

## Money Laundering and Terror Financing in the Islamic Banking Sector in Bangladesh

**Authors :** Md. Abdul Kader

**Abstract :** Several reports released by Global Financial Integrity (GFI) in recent times have identified Bangladesh as being among the worst affected countries to the scourge of money laundering (ML) and terrorist financing (TF). The money laundering (ML) and terrorist financing (TF) risks associated with conventional finance are generally well identified and understood by the relevant national authorities. There is, however, no common understanding of ML/TF risks associated with Islamic Banking. This paper attempts to examine the issues of money laundering (ML) and terrorist financing (TF) in Islamic Banks of Bangladesh. This study also investigates the risk factors associated with Islamic Banking system of Bangladesh that are favorable for ML and TF and which prevent the government to control such issues in the Islamic Banks of Bangladesh. Qualitative research methods were employed by studying various reports from journals, newspapers, bank reports and periodicals. In addition, five ex-bankers who were in the policy making bodies of three Islamic Banks were also interviewed. Findings suggest that government policies regarding Islamic Banking system in Bangladesh are not well defined and clear. Shariah law, that is the guiding principle of Islamic Banking, is not well recognized by the government policy makers, and thus they left the responsibility to the governing bodies of the banks. Other challenges that were found in the study are: the complexity of some Islamic banking products, the different forms of relationship between the banks and their clients, the inadequate ability and skill in the supervision of Islamic finance, particularly in jurisdictions, to evaluate their activities. All these risk factors paved the ground for ML and TF in the Islamic Banks of Bangladesh. However, due to unconventional nature of Banking and lack of investigative reporting on Islamic Banking, this study could not cover the whole picture of the ML/TF of Islamic Banks of Bangladesh. However, both qualitative documents and interviewees confirmed that Islamic Banking in Bangladesh could be branded as risky when it comes to money laundering and terror financing. This study recommends that the central bank authorities who supervise Islamic finance and the government policy makers should obtain a greater understanding of the specific ML/TF risks that may arise in Islamic Banks and develop a proper response. The study findings are expected to considerably impact Islamic banking management and policymakers to develop strong and appropriate policy to enhance transparency, accountability, and efficiency in banking sector. The regulatory bodies can consider the findings to disseminate anti money laundering and terror financing related rules and regulations.

**Keywords :** money laundering, terror financing, islamic banking, bangladesh

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

**Conference Location :** New York, United States

**Conference Dates :** August 10-11, 2023