AN EXPLORATORY STUDY OF SHARI’AH COMPLIANCE IN ISLAMIC BANKING: EVIDENCES FROM BANGLADESH

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Abstract

Purpose – The purpose of this paper is to assess the Shari’ah compliance eminence of the Islamic banks in Bangladesh.

Design/methodology/approach – The research was grounded on mutually primary and secondary data. Primary data were collected via sample questionnaire survey and individual interview by the researchers; the secondary data were gained from Qur’an, Hadiths, different circular/letters, manuals, research books and journals, annual reports, websites of the sample banks. “Among Shari’ah violation score and bank-specific traits were checked through statistical tools and techniques like weighted average, percentage, SD, variance and correlation by using applying statistical software Statistical package for Social Science (version17.0).”

Findings - In Bangladesh Shari’ah compliance status of the Islamic banks is in a susceptible condition, Shari’ah compliance status extremely diverges amongst the Islamic banks, and due to absence of awareness Shari’ah violation is extreme in financing Activities, lack of honesty in obeying Shari’ah, poor devotion/courtesy in Shari’ah audit and Shari’ah research and privation of strong Shari’ah administrative boarding encompassing twenty-fourhour skilful dexterous associates.

Practical implication – The main strategy allegation of this study amongst others are as follows: this study provide strategies to supervisory bodies and Shari’ah boarding associates to govern their future responsibilities and to find their limitations; to acquire the anticipated idea of current state of Shari’ah compliance by senior manager and Workforces and to ascertain their flaws in this respect; this provide strategies to indicate the improved Islamic banks to execute banking transaction for clients and other stakeholders; and the questions upraised in this paper may useably practice by the researchers in Islamic banking for more inclusive studies in Islamic banking and Shari’ah compliance.

Originality/value – Status of Shari’ah compliance with a new dataset and comparing Shari’ah violation score with bank-specific attributes can be explanatory a new opportunity by this paper.

Keywords: Bangladesh, Islamic banking, Shari’ah compliance, Shari’ah violation
Introduction

Shari’ah is regarded as the foundation of Islamic banks and, hence, no Islamic bank can function without Shari’ah compliance because if anyone or any bank does not follow Islamic Shari’ah, he/she cannot be recognized as Muslim and that bank cannot be treated as Islamic bank (Al-Quran, 5:44).” Nevertheless, in some circumstances, it is saw that due to economic systems, Islamic banks cannot flawlessly accomplish with Islamic Shari’ah, Government rules and regulations due to deficiency of awareness and urgency of the workers, lack of research and change and lack of appropriate instructions and guidelines.

Abbas (2009) Stated that the presence of Shari’ah board that encompassed of religious researchers is the distinctive feature of Islamic banking. The process of an Islamic bank is effected by this board. (Abbas, et al., 2009) And (Iqbal, et al., 1998) stated that without previous authorisation and sanction from the Shari’ah board, new products for the Islamic banks cannot be announced. (Siddiqi M. , 2006a) held that the existing rehearsal of Islamic banking is because of substantial part of Shari’ah professionals, much more than the previous years of the Islamic financial schemes. Though, (Siddiqi M. N., “Islamic banking and finance in theory and practice: a survey of state of the art”, 2006b) acknowledged the boundaries for Shari’ah managerial practices such as:

1. Training prepares Shari’ah experts to do what they are undertaking, and healthily they are performing it, but regrettably environment replicated in the books they study is very dissimilar and their exercise is not much well-made to help the Msqasid alShari’ah;

2. to do the duty deficiency of appropriate established procedure for training, central study with its essential stoppage, in contemporary years apprehensions in the arcade is instigated by gradually out of order and customer refusal is floating in relations of opportunity of reaction;

3. A term of Islamic monetary business started in 1990s and came to dictate the act in the fresh era leads to the tendency of concentrating on replicating conservative fiscal products. “The most important areas seem to be Sukuk (duplicating bonds) and tawarruq (duplicating bank loans);”

4. Sporadic earshot specified to economists were supported to the recent preparation of Shari’ah advertisement/inspecting, is susceptible to break-down; and

5. By the supporters of Shari’ah boarding, the Shari’ah professionals were continuously supported by the economist and that is the portion of complication.

Iqbal (1998) Stated that the deficiency of formal background, Islamic banks purposes are bounds in context to laws and managerial guideline and they also said that most of the actions are performed under the management of central bank of the country and make same rules for both conservative commercial banks and Islamic banks. Therefore, some actions are conflicting to Islamic Shari’ah and Islamic banks are restrict to accomplish those actions (e.g. “keeping deposits with central bank”) and occasionally Islamic banks cannot take credits due to rules settled by central banks because of Shari’ah compliance. The purpose of this paper is to assess the Shari’ah compliance status of the Islamic banking firms in Bangladesh, and in Bangladesh there was no study in this area.

According to the researcher of this paper the sequence is organized as follows. Part one about the introduction. Part two states the literature review. Part three shapes the objectives of the study. Part four has explained the research methodology. Limitations of the study are deliberated in part five. Result and analysis are defined in part six and seven. Part eight
delivers recommendations and part nine states allegation of the study. Lastly, part ten gives the suggestions to further study and part eleven shapes the conclusion.

**Literature review**

Islamic law use an Arabic word Shari’ah, also known as Law of Allah. Shari’ah itself derived from the verb Shara’a, “which according to Dictionary of the Holy Qur’an connects to the idea of “spiritual law” (5:48) and “system of divine law; way of belief and practice” (45:18) in the Qur’an (Omar, 2010)” Certain laws are attractively designed by Shari’ah that provides accurate and timely information for all related circumstances. Following are four foundations of Islamic Shari’ah:

1. Explanations of the Qur’an (Muslims consisting of the revelations made by God to the Prophet Muhammad (PBUH) during his Prophethood of about 23 years in the form of Holy Book);
2. Explanations of the Sunnah/Hadith (second source after the Qur’an is Sunnah for the Islamic belief that states to life of Prophet Muhammad (PBUH);
3. Ijma, consensus amongst scholars (After the death of the Prophet (PBUH) fiqh is used by the consensus of the jurists on any issue; and
4. “Qiyas/Ijtihad analogical deduction (individual reasoning).”

Islamic Shari’ah provides guidelines to Islamic banks to perform their activities according to Islam and actually Islamic banks take guidelines for directing all operations through the Shari’ah (Siddiqui, 1983) (Ahmad Z., 1984) (Khan & Mirakhor, 1986) (Ahmad K., 2000), (Siddiqui, 2001). The results of the studies of (Ahmad & Haron, 2002), (Naser, et al., 1999), (Metawa & Almossawi, 1998), (Rashid, et al., 2014) and (Archer & Karim, 2002) Islamic banks chosen by the single most important factor of Shari’ah compliance or religion and Islamic banks credibility is guaranteed by Shari’ah compliance and shareholders and stakeholders inspires confidence (Briston & El-Ashker, 1986), (Tomkins & Karim, 1987), (Karim, “The independence of religious and external auditors: the case of Islamic Banks”, (1990a), (Banaga, et al., 1994), (Bhambra, 2002), (Rammal, 2006), (Ghayad, 2008), (Laldin, 2008).

The studies of (Chapra & U., 1992) and (Ariff, 1988) acknowledged that interest-free banks are called Islamic banks and (Chapra & Khan, 2000) “stated that though Islamic banking systems appear like interest-based instruments, they are not so, as there are significant differences between the two for a number of reasons”. Atlast, the studies of (Jalil & Rahman, 2010), (Imam & Kpodar, 2010), (Rarick, 2009), (Bidabad & Allahyarifard, 2008) and (Abdul Rahman, 2007) also noted that brutality and inequality due to Riba is removed in the monetary structure and announcing Halal ways of doing business to certify the socioeconomic growth e.g. “Musharkah”, “Mudharbah”, “Bai’ Salam” and “Ijarah”.

The study of (Malik, et al., 2011) said that Islamic banks has a near resemblance to debt instruments than to profit-and-loss sharing in terms of their monetary subscription. (Yusof & Fahmy, 2008) identified that in contrast to modern Islamic banking in Malaysia has a corporate disagreement of “no difference at all”, as a replacement of interest rate “profit rate” is using without any change in the name and papers in Islamic banking.

Modern Islamic banking has created lot of doubts in attainment of Shari’ah objectives and Shari’ah compliance according to recent researches. The study of (Meera & Larbani, 2009) established that there is obstruction in accomplishing the purposes of Islamic laws, and processes of Islamic banks are more parallel to conventional banking, therefore interrupts Shari’ah. (Yousef, 2004) (Abozaid & Asyraf, 2007) (Meera & Dzuljastr, 2005) And (Kuran, 2004) states the todays operations of Islamic banks has a cast doubts in the Islamicity. Moreover, (Iqbal Z., 1997) believed that interest should be prohibited in Islamic banking and
85 percent of the Sukuk (bonds) issued worldwide are un-Islamic said by Maulana Taqi Usmani reported in (BBC News, December 11, 2009).

According to (Usmani, 2008) Islamic products are entitled as Shari’ah obedient in their practice but not in their essence as most of the Sukuk in the monetary place are not Shari’ah obedient. On the contrary, (Febianto, 2010) articulated that in actually Islamic banks does not obey Islamic morals and procedures but they repeatedly refer themselves well-organized than the conservative financial system and shows themselves as suppliers of moral monetary facilities. (Chong & Liu, 2009) stated that almost Islamic banking system is not very altered from conservative banking system but academically it is PLS system. They revealed in their study in Malaysia that Islamic credits are Interest exclusive and some insignificant share of Islamic bank financing is sternly PLS grounded, but are thoroughly attached to conservative credits.

Iqbal & Molyneux (2005) Articulated that the Islamic banks are not spiritual bodies but revenue focused establishments but their purpose of starting is to provide Shari’ah obedient is that interest exclusive. (Abdullah, 1996), (Ansari & Memon, 2008), (Meera & Dzuljastrri, 2005), (Obaidullah, 2008) stated that when the profit margin on Murabaha business is resolute then rate of interest is taken into interpretation and rate of inflation is restrained and interest rates are linked. They concluded by making base to the previous statement that profit margin in “Murabaha financing” is grounded on the percentage set by the traditional banks.

Ahmad & Hassan (2007) Orated about impairments to Islamic Shari’ah compliance that Islamic banks in Bangladesh are proceeding same rules and regulations as defined for conventional banks, and utmost vital concern is that the operation of Islamic banks has a deficiency of clear monitoring and administrative background in link by the views of Shari’ah.

Islamic banking is an essential part of banking in Qatar, Bangladesh and Pakistan, but there is no Islamic banking law in these countries. Even Jordan, Gambia, the UAE, Yemen and Kuwait have distinct Islamic banking laws. Enthusiastic Islamic banking in different states has no distinct Shari’ah boarding, but some countries like Malaysia and Sudan has a central Shari’ah board in central bank.

Malik (2011) and Grais & Pellegrini (2006) Orated that there is lack of competent experts having understanding about both conventional and Islamic banking laws. (Khaleeq, 2008) States 15-20 Shari’ah scholars are pursued to Shari’ah board exploited out of 250-300 and Malik et al. 2011 expressed that the agreement method for Islamic financing is hard and irregular. (Chapra & Khan, 2000) And (Chapra & Ahmed, 2002) defined the “limitation of time” and cooperative “staff” for accomplishing their job successfully by Shari’ah Scholars. Fatwa searching, enticing or impacting or imperceptible hand of administrative on the choice of Shari’ah superordinate Board, diverse translation of existing Shari’ah decisions (Grais & Pellegrini, 2006) (Ullah, 2012) and Shari’ah obedient monetary services are not well structured (Koch & Stenberg, 2010) Shari’ah destruction originated.

Conclusion

- Islamic banks need to increase Shari’ah knowledge and commitment to Shari’ah
- Compliance of the employees for increasing Allah fearing and adherence to the Islamic Shari’ah in personal, family, social and political life.
- Islamic banks should boost up the sincerity and devotion of the employees for
- Shari’ah compliance in general ledger, documentation and involvement in buying and selling process directly.
- Islamic banks should increase their assistance for the clients in acquiring
- knowledge regarding Shari’ah, modes of investment, Islamic banking and

Conclusion
• Economy and in building good relationship with the suppliers.
• Islamic banks need to appoint Islamically knowledgeable sufficient employees,
• provide logistic support and introduce reward/punishment for Shari’ah Compliance/noncompliance.

References


