

A Systematic Literature Review on the Relationship between Sharia Regulatory Framework and Islamic Fatwa

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ABSTRACT

Sharia Regulatory Framework (SRFW) ensures all activities and business transactions by IFIs that are free from non-allowable elements such as Riba (Usury), Gharar (Risks) etc. When such transactions have met the stringent requirements and have fulfilled the Sharia compliance mechanism, only then the transactions by the Islamic Financial Institutions (IFIs) are lawful. However, Islamic Fatwa (IF) is not embedded into the current Sharia compliance mechanism. There is needs to be a study to establish the relationship between SRFW and Islamic Fatwa. Yet, there are still not enough studies that conduct a systematic review on this. This study has two objectives. Firstly, to identify the relationship between SRFW and IF. Secondly, to show how Sharia compliance mechanism can be completely established after effective use of IF. The articles were chosen using one leading database, SCOPUS, and one supporting database, Google Scholar, and manual searching. Several important contributions were made by the study to regulators and policymakers. Finally, the findings demonstrate that IFIs could be better regulated in accordance with Sharia principles with effective use of IF through SRFW, the study recommend the specific research areas and content that should focus on future studies.

Keywords: *Systematic Review, Relationship, Sharia Regulatory Framework, Islamic Fatwa.*

INTRODUCTION

Companies engaged in businesses need to deal with financial institutions. Virtually everyone living in a developed economy has an ongoing or at least periodic need for the services of financial institutions; financial institutions have an important role to play in the economy. Financial institutions such as commercial banks, savings and credit societies, and investment institutions help individuals, businesses, and other organisations use their finances properly (Cerović *et al.*, 2017). among the purpose of all financial institutions was to meet the financial needs of the continuous growth in the fields of production and trade, although both Islamic Financial Institutions (IFIs) and Conventional Financial Institutions (CFIs) manage people's money through fees, investments, insurance and other services that may incur costs to customers, nonetheless for IFIs this must be activated under the *Sharia* supervisory watch (Salman & Nawaz 2018) based on the *Sharia* compliance mechanism.

IFIs are *Sharia* compliant-based institutions that appeared and developed based on the origin of Islamic *Sharia* law in which the teachings of the religion is expected to be internally installed into the organisation, both for the establishment and operations as well as supervision practices (Ibrahim & Ismail, 2015; Sudin & Nursufiza, 2011). Therefore, IFIs insist on avoiding falling into financial transactions that are noncompliant with *Sharia* (Ibrahim & Ismail 2015). However, as a traditional established system, CFIs are essentially business companies engaged in the business for dealing with financial and monetary transactions such as deposits, loans, investments, and currency exchange. Although CFIs and IFIs share some similar functions, such as to collect funds and invest those funds on behalf of their respective participants (clients who put in deposits), IFIs only uses the principle of profit-loss sharing, which is under the *Sharia* compliance mechanism, which, on the other hand, is not existent in CFIs (Al-Azuhaily (2003). Hence, *Sharia* Regulatory Framework (or SRFW) governs how IFIs regulate their activities according to *Sharia* law. This is one of the major differences that sets IFIs apart and differ from CFIs.

According to the Islamic Financial Services Board (IFSB) (2009), the “*Sharia governance system refers to the set of institutional and organisational arrangements through which an IFI ensures that there is effective independent oversight of Sharia compliance*”. Hasan (2010) states that the existing framework of Islamic finance in various jurisdictions established was contrary to the methods of the classical *Sharia* governance system. Some jurisdictions prefer extensive involvement of regulatory authorities, and some countries, on the other hand, favour otherwise. Until now, it is still arguable whether the former or the latter is more common and appropriate for possible adoption.

Based on these differing jurisdictions, interestingly, it is noted that the classification of the SRFW has fallen into three different distinctive models that of the Fully Islamic model, which uses the Islamic law framework, the Dual System (or Hybrid) model that is primarily based on a conventional framework with special laws on IFIs and the Neutral or Partial Inclusion model that relies on the conventional framework (Rabiah Adawiyah, 2007; Syarif, 2019; and Hassan, 2010).

Table I: Classification of models and the corresponding legal and regulatory framework

Models	Legal & Regulatory framework	Countries
Fully Islamic	Islamic Law framework	Kingdom of Saudi Arabia, and other GCC, Pakistan Before 2001
Dual System	Conventional framework with special laws for IFIs	Malaysia, Brunei Darussalam and Indonesia, Bahrain,

		Pakistan After 200, Nigeria
Neutral or Partial Inclusion	Conventional framework	China, USA, UK, Hongkong, Luxembourg and Japan

(Adapted from Rabiah Adawiah, (2007), Syarif , (2019); and Hassan, (2010)

Table I provides a summary depicting that, generally, the classification of the IFIs can be grouped into three basic models known as the Fully Islamic Model, the Dual System (or Hybrid) Model and the Neutral or Partial Inclusion Model. Based on such categorisation, it is noted that these models are dependent on the existing legal and regulatory framework of the country in which the IFIs operate. Thus a Fully Islamic Model exists in countries in which the legal framework is based on Islam, such as those in the Kingdom of Saudi Arabia and other Gulf Cooperation Council (GCC) countries and thus resort to a purely Islamic *Fatwa* construct based on both classical and contemporary applications. In the meantime, for countries whose legal framework is essentially a conventional framework with special laws enacted for IFIs, their model is known as the Dual (or Hybrid) System Model that touches some aspects of Islamic *Fatwa*. The Dual (or Hybrid) System Model is notably suitable for countries where the population of non-Muslims are relatively high, too, such as those in Malaysia, Brunei Darussalam, Bahrain, Nigeria and Indonesia. In the meantime, countries that have not promulgated any special laws to cater for IFIs, on the other hand, and use the conventional framework, are found in the non-Muslim majority countries where the Islamic *Fatwa* is not expected to function thoroughly due to the nature of the legal systems in the countries, such as in China, Japan, Luxembourg, the United States and the United Kingdom. Therefore, these countries are found to use the Neutral or Partial Inclusion Model. Nonetheless, whatever is the model that an IFI in a country resorts to, there exists the need for *Sharia* governance.

As a result, the *Sharia* governance refers to all components that require an active role of the *Sharia* board and compliance with the *Sharia* being fundamental to Islamic banks in particular and the implementation of *Sharia* governance is encouraged by many *Sharia* bodies, notably, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), and Islamic Financial Services Board (IFSB), the legal framework such as Islamic Financial Services Act (IFSA) and banking regulations such as the *Sharia* governance framework of Bank Negara Malaysia (BNM) (Nafees, et al, 2017). However, *Sharia* governance of IFIs in the Malaysian context is administered by the *Sharia* governance framework of the IFIs from 2010 (SGF 2010) and other subsequent amendments Act of 2017 and policy document 2019, grown and brought up by Central Bank of Malaysia (BNM).

I.I. Research gap - existing research related to SRFW and Islamic *Fatwa* in adopting Islamic *Fatwa* as an aspect of *Sharia* compliance mechanism in IFIs.

Researchers have numerous concerns on the issue of regulatory or governance framework in IFIs. Alam *et al.*, (2020) outlined and explored the problems of the existing *Sharia* governance framework and its concerned authorities in the context of Bangladesh and mentioned the absence of competent and qualified *Sharia* board members and thorough *Sharia* compliance adherence. The study concisely concluded that the country requisites a comprehensive *Sharia* governance framework, Islamic banking act, a standard accounting system, and a robust *Sharia* audit system for the overall development of Islamic banks and SGF (Alam *et al.*, 2020). While some studies focus on adopting value-based banking of a consumer-focussed culture in delivering effective protection for consumers from unfair contract terms and empowering them in their dealings with Islamic banks in Malaysia (Abu Bakar *et al.*, 2019) However, some insufficient scholars reviewed the existing studies. Systematically. To conduct a thorough review of previous studies is of utmost significance, according to Robinson and Lowe (2015). Three reasons have been singled out that accentuate the advantages of reviewing compared to the traditional ways of reviewing the literature. First, traditional literature reviews have several drawbacks, including the fact that they are rarely comprehensive. Second, extremely vulnerable to reviewer bias, and third, traditional literature review seldom considers varying levels of systematic reviews. The present paper attempts to contribute to the existing body of knowledge by developing a systematic literature review on the SRFW and Islamic *Fatwa* as an aspect of *Sharia* compliance mechanism in IFIs. A systematic literature review (SLR) is one method for conducting a systematic review of existing literature.

Furthermore, Dewey and Drahota (2016) claim SLR is an organising method, selecting and critically evaluating previous studies to answer the posed question. In SLR, Before the review process, the protocol or plan is specified. SLR consists of an organised and transparent method for conducting searches across multiple databases, and a similar method can be replicated and reproduced by other researchers. It discusses a rigorous search strategy that allows researchers to answer a specific question (Xiao and Watson, 2019). The systematic review offers details on the performed review process (e.g., keywords used, articles selection) for others to reproduce the investigation, confirm the analysis or study the generality. Although some studies attempted to systematically review the issue of SRFW and *Sharia* governance on *Sharia* compliance mechanism in IFIs, however, their focus is not on the adoption of Islamic *Fatwa* as an aspect of compliance mechanism under SRFW. A study by Abu Bakar *et al.* (2019), for example, focuses on the adoption of value-based banking of a consumer-focussed culture in delivering an effective protection for consumers, while Alam *et al.*, (2019), reveals that the *Sharia* governance system in Bangladesh is mainly voluntary rather than regulatory and in the absence of full-fledged *Sharia* governance framework, the board of directors act in place of the *Sharia* board members. This is seen as necessary to improve the quality of *the Sharia* compliance mechanism. Researchers are in view of that Islamic banks are more stable when compared with conventional banks in a dual banking system. However, it is observed that the overall banking stability is enhanced after the financial crises, indicating that the stability of the Islamic bank is tied to the

comprehensiveness of SRFW when elements of Islamic *Fatwa* are embedded into the SRFW. Also, a systematic documentation method must be done to get data related to the appointment method of *Mufti* and *Sharia* committee members in Malaysia (Alaeddin *et al.*, 2019; Khairuddin *et al.*, 2019, and Hasan, 2010). Finally, the lack of studies on the IFIs in the Malaysian context has driven a lack of adopting Islamic *Fatwa* as an aspect of *Sharia* compliance mechanism and failure to systematically understand the relevant existing literature.

The review is guided by the central research question, "What is the relationship between?" SRFW and Islamic *Fatwa*? How can the *Sharia* compliance mechanism be completely established after the effective use of Islamic *Fatwa* through SRFW? This study aimed to fill the gap by systematically reviewing previous related studies to gain a better understanding of recognising and describing the SRFW and Islamic *Fatwa* towards *Sharia* compliance mechanism within the IFIs in Malaysia (Alaeddin *et al.*, 2019; Khairuddin *et al.*, 2019). The study offers several significant contributions about the practical aspects leading towards more successful Islamic business transactions with better *Sharia* compliance and its encompassing body of knowledge. By referring to the study, interested parties such as regulators, policymakers, Central banks, stakeholders, consumers as well as researchers will enable them to strategise on how the inclusion of Islamic *Fatwa* in the SRFW should and could be made a reality.

This, in particular, can help to close the information gap for any central regulatory body regarding the inclusion of Islamic *Fatwa* within the SRFW and encourage respected policymakers in the policy development process that ensures the stability of IFIs in Malaysia. Furthermore, the study provides interested parties with an understanding of current practice for SRFW of IFIs and strategise Islamic *Fatwa* adaptation in the current SRFW that is in line with the fundamentals of Islamic Jurisprudence. Finally, the study informed the researchers on the specific areas and research content that should focus on their future studies.

METHODOLOGY

The Review Protocol – ROSES

The ROSES review protocol guided this study. ROSES stand for Reporting Objectives for Systematic Evidence. Syntheses are specifically designed for systematic reviews. (Haddaway *et al.*, 2018). ROSES aims to encourage researchers to provide accurate information with the appropriate level of detail. The authors began their SLR based on this review protocol by developing appropriate research questions for the review. The authors then go over the systematic searching strategy, which comprises three major sub-processes, namely identification, screening (inclusion and exclusion criteria) and Eligibility. The authors then proceed with the quality assessment of the selected articles. wherein the authors explain their strategy for ensuring the quality of the articles to be reviewed. Lastly, the authors explain how the data for the review were abstracted and how the abstracted data were analysed and validated (Shaffril *et al.*, 2020).

Formulation of research questions

PICo was used to develop the research questions for this study. PICo is a tool that helps authors develop appropriate research questions for the review. PICo is built around three key concepts: population or problem, interest, and context. The authors have included three major aspects in the review based on these concepts, namely IFIs (Population), Islamic *Fatwa* as an aspect of *Sharia* compliance mechanism (Interest) and Malaysia (context), which then guides the authors in formulating its main research question. What is the relationship between SRFW and Islamic *Fatwa*? And how *Sharia* compliance mechanism can be completely established after an effective use of Islamic *Fatwa* through SRFW in IFIs Malaysia?

Systematic Searching Strategies

The systematic searching strategies process consists of three major steps: identification, screening, and Eligibility (refer to Fig. 1).

Identification

Identification is the process of searching for any synonyms, related terms, and variations for the study's main keywords, namely *Sharia* regulatory, *Sharia* regulation, *Sharia* governance and Islamic *Fatwa* or Islamic Rulings. It aims to give the selected database more options for searching for more related articles for the review. The keywords are created in response to Okoli's research question (2015) and the identification process was based on an online thesaurus, keywords from previous studies, and keywords suggested by Scopus. On a single main database, the authors enriched the existing keywords and developed a full search string (based on Boolean operator, phrase searching, truncation, wild card, and field code functions). Scopus, for example, has the potential to be one of the leading databases in a systematic literature review due to several advantages it possesses, such as advanced searching functions and a comprehensive database (indexing more than 5000 publishers). In addition, it monitors the quality of the articles and has a multidisciplinary focus, including studies in the social sciences (Martin-Martin et al., 2018; Gusenbauer and Haddaway, 2019).

As an additional database, the second database, Google Scholar, was chosen. When appropriate, a keyword combinations such as "Sharia regulatory", "Sharia governance", were practised using phrase searching and the Boolean operator (OR, AND). The use of Google Scholar as an additional database is consistent with the recommendation made by Haddaway et al. (2015), who emphasised Google Scholars' ability to serve as a supporting database in the systematic review process. Furthermore, Google Scholars are chosen for a variety of reasons. First, it yields enormous results, as Gusenbauer (2019) concluded in their study that 389 million documents are available in this database. Among those who have contributed to this work are OrdunaMalea et al. (2017)

Google Scholar, on the other hand, concluded that there are 165 million articles and journals available. At the same time, Google Scholar appears to be excellent at retrieving known scholarly items (including from established publishers) when compared to discovery tools (Loan and Sheikh, 2018). The

search in these two databases, Scopus and Google Scholar, yielded a total of 2,093 document results.

Screening

This study screened all the 2,093 document results as selected articles by selecting the criteria for article selection, which is done automatically based on the database's sorting function. The criteria for selection are based on the research question proposed by Kitchenham and Charters (2007). Because it is nearly impossible for researchers to review all of the existing published articles, Okoli (2015) suggested that researchers determine the period over which they will be able to review. According to Higgins and Green (2011), timeline publication restrictions should be activated if it is known that related studies could only have been reported during a specific period. Based on the search results on the chosen database, from 2017 onwards, it was discovered that the number of studies related to Sharia regulatory and Islamic Fatwa as an aspect of Sharia compliance mechanism increased.

Meanwhile, limiting the search from 2017 to 2020 was due to the BNM's new SRFW act, which was introduced in 2017 and a new policy document, which was introduced in 2019. As a result, the timeline between 2017 and 2020 was chosen as one of the inclusion criteria. Furthermore, only articles published in a journal are included to ensure the quality of recent and current reviews. Furthermore, only articles published in English are included in the review to avoid misunderstandings or language barriers. Finally, only articles referring to or mentioning the Malaysian context in terms of IFIs were chosen for the study's objective. This process limited the number of articles to 440 because they met the inclusion criteria and removed 122 duplicated articles. The remaining 80 articles were used in the third process, Eligibility.

Eligibility

The third process is Eligibility, in which the authors manually monitor the retrieved articles to ensure that all of the remaining articles (after the screening process) meet the criteria and fall under the social science field. This was accomplished by reading the titles and abstracts of the articles. This process excluded 42 articles because they were conducted in a non-Malaysian context, focused on review only, focused on barriers to Sharia regulation, the methodology section was not clearly defined. It was published in the form of a chapter in a book. Overall, only five articles were chosen for review, with the remaining five coming from manual searches on Google Scholar.

Quality Appraisal

The remaining articles were supposed to be presented to some experts or policymakers for quality assessment to ensure the quality of the articles' content. However, in light of this, the selected articles were presented to a group of researchers and academicians for quality assessment and further evaluation.

Table 2: The criteria of inclusion and exclusion

Criteria	Inclusion	Exclusion
Timeline	2017 – 2020	< 2017
Document type	Article Journal	Article review, chapters in the book, book series, book conference proceeding.
Language	English	Non-English
Region	Malaysian context	Non-Malaysian
Field of study	Social sciences articles	Non-social sciences articles

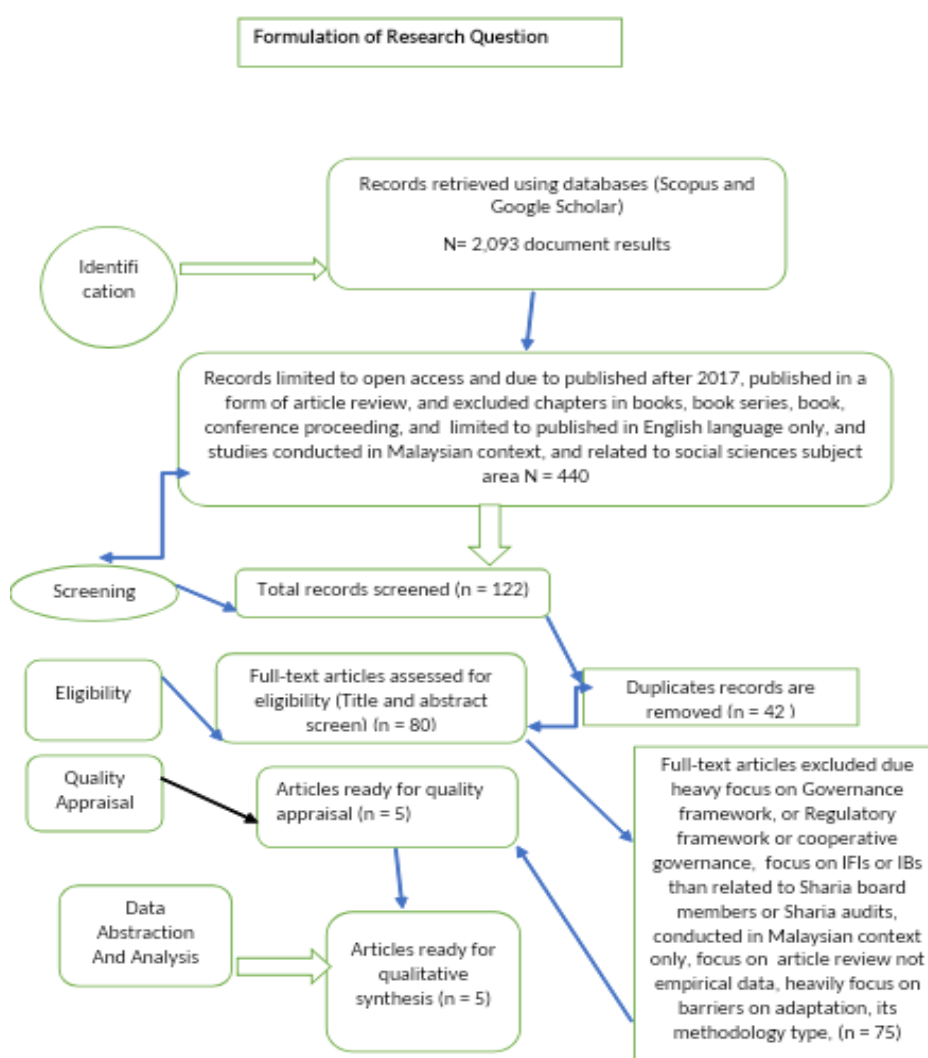


Fig. I. The Flow Diagram

Data abstraction and analysis

An integrative review was used in this study. This method enabled the review to include a variety of qualitative research designs. According to Whittemore and Knafl (2005), the best way to synthesise or analyse integrative data is to use a qualitative research design that allows the researcher to perform iterative comparisons across primary data sources. The present study selected the qualitative technique. The qualitative technique was chosen for this study. The researcher thoroughly examines the ten articles, paying special attention to the abstract, results, and discussions sections. The data abstraction was carried out in response to the research questions, and themes and sub-themes were identified based on noting patterns and themes, clustering, counting, noting similarities, and identifying relationships within the abstracted data (Braun and Clarke, 2006). The creation of themes is the first step in a thematic analysis. The authors attempted to identify patterns that emerged among the abstracted data of all reviewed articles during the process. Any similar or related abstracted data were grouped together in a group, and a total of five main groups were formed. The authors then re-examined the five data groups and discovered an additional eight sub-groups. Finally, the authors re-examined all of the main and sub-themes generated to ensure their usefulness and accurate representations of the data in the next process, which involved reviewing the accuracy of these themes. Table 3 shows the development of five themes and eight sub-themes during this process. This technique was used to develop themes in a group of corresponding authors and co-authors with the theme of the findings. During the theme's development, the researchers discussed any inconsistencies, thoughts, puzzles, or ideas that could be associated with the data interpretation until they reached an agreement on the adjustment of the developed themes and sub-themes.

Table 3: The themes and the sub-themes of the reviewed articles

S/ N	Studies	Years	Country	Absence of SRF W - A B	Absence of full-fledged SGF- C D	Adopting value-based banking of a consumer-E	Banking stability F	Recruitment criteria process- G H
1	Alam et al.	2020	Malaysia	//				
2	Khairudin et al.	2019	Malaysia					//
3	Abu Bakar et al.	2019	Malaysia			/		

4	Alaeddin et al.	2019	Malaysia				/	
5	Alam et al.	2019	Malaysia		//			
6	Malik, M.	2019	Malaysia	//				
7	Alabdullah et al.	2018	Malaysia					//
8	Ribadu & A Rahman	2019	Malaysia				/	
9	Wan Khairuldin et al.	2019	Malaysia	//				
10	Astutik, S.	2019.	Malaysia			/		

- A- Absence of competent and qualified *Sharia* Supervisory Board (SSB) & approach of responsibility of *Sharia* board with Indebtedness theory.
- B- Absence of *Sharia* compliance mechanism & availability of *Sharia* compliance requirements for e-commerce systems.
- C- Board of Directors in the absence of SSB.
- D- Improve the quality of the *Sharia* compliance and develop it as the Protection mechanism of the Depository Customer.
- E- They suggested improvements in pursuing a strong consumer protection agenda from unfair contract terms, which did not include Islamic *Fatwa*.
- F- Lack of comprehensive SRFW, which include Islamic *Fatwa* & Issues on Fiqhī "legal positivistic" framework.
- G- Lack of systematic documentation method on Islamic *Fatwa*.
- H- Appointment method of *Mufti* and *Sharia* committee in Malaysia and challenges faced by *Fatwa* institutions regarding technological issues.

DISCUSSION

Background Information on the Articles Chosen

This review was successful in obtaining ten articles. Based on the thematic analysis, five themes were developed: the absence of SRFW at the country's regulatory level, full-fledged SRFW, consumer adoption of value-based banking, banking stability, and the recruitment criteria process. Further examination of the themes yielded eight sub-themes, namely the absence of competent and qualified *Sharia* supervisory board (SSB) & approach of responsibility of *Sharia* board with Indebtedness theory, absence of *Sharia* compliance mechanism & availability of *Sharia* compliance requirements for e-commerce systems, board of directors in the

absence of SSB, Improve the quality of the *Sharia* compliance and develop it as the Protection mechanism of the depositary customer, suggesting improvements in pursuing a strong consumer protection agenda from unfair contract terms which did not include Islamic *Fatwa*, lack of comprehensive SRFW which include Islamic *Fatwa*, lack of systematic documentation method on Islamic *Fatwa* and appointment method of *Mufti* and *Sharia* committee in Malaysia as well as challenges faced by *Fatwa* institutions regarding technological issues. All studies are conducted in the Malaysian context. This is because the current research is carried out according to Malaysian SRFW perspectives. All articles were published between 2017 to 2020.

The Themes and Subthemes

As mentioned, five themes and eight sub-themes have been identified. Each of the five themes is discussed separately in the following sub-sections.

Absence of SRFW

In the context of some countries like Bangladesh as outlined by Alam *et al.*, (2020) although the country has about four decades of Islamic banking practices yet the institutions are still faced with challenges due to the absence of a proper corporate governance structure and full-fledged legal framework which hinder the growth of Islamic banking. This is contrary to the current Malaysian system of Islamic banking which is fully regulated by the SRFW, starting from the national regulatory level to the industrial level. Therefore, since there is an absence of SRFW in Bangladesh's context, no application of Islamic *Fatwa* is expected to be attached until the non-existing Sharia governance framework is solved.

The absence of the Sharia governance framework, as is experienced in other countries, faces many challenges in the absence of a competent and qualified Sharia supervisory board. However, based on the indebtedness theory, according to Alabdullah *et al.*, (2018) that deals with the vertical relationship (humans with their Creator) and their horizontal relationship (humans with other humans and creatures - that is the aspects of *Hablun minallah wa hablun minnas*), it is extremely fundamental that the *Sharia* supervisory board members dutifully observe Islamic rules in all dealings. Thus, the *Sharia* supervisory board is a manifestation of the covenant (*Al-Mithaq*) whose members submit their desires to the Creator's will and the Islamic law, which correspond to the main Islamic *Fatwa* in the *Sharia* governance system of Islamic bank (Alabdullah *et al.*, 2018).

Absence of full-fledged SRFW

The study of Alam *et al.*, (2019) reveals that the *Sharia* governance system in Bangladesh is mainly voluntary rather than standard regulatory. There is an absence of a full-fledged *Sharia* governance framework at the country central regulatory level. Whereas, in Malaysia the system is no longer voluntary. Rather it is fully backed and regulated by BNM in which all the Islamic financial institutions must abide by the rules and standards of the country's highest

regulatory level which is BNM. Furthermore, the situation of SRFW as mentioned by Alam *et al.*, (2019) in a country like Bangladesh with the influence of the board of directors, and in the absence of a *Sharia* supervisory board, such influence will be quite enough to approve the Islamic products regardless of whether there are the presence or absence of voluntary *Sharia* board members. However, to improve the quality of the *Sharia* compliance and develop it as the protection mechanism for the depositary customers, a well standard SRFW must be in place to tackle the impending challenges towards *the Sharia* compliance mechanism system of Islamic banks.

Adopting Value-based Banking of a Consumer

According to Abu Bakar *et al.* (2019), even though BNM has issued several standards and guidelines to improve 'fairness and transparency,' the potential risk facing bank consumers from unfair terms in standard consumer contracts of Islamic banks, particularly where terms are unfair or unclear, remains unchanged. The study recommends that the BNM, as Malaysia's Central Bank and financial regulator, promotes the self-regulation of Islamic banks by embracing value-based banking of a consumer-focused culture to provide effective protection for consumers from unfair contract terms and empower them in their dealings with Islamic banks in Malaysia. For the time being, the study recommends additional improvements in pursuing a strong consumer protection agenda against unfair contract terms that has yet to adopt the Islamic Fatwa supervisory and advisory system. Again, consumer trust will be positively moderated by SRFW, as the inclusion of Islamic Fatwa within the SRFW will ensure Sharia compliance requirements for e-commerce systems.

Banking Stability

According to Alaeddin *et al.*, (2019), Islamic banks are less stable than conventional banks in the overall banking sector. The most functional Islamic banks are less stable than the most functional conventional banks. The overall findings refute the widely held belief that Islamic banks are more stable and resilient to adverse shocks in the financial sector. Furthermore, when investigating the shift in overall banking stability concerning financial crises, regardless of bank type or bank size, it is discovered that overall banking stability improves after the financial crises. This puts policymakers and regulators in such countries better positioned to address the widely held belief that Islamic banks are more stable. Hence, to improve the stability level of Islamic bank, one suggestion is to include the Islamic *Fatwa* process/appointment/ mechanism in the SRFW at the regulatory and industrial levels. As such, since Fiqhī legal positivistic under the Islamic *Fatwa* framework were able to explain issues concerning governance by most traditionalist and Islamicist scholars, it will be a very welcome development for the current system to strongly adopt Islamic *Fatwa* through its SRFW.

Recruitment Criteria Process

According to Khairuddin *et al.*, (2019) the need for a systematic documentation method on Islamic *Fatwa* and the appointment method of *Mufti* and *Sharia* committee in Malaysia is of utmost importance. Thus, Khairuddin

et al. (2019) conducted a documentation study to collect data on the appointment method of Mufti and Sharia committees in Malaysia and the experts' perspectives on Fatwa decisions. According to the study, the Mufti appointment method is not the same as the Mufti appointment method introduced by the Islamic World Council of Ulamaa (*Majma' fiqh Islamyy*). Thus, it is suggested to consider and adopt the appointment method of the Islamic World Council of *Ulamaa (Majma' fiqh Islamyy)* for SRFW to be an accepted standard and adopted to the Islamic *Fatwa* supervisory and advisory system. Nonetheless, to maintain public trust and protect customer's influence, it is necessary to conduct supervision by well-qualified advisors and supervisors with both absolute western and Islamic financial backgrounds and technical experience. This will clear the issues related to the appointment method of *Mufti* and *Sharia* committee and the challenges faced by *Fatwa* institutions regarding technological issues.

RESULTS

The result of this review at the end, proves that IFIs could be better regulated in accordance with *Sharia* principles with effective use of Islamic *Fatwa* through SRFW at the regulatory, national and institutional levels. Therefore, there is an emphasis on the importance of adopting *the Sharia* compliance mechanism, which will be enhanced when the Islamic *Fatwa* is taken as an integral aspect of *the Sharia* compliance mechanism within the IFIs. Furthermore, with the Islamic *Fatwa* in place in the SRFW, such inclusion would render a better position to replace such unavailable mechanisms to make the model system of the conventional framework with special laws for IFIs better than what is it today and at the same time to ensure all activities and business transactions by IFIs are free from non-allowable elements such as *Riba, Gharar, Maisir* and other similar attributes.

RECOMMENDATION

The findings of this systematic review lead to suggest specific research areas and content that should be the focus of future studies, such as researching how to overcome the absence of SRFW at the country's regulatory level in some developing countries that have been operating IFIs activities for nearly four decades, as well as the absence of competent and qualified *Sharia* supervisory board within the current SRFW. Finally, the absence of *Sharia* compliance mechanism due to the lack of adopting Islamic *Fatwa* supervisory and advisory system within the SRFW from the systematic review of literature has shown that *Sharia* compliance mechanism can be completely established after an effective use of Islamic *Fatwa* through SRFW and will be able to enhance mostly, the Dual or Hybrid Models and Neutral or Partial Inclusion models, in practice than before.

CONCLUSION

The primary goal of this research is to conduct a thorough examination of the relationship between SRFW and Islamic Fatwa. The study makes several significant contributions to national and institutional regulatory bodies and the body of knowledge to fill the gap of insufficient systematic review on the existing literature on the SRFW and Islamic *Fatwa* toward the implementation of *Sharia* compliance mechanism.

From the review, the interested parties, especially the policymakers and regulatory bodies, researchers, academicians and other stakeholders, can generate short and long term SRFW with the adaptation of Islamic *Fatwa* for the availability of *Sharia* compliance mechanism to suit the model system of the conventional framework with special laws for IFIs and enhance the *Sharia* compliance mechanism. The result offers some basics on developing a current SRFW with the use of Islamic *Fatwa* for total *Sharia* compliance. The review concluded that the countries with the absence of standards, the SRFW in their context should be introduced following Islamic *Fatwa* supervisory and advisory system in which, as a result, the *Sharia* compliance mechanism will be able to be fully regulated thoroughly. To conclude, this review identifies the relationship between SRFW and Islamic *Fatwa*. It proves that IFIs could be better regulated under *Sharia* principles with effective use of Islamic *Fatwa* through SRFW since there is an emphasis on *Sharia*-compliant activities through IFIs, the importance of adopting the Islamic *Fatwa* as an aspect of *Sharia* compliance mechanism within the IFIs has been adequately addressed.

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