



INTERNATIONAL JOURNAL OF LAW,
GOVERNMENT AND COMMUNICATION
(IJLGC)
www.ijlgc.com



UNTANGLING THE KNOTS: NAVIGATING THE COMPLEXITIES OF SHARI'AH COMPLIANCE AND GOVERNANCE IN ISLAMIC FINANCE

Jalalluddin Murad¹, Muhammad Azim Borahan², Muhammad Irfan Sa'id³, Nurhidayah Yahya^{4*}

¹ Faculty of Accountancy, Universiti Teknologi MARA, Malaysia
Email: jalalluddinmurad@gmail.com

² Faculty of Accountancy, Universiti Teknologi MARA, Malaysia
Email: muhammadazimborahan@gmail.com

³ Faculty of Accountancy, Universiti Teknologi MARA, Malaysia
Email: muhammadirfansaid@gmail.com

⁴ Accounting Research Institute, HiCOE, Universiti Teknologi MARA, Malaysia
Email: nurhidayahyahya@uitm.edu.my

* Corresponding Author

Article Info:

Article history:

Received date: 25.07.2024

Revised date: 18.08.2024

Accepted date: 25.09.2024

Published date: 30.09.2024

To cite this document:

Murad, J., Borahan, M. A., Sa'id, M. I. & Yahya, N. (2024). Untangling The Knots: Navigating The Complexities of Shari'ah Compliance and Governance in Islamic Finance. *International Journal of Law, Government and Communication*, 9 (37), 519-530.

DOI: 10.35631/IJLGC.937039

This work is licensed under [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/)



Abstract:

Islamic finance, firmly anchored in the principles of Shari'ah law, presents a financial system designed to operate following religious and ethical standards. The cornerstones of this system are Shari'ah compliance and governance, which play pivotal roles in maintaining its integrity. However, achieving effective Shari'ah compliance and governance within the dynamic and evolving landscape of Islamic banking remains a formidable task. This study explores the multifaceted challenges faced in pursuing Shari'ah compliance and governance in Islamic finance. Scholars' myriad interpretations of Shari'ah principles, the lack of standardised jurisdiction, and the ever-changing nature of financial products and services pose significant obstacles. Through an extensive exploration of these challenges, this research sheds on the complexities inherent in Islamic finance, providing valuable insights and perspectives. By investigating the mechanisms employed by financial institutions, the roles of Shari'ah scholars and advisory boards, and the development of regulatory frameworks, this study aims to offer practical solutions and best practices that can be implemented to navigate the intricacies of Shari'ah compliance and governance. We hope the hope will serve as a valuable resource for practitioners, scholars, and policymakers, facilitating a more robust and ethically sound Islamic finance industry.

Keywords:

Islamic Finance, Compliance, Governance, Complexities.

Introduction

The principles of Islamic finance have been implemented extensively among the Muslim community (Smolo & Habibovic, 2012). Because it is founded on Shari'ah law, Islamic finance stands out as an alternative and ethical approach to financing compared to conventional finance. The Islamic financing industry operates with Shari'ah compliance and governance, the foundation and essential elements in establishing compliance with moral and religious values. Interestingly, Islamic finance has expanded and witnessed significant growth over the globe since it gained recognition and attracted a great deal of interest in both Muslim and non-Muslim countries.

However, the challenges surrounding Shari'ah compliance and governance in Islamic financial institutions (IFIs) are significant and multifaceted. These institutions must navigate a complex regulatory landscape while adhering to strict religious principles. To address these challenges and ensure the long-term growth of Islamic finance, this study aims to comprehensively investigate and address the multifaceted issues IFIs face in building efficient governance systems and managing Shari'ah compliance, and assist in reinforcing the fundamentals of Islamic finance and assure long-term growth in the rapidly changing financial environment. Recent studies have highlighted the importance of effective governance and Shari'ah compliance in IFIs. For example, a study by Khan & Zahid (2020) found that IFIs with stronger governance structures and more robust Shari'ah compliance frameworks tend to have better financial performance. Similarly, a study by Embi and Shafii (2018) identified a positive relationship between Shari'ah governance and the risk management practices of IFIs.

It is well known that Islamic banking is an outstanding financial system that operates by Shari'ah principles that originated from the Quran's teachings and the Prophet Muhammad's traditions. Islamic finance's fundamental basis centers on ethical and moral standards, with the objectives of promoting fairness, transparency, and social responsibility in financial transactions. As noted by Svoboda (2024), Islamic banking principles are established on the restriction of specific prohibited activities. These principles discourage taking part in transactions that involve interest (Riba), products with excessive uncertainty (Gharar), gambling (Maysir), haram (religiously prohibited) activities, short sales, and funding of activities regarded as harmful to society.

Meeting and maintaining Shari'ah conformity entail a multifaceted responsibility that involves interpretation, application, and ongoing supervision. Nonetheless, the pragmatic application of Shari'ah conformity and administration in Islamic banking represents noteworthy complexities due to experts' varied interpretations of Shari'ah principles, the lack of standardization, and the ever-evolving nature of financial products and services in the industry. As highlighted by Abdul Rahman et al. (2023), the challenges in ensuring Shari'ah compliance in Islamic banking are exacerbated by the increasing complexity of financial instruments and the rapid pace of financial innovation.

In recent years, there has been a growing body of research on the challenges and opportunities associated with Shari'ah governance and compliance in Islamic banking. For example, a study by Arwani (2028) found that Islamic banks face significant challenges in ensuring the accuracy and consistency of their Shari'ah audit reports.

Despite these challenges, there is also growing recognition of the importance of Shari'ah governance and compliance in Islamic banking. A study by Abdul Rahman et al. (2023) found that Islamic banks with stronger Shari'ah governance frameworks tend to have better financial performance. Moreover, a study by Embi and Shafii (2018) identified a positive relationship between Shari'ah governance and the risk management practices of Islamic banks.

Recently, Islamic finance has faced many challenges, raising concerns about the growth potential and development within the sector. One of the main issues is that different scholars' interpretations of Shari'ah principles result in a lack of standardisation in financial practises (Shanmugam & Zahari, 2009). The lack of standardisation in the system leads to restrictions in accessing the same sources and markets as their conventional counterparts, which unfortunately hampers the industries' growth (Mohamad & Kashi, 2017). In addition, this phenomenon will limit the industry's potential to survive and seize opportunities. Besides, consistent standards and regulatory frameworks should be well-established and regulated to counter the challenges in Islamic financial institutions. This modus operandi will facilitate the industry with better growth and development potential.

This study aims to explore the issues and challenges in implementing Shariah compliance and governance in Islamic finance and present significant insights and suggestions for navigating these complexities. It will explore various applications of Shari'ah's principles, lack of standardisation, and the growing nature of financial goods and services within the industries. Furthermore, this paper also highlights the significance of an organisational compliance culture and provides feasible strategies for effective Shari'ah compliance and governance in Islamic banking. Through comprehensive data on the challenges faced by the industry, this paper will assist in proposing best practices and strategies for managing.

Literature Review

This literature review aims to explore Islamic finance's critical challenges and propose recommendations for overcoming them. By synthesising existing research and insights, this review seeks to comprehensively analyse the obstacles hindering the growth of Islamic finance and propose practical strategies to address them.

The challenges posed by the diversity of interpretations among scholars in ensuring compliance with Islamic finance are highlighted in this paper. This study explores the criticism surrounding the assessment and the influence of contract flexibility on Shariah compliance. The flexibility of Islamic financial contracts can affect their Shari'ah compliance, and the legal perspectives on the compliance requirements can determine the contracts' flexibility (Moqbel & Ahmed, 2020). Next, there are legal gaps in the Nigerian legal system. For example, the undeveloped laws, the uncertainty of Shari'ah governance, and enforceability issues are identified as legal gaps for Islamic finance under the Nigerian legal system, which are inimical to and undermine investor confidence in Nigeria's Islamic finance industry (Mustapha et al., 2020). These challenges subsequently destroy the market confidence and the reputation of Islamic financial institutions.

In the influential work of Iqbal and Molyneux (2005), the complexities surrounding standardisation in the operations of Islamic financial institutions were extensively explored. Their study highlighted the absence of universally accepted Shari'ah standards and the subsequent divergence of interpretations among scholars. These challenges were portrayed as

significant impediments to the industry's progress and hindered the ability of market participants and regulators to evaluate compliance and governance practices effectively. By shedding light on these issues, the research underscored the pressing need for cohesive measures to foster growth and development within the Islamic finance landscape (Iqbal & Molyneux, 2005)

Moreover, in the insightful study conducted by Hasan and Dridi (2010), the intricate challenges stemming from the introduction of complex financial products in Islamic finance were meticulously examined. Their research shed light on the inherent tension that arises when balancing innovation and Shari'ah compliance, emphasising the critical need for meticulous scrutiny to ensure the adherence of new products to Islamic principles. The study demonstrated the importance of building comprehensive governance structures that can efficiently evaluate and authorise novel financial instruments while maintaining the integrity and sanctity of the Shari'ah (Hasan & Dridi, 2010).

Methodology

This study is a conceptual paper that synthesizes and critically evaluates existing literature on Shari'ah compliance and governance in IFIs. The research methodology involves a systematic review of academic articles, regulatory frameworks, and industry reports relevant to Islamic finance, with a focus on governance structures, compliance mechanisms, and the challenges associated with maintaining Shari'ah conformity.

The data for this study were collected from secondary sources, including peer-reviewed journal articles, regulatory guidelines from institutions such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB), and reports from key financial regulatory bodies. The literature was selected based on its relevance to governance and compliance in Islamic finance, with a particular emphasis on recent developments over the past five years.

Further, this paper employs a thematic analysis approach, where key themes and trends related to Shari'ah compliance and governance are identified and discussed. By examining the literature, this study highlights the gaps in existing governance models and proposes potential solutions for enhancing Shari'ah compliance in a rapidly evolving financial landscape.

Nevertheless, as a concept paper, the study is exploratory in nature and focuses on synthesizing existing knowledge rather than generating new empirical data. The scope is limited to reviewing literature related to Shari'ah compliance and governance in Islamic finance, with no primary data collection conducted. The paper's findings are intended to provide a foundation for future empirical research and policy development in this field.

Conceptual Discussion: Challenges in Shari'ah Compliance and Governance

Discussion I: Complexities of Shari'ah Compliance and Governance in Islamic Finance

Islamic banking has experienced significant growth in recent decades, offering a viable alternative to traditional finance. Its adherence to Shari'ah principles aligns financial transactions with Islamic values, fostering trust and ethical conduct. However, challenges persist in ensuring Shari'ah compliance, standardizing practices, and adapting to evolving financial markets.

Islamic banking faces several challenges, including divergent interpretations of Islamic law, product innovation, regulatory compliance, and governance (Svoboda, 2024). For instance, differing interpretations of Shari'ah principles among scholars can lead to inconsistencies in the application of Islamic law to financial products and services. Additionally, the development of new Shari'ah-compliant financial products and services can be challenging, as they must meet both Islamic and market requirements.

Furthermore, it limits the sector's capacity to adjust to modern financial dynamics. The complexities of Shari'ah compliance and governance in Islamic finance, as well as the further investigation of possible solutions and recommendations, will be explored in this section. The challenges include the lack of standardisation and the industry's constant financial product and service change.

Diversity of Interpretations Among Scholars

The wide range of interpretations among Islamic scholars is a significant challenge in Islamic finance. This is due to the nature of Shari'ah, which allows for multiple interpretations and can lead to varying perspectives on what constitutes compliant or non-compliant activities (Embi & Shafii, 2018)). As a result, there can be differing viewpoints among Islamic scholars on the application of Shari'ah principles to financial products and services.

This diversity of interpretations can create difficulties for IFIs in developing Shari'ah-compliant and commercially viable products. Without standardized guidelines and in the face of conflicting opinions, IFIs may struggle to navigate the complexities of Islamic finance and ensure that their products adhere to Shari'ah principles.

Differences in opinions can pose challenges for Islamic financial institutions as they must offer products and services that align with Shari'ah compliance and commercial viability. As noted by Embi and Shafii (2018), the diverse interpretations of Shari'ah principles among scholars contribute to interpretational variations, resulting in potential conflicts in compliance practices across different jurisdictions. Navigating this complexity becomes crucial to balance adherence to Islamic principles and meeting the market's demands. The diversity of opinions challenges establishing uniformity and standardization in Shari'ah compliance within the Islamic finance industry. Due to diverse interpretations of Islamic principles, Islamic finance lacks standardisation (Shanmugam & Zahari, 2009).

Lack of Standardisation

The Islamic finance industry confronts a significant hurdle as its fragmented markets lead to divergent governing standards. Furthermore, the industry's growth remains confined to specific regions, emphasising its pronounced regional-centric nature. A significant standardisation challenge in Islamic finance is the absence of a unified regulatory framework. Unlike conventional finance, which operates under a single set of international standards, Islamic finance faces a fragmented regulatory landscape with varying national and regional regulations. Uniformity and standardisation will promote a sound and stable Islamic financial system and make it a viable and credible component of the global financial system, whilst the supervisory and regulatory standards will result in the credibility of Islamic finance (Ahmed, 2006)

The absence of a single global regulatory framework for Islamic finance creates complexities for cross-border transactions. Cross-border transactions have emerged as a significant and essential characteristic of the global Islamic finance sector. This is because the competition between Islamic and conventional banks in cross-border transactions has been intensifying with globalisation (Brown et al., 2007). As Islamic finance continues to expand bigger and bigger, cross-country transactions have become increasingly essential to ensure its growth and development worldwide. Having an option of regulatory requirements and legal frameworks across jurisdictions makes it challenging to facilitate seamless international and cross-border transactions. Therefore, this phenomenon will hinder the application and development of the Islamic financial system in the financing sector.

Evolving Financial Products and Structures

The widely known Islamic finance sector is being pushed to develop new financial products and structures to satisfy consumer demands. These developments and innovations are essential to offer Islamic alternatives to conventional financial products, including instruments and services. However, it has been challenging to guarantee that these products adhere to Shari'ah standards. Islamic scholars and experts are essential in conducting particular analyses to evaluate whether brand-new financial products and structures comply with Shari'ah principles. This involves carefully reviewing the underlying contracts, transactional processes, and associated risks in order to assure conformity with the ethical and legal principles of Islamic banking (Faizi, 2024).

For example, the analysis performed by scholars often involves evaluating complex financial arrangements, such as Sukuk (Islamic bonds), Islamic funds, Islamic insurance (Takaful), and Islamic derivatives. They examine the compliance of these products with critical principles of Shariah, including the prohibition of interest (Riba), gambling (Maysir), uncertainty (Gharar), and unethical activities (Svoboda, 2024). Not only that, other matters such as the equitable distribution of risks and rewards, avoiding excessive speculation, and promoting social and economic justice are in their scope of assessment.

Besides, it is acknowledged that differentiating the new financial products and structures to comply with Shari'ah is time-consuming (Faizi, 2024). The process requires a thorough understanding of Islamic jurisprudence and modern financial practices. Before issuing their rulings (Fatwas) or opinions on these products' permissibility and compliance, scholars should conduct extensive research, consultation, and deliberation. Moreover, as financial markets continue to evolve, new challenges emerge. Rapid technological advancements, such as digital banking, fintech, and blockchain-based solutions, introduce further complexities in ensuring Shari'ah compliance. Thus, Islamic scholars need to stay updated with these developments and evaluate their compatibility within the framework of Islamic finance.

Table 1: Challenges in Shari'ah Compliance and Governance in Islamic Finance.

Challenges	References
Diversity of Interpretations Among Scholars: Different interpretations of Shari'ah principles lead to inconsistent applications across financial products and services.	Embi & Shafii (2018); Shanmugam & Zahari (2009)
Lack of Standardisation: The absence of a unified regulatory framework hinders cross-border transactions and industry standardization.	Ahmed (2006); Brown et al. (2007)

Evolving Financial Products and Structures: The development of new financial products is challenging, as they must adhere to both Shari'ah and market demands.

Faizi (2024)

Source: Author

Discussion II: Untangling the Complexities

The intricacies encompassing Shari'ah compliance and governance within the Islamic finance industry present substantial hurdles to its growth and sustainability. The varying interpretations of Shari'ah principles can lead to challenges in ensuring consistent compliance across different jurisdictions (Embi & Shafii, 2018). To address these challenges, several recommendations have surfaced to tackle the lack of standardization and the continuously evolving nature of financial products and services. By implementing these recommendations into practice, the industry endeavours to navigate Shari'ah compliance and governance complexities with greater efficiency, stimulate ingenuity, and guarantee the authenticity of Islamic finance in today's dynamic global financial environment. This section further explores the suggested measures, including developing a structured framework for Islamic Fintech, using big data and artificial intelligence (AI), and developing a diversified Islamic financial system.

Develop a Structured Framework for Islamic Fintech

The first solution to solve the complexities of Shari'ah compliance and governance in Islamic finance is by creating a structured framework for Islamic Fintech. Islamic fintech is a type of financial technology built on Shari'ah principles, meaning it must observe Islamic law guidelines. Islamic fintech services include peer-to-peer (P2P) lending, crowdfunding, money transfer, mobile payments, and trading platforms.

As highlighted by Abdul Rahman et al. (2023), ensuring Shari'ah compliance in Islamic finance is crucial, especially in the context of emerging technologies like fintech. A structured framework can provide clear guidelines and standards for developing and implementing Shari'ah-compliant fintech solutions. In order to do that, a thorough understanding of the Shari'ah principles is needed before exploring deeper in Islamic finance. Arwani (2018) emphasizes the importance of accurate and consistent Shari'ah audit reports in ensuring the compliance of Islamic financial products and services.

Assessment of the challenges and opportunities presented by fintech in the Islamic finance industry is crucial in developing a structured framework. In this context, research must be done on Islamic finance's current frameworks and industry standards. So only Islamic fintech will be enhanced then.

Based on the research's findings, a structured framework that describes the concepts, rules, and best practices for Shari'ah compliance and governance in Islamic fintech can be created (Alshater et al., 2022). To develop a structured framework, the principles of Shari'ah compliance and governance in Islamic finance should be the foundation. It is essential because the framework created will be the primary reference to ensure that fintech firms and financial institutions follow these guidelines while offering cutting-edge and efficient goods and services. Fintech is known for improving financial inclusion in the Islamic finance sector, and it is anticipated that this industry will experience a revolution. These issues should be covered in the framework and adaptable enough to consider emerging fintech trends while upholding the fundamentals of Shari'ah compliance and governance (Ahmed et al., 2019).

Effective implementation of the organized framework in the Islamic finance sector requires widespread dissemination among financial institutions and fintech firms. Workshops, seminars, and training courses can play a crucial role in educating stakeholders about the fundamentals, regulations, and technical procedures for Shari'ah compliance and governance in Islamic fintech.

Continuous monitoring and evaluation are essential to ensure adherence to the framework's principles and norms. As Abdul Rahman et al. (2023) highlight, robust governance structures are vital for maintaining Shari'ah compliance and mitigating risks. By integrating monitoring and evaluation into the framework's distribution, Islamic finance sector can effectively mitigate risks and promote responsible adoption of fintech innovations. By following these steps, the Islamic finance sector can harness the potential of fintech while upholding Shari'ah principles. This will contribute to the growth and development of the Islamic finance industry, benefiting both financial institutions and consumers.

Utilise Big Data and Artificial Intelligence

Big data and artificial intelligence (AI) are the best options to address the absence of widely acknowledged Shari'ah standards (Sarea et al., 2022). AI is the simulation of human intelligence processes by machines, especially computer systems. As for the lack of standardisation issues in Islamic finance, AI can assist in identifying patterns and trends in Shari'ah-compliant transactions by analysing vast volumes of data, which may then be used to create standardised procedures and guidelines. This can aid in promoting better industrial standardisation and minimising disparities in how academics interpret the Shari'ah.

AI also strongly influences digital financial inclusion in risk detection, measurement and management areas, especially in Industry 4.0 (Mhlanga, 2020). The present study discovered that AI has significantly impacted the mentioned areas and has been addressing the problem of information asymmetry, making customer support and helpdesk available through chatbots, fraud detection, and cybersecurity. It is because AI can be utilised in creating prediction models that can assist in identifying possible compliance and governance issues that cannot be solved in the prior period due to the lack of advancement in Malaysian technology.

As for the positive outcomes, leveraging the power of blockchain, having a centralised authority and using big data, the lack of universally accepted Shari'ah standards in the Islamic finance industry can be addressed. The industry can advance standardisation and promote growth and development by utilising this incredible technology and expertise. Using the latest technology also plays a significant role in this process, helping to increase transparency, reduce the risk of fraud, and promote greater compliance and governance practices in the industry.

The Islamic finance industry faces several challenges, including the lack of standardized Shari'ah rulings. By leveraging blockchain technology, it is possible to create a decentralized platform that can facilitate the development of standardized Shari'ah contracts and smart contracts. This can help to address the issue of divergent interpretations and promote greater consistency in the application of Islamic law.

Developing a Diversified Islamic Financial System

The evolving nature of financial products and services in Islamic finance can be addressed by developing a diversified Islamic financial system. This ensures that Malaysian Islamic banks

can continue to compete within the sector and advertise their benefits and advantages to society. The authority needs to play a significant role in notifying the general public about the existence of the Islamic financial system. For instance, Malaysian Islamic banks can provide various financial products and services, including Islamic investment products, credit cards, mortgages, vehicle financing, and personal loans following the Shari'ah compliance (Husseini et al., 2019). Thus, this demonstrates that the Malaysian government has been fulfilling the responsibility to build an institutionally diverse homegrown Islamic financial system.

Furthermore, Malaysian Islamic banks may fulfil the needs of various consumers and remain competitive in the global Islamic banking sector by providing various products and services (Echchabi & Nafiu, 2012). This initiative will also attract a broader range of customers and help boost the company's reputation. A simple and uncomplicated financial product will also be very beneficial in addressing the problem. This topic must be considered while establishing a diverse Islamic financial system. To assist clients in making wise choices regarding their financial needs, they could, for instance, offer them clear and straightforward information about their financial goods and services.

To further enhance the relevance of the discussion, it is essential to consider recent developments and research in Islamic finance. For example, Abdul Rahman et al. (2023) highlights the importance of innovation and technological advancements in addressing the evolving needs of Islamic finance customers. By incorporating insights from contemporary research, we can gain a deeper understanding of the challenges and opportunities facing the Islamic finance industry

By implementing these ideas, Malaysian Islamic banks can offer various products and services to cater to clients' evolving demands and remain competitive in the global Islamic finance market. The concern with the evolving nature of financial products issues and services for Malaysian Islamic banks can be gradually overcome with a broader range of Islamic financial products. Additionally, it will improve client satisfaction by establishing trust and confidence in the bank's products and services.

Table 2: Proposed Solutions for Addressing Shari'ah Compliance Challenges

Proposed Solutions	References
Develop a Structured Framework for Islamic Fintech: This involves creating a framework to guide fintech development within Islamic finance, ensuring compliance with Shari'ah.	Alshater et al. (2022); Ahmed et al. (2019)
Utilise Big Data and Artificial Intelligence: Leveraging AI and big data to standardize Shari'ah-compliant transactions, reduce fraud, and improve compliance.	Sarea et al. (2022); Mhlanga (2020)
Develop a Diversified Islamic Financial System: Expanding product offerings to meet diverse customer needs while maintaining Shari'ah compliance.	Husseini et al. (2019); Abdul Rahman et al. (2023)

Source: Author

Conclusion

This literature thoroughly analyses the difficulties caused by different scholars' interpretations of Shari'ah's principles, the lack of standardisation, and the industry's ongoing development of financial products and services. This study provides insightful suggestions to resolve these difficulties and develop a more robust Islamic finance ecosystem.

The first issue mentioned in this study is the variety of ways that Islamic scholars interpret the laws and principles of Shari'ah. The variety of interpretations held by Islamic financial experts and scholars presents a problem which causes contradictions and conflicts in compliance procedures. It is suggested that this problem be handled by creating a structured and well-organised framework for examining Shari'ah compliance to assess how well financial contracts comply with Islamic principles. With this framework, the Islamic financial institutions may be able to develop products that are Shari'ah-compliant, profit-making and commercially viable. In addition, establishing Shari'ah governance platforms and practising thorough literature evaluations on Islamic fintech may also help improve compliance and credibility in the sector, improve trust, and make incorporating technological advancements into Islamic banking easier.

On the other hand, the absence of standardisation, as evidenced by fragmented markets and inconsistent rules and standards by the government, is a significant challenge to its development and integration in the Islamic finance sector. The lack of an exclusive and integrated regulatory framework and the divergent regulatory standards between jurisdictions is known to complicate further cross-border transactions, which restrict the ability of the industry to grow internationally. To overcome these issues, it is recommended to utilise big data and AI to establish standardised and organised procedures and rules. AI can help reduce disparities in the application of Shari'ah principles by analysing massive amounts of data to detect patterns in transactions that adhere to the law. In addition, AI may identify compliance and governance challenges, lowering the risk of fraud and promotion.

Industry transparency. As a result, improved standardisation can be achieved through technology and centralised authority, which will promote the rapid growth of the Islamic financial sector.

Next, introducing new financial products and structures due to the evolution in the Islamic finance sector presents a significant challenge in ensuring their adherence to Shari'ah principles. A diverse Islamic financial system should be developed to solve the evolving nature of financial products and services in Islamic finance. For example, the Malaysian government has already been successful in establishing a complete and comprehensive domestic Islamic financial system with a variety of institutions offering a range of products and services to meet a range of consumer demands and maintain their position as market leaders, including a selection of Islamic credit cards, mortgages, auto loans, personal loans, and investment products. Moreover, it is crucial to simplify business structures and financial products. Providing clients with clear, concise information about products and services may assist customers in making ideal decisions and choices. By implementing these strategies, Malaysian Islamic banks may maintain their competitiveness in the rapidly evolving Islamic finance industry, accommodate shifting client demands, and promote customer satisfaction and confidence.

In conclusion, a multifaceted strategy is needed to meet the challenges of Shari'ah compliance and governance in Islamic banking. The suggestions presented in this paper, such as developing a structured framework for Islamic Fintech, using big data and AI, and implementing standard rules and regulations, are designed to provide practical solutions in the current Islamic banking sector. Thus, the sector may be able to address the challenges, promote development, and maintain the sustainability of Islamic finance in a changing global financial market.

Acknowledgements

This work was supported by the Accounting Research Institute (ARI), Higher Institution Centre of Excellence (HiCoE), Ministry of Higher Education, Universiti Teknologi MARA (UiTM) Shah Alam, Malaysia under grant 600-RMC/ARI 5/3(017/2023).

References

- Abdul Rahman, A. A., Rahiman, H. U., Meero, A & Amin, A. R. (2023). Fintech Innovations And Islamic Banking Performance: Post-Pandemic Challenges And Opportunities. *Banks and Bank Systems*, 18(4), 281-292.
- Ahmed, H., Tajul Ariffin, F. A., Karbhari, Y., & Shafii, Z. (2019). Diverse Accounting Standards On Disclosures Of Islamic Financial Transactions: Prospects And Challenges Of Narrowing Gaps. *Accounting, Auditing & Accountability Journal*, 32(3), 866-896.
- Ahmed, S. (2006). *Islamic Banking, Finance, and Insurance*. A.S. Noordeen.
- Alshater, M. M., Saba, I., Supriani, I., & Rabbani, M. R. (2022). Fintech In Islamic Finance Literature: A Review. *Heliyon*, 8(9), e10385.
- Arwani, A. (2018). Issues And Challenges Of Shariah Auditing In Islamic Financial Institutions and Corporate Governance Compliance. *Media Riset Akuntansi, Auditing & Informasi*, 18(2), 169.
- Brown, K., Kabir Hassan, M. & Skully, M. (2007). Operational Efficiency and Performance of Islamic Banks. In Kabir Hassan, M. & Lewis, M. K. (Eds.), *Handbook of Islamic Banking*. Edward Elgar Publishing.
- Echchabi, A., & Nafiu, O. (2012). Malaysian Consumers' Preferences for Islamic Banking Attributes. *International Journal of Social Economics*, 39(11), 859-874.
- Embi, S., & Shafii, Z. (2018). The Impact of Shariah Governance and Corporate Governance on the Risk Management Practices: Evidence from Local and Foreign Islamic Banks in Malaysia. *The Journal of Muamalat and Islamic Finance Research*, 15(2), 1–20.
- Faizi, F. (2024). How are Islamic banking products developed? Evidence from emerging country. *Cogent Economics & Finance*, 12(1).
- Hasan, M., & Dridi, J. (2010). The Effects of the Global Crisis on Islamic and Conventional Banks: A Comparative Study. IMF Working Paper No. 10/201.
- Husseini, S. A., Fam, S.-F., Ahmat, N. N., Azmi, F. R., Prastyo, D. D., & Yanto, H. (2019). Islamic Banking Revolution in Malaysia: A Review. *Humanities & Social Sciences Reviews*, 7(4), 267-275.
- Iqbal, M., & Molyneux, P. (2005). *Thirty Years of Islamic Banking: History, Performance and Prospects*. Palgrave Macmillan.
- Khan, I., & Zahid, S. N. (2020). The Impact Of Shari'ah And Corporate Governance On Islamic Banks Performance: Evidence From Asia. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(3), 483–501.
- Mhlanga, D. (2020). Industry 4.0 in Finance: The Impact of Artificial Intelligence (AI) on Digital Financial Inclusion. *International Journal of Financial Studies*, 8(3), 45.
- Mohamad, A., & Kashi, A. (2017). Does an Islamic Finance Industry Need a Unification of

- Standards? A Qualitative Discussion. *Arab Law Quarterly*, 31(4), 336–362.
- Moqbel, T., & Ahmed, H. (2020). Flexibility and Shari‘ah Compliance of Islamic Financial Contracts: An Evaluative Framework. *Arab Law Quarterly*, 35, 1–24.
- Mustapha, Z., Muneeza, A., & Kunhibava, S. (2020). Legal and Shari‘ah Non-Compliance Risks in Nigerian Islamic Finance Industry: A Review of the Literature. *International Journal of Law and Management*, 63(2), 275-299.
- Sarea, A., Elsayed, A. H., & Bin-Nashwan, S. (2022). *Artificial Intelligence and Islamic Finance: Practical Applications for Financial Risk Management*. Routledge.
- Shanmugam, B., & Zahari, Z. R. (2009). A Primer on Islamic Finance. The Research Foundation of CFA Institute.
- Smolo, E., & Habibovic, E. (2012). Barriers to Growth of Islamic Finance: Issue of Standardisation. In *Islamic Banking and Finance: Principles, Instruments and Operations*.
- Svoboda, A. (2024). Investing in The Islamic World: Opportunities, Challenges, and Implications. *Economics and Finance*, 12(1), 13-21.