

## Recent Volatility in Islamic Banking Sector of Bangladesh: Nexus Between Economy, Religion and Politics

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**Abstract :** This paper attempts to investigate several contributory factors to recent volatility in the Islamic Banking sector of Bangladesh. In particular, the study explores corporate governance, credit management, credit regulations, inept board of directors, using religious sentiment as a means to deceive general people, and the degree of political interference as potential contributory factors. To find the correlation among different variables, semi-structured questionnaires were distributed among the clients, bank managers, some Banking scholars and ex-members of the board of directors of three Islamic Banks in Bangladesh. Later, ten interviews were collected from key informants to gain in-depth information about the present mismanagement of Islamic Banks in Bangladesh. After then, data were analyzed using statistical software and substantiated by secondary sources like newspapers, reports and investigative reports aired in screen media. The paper found a correlation between almost all contributory factors and recent unstable conditions in the Islamic banking sector. After performing regression analysis, this paper found a more significant relationship between some of the contributory factors with Banking volatility than others. For instance, credit management, inept board of directors, depriving customers of proving no profit in the name of business—no interest-- and political interference have a strong significant positive correlation with the present poor condition of Islamic Banking. This paper concludes that while internal management is important in recovering the losses, the government needs to ensure framing better policy for the Islamic Banking system, Central Bank needs to supervise and monitor all Islamic banks meticulously and loan receivers must go through the impartial evaluation and approved by the representatives of the Central Shariah Board. This paper also recommends that there is a need to strengthen the auditing system and improve regulatory oversight of the Islamic Banks in Bangladesh. Policy recommendations that this paper put forward could provide an outline for dealing with the existing challenging condition of Islamic Banks and these could be applied to similar problems in other countries where the Islamic Banking model exists.

**Keywords :** Islamic bank, volatility in banking sector, shariah law, credit management, political interference

**Conference Title :** ICIBFC 2023 : International Conference on Islamic Banking, Finance and Commerce

**Conference Location :** San Francisco, United States

**Conference Dates :** June 05-06, 2023