

Islamic banking held back by lack of scholars

By Roula Khalaf in Dubai

The dearth of religious scholars with sufficient expertise to sign off on "Islamic" products and the lack of standard opinions are emerging as key bottlenecks to the expansion of the Islamic banking industry from a niche sector to the mainstream of global finance.

The range of Islamic scholars who have expert knowledge of finance ranges from 50 to 260, depending on estimates.

But most experts agree that a few dozen scholars essentially control the industry, sitting on many of the so-called Shariah boards, the bodies that banks and other institutions either employ internally or hire to judge whether products are interest-free and therefore compliant with Islamic law.

"A number of institutions are being set up and transactions are raising multi-billions of dollars but they are all chasing Shariah fatwas (religious edicts)," says Humayon Dar, chief executive officer of London-based BMB Islamic, an advisory firm.

A group of about 12 scholars are favoured by international banks that have rushed into the industry, and these religious experts are raking in millions of dollars in yearly income, say industry analysts.

"To sell products into the market, to give them credi-

bility, you go to the tried and true guys whom everybody knows," says Sheikh Yusuf Talal DeLorenzo, chief Shariah officer at DIFC-based Shariah Capital, and a leading expert on Islamic finance.

"There are 50 top Shariah scholars and hundreds of billions of dollars are decided by them," says another industry expert. "It's like having a whole industry with one regulator that has a staff of 50."

The Islamic finance industry suffers from another basic dilemma – a product or practice acceptable to one scholar can be considered un-Islamic by another.

As the industry expands – the market is now at \$750bn (£365bn, €511bn) – the need for standardisation of fatwas is intensifying. Questions of conflict of interest have also been raised, since scholars hired by banks to accredit new products give the institutions an edge vis-à-vis its competitors.

ISLAMIC BANKING

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