



Need for reform in AAOIFI standards on murabaha financing: evidence from Islamic Banks in Pakistan

Maria Bhatti¹ · Muhammad Shujaat Saleem² · Fadillah Mansor³

Accepted: 30 August 2024
© The Author(s) 2024

Abstract

This paper addresses the need for reform in AAOIFI standards on murabaha financing, providing a legal analysis and examining compliance by Islamic banks in Pakistan with AAOIFI Shariah Standard No. (8). Through qualitative research involving face-to-face interviews and content analysis, primary data was collected and analyzed using NVivo software. The findings reveal that Islamic banks in Pakistan do not fully comply with AAOIFI Shariah Standard No. (8), specifically regarding the arrangement fee outlined in clause 2/4/4. Additionally, a contradiction is identified between Shariah Standard No. (24) (clause: 7(1)) and Shariah Standard No. (8) (clause: 2/4/4), as the former permits the charging of an arrangement fee while the latter does not. It's important to note that this study focuses exclusively on murabaha financing as a debt-based product of Islamic banks and is conducted in Karachi, the financial capital of Pakistan, with respondents including Shariah advisors, assistant Shariah advisors, and bank managers from Islamic banks. The findings contribute to the significance of standardizing the international Islamic banking system and recommend reforms in AAOIFI Standards to foster a harmonized and uniform practice among Islamic banks in Pakistan. This research paper provides valuable insights into contemporary Islamic banking practices, assisting the State Bank of Pakistan in evaluating AAOIFI compliance. Additionally, it helps shape the public's perception of Islamic banks' adherence to Islamic principles and offers potential guidance for future research in various jurisdictions.

Keywords Islamic law · Shariah compliance · Murabaha financing · Islamic banking and finance in Pakistan · Islamic financial standards · AAOIFI standards · Pakistan · Qualitative data · Comparative law

✉ Maria Bhatti
M.Bhatti@westernsydney.edu.au

Muhammad Shujaat Saleem
shujaatsaleem@iqra.edu.pk

Fadillah Mansor
fadillah@um.edu.my

¹ Western Sydney University, Sydney, Australia

² Iqra University, Karachi, Pakistan

³ Department of Shariah and Management, Academy of Islamic Studies Universiti of Malaya, Kuala Lumpur, Malaysia

1 Introduction

The history of the Islamic banking and finance industry in Pakistan traces its origins back to the 1930s, with the establishment of the first muradarah corporation in Hyderabad-Dakun in undivided India. Following independence, the Constitution of Pakistan emphasized that banking laws should align with the teachings of the Quran and the Prophet Muhammad. As per the constitution, individuals had the right to challenge laws contradictory to Islamic injunctions through court petitions. To facilitate this, the Federal Shariah Court (FSC) and the Shariat Appellate Bench (SAB) were established in 1979, and Islamic scholars and practitioners filed a petition against interest in the FSC (Usmani 2002).

In the 1980s, under the leadership of General Muhammad Zia ul Haq, the Mudarabah Ordinance was introduced, marking a step towards the Islamization of Pakistan's economy (Khatoon 2016). The first meeting on Islamic banking took place at the Nichol Road branch of the National Bank of Pakistan (NBP) in Karachi in 1981. With the transition of depositors at NBP, their savings accounts underwent conversion into profit and loss accounts, signifying a substantial shift from an interest-based financial system to an interest-free model. However, at that time, there was a lack of advisory, regulatory, and supervisory frameworks. Banks operated without designated Shariah advisors, Shariah committee members, or the presence of an Islamic Banking Division (IBD) under the State Bank of Pakistan. Additionally, there were no mechanisms in place to ensure Shariah compliance through internal and external Shariah audits.

However, following the decision of the Federal Shariah Court (FSC) against interest in 1991, and the subsequent verdict of the Supreme Court of Pakistan in 1999 banning interest (Usmani 2002), the Meezan Investment Company applied for an Islamic banking license. They received the license in 2001 and commenced operations in 2002 as the first premier Islamic bank in Pakistan. Presently, Pakistan has a centralized governance structure for the Islamic banking industry, overseen and regulated by the Islamic Banking Division (IBD) of the State Bank of Pakistan (SBP) (Jan et al. 2022). The IBD consists of a Shariah Advisory Committee (SAC) responsible for providing advice on Shariah-related matters related to Islamic banking and finance. Since the establishment of the first Islamic banks in 2002, there has been a growing interest in the Islamic banking and finance (IBF) industry, necessitating a deeper understanding of the legal issues surrounding Islamic finance products.

From an international perspective, the IBF industry has experienced growth and demonstrated resilience, particularly during the global financial crisis of 2008 (Beck et al. 2010; Hassan et al. 2013; Razak and Amin 2013; Aldosari 2018a, b; Solarin 2019). Additionally, Biancone and Radwan (2018) suggest that Islamic banking products offer an alternative solution for the development of long-term infrastructure projects. It is projected that within the next 8–10 years, Islamic banking will account for 40–50% of the total savings in the Muslim world (Basheer et al. 2018).

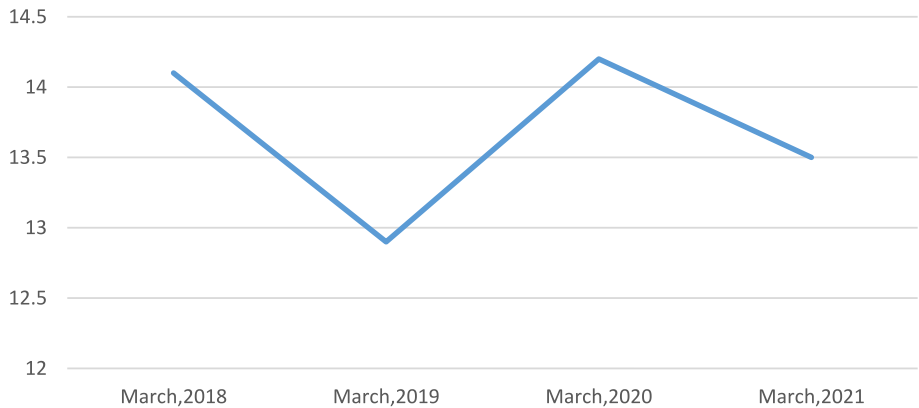
Although the Islamic banking and finance (IBF) industry has experienced growth, it is noteworthy that Islamic banks in Pakistan account for only 19.5%¹ of the total banking assets, despite the country's high Muslim population of 96.2%². This suggests a potential lack of acceptability of Islamic banks in Pakistan (Ouerghi 2014; Haseeb 2018). One possible explanation for this phenomenon is the presence of challenges related to Shariah

¹ 'Pakistan Bureau of Statistics', available at : <https://www.pbs.gov.pk/> (accessed 12 June 2022).

² 'Islamic Banking Bulletin', available at : <https://www.sbp.org.pk/ibd/Bulletin/Bulletin-1.asp> (accessed 19 July 2022).

Table 1 % Share: murabaha financing. *Source:* Islamic Banking Bulletins (2018–2021)-State Bank of Pakistan

March 2018	March 2019	March 2020	March 2021	% Decrease (From March 2018 to March 2021)
14.1	12.9	14.2	13.5	4.2%

**Fig. 1**

compliance (Khan and Bhatti 2008; Haridan et al. 2018), which may impede the growth of Islamic banks.

Table 1 and Fig. 1 illustrate that the growth of murabaha financing has declined by 4.2% as of the end of March 2021 compared to the same period in 2018. These figures highlight the need for further analysis and understanding of the factors contributing to this decline in murabaha financing within the Pakistani IBF industry.

This research paper contributes to the existing literature in the field of Islamic banking and finance, offering valuable insights into the practices of contemporary Islamic banks. These insights are instrumental for the State Bank of Pakistan in evaluating the level of AAOIFI compliance by Islamic banks, particularly regarding murabaha financing. The study's findings also hold significance for the AAOIFI, helping them determine if any reforms are necessary in the current AAOIFI Standards. The perception of the general public regarding Islamic banks' adherence to the principles of Islamic jurisprudence is of utmost importance. In this regard, this study proves beneficial as it aids in shaping the public's perception of the practices adopted by contemporary Islamic banks in Pakistan. Furthermore, this research can serve as a valuable reference for future researchers interested in conducting similar studies on various Islamic banking products in different jurisdictions worldwide.

The paper initiates by posing the research question and conducting a comprehensive literature review on murabaha financing, examining various perspectives within Shariah. It subsequently provides a contextual background to the study, encompassing the problem statement, the methodology employed, and the data collection techniques utilized. The

paper further undertakes content analysis to analyze the gathered data. Finally, the study concludes by offering insightful recommendations based on the findings.

2 Research questions

This article addresses the minimal growth of Islamic banking and finance (IBF) in general, with a specific focus on murabaha financing, along with potential Shariah compliance concerns. In light of these issues, the study aims to answer the following research questions:

1. Do the practices of Islamic banks regarding murabaha financing align with AAOIFI Shariah Standard No. (8)?
2. What challenges and obstacles, if any, do Islamic banks encounter when attempting to adhere to AAOIFI Shariah Standard No. (8)?
3. How can these challenges and obstacles, if present, be resolved to ensure compliance with AAOIFI Shariah Standard No. (8)?

3 Research objectives

The study is guided by the following objectives.

1. To examine the consistency of Islamic banks' practices with AAOIFI Shariah Standard No. (8).
2. To analyze the hurdles, if any, faced by Islamic banks in adhering to AAOIFI Shariah Standard No. (8).
3. To propose potential solutions for overcoming the challenges, if any, encountered by Islamic banks in conforming to AAOIFI Shariah Standard No. (8).

In order to address the research questions and achieve the research objectives, this paper aims to examine the compliance of Islamic banks in Pakistan with AAOIFI Shariah Standard No. 8, contributing to both academic and practical knowledge in the field of Islamic banking and finance. The findings of this study are valuable in assisting the State Bank of Pakistan (SBP) in assessing the level of compliance among Islamic banks with AAOIFI Shariah Standard No. 8, which is mandatory for Islamic commercial banks in Pakistan. Non-compliance with this standard may result in penalties imposed by the SBP.³

The study is motivated not only by the principles of Islamic jurisprudence that prohibit interest but also by the socioeconomic benefits of an interest-free financial system. Islamic banks, with their asset-based financing approach, contribute to macroeconomic objectives such as price stability, reduced unemployment, and economic growth. They have also demonstrated resilience to financial and economic shocks, as evidenced by studies conducted after the financial crisis of October 2008 (Baber 2018). Additionally, the study draws inspiration from the historical perspective of Islamic banks in the Indo-Pak region, tracing their roots back to the 1930s, as discussed earlier.

³ 'State Bank of Pakistan', available at : <http://www.sbp.org.pk/ibd/2010/C1.htm> (accessed 27 April 2023).

Meezan Bank Limited, which obtained its license in 2001 and became the first Islamic bank in Pakistan, holds significance in the journey towards establishing interest-free banking in the country. Therefore, this study makes significant contributions by analyzing the level of compliance of Islamic banks with AAOIFI Shariah Standard No. 8, aligning with the goal of building an interest-free Pakistan as envisioned in the constitution of 1973. These contributions provide benefits to various stakeholders involved in the Islamic banking sector.

4 Literature review

4.1 Foundation theories

This section begins by exploring various theories to support the significance of complying with AAOIFI standards. The theory proposed by WJ Kamba on comparative law provides a valuable framework for assessing and analyzing foreign materials in a meaningful manner (Kamba 1974). This framework is crucial for ensuring that Islamic finance complies with the AAOIFI standards as it helps in understanding the meaning of comparative law itself. By defining comparative law as the comparison of two or more legal systems or parts of legal systems, it establishes a clear starting point for studying and evaluating different legal frameworks. Moreover, comparative legal methods are particularly significant in the context of globalization and the blurring boundaries between public and private law. By adhering to AAOIFI, Islamic financial institutions can navigate the globalised market, prevent normative barriers, contribute to social and legal reform, and foster international unification within the industry (Watt 2019; Lomio et al. 2011).

Moreover, the theory of legal transplant (Spencer 2020; Legrand 1997) is important to AAOIFI standards and Islamic finance as it provides a method for law reform by borrowing legal ideas and principles from other jurisdictions. However, the success of legal transplant relies on considering the social, economic, and political differences between the jurisdictions involved, and integrating a place-sensitive methodology that takes into account contextual and material factors for more favorable outcomes in the country of reform (Spencer 2020; Legrand 1997). Understanding the comparability between jurisdictions and the sociological and geographical context is crucial for effective legal transplant in Islamic finance and the adherence to AAOIFI standards. By adhering to AAOIFI standards, Islamic finance ensures that the legal framework governing its practices aligns with the specific social, cultural, and religious contexts of the Islamic finance community, reinforcing the authenticity and legitimacy of the industry (Wahyuni 2022). In addition to the points mentioned above, it is important to note that compliance with AAOIFI standards has a positive effect on the financial performance of Islamic banks. Research has shown that Islamic banks that adhere to AAOIFI standards tend to demonstrate improved financial indicators and profitability, as these standards provide a framework that enhances transparency, risk management, and governance within the Islamic banking sector (Mnif and Tahari 2023).

Below are summarized some of the approaches relevant to our paper, serving as a quick reference for the readers.

4.1.1 Comparative law theory

The functions of comparative law, which includes legislation and law reform, the judicial process, unification and harmonization, international law, and international understanding (Kamba 1974), relate to the field of Islamic finance as they provide a basis for evaluating and adopting best practices from different legal systems, including AAOIFI standards. Comparative law plays a crucial role in Islamic finance by comparing the principles and practices of Islamic finance with those of other legal systems, ensuring compliance with AAOIFI standards through macro-comparisons and micro-comparisons that identify similarities and differences (Kamba 1974). Adhering to AAOIFI standards is essential for Islamic finance as it entails examining legal formants and promoting social and legal reform (Lomio et al. 2011). By considering the various components of legal systems, Islamic finance can overcome complications arising from their multiplicity and draw comprehensive conclusions (Lomio et al. 2011). Additionally, the global focus highlighted by Watt (2019) underlines the significance of recognizing the impact of global changes on existing traditions and the blurring boundaries between public and private law. Compliance with AAOIFI standards enables Islamic finance to navigate the competitive landscape shaped by powerful international corporations, preventing barrier crossing and ensuring adherence to consistent rules (Watt 2019).

The comparative law framework is vital for ensuring that Islamic finance complies with AAOIFI standards by facilitating the assessment, analysis, and adoption of best practices from different legal systems (Kamba 1974). It empowers Islamic finance practitioners and scholars to navigate the complexities of comparative law, identify relevant similarities and differences, and make informed decisions that uphold the principles of Islamic finance. By following this framework, Islamic finance maintains its relevance and effectiveness in a globalizing market while promoting harmonization and international unification (Watt 2019).

4.1.2 Legal transplant theory

The legal transplant theory suggests that laws introduced from external sources may be less effective than internally produced laws (Legrand 1997; Wahyuni 2022), highlights the importance of Islamic finance adhering to AAOIFI standards. This theory emphasizes that for a law to be effective, it needs to hold meaning for the local population. Empirical studies have confirmed this idea, indicating that when legal transplants occur without proper understanding or consideration of local context, gaps can emerge between the imported legal concepts and the existing legal framework of the country (Wahyuni 2022).

In the context of Islamic finance, adhering to AAOIFI standards ensures that the principles and practices of Islamic finance are developed and adopted internally within the Islamic finance community. AAOIFI standards are specifically designed to address the unique needs and values of Islamic finance, providing a comprehensive framework that is grounded in Islamic principles and understood by practitioners and stakeholders. By following these internally produced standards, Islamic finance avoids potential issues of confusion and reduced trust that can arise when transplanted laws lack local relevance and understanding. Instead, adhering to AAOIFI standards strengthens the integrity and value of the Islamic finance system, fostering trust and confidence within the community.

Furthermore, research shows that standardization is of paramount importance because it enables harmonization and consistency across different Shariah governance frameworks, such as those of Malaysia and Pakistan (Ahmad et al. 2023). By aligning with international standards, including those set by AAOIFI and IFSB, the frameworks can enhance their credibility and facilitate cross-border collaboration in the field of Islamic finance. Standardisation not only ensures compliance with recognized principles but also fosters transparency, comparability, and trust among stakeholders, ultimately strengthening the integrity and stability of the Islamic finance industry as a whole. In addition, the incorporation of comparative law and the exchange of legal transplant methodologies further support the standardization efforts, as they facilitate the identification and adoption of best practices from various jurisdictions, enhancing the robustness and effectiveness of Shariah governance frameworks in line with AAOIFI guidelines.

4.2 AAOIFI Shariah standards

It is important to note that the practices of contemporary Islamic banks in different countries worldwide are generally similar, but variations can arise due to differences of opinion among Shariah scholars influenced by various schools of thought within the Islamic world. In order to achieve global harmonization and consistency in Islamic banking practices, AAOIFI was established in 1991, with its headquarters in Bahrain. AAOIFI's Shariah Standards, which have been formulated and endorsed by renowned international Islamic scholars, are widely accepted and recognized by regulatory bodies, including central banks, both in Pakistan and internationally. With the development of fifty-seven (57) Shariah standards covering various Islamic banking and finance products, including murabaha financing, AAOIFI ensures that a comprehensive framework is in place to guide and strengthen Shariah governance frameworks. By utilizing comparative law and legal transplant methodologies to draw on best practices from different jurisdictions, these approaches further enhance the robustness and effectiveness of Shariah governance frameworks in line with AAOIFI guidelines, facilitating harmonization and promoting consistency within the Islamic finance industry.

4.2.1 A brief account on murabaha financing

In light of the utilisation of comparative law and legal transplant methodologies to enhance Shariah governance frameworks, it is essential to examine specific Islamic finance practices, such as murabaha financing. Unlike other accepted modes of financing under Islamic jurisprudence like Musharakah and Mudarabah, murabaha involves a trust sale where the seller discloses the cost and profit to the buyer (Suzuki and Uddin 2016). Although murabaha is not originally considered a mode of financing in Islamic jurisprudence, contemporary Islamic banks employ it to avoid interest-based transactions and ensure compliance with Shariah principles (Subakti and Jannah 2022). Islamic scholars have deemed murabaha permissible as a pragmatic approach to avoid *riba*, making it a recognized financing model alongside Musharakah and Mudarabah (Usmani 2001).

To provide a legal analysis of the Shariah-compliant nature of murabaha financing, it is crucial to understand its definition. The Arabic root word for Murabaha, 'ribh', pertains to the profit from the sale of a commodity on a cost-plus basis, incorporating a profit margin (Ayub 2005). Consequently, murabaha is often referred to as 'cost-plus profit financing', whereby an Islamic bank sells a commodity to a purchaser at a price inclusive of the cost

and mark-up profit (Bhatti 2015). For a murabaha financing transaction to be considered Shariah-compliant, certain conditions must be fulfilled: (1) the buyer must possess knowledge of the cost and profit margin; (2) the sale must involve goods or commodities as the subject; (3) the seller must have possession of the subject of the sale, and (4) payment must be deferred (Saeed 1996).

Islamic banks face ownership risk when they engage in Musharakah and Mudarabah as financing modes (Hassan 2019). Consequently, depositors' funds are potentially at stake as Islamic banks operate on a Mudarabah contract, where depositors may bear the loss unless there is negligence on the part of the bank. This poses a challenge for Islamic banks in Pakistan, given the significant proportion of the untaxed, undocumented, and underground economy, making it difficult for them to assume ownership risk in customer businesses. According to "World Economics," Pakistan's informal economy is estimated to constitute 35.6% of the GDP (World Economics, Quarterly Informal Economy Survey).

However, murabaha financing is not without its risks. Islamic banks face both business and Shariah non-compliance risks throughout each stage of murabaha financing (Mushtaq 2017). For instance, when an Islamic bank purchases an item at the customer's request, there is a possibility that the customer may not follow through with the intended purchase. To mitigate this risk, Islamic banks often require customers to sign a promise document, ensuring their commitment to purchasing the item after the bank's acquisition. Additionally, there is a chance that an Islamic bank may purchase an item with specifications that do not align with the customer's requirements, resulting in the customer refusing to make the purchase. To minimize this risk, Islamic banks enter into an agency contract with prospective customers, where the bank acts as the principal and the customer acts as the agent for purchasing the item.

As murabaha is a sale contract rather than a loan, it carries various risks related to the subject matter, price, security, time of payment, and Shariah non-compliance. These risks can give rise to legal complications. In Pakistan, there is a pressing need for specialized Islamic banking courts to address the challenges faced by the Islamic banking industry (Siddiqui and Ismail 2016). Such courts would play a vital role in resolving issues and ensuring the smooth operation of Islamic banking practices.

4.2.2 AAOIFI standard: murabaha financing

The Shariah Board of AAOIFI made the decision to formulate the Shariah Standard on murabaha financing during its meeting on February 27th, 1999. Subsequent meetings were held to thoroughly discuss and analyze issues related to the issuance of the standard. Following rigorous analysis and a public hearing conducted on April 4th–5th, 2000, the AAOIFI finalized the Shariah standard on murabaha financing titled "murabaha to the Purchaser." The public hearing included participation from various stakeholders such as academicians, accounting firms, financial institutions, central banks, and others with an interest in the field.

The AAOIFI Standard No. (8) comprehensively covers the significant aspects of a murabaha transaction. It is applicable to both spot and deferred payment murabaha transactions, excluding murabaha sukuk. The Islamic Banking Division (IBD) of the State Bank of Pakistan (SBP) mandates the adoption and adaptation of AAOIFI Shariah standard No. (8) on murabaha financing for Islamic banks in Pakistan. This ensures the consistent implementation of standardized practices within the Islamic banking industry.

4.2.3 Murabaha financing-differences of views

When undergoing a literature review, it is important to note from the study by Hassanein and Mostafa that Islamic banking and finance research has grown at an average annual rate of 5.6% over the last 3 decades, with increasing interest in exploring the roles of Islamic financial institutions during the COVID-19 pandemic (Hassanein and Mostafa 2023). Analyzing 464 publications from 1990 to 2019, the study reveals key trends, such as Malaysia's dominance in the Islamic banking and finance research, and the "small-world network" nature of author and journal collaborations (Hassanein and Mostafa 2023).

Theoretically, the compliance of Islamic banking and finance products, including murabaha, with Islamic law determines their Shariah-compliant status. However, differences in the interpretation of riba among Islamic scholars can impact the Shariah compliance of murabaha. Mallat (1988) highlights the significance of the definition of riba, stating that if riba is solely understood as usury, then all transactions in society are considered valid unless interest rates exceed certain limits. However, if riba is defined as interest, it casts doubt on the legality of the entire civil and commercial structure (Mallat 1988, p. 69).

On the other hand, Saeed (2011) argues that scholars who interpret riba contextually strive to strike a balance between practical realities and traditional Islam. He asserts that murabaha, as a form of trade, is permissible under Islamic law. Pragmatists view the mark-up price paid by the buyer in a murabaha transaction as a legitimate trade transaction according to Islamic principles.

The following two sections of this paper will outline the differing viewpoints found in the literature concerning murabaha financing and its Shariah-compliant nature, shedding light on the ongoing debate (Mallat 1988; Saeed 2011).

(a) Scholars who view Murabaha as Shariah compliant

Hanafi Jurist Al-Marghinani (d 1197) defined murabaha as a transaction where a commodity is sold at a purchase price inclusive of a profit, justifying it as a means of providing customers with an agreed profit margin (Ayub 2005; Bhatti 2015). Similarly, the Maliki and Shafi'i schools of thought also consider murabaha to be Shariah-compliant (Bhatti 2015). Maliki scholars note that murabaha is mentioned in the Al-Mu'watta, which documents the traditions of the Prophet, and highlight instances in Madinah where cloth was purchased and resold in another town at an agreed-upon profit rate (Saeed 1996).

In the contemporary Islamic banking industry, contracts can be categorized into equity-based and debt-based contracts. From a Shariah perspective, scholars generally favor equity-based contracts such as *mudarabah* and *shirkat* over debt-based contracts (Bilal and Rahim 2014). However, in practice, debt-based contracts, such as murabaha financing, are more commonly utilized by the Islamic banking industry in Pakistan (Iqbal and Molyneux 2006; Lewis 2008; Raza et al. 2011; Zubair and Chaudhri 2014; Hayat and Malik 2014; Maulidizen 2017). Sairally (2002) affirms that a significant portion of Islamic banks' financing portfolios consists of murabaha financing, differing from conventional banks' interest-based loans as the Holy Quran distinguishes between sale transactions and interest-based transactions.

While conducting research titled "A critique on accounting for murabaha contract: a comparative analysis of IFRS and AAOIFI accounting standards," Ahmed et al. (2016) concluded that the legal structure of AAOIFI Shariah Standard No. (8) on murabaha financing adheres to Shariah principles. Consequently, murabaha financing is considered

a legitimate Islamic banking transaction, where the seller bank purchases goods from the open market and appoints its customer as an agent of the bank (Prabowo and Jamal 2017). Usmani (2001) supports the permissibility of murabaha financing within the strict guidelines of Shariah, emphasizing that it should be limited to cases where Musharakah and Mudarabah cannot be implemented.

Ahmed (2010) examined various products of Islamic banking and found that murabaha financing is both Shariah-compliant and a viable mode of financing for Islamic banks, distinguishing it from interest-based loan products offered by conventional banks. He argued against the notion that every product of Islamic banking must be based on profit and loss sharing, stating that debt-based instruments like murabaha financing are necessary for Islamic banks to meet the needs and demands of society.

Dakhlallah and Miniaoui (2011) shared a similar perspective, asserting that Musharakah and Mudarabah are more authentic Islamic banking and finance (IBF) products from a Shariah standpoint, while debt-based instruments should be used only when necessary. Ahmad (2013) critically evaluated the proponents of interest-based financing and aimed to demonstrate that murabaha financing differs from conventional interest-based loan products. Supported by references from the Quran, hadith, and economic analysis, he argued that murabaha financing is more beneficial from a socioeconomic perspective compared to conventional interest-based loans.

This viewpoint is supported by Siddiqui (2013), who highlights the differences between conventional and Islamic banking at three levels: the framework of governance, the model of business, and the socio-religious perspective. He emphasizes the importance of understanding these differences to avoid skepticism and misconceptions against Islamic banking. Shah and Niazi (2019), in their examination of murabaha financing practiced by Islamic banks in Pakistan and its Shariah-compliant nature, affirm that murabaha is a legitimate Islamic banking product, and an Islamic bank can appoint the customer as its agent for purchasing goods in a murabaha transaction.

In their scholarly work titled “Are Shariah Banking Financing patterns pro-cyclical? An Evidence from ASEAN Countries,” Pratami et al. (2022) analyze panel data collected from nine countries and find that the instruments offered by contemporary Islamic banks, including murabaha financing, are not only permissible but also pro-cyclical, contributing to economic growth.

(b) Scholars who do not view Murabaha as Shariah-compliant

Some classical scholars and a few contemporary scholars do not consider murabaha financing as Shariah-compliant. Al-Kaff argues that it is not mentioned in the hadith and was not practiced by the Prophet or his companions (Saeed 1999). Malik et al. (2011) highlight the controversy surrounding murabaha financing due to its close resemblance to interest-based products, leading to debates among scholars, academics, practitioners, and the general public.

The process of murabaha financing in contemporary times can create skepticism regarding its Shariah compliance, increasing the reputational risk of Islamic banks (Haron et al. 2015). Chong and Liu (2008) suggest that some processes implemented by Islamic banks may be perceived as non-compliant with Shariah guidelines. They argue that a significant portion of Islamic banking and financing relies on non-profit and loss sharing (PLS) instruments, such as murabaha financing, which is highly controversial, while equity-based instruments like Musharakah and Mudarabah are widely accepted as Shariah-compliant.

The value-based system of Islamic banks differs from that of conventional banks, as Islamic banks emphasize profit and loss sharing, whereas conventional banks rely on interest-based loans (Wulandari et al. 2016).

Khan (2010) criticizes contemporary Islamic banks, arguing that the replacement of the word 'interest' with 'profit' or mark-up does not create a fundamental difference between Islamic and conventional banking systems. This perspective is supported by other critics of Islamic banking, including Kuran (2004), Nomani (2006), and El-Gamal (2006).

In a study conducted in Indonesia, Jatmiko (2017) explores the sustainability of Islamic banking and finds that the Jakarta Interbank Offered Rate (JIBOR), used by Islamic banks for pricing their products, has a long-run equilibrium relationship with conventional interest rates, suggesting it may not provide a viable solution for the sustainability of Islamic banks in Indonesia.

In the book chapter titled "The Murabaha Syndrome in Islamic Finance: Laws, Institutions and Politics," Yousef (2022) argues that both the deposit and financing sides of Islamic banks are considered impermissible according to Shariah, as the instruments used do not adhere to the basic tenets of Islamic jurisprudence. Furthermore, Yousef (2022) claims that Islamic banks do not contribute to the well-being of the economy due to a mismatch between the contractual documents and practices employed by Islamic banks.

Historically, Islamic banks determined the rate of profit in a murabaha transaction by considering the London Interbank Offer Rate (LIBOR), which raised concerns about the transaction's compliance with Shariah (Saeed 1996; Meera and Razak 2005; Memon 2007; Ubaidullah 2008). While the LIBOR rate has been phased out as of 1 January 2022, it is noteworthy that the practice of benchmarking profit based on international interest rates persists.

Furthermore, it can be argued that the practices of contemporary Islamic banks are similar to those of conventional banks due to their use of the Karachi Inter Bank Offer Rate (KIBOR) for pricing products, challenging the notion that Islamic banks bear a distinct risk profile (Shaikh 2013). Shaikh (2013) contends that political risk, currency risk, default risk, and country risk are also borne by conventional banks in a manner akin to Islamic banks. Additionally, Islamic banks do not assume price risk, a factor that sets them apart from conventional banks. Atia (1990) highlights the issue of ownership of Murabaha goods in her study, stating that while contemporary banking laws prohibit banking institutions from owning assets, Shariah principles require Islamic banks to own the Murabaha goods before selling them to customers. It can be argued that the increase in the price of a car when sold on a deferred payment basis, as seen in murabaha transactions, is akin to disguised interest (Zaman and Movassaghi 2002).

Abozaid (2016) asserts in his research paper that Islamic banks appoint the customer as an agent, effectively eliminating the bank's risk and making the murabaha transaction comparable to a conventional loan transaction. Hayat and Malik (2014) raise criticisms of the contemporary form of murabaha financing in their book, 'Islamic Finance: Ethics, Concepts, Practice'. They argue that Islamic banks take a unilateral promise from the customer before selling the goods, minimizing the bank's risk. This practice is deemed impermissible as it goes against the established Shariah principle of "If one takes the risk, he is entitled to the return" (Hayat and Malik 2014). Furthermore, Hayat and Malik (2014) highlight that Islamic banks hold the asset for a brief period before onward sale, which some scholars view as akin to loan-based transactions of conventional banks. They also point out that pricing the subject matter of the murabaha financing based on market interest rates blurs the distinction between Islamic banks' murabaha financing and the interest-based loan transactions of conventional banks.

5 Methodology, data collection and sample

To analyze the main purpose of the study and address the research questions, this qualitative study employed a primary data collection method. Semi-structured face-to-face recorded interviews were conducted, utilizing open-ended questions to gather rich and detailed information. These interviews were transcribed and subjected to content analysis using NVivo software. The decision to adopt a qualitative approach was based on the need for in-depth insights and understanding, aligning with the recommendations of Yin (2003) in his book “Case study research: Design and methods” (3rd Ed.).

The study involved respondents who held key positions in the Islamic banking industry, including Shariah advisors, assistant Shariah advisors, and managers working within the Product Development Department of established Islamic banks in Pakistan. The composition of respondents is presented in Table 2, providing a comprehensive overview of the participants involved in the study.

Expert sampling, a form of purposive sampling, was employed in this study to select participants who are considered experts in the field of Islamic banking. The rationale for using expert sampling is to gather insights and opinions from individuals who possess a high level of expertise and knowledge in the subject area. This ensures that the research is based on the perspectives of individuals who have substantial experience and understanding in the field.

The sample for this study consists of ten (10) respondents, with two (2) participants selected from each of the five (5) Islamic banks located in Karachi, Pakistan. This approach allows for a diverse range of expert viewpoints to be represented in the study, enhancing the depth and breadth of the data collected.

5.1 Techniques for data analysis

To address the research questions and achieve the research objectives, a content analysis approach was employed, utilizing NVivo 9 software as per the Qualitative Software Research International (QSR) guidelines. A 98-page transcript was generated, and data were coded using NVivo’s node feature to organize and access relevant segments effectively. Coding involved assigning numerical labels to respondents (e.g., Respondent 1, Respondent 2, Respondent 3, etc.) for easy identification. To facilitate the analysis, a project file was created, and ten (10) separate data source files were imported for reading and analyzing the data, which aided in identifying themes that addressed the research questions. Throughout the transcription process, careful attention was given to capturing critical points, including grammatical errors, mispronunciations, and dialects (McLellan et al.

Table 2 Islamic Banks in Pakistan. *Source:* This table is developed by the author taking into account the SBP’s website as on 30th June, 2021

No	Name of Bank
1	Meezan Bank
2	Bank Islami
3	Dubai Islamic Bank
4	Bank Al-Barakah
5	MCB Islamic Bank

2003). It is worth mentioning that a similar study was conducted in Bangladesh by Ahmed and Khatun (2013) in a similar context.

5.2 Administration of interviews

Initially, twelve (12) prospective interviewees were contacted, of whom ten (10) provided consent to participate. One week before the scheduled interviews, interviewees were contacted via telephone to confirm their availability, and interview protocols were subsequently shared with them via email. On the interview day, all interviewees signed the consent form provided by the University of Malaya. Dr. Shujaat Saleem, the Chief Investigator and an expert in Islamic finance from Pakistan, ensured culturally respectful conduct during the interviews, although two scheduled interviews had to be rescheduled. The interviews, conducted in English and Urdu, lasted approximately 45 min each and were recorded using a digital MP3 player.

To ensure data validation, all interviews were transcribed and shared with the interviewees for any necessary corrections (Cayla and Arnould 2013). Additionally, to minimize interviewer variability, the Chief Investigator conducted and transcribed all interviews (Saunders et al. 2009).

The AAOIFI Shariah Standard No. (8) comprises 61 clauses. After an extensive literature review and consultation with industry experts, including respected Shariah advisors from Islamic banks in Pakistan who were separate from the study's ten respondents, 53 open-ended questions were formulated for the semi-structured interviews. The aim of the study was to explore Shariah compliance in Islamic banks' practices, necessitating the analysis of all 61 clauses of the AAOIFI Shariah Standard No. (8). However, eight clauses pertaining to the standard's scope and operational aspects were excluded from the analysis.

The interviews were conducted using a set of 53 open-ended questions, selected based on several factors. While the research paper primarily focuses on three main research questions, these 53 questions were designed to provide a comprehensive examination of Islamic banks' practices, encompassing all 61 clauses of the AAOIFI Shariah Standard No. (8). Their formulation involved an extensive literature review, consultations with industry experts, and insights from respected Shariah advisors. By employing these questions, the study aimed to achieve a thorough understanding of the subject matter and its relevance to the research objectives.

6 Discussion and findings

To answer the research question and achieve the research objectives, qualitative data was collected through ten (10) semi-structured interviews. The content analysis of the data revealed that Islamic banks in Pakistan adhere to all the clauses of the AAOIFI Shariah Standard No. (8) on murabaha financing, with the exception of Clause 2/4/4, which pertains to the arrangement fee.

6.1 Clause 2/4/4—arrangement fee

When asked about charging customers an arrangement fee in syndicate financing where the bank acts as a lead arranger, respondents from Meezan Bank and Dubai Islamic Bank revealed that they do charge the customer an arrangement fee, which is categorized under “structuring, arrangement and advisory and investment advisory fee”. However, it is important to note that Bank Islami, Bank Al-Barakah, and MIB Islamic Bank have not conducted any syndication in the context of murabaha financing thus far. According to Clause 2/4/4 of the AAOIFI Shariah Standard No. (8), the lead arranger bank is allowed to charge arrangement fees from the participating banks in the syndicate, but not from the customer. The specific wording of Clause 2/4/4 is as follows:

“If the murabaha is carried out by means of syndicated financing, the Institution which acts as the arranger of the syndicate is entitled to claim an arrangement fee to be paid by the participants in the syndicate”

The respondent no:1⁴ from the Meezan Bank Limited tried his level best to justify the practice of charging customer in the syndicate financing in the following words:

“Yes, we do charge structuring fee, arrangement fee, and advisory fees. Structuring fee has to be paid by the customer. He requests us to arrange this financing and we prepare the IMM for this customer so we are arranging the financing on his behalf and not the bank’s behalf i.e. we worked on our customer’s behalf so we charge our customer”.

The respondent no: 5⁵ from Dubai Islamic Bank responded in the following words.

“It’s an industry practice that’s why, we charge arrangement fee from the customer.

It is worth noting that there is a separate Shariah standard on Syndicated Financing, namely Shariah Standard No. (24), clause: 7(1), which allows Islamic banks to charge arrangement fees from customers in the context of syndicate financing. This can be seen as contradictory to clause 2/4/4 of Shariah Standard No. (8), and it raises the need for further investigation and proposals for reform. However, it is important to clarify that the focus of the current study is on analyzing the transactions of Islamic banks and their compliance with Shariah Standard No. (8) specifically for murabaha financing. As such, the deviation from clause 2/4/4 is observed in the practices of Islamic banks in Pakistan. The specific wording of Clause 7(1) of Shariah Standard No. 24 is as follows:

“It is permissible for the leading institution to receive commission for performing the preparatory tasks such as conducting feasibility studies, organization, mobilization of participatory funds, preparation of contracts etc. The commission thus obtained may be equal to, less than or more than the actual cost the institution incurs for carrying

⁴ Interview with respondent no: 1 took place at Meezan Bank Limited’s Head Office, located in the S.I.T.E Industrial area of Karachi, Pakistan, lasting approximately 45 min, starting at 2:45 pm and concluding at 3:30 pm on March 22, 2021. Respondent no: 1 is an MBA graduate from the Institute of Business Administration and has 5 years of experience in the product development and Shariah compliance department at Meezan Bank Limited.

⁵ Interview with respondent no: 5 took place at Dubai Islamic Bank, located at Schon Circle in Karachi, Pakistan, lasting approximately 50 min, starting at 3:00 pm and concluding at 3:50 pm on April 8, 2021. The respondent holds an MBA degree and has 7 years of experience in the CAD department at Dubai Islamic Bank.

out such tasks. Furthermore, an institution performing such tasks against the commission may or may not be a lead manager”.

Regarding the permission granted to Islamic banks for charging an arrangement fee from the customer in syndicate financing, respondent no: 2⁶ from the Meezan Bank Limited expressed the following viewpoint:

“Yes, we take it from the customer. This clause of AAOIFI is not clear because the Standard No 24 clause no 7(1) on syndicate financing permits leading bank to charge customer an arrangement fee”

The term “Participants” refers to the banks involved in the syndicate. When a single Islamic bank (lead arranger) is unwilling to finance the customer due to high risk, it establishes a syndication by adding more banks to the group. However, the customer ultimately receives financing from the Islamic bank (lead arranger). If a syndication fee is charged to the customer, they bear the high cost associated with obtaining murabaha financing from the Islamic banks.

According to respondents from MCB Islamic Bank, Al-Barakah Bank, and Bank Islami (numbers 4,⁷ 7,⁸ and 9,⁹ respectively), the rationale behind refraining from syndication in murabaha financing is that murabaha financing typically involves smaller financing amounts that do not necessitate the involvement of other banks. In contrast, for diminishing musharakah financing, which involves larger financing amounts, these Islamic banks do charge customers an arrangement fee. The analysis of the transcribed interviews resulted in six (6) codes, as summarized in Table 3.

When the secondary data pertaining to clause: 2/4/4 was analyzed, it was found that the secondary data verified the findings from the primary data i.e. Section (E) sub-section (XVI) of the Schedule of Charges¹⁰ of the Meezan Bank Limited presents the details of processing, structuring and advisory fees for murabaha financing.

6.2 Probable solutions to the problem by respondents

According to the respondents, they see no issue in charging an arrangement fee from the customer as the bank provides services in return. However, they believe that clause 2/4/4 of the AAOIFI Shariah standard on murabaha financing should be re-evaluated and amended by the AAOIFI authorities. This is because Shariah Standard No. (24) on Syndicate

⁶ Respondent 2 has served as the Head of the Shariah Compliance and Product Development department at Meezan Bank Limited since 2014. The interview with respondent 2 took place at Meezan Bank Limited’s Head Office, situated in the S.I.T.E Industrial area of Karachi, Pakistan. It lasted approximately 45 min, commencing at 2:45 pm and concluding at 3:30 pm on March 29, 2021.

⁷ Respondent no:4 from MCB Islamic Bank holds an MBA degree and has 7 years of experience at MCB Islamic Bank as a Unit Head, Shariah Compliance. The interview with respondent 4 took place at the regional office situated at Shahrah e Faisal, Karachi, Pakistan. It lasted approximately 65 min on April 20, 2021.

⁸ Respondent number 7, serving as a Vice President Shariah Compliance department at Bank Al-Barakah, brings with him a decade of experience. The interview with respondent 7 was conducted at the Head office situated at Shahrah e Faisal, Karachi, Pakistan. It lasted approximately 50 min on May 5, 2021.

⁹ Respondent number 9 from the Bank Islami has been working as an assistant Shariah advisor since 2013. The interview with him was conducted on May 13, 2021, at Bank Islami Head Office, situated in Clifton, Karachi, Pakistan.

¹⁰ Meezan Bank’s Schedule of Charges, January–June 2021.

Table 3 Clause: 2/4/4—Arrangement Fees. *Source:* Interview transcript

AAOIFI clause	Codes	Theme
2/4/4 arrangement fee	Interviews: 10 Codes:06 We do charge arrangement fee from the customer Structuring fee must be paid by the customer We prepare the IMM for the customer, so we are arranging the financing on his behalf Yes, we take it from the customer Yes, investment management fee you can charge If we are a lead arranger there is some cost involve which we can charge	Islamic Banks charge arrangement fee from the customer under the head of structuring, arrangement and advisory fee and investment management fee

Financing allows Islamic banks to charge an arrangement fee from the customer in syndication, which may contradict Shariah Standard No. (8) on murabaha financing. This issue requires further research and proposals for reform that should be considered by AAOIFI.

7 Conclusion and recommendations

Based on the content analysis, this study concludes that Islamic banks in Pakistan generally comply with the clauses of the AAOIFI Shariah Standard No. (8) on murabaha financing, with the exception of clause 2/4/4 regarding the arrangement fee. The findings reveal that the practice of charging an arrangement fee from the customer by Meezan Bank Limited and Dubai Islamic Bank does not comply with clause 2/4/4 of the AAOIFI Shariah Standard No. (8).

During the interviews, representatives from Meezan Bank Limited and Dubai Islamic Bank justified their practice of charging an arrangement fee by emphasizing the services provided to customers. However, the authors propose amendments to clause 2/4/4 to address two different perspectives: (1) when the request for syndication comes from the customer, and (2) when the syndication is structured by the lead arranger for its own benefit. In the case of a customer-initiated syndication, the lead arranger bank may charge the customer with an arrangement fee. However, if the syndication is structured by the lead arranger for its own benefit, the arrangement fee may be charged from the participating banks. Therefore, the authors recommend that AAOIFI consider further research and revision of clause 2/4/4.

Moreover, this study highlights the contradiction between the Shariah rulings on arrangement fees in two different AAOIFI Standards. To achieve harmonization and remove the contradiction, it is recommended that AAOIFI address the inconsistency between clause 2/4/4 of Shariah Standard No. 8 and clause 7(1) of Shariah Standard No. 24, as the former prohibits banks from charging arrangement fees from customers while the latter allows it.

In conclusion, this study provides valuable insights and recommendations for the AAOIFI and other competent authorities to address the issue of arrangement fees in murabaha financing and ensure consistency and harmonization within the Islamic banking industry.

Author contributions All authors contributed to the study conception and design. Data collection and analysis were performed by Dr Shujaat Saleem. The first draft of the manuscript was written by Dr Shujaat Saleem, Dr Maria Bhatti and Dr Fadillah Mansor and all authors commented on previous versions of the manuscript. All authors read and approved the final manuscript.

Funding Open Access funding enabled and organized by CAUL and its Member Institutions. The authors declare that no funds, grants, or other support were received during the preparation of this manuscript. The authors have no relevant financial or non-financial interests to disclose.

Declarations

Conflict of interest The authors have not disclosed any competing interests.

Open Access This article is licensed under a Creative Commons Attribution 4.0 International License, which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons licence, and indicate if changes were made. The images or other third party material in this article are included in the article's Creative Commons licence, unless indicated otherwise in a credit line to the material. If material is not included in the article's Creative Commons licence and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>.

References

- Abozaid, A.: The internal challenges facing Islamic finance industry. *Int. J. Islam. Middle East. Financ. Manag.* **9**(2), 222–235 (2016)
- Ahmad, S.Z.: Why Murabaha (cost-plus finance) is allowed whereas lending on interest is prohibited in Islam. *J. Islam. Bank. Financ.* **30**(1), 19–23 (2013)
- Ahmad, Z., Muneeza, A., Rahman, M.M., Mahomed, Z.: A comparative analysis of Shariah governance framework of Islamic bank in Malaysia and Pakistan. *Talaa J. Islam. Financ.* **3**(1), 01–17 (2023). <https://doi.org/10.54045/talaa.v3i1.726>
- Ahmed, A.: Global financial crisis: an Islamic finance perspective. *Int. J. Islam. Middle East. Financ. Manag.* **3**(4), 306–320 (2010)
- Ahmed, M., Khatun, M.: The compliance with Shariah governance system of AAOIFI: a study on Islamic banks in Bangladesh. *J. Islam. Econ. Bank. Financ.* **9**(3), 177–191 (2013)
- Aldosari, B.: Are Islamic banks more resilient to financial crises?: A critical analysis of Islamic and conventional banks, with particular reference to Saudi Arabia. Doctoral dissertation, University of Sussex (2018a)
- Aldosari, B.: Are Islamic banks more resilient to financial crises?: A critical analysis of Islamic and conventional banks with particular reference to Saudi Arabia". <http://sro.sussex.ac.uk/id/eprint/80724/1/aldosari%2c%20bader.pdf> (2018b). Accessed 23 Mar 2019
- Atia, J.: Legal aspects of applying the murabaha financing contract *عقد المرابحة* الجوانب القانونية لتطبيق. *J. King Abdulaziz Univ. Islam. Econ.* **2**, 131–155 (1990)
- Ayub, M.: *Understanding Islamic Finance*. Wiley, United Kingdom (2005)
- Baber, H.: How crisis-proof is Islamic finance? A comparative study of Islamic finance and conventional finance during and post financial crisis. *Qual. Res. Financ. Mark.* **10**(4), 415–426 (2018)
- Basheer, M.F., Khorraml, A.A.A., Hassan, S.G.: Patronage factors of Islamic banking system in Pakistan. *Acad. Account. Financ. Stud. J.* **2**(1), 1–9 (2018)
- Beck, T., Kunt, A.D., Merrouche, O.: Islamic vs. conventional banking: business model, efficiency and stability. Working paper, Development Research Group, The World Bank (2010)
- Bhatti, M.: Taxation treatment of Islamic finance products. *Deakin Law Rev.* **20**(2), 263–298 (2015)

- Biancone, P.P., Radwan, M.: Shariah-Compliant financing for public utility infrastructure. *Util. Policy* **52**(1), 88–94 (2018)
- Bilal, Q., Rahim, M.: Diminishing Musharakah: a mode of financing in interest free banks. *Abasyn Univ. J. Soc. Sci.* **7**(1), 150–157 (2014)
- Cayla, J., Arnould, E.: Ethnographic stories for market learning. *J. Mark.* **77**(4), 1–16 (2013)
- Chong, B.S., Liu, M.H.: Islamic banking: Interest-free or interest-based? *Pac. Basin Financ. J.* **17**(1), 125–144 (2008)
- Dakhlallah, K., Miniaoui, H.: Islamic Banks vs. non islamic ethical dimensions. In: 2nd International Conference On Business and Economic Research, in Malaysia, March 2011, Conference Master Resources, Malaysia. pp. 2141–2148 (2011)
- El-Gamal, M.A.: *Islamic Finance: Law, Economics, and Practice*. Cambridge University Press, USA (2006)
- Haridan, N.M., Hassan, A.F., Karbhari, Y.: Governance, religious assurance and Islamic banks: Do Shariah boards effectively serve? *J. Manag. Gov.* **22**, 1015–1043 (2018)
- Haron, M.S., Ramli, R., Injas, M.M.Y., Injas, R.A.: Reputation risk and its impact on the Islamic banks: case of the Murabaha. *Int. J. Econ. Financ. Issues* **5**(4), 854–859 (2015)
- Haseeb, M.: Emerging issues in Islamic banking & finance: challenges and Solutions. *Acad. Account. Financ. Stud. J.* **22**, 1–5 (2018)
- Hassan, D.D.: Islamic banking in Somalia; challenges and opportunities. *J. Islam. Bank. Financ.* **36**(2), 93–99 (2019)
- Hassan, K., Kayed, R.N., Oseni, U.A.: *Introduction to Islamic Banking & Finance: Principles and Practice*. Pearson Education Limited, England (2013)
- Hassanein, A., Mostafa, M.M.: Bibliometric network analysis of thirty years of Islamic banking and finance scholarly research. *Qual. Quant.* **57**, 1961–1989 (2023). <https://doi.org/10.1007/s11135-022-01453-2>
- Hayat, U., Malik, M.: *Islamic Finance: Ethics, Concepts, Practice*. CFA Institute Research Foundation, USA (2014)
- Iqbal, M., Molyneux, P.: *Thirty Years of Islamic Banking: History, Performance and Prospects*. Palgrave Macmillan, United Kingdom (2006)
- Jan, A.A., Lai, F.W., Draz, M.U., et al.: Integrating sustainability practices into Islamic corporate governance for sustainable firm performance: from the lens of agency and stakeholder theories. *Qual. Quant.* **56**, 2989–3012 (2022). <https://doi.org/10.1007/s11135-021-01261-0>
- Jatmiko, W.: Towards a sustainable islamic banking system: re-embedding murabaha mode of financing. *Indones. Cap. Mark. Rev.* **9**(2), 4 (2017)
- Kamba, W.J.: Comparative law: a theoretical framework. *Int. Comp. Law Q.* **23**, 485 (1974)
- Khan, F.: How 'Islamic' is Islamic banking? *J. Econ. Behav. Organ.* **76**(3), 805–820 (2010)
- Khan, M.M., Bhatti, M.I.: Development in Islamic banking: a financial risk-allocation approach. *J. Risk Financ.* **9**(1), 40–51 (2008)
- Khatoon, I.: Prospects of Modarabah financing in Pakistan economy. Paper presented at the 2nd International Multi-Disciplinary Conference, 19–20 December, Gujrat, Pakistan. https://www.researchgate.net/publication/330093118_Prospects_of_Modarabah_financing_in_Pakistan_economy (2016). Accessed 23 May 2021
- Kuran, T.: *Islam and Mammon: The Economic Predicaments of Islamism*. Princeton University Press, United Kingdom (2004)
- Legrand, P.: The Impossibility of 'Legal Transplants'. *Maastricht. J. European. Comp. Law.* **4**(2), 111–124 (1997)
- Lewis, M.K.: In what way does Islamic banking differ from conventional finance? *J. Islam. Econ. Bank. Financ.* **4**(3), 10–24 (2008)
- Lomio, J.P., Spang-Hanssen, H., Wilson, G.D.: *Comparative law methods*. In: *Legal Research Methods in a Modern World: A Coursebook*. DJØF Publishing, Copenhagen (2011)
- Malik, M.S., Malik, A., Mustafa, W.: Controversies that make Islamic banking controversial: an analysis of issues and challenges. *Am. J. Soc. Manag. Sci.* **2**(1), 41–46 (2011)
- Mallat, C.: The debate on riba and interest in twentieth century jurisprudence. *Islam. Law Financ.* **69**, 69–70 (1988)
- Maulidizen, A.: Islamic finance in theory and practice: a critical analysis. *Islamicon. J. Ekon. Islam* **8**(2), 111–140 (2017)
- Mcllellan, E., MacQueen, K.M., Neidig, J.L.: Beyond the qualitative interview: data preparation and transcription. *Field Methods* **15**(1), 63–84 (2003)
- Meera, A.K.M., Razak, D.A.: Islamic home financing through Musharakah Muntanaqisah and Al-Bay' Bithaman Ajil contracts: a comparative analysis. *Rev. Islam. Econ.* **9**(2), 5–30 (2005)
- Memon, N.A.: Islamic banking: present and future challenges. *J. Manag. Soc. Sci.* **3**(1), 1–10 (2007)

- Mezbah, U.A., Ruslan S., Romzie, S.: A critique on accounting for murabaha contract. *J. Islamic. Acc. Bus. Res.*, Emerald Group Publishing Limited **7**(3), 190–201 (2016)
- Mnif, Y., Tahari, M.: The effect of compliance with AAOIFI standards on financial performance of Islamic banks. *J. Financ. Rep. Account.* ISSN: 1985–2517 (2023)
- Mushtaq, A.: Risk profile of Murabaha and Risk Mitigation strategies. <https://www.linkedin.com/pulse/risk-profile-murabaha-mitigation-strategies-ali-mushtaq> (2017). Accessed 16 May 2021
- Nomani, F.: The dilemma of Riba-free banking in Islamic public policy. In: Behdad, S. (ed.) *Islamic and the Everyday World*, pp. 192–223. Routledge, United Kingdom (2006)
- Ouerghi, F.: Are Islamic banks more resilient to global financial crisis than conventional banks? *Asian Econ. Financ. Rev.* **4**(7), 941 (2014)
- Prabowo, B.A., Jamal, J.B.: concept and application of akad wakalah in murabaha financing in Islamic banking (a comparative study between Indonesia and Malaysia). *Diponegoro Law Rev.* **2**(1), 1–14 (2017)
- Pratami, A., Feriyanto, N., Sriyana, J., Pratama, I.: Are Shariah banking financing patterns pro-cyclical? An evidence from ASEAN Countries. *Cuad. Econ.* **45**(127), 82–91 (2022)
- Razak, D., Amin, H.: Application of Musharakah Muntanaqisah home financing as an alternative to traditional debt financing: lessons learned from the US 2007 subprime crisis. *J. Islam. Econ. Bank. Financ.* **9**(3), 116–130 (2013)
- Raza, M.W.S., Syed F.K., Malik, R.: *Islamic Banking Controversies and Challenges*. Published in: *Interdiscip. J. Contemp. Res. Bus.* **03**(10), 1018–1026 (2011)
- Saeed, A.: *Islamic Banking and Interest: A Study of Prohibition of Riba and Its Contemporary Interpretation*. Brill, Leiden, Netherland (1996)
- Saeed, A.: *The Foundation of Islamic Banking*. Edward Elgar Publishing, USA (2011)
- Sairally, B.S.: Murabahah financing: some controversial issues. *Rev. Islam Econ.* **12**, 73–86 (2002)
- Saunders, M., Lewis, P., Thornhill, A., Wilson, J.: *Research Methods For Business Students*. Pearson Education, United Kingdom (2009)
- Shah, B.A., Niazi, G.S.K.: Issues in contemporary implementation of murabaha. *Turk. J. Islam. Econ.* **6**(2), 1–24 (2019)
- Shaikh, S.A.: Islamic banking in Pakistan: a critical analysis. *J. Islam. Econ. Bank. Financ.* **9**(2), 45–62 (2013)
- Siddiqui, A.A.: Islamic banking industry: growing amid challenges. *J. Islam. Bank. Financ.* **30**(1), 13–18 (2013)
- Siddiqui, A.A., Ismail, F.: Challenges of Islamic banks in courts. *Daily Dawn*, 17 October (2016)
- Solarin, S.A.: Modelling the relationship between financing by Islamic banking system and environmental quality: evidence from bootstrap autoregressive distributive lag with Fourier terms. *Qual. Quant.* **53**, 2867–2884 (2019). <https://doi.org/10.1007/s11135-019-00904-7>
- Spencer, L.: Comparative legal geography: context and place in “legal transplants”. In O’Donnell, T., Robinson, D.F., Gillespie, J. (Eds.), *Legal geography: Perspectives and methods* (pp. 149–166)(2020)
- Subakti, H., Jannah, N.: Implementation of Sharia principles in Murabaha contracts at Bank Muamalat KCP Kisanan. *Rev. Islam. Econ. Financ. (RIEF)* **5**(2), 65–73 (2022)
- Suzuki, Y., Uddin, S.S.: Recent trends in Islamic banks’ lending modes in Bangladesh: an evaluation. *J. Islam. Account. Bus. Res.* **7**(1), 28–41 (2016)
- Ubaidullah, M.: *Introduction to Islamic Microfinance*. IBF Education and Charitable Trust, India (2008)
- Usmani, M.T.: *Introduction to Islamic Finance*. Quranic Studies Publishers, Pakistan (2001)
- Usmani, M.T.: The text of the historic judgment on interest given by the supreme court of Pakistan, Idarat ul Maarif, Karachi, Pakistan (2002)
- Watt, H.: Globalization and comparative law. In: Reimann, M., Zimmermann, R. (eds.) *The Oxford Handbook of Comparative Law*. Oxford University Press, Oxford (2019)
- Wahyuni, S.: Legal Transplant: Influence of The Western Legal System in The Muslim Countries. *Justicia Islamica* **19**(1), 21–37 (2022)
- Wulandari, P., Putri, N.I.S., Kassim, S., Sulung, L.A.: Contract agreement model for Murabahah financing in Indonesia Islamic banking. *Int. J. Islam. Middle East. Financ. Manag.* **9**(2), 190–204 (2016)
- Yin, R.K.: *Case Study Research: Design and Methods*. Sage Publications, USA (2003)
- Yousef, T.M.: The Murabaha syndrome in Islamic finance: laws, institutions and politics. In: *The Politics of Islamic Finance*, pp. 63–80. Edinburgh University Press, Edinburgh, United Kingdom, UK (2022)
- Zaman, M.R., Movassaghi, H.: Interest-free Islamic banking: ideas and reality. *Int. J. Financ.* **14**(4), 2428–2442 (2002)
- Zubair, H.M., Chaudhri, N.G.: Islamic banking in Pakistan: a critical review. *Int. J. Humanit. Soc. Sci.* **4**(2), 161–176 (2014)

Publisher's Note Springer Nature remains neutral with regard to jurisdictional claims in published maps and institutional affiliations.