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Rationale for Islamic Banking Windows and Issues Impeding Their Effectiveness: Insights from Bangladesh

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Abstract

This study evaluates the rationale for introducing Islamic Banking Windows (IBWs) in Bangladesh, particularly in light of governance failures, high levels of non-performing investments, and the reputational damage suffered by several full-fledged Islamic banks. It also examines the sources of scepticism surrounding IBWs and provides practical recommendations to enhance their credibility and institutional strength. The study adopts a qualitative methodology, combining content analysis, semi-structured interviews, and focus group discussions (FGDs). This triangulated approach strengthens the findings by cross-validating evidence from multiple sources. The findings suggest that, although IBWs often face scepticism, they play a critical role in providing credible Islamic banking alternatives, especially during periods when full-fledged Islamic banks are in crisis. The study further identifies key operational and regulatory challenges affecting IBWs that must be addressed to ensure their effective functioning and support the orderly development of the Islamic banking sector. It systematically analyses the rationale, regulatory landscape, and operational dynamics of IBWs in Bangladesh. Drawing on the perspectives of those directly involved in IBWs, the study captures real-world practices and constraints, formulates recommendations grounded in practical realities, and brings practical insights to the Islamic finance literature. The findings and recommendations are relevant not only to Bangladesh but also to other jurisdictions where Islamic banking is emerging and conventional banks are considering establishing IBWs.

Keywords: Islamic banking, Islamic banking windows, Shariah governance, regulations.

1. Introduction

While interest-based borrowing and lending form the foundation of conventional banking, Islamic banking must strictly avoid interest and operate in accordance with the ethical and contractual principles derived from Shariah. Despite the fundamental differences between these two systems, Islamic banking operations are now commonly embedded within conventional banks worldwide. This trend began in the early stages of Islamic banking when Western banks started accepting interbank deposits from Islamic banks and offering tailored investment products for high-net-worth clients from the Middle East. As these banks became more familiar with the principles of Islamic finance, they introduced Islamic banking windows (IBWs) as dedicated units providing Shariah-compliant financial services (Azmi, n.d.; Khan & Bhatti, 2008). Today, IBWs operate not only within Western banks but also across local conventional banks in many Muslim-majority countries. According to the London Stock Exchange Group (2025), 325 conventional banks in 66 countries currently operate IBWs.

In Bangladesh, the Islamic banking landscape comprises ten full-fledged Islamic banks (five of which are in the process of merger) and thirty conventional banks operating IBWs (with a local regulatory distinction based on central bank approval: eight as 'branches', thirteen as 'windows', and nine as both). As of September 2025, IBWs accounted for 13.89% of total Islamic banking deposits and 8.13% of total Islamic banking

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investments (Bangladesh Bank, 2025). Despite the growing presence, IBWs continue to face scepticism regarding their Shariah compliance. Critics highlight their operational dependence on conventional host banks, the potential commingling of Islamic and conventional funds, and weaknesses in Shariah governance. Consequently, Bangladesh Bank has at times considered discontinuing IBWs altogether (ISRA, 2023), most recently through provisions included in the draft Islamic Bank Company Act 2024.

Meanwhile, Bangladesh's banking sector is experiencing a severe crisis marked by governance failures, fraudulent transactions, high levels of non-performing investments, liquidity shortages, and an erosion of depositor confidence. These vulnerabilities are particularly pronounced among several full-fledged Islamic banks (White Paper Committee, 2024). Nobel Laureate Dr. Muhammad Yunus, serving as the Chief Adviser (equivalent to Prime Minister) of Bangladesh, starkly described the situation: ‘Banks... suddenly you see, is not a bank... it is a robbery outfit.’ Similarly, the Governor of Bangladesh Bank, Dr. Ahsan H. Mansur, remarked that ‘oligarchs took over the whole banking system, not to control those banks only, but to control and rob, taking the money out of the country’ (Al Jazeera English, 2025). In response to the acute distress, particularly among five full-fledged Islamic banks that collectively hold BDT 1.47 trillion in non-performing investments (approximately 77% of their outstanding investments), the central bank has initiated a plan to merge them into a single consolidated entity (Ahmed, 2025).

Against this critical backdrop, this study revisits the rationale for IBWs in Bangladesh. It contributes to both the literature and practice of Islamic finance by expanding the limited academic discourse on IBWs, particularly in a jurisdiction where Islamic banking has achieved systemic importance yet is confronting institutional stress. Drawing on evidence from a content analysis of laws and regulations applicable to Islamic banking, as well as semi-structured interviews and focus group discussions (FGDs) with industry practitioners and Shariah professionals, the study offers policy-relevant insights for conventional banks considering the establishment of IBWs, and for regulators and standard-setting bodies seeking to design effective governance and supervisory frameworks. The findings also carry broader implications for emerging markets where Islamic banking is either nascent or holds a modest market share, highlighting the critical institutional and governance conditions necessary to position IBWs as a credible vehicle for scaling up Islamic banking. Although the research focuses on Islamic banking, the findings and recommendations may also be applied to the insurance sector and other conventional financial institutions that offer Islamic financial services.

2. Literature Review

2.1 Conceptual and Regulatory Foundations of IBWs

According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), an IBW refers to a component of a conventional bank that functions as a self-contained unit dedicated to Shariah-compliant financial intermediation. Although not a separate legal entity, an IBW operates as a 'bank within a bank', maintaining distinct operational, accounting, and Shariah governance structures. Globally, IBWs take several structural forms: (a) dedicated Islamic branches, (b) dedicated desks within conventional branches, and (c) digital-only platforms (AAOIFI, 2021; IFSB, 2018). Regulatory approaches to granting approval for IBWs vary across jurisdictions, although most require formal authorisation and compliance with specific Shariah governance requirements (Mejía et al., 2014).

2.2 Rationale and Strategic Significance of IBWs

The emergence of IBWs represents a pragmatic evolution from the initial model of establishing full-fledged Islamic banks. While full-fledged Islamic banks remain ideal from theoretical, operational, and governance perspectives, many jurisdictions lack the customer base, institutional capacity, and technical expertise to sustain them, particularly in markets where Islamic finance is still in its formative stage (Muhammad, 2025; Umar, 2025). The IBW model is particularly suitable in jurisdictions where Muslims are a minority and where a comprehensive legal framework for Islamic banking is still being developed (Song & Oosthuizen, 2014; Yaquby, 2025). As such, IBWs play a crucial role in enhancing financial inclusion, expanding market access, and facilitating the gradual development of Islamic financial services (Sobhani et al., 2016; Song & Oosthuizen, 2014). For conventional banks, IBWs also offer a capital-efficient and relatively low-risk pathway to enter the Islamic banking segment by leveraging existing infrastructure, human resources, and technological platforms (Sobhani et al., 2016; Ariff, 2017; Muhammad, 2025).

2.3 Operational Advantages and Market Performance

Empirical studies highlight several operational advantages of IBWs. By leveraging the infrastructure, risk management systems, and institutional experience of their host banks, IBWs can achieve economies of scale and cost efficiencies, enabling them to deliver competitive products at lower marginal costs (Ratnasari et al., 2021). Access to the host bank's funding base enhances liquidity management, particularly in markets with limited Islamic money market instruments (Song & Oosthuizen, 2014). Furthermore, IBWs promote market competition, stimulate product innovation, and create employment opportunities for Shariah-qualified professionals (Sobhani et al., 2016). Their emergence has also encouraged regulators to formalise Islamic banking guidelines and strengthen Shariah governance frameworks (Ariff, 2017). Comparative evidence suggests that IBWs often perform on par with (or even outperform) full-fledged Islamic banks (Chenguel et al., 2020; Hasan & Risfandy, 2021; Abimanyu & Tamimi, 2024; Joseph & Richard, 2025).

2.4 Shariah Compliance Concerns and Governance Challenges

Despite the positive attributes, IBWs face persistent scepticism regarding Shariah compliance, fund commingling, limited autonomy, and a narrow product range (Muhammad, 2025; Alamgir et al., 2025). Questions are present about whether IBWs genuinely embody the ethical spirit of Islamic finance or merely serve as profit-driven 'interest-free' divisions of conventional institutions (Mambodallu, 2018). Sobhani et al. (2016) and Ariff (2017) argue that many conventional banks lack the intrinsic motivation to pursue the socio-economic objectives of Islamic finance, while Bhambra (2007) questions whether genuine Shariah compliance is achievable within interest-based institutions. Umar (2025) notes that although some customers perceive IBWs as less credible than full-fledged Islamic banks, growing financial literacy and transparency have shifted attention toward product-level Shariah compliance rather than institutional identity. Abimanyu and Tamimi (2024) similarly find that customers increasingly view IBWs and Islamic banks as functionally interchangeable, prioritising service quality, returns, and ethical assurance over ownership structure.

Nevertheless, structural and governance vulnerabilities persist. The commingling of Islamic and conventional funds remains a significant compliance risk, as inadequate segregation can compromise Shariah integrity (Ariff, 2017; Song & Oosthuizen, 2014). In many cases, Islamic finance operations occupy a peripheral position within conventional banks, where board members and senior management lack sufficient expertise in Islamic finance, thereby weakening governance and oversight (Song & Oosthuizen, 2014; Alamgir et al., 2025). Operationally, IBWs may also facilitate regulatory arbitrage if insufficiently monitored, as weak Shariah governance can enable the misuse of Islamic deposits—for example, by funding conventional activities or meeting conventional banks' statutory reserve requirements (Umar, 2025). Such practices risk eroding public trust and complicating prudential supervision, particularly during periods of financial distress when reconciling Shariah compliance with systemic stability becomes increasingly challenging (Song & Oosthuizen, 2014).

2.5 Regulatory Reforms and Strengthening of Governance Frameworks

In response to the weaknesses, global regulatory initiatives have sought to strengthen Shariah governance and the operational independence of IBWs. AAOIFI's Financial Accounting Standard (FAS) 40: Financial Reporting for Islamic Windows and its Governance Standard (GS) 23: Application of Shari'ah Governance Principles to Islamic Finance Windows represent important milestones. Similarly, the IFSB has issued standards addressing supervisory and governance requirements for IBWs.

In October 2020, the Central Bank of the UAE introduced a comprehensive regulatory standard for IBWs, while Bank Negara Malaysia (BNM) issued its Policy Document titled *Islamic Banking Window* in 2024, replacing the earlier 1993 guidelines. These frameworks conceptualise an IBW as a 'bank within a bank', emphasising operational independence, clear accountability, and robust compliance mechanisms. Although implementation requires substantial investment in human capital, technology, and compliance systems, such initiatives aim to enhance institutional credibility and market confidence. As Grant Thornton UAE (2025) observes, effective governance for an IBW is as critical as that of a full-fledged Islamic bank.

2.6 Strategic Evolution and the Spin-Off Debate

Overall, IBWs embody a pragmatic balance between inclusivity, governance, and strategic intent. They offer scalable, cost-efficient mechanisms for expanding Islamic finance, provided that robust oversight, genuine commitment to Shariah compliance, and alignment with the host bank's strategy are maintained (Muhammad, 2025; Umar, 2025). However, the global debate over whether IBWs should evolve into full-fledged Islamic banks remains ongoing. While earlier policies in countries such as Qatar and Indonesia mandated spin-offs to accelerate Islamic banking growth, recent evidence suggests that forced conversions may fragment capital and weaken institutional resilience (Dja'akum et. al, 2024). Consequently, regulators generally favour a gradual, market-driven approach. Market performance also shapes outcomes, as successful IBWs often evolve into subsidiaries, whereas weaker ones consolidate or exit the market (Umar, 2025). Malaysia provides a notable example, where major institutions such as Maybank Islamic and CIMB Islamic initially operated as IBWs before transforming into Islamic subsidiaries (Ariff, 2017).

3. Research Methodology

The research adopts a qualitative approach, integrating content analysis, semi-structured interviews, and FGDs to critically examine the rationale, regulatory landscape, and operational dynamics associated with IBWs in Bangladesh. The triangulation of these methods enables cross-verification of information from multiple sources and enhances the depth and reliability of the findings. A comprehensive understanding of the rationale and issues surrounding the introduction of IBWs in Bangladesh provides the foundation for policy-level and practical recommendations to strengthen the regulatory, operational, and governance dimensions of IBWs.

The content analysis involves an in-depth review of the laws and regulations governing Islamic banking in Bangladesh to understand the prevailing legal and regulatory framework. Additionally, AAOIFI and IFSB standards are examined to assess the globally accepted norms for IBWs. The development of IBWs in Bangladesh and stakeholder perspectives are further explored through an analysis of reports published by Bangladesh Bank, annual reports of banks operating IBWs, academic articles, and newspaper reports. Given the limited number of academic studies on Islamic banking and IBWs in Bangladesh, newspaper articles serve as an important supplementary source for understanding recent market developments.

To identify the rationale for IBWs, their launch processes, and the issues contributing to stakeholder concerns (including those related to strategic planning, operational preparedness, regulatory requirements, and Shariah compliance), the study conducted 22 semi-structured interviews with stakeholders directly involved in the Islamic banking sector. The interviewees included three heads of IBWs in foreign commercial banks, five heads of IBWs in local private commercial banks, seven officers from IBWs, two project managers and consultants involved in launching IBWs, three members of Shariah Supervisory Committees (SSCs) at IBWs and full-fledged Islamic banks, and two officials from Bangladesh Bank.

Furthermore, five FGDs involving more than 100 professionals actively engaged in the Islamic banking sector were conducted to validate the identified process flow for launching IBWs, along with the associated issues and recommendations. This validation was instrumental in obtaining a comprehensive understanding of both strategic and operational perspectives.

4. Findings and Discussion

This section first presents the rationale for IBWs in the context of Bangladesh, beginning with a discussion of the arguments against the alternatives available to conventional banks for offering Islamic banking services. It then explores the motivations for these banks to implement IBWs, as well as the relevance of IBWs for the development of the Islamic banking sector. Subsequently, the process of launching IBWs is outlined, providing a foundation for identifying the operational and regulatory issues associated with their establishment and operation.

4.1 Islamic Banking Entry Pathways for Conventional Banks and Their Constraints in Bangladesh

There are three options for a conventional bank to launch Islamic banking operations: to convert the bank into a full-fledged Islamic bank, as undertaken by four banks in Bangladesh; to establish an Islamic banking subsidiary; or to set up IBWs. The research identifies the constraints for each of these options within the context of Bangladesh. These constraints are summarised in Table 1 and discussed in detail afterwards.

Table 1: Constraints in Launching Islamic Banking Operations by a Conventional Bank in Bangladesh

Option	**Major Constraints**
Conversion to a full-fledged Islamic bank	• Multiple layers of approval (board, shareholders, central bank, and court) • Amendment of all existing customer contracts • Withdrawal from Shariah non-compliant assets amidst limited availability of attractive Shariah-compliant alternatives • Significant restructuring costs, including changes to IT systems, documentation, operations, and human resources transformation • Cultural resistance and inconsistent internal commitment • Risk of legacy issues persisting after conversion
Establishing an Islamic banking subsidiary	• Regulatory uncertainty and the absence of a clear policy framework, including the repeal and subsequent reintroduction of legal provisions • Potential regulatory imposition of complete physical and operational separation • Costly structure if a leveraged operational model is not allowed • Concerns regarding the introduction of additional banks in an already crowded banking market
Establishing IBWs	• Perceived lack of genuine commitment to Shariah compliance • Operation within an interest-based banking environment, with a potential risk of fund commingling between conventional and Islamic operations • Dependence on the infrastructure and support functions of the conventional host bank • Persistent scepticism regarding managerial intent and the robustness of Sharia governance structures

Source: Authors' own

4.1.1 Conversion to a Full-Fledged Islamic Bank

Converting a conventional bank into a full-fledged Islamic bank is a significant undertaking. This process requires approvals from the board of directors, shareholders, and Bangladesh Bank, as well as amendments to the MoA, which need court approval. Additionally, consent from existing customers is required, as their contracts must be amended to comply with Shariah principles. Investments in Shariah non-compliant assets must be withdrawn and reallocated to Shariah-compliant assets, which poses a significant challenge in Bangladesh due to the limited availability of attractive Shariah-compliant investment options. Furthermore, changes to operational processes, documentation, and IT systems, along with a cultural shift in human resources and the development of necessary competencies, are critical yet challenging components of the conversion process.

Meeting these requirements demands substantial investment and effort, which well-performing conventional banks often consider commercially unjustifiable. For example, in Bangladesh, a conventional bank, despite receiving preliminary consent from Bangladesh Bank to convert to an Islamic bank, chose not to proceed because the conversion would require relinquishing high-yield conventional treasury securities without access to comparable Shariah-compliant alternatives. Moreover, the experiences of converted banks in Bangladesh suggest that legacy issues from conventional banking practices may persist long after conversion, with instances of weak Shariah governance and significant bad investments raising questions about the underlying motivations for conversion.

Unless controlling shareholders are firmly committed to conversion, whether due to religious conviction, regulatory pressure, or incentives, it is unlikely that a well-performing conventional bank would pursue full conversion. Furthermore, not all board members, senior management, or employees may share the same level of commitment to the conversion, which could undermine the effective implementation of the process.

Nonetheless, a strong commercial rationale for full conversion may exist, as the market gaps created by the severe setbacks experienced by several full-fledged Islamic banks could be seen as a strategic opportunity, allowing a converting bank to capture displaced customers and expand its market share.

4.1.2 Establishing an Islamic Bank Subsidiary

No bank in Bangladesh has established an Islamic banking subsidiary, despite it being explicitly permitted for a certain period. There are several industry concerns regarding the feasibility of establishing subsidiaries. Owing to the lack of clear policy direction on Islamic banking, uncertainties persist regarding how facilitative or restrictive Bangladesh Bank would be in granting subsidiary licences. There are concerns that Bangladesh Bank may not permit a leveraged model for such subsidiaries. If a requirement for complete physical and operational separation between the conventional parent bank and the Islamic subsidiary were imposed, it would result in excessive costs for smaller subsidiaries, potentially rendering them commercially unviable.

There is also perceived inconsistency and a lack of regulatory predictability. For example, Section 26 of the Banking Companies Act 1991 allowed conventional banks to establish Islamic banking subsidiaries, but this provision was repealed in 2023 without any publicly available justification. Although the draft Islamic Bank Companies Act 2024 has reintroduced this option, it does not provide clarity regarding the operational models to which such subsidiaries would be subject. Critics further argue that creating new Islamic banking subsidiaries could exacerbate the issue of too many banks in Bangladesh—currently, there are 61 scheduled banks, which is considerable given the size of the market—and there is ongoing pressure to reduce this number.

4.1.3 Establishing IBWs

The arguments against IBWs primarily centre on concerns regarding managerial intent and the depth of Shariah compliance. Critics contend that conventional banks establish IBWs primarily for commercial gain rather than out of a genuine commitment to Shariah principles. They argue that if a bank's commitment were truly to Shariah compliance, it would either have sought a full-fledged Islamic banking licence from the outset or converted the entire entity into an Islamic bank. The dual model has thus been characterised as 'serving two masters', reflecting the perceived tension between profit maximisation and Shariah adherence within a conventional banking framework.

Concerns about Shariah compliance are further intensified by the operational realities of IBWs, including the potential commingling of funds and reliance on conventional host-bank infrastructure, systems, and personnel within an interest-based environment. Although economically rational, this dependence on shared infrastructure reinforces skepticism regarding the robustness of segregation between Islamic and conventional operations. At the same time, implementing a strict 'bank within a bank' segregation model without allowing operational leverage may not be commercially viable.

Although boards often express interest in expanding Islamic banking activities, the underlying motivation could be portfolio diversification rather than substantive Shariah transformation. This dynamic translates into operational challenges at the management level. In some cases, it is alleged that management views 'business as primary and compliance with Shariah as secondary'. Commercial targets may influence product design, even if this weakens Shariah positioning, as reflected in remarks such as 'more business, less Shariah'.

Even where boards are cooperative and supportive, management teams, generally drawn from conventional banking backgrounds, may not prioritise Islamic banking matters, contributing to what has been described as a 'delay culture' in approving or implementing Islamic banking initiatives. One reason for this is that Islamic banking objectives are not always embedded in staff key performance indicators (KPIs). In some banks, Islamic banking units continue to be assessed using conventional performance metrics, and underperforming staff are not reassigned with the same decisiveness observed in conventional divisions. Moreover, some conventional banking executives reportedly perceive Islamic banking as a 'threat' rather than as an integrated component of the same institution.

Nonetheless, where the underlying motivation is genuinely religious or value-driven, boards reportedly provide more consistent strategic support and place greater emphasis on strengthening Shariah governance.

4.2 Strategic and Sectoral Justifications for IBWs in Bangladesh

Several compelling arguments in support of IBWs have been identified. These can be examined from two distinct perspectives: the motivations driving conventional banks to establish IBWs and the essential role of IBWs in the development of the Islamic banking sector. These perspectives are summarised in Table 2 and elaborated upon thereafter.

Table 2: Justifications for IBWs in Bangladesh

Perspectives	Economic and Strategic Drivers
Motivations for conventional banks to establish IBWs	• IBWs allow conventional banks to diversify their product offerings and enhance their competitive positioning in the growing Islamic finance market. • Prevents the migration of high-value, Shariah-compliant customers to full-fledged Islamic banks and other conventional banks with IBWs. • Provides access to the expanding Islamic financial services and asset market. • IBWs often show a stronger operating profit-to-assets ratio. • Conventional banks may channel funds into IBWs (but not vice versa), offering a broader funding base. • Islamic banking's lower Statutory Liquidity Ratio (SLR) requirement (5.5%) compared to conventional banking (13%) improves liquidity management flexibility. • Compared to establishing subsidiaries, IBWs require no additional regulatory seed capital beyond the initial setup costs.
Need for IBWs for the development of Islamic banking	• IBWs provide a credible alternative during governance, liquidity, and reputational crises affecting full-fledged Islamic banks. • Smaller-scale IBW operations offer greater flexibility for product innovation and potentially stronger Shariah oversight. • IBWs recruit Islamic finance professionals and train conventional banking staff, strengthening sector-wide human capital development. • Leveraging conventional bank infrastructure (branches and digital platforms) enhances Islamic banking visibility and outreach. • IBWs can invest in sukuk and support liquidity-constrained Islamic banks, contributing to systemic stability. • IBWs serve as a pragmatic transitional model that may eventually lead to full-fledged Islamic banking conversion.

Source: Authors' own

4.2.1 Motivations for Conventional Banks to Establish IBWs

The primary motivation for conventional banks to establish IBWs is commercial gain. This objective is not unique to conventional banks, as full-fledged Islamic banks generally pursue similar commercial objectives, with perhaps only a few prioritising ideological considerations.

The gains sought through IBWs stem from enhanced competitiveness, improved customer retention, and expanded business opportunities. By introducing Islamic banking services, a conventional bank can strengthen its competitive position, diversify its product mix, and capitalise on the growing demand for Islamic financial services. This strategy helps banks retain existing customers while attracting new ones. For example, some conventional banks establish IBWs to prevent high-value customers from migrating to other Islamic banks. Furthermore, the strong interconnectedness of Islamic finance components enables conventional banks to gain broader access to Islamic finance through IBWs. For instance, IBWs can invest in BGIS, an opportunity not always directly available to conventional banking operations.

In addition to expanded business opportunities, IBWs benefit from lower funding costs and enhanced liquidity due to broader access to deposits. Conventional banks are permitted to place funds in Islamic banking accounts, whereas the reverse is not permitted under Shariah. Moreover, Islamic banking operations in Bangladesh are subject to a lower SLR requirement compared to conventional banking, resulting in greater liquidity and higher-yield investment opportunities. The SLR for Islamic banking is 5.5%, compared to 13% for conventional banking. Entry barriers are also relatively low, as—apart from initial setup costs—there is no seed capital requirement for establishing IBWs. In many cases, by leveraging the host bank's infrastructure for various functions, IBWs generate a proportionally higher share of operating profit than their share in the host bank's total assets.

4.2.2 Need for IBWs for the Development of Islamic Banking

As several full-fledged Islamic banks in Bangladesh grapple with a significant reputational crisis, it has become increasingly necessary for reputable conventional banks to offer Islamic banking services. Several conventional banks are perceived as stronger in governance and service quality. This confidence has been reflected in the deposit behaviour of Islamic banking customers, many of whom have transferred their deposits to IBWs or even to conventional banks.

As shown in Figures 1 and 2, the share of IBWs in total Islamic banking deposits increased from 5.63% (BDT 67.07 billion) in December 2013 to 13.89% (BDT 653.14 billion) in September 2025, while their share in total Islamic banking investments rose from 5.37% (BDT 55.21 billion) to 8.13% (BDT 421.05 billion). The upward trajectory is particularly noticeable from December 2021. This trend underscores the growing market acceptance of IBWs and their importance as a viable alternative for customers seeking Islamic banking solutions amid a crisis affecting several full-fledged Islamic banks. It also suggests that customers place greater emphasis on a bank's stability and governance strength than on the structural distinction between a full-fledged Islamic bank and an IBW operation.

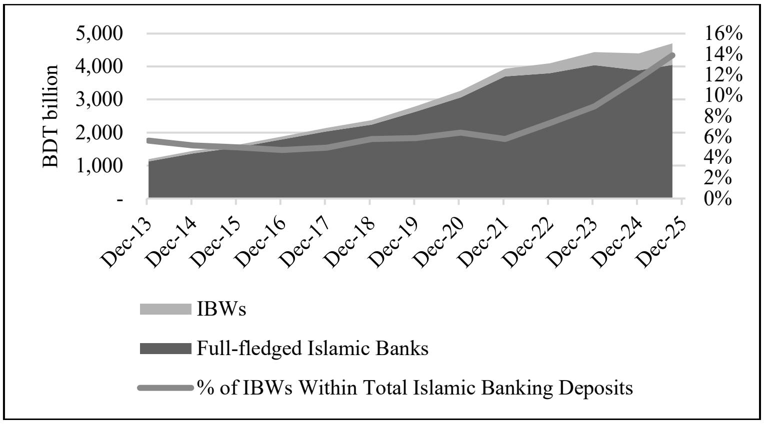

Figure 1: Share of IBWs Within Islamic Banking Deposits
Source: Authors' own, based on Bangladesh Bank's quarterly reports on Islamic banking

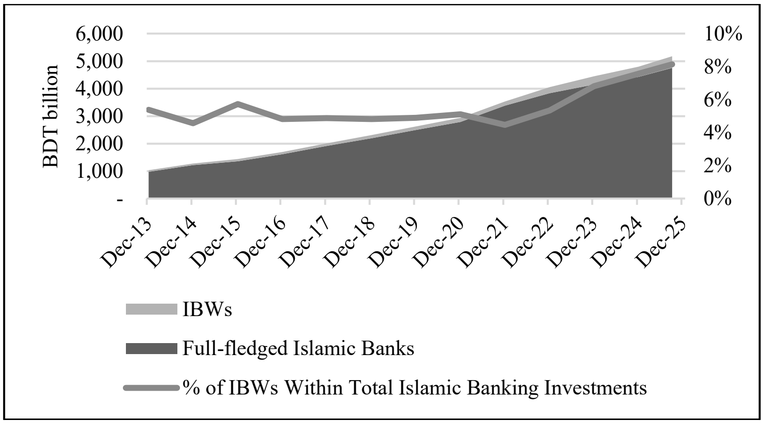

Figure 2: Share of IBWs Within Islamic Banking Investments
Source: Authors' own, based on Bangladesh Bank's quarterly reports on Islamic banking

Moreover, being relatively new and smaller in scale, IBWs can implement changes more efficiently. This agility allows them to introduce innovative products more quickly than many full-fledged Islamic banks. Their smaller scale further facilitates stronger control over Shariah compliance and governance. In contrast, full-fledged Islamic banks often face challenges in these areas due to their size and legacy constraints. At the same time, while some full-fledged Islamic banks struggle to maintain stability, reputable conventional banks continue to invest in innovation, technology, and customer experience. These advancements naturally flow through to their IBWs, enabling Islamic banking customers to benefit from the same institutional improvements.

Additionally, conventional banks operating IBWs contribute to the development of the Islamic banking talent pool by prioritising the recruitment of individuals with Islamic banking backgrounds and providing training to existing conventional banking staff. Some banks extend such training beyond core Islamic banking personnel to staff in supporting functions. Collectively, these efforts strengthen human capital within the Islamic banking sector, which is critical in addressing prevailing knowledge and awareness gaps in Islamic finance. Furthermore, the growing number of conventional banks offering IBWs enhances Islamic banking's visibility through their websites, branches, advertising, and staff engagement. This not only benefits individual institutions but also contributes to the broader promotion of the Islamic banking sector, ultimately also supporting full-fledged Islamic banks.

The excess liquidity maintained by IBWs also creates opportunities for conventional banks to support full-fledged Islamic banks facing liquidity shortfalls and to invest in Shariah-compliant securities such as BGIS and corporate sukuk, thereby contributing to the stability and advancement of Islamic finance. This has become particularly significant in recent years, as several full-fledged Islamic banks have experienced substantial liquidity pressures. Figure 3 shows that in September 2025, excess liquidity in IBWs reached BDT 82.67 billion, accounting for 52.84% of total excess liquidity in the Islamic banking sector, compared to BDT 10.24 billion, or 7.81%, in December 2015.

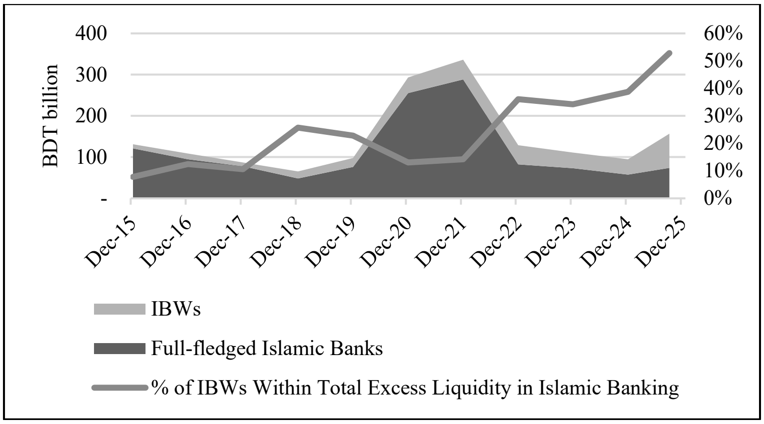

Figure 3: Excess Liquidity in the Islamic Banking Sector
Source: Authors' own, based on Bangladesh Bank’s quarterly reports on Islamic banking

4.3 Process Flow of Launching IBWs

Upon evaluating the arguments, establishing IBWs appears to be the most pragmatic approach for conventional banks in Bangladesh to initiate Islamic banking operations and gradually expand their Islamic banking portfolios, potentially paving the way for eventual conversion into full-fledged Islamic banks. However, stakeholder concerns, particularly regarding Shariah compliance, must be adequately addressed.

A conventional bank may establish IBWs by opening a new branch dedicated exclusively to Islamic banking, converting an existing conventional branch to offer only Islamic services, or providing Islamic banking services through dedicated desks within selected conventional branches. In all cases, banks must obtain separate approval from Bangladesh Bank to commence Islamic banking operations. However, there are currently no regulations in Bangladesh that prescribe a comprehensive set of requirements for launching and operating IBWs. As a result, approval requirements, processing timelines, and operational practices may vary considerably from one bank to another. This variability often depends on the officials involved in the approval process and their interactions with the applicant banks.

Bangladesh Bank grants two types of permissions for IBWs: ‘branches’ and ‘windows’. Neither category is explicitly defined in the Bank Company Act, 1991. Meanwhile, the *Guidelines for Conducting Islamic Banking* issued by Bangladesh Bank in 2009 refer to the branch-based Islamic banking system but do not mention the window-based system. The decision to allow the window-based system appears to be an internal policy matter of Bangladesh Bank. Bangladesh Bank has not officially indicated a preference for either model. However, insights from interviews and FGDs suggest that Bangladesh Bank is generally more reluctant to approve new Islamic branches for foreign commercial banks. Consequently, obtaining approval for a 'window' or converting existing conventional branches into Islamic banking operations appears to be a practical option for these banks. Table 3 lists the banks currently operating IBWs in Bangladesh.

Table 3: Banks Operating IBWs in Bangladesh

No.	**Name of Banks**	**Type of IBW Operation**	**Year of Establishment**		**No. of Islamic Brach/Window**	
			Bank	**IBW**	**Branch**	**Window**
1	AB Bank	Branch + Window	1982	2006	1	8
2	City Bank	Branch + Window	1983	2003	1	60
3	United Commercial Bank	Branch + Window	1983	2020	1	100
4	National Credit and Commerce Bank	Branch + Window	1993	2022	2	32
5	The Premier Bank	Branch + Window	1999	2003	2	25
6	ONE Bank	Branch + Window	1999	2020	2	14
7	Mercantile Bank	Branch + Window	1999	2020	2	45
8	NRB Bank	Branch + Window	2013	2021	1	28
9	Pubali Bank	Branch + Window	1983	2010	8	22
10	Prime Bank	Branch	1995	1995	5	-
11	Dhaka Bank	Branch	1995	2003	2	-
12	Southeast Bank	Branch	1995	2003	5	-
13	Jamuna Bank	Branch	2001	2003	2	-
14	Bank Alfalah	Branch	2005	2005	1	-
15	Bangladesh Commerce Bank	Branch	1998	2022	2	-
16	Bengal Commercial Bank	Branch	2021	2022	3	-
17	IFIC Bank	Branch	1983	2024	1	-
18	Standard Chartered Bank	Window	1948	2004	-	1
19	Trust Bank	Window	1999	2008	-	30
20	Bank Asia	Window	1999	2008	-	5
21	Sonali Bank	Window	1972	2010	-	58
22	Agrani Bank	Window	1972	2010	-	60
23	Meghna Bank	Window	2013	2020	-	10
24	Mutual Trust Bank	Window	1999	2020	-	15
25	Midland Bank	Window	2013	2020	-	1
26	NRBC Bank	Window	2013	2020	-	373
27	SBAC Bank	Window	2013	2021	-	10
28	Padma Bank	Window	2019	2023	-	5
29	Rupali Bank	Window	1972	2023	-	2
30	Eastern Bank	Window	1992	2024	-	20
	Total				**41**	**924**

Source: Authors' own, based on Bangladesh Bank (2025) and websites of the banks

The research identifies the following process flow for launching IBWs, which remains the same regardless of whether Bangladesh Bank grants ‘branch’ or ‘window’ permission:

1st. Assessing the Feasibility: Following the board's expression of interest, management prepares a proposal to establish Islamic banking operations within the bank. The proposal includes a feasibility study focusing on customer demand, existing Islamic banking operations of other banks, potential volumes for mobilising Islamic deposits and investments, and a breakeven analysis. Responsibility for drafting the proposal and conducting the preliminary groundwork is assigned to a bank executive, or a consultant may be appointed to assist with these tasks.

2nd. Management Committee (MC or MANCOM) Review and Board Approval: The findings of the feasibility study are presented to the Management Committee (MC) for review. The committee deliberates on the findings and provides recommendations to the board. Subsequently, the feasibility study, along with the MC's recommendations, is submitted to the board for formal approval. Upon approval, the board passes a resolution in favour of launching Islamic banking operations within the bank.

3rd. Application for Preliminary Consent from Bangladesh Bank: The bank submits an application to the Islamic Banking Regulation and Policy Department (IBRPD) of Bangladesh Bank to establish Islamic banking branches or windows. The application is accompanied by the board resolution approving the establishment of Islamic banking operations. The Licensing Unit within the IBRPD conducts the assessment primarily in accordance with the *Guidelines for Conducting Islamic Banking*, which outline the conditions for obtaining approval to conduct Islamic banking activities. The assessment may also consider BRPD Circular Letter No. 30, dated 8 July 2024, regarding online Islamic banking services through conventional branches and sub-branches, and IBRPD Circular No. 1, dated 28 September 2025, on the formation, appointment, removal, and responsibilities of SSC members in banks offering Islamic banking services.

During the assessment, the bank's financial strength is evaluated, considering its capital base (net capital free from actual and potential losses), the adequacy of its capital structure, historical earnings capacity, liquidity position, compliance with prudential regulations, credit discipline, quality of customer service, and the needs and convenience of the population in the proposed service areas. Additionally, the bank must have achieved a CAMELS rating of 1 or 2 in the most recent on-site inspection conducted by Bangladesh Bank, with no significant adverse findings.

Following the assessment, Bangladesh Bank issues a letter granting preliminary consent. This letter specifies the compliance requirements and requires the bank to submit a new application with updated supporting documents once those requirements are met. The specific requirements may vary depending on the officials involved in the approval process and their interactions with the applicant. Generally, these requirements include, at a minimum, an operational manual for Islamic banking; a list of proposed products and services; Product Programme Guidelines (PPGs); a fund management policy; a profit distribution mechanism for depositors; confirmation of the establishment of an Islamic Banking Division (IBD), including its organisational structure and staffing status; details of human resource development initiatives; qualifications and Islamic banking experience of senior executives; the status of the SSC; a commitment to prepare separate financial statements for Islamic banking operations; and the feasibility report.

4th. Islamic Banking Project Initiation: The bank initiates the Islamic banking project and appoints an executive or consultant to lead it. This individual may or may not be the same person who conducted the initial feasibility study. The appointed lead prepares the supporting documents required by Bangladesh Bank for final approval. Contract documents and forms for all proposed deposit and investment products, as well as the services the bank intends to offer, are also drafted at this stage. It is important to note that product design in Islamic banking is widely recognised as more complex than in conventional banking, requiring stronger innovation capacity and deeper technical expertise.

The IBD is established at the head office for local banks and at the country office for foreign banks as part of the project. Bangladesh Bank requires that the head of the IBD be a senior executive reporting directly to the Chief Executive Officer (CEO) and that the IBD be adequately staffed. Personnel may be recruited from the market to ensure the requisite staffing and expertise. The establishment and structuring of the IBD are consistent under both the ‘branch’ and ‘window’ systems.

5th. Establishment of SSC: The bank establishes the SSC and formulates its governing by-laws. SSC members are selected according to the criteria set out in the *Guidelines for Conducting Islamic Banking* and IBRPD Circular No. 1. Bangladesh Bank may or may not intervene in the selection process. Before the drafted documents are submitted to Bangladesh Bank, the SSC conducts Shariah vetting of them, either independently or through a designated subcommittee. The SSC or its subcommittee may hold several meetings during this vetting process.

6th. Acquisition of Islamic Banking Software: Acquiring suitable software for Islamic banking operations is a critical phase of the project. To procure the software, the bank issues a Request for Proposal (RFP) outlining its requirements and subsequently selects an appropriate vendor from the tenders received. The processes of acquisition, installation, and integration with the conventional core banking system (CBS) can be time-consuming and may present various technical and operational challenges. Some management teams prefer adopting an Islamic banking module within the existing CBS, leveraging established vendor relationships, cost savings, and easier integration. Others, however, favour implementing a separate Islamic CBS to ensure proper segregation between conventional and Islamic operations and to strengthen Shariah compliance controls.

7th. Human Resource Development: As part of the Islamic banking project, the bank implements a two-stage human resource development strategy: pre-launch and post-launch. This process involves training existing staff and, where necessary, recruiting new personnel. There are no uniform practices regarding staffing levels; however, establishing dedicated Islamic banking branches typically requires more personnel than operating service windows. Some banks assign dedicated staff to each Islamic banking branch or window, while others adopt a more integrated staffing model. Bangladesh Bank generally prefers the appointment of dedicated personnel for Islamic banking operations.

8th. Application for Final Consent from Bangladesh Bank: The bank submits an application to the IBRPD seeking final approval. In addition to meeting Bangladesh Bank's requirements, the application specifies the number of Islamic banking branches or windows the bank intends to operate. A designated team within Bangladesh Bank assesses the application and supporting documents. They also collect relevant information, such as CAMELS ratings, adverse observations, and instances of non-compliance from various departments within Bangladesh Bank. The central bank may also require the bank to give a presentation on its preparedness to launch Islamic banking operations. All information is evaluated before recommendations are made for final approval.

The IBRPD subsequently prepares a note to obtain approval from higher authorities, culminating at the Governor's office. Final consent is granted based on the Governor's approval. The consent letter outlines specific conditions the bank must comply with, including a deadline for commencing Islamic banking operations. These conditions typically include ensuring proper segregation of Islamic banking funds and opening a separate account with Bangladesh Bank for Islamic banking operations.

Generally, Bangladesh Bank approves a limited number of branches or windows to offer Islamic banking services. However, some banks extend such services across all their branches rather than restricting them to approved branches. In addition, certain banks establish Islamic banking service desks within non-approved branches. In such cases, transactions are processed through the bank's CBS and reported via the designated approved branches or windows. Although BRPD Circular Letter No. 30 sought to standardise this practice, supervision in this area varies. Nonetheless, it is widely understood that Bangladesh Bank does not support the provision of all types of Islamic banking services, particularly investment activities, through non-approved branches or windows.

9th. Physical Setup: The bank prepares its branches or windows in accordance with the conditions stipulated in Bangladesh Bank's consent letter. The standard specifications for establishing a branch, whether conventional or Islamic, are generally similar; however, the requirements for windows operating within an existing branch are typically less extensive. The physical setup usually includes structural and interior arrangements, personnel deployment, and preparation of the vault room. Although fund segregation requirements are present, there is no regulatory requirement for a separate vault for Islamic banking, even though such practices exist in the market. Similarly, there is no requirement for separate entry and exit points, although some institutions prefer this arrangement, and such examples can be observed in practice.

10th. Account with Bangladesh Bank: The bank opens an ‘Al-Wadiah Current Account’ with Bangladesh Bank to maintain its Cash Reserve Ratio (CRR) and to conduct settlements with the central bank.

11th. Launch of Islamic Banking: As there is no seed capital requirement for IBWs, Islamic banking operations typically commence with deposit mobilisation, after which depositor funds are utilised to finance activities. Deposit collection begins immediately upon launch, and investment operations generally start within a few days. Although there is no prohibition on allocating seed capital for Islamic banking operations, no bank has done so to date. Nevertheless, Islamic deposits remain subject to SLR and CRR requirements. Any initial costs borne by the conventional banking division are either treated as expenses in the conventional bank's accounts or recorded as an interest-free advance to the Islamic banking operations.

The bank is required to submit a report to Bangladesh Bank within 15 days of the launch, notifying the central bank of the commencement of Islamic banking operations and related matters. Bangladesh Bank may conduct a special on-site inspection to ensure compliance with stipulated conditions, re-evaluating submitted information and reviewing real-time operational data for verification.

Figure 4 presents the indicative timeline for completing the steps involved in launching IBWs.

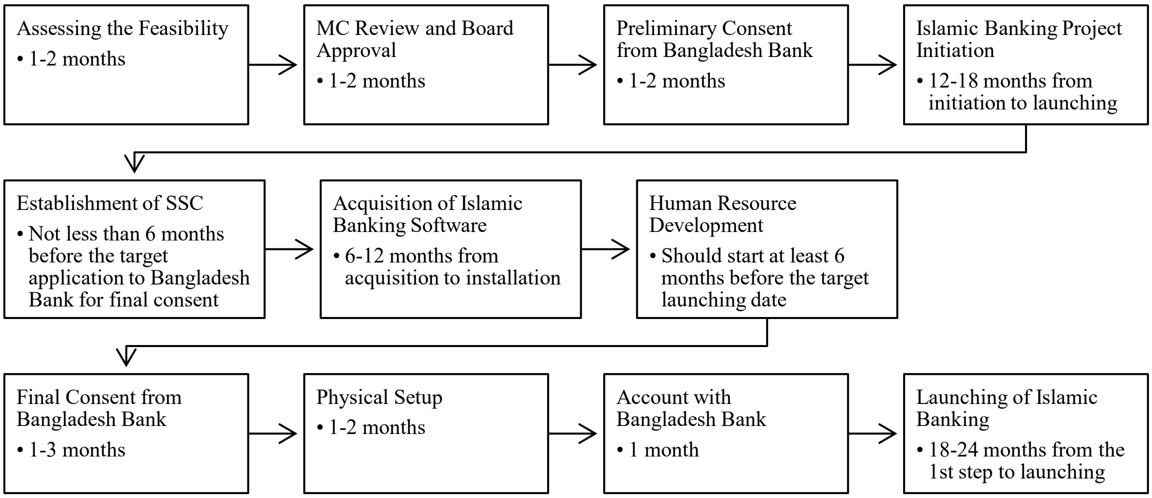

Figure 4: Tentative Timeline to Launch IBWs
Source: Authors' own

While scheduled banks are required to obtain approval from the IBRPD, finance companies must seek approval from the Department of Financial Institutions and Markets (DFIM) of Bangladesh Bank. The regulations issued by the DFIM closely align with those established by the IBRPD, and the process for establishing IBWs by finance companies is broadly consistent with that applicable to banks.

5. Issues and Recommendations

This section synthesises the key issues and recommendations to optimise the potential of IBWs in advancing Islamic banking in Bangladesh.

5.1 Lack of Policy Direction

There is currently no clear policy direction in Bangladesh regarding IBWs or Islamic banking in general, resulting in inconsistent decisions and varying requirements imposed on institutions. Moreover, the absence of specific guidelines governing the establishment and operation of IBWs has led to divergent practices and confusion among market participants. The lack of a standardised approval process and clearly defined timelines further contribute to accountability concerns, particularly regarding delays in approvals and potential bias in decision-making.

To address these challenges and support the orderly development of the Islamic banking sector, it is essential to articulate a clear vision and strategic framework for Islamic banking. Regulatory and supervisory frameworks should be comprehensive and consistent, drawing, where appropriate, on relevant AAOIFI and IFSB standards. The introduction of a standardised approval process with defined timelines at each stage would also enhance transparency and accountability.

5.2 Flawed Approach in Drafting Documents

Ensuring comprehensiveness, internal consistency, and Shariah compliance is critical when drafting Islamic banking documentation, including PPGs, contracts, and operational manuals. For example, PPGs must comprehensively address all commercial aspects of the products, such as structure, terms and conditions, and accounting treatment, while ensuring Shariah compliance. However, weak drafting practices persist, often characterised by a copy-and-paste approach from conventional banking products or other Islamic banks. These source documents may themselves contain deficiencies due to prior replication or insufficient Shariah validation.

Bank management—particularly those without prior experience with an SSC—often assumes that any weaknesses in draft documents will be identified and corrected by the SSC. In practice, this assumption has proven ineffective, leading to documentation with substantive flaws. The effectiveness of the SSC will be significantly enhanced if the documents submitted for review are of higher quality. To improve drafting standards for Islamic banking documentation, it is recommended that the process illustrated in Figure 5 be adopted.

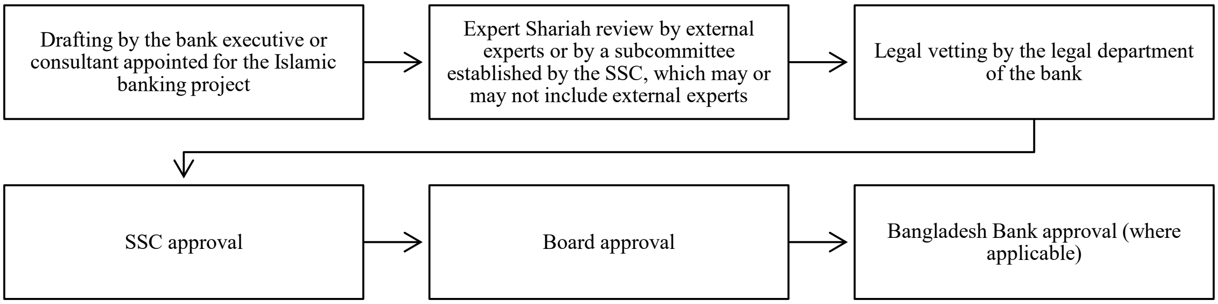

Figure 5: Recommended Approaches to Drafting Islamic Banking Documents
Source: Authors' own

5.3 Weaknesses in the Formation of the SSC

Despite the high expectations placed on the SSC, several deficiencies have been observed in its constitution and level of engagement during the launch of IBWs. Some of these gaps have been addressed through IBRPD Circular No. 1. However, limited awareness and exposure to Islamic banking operations, along with the participation of senior management and board members in meetings, continue to constrain SSC's effective performance.

Examples of weak practices include the late formation of the SSC during the Islamic banking project and instances where management pressures the SSC to approve documents within an unreasonably short timeframe, even when those documents have not been adequately reviewed. There have also been instances where board members or the chief executive sought inclusion in the SSC, thereby compromising its independence. Additionally, some banks appoint highly prominent but excessively busy Shariah scholars without recognising that they may lack the necessary time commitment to participate effectively in SSC meetings.

To prevent rushed approvals, the SSC's formation and active involvement should be planned from the early stages of the Islamic banking project. It is advisable to establish the SSC at least six months prior to the intended application for final consent from Bangladesh Bank. Only qualified Shariah experts should be appointed as SSC members, and the participation of the bank's board and senior management should be limited and allowed only on a need basis. Given the relatively limited scale of IBWs and to enhance meeting effectiveness, it is recommended that the total number of SSC members does not exceed five.

Comprehensive by-laws should be formulated for the SSC, clearly defining its supervisory role, membership criteria, scope of work, and meeting and reporting procedures. The SSC's scope of work should include reviewing all Islamic banking documentation, promotional materials, financial and operational reports, profit calculation mechanisms, policies on fees, charges, and charity fund management, and conducting pre- and post-implementation reviews of the Islamic banking CBS.

The frequency of SSC meetings should correspond to the scale of IBW operations; however, frequent meetings are recommended during the pre-launch phase. This could reach 10 meetings, depending on the quality of the documents submitted for review. After launch, at least one meeting every two months is advisable. Each SSC meeting generally lasts no more than 2 hours.

5.4 Lack of Strategic Planning in Deposit Collection and Investments

Islamic banking deposits are primarily structured under the *mudarabah* contract, whereby returns depend on the actual performance of the underlying investment activities. When deposits significantly exceed investments, the returns generated may fall short of depositors' expectations. As IBWs are not permitted to place surplus funds in conventional banks due to Shariah restrictions, their primary alternative is to place excess liquidity in another bank's Islamic banking account, which typically yields a lower return than direct investments. To meet depositor expectations and mitigate displaced commercial risk in such circumstances, IBWs may provide a *hibah* (gift), which can strain profitability and raise Shariah-related concerns if practiced regularly.

To minimise the risk of persistent surplus liquidity, management should adopt a well-defined strategy that identifies target customer segments, develops Islamic banking products tailored to their needs, and mobilises deposits in alignment with investment opportunities. Management should also consider introducing innovative products. For example, syndicated financing is a viable avenue for IBWs in Bangladesh to make large-scale investments. At the same time, some bank management teams express concerns about 'cannibalism' (i.e., the migration of existing conventional banking customers to the IBWs of the same bank) and therefore prefer to onboard only new customers into Islamic banking.

5.5 Neglect of Shariah Compliance in Selecting the CBS

The CBS adopted for IBWs must ensure proper segregation between conventional and Islamic banking funds. The system must be capable of recognising and distinguishing the unique features of Islamic financial contracts, terminology, transactions, and processes, as well as facilitating the calculation of profits and their accounting treatment in accordance with Shariah requirements. However, although several CBS providers operate in Bangladesh, not all ensure the necessary controls to safeguard Shariah compliance for Islamic banking. Many leave Shariah-related matters solely to the banks, limiting their role to meeting client requirements without providing an independent or second opinion on Shariah compliance. Moreover, the scope of work for SSCs often does not explicitly include reviewing the Shariah compliance aspects of the CBS.

It is therefore recommended that any CBS adopted for IBWs be thoroughly vetted by the SSC and subjected to an internal Shariah audit review to ensure that all relevant Shariah compliance requirements are adequately addressed.

5.6 Insufficient Efforts in Capacity Development

Although some IBWs have undertaken commendable capacity development initiatives, this is not the prevailing standard. Consequently, various operational and perceptual issues are observed in IBWs operations.

In designing capacity development programmes, the staff of a conventional bank operating IBWs may be categorised into four groups: (i) those directly involved in Islamic banking operations, (ii) those engaged in shared or support functions, (iii) senior management and members of the board of directors, and (iv) other staff. The first group needs to possess a comprehensive understanding of Islamic banking products and services, as any deficiency in this regard poses a significant risk to Shariah compliance. The second and third groups also require a sound understanding of these products and services to oversee and address Shariah compliance matters effectively. The remaining group should maintain a basic level of awareness to avoid misrepresentation or misunderstanding of Islamic banking activities.

Accordingly, proper planning for capacity development is crucial prior to the launch of IBWs. This may be implemented in phases. For example, a minimum of 50 hours of training could be provided to the first group, 20 to the second and third groups, and 10 to the remaining staff. As there is often reluctance among senior management and board members to attend training sessions, their training may be delivered through leadership or executive programmes. In addition, it is advisable to encourage members of the first group to pursue specialised qualifications in Islamic banking and finance from reputable national and international institutions. Following the launch of IBWs, annual training and awareness programmes should be instituted to ensure that all groups remain informed and up to date on developments in both local and global Islamic finance markets.

5.7 Stagnant Growth in IBW Operations

Despite commercial gain being the primary motivation for conventional banks to establish IBWs, the share of Islamic banking deposits, investments, and assets relative to total bank operations remains small. For example, in December 2023, these averaged 3.93%, 3.35%, and 3.50%, respectively (Hossain et al., 2024). This provides grounds for the argument that some conventional banks establish IBWs primarily to benefit from regulatory or liquidity arbitrage, without a genuine commitment to advancing Islamic banking. It also limits the potential for IBWs to evolve into full-fledged Islamic banks.

A relatively small Islamic banking portfolio may also reduce management's incentive to invest adequately in Shariah governance, internal controls, and capacity development. For instance, some banks reportedly convene SSC meetings only to the minimum extent required by regulation and largely as a formality. Several banks are also said to lack dedicated personnel, including adequate resources for Shariah secretariat and Shariah audit functions within IBWs. In some cases, staff designated for IBWs, including the head, are reported to simultaneously manage conventional banking portfolios.

It is recommended that Bangladesh Bank require banks operating IBWs to adopt an 'Islamic first' strategy, promoting the gradual expansion of IBWs within conventional banks and preparing them for eventual conversion into full-fledged Islamic banks once a defined threshold is reached within a specified timeframe. To strengthen institutional commitment, Bangladesh Bank may also consider requiring banks operating IBWs to allocate a dedicated fund or a portion of their equity to the IBW, consistent with the concept of an IBW as 'a bank within a bank'. To date, no bank has maintained separate capital under either approach.

For banks not intending to pursue full conversion, market stakeholders suggest maintaining an Islamic banking portfolio of 10%–25% of total operations to ensure the effective functioning of IBWs. Such a threshold would enable banks to leverage opportunities in the Islamic finance market without undermining the stability and continuity of their conventional banking activities.

6. Conclusion

While there are valid grounds for scepticism regarding IBWs, some demonstrate sound governance and deliver exemplary customer service. Reports indicate relatively higher profitability and excess liquidity among IBWs, underscoring their important role in sustaining public confidence in Islamic banking. Their extensive physical presence and workforce engaged in promoting Islamic banking services are also noteworthy. Accordingly, at a time when several full-fledged Islamic banks are facing challenges, the role of IBWs as viable alternatives has become critical for the stability and advancement of the Islamic banking sector in Bangladesh. The emergence of IBWs with such prominence appears to be a relatively unique phenomenon globally. Nevertheless, areas for improvement must be acknowledged, and appropriate corrective measures implemented. Most importantly, robust Shariah governance and adequate internal controls must be ensured.

Given concerns about SSC members' time constraints, potential gaps in their operational expertise, and the need to avoid conflicts of interest, engaging dedicated professionals in the IBW launch process, alongside strengthening public disclosures, could enhance the overall quality and integrity of the process. Given the market's positive perception of compliance with AAOIFI standards, it is advisable to design products, policies, and operational practices in line with them. IBWs currently in operation may also review their existing products and services to ensure conformity with AAOIFI requirements.

Amid prevailing scepticism, ensuring Shariah compliance alone is insufficient; it is equally important to establish credible assurance mechanisms to provide stakeholders with confidence in such compliance. In this regard, a proactive stance by banks is essential. The voluntary adoption of external Shariah audits and Shariah ratings by competent bodies may significantly enhance transparency and assurance, even though such measures are not currently mandated by the central bank. Banks may also leverage awareness campaigns, websites, annual reports, and financial statements to strengthen stakeholder assurance. Furthermore, Bangladesh Bank should introduce comprehensive yet pragmatic regulations for IBWs to ensure their effective contribution to the systematic development of the Islamic banking sector in Bangladesh.

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