the practice is not as it is expected by the stakeholders. All of the branch managers unanimously agreed that adequate power should be mandated to the SB that was ranked 2nd with 4.82 mean scores as shown in Table 8.4.4, while 78% of the SB members disagreed that the board is mandated with adequate power to perform its role ranking 5th with 2.12 mean scores as shown in Table 7.4.4. It is clearly evident that there huge gap exists regarding the mandated power to the SB between the perceptions of the two groups of respondents. All branch managers also expressed their absolute agreement on the issue of whether the SB should be subject to assessment by the bank. 84% of the SB members in Table 7.4.4 also expressed their agreement, with the remaining members expressing indifference but not disagreement. In terms of the mean values of the responses from both sets of respondents, Table 8.4.4 gives the branch managers a score of 4.76, while Table 7.4.4 gives the SB members a score of 3.87. According to the average figures, there was more agreement among branch managers than among SB members. This suggests that the bank's appraisal of SB members was used less frequently than the branch managers had anticipated. On the question of whether there should be a proper separation of SB functions, as shown in Table 8.4.4, 91.71% of the branch managers were in agreement. Though, among the SB members, 71.87% disagreed with the presence of proper segregation of SB duties. Additionally, the mean value was 4.47 from the branch managers and 2.43 from the SB members. Therefore, there is a big difference between what is expected and what actually happens when it comes to the correct separation of SB functions. The need that there should be no conflicts of interest on the employment of SB members, such as their being significant shareholders or having a close relationship with an employee of the bank, was another topic brought up to the branch managers. 91.08% of the branch managers and 75% of the SB members agreed that this appointment criterion should be used. The branch managers were then asked to state whether they agreed with the need for a reporting channel for SB members to report any disputes that might occur between them and the board of directors or the bank's management. The statement was supported by 89.17% of branch managers, however 93.75% of SB members disagreed with the idea of

such a reporting channel. When compared to the mean value of the responses provided by the SB members (1.59), the branch managers' mean value (4.30) is noticeably greater. It suggests that there is significant gap between the existence and expectation of having such reporting channel, which is being considered as one of the most important tool to play the role of SB effectively.

8.5 Perception of Branch Managers Regarding the Nature of *Shari'ah* Review by the *Shari'ah* Boards

This section focuses on important issues related to branch managers' perceptions of the SBs' *Shari'ah* review function. It's important to keep in mind that the questions posed in relation to these concerns fall within Section C of QS2. Comparisons between the branch managers' replies and those of the SBs' members to queries that are akin to both groups of respondents were also placed. The following subsections present studies and deliberations of these issues of *Shari'ah* review in regard to the answers of the branch managers.

8.5.1 Perception of Branch Managers Regarding the Structure of *Shari'ah* Review

The branch managers were asked to rate their agreement with many key parts of this topic on a five-point Likert scale ranging from strongly disagree (1) to strongly agree (5). An analysis of the outcomes can be seen in Table 8.5.1 below.

Table 8.5.1: Analysis Showing the Perception of Branch Managers Regarding the Structure of *Shari'ah* Review by the *Shari'ah* Boards

The Structure for <i>Shari'ah</i> Review	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
The SB should be the sole authority on the <i>Shari'ah</i> review system of the bank	--	--	--	--	157	100	4.95	1
The SB should have the appropriate operative procedures on its role and function by the bank	--	--	9	5.73	148	94.26	4.56	5
Membership of the SB should comprise various experts such as the <i>Shari'ah</i> scholar, accountant, lawyer, etc	--	--	--	--	157	100	4.85	3
There should be effective communication channels to deliberate <i>Shari'ah</i> review issues of the bank	--	--	7	4.45	150	95.54	4.59	4
Adequate, appropriate and apparent guidelines should be issued by the Bangladesh Bank to use in the Islamic banks	--	--	--	--	157	100	4.89	2

When it comes to the bank's *Shari'ah* review process, the branch managers were asked if they believed the SB to be the only authority. All of the respondents provided absolute agreement with the statement with a 4.95 mean score and ranking 1st in this category. It is mentionable

that the SB members in Table 7.5.1 were also asked the same question, where 90.62% of the respondents provided agreement with a 4.28 mean score and also ranked 1st. From the results, it seems that both groups provided responses of a similar pattern and therefore, it may be claimed that there is no deceptive difference between what was actually being practiced by SB members and what the branch managers expected the SB to be treated as the only authority in the Shari'ah review. The perception of disagreement (9.37%) by the members of SBs in regard to this question might propose that the SB members have passed on some of their duties to other parties within the bank as deliberated in section 7.5.1.

The SB would also require entrusting other groups to collaborate with them in accomplishing such a significant role. From this viewpoint, the branch managers were asked whether adequate, appropriate and deceptive guidelines should be supplied by the Bangladesh Bank to use in the Islamic banks. In response, again all of the branch managers provided absolute agreement with a 4.89 mean score and ranking 2nd. In response to the similar question, the vast majority of the SB members (84.3%) expressed their disagreement with a 1.68 mean score as reported in Table 7.5.1. Therefore, it may be claimed that the branch managers gave more weight to the Bangladesh bank's responsibility to create a recognized constitution that the SB can use when doing their *Shari'ah* review duties. But, in practice, according to the perception of SB members, the guidelines issued by Bangladesh Bank to use in the Islamic banks are quite inadequate. It should be noted that there is real substance to the high expectations expressed by the branch managers for Bangladesh Bank to provide the necessary *Shari'ah* governance rules. As branch managers for the bank, their responses reflect the faith they have in this organization, which serves as the top authority for all banking regulations and the Shari'ah governance system for all banking institutions, including Islamic banks in Bangladesh.

In response to the question whether the branch managers perceive that the SB should comprise of various experts relating to banking industry, the respondents provided absolute agreement with a 4.85 mean score. In response to the same question, 46.8% of the SB members expressed their disagreements with a 3.28 mean score. It indicates to the fact that although there are regulations to form SB with diverse experts, but in practice most of the SBs are constituted with only Islamic scholars. Thus, there is significant gap between expectation and practice. The branch managers were also requested to specify their degree of agreement whether there should be efficient communication channels to circulate *Shari'ah* review aspects of the bank. 95.54% of the respondents expressed their agreements with a 4.59 mean score. In response to the similar question, 90.62% of the SB members expressed their

agreement with a 4.06 mean score. Thus, with this issue, there is no significant gap between expectation and practice. As a result, it guarantees the availability of such efficient means for disseminating bank-related *Shari'ah* review concerns. The branch managers were also asked to rate how strongly they agreed that the SB should be provided with the necessary operational procedures by the bank regarding its purpose and function. 94.26% of the respondents agreed with the statement with a 4.56 mean score. But, 81.25% of the members of SB responded negatively in the same question posted in Table 7.5.1. Thus, there is significant gap between expectation and practice. It clearly indicates that there is significant lack in having appropriate operative procedures on the role and function of the SB by the respective Islamic bank in Bangladesh.

8.5.2 Perception of the Branch Managers Regarding the Implementation of *Shari'ah* Review

In this study, branch managers were asked to rate their level of agreement with the SB's application of the *Shari'ah* review on a five-point Likert scale that ranged from strongly disagree (1) to strongly agree (5). Analysis of the results is shown in Table 8.5.2 below. Some of the questions in this part are exclusive to branch managers, thus only the questions that are similar will be compared to those of SB members.

Table 8.5.2: Analysis Showing the Perception of Branch Managers Regarding the Implementation of *Shari'ah* Review

Implementation of <i>Shari'ah</i> Review by the SB	Disagree		Uncertain		Agree		Total	
	No.	%	No.	%	No.	%	Mean	Rank
The SB should have the authority to stop bank from undertaking non- <i>Shari'ah</i> compliant transactions	--	--	--	--	157	100	4.95	1
The SB should be given ample time in their decision making process and review function	--	--	--	--	157	100	4.95	1
The SB should get professional support to smooth its function such as on legal, accounting and finance aspects	--	--	12	7.64	145	92.35	4.92	2
The SB should have direct access to relevant, accurate, adequate and timely information	15	9.55	--	--	142	90.44	4.63	4
Bangladesh Bank should adopt rigorous procedures to examine and endorse the application of IB products submitted by Islamic banks	--	--	19	12.10	138	87.89	4.51	5
The part-time work of the SB members does not hinder the effective <i>Shari'ah</i> review process of the bank	133	84.71	--	--	24	15.28	2.09	7
The <i>Shari'ah</i> compliance of the banks should adequately be reflected in the <i>Shari'ah</i> report	--	--	--	--	157	100	4.90	3

issued by the SB								
The <i>Shari'ah</i> report should satisfactorily disclose the accounting issues of Islamic banks	29	18.4 7	--	--	128	81. 52	4.26	6

The branch managers were questioned about their opinions on whether they believed that the SB should have complete authority to forbid banks from carrying out transactions that were against *Shari'ah*. According to Table 8.5.2 above, every respondent agreed with the statement wholeheartedly. Therefore, it can be claimed that the branch managers appear to support the claim that the SB should have full authority to prevent banks from carrying out transactions that aren't kosher with *Shari'ah*. In response to the similar query, Table 7.5.2 shows that 75% of the SB members expressed their disagreement that the SB is fully empowered to prevent banks from engaging in transactions that aren't Shari'ah compliant. A comparison of the response rates from the two groups reveals major differences between expectation and practice. The next query was about whether the branch managers assumed that the SB should be given sufficient time when making decisions and conducting reviews. Similar to the 1st question, all of the branch managers absolutely agreed with the statement with a 4.95 mean score ranking 1st together. In response to the similar question in Table 7.5.2, 59.37% of the SB members agreed and 40.62% of the respondents disagreed with a mean score 3.18 ranking 4th in this category. It is evident from the comparison that there is significant gap between expectation and practice and thus, many SBs have not been given sufficient time when making decisions and conducting reviews. Additionally, the branch managers were asked for their opinions in regard to whether the SB should get professional support to smooth its function such as on accounting, finance, and legal aspects. In response, 92.35% of the respondents expressed their agreement with no disagreement by any of the respondents with a mean score 4.92. In response to the same question, 87.5% of the SB members indicated agreement that the SB is given professional support to smooth its function with a mean score 3.90. So, there is no significant gap between the perception and practice. The next question was about the direct access of SB to accurate, adequate, relevant and timely information. 90.44% of the branch managers expected that the SB should have such access to play its role effectively (4.63). In response to the same question, 75% of the SB members, as testified in Table 7.5.2, agreed that the Boards have such access, while 25% of them disagreed with a 3.65 mean score. The comparison based on mean score 4.63 and 3.65, indicates that there is also gap in having such accurate, adequate and timely access by some SBs between the expectation and practice.

The next query was specifically directed at the branch managers and asked if they believed Bangladesh Bank should undertake stringent procedures to examine and validate the application of IB products filed by Islamic banks. A total of 87.89% of the branch managers responded in agreement, while 12.10% disagreed. With a mean score of 4.51, it can be said that the vast majority of branch managers advocated for Bangladesh Bank, the primary regulating body for financial institutions in the nation, to implement such a strict approach. It has already been reported that an Islamic bank must get Bangladesh Bank's clearance before launching new goods or services for its customers. Therefore, it is important to note that Bangladesh Bank has the authority to determine which Islamic financial goods and services will be made available to the public. This outcome suggests that the Bangladesh Bank carry out such stringent measures.

In a similar vein to the SB members, the branch managers were asked if they believed that SB members working part-time in banks would interfere with their ability to focus on an active Shari'ah examination of an Islamic bank's operations. 84.7% of branch managers disagreed in response, while 15.28% agreed, giving this category's mean score—2.09—the lowest ever. In response to the same question, 68.75% of SB members expressed their agreement with 18.75% respondents' disagreement. The comparison based on mean value and percentage of respondents show that there is significant gap between the perception of branch managers and that of the SB members in regard to the part-time working nature of the SB members.

The branch managers were specifically asked to comment on whether they believed that the *Shari'ah* compliance of the bank was sufficiently mirrored in the *Shari'ah* report produced by the SB. The statement was supported by all of the branch managers shown in Table 8.5.4. It was previously agreed that the *Shari'ah* report serves as the culmination, outlining and disclosing the SB's tasks and roles with a focus on the operations of the bank's *Shari'ah* compliance. The branch managers went on to specify that they typically confessed that the *Shari'ah* report given by the SB should disclose the information regarding the *Shari'ah* compliance of the deeds of the bank they signified, as evidenced by the testified mean score of 4.90 in Table 8.5.4. The branch managers were also asked to clarify whether the *Shari'ah* report accurately reveals the bank's accounting problems. With regard to this, 81.52% of the branch managers agreed, while 18.47% disagreed. Additionally, it was mandated in Chapter 5 that the *Shari'ah* report include a clear statement about the examination of IB transactions, the profit made, and the approval of the *Zakat* calculation, as well as a declaration that any profits obtained from sources that are prohibited by Islam have been donated to charitable

organizations. With a mean score of 4.26, it suggests that these respondents were pleased that the SB's *Shari'ah* report highlighted the accounting concerns.

8.5.3 Branch Managers' Perception of Relevant Stakeholders within the *Shari'ah* Governance Framework

An Islamic bank's effective *Shari'ah* governance structure requires the involvement of related parties both inside and outside the bank as well as the regulator. Therefore, the branch managers were asked to rank the relevant stakeholders in the *Shari'ah* Governance Framework (SGF) for the IB industry on a scale of 1 (extremely unimportant) to 5 (highly important). An analysis of the outcomes can be seen in Table 8.5.3

Table 8.5.3: Branch Managers' Perceptions of Relevant Stakeholders within the *Shari'ah* Governance Framework

Parties involve in the <i>Shari'ah</i> Governance Framework of Islamic Banks	Unimportant		Uncertain		Important		Total	
	No.	%	No.	%	No.	%	Mean	Rank
<i>Shari'ah</i> department of Bangladesh Bank	49	31.21	--	--	108	68.78	3.12	5
SB of the Islamic bank	--	--	--	--	157	100	4.95	1
<i>Shari'ah</i> department of the Islamic bank	--	--	--	--	157	100	4.95	1
Board of directors of the Islamic bank	37	23.56	5	3.18	115	73.24	4.13	3
Management of the Islamic bank	--	--	--	--	157	100	4.92	2
Central SB for the SBs of Islamic Banks in Bangladesh	29	18.47	--	--	128	81.52	3.80	4

Table 8.5.3 shows that, according to the branch managers, the SB and *Shari'ah* departments of an Islamic bank are the most important parties within the *Shari'ah* Governance Framework (SGF), with an equal mean value of 4.95 and placing first in this category. The importance of the SB ensuring the *Shari'ah* compliance of an Islamic bank's operations has been underlined throughout the issue on the *Shari'ah* governance of Islamic banks. The *Shari'ah* department of Islamic banks serves as the SB's secretariat at the same time and is solely responsible for assisting the SB in carrying out its duties. Supporting the organization of *Shari'ah* issues for completion by the SB is one of the crucial tasks of the *Shari'ah* department officers. In order to ensure that the *Shari'ah* resolutions issued by the SB are communicated to and carried out by these parties, the *Shari'ah* department also serves as the intermediary with other connected parties inside the bank. As a result, the findings from Table 8.5.3 show how important the branch managers believe these two key players are to the *Shari'ah* governance framework of an Islamic bank. The management of an Islamic bank was ranked as the second most significant party by the respondents, with a mean score of 4.92 and no disagreement. The administration is the principal responsible party for enforcing *Shari'ah* rulings made by the

SB. Therefore, the branch managers of an Islamic bank have recognized the management following the SB and the *Shari'ah* department. Board of directors has been ranked 3rd with 4.13 mean value, and the central SB for the SBs of Islamic banks in Bangladesh has been ranked 4th with 3.80 mean value. The board of directors' oversight of the management is one of its duties. Therefore, this outcome shows that the branch managers professed the board of directors as a key party next to the management. Otherwise, this result shows that the board of directors' importance in relation to the SGF of Islamic banks is lower than that of the SB, the officers of the *Shari'ah* department, and the management of the bank. *Shari'ah* department of Bangladesh Bank has been ranked 5th with 68.78% of the branch managers' agreement and with 3.12 mean score. Although, Bangladesh Bank is the central regulatory authority of banking institutions in the country, there is no dedicated *Shari'ah* department, and thus, it was identified as the least important party for the SGF of an Islamic bank.

8.6 Summary

This chapter provides analyses of the data from 157 branch managers of various Islamic banks in Bangladesh who participated in Questionnaire Survey 2 (QS2). The findings in QS2 emphasize on the interests of the stakeholders under the scope of stakeholder theory with respect to the following three crucial issues: (1) the role of SB, (2) the accountability and independence of the SB, and (3) the nature of *Shari'ah* review by the SB. The conclusions drawn from QS2 were essentially interpreted as the branch managers' expectations of how the research's topics should be handled. The results were then examined and contrasted with the SB members' responses to Questionnaire Survey 1 (QS1).

When it comes to the history of the branch managers who participated in QS2, all of them are males having plenty of banking experience as all of them have more than six years of banking experience. The most common level of education held by these branch managers appears to be a bachelor's or master's degree, as indicated by 116 of the 157 responses (73.88%). Additionally, most of them were skilled, particularly in the united field of *Shari'ah* with general subjects (62 branch managers,) accounting and finance (24 branch managers), and management (20 branch managers).

According to the SB's conclusions regarding the extent of the *Shari'ah* advisory function, the branch managers' expectations go beyond the typical *Shari'ah* advisory role, which entails advising and auditing. Instead, it appears that the branch managers view the expected concerns of the SB's *Shari'ah* advising functions as being procedural in nature and not limited to the *Shari'ah* advise alone. On the other hand, the results derived from QS1 exposed

evidence that the SB seems to emphasize traditional advisory roles such as giving *Shari'ah* advice, auditing the operations of Islamic banks, and preparing *Shari'ah* compliance manual. According to the findings, the branch managers should ask the SB to prepare the *Shari'ah* governance structure and to fulfill the *Shari'ah* advising role primarily for those for whom it is crucial. Regarding the involvement of SB in designing corporate objectives of Islamic banks, significant disparity has been observed between the findings of QS2 (branch managers) and QS1 (SB members). The findings revealed that the SB is not truly engaged in scheming any of the corporate objectives of their individual Islamic banks, while the branch managers expected the important engagement of SB in designing the corporate objectives. In the meantime, in regards to the SB's function in creating IB goods and services, there are differences in terms of priority and involvement as indicated in the QS2 and QS1. The stages of development at conceptual, design and review levels received almost similar mean scores in the responses of both parties. But, significant differences are found at two stages; implementation and pricing levels. While branch managers expected the high involvement of SB in these two levels of development, but actual practice is far below. This suggests that the SB should effort to raise that involvement in order to satisfy the demands of the branch managers.

According to the branch managers and the SB members, there appears to be a small difference between the expected and actual engagement of the SB in the bank's accounting. In relation to all of the identified accounting concerns, it is revealed that the branch managers' comments had greater mean values than those of the SB members. It made reference to the discrepancy between the actual and anticipated level of SB involvement in accounting-related matters. Most particularly, two issues (approving the accounting policy and validating the IB transaction records) have significant differences of mean scores between the responses of two groups. In addition, the branch managers' expectations of the SB's involvement in the accounting components were higher than the SB's actual involvement in those areas: determining the profit distribution formula, validating documentation and approving the accounting policy.

The branch managers documented the crucial function of the *Shari'ah* department officers in a manner similar to that of the SB members. The *Shari'ah* department was ranked first among the pertinent parties that the branch managers expected to help the SB; this is comparable to the highest level of support that the SB received, as stated by the members of SBs. Both of the responder groups gave the bank's management and board of directors same weight as the next two parties. The importance of the board of directors, management, and officers of the

Shari'ah department within the *Shari'ah* governance framework of Islamic banks is highlighted by this consistency. Branch managers anticipate more support for SBs from the audit department and internal auditor, but in reality, SBs only received extremely subpar support. As a result, contrary to what the SB members have stated, the branch managers appear to have higher expectations of and give these parties more importance than they actually contribute, including the audit committee, internal auditor, and external auditor.

The branch managers' perceptions on the SB's participation in a number of commitments aimed at strengthening the Shari'ah governance role of Islamic banks were also evaluated as part of QS2 of this study. Despite some indications of dissent, branch managers frequently expressed high satisfaction with SB members fulfilling their commitments. According to a review of the variations between the replies given in QS1 and QS2, several of these pledges were in fact expressly different, with branch managers designating more agreement than SB members. The significant gap was found in three commitments; a) the enhancement of *Shari'ah* review skill of SB members by attending appropriate trainings and workshops, b) engaging in workshops and meetings with the *Ulama* to have intensive discussion about the *Shari'ah* resolutions and banking innovations, and c) analyzing IB products as beneficial to the *Ummah* before they are launched. The branch managers in QS2 expected intensive engagement of SBs with the two above commitments, but the members of SBs indicated very poor engagement in these connections in QS1.

The branch managers' perceptions on issues pertaining to the SB's independence and accountability were shaped in another section of QS2. The branch managers' responses, in order of significance, to the query about the variables affecting the SB's accountability were (1) the ethical values of the SB, (2) the scholarly background of the SB members, 3) the SB's responsibility to ensure the *Shari'ah* compliance, 4) stakeholders' reliance on the SB, 5) legal framework of the SB, and 6) the SB's reputation. The similar issues, in views of the SB members' as exposed from QS1, according to priority, were (1) the ethical values of the SB, (2) scholarly background of the SB members, 3) the SB's responsibility to confirm the *Shari'ah* compliance, 4) legal framework of the SB, 5) stakeholders' reliance on the SB, and 6) the SB's reputation. It is revealed that the SB members' ethical values and their scholarly background were considered by the branch managers as well as the SB members' as the most important factors influencing the SB's accountability. It underlines how the personal integrity of this SB members' together with fiduciary duties is crucial for the success of the *Shari'ah* governance mechanism of Islamic banks. Although minor disagreements are evident on some of the factors listed in QS1 and QS2, the gap between the perceptions of two respondent

groups are insignificant. The branch managers were also questioned regarding the elements influencing the SB's independence. According to priority, these factors were: (1) perceived high ethical status of the SB, 2) the scholarly background of the SB, 3) a clearly defined responsibility, 3) adequate powers being mandated to the SB, 4) the participation of top management in the SBs' meeting, (5) involvement of the SB members' in the SB of other industries, and 6) the remuneration received by the SB. The relevance that branch managers claim practically all of the elements that affect SB's independence have, appears to be consistent with that of the members of SBs in in QS1 except two factors; i.e. 'adequate mandated power to the SB' and 'the involvement of SB members in other industry'. It indicates that there is remarkable gap in mandating adequate power to the SB to perform its role independently, while the perceptions of branch managers and the SB members differ from each other on the issue of involvement of the SB members in the SBs of other industry. Additionally, the branch managers' mean values appear to be higher than those of the SB members, suggesting that they place a greater focus on the significance of these characteristics.

The majority of branch managers believed that all of the chosen relevant persons, with the exception of the board of directors, were significant when it came to the question of the relevant parties to whom the SB is believed to be answerable. The end-users, i.e. client and public were recognized as the most important parties to whom the SB seems to be accountable by both of the respondents groups; the branch managers and the members of SB. Due to the customers' trust in the SBs' ability to uphold Shari'ah law, the SB is ethically obligated to answer to them. Both groups' perceptions of other parties, such as shareholders, Bangladesh Bank, and the board of directors, are strikingly similar. The branch managers were also questioned about their perceptions of a number of features in relation to the nature of the SB's appointment and mandated authority in order to ascertain the SB's accountability and independence. These features, according to the degree of importance provided by the branch managers, were 1) "fit and proper" qualifying standards for selecting SB members, 2) adequate power being mandated to the SB, 3) The Islamic bank will make specific assessments of SB members, 4) the existence of proper segregation of SBs' duties, 5) there are no conflicts of interest involved in the selection of SB members., and 6) the availability of a reporting avenue for SB members to report any potential disagreements they might have with the bank's management or board of directors. Both groups of respondents in QS2 and QS1 demonstrated a common agreement in regard to the Appointing SB members in compliance with specific "fit and proper" qualification requirements. Although all of the

branch managers unanimously agreed that adequate power should be mandated to the SB, majority of the SB members disagreed that the Board is mandated with adequate power to perform its role. Regarding the issues of segregation of the SBs' duties, and the presence of reporting channel for any conflict, the findings revealed significant gap between the expectation and practice. In terms of the mean values of the responses, the branch managers and members of SB had higher levels of agreement on the other concerns, notwithstanding the little difference.

The branch managers' perceptions of the SB's *Shari'ah* review were investigated in this study. The branch managers were questioned for this reason on the design and conduct of the SB's *Shari'ah* review. In general, there was no indication of dissent from the branch managers on any of the *Shari'ah* review's organizational structures. Branch managers in QS2 and SB members in QS1 have ranked SB first as the only authority on the *Shari'ah* review system. In regard to the necessity of adequate, appropriate and apparent guidelines be issued by the Bangladesh Bank, all of the branch managers provided absolute agreement, while the vast majority of the SB members expressed their disagreement. Thus, it can be said that the guidelines issued by Bangladesh bank to use in the Islamic banks are inadequate. The branch managers perceive that the SB should comprise of various experts relating to banking industry. From the responses of SB members, it can be said that although there are regulations to form SB with diverse experts, but in practice most of the SBs are constituted with only Islamic scholars. The branch managers concurred that there should be efficient avenues for exchanging ideas regarding the bank's *Shari'ah* review, which is also a good practice as stated in QS1 by the SB members. The branch managers concurred that the SB needed the proper operational procedures for its position and purpose. But the majority of SB members gave negative answers to the same issue that was asked in QS1. It clearly indicates that there is significant lack in having appropriate operative procedures on the role and activity of SB by the respective Islamic banks.

Regarding the *Shari'ah* review's implementation, branch managers believed that the SB should have full ability to prevent banks from carrying out transactions that aren't in accordance with *Shari'ah*. On the other hand, the SB members disagreed that the SB has such authority. The branch managers believed that the SB should have enough time to make decisions and conduct reviews. The disagreement of 40% of the SB members showed that there is a considerable discrepancy between expectation and practice. Regarding to receive professional support on legal, accounting and finance aspects to smooth the functions of SBs, both of the respondent groups indicated positively. The difference between expectation and

practice with regard to SB's direct access to pertinent, accurate, sufficient, and timely information is not very wide. The branch managers believed that the part-time employment of SB members prevented effective *Shari'ah* governance, whereas the SB members stated the opposite opinion. The *Shari'ah* report should accurately reflect the bank's compliance with *Shari'ah* and expose the bank's accounting concerns, according to all of the branch managers who voiced their agreement. When the SB revealed the bank's accounting issues, the branch managers indicated a similar level of delight, which was repeated in their remarks. These findings provide an explanation for how the branch managers see the *Shari'ah* report quality in which the SB settles its *Shari'ah* review responsibilities. The parties that the branch managers claimed were important in the *Shari'ah* governance of Islamic banks were also identified in this study. The *Shari'ah* Governance Framework (SGF) appears to place the SB and *Shari'ah* department of an Islamic bank as its most significant stakeholders. The next important party, in order of importance as identified by the respondents, is management of an Islamic bank, board of directors, central SB for the SBs of Islamic banks, and *Shari'ah* department of Bangladesh Bank.

The results of QS2 generally show how branch managers anticipated the SB to perform in relation to the study's focus areas, including (1) the SB's role, (2) its accountability and independence, and (3) the nature of the *Shari'ah* review in Islamic banks. Evidently, some of the findings made it clear where the branch managers diverged from the QS1 findings. This indicates the branch managers' departure from how the SB actually applied the concerns under investigation, as described in QS1. It also suggests that some components of the issues under investigation were professed in a different way. Other times, both groups of respondents' perceptions are similar, which, on the other hand, supported the conclusions reached earlier in QS1.

CHAPTER NINE

CONCLUSION

9.1 Summary and Review of Findings

The context, rationale of the study, and study objectives were outlined in Chapter One of this thesis. It reviewed related literature and focused on the contribution of the study and structure of the thesis. Chapter Two provided the theoretical discussion on understanding *Shari'ah* as the philosophical cornerstone of Islamic banking (IB). The fundamental character of IB is the compliance of banking products with the principles of *Shari'ah*. Hence, understanding the basics of *Shari'ah* deemed importance. A clarification of the *Shari'ah*, the Islamic law that governs IB operations, has been given. It has been explained how the implication of *Ijtihad* (legal reasoning) as a dynamic means for the growth of IB and finance. Essentially, the *Shari'ah* forbids transactions involving interest and investment in sectors of the economy that are uncertain, or *gharar*, in addition to those that have been expressly prohibited by the *Shari'ah*, such as gambling, alcohol, pork production, casino activities, the creation of pornographic material, etc. Islamic ethics for acceptable economic forms have been detailed. Additionally, this chapter also drew attention to some significant notions concerning the IB practice, namely ownership, wealth distribution, money, capital, trust and accountability according to Islam. The concept of the objectives of *Shari'ah* (*Maqasid al-Shari'ah*) has also been explained in the chapter two.

Chapter three explained the theoretical concept of IB and its distinguishing features. It included the discussion on the principles, and objectives of IB. Different modes of IB contracts such as *Mudarabah*, *Musharakah*, *Murabaha*, *Ijarah*, *Muajjal*, *Bai' al-Salam*, *Istisna'*, *Qardh-al-Hasan* and *Tawarruq* have been elaborated. Risks of IB such as credit risk, liquidity risk, market risk, and operational risk have also been explained. Finally, chapter three elaborately explained the fundamental differences between IB and conventional banking.

Chapter four sheds light on the historical background and development of IB industry in different ages of history as well as in different parts of the world. It started with the emergence of the concept of IB in the early period of Islam that followed with the practical implementation in the modern age. History of the development of modern IB industry

worldwide has been explained dividing the global regions into six units i.e. Asia Pacific and Australia, South Asia, Middle East and Turkey, Africa, Europe, and North America. The concept and trend of Islamization of national banking industry as practiced in Iran and Pakistan have also been explained. The chapter elucidated in details the history, development, and practices of IB industry in Bangladesh which followed with the discussion about the growth and performance of IB industry in the country.

Chapter Five, which covers the advising role and review role of the *Shari'ah* Board (SB) are discussed in detail. As a result, the two scopes of the job of SB and the applicable regulatory standards and guidelines of AAOIFI and IFSB have been described. Besides critically revising the issues of the role of SB, this chapter also presents a brief synopsis of characteristics of the SB and the *Shari'ah*-based IB sector's regulatory framework in Bangladesh. At the end of this chapter, the guideline of Bangladesh bank regarding the role of SB has been explained.

This study looked at the SB's function, independence, and efficacy in Bangladesh's IB sector, by adopting a mixed method of research strategy that has been offered in the Chapter Six. The quantitative approach aims to build a distinct understanding of the *Shari'ah* governing role of the SB through questionnaire surveys. There were two completed sets of questionnaire surveys: the first questionnaire survey (QS1); and the second questionnaire survey (QS2). The purpose of QS1 was to assess the *Shari'ah* governance duties performed by the SB from the perspective of the SB members of Islamic banks. It is anticipated that the answers from the members of SBs would give valuable insights into the level of SBs' engagement in *Shari'ah* governance mechanism of the bank and other significant aspects pertinent to the SBs' roles and functions. In the meanwhile, QS2 sought to ascertain the branch managers of Islamic banks' perspectives on how the SB is expected to address concerns similar to those listed in QS1. The content of QS2 includes similar questions to those in QS1, with some adjustments catered to the differences in the *Shari'ah* governance disclosure in the two respondents' parties, with the goal of generating an evocative analysis of comparison between the results of the two questionnaire surveys. Based on revealed data, mean score and ranking, descriptive analyses also provided. Therefore, it is thought that by combining both the quantitative and qualitative research methods, this study will be able to provide a thorough understanding of the problems with the SBs' under consideration.

The chapters seven and eight include the data analysis and the findings from the two questionnaire surveys. Chapter Seven analyzed the questionnaire survey one (QS1) that posed to the members of SB. QS1 looked at the opinions of 32 SB members who responded

to a series of questions on the problems looked into. In the meantime, QS2 conducted a similar analysis to QS1 of the 157 branch managers' survey replies.

Chapter Seven's QS1 revealed that the great majority of Bangladesh's Islamic banks follow the AAOIFI and IFSB standards and guidelines voluntarily. There is no obligatory requirement to follow any of such standards in the IB environment of Bangladesh. The background of the SB members was predominantly *Fiqh al-muamalat* and *Shari'ah*. The Board and, undoubtedly, the management of the banks could rely on it because it shared the same *Shari'ah* concerns as the SB. The SBs were found to be principally involved in performing advisory and traditional roles such as advising the board of directors, endorsing the *Shari'ah* compliance manual and advising the *Shari'ah* officers, and auditing the activities of bank. SBs' have no significant involvement in developing strategic issues of Islamic banks such as designing the corporate objectives. In developing IB products and services, the SB's involvement seems to be limited to the conceptual, designing, implementation, and review stages; but not the technical aspects such as the testing, marketing, pricing and designing of IB products and services. It is clarified that because the majority of the SB members have a background in *Shari'ah*, the technical and strategic decisions may be made by the bank's management and *Shari'ah* department personnel. Regarding concerns with accounting issues in IB activities such as profit distribution, *Zakat* calculation, SB's involvement was found significant. Majority of the SBs' are frequent in publishing *Shari'ah* resolutions. Evidence also specifies fragile stimulation among the SB members in innovating IB products and services. Regarding accountability and independence, it was also looked at how the SBs may be affected by the two problems, as well as how the appointment process and mandated authority of the SBs replicate the problems. The finding reveals that personal integrity such as ethical values, scholarly background etc. and fiduciary duties are simultaneously important in determining the accountability and independence of the SB members. Other elements that affect the SB's independence include legislated power and a clearly defined range of duties. In terms of the process for selecting SB members, the majority of banks have been upholding "fit and proper" standards, and their performances are evaluated by the majority bank. According to the evidence, SB members are appointed after it has been determined that they have no conflicts of interest.

However, a number of discoveries linking the required powers of the SBs demand attention. There are indications, for instance, that the SB members were not provided with adequate power. It has no power to halt the bank from accomplishing *Shari'ah* non-compliant

transactions. In addition to the lack of task separation for the SBs, there was no reporting channel to handle any potential conflict between significant *Shari'ah* governance parties within the bank. Therefore, even while it appears that the rules governing the selection of the SBs have been addressed, it still raises doubts about the SBs' right to report any conflicts in the course of performing its *Shari'ah* governance duties.

Regarding the design and execution of the SB's *Shari'ah* review, it was found that the SB is the sole authority for *Shari'ah* review function, but it hasn't been prescribed appropriate operative procedures. All of the SBs are not properly composed of diverse scholars, rather, majority of the SBs are composed of only *Shari'ah* scholars. There is also lack of adequate guidelines issued by Bangladesh Bank. Despite these deficiencies, SB gets professional support, ample time and direct access to information for *Shari'ah* review and undertaking its duties with few exceptions. The overwhelming majority of respondents indicated that all parties involved in the bank's interdependent operations have good communication and cooperation. However, the management should provide an adequate time frame, and direct admission to pertinent, accurate, adequate and timely information for the SB to accomplish its function effectively. In a nutshell, the study's findings revealed a set structure for the SB's achievement of *Shari'ah* review, which also emphasizes the efficiency of the SB's *Shari'ah* review function. However, there is also evidence raising questions regarding the independence and caliber of the SBs.

On the other hand, the QS2 of Chapter Eight revealed that the majority of the branch managers has qualifications in the field of *Shari'ah* along with those in more broad topics like accounting, finance, management, and economics. According to the responses given, the branch managers had the highest expectations for the *Shari'ah* advisory role of the SB, which included advising the board of directors, advising the *Shari'ah* department officers on the scope of the *Shari'ah* review, creating the *Shari'ah* compliance manual, and assisting other parties with *Shari'ah*-related issues. It also provided higher emphasis on auditing the activities of bank to confirm the implementation of the *Shari'ah* compliance manual, and endorsing the bank's management's guidebook on *Shari'ah* compliance. These contradictory pressures support the branch managers' practical approach to handling day-to-day banking operations. The branch managers also stated their expectations regarding the SBs' engagement in creating the bank's corporate objectives and stressed the areas that are most important to them, namely the purpose, goals, objectives, and vision of the institution. The findings revealed consistency in priority extents between what is predicted by the branch managers and what is really practiced by the SB with regard to the SBs' engagement in

producing IB products and services. These denote, according to importance, to the conception, review, design, implementation, pricing, and legal documentation levels. Regarding involvement of SB in the accounting issues of the bank, priority zones anticipated by the branch managers are comparatively higher. The branch managers listed the SBs' responsibilities for approving the calculation and distribution of zakat, issuing the bank's report on its Shari'ah compliance, deciding how profits should be distributed, validating the paperwork used in Islamic financing contracts, endorsing the annual report created by the bank management, approving the accounting policy to be used, and validating IB transaction records in order of importance.

The results of QS2 similarly indicated that Shari'ah department officers were regarded as playing a similar role in supporting the SB. It was also made clear that the board of directors, bank management, audit department, internal auditor, and external auditor were given more credit for supporting the SB than they actually did. The QS2 commitments to strengthen the *Shari'ah* governance of the banks were impacted by the SBs' failure to engage branch managers to the extent that was expected. According to priority, the branch managers expressed greater concern about the SBs' commitments on: (1) dialogue with the management, accountants, lawyers, and other interested parties to actively innovate the IB products and services; (2) answering any inquiries on statements and resolutions made by the SB; (3) Attending the proper trainings and workshops will improve your ability to conduct *Shari'ah* reviews; (4) Actively participating in workshops and gatherings with Ulama of Fiqh al-Mua'malat to conduct in-depth discussions regarding Shari'ah resolutions and banking innovations; (5) Before being released, IB products and services must be thoroughly evaluated to determine whether they would be useful to the *Ummah*; and (6) Publication of the *Shari'ah* resolutions and decisions of the SB as well as the process for adhering to *Shari'ah*. Additionally, all of the branch managers unanimously agreed with all of the commitments in the list of except the last one. However, there is significant gap concerning most of the commitments between the expectation and what is really practiced by the SBs.

It was discovered that branch managers emphasize the integrity of the SB members in a parallel mode to the SB members with reference to the elements impacting the SBs' accountability and independence. Surprisingly, the aspect of the SBs' duty to ensure adherence to *Shari'ah*, which denotes one of the SBs' fiduciary obligations, was ranked second among the variables determining the responsibility of the SB members. While the branch managers reiterated the importance of integrity elements, this study also shows that the branch managers give weight to the SBs' duty to protect *Shari'ah* compliance as a factor

impacting the SB's accountability. The branch managers were found to place nearly equal importance with the SB members in terms of the elements impacting the SBs' independence overall. However, the parties that the branch managers believe the SB is responsible to were quite similar to those that the members of the SBs declared. Both groups of respondents deliberated the public and client as being the most significant party considered accountable by the SBs. Shareholders are the second most important factor, followed by the board of directors and Bangladesh Bank. In addition, research on the manner of the SB members' appointment and required authority, which replicates the accountability and independence of the SB members, found that the two respondent groups gave the issue nearly identical weight. The SB members' assertion that they should be assessed by the bank was more than what the branch managers had anticipated. Additionally, the branch managers have ranked the remaining features in the following order of importance: (1) presence of 'Fit and proper' standards for the appointment of the SB member; (2) mandating adequate power to the SB; (3) proper segregation of duties of the SB; (4) no conflict of interest when the SB was chosen.; and (5) the availability of reporting avenues for disclosing disagreements with the SB, board of directors, or management.

The branch managers shared a consistent viewpoint of the *Shari'ah* review structure that all of the structures presented in the QS2 had great approval. For instance, the branch managers agreed in unanimity that the SBs should be the only authorities in the *Shari'ah* review task, that there were sufficient, appropriate, and apparent guidelines issued by the Bangladesh Bank for use in Islamic banks, and that the SBs should be composed of experts from various banking-related fields. The next two characteristics—the establishment of effective communication channels to discuss *Shari'ah* review concerns of the bank and the SB's possession of the necessary operational procedures on its role and function by the bank—were likewise universally acknowledged. The branch managers stressed the necessity for Bangladesh Bank to fulfill the *Shari'ah* reference role for the IB business and for this supreme authority to give suitable and comprehensive guidelines for use in the industry.

While there is evidence indicating a division of opinions among the respondents, for the time being, it can be said that most of the researched topics were generally supported by the branch managers' comments when it came to the implementation of the *Shari'ah* review. All of the branch managers agree that the SB should be given full authority to prevent banks from carrying out transactions that aren't in accordance with *Shari'ah*, generous time to make decisions and review the function, professional support to make its function run smoothly, including on accounting, legal, and financial aspects, and an accurate reflection of the banks'

compliance with *Shari'ah* in the *Shari'ah* report that the SB issues. The branch managers also demanded that Bangladesh Bank create stringent procedures to analyze and approve Islamic financial products provided by the Islamic banks. They also demanded direct access to pertinent, adequate, accurate, and timely information. The perceptions of SB members and branch managers significantly differed when it came to the question of whether the SB's part-time character hinders its performance. The majority of branch managers claimed that the SB's part-time character hinders the bank's effective *Shari'ah* review procedure, but the SB members responded in the contrary. However, the branch managers' responses revealed that the SB and *Shari'ah* department was of the utmost important among the organizations responsible with the *Shari'ah* governance of Islamic banks. The bank's management, board of directors, the central SB for the SBs of Islamic banks in Bangladesh, and ultimately the *Shari'ah* division of Bangladesh Bank are the additional parties.

9.2 Theoretical Implication and Recommendation for Practice

The stakeholder theory is the relevant theoretical framework that supports the operations of Islamic banks and is at the heart of IB aims. Additionally, when the idea of Islamic responsibility is integrated into this theoretical framework, the stakeholders become ultimately concerned with defining how an IB operation will be realized and the specifications for its *Shari'ah*-compliant products and services. Therefore, compliance with *Shari'ah* principles in the provision of goods and services is a vital characteristic of an Islamic bank. SB is the leading authority body in Bangladesh's banking sector, and it is solely accountable for ensuring that all of its operations, products, and services comply with *Shari'ah*. As the accountable authority for *Shari'ah* compliance as desired by the stakeholders, the SBs thus play the most important role in the *Shari'ah* governance structure of the IB industry in Bangladesh.

However, as this study's analysis of the SBs' position in *Shari'ah* review shows, there are certain shortcomings in the idea of providing a guarantee of *Shari'ah* conformity. This study found that the *Shari'ah* review is often conducted by the *Shari'ah* department personnel, who subsequently report their conclusions to the SB for approval. Additionally, there are some indicators that SB members did not exercise appropriate diligence in carrying out this significant task. Therefore, even if this study attested to the existence of a pre-existing framework for the *Shari'ah* review, the SB's effectiveness in carrying out this crucial *Shari'ah* review task does not appear to be appropriately done.

Additionally, this study discovered that although there is “fit and proper criteria” for appointing the SB members, in many cases it could not be maintained properly in appointing a member into the SB. Rather, it had a tendency of image building facet. The possibility that the SB may be utilized as a tool to support the opportunistic conduct of the bank's management increased when this was combined with the governance function of the SB's deficiencies that were previously discussed. In the meantime, the market's and the regulator's pressure on Islamic banks to design their goods and services in a way that protects investors' and depositors' investments has reached a stage where they can no longer neglect ensuring a profitable return for these groups. Given that shareholders' and depositors' interests continue to be the primary focus of Islamic banks' operations, these realities seem to be moving the industry away from stakeholders' theory and toward an agency theoretical framework.

The apparent uncertainty in the SB's examination of *Shari'ah* function, as described above, jeopardizes the SB's active involvement and, as a result, calls into question the veracity of the *Shari'ah* report it has produced. In this regard, it is advised that, analogous to the auditing of financial statements, a *Shari'ah* audit could be carried out by an impartial, external *Shari'ah* auditor. As a result, the external auditor should also write a *Shari'ah* report in a manner similar to how they would prepare financial accounts. This means that the external authentication of the *Shari'ah* report, rather than the SB, would be used to ensure *Shari'ah* compliance, on which the stakeholders rely. The *Shari'ah* report's dependability would rise as a result. However, the aforementioned recommendation has a significant effect in that it highlights the need for regulatory strategies on the *Shari'ah* audit framework for both internal and external *Shari'ah* auditors, which are now absent.

This study has also proposed possible scopes in regard to the SBs' *Shari'ah* governance function. It offers to conduct auditing the *Shari'ah* decisions of the SBs by the external auditors, where external auditors are assumed the right to ask the justification and correctness of resolutions made by the SB. It will add a new dimension to the *Shari'ah* audit as well as enhance the accountability of the SBs for their decisions. The SB must take responsibility for any errors it makes because the *Shari'ah* scholars are the only ones who have the capacity to make decisions in accordance with the law.

This recommendation, along with the recommendation for external *Shari'ah* auditors to authenticate *Shari'ah* reports, suggests that audit firms strengthen their *Shari'ah* audit capabilities by concentrating on a relatively new but promising industry, namely Islamic financial institutions, including Islamic banks, and by building the talent pool and job-specific skills necessary for the position.

Additionally, Bangladesh Bank, as the prime regulatory authority, should ponder improving the independence of the SBs by adopting appropriate approach to the appointment of SB members. The appointment of the SB members by the shareholders rather than the board of directors is recommended in accordance with the governance norm of the AAOIFI. The SB would be held accountable and have a reporting line to the shareholders thanks to this appointment policy. Additionally, the tendency of current SBs' membership appears to designate that the banks themselves appoint the SB members based on their *Shari'ah* proficiency, but neither on the experience in the IB nor on the knowledge related to banking. Accordingly, majority of the SBs are not properly combined with the scholars of different fields related to IB knowledge as recommended by the AAOIFI, and IFSB. Hence, it could have possible implications on the quality of decisions taken by the SB. It is also found in this study that the guideline issued by the Bangladesh Bank to use in IB industry is remarkably insufficient. Therefore, it is recommended to develop the comprehensive and complete regulatory guidelines addressing all the issues raised regarding the IB based on the AAOIFI and IFSB standards. It is similarly important to monitor its strict implementation to develop the confidence of the stakeholders. Islamic banks should also frame a complete 'term of reference' for the SBs to run the *Shari'ah* governance function effectively. The 'term of reference' should clearly define the scope of responsibilities and mechanism of accountability. The SB should be mandated with adequate legal power to perform its duty independently. There should also be a complete *Shari'ah* compliance manual for the SBs. AAOIFI and/or IFSB standards could be adopted mandatorily by the Islamic banks in the country. It will place the industry at international level of standard and uniqueness of policies that will contribute to its consistency.

There should be an effective mechanism for the SBs to offer its advice to the board of directors on *Shari'ah* issues. If anything found contradict to the *Shari'ah* principles, and could not be resolved by the management, or any clash ascends between the SB and management/ board of directors, there should be a channel for the SB to report to Bangladesh Bank.

The role of SB should not only be confined to traditional role, but should encompass the accounting, strategic and technical issues also. SB should have effective support from all the concerned parties such as the *Shari'ah* department, management, board of directors, audit department etc. Similarly, there should be a line regarding their involvement so that the *Shari'ah* verdicts are not be prejudiced by the parties because of over reliance on them. The

regulatory authorities and stakeholders should initiate to produce competent *Shari'ah* scholars, while SB should initiate programs to develop knowledge and skill of its members. IB industry has already mainstreamed in the banking system of Bangladesh, while many conventional banks integrated IB operations with an upward trend over the past decades. As a result, the SB's role in *Shari'ah* governance will become more important and, in line with the aforementioned suggestions, will firmly emphasize its *Shari'ah* advisory role while providing guarantee of *Shari'ah* compliance.

9.3 Limitations and Scope for Further Research

This research is conducted based on the questionnaire survey findings from the members of the SBs and the branch managers of different Islamic banks in Bangladesh. It aims to provide a thorough knowledge of the SB's *Shari'ah* governance role from two distinct angles; SB members and branch managers. The 1st questionnaire survey analyzes it from the perspective of the members of the SBs, while the 2nd questionnaire survey analyzes the branch managers' perspectives on how they believe the SB will address the issues raised in QS1. The questionnaire survey was created using the AAOIFI and IFSB standards, and QS2's questions are comparable to those in QS1 in terms of content. Besides, quantitative data analysis by using statistical tools, descriptive analyses also provided. Although these methodological issues restrict how far the conclusions can be applied, it is suggested that by creating a thorough understanding of the SB's *Shari'ah* governance function, the study's findings strengthen the validity of the inclusive analysis. If the findings could further be assessed through in-depth interviews, would produce a more complete scenario of the issues under study. In order to obtain a better outcome, it is advised that this methodological technique be used in future study.

Second, the current study's focus is limited to fully operational Islamic banks. Although, there are some conventional banks conducting *Shari'ah*-compliant banking activities through opening IB branch or windows. Future research should enhance the scope of the study to include all of the banking institutions conducting IB activities in Bangladesh.

Thirdly, some of these fully-fledged Islamic banks engage in *Shari'ah*-compliant capital market investment, which comes under the purview of the Securities and Exchange Commission. From now on, only guidelines released by AAOIFI, IFSB, and Bangladesh Bank are used as references for the *Shari'ah* governance role of SBs in the questionnaire survey, with the exception of banks governed by Bangladesh Bank regulations. It is advised that future research expand on the current research by carefully examining the issues examined in this study while taking into account the framework and guidelines of the

Securities Exchange Commission in order to achieve a more comprehensive assessment of the Shari'ah governance function of the SB. Undoubtedly, such a study might provide a more thorough appraisal of the SBs' *Shari'ah* governance duties in the IB industry and capital market.

Fourthly, the two questionnaire surveys were made to help determine how well people understood the SB problems that were being looked into. The respondents' exposure to the Shari'ah governance function of the SB is essential since the roles and functions of the SBs are influenced by a number of circumstances. Some responses in both questionnaire surveys seem to have lack of such exposure as expected. Furthermore, some of the respondents were unaware and unwilling to participate in this kind of survey, and so, the number of respondents was not as much as expected. The respondents, who participated in the survey, were also not enthusiastic enough in providing appropriate data. Moreover, the banking officials have, sometimes, refused to give some relevant data on the ground of confidentiality. As a result, there is a chance that opinions expressed on the issues highlighted in the questionnaire will be made hastily. Despite affecting the goal of the present questionnaire survey, this limitation allows room for subsequent research, so choose your respondents wisely.

Additionally, the Shari'ah reports issued by the Boards were informed to have nearly depended on the investigations by the officers of the Shari'ah department, indicating that the *Shari'ah* review of Islamic banks in Bangladesh was not successfully accomplished by the SBs. This demonstrates how active a part the Shari'ah department personnel play in the Islamic banks' *Shari'ah* governance. There are additional difficulties centered on the role of *Shari'ah* department officials, such as their independence and efficacy, which might be part of the future research agenda, but since the goal of the current study is to thoroughly analyze issues of the governance function of the SB.

Additionally, the governance role of the SBs of Bangladeshi Islamic banks was examined in this study. Future research could build on the results of this study by examining the governance functions of the SBs of Islamic banks in other nations, adding to the body of knowledge and giving important insights into global practices.

Despite numerous limitations, the current study provides evidence regarding the function of the SBs in Bangladesh's IB business in terms of their role, independence, and efficacy in terms of *Shari'ah* governance. It adds to the body of literature by providing in-depth empirical data about all parties involved in the *Shari'ah* governance function as well as other stakeholders, making it stand out beyond the apparent comprehension of the issues examined.

BIBLIOGRAPHY

AAIBL, (2016). *Annual Report*, Al-Arafah Islami Bank Limited, Accessed November 10, 2017, https://www.al-arafahbank.com/AIBL_AR_2016.pdf.

AAIBL, (2018). *Profile*, Al-Arafah Islami Bank Limited, Accessed December 10, 2018, <https://www.al-arafahbank.com/profile.php>

AAOIFI, (2010). “Governance Standard for Islamic Financial Institutions No. 1: Shari’ah Supervisory Board: Appointment, Composition and Report”, *Accounting, Auditing and Governance Standard for Islamic Financial Institutions*, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.

AAOIFI, (2010a). “Governance Standard for Islamic Financial Institutions No. 2: Shari’ah Review”, *Accounting, Auditing and Governance Standard for Islamic Financial Institutions*, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.

AAOIFI, (2010b). “Governance Standard for Islamic Financial Institutions No. 6: Statement on Governance Principles for Islamic Financial Institutions”, *Accounting, Auditing and Governance Standard for Islamic Financial Institutions*, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.

AAOIFI, (2010c). “Governance Standard for Islamic Financial Institutions No. 5: Independence of Shari’ah Supervisory Board”, *Accounting, Auditing and Governance Standard for Islamic Financial Institutions*, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.

AAOIFI, (2010d). “Governance Standard for Islamic Financial Institutions No. 3: Internal Shari’ah Review”, *Accounting, Auditing and Governance Standard for Islamic Financial Institutions*, Accounting and Auditing Organization for Islamic Financial Institutions, Manama, Bahrain.

AAOIFI, (2010e). “Financial Accounting Standard No. 20”, *Accounting Auditing and Governance Standards for Islamic Financial Institutions*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain.

AAOIFI, (2017). *Shari’ah Standards*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. Accessed April 30, 2019, <http://aaoifi.com/shariaa-standards/?lang=en>.

AAOIFI, (2019). *About AAOIFI*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. Accessed April 30, 2019, <http://aaoifi.com/?lang=en>.

AAOIFI, (2019a). *Accounting, Auditing and Governance Standards*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. Accessed April 30, 2019, <http://aaoifi.com/standard/accounting-standards/?lang=en>.

AAOIFI, (2019b). *Newly Issued Standards*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. Accessed April 30, 2019, <http://aaoifi.com/issued-standards-4/?lang=en>.

AAOIFI, (2019c). *Adoption of AAOIFI standards*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. Accessed April 30, 2019, <http://aaoifi.com/adoption-of-aaoifi-standards/?lang=en>.

AAOIFI, (2019d). *Founding Members*, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain. Accessed April 30, 2019, <http://aaoifi.com/founding-members/?lang=en>.

AAOIFI, (2020). Certified *Shari'ah* Advisor and Auditor (CSAA) textbook, Accounting and Auditing Organization for Islamic Financial Institutions, Bahrain.

Abd Jabbar, H. S. F. (2008). "The Shari'a Supervisory Board: a potential problem in Islamic finance", *Company Lawyer*, Vol. 29, No. 1.

Abd Jabbar, H. S. F. (2009). "Sharia-compliant financial instruments: principles and practice", *Company Lawyer*, Vol. 30, No. 1.

Abdallah, A. (ed.) (1994). *The role of Sharia supervisory boards in setting accounting policies in Islamic banks*, International Conference on Developing Accounting Standards for Islamic Banks, London: IIBI.

Abdeen, A. and Shook, D. (1984). *The Saudi financial system: in the context of Western and Islamic finance*, Wiley, New York.

Abdullah, A. (2007). *Prophet Muhammad's Last Sermon: A Final Admonition*, Accessed May 10, 2016, <http://www.islamreligion.com/articles/523/prophet-muhammad-s-last-sermon/>.

Abdullah, S. (1996). *Islamic Banking and Interest*, E.J Brill, New York.

Abdul Majid, A. R. (2003). *Development of Liquidity Management Instrumnets: Challenges and Opportunitites*, International Conference on Islamic Banking: Risk Management, Regulation and Supervision, Sep.30-Oct.3, Indonesia.

Abdul Rahman, A. R. (2003). "Ethics in accounting education: Contribution of the Islamic principles of Masalih", *IJUM Journal of Economics and Management*, Vol. 11, No. 1.

Abdul Rahman, A. R. (ed.) (2008). "Shari'ah audit for Islamic financial services: the needs and challenges". *Isra' Islamic Finance Seminar*, Kuala Lumpur, November 11.

Abdul Rahman, A. R. (2007), "Islamic banking and finance: between ideas and realities", *The International Islamic University Malaysia Journal of Economics and Management*, Vol. 15, No. 2.

Abdul Rahman, A. R. (1998). "Issues in corporate accountability and governance: An Islamic perspective", *The American Journal of Islamic Social Science*, Vol. 15, No. 1.

Abdul Rahman, A. R. et al. (2005). "Syariah governance of Islamic banks: perceptions of the responsibility and independence of Syariah advisers". In: Hassan, V. et al. (eds). *Corporate governance: an Islamic paradigm*, University Putra Malaysia Press.

Abdul-Rahman, Y. (2010). *The Art of Islamic Finance and Banking: Tools and Techniques for Community-Based Banking*, John Wiley & Sons, Inc.

Abedifar, P., Ebrahim, S., Molyneux, P. and Tarazi, A. (2015). *Islamic Banking and Finance: Recent Empirical Literature and Directions for Future Research*, RBF Working paper, No. 15-008, Centre for Responsible Banking and Finance, University of St Andrews.

Abozaid, A. and Asyraf, W. D. (2007). "The challenges of realizing *maqasid al-shariah* in Islamic Banking and Finance", *International Conference on Islamic Banking and Finance Research and Development*, IJUM Malaysia.

- Abumouamer, F. M. (1989). *Analysis of the role and function of the Shari'ah control in Islamic banks*, PhD Thesis, College of Cardiff, University of Wales.
- Abu-Dawood, S. I. A. (1999). *Sunan Abu-Dawood*, Darus Salam publications, Riyad, KSA.
- Abu-Sulayman, A. A. (1993). *Towards an Islamic theory of international relations: New directions for methodology and thought*, Islamization of Knowledge Series; No 1, International Institute of Islamic Thought, USA.
- African Development Bank, (2011). *Islamic Banking and Finance in North Africa; Past Development and Future Potential*, Accessed November 10, 2017, <https://www.afdb.org/en/>.
- Aggarwal, R.. and Yousef, T. (2000). *Islamic banks and investment financing*, Journal of Money, Credit and Banking, Vol. 32, No. 1.
- Ahmad A. (2015). "Development of the Islamic Banking System", *Journal of Islamic Banking and Finance*, American Research Institute for Policy Development, Vol. 3, No. 1.
- Ahmad, A. K. (2012). *Ethical Banking and Finance: A Theoretical and Empirical Framework for the CrossCountry and Inter-bank Analysis of Efficiency, Productivity, and Financial Performance*, PhD thesis, The University of Hohenheim.
- Ahmad, A. U. F. (2010). *Development in Islamic Banking Practice; the Experience of Bangladesh*, Universal Publishers, Boca Raton, Florida, USA.
- Ahmad, A. U. F. and Hassan, M. K. (2007). "Regulation and performance of Islamic banking in Bangladesh", *Thunderbird International Business Review*, Vol. 49, No. 2.
- Ahmad, A. U. F. (2010). *Theory and Practice of Modern Islamic Finance: The Case Analysis from Australia*, Brown Walker Press.
- Ahmad, A. U. F. (2002). *Islamic Banking in Bangladesh*, An unpublished thesis for Master of Laws, School of Law University of Western Sydney.
- Ahmad, M. A. A. (2012). *Ethical Banking and Finance: A Theoretical and Empirical Framework for the Cross Country and Inter-bank Analysis of Efficiency, Productivity, and Financial Performance*, PhD thesis, The University of Hohenheim, Germany.
- Ahmad, K. (2000a). "Islamic finance and banking: the challenge and prospects", *Review of Islamic Economics*, Vol. 9 No. 1.
- Ahmad, K., Mohammed, M. O. and Razak, D. A. (2012). "Case Study of Pilgrimage Funds Management Board", *IIUM Journal of Case Studies in Management*, Vol. 3, No. 2.
- Ahmad, S. M. (1952). *Economics of Islam*, Lahore.
- Ahmad, Z. (2000b). *Conversion of interest-based to Islamic banking*. In Siddiqi A. (ed.). *Anthology of Islamic Banking*, Institute of Islamic Banking and Insurance, London.
- Ahmad, Z. (1983). *Money and Banking in Islam*, New Era Publications.
- Ahmad, Z. (1984). "Concept and Models of Islamic banking: An Assessment", In *Islamization of Banking*, Karachi, Pakistan.

Ahmad, Z. (1991). *Islamic banking at the crossroads*, In Sadeq, A. H. M., Pramanik, A.H. and Hassan, N.M.N. (ed.). *Development and finance in Islam*, International Islamic University Press, Kuala Lumpur.

Ahmad, N. and Haron, S. (2002), “Perceptions of Malaysian corporate customers towards Islamic Banking Products and Services”, *International Journal of Islamic Financial Services*, Vol. 3 No 4.

Ahmed, A. (1992). “Contemporary Experiences of Islamic Banks”, *Journal of Objective Studies*, Vol.4, No.1, Accessed November 10, 2017, <https://www.iosworld.org/article4.htm>.

Ahmed, H. (2006). “Islamic law, adaptability and financial development”, *Islamic Economic Studies*, Vol. 13, No. 2.

Ahmed H. and Aleshaikh, N. M. (2014). “Debate on *Tawarruq*: Historical Discourse and Current Rulings”, *Arab Law Quarterly*, Brill, Vol. 28, No. 1.

Ahmed, H. (2011). “Maqasid al-Shari'ah and Islamic financial products: a framework for assessment”, *ISRA International Journal of Islamic Finance*, Vol. 3, No. 1.

Al-Arabi, M. A. (1966). “Contemporary banking transactions and Islam’s views thereon”, *Islamic Review*, London.

Al-Baraka Bank, (2018). Accessed May 10, 2018, <https://www.albaraka.com/default.asp?action=articleandid=46>

Al-Baraka Turk, (2018). *History*, Accessed December 20, 2018, <https://www.albaraka.com.tr/en/history.aspx>.

Al-Ahli Bank (2018). *A Brief Introduction*, Accessed December 30, 2018, <https://www.alahli.com/en-us/about-us/Pages/default.aspx>

Al-Ansari, M., Hasan, M. and Metwaly, S. (1988). *Islamic Banks* (in Arabic) Al-Ahram Establishment, Cairo.

Al-Bukhari, M. (1999). *Sahih Al-Bukhari*, Darussalaam Publishers, Riyadh, KSA.

Al-Bayhaqi, (2013). *Al-Sunan al-Kubra*, Dar-ul-Hadith, UK. Vol. 6.

Al-Djahshiyari, A. (1938). *Kitab al-Wuzara’ wa al-Kuttab* (The book of Ministers and Writers), Cairo.

Al-Duri, A. A. (1986). “Baghdad”, in the *Encyclopedia of Islam*, Brill, Leiden, Vol.1.

Al-Hamdani, K. (2000). “Al-Nizam al-Masrafi fi al-Dawlah al-Islamiyah” (The Banking System in the Islamic State), *Islamiyat al-Maarifa*, Winter.

Al-Jarhi, M. and Iqbal, M. (2001). *Islamic banking: answers to some frequently asked questions*, Occasional paper No. 4, Islamic Research and Training Institute, Islamic Development Bank, Accessed May 10, 2017, <http://www.irtipms.org/PubAIIIIE.asp>.

Al-Kubaisi, H. (1979). *Aswaq Baghdad Hatta Nihayat al-Asr al-Buwaihi* (Baghdad’s Markets until the end of the Buwaihi era), Dar al-Hurriyah, Baghdad.

Al-Marwyne, M. (1985). *Islamic bank and its areas of work: comparative study* (in Arabic), Master’s Thesis, Umm Al-Qura, Makkah.

Al-Omar, F. and Abdel-Haq, M. (1996). *Islamic Banking: Theory, Practice and Challenges*. Oxford University Press, London.

Al-Rajhi Bank (2018). *Company Profile*, Accessed December 20, 2018, <https://www.alrajhibank.com.sa/en/investor-relations/about-us/pages/company-profile.aspx>

Al-Rawashdah, M. S. (2009). "The political and financial implications of globalization on the Islamic banking: facts and events", *European Journal of Social Sciences*, Vol. 12, No. 2.

Al-Nasai, A. A. R. (n.d.). *Al-Sunan al-Nasai*, Accessed July 10, 2018, <https://sunnah.com/nasai/35b/1>

Al-Omar, F. and Abdel-Haq, M. (1996). *Islamic banking: theory, practice, and challenges*. Zed Books. IAIB, London and New Jersey.

Al-Qur'an.

Al-Sadah, A. K. I. (2007). *Corporate governance of Islamic banks, its characteristics and effects on stakeholders and the role of Islamic banks supervisors*. PhD Thesis, University of Surrey.

Al-Hajjaj, M. I. (1999). *Sahih Al-Muslim*, Darussalaam Publishers, Riyad, KSA.

Al-Nawawi, Y. I. S. (1991). *Forty Hadith of Al-Nawawi*, Al-Basheer Publications and Translations, USA.

Al-Qardawi, Y. (1993). *Madkhal li-dirasatil-Shari'ah al-Islamiyyah*, Mu'assasat al-Risalah, Beirut. (Quoted from Shatibi, *Muwafaqat*, Vol.1, p. 243).

Al-Qur'an.

Alam, M. N. (2000). "Islamic Banking in Bangladesh: A Case Study of IBBL", *International Journal of Islamic Financial Services*, Vol. 1 No.4.

Algaoud, L. M. and Lewis, M. K. (2007). "Islamic critique of conventional financing", In: *Handbook of Islamic banking*, ed. by Hassan, M. K. and Lewis, M. K., Edward Elgar Publishing Limited, Cheltenham.

Altundag, P. and Nadia, H. (2005). *Handbuch Islamic Banking*, Zürich: LUNA Verlag Pfäffikon, Switzerland.

Alhabshi, S. M. and Bakar, M. D. (2008). "Survey on Shari'ah board of institutions offering Islamic financial services across jurisdictions", In: IFSB (ed.) *Islamic Finance: Surveys on Global Legal Issues and Challenges*.

Alharbi, A. (2016). "Development of Islamic Finance in Europe and North America: Opportunities and Challenges", *International Journal of Islamic Economics and Finance Studies*, Vol. 2, No. 3. Accessed December 20, 2018, <http://dergipark.gov.tr/download/article-file/303959>

Alharbi, A. (2015). "Development of the Islamic Banking System", *Journal of Islamic Banking and Finance*, Vol. 3, No. 1, Accessed November 20, 2018, http://jibfnet.com/journals/jibf/Vol_3_No_1_June_2015/2.pdf.

Ali, M. (2000). *Equity and morality in Islamic banking*, In Siddiqi, A. (ed.). *Anthology of Islamic banking*, Institute of Islamic Banking and Insurance, London.

- Ali, M. and Sarkar, A. A. (1995). "Islamic Banking: Principles and Operational Methodology", *Thoughts of Economics*, Islamic Economics Research Bureau, Vol. 5, No. 3 and 4.
- Amin, S. H. (1986). *Islamic Banking and Finance: The Experience of Iran*, Vahid Publications, Tehran.
- Ansari, M. and Memon, F. A. (2008). "Is Islamic Banking Really 'Islamic'?", *Islamic Finance News*, Vol. 5.
- Antonio, M. S. ed. (2008). *What is the future outlook of Shari'ah harmonization?* Isra' Islamic Finance Seminar. Kuala Lumpur, 11 November.
- Anwar, H. (ed.) (2008). *Islamic Finance*, GMB publishing, UK.
- Anwar, H. and Millar, R. (ed.) (2008). *Islamic Finance: A Guide for International Business and Investment*, GMB publishing, London.
- Anwar, M. (2003). "Islamicity of Banking and Modes of Islamic Banking", *Arab Law Quarterly*, Brill, Vol. 18, No. 1.
- Anwar, M. (1992). "Islamic Banking in Iran and Pakistan: A Comparative Study", *Pakistan Development Review*, Vol. 31, No. 4.
- Arab News (2006). *SAIB launches Islamic banking program*, 26 September, Accessed November 10, 2018, <http://www.arabnews.com/node/289561>
- Arbouna, M. B. (2007). *The combination of contracts in Shari'ah: A possible mechanism for product development in Islamic banking and finance*, *Thunderbird International Business Review*, Vol. 49, No. 3.
- Archer, S. and Karim, R. A. A. (2002). *Islamic Finance Innovation and Growth*, Euro-money Books and AAOIFI, London.
- Ariff, M. (1988). "Islamic Banking", *Asian-Pacific Economic Literature*, Vol. 2, No. 2. Accessed November 10, 2018, <https://onlinelibrary.wiley.com/doi/pdf/10.1111/j.1467-8411.1988.tb00200.x>.
- Arrow, K. J. (1974). *The limits of organization*, W. W. Norton and Company, New York.
- Ary, D. (1972). *Introduction to research in education*, Rinehart and Winston, New York.
- ASSIAF, (1994). *January 1994-Rome: Banche islamiche in Italia*, Accessed November 10, 2018, <http://www.assaif.org/Events/1994/January-1994-Rome-%22Banche-islamiche-in-Italia%22>.
- Ashraf, S. H. and Giashi, A. A. (2011). "Islamic Banking in Iran - Progress and challenges", *Arabian Journal of Business and Management Review*, Vol. 1, No. 2.
- At-Tirmidhi, A. I. M. (n.d.). *Jami at-Tirmidhi*, Vol. 4, Book 11, Hadith no. 2416, Accessed June 10, 2017, <https://sunnah.com/tirmidhi/37>
- Ausaf, A. (1995). *The Evolution of Islamic Banking*, In *Encyclopedia of Islamic Banking and Insurance*, Institute of Islamic Banking and Insurance, London.
- Ayub, M. (2002). *Islamic Banking and Finance: Theory and Practice*, State Bank of Pakistan, Karachi.

- Ayub, M. (2007). *Understanding Islamic Finance*, John Wiley & Sons Ltd., UK.
- Babbie, E. R. (1990). *Survey research method*, 2nd edition, Wadsworth, Belmont, Canada
- Bahnasawy, A. (2017). "Two years after opening, Germany's only Islamic bank posts strong growth, mulls expansion", *Global Islamic Economic Gateway*, Accessed November 10, 2018, https://www.salaamgateway.com/en/story/two_years_after_opening_germanys_only_islamic_bank_posts_strong_growth_mulls_expansion-SALAAM20092017123127/
- Banaga, A. et al. (1994). *External audit and corporate governance in Islamic banks: a joint practitioner-academic research study*, Aldershot, Avebury.
- Bangladesh Bank (2019). *Guidelines for Conducting Islamic Banking*, Dhaka, Accessed September 30, 2019, <http://www.dib.gov.bd/islamic-banking/what-is>.
- Bangladesh Bank, (2017). *Quarterly Report on Developments of Islamic Banking in Bangladesh*, Research Department, October- December.
- Bank Al-Bilad, (2018). *About the Bank*, Accessed December 30, 2018, <http://www.bankalbilad.com/sites/en/Albilad1/Pages/About.aspx>
- Bank Asya, (2017). *About Us*, Accessed November 10, 2018, <http://www.bankasya.com.tr/en/about-us.aspx>
- Bank Negara Malaysia (2008). Accessed November 10, 2017, <http://www.bnm.gov.my/index.php?ch=174andpg=470>.
- Bank Negara Malaysia (2018). Accessed November 20, 2018, http://www.bnm.gov.my/index.php?ch=fsandpg=fs_mfs_listandac=118andlang=en
- Belouafi, A. and Chachi, A. (2014). "Islamic Finance in the United Kingdom: Factors Behind its Development and Growth", *Journal of Islamic Economic Studies*, Vol. 22, No. 1, Accessed December 20, 2018, <http://www.irti.org/English/Research/Documents/IES/002.pdf>
- Berenson, M. L. et al. (2002). *Basic business statistics: concepts and application*, 8th edition, Prentice Hall, USA.
- Bhambra, H. (2002). "Supervisory Implications of Islamic Finance in the Current Regulatory Environment", in Archer, S. and Karim, R.A.A. (Eds), *Islamic finance: the regulatory challenge*, John Willey, Singapore.
- Bidabad, B. and Allahyarifard, M. (2008). "Assets and liabilities management in Islamic Banking, Bijan Bidabad", Accessed 23 February, 2012, www.bidabad.com/doc/alm-english.pdf
- Bitar, M. and Madiès, P. (2013). *Les spécificités des banques islamiques et la réglementation de BÂLE III*, Revue d'Economie Financière, 111.
- Bosna Bank International, (2018). *About us*, Accessed March 20, 2019, <https://www.bbi.ba/bs/onama>.
- Boubyan Bank, (2018). *About Bank Boubyan*, Accessed December 20, 2018, <https://boubyan.bankboubyan.com/en/about/>.
- Briston, R. and El-Ashker, A. (1986). "Religious Audit: could it happen here?", *Accountancy*, Vol. 98, No. 1118.

- Buksh, Z. (2006), *Can Islamic Banking Work in South Africa?*, MBA Thesis, Gordon Institute of Business Science, University of Pretoria, Pretoria.
- Carruthers, S. (2008). "Islamic financial services in Canada: recent developments and long-term prospects", *Mondaq*, Accessed December 30, 2017, <http://www.mondaq.com/canada/article.asp?articleid=63250>.
- CFI (2018). *Overview of Banks in Saudi Arabia*, Corporate Finance Institute, Accessed December 30, 2018, <https://corporatefinanceinstitute.com/resources/careers/companies/banks-in-saudi-arabia/>
- Chachi, A. (2005). "Origin and development of commercial and Islamic banking operations", *Islamic Economics*, Vol. 18.
- Chapra, M. U. (1979). *Objectives of the Islamic Economic order*, The Islamic Foundation, Leicester, UK.
- Chapra, M. U. (1982). *Money and banking in an Islamic economy*, In Ariff, M. (ed.) *Islamic Banking in Southeast Asia*, Institute of Southeast Asian Studies, Singapore.
- Chapra, M. U. (1992). *Islam and Economic Challenges*, the Islamic Foundation and the International Institute of Islamic Thought, Leicester, UK.
- Chapra, M. U. and Khan, T. (2000). *Regulation and supervision of Islamic Banks*, Occasional Paper No. 3, Islamic Research And Training Institute, Islamic Development Bank, Jeddah.
- Chapra, M. U. and Ahmed, H. (2002), *Corporate governance in Islamic financial institutions*, Occasional Paper No. 6, Islamic Research and Training Institute, Islamic Development Bank, Jeddah.
- Chong, B. S. and Liu, M. H. (2009). "Islamic banking: interest-free or interest-based?", *Pacific-Basin Finance Journal*, Vol. 17, No. 1. Accessed 12 March, 2017, <http://dx.doi.org/10.1016/j.pacfin>.
- CIFP Study Material, (2006). *Islamic Financial Institutions and Markets*, Part 1, International Centre for Education in Islamic Finance (INCEIF), Kuala Lumpur.
- Colditz, K. (2009). *Islamic banking – a worthwhile challenge for German banks?*, Master thesis, Technische Hochschule Nurnberg, Nurnberg.
- Cragg, K. (1964). *The Call of the Minaret*, Oxford University Press, New York.
- DeVaus, D. A. (1996). *Survey in Social Research*, UCL Press, London.
- DeVaus, D. A. (2001). *Research Design in Social Research*, Sage Publication, London.
- Doi, A. R. (1984). *Shariah: The Islamic Law*, Ta Ha Publishers Ltd., London.
- Dubai Islamic bank, (2016). Accessed July 30, 2016, <http://www.dib.ae/islamic-banking/what-is>.
- Dusuki, A. W. (2006). "Corporate Governance and Stakeholder Management of Islamic Financial Institutions", *National Seminar in Islamic Finance*, KUIM, Nilai, Aug. 20th -30th. Accessed May 10, 2018, [http://www.asyrafwajdi.com/download.php?f=0009\(downloaded-from-asyrafwajdi.com\).pdf](http://www.asyrafwajdi.com/download.php?f=0009(downloaded-from-asyrafwajdi.com).pdf)
- Dusuki, A. W. and Abdullah, N. I. (2006). "Why do Malaysian customers patronise Islamic banks?", *International Journal of Bank Marketing*, Vol. 25, No. 3.

- Dusuki, A. W. and Abozaid, A. (2007). "A critical appraisal on the challenges of realizing Maqasid Al-Shari'ah in Islamic banking and finance", *IIUM Journal of Economics and Management*, Vol. 15, No. 2.
- El-Shiekh, S. (2010). *Dr. Ahmed Al-Najjar and Islamic banking*, In *Islamic Economy and Finance Pedia*, The International Association of Islamic Banks, Accessed November 10, 2017, <http://iefpedia.com/arab>.
- El-Sharif, B. B. K. (1990). *Law and Practice of Profit Sharing in Islamic Banking with Particular Reference to Mudarabah and Murabahah*, PhD Theses of University of Exeter, University of Exeter Press.
- El-Gamal, M. (2006). *Islamic Finance: Law, Economics and Practice*, Cambridge University Press.
- El-Nagar, A. A. A. (1980). *One Hundred Questions and One Hundred Answers Concerning Islamic Banks*, International Association of Islamic Banks, Cairo.
- El-Qorchi, M. (2005). "Islamic finance gears up", *Finance & development*, Vol. 42, No. 4, an article published in International Monetary Fund Magazine.
- Elgari, M. A. (2009). "Credit risk in Islamic banking and finance", *Islamic Economic Studies*, Vol. 10, No. 2.
- El Tiby, A. M. (2011). *Islamic Banking: How to Manage Risk and Improve Profitability*, John Wiley and Sons.
- Elmelki, A and Ben Arab, M. (2009). "Ethical Investment and the Social Responsibilities of the Islamic Banks", *International Business Research*, Vol. 2, No. 2.
- Ercanbrack, J. G. (2011). *The Law of Islamic Finance in the United Kingdom: Legal Pluralism and Financial Competition*. PhD Thesis, SOAS (School of Oriental and African Studies), Accessed November 10, 2018, https://eprints.soas.ac.uk/13598/1/Ercanbrack_3342.pdf
- Ergun, U. and Djedovic, I. (2011). "Islamic Banking with a Closer Look at Bosnia and Herzegovina: Knowledge, Perceptions and Decisive Factors for Choosing Islamic Banking", In *8th International Conference on Islamic Economics and Finance*, Center for Islamic Economics and Finance, Qatar Faculty of Islamic Studies, Qatar Foundation, Accessed November 10, 2018, <http://www.iefpedia.com/english/wp-content/uploads/2012/01/Ugur-Ergun.pdf>.
- Ernst and Young (2014). *World Islamic banking competitiveness report in 2013-2014*, Accessed November 10, 2017, <http://www.mifc.com/index.php?ch=28andpg=72andac=58andbb=uploadpdf>.
- Ernst and Young (2015). *Luxembourg the getaway: for Islamic finance and the Middle East*, Accessed November 10, 2017, <http://www.ey.com/lu/en/industries/financial-services/islamicfinance>.
- Erol, C. and El-Bdour, R. (1989). "Attitude, behaviour and patronage factors of bank customers towards Islamic banks", *International Journal of Bank Marketing*, Vol. 7, No. 6.
- Erol, C., Kaynak, E. and El-Bdour, R. (1990). "Conventional and Islamic Bank patronage behaviour of Jordanian customers", *International Journal of Bank Marketing*, Vol. 8, No. 5.
- Errico, L., and Farahbaksh, M. (1998). *Islamic banking: Issues in prudential regulations and supervision*, Monetary and Exchange Affairs Department, International Monetary Fund (IMF).
- Esposito, J. L. (ed.) (2003). *The Oxford Dictionary of Islam*, Oxford University Press, New York.

- EXIMBL, (2016). *Annual Report*, EXIM Bank Limited, Accessed November 10, 2017, http://www.eximbankbd.com/report/ar_2016p1.pdf.
- EXIMBL, (2018). *Our Vision, Our Mission*, EXIM Bank Limited, Accessed December 10, 2018, <http://www.eximbankbd.com/about/mission>.
- Farhoush, A. and Mahlknecht, M. (2013). *A critical view on Islamic finance in Germany*, In Cattelan, V. (ed.) *Islamic Finance in Europe: Towards a Plural Financial System*, Edward Elgar Publishing.
- Faizullah, M. (2009). *Islamic banking: Issues of governance, transparency and standardization*, PhD Thesis, London Metropolitan University.
- Faye, I., Triki, T. and Kangoye, T. (2013). "The Islamic finance promises: Evidence from Africa", *Review of Development Finance*, Vol. 3.
- Febianto, I. (2010). *The ethical perspective on the practices of Islamic Banking*, Accessed on 8 October 2011, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1672140.
- Fischel, W. J. (1992). "Djahbadh", in the *Encyclopedia of Islam*, Vol. 2, Brill, Leiden.
- Fiqh Academy (2009). Accessed April 30, 2018, <http://www.iefpedia.com/english/wp-content/uploads/2009/10/The-Role-of-Shari'ah-Supervision-in-Regulating-the-Operations-of-Islami-Banks.pdf>
- Fowler, F. J. (2002). *Survey research methods*, 3rd edition, Sage Publication, London.
- Fraser, J. and Simkins, B. (2010). *Enterprise Risk Management: Today's Leading Research and Best Practices for Tomorrow's Executives*, John Wiley and Sons.
- FSIBL, (2016). *Annual Report*, First Security Islami Bank Limited, Accessed November 10, 2017, http://www.fsibld.com/fsibl_document/Annual%20Report%202016.pdf.
- FSIBL, (2018). *Our Mission*, First Security Islami Bank Limited, Accessed November 10, 2017, <http://www.fsibld.com/popular-links/our-mission/>.
- Gait, A. H. A. (2009). *Libyan Attitudes towards Islamic Method of Finance; An Empirical Analysis of Retail Customers, Business Firms and Banks* (unpublished PhD thesis), Griffith University.
- Gambling, T. and Karim, R. A. A. (1991). *Business and Accounting Ethics in Islam*. Mansell Publishing Co. Limited, London.
- Gambling, T. et al. (1993). *Creditable organizations: self regulation v. external standard setting in Islamic banks and British charities*, *Financial Accountability and Management*, Vol. 9, No. 3.
- Gassner, M. and Wackerbeck, P. (2007). *Islamic Finance - Islam-gerechte Finanzanlagen und Finanzierungen*, Köln: Bank-Verlag Medien GmbH.
- Ghayad, R. (2008). *Corporate governance and the global performance of Islamic banks*, *Humanomics*, Vol. 24, No. 3.
- GBFR, (2013). *List of Islamic Banks in Lebanon*, *Global Banking and Finance Review*, Accessed November 10, 2017, <https://www.globalbankingandfinance.com/list-of-islamic-banks-in-lebanon/>

GBFR, (2013a). *List of Islamic Banks in Senegal*, Global Banking and Finance Review, Accessed November 10, 2017, <https://www.globalbankingandfinance.com/list-of-islamic-banks-in-senegal/>

GBFR, (2013b). *List of Islamic Banks in Niger*, Global Banking and Finance Review, Accessed November 10, 2017, <https://www.globalbankingandfinance.com/list-of-islamic-banks-in-nigeria/>

Gelbard, E., Hussain, M., Maino, R., Mu, Y. and Yehoue, E. B. (2014). *Islamic Finance in Sub-Saharan Africa: Status and Prospects*, IMF working paper, Accessed December 10, 2018, <https://www.imf.org/external/pubs/ft/wp/2014/wp14149.pdf>

Ghayad, R. (2008). "Corporate governance and the global performance of Islamic banks", *Humanomics*, Vol. 24, No. 3.

GIFR (2017). *Global Islamic Finance Report*, Accessed November 10, 2017, <http://www.gifr.net/publications/gifr2017/intro.pdf>

Greuning, H. and Iqbal, Z. (2008). *Risk Analysis for Islamic Banks*, The World Bank, Washington.

Grais, W. and Pellegrini, M. (2006). *Corporate governance and Shari'ah compliance in institutions offering Islamic Financial Services*, Working Paper 4054, November, World Bank Policy Research.

Grais, W. and Pellegrini, M. (2006). *Corporate governance in institutions offering Islamic financial services: issues and options*, Working paper series, No. 4052, World Bank.

Grassa, R. and Hassan, M.K. (2015). "Islamic Finance in France: Current State, Challenges and Opportunities", *International Journal of Islamic Economics and Finance Studies*, Vol. 1, No. 1. Accessed November 10, 2018, <http://dergipark.gov.tr/download/article-file/303976>

Guidance Residential, (2015). *Guidance Residential History*, Accessed November 10, 2017, www.guidanceresidential.com.

Hadenan, T. (2006). *Untung Dalam Sistem Perbankan Islam*, University Malaya Press, Kuala Lumpur.

Hallaq, W. (2009). *An Introduction to Islamic Law*, Cambridge University Press, UK.

Hamoud, S. H. (1985). *Islamic Banking*, Arabian Information Ltd., London, UK.

Hancock, M. (2013). *Islamic finance in 2013: beyond the growth*, The Banker, March 1, Accessed November 10, 2018, <https://www.thebanker.com/Markets/Islamic-Finance/Islamic-finance-in-2013-beyond-the-growth?ct=true>.

Hanif, M. (2011). "Differences and similarities in Islamic and conventional banking", *International Journal of Business and Social Science*, Vol. 2, No. 2.

Hanif, M. and Iqbal, A. (2010). "Islamic financing and business framework: A survey", *European Journal of Social Sciences*, Vol. 15, No. 4.

Haniffa, R., Hudaib, M. and Mirza, A. M. (2004). *Accounting policy choice within the Shari'ah Islamiah framework*, Department of Accounting and MIS, King Fahd University of Petroleum and Mineral, Saudi Arabia.

Haniffa, R. M. and Hudaib, M. (2007). "Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports", *Journal of Business Ethics*, Vol. 76, No. 1.

- Haron, S (1995). "The framework and concept of Islamic interest-free banking", *Journal of Asian Business*, Vol. 11, No. 1.
- Haron, S. (1996). *Prinsip dan Operasi Perbankan Islam*, Berita Publishing, Kuala Lumpur.
- Haron, S. (1997). *Islamic banking: Rules and regulations*, Pelanduk Publications, Kuala Lumpur.
- Haron, S. (2000). *The philosophy of Islamic banking*, In Siddiqi, A. (ed.). *Anthology of Islamic banking*, Institute of Islamic Banking and Insurance, London.
- Haron, S. (2005). *Sistem Kewangan dan Perbankan Islam*, Kuala Lumpur Business School Sdn Bhd, Kuala Lumpur.
- Haron, S. and Ku Majdi, Y. (2003). "Islamic banking in Thailand: Prospects and Challenges", *International Journal of Islamic Finance Services*, Vol. 5, No. 2.
- Harrison, M. (2018). *Islamic Finance and the UK*, Golcer Economic Report Series, May, Lancaster University Management School, Accessed November 10, 2018, <https://www.lancaster.ac.uk/media/lancaster-university/content-assets/documents/lums/IslamicFinanceUKReport.pdf>
- Hasan, Z. (2011). "A survey on Shari'ah governance practices in Malaysia, GCC countries and the UK: critical appraisal", *International Journal of Islamic and Middle Eastern Finance and Management*, Vol. 4, No. 1.
- Hassan, R. et al. (2010). *An analysis of the role and competency of the Shari'ah committees (SCs) of Islamic banks and financial service providers*. ISRA Research Paper No. 18/2010.
- Hassan, A. F. S. (2012). *An empirical investigation into the role, independence and effectiveness of Shari'ah boards in the Malaysian Islamic Banking Industry*, PhD Thesis, Cardiff University.
- Hassan, K. M., Kayed, R. N. and Osein, U. A. (2013). *Introduction to Islamic Banking and Finance; Principles and Practices*, Pearson Education Ltd, UK.
- Hassan, M. K. and Lewis, M. (2007). *Handbook of Islamic Banking*, Edward Elgar Publishing Limited.
- Hassani, M. (2010). "Islamic Banking and Monetary policy: Experience of Iran", *International Review of Business Research Papers*, Vol. 6, No. 4, Melbourne, Australia.
- Husain, I. (2005). "Islamic financial services industry- the European challenges", in the Keynote Address in the *Islamic Financial Services Forum*, Islamic Financial Services Board and the Central Bank of Luxembourg, Luxembourg, 8 November, Accessed November 10, 2018, <https://www.bis.org/review/r051207e.pdf>.
- IBBL, (2018). *IBBL at a glance*, Islami Bank Bangladesh Limited, Accessed December 10, 2018, <https://www.islamibankbd.com/abtIBBL/abtIBBLAtaGlance.php>.
- Ibn al-Athir, A. (n.d.). *The End of Strange Words in Hadith*, Vol. 2, Islamic Library, Cairo.
- Ibn al-Hajjaj, M. (n.d.), *Sahih al-Muslim*, retrieved on 01 July, 2018 from <https://sunnah.com/muslim/22/137>
- Ibn-Majah, A. A. M. (1999). *Sunan Ibn-Majah*, Darussalaam Publishers.

ICBIBL, (2012). *Notes to the Financial Statements for the half year ended 30 June 2012*, ICB Islamic Bank Limited, Accessed November 10, 2018, https://www.icbislamic-bd.com/assets/files/financial_statements/half_yearly_financial_statement_2012.pdf.

ICBIBL, (2018). *About Us*, ICB Islamic Bank Limited, Accessed November 10, 2018, https://www.icbislamic-bd.com/pages/about_us.php

IFSB (2006). *Guiding Principles on Corporate Governance for Institutions Offering Islamic Financial Services*, IFSB-3, Islamic Financial Services Board, Kuala Lumpur, Accessed April 30, 2019, <https://www.ifsb.org>.

IFSB (2009). *Guiding Principles on Shari'ah Governance Systems for Institutions Offering Islamic Financial Services*, IFSB-10, Islamic Financial Services Board, Kuala Lumpur, Accessed April 30, 2019, <https://www.ifsb.org>.

IFSB (2018). *Guidelines and Procedures for the Preparation of Standards and Guidance/Technical Notes*, Islamic Financial Services Board, Kuala Lumpur, Accessed April 30, 2019, <https://www.ifsb.org/standard.php>.

IFSB (2019). *Background*, Islamic Financial Services Board, Kuala Lumpur, Accessed April 30, 2019, <https://www.ifsb.org/background.php>.

IFSB (2019a). *Mission*, Islamic Financial Services Board, Accessed April 30, 2019, <https://www.ifsb.org/mission.php>.

IFSB (2019b). *Objectives*, Islamic Financial Services Board, Accessed April 30, 2019, <https://www.ifsb.org/objectif.php>.

IFSB (2019c). *List of Members*, Islamic Financial Services Board, Accessed April 30, 2019, <https://www.ifsb.org/membership.php>.

IIFA (2009). *The ruling of International Islamic Fiqh Academy*, 19th session held in UAE. Accessed May 10, 2018, <http://www.isra.my/fatwas/topics/commercial-banking/financing/tawarruq/item/342-oicfiqh-academy-ruled-organised-tawarruq-impermissible-in-2009.html>.

Imam, P. and Kpodar, K. (2010). "Islamic banking: how has it diffused?", *IMF Working Paper No. 10195*, International Monetary Fund, Accessed 23 February, 2015, www.imf.org/external/pubs/ft/wp/2010/wp10195.pdf.

Institute of banking and Insurance (2018). Accessed May 30, 2018, <http://www.islamic-banking.com/explore/islamic-finance/islamic-banking#What%20is%20Islamic%20Banking?>

Ishigaki, Y. (2009). "The development of the Islamic financial market – the Tokyo sukuk case study", *Company Lawyer*, Vol. 30, No. 5.

Ismayi, S. I. (2012). *The Principles of Islamic Finance, Its Challenges and Policy Suggestions for Azerbaijan*, An unpublished thesis for Master of Science, Institute of Graduate Studies and Research, Eastern Mediterranean University, North Cyprus.

Iqbal, J. (2009). *Islamic Finance Management*, Global Vision Publishing House.

Iqbal, Z. (1997). "Islamic financial systems", *Finance and Development*, Vol. 34, No. 2.

Iqbal, M. (ed.) (1988). *Distributive Justice and Need Fulfilment in an Islamic Economy*, Leicester.

- Iqbal, M. et al. (2001). *Islamic Banking and Finance - Current Developments in Theory and Practice*, The Islamic Foundation, Leicester, UK.
- Iqbal, M. et al. (1998). *Challenges facing Islamic banking*. Occasional paper, Islamic Research and Training Institute.
- Iqbal, M. and Molyneux, P. (2005). *Thirty Years of Islamic Banking: History, Performance and Prospects*, Palgrave Macmillan Publishers, UK.
- Iqbal, Z. and Mirakhor, A. (1999). *Progress and challenges of Islamic banking*, Thunderbird International Business Review, Vol. 41, No. 4-5.
- Iqbal, Z. and Mirakhor, A. (2004). "Stakeholders model of governance in Islamic economic system", *Islamic Economic Studies*, V. 11, No. 2.
- Iqbal, Z. and Mirakhor, A. (2007). *An Introduction to Islamic Finance*, Singapore: John Wiley and Sons Ltd.
- Iqbal, Z. and Mirakhor, A. (2011). *An Introduction to Islamic Finance: Theory and Practice*, Singapore: John Wiley and Sons Ltd.
- Iqbal, Z. and Mirakhor, A. (eds.) (2013). *Economic Development and Islamic Finance*, World Bank, Washington DC, Accessed November 10, 2017, <http://dx.doi.org/10.1596/978-0-8213-9953-8>.
- Irshad, S. A. (1964). *Interest Free Banking*, Orient Press of Pakistan, Karachi.
- Islam, Z. (1984). "Banking in the Abbasid Period: A Special Study of the Tenth Century A. D.", *Proceedings of the Indian History Congress*, Vol. 45.
- Islamic Bank of Thailand, (2011). Accessed November 10, 2016, <http://www.bankthailand.info/Islamic-Bank-of-Thailand.htm>.
- Ismail, A. H. (2005). *Bank Islam Malaysia Berhad: Principles and Operations*, In Ghazali, A. (eds.) *An Introduction to Islamic Economics and Finance*, CERT Publications Sdn. Bhd, Kuala Lumpur.
- Ismaili, A. G. (2011). "The Theory of Islamic Banking: Look Back to Original Idea", *Journal of Islamic Economics, Banking and Finance*, Islami Bank Training and Research Academy, Dhaka, Vol. 7, No. 3.
- Izzi Dien, M. (2004). *Islamic Law: from Historical Foundations to Contemporary Practice*, Edinburgh University Press, UK.
- Jabbar, S. F. A. (2009). "Islamic finance: fundamental principles and key financial institutions", *Company Lawyer*, Vol. 30, No. 1.
- Jaffer, S. (2005). *Islamic Retail Banking and Finance-Global Challenges and Opportunities*, Euromoney Books, London.
- Jalil, M. A. and Rahman, M. K. (2010). "Financial transactions in Islamic Banking are viable alternatives to the conventional banking transactions", *International Journal of Business and Social Science*, Vol. 1, No. 3.
- Joni, T. B. (2001). "Isu-Isu Syariah Dalam Sistem Perbankan Islam", *Dalam Pemikir*, October-December.

- Kader, R. A. (1993). "Performance and market implications of Islamic Banking: a case study of Bank Islam Malaysia Berhad", Durham University, Durham, unpublished PhD thesis.
- Kader, R. A. (1995). "Bank Islam Malaysia: market implications", in Al-Hran, S. (Eds). *Leading Issues in Islamic Banking and Finance*, Pelanduk Publications, Kuala Lumpur.
- Kahf, M. (2002). Islamic banks: the rise of a new power alliance of wealth and Shari'a scholarship. In: Henry, C.M. and Wilson, R. eds. *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press.
- Kahf, M. (2004). *Success factors of Islamic Banks: based on a study of the actual conduct of some Islamic Banks*, Brunei Symposium on Islamic Banking and Finance, Brunei.
- Kamali, M. H. (1989). *Principles of Islamic Jurisprudence*, The Islamic Texts Society, UK.
- Kamali, M. H. (2000). *Islamic Commercial Law: An Analysis of Futures and Options*, The Islamic Texts Society, UK.
- Kamali, M. H. (2008). *Shari'ah Law: An Introduction*, One world Publications, Oxford, UK.
- Kamali, M. H. (1998). "Al-Maqasid al-Shariah: The Objectives of Islamic Law", *The Muslim Lawyer Journal*, Vol. 3, No.1, (April-June).
- Kansoy, F. and Karlioglu, H. H. (2013). "Islamic Finance as a Means to Make Istanbul an International Financial Center", *Afro Eurasian Studies*, Vol. 2, No. 1-2.
- Karbhari, Y. et al. (2004). "Problems and challenges facing the islamic banking system in the west: The case of the UK", *Thunderbird International Business Review*, Vol. 46, No. 5.
- Karim, R. A. A. (1990a). "The independence of religious and external auditors: the case of Islamic Banks", *Accounting, Auditing and Accountability Journal*, Vol. 3 No. 3.
- Karim, R. A. A. (1990b), "Standard setting for the financial reporting of religious business organizations: the case of Islamic Banks", *Accounting and Business Research*, Vol. 20, No. 80.
- Karim, R. A. A. (1996). "Economic consequences of accounting standards and Islamic banks", *Research in Accounting Regulation*, V. 10.
- Karim, R. A. A. (2001). "International accounting harmonization, banking regulation, and Islamic banks", *The International Journal of Accounting*, Vol. 36, No. 2.
- Karim, A. Z. (1996). *Madkhal Li Dirasah al-Syari`ah al-Islamiyyah*, Muassasah al-Risalah, Beirut.
- Karsten, I. (1983). "Islam and financial intermediation", *Banker's Journal Malaysia*, Vol. 46.
- Kerlinger, F. N. (1986). *Foundations of Behavioural Research*, 3rd edition, CBS College Publishing, New York.
- Kettell, B. (2010). *Islamic Finance in a Nutshell: a Guide for Non-Specialists*, John Wiley and Sons Ltd.
- KhaleeJ Times (2008). "Islamic banks enjoys double digit growth", *KhaleeJ Times*.
- Khan, F. and Porzio, M. (2010). *Islamic Banking and Finance in the European Union: a Challenge Studies in Islamic Finance, Accounting and Governance*, Edward Elgar.

- Khan, M. A. (1989). *Economic Teachings of Prophet Muhammad (peace be upon him): A Select Anthology of Hadith Literature on Economics*, The International Institute of Islamic Economics, Islamabad, Pakistan.
- Khan, M. A. (1994). *An Introduction to Islamic Economics*, International Institute of Islamic Thought and Institute of Policy Studies, Islamabad, Pakistan.
- Khan, M. F. (2007). Setting standards for *Shari'ah* Application in the Islamic financial industry. *Thunderbird International Business Review*, Vol. 49, No. 3.
- Khan, M. M. and Bhatti, M. I. (2008). *Developments in Islamic Banking: The Case of Pakistan*. Palgrave Macmillan, New York.
- Khan, M. S. and Mirakhor, A. (1986). "The framework and practices of Islamic Banking", *Finance Development*, Vol. 3, No. September.
- Khan, M. S. and Mirakhor, A. (1990). "Islamic Banking: Experiences in the Islamic Republic of Iran and Pakistan", *Economic Development and Cultural Change*, Vol. 38, No. 2.
- Khalil, E. H. (2006). *An overview of the Sharia'a prohibition of riba*, in Thomas, A.K. (ed). *Interest in Islamic Economics: Understanding riba*, Rutledge, London and New York.
- Khair, K., Gupta, L. and Shanmugan, B. (2008). *Islamic banking: A practical perspective*, Pearson Malaysia Sdn. Bhd., Selangor.
- Kirkpatrick, G. (2009). "Corporate governance: lessons from the financial crisis", *Financial Market Trends*, Vol. 2009/1.
- Koch, C. and Stenberg, L. (2010). *The EU and the GCC: Challenges and Prospects under the Swedish EU Presidency*, Gulf Research Center, UAE.
- Koch, T. W. and MacDonald, S. (2009). *Bank Management*, (7th ed.), Thomson South-Western, USA.
- KT Bank, (2018). *About US*, Accessed November 10, 2018, <https://www.kt-bank.de/en/aboutus/kt-bank/>
- Kuran, T. (2004). *Islam and Mammon: The Economic Predicaments of Islamism*, Princeton University Press, USA.
- Kuveyt Turk, (2017). *Annual Report*, Accessed November 10, 2018, <https://www.kuveytturk.com.tr/medium/document-file-1810.vsf> .
- Laldin, M. A. (2008a). "Roles and responsibilities of Shari'ah scholars in Shari'ah advisory services" part 1, *The Halal Journal*, Vol. 11, September-October.
- Laldin, M. A. (2008). "Roles and responsibilities of Shari'ah scholars in Shari'ah advisory services", part 2, *The Halal Journal*, Vol. 11, Nov-Dec.
- Lasasna, A. (2015). *Bay' al-Inah, Bay' al wafa and Tawarruq: Liquidity management- based transactions*, Fiqh Muamalat course (FQ 6123/FQ 5123), International Centre for Islamic Finance.
- Lee, Kun-Ho and Ullah, S. (2007). "Integration of Islamic and Conventional Finance", *International Review of Business Research Papers*, Vol. 3, No. 5.

- Lewis, M. (2001). "Islam and Accounting", *Accounting Forum*, Vol. 25.
- Lewis M.K. and Algaoud, L. (2001). *Islamic Banking*, Edward Elgar Publishing, Cheltenham, UK.
- Maali, B., Casson, P. and Napier, C. (2006). "Social reporting by Islamic banks", *ABACUS*, Vol. 42, No. 2, Accounting Foundation, the University of Sydney.
- Mahajan, V. D. (1991). *Legal Theory and Justice*, Orient Longman Publication, New Delhi, India.
- Mahal, I. and Rahman, B. (2013). "Profitability trend in the banking sector of Bangladesh- A comparative study of Islamic and conventional banks", *The Bangladesh Accountant*, January – March.
- Malik-ibn-Anas (1999). *Al-Muwatta*, Darussalaam Publishers.
- Malik, M. S., Malik, A. and Mustafa, W. (2011), "Controversies that make Islamic banking controversial: an analysis of issues and challenges", *American Journal of Social and Management Sciences*, Vol. 2, No.1. ScienceHub, Accessed 24 January, 2016, www.scihub.org/AJSMS
- Mangla I. U. and Uppal, J. Y. (1998). *Interest-Free Banking-A Financial Innovation: Some Conceptual Issues*, J. Midwest Finance Association.
- Mannan, M. A. (1980). *Islamic Economic: Theory and Practice*, Idarah-i-Adabiyat-i-Delhi, New Delhi, India.
- Mannan, M. A. (1988). *The Islamic Development Bank and Economic Development of Southeast Asia*, In Ariff, M. (ed.) *Islamic Banking in Southeast Asia*, Institute of Southeast Asian Studies, Singapore.
- Mason, J. (1994). "Linking qualitative and quantitative data analysis", In: Bryman, A. and Burgess, R.G. eds., *Analyzing Qualitative Data*, Routledge, London.
- Maududi, S. A. A. (1937). *The Economic Problem of Man and Its Islamic Solution*. Islamic Publications, Lahore.
- Mazhar, S. and Tripathi, N. (2013). "Islamic Banking: Inclusion in the Indian Banking Sector", *IOSR Journal of Business and Management*, Volume 12, No. 6.
- MCCA, (2017). MCCA Islamic Finance and Investments, Muslim Community Co-operative Australia Ltd. (MCCA), Accessed November 10, 2017, <http://www.mcca.com.au>.
- Meera, A. K. M. and Larbani, M. (2009). "Ownership effects of fractional reserve system", *Homanomics*, Vol. 25, No. 4.
- Meera, A. K. M. and Dzuljastri, A. R. (2005). "Islamic home financing through musharakah mutanaqisah and al-bai bithaman ajil contracts: comparative analysis", *Journal of The International Association for Islamic Economics*, Vol. 9 No. 2.
- Memon, N. A. (2007). "Islamic Banking; Present and Future Challenges", *Journal of Management and Social Science*, Institute of Business and Technology (Bizatek), Pakistan, Vol. 3, No. 1.
- Metawa, S. A. and Almosawi, M. (1998), "Banking behaviour of Islamic bank customers: perspectives and implications", *International Journal of Bank Marketing*, Vol. 16, No. 7.

- Memon, N. A. (2007). "Islamic Banking; Present and Future Challenges", *Journal of Management and Social Science*, Institute of Business and Technology (Bizatek), Pakistan, Vol. 3, No. 1.
- Merhatsidk, M. (2014). "Interest Grows in Interest-Free Banking", *Addis Fortune*, 18 May, Accessed February 10, 2019, <https://addisfortune.net/articles/interest-grows-in-interest-free-banking/>
- Mohsin, D. M. (2009). *Islamic Economics*, INCIEF, Kuala Lumpur, Malaysia.
- MIFC Report (2017). *Islamic Finance in Africa: Impetus for Growth*, Accessed November 10, 2018, www.mifc.com.
- Millar, R. and Anwar, H. (2008). *Islamic Finance: A Guide for International Business and Investment*, GMB Publishing, UK.
- Mirza, A. M. and Halabi, A. K. (2003). "Islamic Banking in Australia: Challenges and Opportunities", *Journal of Muslim Minority Affairs*, Vol. 23, No. 2, (October).
- Mirza, M. and Baydoun, N. (2000). *Accounting policy choice in riba-free environment*, Accounting, Commerce and Finance: The Islamic Perspective Journal, vol. 4, no. 1, pp. 30-47.
- Mirzhaywir, M. (2013). *A Basic Introduction to Islamic Finance and some of the Issues Surrounding it*. Accessed May 10, 2018, <https://mirzhaywire.wordpress.com/2013/08/18/a-basic-introduction-to-islamic-finance-and-some-of-the-issues-surrounding-it>.
- Mohamed Ibrahim, S. H. and Mulyany, R. (2007). "Shari'ah audit for Islamic financial institutions (IFIs): Perceptions of accounting academicians, audit practitioners and Shari'ah scholars", In: *IJUM Accounting Conference*. Kuala Lumpur.
- Moloney, M. (2015). *Islamic Finance and Securities Regulation in Ireland*, Islamic Finance and Law Conference, Central Bank of Ireland.
- Mouawad, S. (2009). "The development of Islamic finance: Egypt as a case study", *Journal of Money Laundering* Vol. 12, No. 1.
- Mounira, B. A. and Anas, E. (2008). "Managing Risks and Liquidity in an Interest Free Banking Framework: The Case of the Islamic Banks", *International Journal of Business and Management*, Vol. 3, No. 9.
- Muhammed, A., Saleh, A., Ahmad, Satti, M. and Bakhit, M. (2006). *Documenting the experience of Sudan in the field of banking and Islamic financial institutions*, Central Bank of Sudan, Accessed November 10, 2017, http://www.cbos.gov.sd/sites/default/files/wathaig_book_03.pdf .
- Muslehuddin, M. (1978). *Insurance and Islamic Law*, Islamic Publications, Ltd., Lahore.
- Mustafa, D. (2005). *Sistem Kewangan Islam: Instrumen, Mekanisme dan Pelaksanaannya di Malaysia*, Utusan Publication and Distributors Sdn. Bhd., Kuala Lumpur.
- Musyarafah, H. (2010). *Sistem Perbankan Islam di Singapura: Satu Kajian di OCBC Bank*, Academic Exercise, Academy of Islamic Study, University of Malaya, Kuala Lumpur.
- Nachmias, C. F. and Nachmias, D. (1996). *Research method in the social sciences*, 5th edition, St. Martin Press, New York.
- Naser, K., Jamal, A. and Al-Khatib, L. (1999). "Islamic banking: a study of customer satisfaction and preferences in Jordan", *International Journal of Bank Marketing*, Vol. 17, No. 3.

- Nasr, S. V. R. (1996). *Mawdudi and the Making of Islamic Revivalism*, Oxford University Press, New York.
- Nasser, A. (1996). *Essentials of Islamic banks assets and operational aspects* (in Arabic), Apollo, Cairo.
- Nyazee, I. A. K. (2005). *Theories of Islamic law*, IIIT and Islamic Research Institute, Islamabad.
- Nyazee, I. A. K. (1998). *Outlines of Islamic Jurisprudence*, Advanced Legal Studies Institute, Islamabad, Pakistan.
- Nyazee, I. A. K. (2000). *Islamic Jurisprudence: Usul Al-Fiqh*. Vol. 3: International Institute of Islamic Thought.
- Nawawi, R. H. (1999). *Islamic law of commercial transaction*, CERT Publications, Kuala Lumpur.
- Nouri, M. (2009). "Experience of Islamic banking in Europe: the tracks, challenges and prospects" (in Arabic), in *the Nineteenth Session of the European Council for Fatwa and Research Proceedings*, Istanbul, 30 June-4 July, Accessed November 10, 2017, <http://iefpedia.com/arab/?p=11573>.
- Obaidullah, M. (2008). *Islamic Finance for Micro and Medium Enterprises*, Center for Islamic Banking, Finance and Management, University Brunei Darussalam.
- Omar, A. (ed.) (2001). *Ibn Sa'd: Kitab Al- abaq t Al-Kubr (The Book of the Major Classes)*, Vol. 3, Al-Khanaji book Store, Cairo.
- Omar, A. M. (2010). *Dictionary of Holy Qur'an*, (45:18), NOOR foundation-international, 2nd edition, Library of Congress Control No.: 2005298281.
- Oppenheim, A. N. (1992). *Questionnaire design, interviewing and attitude measurement*, Printer Publisher Limited, London.
- Othman, A. and Owen, L. (2001). "Adopting and measuring customers service quality in Islamic Banks: a case study in Kuwait finance house", *International Journal of Islamic Financial Services*, Vol. 3, No. 1.
- Othman, A. and Owen, L. (2002). "The multi dimensionality of CARTER model to measure customer service quality in Islamic banking industry: a study in Kuwait finance house", *International Journal of Islamic Financial Services*, Vol. 3, No. 4.
- Parveen, T., Zadeh, E. L. and Syed, A. M. (2015). "Evolution of Islamic Banking in IRAN: Prospects and Problems", *IOSR Journal of Business and Management*, Vol. 17, No. 9.
- Pincus, A. (2007). "Islamic mortgages show poor growth", *The Real Deal-New York Real Estate News*, Accessed November 10, 2017, http://therealdeal.com/issues_articles/islamic-mortgages-show-poor-growth/.
- Pramanik, A. H. (1993). *Development and distribution in Islam*. Pelanduk Publications, Kuala Lumpur.
- Presley, J. R. and Sessions, J. G. (1994). *Islamic Economics: The Emergence of a New Paradigm*, Loughborough University of Technology, Department of Economics.

Prime Bank Limited, (2018). *About Prime Bank*, Accessed December 10, 2018, <https://www.primebank.com.bd/index.php/home/about> .

Qadiri, A. A. (1986). *Islamic Jurisprudence in the Modern World*, Taj Company, New Delhi, India.

Qatar Islamic Bank (2018). *Our Profile*, Accessed January 10, 2019, <https://www.qib.com.qa/en/about-us/our-profile.aspx>.

Qureshi, A. I. (1991). *Islam and The Theory of Interest*, Shaikh Muhammad Ashraf, Kashmiribazar, Lahore, Pakistan.

Qureshi, A. I. (1945). *Islam and the Theory of Interest*, Shaikh Muhammad Ashraf, Lahore.

Rahman, F. (1982). *Islam and Modernity: Transformation of an Intellectual Tradition*, University of Chicago Press.

Rahman, A. (2017). *Islamic Banking Industry Recorded a 35% Growth in Profits in 2017*, Accessed November 10, 2017, <https://propakistani.pk/2018/04/13/islamic-banking-industry-recorded-a-35-growth-in-profits-in-2017/>

Rahman, Y. A. (2010). *The Art of Islamic Banking and Finance*, John Wiley and Sons, USA.

Ramadan, T. (2004). *Western Muslims and the Future of Islam*, Oxford University Press, New York.

Rammal, H. G. (2006). "The importance of Shari'ah supervision in Islamic financial institutions", *Corporate Ownership and Control*, Vol. 3, No. 3.

Rammal, H. G. (2010). *Corporate governance in the Islamic banking system in Pakistan: the role of the Shari'ah supervisory board*, PhD Thesis, University of Adelaide.

Ranzini, S. L. (2007). "Islamic finance (finally) taking root in North America", *Islamic Finance News*, Vol. 4.

Raqiq, M. E. A. A. (2007). *The role of Islamic banks in financing the small and medium foundations*, a graduation paper - Bachelor in Business and Finance Sciences, High School of Business, Algeria.

Rarick, C. A. (2009). "Islamic finance: an alternative in the global financial market?", *Social Science Research Network*, Accessed 23 February, 2014 <http://ssrn.com/abstract 1332793> .

Rashid, M., Hassan, M.K. and Ahmad, A.U.F. (2014). "Quality perception of the customers towards domestic Islamic banks in Bangladesh", *Journal of Islamic Economics, Banking and Finance*, Vol. 5 No. 1.

Reuters, (2018). *Al Baraka launches Islamic digital bank in Germany*, September 30, Accessed December 10, 2018, <https://www.reuters.com/article/us-islamic-finance-germany/al-baraka-launches-islamic-digital-bank-in-germany-idUSKCN1MA0A0>.

Rodney, W. (1983). *Banking and Finance*, In *The Arab Middle East*, Mac Millan, London.

Rosly, S. A. (2005). *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and Financial Planning*, Author House, Kuala Lumpur.

Sachs, S. (2001). *Muslims in U.S. Seek Financing; Pursing the American Dream While Following the Koran*, Accessed November 10, 2017, <http://www.nytimes.com/2001/07/05/business/muslims-us-seeffinancing-pursing-american-dream-while-followingkoran.html?pagewanted=all>.

- Sadeq, A. A. (2002). *A survey of the institution of Zakah: issues, theories and administration*, Discussion Paper No. 11, 2nd ed., Islamic Research and Training Institute, Islamic Development Bank, Jeddah.
- Safieddine, A. (2009). "Islamic financial institutions and corporate governance: new insights for agency theory", *Corporate Governance: An International Review*, Vol. 17, No. 2.
- Samad, A. and Hassan, M.K. (1999). "The performance of Malaysian Islamic bank during 1984-1997: An exploratory study", *International Journal of Islamic Financial Services*, Vol. 1, No. 3.
- Sandstad, B. (2009). *Introduction to Islamic finance*, Part II. Article of claytonutz,
- Sapovadia, V. (2015). *Jaiz Bank, Nigeria: A Case Study on Non-Interest Bank*, Munich Personal RePEc Archive (MPRA) Paper No. 68763, Accessed November 10, 2018, https://mpra.ub.uni-muenchen.de/68763/1/MPRA_paper_68763.pdf.
- Sari, M. D., Bahari, Z. and Hamat, Z. (2016). "History of Islamic Bank in Indonesia: Issues behind its establishment", *International Journal of Finance and Banking Research*, Vol. 2, No. 5. Accessed November 10, 2017, https://www.researchgate.net/publication/308697163_History_of_Islamic_Bank_in_Indonesia_Issues_Behind_Its_Establishment.
- Sarker, M. A. A. (1999). "Islamic Banking in Bangladesh; Growth, Structure, and Performance", *Proceedings of the Third Harvard University Forum on Islamic Finance: Local Challenges, Global Opportunities*, Center for Middle Eastern Studies, Harvard University, Cambridge.
- Sarker, A. A. (2006). "CAMELS Rating System in the Context of Islamic Banking: A Proposed 'S' for Shari'ah Framework", *Journal of Islamic Economics and Finance*, Vol. 1, No.1.
- Saudi British Bank, (2018). *Profile*, Accessed December 30, 2018, <https://www.sabb.com/en/about-sabb/about/profile/>.
- Saudi Investment Bank, (2018). *SAIB Overview*, Accessed December 30, 2018, <https://www.saib.com.sa/en/content/saib-overview>.
- Sayim, F. (2012). *The Developing of Participation Banking in the Turkish Finance Market: 2007-2011*, Akademik Arge, Faculty of Economics and Administration Sciences, Yalova University, Turkey. Accessed January 10, 2018, <http://www.tkbb.org.tr/Documents/Makaleler/AArgeParticipation%20Banks%20Report.pdf>.
- Schaeffer, E. (1984). *La prohibition de l'intérêt en droit coranique et le financement d'une économie moderne*, Revue Juridique et Politique Indépendante et Coopération.
- Schoon, N. (2009). *Islamic Banking and Finance*, Spiramus Press Ltd., London.
- Schoon, N. (2011). *Islamic Asset Management: An Asset Class on Its Own?*, Edinburgh Guides to Islamic Finance.
- Schoutens, W. and Cariboni, J. (2009). *Levy Processes in Credit Risk*, John Wiley and Sons Ltd.
- Shaaeldin, E. and Brown, R. (1988). *Towards an Understanding of Islamic Banking in Sudan: The Case of the Faisal Islamic Bank*, In Barnett T. and Abdelkarim, A. (eds.), *Sudan: State, Capital and Transformation*, Croom Helm, London.

- Shaffai, S. (2008). "How *Shari'ah* governance empowers Islamic finance", *Islamic Finance News*, Vol. 5, No. 36.
- Shahzad, F. (2014). "Growth of Islamic Banking in Middle East and South Asian Countries", *International Journal of Management, Accounting and Economics*, Vol. 1, No. 3.
- Shahid, E. M. and Kain, T. J. (2001). "Islamic banking in Brunei Darussalam", *International Journal of Social Economy*, Vol. 28, No. 4.
- Shanmugam, B. and Zahari, Z. R. (2009). *A Primer on Islamic Finance*, the Research Foundation of CFA Institute, New York.
- Sharif, Z. M. (2006). "Islamic finance in Australia", *Islamic Finance News*, Vol. 3 No.14, 12 May.
- Shehata, H. (2005). *The emergence of the idea of Islamic banks-Islamic banks past* (in Arabic), Dar El-Mashora, Cairo, Accessed November 10, 2015, <http://www.darelmashora.com>.
- Shehata, H. (2006). *Islamic banks between thought and practice* (in Arabic), 1st edn, Dar El-Mashora, Cairo, Accessed November 10, 2015, <http://www.darelmashora.com>.
- Shinsuke, N. (2012). "Critical Overview of the History of Islamic Economics: Formation, Transformation, and New Horizons", *Asian and African Area Studies*, Vol. 11, No. 2.
- SIBL, (2016). *Annual Report*, Social Islami Bank Limited, Accessed June 10, 2018, https://www.siblbld.com/annual_report/SIBL%20Annual%20Report%202016.pdf.
- SIBL, (2018). *Mission, Vision and Values*, Accessed December 10, 2018, <https://www.siblbld.com/home/vision>.
- Siddiqui, A. (2008). "Financial contracts: risk and performance of Islamic banking", *Managerial Finance*, Vol. 10.
- Siddiqui, M. N. (1948). "Islami usul par banking" (Banking according to Islamic principles), *Chiragh-e-Rah*, Karachi, Vol. 1, No. 11, pp. 60-64; V. 1, No. 12, pp. 24-28.
- Siddiqui, M. N. (1983). *Banking without Interest*, Islamic Foundation, Leicester.
- Siddiqui, M. N. (1983). *Issues in Islamic banking*, The Islamic Foundation, Leicester, UK.
- Siddiqui, M. N. (1985). *Partnership and profit-sharing in Islamic law*, The Islamic Foundation, Leicester, UK.
- Siddiqui, M. N. (2002), *Comparative advantages of Islamic banking and finance*, a paper presented in the Harvard University Forum on Islamic Finance.
- Siddiqui, M. N. (2004). *Riba, bank interest and the rationale of its prohibition*. Islamic Research and Training Institute, Islamic Development Bank, Jeddah, KSA.
- Siddiqui, M. N. (2006). "Islamic banking and finance in theory and practice: A survey of state of the art", *Islamic Economic Studies*, Vol. 13, No. 2.
- Siddiqui, M. N. (2006a). "*Shari'ah*, economics and the progress of Islamic finance: the role of *Shari'ah* experts", In: *Concept paper presented at Pre-Forum Workshop on Select Ethical and Methodological issues in Shari'ah-Compliant Finance*, Seventh Harvard Forum on Islamic Finance. Cambridge, Massachusetts, USA, 21 April.

- Siddiqui, S. H. (2001). "Islamic banking: True modes of financing", *New Horizon*, Vol. 109, May-June.
- Siddiqui, S. H. (2004). "Islamic banking: What is Islamic Banking?" Institute of Islamic banking and insurance, Accessed September 4, 2008, <http://www.islamicbanking.com/ibanking/whatib.php>.
- SJIBL, (2016). *Annual Report*, Shahjalal Islami Bank Limited, Accessed June 10, 2018, http://www.sjibld.com/annualreport/SJIBL_Annual_Report_2016.pdf.
- SJIBL, (2016). *Vision and Mission*, Shahjalal Islami Bank Limited, Accessed December 10, 2018, <http://www.sjibld.com/about.php>.
- State Bank of Pakistan (2017). Accessed June 10, 2018, <http://www.sbp.org.pk/ibd/Bulletin/2017/Jun.pdf>.
- Sulayman, A. D. (n.d.). *Sunan Abu Dawud*, Accessed May 10, 2018, <https://sunnah.com/abudawud/23/58>
- Sundararajan, V. and Errico, L. (2002). *Islamic Financial Institutions and Products in the Global Financial System: Key Issues in Risk Management and Challenges Ahead*, IMF Working Paper No. 02/192. Accessed May 10, 2018, <http://www.imf.org/external/pubs/ft/wp/2002/wp02192.pdf>.
- Suyuti, J. U. D. (n.d.). *Al-Jami al-Saghir (under the word ghabn; Kanz al Ummal, Kitab al-. Buyu, al-Bab al-thani, al-fasl al-thani*, on the authority of Sunan al-Bayhaqi) vol. 2., Australian Islamic Library.
- Taktak, N. B. and Slama Zouari, S. B. (2014). "Tunisia Islamic finance: overview and future prospects", *Journal of Islamic Accounting and Business Research*, Vol. 5, No. 1.
- Taqiuddin, M. (2013). "The historical development of modern Islamic banking: A study in South-east Asia countries", *African Journal of Business Management*, Vol. 10, Accessed June 10, 2017, <http://www.academicjournals.org/AJBM>.
- Tashakori, A. and Teddlie, C. (2003). *Handbook of mixed methods in social and behavioral research*, Sage Publications, London.
- The Banker, (2008). *Top 500 Islamic financial institutions*, Accessed February 15, 2016, <https://www.thebanker.com/Reports/Special-Reports/Top-500-Islamic-financial-institutions>.
- The Banker, (2013). *Special Report*, November, Accessed February 15, 2016, <https://www.thebanker.com/Reports/Special-Reports>.
- The Economist (2017). *Africa is Islamic banking's new frontier*, 13 July, Accessed February 15, 2018, <https://www.economist.com/news/finance-and-economics/21725037-barriers-entry-are-high-africa-islamic-bankings-new-frontier>.
- The Economist Intelligence Unit (2015). *Mapping Africa's Islamic Economy*, Accessed February 05, 2019, <https://eiperspectives.economist.com/sites/default/files/MappingAfricasIslamicEconomy.pdf>.
- The Gulf times (2017). *Islamic finance in Africa: A huge untapped market*, August 22, Accessed February 15, 2018, <http://www.gulf-times.com/story/561108/Islamic-finance-in-Africa-A-huge-untapped-market>.

- Tomkins, C. and Karim, R. A. A. (1987). "The Shari'ah and its implications for Islamic financial analysis: an opportunity to study interactions among society, organization, and accounting", *The American Journal of Islamic Social Sciences*, Vol. 4 No. 1.
- Traute, W. S. (1983). *Arab and Islamic Banks, New Business Partners for Developing Countries*, Development Centre of The Organization for Economic Co-operation and Development (OECD), Paris.
- Triyuwono, I. (2004). *Trust (Amanah), the divine symbol: Interpretations in the context of Islamic banking and accounting practices*, In Fourth Asia Pacific Interdisciplinary Research in Accounting Conference, Singapore.
- Turkiye Finans, (2017). *Annual Report*, Accessed December 15, 2018, <https://www.turkiyefinans.com.tr/Lists/BagimsizDenetimRaporlariEN/Attachments/18/2017%20TFKB%20Annual%20Report.pdf> .
- UBL, (2016). *Annual Report*, Union Bank Limited, Accessed December 15, 2018, <https://www.unionbank.com.bd/pdf/financial/annual-report-2016.pdf>.
- UBL, (2018). *Our Vision; Our Mission*, Union Bank Limited, Accessed December 15, 2018, <https://www.unionbank.com.bd/contain.php?id=46>.
- Ullah, S. (2012). *Fatwa Repositioning: the Hidden Struggle for Shar'a Compliance within Islamic Financial Institutions*, Unpublished PhD Thesis, University of Southampton, UK.
- Usmani, M. T. (2008). *Sukuk and their contemporary applications*, Accessed September 4, 2008, www.iefpedia.com.
- Usmani, M. I. A. (2002a), *Meezan Bank's Guide to Islamic Banking*, Darul Ishaat Urdu, Pakistan.
- Usmani, M. T. (2002b). *An Introduction to Islamic Finance, Arab and Islamic Laws Series*, Kluwer Law International, 1st edition.
- Uzair, M. (1955). *An Outline of Interestless Banking*. Raihan Publications, Karachi.
- Uzair, M. (1978). *Interest-Free Banking*, Royal Book, Karachi.
- Vakif Katilim Bankasi, (2017). *About Us*, Accessed December 20, 2018, <https://www.vakifkatilim.com.tr/en/about-us> .
- Van Greuning, H. and Iqbal, Z. (2008). *Risk Analysis for Islamic Banks*, the World Bank, Washington.
- Venardos, A. M. (2005). *Islamic Banking and Finance in South-East Asia: Its Development and Future*, World Scientific Publishing Co. Ltd.
- Venardos, A. M. (2006). "Banking in Singapore", *Islamic Finance News*, Vol. 3, No. 42.
- Visser, H. (2009). *Islamic Finance; Principles and Practices*, Edward Elgar, UK.
- Wakhid, S. C. and Efrita, S. (2007). "Adopting Islamic Banks' CARTER Model: an Empirical Study in Riau's Syariah Banks, Indonesia", in Thambiah, S., Nathan, R. J. and Eze.
- Warde, I. (2000). *Islamic Finance in the Global Economy*, Edinburgh University Press, UK.

- Wehr, H. (1976). *A Dictionary of Modern Written Arabic*, New York.
- Wilson, R. (1983). *Banking and Finance in the Arab Middle East*, Macmillan, London.
- Wilson, R. (2004). *The Development of Islamic Economics: Theory and Practice*, In Taji-Farouki, S. and Nafi B. M. (eds.). *Islamic Thought in the Twentieth Century*. I. B. Tauris, London; New York.
- Wilson, R. (2009). “Shari’ah governance for Islamic financial institutions”, *ISRA International Journal of Islamic Finance*, Vol. 1, No. 1.
- World Bank, (2015). *Islamic Finance*, March 31, Accessed July 24, 2017, <http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance>.
- World Bank, (2017). *Islamic Finance*, March 31, Accessed July 24, 2018, <http://www.worldbank.org/en/topic/financialsector/brief/islamic-finance>.
- Yahia, A. R. (2010). *The Art of Islamic Finance and Banking: Tools and Techniques for Community-Based Banking*, John Wiley and Sons, Inc., USA.
- Yusof, E. and Fahmy, E. (2008). *Are Islamic banks in Malaysia really 'Islamic'?*, MPRA Paper No. 20901, Accessed 23 February, 2014, <http://mpa.ub.uni-muenchen.de/20901/>.
- Yousef, T. M. (2004). “The Murabaha syndrome in Islamic finance: laws, institutions and politics”, in Henry, C.M. and Wilson, R. (Eds), *The Politics of Islamic Finance*, Edinburgh University Press, Edinburgh.
- Yueh, L. (2014). *Islamic Banking: Growing fast but can it be more than a niche market?*, BBC news, 18 July, Accessed June 20, 2017, <http://www.bbc.com/news/business-28365639>.
- Zaidi, J. A. ed. (2008). *Shari’a harmonization, regulation and supervision*, AAOIFI-World Bank Islamic Banking and Finance Conference. Manama, Bahrain, November.
- Zaman, A. (2008). *Islamic Economics: A Survey of the Literature*, MPRA Paper no. 11024, p. 16. Accessed May 10, 2018, https://mpa.ub.uni-muenchen.de/11024/1/MPRA_paper_11024.pdf.
- Zamil, N. A. M. (2014). *An empirical investigation into the problems and challenges facing Islamic banking in Malaysia*, PhD Thesis, Cardiff University.
- Zikmund, W. G. (2000). *Business research methods*. 6th edition, Harcourt College Publishers, Orlando.
- Zirrat Katilim, (2017). *Annual Report*, Accessed May 10, 2018, <https://www.ziraatkatilim.com.tr/en/investor-relations/Documents/ZiraatKatilim2017eng.pdf>.
- Zuhayli, W. (n.d.) *Al-Wajeez fi Usul al-Fiqh*, Dar al-Fikr al-Mu’asir, Beirut.

APPENDIX-1

A Research Survey on the Role of the *Shari'ah* Board in the Islamic Banking Industry of Bangladesh

Questionnaire to the Members of *Shari'ah* Boards of Islamic Banks (QS1):

General Instructions and Information

1. Please answer the questions in each section by placing a tick in the appropriate box or by circling the appropriate number.
2. You can be assured that the information you provide will be treated in the STRICTEST OF CONFIDENCE. Any disclosure of results will be done in aggregate form and individual Islamic banks or organizations will not be identified.

Researcher	Supervisor
Md. Thowhidul Islam PhD Researcher, Department of Islamic History & Culture and Associate Professor of Bangladesh Studies Center for General Education (CGED) International Islamic University Chittagong (IIUC) Kumira, Sitakunda, Chittagong tauhidcox@gmail.com +88 01817078263	Prof. Dr. Md. Ataur Rahman Miazi Department of Islamic History & Culture University of Dhaka, Bangladesh.

Section A: The Role of the *Shari'ah* Board

Please indicate the extent to which you agree or disagree with the following roles of the *Shari'ah* Board and the associated procedures used in performing these roles in your Islamic bank by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Strongly Disagree (SD)	Disagree (D)	Uncertain (U)	Agree (A)	Strongly Agree (SA)

1. The procedures used by the *Shari'ah* Board are consistent with the following standards:

Standardization Institute	SD	D	U	A	SA
a) Governance standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)	1	2	3	4	5
b) Prudential standards issued by the Islamic Financial Services Board (IFSB)	1	2	3	4	5
c) Guidelines issued by Bangladesh Bank	1	2	3	4	5

2. The role of the *Shari'ah* Board in your bank could be defined with the following features:

The role and Scope of the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) Advise the board of directors on <i>Shari'ah</i> matters	1	2	3	4	5
b) Assist other parties on <i>Shari'ah</i> matters ⁴⁸	1	2	3	4	5
c) Advise the <i>Shari'ah</i> department officer on the scope of <i>Shari'ah</i> review	1	2	3	4	5
d) Provide training to the <i>Shari'ah</i> department officers to ensure effective <i>Shari'ah</i> review	1	2	3	4	5
e) Report to the Bangladesh Bank on <i>Shari'ah</i> matters	1	2	3	4	5
f) Prepare the <i>Shari'ah</i> compliance manual to be used in the Islamic bank	1	2	3	4	5
g) Endorse the <i>Shari'ah</i> compliance manual prepared by the management of the bank	1	2	3	4	5
h) Audit the activities of bank to confirm the implementation of <i>Shari'ah</i> compliance manual	1	2	3	4	5

3. *Shari'ah* Board in your bank is involved in designing the following corporate objectives of the bank by incorporating *Shari'ah* values or ensuring its compatibility with the *Shari'ah*:

Corporate Objectives of Islamic Banks	SD	D	U	A	SA
a) The bank's mission	1	2	3	4	5
b) The bank's vision	1	2	3	4	5
c) The bank's goals	1	2	3	4	5
d) The bank's objectives	1	2	3	4	5
e) The bank's corporate brand value	1	2	3	4	5

⁴⁸ For example, the legal advisors and accountants when developing a product or service for the Islamic bank or external auditors in auditing the bank.

f) The bank's long-term strategic direction	1	2	3	4	5
---	---	---	---	---	---

The *Shari'ah* Board in your bank is involved in the following stages of the development of Islamic banking products and services:

Development of Islamic Banking Products and Services	SD	D	U	A	SA
a) Conception level ⁴⁹	1	2	3	4	5
b) Design level ⁵⁰	1	2	3	4	5
c) Pricing level	1	2	3	4	5
d) Legal documentation level	1	2	3	4	5
e) Testing level ⁵¹	1	2	3	4	5
f) Marketing level	1	2	3	4	5
g) Implementation level	1	2	3	4	5
h) Review level	1	2	3	4	5

The *Shari'ah* Board in your bank is involved in the following important accounting issues:

Accounting Issues of Banks	SD	D	U	A	SA
a) Determining the formula for profit distribution	1	2	3	4	5
b) Approving the calculation and distribution of <i>Zakat</i>	1	2	3	4	5
c) Approving the accounting policy to be applied	1	2	3	4	5
d) Validating documentation used in Islamic financing contracts	1	2	3	4	5
e) Validating the Islamic banking transaction records	1	2	3	4	5
f) Issuing the <i>Shari'ah</i> compliance report of the bank	1	2	3	4	5
g) Endorsing the annual report prepared by the bank management	1	2	3	4	5

When discharging the duties and performing its roles, the *Shari'ah* Board in your bank receives assistance from the following relevant parties:

Relevant Parties who Assist the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) <i>Shari'ah</i> department	1	2	3	4	5
b) Audit department	1	2	3	4	5
c) Internal auditor	1	2	3	4	5
d) External auditor	1	2	3	4	5
e) Board of directors	1	2	3	4	5
f) The management	1	2	3	4	5
g) "Shared services" ⁵²	1	2	3	4	5
h) Consultants	1	2	3	4	5

The *Shari'ah* Board in your bank undertakes the following commitments:

General Commitment	SD	D	U	A	SA
a) Publishing the <i>Shari'ah</i> resolutions & rulings of the	1	2	3	4	5

⁴⁹ For example, arriving at an agreement on a concept of Islamic banking product or service.

⁵⁰ For example, designing the product or service to be launched based on initial agreement on its concept.

⁵¹ For example, computer programming (or IT) testing and simulation of the Islamic banking products and services.

⁵² For example, oversight committee such as auditors and support services such as accountants.

<i>Shari'ah</i> Board and the mechanism of <i>Shari'ah</i> compliance that is applied in the bank to the public					
b) Actively engaging in innovating the Islamic banking products and services through discussion with the management, accountants, lawyers and other concerned parties to meet the demand of time and compete with the conventional banking innovations	1	2	3	4	5
c) Actively engaging in workshops and meetings with the <i>Ulama</i> of <i>Fiqh al-Mua'malat</i> to have intensive discussion about the <i>Shari'ah</i> resolutions and banking innovations	1	2	3	4	5
d) Adequately analyzing whether Islamic banking products & services would be beneficial to the <i>Ummah</i> before they are launched	1	2	3	4	5
e) Enhancing the <i>Shari'ah</i> review skill by attending appropriate trainings and workshops for the <i>Shari'ah</i> Board's continuous professional development	1	2	3	4	5
f) Responding to any question pertaining to resolutions and pronouncements issued by the <i>Shari'ah</i> Board	1	2	3	4	5

Section B: Accountability and Independence of the *Shari'ah* Board

Please indicate below the level of importance of the factors that influence the accountability and independence of the *Shari'ah* Board in the Islamic banks of Bangladesh by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Very Unimportant (VUT)	Unimportant (UT)	Uncertain (U)	Important (I)	Very Important (VI)

1. The accountability of the *Shari'ah* Board is influenced by the following factors:

	VUT	UT	U	I	VI
a) The ethical values of the <i>Shari'ah</i> Board member	1	2	3	4	5
b) The scholarly background of the <i>Shari'ah</i> Board member	1	2	3	4	5
c) The reputation of the <i>Shari'ah</i> Board	1	2	3	4	5
d) Stakeholders' reliance on the <i>Shari'ah</i> Board	1	2	3	4	5
e) The responsibility of the <i>Shari'ah</i> Board to ensure the <i>Shari'ah</i> compliance of the bank	1	2	3	4	5
f) Legal framework of the <i>Shari'ah</i> Board	1	2	3	4	5

2. The independence of the *Shari'ah* Board is influenced by the following factors:

	VUT	UT	U	I	VI
a) Clearly defined responsibilities	1	2	3	4	5
b) Perceived high ethical standard of the <i>Shari'ah</i> Board member	1	2	3	4	5
c) Scholarly background of the <i>Shari'ah</i> Board member	1	2	3	4	5
d) Adequate legal power mandated to the <i>Shari'ah</i> Board	1	2	3	4	5
e) Participation of top management in the <i>Shari'ah</i> Board meeting	1	2	3	4	5
f) The remuneration received by the <i>Shari'ah</i> Board member	1	2	3	4	5

g) Involvement of a <i>Shari'ah</i> Board member as <i>Shari'ah</i> Board member in other industry	1	2	3	4	5
--	---	---	---	---	---

3. The *Shari'ah* Board members are accountable to the following parties:

	VUT	UT	U	I	VI
a) The bank's shareholder	1	2	3	4	5
b) The bank's client	1	2	3	4	5
c) The bank's board of directors	1	2	3	4	5
d) The public	1	2	3	4	5
e) Bangladesh Bank	1	2	3	4	5

Please indicate the extent to which you agree or disagree with the following aspects of the *Shari'ah* Board members' appointment and the Board's mandated authority in performing their *Shari'ah* review role in Islamic banks by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Strongly Disagree (SD)	Disagree (D)	Uncertain (U)	Agree (A)	Strongly Agree (SA)

4. The *Shari'ah* Board in your bank possess the following appointment and mandated authority:

Nature of Appointment and Mandated Authority	SD	D	U	A	SA
a) The appointment of <i>Shari'ah</i> Board member is made based on certain 'fit and proper' qualification criteria	1	2	3	4	5
b) There is no conflict of interest on the appointment of <i>Shari'ah</i> Board members ⁵³	1	2	3	4	5
c) The <i>Shari'ah</i> Board members are subject to certain assessment by the Islamic bank	1	2	3	4	5
d) Adequate power has been mandated to the <i>Shari'ah</i> Board to perform its role	1	2	3	4	5
e) There is a reporting channel for the <i>Shari'ah</i> Board members, if any conflict arises between the <i>Shari'ah</i> Board and the board of directors or the management of the bank	1	2	3	4	5
f) There is proper segregation of duties of the <i>Shari'ah</i> Board in offering endorsement to a banking product and the <i>Shari'ah</i> compliance review of the products	1	2	3	4	5

Section C: The Nature of *Shari'ah* Review by the *Shari'ah* Board

Please indicate the extent to which you agree or disagree with the following nature of the *Shari'ah* Board's *Shari'ah* governance function by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Strongly Disagree	Disagree (D)	Uncertain	Agree	Strongly Agree

⁵³ Such as being substantial shareholders or having an intimate relationship with an employee of the bank.

(SD)		(U)	(A)	(SA)
------	--	-----	-----	------

1. The structure for *Shari'ah* review by the *Shari'ah* Board in your bank accommodates the following features:

The Structure for <i>Shari'ah</i> Review by the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) The <i>Shari'ah</i> Board is the sole authority on the <i>Shari'ah</i> review system of the bank	1	2	3	4	5
b) The <i>Shari'ah</i> Board has been prescribed the appropriate operative procedures on its role and function by the bank	1	2	3	4	5
c) Membership of the <i>Shari'ah</i> Board comprises various experts such as <i>Shari'ah</i> scholar, accountant, lawyer, etc	1	2	3	4	5
d) There are effective communication channels to deliberate <i>Shari'ah</i> review issues of the bank	1	2	3	4	5
e) Adequate, appropriate and apparent guidelines have been issued by the Bangladesh Bank to use in the Islamic banks	1	2	3	4	5

2. The implementation of *Shari'ah* review by the *Shari'ah* Board in your bank accommodates the following features:

The Implementation of <i>Shari'ah</i> Review by the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) The <i>Shari'ah</i> Board has full authority to stop the bank from undertaking <i>Shari'ah</i> non-compliant transactions	1	2	3	4	5
b) The <i>Shari'ah</i> Board has been given ample time in their decision making process and review function	1	2	3	4	5
c) The <i>Shari'ah</i> Board gets professional support to smooth its function such as on legal, accounting and finance aspects	1	2	3	4	5
d) The <i>Shari'ah</i> Board has direct access to relevant, accurate, adequate and timely information	1	2	3	4	5
e) The part-time work of the <i>Shari'ah</i> Board members does not hinder the effective <i>Shari'ah</i> review process of the bank	1	2	3	4	5
f) There has been active communication and consultation among the <i>Shari'ah</i> Board, management of the bank and <i>Shari'ah</i> department of Bangladesh Bank	1	2	3	4	5

Section D: Demographic and General information:

Please tick (✓) where appropriate:

1. What is your gender?

Male

Female

2. Which of these age ranges do you fall into?

25-34

35-44

45-54

55-64

65 and above

3. How long have you been in the Islamic banking industry?

- 0-5 years 6-10 11-15 16 years and above
4. How long have your banking institution been offering Islamic banking products and services?
 0-5 years 6-10 11-15 16 years and above
5. What is the highest level of education that you have achieved?
 Bachelor's degree Master's degree PhD Professional certificate
 Others, please specify.....
6. Which aspect of training have you attained?
Shari'ah *Fiqh Al-Mua'malat* Management Accounting and Finance
 Economics Law Others, please specify.....
7. Which other organizational bodies are you affiliated to?
 AAOIFI IFSB Bangladesh Bank IDB None of the above
8. Is any of your *Shari'ah* Board members simultaneously a member of any other Islamic bank's *Shari'ah* Board?
 Yes No

GENERAL INFORMATION:

Name: _____

Islamic Bank's Name: _____

Job Title: _____

Department: _____

Contact Number : _____

Contact Address : _____

Email Address : _____

Approximate numbers of *Shari'ah* department staff in your bank: _____

If there is anything else you want to add or comment that you think may help us to understand the role of the *Shari'ah* Board in the Islamic banking industry of Bangladesh, please include them in the spaces provided below:

THANK YOU FOR YOUR COOPERATION

APPENDIX-2

A Research Survey on the Role of the *Shari'ah* Board in the Islamic Banking Industry of Bangladesh

Questionnaire to the Branch Managers of Islamic Banks (QS2):

General Instructions and Information

3. Please answer the questions in each section by placing a tick in the appropriate box or by circling the appropriate number.
4. You can be assured that the information you provide will be treated in the STRICTEST OF CONFIDENCE. Any disclosure of results will be done in aggregate form and individual Islamic banks or organizations will not be identified.

Researcher	Supervisor
<p>Md. Thowhidul Islam PhD Researcher, Department of Islamic History & Culture and Associate Professor of Bangladesh Studies Center for General Education (CGED) International Islamic University Chittagong (IIUC) Kumira, Sitakunda, Chittagong tauhidcox@gmail.com +88 01817078263</p>	<p>Prof. Dr. Md. Aaur Rahman Miazi Department of Islamic History and Culture University of Dhaka, Bangladesh</p>

Section A: Perceptions on the Role of *Shari'ah* Board

Please indicate the extent to which you agree or disagree with the following roles of the *Shari'ah* Board and the associated procedures used in performing these roles in your Islamic bank by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Strongly Disagree (SD)	Disagree (D)	Uncertain (U)	Agree (A)	Strongly Agree (SA)

1. The role of the *Shari'ah* Board in Islamic Bank should be defined with the following features:

The role and Scope of the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) Advise the board of directors on <i>Shari'ah</i> matters	1	2	3	4	5
b) Assist other parties on <i>Shari'ah</i> matters ⁵⁴	1	2	3	4	5
c) Advise the <i>Shari'ah</i> department officer on the scope of <i>Shari'ah</i> review	1	2	3	4	5
d) Provide training to the <i>Shari'ah</i> department officers to ensure effective <i>Shari'ah</i> review	1	2	3	4	5
e) Report to Bangladesh Bank on <i>Shari'ah</i> matters	1	2	3	4	5
f) Prepare the <i>Shari'ah</i> compliance manual to be used in the Islamic bank	1	2	3	4	5
g) Endorse the <i>Shari'ah</i> compliance manual prepared by the management of the bank	1	2	3	4	5
h) Audit the activities of bank to confirm the implementation of <i>Shari'ah</i> compliance manual	1	2	3	4	5

2. The *Shari'ah* Board should be involved in designing the following corporate objectives of the bank by incorporating *Shari'ah* values or ensuring its compatibility with the *Shari'ah*:

Corporate Objectives of Islamic Banks	SD	D	U	A	SA
a) The bank's mission	1	2	3	4	5
b) The bank's vision	1	2	3	4	5
c) The bank's goals	1	2	3	4	5
d) The bank's objectives	1	2	3	4	5
e) The bank's corporate brand value	1	2	3	4	5
f) The bank's long-term strategic direction	1	2	3	4	5

3. The *Shari'ah* Board should be involved in the following stages of the development of Islamic banking products and services:

Development of Islamic Banking Products and Services	SD	D	U	A	SA
a) Conception level ⁵⁵	1	2	3	4	5
b) Design level ⁵⁶	1	2	3	4	5
c) Pricing level	1	2	3	4	5
d) Legal documentation level	1	2	3	4	5
e) Testing level ⁵⁷	1	2	3	4	5
f) Marketing level	1	2	3	4	5

⁵⁴ For example, the legal advisors and accountants when developing a product or service for Islamic bank or external auditors in auditing the bank.

⁵⁵ For example, arriving at an agreement on a concept of Islamic banking product or service.

⁵⁶ For example, designing the product or service to be launched based on initial agreement on its concept.

⁵⁷ For example, computer programming (or IT) testing and simulation of the Islamic banking products and services.

g) Implementation level	1	2	3	4	5
h) Review level	1	2	3	4	5

4. The *Shari'ah* Board should be involved in the following important accounting issues:

Accounting Issues of Banks	SD	D	U	A	SA
a) Determining the formula for profit distribution	1	2	3	4	5
b) Approving the calculation and distribution of <i>Zakat</i>	1	2	3	4	5
c) Approving the accounting policy to be applied	1	2	3	4	5
d) Validating documentation used in Islamic financing contracts	1	2	3	4	5
e) Validating the Islamic banking transaction records	1	2	3	4	5
f) Issuing the <i>Shari'ah</i> compliance report of the bank	1	2	3	4	5
g) Endorsing the annual report prepared by the bank management	1	2	3	4	5

5. When discharging the duties and performing its roles, the *Shari'ah* Board should receive assistance from the following relevant parties:

Relevant Parties who Assist <i>Shari'ah</i> Board	SD	D	U	A	SA
a) <i>Shari'ah</i> department	1	2	3	4	5
b) Audit department	1	2	3	4	5
c) Internal auditor	1	2	3	4	5
d) External auditor	1	2	3	4	5
e) Board of directors	1	2	3	4	5
f) The management	1	2	3	4	5
g) "Shared services" ⁵⁸	1	2	3	4	5
h) Consultants	1	2	3	4	5

6. The *Shari'ah* Board should undertake the following commitments:

General Commitment	SD	D	U	A	SA
a) Publishing the <i>Shari'ah</i> resolutions & rulings of the <i>Shari'ah</i> Board and the mechanism of <i>Shari'ah</i> compliance that is applied in the bank to the public	1	2	3	4	5
b) Actively engaging in innovating the Islamic banking products and services through discussion with the management, accountants, lawyers and other concerned parties to meet the demand of time and compete with the conventional banking innovations	1	2	3	4	5
c) Actively engaging in workshops and meetings with the <i>Ulama</i> of <i>Fiqh al-Mua'malat</i> to have intensive discussion about the <i>Shari'ah</i> resolutions and banking innovations	1	2	3	4	5
d) Adequately analyzing whether Islamic banking products & services would be beneficial to the <i>Ummah</i> before they are launched	1	2	3	4	5
e) Enhancing the <i>Shari'ah</i> review skill by attending appropriate trainings and workshops for the <i>Shari'ah</i> Board's continuous professional development	1	2	3	4	5
f) Responding to any question pertaining to the resolutions and pronouncements issued by the <i>Shari'ah</i> Board	1	2	3	4	5

⁵⁸ For example, oversight committee such as auditors and support services such as accountants.

Section B: Accountability and Independence of the *Shari'ah* Board

Please indicate below the level of importance of the factors that influence the accountability and independence of the *Shari'ah* Board in the Islamic banks of Bangladesh by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Very Unimportant (VUT)	Unimportant (UT)	Uncertain (U)	Important (I)	Very Important (VI)

1. The accountability of the *Shari'ah* Board is influenced by the following factors:

	VUT	UT	U	I	VI
a) The ethical values of the <i>Shari'ah</i> Board member	1	2	3	4	5
b) The scholarly background of the <i>Shari'ah</i> Board member	1	2	3	4	5
c) The reputation of the <i>Shari'ah</i> Board	1	2	3	4	5
d) Stakeholders' reliance on the <i>Shari'ah</i> Board	1	2	3	4	5
e) The responsibility of the <i>Shari'ah</i> Board to ensure <i>Shari'ah</i> compliance of the bank	1	2	3	4	5
f) Legal framework of the <i>Shari'ah</i> Board	1	2	3	4	5

2. The independence of the *Shari'ah* Board is influenced by the following factors:

	VUT	UT	U	I	VI
a) Clearly defined responsibilities	1	2	3	4	5
b) Perceived high ethical standard of the <i>Shari'ah</i> Board member	1	2	3	4	5
c) Scholarly background of the <i>Shari'ah</i> Board member	1	2	3	4	5
d) Adequate legal power mandated to the <i>Shari'ah</i> Board	1	2	3	4	5
e) Participation of top management in the <i>Shari'ah</i> Board meeting	1	2	3	4	5
f) The remuneration received by the <i>Shari'ah</i> Board member	1	2	3	4	5
g) Involvement of a <i>Shari'ah</i> Board member as <i>Shari'ah</i> Board member in other industry	1	2	3	4	5

3. The *Shari'ah* Board should be accountable to the following parties:

	VUT	UT	U	I	VI
a) The bank's shareholder	1	2	3	4	5
b) The bank's client	1	2	3	4	5
c) The bank's Board of Directors	1	2	3	4	5
d) The public	1	2	3	4	5
e) Bangladesh Bank	1	2	3	4	5

Please indicate the extent to which you agree or disagree with the following aspects of *Shari'ah* Board members' appointment and the Board's mandated authority in performing their *Shari'ah* review role in Islamic banks by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Strongly Disagree (SD)	Disagree (D)	Uncertain (U)	Agree (A)	Strongly Agree (SA)

4. The *Shari'ah* Board should possess the following appointment and mandated authority:

Nature of Appointment and Mandated Authority	SD	D	U	A	SA
a) The appointment of <i>Shari'ah</i> Board member should be made based on certain 'fit and proper' qualification criteria	1	2	3	4	5
b) There should not be conflict of interest on the appointment of <i>Shari'ah</i> Board members ⁵⁹	1	2	3	4	5
c) The <i>Shari'ah</i> Board members should be subject to certain assessment by the Islamic bank	1	2	3	4	5
d) Adequate power should be mandated to the <i>Shari'ah</i> Board to perform its role	1	2	3	4	5
e) There should be a reporting channel for the <i>Shari'ah</i> Board members, if any conflict arises between the <i>Shari'ah</i> Board members and the board of directors or the management of the bank	1	2	3	4	5
f) There should be proper segregation of duties of the <i>Shari'ah</i> Board in offering endorsement to a banking product and the <i>Shari'ah</i> compliance review of the product	1	2	3	4	5

Section C: The Nature of *Shari'ah* Review by the *Shari'ah* Board

Please indicate the extent to which you agree or disagree with the following nature of the *Shari'ah* Board's *Shari'ah* governance function by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Strongly Disagree (SD)	Disagree (D)	Uncertain (U)	Agree (A)	Strongly Agree (SA)

1. The structure for *Shari'ah* review mechanism by the *Shari'ah* Board in the Islamic banks of Bangladesh should demonstrate the following features:

The Structure for <i>Shari'ah</i> Review by the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) The <i>Shari'ah</i> Board should be the sole authority on the <i>Shari'ah</i> review system of the bank	1	2	3	4	5
b) The <i>Shari'ah</i> Board should have the appropriate operative procedures on its role and function by the bank	1	2	3	4	5
c) Membership of the <i>Shari'ah</i> Board should comprise various experts such as <i>Shari'ah</i> scholar, accountant, lawyer, etc.	1	2	3	4	5
d) There should be effective communication channel to deliberate <i>Shari'ah</i> review issues of the bank	1	2	3	4	5
e) Adequate, appropriate and apparent guidelines should be issued by the Bangladesh Bank to use in the Islamic banks	1	2	3	4	5

⁵⁹ Such as being substantial shareholders or having an intimate relationship with an employee of the bank.

2. The implementation of *Shari'ah* review mechanism by the *Shari'ah* Board should accommodate the following features:

The Implementation of <i>Shari'ah</i> Review by the <i>Shari'ah</i> Board	SD	D	U	A	SA
a) The <i>Shari'ah</i> Board should have the authority to stop the bank from undertaking non- <i>Shari'ah</i> compliant transactions	1	2	3	4	5
b) The <i>Shari'ah</i> Board should be given ample time in their decision making process and review function	1	2	3	4	5
c) The <i>Shari'ah</i> Board should get professional support to smooth its function such as on legal, accounting and finance aspects	1	2	3	4	5
d) The <i>Shari'ah</i> Board should have direct access to relevant, accurate, adequate and timely information	1	2	3	4	5
e) Bangladesh Bank should adopt rigorous procedures to examine and endorse the application of Islamic banking products submitted by Islamic banks	1	2	3	4	5
f) The part-time work of the <i>Shari'ah</i> Board members does not hinder the effective <i>Shari'ah</i> review process of the bank	1	2	3	4	5
g) The <i>Shari'ah</i> compliance of the banks should adequately be reflected in the <i>Shari'ah</i> report issued by the <i>Shari'ah</i> Board	1	2	3	4	5
h) The <i>Shari'ah</i> report should satisfactorily disclose the accounting issues of Islamic banks	1	2	3	4	5

Please indicate below the degree of importance you attach to the following parties in the *Shari'ah* governance of Islamic banks by placing a circle in the appropriate box based on the scale from 1 to 5 where:

1	2	3	4	5
Very Unimportant (VUT)	Unimportant (UT)	Uncertain (U)	Important (I)	Very Important (VI)

3. How do you regard the importance of the following parties in the *Shari'ah* governance mechanism of Islamic banks in Bangladesh?

Parties involve in the <i>Shari'ah</i> Governance of Islamic Banks	VUT	UT	U	I	VI
a) <i>Shari'ah</i> department of Bangladesh Bank	1	2	3	4	5
b) <i>Shari'ah</i> Board of the Islamic bank	1	2	3	4	5
c) <i>Shari'ah</i> department of the Islamic bank	1	2	3	4	5
d) Board of directors of the Islamic bank	1	2	3	4	5
e) Management of the Islamic bank	1	2	3	4	5
f) Central <i>Shari'ah</i> Board of the <i>Shari'ah</i> Boards of Islamic banks in Bangladesh	1	2	3	4	5

APPENDIX-3



Headquarters of Islamic Development Bank (IDB)



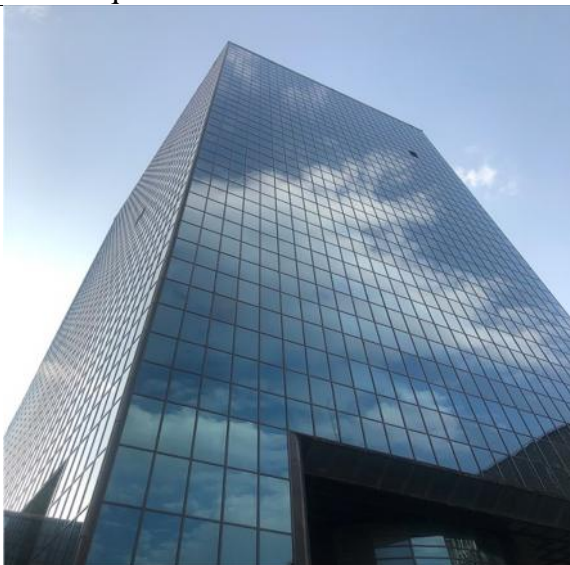
Headquarters of Dubai Islamic Bank



Headquarters of Kuwait Finance House



Headquarters of Al Rajhi Banking and Investment Corporation



Headquarters of Bank Mellat, Tehran, Iran.



Headquarters of Maybank Islamic Berhad, Kuala Lumpur, Malaysia.



Headquarters of Bangladesh Bank



Head office complex of Islami Bank Bangladesh Limited



Head office complex of Al-Arafah Islami Bank Limited



Head office complex of ICB Islamic Bank Limited



Head office complex of EXIM Bank Bangladesh Limited



Head office complex of Social Islami Bank Limited



Head office complex of Shahjalal Islami Bank Limited



Head office complex of First Security Islami Bank Limited



Head office complex of Union Bank Limited



Shari'ah Board Meeting of Islami Bank Bangladesh Limited



General Meeting of Central Shari'ah Board for Islamic Banks of Bangladesh



Shari'ah Board Meeting of Shahjalal Islami Bank Limited



Shari'ah Board Meeting of Union Bank Limited