

REGULATING THE CONVERSION OF CONVENTIONAL BANKS TO ISLAMIC: THE 4 QUADRANTS CONVERSION (4-QC) FRAMEWORK

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Abstract

This research paper proposes a framework for converting conventional banks to full-fledged Islamic banks as a catalyst for propelling the Islamic finance industry to Islamic Finance 2.0 by addressing the paucity of a regulatory framework for Central Banks to regulate this conversion. To address this, the paper proposes the “4Quadrants Conversion (4-QC) Framework” as a model framework for Central Banks to regulate the conversion process, consisting of twenty-four components classified into four quadrants. The proposed conversion involves leaving Shari’ah non-compliant activities and adopting Shari’ah permissible alternatives. This paper adopts a qualitative research method based on content analysis. The research findings suggest that the proposed regulatory framework can facilitate the successful conversion, resulting in a dual result of creating new Shari’ah-compliant entities and eliminating non-compliant entities. The proposed regulatory framework can also guide banks to plan, implement, and self-assess their progress to ensure a timely and less cumbersome conversion.

Keywords: *conversion, transformation, regulatory framework, Islamic bank, conventional bank*

I. INTRODUCTION

One of the fastest ways for business entities to grow is via mergers and acquisitions rather than organic growth. Similarly, rather than establishing new Islamic banks from scratch, one of the fastest ways to grow the Islamic banking industry is through the conversion of established conventional banks into full-fledged Islamic banks. This paper promotes the conversion of conventional banks to Islamic banks as a catalyst for propelling the Islamic finance industry to Islamic Finance 2.0. Conversion can have two results. First, a new Shari’ah compliant entity is created, and second, a Shari’ah non-compliant entity is eliminated. However, the question of how Central Banks can regulate the successful conversion of conventional banks to Islamic banks

remains largely unexplored in the existing literature. There is an observed gap in academic literature on it justifying a proposal for a regulatory framework for conversion. The objective of this paper thus is to propose a model regulatory framework to aid Central Banks in regulating conventional banks' conversion to full-fledged Islamic banks in order to ensure a successful process because what gets monitored (regulated) gets done more properly. The regulatory framework can assist central banks in assessing the progress of an ongoing conversion periodically and also aid to successful completion. The framework being put forward here can also serve as a guide to incentivising banks to comprehensively plan, implement, and conduct self-assessments periodically to ensure timely and less cumbersome conversion by to address the critical components involved in the conversion process.

The proposed regulatory framework has been coined as the "4Quadrants Conversion (4-QC) Framework." The 4-QC Framework regulates the conversion process based upon twenty-four components classified into four quadrants. Each of the four quadrants consists of two pillars, and each pillar contains three components. As such, there are six components in each quadrant which add up to make the twenty-four components of the 4-QC. Regulators can systematically and comprehensively regulate the conversion by focusing on these twenty-four components.

Conversion in the context of this research means converting from a conventional bank into a full-fledged Islamic bank (not a window or branch or other forms). Conversion means leaving behind all Shari'ah non-compliant activities such as interest-based loans or preferential shares and embracing Shari'ah permissible alternatives. For a bank to be regarded as fully converted, it must meet the definition of an Islamic bank, which is a bank whose operations and activities comply with Shari'ah. Conversion is sometimes called transformation. However, conversion is the most common word in the context of transforming from a conventional to a full-fledged Islamic bank.¹

The conversion of conventional banks to Islamic banking has gained momentous attention globally, including in the Gulf Cooperation Council (GCC) countries, Indonesia, Pakistan, Libya, and Bangladesh. However, the critical research gap highlights the lack of a comprehensive regulatory framework for conversion as a significant challenge to the successful conversion of conventional banks to Islamic banks. This paper highlights literature review focused on exploring studies that emphasise the need for a framework to

¹ Mama El-Brassi, Nabil Bello, and Syed Musa Alhabshi, 'Conversion of Conventional Banks to Islamic Banks in Libya: Issues and Challenges', *International Journal of Accounting, Finance and Business* 3, no. 15 (2018): 25-39.

facilitate the conversion of conventional banks to Islamic banks and other literature related to the subject of conversion as well.

The legal issues on the regulation of the conversion of conventional banks to Islamic banks in Indonesia were studied by,² who affirm that according to positive law and uses normative legal research. This study found that a key legal issue in the conversion of Conventional Banks to Islamic banks was that there is no regulatory conversion framework that specifically regulates the conversion of conventional banks to Islamic banks.³ The authors conducted qualitative research by interviewing six Libyan banker managers on the 2013 Government Law in Libya requiring conversion within two years. The study revealed that banks were unable to convert despite the law because of the absence of a conversion framework. The study emphasises the need for a framework that would facilitate the conversion process.

Similarly, another study explored the impact of conversion on the operations of banks operating in GCC countries, using ratio analysis on data collected from five banks.⁴ The study showed that conversion could lead to improvements in a converted bank's financial position, including increases in assets, deposits, equity, and net income. However, the study also highlighted that profitability, efficiency, asset quality, liquidity, and risk indicators may not improve if undermined by ineffective fund management by the bank's management. The study suggests that a robust regulatory conversion framework that aids in selecting the right conversion method and having competent management is crucial for a successful conversion process. To demonstrate this,⁵ it conducted a case study on the conversion of Taqwa Islamic Banking in Pakistan. The research discussed the 2017 conversion guidelines of the State Bank of Pakistan and the conversion process implemented by the bank of Punjab, highlighting challenges and possible solutions. The study emphasised the need for a comprehensive regulatory framework on conversion that would help address the challenges faced during the conversion process.

² Muhaimin, 'Regulation Of Conversion Of Conventional Banks To Islamic Banks And Legal Issues', *Journal of Legal, Ethical and Regulatory Issues* 24, No. Special Issue 1 (2021): 1-12.

³ *Ibid.*

⁴ Ahmad Al-Harbi, 'The Effect of Conversion of Conventional Banks to Islamic Banks: Evidence from GCC Countries', *International Journal of Islamic Business* 5, no. 1 (2020): 1-35,, <https://doi.org/10.32890/ijib2020.5.1.1>.

⁵ Muhammad Mushtaq Ahmed, Javed Khan, and Fazl e Haq, 'Paradigm Shift from Conventional to Islamic Banking System: A Case of the Conversion of Taqwa Islamic Banking in Pakistan', *Global Regional Review* III, no. I (2018): 321-332, [https://doi.org/10.31703/grr.2018\(iii-i\).23](https://doi.org/10.31703/grr.2018(iii-i).23).

In other conversion-related literature,⁶ the moderating effect of openness to change and imposed change in employees' readiness for converting commercial banks to Islamic banks was discussed. The study revealed that imposing change does not affect employees' readiness to convert to Islamic banking, regardless of the openness level of employees. Abudelrahman and Mukhtar⁷ studied the challenges of converting conventional banks to Islamic banks in Libya. The research used a quantitative approach to collect data from the staff of five Libyan banks. Their findings revealed three main challenges, namely, a shortage of skilled human capital adept in Islamic banking, lack of Islamic banking awareness, and inadequate technical accounting systems. Another study⁸ examined the annual reports of two converted banks in Bangladesh from. The study found that the key incentive to convert from a conventional to Islamic is the lower reserve requirements for Islamic banks, as opposed to the higher requirements for conventional banks.

Trinugroho et al.⁹ studied the impact of the spinning-off of an Islamic "window" to a full-fledged Islamic bank on its performance and found that performance declined but, in conversion of a whole bank to Islamic, performance actually improved. Similarly, Mohammed et al.¹⁰ studied the impact of conversion on market share in Indonesian Islamic banks using two Indonesian banks, Bank of Aceh Sharia, and Bank of NTB Sharia, that completed conversion in 2016 and 2018, respectively and found that the conversion resulted in increased market share for both converted banks. The study also suggests that conversion is a viable alternative to spin-offs or

⁶ Mahmoud A.S. Abusloum, Khaliq Ahmad Mohamad, and Anwar Hasan Abdullah Othman, 'Testing the Moderating Effect of Openness to Change and Imposed Change on Employees' Readiness for Converting Commercial Banks to Islamic Banks', in Bahaeddin Alareeni, *The Importance of New Technologies and Entrepreneurship in Business Development: In the Context of Economic Diversity in Developing Countries. ICBT 2020. Lecture Notes in Networks and Systems, Vol. 194*, ed. Allam Hamdan, Islam Elgedawy (Cham: Springer, 2021), 1829–1849, https://doi.org/10.1007/978-3-030-69221-6_132.

⁷ Abdelrahman M Abudirbala and Mohamed M Mukhtar, 'Shifting from Conventional to Islamic Banking : Challenges and Barriers (a Case Study on Libya)', *Journal of Pure & Applied Sciences* 18, no. 2 (2019): 101-113, <https://doi.org/10.51984/jopas.v18i2.412>.

⁸ Yasushi Suzuki, S. M.Sohrab Uddin, and A. K.M.Ramizul Islam, 'Incentives for Conventional Banks for the Conversion into Islamic Banks: Evidence from Bangladesh', *Journal of Islamic Accounting and Business Research* 11, no. 2 (2020): 273-287, (2020), <https://doi.org/10.1108/JIABR-03-2017-0031>.

⁹ Irwan Trinugroho, Wimboh Santoso, Rakianto Irawanto, Putra Pamungkas, 'Is Spin-off Policy an Effective Way to Improve Performance of Islamic Banks? Evidence from Indonesia', *Research in International Business and Finance* 56 (2021): 101352, <https://doi.org/10.1016/j.ribaf.2020.101352>.

¹⁰ Mohammad Nur Rianto Al Arif Dwi Nuraini Ihsan Zulpawati Dede Abdul Fatah and others, 'The Impact of Conversion on Market Share in Indonesian Islamic Banks. Banks and Bank Systems', *Banks and Bank Systems* 18, no.2 (2023): 1–12, [https://doi.org/10.21511/bbs.18\(2\).2023.01](https://doi.org/10.21511/bbs.18(2).2023.01).

mergers. Salim and Rusni¹¹ studied the legal framework of conversion from a Development Financial Institution (DFIs) to an Islamic development financial institution in Malaysia under the Development Financial Institutions Act 2002 and found the need for DFIs to obtain the regulatory approval of Bank Negara Malaysia (BNM) in order to convert. Attoyibah et al.¹² conducted a juridical analysis of financing contracts post conversion of Bank NTB into Bank NTB Shariah to examine the conversion of conventional banks to Islamic banks in Indonesia, focusing on the financing contracts used in Islamic banking. The paper used a statutory approach and analysed legal materials, including primary, secondary, and tertiary sources. The authors noted that while the financing contracts used in Islamic banking are similar to those used in conventional banking, they must adhere to Islamic economic rules upon conversion.

Alobeidi¹³ performed a qualitative study of the conversion of the Libyan commercial banks in the Eastern Region using a qualitative method of personal interviews and found that conversion was driven by the need to adhere to Shari'ah, and the conversion process was affected by the lacuna of a guiding regulatory conversion framework. Rafay and Sadiq¹⁴ identified three critical challenges in the conversion of conventional to Islamic banking systems in far Eastern countries, namely, the lack of general awareness among various stakeholders, the existence of different schools of thought within Islam and insufficient/ineffective legal rules and regulations. The study recommended the development of a regulatory framework for conversion. Abdullah¹⁵ studied the issues in banking operational process conversion from conventional

¹¹ Azlin Suzana Salim and Rusni Hassan, 'The Legal Framework of Conversion from Development Financial Institution to Islamic Development Financial Institution in Malaysia Under Development Financial Institutions Act 2002' In *Innovation of Businesses, and Digitalization during Covid-19 Pandemic*, Vol. 488, ed. by B. Alareeni and A. Hamdan, (Cham: Springer, 2023), 143-154, https://doi.org/10.1007/978-3-031-08090-6_11. in Bahaeddin Alareeni, *The Importance of New Technologies and Entrepreneurship in Business Development: In the Context of Economic Diversity in Developing Countries*. ICBT 2020. *Lecture Notes in Networks and Systems*, 194, ed. Allam Hamdan, Islam Elgedawy (Cham: Springer, 2021): 1829–1849

¹² Yeni Idayana Attoyibah, Hirsanuddin, and Djumardin. 'Juridical Analysis of Financing Contracts Post Conversion of Bank NTB into Bank NTB Shariah.' *Policy, Law, Notary and Regulatory Issues (POLRI)* 1, no. 1 (2022): 25-38., <https://doi.org/10.55047/polri.v1i1.24View>.

¹³ Adel Atia Alobeidi and Amin Marei Derbak 'Conversion of Conventional Banks to Islamic Banking (Reality and Challenges) A Qualitative Study of the Libyan Commercial Banks in the Eastern Region. تحوّل المصارف التقليدية للصيرفة الإسلامية (الواقع والتحديات) دراسة نوعية على المصارف التجارية الليبية في المنطقة الشرقية' <https://doi.org/10.13140/RG.2.2.26322.48324>.

¹⁴ Abdul Rafay and Ramla Sadiq, 'Problems and Issues in Transformation from Conventional Banking to Islamic Banking: Literature Review for the Need of a Comprehensive Framework for a Smooth Change', *City University Research Journal* 5, no. 2 (2015): 315-326.

¹⁵ Abdullah, M, 'Conversion from Conventional Bank to Islamic Bank: Issues on Banking Operational Process' (M.Sc. Thesis submitted to Faculty of Islamic Economics and Finance Universiti Islam Sultan Sharif Ali Negara Brunei Darussalam) Rajab 1443/ February 2022.'

bank to Islamic bank and also found the need for a regulatory framework for conversion. Shafi'i et al.¹⁶ conducted a study of the obstacles and motivations behind conversion of conventional banks to Islamic banks and found that one such obstacle was the absence of a comprehensive regulatory conversion framework. Fauzi¹⁷ used a normative juridical approach and literature study method to analyse the impact of the Indonesian Regulation - Qanun No. 11 of 2018 on conventional banks in Aceh, Indonesia. The regulation required conventional banks to convert to Islamic banks within three years. The study similarly highlighted the need for a regulatory framework for conversion.

In summary, the reviewed studies collectively highlight the need for a comprehensive regulatory conversion framework to facilitate the successful conversion of conventional banks to Islamic banks. Other conversion-related studies have also identified challenges such as the need for more skilled human capital adept in Islamic banking, lack of Islamic banking awareness, inadequate technical accounting systems, and ineffective fund management by bank management as challenges during conversion. As such, a robust regulatory conversion framework that addresses these challenges is crucial to ensuring a successful conversion process. The reviewed literature is unanimous in the call for a regulatory framework for conversion.

The research methodology adopted in this study is qualitative, specifically a content analysis of documented literature. This approach was chosen as it best addresses the research problem within the context of the limited time frame and practical constraints of the study. Content analysis is a systematic process of analysing and assessing documents, which involves the identification and categorisation of themes and patterns in the data. It is a well-established method of qualitative research that enables researchers to generate empirical knowledge through the examination and interpretation of documented data. The proposed framework in this study is derived from a synthesis of diverse academic literature, industry standards such as the AAOIFI Shari'ah Standard Number 6 on Conversion,¹⁸ and case studies of a sample of converted banks. These sources were carefully selected and reviewed to ensure the validity

¹⁶ Shafi'i, Z., Shahimi, S & Saaid, "A Obstacles and Motivation behind Conversion of Conventional Banks to Islamic Banks: An Overview", *International Review of Management and Management Research* 5, no. 3 (2016): 1021-1038.

¹⁷ Fauzi Fahrul, "Juridical Normative Review of Conversion Conventional Banks into Islamic Banks after the Promulgation of Qanun Aceh Concerning Sharia Financial Institutions." *Berumpun: International Journal of Social, Politics, and Humanities* 3, no. 2 (2020): 113-126, <https://doi.org/10.33019/berumpun.v3i2.31>.

¹⁸ Accounting and Auditing Organization for Islamic Financial Institutions (2015) "Shari'ah Standard Number 6, Conversion of a Conventional Bank to an Islamic Bank", <https://aaoifi.com/?lang=en>, [accessed 31 January 2023].

and reliability of the proposed framework. Overall, the content analysis of documented literature provides a rigorous and systematic approach to generate deep insights into the regulation of the conversion process of conventional banks into Islamic banks. The proposed framework, based on this analysis, is structured into a comprehensive and systematic framework that can be utilised by practitioners and policymakers.

II. THE 4-QUADRANTS CONVERSION FRAMEWORK (4-QC)

The figure below illustrates the 4-QC. The 4-QC Framework has been developed as a regulatory framework for the conversion of a Conventional Bank (CB) to an Islamic Bank (IB). The model guides central banks (and similar regulatory authorities) as regulators in focusing on the critical elements that need to change in order for a CB to successfully convert its conventional banking operations into full-fledged IB operations. The 4-QC Framework has been developed by the authors after synthesis of diverse academic literature, industry standards such as the AAOIFI Shari’ah Standard Number 6 on Conversion, and case studies of some converted banks. The 4-QC Framework consists of 24 components in total, as depicted and discussed in detail below:

The 4-Quadrants Conversion Framework (4-QCF)			
Financial Quadrant		Legal Quadrant	
	Financial Statement Pillar		Regulatory Requirements Pillar
1	Assets		Licensing requirements 7
2	Liabilities		Other legislative requirements 8
3	Equity		Policy Dialogue 9
	Business Operations Pillar		Legal Entity Pillar
4	Strategy, Feasibility Study & Budget		Memorandum & Articles of Association 10
5	Branding, Marketing & Communication		Legal Agreements & Policies 11
6	Information Technology (IT)		Legal Opinions 12
Humankind Quadrant		Controls Quadrant	
	Internal Pillar		Risk Management Pillar
13	Employees		Identify, Collate & Classify 19
14	Boards & Management		Negotiate & Re-negotiate Conundrums 20
15	Shareholders		Monitor & Report 21
	External Pillar		Shari’ah Governance Pillar
16	Clients		Issue opinions 22
17	Creditors		Supervise Implementation 23
18	External Auditors		Funds Oversight 24

Figure 1. The 4-QC Framework

A. Financial Quadrant

The financial quadrant consists of six components classified under two pillars namely: the “financial statements pillar” and the “business operations pillar,” each of which has three components as shown in the above figure. The financial quadrant deals with aspects of the conversion that directly impact the financial statements and business operations of the bank. The financial statements pillar assesses three components of “assets,” “liabilities,” and “equity” to ensure that all Shari’ah non-compliant components are either converted to Islamic alternatives where available or liquidated. This ensures that the conventional bank has no Shari’ah non-compliant items when it is finally called an Islamic bank. The business operations pillar consists of three components which are “Strategy, Feasibility Study & Budget,” “branding, marketing & communication” and “information technology.”

The six components of these pillars of the financial quadrant are discussed below:

1. **Assets:** This component chiefly involves examining conventional interest-based loans and converting them to Islamic alternatives. This is usually the largest asset class of conventional banks, and this is one of the most challenging parts of the conversion. How to convert the interest-based loans to Islamic financing alternatives? Practically speaking, there are three common ways. The first is to use the Islamic loan (*Qard*) product to substitute the interest-based loans. This is advantageous because it is easy and is an incentive to the customers as the interest is waived, and they only must repay the principal. However, this may be a financial burden on the bank’s portfolio. However, in practice, the portfolio can be segregated, and different Islamic alternatives are used for different segments of the portfolio to ease the burden. Second, is *Tawwaruq* (Monetisation) in which a new *Tawwaruq* facility is given to the loan customer to offset his conventional loan. The *Tawwaruq* mirrors the same economic effect of the conventional loan, so neither the bank nor the customers are better/worse off. Third, is the use of the Sale and Leaseback Islamic product to replace the conventional loan. Here the customer sells an asset e.g., his house to the bank and the bank pays the customer cash, which is used to offset the conventional loan. Thereafter, the customer (as lessee) leases the house from the bank (as the lessor) to mirror the economic effect of the prior conventional loan. However, the challenge practically is that a customer may not have an asset to sell to the bank or may not even be willing to sell his asset to the bank. In practice, these are the three most common methods of converting conventional loans.

The assets component also involves the conversion or liquidation of Shari'ah non-compliant investments. One such common investment is the investment in interest-based treasury bills or bonds. These need to be disposed of and the cash proceeds channelled to Islamic alternatives such as Sukuk where available. Another common investment is investment in Shares of other companies. Those companies need to be screened to ensure they are Shari'ah compliant in line AAOIFI's recommended Shari'ah Screening Standard. For any company found to be non-compliant, the shares must be sold, and cash proceeds channelled to charity or other permissible investments after purification depending on reasons of non-compliance.

All other non-compliant assets that are neither loans nor investments which are non-permissible also need to be converted or disposed of. These could be conventional bank guarantees which based on AAOIFI are not Shari'ah compliant if fees are being charged. As such these need to be converted to Islamic guarantees that do not charge fees for profiting but only the actual cost of providing the guarantees.¹⁹ Other assets, such as staff loan schemes that have interest or other assets that may not be compliant depending on their nature are also converted to Islamic alternatives.

2. Liabilities: All Shari'ah non-compliant liabilities of a conventional bank need to be converted to Islamic alternatives or liquidated. The major liability is customer deposits. All interest-based bank deposits, which may be remunerated (Savings or Term Deposit Accounts) or unremunerated (Current or Demand Deposit Accounts) are usually converted using the Islamic alternatives of *Mudarabah* or *Qard* respectively.²⁰ Other Liabilities, such as short-term or long-term interest-based debt owed by the converting bank must also be addressed. All these need to be converted to Islamic alternatives or settled in advance. Other liabilities that may not be compliant depending on their nature are also converted to Islamic alternatives as well.
3. Equity: This involves assessing the shares of the bank, particularly if there are preferential shares because of the non-permissibility under Shari'ah. The preferential shares would need to be converted into ordinary shares or such shares bought back.²¹

¹⁹ Shofian Ahmad and Marina Abu Bakar, "The Status of Preference Shares from Islamic Perspective", *International Journal of Academic Research in Business and Social Sciences* 7, no. 10 (2017): 617-627, <https://doi.org/10.6007/ijarbs/v7-i10/3416>.

²⁰ Muhammad Mushtaq Ahmed, Javed Khan, and Fazl e Haq, 'Paradigm Shift from Conventional to Islamic Banking System: A Case of the Conversion of Taqwa Islamic Banking in Pakistan', *Global Regional Review* III, no. I (2018): 321-332, [https://doi.org/10.31703/grr.2018\(iii-i\).23](https://doi.org/10.31703/grr.2018(iii-i).23).

²¹ Ahmad and Bakar, "The Status of Preference".

4. **Strategy, Feasibility Study, and Budget:** Converting a conventional bank to an Islamic bank is a complex process that involves a significant number of activities, requiring a robust strategy development, budgeting, and feasibility study to guide the process. The success of the conversion demands the availability of adequate financial resources, the alignment of the strategy with the bank's new Islamic mission and vision, and the feasibility of the proposed conversion plan.

The strategy outlines a newly converted Islamic bank's objectives and target product offerings. The strategy should also include an assessment of both the conventional and converted Islamic bank's strengths and weaknesses, as well as an analysis of the competitive landscape. Once the strategy has been developed, a feasibility study should be conducted to assess the viability of the proposed conversion plan. The feasibility study should consider various operational and financial implications of the conversion.

Based on the findings of the feasibility study, an adequate budget would need to be dedicated to funding the conversion plan. Importantly, it costs money to have a successful conversion. As such, an adequate budget needs to be dedicated to fund the conversion plan based on the strategy and feasibility reports. The key costs include the procurement of an adequate information technology core Islamic banking software and the hiring of Shari'ah and Islamic banking adept personnel or consultants. It is important to note that the conversion process may be costly and time-consuming, and therefore requires careful planning and management. The budget should be allocated strategically to ensure that the bank has sufficient resources to support the conversion process, without compromising the sustainability of its existing Shari'ah compliant operations.

Overall, the strategy, budget, and feasibility study are critical components of the conversion process from a conventional bank to an Islamic bank. Proper planning and management of these components can help ensure the success of the conversion.

5. **Branding, marketing, and communication:** Branding, marketing, and communication are critical components of the conversion process from a conventional bank to an Islamic bank. These components are essential in ensuring that the converted bank is effectively branded, marketed, and communicated at various stages to diverse stakeholders, including customers, creditors, and the general public.

The first step in the branding process is to develop a new name and visual identity for the converted bank that reflects its Islamic values

and mission. The name and visual identity should be distinctive and easily recognisable to customers, employees, and other stakeholders to effectively communicate the bank's new Islamic brand positioning.²² Once a new name and visual identity have been developed, the bank should create a comprehensive marketing and advertising plan to promote the new brand to its target market. The marketing plan should include a mix of traditional and digital marketing channels, such as print ads, social media, email marketing, and content marketing. It is important to ensure that all marketing and advertising are moderated by the tenants of Shari'ah in terms of faithful representation and modesty.²³

Effective communication of the conversion plan and implementation to diverse stakeholders is also critical in ensuring a successful conversion. This involves developing a clear communication plan that outlines the key messages, channels, and stakeholders to be targeted, as well as the timing and frequency of communication throughout the process of conversion to build the required awareness, proactive messages to calm nerves from any misinformation that may arise and engagement. In addition to external communication, internal communication is also essential in ensuring that employees are fully informed and engaged in the conversion process. This may include regular updates on the progress of the conversion to help employees adapt to the new brand identity.

6. Information technology: This is one of the most critical components of conversion today because banking today is largely IT driven. At the heart of IT is the core banking software. A bank must undergo the process of selecting an experienced vendor to deploy a new core Islamic banking system that can handle Islamic products and services. The IT system drives the entire Islamic accounting system, treasury operations, and profit calculations, all of which are unique to Islamic banking operations.²⁴

Importantly, under this component is data migration: A bank needs to migrate data from its existing conventional IT systems to the new

²² Mohsin Altaf and others, 'The Buy-in Benchmark in Islamic Banking: Combined Effect of Brand Role Clarity and Employee Brand Commitment towards Employee Brand Equity', *Journal of Islamic Marketing* 13, no. 10 (2022): 2028-2046, <https://doi.org/10.1108/JIMA-08-2019-0170>.

²³ Ameenullah Aman, "Islamic Marketing Ethics for Islamic Financial Institutions", *International Journal of Ethics and Systems* 36, no.1 (2020): 1-11, <https://doi.org/10.1108/IJOES-12-2018-0182>.

²⁴ Abdelrahman M Abudirbala and Mohamed M Mukhtar, "Shifting from Conventional to Islamic Banking : Challenges and Barriers (a Case Study on Libya)", *Journal of Pure & Applied Sciences* 18, no. 2 (2019): 101-113, <https://doi.org/10.51984/jopas.v18i2.412op>.

Shari'ah-compliant IT system. This involves ensuring the accuracy and integrity of data during the migration process and making sure that data is stored securely and compliant with Shari'ah principles. The bank needs to establish processes and procedures for data migration, including identifying the data to be migrated, mapping the data to the new system, and verifying the accuracy of the migrated data. The bank may also need to implement data cleansing and data quality procedures to ensure that the migrated data is accurate and complete, especially that data related to customer records. IT system deployment is a lengthy and costly process that can strain the conversion process and must be adequately managed correctly, from choosing the right vendor up to the post-go-live support.

B. Legal Quadrant

The legal quadrant deals with legal and regulatory matters involved in the conversion process. This ensures that the conventional bank complies both with the Laws of the Country and Shari'ah rules and principles as an Islamic bank. The legal quadrant consists of six components classified under two pillars namely: "Regulatory Requirements pillar" and "Legal Entity pillar" and each pillar has three components as shown in figure 1. The Regulatory Requirements pillar assesses three components "Licensing requirements," "Other legislative requirements" and "Policy Dialogue" to ensure that the newly converted Islamic bank abides by extant regulations. The Legal Entity pillar consists of three components which are "Memorandum & Articles of Association," "Legal Agreements & Policies" and "Legal Opinions." The six components of the legal quadrant are discussed below:

1. Licensing requirements: A bank must ensure that it complies with all the legal and regulatory requirements to obtain an Islamic banking license from the central bank of the country of operation. In practice, there are certain countries which have no such Islamic banking licensing requirements; however, the bank must still engage with the regulator to ensure that there is no objection to its intended conversion. Regulatory capital adequacy requirements also need to be adhered to in line with the specificities of Islamic banking as contained in industry standards such as the capital adequacy standard of Islamic financial services board (IFSB).
2. Other legislative requirements: In addition to licensing requirements, there may be other legal and regulatory requirements that the bank needs to comply with in order to operate as an Islamic bank. One of such is the regulations of the country's deposit insurance corporation

that regulates and mandates banks to insure their deposits. This is usually based on conventional non-permissible insurance as such the converting bank must engage with this body on structuring and using Shari'ah-compliant insurance alternatives. Other legislative requirements may also include things like taxation laws and securities regulations especially if it is a listed bank. The bank needs to ensure that it is fully compliant with all relevant laws and regulations to the extent that these do not contravene Shari'ah requirements.

3. **Policy Dialogue:** The bank needs to engage in policy dialogue with regulatory authorities to boost their awareness about Shari'ah requirements of Islamic banking in relation to extant regulations. This also necessitates discussing any necessary changes to regulations, policies or laws that may be at variance with Shari'ah requirements or make Islamic banks worse off than their conventional counterparts, such as on the common subject of double taxation. This may involve participating in industry forums, submitting policy proposals, and engaging in discussions with regulators for jurisdictions that are new to Islamic banking. However, even for Islamic banking adept jurisdictions the policy dialogue with regulators is also critical to ensure prompt licensing. Regulators should continuously be kept abreast of the bank's conversion plans and progress to ensure a smooth transition.
4. **Memorandum and Articles of Association:** The bank's memorandum and articles of association are legal documents that define the bank's purpose, structure, and rules of operation. These documents need to be amended as part of the conversion process to ensure that they comply with Shari'ah rules and principles and explicitly recognise the bank's new identity as an Islamic bank.
5. **Legal Agreements and Policies Review:** The bank needs to review its existing legal agreements and policies to ensure that they are compliant with Shari'ah rules and principles. This involves drafting new Islamic financing agreements to replace conventional loans and deposits. Investment policies and other legal documents also needs to be amended to ensure that they do not contain any provisions that conflict with Shari'ah rules and principles.
6. **Legal Opinion:** The legal department of the bank also needs to issue legal opinion on various matters during the conversion such as legal implications of adopting different alternatives to conventional contracts or managing any new contracts with IT vendors of the Islamic core banking system and any need to engage external legal and advisory firms to provide support in the conversion process.

C. Humankind Quadrant

The humankind quadrant deals with people matters involved in the conversion process. This ensures that the conventional bank gains the buy-in of the key people because by nature people resist change. This quadrant is about making them embrace the change to ensure a successful conversion. It is about promoting awareness of the benefits of the conversion, training to improve Islamic banking competencies and promoting a culture of compliance with Shari'ah. The humankind quadrant consists of six components classified under two pillars namely: "Internal pillar" and "External pillar" and each pillar has three components. The Internal pillar assesses three components which are: "Employees," "Boards and Management" and "Shareholders." The External Entity pillar consists of three components which are "Clients," "Creditors," and "External Auditors". The six components of the humankind quadrant are discussed below:

1. **Employees:** This involves training and up skilling of existing staff to improve their Islamic banking awareness and competence. It also requires the hiring of new Staff adept in Islamic banking and Shari'ah such as Internal Shari'ah auditors. The conversion process can be a challenging time for employees, as it may involve significant changes to the way they work and the culture of the organisation. The bank needs to ensure that employees are engaged and informed throughout the process and that they have the necessary training and support to adapt to the new way of operating as an Islamic bank.
2. **Boards and Management:** This component involves reviewing the membership of the board of directors and considering the addition of new member(s) with Islamic banking expertise to aid the bank in the new line of business of Islamic banking. It also involves the establishment of a Shari'ah Board for the new Islamic bank. The management team would also have to be reviewed to consider hiring Islamic banking experts at the top management level as well. A new organogram for the new Islamic bank would need to be developed and implemented as well. The boards (board of directors and Shari'ah board) and the management team of the bank play a crucial role in the success of the conversion process. They need to be fully committed to the change and have the necessary skills and knowledge to manage the new Islamic bank. The bank also needs to provide training and support to the board of directors and management team to ensure that they are fully prepared for the transition and skill up to manage this new Islamic bank.

3. Shareholders: The bank's shareholders may have concerns about the conversion process, particularly if they are not familiar with Islamic banking. The bank needs to communicate effectively with its shareholders to address any concerns and gain their support for the conversion process.
4. Clients: The bank's clients are key stakeholders in the conversion process. The bank needs to communicate effectively with its clients to inform them about the changes and how it affects their relationship with the bank. The bank may need to provide town hall awareness campaigns or training to clients to ensure that they are fully informed about Islamic banking and address any concerns they may have. This is also important considering that interest-based contracts with borrowing clients or depositing clients would need to be converted to Islamic alternatives.
5. Creditors: A bank's creditors may have concerns about the conversion process, particularly if it affects the bank's ability to meet its financial obligations. The bank needs to communicate effectively with its creditors to address any concerns and ensure that the conversion process does not have a negative impact on its financial stability. This is also important considering that interest-based contracts with creditors would need to be converted to Islamic alternatives.
6. External Auditors: A bank would need to assess the competence of its external auditors in auditing Islamic banking operations and may need to change its external auditors if they lack expertise in the field. If the external auditors are maintained, it is essential to engage with them effectively throughout the conversion process to ensure that they understand the changes to the bank's operations and that they are able to audit the bank effectively as an Islamic bank and prepare its financial statements in line with AAOIFI Islamic accounting standards or IFRS or both, depending on the country's regulatory requirements.

D. Controls Quadrant

The controls quadrant is that which involves handling mostly the uncertainties or challenges that often occur during the conversion to ensure prompt resolution. It controls against derailing from the conversion plan. The controls quadrant encompasses two pillars namely: "risk management pillar" and "Shari'ah governance pillar". It deals with conundrums or risks, basically the problem cases which are the cases where counterparties, either debtors or creditors refuse to convert. It also deals with unique matters that require Shari'ah opinion (fatwa) on how to handle the case. The six components of the control's quadrant are discussed below:

1. Identify, Collate, and Classify: The first component of the risk management pillar involves identifying, collating, and classifying the risks or conundrums that have crystallised or may crystallise in the conversion process. This includes identifying potential risks and uncertainties that may arise during the conversion process and classifying them based on their severity and impact on the conversion process. It also involves classifying common problem cases based on common characteristics such as dealing with bad debts.
2. Negotiate and Re-negotiate Conundrums: The second component involves negotiating and re-negotiating conundrums that may arise during the conversion process. This includes cases where debtors or creditors refuse to convert to Islamic alternatives. The bank may need to incentivise them with discounts for debtors to convert or pay early. Creditors may also be incentivised with new lines of Islamic banking business or early payments as well. It involves continuous negotiations and resolving any disputes or challenges that may arise during the conversion process between the bank and its counterparties.
3. Monitor and Report: The third component involves monitoring and reporting on the risks and uncertainties that may arise during the conversion process. This includes tracking the progress of the conversion process against strategy and budget targets, identifying any potential risks or challenges, and reporting on them with bespoke recommendations to Board and top management. It may also involve reporting to the regulatory authorities who may also intervene early in resolving any significant debtor or creditor counterparties that may be unwilling to convert and may impact the financial health of the bank.
4. Issue Opinions: This component of the Shari'ah governance pillar involves issuing opinions or fatwas on matters that require Shari'ah guidance. This includes seeking guidance from the Shari'ah Board or Internal Shari'ah officers on issues related to the conversion process, such as the permissible courses of action in handling counterparties that do not wish to convert.²⁵
5. Supervise Implementation: The fifth component involves supervising the implementation to ensure that the fatwa issued is complied with during the conversion process. This also involves Shari'ah officers participating actively in the process to prevent occurrence of Shari'ah non-compliance events from mistakes or otherwise.

²⁵ Suleiman Dalhatu Sani and Mustapha Abubakar, "A Proposed Framework for Implementing Risk-Based Shari'ah Audit", *Journal of Financial Reporting and Accounting* 19, no. 3 (2021): 349–68, <https://doi.org/https://doi.org/10.1108/JFRA-02-2020-0041>.

6. Funds Oversight: The deals with the Shari'ah Board overseeing the funds that have arisen during the conversion process from non-compliant operations are adequately disposed of for purification via charity. It also involves oversight to ensure prompt payment of any Zakat fund obligations of the bank.

III. CONCLUSION

In conclusion, the objective of this paper was to address the lack of a regulatory framework for conversion from conventional to Islamic banks as evidenced by the reviewed literature. In addressing the paucity of research, the paper proposes the "4Quadrants Conversion (4-QC) Framework as a regulatory framework for Central Banks to ensure the successful conversion of conventional to Islamic banks in a timely fashion. The question of how Central Banks can regulate the successful conversion of a conventional bank to an Islamic bank is an observed gap in literature because there is a dearth of literature that proposes a regulatory framework for that very purpose. This 4-QC Framework can also serve as a guide to converting banks to self-assess themselves and also ensure timely and less cumbersome conversion by knowing and planning to address the critical components involved in the conversion process. The 4-QC Framework regulates the conversion process based on twenty-four components classified into four quadrants. Each of the four quadrants consists of two pillars and each pillar contains three components, as such there are six components in each quadrant which add up to make the twenty-four components of the 4-QC. Regulators can adequately regulate the conversion by focusing on these twenty-four components. Overall, the findings of this study highlight the usefulness of the 4-Quadrants Conversion framework as a tool to guide both the regulation and actual conversion process of conventional banks into Islamic banks. The framework provides a structured approach to identify key areas of focus and to prioritise actions that can lead to a successful conversion. However, it is important to note that the 4-QC Framework is a suggested guide and can be adapted accordingly to accommodate diverse jurisdictional and operational specificities to achieve a successful conversion.

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