

# Islamic Finance Conference 2019

Emerging Trends in Islamic Finance

## SESSION 1: Islamic Banking

### **Does the changes in Shariah screening methodology effect on Shariah-compliance status and financial performance of firms?**

Muhammad Wajid Raza and Dr. Dawood Ashraf

#### **Abstract**

In this study we examine the impact of changes in Shariah Screening Standards as introduced by the Financial Services Act 2013 in Malaysia. The empirical findings suggest that the changes in Shariah-screening methodology effect the Shariah-compliance status of firms and there were considerable number of firms who either switched to Shariah-compliant or were delisted from the list of Shariah-compliant firms. We also find that firms that were non-compliant before November 2013 (the data on which the new screening guidelines were implemented) and compliant after 2013 showed significant improvement in financial performance, as measured by return on asset and returns on equity. We also investigate underlying variables that governed such a switching behavior. Our results after controlling for size and financial performance indicate that financial leverage, owners' equity play key role in explaining the switching behavior of Shariah firms. We also found that ownership structure and corporate governance also play important role in firm decision to stay Shariah compliant or not. Specifically, share held by corporate firms, individual and family, institutional investors (unit trust, endowment funds etc) and the composition of board of directors such as male to female ratio and age of the directors result in significant factor loading. Shares held by government agencies including sovereign wealth funds and pension funds and financial conglomerates fails to explain the changing status of Shariah-compliant firms.

**Keywords:** Shariah-compliant firms, financial performance, corporate governance, capital structure, ownership structure.

## **Running Musharkah a Shariah Compliant Viable Alternate of Over Draft Facility**

Mufti Naveed Alam

### **Abstract**

Running Musharkah is a Shariah compliant viable alternate of conventional overdraft facility, being successfully used in Pakistan since last decade. Running Musharkah has been accused by many researchers, as per the opinion of opponent running Musharkah is being practiced that it is just change of name and Musharkah rules has not been followed as practiced in Pakistan. Paper discusses the product in detail with rationale, and Shariah issues in this product while next part addresses the reservations raised by scholars and practitioners on this product. Working capital finance can easily be met via running Musharkah. It concludes that running Musharkah is viable solution for Islamic financial intuitions to digitize financing portfolio on asset side with accomplishment of Shariah principles for partnership contracts.

**Key words:** Running Musharkah, Partnership, Shariah complaint alternate of running finance, Shariah compliant alternate of overdraft, digitization of financing assets

## **The Role of Salam Contract in Islamic Banking**

Dr. Aishath Muneeza

### **Abstract**

Islamic banking has gained momentum in the world today. Irrespective of the faith convictions, it has gained popularity. Different jurisdictions in the world use different Islamic finance products to suit the needs of the customers using uniform Shariah rules and contracts derived from the *lex loci* of Islamic finance, which is Shariah. One of the most least used Shariah contract to structure these products are Salam contract which is a forward sale contract that is an exceptional contract under Shariah. This is a qualitative study of which the main objective is to analyze and study how Salam contract is implemented in Islamic banking. The outcome of the paper reveals that Salam is currently used in different parts of the world to suit different needs. It is anticipated that the outcome of the research will encourage Islamic banks to utilize Salam contract in Islamic banking as this is a unique contract legalized in Shariah to assist poor and needy. The jurisdictions that is currently not using Salam in Islamic banking can learn from those jurisdictions that are using Salam to structure innovative Islamic banking products.

**Keywords:** Exceptional contract, Forward sale, Islamic banking, Salam.

## **Impact of Asymmetric Information in Islamic Financial Contract: An Empirical Analysis**

Sajjad Husain Zafar

### **Abstract**

A primary source of asymmetric information arises from banks' uncertainty about borrowers' Creditworthiness. This can generate two types of barriers to efficient credit allocation in the loan market: ad-verse selection in the likelihood of repayment and moral hazard in the riskiness of firms' business decisions, also affecting repayment. This study investigated the consequences of asymmetric information on Islamic financial contracts in the Pakistani market for small and medium enterprise (SME) business lines of credit. Islamic bank's main financial contracts were discussed the two of them which are Istisna and Murabaha. The methods of ' T test' was conducted to ascertain the difference in means of both forms of financing, whereas Multiple Regression Analysis using panel data to assess the relationship of critical variables with Disbursed amount, profit rate, spread, tenor. Data of three years i.e. from 2016 to 2018 of 35 firms, with 105 numbers of observations having Istisna and Murabaha contract, were taken. The results suggested that both the means of Murabaha and Istisna financing are significantly different in major performance indicators, implicating companies that have taken these two financing have performed differently. Secondly, in most of the ratio that mattered like efficiency and profitability, Murabaha based financing have yielded more efficient results and better performed as compared to Istisna.

## **Rectification of Breach of Contract in Islamic Finance**

Shabeer Khan and Abdullah Khan

### **Abstract**

The very demand of Islamic economic system is justice in the economy while Islamic law of contract is the key source of facilitating contractual obligations and providing help in distributing legal responsibilities in order to observe justice in the contractual obligations. The aim of this paper is to rectify breach of contract in Islamic finance industry. It studies different aspects of contract i.e. objective and subjective forms, conditions and then provide solution to the breach of contract. It also justifies compensation for the injured party according to the Islamic law of contract. This paper concludes that compensation can play a role of remedy for the breach of contract but it is subject to the case to case and nature of breach because sometimes it is impossible for the contracting parties to continue contract because of changing conditions or nature disaster which destroy subject matter. Islamic law of contract has the ability to protect interest of both contracting parties along with promoting justice and equality in the society which is the very demand of objective of Shariah.

## **The Impact of Sustainable Banking Practices on Banks' Stability**

Kinan Salim, Adam Ng, Ginanjar Dewandaru, Malik Abdulrahman Nkoba

### **Abstract**

This study seeks to examine whether corporate environmental performance (CEP) and corporate social performance (CSP) affect stability of the banking industry. The topic is of much interest to researchers and policy makers following the global financial crisis of 2007-2009. Using a panel dataset of 473 banks in 74 countries from 2007 to 2016 and applying Generalized method of moments (GMM), we find that corporate environment performance (CEP) is negatively related to bank stability which is proxied by non-performing loans (NPL). On the other hand, our results suggest no significant relationship between corporate social performance (CSP) and bank stability. However, estimation using financial product safety as an aspect of corporate social performance shows a positive link to banks stability. The study contributes to the literature by using material dataset and providing new evidence on the relationship between CEP, CSP and bank stability. Our results are robust to a variety of econometric specifications and have significant policy implications for investors, bankers and regulators.

## SESSION 2: Fintech and Islamic Finance

### **The Dynamics of Islamic Finance through Blockchain Implementation**

Jaweriya Naz M. Jawaid

#### **Abstract**

This paper aims to explore the role of adopting blockchain in Islamic finance for strengthening Islamic finance operations and increasing information transparency. In order to attain this aim of the study, this study adopted case study analysis method. In this study, two case studies have been selected for evaluation of role of adopting blockchain in Islamic finance. These case studies are analysed through content analysis. The expected outcomes of the study specified positive and higher responsiveness of information through implementation of blockchain. This study found that block chain enables easy access of users to transaction information and make transparent information on real time system. Additionally, block chain adoption support for minimizing business risk and overcoming different issues that may arises from handling information by using traditional methods. The outcomes of the study provide policy implications for State Bank of Pakistan and Security Exchange Commission Pakistan (SECP) for implementing blockchain in performing Islamic financing activities.

**Keywords:** Islamic Finance, Blockchain technology, Information transparency



## **A Critical Sharia Analysis of Cryptocurrency**

Mufti Muhammad Muaz Ashraf

### **Abstract**

Money is one of those tangible entities which plays a vital role in our lives and is being used amongst all the people, without considering the divergence occurring in between their genders, religions, sects or professions. It is an undeniable truth that like any other substances in the universe money is a part of revolutionary system as it has been evolving across time. The world has witnessed that goods, precious metals like gold and silver, banknotes, electronic money have all played the role of money or currency in their time. Today, we are witnessing a new type of currency which is being called ‘Cryptocurrency’ and also known as ‘Virtual Currency’. Cryptocurrency is a great example of technological advancement based on ‘Blockchain’ technology which is leading us towards the futuristic cashless economy. Cryptocurrency is one of the most debatable topics nowadays among the Sharia Scholars, governments, economists and experts. Undoubtedly, Islam has always appreciated and acknowledged new researches, advancements and developments, distinctly when it is more of a necessity rather than the luxury of the society. The main purpose of this study is to define the Sharia status of Cryptocurrency and this goal cannot be achieved without discussing and exploring its nature, process and blockchain technology. Currently, there are different proponent and opponent Fatawa which have been issued by the institutions, Islamic Seminaries and individuals. Most of them are lacking authenticity, strong Sharia basis or correct technical information. Therefore, there was a dire need to conduct a research on cryptocurrency on the basis of authentic and strong Islamic Principles and technical information.

**Keywords:** Currency, Cryptocurrency, Sharia Principles, Blockchain, Shariah Analysis

## **The Prospects of a Common Digital Currency in OIC Member Countries**

Alaa Alabed

### **Abstract**

Exchange rate volatility has considerable impact on trade in goods and services, cross-border capital flows, inflation, balance of payments and other macroeconomic variables. Whereas most of the exchange rate regimes in the Organization of the Islamic Conference (OIC) member countries are categorized by the International Monetary Fund (IMF) as having fixed peg arrangements, managed floating and independently floating rate regimes are still prevalent in countries, such as Indonesia, Malaysia, Pakistan and Turkey. In recent times, a prolonged period of exchange rate volatility was a credit negative for many sovereigns, companies and banks in the region, especially those overburdened with US dollar-denominated debt. Given calls for increasing intra-OIC cooperation and challenges to having a single currency and achieving monetary union in OIC member countries, it is, thus, proposed that a supranational digital currency (digital Islamic Dinar) be issued by the Islamic Development Bank (IsDB). By doing so, member countries can maintain their own national currencies and monetary independence while the IsDB can avoid problems of coordination and heterogeneity and provides a means for promoting stability, trade and investments in member countries as well as a reserve currency for regional Central Banks. The resultant economic gains are expected to extend to all micro-economic actors - households and corporations alike - across the countries.

**Key words:** exchange rate volatility, OIC member countries, Islamic Development Bank, supranational digital currency.

## **Can Market Sentiment Predict Stock Returns? Evidence for Islamic and Conventional Stocks in Pakistan**

Sana Tauseef,

### **Abstract**

The study examines the impact of market sentiment on conventional and Islamic stock returns in Pakistan over the period from August 2009 to June 2019. We construct monthly market sentiment index using six variables: advances-to-decline, premium on dividends, price-to-earnings, relative strength, money flow and turnover rate. Our results show that market sentiment has a strong predictive power for subsequent conventional stock returns. In contrast, sentiment levels and changes are not useful in predicting Islamic stock returns. Our results support the fact that the Islamic financial assets in Pakistan have been able to maintain their uniqueness and are not strongly connected to the conventional assets.

## **‘Postpaid’ Crowdfunding Insurance: A Potential New Takaful Model**

Dr. Burhanuddin Lukman

### **Abstract**

In a traditional commercial insurance, policy holders need to pay a fixed insurance premium payable before the start of the protection. The insurer will pool the premiums paid. The funds in the pool will be used to cover operating expenses and to pay all the claims. The insurance company retains the amount of excess in the pool at the end of the coverage period as part of its revenue. In a common traditional insurance practice, the unused premiums are not refunded to the policy holders. Similarly, in an ordinary mutual insurance or in peer-to-peer (P2P) insurance, members also pay a fixed premium amount to a pool. The funds in the pool will be used to pay their claims. Any funds that are remaining in the pool when the coverage period ends are refunded to its members. There is another type of mutual insurance that has just emerged recently. It is different from the traditional insurance as well as the ordinary mutual and P2P insurance whereby there will be no pooling of premiums. The claims for the month will be funded and shared among all the members accordingly. The premiums are post-paid as the members will only pay their share of the premiums retrospectively at the end of the month. Another main difference is the fee charged by the underwriter. It is in the form of certain percentage of the total claims for the month. This paper investigates this post-paid crowd-funded insurance model and analyses it from the Shariah perspective. The objective is to test whether its features are Shariah compliant, and to recommend suggestions to make it suitable to be a new model for Takaful practice.

## **Presence of Islamic Banks in East Asia- Stability Vs Fragility Argument**

Syed Aun R. Rizvi and Omair Haroon

### **Abstract**

Islamic Banks have been gaining traction globally and especially in East Asia, which houses Indonesia as the world's largest Muslim population and Malaysia as the fastest growing Islamic finance market. Albeit the share of Islamic banking is small but the growth potential poses challenges and question that need inquiry. In that vein this paper explores the question of whether more competition from Islamic banks add to the financial stability and profitability, and from where this stability/instability is being derived from. The results lend credibility to the competition-stability theory argument and endorses the view that presence of Islamic banks in East Asian banking industry adds to the stability of the system while it doesn't affect profitability. And secondly the stability is derived from both asset and liability side. While adding to the literature on banking, and Islamic finance this paper suggests to the policy makers that policies promoting Islamic banking will tend to assist in enhancing financial sector stability.

**SESSION 3: Talk on "FinTech " by Dr. Farrukh Habib, Advisor,  
Leading Edge Alliance Software Consultants, UAE**

## **SESSION 4: Islamic Social Finance**

### **The Role of Islamic Social Finance (Waqf) in Poverty Alleviation in Pakistan**

Sanaullah Ansari

#### **Abstract**

Pakistan is a developing country, therefore, struggling hard to meet its financial challenges. Current population of Pakistan is 207,774,000, out of which, 24.3% people are living under poverty line. According to the World Bank criteria, poor are those people who earn US\$1.9 per day. As it is a major part of the total population, many private and governmental organizations are working as Waqf to alleviate poverty from the country. For this purpose, government of Pakistan has established Pakistan Poverty Alleviation Fund (PPAF) as a Waqf organization which is providing financial assistance to the needy and poor people through its different social welfare programs. To assess the impact of these programs, financial information, financial data and the views and suggestions of concerned authorized persons have been collected. In the light of this information, it can be concluded that PPAF has disbursed an amount of Pak Rupees 222.037 billion since its establishment in April 2000 to needy and poor people for the cause of poverty alleviation. These funds are generated by Government of Pakistan; however, huge funds are also collected by government and private Waqf organizations through public donations. Several financial assistance programs have been launched in the country to help needy and poor as government has set the target of “No Poverty” by 2030.

**Keywords:** Poverty Alleviation, Waqf, Pakistan

## **Sukuk-Bond Dynamic Co-movement and Driving Factors: Evidence from DCC-GARCH and Wavelet analysis**

Naseem Zaki Mosli and Tahar Tayachi

### **Abstract**

The assessment of international financial markets co-movements is crucial due to the valuable information it provides to investors and policy makers that could help in making informed decisions about risk management and investment. However, less attention found on fixed-income returns co-movement, where most of the literature had focused on the co-movement between equity markets. This study employed two econometrics methods; the dynamic conditional correlation-GARCH (DCC-GARCH); which helps in studying the time variation in the relationship over time, and Wavelet coherence; that adds frequency domain to the investigation of the dynamic relationship; to extensively examine the co-movement between global Islamic and conventional fixed-income market returns in crisis and non-crisis periods, which remains unexplored. Data on global indices were used from September 2006 to July 2016. Further, the examination had extended to investigate the impact of macroeconomic and financial uncertainty factors on the co-movement; in order to explore the determinates of the dynamic co-movement. The findings indicate that investors and policy makers should consider the variation in the co-movement on their decision-making process. Also, it suggests that Sukuk provide better diversification potential to fixed-income investors as their returns exhibit the least co-movement with bond market returns. However, these benefits do not hold during high-stress periods; as the association between Sukuk and other fixed-income market increases substantially during these periods. Moreover, most of the studied macroeconomic and financial uncertainty factors found to be insignificant in explaining the time variation in the fixed-income market returns co-movement with the only exception for inflation in the case of Sukuk-bond co-movement.

**Keywords:** Co-movement, Sukuk, Global bond markets, Wavelet coherence, DCC-GARCH, Macroeconomic factors, Financial market uncertainty.

## **Sustainable Growth with Islamic Financial Instruments and Institutions**

Salman Ahmed Shaikh

### **Abstract**

**Purpose** – This paper discusses how Islamic finance promotes inclusive and sustainable economic growth through its principles, values, institutions and instruments.

**Design / Methodology** – This paper uses textual analysis to show what Islamic sources of knowledge say about sustainability concerns. For comparative analysis and application, the paper presents the circular flow of the economy in Islamic framework. Furthermore, it presents the mapping of each of the sustainable development goals with Islamic instruments and institutions.

**Findings** – The paper shows how Islamic finance links the provision of finance with the real economy and to boost aggregate demand components. It also discusses how Islamic equity based modes of financing and social finance promote inclusivity and socio-economic mobility of the poor. Finally, the paper also identifies how various Islamic instruments and institutions are suitable for achieving each of the 17 sustainable development goals.

**Social Implications** – The provision of money based lending in the current banking practice locks a huge amount of liquidity in the money market instruments alone. This has presented a challenge in the form of rising income inequality, wealth inequality and jobless growth. On the other hand, in Islamic finance, real economy centered productive enterprise can promote capital formation and entrepreneurship by disallowing stipulated interest on money capital.

**Originality / Value** – This paper illustrates the circular flow of economy in the Islamic framework by including Islamic finance instruments for facilitating real economic transactions in the markets. The paper also provides mapping of how each of the 17 UN SDGs can be approached through Islamic instruments and institutions.

**Keywords:** Islamic Finance, Islamic Banking, Islamic Social Finance, Inclusive Growth, Sustainable Growth



**JEL Codes** I3, L38, O1

## **Are Islamic Banks Helping to Achieve Sustainable Development Goals?**

Henna Ahsan and Ahsan Mehmood Ghumman

### **Abstract**

Islamic banks in Pakistan started their operations with an intent to introduce sharia-based products in the banking world and to create a system of justice and fairness in all banking transactions. However, its been 13 years but still these banks are unable to make any significant impact on the society and lot of work still needs to be done to make their banking practices truly Islamic and to attain the notion of economic justice. So, this paper is an attempt to make people understand basic principles on which these Islamic banks were established, what are financing modes currently being used by these banks and what are issues associated with these modes. Further contribution ratio of each mode is analyzed along with reviewing banks overall growth from their inception till now. Finally, new direction of micro financing has been explored and suggested for Islamic banks to attain their prime objective of poverty alleviation and of sustainable development goals so that these banks could have a real impact on uplifting of the masses.

## **Role of Zakat, Waqf and Islamic Microfinance in Achieving Maqasid Al-Shariah**

Dr. Hassan Shakeel Shah, Dr. Mohammad Ayaz, and Khurram Fasil Jamal

### **Abstract**

Poverty is one of the major problems faced by developing countries especially majority of Muslim communities and is a big hurdle in their economic development. This can be successfully alleviated by an efficient *Zakat* system. *Zakat* is a pure poverty alleviation system offered in Islam which is its fourth pillar of faith and hence one finds no question on its authenticity and importance. Waqf, a non-profit voluntary sector, which has an important and integral role in building communities during various phases of their development. Further, the conventional microfinance programs are costly which involve *riba* (usury) too, a prohibited transaction in Islam. This is one factor why Muslims prefer Islamic microfinance for their business needs but it is unfortunate that this system is not mature and effective. The problem is answered through a set of Islamic principles, regulations, and laws that are collectively known as *Shariah* where the term *Maqasid Al-Shariah* refers to the objectives of Islamic law. The central purpose of *Shariah* is to facilitate the removal of hardships in lives of humans. The main objective of this paper is to discuss role of *Zakat*, *waqf* and Islamic microfinance under the principles of *Maqasid al Shariah*. In this paper the separate relation of these poverty alleviation tools with five principles of *Al-daruriyyat* from the perspective of *Maqasid Al-Shariah* shall be discussed. The findings of the paper show that *zakat*, *waqf* and Islamic micro finance has a positive impact on all human needs in the perspective of *Maqasid al-Shariah* namely religion, knowledge, life, family and wealth. Hence, the study also provides an insight that without proper *zakat* distribution, utilizing *waqf* assets and providing useful Islamic micro financing, the requirement of *maqasid al Shariah* cannot be fulfilled. According to this study among the five principles, the indicators of *Ad-Din*, *Al-Nafs*, *Al-Nasb*, and *Al-Mal* improved after participating in the *zakat*, microcredit program, however, the indicators of *Al-Aql* were not significantly enhanced by this program and in *zakat* in comparison with the other principles except if considered with different business knowledge in microfinancing and *zakat* money use for education and training. While indicators of these five principles are significantly improved in case of *waqf*.

**Keywords:** Zakat, Waqf, Islamic Microfinance, Maqasid al Shariah

## **Islamic Finance: A Catalyst for Sustainable Development**

Prof. Dr. Rehana Kouser, Dr. Zeeshan Mahmood, Dr. Irum Saba, and Rimsha Abbas

### **Abstract**

This paper stems from an interest in examining the impact of the growth of Islamic Finance in achieving sustainable development of a country. Islamic finance and sustainable development are contemporary concepts that are highly discussed and debated in recent years. However, we observed that there is lack of research that integrates the two concepts and corresponding literatures. Extant studies have largely focused on the role of financial sector development in economic development. This paper re-examines the relationship between financial sector development, economic development and sustainable development. However, the focus of this paper is on examining the impact of Islamic finance on sustainable development. The empirical content in this paper is based on data from 32 countries for 7 years (2011-2017). We used Global Islamic finance country index and sustainable development index for capturing the data regarding main variables. Financial development data was collected from world bank indicators database. After diagnostic tests and analysis, we found that countries with high development of Islamic finance ranked high in the sustainable development index.

## **Data Analytics approach to Islamic Mutual Fund Performance**

Fadillah Mansor and M. Ishaque Bhatti

### **Abstract**

This paper compares the returns' performance and persistence of ethical and conventional mutual funds during two extreme events; the Asian and the global financial crises, by using data for a sample of 479 funds. It investigates the raw returns, market risk-adjusted returns and performance persistency measures. The main findings of the paper are; on average, both funds outperform the market return but none of the funds is better than the other in pre-crisis and during financial crisis periods. However, the ethical fund slightly outperforms its conventional counterpart over the period of the study. The result also indicates that ethical funds are more persistent especially during the pre-crisis periods. The study suggests that the investors and market players in emerging markets, Saudi Arabian and Malaysia, would be better off in selecting ethical funds in their portfolio selection.

**Key words:** Islamic mutual funds; emerging markets; risk-adjusted performance; persistence measures.

**JEL codes:** C1, G10, G11, G23.

## **SESSION 5: Shariah Governance for Islamic Finance Institutions**

### **The Relevance of Shariah for Modern Economies**

Putri Swastika

#### **Abstract**

The purpose of this study is to confirm and demonstrate that risk sharing policy is practical and viable alternative to the conventional system. This study is an archival research, including inspection of documents held in libraries and on-line. Within this framework, statistical data, audio and printed materials provide the source for analysis. This study found that in 1933-1935, Germany instrumentalized the principle of risk sharing to fund the Work-Creation Programs –a national agenda that successfully improved domestic labour market condition. Practical Implications from this study are two folds: First, the finding abrogates the current misconception that Islamic finance is difficult, impractical, and not viable. Second, for policy makers, the study laid out another reason of why risk sharing principle should be adopted into economic policy. It is the first study that demonstrates, based on historical record, the Islamic financial principles of risk sharing were implemented into the macroeconomic policy of Germany 1933-1935. The aptness of risk sharing to the national economic policy in Germany 1933-1935, which has protected the country against depression and provided millions of jobs to its people, provides an academic support for the direction of current Islamic financial system towards risk sharing.

**JEL Classification:** B52, B59, N14

**Key words:** Risk sharing, Macroeconomic Policy, Economic History, Islamic Financial System, Germany 1933-1935.

## **Corporate Governance, Product Mix and Earnings Volatility: A Comparative Analysis of Islamic and Conventional Banks**

Safdar Husain Tahir, Filza Nosheen, and Muhammad Rizwan Ullah

### **Abstract**

The study aims to analyze the impact of corporate governance (CG) and product mix (PM) on earnings volatility (EV) and provides a comparison between Islamic banks (IBs) and conventional banks (CBs) of Pakistan. The required data are gathered from 14 IBs and 14 CBs for the period of 2007 to 2016. The multiple regression models, variance inflation factor, Ramsey RESET test and Cook-Weisberg/Breusch-Pagan test are used to analyze the results. The study finds a positive impact of fee-based share (FBS) on revenue volatility (RV) both in IBs and CBs. FBS also has positive impact on degree of total leverage (DTL) in IBs. Lending activities (measured by loan share (LS)) have negative impact on Revenue volatility (RV) in CBs. A negative impact of board size (BS) on DTL is also found in IBs. Furthermore, board independence (CEO Power) shows positive (negative) impact on RV both in IBs and CBs. The study concludes that lending portfolio can be used as a mean for the diversification of risk. Consequently, it is suggested to both the IBs and CBs to focus on their lending portfolio in the future and build long-run relationship with the customers. The study also recommends having board size less than ten. The large board increases the earnings volatility of banks and therefore decreases the financial performance. Henceforth, small size of board increases efficiency of board members. The banks may also include CEO as a board member to increase the efficiency of board.

**Keywords:** Earnings Volatility, Product Mix, Corporate Governance, Fee Based Share, Loan Share, Degree of Total Leverage, CEO Power.

## **Threats to Independence of Shariah Board**

Naveed Aslam

### **Abstract**

The foundations of Islamic finance were based on the philosophy of extending the tenets of economic activity in order to increase social welfare. However, the biggest criticism around the practice of Islamic banking is that it is still devoid of the element of social welfare as majority of the products are designed to render the conventional banking products as sharia compliant. Researchers identified the weak role of Sharia Board (SB) as a major obstacle in achieving the pure form of Islamic Banking. The independence of SB was questioned on the grounds of lack of effectiveness of SB in enforcing compliance to Sharia principles. While, the SB are independent in regulatory Sharia Governance Frameworks. It is argued that SB often fall under the pressure of top management tier who are trained in conventional banks and focus on profit maximization. Accordingly, the concessions granted by SB on the premise of infancy of Islamic Finance Industry have not vanished and turned into permanent norms. Consequently, there has not been any visible contribution of Islamic Banking towards the welfare of society to which Shariah Boards are held responsible. Researchers have identified that such disposition of the SB has resulted in reputational risk to the Islamic Finance at large. Hence, the overall performance of SB so far has been widely criticized mainly around concerns of lack of true independence.

This paper attempts to identify the major ‘threats’ to the independence of Sharia Board and the evaluation of the effectiveness of regulatory controls against such threats in context of Pakistan. The results transpired that the position of Resident Shariah Board Member (RSBM) is especially vulnerable to ‘threats to independence’. RSBM is a member of the SB who at the same time is a full time employee of the IFI, responsible for day to day implementation of sharia compliance on

operational level. The bonus of the RSBM is usually linked with the profitability of the enterprise. The work of RSBM is reviewed by the fellow SB members. Hence, Shariah Board was involved in both ‘monitoring’ and ‘day to day implementation’ of Sharia Compliance which appeared to compromise the independence of SB. Such structural anomaly is not present in the Sharia Governance Framework of Malaysia. Moreover, the involvement of management in the process of renewal of tenure/appointment of Sharia Board members posed a high degree of threat to the independent working of SB members. Resultantly, it was identified that the SB members remained under considerable influence of management. Further, over-reliance of the SB over RSBM due to their busy schedules coupled with their duty to review his performance in terms of Sharia Compliance also found to impede the independent oversight function of the SB.

**Keywords:** Independence of Sharia Board - Regulatory Controls-effectiveness - Sharia Governance Framework - Sharia Compliance.



## **Shariah Governance Framework for IBIs: A Critical Analysis**

Dr. Abdus Sattar Abbasi

### **Abstract**

Shariah governance framework (SGF) is the backbone for the survival of Islamic banking institutions (IBIs). Shariah compliance along with other contemporary standards makes it more challenging for the staff to ensure satisfaction of all stakeholders of IBIs. Besides profitability, IBI customers need complete satisfaction that their funds have been administered according to the Shariah law and returns are from permissible business operations. Over the years Shariah governance mechanisms have significantly groomed in Pakistan, however, the need and room for improvement always remains for further developments. SGF enables convenient operations of IBIs with predetermined set of instructions and objectives. Nevertheless, IBIs need continuous monitoring and hand-holding to implement the SGF in true letter and spirit. This article critically analysed updated SGF (2018) through content analysis and identified a few important gaps in the existing SGF. Those gapes such as absence of Board's Committee of Shariah Governance (BCSG) and lack of attention towards Shariah compliance ratings of IBIs have been identified and discussed with reasonable details to incorporate in the SGF. It has been observed that lack of performance evaluation of Board of Directors (BoD) and Shariah Board (SB) is important impediment in the development and expansion of IBIs. SGF is devoid of determining key performance indicators (KPIs) for IBIs. Current study concluded with proposed new Shariah governance framework for IBIs to ensure close liaison between BoD and SB with the provision of indicators for Shariah compliance ratings of IBIs.

**Keyword:** Shariah Governance Framework, Shariah Board, Shariah Compliance Ratings, Islamic Banking Institutions, KPIs

## **Shariah disclosure attributes of Takaful companies: An overview of Takaful managers' experiences in Pakistan**

Muhammad Ismail and Shafiullah Jan

### **Abstract**

**Purpose** – The fundamental purpose of this paper is to elaborate the importance of Shariah related disclosure and transparency in Takaful institutions.

**Methodology** – The general approach of this study is qualitative in nature while Phenomenology is adopted as a research strategy. Data collected through five experiential in-depth interviews from Takaful managers working in Khyber Pakhtunkhwa. Interpretive phenomenological analysis and Shariah analysis technique were for analysis purpose.

**Findings** – The study extended the general approach and understanding toward Shariah disclosure in Takaful institutions by exploring Shariah disclosure attributes in which both the existing and potential customers are equally interested and that need to be disclosed. These Shariah disclosure attributes are: disclosure of waqf arrangement in Takaful institutions, disclosure of about standardized fatwa, disclosure of Wakala fee, disclosure of Shariah advisors' public status, and disclosure of the Shariah appraisal of profit sharing mechanism.

**Research limitations** – The conceptual scope of the study is limited to the disclosure of information related to only Shariah compliance and Shariah governance in Takaful institutions. It excluded all other kind of information related to financial disclosure, corporate statements disclosure, and social reporting.

**Practical implications** – Takaful institutions may adopt the disclosure attributes explained in this paper to increase confidence of both the existing contributors and the potential contributors in Takaful.

**Keyword:** Disclosure, Phenomenology, Shariah governance, Shariah information, Takaful.

## **Shariah compliance & Shariah based products in Islamic Financial Institutions Practices**

Dr. Ahcene Lahsasna and Dr. Irum Saba

### **Abstract**

Shariah compliance and Shariah based have been used exchangeably. The term of Shariah compliance brings different meaning from Shariah based. It is arguable that both terms bring the same definitions. But, they are different. Shariah compliance is the adherence to the Shariah rulings as well as the rulings provided by the authorities. Meanwhile, Shariah based is that the Islamic principle is already there without a need to modify it in order to be a Shariah one. The purpose of this paper is to give an overview of Shariah compliance and Shariah based as well as to differentiate between them. The key points of discussion here are the priority between Shariah compliance and Shariah based; the theory and practice of both terminologies; the lines of screening; the discrepancy between the products as well as the Shariah compliance in Islamic Financial Institutions. The lists of standards and requirements provided by the authorities also is highlighted in the paper. The key takeaways of this paper are first, the readers get the key points of differences between the Shariah compliance and Shariah based; and second, the broad overview on how Shariah compliance in Islamic Financial Institution work. Finally, the public perception on Shariah products should change and they should stop convincing that it is the same with conventional product without any distinctive aspects.

## **Islamic Financial Industry and Consumer's Role**

Dr. Lakhi Muhammad

### **Abstract**

Religion Islam fixed the responsibilities of both service providers and the service users. Most of the literature on Islamic finance compromises religious responsibilities of service provider but the responsibilities of service users remain ignored. Aim if this research paper is to expedite the service user's religious bindings to service providers. Islamic marketing can explore the religious responsibilities (like forgiving the service failures, delivering promises) of the customers. This paper suggests that empirical evidences and future research direction can help to explore such religious responsibilities. It is important to explore religious responsibilities of service users or customers so that it will contribute to literature in Islamic marketing context. It will also provide a rich support to practitioners to maintain the long term relationships with the customers.