

The Differences and the Similarities between Corporate Governance Principles in Islamic Banks and Conventional Banks

Authors : Osama Shibani

Abstract : Corporate governance effective is critical to the proper functioning of the banking sector and the economy as a whole, the Basel Committee have issued principles of corporate governance inspired from Organisation for Economic Co-operation and Development (OECD), but there is no single model of corporate governance that can work well in every country; each country, or even each organization should develop its own model that can cater for its specific needs and objectives, the corporate governance in Islamic Institutions is unique and offers a particular structure and guided by a control body which is Shariah supervisory Board (SSB), for this reason Islamic Financial Services Board in Malaysia (IFSB) has amended BCBS corporate governance principles commensurate with Islamic financial Institutions to suit the nature of the work of Islamic institutions, this paper highlight these amended by using comparative analysis method in context of the differences of corporate governance structure of Islamic banks and conventional banks. We find few different between principles (Principle 1: The Board's overall responsibilities, Principles 3: Board's own structure and practices, Principles 9: Compliance, Principle 10: Internal audit, Principle 12: Disclosure and transparency) and there are similarities between principles (Principle 2: Board qualifications and composition, Principles 4: Senior Management (composition and tasks), Principle 6: Risk Management and Principle 8: Risk communication). Finally, we found that corporate governance principles issued by Islamic Financial Services Board (IFSB) are complemented to CG principles of Basel Committee on Banking Supervision (BCBS) with some modifications to suit the composition of Islamic banks, there are deficiencies in the interest of the Basel Committee to Islamic banks.

Keywords : basel committee (BCBS), corporate governance principles, Islamic financial services board (IFSB), agency theory

Conference Title : ICIF 2016 : International Conference on Islamic Finance

Conference Location : Zurich, Switzerland

Conference Dates : July 21-22, 2016