Legal and Regulatory Framework in Islamic Banking System: Bangladesh Perspective

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Abstract

Islamic finance is one of the prominent phenomena over the last decade in the Middle-East and South-East Asia especially in banking industry. The role of Islamic banking in economy is still heavily debated. The legal and regulatory framework in Islamic banking is more important rather than its function. But there is no independent body for regulating Islamic banking sector in Bangladesh. This paper argues that an independent body should be established for the regulation of Islamic banking in Bangladesh.

Keywords: Regulation, Law, Islamic Banking, Bangladesh

Introduction

Islamic finance can be defined as a type of finance which respects the principles of the Shariah, known as, the Islamic law. The Shariah involves a series of prohibitions as well as prescriptions regarding the practice of finance. In short, prohibitions include paying or receiving interest (called "riba"), speculating or gambling ("gharar"or"maysir"), and being involved in prohibited ("haram") industries, such as those related to alcohol, pork, pornography, weapons, or conventional banking. Obligations include almsgiving (one of the five pillars of Islam, called"zakat"), fairly sharing economic profits and losses through appropriate financial agreements (PLS agreements) and fostering a productive use of money through requiring a real, on-monetary, underlying in each financial transactions (such as a consumer good or commodity).Bangladesh has a long history in Islamic Finance. The first Islamic Bank –Islami Bank Bangladesh Limited (IBBL) –was established in 1983. Since then, Islamic finance has shown continuous strong growth, not only in terms of deposits and assets, but also in market share. Two aspects of the Bangladesh economy are worthy of note. First, it has experienced sustained over the past decade in general, and in recent years in particular. Especially noteworthy is the improvement in human development indicators.

Bangladesh is one of those countries where Islamic finance markets have systemic significance. The Islamic Financial Services Board (IFSB) has apportioned the top category of "systemic importance" to the Islamic Banking industry in Kuwait, Saudi Arabia, UAE, Bangladesh and Malaysia. The Cataloging follows the "indicator –Based Measurement Approach" of the Basel Committee on Banking supervision (BCBS). According to the criteria of BCBS/IFSB, Bangladesh could be considered as one of the very few Muslim countries (if not the only one) where one Islamic Bank-namely, the ancient and by far the Major Islamic Bank with a share of roughly 50% of the Islamic Market (IBBL-could be classified as a "domestic systemically important bank"). The larger policy issue in Bangladesh is the adequacy and scope of the legal and regulatory framework in providing an appropriate enabling environment for Islamic finance. The growth of Islamic banks in Bangladesh was driven for decades by a vigorous demand of the private sector without sustained and comprehensive support from the public sector. This is redirected in the deficiency of a specific legal and regulatory environment for Islamic finance. For about 25 years, Islamic finance has prospered in a conventional regulatory regime with only marginal adjustments to follow for its peculiarities. This is in a stark contrast to Malaysia, where Islamic finance started in the same year as in Bangladesh and has reached a similar market share, but with debatably the most intricate legal, tax and regulatory system personalized to the needs of Islamic Finance. This Policy Framework in Bangladesh is now undergoing change, initiated by Bangladesh Bank and coordinated with the policy authorities, and a vigorous agenda has emerged involving not only changes to the legal framework , but also formal measures including the development of liquidity management capabilities.

Islamic Banking Concepts

According to Islamic Banking Act of Malaysia, an Islamic bank is "A company, which carries on Islamic Banking business. Islamic Banking business means banking business which aims and operations do not involve any element which is not approved by the religion Islam." Ziauddin Ahmed (1983) says, "Islamic Banking is essentially a normative concept and could be defined as conduct of banking in consonance with the ethos of the value system of Islam."

A unique feature of Islamic banking, in theory, is its profit-and-loss sharing (PLS) paradigm. In practice, however, we find that Islamic banking is not very different from conventional banking. The first modern experiment with Islamic banking can be traced to the establishment of the Mit Ghamr Savings Bank in Egypt in 1963.

In Islam, there is no separation between mosque and state. Business, similarly, cannot be separated from the Islamic religion. The Shariah (Islamic law) governs every aspect of a Muslim's religious practices, everyday life, and economic activities. Muslims, for example, are not allowed to invest in businesses considered non-halal or prohibited by Islam, such as the sale of alcohol, pork, and tobacco; gambling; and prostitution. In Islamic contracting, gharar (uncertainty and risk) is not permitted, i.e., the terms of the contract should be well defined and without ambiguity. For example, the sale of fish from the ocean that has not yet been caught is prohibited. The prohibition of gharar is designed to prevent the weak from being exploited and, thus, a zero-sum game in which one gains at the expense of another is not sanctioned. Gambling and derivatives such as futures and options, therefore, are considered un-Islamic because of the prohibition of gharar. [Chong, B. S., & Liu, M. H. (2009).]

More importantly, Muslims are prohibited from taking or offering riba. What constitutes riba, however, is controversial and has been widely debated in the Islamic community. Some view riba as usury or excessively high rate of interest. But the majority of Islamic scholars view riba as interest or any pre-determined return on a loan. The basis for the prohibition of riba in Islam may be traced to the common medieval Arabic practice of doubling the debt if the loan has not been repaid when due. This practice in its extreme form had led to slavery in medieval Arabia because of the absence of bankruptcy legislation that protects the borrower from failed ventures.

Therefore, the prohibition of riba can be viewed as part of Islam's general vision of a moral economy.

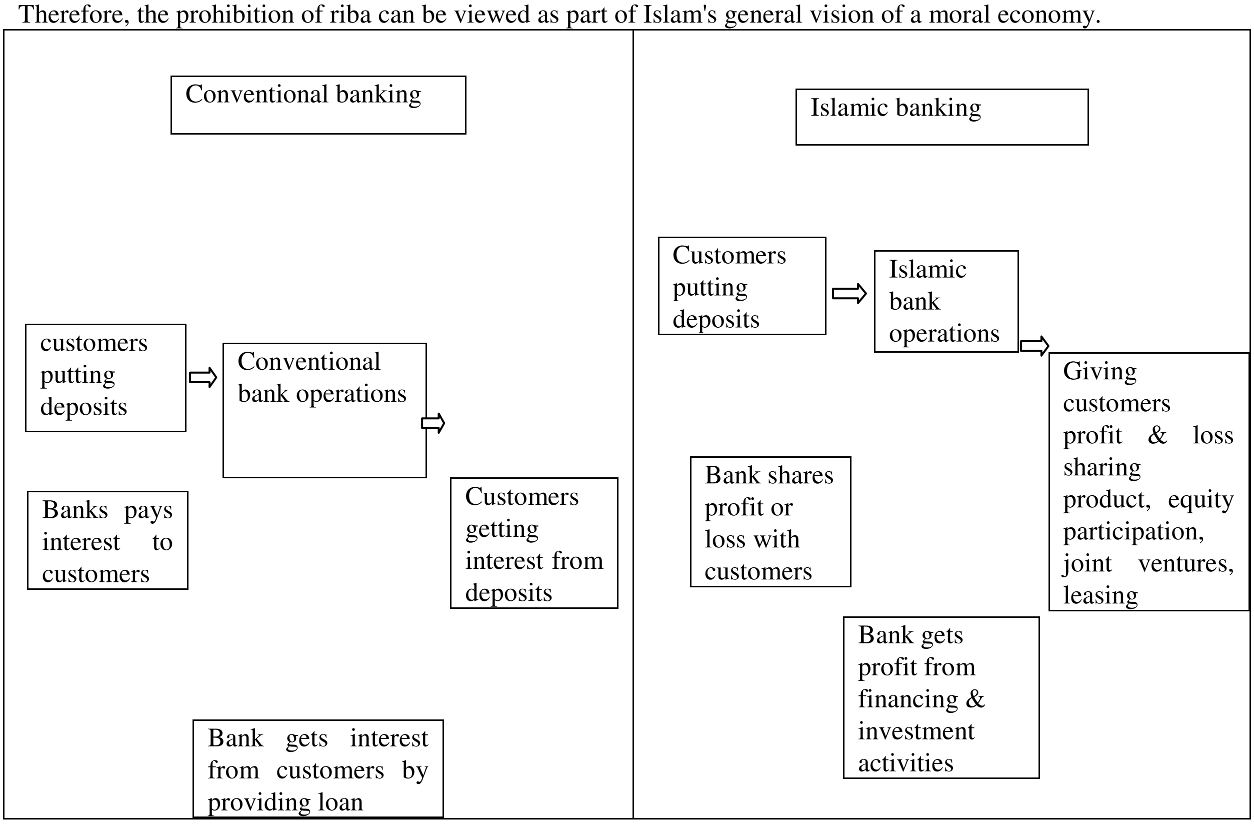

Figure: The difference between conventional & Islamic banking operational activities

Development of Islamic banking through the world

Islamic Finance as terminology refer to financial system complying with Shariah laws that were introduced by prophet Mohammad (peace be upon Him) in the sixth century with its main two sources the "Holy Quaran" (the holy book of Islam) and Sunnah (also known as prophet's saying or Hadith). After death of the prophet, Islamic scholarsand jurists depended on other Islamic transactions continued until sixteen century (EL Salous, 1993). In seventeenth because of the colonization, this Islamic Banking was replaced by the western banking system (i.e. traditional) (Karim et al 2001).

In the last century, initiations for developments in Islamic finance took place in the early 1930s and continued to 1960s, this development and thought remain theoretical. On the operational level, the first bank that operated according to Islamic Shariah was that of Mit Ghamar in Egypt, which started in 1963 and closed down in 1967. Meanwhile, there was another trial started in Malaysia in the form of saving and investments complied with Shariah but with a special purpose of funding pilgrims. The accumulated intellectual and theoretical knowledge during the 1960s and early 1970s had laid the ground of first private Islamic Bank (Dubai Islamic Bank). Also, the Islamic Development Bank (IDB) a multinational bank started operation in the early 1970s. Since then, the Islamic finance grows in an increasing rate to reach a growth rate of 15% in 2005 (El Qorashi, 2005).
From the historical point of view, Islamic banking can be divided into three eras: First era (early era) the early era of Islam until the period of caliph arrasidin, second era (middle era) stretches from the era of caliphates until the fall of the Uthmaniyah Empire, third era (modern era) the era of modern Islamic banking.

Islamic Banking System in Bangladesh

In August 1974, Bangladesh signed the Charter of Islamic development Bank and committed itself to recognize its economic and financial system as per Islamic Shariah .Bangladesh government subscribed recommendation of Islamic Foreign Minister's conference held in Senegal in 1978 regarding systematic efforts to establish Islamic Banks in the members countries gradually. In January 1981, then the President of the People's Republic of Bangladesh while addressing the 3rd Islmic Summit conference held at Makkah and Taif Suggested, The Islamic Countries should develop a separate banking system of their own in order to facilitate their trade and commerce." Earlier in November 1980, Bangladesh Bank sent a representative to study the working of several Islamic Banks of different countries. In November 1982, a delegation of IDB visited Bangladesh and showed interest to participate in establishing a joint venture Islamic Bank in the private sector. They found a lot of work had already been done and Islamic Banking was in a ready form immediate introduction. Two Professional bodies Islamic Economies Research Bureau (IERB) established in 1976 and Bangladesh Islamic Bankers Association (BIBA) established in1980 made significant contributions towards introduction of Islamic banking to top bankers and economists to fill-up the vaccum of leadership for the future Islamic in Bangladesh. They also held seminars, symposia and on Islamic economies and banking throughout the country to mobilize public opinion in favor of Islamic Banking.

At last ,the long drawn struggle to establish an Islamic Bank in Bangladesh became a reality and Islami Bank Bangladesh Limited was founded 30th March ,1983 in which 19 Bangladeshi national ,4 Bangladeshi institutions and 11 banks ,financial institutions and government bodies of the middle east and Europe including IDB and two eminent personalities of the Kingdom of Saudi Arabia joined hands to make the dream a reality.

- The ICB Islamic Bank Limited (the-then Al-Baraka Bank Limited and Oriental Bank Limited:1987),
- Al-ArafahIslami Bank Limited (AIBL:1995) ;
- Social Investment Bank Limited (SIBL:1995);
- ShahjalalIslami Bank Limited (SJIBL:2001);
- Export Import Bank of Bangladesh Limited (EXIM Bank:2004)
- First Security Islami Bank Limited (FSIBL: 2009)
- Union Islami Bank limited (2013)

Figure: Islamic Banking in Bangladesh -Thinking to Experimentation

Nov 1979, Ambassador of Bangladesh in UAE Wrote a letter to Foreign Secretary to start thinking about Islamic Banking in Bangladesh

Dec 1979, ministry of finance asked for Views from central bank, Bangladesh bank

Nov 1980, preliminary research was made by the Director of Research Bangladesh Bank after visiting UAE and Egypt

Dec1980, governor of central bank announced early introduction Islamic banking regarding inception of Islamic banking in Bangladesh

March 1981, 1st letter issued by Ministry of Finance to Bangladesh Bank experimentally opens Islamic Banking window in all conventional banks In Bangladesh

[Source Huq, 1987]

AS on March 2014, there are 8 full-fledged islami banks had 825 branches, 8 conventional commercial banks had 19 and 7 regular banks had 25 windows.

Islamic Banking Legal and Regulations in Bangladesh

Bangladesh is an important jurisdiction for Islamic Finance, being the third -largest Muslim country in the world, with a population of 160 Million Muslims forecasted at year-end 2013 .The popularity of Islamic banking is growing at a rapid pace in Bangladesh. The number of Islamic banks has grown steadily in the 30 years since the establishment of the first Islamic Bank in the country in 1983 as a “niche offering”. Islamic Banking is now a well-established industry in Bangladesh, with a 21.1% of market share and plays a vital role in the country’s economic growth.

Though there is no complete Islamic banking act for controlling, guiding and supervising the Islamic banks in Bangladesh, some Islamic banking provisions have been incorporated in the amended Banking Companies Act, 1991 (Act No. 14 of 1991). Bangladesh Bank has not yet set up any separate department at its head office to control, guide and supervise the operation of the Islamic banks. Inspection and supervision of the Islamic banking operations are conducted by the Bangladesh Bank as per the general guidelines framed for the conventional banks. The role of Bangladesh Bank in controlling, guiding and supervising the Islamic Banks in Bangladesh in accordance with Islamic Shariah is at a preparatory stage. In observing the Shariah implementation status of the Islamic banks, Bangladesh Bank examines only the report of the respective banks’ Shariah Councils. The inspectors and supervisors of Bangladesh Bank have been undergoing massive training programmed on Islamic banking both at home and abroad to be familiar with the technicalities of the different operational methodologies of the Islamic banking system. Bangladesh Bank Training Academy and BIBM have also been arranging some training courses on Islamic banking and finance [Ahmad, A. U. F., Rashid, M., & Shahed, A. K. M. (2014)].

An Islamic economics cell was established at the Research Department of Bangladesh Bank in 1990, as a first step, to conduct analytical research work on Islamic economics, banking and finance. A series of national and international conferences and workshops have been arranged in Dhaka in joint collaboration with the Islamic Development Bank to understand and explore the current dynamics of this new paradigm of banking. The Cell has since been upgraded as Internal and Islamic Economics Division of the Research Department.

There is no specific law on Islamic banking. The country first included provisions relating to Islamic banking in its Income Tax Ordinance 1984 to include profits paid on Mudaraba as expenditure .In the 1990’s instead of enacting any specific law, the central bank of the country, Bangladesh Bank, established research and Islamic Economic Division, which usually handled different matters relating to Islamic banking in the country.
In 2004, the Bangladesh Bank issued first ever Shariah Complaint Bond i.e. Government Islamic Investment Bond and in 2007, BBL issued Mudaraba Perpetual Bond (MPB).

Bangladesh Bank, thecountry's central Bank, is the ultimate authority that regulates the Islamic Banking industry. For capital market activities, The Securities and Exchange Commission (SEC) has full regulatory mandate, while the insurance development & Regulatory Authority Bangladesh overseas the insurance and Takaful sectors.
In July 2009, the Bangladesh Bank issued instructions for the identification of risks relating to financing and investment contracts made by Islamic Banks for capital adequacy purposes. This circular provided guideline based on IFSB-2 (Capital Adequacy Standard for IIFS).Then in November 2009, Bangladesh Bank issued its "Guidelines for Conducting Islamic Banking" which supplement the existing Bank Laws, rules and regulations and cover the following topics:

The licensing of full-fledged Islamic Banks and Islamic banking branches of conventional banks, and the transformation of a conventional bank into an Islamic Bank; Principles of shariah –compliant deposits (Wadiah Based current accounts and Mudarabah –based savings, short notice and term deposits; Investments principles and products (Mudrabahah,Istisna,Ijarahetc) in general and for imports and exports in particular; The maintenance of the cash reserve ratio (CSR) and statutory liquidity rate (SLR) as prescribed by Bangladesh Bank; Fit and proper criteria for members of the shariah Board of an Islamic Bank ("Shariah Supervisory Committee") rules for accounting and reporting.

A standard framework for calculating the rate of return for profit –sharing deposits is very important. The guidelines were an important step forward, but they do not address every issue and remain somewhat ambiguous in some cases. For example, they do not provide a comprehensive Shariah governance framework, and they refer to the International Financial Reporting Standards(IFRS) and The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) for accounting and reporting but do not determine the priority in cases of conflicting principles. This may result in financial statements which are not fully comparable between banks that choose different priorities. On the other hand, the "fit- and proper" criteria were criticized as being too "precise" and demanding, leading to a very limited pool of candidates qualified for Shariah board positions. The Guidelines were the beginning, not the end, of a process of a legal, regulatory and policy reforms that may end in an Islamic Banking Act and a more supportive environment for Islamic finance. For example,

Bangladesh Bank launched the "Islamic interbank Fund Market" (IIFM) to enhance the liquidity management tools of Islamic Banks (2011).
The Government considered the issuance of Sukuk for infrastructure financing (2013).
The parliament debated an amendment to the Banking Companies Act 1991 in order to terminate the provision of Islamic banking service through conventional Banks (2013). This Amendment will inhibit the misuse and misappropriation of funds, and ensure the full Shariah compliance of the Islamic Banking sector, thus creating a more secure banking environment.
The Bangladesh Bank launched a refinancing fund for the small and medium enterprises (SME) sector that provides funding for business in the rural areas through the intermediation of Islamic banks (October, 2013).

Diagram 2.4: Financial Regulatory Bodies in Bangladesh

Bangladesh Bank	**Securities and Exchange Commission**	**Insurance Development & Regulatory Authority**
• Regulates Islamic banking sector	• Regulates Islamic capital market sector	• Regulates Takāful sector

Source: Regulatory authorities, KFHR

Although there is no dedicated Islamic banking act or legislation to control, guide and supervise Islamic Banks in Bangladesh. Some Islamic banking provisions have already been incorporated in the amendment Banking

Companies Act 1991(Act no.14 of 1991).Bangladesh bank inspects, and supervises Islamic banks operations according to the regulations set down for conventional banks. The Shariah Councils of individual banks are responsible for ensuring Shariah compliance within their own organizations; the central bank examines only their reports.

More efforts are needed, however, to enhance the legal and regulatory framework of the banking system in general. Notably, the state-owned banking corporations (SOBC) in Bangladesh suffer from low capital and high non-performing loan ratios. According to the International Monetary Fund's (IMF's) Article IV Country Consultation report, SOBCs' weak balance sheets represent a tangible fiscal risk (with potential recapitalization needs of between 1 and $3^1/_2$ percentage points of GDP as of June 2013 depending on assumptions). In this regard the IMF notes that recent banking laws amendments strengthen governance in the banking system and enhance the supervisory powers of Bangladesh Bank to safeguard financial stability. Amendments to the Bank Companies Act (BCA) were approved by parliament in July 2013, after which (in September 2013) Bangladesh Bank issued an order limiting Banks capital market exposure to 25% of their capital, as set out in the newly amended BCA.

The Islamic finance industry in Bangladesh has a promising banking and Takaful segment with a number of active players serving the domestic markets. In order to further encourage growth of the Islamic banking industry in the country, Bangladesh Bank has granted some preferential provisions for the smooth development of Islamic banking in Bangladesh. They include the following measures:

- Islamic banks in Bangladesh have been allowed to maintain their statutory liquidity rate (SLR) at 10% of their total deposit liabilities, instead of the 20% set for the conventional banks .This provision enables Islamic banks to use more liquid funds for investment, and thereby generate more profit.
- Under the indirect monetary policy regime, Islamic banks have been allowed to fix their profit –sharing ratios and marks-up independently, in accordance with their own policy and banking environment. This freedom in fixing profit-sharing ratios and mark-up rates provides scope for Islamic banks to follow the principles of Shariah law independently.
- Islamic banks have been permitted to reimburse 10% of their proportionate administrative cost on a part of their balances held with Bangladesh Bank. This facility has given some scope for enhancement of a bank's profit base.

One major area of the Islamic financial market in Bangladesh that needs further attention is the Islamic capital market and instruments such as Sukuk, which have been proven to be a vital fund-raising tool for corporate and government throughout the world. At this juncture, the Bangladesh government is looking into introducing Sukuk as an instrument for managing liquidity at Islamic banks. As such, an Islamic Treasury bill is awaiting government approval before proceeding with issuance to the market. Similarly, the equity market in Bangladesh remains small relative to its regional peers. The Dhaka Stock Exchange is one of the two main stock exchanges of Bangladesh, the other being the Chittagong Stock exchange. In January 2014, The Dhaka Stock Exchange unveiled plans to list an Islamic equity index that would track Shariah compliant stocks. As at 1 October 2013, the combined market capitalization of listed companies on the Dhaka bourse stood at BDT 2.5 Trillion, or USD 32.6 billion. This is compared to the USD 1Trillion capitalization of the National Stock Exchange of India, USD 394.8 billion of the Stock Exchange of Thailand and USD 48.7 billion of the Karachi Stock Exchange.

Recently, Bangladesh Bank has become member to the Islamic Financial Services Board (IFSB), based in Malaysia, the body established to issue prudential and supervisory standards for the Islamic banking and finance industry. The existing supervisory process and procedures of Bangladesh Bank may be redesigned to evolve in line with the best international Islamic standards. Regulatory and supervisory standards, which can specifically address the unique peculiarities of the Islamic banking operations, are necessary to promote resilience and competitiveness of the Islamic banking sector. In this regard, the work of the IFSB would act as a catalyst to the development of a stronger and robust supervision framework in Bangladesh. In addition to that, a Competency Group on Islamic banking has been constituted at the Department of Banking Inspection (DBI) to develop 'Shariah Compliance Checklists' as a tool for bank supervisors to carry out their supervisory function. [Ahmad, A. U. F., Rashid, M., & Shahed, A. K. M. (2014).]

Challenges of Islamic Banking in Bangladesh

Islamic banks in Bangladesh have been encountering numerous challenges. First, they have not yet been successful in devising an interest-free mechanism to place their funds on a short-term basis. They face the same problem in financing consumer loans and government deficits. Second, the risk involved in profit-sharing seems to be so high that almost all of the Islamic banks in Bangladesh have resorted to those techniques of financing, which bring them a fixed assured return. Presently 60%-70% investments of Islamic banks are made on mark-up basis (Murabaha and Bai-Muajjal etc.). As a result, the ideal modes of investment (Mudaraba and Musharaka) are quite absent in their practices. [Ahmad, A. U. F., Rashid, M., & Shahed, A. K. M. (2014).]

Concentration of Islamic banks' investment in short-term trade is a pertinent problem in Islamic banking. Islamic banks are heavily dependent on Bai Muajjal/Murabaha in their operations. This is due mainly to two reasons. Their orientation is mainly towards short term financing of trade transactions for which Bai Muajjal/Murabaha appear to be more convenient devices compared to the system of profit-loss sharing. Secondly, they are in competition with interest-based banks and are therefore anxious to earn at least as much on their investments as will enable them to give a return roughly comparable to prevailing interest rates to their investment account holders. This is easier to achieve by engaging in Bai-Muajjal/Murabaha transactions as "mark-up" can be fixed in a manner which more or less assures the required return. For that reason, the Islamic banks are reluctant to invest under Mudaraba or Musharaka, the true Islamic financial mechanisms. There is a genuine concern among Islamic scholars that if interest is largely substituted by a device like "mark-up", it would represent a change just in name rather than in substance, and the new system would not be any different from the interest-based system so far as equity is concerned. It is also emphasized that apart from equity considerations, the prohibition of interest in Islam is meant to stimulate overall production, which is the mainspring of growth. These blessings can only be reaped if the interest system is completely uprooted in the real sense of the term and replaced by a fundamentally different system like profit/loss sharing. The implications of the Islamic financing modalities for Islamic banking are yet to be fully recognized. The Basel protocols are with reference to the interest-based banking system. In their present form, they are not directly applicable to Islamic banking that is essentially a different way of banking. Basel-compatible or Basel-compliant arrangements need to be worked out and got recognized at the appropriate level. Additional considerations for keeping Islamic banks as banks, checks against misuse of Islamic financial instruments, the Shariah audit, etc., also call for in-depth study and formulation of appropriate regulatory and supervisory standards [Ahmad et al (2014)]

It is evident from the Annual Reports of the Shariah Councils of the Islamic banks that, in many cases, Shariah Councils were disappointed at the inordinate delay in Shariah implementation in the banking transactions or unwillingness to follow Shariah guidelines in the banks by both the owners and management of the banks. In this regard, special mention can be made for Shariah guidelines forwarded to comply with the actual buying and selling in Bai Modes. Non-implementation of this single advice of the Shariah councils leads the Islamic banks to practice Bai-Muajjal modes in a corrupted manner, which can be termed as 'Corrupted Bai-Muajjal" modes of financing. [Ahmad, A. U. F., Rashid, M., & Shahed, A. K. M. (2014).]

However, some of the topical problems being faced by the Islamic banks are:

- Absence of an organized Islamic inter-bank money market
- Absence of full-fledged legal framework for Islamic banking
- Shortage of trained and efficient manpower committed to Islamic banking
- Lack of co-ordination and co-operation among the Islamic banks
- Lack of Shariah-compatible regulatory and supervisory standards
- Inappropriate organization of the Shariah Councils and weak follow-up of the Shariah implementation status of the Islamic banks
- Lack of corporate governance in the Islamic banks [Ahmad, A. U. F., Rashid, M., & Shahed, A. K. M. (2014).]

Conclusion and Recommendations

In Bangladesh the Islamic Banking industry will celebrate its golden jubilee in the year 2033 marking its 50^{th} year. And the present shape of the industry is being modernized in terms of this changing scenario forecasting in the world economy in the year 2033. The government can help to explore the growth opportunities for Islamic finance, as well as tax and regulatory developments to boost the country’s Islamic Capital markets. With the proper implementation of regulations, education and understanding of Islamic financial products, and the

provision of sufficient infrastructure, Bangladesh is set to become a major player in the field of Islamic finance of the world.
The situation in Bangladesh is unique in so far as a sizeable Islamic Banking sector exits, but the country lacks specific Islamic finance regulations and important segments of a comprehensive Islamic finance industry. The resulting vulnerabilities of Islamic banking sector have been recognized and are to be addressed by the authorities. Furthermore, the huge potential of Islamic finance in support of inclusive growth has also been recognized, and efforts are being made to create an environment that is conducive to realizing this potential. It would be in the interests of transparency, credibility and consistency to prepare an assessment of the status quo and compile all intended actions and chosen strategies in an Islamic finance sector development plan.

Legal certainty is of prime importance for the further development of the industry, in particular with respect to cross-border transactions. The existing legal, regulatory and tax environment should be amended or adjusted to accommodate specificities, of Islamic finance. The final aim should be the creation of a comprehensive and consistent legal and regulatory framework for all sectors for the Islamic financial services industry.
National Shariah boards can contribute to legal certainty and reduce shariah non-compliance risks. However; Islamic banking system can flourish even we do not have a superior national authority for finance related shariah interpretations. If governments or regulators take a more neutral position, they may prescribe just the minimum shariah governance structures for Islamic banking sector but abstain from the establishment of national shariah boards.

Legal certainty includes that court decisions are made by judges who have sufficient understanding of Islamic finance. This cannot be taken for granted in countries where Islamic finance laws are recent phenomena that did not exist when today's judges were studying law and starting their professional careers. Support provided to the incumbent judges by an Islamic finance consultancy body could create more consistent judicial decisions. Systemic stability and consumer protection should be prominent on the political agenda. An engagement of banks in shallow and volatile capital markets exposes the banks to additional risks which have to be contained.
The regulators have to decide on capital adequacy regulations. The Revised Capital Adequacy Standard for IIFS (IFSB-15) provides comprehensive guidance.
The prevention of bank runs and consumer protection should have a very high priority in a country that promotes financial inclusion because this implies that a large number of savers will not be in a position to bear any financial risk originating from a bank failure. An independent body should be established for the regulation of Islamic Banking sector. I propose much research is needed to discover the implementation factors associated with legal and regulatory system of Islamic banking system.

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