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The Enforcers
Twenty powerful scholars preside over the multibillion-dollar Islamic finance industry
 By Vidya Ram

Friday, April 25, 2008

Islamic finance is booming. There are at least \$500 billion worth of Sharia-compliant assets globally, up from just \$150 billion a decade ago. But just 20 men (and, yes, they are all men) are the gatekeepers to this lucrative realm. These are the top-tier Islamic scholars whose stamp of approval is required before the world's banks can market a new financial product as being consistent with Islamic law.

Why so few? First of all, it can take 15 years of studying Islamic law--and years more of financial training--before one can make a ruling with any authority. There are probably no more than 260 scholars, worldwide, that have the necessary knowledge. And only a handful of these have the combination of business savvy and linguistic skills needed to work with top-tier financial institutions like Citigroup (nyse: C - news - people), Barclays (nyse: BCS - news - people) or HSBC (nyse: HBC - news - people).

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"It's a limited specialization with limited practitioners, and even among the people with the specialization only a handful are suitable for working with international financial institutions," said Yusuf Talal DeLorenzo, a U.S.-based scholar who is one of the chosen few. "A passing knowledge of English is generally not enough when a scholar has to wade through hundreds of pages of a prospectus or legal documents."

Additionally, major banks prefer to--and in some cases are required to--turn to people who are already well established.

"Western institutions tend to go with big names who have been working with them and have built up a reputation over the past 15 or 20 years partly because their risk management systems require them to do so," explained Humayon Dar, chief executive of BMB Islamic, a London-based consultancy.

As a result, the top scholars can sit on anywhere from 10 to 40 "Sharia compliance" boards each. The limited supply of experts is reflected in their outsized compensation. Estimates of compensation for each board seat range from between \$10,000 to \$1 million annually, meaning top-tier scholars are likely earning eight-figure incomes.

"They are certainly pricey by reputation but they never talk about remuneration,"

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said Joseph Connolly, professor of Islamic finance at the École Nationale des Ponts et Chaussées in Paris.

The scarcity of scholars poses major ethical challenges, argues Connolly. While it is not entirely unusual in the U.S. for prominent corporate executives to sit on multiple boards, they are not spread nearly as thin as their Islamic scholar colleagues. By way of comparison, there are more than 50,000 directors of public companies in the U.S. Just over 200, or less than one-half of 1%, sit on six or more boards.

"If you are on the board of the bank that is bidding on a multibillion-dollar banking deal, which is being financed according to Sharia law, and you sit on the board of a competitor that is also bidding, there is a real concern about insider information," said Connolly.

So far the dearth of scholars doesn't seem to have held back growth of the industry. "The banks are using these scholars very effectively," said Connolly.

Specialized consultancies such as BMB Islamic and Sharia Capital have sprung up, which do a large part of the groundwork on the products and help banks liaise with the scholars.

But with Islamic finance projected to grow to up to \$1 trillion within the next few years, according to McKinsey & Company, an American consultancy, banks are very aware of the importance of bringing in new scholars. "Banks would like to see the number of scholars double within the next year or two," said Connolly.

Rather than training new students in Islamic law, banks are pushing for finance programs targeted at existing Sharia scholars. Connolly will be launching a course in capital markets and treasury products, at the American University in Cairo, specifically targeted at Islamic scholars. The one-week intensive course will be held in Europe, most likely in Switzerland, this summer, with sponsoring banks putting up their own candidates. Connolly is expecting around 25 scholars to take part.

"We will explain complex financial instruments to them and we can leave it up to them to decide whether these are sinful or not," he said.

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