



UNIVERSITI PUTRA MALAYSIA

**DEVELOPMENT OF A CENTRALIZED SHARIAH GOVERNANCE
FRAMEWORK FOR ISLAMIC BANKS IN BANGLADESH**

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SPE 2020 2



**DEVELOPMENT OF A CENTRALIZED SHARIAH GOVERNANCE
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By

MD. KAUSAR ALAM

**Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in
Fulfillment of the Requirements for the Degree of Doctor of Philosophy**

December 2019

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DEDICATION

*Those who have a special place in my heart;
My beloved and honorable parents and family members.*



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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirements for the degree of Doctor of Philosophy

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December 2019

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Shariah Governance is defined as a set of institutional arrangements through which Islamic Financial Institutions ensure that there is an effective independent oversight of Shariah compliance over its products, instruments, operations, practices, management, etc. Apart from that, the purpose of the Shariah governance framework is to ensure the smooth functioning of Islamic Financial Institutions. At the moment, Bangladesh has no comprehensive Shariah governance structure including the Shariah governance framework and full-fledged legal framework that govern the operation of Islamic banking activities, hence hinder the growth of this industry in the country. This lack of a mechanism that governs Islamic banking activities creates regulatory gaps and confusions among its stakeholders especially with regards to Shariah compliance. The main objective of this study is to investigate and evaluate the current Shariah governance framework practices in Bangladesh and further to develop a centralized Shariah governance framework for Islamic banks. To achieve this objective, the study implements a case study and uses of semi-structured personal interviews with 17 respondents who have relevant backgrounds on Shariah governance of Islamic banks in Bangladesh. Furthermore, the study uses agency theory, stewardship theory, stakeholder theory, and new institutional theory as the basis for the study. This study finds that in the current practices, every Islamic bank has its Shariah governance guidelines but in the real sense, they are not adequately and effectively practicing the principles of Shariah due to high-profit intention, board of directors' influence, and lack of accountability. Furthermore, the Shariah supervisory board and the Shariah executives are not independent in performing their functions. The board of directors and management also use themselves as a showcase to accomplish their goals and to maximize profit in the name of Islam. In addition, this study also finds that Islamic banks are also facing pressures from the society, culture, government administrations, politics, existing banking industry, conventional banks, bankers, and secular people in their policymaking and operational activities. Besides, Islamic banks develop an additional image in the overall banking sector of Bangladesh through their corporate

social responsibility. Hence, to ensure the smooth functioning of Islamic banks in Bangladesh, this study proposes a centralized Shariah governance framework which comprises of two-tier Shariah supervisory boards i.e., institutional Shariah supervisory boards and Centralized Shariah supervisory board to monitor the functions of Islamic banks. The study also recommends to set up four departments such as Shariah department, Islamic banking regulation and policy department, Shariah supervision department, and Shariah inspection department under the central bank to enhance the functions of centralized Shariah governance framework. Finally, the central bank can introduce Shariah rating and external Shariah audit through Islamic rating agencies and Islamic chartered accountant firms for transparency and quality compliance, desired by the public and other stakeholders. Centralized Shariah supervisory board will be responsible for the overall Shariah issues of the Islamic banks, and the central bank will implement the suggestions of the Centralized Shariah supervisory board in any Shariah related matters, regulations, and guidelines. The research demonstrates the reasons behind the differences in the mechanisms of Shariah governance practices in the context of Bangladesh which will be beneficial for the central bank and Islamic banks. This proposed centralized Shariah governance framework will be beneficial for the central bank and Islamic banks to explore the Islamic banking industry, its functions, Shariah governance practices, and Shariah compliance quality in Bangladesh. The findings will help them to minimize the misconception, improve Shariah governance practices, and enhance the quality of Shariah compliance and the image of Islamic banks. The government or the central bank can implement this framework or modify this framework for best fitted, to enhance the Shariah governance structure and fulfill the expectations of all concerned stakeholders related to the Islamic banks in Bangladesh. This framework will help the other nations to develop the two-tier Shariah governance framework in centralized Shariah governance framework practicing countries and other Islamic banking practices nations.

Abstrak tesis yang dihantar kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

PEMBANGUNAN A KERAJAAN TADBIR URUS SYARIAH TENTANG BANK ISLAM DI BANGLADESH

Oleh

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Tadbir Urus Syariah ditakrifkan sebagai satu set pengaturan institusi di mana Institusi Kewangan Islam memastikan bahawa terdapat pengawasan bebas yang berkesan terhadap pematuhan Syariah bagi produk, instrumen, operasi, amalan, pengurusan, dan lain-lain. Selain daripada itu, tujuan Rangka Kerja Tadbir Urus Syariah adalah untuk memastikan kelancaran fungsi Institusi Kewangan Islam. Pada ketika ini, Bangladesh tidak mempunyai struktur Tadbir Urus Syariah yang menyeluruh termasuk Rangka Kerja Tadbir Urus Syariah dan rangka kerja perundangan yang lengkap dalam mengendalikan aktiviti perbankan Islam yang menghalang pertumbuhan industri ini di negara ini. Kekurangan mekanisme yang mengawal aktiviti perbankan Islam ini mewujudkan jurang pengawalseliaan dan kekeliruan di kalangan ahli bank dan pemegang taruh terutamanya berkaitan pematuhan Syariah. Objektif utama kajian ini adalah untuk mengkaji dan menilai amalan Tadbir Urus Syariah semasa di Bangladesh dan seterusnya membangunkan Rangka Kerja Tadbir Urus Syariah Berpusat untuk bank Islam. Bagi mencapai matlamat ini, kajian ini melaksanakan satu kajian kes dan menggunakan temubual peribadi separa berstruktur melibatkan 17 responden yang mempunyai latar belakang yang relevan berkenaan Tadbir Urus Syariah bank Islam di Bangladesh. Seterusnya, kajian ini menggunakan teori agensi, teori pengawasan, teori pemegang taruh dan teori institusi baharu sebagai dasar kajian. Kajian mendapati dalam amalan semasa, setiap bank Islam mempunyai garis panduan Tadbir Urus Syariah sendiri tetapi dalam erti kata yang sebenar, mereka tidak mengamalkan sepenuhnya dan secara berkesan prinsip-prinsip Syariah kerana niat untuk mendapatkan keuntungan tinggi, pengaruh Lembaga Pengarah, dan kurangnya akauntabiliti. Selain itu, Lembaga Pengawasan Syariah dan eksekutif Syariah tidak bebas dalam menentukan fungsi mereka. Lembaga Pengarah dan pihak pengurusan juga menggunakan diri mereka sebagai pameran untuk mencapai matlamat mereka bagi memaksimumkan keuntungan atas nama Islam. Seterusnya kajian ini juga mendapati bahawa bank-bank Islam juga menghadapi tekanan daripada masyarakat, budaya, pentadbiran kerajaan, politik, industri perbankan sedia ada, bank

konvensional, ahli bank, dan orang sekular dalam aktiviti pembuatan dasar dan operasi mereka. Di samping itu bank Islam turut mengembangkan imej tambahan dalam keseluruhan sektor perbankan di Bangladesh melalui tanggungjawab sosial korporat mereka. Oleh itu, untuk memastikan kelancaran fungsi bank Islam di Bangladesh, kajian ini mencadangkan Rangka Kerja Tadbir Urus Syariah Berpusat yang terdiri daripada dua lapis Lembaga Pengawas Syariah iaitu Lembaga Pengawas Syariah di institusi dan Lembaga Pengawas Syariah Berpusat bagi memantau fungsi bank Islam. Kajian ini juga mencadangkan untuk menubuhkan empat jabatan iaitu jabatan Syariah, jabatan peraturan dan polisi perbankan Islam, jabatan penyeliaan Syariah, dan jabatan pemeriksaan Syariah di bawah bank pusat untuk meningkatkan fungsi Lembaga Pengawas Syariah Berpusat. Akhirnya, bank pusat boleh memperkenalkan penarafan Syariah dan audit Syariah luaran melalui agensi penarafan Islam dan firma akauntan Islam bertauliah untuk ketelusan dan kualiti pematuhan yang lebih diinginkan daripada orang awam dan pihak berkepentingan lain. Lembaga Pengawas Syariah Berpusat akan bertanggungjawab untuk isu-isu Syariah keseluruhan bank Islam dan bank pusat akan melaksanakan cadangan Lembaga Pengawas Syariah Berpusat dalam mana-mana isu, peraturan dan garis panduan yang berkaitan dengan Shariah. Penyelidikan ini menunjukkan sebab-sebab di sebalik perbezaan dalam mekanisme amalan Tadbir Urus Syariah dalam konteks Bangladesh yang akan memberi manfaat kepada bank pusat dan bank Islam. Rangka Kerja Tadbir Urus Syariah yang dicadangkan ini akan memberi manfaat kepada bank pusat dan bank Islam untuk meneroka industri perbankan Islam, fungsinya, amalan Tadbir Urus Syariah, dan kualiti pematuhan Syariah di Bangladesh. Penemuan ini akan membantu mereka meminimumkan kesalahfahaman, meningkatkan amalan Tadbir Urus Syariah, dan meningkatkan kualiti pematuhan Syariah dan imej bank Islam. Kerajaan atau bank pusat boleh melaksanakan rangka kerja ini atau mengubah rangka kerja ini untuk disesuaikan dengan baik, untuk meningkatkan struktur Tadbir Urus Syariah dan memenuhi jangkaan semua pihak berkepentingan yang berkaitan dengan bank Islam di Bangladesh. Rangka kerja ini akan membantu negara-negara lain untuk membangunkan Rangka Kerja Tadbir Urus Syariah dua peringkat dalam Rangka Kerja Tadbir Urus Syariah Berpusat dan negara lain yang mengamalkan perbankan Islam.

ACKNOWLEDGEMENTS

All praises and gratitude are sole to the Almighty “Allah”. Whatever of benefit this thesis contains is from Allah, and whatever shortcoming it has is from me.

First and foremost, I am very grateful to Allah, the Almighty, for giving me the strength to undergo all the challenges in life. Secondly, I would like to address special thanks to my teachers, lecturers, and well-wishers throughout my life. They have taught and polished my capability to go through life and their assistance encouraged me to be a better person. Moreover, I am also very much obliged to that unexpected happened memory which made me take the decision to be an expatriate.

I would like to express my heartfelt gratitude to my supervisor DR. SUHAIMI BIN AB RAHMAN. I also humbly avail the opportunity to express my sincere appreciation to DR. HASRI BIN MUSTAFA, and DR. SABARINA BINTI MOHAMMED SHAH, member of the supervisory committee for their valuable advice, active cooperation and constructive criticism. I am also very grateful to brother Md. Masud Alam for his open hearted suggestions that grew up my intension for PhD. I am grateful to all who participated in the study, especially the interviewees, for giving up their precious time to assist me in this research. I am also thankful to my brothers and sisters and to my dear friends for encouraging and helping me to achieve my goals and complete my studies. Additionally, I am obliged to Professor Yusuf Karbhari for his insightful suggestions and guidance in data collection and the progress of the study. A special thanks to Dr. Mohd Mursyid Arshad, Senior Lecturer at Faculty of Educational Studies, Universiti Putra Malaysia, for his suggestions and unconditional help in the data analysis process of this research project.

Apart from that, I want to give a special thanks to my family members, senior Md. Abdul Bashir, my university teachers, and friends for their keen interest, scholastic guidance, invaluable suggestions and helpful comments in starting my journey. I am very grateful to Dr. Mohammad Mizanur Rahman for his constant support, continuous inspiration and constructive advice throughout the entire period of the research work and in preparing the manuscript. I am also grateful to brother Belal Hossain and Minhazur Rahman for their continuous support and inspiration. My humble gratitude goes to brother Md. Shamim Hossain, ACMA for his overall invaluable support and kindness.

This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the Doctor of Philosophy. The members of the Supervisory Committee were as follows:

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TABLE OF CONTENTS

| | Page |
|--|-------------|
| ABSTRACT | i |
| ABSTRAK | iii |
| ACKNOWLEDGEMENTS | v |
| APPROVAL | vi |
| DECLARATION | viii |
| LIST OF TABLES | xiii |
| LIST OF FIGURES | xiv |
| LIST OF ABBREVIATIONS | xv |
| | |
| CHAPTER | |
| 1 INTRODUCTION | 1 |
| 1.1 Introduction | 1 |
| 1.2 Background of the Study | 1 |
| 1.3 An Overview of Islamic Banking and Shariah Governance in Bangladesh | 5 |
| 1.4 Problem Statements | 9 |
| 1.5 Research Questions | 11 |
| 1.6 Research Objectives | 11 |
| 1.7 Significance of the Study | 11 |
| 1.8 Scope of the Study | 12 |
| 1.9 Key Terminology | 12 |
| 1.9.1 Shariah | 12 |
| 1.9.2 Maqasid al- Shariah (Objectives of the Shariah) | 13 |
| 1.9.3 The Theoretical Framework Underlying Islamic Banking Operation | 13 |
| 1.9.4 Principles of Islamic Finance | 14 |
| 1.10 Structure of the Thesis | 16 |
| 1.11 Chapter Summary | 16 |
| | |
| 2 LITERATURE REVIEW | 17 |
| 2.1 Introduction | 17 |
| 2.2 Shariah Governance | 17 |
| 2.3 Conceptual Framework of Shariah Governance Systems | 19 |
| 2.4 Commonly Used Theories in SGF | 20 |
| 2.4.1 Agency Theory and SGF | 21 |
| 2.4.2 Stewardship Theory and SGF | 21 |
| 2.4.3 Stakeholder Theory and SGF | 22 |
| 2.5 New Institutional Theory Framework | 23 |
| 2.5.1 Application of New Institutional Theory in SGF of Islamic Banks | 28 |
| 2.6 Models of Shariah Governance Framework | 29 |
| 2.6.1 Decentralized Shariah Governance Model | 31 |
| 2.6.2 Centralized Shariah Governance Model | 34 |
| 2.6.3 Earlier Models of SGF | 36 |
| 2.7 International Standard Setting Organizations | 38 |

| | | |
|----------|---|-----------|
| 2.7.1 | Accounting and Auditing Organization for Islamic Financial Institutions | 39 |
| 2.7.2 | International Financial Service Board | 40 |
| 2.8 | Chapter Summary | 41 |
| 3 | RESEARCH METHODOLOGY | 42 |
| 3.1 | Introduction | 42 |
| 3.2 | Research Design | 42 |
| 3.3 | Case Study | 43 |
| 3.4 | Research Population and Sampling | 44 |
| | 3.4.1 Research Population | 44 |
| | 3.4.2 Sampling Technique | 44 |
| | 3.4.3 Sample Selection | 45 |
| 3.5 | Data Gathering Procedure | 46 |
| | 3.5.1 Research Method | 46 |
| | 3.5.2 Observations | 49 |
| | 3.5.3 Document Analysis | 50 |
| 3.6 | Data Analysis Procedure | 51 |
| 3.7 | Trustworthiness and Credibility | 53 |
| | 3.7.1 Ethical Consideration | 54 |
| | 3.7.2 Field Notes | 55 |
| 3.8 | Chapter Summary | 55 |
| 4 | FINDINGS AND DISCUSSIONS | 56 |
| 4.1 | Introduction | 56 |
| 4.2 | Objectives of the Research and Respondents Overview | 56 |
| 4.3 | Research Question 1: To what extent there exist differences in the practices of SG mechanisms in Islamic banks? | 60 |
| | 4.3.1 SG and Its Importance | 61 |
| | 4.3.2 Current Mechanisms of SGF | 65 |
| | 4.3.3 Influential Factors or Pressures in Setting up Policies | 78 |
| 4.4 | Research Question 2: What are the challenges in the current Shariah governance framework? | 86 |
| | 4.4.1 Challenges of Current SGF, Its Mechanisms, and Importance of CSGF | 86 |
| | 4.4.2 Management Influences on SSB Decision Making | 97 |
| | 4.4.3 Reasons behind the Absence of Comprehensive SGF | 101 |
| | 4.4.4 Legalization of CSBIB or formation of a new CSSB in the Central Bank | 104 |
| 4.5 | Research Question 3: How should a Centralized Shariah Governance Framework be Operationalized? | 106 |
| | 4.5.1 Prospective Roles and Functions of Different Bodies of CSGF | 106 |
| | 4.5.2 Standard Criteria and Procedures for CSGF | 112 |
| | 4.5.3 Relationship amongst the Different Bodies of a CSGF | 120 |

| | | |
|----------|---|------------|
| 4.5.4 | Suggestions for the Central Bank, Islamic Banks, SSB, and SG System | 125 |
| 4.6 | Conclusion | 128 |
| 5 | CONCLUSION AND RECOMMENDATION | 129 |
| 5.1 | Introduction | 129 |
| 5.2 | Review of the Findings | 129 |
| 5.2.1 | The Different Mechanisms of Shariah Governance Practices in Islamic Banks | 129 |
| 5.2.2 | The Challenges Faced by SSB, Bankers, and Regulators Regarding SGF | 134 |
| 5.2.3 | Operationalization of Centralized Shariah Governance Framework | 136 |
| 5.3 | Contribution of the Research | 141 |
| 5.4 | Theoretical Implications | 142 |
| 5.5 | Practical Implications | 147 |
| 5.6 | Limitations of the Study | 149 |
| 5.7 | Direction for Future Research | 151 |
| 5.8 | Conclusion | 152 |
| | REFERENCES | 153 |
| | APPENDICES | 183 |
| | BIODATA OF STUDENT | 211 |
| | LIST OF PUBLICATIONS | 212 |

LIST OF TABLES

| Table | | Page |
|-------|--|------|
| 1.1 | Islamic banking expansion in Bangladesh, 1990-2019 | 6 |
| 3.1 | Background of the pre-test respondents | 48 |
| 4.1 | Number of nodes and references found in the NVivo analysis | 58 |
| 4.2 | Background of the Respondents | 59 |
| 4.3 | List of identified themes | 60 |

LIST OF FIGURES

| Figure | | Page |
|---------------|--|-------------|
| 1.1 | Shariah governance structure of Islamic banks in Bangladesh | 8 |
| 2.1 | Corporate governance structure for IFIs | 19 |
| 2.2 | A conceptual framework for SGF by using new institutional theory | 26 |
| 2.3 | Shariah governance framework of Bank Negara Malaysia | 37 |
| 3.1 | Respondents selection and data collection process | 49 |
| 4.1 | Saturation process | 57 |
| 4.2 | Theme of SG and its importance | 61 |
| 4.3 | Theme of current mechanisms of SGF | 65 |
| 4.4 | Theme of influential factors in setting up policies | 78 |
| 4.5 | Theme of challenges of SGF and its mechanisms | 86 |
| 4.6 | Islam, Shariah, Muamalat, banking and finance | 92 |
| 4.7 | Theme of management influence in SSB decision making | 98 |
| 4.8 | Theme of reasons behind the absence of CSGF | 101 |
| 4.9 | Theme of legalization of CSBIB or formation of CSSB | 104 |
| 4.10 | Theme of prospective roles and functions of different bodies of CSGF | 107 |
| 4.11 | Theme of standard criteria and procedures for CSGF | 113 |
| 4.12 | Theme of relationship amongst the different bodies of a CSGF | 120 |
| 4.13 | Proposed centralized Shariah governance framework | 123 |
| 4.14 | Theme of suggestions for related parties of CSGF | 125 |
| 5.1 | Final proposed centralized Shariah governance framework | 139 |

LIST OF ABBREVIATIONS

| | |
|--------|---|
| AAOIFI | Accounting and Auditing Organization for Islamic Financial Institutions |
| BB | Bangladesh Bank |
| BOD | Board of Directors |
| BNM | Bank Negara Malaysia |
| CG | Corporate Governance |
| CSBIB | Central Shariah Board for Islamic Banks of Bangladesh |
| CSGF | Centralized Shariah Governance Framework |
| CSSB | Central Shariah Supervisory Board |
| GCC | Gulf Cooperation Countries |
| IBCF | Islamic Banks Consultative Forum |
| IDB | Islamic Development Bank |
| IFIs | Islamic Financial Institutions |
| IFSB | International Financial Service Board |
| OECD | Organization for Economic Co-operation and Development |
| SG | Shariah Governance |
| SGF | Shariah Governance Framework |
| SSB | Shariah Supervisory Board |

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter explores the background of the study, problem statements, research questions, and research objectives. This chapter discusses the significance of the research, and scope of the study, and provides some general key words discussion.

1.2 Background of the Study

Islamic finance developed in 1970 by the formation of numerous Islamic banks and financial institutions such as Nasser Social Bank in Egypt, Mitr Ghams Savings Bank, and Dubai Islamic Bank) globally. However, at the beginning of Islamic banking and finance, there was not any Shariah Supervisory Board (SSB) within the institutional governance framework, and later, Faisal Islamic Bank has formed the SSB in the institutional structure. However, Islamic finance has come to the attention of the investors as they were dissatisfied with conventional banks in the recent global financial crisis in 2008 (Johnes et al., 2014). Islamic finance requires specific and different Corporate Governance (CG), which is absent in the conventional CG practices and structures (Sulaiman, Majid and Arifin, 2015; Perry, 2011; Abu-Tapanjeh, 2009). Islamic finance based on Islamic principles that require the complete activities of Islamic Financial Institutions (IFIs) that must be compliant with Shariah principles¹. Due to the lack of such a governance framework, conflicts may occur and leads to financial and non-financial losses. In the Islamic financial markets, the failures of 'Ihlas Finance in Turkey', 'Islamic Bank of South Africa', and the 'Islamic Investment Companies of Egypt' as well as the commercial losses of 'Dubai Islamic Bank' are evidence of such fiascos. In this case, the most significant issues are the damage to the image of Islamic banks and the loss of customers' trust (Zada et al., 2017). Thus, Shariah Governance (SG) has been developed by the diverse regulators and countries for monitoring the functions of IFIs and minimizing the disputes among the various parties.

SG is an essential component of Islamic banks, which plays a significant role in policy-making and protecting the rights of shareholders and assures that all business activities, practices, and functions are following the compliance of Islamic principles (Hasan, 2011). In the governance system, management is responsible for all the activities of Islamic banks, to the stakeholders, and ultimately to the Almighty Allah. The complete roles of independent Shariah Supervisory Board (SSB) are to assure that the functions

¹ The application of Shariah principles helps to run the activities of Islamic banks, which also enhances them to promote social justice and Islamic values. The Shariah motivates the Islamic banks to improve social justice (Dusuki, 2008; Abu-Tapanjeh, 2009; Saif Alnasser and Muhammed, 2012).

of the Islamic banks are in compliance with Shariah law and need to publish the authorization report in the annual report (Briston and El-Ashker, 1986; Tomkins and Karim, 1987; Karim, 1990a and b; Rammal, 2006).

However, Bangladesh has a positive story in the growth and development of Islamic banking concerning its market share and assets from its inauguration². In the recent world financial crisis, Bangladesh is one of the less numerous affected countries, probably for the development of the Islamic banking system (Wasiuzzaman and Gunasegavan, 2013). In Bangladesh, almost all conventional banks are trying to operate Islamic banking branches and windows over the country to attract the enormous Muslim people (Rahman, 2014). In 2015, the central bank stopped to provide the license of Islamic banking branches or windows to the conventional banks for doing Islamic banking business parallel with traditional banking due to the Shariah issues. Later, it opened in 2018.

At the international level, the practice of SG in IFIs may vary depending on different countries' legal frameworks governing Islamic banking and finance activities (Hassan et al., 2011). In general, the global Shariah governance practice can divide into three different models or structures, namely, centralized, laissez-faire, and hybrid. Firstly, in the centralized model, a Shariah Advisory Council or Central Shariah Supervisory Board (CSSB) is established at the central level. This CSSB is responsible for issuing centralized *fatwas* on Islamic business dealings, advising the Central Bank on Shariah matters, issuing guidelines on the governance of IFIs' SSB, and executing centralized appointment of SSB at the bank level. This model is seen to have more comprehensive guidelines, and detailed implementation of SG yet has a more stringent requirement to be met by the IFIs compared to other models. Countries that have adopted this model of Shariah governance include Malaysia, Brunei, Indonesia, Iran, and Sudan. Secondly, the laissez-faire or self-regulated approach has seen no intervention by the market regulators and is made in the provision of SSB to the IFIs. Shariah compliance is perceived at best as a reputational issue in this model. Therefore, this more flexible SG model may require the IFIs to construct their ways of ensuring Shariah compliance and mitigating Shariah risks associated with their banking products. As a result, different IFIs may have different approaches to handling Shariah non-compliance issues with no final authority to decide on Shariah matters. Countries which have adopted the *laissez-faire* model mostly consist of Gulf Cooperation Countries (GCC) countries such as Saudi Arabia, Qatar, Kuwait and Bangladesh, and non-Islamic jurisdictions such as UK, France, Germany, Japan, South Korea, and Hong Kong. Finally, the IFIs in the countries which have adopted a hybrid model are obliged to ensure Shariah compliance by themselves and report their efforts to the central regulatory authority. For instance,

² The quarterly report on 'Developments of Islamic Banking in Bangladesh' January-March, 2019 of Bangladesh Bank (2019) showed that by March 2019, Islamic banks had reached a total deposit of TK. 242118.80 crores and has increased by 12.32% compared to the corresponding quarter 2018. The total investments (Loans in the conventional sense) in the Islamic banking industry reached at TK. 237279.20 crores at the end of March 2019, and the share of total deposits of Islamic banks accounted for 23.66% amongst all conventional banks during the period under review. The total Investment of Islamic banks accounted for 24.16% amongst all banks. Besides, the surplus Liquidity of the Islamic banking industry stood at TK. 3793.74 crores at the end of March 2019 quarter.

in Pakistan, the SSBs of Islamic banks must observe “fit and proper” criteria and submit a report on Shariah compliance to the SSB of the State Bank of Pakistan, which has the highest authority and supervisory roles of ensuring Shariah compliance in the country. Another country that has implemented a similar SG structure is UAE. Any arising issues on Shariah compliance shall be reported to the UAE’s National Council of the SSB of IFIs.

Therefore, Islamic banks in Bangladesh practice a mixed system of SG concerning the rules and regulations, guidelines, SSB practices, and ideological differences. According to ISRA-Thomson Reuters (2016), Bangladesh has 174 SSB members or scholars in the global perspectives who provide services towards the IFIs. Bangladesh contributed more than 50% microcredit finance of global microfinance. The first Islamic bank of Bangladesh, namely Islami Bank Bangladesh Limited (IBBL) has positioned itself in the top 1000 banks list of the world in 2012, 2013 and 2014. Though the achievements and contributions of Islamic banks of Bangladesh are high, in contrast, this industry is facing problems in their operations, SG and regulations³. Along with the progress, position, and development, there is an absence of separate Islamic banking law to monitor the Islamic banks (Sarker, 1998; Ahmad et al., 2014; Alamgir, 2016; Hassan et al., 2017; Abdullah and Rahman, 2017). Moreover, Islamic banks are not bound to follow the overall standards and guidelines of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and International Financial Service Board (IFSB) (Bangladesh Bank, 2009; Hassan et al., 2017).

Therefore, the absence of a separate Islamic banking law obstructs the practical functions and Shariah compliance activities of this industry (Ahmad and Hassan, 2007; Ahmad et al., 2014). In 2009, the central bank, namely Bangladesh Bank, has published SG guidelines to enlighten the functions and activities of Islamic banks. The guidelines state the established criteria of Islamic banks, converting conditions of changing to the Islamic banks from conventional products, deposits and Islamic investment approaches, roles, and responsibilities of SSB, Shariah compliance responsibility, and quality as well as appointment criteria of *muraqibs*, which is incomprehensive. Besides, Bangladesh Bank is unfamiliar with the monitoring, supervising, and operational procedures of Islamic banks, which is one of the reasons for not having the separate department in its head office. This is also the reason why less intention gave to separate inspection and guidelines for Islamic banks (Sarker, 1998). Islamic banks of Bangladesh are monitored by the rules and regulations of Banking Companies Act, 1991, and the execution of Shariah principles supervise by the SSB of respective Islamic banks (Bangladesh Bank, 2009; Habib et al., 2013;

³ Abdullah and Rahman (2017) based on the respondent’s opinion, stated that government laws and regulations are suitable for conventional banks but not appropriate for Islamic banks. For instance, in 1997, Prime Bank Limited got a license to inaugurate five Islamic banking branches, but until 2014, it did not get any license to operate more Islamic branches. At the same time, it got permission to open more than 100 conventional banking branches. Similarly, more than 23 conventional banks did not get authorization for opening further Islamic banking branches after they started with a few. However, if the licenses are regularly issued, Islamic banking could be the main form of banking in Bangladesh.

Ahmad et al., 2014). To examine these reports and to monitor the activities of SSB, the central bank does not have an independent CSSB (Bangladesh Bank, 2009).

However, all Islamic banks have their SSBs, but in the guidelines of the central bank, SSB is optional for the Islamic banks, which contradicts with the world practice (BMB Islamic, 2011). Besides, the guidelines of the Central Shariah Board for Islamic Banks of Bangladesh (CSBIB), which is formed by Islamic banks, Islamic banking branches, and windows, are not mandatory for Islamic banks. All Islamic banks follow the resolutions of CSBIB to mitigate their reputational risk⁴ (Uddin, 2014), and this body does not have formal recognition from the central bank. Again, the CSBIB has no power in terms of taking actions in any Shariah violations, and Islamic banks are not bound to follow the guidelines of CSBIB. Moreover, the Board of Directors (BOD) of Islamic Banks is taking advantage of the central bank SG guidelines (Hassan et al., 2017). They also stated that SSB members do not have the responsibility regarding the Shariah compliance and SSBs desire to move the responsibility to the BOD. The existing CSBIB does not have any legal power and accreditation from the regulators, the central bank, and the government. Therefore, it is significant to form a CSSB or legalize the existing CSBIB for monitoring the overall functions of the Islamic banking industry in Bangladesh.

According to AAOIFI (2010) guidelines and IFSB (2009) standards, SSB or their family members should not be the part of management, senior executives, or substantial shareholders. However, from the perspective of Bangladesh, few SSBs are formed with a mixture of family members, management, and others. To produce an impartial report on the activities of IFIs, independence of SSB is one of the essential issues (Bhambra, 2002). Hassan et al. (2017) evidentially state that 66.67% of SSB members of IFIs in Bangladesh are from the management and BOD sides, which have an impact on the functions of the SSB in 2015. Additionally, they also found that 55.56% of IFIs do not provide anything about the SSB meeting, and 66.67% do not disclose anything about the Shariah audit⁵ inspection report; nonetheless seven full-fledged Islamic banks enlisted in the stock exchange. Moreover, SSBs do not reveal their yearly reports in a uniform way, which generates confusion amongst the different stakeholders regarding the information (Ahmed and Khatun, 2013). Ullah (2014) also finds out the current Shariah audit procedure is not appropriate in assuring Shariah compliance at all levels of Islamic banks. Also, there is a lack of sincerity among the banks in following the proper Shariah principles and conduct an appropriate Shariah

⁴ The reputational risk arises from rumors regarding them, from Shariah violations may forward to a loss of account holders and other numerous stakeholders, thereby influencing the market position, cash flow, and profit margin of the bank (IFSB, 2005). This is probable that contrary promotion concerning the banks' corporate practices and relations, whether correct or not, will cause loss of faith in the honesty of the corporation (Basel Committee on Banking Supervision, 2001). In specific, it is the Islamic banks cannot manage the loss of integrity concerning the Shariah principles and applications, as integrity is the mainstream of their business (Archer and Haron, 2007).

⁵ Shariah audit denotes to the periodical evaluation directed from time to time delivering the independent evaluation and objective guarantee designed to enhance the value and increase the level of Shariah compliance concerning the business activities of IFIs, with the key goal of certifying a complete and efficient internal monitoring system for Shariah compliance. This function accomplishes by the internal auditors, who have attained adequate Shariah knowledge and training (BNM, 2010).

audit (Ullah, 2014). The reasons behind the inadequate Shariah audit inspection are the shortage of knowledge of Shariah auditors, full-time *muraqibs*, logistics, and misunderstanding among the *muraqibs*, and the limitations of the officers (Ullah, 2014).

Similarly, the expansion of Islamic finance globally and locally demands that there should have a robust and comprehensive SG system. Therefore, the sound SG system improves and strengthens the roles and functions of SSB and results in the institution's Shariah compliance quality. For the sustainable growth of Islamic banking industry of Bangladesh, it is necessary to develop an appropriate, supportive and legal framework for monitoring, controlling, guiding and directing Islamic banks (Ahmed and Khatun, 2013; Chowdhury et al., 2013, Perves, 2015; Noman et al., 2017). The central bank should provide a particular legal and regulatory policy and framework to the continuous improvement of the Islamic banking industry and enhance the quality of Shariah compliance. The absence of policy and framework creates questions among the general people and damages the institutional image of Islamic banks, which leads to financial losses⁶. That is why the study is imperative to identify the reasons and problems behind the absence of the Shariah Governance Framework (SGF) and to formulate a Centralized Shariah Governance Framework (CSGF) for the Islamic banks towards the homogeneous practices in the context of Bangladesh.

1.3 An Overview of Islamic Banking and Shariah Governance in Bangladesh

As a country with the majority of Muslim people, most of the people in Bangladesh are practicing and dedicating their personal life following the way of the Quran and Sunnah (Abdullah, 2008). The majority of the Muslim people who have a strong belief in Islam have motivated the growth of the Islamic financial sector in Bangladesh. After the independence of Bangladesh, the government has opened the door of establishing Islamic banks by attending the second Organization of Islamic Conference summit in 1974. The first Islamic bank in Bangladesh was introduced on March 30, 1983, by the formation of Islami Bank Bangladesh Limited (Noman et al., 2017; Hassan et al., 2017). At present, eight full-fledged Islamic banks operate the Islamic banking business through its 1198 branches and 19 Islamic banking branches and 35 Islamic banking windows from the conventional banks in Bangladesh (Bangladesh Bank, 2019). However, each country has its unique SGF because of socio-cultural, political, and regulatory issues. The government and the regulatory authorities have played the pioneering role in the growth and development of Islamic finance and its SGF. Still, in terms of Bangladesh, it developed by the motivation of general people and respective banks, which is much more flexible in their practices (Hassan et al., 2017). The below table 1.1 shows the overall development of the Islamic banking industry in Bangladesh.

⁶ The name of the banks, its image, and privacy, as well as the influence of family members, and friends and the service quality have significant roles influencing the customers' choice of the banks and their decision-making in their investment (Mettawa and Mossawi, 1998; Naser, Jamal and Al Khatib, 1999).

Table 1.1 : Islamic banking expansion in Bangladesh, 1990-2019

| Year | Islamic Banks | Islamic Banks Branches | Islamic Banking Branches (of conventional banks) | Islamic Banking Windows (of conventional banks) | Private Commercial Banks (PCBs) |
|------|---------------|------------------------|--|---|---------------------------------|
| 1990 | 2 | | | | 7 |
| 1995 | 4 | | 2 | | 13 |
| 2000 | 5 | | 10 | | 27 |
| 2005 | 6 | | 20 | | 30 |
| 2010 | 7 | | 20 | 21 | 30 |
| 2011 | 7 | 681 | 20 | 32 | 30 |
| 2015 | 8 | 965 | 20 | 25 | 39 |
| 2019 | 8 | 1198 | 19 | 35 | 56 |

Source: Bangladesh Bank

The regulatory authorities and monitoring bodies (BOD, SSB, and management) monitor and supervise the Islamic banks and their SG activities according to the central bank rules and regulations along with Shariah principles. Thus, along with the central bank and the Ministry of Finance, there are several non-government organizations have formed to supervise the functions of the Islamic banks as an advisory basis. Those bodies are playing an imperative role in the development of the Islamic banks and their SG functions. To assure Shariah compliance in the Islamic banks, the central bank has fixed the criteria before starting the bank. The organizers of the bank have to ensure the expertise and facilities and confirm all business activities comply with Shariah (Bangladesh Bank, 2009). The central bank does not have a separate department to monitor and control the Islamic banks, and it reviews Islamic banks with the inspection of traditional banks guidelines (Islam, n.d.). Also, the central bank has formed a competency group to develop the checklist of Shariah compliance to observe the supervisory activities of the SSB of Islamic banks.

In addition, Islamic Banks Consultative Forum (IBCF) have formed on 11 October 1995, is providing services towards the improvement of Islamic banking. The IBCF considered an effective and efficient institution, which has attained more objective such as policy development, managing the problems and matters concerning Islamic banks, and the development of Islamic banking in Bangladesh. However, the CSBIB, Islamic Insurance Companies, Bangladesh Government Islamic Investment Bond, renovating new Islamic financial products, and the group investments are the practical accomplishments of IBCF. Besides, in 2016, IBCF has launched the IBCF Research Training Academy for the overall improvement of the talent management process, human capital, and generating future leaders.

The Central Shariah Board for Islamic Banks of Bangladesh (CSBIB) established as a private institution in 2002 for the development and assurance of the similar Shariah rulings for the Islamic banks in Bangladesh. CSBIB aims to supervise and support Islamic banks, banking branches, and windows to implement Shariah guidelines in their overall banking functions. Besides these, CSBIB provides supports to the central bank, government, and all of its member banks in disputes issues and Shariah issues in conforming Shariah rules and regulations in their complete business activities.

Sometimes, CSBIB arranges training programs and general discussion programs for bankers and Shariah executives. As such, CSBIB plays a vital role in solving the controversial matters between Islamic banks and the customers as well as providing *fatwas* regarding contemporary issues.

However, every Islamic bank has a separate SSB in its apex line, which consists of Shariah scholars. Some of them called it SSB, and others called it Shariah Committee, Shariah Supervisory Committee, and Shariah Board. Like Islamic banks, Islamic banking branches and windows of conventional banks also have SSBs with renowned Shariah scholars. As traditional commercial banks have several Islamic banking branches and windows, thus it is supposed to be SG guidelines and SSB in the headquarters rather than at the branch level for monitoring their Islamic banking activities and functions.

Only four full-fledged Islamic banks have the position of SSB in their organizational structure out of the eight banks, and only one bank has a direct relation with SSB and Shariah secretariat. Therefore, SSBs do not have any place in the organizational structure of Islamic banks. This limitation creates several questions about the communication procedure among the various parties (for example, management, Shariah department, and other respected parties) concerning their activities and resolution system about the conflicting issues. Besides, why there does not have any position of SSB in the organizational framework of the Islamic banks? How does the SSB work with various parties of the corporation to implement Shariah principles in corporate management systems and banking activities without a proper guideline and a sound governance framework? These are because of weak monitoring of the central bank and SSB, lack of appropriate SGF, and self-developed SG structures and strategies by Islamic banks. So, it is crucial to develop a CSGF for ensuring the homogeneous Shariah rules, monitoring the banking functions, solving Shariah issues and conflicts, improving new Shariah-based products, minimize Shariah risk⁷ and providing better customer service as well as enhancing the quality of Shariah compliance and public confidence.

Figure 1.1 represents the existing SG structure of the Islamic bank in Bangladesh. In the current practices, SSB provides the advisory services and accomplish Shariah audit and review functions and finally provide an annual certificate based on the accomplished tasks which are published in the annual report of the respective bank and submit to the Bangladesh Bank (Abdullah and Rahman, 2017). If the SSBs face any problem in Shariah issues to accomplish their functions, they contact CSBIB. SSB also assesses the personal performance of the executives concerning the Shariah

⁷ Balz (2008) used the word Shariah risk and explained it as the opportunity that an Islamic financing transaction is challenged on the ground, it does not comply with Shariah principles (Balz, 2008, p. 23). Moreover, Ginena (2014) has defined Shariah risk, a form of operational risk, as the risk of financial losses that an IFI may arise due to non-compliance with Islamic principles in operations, as determined by SSB or the relevant body in the pertinent nation. However, Muslims trust that losses on the spiritual front will reduce the blessings of God; having an indirect consequent influence on the financial structure of the IFI (Muhamad, 2011).

compliance and performs Shariah audit once or twice a year for ensuring proper implementations of Shariah principles (Alamgir, 2016). Besides, the board audit committee is responsible for ensuring Shariah compliance as per the central bank guideline in the overall functions (Alamgir, 2016). Islamic banks apply for internal Shariah reviews in the pre and post-operational functions, which are mostly concerned with SSB supervision, monitoring, and controlling (Rahman, 2014).

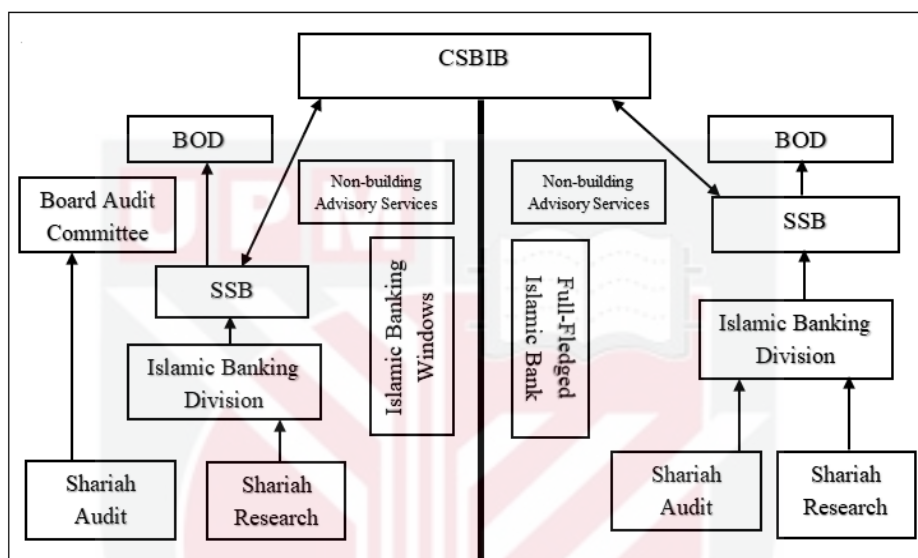


Figure 1.1 : Shariah governance structure of Islamic banks in Bangladesh

Source: Abdullah and Rahman (2017). Modified

All of the Islamic banks have particular Shariah secretariat or Shariah department or Shariah Inspection and Compliance Division that prepares files and presents Shariah related documents to assist SSB functions. The officers of this department are known as *muraqib* or Shariah executives, and in most cases, they conduct the Shariah audit. Additionally, if the Shariah secretariat faces any problems, suggestions, and opinions, they will communicate with SSB. Therefore, some of the Shariah department executives in the Islamic banks conduct Shariah research⁸ (Abdullah and Rahman, 2017).

⁸ Shariah research function denotes the conduct of carrying out in-depth research and studies on Shariah issues, including providing day-to-day Shariah advice and consultancy to relevant parties, including those involved in the product development processes. The function shall be accomplished by qualified Shariah officers, and the range of work cover mostly the aspects of Shariah. However, the function also needs experts on legal, operational, and other related issues to form part of the presentation to the SSB (BNM, 2010).

1.4 Problem Statements

SG practices are different in the existing Islamic banking industry of Bangladesh as a result of self-developed guidelines. The diverse practices of current SGF create confusion among the various stakeholders (Abdullah and Rahman, 2017; Sarker, 1998). But it was unexplored why the SG practices are different in a similar banking environment. Hence, researchers have focused on Islamic banks growth, challenges, issues, performance, legal and regulatory issues, regulation and performance of Shariah compliance, SG practice, Shariah audit, customer perceptions and comparative analysis on AAOIFI and IFSB standards and guidelines (Ullah and Khanam, 2018; Ullah, Khanam and Tasnim, 2018; Abdullah and Rahman, 2017; Hassan et al., 2017; Perves, 2015; Ullah, 2014; Ahmad et al., 2014; Ahmed and Khatun, 2013; Ahmed and Hassan, 2007). They did not focus on the SG practices concerning mechanisms, problems of existing practices and different bodies, and on the development of a homogenous SGF for the enhancement of SG of the Islamic banks in Bangladesh. Most of the researchers have emphasized on the improvement and development of a homogeneous and comprehensive SGF to promote Islamic banks (Ahmed et al., 2014; Abdullah and Rahman, 2017; Hassan et al., 2017; Ullah & Khanam, 2018). Still, there is a question about the diverse practices as the Shariah principles are the same for all Islamic banks and are working in a similar banking environment. Thus, it is necessary to explore the current SG practices and identify the problems of different bodies of Islamic banks in Bangladesh.

In the existing practices, the rules, regulations, guidelines, promotion, and supervision of the Islamic banks in Bangladesh appear insufficient for its overall monitoring, controlling, and guiding. From its development, IBBL has formed internal SSB for implementing and monitoring Shariah principles in the overall functions of the banks. In Bangladesh, there is a lack of a CG system and a completely legal, structural framework for accomplishing Islamic banking functions and overall business (Mamun, 2011; Ahmad et al., 2014; Perves, 2015). There is an absence of a well-defined full-fledged regulatory, supervisory and specific structured SGF to govern, monitor, regulate and guide Islamic banking activities (Sarker, 2005; Ahmad and Hassan, 2007; Mamun, 2011; Ahmad et al., 2014; Ullah, 2014; Perves, 2015). The roles and responsibilities of Bangladesh Bank in controlling, guiding and supervising Islamic Banks on the principles of Islamic Shariah, are very low (Habib et al., 2013; Alamgir, 2016) and in the preliminary stage (Ahmad et al., 2014). Moreover, the central bank does not mention the roles and functions of SSB in its guidelines and instructions on how to conduct Shariah compliance activities, which are the most significant part of the SG system (Hasan, 2014). Due to the scarcity of Shariah scholars (Malik et al., 2011, Islam, n.d.), a few Shariah scholars are holding the Chairmanship or member of almost all the Islamic banks SSBs in Bangladesh (Hassan et al., 2017). Furthermore, some of them do not have a recognized educational background regarding Islamic banking and Shariah, which impacts proper Shariah resolutions and performance. Among SSB members of Islamic banks, a few selected from the BOD or management (Hassan et al., 2017).

Therefore, due to the lack of a complete SGF and standard, Islamic banks are facing some topical problems in their current practices such as inadequate accounting principles and procedures, absence of a unique Islamic financial practices, and corrupted financing mode or approach (Ahmad et al., 2014; Sarker, 2012), improper position of the SSB and weak monitoring of Shariah application status (Ahmad et al., 2014; Perves, 2015). The existing provisions in the guideline of the central bank are inadequate and slightly ambiguous. The lack of a complete guideline regulatory structure regarding SG creates regulatory gaps and misperceptions to the conventional bankers concerning the application of Shariah principles and similar function as traditional banks (Sarker, 1998) and government in Bangladesh (Abdullah and Rahman, 2017). Ahmad et al. (2014) find that 73% of customers do not see any diversification among Islamic banks and conventional banks business procedures. Besides, 45% of respondents answer that injustice also appears in Islamic banks. Thus, Muslim business people do not support Islamic banks due to prejudice in banking transactions, and exploitation (Ahmad et al., 2014).

Noman et al. (2017) discover that Islamic banks in Bangladesh are unable to use their high capital to make more profit because of low efficiency and the size of the bank itself as well as an absence of specific regulatory framework. Because of the competitive nature among the Islamic banks, Shariah principles are moderately complied by the banks. Such a situation hinders the system from having preferred impacts such as the application of Shariah principles and Shariah compliance quality (Mamun, 2011). An absence of transparency in the activities of the CG of Islamic banks may raise the risk figures in Islamic instruments (Sulub et al., 2016). Besides, Ahmed et al. (2016) stress that the lack of transparency, especially for CG, may increase the risks embodied in Islamic instruments. Additionally, Ahmad et al. (2014) highlight that Shariah violations occurred in investment activities. They also found that because of similarity with the conventional banking business, both bankers and banks customers have confusing notions about Islamic banking practices. There seems to be low accountability towards the central bank regarding Shariah issues. Besides, according to Hassan et al. (2017), based on the annual report of the Islamic banks in 2015 state that BOD seems to use SSB as a showcase to do their business and to achieve their ultimate target called profit-making in the name of Islamic banking.

However, the level of Shariah compliance in all Islamic banks is not the same though they are working in the same regulatory and economic environment (Ullah, 2014). The average level of Shariah compliance quality of full-fledged Islamic banks is the highest, but it is medium and lowest in the Islamic bank branches and windows, respectively (Ahmed and Khatun, 2013). The failure of instituting Shariah compliance prompts to the reputational risk as well as the instability of Islamic banks (Rahman, 2014). Sarker (2005) optimizes Islamic banking growth will be higher if the quality of Shariah compliance increases. In this regard, the study aims to identify issues, gaps, and problems of SG and at the same time to propose a CSGF for further development of this industry. This framework will show a comprehensive CSGF along with useful guidelines and policy recommendations for the development of the SG system of the Islamic banks in Bangladesh. Besides, this framework will also be helpful for two-tier SGF practicing countries to improve the existing practices.

1.5 Research Questions

Several research questions have formulated to achieve the objectives mentioned above. The research questions explore the idea of SG as well as its systems, and challenges faced by the different parties and roles and functions of SSB in implementing Shariah rules and regulations related to SGF. Moreover, the research intends to design a centralized Shariah governance framework. The study highlights the following questions:

- i. To what extent there exist differences in the practices of Shariah governance mechanisms of Islamic banks in Bangladesh?
- ii. What are the challenges in the current Shariah governance framework of Islamic banks in Bangladesh?
- iii. How should a centralized Shariah governance framework be operationalized for Islamic banks in Bangladesh?

1.6 Research Objectives

The main objective of this research is to examine and evaluate the current SG practices and to develop a structured centralized Shariah governance framework for the improvement of the Shariah governance system of Islamic banks in Bangladesh. The following specific aims will be carried out to achieve the main objective.

- i. To examine the Shariah governance mechanisms of Islamic banks in Bangladesh;
- ii. To identify the perceived challenges of the current Shariah governance framework in Bangladesh;
- iii. To propose a centralized Shariah governance framework for Islamic banks in Bangladesh.

1.7 Significance of the Study

In the absence of a supportive and comprehensive SGF model and diverse current practices, the researcher undertakes to develop CSGF for the improvement of Islamic banking in Bangladesh. Hopefully, its finding may provide specific guiding frameworks, principles, and best practices for SG systems of Islamic banks in Bangladesh. The newly developed model will give a dual monitoring system of SGF to promote Shariah compliance as well as improving the current situation. Moreover, this model will enhance the confidence of shareholders, customers, bankers, practitioners, governments, and other parties related to Islamic banking operational activities in Bangladesh. Additionally, the entire model will minimize the confusion among bankers, customers, government, business people, and the public as well as increase the Shariah compliance level of Islamic banks. The study is also significant to lessen

the gaps in current practices and enhance the implementation of Shariah rules and regulations in banking activities. Besides, the developed model will ensure the accountability of all parties and safeguard the independence of SSB and Shariah department officers. The model will promote new insights within NIT in exploring ideas and values in various aspects of SGF. The CSGF will ensure proper accountability of all parties to CSSB and the central bank. Moreover, the entire rules and regulations of the framework will improve Shariah compliance quality rather than the current level.

Moreover, the proposed framework may provide a new idea of CSGF to the regulatory authorities such as Bangladesh Bank, and other supervisory bodies to implement the latest systems and procedures in the overall SG process. The structured model will assist in monitoring the institutions vigorously and ensuring Shariah rules and regulations throughout the organization. The developed model will provide a standard on the effectiveness of SSB roles towards Shariah compliance assurance. The findings of the study will enhance the literature concerning SG in Bangladesh and also global practices. These will further benefit the researchers, academicians, and Shariah scholars. The proposed CSGF will draw the attention of worldwide regulatory authorities and countries to implement the view of this framework and improve existing practices as the structure will be broader than the existing two-tier system. The administration of the two-tier SSB countries can implement the new outlook of the developed CSGF to dispute the conflicts and monitor the Islamic banks.

1.8 Scope of the Study

With the significant number as well as the inappropriate positions of SSB in numerous Islamic banks and the absence of CSGF in Bangladesh, it is evident that there are peculiar models and practices of SG. This diversity reflects the beauty and blessing of Islam because it provides a chance to carry out a comparative study of SG practices and models to identify the gaps, shortcomings, weaknesses, and developing the best model for the growth of this industry in Bangladesh. This research justifies the current SG systems and explores suitable CSGF for the Islamic banks of Bangladesh. The research scope is limited to the full-fledged Islamic banks and the central bank of Bangladesh. This research focuses on developing a CSGF by analyzing the interviewed data, documents, and personal observations of the researcher. Moreover, the findings may provide a particular framework for a sound and effective SG system.

1.9 Key Terminology

1.9.1 Shariah

The Shariah is a divinely revealed law that serves as a blueprint for human conduct. The believers of Islam, known as Muslims, are required to ensure Islamic Shariah in

their overall functions. The Shariah is derived from two primary sources, i.e., the Holy Quran and al-Hadith. In the absence of clear guidance from these two main sources, the Shariah is also derived from secondary sources which include: *ijtihad* (legal reasoning), *qiyas* (analogical reasoning), *istihsan* (juristic preference), *maslahah mursalah* (unrestricted public interest), and *'urf* (customary practice). It is worth noting that the general Shariah principles of the rulings are not only detailed on matters relating to *ibadat* or worship but are also flexible in the case of *muamalat* or human relations (Kamali, 2003). This justifies for scholars to utilize the *ijtihad* facility mentioned above by coming out with the Shariah ruling on *muamalat*, which constitute the *fiqh al-muamalat* or the Islamic commercial law. Hence, various Shariah rulings on *muamalat* activities, including Islamic banking and finance, *waqf* (endowment), calculation of *zakat* (charity) payment are based on the exercise of *ijtihad* by the scholars with the ultimate aim at meeting the *Maqasid al-Shariah* or the objectives of Shariah.

1.9.2 Maqasid al- Shariah (Objectives of the Shariah)

Al-Ghazali has clarified *Maqasid al-Shariah* as faith, life; intellect; lineage; and, property (Kamali, 2008). The concept of *Maqasid al-Shariah* has been applied in various contexts of the Muslims life, including on issues relating to *muamalat* or human relations. For example, several studies argued that the activities of the modern Islamic banks are aimed at meeting *Maqasid al-Shariah* (see, for instance, Kamali, 2000; Ahmed, 2006; Borham, 2013; Siddiqi, 2004). Borham (2013), for example, pointed out that the objectives of Islamic banking in the modern world are to preserve the implementation of Shariah principles, law and traditions in the financial and banking industry. This is the reason why some studies have concluded that the operations of Islamic banks promote the realization of an Islamic financial system that is drawn from the Islamic Shariah (see, for example, Iqbal, 1997; Zaher and Hassan, 2001).

1.9.3 The Theoretical Framework Underlying Islamic Banking Operation

The corporate governance framework underlying the operations of corporations such as conventional banking seems to be inadequate when discussed with the principles applied in Islamic banking and finance (Sulaiman, Majid and Arifin, 2015; Perry, 2011; Abu-Tapanjeh, 2009). Several studies argued that the agency theory applied in conventional banking tends to limit the accountability of the bank's operations to that of the investors alone whereas the Islamic perspective broadens this to include moral integrity, an appropriate socio-political environment and Shariah compliance (Kasim, Nuhtay and Salman, 2013; Chapra and Ahmed, 2002). In addition, the Shariah extends the concept of the stakeholder interest in organizations such as Islamic banks by promoting ethical and religious values in their governance system to protect the needs of society as a whole (Dusuki, 2008; Abu-Tapanjeh, 2009; Saif Alnasser and Muhammed, 2012). Also, Naqvi (1981, 1994 and 2003) highlighted that the stakeholder theory in the Islamic perspective could be extended to include *adl* (social

justice), rububiyah (nourishment and directing things their perfection), and tazkiyyah (growth with purification). In this regard, it seems appropriate to argue the management of Islamic banks should not limit their accountability to the shareholder rights and stakeholder interest as they are ultimately accountable to God in their overall actions.

Meanwhile, Iqbal and Mirakhor (2001) asserted that corporate governance in Islamic economic systems is a rule-based incentive system where it requires the compliance of rules to ensure that the governance system can preserve social justice and order among all members of the society. Safieddine (2009) argued for the need to tailor the regulations to ensure the safeguarding of all the investors' interests without violating the principle of Shariah. This emphasis on social justice and Shariah compliance have provided the rationale why Islamic banks are argued to be responsible in promoting an ethical and socially-oriented method of financing (see for example Naqvi, 1994; Rahman, 1998; Iqbal and Mirakhor, 2004; Yusof and Amin, 2007; Asutay, 2008). Given these broad spectrums of the accountability framework, the agency theory is deemed to be ill-suited with the operations of Islamic banks, and its application will potentially result in a trade-off between compliance to the Shariah and the protection of the investor's rights (see for example Safieddine, 2009). Instead, the arguments discussed the ethical objectives and the fulfillment of stakeholders' rights underlying the operations of Islamic banks seem to justify that Islam promotes a stakeholder-centric governing process for the Islamic banking industry.

1.9.4 Principles of Islamic Finance

The establishment of Islamic banks may be seen as a hallmark to the Islamic financial system as financial institutions that provide Muslims with financing facilities based on contacts that are derived from the Shariah. Generally, the Islamic banking system refers to the banking system whose principles underlying its operations and activities are founded on Shariah law (Haron and Wan Azmi, 2009; Lewis, 2007; Hassan and Lewis, 2007). As an alternative to the conventional financing system, Islamic banks aim to promote and preserve social and economic institutions (Khan and Mirakhor, 1986; Haniffa and Hudaib, 2007). In addition, the Islamic banking system is governed by Shariah principles, including risk-sharing, individual rights, property rights, and the sanctity of contracts (Iqbal, 1997; Zaher and Hassan, 2001). Meanwhile, El Hawary, Grais and Iqbal (2004, pp. 5) defined Islamic banking and finance (IBF) as a system that is based on four principles: (1) risk-sharing or concept of equality; (2) materiality or economic value; (3) no exploitation whereby neither party nor the transaction should be exploited, and (4) no financing of sinful activities that are banned by the Quran (e.g., alcohol, pork products, gambling, etc.).

The prohibition of riba (interest) in Islamic banking operations acts as the intrinsic principle that serves as the cornerstone and the nucleus of the Islamic economic system (Iqbal, 1997, pp. 42). Muslims are prohibited from taking any payment and receipt of riba because it has been mentioned in many parts of the Holy Quran and the sayings of

the prophet Muhammad s.a.w (i.e. al-Hadith). For example, God says in the Holy Quran *“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”* (Quran, 2: 278-279). Based on the prophet Muhammad s.a.w sayings, any contract of riba is prohibited, and this is further explained in the al-Hadith reported by Ubadah bin Samith for example *“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”* (Sahih Muslim, 10: 3853). From the saying of God and the prophet Muhammad s.a.w, the Shariah divides the concept of riba into two, which are riba al-nasiah and riba al-fadl. Consequently, the riba al-nasiah can be defined as the delay in the time of exchange while Shariah defines riba al-fadl as any excess in terms of the quantity or values. In this light, the business or any transactions involving riba are against the contract of Shariah. Meanwhile, the Islamic law permits Muslim people to participate themselves with trading and prohibits riba, which have been ordained by God in verses such as *“God has permitted trading and forbidden riba”* (Quran, 2: 275).

Muslims are also prohibited from taking any contract with the element of gharar. The Shariah defines gharar as trading with excessive risk from an unknown factor or unpredictable outcome. For example, deals or business involving gharar or uncertainty includes gambling and sales of assets before possession. Hence, it can be understood that the Islamic law encourages Muslim people to deal with any business, trading, and contract in accordance with the Shariah law. Moreover, Islamic law emphasizes the concept of justice in any business and transaction. For this reason, the Muslims and Islamic organizations are made compulsory to pay zakat (alms giving). Zakat purifies the wealth of the owner and acts as a mechanism for Muslims to distribute their wealth and income to ensure a decent standard of living for every Muslim. The recipients of zakat have been specified in the Holy Quran including the poor, any person with financial difficulty or are unable to pay their debt, persons who have recently accepted Islam called as Muallaf, volunteers who have dedicated their lives to spread the Muslim religion and the people who are appointed to collect zakat.

Meanwhile, IFIs generate their income based on the Shariah compliance products offered in Islamic banks such as Murabahah (cost-plus), Musyarakah (partnership), Bai' Bithaman Ajil (deferred payment), Wadiah (saving account), and Takaful (insurance). However, it should be emphasized that the worldview underlying the operations of Islamic finance aims not only at financial aspects but also at fulfilling social obligations that go beyond the profit maximization aim of conventional banking. Various studies argued that the Islamic banking industry operates under the framework of Maqasid al-Shariah in comparison with the traditional banking system that operates from the social contract (Hasan, 2010; Dusuki, 2008). As the Maqasid al-Shariah promotes economic development as well as social welfare, it can be argued that the differences between Islamic banking and conventional banking are not just limited to their operations but also in all the values that these Islamic banks apply.

1.10 Structure of the Thesis

The thesis is organized into six chapters. This chapter provides the introduction of the research, background of the study, an overview of Islamic banking and Shariah governance of Bangladesh, problem statements, research objectives, research questions, significance and justification of the choice of Islamic banks in the scope of the study. Chapter two describes the review of a wide range of literature substantively and critically concerning the theoretical framework and corporate governance of conventional banks. This part narrates Shariah governance and theoretical part of Shariah governance. Furthermore, it discusses the Shariah governance models, Shariah governance process, and the current legal and regulatory framework, international regulatory agencies of Shariah setting, and roles and functions of SSB.

Chapter three provides the research methodology used in this study, including the research paradigms, research approaches, research strategy, the overall sampling technique, and sample selection. Moreover, chapter three also explains data gathering procedures, data analysis, and ethical issues. The empirical data are collected through interviews with 17 respondents with different roles from 6 Islamic banks and from the central bank of Bangladesh. The research is based on a case study whereby a face-to-face semi-structured interview conducted, and a data analysis procedure regarding the survey uses the responses obtained during the interviews. Chapter four discusses the findings and the analysis of the empirical data using the qualitative interpretative approach. The data is analyzed using themes generated from the data gathered and from both theoretical and empirical literature. Chapter five outlines a summary of the key findings, implications, and recommendations for various stakeholders.

1.11 Chapter Summary

The study highlights the current practices of SGF in Bangladesh and critically analyzes the practiced models for developing CSGF towards the improvement of the SG system. A sound SGF requires the engagement of all parties such as the government, regulatory authorities, industry associations, the shareholders, BOD, SSB, the management, customers, and other respected parties related to the business. This research assumes that the findings, solutions, and recommendations will enable the establishment of a sound and effective SG system. The key objectives of this CSGF model would assure the high level of Shariah compliance, accountability, and internationally accepted standards to Islamic banking operations in Bangladesh.

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- Alam, M. K.,** Mustafa, H., Uddin, M. S., Islam, M. J., Mohua, M. J. & Hassan, M. F. (2020). Problems of Shariah governance framework and its mechanisms: An Empirical investigation of Islamic banks in Bangladesh. *Journal of Asian Finance, Economics and Business*. 7(3), 265-276. (ESCI, Web of Science and Scopus)
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