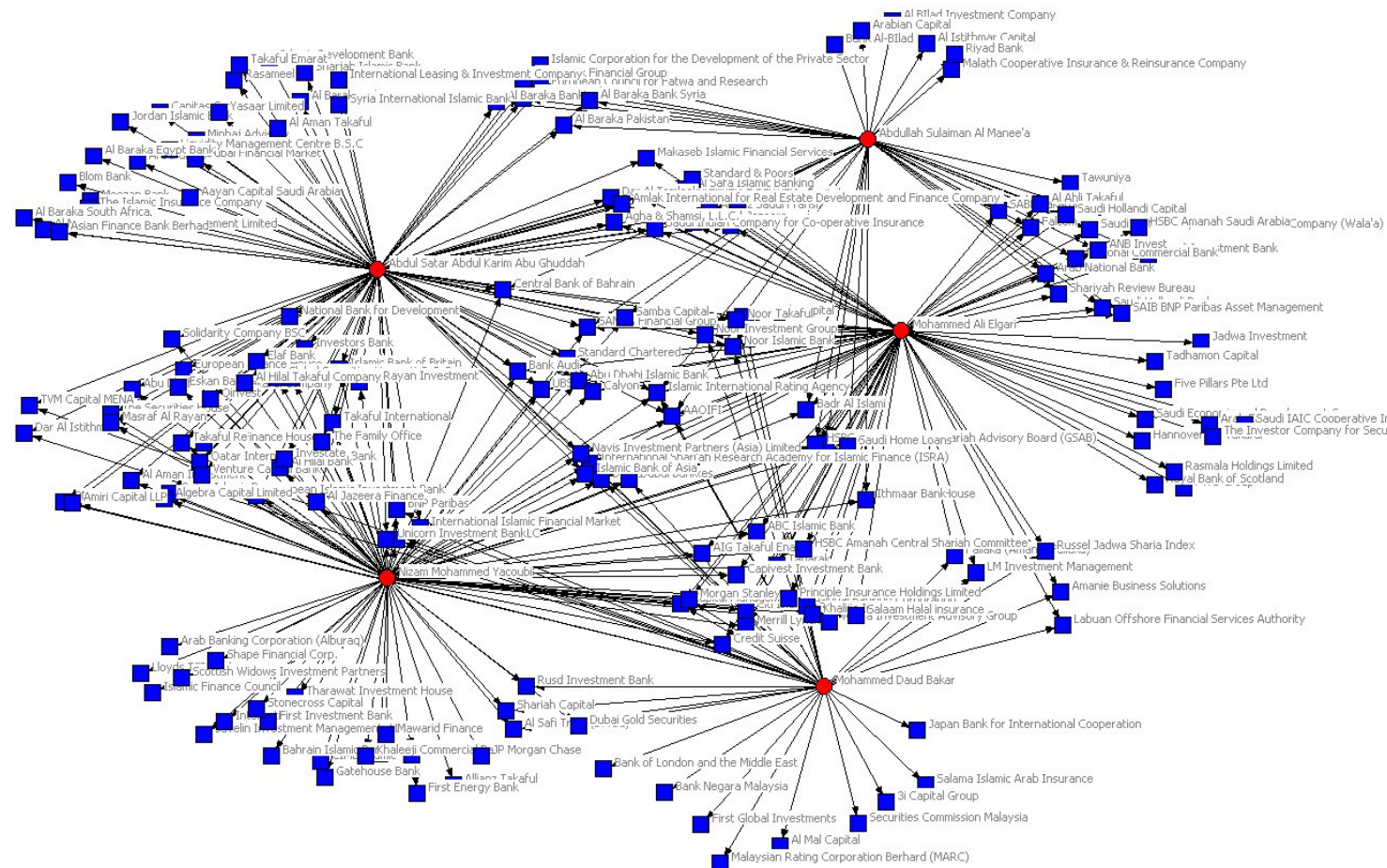


The Small World of Islamic Finance

Shariah Scholars and Governance - A Network Analytic Perspective

**Murat Ünal - Chief Executiver Officer, Funds@Work AG,
 Doctoral Candidate in Business Administration, IE Business School Madrid
 Senior Researcher, Center of Islamic Economics and Finance IE Business School**





Islamic Finance and its position in the global system

- In 2003 I added a particular focus on socially responsible investments, SRI, being convinced that SRI would increasingly take away market share from the traditional investment industry. In 2006, I won a State Street Award for financial journalism emphasising, in my publication, the great importance of including Corporate Governance and socially responsible investment criteria in institutional investors' portfolio decisions
- I was 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 I 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.
- Islamic Finance for me 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

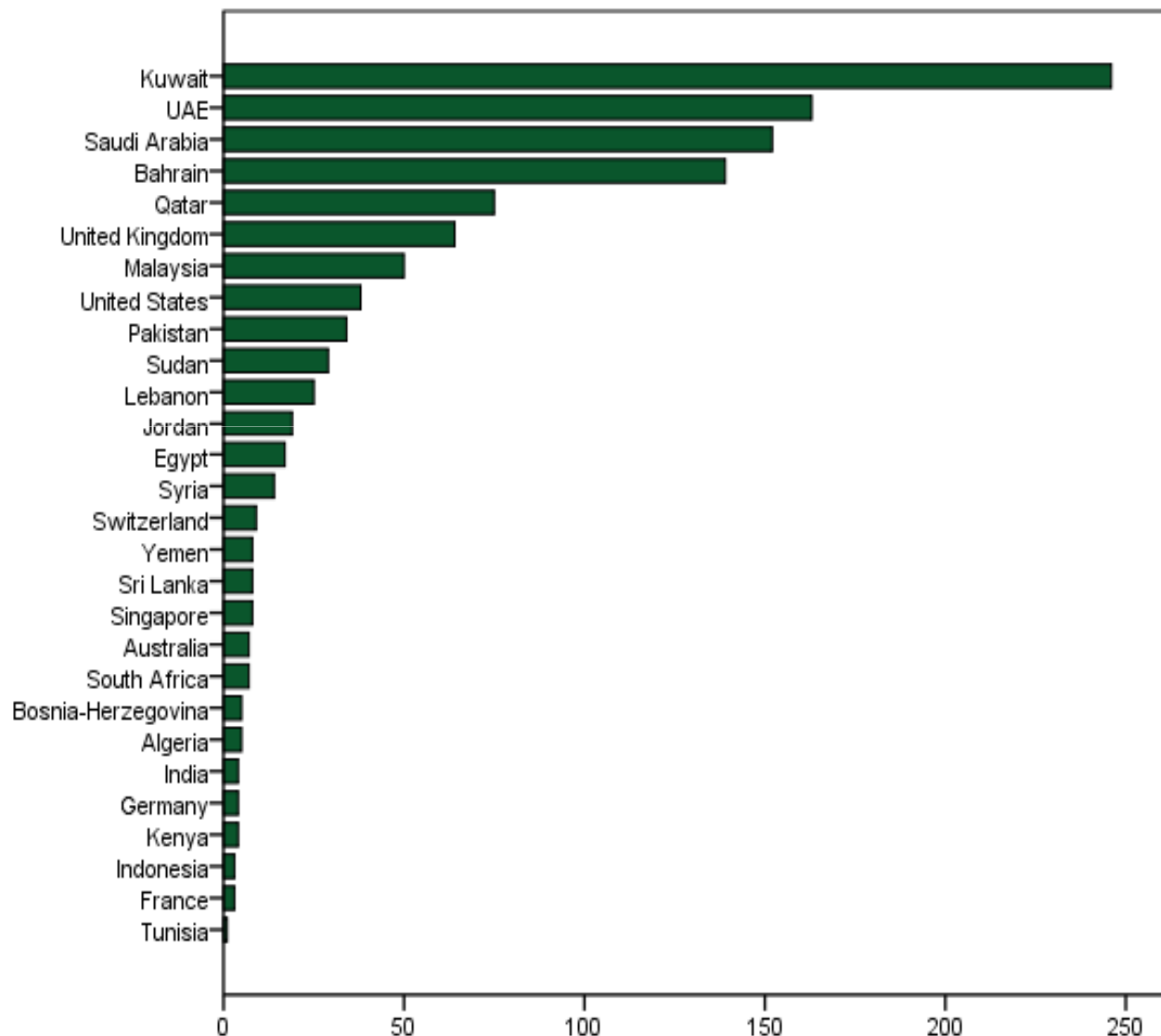


Number of board positions covered

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





Number of other Shariah Scholar involvements

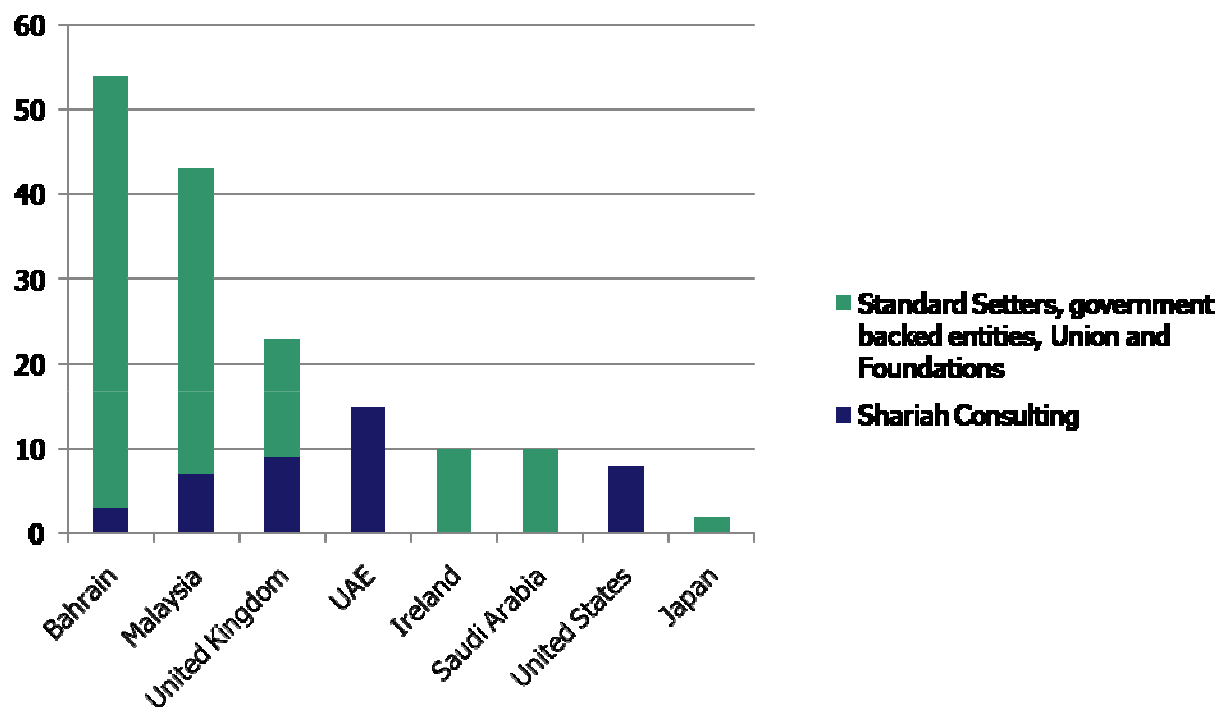
This graph shows the number of Shariah Scholar involvements in standard setting bodies, unions and foundations, governmental entities and among others Shariah consulting firms available in the specific countries. These come in addition to the previously mentioned 1141 board positions in Islamic Finance 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

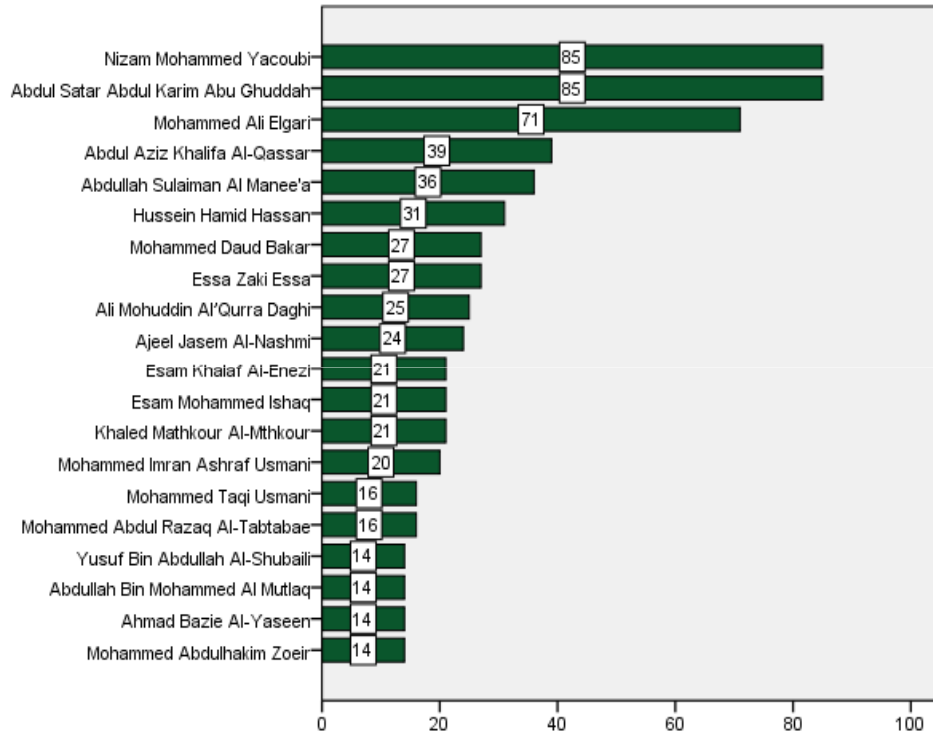
In case of Japan we have included the Japan Bank for International Cooperation as its function is to advance Japan's external economic policy.

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

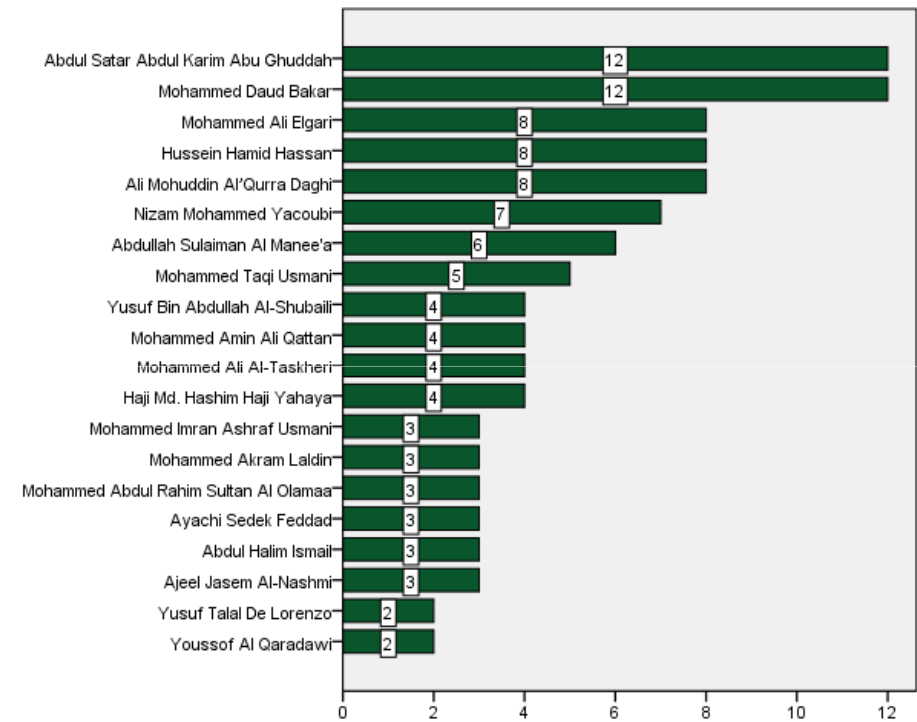




The Top 20 Scholars based on positions in Islamic Finance Institutions *



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**



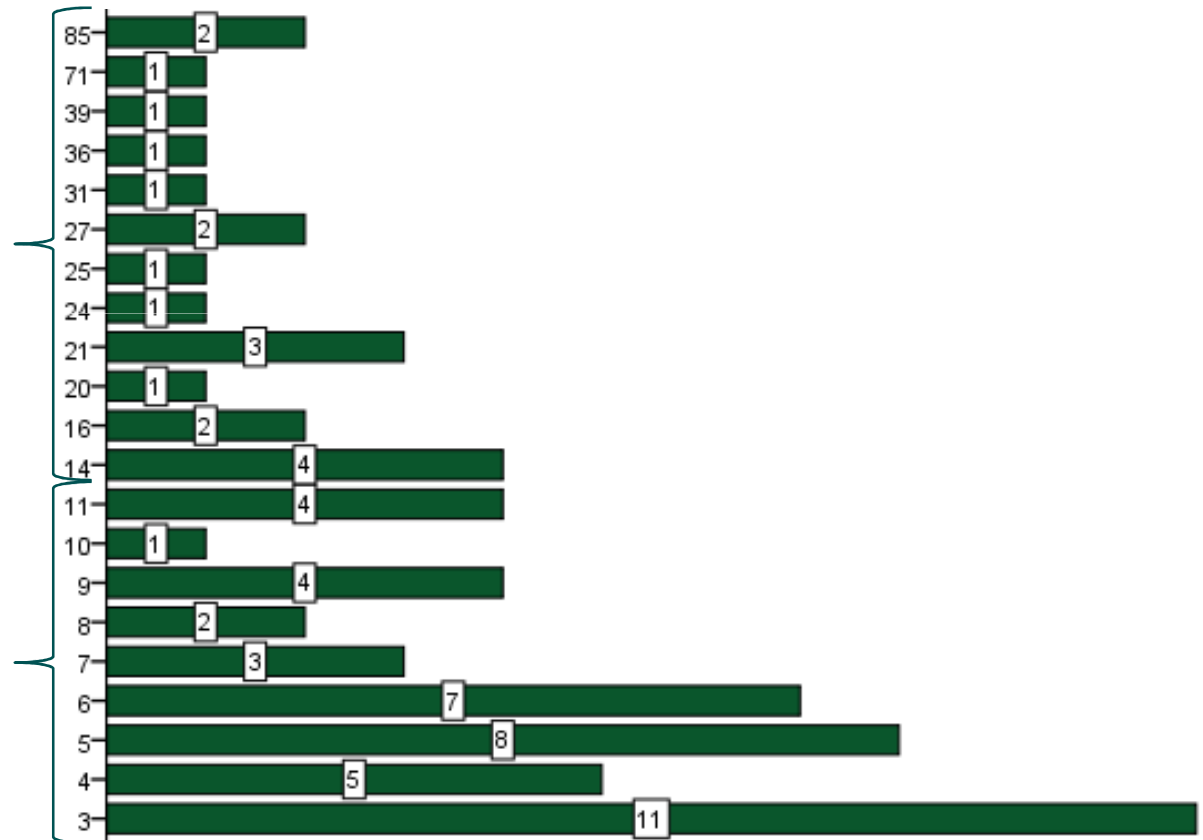
Distribution of board memberships

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 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



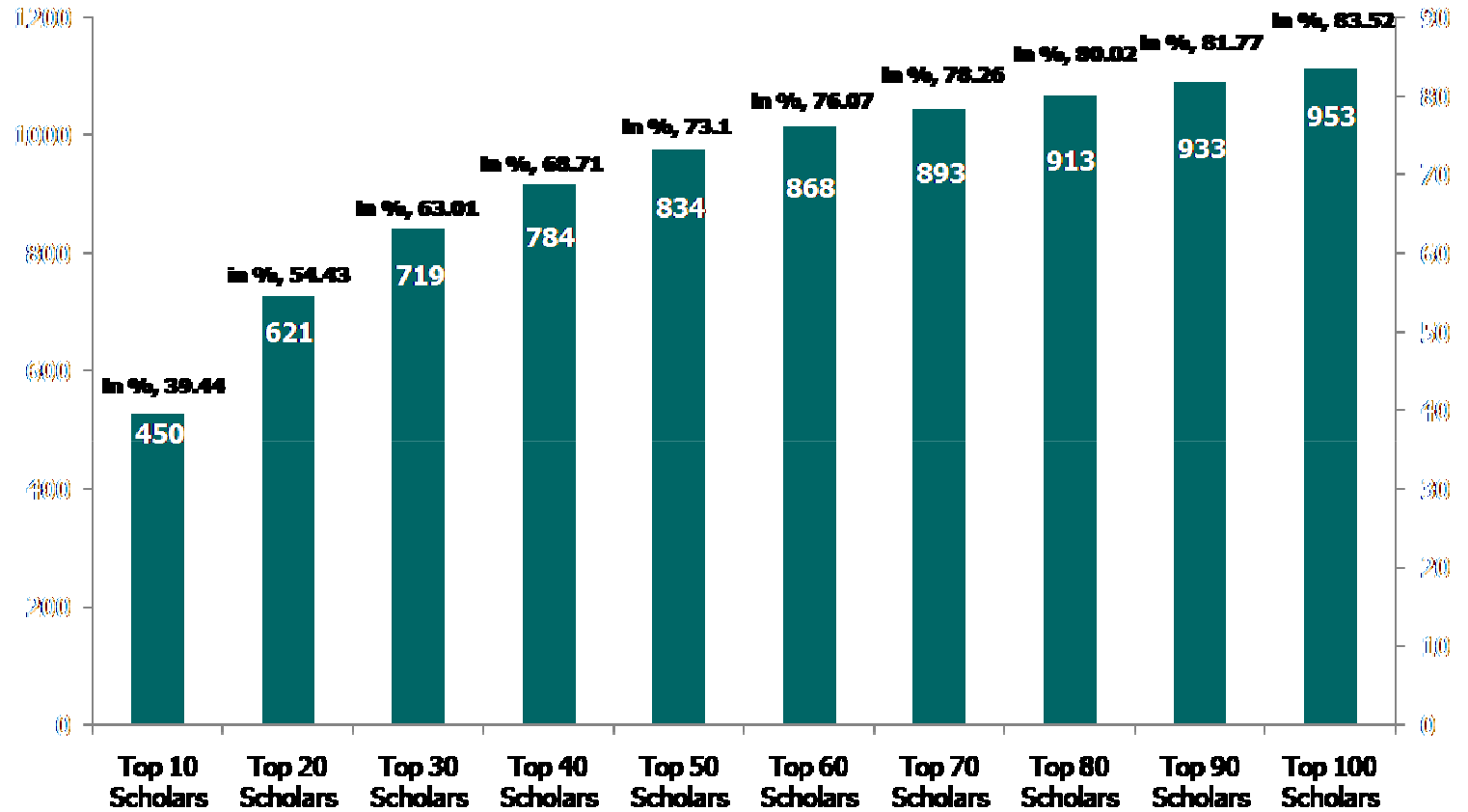


Concentration of board positions

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%





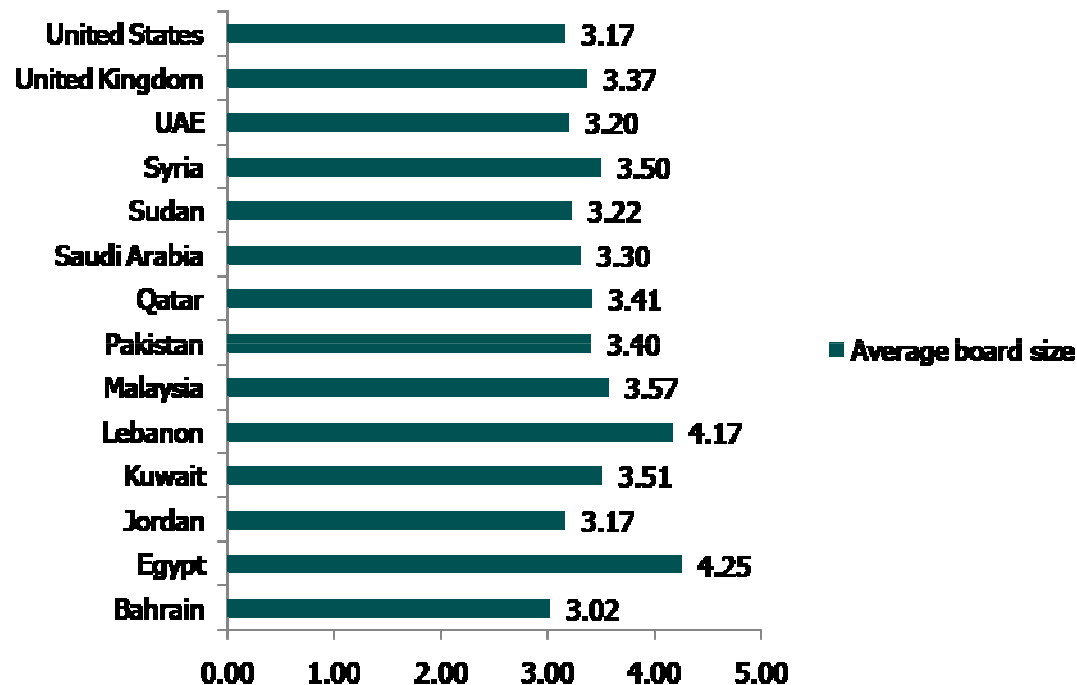
Average board sizes by country

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



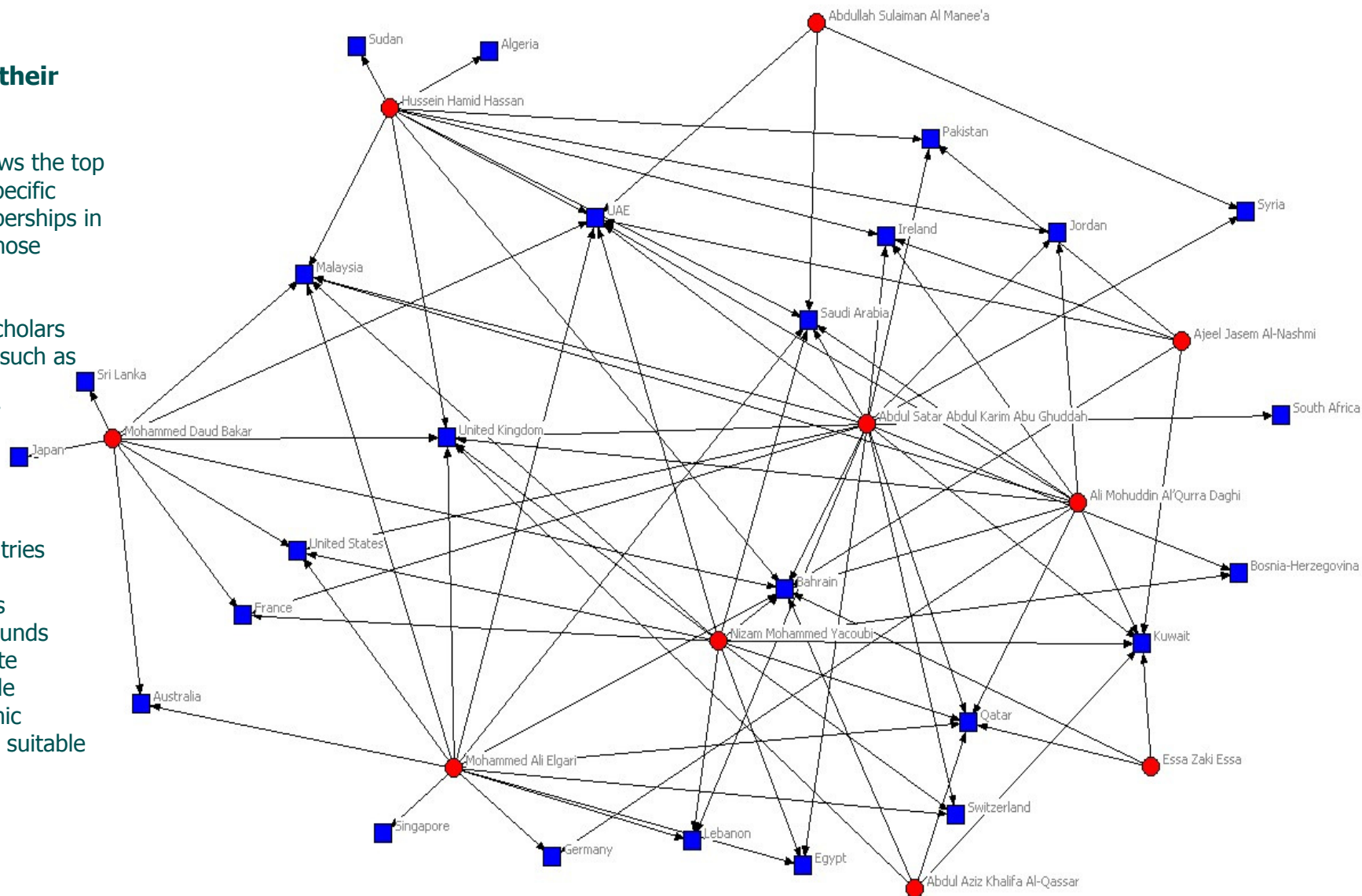


The top 10 Scholars and their international exposure

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

www.shariahscholars.com 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



The data used for this analysis is available on www.shariahscholars.com



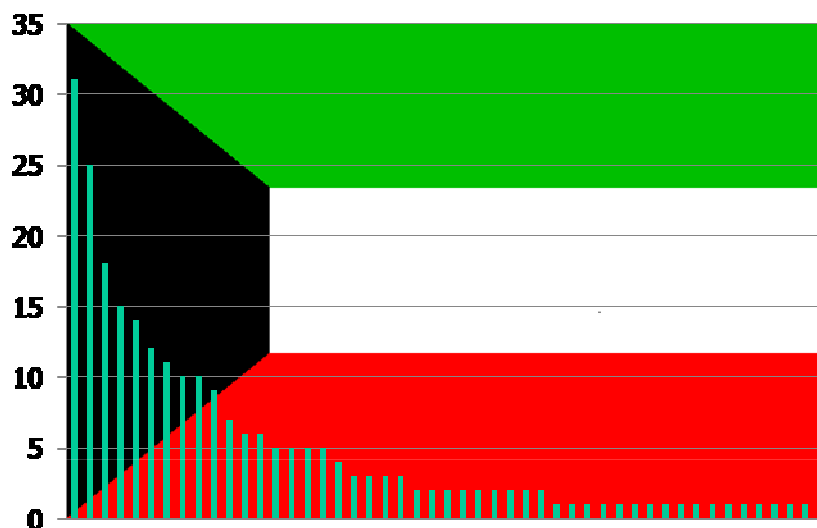
Scholar distribution in Kuwait based on positions in Islamic Finance Institutions

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 and academics alike 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



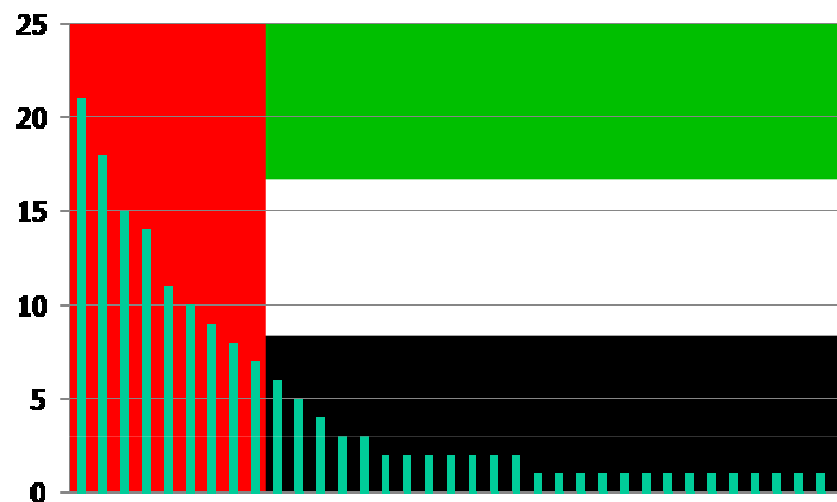
Shariah Scholar	Number of positions
Abdul Aziz Khalifa Al-Qassar	31
Essa Zaki Essa	25
Khaled Mathkour Al-Mthkour	18
Esam Khalaf Al-Enezi	15
Mohammed Abdul Razaq Al-Tabtabae	14



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

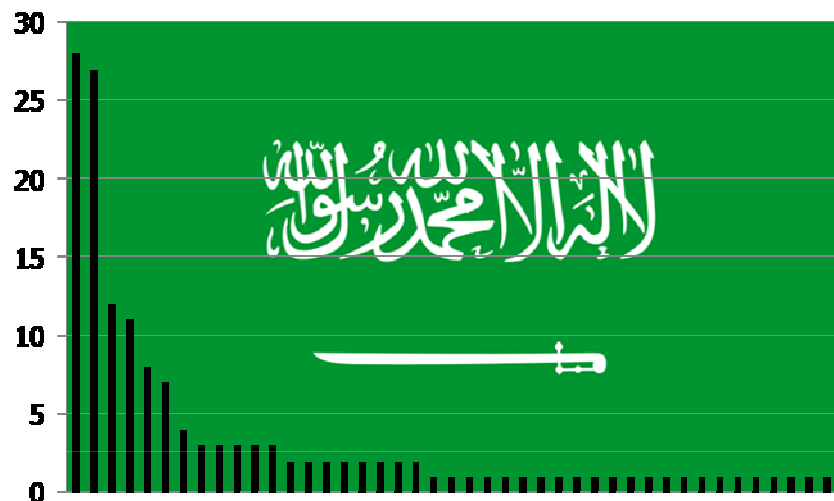


Scholar distribution in Saudi Arabia based on positions in Islamic Finance Institutions

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

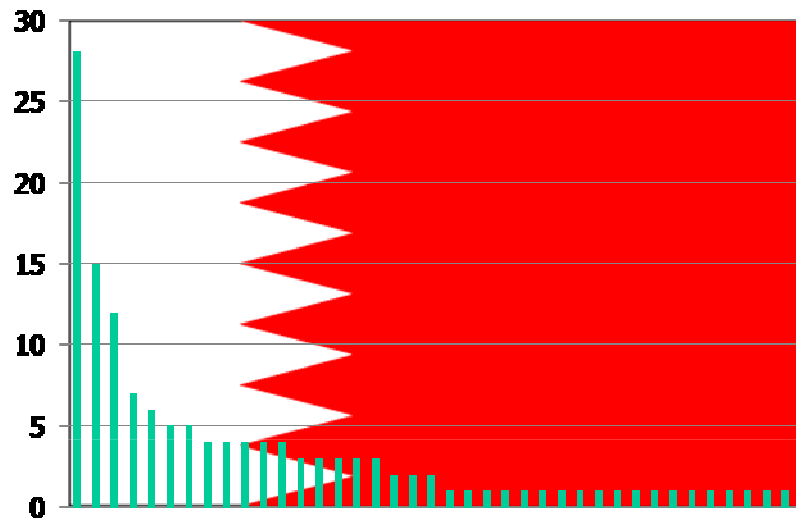


Scholar distribution in Bahrain based on positions in Islamic Finance Institutions

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 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 data used for this analysis is available on www.shariahscholars.com



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%	



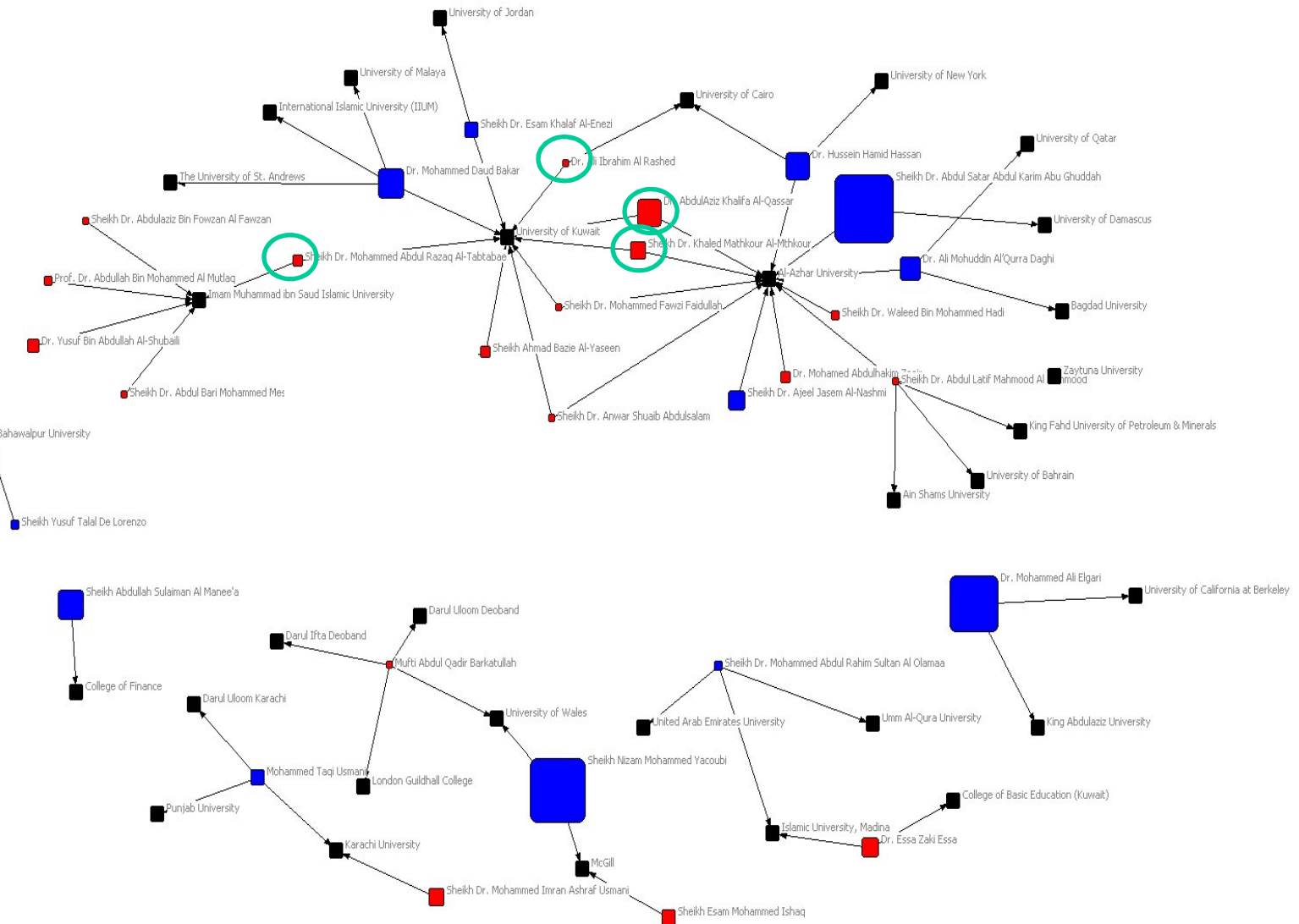
Top 30 Scholars and their university links

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

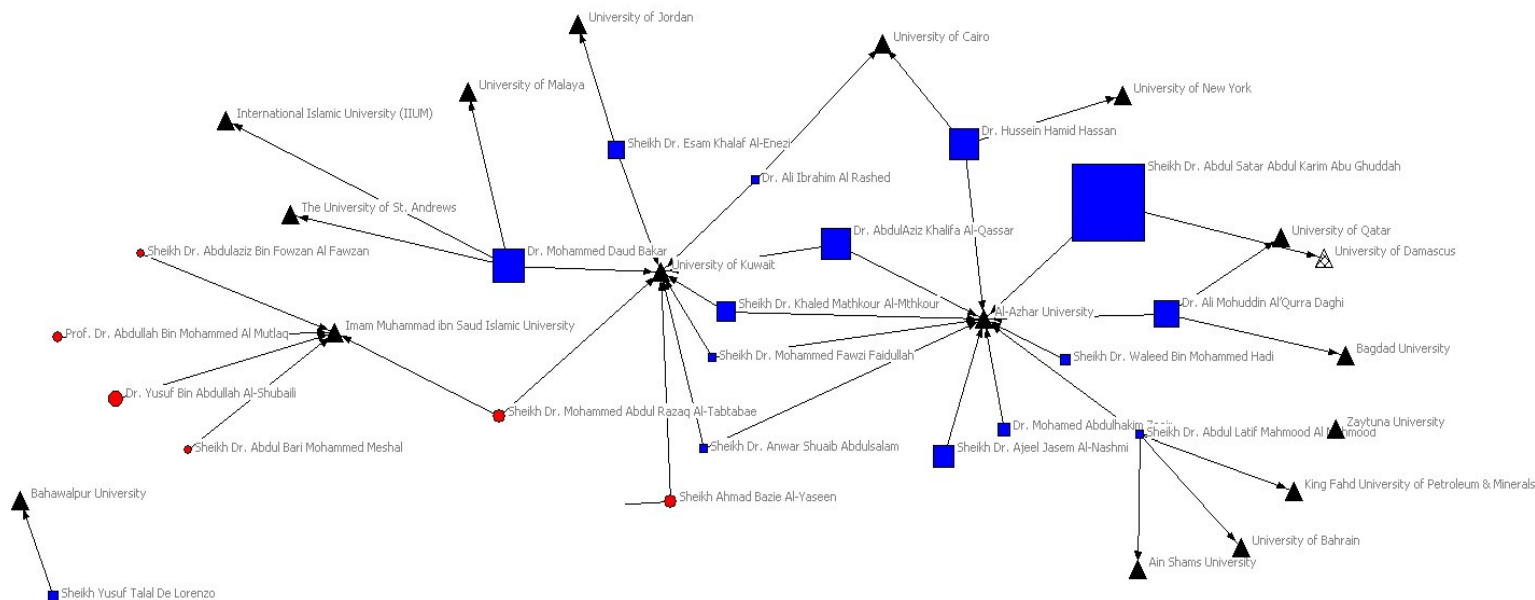
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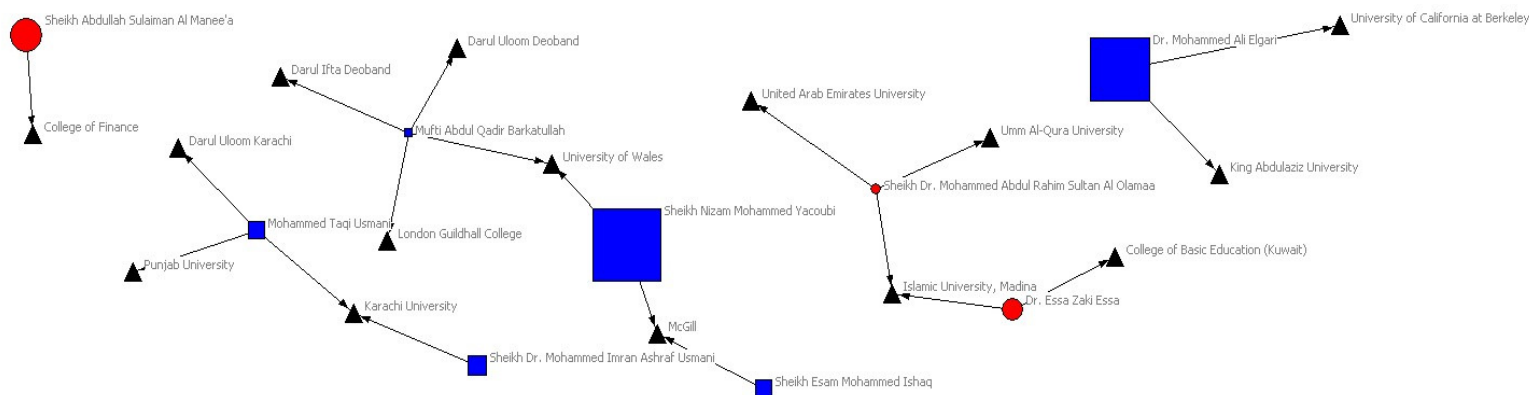


Top 30 Scholars and their studies outside the GCC

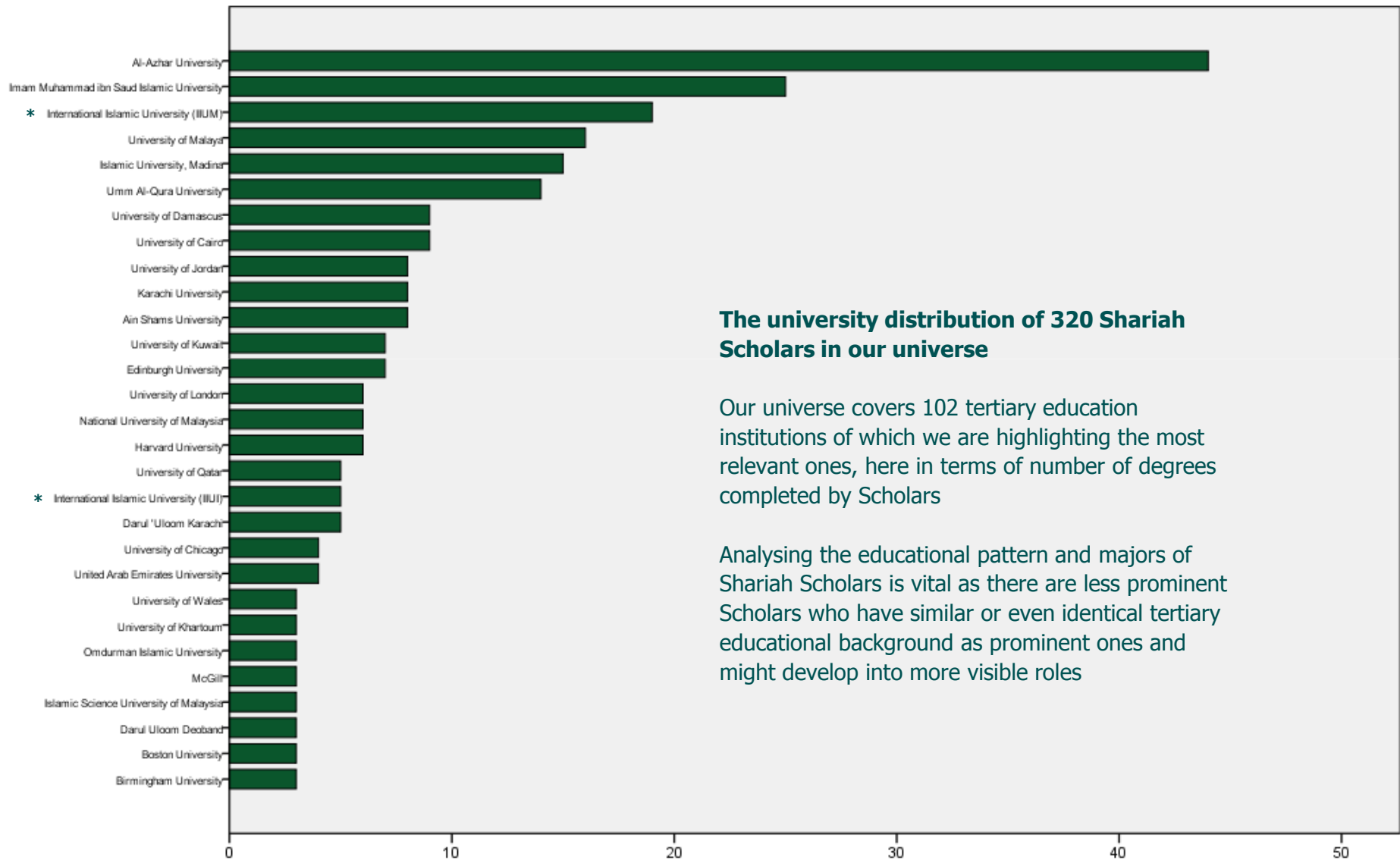
As you can see in 21 out of 30 cases Shariah Scholars have enjoyed education outside the GCC (the blue squares) which seems to be a good predictor for their board membership penetration. These people might find it easier to also link different perspectives and thus act as boundary spanners and assist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



www.shariahscholars.com 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 data used for this analysis is available on www.shariahscholars.com



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.

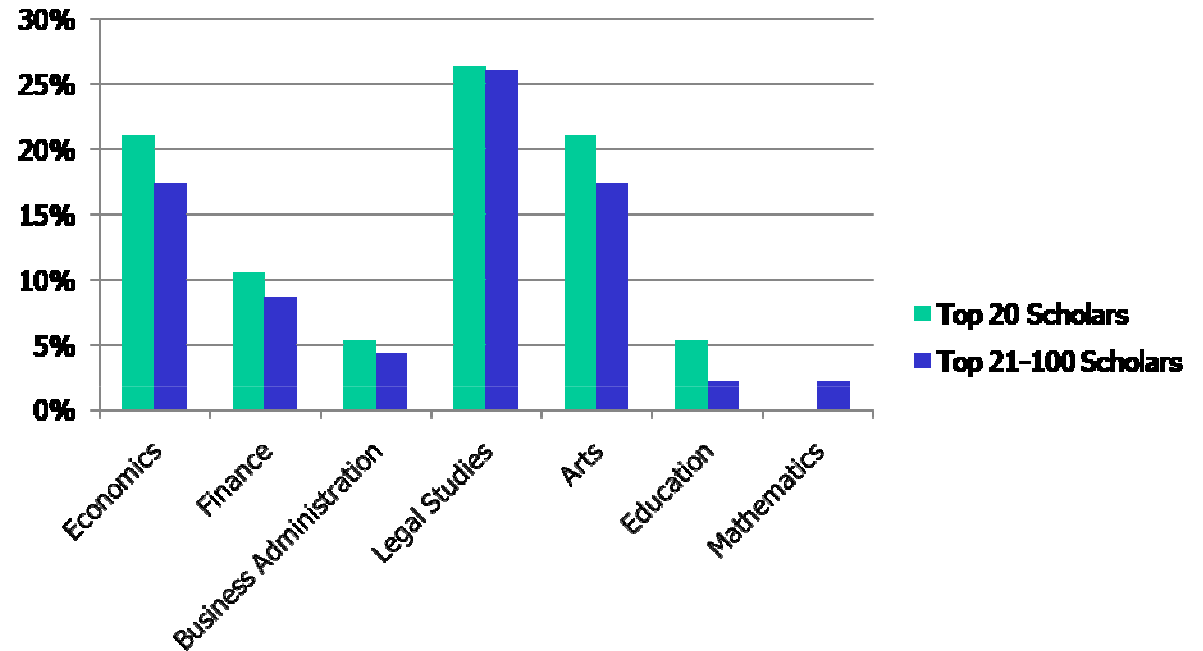
The data used for this analysis is available on www.shariahscholars.com



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





Contribution to Corporate Governance in the Islamic Finance Industry

- This 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
- I am 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. By building on those views with regard to Shariah Governance, I will aim to go beyond the currently suggested measures incorporating state of the art academic research and latest insights
- www.shariahscholars.com going forward should 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



Insights into changes after the cut off date

A dedicated team is now tracking regulatory changes in the Islamic Finance industry and adapt those in the existing database 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



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.



Disclaimer - Others

The binary information on which this document is among others based, has been derived from sources (e.g. personal interaction with market participants, annual reports, audit reports, news feeds, websites of Islamic Finance related Institutions, legal documentation of Shariah products and solutions, existing data from Zawya) believed to be accurate as of 31 July 2010. It should not be considered as a comprehensive statement on any matter and should not be relied upon as such. Funds@Work nor any of its employees or directors gives any warranty of reliability or accuracy nor accepts any responsibility arising in any other way for errors or omissions in this document. Its purpose is to serve as a starting point and provide information into and transparency over a very relevant subject matter thus assisting market participants in the Islamic Finance Industry to take better informed decisions.