

Critical Analysis of the Role, Challenges and Shariah Compliance of Islamic Windows by Conventional Banks in Bangladesh

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ABSTRACT

Successful operations of Islamic banks have made the Islamic banking system popular in all societies now more than ever. There is an increased interest in adopting Islamic banking principles by conventional banks. One of the visible consequences of this realization is the opening of Islamic windows by conventional banks. At present, there are 25 Islamic windows by conventional banks in Bangladesh and the number is increasing every year. The role of Islamic banking windows has not been critically evaluated thus far by any researcher. As observed, there are a number of challenges for the smooth functioning of these windows. Questions arise: are the Islamic windows fully separated from the conventional part? How far are the operations of these windows in strict compliance with Shariah requirements? As such, the study aims at evaluating the role, finding out the major challenges, and assessing the Shariah compliance of Islamic banking windows by conventional banks in the context of Bangladesh. A semi-structured questionnaire is used to interview selected bankers as well as Islamic scholars. Respondents are selected based on purposive sampling. This study reveals the actual role and potential challenges in the operation of Islamic windows. Some policy recommendations are suggested for the sustainable development of Islamic banking windows in Bangladesh.

JEL Classification: E59, G23, E50

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Keywords: Islamic banking windows, role, challenges, Shariah compliance, Bangladesh

INTRODUCTION

The idea of an interest-free banking was introduced in the late 1940s by Qureshi (1974) and Siddiqi (1948). The first modern experiment with Islamic banking was established in a small town in Egypt, called Mit Ghamr, in 1963 by Dr. Ahmed El Najjar. The bank took the form of a saving-investment bank based on profit sharing and free from interest compared to a commercial bank (Ariff, 1988; Siddiqui, 2001). In the 1970s, the Islamic Development Bank (IDB) at the international level and a number of Islamic banks at the national level were established in the Muslim world. Bangladesh inherited an interest-free banking system from the British colonial period. During the period of 1947-1971, when the country was part of Pakistan, banking came under Muslim control but the system did not change (Raquib, 2007). Although Pakistan was created in the name of Islam, the rulers did not make any practical attempt to establish an economic system based on Islamic principles. In Bangladesh, some entrepreneurs were actively working towards the introduction of an Islamic banking system (IBS). Two professional bodies, the “Islamic Economics Research Bureau” (IERB) and the “Bangladesh Islamic Bankers Association” (BIBA) took pragmatic steps to mobilize local and foreign investors through national and international seminars and workshops on Islamic economics and banking. Their professional and rightly-thought activities were streamlined by a number of enthusiastic businessmen in Bangladesh (Sarker, 2000).

The first Islamic bank, Islami Bank Bangladesh Limited, was established in the country in 1983 (Raquib, 2007), from which time Islamic banks have been operating alongside traditional banks in Bangladesh (Sobhani, 2011). At present, the Islamic banking industry has managed to triumph over a significant portion of the market share in the country. As reported by the Bangladesh Bank (2015), Islamic banking is now holding more than one-fifth share of the entire banking industry in Bangladesh. According to Zaheer and Farooq (2013), Islamic banking has become one of the growing financial sectors in developing countries. Successful operations of Islamic banks have made the Islamic banking system popular in all societies now more than ever. There is an increased interest in adopting Islamic banking principles by conventional banks. Dhaka Bank is the first conventional bank in Bangladesh that started operating Islamic Shariah-based banking in 1997. Now, there are 19 Islamic branches under 8 conventional commercial banks in the country (Bangladesh Bank, 2015).

An Islamic window by a conventional bank is another dimension of Islamic banking operations in Bangladesh. Islamic window is an Islamic set-up, operating Shariah-based banking system under the umbrella of a conventional banking system as a Profit Loss Sharing (PLS) system. At present, there are 25 Islamic windows by conventional banks in Bangladesh and the number is increasing every year. The role of Islamic banking windows has not been critically evaluated thus far by any researcher. As observed, there are a number of challenges for the smooth functioning of these windows. Questions arise: are the Islamic windows fully separated from the conventional part? How far are the operations of these windows in strict compliance with Shariah requirements? As such, the study aims at evaluating the role, finding

out the major challenges, and measuring the Shariah compliance of Islamic windows by conventional banks in the context of Bangladesh. Specifically, the objectives of the study are to (i) know the role of Islamic windows by conventional banks in Bangladesh; (ii) identify the challenges that Islamic windows encounter in its operation; and (iii) bring into light the status of Shariah compliance of Islamic windows.

There are six sections in this study. The next section is about prior studies followed by the objectives and methodology of the study. Findings and discussions are presented in three sub-sections: the role of Islamic windows by conventional banks, challenges of Islamic windows, and issues of Shariah compliance. The study concludes with a remark on the apprehension sometimes expressed against the Islamic windows.

LITERATURE REVIEW

Islamic finance is growing rapidly at a 15% to 20% annual growth rate (Pasha, 2014). At present, there are more than 51 countries in the world practicing Islamic finance with 300 Islamic financial institutions and 250 mutual funds (IMF, 2009). The second half of the twentieth century witnessed a major shift in thinking by devising a financial and banking policy and framework on the basis of Islamic Shariah. This new thought was institutionalized at the end of the third quarter of the century and emerged as a new paradigm of banking called Islamic banking. The establishment of the Islamic Development Bank (IDB) in 1975 in Jeddah, KSA, gave an accelerating momentum to the Islamic Banking movement worldwide. Since the establishment of IDB, a number of Islamic Banking and financial institutions have been established all over the world irrespective of Muslim and non-Muslim countries. Over the past few decades, the Islamic financial industry has rapidly expanded worldwide. Currently, about 300 Islamic banks and financial institutions (IFIs) are functioning in line with Islamic Shariah with total combined assets exceeding US\$2 trillion in more than 75 countries (Sarkar, 2008). This rapid growth has drawn the attention of many researchers globally and locally.

A significant amount of theoretical and empirical research on Islamic finance and particularly on Islamic banks has been undertaken throughout the world. According to the IMF (2009), Islamic banking is steadily moving into the conventional financial system. Above all, conventional banks have learned to glimpse at the strong psychological sentiments of the Muslim people. Conventional banks have diversified strategies to attract clients and Islamic windows are one of the strategies (Babatunde *et al.*, 2013). Islamic windows by conventional banks are facing some criticism with a sense of suspicion among the Islamic scholars and the Islamic banking clients on the authenticity, clearance of monetary system, etc. It is argued that the Islamic windows are only operating activities for the purpose of business, but the authorities and employees have no cohesion with Islamic Shariah. On the other hand, professionals of Islamic windows argue that Islam prohibits Interest, but encourages business. Besides, Islamic banking is a system but not a religious institute, so it can provide banking services to the non-Muslim clients (Zainul *et al.*, 2008). At present, the Islamic windows almost occupy 1.67% deposits and 1.44% investments in total Islamic banking industry in Bangladesh (Bangladesh Bank, 2015). Since the concept of Islamic windows by conventional banking is new, there is

deficiency in literature especially in the context of Bangladesh. Many researchers have carried out the comparison and efficiency analysis of Islamic and conventional banking systems.

Islam and Alam, (2014) examined the profitability of Islamic and conventional banks in Bangladesh and found that expanding the awareness campaign and explanation to the customers, and the modes of Islamic financing can increase the profitability of the Islamic bank. Ahmed *et al.* (2007) studied the regulation and performance of Islamic banks in Bangladesh and pointed out that Islamic banks have to be more active in terms of promoting their products and services. Ei-Galfy *et al.* (2012) conducted a study to analyze the contribution of Islamic banking towards economic growth. The study revealed that an efficient, effective, and well-disciplined banking system of a country could bring significant growth to various economic sectors. Besides, Farooq *et al.* (2015) studied the resiliency of Islamic banks during the financial crisis and proved that with full-fledged Islamic banks, conditionally or unconditionally, Islamic windows and branches are not as subjected to presumptions of deposit withdrawals during uncertainties. Pasha (2014) discussed the role and progress of Islamic banking, where he showed that the growing awareness of Islamic banking is attempting to provide interest free banking services using separate windows in India and Ethiopia. On the other hand, Karbhari *et al.* (2004) analyzed the problems and challenges faced by Islamic banking and found that regulatory hurdles, competition from conventional banks, and the lack of qualified and trained personnel are the main challenges of the Islamic banking system. These findings are also revealed by Bello *et al.* (2014). A study on customer awareness and adaptation of Islamic banking in Pakistan was conducted by Khan *et al.* (2012) and it was found that the Muslim community is not well-educated about the Islamic financial products and system. The same is stated by Zainul *et al.* (2008). Bankers of Islamic banks themselves claim that they have insufficient knowledge of Islamic banking and seek advanced training.

At present, Islamic banks have become a great challenge and threat to the conventional banks (Jawadi *et al.*, 2016). According to Zakaria *et al.* (2013), Islamic banks are more stable compared to conventional banks because of its profit sharing basis, real asset transactions, and strict cohesion to non-speculative elements. Bader *et al.* (2008) made a comparison between Islamic and conventional banks on their efficiencies and found no significant difference between these two different types of banks. Ringim (2013) studied the understanding of account holders in conventional banks toward Islamic banking products, and conducted a survey of over 300 Muslim clients in the UK on Islamic windows by conventional banks and found that Muslim clients are not fully aware of Islamic banking products. Kassim *et al.* (2009) analyzed the impact of the monetary policy shocks on Islamic banks. The study found that the impact of monetary shocks is unstable on Islamic banking because it is not concerned about the interest rate and risk management practices. Shawtari *et al.* (2015) assessed the efficiency of the banking sector in Yemen using the data envelopment window analysis and found an interesting point that the profitability of Islamic banks is negatively related to efficiency. The efficiency of full-fledged Islamic banks and standalone Islamic branches of conventional banks was investigated by Siddique *et al.* (2013). The study revealed that the technical efficiency of Islamic branches of conventional banks is more than the full-fledged Islamic banks. It also showed that the cost of service in Islamic banks is less than that of Islamic banking branches of conventional banks.

From the above review of literature, it is evident that there are sufficient studies conducted

throughout the world on Islamic banks with special reference to their comparison with conventional banks. However, the studies on Islamic windows seem to be very limited. Hence, this study is expected to contribute to the body of knowledge in the field of Islamic windows in Bangladesh.

METHODOLOGY

The study is descriptive in nature. Both primary and secondary data are used in this study. Secondary data are collected from various research journals, books, and websites.

Preparation of Questionnaire

Primary data are collected through a semi-structured questionnaire designed for the study. The interviews are conducted based on several questions on personal, organizational, and cultural aspects of the Islamic bank. Figure 1 refers to the questions on the role of Islamic windows in conventional banks, awareness of the Islamic financial system, and training programs of the Islamic banking system. Interview questions are as follow;

Personal Questions:

- i. What is the length of your service at this bank/branch/organization?
- ii. What position are you holding now?

Questions concerning the field of research:

- i. How would you evaluate the role of Islamic windows by conventional banks in Bangladesh?
- ii. Do you think that people serving in the Islamic windows are fully aware of the Islamic financial system?
- iii. Are there regular training programs on the Islamic banking system for staff members of the Islamic windows?
- iv. Do you think that the Islamic environment has been ensured in the Islamic windows?
- v. Are the people at your branch practicing Muslims i.e. whether they offer prayers regularly, etc.?
- vi. Does the Shariah Board regularly monitor the functions and operations of the windows (Shariah audit)?
- vii. Do you think that Islamic windows by conventional banks are properly complying with the Shariah Principles?
- viii. What are the challenges being encountered by the Islamic windows?

- ix. Do you consider Islamic windows a threat to the full-fledged Islamic banks?
- x. What would be your suggestions for the development of Islamic windows/banks in Bangladesh?

Respondents

A total of 13 respondents consisting of 7 (seven) senior bankers and 6 (six) Islamic scholars were interviewed in the light of the objectives of the research. The selected bankers were in the capacity of Branch Managers having 10-20 years of work experiences and were currently serving in the Islamic windows of conventional banks. The selected scholars had sound knowledge on Islamic Shariah with a minimum of 15 years of work experience on the Islamic financial system. Bankers were selected randomly and Islamic scholars were selected based on their availability for an interview during the tenure of the study. The interviews mostly took place in the working places of the respondents during the period of September and October 2015. Three scholars were interviewed on the mobile phone with their consent. Important remarks by the respondents were placed in the study without disclosing their identities. Table 1 refers to the respondents marked as R1 to R13 representing Respondent 1 to Respondent 13.

Table 1 List of Respondents

SL No.	Name of the Bank	Respondent's Position	Remarks
R1	Islami Bank Bangladesh Limited	Member of Shariah Supervisory Board	Scholar
R2	Islami Bank Bangladesh Limited	Head of Training & Research Academy	Scholar
R3	Islami Bank Bangladesh Limited	Zonal Head	Scholar
R4	Al-Arafah Islami Bank Limited	Zonal Head	Scholar
R5	EXIM Bank Limited	Zonal Head	Scholar
R6	NRB Global Limited	Zonal Head	Scholar
R7	Bank Asia Limited	Branch Manager	Senior Banker
R8	Standard Chartered Bank Limited	Branch Manager	Senior Banker
R9	Sonali Bank Limited	Branch Manager	Senior Banker
R10	Agrani Bank Limited	Branch Manager	Senior Banker
R11	Pubali Bank Limited	Branch Manager	Senior Banker
R12	Trust Bank Limited	Branch Manager	Senior Banker
R13	Standard Bank Limited	Branch Manager	Senior Banker

Data Collection and Analysis

The study used a combination of three different qualitative methods for data collection, which are as follows:

- i. One to one interview: Individual respondents were interviewed in depth. Each interview took 1 to 2 hours. Two interviews were recorded with the verbal consent of the respondents;

- ii. Group discussion: Some group discussions took place during the interview period. Two or more people joined in the discussion while interviews were conducted in some offices; and
- iii. Observations: The respondents and the surrounding environment were carefully observed while the bankers of Islamic windows were interviewed including the environment within the windows, official attire of male and female staff members, behavior and attitude of staff with their clients, and so on.

Collected data and information are properly analyzed and presented in this study.

FINDINGS AND DISCUSSIONS

The study illustrates the results of the interviews that were conducted with the senior bankers and Islamic scholars. The findings and discussions are presented in three sections. These are the role of Islamic windows by conventional banks, challenges of Islamic windows, and their Shariah compliance.

Role of Islamic Windows by Conventional Banks

One of the important developments in Islamic banking in the last few years is the entry of some conventional banks into the market and their use of Islamic modes of financing through their Islamic branches, windows, or units. It encourages the globalization of Islamic banking, which includes some of the giants in the banking and finance industry. Bangladesh was not indifferent to this turning move (Sarkar, 2008). Professionals from Islamic banks and conventional banks agreed that there is a positive role of Islamic windows by conventional banks in Bangladesh because it shows faster growing trends of Islamic banking and Islamic financial system. The role as opined by the senior bankers and Islamic scholars are stated below from various perspectives.

Spreading the Islamic banking system

Every year, many clients shift from the conventional to the Islamic banking system. Islamic windows by conventional banks attract more conventional clients compared to the Islamic banking system. Earlier clients did not have any option other than to be a client of conventional banks. Now, however, people have the choice of either to go for Shariah-based or a traditional banking system. As reported by a respondent of the Islamic window, “we are attracting conventional banking clients towards the Islamic windows and those who have accounts in the conventional section in our bank are now transferring their accounts to the Islamic section. This is a great contribution of the Islamic windows where people are now more aware of Islamic banking activities” (R7).

Enhancing the central bank’s involvement

The role of a central bank is crucial in guiding, supervising, and controlling the Islamic banks

and windows for the smooth development of the sector. For both developed and developing countries, Islamic banking can contribute positively to macroeconomic stability (EI-Galfy *et al.*, 2012). However, without the support of the central bank as a last resort lender, further development can be cumbersome (Karbhari *et al.*, 2004). Opening Islamic windows by conventional banks has forced the Bangladesh Bank, which is the central bank of the country, to become more involved and to develop Islamic banking provisions. As stated by one of the Islamic scholars, “as Islamic banking activities increase, the central bank’s concern to ensure the facilities will also be increasing” (R4). Another respondent holding the position of a Branch Manager in an Islamic window by a conventional bank stated that, “of course Islamic windows has a positive impact on Islamic economics, because as Islamic banking practices increase, the central bank’s regulations and provisions will also increase, which would facilitate the Islamic financial system more effectively” (R12).

Increasing market share

The market share of Islamic banking has been increasing with the increase of Islamic banking windows. At present, Islamic banking windows hold 1.67% deposits and 1.44% investments in the whole Islamic Banking activities. Lack of sufficient Islamic financial institutions can result in the centralization of risk for a small number of Islamic institutions (IMF, 2009). One of the respondents assumed that, “Islamic banking market share is now extended to about 25%, and it is now ready to compete with the giant conventional banking portion, and Islamic banking windows also have the visible contribution in this extension” (R3).

Promoting Shariah-based financing products

As stated by Karbhari *et al.* (2004), in order to market Islamic banking products and services, Islamic banks need to be involved heavily. Promotional efforts should be undertaken to avail the Islamic financing products and services to the clients. Though Islamic finance is rapidly growing, many supervisory authorities and practitioners are still unaware of the system. Offering Islamic banking products and services through the Islamic windows by the conventional banking system helps to promote the Shariah based financing system. As stated by a respondent, “Islamic windows attract the clients of conventional system to have the Islamic banking services and hence, it promotes the Shariah based financing system” (R9).

Encouraging competition between Islamic and conventional practices

Islamic windows operate under the umbrella of conventional banks. On one side of a bank or branch, conventional banking services are offered and on another side, Islamic banking services are offered. In many countries, it would not be justifiable to evaluate the performance of Islamic windows with that of giant conventional sections, but it helps to have a look at the services under separate systems (Karbhari *et al.*, 2004). In the context of Bangladesh, the competition between the services under the two banking systems has been gradually expanding. Some Islamic windows are performing very well in comparison to the conventional sections. It is hoped by a respondent of an Islamic window that, “In the long run, Islamic windows will

perform better and all conventional banks will be converted into full-fledged Islamic banks” (R11).

Employment opportunities

Unemployment is one of the major problems of Bangladesh. Every year, hundreds of thousands of graduates are coming out from colleges and universities. Even though it is the prime responsibility of the Government to provide jobs to these young graduates, the Government has failed to meet the job demand. Only a tiny fraction of the total unemployment is managed by different government offices. The private sector has been playing a significant role in providing job placement opportunities to the unemployed youths. A new window in a branch requires new people and in this way, Islamic windows create job opportunities in the competitive job market. One of the respondents claimed that, “More than thousands of people are now serving in the Islamic windows by conventional banks in the country (R13).

From the above discussion, it is clear that Islamic windows have a positive role in enhancing the central bank’s monitoring and provision, increasing market share, promoting Shariah-based financing products, encouraging competition between Islamic conventional practices, creating employment opportunities, and above all, spreading the Islamic banking system locally and globally.

Challenges of Islamic windows

Since full-fledged Islamic banks are facing many complexities in the operation, it is a normal prediction that Islamic windows by conventional banks have to face many challenges in Bangladesh as well. As observed, many people have expressed their concern about the functions and activities of Islamic windows because full-fledged Islamic banks are facing many problems in running proper Shariah-based banking activities, thus questioning the possibility of maintaining two banking activities under the same roof. The study attempted to identify the challenges of Islamic windows operating in Bangladesh. The challenges as identified from the interviews with senior bankers of Islamic windows by conventional banks and Islamic scholars are stated below:

Deviation from conviction

Islamic windows by conventional banks were established as a first step to convert the whole bank into an Islamic institution. These windows were based on the conviction that interest is prohibited, but the immediate conversion of the bank would be difficult thus, the conversion is undertaken on a gradual basis and a separate window or unit is established as a first step. However, most of the existing Islamic windows established by conventional banks in Bangladesh are not based on such a conviction. They are established to provide an additional service to Muslim clients or to offer a variety of products for the general clientele. This type of Islamic windows are often criticized on the grounds that being devoid of conviction, they cannot reflect the true Islamic spirit. As argued by an Islamic scholar, “...such windows are established purely for commercial objectives that aim at capturing the Islamic market. The main business

of these conventional banks is still based on interest and is intended to remain operative for good, but only a small part of their activities is claimed to be run on Islamic principles” (R1).

Chances of distortion

Possibility of huge distortion seems to be another big challenge for Islamic windows by conventional banks. As reported by a respondent, “a few Islamic windows have the tendency of corruption and unethical practices, for example, false declaration of the quantum of profit. There are some incidences where clients who request for Qardhasana are purposefully defaulted, or they take loans showing purchase of goods, but buy another item that was not declared” (R3).

Doubt of the clients

Doubt is a status between belief and disbelief that involves uncertainty or distrust or lack of sureness of an action or a decision. It brings into question some notion of a perceived ‘reality’, and may involve delaying or rejecting relevant action out of concerns for mistakes or faults or appropriateness (Sharpe, 2008). Doubt of the clients is a great challenge for the Islamic windows managed by the conventional banks. As reported by a respondent, “Many clients especially the newcomers ask about the products and services whether these are purely based on Islamic principles or not” (R9). Another respondent having a senior position in an Islamic window mentioned that, “A number of clients have confusion about the validity of Islamic distribution system of Islamic windows whether it should be based on weighted average technique or income sharing ratio system” (R12).

Lack of proper regulation

Banks and financial institutions in Bangladesh are governed by the Bank Companies Act 1991, the Bangladesh Bank Order 1972, the Securities and Exchange Commission Act 1993, and the Income Tax Ordinance 1984. However, there is no specific act or law on Islamic banking. Lack of proper regulation is a big problem for the development of Islamic banking including Islamic windows in the country. According to the Islamic Financial Service Board (2014), more legal efforts are required to improve the banking system. As stated by a respondent, “Islamic Banking Act is a need of the day for the development of Islamic banks, Islamic branches of conventional banks, and Islamic windows by conventional banks” (R6).

Keeping and maintaining separate records and books

The first and foremost requisite for a true Islamic window is that it is carefully separated from the general side of the conventional bank (Usmani, 2002). Separation is not only a physical partition in a branch between Islamic windows and the conventional section, but also separation in all kinds of activities, functions, recording and reporting. Indeed, keeping and maintaining separations in each case is very difficult. As stated by a respondent, “All functions of Islamic windows cannot be separated”. He asked a counter question to the surveyor, “Is there any separate act for Islamic banking in Bangladesh?” (R10).

Question of sustainability

There is a big question whether the Islamic windows in the long run would be sustainable. As stated by Iqbal *et al.* (1999), true implementation of Islamic banking in a secular environment is the most significant challenge. One of the respondents expressed with a strong conviction that "...windows cannot be sustainable. It can only run for a short-term as a pilot project but for the long run, it must be turned into a full-fledged branch or be closed" (R11).

Lack of committed people

Functioning two different types of activities under one umbrella is not easy. Islamic banking and conventional banking are totally different from each other. In order to have a proper functioning of Islamic windows, Islamically committed workforce is required. Lack of committed and knowledgeable employees is a big challenge for the said windows. As stated by a respondent, "Islamic windows have to perform under a conventional banking system and Islamically committed individuals are badly needed for Islamic windows to flourish" (R3). Another respondent stated that, "We lack staff who understand the Islamic financial system properly" (R8).

Lack of skilled workforce

Financing activities are becoming gradually tougher due to complexities of the day. Nowadays, a banker has to be sufficiently skilled to handle the banking activities properly. As observed, a good number of skilled and technically sound workforce prefers to serve in the conventional banks because of competitive financial packages and other benefits. Skilled workforce is highly lacking in the Islamic financial institutions. As a result, deploying skilled workforce is a great challenge for the Islamic windows. According to Karbhari *et al.* (2004), majority of the professional training courses are designed for the conventional bankers that limit the opportunity to train the Islamic banking staff. Indeed, there is a global shortage of skilled professionals in the Islamic financial sector (Ibrahim, 2011). One of the senior bankers of the Islamic Bank Bangladesh Limited pointed out that, "There is scarcity of high skilled manpower in the bank" (R4).

Liquidity crisis

Managing liquidity has been one of the major problems in Islamic banks and windows. Liquidity crisis is a situation where depositors demand larger withdrawals than usual and banks are forced to borrow funds at an elevated interest rate. A liquidity crisis is usually unpredictable and can be due to either a lack of confidence in the specific bank, or some unexpected need for cash. Liquidity crises can ultimately result in 'a run on a bank' and even the insolvency of the bank. In order to resolve the crisis, it is suggested by a scholar that, "Islamic windows may have an arrangement with their mother institution whereby they may deposit their surplus funds with them without interest and in turn, their mother institutions may provide them short-term liquidity without interest" (R2).

Secular environment

Secularism is the principle of separation of government institutions and individuals mandated to represent the state from religious institutions and religious dignitaries (Kosmin & Keysar, 2007). Islamic banking system cannot flourish rapidly in a secular environment. If there is any hostility from the ruling Government, it becomes a great challenge for the overall development and even smooth functioning of the Islamic banking activities. The present 14-party alliance Government led by Awami League in Bangladesh is a secular government and in view of the public perception, this government is anti-Islamic. As stated by a respondent, “Present government is not in favor of an Islamic banking system. They are creating many obstacles for the smooth functioning of Islamic banking operations...” (R13).

It seems that there are many challenges for Islamic windows in Bangladesh. The major challenges as identified by the respondents are deviation from conviction, chances of distortion, question of sustainability, lack of committed people, doubt by the clients, lack of proper regulation, keeping and maintaining separate records and books, lack of skilled workforce, and the present secular government of the country.

Shariah compliance of Islamic windows

The most essential element of an Islamic window is that all of its operations are in strict compliance with Shariah. Pasha (2014) stated that Shariah compliance in a dominant interest-based society is a challenge for the Islamic banking system. Proper Shariah compliance is a matter of great concern in the windows. Different scholars and practitioners have different views and thoughts concerning the compliance of Shariah by the Islamic windows of conventional banks. Some of the opinions are stated below:

- i. We can maintain full Shariah guidelines regarding deposits, but it is not possible to maintain 100% Shariah principles regarding investments (R11);
- ii. There is no religious regulation we have to perform, but we are encouraged to follow the basic Shariah rules (R9);
- iii. Shariah Boards or Councils are available, but Shariah audit and inspections are insufficient. We have never seen them visit Islamic windows (R8);
- iv. We get some verbal instruction to maintain an Islamic environment, but there is no written instruction (R10);
- v. In a true sense, we are not properly guided by the Shariah ideology (R2); and
- vi. There are about 30% of Shariah violation cases in our windows (R9).

In view of the above opinions, it is evident that Shariah compliance is a big issue for Islamic windows in Bangladesh. As such, the following measures are necessary to meet this essential requirement as suggested by the practitioners, Islamic scholars, and eminent world famous Shariah scholar Justice Mohammed Taqi Usmani. First, in a true sense, there should be a competent Shariah Supervising Board or Council consisting of renowned Shariah scholars

to prepare the model agreements and other documents, to approve the structure of every new operation, and to lay down the basic guidelines for each mode of financing. It must be ensured that no new operation is undertaken without prior approval from the board. Members of the board must be selected from the scholars who may spare enough time to carry out these functions.

Second, apart from the Shariah Supervisory Board, a permanent Shariah cell or unit must be established in the bank/branch/window itself where some Shariah scholars are employed to monitor the compliance in each transaction on a daily basis. This cell must be responsible for the constant supervision of the day-to-day transactions of the window to ensure that the resolutions of the Shariah Supervisory Board are implemented in their true perspective and the guidelines set are followed in letter and spirit.

Third, it is generally complained that Shariah Boards of different Islamic banks come up with different rulings about the same issue. In order to solve this problem and the differences, Islamic financial institutions may establish a higher Shariah Board in Bangladesh comprising Shariah scholars representing different Islamic banking groups. This Shariah Board will prepare uniform Shariah standards of financing products, and it is hoped that it will help in fulfilling the need of the standardization of Islamic products.

Fourth, there should be an annual review of the transactions carried out during the year. This is to ensure that the income derived is pure from the Shariah point of view. The Shariah Supervisory Board, after examining the transactions should deliver a report to that effect.

Lastly, the general staff of the banks/windows should go through an intensive training course conducted by the members of the Shariah Supervisory Board or their nominees. This course should aim at educating the staff members about the basic principles of Shariah governing the commercial transactions and the basic philosophy underlying them. This is necessary because the members of the staff who undertake the responsibilities to run the day-to-day affairs of the bank should be equipped with basic knowledge of the system they are supposed to follow. They must know the difference between Islamic and non-Islamic operations, so that they may not step into the prohibited area even unknowingly. Moreover, they must understand the Maqasid Al-Shariah (objectives of Islamic law) and opinions of globally reputed Islamic scholars on contemporary issues.

All Islamic banks, branches, and windows should consider the above suggestions. If the above steps are properly taken to safeguard the Islamic nature of the windows, no reasonable objection can be raised against their establishment by a conventional bank. If a conventional bank opens an Islamic window and it is ensured that all the requisites for a true Islamic window are fulfilled in letter and spirit, this step cannot be criticized merely on the grounds that the whole bank is not converted. In non-Muslim countries in particular, it is found that numerous commercial institutions offer Islamic and non-Islamic products simultaneously. An example by Usmani (2002) may be noteworthy in this instance. All the hotels and restaurants in non-Muslim countries sell liquor and soft drinks. Nobody can reasonably argue that so long as they deal in liquor, they should not sell soft drinks. On the same analogy, if a conventional bank offers real Islamic products through a separate window, it will not be justified to raise objections against it. It is however, necessary that full compliance of Islamic principles is ensured in a reliable manner, and that liquor is not served in the name of a soft drink.

CONCLUDING REMARKS

The study was an attempt to know the role, challenges, and Shariah compliance of Islamic windows managed by conventional banks in Bangladesh and to evaluate them critically. The study revealed that Islamic windows have a significant contribution in Bangladesh though the windows are facing great challenges from various corners. Shariah compliance is a vital issue for Islamic windows. Necessary steps were suggested in this regard. It can be concluded that Islamic windows should not be treated as a challenge for the development of an Islamic financial system. Yes, sometimes there is apprehension expressed against Islamic windows in that their development may undermine the development of Islamic banks. This apprehension is, perhaps, based on the fact that Islamic windows are normally opened by the giant international banks having enormous resources, which the Islamic banks do not possess. This apprehension, however, is misconceived. If we consider the issue from the perspective of the cause of Islamic bank as a whole, the establishment of such windows will promote the cause and help in the development of Islamic finance. If these windows perform well, it will persuade the Islamic banks to perform better and if their performance is poor, they will never be able to stand before the Islamic banks as hard competitors. It should be clearly understood that the value of the principles laid down by Islamic Shariah in the field of business and trade is not restricted to religious benefits. Being based on divine guidance, they are meant for the betterment of humanity at large. They are aimed at distributing wealth with justice and equity and offer the best solutions to the problems created by the interest-based capitalist system. Their faithful and large-scale implementation may curb the social and economic evils found in our existing economy. Therefore, the conventional banks should not be discouraged from offering Islamic financial services, because the wider the circle of these services, the greater the appreciation of their effects by the society. This study has contributed to the literature and body of knowledge in the arena of Islamic windows. However, the study was limited to the evaluation of the role, challenges, and Shariah compliance of Islamic windows by conventional banks in Bangladesh through interviews with a few bankers and Islamic scholars following a qualitative approach. Further study can be conducted through a comprehensive survey using senior bankers and Islamic scholars following a quantitative approach.

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APPENDICES

List of Islamic Banks, Branches of Conventional Banks and Islamic Windows by Conventional Banks in Bangladesh on 31 March 2015

Full-fledged Islamic Banks		
SL. No.	Name of the Bank	No. of Branch
1	Islami Bank Bangladesh Limited	294
2	ICB Islamic Bank Limited	33
3	Social Islami Bank Limited	100
4	Al-Arafah Islami Bank Limited	119
5	EXIM Bank Limited	87
6	Shahjalal Islami Bank Limited	93
7	First Security Islami Bank Limited	137
8	Union Bank Limited	27
Total		890

Islamic banking branches of conventional Banks		
SL. No.	Name of the Bank	No. of Branch
1	The City bank Limited	1
2	AB Bank Limited	1
3	Dhaka Bank Limited	2
4	Premier Bank Limited	2
5	Prime Bank Limited	5
6	Southeast Bank Limited	5
7	Jamuna Bank Limited	2
8	Bank Alfalah Limited	1
9	HSBC Limited*	0
Total		19

Islamic banking windows of conventional banks		
SL. No.	Name of the Bank	Total Branch
1	Sonali Bank Limited	5
2	Janata Bank Limited*	0
3	Agrani Bank Limited	5
4	Pubali Bank Limited	2
5	Trust Bank Limited	5
6	Standard Bank Limited	2
7	Bank Asia Limited	5
8	Standard Chartered Bank	1
Total		25

* Has taken permission from Bangladesh Bank, but not yet started

Source: Bangladesh Bank Report by Research Department during January-March 2015