

The Role of Central Shari‘ah Advisory Board to Enhance Harmonization of Products and Services in Islamic Banking Institutions

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Abstract

Islamic banking, firmly rooted in Shari‘ah principles, has emerged as a resilient alternative to conventional banking systems on a global scale. The adherence to Shari‘ah principles distinguishes Islamic banking from its conventional counterparts, shaping the ethos of its products and services. While various models of Shari‘ah supervision exist worldwide, Pakistan stands out with its adoption of a hybrid model blending centralized and decentralized approaches. This paper focuses on exploring the necessity and significance of a centralized Shari‘ah supervisory model through qualitative research methods. By delving into the unique features and challenges of centralized supervision, it provides valuable insights into strategies aimed at enhancing the efficacy of Central Shari‘ah Advisory Boards (CSABs). These strategies are pivotal in advancing the harmonization agenda within Islamic banking, reinforcing integrity, trust, and sustainability within the industry. Furthermore, the paper underscores the broader impact of CSABs on Islamic finance, emphasizing their role in promoting financial inclusion and socio-economic development not only in Muslim-majority countries but also beyond. By aligning banking practices with Shari‘ah principles and fostering transparency, CSABs contribute to a more equitable and resilient financial ecosystem, resonating with the core values of Islamic finance.

Keywords: *Shari‘ah Board, Shari‘ah Supervision, Central Shari‘ah Advisory, Islamic Banking.*

Introduction

Shari‘ah compliance in the products and services of the Islamic financial institutions (IFIs) is a differentiating point between the IFIs from their conventional counterparts. A strong and viable Shari‘ah governance structure can ensure the compliance of Islamic financial institution with the Shari‘ah rules and principles. Shari‘ah board members of IFI’s are the back bone of Shari‘ah governance system. They ensure the strict compliance of Shari‘ah guidelines in the IFI’s products and services, so that the transactions must be free from any kind of prohibited elements i.e., riba, gharar, and qimar. (Ayub, 2019; Ayub et al., 2019; Sarker, 2012; Alsnuaiddi & Albakjaji, 2023)

The Shari‘ah board supervises the development of new products and services, it’s a process of ijthād , which the Shari‘ah board exercises. It can be observed that in development of new products and services there is difference of opinion among the Shari‘ah scholars. (Wardhany & Arshad, 2012) While providing alternative Shari‘ah compliant products and services it is quite possible that the Shari‘ah scholars introduce a product which is not unanimously agreed among Shari‘ah scholars. In Pakistani perspective there are some conflicting transactions which are being offered by some specific Islamic banks and this conflict may affect the confidence of general public in the Islamic finance industry. In order to make products and services uniform it seems need of the day that the Islamic banking industry should move towards collective ijthād to minimize this conflict. As the Honorable Supreme Court of Pakistan ordered in its judgement on riba 2001, to establish some special departments within the State Bank of Pakistan; “Shari‘ah Board for scrutiny and evaluation of Board’s procedures and products and for providing guidance for successfully managing the Islamic economics.” (PLD 2000 SC 225) in view of the above judgement a Shari‘ah advisory committee was constituted at State Bank level.

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To enhance the harmonization and consistency in financial transactions among IFIs, the AAOIFI has also released standard, known as the Governance Standard on Central Shari'ah Boards. In Pakistan, the Shari'ah Advisory Committee shares the same objective as the Central Shari'ah Board outlined by the AAOIFI. The primary aim of this study is to examine the role and responsibilities of the Central Shari'ah Board in promoting consistency in products and services within the Islamic banking industry.

Literature Review

The Shari'ah Supervisory Board is a set of independent Islamic business law specialists. Other than Islamic business law experts may also include expert members who are specialists in Islamic economics, banking, and legal economics as technical members. The board's primary role is to monitor the IFI's operations and to assurance that the IFI's transactions are Shari'ah compliant. They issue fatawa and provide guidance in Shari'ah decisions. (AAOIFI, 2015)

Grais, and Pellegrini, (2006), Based on the World Bank's working and policy papers, explored the form and procedure of an SSB appointed by an IIFS to analyze and monitor Shari'ah compliance. They believe that a competent, independent, and empowered SSB is required for the approval of new Shari'ah-compliant instruments. This research has emphasized the operational problems in achieving Shari'ah compliance in IIFS. The authors also suggested that fatawa be based on established principles in order to harmonize IIFS procedures. (Grais & Pellegrini, 2006)

Rammal (2010) addressed problems related to audit and governance in Pakistani IFIs in his study he focused on the Role of SSBs in Pakistan from a governance viewpoint. He also used a field-based case study technique to investigate the roles and duties of the SSB members. He also used quantitative and qualitative approaches, including primary data and semi-structured face-to-face interviews. The report determined that the Islamic financial sector is dealing with a number of SG difficulties, including a global scarcity of qualified Shari'ah experts. He also raised the problem of Shari'ah scholar training in Pakistan, citing the excessively long curriculum of deeni madaris in Islamic Jurisprudence, i.e., Shahadatul Almiya Fil Uloomal Arabia wal Islamia. Because to these issues, banks are recruiting inept Shari'ah board members, and due to a scarcity, one scholar is serving in numerous financial institutions as Shari'ah board member, resulting in a conflict of interest. (Hussain G Rammal, 2010)

According to Wardhany and Arshad (2012), the role and duties of the SSB in overseeing IBIs, as well as the authority and duties of the SSB members, were theoretically studied in 2012. In addition, the research examined the roles and responsibilities of SB in Malaysia, Indonesia, and Brunei Darussalam. According to the findings of the study, the authors concluded that both Indonesia and Malaysia are the same. However, in terms of duties and authority, the most significant aspect in assisting the SSB in monitoring IBs is the SSB's own experience. There is a recommendation to reinforce the SB at the Indonesian central bank. (Wardhany & Arshad, 2012)

In their study, Rahman and Bukair used statistical techniques to investigate whether the CSR was disclosed and whether the SSB had any influence. A sample of fifty-three international business organization (IBs) operating in GCC nations during 2008 was chosen for the content analysis and descriptive statistics. CSR disclosure in institutional investors' annual reports is rising, according to the findings of the study. The combination of SSB traits has a considerable favorable impact on the disclosure of CSR information by companies. This implies that the features of the SSB are significant aspects to consider when attempting to determine the extent of CSR disclosure. (Bukair & Abdul-Rahman, 2013)

Rammal (2006) has highlighted the role and functions of the SSB in international financial institutions (IFIs) and has advocated for a more concerted effort among the central banks of Muslim nations and other regulatory bodies. (Hussain G. Rammal, 2006)

Garas and Pierce (2010) looked at how the council of Shari'ah scholars' functions both inside and outside the central bank, namely the SSB, the Shari'ah Advisor, and Shari'ah consulting businesses. SSB functions

were also reviewed in this article, and one of the most significant results was the lack of consistency across IFIs in terms of the SSB's position within the corporate hierarchy. This was one of the most significant conclusions of the paper. Furthermore, they found that the SSB controls the operations of IFIs more than the activities of other forms of Shari'ah supervision, such as Shari'ah consulting firms and Shari'ah advisers, which he believes is a significant difference. (Nathan Garas & Pierce, 2010; Samy, 2010)

On the basis of Shari'ah and governance criteria established by the AAOIFI that are relevant to the subject of the study, Muhammad Amin Al-Qattan has reviewed the rules for the selection of members of SSBs. In addition, the author has highlighted contributions from modern experts. (Muhammad Amin, 2008)

From the perspective of Malaysia, Mohamad et al. (2015) examined the effectiveness of SSB/Committee members within IB (s), specifically issues related to the eligibility of SSB members such as competency and independence of members, consistency of members, up to date knowledge and information, and so on. (Mohamad et al., 2015; Muhamad Sori et al., 2015)

Abdul Aziz (2013) outlined obstacles that the Shari'ah Committee had to deal with that have reduced its ability and capacity to fulfil their goals. In addition, the study recommends alternate strategies for bridging the gap between public expectations and concerns involving the Shari'ah Committee and Shari'ah Auditors. (Ahmad Faizal Abdul Aziz, 2013)

Ahmed (2014) has examined the use of traditional Shari'ah-based contracts to structure in modern Shari'ah-compliant forms of financing, as well as the use of traditional Shari'ah-based contracts to structure in traditional Shari'ah-compliant modes of financing. In order to do this, the product development process as well as the function of the SSB have been thoroughly examined. The article emphasized the need of the Shari'ah Compliance Board (SSB) inside a bank in ensuring that goods and services are compliant with Shari'ah. (Ahmed, 2011, 2014)

Amanullah (2015) investigated the matter of the selection process for the SSBM. Despite the fact that the study is comparative, the researcher draws attention to the recommendations of the Bangladesh National Bank and the Bangladesh Bank on these parameters. As a result, the author additionally examined and assessed these criteria in light of Shari'ah rules that have been proposed by contemporary Muslim jurists and scholars. (Amanullah, 2015)

Farook and Farooq (2013) conducted an in-depth analysis of the relevant topics and developed a framework for determining the qualifications of Shari'ah scholars. When writing this conceptual paper, the authors point out that the Islamic financial sector is experiencing a scarcity of competent Shari'ah Scholars (Farook and Farooq 2011). According to the judgement of the group, owing to the lack of a standard qualification for this post, only a few top Shari'ah scholars are working with complete dedication and attention. The study also emphasizes the need of developing the knowledge and skills of Shari'ah scholars in order to deal with the present complicated financial system. For the foreseeable future, the authors have proposed several viable answers to these issues, including the development of a complete curriculum tailored exclusively for Shari'ah board members. For the purpose of establishing training and appropriate educational programs, similar to those for other contemporary professional disciplines, a body to recognize, regularize, and certify Shari'ah practitioners' credentials should be established. (Farook, Sayd, 2013)

Alman (2012) investigated the impact of the SSB's compositional features on the risk-taking of IBI's loan portfolio (s). To this end, they looked at how much a bank's risk-taking behavior is affected by the proper supervisory function of a supervisory board. They utilized data from a cross-country bank spanning the years 2000 to 2010. Based on the data, the author came to the conclusion that increasing the size of the SSB had a beneficial effect on the risk-taking of IBs' loan portfolios. Having a suitable number of top-ranked Shari'ah scholars with board mandates, as well as when the makeup of an SSB is changed on a yearly basis, are all indicators of good governance. The author came to the conclusion that a decentralized Shari'ah-compliant governance structure reduces the efficacy of supervisors and the ability of individual

bank SSBs to discipline risk-taking in the loan portfolio of IBs. It is clear from the reverse causality study that SSB characteristics influence loan portfolio risk-taking first and foremost, rather than the other way around. (Alman, 2012)

Kunhibava has conducted an evaluation of the "Islamic Financial Services Act 2013, Central Bank of Malaysia Act 2009," as well as the Sustainable Growth Formula. A few minutes later, he recommended that Section 57 of the Central Bank of Malaysia Act 2009 be amended to reflect the SAC of BNM's function. As well as the increased responsibility for overseeing and correcting Shari'ah non-compliance, the Shari'ah Committee has a particular duty and accountability. As previously stated, the author has called attention to the importance of the Boards of Directors in ensuring that the SGF is effectively implemented. (Sherin Kunhibava, 2015)

Toufik identified the particular function of the SSB in strengthening corporate governance. He examined the effect of SSB using both primary and secondary data from IBs and found that IBs are successfully implementing corporate governance principles such as accountability, trustworthiness, and openness. The additional benefit of Shari'ah oversight to corporate governance processes, on the other hand, is purely a moral obligation in the Islamic banking business. (Toufik, 2015)

To guarantee that a sound process of the promulgation of correct decisions that correspond with the norms and regulations as defined by Islamic Jurisprudence is followed in contemporary Islamic finance, Lahsasna (2011) has explored fatawa, its methodology, and practice in modern Islamic finance. (Lahsasna, 2011)

A study conducted by Rammal and Parker (2010) examined the difficulties surrounding the hiring and training of Shari'ah advisers at the International Finance Corporation. As a result, educational and training institutions in the private and public sectors to develop trained and professional human resources in the area of Shari'ah advisory are being established, the report suggests. (H.G. Rammal & Parker, 2010)

Sori et al. (2015), in their study on the independence of the Shari'ah committee, emphasized the importance of the independence of the Shari'ah committee in the SGF as a vital ingredient for an efficient, dependable, and regulated SG system. The research also looked at the independence of members of the Shari'ah committees of international FIs. (Sori et al., 2015)

Othman et al. (2013) conducted an investigation of the independence of the SSB and the efficiency with which it makes Shari'ah judgements. The primary goal of this research is to determine the level of approvals for the efficacy of resources and the efficiency of human resources in the context of the implementation of the SGF 2010 in Malaysia. The information was gathered via the use of survey questioners who were drawn from Islamic banking and takaful specialists. The research came to the conclusion that the independence of the Shari'ah committee contributes to the effectiveness of the judgments made by the Shari'ah committee during their sessions. They must be provided with the necessary access to the official record, which includes draught material, files, discussions, and any other sensitive information pertaining to their job, among other things, in order to aid their choices. (Othman et al., 2013)

Haqqi (2014) addressed current SG improvements and innovations in Malaysia that have been enacted or planned. He has established that the SG is the backbone of the Islamic-financial industry's regulatory and supervisory framework. In order to have adequate oversight procedures in the IFIs, policymakers and intellectuals must consider the method of the SG to give supervision in their country's IF services. He has emphasized the need of regulators playing their roles in SG enforcement, as well as the necessity for a central Shari'ah committee. (Haqqi, 2014)

Miskam and Nasrul (2013) investigated the post-implementation impacts of the Islamic Financial Services Act 2013, specifically the SG provisions and their legal consequences for the stakeholders of IFIs (IFIs) after implementation. This paper also offers a thorough study of the Central Bank of Malaysia Act 2009, which provides for the formation of a Shari'ah Advisory Council, which is critical in the administration of international financial institutions. (Surianom & Muhammad Amrullah, 2013)

By contrasting two forms of SGF, Hamza (2013) delves into the efficiency of the Singapore Government and supervisory models. The first mode of SGF is a centralized model of Malaysia, while the second mode of SGF is a decentralized model of the Gulf Corporation Council (GCC). He came to the conclusion that the Centralized SG system in Malaysia seems to be more beneficial for the Islamic financial business in terms of dependability and efficacy. He further said that. (Hamza, 2013)

The importance of central banks in regulating, monitoring, leading, and controlling international business enterprises (IBIs) for the growth and smooth running of the sector has been emphasized by Sarker (2012) from the viewpoint of Bangladesh. The rules and function of the central bank of Bangladesh in relation to the regulation, supervision, and control of the Islamic banking sector have been critically analyzed in this paper. In addition, the author has made several recommendations for improving the Central Bank's ability to achieve its stated goals. (Sarker, 2012)

In summary of Hasan and Sabirzyanov's (2015) findings, they emphasize the importance of Shari'ah compliance in Islamic finance, highlighting the essential role of Shari'ah-compliant software in ensuring such adherence. Moreover, they stress the importance of the reliability and effectiveness of the Shari'ah governance system in building public trust in Islamic banking and financial services. The authors also discuss the Central Shari'ah Board and the Supreme Shari'ah Board, proposing an ideal Shari'ah Board model to address deficiencies in current models. (Hasan & Sabirzyanov, 2015)

Rammal (2006) has highlighted the role and functions of the SSB in international financial institutions (IFIs) and has advocated for a more concerted effort among the central banks of Muslim nations and other regulatory bodies. (Hussain G. Rammal, 2006)

Garas and Pierce (2010) looked at how the council of Shari'ah scholars' functions both inside and outside the central bank, namely the SSB, the Shari'ah Advisor, and Shari'ah consulting businesses. SSB functions were also reviewed in this article, and one of the most significant results was the lack of consistency across IFIs in terms of the SSB's position within the corporate hierarchy. This was one of the most significant conclusions of the paper. Furthermore, he found that the SSB controls the operations of IFIs more than the activities of other forms of Shari'ah supervision, such as Shari'ah consulting firms and Shari'ah advisers, which he believes is a significant difference. (Nathan Garas & Pierce, 2010)

Shari'ah Governance Framework by the State Bank

The State Bank of Pakistan has taken numerous steps to strengthen Shari'ah compliance mechanism in Islamic banking. In 2008 the SBP issued instructions and guidelines for Shari'ah compliance in Islamic banking institutions (IBIs). (State Bank of Pakistan, 2008b) This circular replaced the BCD Circular No.13 which was issued on 20th June, 1984. (Rehman & Shahzad, 2020) As per this circular all IBIs and Islamic banking branches of the conventional Banks were advised to appoint Shari'ah advisor to oversee IBIs transactions and assure that all products and services, as well as related policies and agreements, are compliant with Shari'ah norms and principles. (Ayub et al., 2019; Shahzad & Hameed, 2018) Before launching any new products or services, the Shari'ah adviser should thoroughly review all related policies and agreements. The Shari'ah adviser was also expected to organize training for IBI employees. (State Bank of Pakistan, 2008a)

Later in 2014 the SBP issued a comprehensive Shari'ah governance framework (SGF) which was a detailed guideline to ensure Shari'ah compliance and governance in IBIs. According to the SGF the Board of Directors must have an effective mechanism to supervise the Shari'ah compliance environment and the Executive management is responsible for the execution of framework. The SGF also suggested an independent and effective Shari'ah Board should be appointed consisting at least three Shari'ah scholars one of them may serve as Chairman Shari'ah board and one as Resident Shari'ah board to advise the bank on day-to-day and regular Shari'ah matters. The minimum qualification of the Shari'ah board members was suggested in Fit and Proper Criteria (FAPC) in annexure A of this framework. Moreover, to assist the

Shari'ah Board and serving as a conduit between it and the IBI's administration by establishing a Shari'ah Compliance Department. In addition to this internal and external Shari'ah audit was also made compulsory in IBIs for independent assessment of Shari'ah governance and compliance environment. (SBP, 2014) This SGF was a considerable development in the field of Islamic banking industry as compared to the 'Instructions for Shari'ah Compliance in IBIs. An updated version of the SGF was issued 2018 with some necessary amendments. (SBP, 2018)

Existing Shari'ah Governance and Harmonization of Products and Services in IBIs

Keeping in view the marvelous developments in the Islamic banking and finance industry the State Bank of Pakistan. After reviewing guidelines of the State Bank of Pakistan it can be observed that as per 'Instructions for Shari'ah Compliance in IBIs' issued in 2008 all Islamic banks and Islamic banking branches were instructed to appoint a Shari'ah advisor. (State Bank of Pakistan, 2008a) Later on , after implementation of SGF with many other improvements and changes the requirement for Shari'ah advisor was replaced Shari'ah board instead (Figure 1 and 2). It seems a positive step towards strengthening the Shari'ah compliance in Islamic Banking industry. (Ayub, 2019; SBP, 2014, 2018; Shahzad & Rehman, 2017)

With this improvement it is also observed that the controversial transactions in Islamic banks has been increased in IBIs such as running Musharakah, (Akram, 2019; Alkhayyal&, Parveen, 2024) Currency Salam, (Khaleequzzaman et al., 2016; Mansoori, 2021; Siddiq & Shahzad, 2015) shukuk murabahah (Khaleequzzaman et al., 2016; Mansoori, 2021) banka takaful and commodity murabahah etc. (Mansoori, 2021; Shahzad & Ahmad, 2021) The independent Shari'ah boards of Islamic Banks and Islamic Banking branches introduce multiple transactions which results controversial products and services in the IBIs. The Ikhtilaf al-Fuqahā' (difference of opinion among Shari'ah scholars) undermine the confidence of general public in Islamic banking industry.

The Ikhtilaf al-Fuqahā' and Al-ijtihād al-jama'i (Collective Ijtihad)

Differences among Islamic jurists, known as Ikhtilaf al-fuqahā', have been a recurring aspect of Islamic jurisprudence since the time of the Prophet's companions (peace be upon him). (Abd Razak, 2018; Lahsasna & Saba, 2014) The methodological variances result in differences of opinion among Shari'ah scholars regarding subsidiary Shari'ah matters (furū'). It's important to note that dissenting opinions are not permissible concerning fundamental issues of Islamic belief or matters known to every Muslim by necessity, such as the obligation to perform five daily prayers etc. Similarly, any opinion that contradicts a clear and authentic Shari'ah text is deemed invalid.

Considering the preceding discussion, it is recommended that modern Islamic Financial Institutions (IFIs) adhere to Shari'ah guidelines in their complex transactions. Such transactions should strictly avoid prohibited elements like ribā, gharar, and qimār. The responsibility lies with the Shari'ah board to ensure that the products and services offered by the financial institution comply with Shari'ah principles. Moreover, it is crucial to thoroughly scrutinize new products and services before introducing them to the market. Given that the development of new products and services are based on ijthād, differences of opinion among the Shari'ah boards of different Islamic banks regarding specific products or services are inevitable. To mitigate controversy or minimize divergence among schools of Islamic law, it is imperative to implement decisions made by institutions exercising collective ijthād. This approach will promote uniformity in IFI practices.

The challenges of the modern era surpass those of Muslim history. Hence, Muslim societies rightfully expect scholars ('ulamā') to provide comprehensive and pragmatic solutions to their problems (Hosen, 2004). Allama Yusuf al-Qardawi emphasizes the need for collective ijthād in our era (al-ijthād al-jama'i) (Al-Qardawi, 1984). Justification for collective ijthād can be derived from Qur'ānic verses, "and whose affairs are a matter of counsel" (Al-Qur'ān, 42:38). Historical instances, such as decisions made during the battles of Uḥud and Hunain, demonstrate the practice of collective ijthād by the companions of the Prophet

PBUH (Hisham, 2008). The companions resolved significant and intricate matters through collective *ijtihād*, including the selection of the Caliph. In modern times, several institutions of collective *ijtihād* operate in various countries. Strengthening these institutions and implementing their decisions is crucial for standardizing IFI practices (Hisham, 2008; Amuda & Al-nasser, 2024).

Role of Central Shari'ah Committee in Harmonization of Products and Services

The role of the Central Shari'ah Committee (CSC) in the harmonization of products and services within the Islamic financial industry is of paramount importance. As a central governing body tasked with overseeing the adherence to Shari'ah principles in financial transactions, the CSC plays a crucial role in ensuring consistency and coherence across various offerings provided by IFIs.

One key function of the CSC is to provide guidance and rulings on the compliance of financial products and services with Shari'ah principles. By reviewing and approving the structures and features of new financial products, the CSC ensures that they are in line with Islamic law and ethics. This process helps to maintain the integrity and credibility of IFIs, instilling confidence among customers and investors in the Islamic financial system.

Moreover, the CSC serves as a platform for resolving any disputes or disagreements that may arise regarding the interpretation or application of Shari'ah principles in specific financial transactions. Through rigorous deliberation and consultation among its members, which typically include renowned Shari'ah scholars and experts in Islamic finance, the CSC strives to reach consensus and provide clear guidance on contentious issues. This fosters greater uniformity and standardization in the practices of IFIs, facilitating smoother operations and reducing uncertainty in the market.

Furthermore, the CSC plays a proactive role in promoting innovation and development in the Islamic financial industry while ensuring compliance with Shari'ah principles. By closely monitoring market trends and emerging financial instruments, the CSC identifies areas where new products and services can be introduced to meet the evolving needs of customers while adhering to Islamic ethical standards. Through its guidance and oversight, the CSC encourages continuous improvement and advancement within the Islamic financial sector, driving growth and competitiveness in the global marketplace.

In different countries Shari'ah governance regulations can be classified mainly in three models i.e., i) Centralized model, ii) IBFIs self-regulation model; and iii) Hybrid Model. (Ayub, 2021; Hasan & Sabirzyanov, 2015) In Pakistan the hybrid model is being used. where the Shari'ah pronouncements or *fatawa* of the Central Shari'ah committee are also binding on IBIs. In order to harmonize the products and services in IBIs the role of the central Shari'ah committee is very important. The role of the central Shari'ah committee should be as regulator and it should introduce and approve new products and services for the industry. However, if an Islamic bank design a product for some special case it must be approved by the central Shari'ah committee.

Proposed Model for Central Shari'ah Advisory for IFIs

In light of the Shariah governance framework issued by the State Bank of Pakistan in 2015, which mandates that every Islamic banking institution appoint a Shariah board comprising at least three Shariah scholar members, there arises a need for a reevaluation of the governance structure. A proposed model for the Central Shariah Advisory for Islamic Financial Institutions (IFIs) in Pakistan suggests the introduction of Shariah advisors instead of Shariah boards within individual institutions.

Under this proposed model, each Islamic banking institution would have a designated Shariah advisor, responsible for providing expert guidance and oversight on matters pertaining to Shariah compliance. These advisors would possess comprehensive knowledge and expertise in Islamic law and finance, ensuring the adherence of the institution's products and services to Shariah principles. However, to maintain consistency and ensure rigorous oversight, all products and services offered by Islamic banking institutions must still

be approved by a centralized Shariah advisory body. This centralized entity, referred to as the Central Shariah Advisory, would comprise a panel of eminent Shariah scholars and experts in Islamic finance. Their role would be to review and endorse the Shariah compliance of products and services proposed by individual institutions, thereby upholding the integrity and credibility of the Islamic financial system in Pakistan.

By adopting this proposed model, Islamic banking institutions in Pakistan can streamline their Shariah governance processes, enhance efficiency, and strengthen the overall compliance framework. Furthermore, the centralized oversight provided by the Central Shariah Advisory ensures consistency and coherence in Shariah compliance standards across the industry, fostering trust and confidence among customers and investors alike.

Appointment and Qualification Criteria of Central Shari'ah Board Members

The appointment and qualification criteria for members of the Central Shariah Board (CSB) are of paramount importance in ensuring the integrity and expertise of the board's composition. As per the stipulations, the State Bank of Pakistan (SBP) would oversee the appointment process, adhering to rigorous standards akin to those outlined by the Council of Islamic Ideology (CII) for the selection of its members.

Firstly, candidates considered for membership on the CSB must possess a deep understanding of Islamic law (Shariah) and its application within the context of Islamic finance. This entails having a comprehensive knowledge of Islamic jurisprudence (fiqh), as well as proficiency in relevant disciplines such as economics, finance, and legal studies.

Furthermore, candidates must demonstrate a proven track record of scholarly research and publications in the field of Islamic finance and jurisprudence. This requirement ensures that CSB members are well-equipped to provide informed and authoritative guidance on complex Shariah-related matters.

Additionally, candidates should possess impeccable integrity, ethical conduct, and independence of thought. They must be free from any conflicts of interest that could compromise their ability to fulfill their duties impartially and diligently.

The appointment process should be transparent, merit-based, and inclusive, with due consideration given to diversity in expertise, background, and perspectives among CSB members. The SBP should solicit nominations from reputable Islamic educational institutions, professional bodies, and relevant stakeholders in the Islamic finance industry.

Once appointed, CSB members should undergo continuous professional development and training to stay abreast of developments in Islamic finance and jurisprudence. This ensures that they remain well-informed and capable of fulfilling their responsibilities effectively.

By adhering to robust appointment and qualification criteria, the CSB can uphold the highest standards of Shariah governance, thereby enhancing confidence and trust in the Islamic financial system among stakeholders and the public alike. Adopting the criteria established by the Council of Islamic Ideology further ensures alignment with established principles and best practices in Shariah governance.

Appointment and Qualification Criteria of Central Shari'ah Advisors at IBIs

To ensure the competency and professionalism of Shari'ah Advisors (SAs) at Islamic Banking Institutions (IBIs), the State Bank of Pakistan (SBP) should establish a comprehensive system for their appointment and qualification criteria. This system would include the establishment of a pool of Shari'ah advisors categorized into two levels: Senior Members and Junior Members.

Senior Members

Senior members would not be required to undergo any formal assessment for selection.

Qualification criteria for senior members may align with the fit and proper criteria outlined by the SBP. Additionally, individuals with a minimum of 15 years of practical experience as a Shari'ah Advisor, Mufti, Trainer, Professor, or in similar roles within Islamic Banking & Finance may be eligible for consideration as Senior Members.

Junior Members

- Prospective candidates for junior membership should undergo a test administered by a third party and an interview conducted by the SBP.
- Junior members should complete a minimum of 36-48 Credit Hours of training in Banking & Finance conducted by the SBP or its approved University/Institute.
- After a period of 10 years from the date of joining as a junior member, an individual becomes eligible to apply for promotion to Senior Member status.

Furthermore, it should be explicitly stated that a Shari'ah Advisor would be ineligible if they concurrently serve as a Shari'ah Advisor for more than one institution. This measure is essential to uphold the integrity and impartiality of Shariah advisory services within the Islamic banking sector.

The qualification criteria for Shari'ah Advisors should mirror those outlined in the Fit and Proper Criteria as detailed in Annexure A of the Shari'ah Governance Framework issued by the SBP. This ensures consistency and alignment with established standards of expertise and professionalism in Shariah governance within the Islamic finance industry.

By implementing these stringent appointment and qualification criteria for Shari'ah Advisors, the SBP can enhance the credibility, integrity, and effectiveness of Shariah governance within Islamic banking institutions, thereby promoting greater confidence and trust among stakeholders and the public.

In addition to establishing a pool of Shariah Advisors categorized into Senior and Junior Members, it is imperative that every Islamic Banking Institution (IBI) appoints its Shariah Advisor from this pool. This measure ensures that Shariah Advisors possess the necessary qualifications and expertise as outlined by the State Bank of Pakistan (SBP) and guarantees a consistent standard of Shariah governance across all IBIs.

Furthermore, to enhance the competency and professional development of Shariah Advisors, the SBP should organize capacity-building trainings tailored to the specific needs of Shariah governance in Islamic banking. These trainings would cover areas such as Islamic finance principles, regulatory compliance, and emerging trends in Islamic Banking industry, thereby equipping advisors with the knowledge and skills required to fulfill their roles effectively.

To safeguard the independence and impartiality of Shariah Advisors, it is proposed that the honorarium for their services be disbursed by the SBP after collection from Islamic Banks. By centralizing the distribution of honorariums, the SBP can ensure that Shariah Advisors are not unduly influenced by individual IBIs and can maintain their objectivity in providing Shariah advisory services. This measure reinforces the integrity of Shariah governance within IBIs and strengthens public confidence in the adherence to Shariah principles.

In summary, the appointment of Shariah Advisors from a centralized pool, coupled with ongoing capacity-building trainings and centralized disbursement of honorariums by the SBP, serves to enhance the professionalism, independence, and effectiveness of Shariah governance in Islamic banking institutions. This concerted effort by the SBP promotes consistency, integrity, and transparency in Shariah compliance practices, thereby fostering trust and confidence among stakeholders and the broader public.

Conclusion and Recommendations

In conclusion, the establishment of Shariah boards at individual Islamic banks has led to an increase in controversial products and services, impacting stakeholder confidence in Islamic banking institutions. To address this, a comprehensive committee of competent Shariah scholars should be formed at the State Bank level, following the Council of Islamic Ideology's model for appointment. At the Islamic bank level, Shariah Advisors should be appointed from a pool established by the State Bank of Pakistan instead of Shariah boards. This approach ensures consistency and adherence to Shariah principles while mitigating the proliferation of contentious products and services. By centralizing Shariah governance and regulation, harmonization in Islamic banking practices can be achieved, ultimately bolstering stakeholder confidence and ensuring the integrity of the Islamic finance sector.

Conflict of Interest

We declare that there is no conflict of interest related to publication of this study.

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Data Availability Statement

Data used in this study is available and can be obtained from the corresponding author through email.

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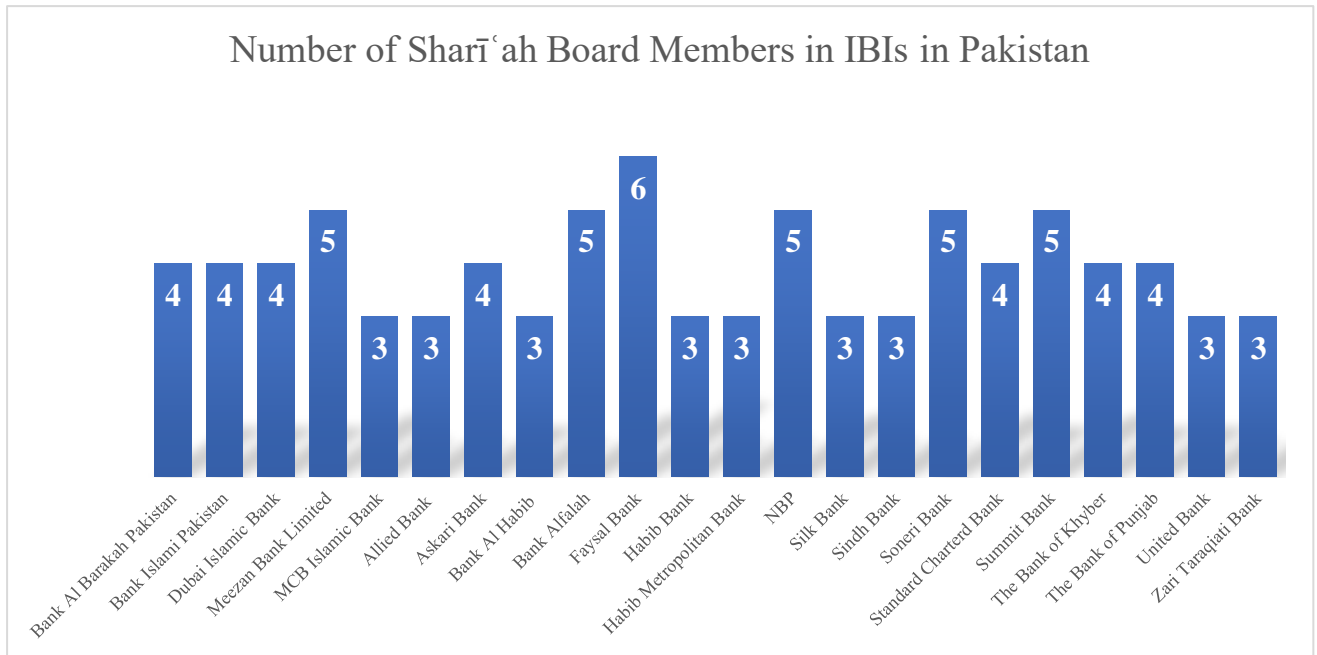


Figure 1. Number of Shari'ah Board Members in Islamic Banking Institutions (IBIs) in Pakistan



Figure 2. Top 10 Countries with Institutions that have 3 or more Shari'ah Scholars

Source: Adapted from Thomson Reuters (2016)

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