

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

دور البنك المركزي في دعم الصيرفة الإسلامية من خلال وثيقة سياسة الحوكمة الشرعية لبنك
نيجارا ماليزيا

Afifa, ARROUF

University Larbi Benm'hidi OUM ELBOUAGHI . ALGERIA, aafou@hotmail.com

Received: .../.../2020

Accepted: .../.../2020

Published: .../.../2020

Abstract :

Our study aimed to understand the role of the Central Bank of Malaysia in the development of Islamic banks through the Sharia governance policy document of Bank Negara Malaysia ,and the improvements that resulted from its application on the ground. For this study, we choose Maybank islamic berhard, which is the most important and strongest Islamic bank in Malaysia as an exemple.

The results illustrated that the application of Shariah governance and its structures improve the decision-making process by enhancing Sharia Committee , Improve the internal control by strengthening it with dedicated bodies , improve management of non-compliance risk ,enhance disclosure , transparency and clarify responsibilities and accountability.

Keywords: Bank Negara ; Malaysia; Shariah governance ;Islamic banking

ملخص:

هدفت دراستنا إلى فهم دور البنك المركزي الماليزي في تطوير البنوك الإسلامية من خلال سياسة الحوكمة الشرعية لبنك نيجارا ماليزيا ، والتحسينات التي نتجت عن تطبيقها على أرض الواقع. في هذه الدراسة ، اخترنا بنك Maybank الإسلامي ، وهو أهم وأقوى بنك إسلامي في ماليزيا كمثال .
أوضحت النتائج ان تطبيق الحوكمة الشرعية وهياكلها يؤدي إلى تحسين عملية اتخاذ القرار من خلال تعزيز الهيئة الشرعية ، وتحسين الرقابة الداخلية من خلال تقويتها بهيئات مختصة ، تحسين ادارة مخاطر عدم الامتثال للشريعة ؛ وتعزيز الإفصاح والشفافية وتوضيح المسؤوليات والمساءلة.

كلمات مفتاحية:

بنك نيجارا ؛ ماليزيا ؛ الحوكمة الشرعية ؛ الصيرفة الإسلامية

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

I- Introduction:

Malaysia is a developed Islamic country, It has emerged from underdevelopment and has become a developed country in a short period of time, because of its ability and skill to properly exploit science, technology and global knowledge and adapt it to its Islamic culture. It is today a model for development in many areas like education, tourism, medicine and economy.

Islamic finance was one of the most important features of Malaysia, where it was among the first countries to set up Islamic banks and Islamic insurance companies to work side by side.

In addition to its important role and responsibilities in maintaining the financial and economic health of the country. The Malaysian government, represented by the Central Bank, has spared no effort to support Islamic banking and Islamic banking awareness; The central bank of Malaysia act 2009 codifies the duality of the Malaysian financial system with conventional financial system and the Islamic financial On 20 September 2019 bank Negara Malaysia had established the Policy Document on Shariah Governance applicable to Islamic financial institutions this policy document supersedes Shariah Governance Framework for Islamic Financial Institutions issued on 22 October 2010 and sets out strengthened oversight accountabilities on the board, Shariah committee and other key organs involved in the implementation of Shariah governance.

The Malaysian government is seeking to develop Islamic finance through its program and budget 2020 to position Malaysia as center of excellence for Islamic finance.

Our study aims to answer the following problematic:

Bank Negara Malaysia introduced the policy documents of shariah governance to boosting and Supporting the Islamic Banking ,after the implementation of Shariah governance what are the improvements that have occurred?

The research problems:

In order to facilitate the answer to the main question, we divide it into sub-questions:

- ✓ How Shariah governance improve decision making process in Islamic banks ?
- ✓ How Shariah governance improved transparency and disclosures?
- ✓ How Shariah governance improved management of shariah non compace risk?
- ✓ How Shariah governance improve interne control in Islamic banks?

The research objectives:

- Understand the basic elements and components of the Sharia Governance
- Highlight the importance of Sharia Governance in Islamic banks.

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

- Knowing the role of the Malaysian Central Bank in supporting Islamic banking.
- Bring new models and devices and benefit from the Malaysian model in Algeria.

II. Islamic banking in Malaysia history ,foundation and development:

The enactment of the Islamic Banking Act 1983 , came effect on 7 april 1983 and provides for the licensing and regulation of islamic banking institutions in Malaysia the coverage of the act includes both domestic and foreign Islamic banks operating in Malaysia .Bank islam was the first Islamic bank in Malaysia

Following the successful establishment of the first Islamic bank in 1983, conventional banks in Malaysia were allowed to offer Islamic banking services in parallel with conventional banking product there by creating a dual banking system.

Syarikat takaful Malaysia berhard was the first takaful operator in Malaysia it was established to offer both familly and general takaful business and commenced operation on 22july1985.

The essence of takaful or Islamic insurance involves a group of participates agreeing to compensate each other against a defined loss or damage .each participant contributes a donation into a common fund which is managed by third party ;who is the takaful operator Should there be a calamity befalling one of participants ;compensation will be paid from the common fund.

-Islamic banking windows : On 4 march1993,Bank Negara Malaysia introduced the Islamic Banking scheme to extend Islamic banking and financial products and services on a nation-wide basis. Legislative amendement was made to the Banking and financial institutions Act 1989 in allowing conventional banks to offer Islamic banking products and services .

-Foreing Islamic banks : In **2004** Bank Negara issued three foreign islamic bank licences namely : Kuwait finance house berhard ; asian finance bank behard and al Rajhi banking and investisement corporation berhard to broaden the range of product and services with greater dynamism in the Islamic financial industry.

-Malaysia Iternational islamic financial center MIFC: IT was lunched on 14 august 2006 to develop Malaysia 's Islamic finance market place .

-Human capital infrastructure development programs : Following the rapid growth of the Islamic financial industry globally ; Malaysia began emphasizing the need to development infrastructure encompassing education; training; research and consultancy in islamic banking and finance.

1_ In that way (Islamic banking and finance institute Malaysia **IBFIM**) was established in 2001 as an industry owned institute dedicated to producing well- trained , highly competent personnel and executives with the required knowledge in Islamic finance.

2_ International center for education in Islamic finance INCEIF was established in 2006 as a global university offering post –graduate programmes in Islamic finance professional CIPF

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

programme in INCEIF's flagship programme , the world's first professional certified programme in Islamic finance.

3_International shariah research academy for Islamic finance ISRA was established in 2008 to promote applied research in the area of shariah and Islamic finance, ISRA acts as a repository of knowledge for fatwas and fiqh muamalat by studying contemporary issues in Islamic finance. Another important focus area if ISRA is the promotion of shariah governance among shariah scholars, both at regional and at international levels (gallery, 2019).

-Bank Negara Malaysia Museum and Art Gallery:

Aims to provide the public with an informal venue for learning about the importance of economics, Islamic banking and financial planning, along with the role that the Central Bank plays in nation building through prudent economic transformational policies. The Art Gallery showcases the Central Bank's collection of Malaysian and Southeast Asian art acquired since 1962 (bank Negara Malaysia Museum and Art Gallery, 2019)

Today, Malaysia's Islamic finance continues to grow rapidly, supported by a conducive environment that is renowned for continuous product innovation, a diversity of financial institutions from across the world, a broad range of innovative Islamic investment instruments, a comprehensive financial infrastructure and adopting global regulatory and legal best practices. Malaysia has also placed a strong emphasis on human capital development alongside the development of the Islamic financial industry to ensure the availability of Islamic finance talent. All of these value propositions have transformed Malaysia into one of the most developed Islamic banking market in the world . Rapid liberalization in the Islamic finance industry, coupled with facilitative business environment has encouraged foreign financial institutions to make Malaysia their destination of choice to conduct Islamic banking business. This has created a diverse and growing community of local and international financial institutions. (bank negara malaysia, 2019)

-Budget 2020 For Growing Islamic Finance:

This year, the Ministry of Finance established the Special Committee on Islamic Finance (JKKI) chaired by the Deputy Minister of Finance, with the main objective of further promoting and developing the Islamic Finance ecosystem. To position Malaysia as the center of excellence for Islamic finance, this special committee will:

First: formulate the Islamic Economic Blueprint, with all relevant agencies;

Second: organise outreach initiatives and professional courses to promote deeper understanding of Islamic Finance nationwide.

The current tax deductions on the cost of issuance and additional deductions on sukuk issuance costs under the principle of Wakalah will be extended for 5 years until year of assessment 2025. To further promote Islamic fund and Sustainable and Responsible Investment (SRI) fund management activity, the tax exemption for fund management companies managing Shariah compliant funds and SRI funds, and the tax deduction on the cost of issuing SRI Sukuk will be extended for another 3 years until year of assessment **2023**. (Eng, 2019)

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

III. Forms of Islamic banks in Malaysia :

The first full-fledge Islamic bank in Malaysia was Bank Islam Malaysia, established in 1983. Since then, the Malaysian government has given permission to the commercial banks to offer Islamic banking products and services under the Islamic Banking Scheme (IBS) 1993 (bank negara malaysia, 2019)

Islamic banks in Malaysia have three forms: Islamic windows, which are considered a baby bank in Islamic finance they are in the stage of Start and introduction and offers only some Islamic products ; Islamic subsidiary which offers the both Islamic and conventional product they are in development and growth stage to become full-fledged and finally Full-fledged Islamic banks which offers only Islamic product they are in maturity stage. The list of banks in Malaysia offering Islamic products (updated in 2019) have grown to **16** banks and **07** Islamic window which are (islamic head departement , 2019) :

3.1.- Islamic window:

Sumitomo Mitsui Banking Corporation Malaysia Berhad(**foreign**)

Bank of Tokyo-Mitsubishi UFJ (Malaysia) Berhad(**foreign**)

Kenanga Investment Bank Berhad(**foreign**)

Deutsche Bank (Malaysia) Berhad(**foreign**)

Citibank Berhad(**foreign**)

BNP Paribas Malaysia Berhad(**foreign**)

KAF Investment Bank Berhad(**foreign**)

3.2- Islamic subsidiary:

Public Islamic Bank Berhad(**local**)

Standard Chartered Saadiq Berhad(**foreign**)

Maybank Islamic Berhad (**local**)

MBSB Bank Berhad(**local**)

CIMB Islamic Bank Berhad(**local**)

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

Hong Leong Islamic Bank Berhad (foreign)

RHB Islamic Bank Berhad(local)

HSBC Amanah Malaysia Berhad(foreign)

Alliance Islamic Bank Berhad(local)

AmBank Islamic Berhad(local)

OCBC Al-Amin Bank Berhad(foreign)

Kuwait Finance House (Malaysia) Berhad(foreign)

3.3-Fullfledged Islamic banks:

Affin Islamic Bank Berhad (local)

Al Rajhi Banking & Investment Corporation (Malaysia) Berhad (foreign)

Bank Muamalat Malaysia Berhad (local)

Bank Islam Malaysia Berhad(local)

IV.The role of Bank Negara Malaysia In islamic finance and shariah

Bank Negara Malaysia places great importance in ensuring that the overall Islamic financial system operates in accordance with Shariah principles. This is to be achieved through the two-tier Shariah governance infrastructure comprising two (2) vital components, which are a centralized Shariah advisory body at the Bank and an internal Shariah Committee formed in each respective Islamic financial institution (IFI) (BNM, 2010).

IV.1-The Shariah Advisory Council of Bank Negara Malaysia:

The Shariah Advisory Council of Bank Negara Malaysia (SAC) is a body established under section 51 of the Central Bank of Malaysia Act 2009 that has positioned the SAC as the apex authority for the determination of Islamic law for the purposes of Islamic financial business (BNM, 2010).

The Shariah Advisory Council of Bank Negara Malaysia (SAC) was established in May 1997 as the highest Shariah authority in Islamic finance in Malaysia. The SAC has been given the authority for the ascertainment of Islamic law for the purposes of Islamic banking business, takaful business, Islamic financial business, Islamic development financial business, or any other business, which is based on Shariah principles and is supervised and regulated by Bank Negara Malaysia. As the reference body and advisor to Bank Negara Malaysia on Shariah matters, the SAC is also responsible for validating all Islamic banking and takaful products to ensure their compatibility with the Shariah principles. In addition, it advises Bank Negara

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

Malaysia on any Shariah issue relating to Islamic financial business or transactions of Bank Negara Malaysia as well as other related entities. In the recent Central Bank of Malaysia Act 2009, the role and functions of the SAC was further reinforced whereby the SAC was accorded the status of the sole authoritative body on Shariah matters pertaining to Islamic banking, takaful and Islamic finance . (bnm, 2019)

IV.2 -Legislation law and policy:

The Central Bank is empowered through enactment of legislation by the Parliament of Malaysia. New legislation are created and current legislation is amended to reflect the needs of the time and future.

- **Central Bank of Malaysia Act (2009)**

Provides the establishment, administration and powers of the bank This act repealed the Central Bank of Malaysia Act 1958 (wikipedia , 2019)

The act show the recognition of the dual financial system with the conventional financial system and the Islamic financial system. , the act provide also different objects, functions and powers of the Bank, Money market and foreign exchange market Islamic financial business and others.

- **The Islamic Financial Services Act 2013**

Is a Malaysian laws which enacted to provide for the regulation and supervision of Islamic financial institutions, payment systems and other relevant entities and the oversight of the Islamic money market and Islamic foreign exchange market to promote financial stability and compliance with Shariah and for related, consequential or incidental matters.

The Islamic Financial Services Act 2013, in its current form (22 March 2013),consists of 18 Parts containing 291 sections and 16 schedules (including no amendment). (wikipedia, 2019)

- **Islamic policy document**

Bank Negara Malaysia has issued different policy document that concerned Islamic finance such as:

- ✓ **Policy documents on Shariah contracts**

As part of the objective to strengthen the Shariah-compliance culture among Islamic financial institutions (IFIs), Bank Negara Malaysia is issuing a series of policy documents on Shariah contracts to enhance the end-to-end compliance with Shariah .

The policy document cover all product Service and contacts concerned by shariya like *wadi`ah*, *hibah*, *kafalah*, *wakalah*, *wa`d*, *tawarruq bai` `* istisna` qard mudharaba Rahn (BNM , 2019)

- ✓ **policy document on Shariah Governance**

Shariah governance framework is a set of organisational arrangements through which Islamic financial institutions ensure effective oversight, responsibility and accountability of the

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

board of directors, management and shariah committee. The framework serves as a guide towards ensuring an operating environment that is compliant with shariah principles at all times.(Abdullah, A, 2017)

The Shariah Governance Framework for Islamic Financial Institutions introduced in 2011 has played a critical role in supporting robust and orderly developments of the Islamic finance industry in Malaysia. In particular, the framework has led to the institutionalisation of governance structures, policies and processes to promote end-to-end Shariah compliance in Islamic finance operations.

In October 2019 the bank issued the policy document on Shariah Governance This policy document supersedes the Shariah Governance Framework for Islamic Financial Institutions issued on 22 October 2010, and comes into effect on 1 April 2020.

The Bank has developed the Shariah governance framework for IFIs with the primary objective of enhancing the role of the board, the Shariah Committee and the management in relation to Shariah matters, including enhancing the relevant key organs having the responsibility to execute the Shariah compliance and research functions aimed at the attainment of a Shariah based operating environment.

The requirements in the policy document 2019 outline the Bank's strengthened expectations for effective Shariah governance arrangements that are well integrated with business and risk strategies of the Islamic financial institutions.

This augurs well with the growing scale and complexity of Islamic financial business, and recent policy developments in the areas of governance, compliance and risk management. Specifically, this policy document sets out strengthened oversight accountabilities on the board, Shariah committee and other key organs involved in the implementation of Shariah governance.

Another area relates to Shariah committee's objectivity to reinforce sound decision-making process and robustness of internal control functions for effective management of Shariah non-compliance risks.

Accordingly, Islamic financial institutions should demonstrate that their Shariah governance arrangements are operating effectively and appropriate to their size, nature of business, complexity of activities and structure. The Bank also expects to see evidence of better alignment in promoting a strong Shariah compliance risk culture within Islamic financial institutions. This is in line with the more active roles expected of the board, Shariah committee and senior management (BNM, 2019)

V. Shariah governance in Maybank Group Islamic Banking

Maybank Group Islamic Banking is the largest Islamic banking group by assets in ASEAN (Asia Pacific region.)Leveraging on the Group's system, IT infrastructure and distribution network, it offer a range of Islamic financial products and services across 407 Maybank touchpoints in Malaysia, as well as in its international operations in Indonesia, Singapore, Hong Kong, London, Labuan and Dubai. (MAYBANK, 2019)

In Malaysia, Maybank Islamic is the domestic market leader in total assets, total financing, and total funding (Deposits and Unrestricted Investment Account) as well as profitability across all

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

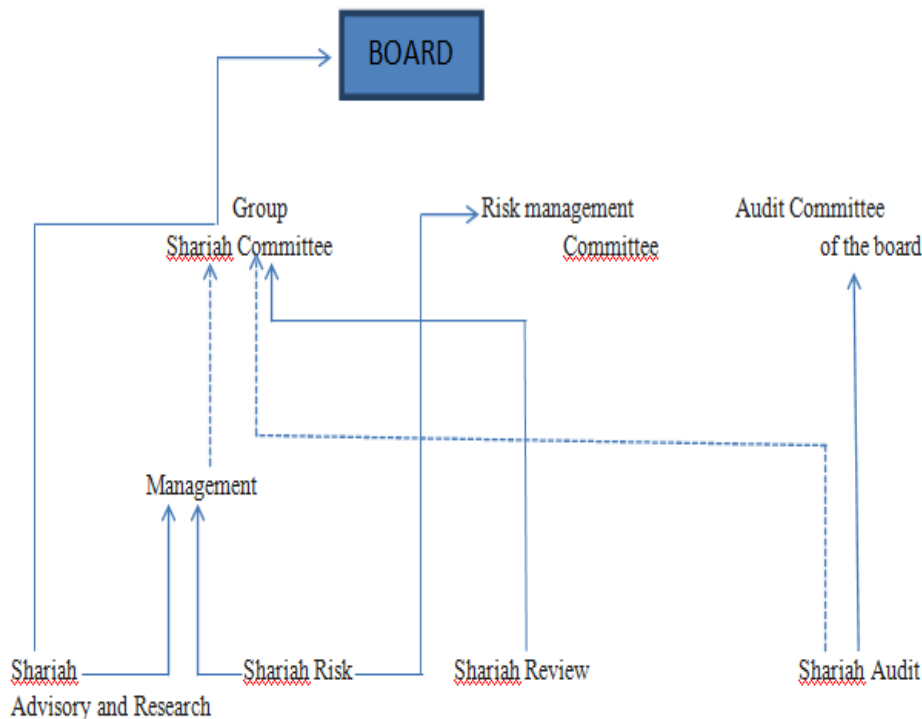
..... Afifa, ARROUF

key business segments. We adopt an Islamic-first approach where we offer customers Shariah-compliant products and services as a standard product. Our Islamic banking business contributed 59% to Maybank's financing in Malaysia as at 31 December 2018 (maybank I.)

In 2013 In accordance with Bank Negara Malaysia's regulatory requirements, Maybank Islamic has put in place a comprehensive Shariah Governance Framework to ensure effective and efficient oversight by the Board of Directors, the Shariah Committee, the Management and Business Units on business activities and operations carried out by its business pillars.

The Shariah Governance structure adopted by the Group is as illustrated in the diagram below:

Diagram(01): Shariah Governance Structure for the Group MAYBANK



Source :https://www.maybank.com/iwov-resources/corporate_new/document/my/en/pdf/annual-report/2020/Maybank_2019_Basel_II_Pillar_3_Disclosure.pdf

The diagram represent key organs of shariah governance of Islamic maybank The responsibilities are clearly defined for a good accountability :

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

A robust internal control functions was established with four organs : shariah advisory shariah risk, shariah review ,shariah audit

shariah advisory and research conduct research on Shariah; and report information to the management and the shariah committee.

The shariah risk which identify, measure, control, monitor and report risks inherent in all products and activities undertaken by the Bank to the risk management committee and the management.

The Shariah review function refers to a regular and continuous review of processes and deliverables, as well as determining that such processes and outcomes satisfy the needs of the Shariah, and report results to the shariah committee .

Shariah audit refers to the periodical operations of control by internal auditors verifying that the IFI's key functions and business operations completely with the policies and procedures of shariah ,shariah audit report to audit committee and to the shariah committee

All the precedent functions reports to the shariah committee and the shariah committee report directly to the board . Broad oversight, accountability of the shariah committee

The Shariah compliant governance of the group had four lines of defence : 1st-Management and Business Unit, 2nd-Shariah Advisory and Research, 3rd-Shariah Risk and 4th-Shariah Audit and Shariah Review.

• Composition of the board

The Board of Maybank Islamic Berhad comprised five (5) directors of which four (4) were Independent Non-Executive Directors and one (1) Non Independent Non-Executive Chair Chairman. The composition of the Board complied with the requirement under the BNM Corporate Governance Policy ("BNM CG Policy") of having a majority of independent directors at all times.

Under the leverage model, the Board delegated certain of its governance responsibilities to the following Board Committees of Maybank, which operate within clearly defined terms of references primarily to assist the Board in the execution of its duties and responsibilities. Nevertheless, the final decisions were made by the Board of Maybank Islamic.

1. Audit Committee¹ 2. Credit Review Committee² 3. Nomination and Remuneration Committee 4. Risk Management Committee² 5. Compliance Committee of the Board 6. Employee Share Grant Plan Committee (maybank, 2018)

The board must institutionalise a robust Shariah governance framework that is commensurate with the size, complexity and nature of the IFI's business and oversight accountability over

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

Shariah governance and compliance . The board must have due regard to any decisions or advice of the Shariah committee on any Shariah issues relating to the operations, business, affairs or activities of the IFI(paragraph9.1 SGD 2019)

- profil and requirement of shariya committee members**

According to the shariah governance policy documents issued in 2011 and in 2019 , Shariya committee is responsible of providing a decision or advice to the IFI on the application of any rulings of the SAC or standards on Shariah matters that are applicable to the operations, business, affairs and activities of the IFI;

Table N°(1) represente the profil of each member of The Shariah Committee of maybank Islamic berhard

Table N°(1) Maybank Islamic berhard Shariah committee members

Name	Qualification	appointed as a member in	Position in the committee	Currently activity	Nationality	Meeting Attendance: 26/26 On 2019
Dr Aznan bin Hasan	Bachelor's degree in Shariah (BA Hons), Al-Azhar University • Master's degree in Shariah (Mumtaz), Cairo University • PhD, University of Wales, Lampeter, UK	2014	Chairman	Associate Professor in the Institute of Islamic Banking and Finance at the International Islamic University of Malaysia (IIUM).	Malaysian	26/26
Dr. Mohamed Fairouz Bin Abdul Khir	PhD and Masters in Shariah from the University of Malaya, specializing in Fiqh, Usul al-Fiqh and Islamic Finance, and a Degree in the same field from IIUM. He has also studied Shariah in Jordan under prominent Jordanian Shariah scholars. Dr Mohamed Fairouz was conferred the Shariah Scholarship Award by Bank Negara Malaysia (BNM) for his PhD studies in Islamic finance.	1 May 2013.	Member	Researcher at International Shariah Research Academy for Islamic Finance (ISRA)	Malaysian	26/26
Ustaz Mohd Kamal bin Mokhtar	completed tertiary education in National University of Singapore (NUS) and graduated from Science Faculty with B.Sc. in Zoology and Botany. He obtained Diploma in Arabic Language from Islamic University of Medina in 1993. Proceeded in Faculty of Hadith and graduated with BA (Hons.) in Hadith and Islamic Studies in 1997. In 2006, he graduated from Shari'a Advisory Training Program jointly conducted by Singapore Islamic Scholars & Religious Teachers Association (PERGAS) and International Institute of Islamic Finance	2015	Member	a Judge at the Shariah Appeal Court of Singapore	Singaporean	26/26

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

	(IIIF). In 2015, he obtained his Master of Science (Finance) in International University of Malaysia (IIUM).					
Dr Oni Sahroni	Bachelor's Degree in Shariah and Master's Degree and Phd in Fiqh Muqaran (Comparative Islamic jurisprudence) from the University of Al-Azhar (Egypt). He is the Founder of Rumahwasathia Foundation and a Director at Sebi Islamic Business Economic Research Center (SIBER-C).	2018	Member	Lecturer, Fiqh Economics, University of Indonesia	Indonesian	23/26
Dr.Syahnaz sulaimane	Bachelor's Degree in Shariah and Law from University of Malaya and subsequently obtained her Master's degree in Comparative Laws from International Islamic University Malaysia (IIUM). She holds a PhD in Islamic Economy from University of Malaya.	2018	Member	senior Lecturer, Faculty of Economics and Muamalat, Universiti Sains Islam Malaysia (USIM)	Malaysian	26/26
Dr Akhtarzaite Abdul Aziz	Bachelor's degree in Law in 1994 and subsequently Bachelor's degree in Shariah a year later in 1995. She then obtained her Master's degree in Fiqh and Usul Al-Fiqh in 2000 and followed-by PhD in Fiqh and Usul Al-Fiqh in 2015, all from International Islamic University Malaysia ("IIUM").	1st March 2020.	Member	Assistant Professor, Department of Fiqh and Usul Al-Fiqh, International Islamic University Malaysia (IIUM)	Malaysian	
Dr Azrul Azlan Iskandar Mirza	bachelor's degree in Islamic Jurisprudence from the University of al-Azhar in 2004 and his master's degree in Management from the International Islamic University of Malaysia (IIUM) in 2006. He then obtained his PhD in Islamic Finance from the International Centre for Education in Islamic Finance (INCEIF) in 2015	1 April 2020	Member	Senior Lecturer, Faculty of Economics & Muamalat, Universiti Sains Islam Malaysia	Malaysian	

Source: Prepared by the researcher based on maybank documents and website

From the table below we note the following :

- The Shariah Committee comprises seven members, that number is superior than the minimum required by the shariah governance document(at least 05)(paragraph 13.2 SGD 2019) to strength the shariah committee. An IFI shall ensure that Shariah committee must be of a sufficient size that– (a) reflects the business needs of the IFI or the financial group; and (b) enables a conducive environment for sound deliberation of Shariah matters. (paragraph 13.1SGD 2019)
- All the members have great qualification and degree in shariah “An IFI must ensure that a majority of its Shariah committee members are Shariah qualified persons” (paragraph13.3 SGD 2019) maybank Shariah Committee has qualified members who are

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

able to deliberate Islamic finance issues brought before them and provide sound Shariah decisions.

- Diversification of members of the committee two2 women Dr.Syahnaz sulaimane and Dr Akhtarzaite Abdul Aziz and 5 man to better and strength the decision making process
- Very high level grade and qualification all members are international personalities and shariah scientists
- Maybank respected the shariah goverance policy documents Concerning the composition and qualification of the shariah committee
- All the actual members are appointed after 2013 and not serve the same IFI** for more than nine(9) years. (Paragraph 12.5 SGD 2019)
- At minimum, an IFI must hold its Shariah committee meetings at least once in every two months.(paragraph11.2 SGD 2019) Maybank committee attended 26 metings in 2019 which is evidence of seriousness and commitment in performing tasks and following up on their progress, and this is positively reflected in the committee's decisions.
 - The Malaysian nationality is not important in the composition of the committee an IFI shall only appoint or reappoint a person to be its Shariah committee member if the following are fulfilled: the person is a Muslim individual; a Shariah qualified person; (Paragraph 12.1 SGD 2019)
In 2017 SC committees comprise Dr. Ahcene Lahsasna Algerian personality as a member and he was also the chairman of Shariah Committee of Etiqa Takaful Berhad (SCETB) The members are selected by academic background and not nationality
- The majority of members of the shariah committee attended 26/26 metings in 2019 A Shariah committee member must now attend at least 75% of the Shariah committee meetings held in each financial year and are not allowed to delegate this task to another person. (Paragraph 11.4 SGD 2019) In order for any decision made to be valid, the new laws dictate that there has to be a majority of Shariah qualified members present at each meeting. (Paragraph 11.8 SGD 2019) “An IFI shall ensure that any decision of the Shariah committee must be made on the basis of simple majority”
- All the members are Independent Members, they have no direct or indirect relationship with the Company, to provide objective decision, views and opinions related to Shariah matters.

* International Financial institution

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

As part of the initiatives of the group and the board towards strengthening capabilities of the SC, a series of training professional development programmes have been conducted which include the following areas:

Table N°(2) Maybank Islamic berhard Professional training for Shariah committee members

Training type	2015	2016	2017	2018	2019
internal	-Overview of Risk Management - Basel III Requirements - Trade Finance Product - Treasury Product	-Intricacies of Financial Statements -Islamic Stockbroking Business Strategy -Malaysian Legal Framework for Sukuk and Collective Investment Schemes	Islamic Treasury • Trade Finance • MFRS 9	MFRS 9 Future Ready (Digital & Technology) INSEAD Artificial Intelligence & Technology Development Group Risk Workshop	-Certified Shariah Advisors (CSA) series which covered selected topics as follows: Accounting Finance Principles of Economics. Legal & Regulatory Framework Introduction to Commercial Law v. Codes of Ethics Professional - Series of Islamic Trade Finance trainings on Financial Statement Workshop on Actual Loss for LPC and Breach of Wa'd • Training on Halal Industry and Standards
External (Events and programs)			Zakat Accounting for Islamic Banks	•12th Muzakarah Cendekiawan Syariah Nusantara • 13th International Shariah Scholars Forum (ISSF) • Global Islamic Finance Forum 2018	13th Muzakarah Cendekiawan Syariah Nusantara • 14th International Shariah Scholars Forum (ISSF) • Muzakarah Ahli Majlis Penasihat Syariah (MPS) Institusi Kewangan di Malaysia Kali Ke-15 • Muzakarah for Shariah Advisors of Takaful Operators 2019 (M-SAT 2019) • MFRS 17 Implementation for Takaful Industry – MTA Forum

Source: maybank annual reports 2015; 2016 ;2017;2018;2019

• transparency and disclosures

An IFI must disclose in the annual report information on its Shariah governance policies and practices Such disclosures must include–

- (a) disclosure by the board on its oversight accountability for Shariah governance implementation and the IFI's overall compliance with Shariah
- (b) disclosure by the Shariah committee on its–responsibilities relating to Shariah governance; and opinion on the state of the IFI's compliance with Shariah. (Paragraph22.1 SGD 2019)

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

The disclosure must be signed by not less than two (2) Shariah committee members.
(Paragraph 22.6 SGD 2019)

- **disclosure by the board**

The board disclosed full profiles of shariah committee group in the annual reports and at Maybank Islamic's corporate website. The disclosure concerned the name and qualification of members of shariah committee, the roles, responsibilities and accountabilities of the board and Shariah committee.

The board of Maybank Islamic Berhad, as a subsidiary of Maybank, presenting their report together with the audited financial statements of Maybank Islamic Berhad every year. The report disclosed about Corporate governance, Shariah Committee's report, Statement of financial position, Income statement....

All policies made by the bank will also have to be endorsed by both the Shariah committee and approved by the board in order to ensure that there is adequate input by the Shariah committee.

- **disclosure by the Shariah committee**

1. **Shariah committee meetings and attendance disclosure**

An IFI shall disclose the number of Shariah committee meetings held during the financial year and the attendance of every Shariah committee member in the IFI's annual report (paragraph 11.6 SGD 2019)

Table N°(3) Shariah committee meetings and attendance disclosure

	2014	2015	2016	2017	2018	2019
Number of meeting	12	20	11	28	26	26
Number of sessions with the board	–	–	02	02	02	02

Source: maybank annual reports

In 2019 the SC convened 26 meetings inclusive of two special meetings to cater for urgent proposals, in 2018 The SC convened 26 meetings inclusive of one special meeting to cater for urgent proposals.

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

In 2017 SC convened 28 meetings inclusive of four special meetings to cater for urgent proposals,

The SC had convened 11 times in 2016 (with an addition of another 7 special sittings) and all members have satisfied the minimum attendance requirement under the Operation Procedures for the Shariah Committee of BNM's Shariah Governance Framework of a minimum 75% attendance level.

The Shariah Committee have convened 20 times in 2015 including 7 special sittings and all members have satisfied the minimum attendance requirement under the Operation Procedures for the Shariah Committee of BNM's Shariah Governance Framework which requires a Shariah Committee member to attend at least 75% of the Shariah Committee meetings held in each financial year

The Shariah Committee had convened 12 times in 2014 and all members have satisfied the minimum attendance requirement . (MAYBANK I. , 2014 ;2015 ;2016; 2017; 2018; 2019)

2.The Shariah committee's opinion on the state of Maybank compliance with Shariah

The shariah committee's opinion on the state of the bank is disclosed in the **Shariah Committee's report** every year and signed by the chairman of the committee and one member and it concerned the following points: (shariah committee, 2019)

- a) The new products, business initiatives and enhanced processes introduced by the Bank during the year are in compliance with the Shariah rules and principles;
- b) The contracts, transactions and dealings entered into by the Bank during the year are in compliance with the Shariah rules and principles;
- c) The main funding sources and investments of the bank disclosed to the committee conform to the basis that had been approved in accordance with shariah
- d) The allocation of profit and charging of losses relating to investment accounts conform to the basis that had been approved by the committee in accordance with shariah principles .
- e) The shariah non compliance events and disposal of any earnings from prohibited sources by the bank during the year had been channeled to the donation charity fund
- f) The financial statements of the bank for the year together with the calculation of zakat disclosed are in compliance with the shariah rules and principles

3.Disclosure of Shariah non-compliance risk

According to the sharia governance policy documents issued by bank Negara Malaysia 2019 under paragraph 22.10 , the Shariah committee's disclosure must include the nature, status and measures undertaken to address the material Shariah non-compliance events reported.

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

Table N°(4) reporting and disclosure of Shariah non-compliance risk

	RM'000						
year	2019	2018	2017	2016	2015	2014	2013
Number of incident	2	1	3	4	9	6	11
Nature of Shariah non-compliant/prohibited income	1-Ujrah fee charged on terminated/cancelled credit card 2- Conventional will writing fee capitalised in the Islamic home financing facility	Non-execution of Commodity Murabahah trading prior to financing disbursement	Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	Non-existence and/or insufficient of underlying assets, usage of non-eligible underlying assets and non-execution of aqad 7 51 Income earned above the selling price 1 5 Income from financing of non-permissible activities	Non-existence of underlying assets, usage of non-eligible underlying assets and non-execution of aqad	Lapses in the execution of transactions, non-suitability of marketing collaterals and usage of non-eligible underlying assets
amount	RM36.72	RM28	1	64	56	27	52

Source : Maybank islamic Berhard financial statements

The management of shariah noncompliance risk in maybank islamic proceed with the following steps :(Directors' Report and Audited Financial statment, 2019)

- 1- Any transaction suspected as Shariah non-compliance are reported to the shariah risk and escalated to the SC for deliberation and decision whether any Shariah requirements have been breached.
- 2- Shariah Risk Management will track on the incident and rectification status, and ensure timely reporting to the SC, Board and Bank Negara Malaysia.
- 3- For any Shariah non-compliance transactions, the related income will be purified by channeling the amount to an approved charitable organisation.

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

VI. Conclusion

Maybank's shariah Governance Framework remains in compliance with the, best practices, policies and guidelines of Policy documents on shariah Governance issued by Bank Negara Malaysia 2010 , 2019

The application of Sharia governance and its structures resulted in improvements represented in:

- Improvement of decision making process by independence and autonomy of the board members and by referring to the opinion and consulting the shariah committee before taking decision all policies made by IFIs will also have to be endorsed by both the Shariah committee and approved by the board.

- Improvement of decision making process by strengthening of the Sharia Committee qualification and the selection of highly qualified members .The shariah committee of maybank comprises persons with appropriate qualifications and experience in Shariah knowledge, skills, competencies and good reputation.

- Improvement of decision making process by the independence and autonomy of the members of shariah committee .

- Improvement of decision making process by respecting the minimum requirements of the number of the committee ,the minimum of committee attended by the member and the quorum of the vote.

- Improvement of the management of shariah non-compliance risk by Synergy and cooperation between the board the committee the management and the control functions .

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... Afifa, ARROUF

- Improving internal control with four structures shariah Advisory and Research shariah audit shariah risk and shariah review.

- Enhancing, the transparency and disclosures by the board and Shariah committee .
- Enhancing accountability through the determination of the roles, responsibilities interactions and accountabilities of the board, Shariah committee and key organs with more clarify.

VII .References

- Abdullah, a. (2017). A comparison between Malaysia and Indonesia in Islamic banking industry. *Research Journal of Business and Management- RJB*, 4((3)), 280.
doi:10.17261/Pressacademia.2017.705
- bank negara malaysia. (2019). *FINANCIAL STABILITY*.
http://www.bnm.gov.my/index.php?ch=fs&pg=fs_mfs_bank&ac=155
(consulted on 10/11 /2019).
- bank negara malaysia. (2019, 12 05). *Shariah Advisory Council*.
www.bnm.gov.my/index.php?ch=en_about&pg=en_thebank&ac=439&lang=en (consulted on 05/12 /2019).
- bank Negara Malaysia Museum and Art Gallery. (2019). *bank Negara Malaysia Museum and Art Gallery*. <http://www.museumbnm.gov.my/>(consulted on 15/11 /2019).
- BNM . (2019). *Exposure Drafts on Islamic Financial Contracts (Shariah Requirements and Optional Practices)*.
http://www.bnm.gov.my/index.php?ch=en_about&pg=en_sac_updates&ac=31(consulted on 10/11 /2019).
- BNM. (2010). *Shariah Governance Framework for Islamic Financial Institutions*.
<https://www.bnm.gov.my/index.php?ch=57&pg=144&ac=836&bb=file>. (consulted on 10/12 /2019).
- BNM. (2019). *Policy document on Shariah Governance*.
<https://www.bnm.gov.my/index.php?ch=57&pg=140&ac=835&bb=file>(consulted on 10/12 /2019).

The role of the Central Bank in Supporting Islamic banking through the policy document on shariah Governance of Bank Negara Malaysia

..... **Afifa, ARROUF**

-bnm. (2019). *Shariah Advisory Council*. Récupéré sur http://www.bnm.gov.my/index.php?ch=en_about&pg=en_thebank&ac=439&lang=en(consulted on 05/12 /2019).

-Eng, L. G. (2019). Full text of Budget 2020 speech.
<http://www.bnm.gov.my/documents/budget/bs2020.pdf>(consulted on 05/12 /2019)

Directors' Report and Audited Financial statment. (2019). *mybank islamic financial statement*.

gallery, B. N. (2019).

MAYBANK. (2019). *Annuak report*.

maybank, I. (s.d.). Consulté le 09 10, 2020, sur https://www.maybank.com/islamic/en/about-us/about_maybank_islamic.page?

MAYBANK, I. (2014 ;2015 ;2016; 2017; 2018; 2019). *ANNUAL REPORTS*.

maybank, i. (2018). *corporate governance*. Récupéré sur https://www.maybank.com/iwov-resources/pdf/islamic/about-us/MIB_Corporate-Governance.pdf

shariah commitee. (2019). *shariah commitee report*.

-wikipedia . (2019, 12 01). *Central Bank of Malaysia*. Récupéré sur https://en.wikipedia.org/wiki/Bank_Negara_Malaysia

wikipedia.(2019)*Islamic_Financial_Services_Act_2013*.https://en.wikipedia.org/wiki/Islamic_Financial_Services_Act_2013 (consulted on 05/12 /2019).

-Bank Negara Malaysia Museum and Art Gallery. (2019, 10 21). visite to Bank Negara Malaysia Museum and Art Gallery. malaysia. malaysia.

-Islamic head departement interview , Am. Bank malaysia. On 20/10 /2019