

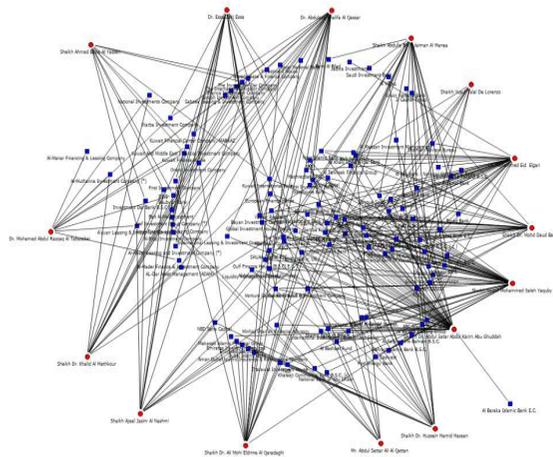
The Small World of Islamic Finance

Shariah Scholars and Governance - A Network Analytic Perspective

05 October 2010, Version 5.0

Funds@Work®

THE INVESTMENT INDUSTRY'S STRATEGY CONSULTANT



This 5th executive summary, the most comprehensive ever, focuses on 300+ Shariah Scholars, mainly from the Gulf Cooperation Council, including their board memberships with peers in Islamic Finance Institutions but also among Standard Setters, Government related entities and consulting firms (amounting to 1306 board positions, in 370+ institutions, in 30 countries, cut off date is 31 July 2010). Backed up by solid data, researched over 2 years, we highlight relevant findings that also address standard setters' recommendations on Shariah Governance, especially when it comes to the function of the Shariah Board and the selection and composition of its members. As in previous reports we introduce a variety of new perspectives in line with our motto **"a picture is worth a thousand words"**.



www.shariahscholars.com developed with Zawya will bring transparency and connectivity to the Shariah Scholar landscape. Users will be able to search for all Scholars covering every position globally. It will help them to understand their affiliations as well as their expertise and request a connection. They will be enabled to find all relevant institutions in the global Islamic Finance industry and review their Scholar board composition, including their involvement in the Sukuk industry. Hereby they can identify Sukuk that have been approved by the Scholars they specify, and further assess their caveats and acceptances. Academics, practitioners, and all other market participants will be empowered to do their own research based on the provision of customized raw data and will stay up to date through continuous expansion of the database and regular reports on movements and updates. Shariah Governance will greatly benefit from this new level of transparency.

www.funds-at-work.com

Where do we see Islamic Finance?

- We are a research based strategy consultant focusing on the investment industry. Since 2001 we have completed more than 160 projects in 14 countries. In this context we have developed new solutions and organizations and have been involved in numerous market entry as well as expansion projects, and also assisted in take over activities within our industry
- In 2003 we added a particular focus on socially responsible investments, SRI, and have worked for numerous clients, being convinced that SRI would increasingly take away market share from the traditional investment industry. In 2006, we won a State Street Award for financial journalism emphasising, in our publication, the great importance of including Corporate Governance and socially responsible investment criteria in institutional investors' portfolio decisions
- We were convinced that SRI, including ethical investments, would increase their market share considerably compared to the traditional investment industry. SRI brought "values" back to investments and included non-financial criteria such as social or ecological ones and put them on the agenda by using positive and negative lists, best-in class as well as best-of class criteria and even engaging with selected companies
- The financial crisis showed us that we also needed to consider financial criteria more and we see Islamic Finance as a complementary discipline to the traditional investment/finance industry and also to SRI
- Islamic Finance addresses among others financial criteria such leverage (allowing no or minor levels of debt), is close to the real economy (as transactions need to be underfitted by real assets) and emphasises profit as well as loss sharing. It showed us that in the discussion about bringing back values to investments, the conventional industry, SRI and Islamic Finance can greatly complement and learn from each other. Our focus on all three disciplines as a focused strategy consultant is certainly unique
- Islamic Finance for us is not just religious or ethical investments, it goes undoubtedly beyond that. SRI has a lot to offer to Islamic Finance and vice versa, with both likely to gain larger market shares going forward



Our Shariah Scholar Research

- When we introduced our network analysis in 2008, looking at Shariah Scholars and their board memberships, rigorously researched, we fuelled a tremendous move towards greater transparency and governance in the industry, becoming the most cited source globally when it comes to Shariah Scholars and their boards
- In the meantime, our research, driven by our board member Murat Ünal's academic involvement at IE Business School in Spain (www.ie.edu – formerly Instituto de Empresa) and also at its Centre for Islamic Economics and Finance, has moved further to incorporate new and unique insights
- Our latest report offers various new views which we have not touched upon in earlier versions, giving again unparalleled insights for the benefit of all market participants. One of our contributions will be to Shariah Governance, focusing especially on the Shariah Board which according to AAOIFI and IFSB plays a crucial role in the governance of an Islamic Finance Institution. The IFSB highlighted the great importance of the Shariah boards by pointing out that “concerns over the roles and functions of the Shariah boards, which constitute part of the broader governance system, have been a recurring theme” *
- At Funds@Work we are currently working on a policy paper to be presented soon, which addresses Corporate Governance in Islamic Finance Institutions. It will profit greatly from our existing insights, and our involvement in Corporate Governance as well as Socially Responsible Investment related topics for the last 8 years
- By making our data available through our partnership with Zawya, market participants have access to over 300 Scholars, of which more than 260 hold current positions in boards common to the top 20 Scholars in 271 Islamic Finance Institutions (out of 370+ in our universe). This will help in broadening the universe of Scholars to be potentially considered and help existing as well as newly emerging Islamic Finance Institutions as well as conventional ones with Islamic windows to identify the optimal mix of Scholars drawing on the established top Scholars but also others. Hereby market participants profit from Zawya's unique insights and our work which are merged for the sake of the industry as a whole

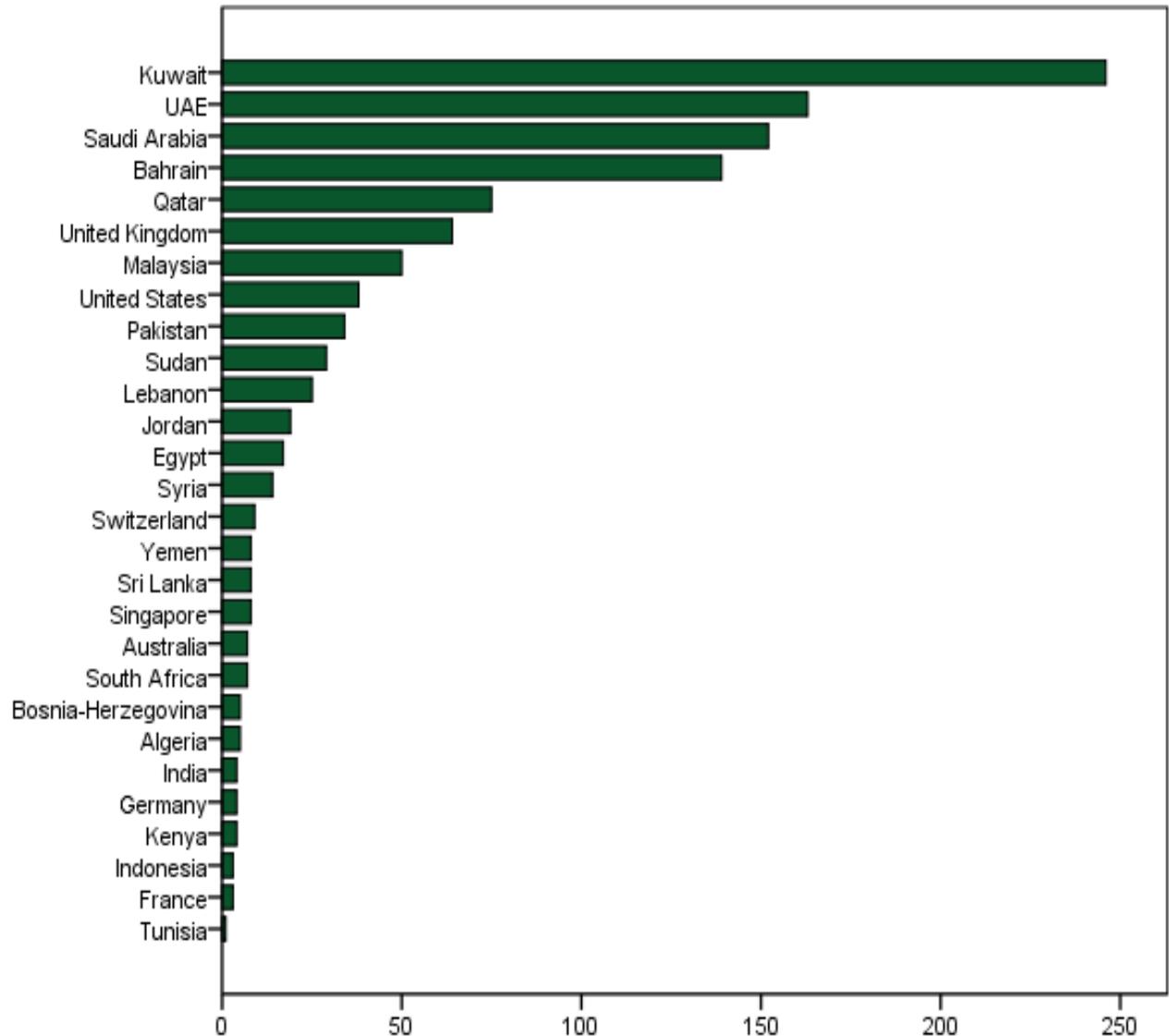
*IFSB-10 GUIDING PRINCIPLES ON SHARI'AH GOVERNANCE SYSTEMS FOR INSTITUTIONS OFFERING ISLAMIC FINANCIAL SERVICES, December 2009

Our Shariah Scholar Research

This graph shows the number of board positions in Islamic Finance Institutions and conventional ones with Islamic Windows whose Shariah boards we cover

Overall these are **1141 board positions available in 28 countries**. The average board size is 3,33 Scholars per board, across the entire universe

We continuously track changes in the industry on a day to day basis (such as Islamic Finance Institutions starting or ceasing their business, mergers among entities or changes on the Shariah Supervisory Board) and adapt our universe accordingly. In our joint solution with Zawya, www.shariahscholars.com, a delta report will focus on the most relevant changes in regular intervals and the database will be updated and expanded continuously



Our Shariah Scholar Research

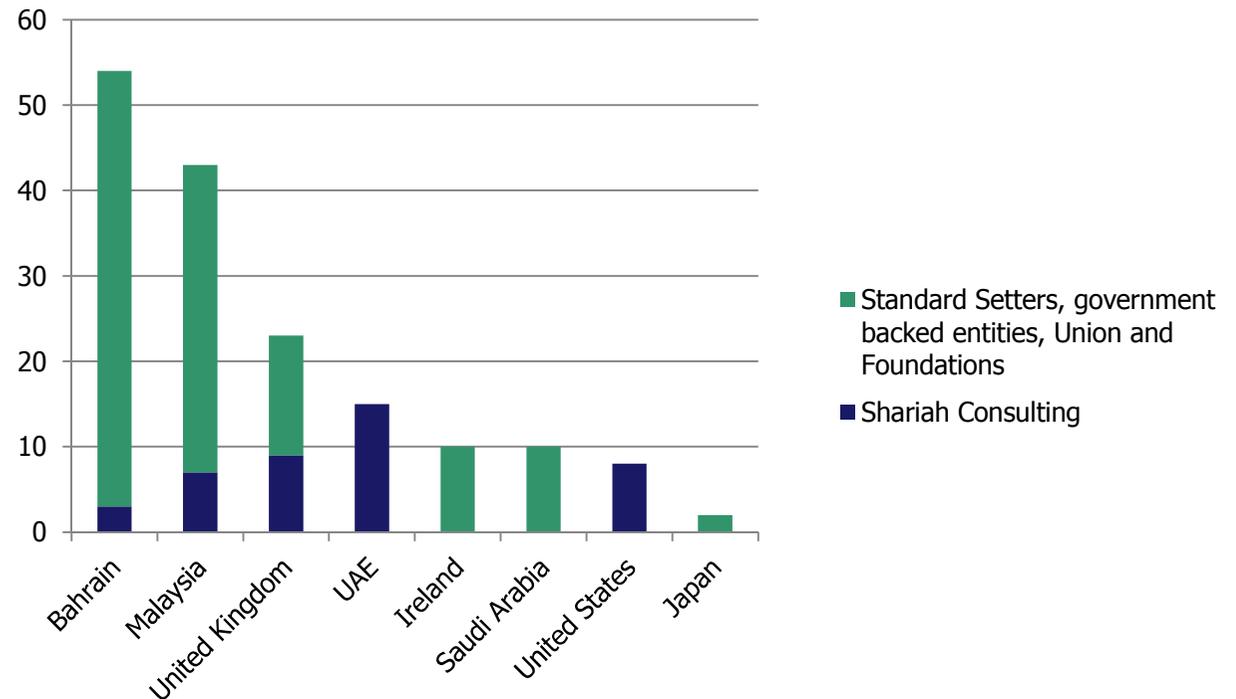
This graph shows the number of Shariah Scholar involvements in standard setting bodies, unions and foundations, governmental entities and among others Shariah consulting firms available in the specific countries. These come in addition to the previously mentioned 1141 board positions in Islamic Finance institutions which are not part of this overview

We count **165 memberships in those entities across 8 countries** with Bahrain and Malaysia leading the way

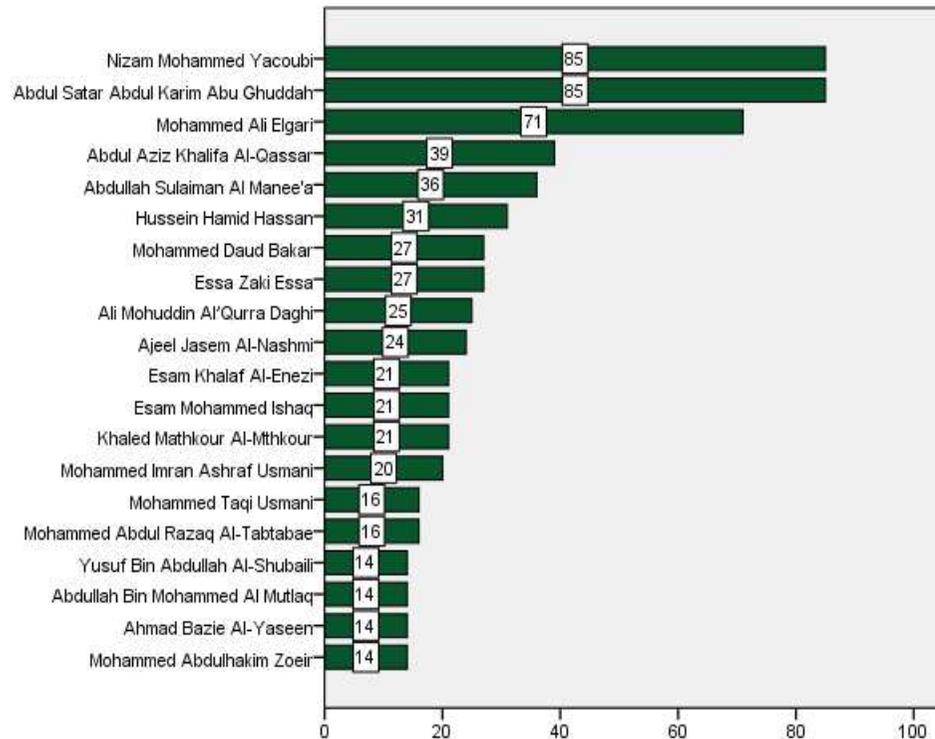
Please bear in mind that we include those institutions who specifically have a GCC Scholar on their board. This is to our knowledge e.g. not the case in Pakistan, Brunei or Indonesia

In case of Japan we have included the Japan Bank for International Cooperation as its function is to advance Japan's external economic policy.

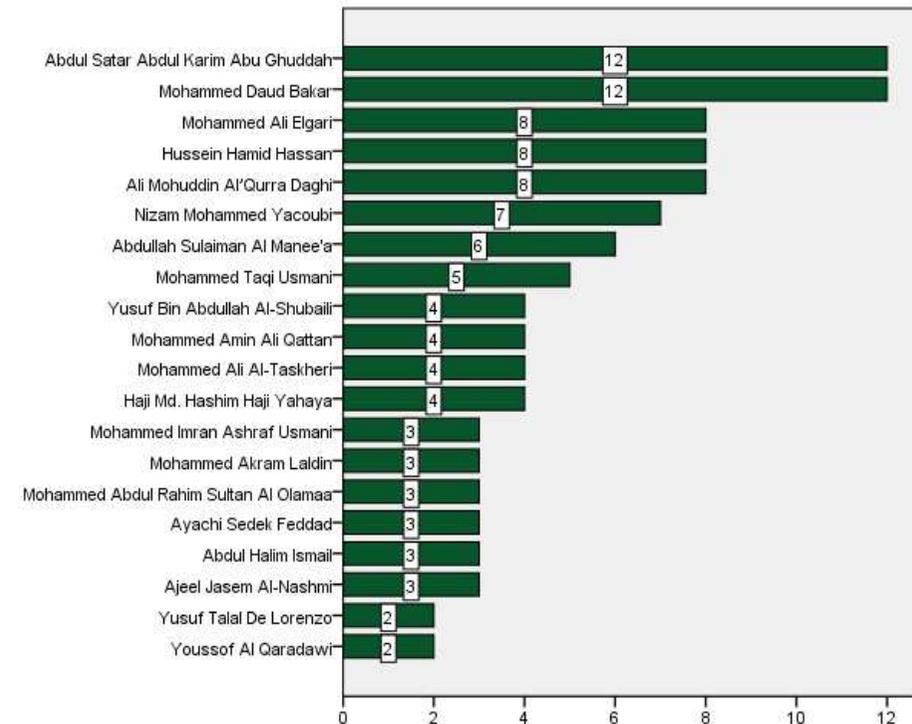
As you can see some countries, such as the UAE, and UK are particularly active with Consulting entities through which Shariah Scholars provide their services



The Top 20 Scholars based on positions in Islamic Finance Institutions *



The Top 20 Scholars based on positions in standard setting bodies, unions, foundations, governmental entities and consulting firms **



* This overview includes Shariah Scholars' fixed board positions „as communicated“ by Islamic Finance Institutions (per 31 July 2010). If an organization has multiple boards on a country or regional level such as Al Baraka or HSBC Amanah and a Scholar serves on several boards within the group then each board membership is counted separately. **Total available board positions are 1141**

** These positions **come on top** of Shariah Scholars' board memberships in Islamic Financial Institutions. We have deliberately separated those as specific Scholars are particularly active in standard setting and government backed entities, unions and associations but also in Shariah consulting firms. Their visibility and credibility gained through those institutions might impact their boards in Islamic Finance Institutions and vice versa. **Total available memberships are 165 equalling 1306 overall positions including the ones linked to Islamic Finance Institutions**

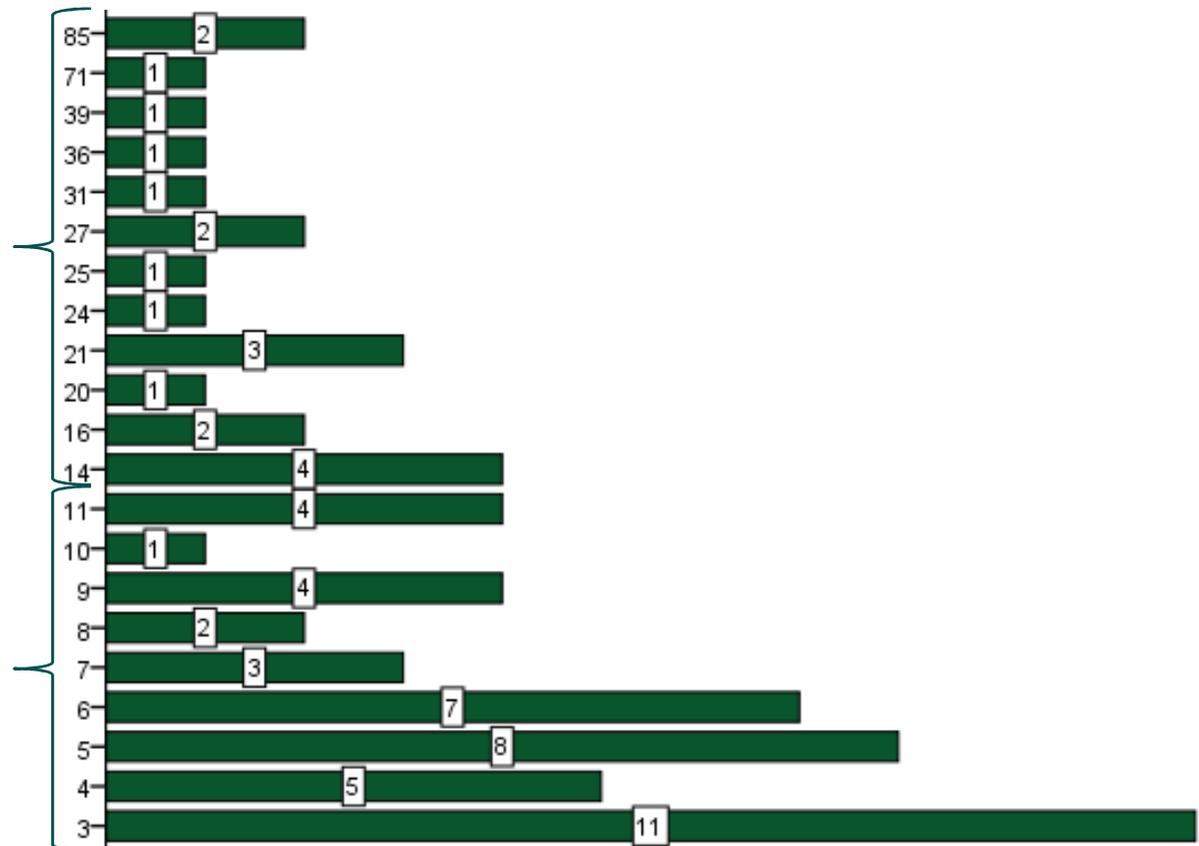
Our Shariah Scholar Research

This graph shows the distribution of board memberships among the individual Scholars from a minimum of 3 to a maximum of 85 board memberships. As you can see at the top there are 2 Scholars with 85 board memberships in Islamic Financial Institutions and at the bottom 11 Scholars with 3 board memberships. In this context it is valuable to know that there are 43 Scholars with 2 and 173 Scholars with only 1 board position (not included in this graph)

The top 20 Scholars hold 85 to 14 positions each and through our solution with Zawya, www.shariahscholars.com, we will also provide insights into those Scholars having 11 to 1 positions and **who sit together with the Top 20 Scholars in Shariah boards of 271 Islamic Finance Institutions** out of 370+

Top 20 Scholars having 621 board memberships

The remaining 260 Scholars with 520 board memberships

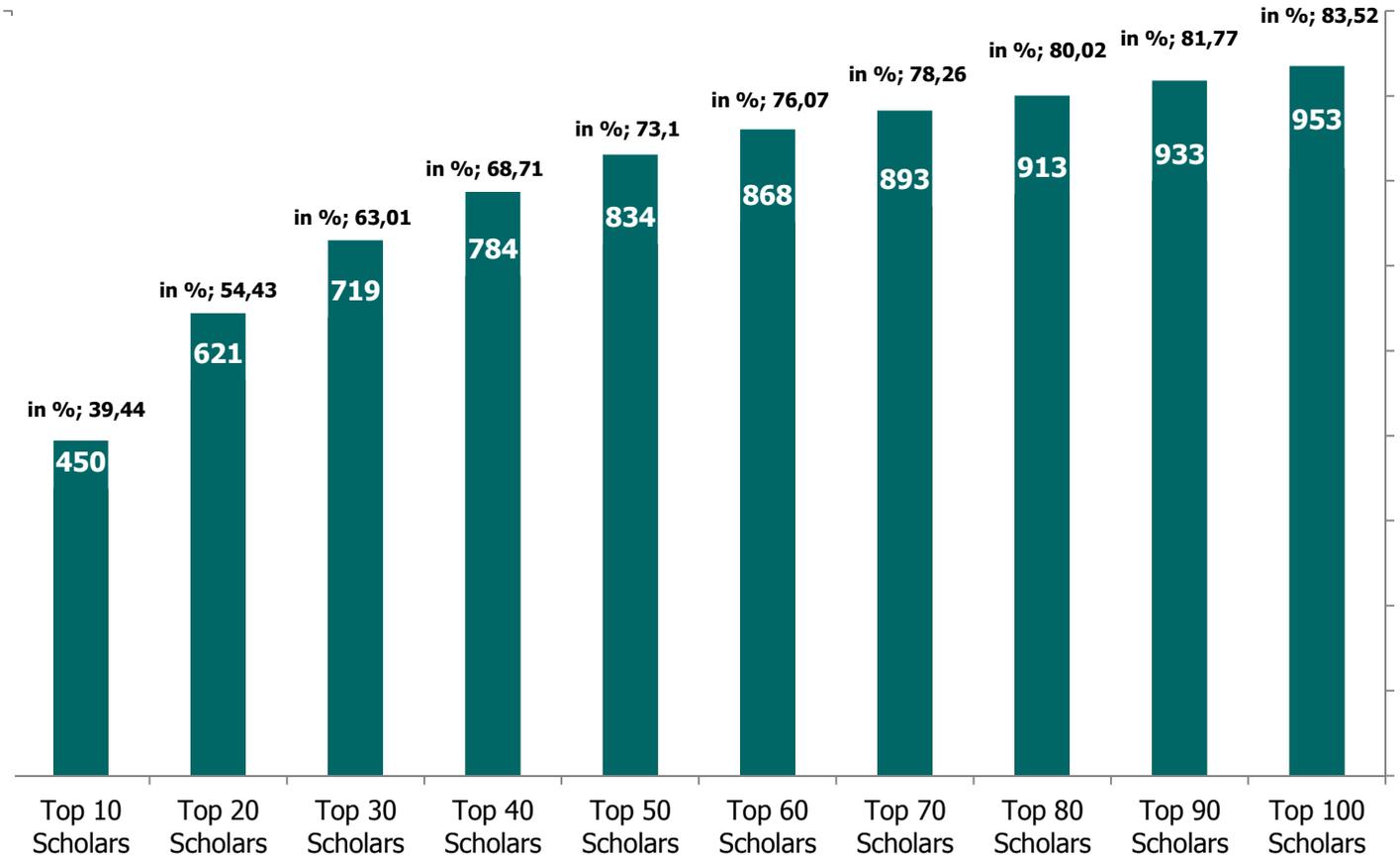


Our Shariah Scholar Research

This graph shows the number of board positions of Shariah Scholars in Islamic Finance Institutions

As you can see the Top 10 Scholars hold 450 out of 1141 board positions that are available and represent 39.44% of the universe

The Top 100 have 953 board positions and represent 83.52%



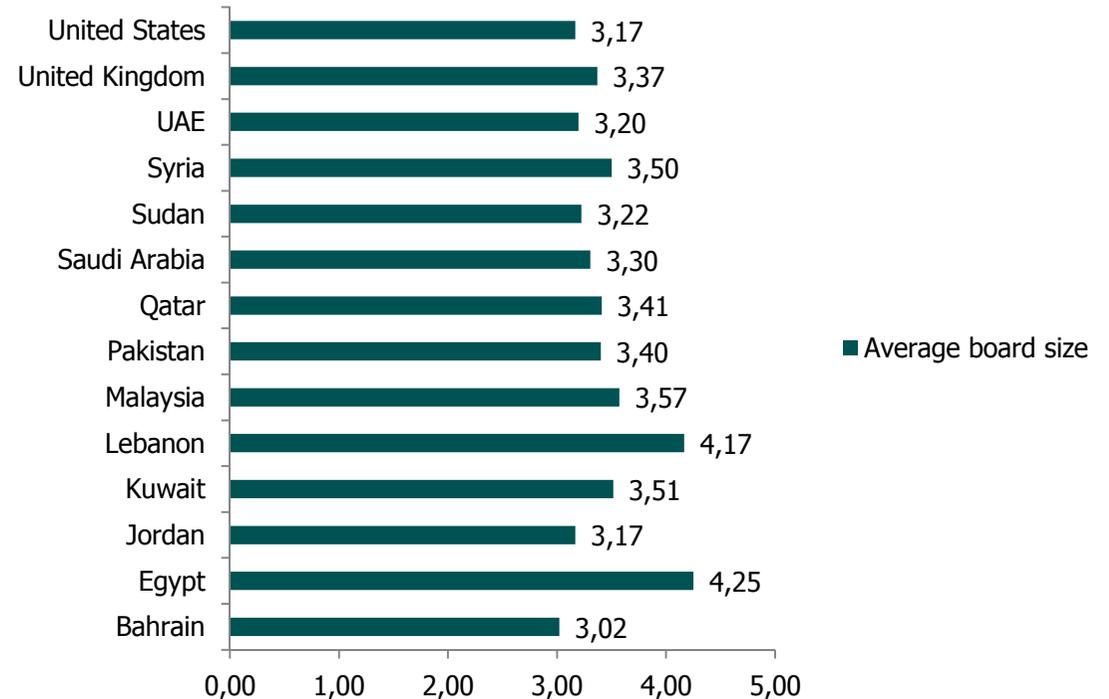
Our Shariah Scholar Research

This graph shows the average board size in Islamic Finance Institutions. The average board size is 3.33 Scholars per board across our entire universe including all countries and institutions

In order to get meaningful averages we have only included countries with a minimum of 4 Islamic Finance Institutions in this graphic

As you can see the countries, on average are above the recommended minimum threshold of 3 board members by standard setters (AAOIFI and IFSB) but there is sizeable variation with regard to "how much above". The averages for countries like Bahrain (3.02), Kuwait (3.51), the UAE (3.20) or Saudi Arabia (3.30) or Qatar (3.41) are of course better comparable due to the relatively larger number of existing Islamic Finance Institutions

It could be expected that IFIs targeting diverse countries will have larger boards and that board membership might also be dependent on the sectors covered and the overall commitment of the institution (Islamic Window versus fully Islamic organisation). This can now be verified based on our data

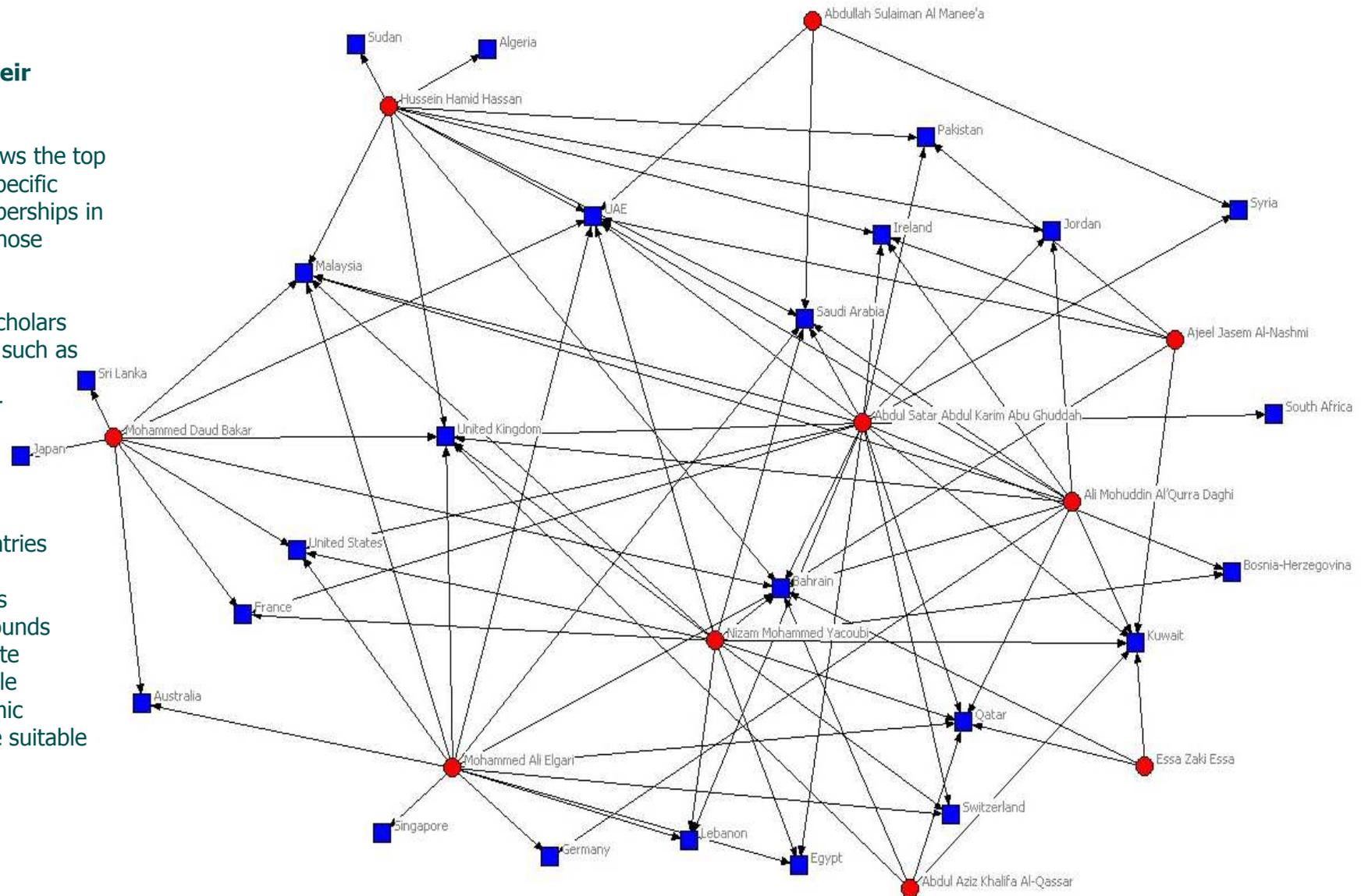


The top 10 Scholars and their international exposure

This network graph neatly shows the top 10 Shariah Scholars' links to specific countries through board memberships in companies headquartered in those nations

It shows that some of these Scholars have unique links to countries such as Sudan or Algeria and specifically highlights their international exposure

Our database with Zawya will reveal which Scholars are available in the individual countries and assist from a governance perspective to identify Scholars with different national backgrounds and country exposures to create diverse boards with local people involved and thus enable Islamic Finance Institutions to find the suitable Scholars which complement each other
(www.shariahscholars.com)



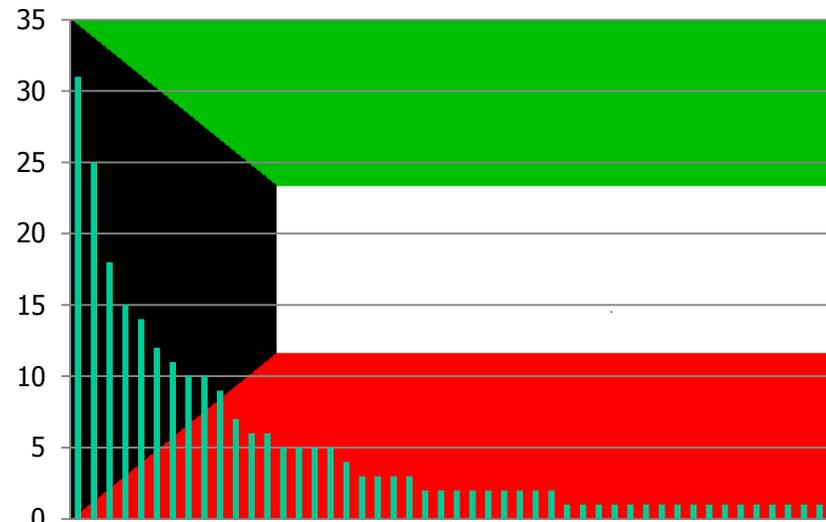
Scholar distribution in Kuwait based on positions in Islamic Finance Institutions

Currently 49 Shariah Scholars are active for Islamic Finance Institutions headquartered in Kuwait

The following reflects the distribution of positions with the **top 5 holding 41.78 %** and the **top 10 Scholars representing 63 %** of all 246 positions that are available

44 Scholars (outside the top 5), share the remaining boards memberships, and our solution with Zawya www.shariahscholars.com will give insights into who these Scholars are, which boards they sit on, which tertiary institutions they attended, which majors they focused on and degrees they received, and which exposure they have to among others various countries or even sub-sectors within the financial services industry (such as real estate, banking, asset management or takaful)

Making all relevant data available will provide market participants an optimal tool to flexibly search for Scholars based on a variety of criteria, including their involvement in Sukuk issuance. Furthermore this knowledge might lead to greater objectivity in the selection process and greater diversity in boards

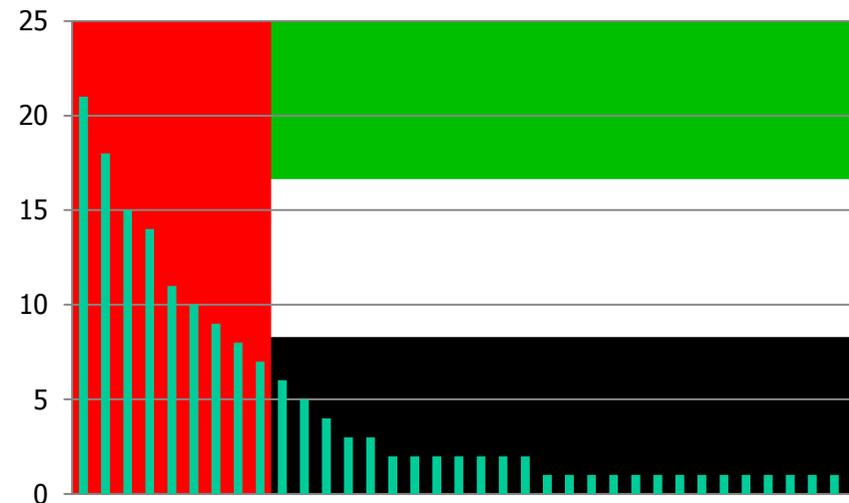


Shariah Scholar	Number of positions
Abdul Aziz Khalifa Al-Qassar	31
Essa Zaki Essa	25
Khaled Mathkour Al-Mthkour	18
Esam Khalaf Al-Enezi	15
Mohammed Abdul Razaq Al-Tabtabae	14

Scholar distribution in the United Arab Emirates based on positions in Islamic Finance Institutions

Currently 36 Shariah Scholars are active for Islamic Finance Institutions headquartered in the UAE

The following reflects the distribution of positions with the **top 5 Scholars holding 48.47%** and the **top 10 Scholars representing 73.01 %** of all 163 available positions in the UAE



Shariah Scholar	Number of positions
Hussein Hamid Hassan	21
Abdul Satar Abdul Karim Abu Ghuddah	18
Nizam Mohammed Yacoubi	15
Mohammed Ali Elgari	14
Mohammed Daud Bakar	11

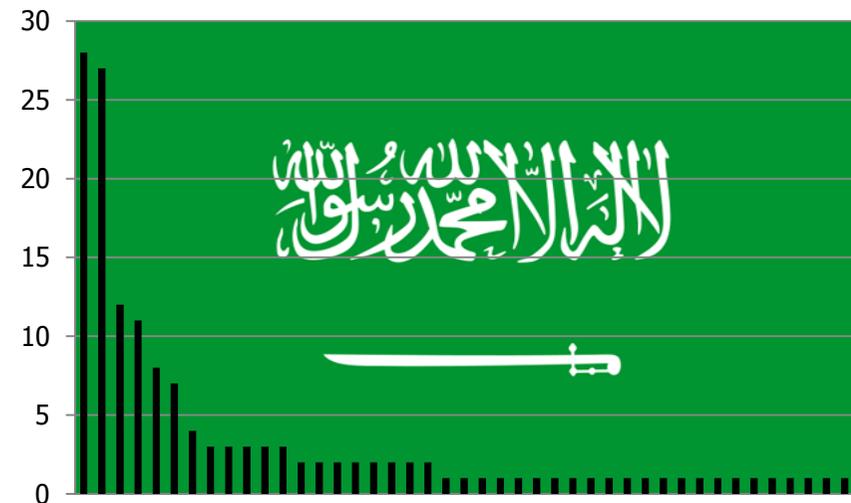


Scholar distribution in Saudi Arabia based on positions in Islamic Finance Institutions

Currently 44 Shariah Scholars are active for Islamic Finance Institutions headquartered in Saudi Arabia

The following reflects the distribution of positions with the **top 5 Scholars holding 56.58 %** and the **top 10 Scholars representing 69.74 %** of all 152 positions that are available

Again, as many of the remaining Scholars have active experience with Top 5 and Top 10 Scholars based on mutual board membership, there is a potential to also leverage their skills going forward complementing existing top Scholars for the sake of the industry's further development. This is also true for all other countries that are part of our universe. www.shariahscholars.com will provide substantial transparency in this regard



Shariah Scholar	Number of positions
Mohammed Ali Elgari	28
Abdullah Sulaiman Al Manee'a	27
Abdullah Bin Mohammed Al Mutlaq	12
Abdul Satar Abdul Karim Abu Ghuddah	11
Abdullah bin Abdulaziz Al Musleh	8

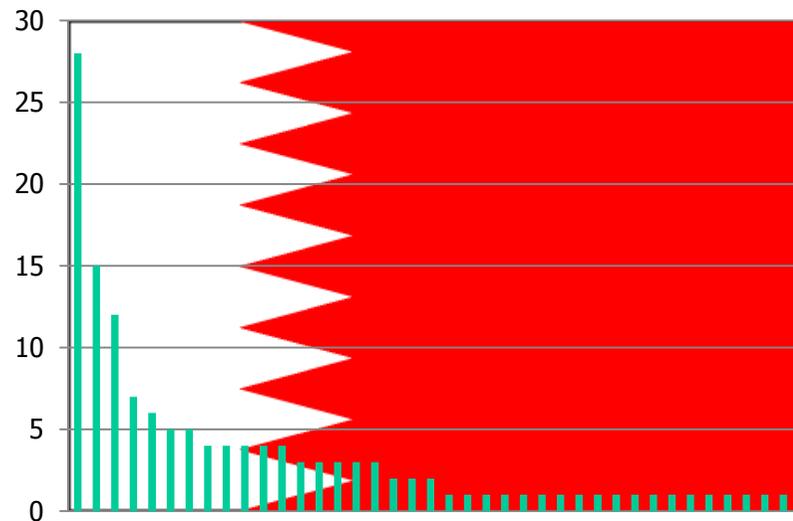


Scholar distribution in Bahrain based on positions in Islamic Finance Institutions

Currently 40 Shariah Scholars are active for Islamic Finance Institutions headquartered in Bahrain

The following reflects the distribution of positions with the **top 5 Scholars holding 48.92 %** and the **top 10 Scholars representing 64.75 %** of all 139 available positions

Each bar (altogether 40) stands for the number of positions a particular Scholar has with many Shariah Scholars having less than 5 positions as you can see



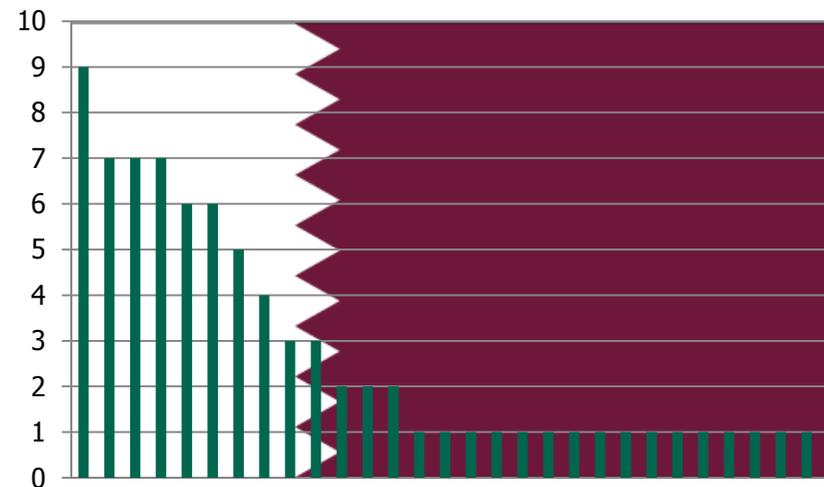
Shariah Scholar	Number of positions
Nizam Mohammed Yacoubi	28
Abdul Satar Abdul Karim Abu Ghuddah	15
Mohammed Ali Elgari	12
Osama Mohammed Bahar	7
Esam Mohammed Ishaq	6



Scholar distribution in Qatar based on positions in Islamic Finance Institutions

Currently 26 Shariah Scholars are active for Islamic Finance Institutions headquartered in Qatar

The following reflects the distribution of positions with the **top 5 Scholars holding 46.67%** and the **top 10 Scholars representing 74.67 %** of all 75 positions that are available



Shariah Scholar	Number of positions
Ali Mohuddin Al'Qurra Daghi	9
Waleed Bin Mohammed Hadi	7
Abdul Satar Abdul Karim Abu Ghuddah	7
Youssof Al Qaradawi	6
Nizam Mohammed Yacoubi	6



Scholar distribution in the remaining 25 countries outside the GCC based on positions in Islamic Finance Institutions

Currently 177 Shariah Scholars are active for institutions headquartered outside the GCC

The following reflects the distribution of positions with the **top 5 Scholars holding 27.87 %** and the **top 10 Scholars representing 40.44 %** of all 366 available positions

As mentioned earlier we also consider in our latest executive summary all peers of GCC Scholars that sit with them in boards outside the GCC which has increased the universe greatly to over 300 Shariah Scholars



Shariah Scholar	Number of positions
Abdul Satar Abdul Karim Abu Ghuddah	29
Nizam Mohammed Yacoubi	29
Mohammed Ali Elgari	16
Mohammed Taqi Usmani	14
Mohammed Imran Ashraf Usmani	14

The AAOIFI Scholars' affiliation matrix , based on positions in Islamic Finance Institutions

This matrix represents **the 12 most active AAOIFI Scholars who hold 38.47 %**, i.e. 439 of all available board positions in Islamic Finance Institutions (of 1141 that we cover today). The %ages are normalised data (adjusted for the number of board positions each Shariah Scholar holds) and show their affiliations with each other

If you look at our first data point, the cross section of Abdullah Sulaiman al Manee'a and Abdul Karim Abu Ghuddah you will see that the probability of sharing the same company boards is **46.69 %** (red circle). So basically in almost 5 out of ten companies they will be most likely sitting together on the same board. The higher the figures between Scholars, the closer Scholars potentially are to each other due to the higher interaction potential. These numbers are very significant and might be an indication how interaction and visibility at the AAOIFI level potentially impacts board composition in Islamic Finance Institutions. The higher the number of positions of individual Scholars the more reliable are the individual findings (see the case of Nizam Yacoubi and Abdul Satar Abu Ghuddah with both having 85 positions of which they share 61%)

	Abdul Satar Abdul Karim Abu Ghuddah	Abdullah Sulaiman Al Manee'a	Mohammed Ali Elgari	Nizam Mohammed Yacoubi	Ajeel Jasem Al-Nashmi	Ali Mohuddin Al'Qurra Daghi	Esam Khalaf Al-Enezi	Hussein Hamid Hassan	Mohammed Abdul Rahim Sultan Al Olamaa	Mohammed Daud Bakar	Mohammed Taqi Usmani	Yusuf Talal De Lorenzo
Abdul Satar Abdul Karim Abu Ghuddah 85 positions												
Abdullah Sulaiman Al Manee, 36 positions	46.69%											
Mohammed Ali Elgari 71 positions	50.82%	70.50%										
Nizam Mohammed Yacoubi 85 positions	61.36%	40.61%	55.08%									
Ajeel Jasem Al-Nashmi 24 positions	36.52%	0.00%	0.00%	20.66%								
Ali Mohuddin Al'Qurra Daghi 25 positions	42.35%	0.00%	22.65%	27.03%	57.61%							
Esam Khalaf Al-Enezi 21 positions	0.00%	0.00%	24.54%	29.27%	64.40%	0.00%						
Hussein Hamid Hassan 31 positions	38.50%	0.00%	20.40%	0.00%	76.26%	66.41%	0.00%					
Mohammed Abdul Rahim Sultan Al Olamaa 9 positions	48.72%	0.00%	58.25%	60.49%	0.00%	0.00%	0.00%	0.00%				
Mohammed Daud Bakar 27 positions	59.39%	0.00%	59.02%	55.24%	35.99%	55.71%	37.80%	47.54%	77.47%			
Mohammed Taqi Usmani 16 positions	54.60%	37.44%	36.09%	43.32%	0.00%	0.00%	45.13%	0.00%	0.00%	58.04%		
Yusuf Talal De Lorenzo 9 positions	48.72%	0.00%	52.19%	79.95%	0.00%	0.00%	0.00%	0.00%	75.11%	77.47%	67.74%	

The AAOIFI Scholars' affiliation matrix, based on positions in standard setting bodies, associations, governmental entities and consulting firms

This matrix represent again **the previously shown 12 AAOIFI Scholars**. This time however, as mentioned in the headline, we would like to show how AAOIFI members share board memberships in non – Islamic Finance Institutions. The %ages are again normalised data (adjusted for the number of board positions each Shariah Scholar holds) and show their affiliations with each other

This time we have no exclusion which means AAOIFI Scholars having no common boards (i.e. the case of 0%). These numbers are highly significant as **AAOIFI Scholars will share together on average 72.17 % of all other boards**. If you take out consulting firms this average actually goes up to **81.90%**. In the case e.g. of Abdul Karim Abu Ghuddah and Sulaiman Al Manee'a we can see that **72.77% of their boards potentially overlap** (red circle). The higher the number of positions of individual Scholars the more reliable are the individual findings again. This is particularly true in the case of Esam Al-Enezi with only one position creating a high percentage rate.

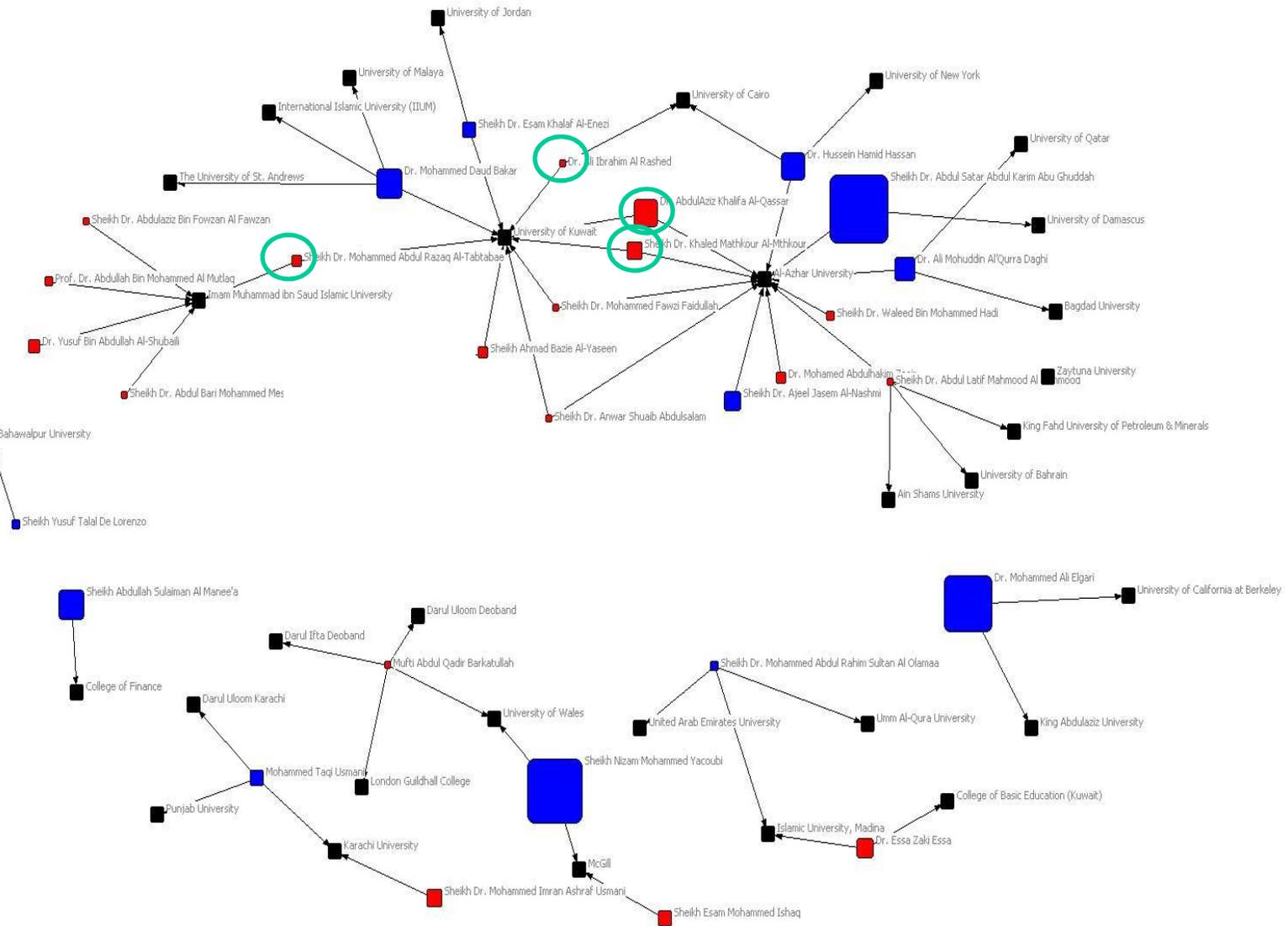
	Abdul Satar Abdul Karim Abu Ghuddah	Abdullah Sulaiman Al Manee'a	Ajeel Jasem Al-Nashmi	Ali Mohuddin Al'Qurra Daghi	Esam Khalaf Al-Enezi	Hussein Hamid Hassan	Mohammed Abdul Rahim Sultan Al Olamaa	Mohammed Ali Elgari	Mohammed Daud Bakar	Mohammed Taqi Usmani	Nizam Mohammed Yacoubi	Yusuf Talal De Lorenzo
Abdul Satar Abdul Karim Abu Ghuddah 12 positions												
Abdullah Sulaiman Al Manee'a 6 positions	72.77%											
Ajeel Jasem Al-Nashmi 3 positions	58.58%	73.88%										
Ali Mohuddin Al'Qurra Daghi 8 positions	67.96%	60.77%	100.00%									
Esam Khalaf Al-Enezi 1 position	100.00%	100.00%	100.00%	100.00%								
Hussein Hamid Hassan 8 positions	67.96%	60.77%	100.00%	81.54%	100.00%							
Mohammed Abdul Rahim Sultan Al Olamaa 3 positions	58.58%	55.05%	67.96%	49.07%	100.00%	49.07%						
Mohammed Ali Elgari 8 positions	48.33%	60.77%	49.07%	52.28%	100.00%	52.28%	49.07%					
Mohammed Daud Bakar 12 positions	38.98%	37.17%	39.01%	57.99%	100.00%	57.99%	58.58%	67.96%				
Mohammed Taqi Usmani 5 positions	100.00%	100.00%	77.10%	66.38%	100.00%	66.38%	58.58%	53.59%	42.21%			
Nizam Mohammed Yacoubi 7 positions	64.19%	64.32%	51.93%	66.67%	100.00%	56.23%	71.01%	56.23%	64.19%	69.62%		
Yusuf Talal De Lorenzo 2 positions	100.00%	64.14%	75.50%	100.00%	100.00%	58.58%	75.50%	100.00%	100.00%	67.34%	100.00%	

Top 30 Scholars and their university links

The size of the squares denotes the number of positions a Scholar has

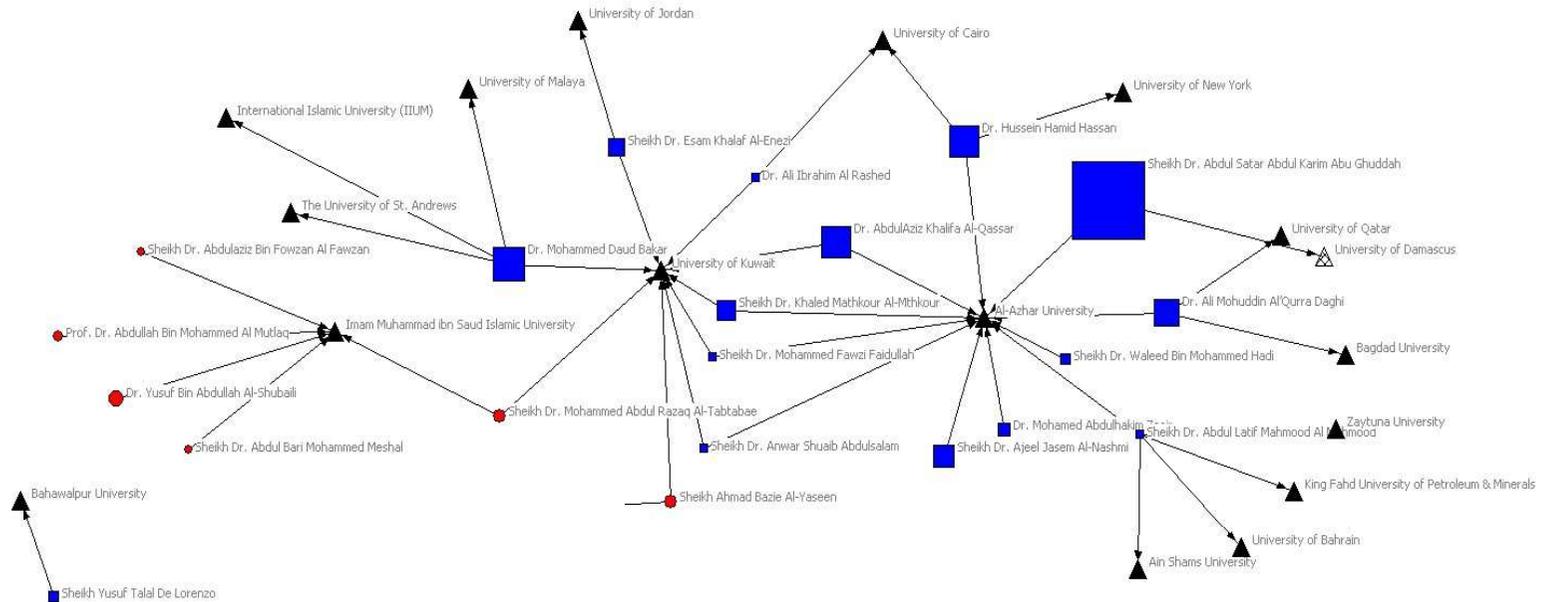
The blue squares (12) are actually the previously mentioned AAOIFI Scholars which as you can see are widely distributed in the educational networks and thus link a variety of university networks with each other. The red squares are non-AAOIFI Scholars in the top 30. The major networks evolve around Al-Azhar University and the University of Kuwait as well as Ibn Saud Islamic University

An interesting question that we look at is how does social capital, e.g. operationalised in university links, affect board memberships. As you can see some Scholars (see selected green circles as examples) link university networks and thus acts as boundary spanners. Being in this position can provide access to more social capital and resources and thus potentially determine success. Scholars who went to the same tertiary educations might also be more alike due to their similar exposure to teachings

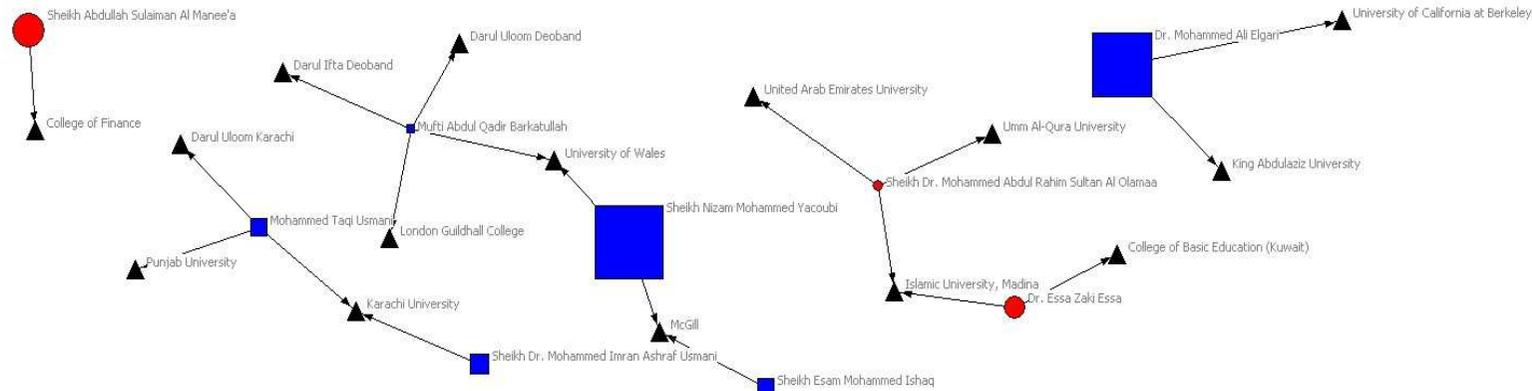


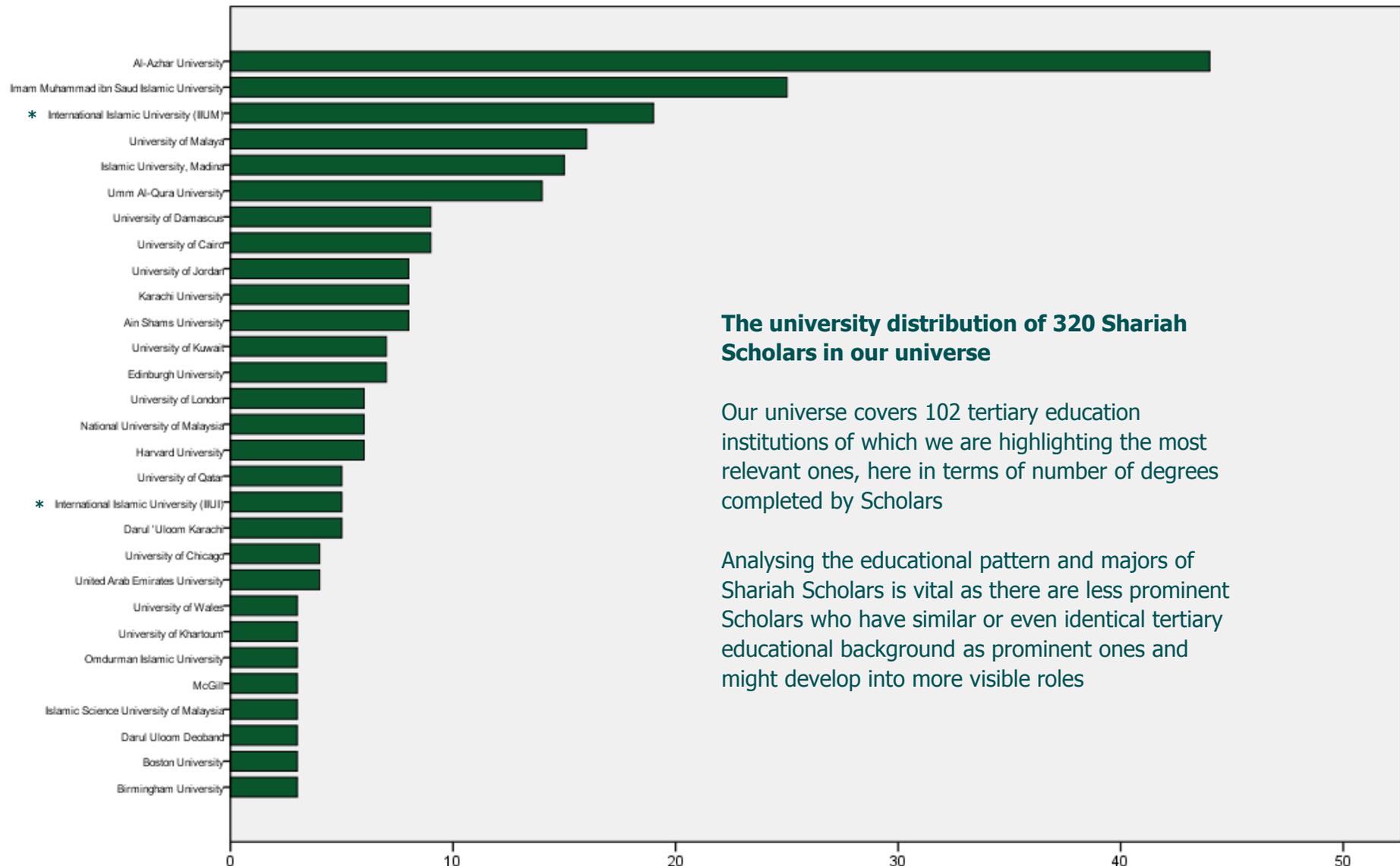
Top 30 Scholars and their studies outside the GCC

As you can see in 21 out of 30 cases Shariah Scholars have enjoyed education outside the GCC (the blue squares) which seems to be a good predictor for their board membership penetration. These people might find it easier to also link different perspectives and thus act as boundary spanners and assist in regional integration



Our solution with Zawya will in detail provide insights into educational backgrounds to search for top Scholars but also complementary ones outside the top ranks who have a similar educational background.





The university distribution of 320 Shariah Scholars in our universe

Our universe covers 102 tertiary education institutions of which we are highlighting the most relevant ones, here in terms of number of degrees completed by Scholars

Analysing the educational pattern and majors of Shariah Scholars is vital as there are less prominent Scholars who have similar or even identical tertiary educational background as prominent ones and might develop into more visible roles

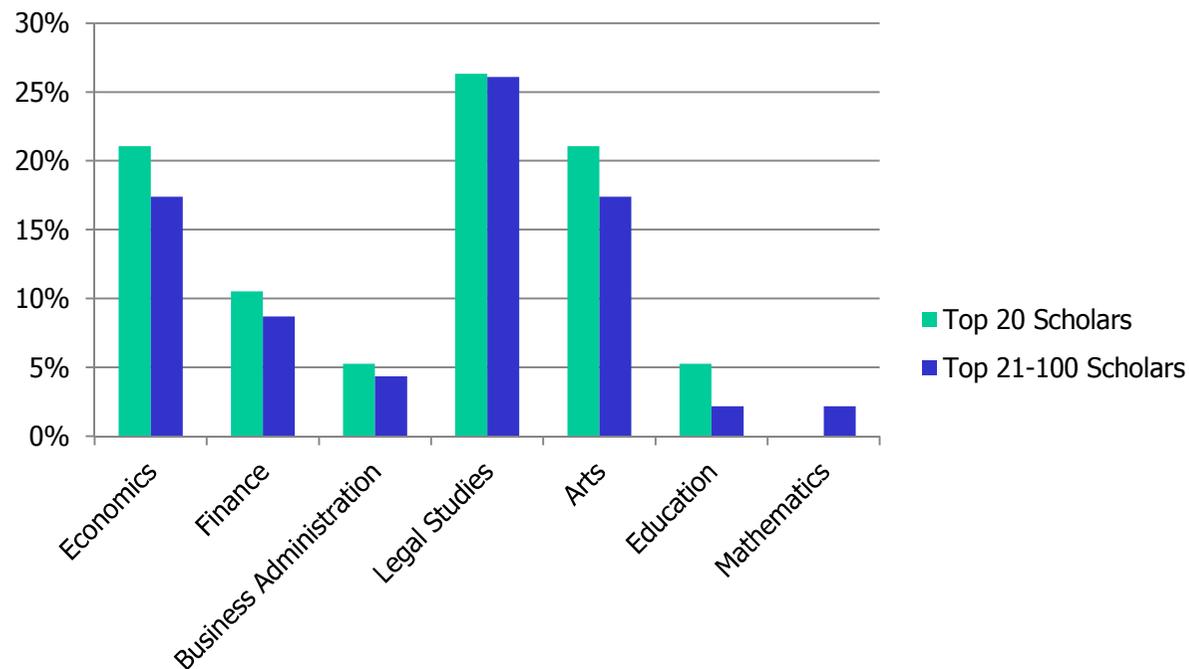
* IIUM stands for International Islamic University Malaysia and IIUI for International Islamic University Islamabad, these are separate entities.



Top 100 Scholars' educational diversity based on majors in tertiary institutions

By looking at the majors obtained by the top 20 Scholars (outside their Shariah related education) and the top 21-100, it can be seen that they are similarly distributed in focus on different areas of study

www.shariahscholars.com provides all the necessary information to see what degrees Scholars achieved where they studied and which majors they embarked on, allowing users to define complementary boards, drawing on the potential of prominent Scholars but also less prominent ones who have worked closely with top Scholars in the past



Our contribution to Corporate Governance in the Islamic Finance Industry

- Our research has been a major driver in speeding up Corporate Governance related developments in the Islamic Finance Industry, especially when it comes to the role of Shariah Supervisory Boards (SSB) and the concentration within the system
- We are currently working on a policy paper which is backed up by solid data and addresses among others recommendations of standard setters such as AAOIFI, IFSB, Hawkamah, and also incorporates the views of supranational organizations, central banks as well as supervisory authorities. Although we will build on those views with regard to Shariah Governance, we will aim to go beyond the currently suggested measures building among others on state of the art academic research and latest insights
- Our mutual database with Zawya will operationalise governance criteria and allow market participants to be in line with recommendations specifically when it comes to the SSB such as the election and dismissal of its board members. By knowing what the standard setters' views are among others on competence and qualification, remuneration and training, independence, performance measurement, and succession planning for Scholars but also other relevant topics such as SSB composition and experience, market participants, using www.shariahscholars.com will be enabled to address the relevant points through data specifically made available
- Our mutual solution with Zawya will from the outset provide an optimal tool to address Shariah Governance related criteria and will hopefully develop into an unparalleled platform which will complement existing solutions and become an indispensable part of an information architecture serving the global industry



Insights into changes after the cut off date

As mentioned earlier we are regularly tracking changes in the Islamic Finance industry and adapt those in our existing database with Zawya. A delta report will be actively provided to users of www.shariahscholars.com in order to get an idea of those changes between two cut-off dates. Here are a few examples of changes that we need to consider in our next analysis which will of course impact the newest findings:

- First Investment Bank changed its entire Shariah board
- Jordan Dubai Islamic Bank replaces a Shariah board member
- Tabarak Partners LLP is no longer conducting business. Their Shariah board consisted of three well known Scholars
- European Finance House Limited changed its name to QIB (UK) plc effective 1st August 2010
- Salaam Halal insurance, part of Principle Insurance Holdings and the first independent takaful provider in the UK, has stopped accepting new business, following a failed rights issue
- Global Securities House K.S.C.C., Al Qalam and First Energy Bank have a new member in their Shariah board
- Qatar Islamic Insurance, International Islamic Financial Market, Al Awal Financial Services, and Al Rajhi Bank decrease the size of its their Shariah board

Corporate Governance and the role of the Shariah Board

Some questions to think of -1-

- What are potential conflicts of interest when Shariah Advisory firms not only consult but also engage in auditing the same Islamic Finance Institution?
- Has the „arbitrary“ limitations of board memberships in Pakistan and Malaysia e.g. created an incentive for scholars to engage in country arbitrage and offer their services abroad? How do regulators chose the right limit considering that multiple factors (as discussed in this presentation) affect a scholars` influence and position
- What is the optimal number of board memberships (considering the size and complexity of institutions a scholar is working for). If we accept that shariah scholars have different capabilities to handle their assignments why don` t we leave the optimal number to the IFI`s who should review a scholar annually and either voice their concerns or exit the relationship?
- Should shariah scholars have more formal training in economics and finance? If not, would it make more sense to open up boards to specialists in other disciplines to provide the board with greater diversity ?
- Despite tighter rules, research from Malaysia shows that new shariah scholars are predominantly recruited upon recommendation of existing scholars. What should be done to bring more objectivity into the selection process that even in Malaysia seems to be social capital driven? Can nomination committees really take care of this?

Corporate Governance and the role of the Shariah Board

Some questions to think of -2-

- Are checks and balances potentially undermined when shariah scholars not only govern the IFIs but also play a dominant role in national shariah boards (at e.g. central banks) and international standard setting organisations? Who is controlling whom? Who governs and who is governed?
- Why is remuneration of shariah scholars not made public specifically in the case of listed companies where shareholders have a specific right to ask for greater transparency?
- We know from corporate governance research that „firm size“ rather than performance can explain almost nine times the amount of variance in CEO pay, what measures should determine compensation of Shariah Scholars? Size (payment for complexity)?
- We also know from prior research that changes in board structure increase the board's monitoring and control capacity and can be beneficial to innovativeness. Should limits (in years) to board memberships and rotation be institutionalized?

Corporate Governance and the role of the Shariah Board

Some questions to think of -3-

- Research from Malaysia but also from the Gulf Region shows that Shariah Committees are even perceived by selected IFI to be as powerful as the board or even the CEO of the financial services company. Are the top management team and the board a „sideshow“ in Islamic Finance institutions?
- Visibility of scholars in standard setting bodies such as AAOIFI seems to affect their number of board memberships in IFI greatly. Should the number of board memberships in IFIs of scholars that work for standard setting bodies be limited?
- The top 2 scholars share 61% of their board memberships together. Where is the room for mentoring and apprenticeship systems when the same people of similar seniority tend to occupy the same boards? How can Bank Negara 's idea of succession planning be put in process under these conditions?
- Bank Negara but also Hawkamah and the IDB encourage the board to consider appointing at least one member of the Shariah committee as a member of the board that could serve as a 'bridge' between the board and the Shariah committee. What sounds convincing from a network analytic perspective may however have adverse effects on the governance of the IFI. Why should it not be sufficient to just improve communication between the board and the Shariah Committee?
- Thanks for your patience and interest

Author



Murat Hasan Ünal studied Business Administration and graduated from the University of Adelaide/Australia (with research in Asia/Pacific) with a Bachelors Degree in Commerce (**B.Com**). He worked for an international management consulting firm after his studies and joined the mutual fund/financial services business in 1998 acting finally as a Management Committee member for a German Asset Manager where he was mainly responsible for integrated marketing, sales and PR.

As Head of Investment Marketing and Sales within Citibank Northern Europe (focusing on Belgium & France) in Brussels he managed the third party fund business (CitiChoice) and brokerage activities. Before Murat founded Funds@Work at the end of 2001, which he now represents as the responsible board member, he took over the bank marketing business at Fidelity Investments for a short period of time.

Murat has a Master of Business Administration degree (**M.B.A**) from the Kellogg School of Management/USA in joint cooperation with WHU/Germany and its network programs at Tel Aviv University/Israel and Hong Kong University of Science and Technology/China). Murat also holds a Master of Laws (**LL.M.**) degree from the School of Law at Northwestern University (NLaw) in Chicago.

Murat is a **Doctoral Candidate** and about to complete his Doctorate in Business Administration at IE Business School (Instituto de Empresa, www.ie.edu) in Madrid focusing on Social Network Analysis and its impact on Strategy but particularly Corporate Governance. He is also a Senior Researcher with the Center of Islamic Economics and Finance (www.centerief.org) at IE Business School.

He has published and contributed to more than 1000 articles in leading international dailies, practitioner magazines, industry books looking specifically at the investment sector. The leading German economic daily Handelsblatt recently featured him as one of six internationally acknowledged masterminds within the investment industry and the FT Asset Management's DPN publication singled out his work (a network analysis carried out among institutional investors and their links to the SRI industry) as ingenious.

He is an executive board member at Funds@Work AG, a research based strategy consultant focusing on the investment industry. Since 2001 he has been involved in more than 160 projects in 14 countries. In this context has developed new solutions and organizations and has been involved in numerous market entry as well as expansion projects, assisting also in take over activities within the investment industry. Among Funds@Work's clients are mainly asset management companies (including ETF providers) and fiduciary managers, portfolio managers, stock exchanges, technology and information providers, and other relevant entities of the asset management industry's value chain.



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As we pursue an open architecture approach, we are grateful to any value added recommendations that interested people may provide throughout the world. Therefore please do not hesitate to contact us!

Murat Ünal – Funds@Work AG
E-Mail: murat_uenal@funds-at-work.com

Disclaimer

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