

As Islamic banks boom, scholars are hard to find

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By Mohammed Abbas

MANAMA, Jan 22 (Reuters) - The green-fronted Kuwait Finance House Auto mall on Bahrain's main showroom highway is a bank that sells cars.

Here, the motorist can pick the model that takes his fancy and, at the same time, fix up the Islamic financing and Islamic insurance to buy it -- a sign of the rate at which Islamic banking is growing.

Opened in June last year to meet rising demand in the oil-rich Gulf archipelago, the bank offers murabaha-based purchase plans, a method of Islamic financing that lets customers buy automobiles without taking an interest-based loan.

As traditional Western bankers count the cost of a reckless lending spree, Islamic banking -- which complies with Islam's law banning the receipt of interest -- is surging. Estimated by some experts to be growing by about 15 percent a year, the sector has been forecast by management consultants McKinsey & Co to reach \$1 trillion in assets by 2010.

Even as new bank branches pop up almost daily in Bahrain -- a hub for banking in the Gulf and home to one of the sector's most influential standards bodies -- some bankers are worried.

Their concern is that the training of scholars essential for the Islamic banks' supervision may not be able to keep pace.

A small group of usually robed and bearded Islamic scholars -- experts in Islamic law, known as sharia -- holds sway over the booming bank sector, and some in the industry wonder whether their expertise is being stretched too thin.

"There is lots of growing interest and we have many more sophisticated sharia scholars who are graduating now, (but) it's not growing fast enough to meet demand," Sheikh Nizam Yaquby, one of the world's most respected sharia scholars, told Reuters. "This industry is growing phenomenally."

Some sharia experts say it may take more than a decade to train more scholars and even the optimistic ones do not expect a new generation of scholars for at least five years.

"The industry can't wait that long," said David Pace, chief finance officer at Bahrain's Unicorn Investment Bank. "Two to three years is about enough ... The lack of scholars does not mean the industry is paralysed but it slows down development."

Established in 2004, his bank is one of several Islamic lenders set up to tap rising demand from the world's 1.3 billion Muslims for financial services that comply with their beliefs. Instead of interest, Islamic banks operate on the principle of sharing risk and reward among all parties in a business venture. Murabaha, for instance -- the instrument on offer at the Auto mall -- involves the bank buying a car and selling it to the customer for a

stated profit, with payment deferred. Investment in sectors such as alcohol, pornography and gambling is prohibited.

Scholars are essential for the supervision of the industry, but a handful currently dominate the Islamic review boards at the world's top banks and financial institutions. There is a lack of consensus on what qualifications and experience are needed for the role, and some experts ask whether the shortage could lead to conflicts of interest and inadequate supervision.

"These bankers think the wombs of mothers are going to deliver graduated sharia scholars. I tell them you have to take steps," Yaquby said.

Yaquby, who has been involved in Islamic teaching since 1976, estimated there were roughly 50 to 60 scholars in the world qualified to advise banks operating internationally on Islamic law. Ten times as many are required for the Middle East alone, he said.

SCHOLARSHIP NOT EASY

Like most scholars, Yaquby divides his time among several banks. One of them, HSBC, lists advisory roles for him at Abu Dhabi Islamic Bank, BNP Paribas, Dow Jones, Lloyds TSB, Citi Bank, Standard Chartered and others.

He is also a board member of the Bahrain-based Accounting and Auditing Organisation for Islamic Financial Institutions, one of the world's top Islamic finance standards bodies. In Britain -- the most active European market in the Islamic banking scene -- the Financial Services Authority watchdog in November highlighted possible "significant" conflicts of interest in that concentration of expertise.

"The shortage of appropriately qualified scholars ... raises concerns over the ability of sharia supervisory boards to provide enough rigorous challenge and oversight," the FSA said in a report on the industry.

Last month the London-based Chartered Institute of Management Accountants said the rapid growth of Islamic banking had fuelled a need for both Muslim and non-Muslim financial experts, and it hoped to set up both a diploma and perhaps a master's degree in conjunction with a university.

However, being considered a scholar skilled enough to advise on deals sometimes worth billions of dollars is not easy.

Scholars must be expert in Islamic law and Islamic banking, but also have a thorough knowledge of conventional laws and banking systems, which requires a high standard of English.

Even then, a scholar will only be taken seriously after years of experience, according to many of the delegates at a Bahrain conference on Islamic banking in December.

"You can learn the technical aspects relatively quickly," said Mansoor Ahmed, a sharia student. "But it's not as easy as that. It does take 15 or 20 years. It requires a lot of experience ... mere knowledge will mislead."

Yasser Dahlawi of consulting firm the Shariyah Review Bureau, which advises companies on sharia compliance, said scholars need at least a doctorate and a decade's experience.

YOU SAY YOU'RE A SCHOLAR?

Complicating matters is the lack of a globally accepted qualification as a sharia scholar, just as there are no globally accepted standards for sharia rules, which are to some extent open to interpretation.

Illustrating this, the head of sharia structuring at one of the world's largest banks, who spoke on condition of anonymity, disagreed with Dahlawi on what it takes to be a scholar.

He said it was better for students to learn through apprenticeships with scholars who can trace their learning to Islam's roots.

"I don't care whether they have a PhD or not," he said. "The way traditional Islamic teaching has been handed down is not through certificates or degrees. You need to trace your teaching back to the Prophet. It's a lineage of understanding." (Editing by Sara Ledwith)