Conceptual Framework on Risk-Based Supervision of Islamic Banks: A Proposed Risk-Based Supervisory Framework

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***Abstract*—The main objective of this conceptual study is to propose an ideal risk-based supervisory framework for Islamic banks that recognises the specificities of Islamic banks. Thus, it gives a more accurate assessment of their financial health (risk profile) as opposed to using current conventional banking based frameworks to assess Islamic banks. The methodology adopted has been a qualitative approach through a critical in-depth review of literature related to the area of study based on available secondary data to generate valuable insights. The expected implication and contribution of the framework is that Islamic banks will be better supervised by regulators which will lead to safer Islamic banks and in turn promote the safety and soundness of the financial system at large. The study will also aid Islamic banks to better understand and manage the unique risks inherent in their line of business (Islamic banking). This paper also contributes to alleviating the current dearth of academic literature on the crucial regulatory subject of risk-based supervision in the Islamic finance industry.**

Keywords — *risk based supervision, Islamic bank, risk, regulation.*

I. INTRODUCTION

The banking system is the backbone of the global economy; if it is sound, the economy is sound, if it is weak, the economy is weak. The importance of a sound banking system was most evident during the recent (2007-2008) global financial crisis that shook the world.

Diverse analyses of the crisis by the Basel Committee on Banking Supervision (BASEL), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and various national bank supervisory authorities, reveal a global consensus that the failure of regulators to implement proper risk-based supervision was the main reason for the onset and severity of the global financial crises [1-3]. Effective supervision of banks is critical towards ensuring a safe and sound banking system [4].

There are two approaches to banking supervision: Compliance-based approach and Risk-based approach. The compliance-based approach was the traditional approach: it is rules-based. It involves box ticking of compliance with the rules. The modern approach to achieving effective banking supervision is through the use of Risk-Based Supervision (RBS). Risk-based supervision is principles-based. It is beyond mere compliance because it focuses on areas of highest risks in banks and the banking industry [5].

A Risk-Based Supervisory Framework (RBSF) is a document used by banking regulators to articulate their consistent approach to implementing RBS for the effective supervision of banks operating in their respective countries. The risk-based supervisory framework operationalises RBS by assessing both the inherent risks (such as credit risk and market risk) in these banks and the quality of risk management control functions (such as internal audit function and risk management function) in the banks. The central idea that makes RBS effective is the focusing of finite regulatory time, effort and resources on the key risks within the banks and the banking industry to achieve the end goal of a safe and sound economy [6].

One segment of the global banking industry that has experienced rapid growth is, Islamic banking far outpacing conventional banking growth. Islamic banks have grown in two dimensions: number and size. However, growth comes with its risks. Some of these risks emanate because growth comes with the increased complexity of operations, which in turn escalates operational risks. The assets of the banks also grow, which means growth in credit risks emanating from matching credit portfolio asset growth. As such, the Islamic banking industry is no exception to the need for effective supervision to ensure overall economic stability [7]

However, the current pressing challenge is that most of the risk-based supervisory frameworks utilised for supervision were developed with conventional banks at heart. As a result, when these are used to supervise Islamic banks, they prove grossly inefficient because they fail to address the peculiar (unique) needs of Islamic banking risks (such as equity investment risk and Shari'ah non-compliance risk). The risk management control functions (such as Shari'ah Board and Internal Shari'ah Audit) unique to Islamic banks are also omitted and thus unassessed by existing RBS frameworks [8]. Therefore, this paper highlights this problem and proposes an ideal risk based supervisory framework for Islamic banks.

According to [9]; Islamic banks undertake distinct operations with risk profiles that differ in important respects from conventional banks, with associated financial stability implications. Thus, these distinctions underscore the need for the development of a tailored (bespoke) risk-based supervisory framework that addresses the specificities of Islamic banks to promote financial stability. This conceptual study aims to address this need by proffering a bespoke risk-based supervisory framework for Islamic banks.

Globally, there is a rapid increase in the number of economies or jurisdictions permitting the introduction of Islamic banking operations via the establishment of new Islamic banks or Islamic banking windows in conventional banks or the conversion of existing conventional banks and other financial institutions into full-fledged Islamic banks. Furthermore, some jurisdictions now have Islamic banks that have grown huge in size, interconnectedness and complexity [10]. Thus, these jurisdictions have been designated as systemically important because the Islamic banking assets exceed 15% of the market share in those jurisdictions [7] and [11].

Consequently, this trend requires regulators to rise to the challenge of understanding and supervising these emerging unique risks and risk management control functions to ensure overall financial system stability. These Islamic banking risks are different from the conventional banking risks in terms of three additional unique risks: the rate of return risk, equity investment risk and Shari'ah non-compliance risk. Conventional banking risks are more familiar to regulators due to several centuries of existence [12] and [13]. In contrast, Islamic banking is just over 40 years old (Organization of Islamic Cooperation, 2015)! The Islamic banking, risk management control functions are also different from those of conventional banking in terms of the unique need to have in place a Shari'ah Board, Shari'ah Internal Audit function and Shari'ah Compliance function in addition to the regular control functions of a conventional bank [14].

Therefore, this conceptual study aims to propose a bespoke risk-based supervisory framework to supervise Islamic banks with an adequate understanding of their unique risks and risk management control functions. This is the gap this study aims to fill. The study aims to answer the question of what would be an ideal risk-based supervisory framework for Islamic banks [15].

This study will contribute particularly in assisting regulators or supervisors (Central banks and other regulators) in understanding and applying the proposed bespoke risk-based supervisory framework for the effective supervision of Islamic banks towards attaining overall financial system stability. This proposed framework will lead to a more accurate assessment of the financial soundness of these Islamic banks. The paper also assists Islamic banks to better understand and manage the risks inherent in their line of business (Islamic banking). The paper shall further contribute to lessening the current dearth of literature on risk-based supervision in the context of the Islamic finance industry as a foundation for future researchers.

II. LITERATURE REVIEW

According to the analyses of the 2007-2008 Global Financial Crisis by the Basel Committee on Banking Supervision (BASEL), the Financial Stability Board (FSB), the International Monetary Fund (IMF), and various national bank supervisory authorities, there is a global consensus that the failure of regulators to implement proper risk-based supervision was the main reason for the onset and severity of the global financial crises [1-3]. The critical role of risk-based supervision in ensuring financial system stability has been similarly echoed by [16-22].

The world bank's bank regulation and supervision survey dataset was studied by [22], using a series of univariate tests. The study found significant differences between crisis and non-crisis countries, which suggests that crisis countries had weaker regulatory and supervisory frameworks relative to the countries that avoided the direct impact of the crisis.

RBS is based on the fundamental fact that supervisory resources (supervisory staff, supervisory time, supervisory funding and others) are finite and some banks are more important (pose more substantial risks) to the economy than others [23-25]. As such, since most countries have more banks than the regulator's supervisory resources, the best way to ensure effective banking supervision is through the use of RBS.

Risk-based supervision in Islamic Banking has received very little attention from prior literature despite its significance towards ensuring the safety of Islamic banks and the financial system at large. There is an urgency to ensure RBS is applied effectively through the aid of a tailored RBS framework because of the rapid growth of the Islamic banking industry both in terms of number and size of players. In 1975, during the early inception of Islamic banking, there were only two Islamic banks: Dubai Islamic Bank and the Islamic Development Bank [14]. Today there are over 500 Islamic banks globally with a total asset base of US$1.72 trillion [10].

In fact, Islamic banks in over 12 countries around the world have been designated as systemically important because Islamic banking assets exceed 15% of the market share in those jurisdictions [7] and [11]. The systemic importance of the Islamic banking industry in these countries underscores the severe potential threat to the economies in the event of any Islamic bank's failure or distress. Consequently, the Islamic banks must be given close, timely and adequate supervision by the regulator to ensure risks to financial system stability are identified early enough for prompt intervention. The RBS framework is explicitly designed as a working tool for the regulator to facilitate the effective implementation of risk-based supervision towards achieving this early intervention [1].

Reference [26] in their study aimed to review recent developments on risk management in Islamic banking and finance literature, pointed out the presence of unique risks and risk management control functions in Islamic banks and attributed the uniqueness to the differences between an Islamic bank and a conventional bank. These differences have also been highlighted as the very reason Islamic banks need a tailored risk-based supervisory framework that accommodates their unique nature [15] and [27].

The success of the utilisation of risk-based supervision has led regulators to apply it in the supervision of not only banks but also insurance and takaful (Islamic insurance) companies, pension funds and other financial institutions [28] and [29].

Reference [30] in his conceptual study of risk-based supervision for Islamic banks posits that the whole process of risk-based supervision needs to be revisited, both at the Islamic bank (supervised institutions) level and at the supervisory authority bank (regulator) level. Ismail argues that supervision by risk approach provides the supervisor and the Islamic banking industry with a high level of consistency in effective supervision.

However, this conceptual study differs by focusing on proposing a bespoke risk-based supervisory framework as a practical working tool for regulators to facilitate the proper implementation of RBS for Islamic Banks. The proposed framework will adequately take cognisance of the unique risks of Islamic banking and the related risk management control functions to facilitate effective implementation of RBS towards promoting financial system stability.

Reference [31] in their literature review study of 112 past Islamic banking studies of top-ranked journals, identified the gap of inadequate Islamic banking studies linked with economic significance. This study links economic stability with the use of risk-based supervision to promote the stability of Islamic banks. Reference [15] in their literature review study on "Empirical Research in Islamic Banking: Past, Present, and Future" identified the area of regulatory supervision to promote effective Islamic banking operation and bank stability as one of the areas in need of extensive research. It is hoped that this paper will contribute to filling the above-identified gaps and promoting safer financial systems and economies at large.

III. METHODOLOGY

Methodology is defined as the practices and techniques used to gather, process, manipulate and interpret information that can then be used to test ideas and theories about social life [32]. This paper has adopted the qualitative method which is focused on gathering, analysing and interpreting data (textual or audio or visual) rather than numerical data [33]. This conceptual paper focuses on using the descriptive method by carrying out a critical review (documentary content analysis) of crucial literature based on secondary data on risk-based supervision in Islamic banks to clarify the area and generate valuable insights. Secondary data are second-hand information in that they are not directly obtained from the source by the researchers. Instead, they are obtained from secondary data which include various journals, textbooks, magazines, write-ups, and symposium papers relevant to the subject of research.

Time horizon in relation to methodology refers to the number of times data is collected in order to answer the research question(s). According to [34] studies can be classified into two types based on the time horizon. These are cross-sectional studies and longitudinal studies. Cross-sectional (one-shot) studies refer to studies that gather data just once in order to answer the research question while longitudinal studies gather data at more than one point in time to answer the research question. Most studies conducted are cross-sectional in nature because it is resource (time, efforts and costs) intensive to obtain data multiple times. As such, the cross-sectional study is selected in this paper because of its cost-efficiency.

IV. CONCEPTUAL FRAMEWORK

This paper will start this section by examining the concepts of "risk", "supervision" and "risk-based supervision" before discussing the subject of an ideal risk-based supervisory framework for Islamic banks. Risk has also been defined as an uncertain phenomenon that exposes investments to partial or total losses [35]. Risk can also be considered as the probability of an adverse outcome [36].

It is part of any venture to have its associated risks. As the common saying goes; there is no venture without risks. Risk in the context of this study on the banking industry is an area of significant concern because banks by nature are in the business of risk management [37]. Risk has received a lot of attention from researchers, policymakers, and other industry stakeholders. This attention reached a peak following the 2007-2008 global financial crises. Central Banks (regulators) around the world are focused on managing banking risks both at an individual bank's level and at the banking system or industry level in a bid to ensuring financial system stability.

Banking risks are understood to be the risks inherent in banking as a line of business. There are different types of risks a bank is exposed to. However, these risks could be broadly categorised into credit risk, operational risk, liquidity risk and market risk. Regulators focus their attention on the level of risks banks carry to achieve their desired return as well as how effectively they manage their individual risks. Regulators are also concerned with managing systemic risks to prevent financial system instability. Systemic risks have been defined as the risks that pose a threat to the economy or financial system at the macro level beyond the individual micro bank level.

The concept of supervision is defined as the act of observing a person or activity and making certain that everything is done properly (Cambridge English dictionary, 2019). In the context of the banking industry, we mean the oversight of regulated banks (operators) by the regulator (central bank) to ensure proper conduct. Supervision, commonly referred to as banking supervision, is the enforcement of the regulations governing banks. Banking supervision is usually conducted by Central Banks or other specially designated banking regulatory agencies in various countries around the world.

It is essential to clarify that though regulation and supervision are often used interchangeably, regulation is different from supervision because regulation refers to the written rules that define the permissible activities and behaviour of banks. However, supervision refers to ensuring adherence to the rules [38]. Regulation has been explained by [39] as static rules made by the regulator, while supervision is an on-going process, where regulatory oversight ensures to guarantee that the regulated bank adheres with the static rules. The focus of this research is on supervision.

Now that we understand risk and supervision, we can better answer the question; what is risk-based supervision? In simple terms, it means supervision by focusing on risks. The Basel Committee on Banking Supervision [6], the globally recognised international standard setter for promoting global financial stability (owned by 60 central banks); defines the concept of risk-based supervision (RBS) as; the approach in which supervisors (regulators) assess the risk profile of banks in terms of; the risks they carry (inherent risks), the effectiveness of their risk management and, the risks they pose to the banking and financial systems.

Islamic Financial Services Board (IFSB), the international standard-setter for the Islamic financial services industry (similar to BASEL), defines the concept of risk-based supervision (RBS) as; the supervisor's approach to a supervised bank based on the supervisor's assessment of the risks to which the bank is exposed and of the bank's capability to manage these risks [40].

The concept of a risk-based supervisory framework is a document that articulates the principles of risk-based supervision. It articulates how the regulator will consistently apply risk-based supervision to oversee different banks. This document ensures a consistent approach (non-arbitrary) in forming supervisory (central bank - regulator) judgments on the risk profiles of supervised banks. The risk-based supervisory framework is the work tool that operationalises risk-based supervision.

This paper argues that it is impossible to adequately apply the principles of RBS on an Islamic bank if the RBS Framework used in identifying the inherent risks omits the three critical unique inherent risks (Equity Investment Risk, Rate of Return Risk and Shari'ah non-compliance Risk) in an Islamic bank. Also usually omitted are the three equally crucial unique risk management control functions (Shari'ah Board function, Shari'ah Internal Audit function and Shari'ah Compliance function) specific to an Islamic bank.

To highlight the importance of a tailored ideal risk-based supervisory framework (RBSF) for Islamic banks and also illustrate the consequences of an inadequate RBS framework, this paper presents the RBSF Matrix in figure 1 below:

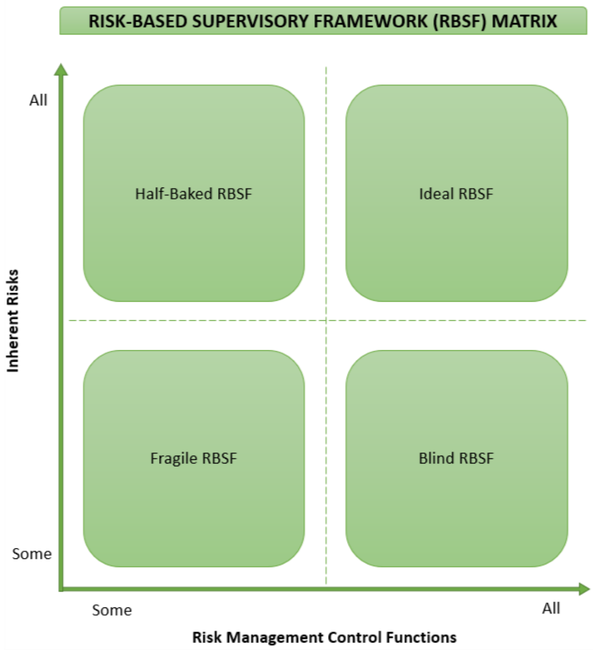

Fig 1: Risk-based Supervisory Framework (RBSF) Matrix

The RBSF Matrix above categorises RBS Frameworks into four categories (Fragile, Blind, Half-baked and Ideal) based on the extent to which the RBS Framework incorporates "some" or "all" of the major "inherent risks" specific to Islamic banks (shown on the y-axis) and also based on the extent to which the RBS Framework incorporates "some" or "all" of the major "risk management control functions (RMCF)" specific to Islamic banks (shown on the x-axis). Each of the categories in the matrix are discussed below:

A. Fragile RBSF

This is an RBS Framework that is highly vulnerable and susceptible to inaccurately understanding and rating the risk profile of an Islamic bank because it only assesses some of the major inherent risks and some of the major risk management control functions and ignores other major inherent risks (such as Shari'ah non-compliance risks) and other major risk management control functions (such as Shari'ah Board). As such, because it is fragile and does not accommodate all major inherent risks and RMCF of Islamic banks it cannot give an accurate rating of the financial health of the Islamic banks. When an Islamic bank is assessed using such a fragile framework, the resulting rating is misleading because it does not give a full picture.

B. Blind RBSF

The Blind RBSF is a Framework that has a blind spot because it fails to have full visibility on all the major inherent risks in Islamic banks even though it may have incorporated all the major risk management control functions. The consequence is that when an Islamic bank is assessed with a blind RBSF the Islamic bank is rated with a lower than normal risk rating because some major inherent risks have been missed out.

C. Half-Baked RBSF

This a Framework that although it incorporates all the major inherent risks in Islamic banks, it fails to incorporate all the major risk management control functions. When an Islamic bank is assessed with a half-baked RBSF the result is that the Islamic bank ends up with a higher than normal risk rating because some major risk management control functions (that could have mitigated the inherent risks) have been omitted.

D. Ideal RBSF

This is an RBS Framework that effectively recognises the specificities of Islamic banks in terms of all the major inherent risks and all the major risk management control functions of Islamic banks. As such, because it accommodates these specificities of Islamic banks, it gives an accurate reading of the financial health of the Islamic banks. When an Islamic bank is assessed using such an ideal RBS framework, the result accurate and in sync with the concept of risk-based supervision in which supervision is tailored to match the risk profile of the supervised institutions.

This paper has used the matrix to buttress the importance of an ideal RBS Framework for Islamic banks. The matrix highlights the problem of how Islamic banks are disadvantaged compared to their conventional peers when their risk profile is mis-assessed because of an inadequate RBS Framework. It is important to mention that this paper is not aimed at discussing the elements of similarities in an RBS framework which are both applicable to conventional and Islamic banks such as the similar inherent risks (credit risk or market risk) and similar risk management control functions (board or risk management function) or similar risk absorbing elements of capital and earnings.

The synthesis of the main concepts related to the scope of this paper (proposing an ideal risk-based supervisory framework for Islamic banks) has been used to formulate the conceptual framework of this paper. This conceptual framework is depicted in figure 2. The figure explains that (starting from the top left corner) proper understanding, identification and assessment of the unique inherent risks (Shari'ah non-compliance risk, equity investment risk and rate of return risk) in an Islamic bank, in addition to the similar conventional inherent risks (such as credit risk and market risk) faced by a conventional bank, are required for an adequate risk-based supervisory framework for Islamic banks.

Furthermore, the understanding of the risk management control functions unique to an Islamic bank (Shari'ah board, Internal Shari'ah Audit and Internal Shari'ah Compliance) beyond the conventional risk management control functions (Board, Senior Management, Internal Audit, Risk Management and Financial Analysis) is equally required for an ideal risk-based supervisory framework for Islamic banks.

A. Three Unique Inherent Risks in an Islamic Bank

The IFSB has identified the three unique inherent risks in an Islamic bank (which are not present in a conventional bank) as Equity Investment Risk, Rate of Return (or Displaced Commercial) Risk and Shari'ah non-compliance risk (SNCR - classified by IFSB under operational risk) [41].

Inherent risks are risks that are part of doing any business. These are the risks that naturally come with engaging in that line of business. As such, for any bank, Islamic or conventional, one of the inherent risks in banking is credit risk. Various research have found out that both Islamic banks and Conventional banks share certain banking risks in common. These common risks have been broadly classified as credit risk, operational risk, market risk and liquidity risk. As such, the current RBS Frameworks in many jurisdictions "as is" is adequate to assess these common risks which an Islamic bank shares with conventional banks (even though the underlying Islamic banking products may differ and result in different nature of, e.g. credit risk). However, there are other risks present only in an Islamic bank.

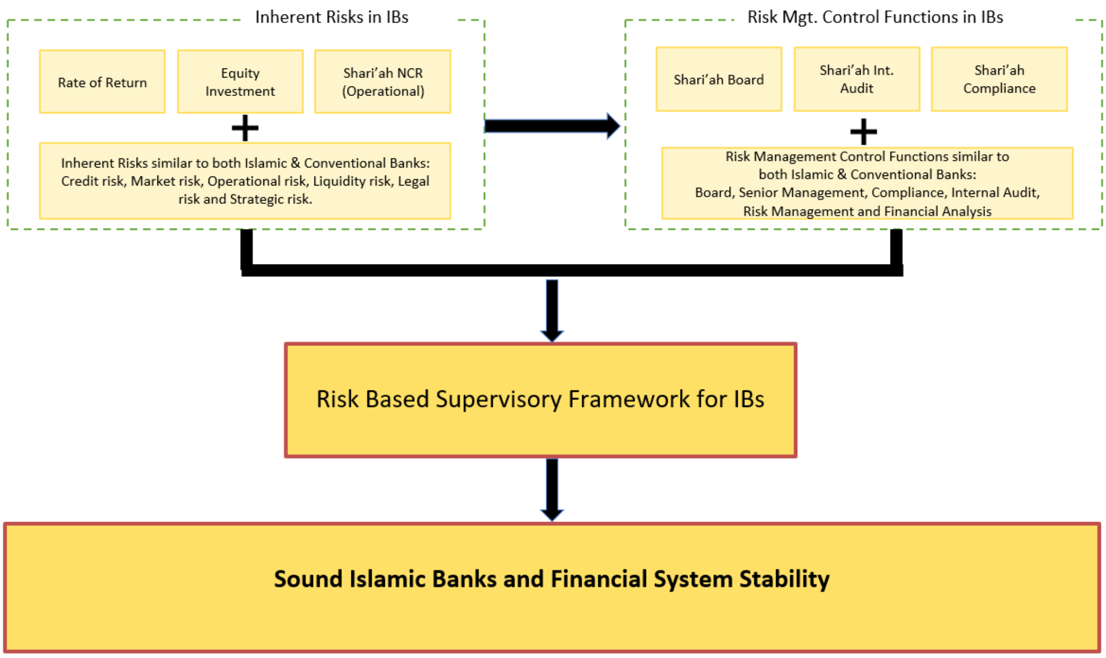

Fig 2: Conceptual Framework

Various studies have broadly classified these unique risks into three categories: Shari'ah non-compliance risks, Equity Investment risks and Displaced Commercial Risks or Rate of Return Risks.

Ignoring these risks by the current RBS framework poses a significant threat to adequate supervision of the Islamic bank, thus exposing the bank and financial system to systemic stability risks.

1) Shari'ah non-compliance risk

SNCR is defined as the risk an Islamic bank is exposed to as a result of breaching Shari'ah requirements in its operational activities [8]. Shari'ah is the distinguishing backbone feature between an Islamic bank and a conventional bank. As such, an Islamic bank's non-compliance with Shari'ah rules and principles makes it indistinguishable from a conventional bank. This poses a threat to the Islamic bank's underlying purpose of existence since it was licensed with the main objective of operating as an Islamic bank. Thus, SNCR crystallisation can threaten the very existence of an Islamic bank.

Furthermore, the crystallisation of SNCR can trigger reputational risks. Once an Islamic bank is perceived to be Shari'ah non-compliant (in essence unislamic), its customers may cut-off all banking relationship with the bank. This poses a threat to the survival of the Islamic bank. Shari'ah non-compliance risks can also lead to significantly costly and lengthy legal cases which also negatively affects both the income and reputation of the Islamic bank. This was experienced in the case of Blom bank and Investment Dar [42].

The crystallisation of SNCRs poses a lot of threats to an Islamic bank. This may be income lost by being written-off to charity because of non-permissibility, legal court cases, reputational damages and even failure or license revocation. Thus, for the current RBS framework to omit such a significant inherent risk of an Islamic bank means financial system stability is at risk. The fact that SNCR is not easily quantifiable in numbers due to its qualitative nature makes it most suitable to be accommodated under a tailored RBS framework which gives the regulator the ability to use sound professional judgement to qualitatively classify the SNCR into different buckets for quantification [43].

2) Equity Investment Risk (EIR)

This is defined as the risk associated with an Islamic bank's equity financing products which are mainly related to the two most common Islamic financing equity-based products (Musharakah and Mudarabah). Musharakah or Mudarabah equity financing provided by a bank to a client is not a loan or a debt-based financing product but rather an investment made by the bank in a client's business, similar to buying shares in the client's business. Therefore, since the products are an investment in the equity shares of the client's business and not a loan, the bank is exposed to equity investment risk. This is another unique, inherent risk in an Islamic bank but not in a conventional bank because a conventional bank has only one financing product which is the interest-based loan [44].

The nature of these equity investment products poses a higher risk to an Islamic bank compared to an interest-based loan. This is because, in a loan, the principal and the interest are fixed and known upfront at the time of entering into the transaction. Also, the total amount must be paid by the client (borrower) at maturity. However, in equity investment, though the principal amount invested by the bank in the client is known upfront, the return on investment or profit is unknown and uncertain. At maturity, the client may make losses, and the bank will lose both its invested capital (principal amount) and the expected profit. Thus, this higher risk needs to be captured in an ideal RBS framework for an Islamic bank.

3) *Rate of Return Risk (RoR)*

Conventional banks have deposit accounts for clients in which client deposit their money and get interest. Islamic banks are prohibited from interest-based deposit accounts. As such, they substitute deposit accounts usually with a mudarabah investment account. The mudarabah investment account is an equity-based product. So, clients deposit their money, and the Islamic bank invests the money in order to generate profit to pay the clients. The profit is the alternative to conventional interest. However, the challenge is that interest is fixed and guaranteed in a conventional deposit, but in an Islamic mudarabah investment, the profit is uncertain because the investment may not yield the expected profit or may even deplete the invested money (capital). This, in turn, exposes the Islamic bank to the risk of having to pay the client profit even if the investment resulted in a loss so as to avoid losing the client to conventional competitors. This risk is known as the rate of return risk because the bank pays a return even when it has not made any return [8]. This is another critical inherent risk which needs to be incorporated in an RBS framework for Islamic banks.

B. *Three Unique Risk Management Control Functions (RMCF) in an Islamic Bank*

The three unique risk management control functions in an Islamic bank which are not present in a conventional bank are the Shari'ah Board function, Shari'ah Internal Audit Function and the Shari'ah Compliance Function [8].

1) *Shari'ah Board function*

The Shari'ah Board serves as both a supervisory and advisory mechanism for ensuring that Islamic banks adhere to Shari'ah principles and rules in all their undertakings. It serves as an additional line of defence against any Shari'ah non-compliance risks.

2) *Shari'ah Internal Audit Function*

The Internal Shari'ah Audit function is charged with the responsibility of checking and reporting the effectiveness of the Islamic bank's internal shari'ah controls to safeguard the bank against any Shari'ah issues. The function provides assurance to the Board of Directors on Shari'ah matters. The function should be and be seen to be independent of any management influence because it is also charged with auditing the management and transactions after execution.

3) *Shari'ah Compliance Function*

The Shari'ah compliance function provides review and advisory on Shari'ah matters related to transactions before they are executed. The function reviews and gives advice on transactions to ensure the bank does not enter into non-permissible activities.

Thus, the proposed ideal risk-based supervisory framework is a framework that incorporates the specificities of an Islamic bank's unique inherent risks and unique risk management control functions. This facilitates effective risk-based supervision to ensure safe and sound Islamic banks which in turn promotes overall financial system stability.

V. CONCLUSION

This conceptual study has examined the subject of risk-based supervision of Islamic banks as a critical subject towards ensuring the safety and soundness of Islamic banks and the financial system at large. It has proposed an ideal risk-based supervisory framework that incorporates the unique inherent risks and risk management control functions of an Islamic bank to ensure proper supervision. The methodology adopted has been a qualitative approach through a critical in-depth review of literature related to the area of study based on available secondary data. The main objective of the paper is to propose an ideal risk-based supervisory framework for Islamic banks such that Islamic banks will be better supervised which will lead to safer Islamic banks and in turn promote the safety and soundness of the financial system at large. It is recommended that the framework be used by regulators to better assess the financial soundness of Islamic banks.

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