Pricing of Islamic Banking Products in a Dual Banking Environment of Bangladesh

Banking Research Series 2024

Keynote Paper of Research Workshop of BIBM

Issue No. 01

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Published by

Bangladesh Institute of Bank Management

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Banking Research Series-2024

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Published : May 2025

Forewords

It is with great pleasure that I present this timely and insightful research paper titled "Pricing of Islamic Banking Products in a Dual Banking Environment of Bangladesh." In a rapidly evolving financial landscape, the need to understand the distinct nature and pricing mechanisms of Islamic banking has become more critical than ever. Bangladesh, with its dual banking framework comprising both conventional and Islamic banks, presents a unique context for studying how Islamic banks navigate regulatory expectations while maintaining Shari'ah compliance.

This study, conducted by a dedicated team of researchers from BIBM and collaborating institutions, explores the operational challenges, regulatory inconsistencies, and pricing practices of Islamic banks in Bangladesh. The analysis not only sheds light on the complexities of balancing competitiveness and compliance, but also provides valuable recommendations to strengthen the integrity and resilience of the Islamic finance sector.

I believe this research will contribute meaningfully to the ongoing discourse on Islamic banking in our country and beyond. It is my hope that policymakers, practitioners, and scholars will find this work useful in shaping strategies that promote a more inclusive and ethically grounded financial system.

On behalf of Bangladesh Institute of Bank Management (BIBM), I extend my sincere appreciation to the authors and contributors of this important work.

Dr. Md. Akhtaruzzaman
Director General
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List of Abbreviations

AAOIFI	: Accounting and Auditing Organization for Islamic Financial Institutions
BB	: Bangladesh Bank
BG	: Bank Guarantee
BIBM	: Bangladesh Institute of Bank Management
BNM	: Bank Negara Malaysia
BRPD	: Banking Regulation and Policy Department
CA	: Current Account
CB	: Conventional Bank
CIPA	: Certified Islamic Professional Accountant
CMSME	: Cottage, Micro, Small, and Medium Enterprises
CSAA	: Certified Shari'ah Advisor and Auditor
DFIM	: Department of Financial Institutions and Markets
DIB	: Diploma in Islamic Banking
EDF	: Export Development Fund
FCB	: Foreign Commercial Bank
FCCA	: Fellow of the Chartered Certified Accountants
FE	: Foreign Exchange
FGD	: Focus Group Discussion
GIFR	: Global Islamic Finance Report
HPSM	: Hire Purchase under Shirkatul Melk
IB	: Islamic Bank
IFSB	: Islamic Financial Services Board
IIFM	: International Islamic Financial Market
IRR	: Investment Risk Reserve
LC	: Letters of Credit
MIBF	: Masters in Islamic Banking and Finance
MPD	: Monetary Policy Department
PCB	: Private Commercial Bank
PER	: Profit Equalization Reserve
PFI	: Participating Financial Institutions
SFD	: Sustainable Finance Department
SMART	: Six-month Moving Average Rate of Treasury Bill
SND	: Short Notice Deposit
SOCB	: State-Owned Commercial Bank
SOFR	: Secured Overnight Financing Rate
SSC	: Shari'ah Supervisory Committee
SWT	: Subhanahu Wa Ta'ala

Executive Summary

In Bangladesh, the banking sector operates under a dual system that includes conventional banks (CBs) and Islamic banks (IBs). Historically, CBs have dominated the sector; however, IBs have rapidly increased their market share due to a growing demand for Shari'ah-compliant financial products. IBs, which consist of full-fledged Islamic banks and Islamic branches and/or windows of CBs, have gained significant market share by utilizing various Shari'ah-based contracts that avoid interest (Riba).

IBs face unique operational challenges, particularly the need for strict adherence to Shari'ah rules and principles, which demands careful pricing strategies that balance market competitiveness with compliance. Shari'ah-compliant financing methods, such as Mudarabah, Murabahah, and Ijarah, require distinct pricing strategies to meet Shari'ah requirements while remaining competitive. This study investigates how IBs price their products while ensuring Shari'ah compliance.

The study aims to identify regulatory influences on pricing, analyze IB pricing strategies, and provide recommendations for achieving a balance between Shari'ah compliance and market competitiveness. It employs both primary and secondary data sources, with primary data collected through questionnaires and interviews with key stakeholders, and secondary data sourced from national and international publications, including annual reports and financial stability documents. Statistical tools were used to analyze the data and present findings in a structured manner.

The research identifies that the operational models of CBs and IBs differ significantly. While CBs rely on interest-bearing loans, IBs utilize Shari'ah-compliant methods that do not involve interest. The research also notes that Bangladesh Bank has issued circulars governing profit rates and fees for both IBs and CBs. For example, BRPD Circular Number 03 sets a maximum profit rate on loans, while other regulations allow for adjustments based on risk profiles. However, these overlapping regulations often conflict with IB operations that strictly adhere to Shari'ah principles, limiting their ability to impose fees on certain actions and creating additional compliance burdens.

The research reveals distinct patterns in the usage of contractual modes across markets. For instance, globally, the share of Murabahah financing declined to 44 percent in 2022, while alternative forms such as Tawarruq gained popularity. In Bangladesh, Mudarabah remains prevalent for deposits, which is a profit-sharing mode. The data suggest similarities in average financing rates charged by IBs and CBs across various products, with slight variations in specific terms. This convergence indicates that IBs are effectively positioned within the competitive landscape while maintaining Shari'ah compliance. IB financing rates have stabilized around 10.03

percent, mirroring those of conventional banks and highlighting the competitive pricing environment.

The study emphasizes the need for IBs to navigate their dual obligations of compliance with both Shari'ah principles and regulatory frameworks. Key recommendations include developing pricing benchmarks rooted in Shari'ah to enhance compliance and market acceptance, creating tailored regulations for IBs that respect their operational uniqueness to ensure fair competition, ensuring transparency in fees and profit-sharing practices to build stakeholder confidence, and affirming the autonomy of Shari'ah Supervisory Committees (SSCs) in ensuring compliance. By implementing these measures, IBs can better align their pricing strategies with Shari'ah principles, thereby strengthening their competitive position within Bangladesh's dual banking system.

Pricing of Islamic Banking Products in a Dual Banking Environment of Bangladesh

1. Introduction

1.1 Background

The banking sector in Bangladesh operates under a dual system, comprising both conventional banks (CBs) and Islamic banks (IBs). Historically, CBs have dominated the sector, but the share of IBs is rapidly increasing both in Bangladesh and globally. In recent years, IBs—comprising full-fledged IBs, Islamic banking branches and/or windows of CBs, and Islamic finance companies—have become significant players, capturing a substantial portion of the industry. This growth is driven by rising demand for Shari'ah-compliant financial products and broader acceptance of Islamic banking principles.

CBs primarily rely on interest-bearing loans for deposits and lending, operating on the interest spread between deposit and lending rates. In contrast, IBs adhere to various Shari'ah-based contracts and principles to avoid interest (Riba). These include, but are not limited to, trading (Murabahah, Salam, Istisna'a), equity participation (Mudarabah and Musharakah), leasing (Ijarah), and agency (Wakalah) contracts. IBs must also prioritize fairness, transparency, and ethical conduct in their dealings. Additionally, IBs must follow a Shari'ah governance system, adding an extra layer of oversight.

Despite their fundamental differences, CBs and IBs share common regulatory environments, risk exposures, market volatility, and operational challenges. Both must address issues such as credit risk, market fluctuations, financing purposes, rescheduling, and early settlement, although IBs must do so in compliance with Shari'ah. Consequently, pricing IB products in a dual banking environment requires careful consideration of both regulatory and Shari'ah-compliant factors.

A key question in this context is whether CBs and IBs should charge the same rates for their products. This issue is complicated by the broader range of financial products offered by IBs, which cater to diverse client needs and sectors. The pricing of IB products may vary based on factors such as customer risk profiles, operational regions, and the nature of the products. Additional considerations, including rescheduling needs, market rate volatility, and the banks' internal costs, must also be factored into pricing models.

As IBs must comply with regulatory and Shari'ah requirements, they face unique challenges compared to CBs in pricing their products, including determining permissible fees for processing, supervision, and early settlement. The challenge for IBs is to maintain competitive pricing while adhering to the Shari'ah and regulatory framework of Islamic finance. This paper aims to explore these pricing challenges and provide insights into how IBs in Bangladesh can navigate this complex landscape.

1.2 Research Objectives

IBs utilize various Shari'ah-compliant financing methods, such as Murabahah, Ijarah, Mudarabah, Musharakah, Salam, and Istisna'a. Each method requires a specific pricing strategy to ensure Shari'ah compliance. Consequently, the pricing mechanisms used by IBs vary across these methods and are designed to meet Shari'ah standards while remaining competitive in the broader financial market. Furthermore, IBs must also comply with the legal and regulatory frameworks of the country in which they operate. This dual commitment—to Shari'ah and local laws—complicates their pricing models, making it crucial for IBs to develop transparent and ethically sound strategies. As Shari'ah-compliant entities, all operations, including pricing decisions, must fully adhere to Islamic guidelines. Against this backdrop, the study aims to examine how IBs set the prices of their products in accordance with Shari'ah principles, as well as the issues and challenges currently present in ensuring Shari'ah compliance.

The specific objectives of this study are as follows:

a) to identify the regulatory and Shari'ah requirements that influence the pricing of IB products;
b) to analyze the similarities and differences in the pricing strategies used by IBs based on current industry practices; and
c) to provide recommendations for ensuring Shari'ah compliance while maintaining market competitiveness.

By achieving these objectives, this study aims to enhance the understanding of how IBs can effectively balance regulatory obligations, Shari'ah compliance, and market competitiveness in pricing their financial products. In pursuing the research objectives, the study refers to the standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and other reputable Shari'ah authorities.

1.3 Research Methodology

The study utilizes both primary and secondary data sources. Primary data were collected through structured questionnaires distributed to key personnel within IBs. Additionally, interviews with significant stakeholders and Focus Group Discussions (FGDs) involving business executives, Shari'ah experts and officials from Bangladesh Bank were conducted to gain deeper insights and validate the data. Secondary data were sourced from various national and international publications, providing a robust framework for analysis. Notable international sources include the Islamic Finance Development Report, the Global Islamic Finance Report (GIFR), the IIFM Sukuk Reports, and the Islamic Financial Services Industry Stability Report. In the context of Bangladesh, local data were drawn from the annual reports of IBs, the Financial Stability Report, and the Quarterly Report on Islamic Banking published by Bangladesh Bank. Furthermore, publications from the Bangladesh Institute of Bank Management (BIBM) were consulted for additional insights.

For data analysis, simple statistical tools were used to interpret the numerical data, and the findings are presented in tables for a clear representation of the quantitative information obtained. A preliminary version of the paper was presented at a research workshop organized by BIBM. The observations and feedback from the panelists and participants have been incorporated into this final version as appropriate.

1.4 Research Outline

The introduction section outlines the study's background, objectives, methodology, and organization, providing essential context for undertaking research on the pricing of Islamic banking products. Sections two and three establish the theoretical foundations of the study, clarifying how regulatory compliance and adherence to Shari'ah principles influence pricing mechanisms. The fourth section presents the analysis and findings of the study, utilizing both primary and secondary data to explore Islamic banking pricing strategies from various perspectives. This analysis aims to identify patterns, challenges, and opportunities derived from the collected data. The conclusion and recommendation section addresses critical issues identified through the analysis and offers actionable recommendations. These recommendations seek to align pricing practices with Shari'ah principles while ensuring market competitiveness and suggesting necessary corrective measures.

2. Conceptual Framework

CBs primarily rely on interest-bearing loans, using interest rates to manage both deposit mobilization and financing activities. In contrast, IBs adhere to distinct principles by avoiding interest (Riba) and excessive uncertainty (Gharar). IBs utilize Shari'ah-compliant modes for collecting and deploying funds, including Wadiah, Mudarabah, Murabahah, Ijarah, Salam, Bai-al-Sarf, Istisna'a, Musharakah, Wakalah, and Kafalah (Alagmir et al., 2024). These modes guide IB operations and significantly influence their pricing strategies. For example:

- Wadiah provides an alternative to Qard for deposit collection through current accounts, without any associated pricing.
- Mudarabah involves a partnership where one party provides capital (Rab al-Mal) and the other offers expertise (Mudarib). According to AAOIFI (2015), profit guarantees by the Mudarib are prohibited, and the profit-sharing ratio must be predetermined. To smooth profit payouts to the depositors, IBs can also apply Hibah (gift) (Ahmed, 2010). Maintaining a Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR) is also allowed by AAOIFI. However, certain jurisdictions, like Bank Negara Malaysia (BNM), do not allow any of these profit-smoothing techniques for Mudarabah-based deposits (referred to as investment accounts) (Ismail, 2013).
- Murabahah mandates disclosures on cost and profit and allows only direct expenses related to the purchase of goods to be included in the total cost (AAOIFI, 2015). Additionally, altering prices after a contract is executed is prohibited. In Murabahah, Ibra' (rebate) is also practiced, which refers to a concession given to clients who settle their debt obligations early.
- Salam requires full payment at the time of contract execution, while Istisna'a permits price adjustments if both parties agree (Ayub, 2007).
- In Ijarah, the asset must be usable and under the lessee's possession for rent to be charged; rental rates may be fixed, variable, or mixed (AAOIFI, 2015). However, additional charges for overdue rent are not allowed under Shari'ah.
- Bai-al-Sarf governs currency exchange transactions in IBs, which must occur on a spot basis (AAOIFI, 2015).
- Wakalah establishes an agency relationship where the agent may charge fees based on fixed, variable, or mixed arrangements (El-Gamal, 2006).
- Kafalah, a form of guarantee, prohibits charging fees for services rendered (AAOIFI, 2015).

The differing operational models of CBs and IBs highlight fundamental differences in their pricing mechanisms. Previous research underscores the importance of pricing in the profitability of IBs, which must uphold ethical standards while competing with CBs. Khan and Bhatti (2008) argue that reliance on profit-sharing and non-interest-based financing requires IBs to adopt pricing mechanisms that align with both Shari'ah principles and market demands. Iqbal and Molyneux (2016) note that CBs typically use more predictable pricing models due to their reliance on interest rates, while IBs adjust their strategies to ensure Shari'ah compliance. Hossain et al. (2012) identify various strategies for pricing Islamic banking assets, with cost-based pricing being common in Bangladesh. Furthermore, Rahman and Hossain (2013) emphasize that IBs focus on four key components in their asset pricing: the cost of funds, administrative expenses, cost of capital, and risk premium.

El-Gamal (2006) asserts that CBs experience significant pricing volatility due to fluctuations in interest rates. In contrast, IBs, while influenced by market conditions, must navigate the constraints of Shari'ah compliance. This requires the development of specific pricing strategies that align compliance with profitability (Ayub, 2007). Additionally, IBs face further pricing risks primarily due to Shari'ah compliance, complicating their strategic approaches compared to CBs. These risks include market volatility, regulatory changes, and the complexities of various Shari'ah-compliant financial products (Chong & Liu, 2009). As noted by Ahmed (2010), IBs must create pricing mechanisms that balance Shari'ah compliance with competitive market conditions, adding further risk and complexity to their operations.

IBs must continually refine their pricing models to meet regulatory and Shari'ah standards while remaining competitive. Key areas such as deposit pricing, financing rates, non-funded credit commissions, and charge schedules illustrate the differences between IBs and CBs. Unlike CBs, IBs are bound by Shari'ah principles that require all pricing to be based on permissible profits rather than interest (Ayub, 2007). Mechanisms like Hibah and Ibra' provide pricing flexibility, while PER and IRR help manage product performance and pricing variations (Khan & Bhatti, 2008).

Shari'ah compliance is crucial for the pricing strategies of IBs, as these institutions must ensure their models align with the broader objectives of Shari'ah (Maqasid-as-Shari'ah) (El-Gamal, 2006). Violating Shari'ah principles can result in significant reputational and financial risks. Moreover, IBs face competitive pressures to align their pricing with CBs, often benchmarking against central bank guidelines (Iqbal & Molyneux, 2016). The literature also addresses regulatory issues, noting that IBs are subject to stricter oversight regarding fees and rates. Regulations may impose specific caps or floors on fees, influencing IB pricing strategies (Chong & Liu, 2009).

Consequently, the pricing strategies of IBs are inherently more complex due to additional ethical and regulatory considerations, making it essential for IBs to continuously adapt to evolving market conditions while adhering to Shari'ah principles.

3. Regulatory Framework for Pricing Islamic Banking Products

The regulatory framework governing the pricing of Islamic banking and finance products in Bangladesh has been shaped by various circulars issued by Bangladesh Bank (BB), which address pricing policies, profit rates, and penalties applicable to both CBs and IBs. This section highlights the key provisions and their implications.

The BRPD Circular Number 03, dated February 24, 2020, set a maximum profit rate of 9 percent on unclassified loans and investments, allowing banks to charge up to 2 percent penalty interest on classified loans, however, it is not applicable at this moment. Similarly, BRPD Circular Number 10, dated May 8, 2024, permits banks to establish sector-specific interest rates, enabling them to offer loans within a range of 1 percent above or below the declared rate based on the client's risk profile. The DFIM Circular Number 05, dated October 6, 2024, allows finance companies to adjust profit rates by up to 1 percent based on risk factors, while DFIM Circular Letter Number 21, dated October 8, 2024, limited finance companies to a maximum of SMART + 2.5 percent on deposits. Additionally, the maximum allowable profit rate on loans, leases, and investments is capped at 5.5 percent above the SMART rate. The BRPD Circular Number 09, dated June 19, 2023, allowed banks to charge a maximum of 3 percent above the SMART rate for financing, along with an additional 1 percent supervision charge for CMSME and consumer financing. Shari'ah-compliant banks may also impose this supervision charge, provided they adhere to regulatory guidelines. Although Bangladesh Bank has withdrawn the SMART-based interest rate system, which applied to both CBs and IBs, it continues to illustrate scenarios where its requirements influence the pricing of banking products, regardless of whether they are conventional or Islamic.

Refinancing schemes outlined in SFD Circular Number 02, dated April 5, 2018, provide opportunities for IBs to invest in green products under the Mudarabah principle. Bangladesh Bank charges the lower of the provisional profit rate for Mudarabah savings accounts of Participating Financial Institutions (PFIs) or the bank rate, debiting banks' current accounts according to the repayment schedule. However, PFIs bear all risks associated with investment recovery, raising concerns about alignment with Shari'ah principles that require the capital provider to assume the business risk.

Other notable regulations include BRPD Circular Number 11, dated June 10, 2021, which regulates the fees banks can impose for account maintenance, loan processing, and early settlement. Amendments from Bangladesh Bank, such as BRPD Circular Letter 09, dated March 19, 2023, clarify these provisions for both IBs and CBs. Nonetheless, these fees often conflict with Shari'ah principles that discourage unconditional charges.

The FE Circular Number 15, dated September 1, 2024, sets the borrowing rate from the Export Development Fund (EDF) at the Secured Overnight Financing Rate (SOFR) plus 0.5 percent per annum, without specific provisions for IBs. The MPD Circular Number 04, dated September 24, 2024, adjusts the policy rate to 9.5 percent, while FE Circular Number 09, dated May 8, 2024, introduces a crawling peg exchange rate system applicable to both CBs and IBs. Additionally, FE Circular Number 04, dated February 1, 2024, establishes an all-in-cost ceiling of 4 percent above SOFR for foreign trade finance. An analysis of the regulatory framework for Islamic banking and finance reveals several challenges:

- **Mudarabah Principle and Profit Ceiling:** Shari'ah-compliant banks and finance companies collect deposits under the Mudarabah principle, where depositors receive profits based on the fund's actual performance. However, the regulatory ceiling imposed by Bangladesh Bank on profit rates often conflicts with this principle, restricting potential returns that could better reflect true investment performance.
- **Risk and Return in Mudarabah and Musharakah:** Higher-risk financing modes such as Mudarabah and Musharakah should logically yield higher rates of return to compensate for associated risks. However, ceilings on financing rates set by the central bank limit Shari'ah-compliant banks from fully realizing these returns, hindering their ability to manage risks effectively.
- **Risk-Based Pricing and Mode Differentiation:** While banks can adjust rates by 1 percent based on client creditworthiness, this regulation fails to account for varying risk levels associated with different financing modes under Shari'ah, leading to inconsistencies in risk-based pricing practices within the Islamic banking sector.
- **Penalty Interest for Defaulters:** Bangladesh Bank allows CBs to charge penalty interest for defaulters, but IBs cannot earn additional profit on defaulted Murabahah contracts. Without a regulatory ceiling, IBs may initially charge higher rates to ensure competitive returns.
- **Loan Processing and Supervision Fees:** Although banks can impose loan processing and supervision fees, many Shari'ah scholars argue that such fees

should not be charged without conditions. The regulatory framework does not differentiate between conventional and Islamic banking in this regard, resulting in practices that may not fully comply with Shari'ah principles.

- **Refinancing and Risk Allocation:** Bangladesh Bank provides several refinancing and pre-financing schemes under a restricted Mudarabah principle, where the financial risk should be borne by the capital provider, not the Mudarib. However, the framework inadequately accommodates the Shari'ah principle that the capital provider should bear the business risk, and capital providers do not participate in financing decisions, creating a gap between regulatory provisions and Shari'ah compliance.
- **Account Maintenance and Penalty Fees:** Bangladesh Bank permits banks to charge account maintenance fees for savings, current, and short notice deposit (SND) accounts. While these fees align with conventional banking practices, AAOIFI prohibits recurring charges without clearly defined services. In the absence of specific guidelines from Bangladesh Bank, IBs often adopt conventional practices, resulting in inconsistencies with Shari'ah principles in fee structures.

In summary, the regulatory framework for pricing within Bangladesh's banking sector presents several challenges for IBs. While attempts have been made to align pricing policies with Shari'ah principles, conflicts remain, particularly regarding profit ceilings, risk-based pricing, and fee structures. These regulations often result in a hybrid approach, compelling IBs to navigate the complexities of compliance with both regulatory mandates and Shari'ah requirements, sometimes leading to potential misuse of regulatory permissibility without adequate consideration of Shari'ah perspectives.

4. Data Analysis and Findings

4.1 Shari'ah-Compliant Contractual Modes in the Global Market

This section examines the various contractual modes used by IBs and their pricing structures compared to CBs. Table 4.1 shows the global distribution of Islamic financing contracts for 2018, 2021, and 2022. In 2022, Murabahah remained the dominant financing mode, comprising 44 percent of the total, down from 47.4 percent in 2021. Commodity Murabahah/Tawarruq experienced significant growth, increasing to 32.2 percent in 2022 from 25.7 percent the previous year. The use of Ijarah/Ijarah Muntahia Bittamlik remained steady at 10.2 percent during this period. Other modalities, such as Salam and Musharakah, saw slight decreases, recording 3.8 percent and 2.4 percent in 2022, respectively. Conversely, Wakalah rose from 0.1 percent in 2021 to 0.8 percent in 2022, while Diminishing Musharakah increased to 1.9 percent in 2022, up from 1.3 percent the previous year. Mudarabah and Qard Hasan remained limited, each accounting for 0.2 percent in 2022.

Table 4.1: Modes of Islamic Financing Contracts Globally (%)

SN	Mode	2018 (%)	2021 (%)	2022 (%)
1	Murabahah	36	47.4	44
2	Bai Bithaman Ajil	8.4		
3	Commodity Murabahah/Tawarruq	24.2	25.7	32.2
4	Ijarah/Ijarah Muntahia Bittamlik		10.2	10.2
5	Salam	5.5	4.1	3.8
6	Musharakah	3.3	2.8	2.4
7	Diminishing Musharakah	1.5	1.3	1.9
8	Mudarabah	0.5	0.2	0.2
9	Istisna'a	0.4	0.7	0.6
10	Wakalah	0.2	0.1	0.8
11	Qard Hasan	0.1	0.1	0.2
12	Others	5.9	7.4	3.6
		100	**100**	**100**

Source: *IFSB (2024)*

Table 4.2 presents an analysis of various Islamic financing contracts in Malaysia from 2022 to 2023. Tawarruq emerged as the dominant mode in the Islamic financing sector, accounting for 58.61 percent of total financing in 2023, amounting to RM 814,246.8 million. Murabahah constituted 12.69 percent of the market share, while Ijarah represented 13.79 percent. Musharakah contributed 8.98 percent, followed by Bai' Inah at 2.27 percent. Other financing modes, including Qard, Istisna'a, and Mudarabah, collectively represented less than 1 percent of total financing. Throughout 2022 and into 2023, Tawarruq consistently maintained its dominant position, while Ijarah and Murabahah held their market shares, indicating that these modes are preferred options for Islamic financing in Malaysia.

Table 4.2: Modes of Islamic Financing Contracts: Malaysia (%)

	Bai' Inah	**Ijarah**	**Instisna**	**Mudarabah**	**Musharakah**	**Qard**	**Murabahah**	**Tawarruq**	**Others**
2022Q1	2.42	13.81	0.09	0.02	9.19	0.39	14.08	55.74	4.25
2022Q2	2.24	13.87	0.09	0.02	9.17	0.39	13.71	56.37	4.14
2022Q3	2.09	13.81	0.08	0.02	9.08	0.39	13.16	57.47	3.89
2022Q4	2.29	13.71	0.08	0.02	8.93	0.42	12.83	58.58	3.15
2023M1	2.27	13.79	0.08	0.02	8.98	0.42	12.69	58.61	3.14

Source: *BNM (2023)*

Table 4.3 presents the distribution of Islamic financing contracts in Pakistan from December 2014 to December 2023. The predominant mode of financing during this period is Diminishing Musharakah, consistently accounting for the largest share, peaking at 34.8 percent in 2022 before slightly declining to 32.1 percent in 2023. This trend indicates that Diminishing Musharakah remains the preferred Islamic financing option in Pakistan. Conversely, Murabahah saw a significant decrease, falling from 30.1 percent in 2014 to 13.1 percent in 2023, suggesting a shift away from this cost-plus financing method. Similarly, Ijarah, a leasing-based contract, has steadily declined, reaching 4.1 percent by 2023. In contrast, Musharakah, a profit-sharing contract, has experienced substantial growth, rising from 11 percent in 2014 to 25.3 percent in 2023. This trend reflects the growing acceptance of equity-based financing within Pakistan's Islamic banking sector. Additionally, other modalities such as Istisna'a and Salam have shown moderate growth, with Istisna'a achieving a share of 10.6 percent in 2023. The "Others" category also contributed significantly, accounting for 13 percent of the total in 2023, indicating a diversification of financing contracts. Overall, this table highlights the transition toward a more diverse and equity-based framework of Islamic financing contracts in Pakistan, characterized by a strong preference for Diminishing Musharakah and an increasing use of Musharakah.

Table 4.3: Modes of Islamic Financing Contracts: Pakistan (%)

	Murabahah	Ijarah	Musharakah	Diminishing Musharakah	Mudarabah	Salam	Istisna'a	Others
Dec-14	30.1	7.7	11.0	32.6	0.1	4.5	8.3	5.6
Dec-15	24.5	6.6	14.0	31.7		5.3	8.6	9.3
Dec-16	15.8	6.8	15.6	34.7		4.4	8.4	14.3
Dec-17	13.2	6.4	22.0	30.7		2.8	8.2	16.7
Dec-18	13.6	6.2	19.9	33.3		2.4	9.1	15.5
Dec-19	12.9	5.8	19.8	34.2		2.6	9.6	14.8
Dec-20	13.7	4.8	22.7	33.6		1.9	8.3	15
Dec-21	13.6	4.4	24.9	33.8		2.0	8.3	13
Dec-22	12.0	4.2	25.2	34.8		1.6	9.3	12.9
Dec-23	13.1	4.1	25.3	32.1		2.1	10.6	13.0

Source: *State Bank of Pakistan (2023)*

4.2 Shari'ah-Compliant Contractual Modes in the Bangladeshi Market

Table 4.4 presents the composition of Islamic banking deposits in Bangladesh from 2014 to 2023, with Mudarabah Term Deposits consistently holding the largest share, around 45–49 percent. This indicates the significant reliance of IBs on long-term, profit-sharing contracts, which are vital to their deposit mobilization strategies. The pricing of these deposits is crucial for maintaining competitiveness while adhering to Shari'ah principles.

Mudarabah Savings Deposits, the second-largest category, have steadily grown to 19 percent by 2023, indicating increased depositor confidence in flexible savings products. In contrast, Wadiah CA Deposits remain stable but low at around 4 percent, serving more for liquidity than for profit-sharing. Excluding deposits under the Wadiah mode (Wadiah CA and Others), the remaining 78 percent of deposits are held under various Mudarabah modes.

Table 4.4: Islamic Banking Total Deposits in Bangladesh by Contracts (%)

	Wadiah CA Deposits	Mudarabah Savings Bond	Mudarabah Special Savings	Mudarabah Hajj Deposits	Mudarabah Term Deposits	Mudarabah Special Notice Deposits	Mudarabah Savings Deposits	Other Deposits
Dec-14	4.00	1.00	9.00	0.00	49.00	3.00	17.00	17.00
Dec-15	3.83	1.02	7.80	1.74	48.46	2.94	18.32	15.79
Dec-16	4.05	0.90	8.98	0.28	47.35	3.20	18.61	16.63
Dec-17	4.41	0.75	8.71	0.22	47.45	3.76	18.38	16.32
Dec-18	3.89	0.66	8.70	0.21	49.23	3.68	18.38	15.25
Dec-19	3.58	0.58	8.62	0.22	48.21	3.94	17.60	17.23
Dec-20	3.91	0.48	9.32	0.23	47.04	4.67	18.77	15.58
Dec-21	4.71	0.37	9.63	0.19	45.55	4.80	19.39	15.36
Dec-22	4.51	0.40	7.60	0.21	45.42	5.24	19.24	17.39
Dec-23	4.57	0.23	7.39	0.21	45.86	4.75	19.21	17.77

Source: *Bangladesh (2023)*

Table 4.5 presents the distribution of Islamic financing in Bangladesh from 2014 to 2023 by mode. Bai Murabahah and Bai Muajjal dominate, consistently representing 44–48 percent and 22–25 percent of total financing, respectively. These deferred-payment and cost-plus contracts are central to Islamic banking in Bangladesh. Hire Purchase under Shirkatul Melk (HPSM) is another significant mode, peaking at 23.62 percent in 2019 and stabilizing around 17–18 percent in recent years. Ijarah, which involves leasing, holds a smaller share of approximately 4–7 percent. Other modes, such as Mudarabah, Musharakah, and Bai Salam, contribute minimally, collectively accounting for less than 2 percent. Qard with Security and the "Others" category remain minor, typically under 5 percent.

Table 4.5: Modes of Islamic Total Financing of Bangladesh by Contracts (%)

	Bai Murabahah	**Bai Muajjal**	**HPSM**	**Ijarah**	**Bai Salam**	**Bai Istisnaa**	**Mudarabah**	**Musharakah**	**Qard with Security**	**Others**
Dec-14	44.24	24.72	15.32	7.34	0.86	0.30	0.29	1.32	1.33	4.10
Dec-15	44.47	24.93	16.54	6.08	0.76	0.30	0.38	1.54	1.45	3.59
Dec-16	44.64	25.24	15.48	7.41	0.80	0.23	0.32	1.59	1.31	2.98
Dec-17	43.81	25.17	16.94	7.35	0.96	0.22	0.26	1.53	1.32	2.44
Dec-18	44.33	25.63	17.97	5.42	0.99	0.07	0.26	1.43	1.32	2.58
Dec-19	44.60	23.95	23.62	0.02	0.03	1.16	0.32	1.38	0.05	4.87
Dec-20	44.97	23.76	18.74	5.05	1.29	0.01	0.33	0.92	1.67	3.26
Dec-21	46.39	23.24	18.98	4.32	1.23	0.02	0.25	0.49	1.11	3.98
Dec-22	47.71	22.94	17.68	4.04	1.36	0.06	0.26	0.28	0.97	4.70
Dec-23	47.57	22.50	17.88	4.07	1.70	0.06	0.25	0.32	0.88	4.75

Source: *Bangladesh (2023)*

4.3 Rates Applied by Banks in Bangladesh According to Bank Type

Table 4.6 presents the weighted average deposit rates by bank type in Bangladesh from 2014 to 2023. The banks are categorized into State-Owned Commercial Banks (SOCBs), Private Commercial Banks (PCBs), Foreign Commercial Banks (FCBs), and IBs. The data shows that IBs maintain relatively stable deposit rates, peaking at 7.29 percent in 2014 and declining to 4.52 percent in 2021, resulting in an average rate of 5.74 percent over the period. This trend reflects the competitive yet stable nature of profit-sharing deposit contracts, such as Mudarabah, which are common in Islamic banking. In contrast, PCBs consistently offer the highest deposit rates, reaching 8.06 percent in 2014, while FCBs provide significantly lower rates, dropping to 1.67 percent in 2021. SOCBs maintain intermediate rates, achieving their highest rate of 8 percent in 2014.

In recent years, a notable convergence of deposit rates has been observed across all bank types, with rates stabilizing around 5 percent by 2023. This trend suggests an overall alignment in deposit offerings among the various banking groups, including IBs.

Table 4.6: Weighted Average Rate for Deposits by Banks in Bangladesh (%)

Year	**All Banks (N=61)**	**SOCBs (N=06)**	**PCBs (N=43)**	**FCBs (N=09)**	**IBs (N=10)**
2014	7.72	8.00	8.06	5.83	7.29
2015	6.49	6.86	6.90	3.99	6.47
2016	5.36	5.42	5.76	3.11	5.49
2017	5.10	4.58	5.60	2.82	5.44
2018	5.62	4.75	6.14	3.67	6.24
2019	5.96	4.85	6.65	3.45	6.80
2020	4.60	4.87	4.94	2.34	5.10
2021	4.10	4.48	4.44	1.67	4.52
2022	4.36	4.66	4.74	1.99	4.68
2023	4.90	5.29	5.35	2.20	5.35
Max	7.72	8	8.06	5.83	7.29
Min	4.10	4.48	4.44	1.67	4.52
Average	**5.42**	**5.38**	**5.86**	**3.11**	**5.74**

Source: *Bangladesh Bank (2023b)*

Table 4.7 shows the weighted average financing rates across various banking institutions. The data reveals that IBs maintain a relatively stable financing rate, peaking at 12.73 percent in 2014 before declining to 6.96 percent in 2022, resulting in an average rate of 9.77 percent. This stability underscores their competitive position while managing profit-sharing Mudarabah arrangements for deposits in accordance with Shari'ah compliance. In contrast, PCBs recorded the highest financing rates, reaching 13.39 percent in 2014, while SOCBs and FCBs generally maintained lower rates. By 2023, all categories of banks show an upward trend in financing rates, converging around 9 to 10 percent, indicating an increase in financing costs across the banking sector.

Table 4.7: Weighted Average Financing Rates by Banks in Bangladesh

Year	All Banks (N=61)	SOCBs (N=06)	PCBs (N=43)	FCBs (N=09)	IBs (N=10)
2014	12.65	11.44	13.39	10.80	12.73
2015	11.33	9.84	12.17	9.08	11.82
2016	9.74	8.65	10.55	7.04	10.62
2017	9.24	7.70	9.98	7.06	10.12
2018	9.68	6.42	10.69	7.85	10.54
2019	9.86	6.43	10.77	8.52	10.31
2020	7.53	6.18	7.88	6.64	7.59
2021	7.02	6.08	7.49	5.25	7.07
2022	7.15	5.89	7.54	6.04	6.96
2023	9.77	9.73	9.88	9.50	9.95
Max	12.65	11.44	13.39	10.8	12.73
Min	7.02	5.89	7.49	5.25	6.96
Average	9.40	7.84	10.03	7.78	9.77

Source: *Bangladesh Bank (2023b)*

Table 4.8 presents a comparative analysis of profit rates for depositors at CBs and IBs across various deposit categories, including short-term and long-term deposits. The data indicate that, for general deposits (excluding current accounts), IBs offer an average profit rate of 5.27 percent, slightly higher than the 4.97 percent provided by CBs. However, CBs show better maximum and minimum rates, at 6.83 percent and 1.67 percent, respectively, compared to IBs' rates of 6.33 percent and 1.33 percent.

For savings deposits, the rates are similar, with IBs averaging 2.41 percent and CBs 2.37 percent. In Short Notice Deposits, CBs have a slight edge, offering an average rate of 2.54 percent compared to IBs' 2.36 percent, with maximum and minimum rates following a similar trend.

Regarding deposit schemes, CBs maintain a slight advantage with an average rate of 7.59 percent, while IBs average 7.34 percent. For placements from other banks and financial institutions, CBs significantly outperform IBs, offering an average rate of 6.38 percent compared to IBs' 3.87 percent.

For term deposits, profit rates for both banking types are closely aligned. IBs offer an average rate of 6.31 percent for 3-month deposits and 7.54 percent for 1-year deposits, while CBs provide slightly better rates, particularly for longer-term deposits, achieving 7.87 percent for 1-year deposits.

Table 4.8: Profit Rates for IB Depositors Compared to CB Depositors for 2023

<table>
<tr><th rowspan="2" colspan="2"></th><th colspan="3">IBs %</th><th colspan="3">CBs %</th></tr>
<tr><th>Average</th><th>Max.</th><th>Min.</th><th>Average</th><th>Max.</th><th>Min.</th></tr>
<tr><td colspan="2">Deposits other than current accounts</td><td>5.27</td><td>6.33</td><td>1.33</td><td>4.97</td><td>6.83</td><td>1.67</td></tr>
<tr><td colspan="2">Savings deposits</td><td>2.41</td><td>2.94</td><td>1.81</td><td>2.37</td><td>3.19</td><td>1.81</td></tr>
<tr><td colspan="2">Short notice deposits</td><td>2.36</td><td>3.00</td><td>1.44</td><td>2.54</td><td>3.25</td><td>1.69</td></tr>
<tr><td colspan="2">Schemes offered</td><td>7.34</td><td>9.06</td><td>6.31</td><td>7.59</td><td>9.31</td><td>6.56</td></tr>
<tr><td colspan="2">Placements from other banks and financial institutions</td><td>3.87</td><td>4.38</td><td>3.90</td><td>6.38</td><td>6.70</td><td>5.71</td></tr>
<tr><th colspan="8">Average rate of profit paid to the term depositors</th></tr>
<tr><th colspan="4">IB %</th><th colspan="4">CB %</th></tr>
<tr><th>3 months</th><th>6 months</th><th>1 year</th><th>1year +</th><th>3 months</th><th>6 months</th><th>1 year</th><th>1year +</th></tr>
<tr><td>6.31</td><td>7.37</td><td>7.54</td><td>7.47</td><td>6.34</td><td>7.66</td><td>7.87</td><td>7.80</td></tr>
</table>

Source: *Survey Data*

Table 4.9 presents a comparative analysis of profit rates between IBs and CBs across various financing categories in Bangladesh. The data reveal a striking similarity in average financing rates, with IBs charging 10.03 percent and CBs 10.02 percent. This similarity is particularly evident in working capital, commercial term financing, home financing, and personal car financing, where the rate difference between IBs and CBs is minimal. Additionally, in other financing types, both IBs and CBs show an equivalent average rate of 7.14 percent, highlighting that IBs maintain competitive profit rates closely aligned with those of CBs, ensuring market parity while adhering to Shari’ah principles.

Table 4.9: Rate of Profit Charged by IBs for Financing in Comparison with CBs for 2023

	IBs %			CBs %		
	Average	**Max.**	**Min.**	**Average**	**Max.**	**Min.**
Average rate of financing/investment	10.03	11.14	8.87	10.02	11.14	7.20
Average rate of financing/investment: Working Capital	10.16	11.47	8.70	10.19	11.47	9.16
Average rate of financing/investment: Commercial Term Financing	10.34	11.25	9.34	10.34	11.25	9.15
Average rate of financing/investment: Home Financing	9.66	10.49	8.40	9.67	10.49	8.40
Average rate of financing/investment: Personal Car/ Transport Financing	10.09	10.79	9.49	10.09	10.65	9.21
Any other type of financing/investment	7.14	7.19	5.87	7.14	7.19	5.87

Source: *Survey Data*

Table 4.10 presents a comparative analysis of the fees and commissions charged by IBs and CBs for various financial services. For non-funded credit services, such as Letters of Credit (LC) and Bank Guarantees (BG), IBs and CBs impose average rates of 3.15 percent and 2.35 percent, respectively, showing no significant difference. In terms of annual debit card fees, both institutions charge an identical average of Tk 279.17. However, for credit cards, IBs do not provide data, while CBs charge an average fee of Tk 2,416.

When evaluating loan processing and supervision fees, IBs generally charge lower amounts. Specifically, the investment processing fees for IBs average Tk 0.40, which is comparable to those charged by CBs. Notably, IBs do not impose supervision fees, while CBs charge an average of Tk 0.75. Regarding late payment charges, IBs have a slightly higher average charge of Tk 625.00 compared to Tk 550.00 for CBs.

Both banking sectors maintain consistent account maintenance fees for current accounts, with an annual average of Tk 391.67. Lastly, the account maintenance fees for savings accounts are also the same between IBs and CBs, averaging Tk 250.00.

Table 4.10 Fees/Commissions Charged by IBs in Comparison with CBs (%)

	IBs %			CBs %		
	Average	**Max.**	**Min.**	**Average**	**Max.**	**Min.**
Non-funded credit: Letter of Credit (LC) (%)	3.15	2.47	1.49	3.15	2.47	1.49
Non-funded credit: Bank Guarantee (BG) (%)	2.35	2.99	1.80	2.35	2.49	1.45
Annual fee for debit card (Tk)	279.17	493.75	66.67	279.17	493.75	66.67
Annual fee for credit card (Tk)	0.00	2125.00	850.00	2416.67	5800.00	1750.00
Credit/ Investment/ Loan processing fee (Tk)	0.40	5000.38	2.85	0.40	4000.40	3000.24
Credit/ Investment/ Loan supervision fee (Tk)	0.00	0.33	0.00	0.75	0.83	0.00
Credit/ Investment/ Loan late payment charge (Compensation/Penalty Interest) (Tk)	625.00	500.67	500.00	550.00	400.70	325.38
Account maintenance fee (Annual): Current A/c (Tk)	391.67	525.00	500.00	391.67	525.00	500.00
Account maintenance fee (Annual): Savings A/c (Tk)	250.00	500.00	233.33	250.00	500.00	133.33

Source: *Survey Data*

4.4 Summary of Findings from FGDs and Interviews

The research conducted multiple FGDs involving over 70 Islamic finance professionals from 29 banks, along with interviews with senior officials of the industry, to gain insights into pricing policies and practices within the Islamic banking sector. The discussions highlighted key aspects related to the challenges and expectations of aligning pricing strategies with Shari'ah principles. A summary of these findings is presented below, emphasizing the need for a distinct and compliant approach in Islamic banking operations.

First, the use of conventional benchmarks for pricing, while generally permitted by Shari'ah scholars, raised concerns. Although IBs can utilize these benchmarks, there is a strong expectation in the industry for separate pricing practices that better reflect the unique principles of Islamic finance. This distinction is crucial for maintaining Shari'ah compliance and differentiating IBs from CBs.

Regarding Mudarabah depositors, it is permissible to declare provisional profit rates based on historical performance and future business prospects. However, these rates must be adjusted according to the actual performance of the Mudarabah fund. Some banks employ marketing strategies that overlook Shari'ah principles, such as offering double-benefit schemes, raising questions about their integrity. This situation highlights the ongoing tension between business competitiveness and adherence to the requirements of Islamic finance contracts within the industry.

In terms of profit smoothing, many IBs use mechanisms like Hibah and PER. Despite the acceptability of these concepts from the Shari'ah perspective, ensuring transparency and strict Shari'ah compliance is essential to prevent any misuse of these tools, which could inadvertently result in Riba. This underscores the necessity for rigorous Shari'ah compliance in financial instruments within Islamic banking practices.

The discussion also revealed the regulatory challenges faced by IBs. Many regulatory provisions do not fully align with Shari'ah requirements, creating obstacles for these institutions. For instance, regulations applicable to both CBs and IBs often fail to address the distinct needs of the latter. Additionally, regulators may mandate or permit certain pricing practices, which can exacerbate alignment issues with Shari'ah principles. Despite these challenges, IBs continue to strive for operational alignment with the overall banking system.

The discussions revealed several issues in trade-based financing. For example, the practice of amending the price after executing Murabahah contracts. Additionally, recognizing profit at the time of Salam and Istisna'a contracts, when the assets or goods have yet to be received and sold under the second leg of the financing, is inconsistent with Shari'ah principles that prohibit selling something before obtaining ownership. Furthermore, while banks may allow Ibra' for early settlements, this must be done in a Shari'ah-compliant manner.

Similarly, in fixed asset financing, particularly under the HPSM, rental rates are typically set according to the bank's general policies, regardless of the asset's location. Some bankers argue that setting rent based on market rates outside banking transactions may not be practical, suggesting that pricing policies need better alignment with the specific context of Islamic finance.

Another significant theme is the distinction between fixed earnings and performance-based returns in participatory modes of financing like Mudarabah and Musharakah. Due to the higher risks involved, greater returns are expected from these financing methods compared to low-risk financing options (Murabahah, Salam, and Istisna'a). Regulators need to allow for separate pricing policies that reflect this distinction, enabling IBs to balance risk and return in a way that respects both business objectives and Shari'ah guidelines.

For non-funded credit products such as LC and BG, IBs, like their conventional counterparts, charge fees and commissions. However, Shari'ah compliance remains a critical expectation, with respondents advocating for uniformity in fees among IBs to ensure fairness and transparency.

Regarding interbank placements, IBs engage in placements under Mudarabah contracts, as an alternative to conventional call money. However, it is opined by the respondents that the engaging parties fix the profit rate in advance, which is not adjusted based on actual performance. An effective framework should be there to oversee the Shari'ah compliance of the activities of IBs.

The issue of refinancing or pre-financing schemes from Bangladesh Bank was also discussed. These schemes often have common terms for both conventional and IBs, which can be problematic, particularly concerning risk transfer. This underscores the broader challenge of aligning regulatory frameworks with the principles of Islamic finance.

Maqasid al-Shari'ah, or the objectives of Shari'ah, emerged as another key consideration in pricing and financial practices. Although certain transactions may be Shari'ah-compliant in a technical sense, they may not fully align with the broader objectives of Islamic finance, such as promoting justice and avoiding harm. This indicates that IBs should emphasize Maqasid al-Shari'ah in all areas of their operations to ensure their practices meet religious standards and contribute to the social and ethical goals of Islamic finance.

From a business perspective, while the operational model of IBs fundamentally differs from that of CBs, this distinction is not always reflected in pricing policies. Customers often do not perceive a significant difference between the two systems. This situation underscores the need for IBs to better communicate and implement pricing strategies that align with their unique value propositions, focusing not only on financial returns but also on compliance with the Shari'ah that would result in Barakah (blessings) from Allah (SWT).

Lastly, the role of the Shari'ah Supervisory Committee (SSC) was emphasized as vital for ensuring Shari'ah compliance across all IBs. However, for them to be truly effective, they must have autonomy in their activities, allowing them to exercise full authority in guiding the operations of IBs.

5. Conclusion and Recommendations

IBs face the challenge of balancing compliance with Shari'ah principles and regulatory frameworks. This dual obligation complicates their pricing mechanisms and operations. While maximizing profit is a key objective for any commercial entity, pursuing this goal at the expense of Shari'ah compliance is unacceptable for IBs. The findings of this research highlight ongoing challenges and expectations in aligning Islamic banking practices with Shari'ah principles. While progress has been made, there is a need for greater differentiation in pricing, stricter adherence to Shari'ah guidelines, and a stronger focus on the ethical objectives of Islamic finance.

Based on the findings of this study, the following recommendations are proposed for IBs:

5.1 Regulatory Framework

The current conventional banking-driven regulatory landscape poses challenges, as existing regulations and supervision do not adequately address the unique needs of IBs. To foster a competitive and level playing field, it is essential to issue regulations and apply supervisory practices specifically tailored for IBs. The newly established Islamic Banking Regulation and Policy Department within Bangladesh Bank is expected to address this issue. Equipping personnel at Bangladesh Bank with a deeper understanding of Islamic banking operations will be crucial for effective regulation and supervision.

5.2 Shari'ah-Based Benchmark

As the market share of IBs has reached systemic importance within the country's banking system and demand continues to grow, there is an urgent need to establish a Shari'ah-based pricing benchmark. While conventional benchmarks are permissible, they pose a significant risk of compromising Shari'ah principles. A dedicated Shari'ah-compliant benchmark would enhance alignment with Shari'ah principles, increase acceptability among stakeholders, and mitigate Shari'ah non-compliance risks.

5.3 Deposit Pricing

Profit-smoothing mechanisms like Hibah and PER can manage fluctuations in deposit pricing; however, they require strict control to ensure Shari'ah compliance. The application of these techniques should be actively guided by the SSCs, ensuring that provisional profit rates are adjusted based on actual performance. Using profit-smoothing tools solely to align profit distribution with provisional rates, regardless of actual asset performance, is undesirable and should be avoided.

5.4 Marketing Approach

IBs should not rely solely on profit rates to attract customers. Instead, they must emphasize the fundamental principles and ethical values of Islamic banking. An excessive focus on profit rates may create negative perceptions among customers and potentially promote improper practices within the sector.

5.5 Proper Disclosures

Transparency in profit calculation mechanisms is crucial. IBs must clearly communicate the methodologies used to calculate profits for depositors. Any use of profit-smoothing techniques must be appropriately disclosed. This applies to financing as well. For example, in HPSM financing for assets under construction, asset revaluation should follow appropriate methodologies to ensure fairness and compliance. Additionally, clear disclosures need to be made regarding the application of Ibra' in settling debt from sales contracts.

5.6 Fees and Commissions

IBs must clearly identify the services for which fees and commissions are charged. Imposing fees or commissions without clear identification of the associated services, as often seen in conventional banking, is not Shari'ah-compliant. Proper guidelines should be established to ensure transparency and Shari'ah compliance for the fees and commissions imposed.

5.7 Autonomy of the SSCs

The SSCs play a crucial role in the governance of IBs, ensuring that all operations align with Shari'ah principles. For the SSCs to function effectively, they must have sufficient autonomy to supervise and guide their respective IBs. The committees should evaluate the requirements of Bangladesh Bank to distinguish between what is mandatory and what is optional for IBs. For instance, the fact that Bangladesh Bank permits something does not mean that IBs must adopt the same practices as CBs. Moreover, the SSCs should consist of members with expertise in both Shari'ah and banking operations to effectively govern the Shari'ah compliance of IBs.

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