Conversion into Islamic Banks: Jurisprudence, Economic and AAOIFI Requirements

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Abstract - The objective of this study is to investigate the conventional banks conversion into Islamic banks. It provides a significant opportunity to develop the understanding of the Sharia requirement to conversion process and what the conventional banks have to do in order to be converted into Islamic banks. In addition, it discusses the jurisprudential and financial motivations behind traditional banks converted into Islamic banking. Moreover, it discusses the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) conversion standard. The study suggests that the conventional banks must commit with all conditions to successfully complete the conversion process and to be fully committed with Sharia law.

Keywords: AAOIFI, Islamic banks, conversion, Jurisprudence

I. INTRODUCTION

Islamic finance is not just increasingly attractive to the 1.6 billion Muslims across the world but, there is a global explosion of activity in Islamic finance[19] . He argued that Islamic finance and Islamic financial institutions growing fast and will be the major global force. This enormous growth has attracted conventional banks to capture the huge market by creating a new Islamic window or converted themselves into fully-fledged Islamic banks or even just offering Islamic products [2]. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) issued standard number (6) which represents the conversion issue and identifies its requirements and how the banks deal with it. This study tries to shed the light on the Sharia requirement to the conversion process and what the conventional banks have to do to be converted into Islamic banks. In addition, this study highlights the jurisprudential and financial motivations for traditional banks to be converted into Islamic banks. Moreover, the study also discusses the AAOIFI conversion standard.

The paper is organized as follows. Section I is the Introduction and section II discusses the conversion process. Section III highlights the motivations of conventional banks to be converted into Islamic banks. Section IV discusses conversion forms. Section V discusses AAOIFI conversion standard. Section VI is the conclusion.

II. CONVERSION PROCESS

Islamic banking assets with commercial banks globally are set to exceed US$1.7t in 2013, suggesting an annual growth of 17.6% [19]. This huge growth of Islamic banks is attracting large financial institutions such as HSBC, Citibank, Deutsche Bank to keep up with this growth by providing Islamic financial services, opening an Islamic branch of the bank (or window within the banks), or even fully converted to Islamic banking[26] . The conversion process is different from bank to bank according to the motives of the transformation process [4]. It is necessary here to clarify exactly what is meant by the conversion process? According to [7]; it refers to the process of changing or causing something to change from one form to another (almost from a corrupted status, to the right way). This definition commonly includes that a conventional bank converts to work according to Sharia law; thereby the entire bank’s activity is run according to Islamic principles.

III. MOTIVATIONS FOR CONVERSION INTO ISLAMIC BANKING:

Prior literature discusses the drivers of conversion into Islamic Banks. It identifies jurisprudential and financial reasons for the conversion process [3]; [4]; [23] [5]; [11]; [21]. The following paragraphs discuss these reasons in details.

A. The jurisprudential reasons:

The jurisprudential reasons refer to Religious scruples that motivate a conventional bank to change its activity and work according to Sharia law, especially dealing in “riba” (interest) that is prohibited in Islam [7]. According to [3] the primary motivation of about 62% of converted banks is the adherence to Sharia which includes that Muslims should obey all Allah’s orders such as the “riba” (interest) prohibitions and to intend to repent to Allah. To fully understand the jurisprudential reasons, next section explains the following issues related three concepts: the inclusiveness in Islam; the usury prohibition and the repentance to Allah.

1- Inclusiveness in Islam:

The concept of Inclusiveness in Islam means that Islam is for all times and places regardless of who a person may be or where he may be. Islam should be his religion and his way of life. Muslims must obey Allah’s orders (Islamic law or Sharia law) which regulate all aspects of a Muslim's life. Islamic finance is based on Sharia law. Sharia depends upon the holly
book of Allah (The Quran) and the traditions (Sunnah) of his Prophet Mohamed (peace be upon him). Also, Islamic jurisprudence (fiqh) is a source of Sharia. It is developed by different schools of Islamic thought over centuries which all agreed about the fundamental Sharia principals (Ejmaa) and sometimes hold different views on applications (Etihad). There is not a problem in this life which has no solution in Quran or Sunnah. Allah said in Quran:

وَذَلِكْ عَلَيْكَ الْكِتَابُ تَبَيِّنَهُ لِكُلٍّ شَيْءٍ وَهُذِهِ الْرَّحْمَةُ وَيَدْرِيُّ الْمَلَائِكَةُ (سورة النحل: الآية 89)

And we have sent down to you the Book as clarification for all things and as guidance and mercy and good tidings for the Muslims (Quran 16:89).

The faith in Islam obliges believing in Allah and His Prophet and obeying all his orders. In the Quran Allah warns the human being against disobedience to His orders and from following our desires:

وَمَا كَانَ لِلَّهِ وَمَا كَانَ لِلَّهِ مُلْكٌ وَمَا كَانَ لِلَّهِ أُمَرٌ أَنْ يَكُونَ لَهُمْ الْجِزَاءُ مِنْ أَمْرِهِمْ وَمَا كَانَ لِلَّهِ وَمَا كَانَ لِلَّهِ أُمَرٌ أَنْ يَكُونَ لَهُمْ الْجِزَاءُ مِنْ أَمْرِهِمْ (سورة البقرة: الآية 36).

It is not fitting for a believing man or a believing woman to have an option in their affairs when a matter has been decided by Allah and His Messenger and whoever disobeys Allah and His Messenger has indeed strayed into a clearly wrong path (Quran 33:36).

وَإِنْ قُلُوكَ إِلَى الْمَلَائِكَةِ إِذَا جَاءَهُمْ أَصْحَابُ الْأَخِرِيَّةٍ يَقُولُونَ بَيْنَنَا نَزَّلْنَا عَلَيْكَ الْكِتَابُ وَمَا كَانَ لِلَّهِ كَأَنَّا كَفَأَحْلُكُمْ عَلَى الْأَمْرِ مُحْتَرِمٌ (سورة الروم: الآية 38).

The only statement of the [true] believers when they are reminded of true believers is: "We hear and we obey." And those are the experts (Quran 4:105).

So Muslims must return to Quran and Sunnah (guided by the righteous scholars) in all aspects of life and leave their lower desires.

وَكَذَٰلِكَ أَرْسَالْنَا هَٰذَا الرِّسُولُ إِلَيْكُمْ وَأَيُّهَا النَّاسُ عَلَىٰ أَمْرٍٰ مَّلْيَ ۖ وَلَا تَرْضَى رَبَّكُمَا الْعَذَابَ الْأَخِرِيَّ (سورة البقرة: الآية 37).

And thus we have revealed it as an Arabic legislation. And if you should follow their inclinations after what has come to you of knowledge, you would not have against Allah any ally or any protector (Quran 13:37).

فِي صُدُورِكُمُ الْقُلُوبُ وَعَنْ سَبِيلِ اللهِ وَإِنْ كَانَ عَلَىٰ أَمْرٍٰ مَّلْيَ ۖ وَلَا تَرْضَى رَبَّكُمَا الْعَذَابَ الْأَخِرِيَّ (سورة البقرة: الآية 37).

[We said], "O David, indeed We have made you a successor upon the earth, so judge between the people in truth and do not follow [your own] desire, as it will lead you astray from the way of Allah." Indeed, those who go astray from the way of Allah will have a severe punishment for having forgotten the Day of Account (Quran 38:26).

ثُمَّ جَعَلُوهُ عَلَىٰ شَرِيعَةٍ مِّنَ الأَمْرِ أَيُّهَا الَّذِينَ أَمَامَهَا وَلَا تَتَّبَعُوا أَهْوَآءُ الَّذِينَ لَا يَغْلُومنَ (سورة النحل: الآية 18).

Then we put you, [O Muhammad], on an ordained way concerning the matter [of religion]; so follow it and do not follow the inclinations of those who do not know (Quran 45:18).

Islam is a holistic system for women, men and societies which organizes all aspects of human life politically, socially and economically. In some cases the Sharia experts (Ulama) disagree in some issues, Ibn Taymeya reported that the people must not forbid anything not forbidden in the Quran or Sunnah or legitimated anything except what Allah legitimized without evidence from Quran or Sunnah. As it is also obvious from Quran:

ۤاٰ يَا أَيُّهَا الَّذِينَ أَمَامَهَا إِلَىٰ الْرَّحْمَٰنِ وَالْرَّحْمَٰنِ إِنَّ فِي الْوُفُودِ عِلْمٞ فَإِنْ تُؤْمِنُونَ بِالْآخِرَةِ وَالْيَوْمِ الآخِرِ ذَٰلِكَ خُزٌّ وَحَمْسٌ نَّاْوِيٌّ (سورة النساء: الآية 59).

O you who have believed, obey Allah and obey the Messenger and those in authority among you. And if you disagree over anything, refer it to Allah and the Messenger, if you should believe in Allah and the Last Day. That is the best [way] and best in result (Quran 4:59).

ۤإِنْ أَنزَلْنَا الْكِتَابَ بِالْحَقِّ لِتَخْمِلَ بَيْنَ النَّاسِ مِنْ نَاسٍ أَرَادُوا لَكُمْ أَنْ تَكُنَّ فِي هَٰذِهِ ۚ يُحِبُّ اللهُ الْأَحْسَنَ عَلَىٰ أَنْ يَحْبَبَهُمْ وَأَطِيعُوا لِيُؤْمِنُوا بِرَبِّكُمَا وِلُئِلَّ يَنْتَهُونَ (سورة النساء: الآية 105).

Indeed, we have revealed to you, [O Muhammad], the Book in truth so you may judge between the people by that which Allah has shown you. And do not be for the deceitful an advocate (Quran 4:105).

2- Usury Prohibition:

Usury or riba is an Arabic word which means growth and it is a synonym for the term “interest” used in conventional banking [20]. Islam bans usury because of its absolute injustice. Ibn taymeya argued that the root of dealing with usury is the root of dealing with injustice. Ibn taymeya also reported that the people disagree in some issues, Ibn Taymeya reported that the people must not forbid anything not forbidden in the Quran or Sunnah or legitimated anything except what Allah legitimized without evidence from Quran or Sunnah. As it is also obvious from Quran:

ۤإِنَّ فِي الْوُفُودِ عِلْمٞ فَإِنْ تُؤْمِنُونَ بِالْآخِرَةِ وَالْيَوْمِ الآخِرِ ذَٰلِكَ خُزٌّ وَحَمْسٌ نَّاْوِيٌّ نَٰذِرٌ (سورة النساء: الآية 59).

Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests eternally therein (Quran 2:275).

ۤيَقُولُوا يَا رَبِّ ذَٰلِكَ كُلُّ شَيْءٍ عَلَيْنَا ۖ فَمَنْ يَهْبُ قَرْبَانًا فَصَيْحَةً ۖ إِنْ كَانَ رَبَّكُمَا مَرْحَبًا فَيَبْعَثُ رَبُّكُمَا عَلَيْهِمْ مُلْظًا ۚ قَالُوا يَا أَمْرُكُمَا قَالَلَتْ فَمَنْ يَهْبُ وَرَأَى إِذَا رَأَى فَأَصْحَبُهُمْ فِي النَّارِ يَكُونُ لَهُمْ عَذَابًا شَدِيدًا ۖ وَالْيَوْمِ الآخِرِ لَكُلِّ ذَاكَ كَفَّارٌ (سورة البقرة: الآية 275).

Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeller (Quran 2:276).
Repentance ‘Tawbah’ is to repent from the sins we commit. Making sincere repentance or Tawbah raises a Muslim’s status with Allah because the process of making Tawbah involves the following steps: Devotion to Allah without showing it to people, recognizing ones mistakes and sins, feeling ashamed of violating Allah’s trust of complete submission to His commands, Quit wrongdoing by making a promise never to repeat such behaviour including reinstatement of rights and that repentance be at a time of repentance [13]. A number of verses of the Holy Quran refer to Tawbah for example:

فَلِنَّ آبَادٍ ذُئبَ أَنْ سَأَلُوا عَلَى نَفْسِهِمْ لَا تَقْفُوا رَبِّنَا لَنَطَلِبُ وَإِنَّ الَّذِينَ أُعِيرُونَ لَيُؤْمِنُوا١٤٤ (سورة الفرقان : الآية ۵۳).

“Say: O My slaves who have transgressed against themselves (by committing evil deeds and sins)! Despair not of the Mercy of Allah, verily, Allah forgives all sins. Truly, He is Off-Forgiving, Most Merciful (Quran 39:53).

He also says in the Quran:

إِنِّي لَا أَحْبَبُ الْيَوْمَ الْأَخَلَقُ وَلَا يَوْمَ الْأَخَلَقُ (سورة الرّحِيم : الآية ۲۲۲).

Indeed Allah loves those who repent and purify themselves (Quran 2:222).

And as the Prophet (peace and blessings of Allah be upon him) said:

وَعَنْ أَبِي عِبَادُ مُسَيَّدٍ رَضِيَ اللهُ عَنْهُ أنَّ رَسُولَ اللَّهِ ﷺ قَالَ: "اللهُ غَفُورٌ وَلَطِيفٌ رَحْمَتُهُ مَلِئَةً لُّبْسًا حلْيًا. رَحْمَتُهُ مَلِئَةً مَّا رَحِمتُهُ أَمَّنْ أَفْسَدَ وَأَمَّنْ أَدْخَلَ (رواه الترمذي وقوله حديث حسن)."

Abdullah bin ‘Umar bin Al-Khattab (May Allah be pleased with him) reported: The Prophet (peace be upon him) said, "Allah accepts a slave's repentance as long as the latter is not on his death bed (that is, before the soul of the dying person reaches the throat)". (At-Tirmidhi, who categorised it as Hadith Hasan).

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Anas (RAA) narrated that Allah's Messenger (peace be upon him) said: “All the sons of Adam are sinners, but the best of sinners are those who repent often.” Related At Tirmidhi and Ibn Majah with a strong chain of narrators.

The above verses and Ahadith (written sayings of the Prophet Muhammed, peace be upon him) emphasized that it is important for conventional banks to get rid of usury deals and to give rights back to their owners.

B. Economic reasons:

Prior research [23]; [10]; [24]) reported that Islamic banks are more profitable than the conventional banks. Recent study like [24] investigated the differences between Islamic and conventional banks in the GCC region on the basis of financial characteristics alone. According to ROE Islamic banks are more profitable and therefore, reward shareholders with higher returns than conventional banks also the operating expenses to assets are higher for Islamic banks while Islamic banks are less risky than conventional banks because of their
reliance on shareholder capital. Hence the conventional banks seek to maximize their profit. In this context [3] reported that the main motivation toward the conversion process is the desire of conventional banks to achieve maximize their profit. In addition [3] identifies two motivations for the conversion to the Islamic banking industry. These include the potential benefits from the expansion by working in Islamic banking activities and the weak and the poor levels of competitiveness of the conventional banks.

Furthermore [27] revealed that conventional banks have a motive to offer services to a growing Muslim population and to benefit from the growing number of international investors which are attracted to Sharia-compliant products. Moreover [4] argued that the work in the banking sector according to Sharia is very profitable so it is axiomatic that conventional banks resorted to tap into it as much as possible.

Other study [24] investigated the most important motives behind the conversion process. He found that conventional banks converted to Islamic banks to (1) keep their customers; (2) because of the believe in the prohibition of usury; (3) the competence to attract the Sharia product customers and (4) to emulate the success in Islamic banking and achieve a higher rate of return. Most recently [2] investigated traditional banks conversion motivation into Islamic Banks using two banks in Kuwait, one of them fully shifted to Islamic banking and the other national bank of Kuwait opened an Islamic division (or window within the banks). The results also found the motivation of conventional banks conversion to Islamic banks is two-fold: on the one hand, there is a Religious scruple; but there is also a vital success of Islamic banking role that is equally important. Many traditional banks like HSBC, City Bank, Deutsch Bank and Chase JP Morgan established Islamic branches to cope with the Islamic banking growth. This phenomenon proved feasible and resulted in a significant presence of Islamic banking.

IV. CONVERSIONS FORMS:

Conversions forms, according to [4] are referring to the way that conventional banks choose to enter into the Islamic finance world. Prior studies [26]; [4]; [3]; [2]; [16] show that there are several forms of conversions. In the simplest sense [23] divided the conversion forms as follows. The full conversion: In this case the conventional banks are converted into to Islamic banks. This might be caused because of a legal conversion of a country (such as Iran, Pakistan and Sudan) or because of the decision of the conventional banks to be full-fledged Islamic banks. The other way is the micro conversion which takes many shapes such as (1) establishing an Islamic window in the conventional bank; (2) providing some Islamic products, instruments or investment funds and (3) converting a branch or more of conventional banks into Islamic branches.

A. The main forms of conversion from jurisprudential point of view:

Some conventional Islamic banks are seeking to increase their capacity of Islamic banking services because of its higher profitability (or for ideological reasons). The conversion forms are different according to the conversion motivation. Every bank has a different goal and plans[9] . By keeping track of the views of many of the Sharia scholars and economists, it is clear that there is a divergence of views on whether the conversion is compatible with Sharia principles or not [23]; [9]; [7]. Before explaining the jurisprudential requirement, we will discuss the forms of conversions.

1- Full-Fledged Islamic Banks:

Prior studies [6]; [23]; [3]; [2] consider this form the most compatible with Sharia law. Tradition banks which choose a full conversion consider it the wisest choice because it helps the bank to build a confidence and trust with their customers. He gives examples of full converted banks like Aljazerah Bank in the Kingdom of Arabia Saudi and National Bank of Sharjah, United Arab Emirates [2]. The main features of this form are the full adoption of Sharia principals and the existence of Sharia supervisory board. The full convertor bank did not deal with usury (Riba) [3]. Sharia scholars state a number of conditions to deal with converted conventional banks: Firstly, the commitment to Shari'a principals. Secondly, the independence from the parent traditional Bank in terms of (1) accepting money and investing, (2) working according to Islamic Shari'a in contracts, regulations, and (3) not to apply any systems or perform transactions that violated Shari'a. Finally, working under Shari'a supervision and it must have a Sharia supervisory board [6]. The Sharia scholars agreed about that it is permissible to deal with these banks if it conforms to the terms of Shari'a [8]; [9].

2- Islamic windows (units) and branches:

The Citibank Bank (1996), Dresdner Kleinwort Benson Bank (1988) and New Zealand and Australia ANZ group were the earliest conventional banks that opened Islamic units. Opening windows / Islamic units in traditional branches or Islamic windows means that traditional banks allocate part or space to provide Islamic banking services [9] while Islamic branches is a conventional branch of conventional bank transformed to offer Islamic banking services [2]. Conventional banks generally turn to this form to avoid losing their customers who want to deal according to Shari'a and to attract customers interested in Islamic products by opening new windows or transfer branch, or offer more Islamic products [7].

There is a debate between Shari'a scholars and Islamic banking experts regarding jurisprudential views. There are three groups; the first group encourages establishing Islamic branches and windows and the other groups are against it. Firstly, the view favouring the establishing of branches /Islamic windows in commercial banks; argued that Muslims can deal with the Islamic subsidiaries of banks if these branches have a full commitment to the provisions of Islamic Shari'a law in all their dealings [6]. They pointed out some reasons supporting their view. First; the Islamic branches will stop usury which is considered as one of the most important Islamic rules [6]. Secondly, in some countries it is so difficult to obtain permission to establish Islamic banks; therefore, Islamic windows or branches are the sole alternative.

In addition, the success of these branches may tempt conventional banks to be fully converted into a full-fledged
Islamic branches are a primary step to apply the Islamic banking system until such time to shift the entire bank into an Islamic bank. Finally, Islamic branches can benefit from an accumulated experience of conventional banks and that of hundreds of years to support and develop Islamic banking and increase its effectiveness. A Chairman and Executive Member of the Fatwa and Sharia supervision for a number of Islamic banks, insurance companies within Islamic Qatar, [27] states that it is permissible to deal with these branches if they adhere to the conditions of Islamic banking. In addition it reflects a real commitment to the provisions of Sharia in order to get rid of the riba gradually (Aljazeera programs, Religion and Life, 2005). On the other hand; the view that disagreed with Islamic units or branches argued that the Islamic branches are a new way to deceive Muslims and drain money without a real conviction in Islamic approach [9]; [7]. They tend to an inadmissibility of dealing with Islamic subsidiaries deduced from verses in Sura Albaqara:

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\text{أَيُّهَا الَّذِينَ آمَنُوا أَقْطَرُوا اللهَ وَخَزَّوْا ما بَيْنَ الْآيَاتِ إِنْ كُتِبَتْ مَؤْمِنِينَ \text{ فإن لم تَفْعَلُوا فَأَقْطَرُوا بِجَرْحِيَّةٍ مِّنَ مَّكَاٰنِكُمْ لا يُؤْمِنُونَ وَلَا يُطَالُونَ (سورة البقرة: الآية 278) }
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O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers. If ye do it not, Take notice of war from Allah and His Messenger: But if ye turn back, ye shall have your capital sums: Deal not unjustly, and ye shall not be dealt with unjustly Quran (2:278).

In order to do that [27] pointed out that some Sharia scholars have raised concerns regarding its legitimacy of establishing themselves using capital from conventional banks. In the same vain; [27] stated that dealing with these branches may lead to mixing permissible with impermissible money according to Sharia. Another group expresses that dealing with Islamic branches or windows in certain cases is considered better than dealing with pure conventional banks [9]. Ibn Alqayem stated that when permissible and impermissible money are mixed, we must purify the impermissible money percentage and retaining the rest (permissible) [9]. The main methods to get rid of the impermissible money are: the General Islamic Relief Worldwide; Scientific and technical assistance to poor Islamic countries; Islamic educational, medical and social institutions; and Homeless, orphans and poor Muslims [5].

3- Conventional banks offer Islamic products:

One of the simple methods that conventional banks follow to maximize profit is to attract Sharia-compliant investors. They offer diverse traditional and Islamic products. In this method, conventional banks offer Islamic instruments such as Musharaka, Murabaha and Ijara [9]. This form is used by foreign banks in Muslim countries to satisfy the market needs [26]. These products are not separately managed, but are part of the conventional bank. This form needs to be more fully accepted by sharia scholars and has a lot of doubts about its credibility. Sharia scholars have different points of view. The first group argued that Muslims must avoid dealing with this form because of the absence of the compliance with the provisions and principles of Islamic law. The Second group permits dealing with this form only if necessity and in the absence of specialized Islamic banks. In this case the profit must be purged and investigated to know the proportion of the sacred transactions [8].

V. AAOIFI STANDARDS AND THE CONVERSION PROCESS:

The Accounting and Auditing Organization for Islamic Financial Institutions AAOIFI is responsible for developing and issuing standards for international Islamic finance industry. AAOIFI appointed members from central banks, regulatory authorities, financial institutions, accounting & auditing firms, legal firms and so on. It is supported by over 200 institutional members from over 40 countries [1]. Sharia standards issued by AAOIFI considered as guidance on Sharia permissibility and rules for specific Islamic finance products and mechanisms. The collective personal reasoning (Ijtihad) of the AAOIFI is very important to all sides of Islamic economic life [28]. He considers that the existence of a Sharia supervisory board, management committed to Sharia principles and the compliance with the standards of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) are the main conditions to conversion process. Thereby; we shed the light toward AAOIFI Sharia standard number (6) which implies explanations of procedures, mechanisms and treatment which are required for the conventional bank to be converted into Islamic bank. AAOIFI did not consider the Islamic windows or the conventional banks that offer Islamic services as Islamic banks because Sharia supervision board did not exist to make sure of transactions validity. To make sure the conversion process succeeds and meets Sharia requirements; AAOIFI offers an overview about conversion process as follow:

A. Measures of conversion process:

1) Setup necessary procedures and required tools of conversion: [6] argued that this step needs a lot of effort especially with a dual banking system. The conversion plan must be under supervision of Islamic expert in Sharia and Islamic Finance [21]. He argued that this plan implies; Firstly doing settlements of the interest on loans by returning it back or donating to charity tubes; Loans granted by the Bank; Deposits and savings accounts; Secondly, developing a plan for training employees on the principles of jurisprudence and Islamic banking. Thirdly, modifying the bank accounting standards to be consistent with Islamic accounting standards.

2) Changing operating licence according to Sharia: The Articles of Association should explicitly consist of the existence of a Sharia board [28]. However, [23] argued that some converted banks is a part of the conventional bank. Almost 53% of the Islamic banks have a financial and administrative separation while 74% have not the same.

3) Restructure organizational structure to fit conversion process: According to this point [23] found that the restructuring process reflects the development of new department of Islamic banking management and nominate Sharia supervisory board. This suggests that 88% of the
Islamic banks sample restructure their organization while 12% did not do any modification.

4) **Changing employing procedures to fit conversion process:** To fit with Islamic values [21] pointed out that faith and morals are as important as banking experience. He indicated that this concept must be followed in the Islamic Bank employing selection

5) **Formation of a Sharia supervisory board:** Previous studies [28]; [27]; [6]; [11] argued it is necessary for any Islamic bank of any Islamic financial institution to have independent and fully free Sharia supervisory board to give opinions on proposed contracts and transactions. In the same regard [27]; [11] stated that Sharia supervisory board is an initial component to any Islamic bank. The bank should, therefore, take the conversion decision and provide permanent checking of contracts, transactions, and procedures. Sharia supervisory board should also consist of experts trustworthy scholars in Sharia and modern financial transactions, highly qualified to issue Fatawa. Almost every paper that has been written on Sharia supervisory board includes a section relating to the Articles of Association which emphasize the importance of the existence of a Sharia board, whose resolutions should be binding upon the Islamic bank’s management.

6) **Formation the Sharia auditing department in the bank:** Supervision and Consultation with this department is so important to ascertain whether the licensing of different activities, contracts as well as transactions are compatible with Islamic banking and Islamic finance forms. After restructuring and Islamic bank employees regarding principles and rules of Islamic law avoiding dealing with interest. Islamic banks have to provide intensify transactions with Islamic financial institutions and increase the collaboration between the Islamic institutions by opening dual investments accounts and banks transfers [3].

7) **Reformatting contracts to comply with Sharia standards:** An apparent principle behind Islamic is to maintain the moral purity of all transactions [27].

8) **Open local and international Islamic banks accounts:** It is an important step to prepare the Islamic branch to open individual, institutional, local and international Islamic banks accounts compatible with Sharia law [23].

9) **Revamping accounts that are maintained with conventional banks:** The bank could rely on a tawarruq instrument “contract whereby a customer requests a bank to acquire a specific commodity (e.g. metal or wool) on his behalf” to get rid of interest. Hence, through this transaction, the customer can purchase a commodity which will be repaid at later dates [27].

In order to prepare bank’s employees to deal with Islamic banks practice, [21] reported that, in case of Shareqa bank (UAE), they offered two types of rehabilitation programs public and private program. Public programs offered to all the bank employees regarding principles and rules of Islamic banking and Islamic finance forms. After restructuring and allocation of staff in their departments, every specialized group get a private program convenient to their activity to help them to practice their work according to Sharia. Moreover, the conversion committee is responsible for surveillance the training process to make sure that everything in the right path. The absence of the employee training resulting in slow innovation in Islamic products and affects the relationship with central bank [26].

**B. Dealing with other banks:**

1) **Opening investment accounts in the central bank.** Central banks in some countries that ban to practice operations of direct sale and dealings in real estates and moveables, in consideration of the nature of Islamic bank operations in the fields of trading and Murabaha, allow such banks to have, real estates, and goods. In addition, central banks modified some of the concepts considering the different nature of such Islamic investment accounts, based on participating in profits and losses, and subject to the rules of legal Mudaraba contracts [18].

2) **Revamping the transactions with conventional banks according to Sharia.** Regarding to [3] he pointed out that Islamic banks must cancel or modify the transaction with conventional banks and central bank to be compatible with Sharia law avoiding dealing with interest. Islamic banks have to provide intensify transactions with Islamic financial institutions and increase the collaboration between the Islamic institutions by opening dual investments accounts and banks transfers [3].

3) **Issuance of Islamic certifications such as Mushara, Mudaraba and Ijara.** One of the studies reported that 80% of the Islamic instruments in Islamic banks in Saudi Arabia is Mudaraba and Tawarq due to its low risk [23].

4) **Destroying impermissible tangible assets.** It is not allowed to benefit from these assets by direct or indirect method and must be donated to charity if the bank sold these commodities and just receive the price.

5) **Employing all lawful means to avoid paying interest.** Notwithstanding converted banks seeking to get rid of interest by law; e.g. Shareqa bank (UAE); consider that if the bank did not convince the customers to finish impermissible transactions, it is permissible for the bank to receive the interest from the customers and pay it for the Interest deposits that legally the banks forced to pay and spent the rest of this interest in charity outlets [21].

6) **In case of liabilities the bank Refuses to provide non permissible services even if it has to pay compensation.**

7) **Accelerate the redemptions of all impressive pledges attached to the assets of the bank.**

8) **Any interest or impressive earnings should channel to charity or general utility.**
9) Paying Zakah: the liability of Zakah starts from the date of conversion if the conversion made by outsider while in case of shareholders they bind to pay the previous years even if it is the money impossible.

VI. CONCLUSION:

The conversions process is based on the belief that there is a need to make the right change. There is religious and financial motivation behind conventional banks conversion, the religious motivation must be supported by stable and good plan to guarantee a successful conversion. The conventional banks conversion into Islamic banking is obligatory in Islam. Independent Sharia supervisory board is a very important element in conversion to Islamic bank. Moreover, AAOIFI Sharia standard put explanatory procedures and show how to follow the conversion process. The conventional banks must adhere with all conditions to complete the conversion successfully and to be fully committed to Sharia law.

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