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Article

Operational Shariah Framework of Islamic Banking. A Research on Bangladesh Perspective

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Abstract: This research examines the operational Shariah framework within the Islamic banking sector in Bangladesh, focusing on its effectiveness, challenges, and areas for enhancement in ensuring full compliance with Islamic financial principles. By employing a mixed-methods approach that integrates qualitative interviews with industry experts and quantitative analyses of banking performance metrics, the study offers a comprehensive evaluation of current Shariah governance practices, regulatory oversight, and operational procedures adopted by Islamic banks in the country. The findings will reveal that while significant progress has been made towards establishing a robust Shariah-compliant framework, inconsistencies in interpretation and application remain across institutions. Key challenges identified include regulatory ambiguities, a shortage of specialized Shariah advisory personnel, and difficulties in harmonizing traditional Islamic banking practices with modern financial technologies. These issues contribute to operational inefficiencies and potential risks that could undermine stakeholder confidence and the long-term viability of the sector. The study will conclude by recommending targeted policy reforms, enhanced capacity-building initiatives, and the development of standardized guidelines to ensure a more uniform application of Shariah principles across the industry. The insights provided are expected to assist policymakers, banking practitioners, and scholars in fostering a more resilient and competitive Islamic banking environment in Bangladesh, ultimately contributing to the broader goals of financial inclusion and ethical finance in emerging markets.

Keywords: Islamic, Shariah, Framework, Operational, Bangladesh, Banking, Principles

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1. Introduction

Islamic banking is a financial system that operates in accordance with the principles of Shariah, the Islamic law derived from the Qur'an, Hadith (sayings and actions of the Prophet Muhammad), and other legal sources. The prime reason of Islamic banking is to ensure that financial transactions are conducted in a way that is permissible (halal) under Shariah law, focusing on the prohibition of interest (riba), speculation (gharar), and investments in industries that are considered haram (forbidden), such as alcohol or gambling. The shortage of qualified Shariah scholars in Bangladesh creates difficulties in maintaining effective Shariah compliance across the banking sector. Islamic banking operates within a mixed banking system where conventional banks coexist with Islamic ones [1], [2]. This dual system poses challenges in ensuring that Islamic banking products and services remain fully compliant with Shariah. The Islamic finance industry in Bangladesh is still in its nascent stages, and the market needs to develop more sophisticated financial instruments that align with Shariah principles. The Bangladesh Bank has introduced a specific governance framework to ensure proper oversight of Shariah operations [3]. This includes regular reviews and a mandatory reporting system to the central bank for compliance purposes. The operational Shariah framework in Islamic banking in Bangladesh has made significant progress, aligning the country's banking practices with the principles of Islamic law. Moving forward, enhancing regulatory frameworks, increasing Shariah expertise, and improving market development will be crucial for the growth of Islamic banking in Bangladesh. This research aims to explore the operational Shariah framework of Islamic banking in Bangladesh, focusing on its compliance, challenges, and the role of Shariah advisory boards [4].

Literature Review

1.1 Research objective

The primary objective of this research is to evaluate and develop an Operational Shariah Framework for Islamic banking in Bangladesh, ensuring compliance with Shariah principles while enhancing efficiency, transparency, and regulatory adherence.

1. Assessing the Existing Shariah Governance Framework
2. Identifying Challenges in Shariah Compliance
3. Evaluating Regulatory and Institutional Support
4. Exploring Shariah-Compliant Product Development
5. Proposing an Enhanced Operational Shariah Framework

1.2 Application of the dependent and independent variables

1. The dependent variable represents the key outcome affected by various independent factors in the operational framework.
2. The independent variables are the key determinants that influence the operational Shariah framework in Islamic banking.

1. 3 Hypotheses (H) expansion

1. (H1): A well-structured Shariah Supervisory Board
2. (H2): The presence of an independent Shariah audit system
3. (H3): Regulatory oversight by Bangladesh Bank
4. (H4): A strong legal framework for Islamic banking
5. (H5): Lack of harmonization between conventional and Islamic banking
6. (H6): Product innovation in Islamic banking
7. (H7): Complex structuring of Islamic financial products
8. (H8): A well-established Shariah risk management framework
9. (H9): Higher operational efficiency in Islamic banks

1.4 Previous Studies

Several studies have explored the Operational Shariah Framework of Islamic banking, focusing on governance, compliance, product development, and regulatory oversight. Below is a summary of relevant previous studies on the topic, particularly in the Bangladesh context, along with international comparisons.

Title - 1: Shariah Governance and Its Impact on Islamic Banking Performance in Bangladesh .

Key Findings: The study found that weak governance structures in Bangladeshi Islamic banks lead to inconsistencies in Shariah compliance. The independence of Shariah Supervisory Boards (SSBs) significantly influences compliance levels. Suggests the need for a centralized Shariah governance body under Bangladesh Bank.

Title -2: Challenges in Shariah Compliance and Regulatory Gaps in Islamic Banking in Bangladesh

Key Findings: Identified regulatory ambiguities as a major challenge for Islamic banks. Highlights inconsistencies in Shariah rulings due to different interpretations by Shariah scholars. Recommends adopting AAOIFI and IFSB standards for uniformity.

Title - 3: Islamic Banking in Bangladesh: Performance, Regulatory Challenges, and Prospects Key Findings: Bangladesh's Islamic banking sector has grown to over 25% of the total banking industry. However, no standalone Islamic banking law exists, making compliance dependent on general banking regulations. Recommends forming a Central Shariah Advisory Board (CSAB) under Bangladesh Bank.

Title - 4: Comparing the Regulatory Frameworks of Islamic Banking in Bangladesh and Malaysia

Key Findings: Malaysia has a more structured and centralized Shariah governance model. Bangladesh lacks an integrated Islamic financial regulatory framework. Calls for a revision of Bank Companies Act to accommodate Islamic finance requirements.

Title - 5: Product Development in Islamic Finance: A Bangladesh Perspective Key Findings: Bangladesh's Islamic banks mainly rely on Murabaha (cost-plus financing), making them less innovative. A lack of structured Sukuk markets prevents large-scale Shariah-compliant investments. Urges Islamic banks to diversify their products into Musharakah and Ijarah financing.

Title - 6: Risk Management in Islamic Banking: Addressing Shariah Non-Compliance Risks

Key Findings: Identifies Shariah non-compliance risk as a significant operational challenge. Proposes a three-tier risk management system, including Shariah audit, regulatory oversight, and AI-based compliance tools.

Title - 7: Maqasid al-Shariah and Shariah Governance in Islamic Finance: A Global Perspective

Key Findings: Analyzes governance models in Malaysia, UAE, and Saudi Arabia. Concludes that a centralized Shariah governance model leads to better compliance. Suggests Bangladesh adopt a hybrid model—allowing flexibility while maintaining regulatory control.

Title - 8: The Role of Risk Management in Islamic Banking: Lessons from the Global Financial Crisis.

Key Findings: Islamic banks with strong Shariah governance structures showed higher resilience during financial crises. Recommends strengthening Shariah risk management to protect the banking system [5].

2. Materials and Methods

2.1 Research Design

This study employs a mixed-method approach, combining qualitative and quantitative methods, to comprehensively analyze the Shariah governance, regulatory framework, compliance mechanisms, and operational challenges in Islamic banking. The mixed-method research approach is justified because it provides a holistic analysis of the Operational Shariah Framework in Bangladesh's Islamic Banking Sector. Qualitative research captures the expert insights on regulatory challenges, while quantitative research provides empirical validation on Shariah compliance impact. This methodological approach ensures comprehensive, reliable, and policy-relevant findings, contributing to the development of an improved Islamic banking framework in Bangladesh.

2.2 Data Collection Methods

2.2.1: Primary Data Collection

This research will gather data from Shariah scholars, regulatory authorities, Islamic bank executives, employees, and customers to understand the challenges, compliance mechanisms, and effectiveness of the Operational Shariah Framework. Islamic banking operations involve complex regulatory, ethical, and financial considerations that require expert opinions beyond secondary data. Regulatory gaps and customer perceptions cannot be fully understood using existing literature alone. Real-world banking practices in Bangladesh may differ from documented policies, making primary data essential. The combination of qualitative interviews, focus groups, and quantitative surveys allows for a robust analysis of compliance effectiveness, operational challenges, and customer trust in Islamic banking.

2.2.2: Secondary Data Collection

It provides insights from existing regulatory guidelines, financial reports, academic research, and international best practices. This study relies on official reports, peer-reviewed journal articles, case studies, and industry publications to analyze the effectiveness, challenges, and improvements needed in the operational framework of Islamic banking. Provides historical and comparative data on the evolution of Islamic banking regulations in Bangladesh. Enables benchmarking against international Shariah governance frameworks. Helps in identifying regulatory gaps and compliance issues that impact operational efficiency. Reduces time and cost constraints compared to primary data collection alone.

2.3. Data Analysis Techniques

2.3.1: Quantitative Data Analysis

For understanding average performance and behavior across Islamic banks. Measures the variability in Shariah compliance among different banks in Bangladesh. Identifies how frequently certain practices or compliance levels occur in Islamic banks.

2.3.2: Qualitative Data Analysis

How is Shariah boards structured and their role in operational decision-making? What are the main barriers to full Shariah compliance in Islamic banking in Bangladesh? How do banks integrate Shariah principles with conventional risk management strategies?

2.4 Sampling Strategy

a. Research Approach & Population: Mixed-method (Qualitative & Quantitative)
b. Quantitative Sampling: Survey report
c. Qualitative Sampling: Interviews & Focus Groups
d. Data Collection: Surveys, Interviews & Focus Groups

2.5 Research Questions

In this research was developed the questionnaires for supplementary research.

- Central research questions:

What is the current situation of Operational Shariah Framework of Islamic Banking in Bangladesh?

- Supplementary research questions:

What are the outcomes of the PESTLE analyses of Operational Shariah Framework in Bangladesh?

- What changes are required to foster the growth of this sector?

2.6 Ethical Considerations

Data are anonymized to protect respondents' identities. Participants were informed about the purpose of the research and their rights. The research process is adhered to Islamic ethical principles, ensuring data collection respects Islamic finance guidelines.

2.7 Limitations for the data collection

Data collection for the Operational Shariah Framework of Islamic Banking in Bangladesh is constrained by various accessibility issues, biases in data sources, and methodological challenges.

Significance And Implications Of The Research

A strong Shariah governance framework will help standardize practices across different Islamic banks, reducing inconsistencies in fatwas and Shariah rulings. The study will assist Bangladesh Bank in refining regulations for Islamic banking, ensuring effective monitoring and reducing Shariah non-compliance risks [6]. Currently, Bangladesh lacks a standalone legal framework for Islamic banking. This research will provide insights into how a dedicated Islamic Banking Act can improve legal certainty. The research will explore Shariah-compliant risk mitigation tools, ensuring Islamic banks can handle financial shocks without compromising Shariah principles [7].

The study will encourage banks to introduce more Musharakah, Ijarah, and Sukuk-based financing instead of over-relying on Murabaha. Insights from this research will help establish Sukuk markets and Islamic microfinance institutions in Bangladesh [8]. By strengthening governance mechanisms, this research will improve customer confidence in Islamic banking. Findings will help policymakers develop Islamic FinTech solutions, making banking services more accessible to rural and unbanked populations [9].

3. Results

The survey was conducted among 236 participants considering the different segment. The segregated result has summarized basis on the collected data and information's:

3.1 Beneficiaries Viewpoint:

1) Shariah Non-Compliance Risk: Customers fear that banks may not fully comply with Shariah principles.
2) Transparency and Ethical Risks: 65% of respondents believe that Islamic banks need more transparency.
3) Service Quality and Operational Risks: Complexity in Islamic product structures confuses customers.
4) Awareness and Understanding: 40% of customers lack proper understanding of Islamic banking concepts.
5) Standardization of Practices: Variability in fatwa (Islamic rulings) among different banks. Lack of a unified regulatory framework creates inconsistency. Limited Product Diversity: Narrow range of investment options compared to conventional banking. Demand for Shariah-compliant fintech solutions remains unmet .
6) Trust and Confidence in Islamic Banking: 74% of customers choose Islamic banks for religious reasons. 69% believe Shariah compliance is not always strictly followed.
7) Satisfaction with Current Islamic Banking Practices: While many trusts Islamic banks, others doubt their full compliance with Shariah law. Customer feedback highlights the need for clearer communication of profit-sharing mechanisms.
8) Strengthening Shariah Governance: Implementing stronger Shariah audit mechanisms. Ensuring consistent Shariah rulings across all Islamic banks [10].
9) Improving Customer Education: Financial literacy programs to educate customers on Islamic banking principles. Simplified product structures to enhance understanding and adoption.
10) Enhancing Digital Banking and Product Offerings: Developing Shariah-compliant digital payment systems. Expanding Islamic investment and microfinance options [11].

3.2 Financial Intermediaries:

Islamic financial intermediaries function as Shariah-compliant facilitators between depositors and borrowers, ensuring that transactions adhere to Islamic legal principles.

1) Islamic Banks: Provide Shariah-compliant financing as like as Murabaha, Mudaraba, Ijarah, Musharakah. Act as investment managers under profit-and-loss sharing (PLS) principles. Islami Bank Bangladesh Limited (IBBL) holds over 25% of Islamic banking assets in Bangladesh [12].
2) Islamic Non-Banking Financial Institutions (NBFIs): Offer leasing (Ijarah), SME finance, and venture capital under Shariah rules. Islamic Finance and Investment Limited (IFIL), known for Shariah-compliant microfinance.
3) Takaful (Islamic Insurance) Operators: Provide Shariah-compliant risk management solutions. Operate on Tabarru' (donation) and Mudaraba models.

4) Islamic Capital Market Institutions: Facilitate Shariah-compliant investment instruments (Sukuk, Islamic mutual funds). Bangladesh Securities and Exchange Commission (BSEC) introduced Sukuk regulations in 2020 [13].
5) Shariah Non-Compliance Risk: Some financial intermediaries offer products that resemble conventional interest-based models. Murabaha financing with hidden costs that resemble interest . Stronger Shariah audit mechanisms and regulatory oversight.
6) Regulatory and Governance Risks: Lack of a uniform Shariah governance framework across Islamic financial intermediaries. Bangladesh lacks a centralized Islamic finance regulatory body [14].
7) Operational and Financial Risks: Limited access to liquidity for Islamic financial intermediaries. Risk-sharing nature of Islamic finance exposes intermediaries to higher financial volatility.
8) Lack of Standardized Shariah Governance: Different financial intermediaries follow different Shariah interpretations. Variation in fatwa rulings for Musharakah contracts across banks [15].
9) Liquidity Management Constraints: Absence of Islamic interbank money markets in Bangladesh. Limited Shariah-compliant liquidity instruments for short-term funding.
10) Awareness and Market Development: As per survey questionnaire, 49% of customers lack awareness of Islamic investment opportunities. 47% of SMEs find Islamic financing requirements complex.
11) Trust in Shariah Compliance: As per survey 78% of customers trust Islamic banks but demand better transparency. 58% believe Islamic banks should improve product disclosures.
12) Competitiveness of Islamic Financial Services: Perceived as less competitive due to higher costs and limited diversification of financial products. Islamic investment options lag behind conventional stock and bond markets [16],[17].
13) Strengthening Shariah Governance: Establishing a centralized Shariah board to standardize fatwas. Regular Shariah audits for all financial intermediaries.
14) Enhancing Liquidity Solutions: Introducing Islamic interbank liquidity management tools. Expanding Sukuk issuance for long-term Islamic investment [18].
15) Expanding Digital Islamic Finance: Shariah-compliant fintech solutions for digital payments and investments. Integration of blockchain to ensure transparency in Islamic contracts [19].

3.3 Service delivered Standpoint:

1) Shariah Non-Compliance Risk: Failure to fully comply with Shariah guidelines in service delivery. Some financial products resemble conventional banking models, raising doubts about compliance.
2) Legal and Regulatory Risks: Lack of harmonized Islamic banking regulations in Bangladesh. Variability in Shariah board rulings across different banks leads to inconsistencies. Lack of a standardized dispute resolution mechanism for Islamic banking customers.
3) Operational and Service Efficiency Risks: Longer processing times for Islamic financing due to strict compliance checks. Limited automation in service delivery, increasing dependency on manual processes. Customer dissatisfaction due to bureaucratic delays in obtaining Islamic financial products [20].
4) Limited Expertise and Training of Staff: Study by Khan & Karim: Many Islamic bank employees lack deep knowledge of Shariah principles.
5) Technology and Digital Banking Limitations: Slow adoption of digital banking compared to conventional banks. Lack of Shariah-compliant fintech solutions for seamless service delivery.
6) Customer Awareness and Expectations: 55% of customers do not fully understand Islamic banking contracts. 47% expect faster service delivery while maintaining

Shariah compliance. Customers perceive Islamic banks as slow in processing financing applications [21].

7) Customer Satisfaction and Trust: 85% of customers choose Islamic banks for religious reasons. 62% are concerned about hidden charges in Islamic financial services. Customers demand greater transparency in service charges and profit-sharing mechanisms [22].
8) Competitiveness with Conventional Banks: Islamic banks perceived as less efficient than conventional banks in service speed. Lack of competitive Shariah-compliant investment options for depositors.
9) Strengthening Shariah Governance in Service Provision: Standardized Shariah audit and monitoring across all Islamic banks. Consistency in fatwa rulings to minimize customer confusion [23].
10) Enhancing Customer Service Efficiency: Process automation to reduce delays in financing approvals.
11) Digital Transformation for Better Service Delivery: Adoption of Shariah-compliant fintech solutions for mobile banking, digital payments, and online financing. Expansion of AI-driven customer support for real-time Shariah advisory [24].

3.4 Controlling and beneficiary awareness:

a. Shariah Non-Compliance Risks: Inconsistent monitoring of Shariah-compliant practices across Islamic banks. Some Murabaha transactions include hidden interest-like charges. Erosion of public trust in Islamic banking due to perceived non-compliance.
b. Weak Regulatory Oversight: Lack of a centralized Islamic finance regulatory authority in Bangladesh. Inconsistent interpretations of Shariah rules across different banks. Limited power of Shariah boards to enforce corrective actions.
c. Low Awareness Among Beneficiaries: As per survey response 65% of Islamic banking customers do not fully understand profit-sharing models. 50% believe Islamic banking is identical to conventional banking. Customers may unknowingly engage in transactions that do not fully comply with Shariah principles
d. Weak Shariah Governance and Monitoring: Inconsistent fatwas from different Shariah boards create confusion. Absence of real-time Shariah audits to detect non-compliance.
e. Insufficient Training for Bank Employees: As per survey report 68% of bank employees lack formal training in Islamic banking principles. Miscommunication of Shariah-compliant product details to customers [25].
f. Limited Public Awareness Campaigns: Lack of educational initiatives to explain Islamic banking concepts. Most marketing efforts focus on product promotion rather than financial literacy.
g. Trust in Islamic Banking Controls: As per survey report: 79% of customers trust Islamic banks but demand stronger oversight. 55% believe Islamic banks should have more transparent auditing processes.
h. Confusion Between Islamic and Conventional Banking: Customers often perceive Islamic banking as rebranded conventional banking. Misinformation regarding Islamic contracts such as Mudaraba and Ijarah.
i. Strengthening Shariah Governance: Establishing a centralized Islamic banking regulatory body. Regular independent Shariah audits for all Islamic banks.
j. Enhancing Beneficiary Awareness Programs: Workshops and online courses to educate the public on Shariah-compliant finance. Clearer disclosures of profit-sharing structures in bank statements [26].
k. Digital Innovation for Compliance and Awareness: AI-driven monitoring tools to ensure real-time Shariah compliance. Shariah-compliant mobile apps to educate customers on Islamic financial products.

3.5 Regulatory Context:

1) Dual Banking System Risks: Bangladesh follows a dual banking system (Islamic and conventional banks co-exist). Some rules apply uniformly to both banking models, potentially contradicting Shariah principles .
2) Limited Regulatory Oversight on Product Innovation: New Islamic financial products require regulatory approval, but delays slow down market expansion. Islamic banks struggle to compete with conventional banks in product diversity and service efficiency.
3) Absence of a Centralized Shariah Supervisory Authority: Bangladesh lacks a unified regulatory body dedicated exclusively to Islamic banking. Each bank has its own Shariah board, leading to inconsistent regulatory enforcement [27].
4) Limited Legal Framework for Islamic Banking Dispute Resolution: Shariah-related disputes are handled within conventional legal frameworks. Judges and arbitrators often lack expertise in Islamic finance laws.
5) Challenges in Liquidity Management: Islamic banks lack access to Shariah-compliant liquidity instruments. Absence of an Islamic interbank money market limits short-term liquidity solutions.
6) Trust in Regulatory Bodies: As per survey response 71% of customers trust Islamic banking regulations but demand greater transparency. 39% feel Shariah compliance is weakly monitored in some Islamic banks.
7) Competitiveness of Islamic Banking Regulations: Islamic banks face more regulatory barriers than conventional banks. Sukuk (Islamic bonds) regulations were introduced in 2020, limiting early adoption.
8) Establishing a Centralized Shariah Supervisory Authority: A national Shariah board to regulate all Islamic banks consistently. Regular Shariah audits to ensure compliance with Islamic finance laws [28].
9) Strengthening Legal Infrastructure for Islamic Finance: Training judges and regulators in Islamic financial jurisprudence. Creating Islamic finance dispute resolution mechanisms.
10) Enhancing Liquidity Solutions for Islamic Banks: Development of Shariah-compliant interbank lending mechanisms. Expansion of Sukuk markets for liquidity management.

3.6 Global Impact:

Islamic banking has grown significantly across the globe, with over $3 trillion in assets as of 2023.

1) Shariah Compliance and Standardization Risk: Different countries follow different interpretations of Islamic finance. The AAOIFI standards are widely accepted in the Middle East, but Bangladesh follows a mixed regulatory approach. Lack of standardization creates difficulties in cross-border transactions.
2) Financial Stability and Integration Risk: Islamic banking in Bangladesh faces limitations in integrating with the global financial system. Bangladesh has limited access to Islamic liquidity management tools such as Sukuk and Islamic repo markets.
3) Geopolitical and Market Risks: Islamic banking is influenced by global economic downturns and geopolitical shifts. The 2023 oil price volatility affected liquidity in Islamic finance hubs like the Gulf Cooperation Council (GCC), impacting investment inflows into Bangladesh .
4) Regulatory Harmonization with Global Islamic Finance Standards: Bangladesh lacks a unified approach to international Islamic financial regulations. No direct adoption of AAOIFI, IFSB, or Basel III Islamic finance guidelines.
5) Limited International Collaboration: Few cross-border partnerships between Bangladesh’s Islamic banks and global Islamic financial institutions. Restricted international investments due to regulatory and compliance mismatches.

6) Innovation and Technological Adoption: Global Islamic banking integrates fintech, AI, and blockchain, but Bangladesh lags behind. Lack of digital Shariah-compliant financial products limits expansion.
7) Trust and Confidence in Islamic Finance Growth: As per survey report 71% of banking professionals believe Bangladesh's Islamic banking sector has strong growth potential globally. 49% of customers believe more international investments would strengthen the Islamic banking sector.
8) Competitiveness of Bangladesh's Islamic Banks in Global Markets: Islamic banks in Bangladesh lack the competitiveness of banks in Malaysia, Saudi Arabia, or the UAE.
9) Strengthening International Regulatory Alignment: Adopting AAOIFI and IFSB standards for better global integration. Establishing a centralized regulatory framework for Shariah governance in Bangladesh.
10) Expanding International Partnerships and Investments: Encouraging cross-border Sukuk issuance to attract global investors. Partnering with international Islamic banks for joint ventures and correspondent banking relationships.
11) Enhancing Digital Islamic Finance Solutions: Implementing Shariah-compliant fintech solutions for global transactions. Leveraging blockchain for transparent and secure Islamic banking operations.

Limitations, Findings And Discussions

This study highlights the gaps, challenges, and opportunities within Bangladesh's Operational Shariah Framework for Islamic Banking. While regulatory inconsistencies, limited product diversification, and weak Shariah audits are major barriers, implementing centralized Shariah governance, enhanced legal frameworks, and FinTech-driven compliance mechanisms can drive sustainable Islamic banking growth.

Limitations of the research

The study relies on secondary data from Islamic banks, regulatory reports, and past research, with limited access to primary data on Shariah compliance issues. The lack of extensive quantitative financial data may limit the generalizability of findings. Different Islamic banks in Bangladesh follow diverse interpretations of Shariah principles, leading to inconsistencies in compliance. A lack of standardized fatwas affects the uniform implementation of Shariah governance. The study is limited by the absence of a dedicated Islamic banking law in Bangladesh, making comparative legal analysis difficult. Findings might not be fully applicable until regulatory frameworks are reformed. Islamic banks in Bangladesh are slow in adopting FinTech solutions, limiting digital transformation and efficiency. This research may not fully capture the potential role of AI, blockchain, and big data analytics in Shariah compliance.

Findings and suggestions

The lack of a centralized Shariah advisory body leads to discrepancies in Islamic banking practices. Bangladesh Bank currently lacks a standardized framework for Shariah audits, governance, and compliance monitoring. Bangladesh operates Islamic banks under conventional banking laws, leading to legal conflicts in contracts and transactions. Formulate a dedicated Islamic Banking Act aligning with AAOIFI and IFSB standards. Over 70% of Islamic banking transactions in Bangladesh are Murabaha-based (cost-plus financing), limiting the use of profit-sharing models like Musharakah and Mudarabah. Diversify products by introducing Sukuk (Islamic bonds), Takaful (Islamic insurance), and digital Islamic banking. Shariah audits in Bangladesh are mostly internal and lack external verification, reducing transparency. Implement AI-driven Shariah audit tools and introduce independent external Shariah audit firms. Many customers perceive Islamic banking to be similar to conventional banking, leading to skepticism. Conduct public awareness campaigns and improve transparency in profit-and-loss sharing mechanisms.

4. Discussion

Comparative Analysis for Bangladesh vs. Global Shariah Governance Models

In the comparative analysis (see Table I), Bangladesh is shown to have a decentralized Shariah governance model, unlike the centralized structures of Malaysia and Saudi Arabia, which contributes to regulatory inconsistencies and product limitations.

Table I. Comparative Analysis of Shariah Governance Models in Bangladesh, Malaysia, and Saudi Arabia

Aspect	**Bangladesh**	**Malaysia**	**Saudi Arabia**
Regulatory Body	No dedicated Islamic banking law	Islamic Financial Services Act (IFSA) 2013	Saudi Arabian Monetary Authority (SAMA)
Shariah Governance	Decentralized (Each bank has its own SSB)	Centralized (Shariah Advisory Council under BNM)	Highly centralized (Unified Shariah Board)
Product Diversification	Murabaha-dominant	Sukuk, Takaful, Islamic FinTech	Advanced Islamic financial instruments

Key Takeaway: Bangladesh can improve its Shariah governance by adopting Malaysia's centralized model and increasing Islamic product diversification like Saudi Arabia.

Practical Implications for Bangladesh's Islamic Banking Sector. For Policymakers: Need to enforce Shariah compliance laws and integrate Islamic banking principles into national finance laws.

For Islamic Banks: Urgent need to enhance risk management strategies, ensuring full compliance with Shariah auditing standards.

For Customers and Investors: A strong operational Shariah framework will improve trust, transparency, and financial inclusion, encouraging more investments in Islamic banking.

5. Conclusion

The operational Shariah framework of Islamic banking in Bangladesh has evolved significantly over the years, guided by both regulatory oversight and the commitment of Islamic financial institutions to adhere to Shariah principles. This framework ensures that banking operations comply with Islamic law by prohibiting interest (riba), speculative transactions (gharar), and investments in haram (forbidden) industries. Through the implementation of profit-sharing mechanisms such as mudarabah and musharakah, as well as trade-based models like murabaha and ijarah, Islamic banks in Bangladesh provide financial services that align with ethical and Shariah-compliant standards. However, despite these advancements, challenges remain. The shortage of qualified Shariah scholars, inconsistencies in regulatory frameworks, and the complexities of operating within a dual banking system (conventional and Islamic) pose significant hurdles. The role of Shariah Supervisory Committees is crucial in ensuring compliance, but their effectiveness depends on continuous monitoring, training, and regulatory support. Additionally, Bangladesh Bank's Shariah Governance Guidelines have played a pivotal role in strengthening the Islamic banking sector by mandating independent audits and reporting mechanisms. While Bangladesh has made remarkable progress in implementing the operational Shariah framework for Islamic banking, continued efforts in regulatory reforms, capacity building, and product innovation are essential to ensure sustainable growth. The success of Islamic banking in Bangladesh depends on collaborative efforts between regulatory authorities, Shariah scholars, financial institutions, and customers to maintain a robust and ethical financial ecosystem.

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