

**Shariah compliance in Islamic banking: A comparative study on Islamic banks and
conventional Islamic windows in Pakistan**



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ABSTRACT

Consumers of Islamic banks are doubtful about the shariah operational compliance; they believe most of them are having fatwas to satisfy customers otherwise, they are mostly risk averse. They invest in those segments of industry where risk transferred to customers. While risk sharing is the key determinant of shariah compliance. Shariah risk rating model is being used based on 14 factors that covers shariah risk further broken down into 5 main areas which includes regulatory support, the product mix, quality of shariah supervisory board, portfolio structure and the capital adequacy ratio. 4 banks were analyzed selected from Pakistan. 2 Islamic and 2 conventional Islamic windows will be tested for this. Shariah compliance has its own importance but industry wise risk comparison is also important. Islamic banks also required to be compliant with Basel III which is also a challenge. Conventional models can also be modified to assess risk level of Islamic banks since risk is a common element in both systems, Islamic and conventional banks. Non- compliance to shariah may leads to shariah compliance risk, since there is difference in beliefs of conventional banking customers and Islamic banks customers. The weights of model given based on experience and personal judgement. Higher or lower scores of all banks clearly show their weaknesses and strengths. Findings of this paper show that all 4 banks 2 Islamic and 2 conventional Islamic windows are shariah compliant.

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