

Supervising Islamic Financial Institutions: Islamic Banking in The Countries Compared

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Introduction

In recent era; especially after 2008 financial crisis, various discussions on law-making, supervision and risk management in conventional banking were raised and proper studies were carried out in this regard. It seems that while some issues on law-making and supervision for Islamic financial institutions are the same as those of the conventional financial institutions, a considerable part of discussions proposed on the issue of supervision in the conventional economy can be applied to countries which have attempted to implement Islamic banking.

Though, the issue of law-making and supervision over Islamic banks, due to their nature, in some cases produces certain aspects, but at times economic experts disregard them. One of the issues is Shariah risk. Risk means the danger that the banking system would face, because its activities are not in accordance with Shariah principles and instructions in the banking area. It seems that the conventional economic literature in the area of supervision cannot respond to this need of the usury-free banking system. So it is required to refer to the literature generated in Islamic finance area as well as to Islamic banks' experiences in other Islamic countries (Kahf, 2004, p 25).

Examining the experience of Shariah supervision and minimizing Shariah risk in other countries suggest that most active Islamic banks and institutions have considered this issue through various interpretations such as juridical specialty council, juridical council, Shariah council, Shariah Committee, etc (Mossavian, et. al 2009, p 15; Mohamad 2003, p 13).

Based on what has been said, this study attempts to divide all existing models in the area of supervising Islamic financial institutions to three approaches of minimal, median and maximal, and a country's experience will be studied for each of these approaches. Then while examining Iranian experience in the area of Shariah supervision, we will see that Iranian experience would be placed under the group of minimal approaches. Following, while providing a model for strengthening the issue of Shariah supervision in the country's banking network, the expected advantages and challenges of the proposed model would be discussed and some solutions would be provided to solve the challenges. This study's findings achieved through library research, the vast review of literature and content analysis have provided a proper perspective for initiating the system of Shariah supervision in Islamic country .

This study's chapters are as follows: after the introduction and in the first section, while defining the minimal, median and maximal approaches, some indicators are provided to identify each of these approaches and various countries would be divided based on these indicators. Second section briefly examines different countries' experiences placed in various groups based on indicators. To prevent the verbosity of discussions, in this section only one country's experience (as an example) would be discussed in each group (approaches). After examining the sample countries' experiences in various approaches, in third section, Iranian experience in the issue of Shariah supervision would be discussed and it will be shown that this experience would be placed in the minimal approaches group. In fourth section, Shariah supervision model appropriate for usuryfree banking system in Islamic country (with focus in Iran) during three periods of short-term, mid-term and long-term would be presented. In fifth section, the advantages of initiating Shariah supervision model in the country and also the possible challenges and problems would be examined and elementary solutions for solving these challenges would be provided. Finally, the conclusion, proposed policies and a prospect for future studies would be presented.

It is worth mentioning that though Shariah supervision is not a new issue and as it will be seen in the next section, various studies have examined the issue of Shariah supervision in different countries, but contrasting these experiences, analyzing them, categorizing various supervisory models, highlighting common and different points, examining Iranian current situation and providing an operational model appropriate for Iran in three levels and also examining advantages and challenges of initiating Shariah supervision model, are all discussions which have not been yet studied sufficiently, so the present study is innovative.

1. Minimal, Median and Maximal Approaches in Shariah Supervision

A comprehensive study of the experience to supervise that Islamic financial institutions' performance in Islamic and non-Islamic countries is within Shariah shows that all these models and/or experiences can be placed in three general groups which consist of minimal, median and maximal approaches. This section tries to define each of these approaches and provide applied indicators for each and then the mentioned indicators will be used to categorize the countries.

A) Minimal Approach: minimal approach in Shariah supervision means that law-making institutions should believe that though it is required that Islamic financial institutions be supervised, but this supervision should be performed as least as possible.

B) Maximal Approach: maximal approach in Shariah supervision means that law-making institutions should believe that it is required that maximum supervision be applied to Islamic financial institutions' activities to be within Shariah.

C) Median Approach: this approach falls between the two previous approaches.

As seen in table 1, it seems that at least three indicators can differentiate between various approaches including: "the presence of a single law on Shariah supervision", "the presence of an authority supervision institution outside the institution" and finally "the compulsory nature of Shariah supervision".

The presence of a single law on Shariah supervision means that in the required country, law-making institutions in the money market have passed specified laws on how Shariah supervisors perform their activity and this action was not handed over to the institutions' discretion. But the presence of an authority supervision institution outside the institution means that Shariah supervision should not be limited just to Islamic financial institutions' internal supervisors, but at a higher level (e.g. central bank and the government), there should be another supervisory institution which supervises the performance of Islamic financial institutions' Shariah Committees. Finally, the compulsory nature of Shariah supervision means that all Islamic financial institutions are required, based on law, to be committed to Shariah supervision in their own performance.

Though one cannot claim that the division presented in table 1 is comprehensive and preventive, it seems that various countries can be somehow categorized according to these three proposed indicators. Referring to the present laws on banking supervision in different countries which have Islamic financial institutions shows that based on the proposed indicators, countries such as Saudi Arabia and the United Kingdom are placed under minimal approaches group in supervising Islamic financial institutions. But in contrast, countries like Kuwait and Qatar are placed in the group of countries with Shariah supervision in median level. Finally, most countries can fall under maximal approaches group on Shariah supervision; sample countries include Malaysia, Indonesia, Bahrain, the United Arab Emirates, Pakistan and Sudan.

Table 1:

Various approaches	Indicators identifying the approach	Countries belonging to each approach
Minimal approaches	Lack of single law, the optional nature of Shariah supervision, lack of an authority supervision institution for supervision	Saudi Arabia and Pakistan

Median approaches	The presence of a single law, the compulsory nature of Shariah supervision, lack of an authority supervision institution for supervision	Kuwait and Qatar
Maximal approaches	The presence of a single law, the compulsory nature of Shariah supervision, the presence of an authority supervision institution for supervision.	Malaysia, Indonesia, Bahrain, the United Arab Emirates and Sudan

2. Comparative Assessment of Experiences

After categorizing different countries for Shariah supervision, it seems proper that one country's experience in each group be discussed. This section attempts to discuss the United Kingdom's experience as an example of minimal approaches, Kuwait's as an example of median approaches and Malaysia's as an example of maximal approaches.

2.1. The United Kingdom

Early attempts began in 1980s for establishing an Islamic bank in the United Kingdom, as a non-Islamic country which pays special attention to Islamic banking development (for various reasons). "Al Baraka" bank was the first bank which as an Islamic bank established a branch in 1982 in the United Kingdom. But this was not a successful experience and it was closed after 11 years due to its inability to apply to the instructions of the United Kingdom's supervisory authorities (Housby, 2005, p 13).

Of course since then, the United Kingdom's monetary and financial authorities have always tried to pave the way for legal backgrounds to strengthen Islamic banking in the United Kingdom. Based on these attempts, Islamic banking in the United Kingdom developed well so that at the early 2008, 5 fully-fledged Islamic banks, more than 20 Islamic branches in non-Islamic banks, one Islamic insurance company (Takafol), nine investment funds and an Islamic risk cover fund were working in the United Kingdom (HM Treasury, 2008, p 12).

Regarding the issue of supervising the correct implementation of Islamic banking, law-making authorities in the United Kingdom have the same behavior with Islamic and non-Islamic financial

institutions, so there are no compulsory or legal requirements for Islamic financial institutions to initiate Shariah Committee (Briault 2007, p 16). Therefore, Islamic financial institutions are allowed to establish Shariah Committees, but based on legal criteria in the United Kingdom, this committee is only authorized to offer advice or supervision. Therefore, financial institutions cannot consider administrative power for these committees.

The performance of five existing Islamic banks in the United Kingdom shows that all these institutions attempted to form Shariah Committees. For example, “The Islamic Bank of Britain” and “European Financial House” use three-member advisory committee, “Bank of London and The Middle East” and “European Islamic bank” use four-member advisory committee and finally “Gatehouse Investments Ltd company” uses one advisor.

It is worthy to note that though law-making authority in the United Kingdom does not interfere with many issues related to Islamic banking, but issuing Islamic bonds for having benefits for this country, is a different issue. HM Treasury clearly stressed on the necessity to form international juridical committee to confirm that issuing Islamic bonds by the government in the United Kingdom is within Shariah (Zulkifli 2010, p 15).

2.2. Kuwait

Kuwait is also among Islamic countries which have paid attention to Islamic banking. Basically the second article in the Constitution of Kuwait has stated clearly Shariah is the main source of law-making and Islam is the formal religion of the country. This has affected the law-making in banking activities so that any kind of receiving or paying usury (interest in a loan contract) is formally forbidden according to 305 and 547 legal articles in the Kuwait civil law. But there are other laws passed in Kuwait which exclude economic activities from the legal articles related to forbidden interest. Therefore, receiving and paying interest is allowed in commercial activities (Ballantyne 1985, p 5).

In terms of laws on Islamic banking, part 10 of Kuwait central bank’s law (articles 86-100) is about this issue. In fact in this part, conditions and legal problems related to Islamic banks and financial institutions are presented. For example, article 86 clearly states that the central bank is in charge of law-making for Islamic financial institutions’ activities.

Also this article defines Islamic bank as an institution which carries out banking activities within Islamic Shariah framework. In addition, in this law, contracts and tools which Islamic banks can use are not stated and this allows for using various contracts and tools for Islamic financial institutions.

Shariah supervision is performed in Kuwait relying on article 93 of central bank's law. Based on this article, all Islamic financial institutions are committed to establish an independent Shariah Committee through selecting general assembly. Unlike Shariah supervision system in other countries and based on law, financial institutions' board cannot play a role in selecting Shariah Committee's members. According to this article, the number of Shariah Committee are at least three members and Islamic financial institutions are committed to insert the establishment of Shariah Committee in their statute and explain clearly in it the supervisory authorities, functions and mechanisms of these committees.

It is worth mentioning that in Kuwait though the central bank is active in lawmaking area on Islamic financial institutions, it has no special role in the area of Shariah supervision and it has handed over this task completely to Shariah Committees working in financial institutions. Lack of central juridical council in the central bank may be problematic in certain conditions when there is disagreement among juridical committees' members of Islamic institutions. To solve this problem, the central bank's law of Kuwait introduced Fatawa board which works in Kuwait Ministry of Awqaf and Islamic Affairs as the final authority to resolve disputes in Islamic banking area.

It should be also mentioned on the reporting structure of Islamic banking that according to the Kuwait central bank's law, Shariah Committees in Islamic financial institutions are committed to complete and present Shariah report to the general assembly. Also it is required that these reports be present at the annual reports prepared by Islamic banks.

2.3. Malaysia

Unlike Saudi Arabia's central bank which does not interfere with Shariah supervision, Malaysian central bank and other supervisory institutions are quite active in this area and numerous laws have been passed on this issue. The ratification of Islamic banking law in 1983, Takafol law in 1984, Securities Commission Act in 1993, Banking and Financial Institutions Act in 1989 and Malaysian central bank's Act in 2009 are samples of these approvals (Hasan 2007, p 13).

Malaysian central bank established Shariah National Advisory Council in 1997 to coordinate Shariah perceptions and interpretations, and offer advice to the money and capital market participants and the like. This council which is a formal and legal institution in Malaysian central bank, is considered the highest supervisory authority in relation to the activities of Takafol's institutions and banks. Supervising Islamic banks and Takafol insurances' activities to be within Shariah, continued

relation with Shariah boards active in banks and financial institutions, offering advice to Malaysian central bank's authorities on the operation of Islamic banking and Takafol, providing necessary coordination for Shariah issues related to the banking and analyzing Shariah dimensions of generated financial products are considered the main actions of this council. It is worthy to note that correcting the law related to Malaysian central bank in 2003 allowed for more authorities for this council. Identifying this council as the final decision-making authority on Shariah issues in Islamic finance area, the increase in the council's independency and preventing its members to become a member of Shariah boards in banks and financial institutions are among these cases (Mossavian, et.al 2009, p 17).

In addition to Shariah supervisory board in Malaysian central bank, all Islamic banks and institutions working in Malaysia are required to form Shariah specialty committees based on instruction passed in 2004 in Malaysian central bank and lack of such committees in Islamic financial institutions is considered as an illegal action. The main duty of these committees is to have enough supervision on financial institutions' operation to be within Shariah and to offer advice to banks' authorities and people and also to confirm financial institutions' activities by signing "in accordance with Shariah instruction" (Malaysian Securities Commission 2006, pp 29-30).

It seems that examining Shariah supervision instruction which was presented by Malaysian central bank in 2004 can prove useful. A detailed study of this instruction written in 10 sections, 24 parts and an indicator shows that goals, activity area, how to join the committees, limitations, duties, responsibilities and how banks and financial institutions' Shariah Committees report, are well mentioned in it (SC 2009, p 15).

Article 8 of this instruction has obliged Islamic financial institutions' board to propose Shariah Committee's members to the central bank. The committee's members work for two years which can be extended to two more years if the central bank approves. Article 20 also presents a detailed job description of Shariah Committee including offering advice to the board on the legitimacy of the institution's activities, formulating instructions and administrative mechanisms approved by Shariah, confirming related documents from juridical point of view, helping solve the juridical problems depending on various units' request, formulating regular reports about the extent to which financial institutions' performance is within Shariah and providing it to the Shariah Advisory Council in the central bank and having proper cooperation with Shariah Advisory Council in the central bank. Article 21 also proposes given duties for Islamic financial institutions against Shariah Committees. These duties include referring juridical issues and problems to the committee, carefully implementing Shariah Committee's approvals, easy access of the committee's members to the required information,

easy access of the committee's members to the required documents, providing required facilities for committee's activity and finally paying fees to the committee's members for their activities.

2.4. Indonesia

Indonesia, as in many Islamic countries, Islamic banking and conventional banking system has two types. Monitoring practices sharia banks in Indonesia, is done at two levels.

Faculty of Law (National or Shariah Board / DSN) :

This committee was formed in 1999 by the Indonesian Council of Ulema. National Shariah Board is an independent institution that is recognized by the Central Bank of Indonesia. Jury duty, issuing orders related to the Islamic banking products and services.

The Sharia Supervisory Board (SSB / DPS / Shariah Supervisory Board) :

All of the islamic banking in Indonesia are required to have legal supervisory board. The Board would monitor the activities of the banking system as a collaborator of the Central Bank of Indonesia plays an important role.

Furthermore, a legal observer delegations are required every six months to report its findings to the Sharia Supervisory Board, the National Council and the Central Bank of Indonesia to provide Shari'ah.

2.5. Iran

After passing usury-free banking law in the country in 1983, no institution has been in charge of supervising the proper implementation of this law and this led to the suspicion that the banking system performance is somehow usurious in some activities after about three decades since implementing usury-free banking law. It seems that this presupposition is formed in the minds of authorities and administrators that confirming usury-free baking law by the Guardian Council and proving that it is not against Shariah doctrines and Constitution guarantees that it is performed correctly and passing this law guarantees that banking system has become Islamic. While it seems that correctly implementing usury-free banking law needs other cases rather than law (assuming it is perfect) and these cases should be taken into consideration outside the area of the Guardian Council. For example, the issue of supervising the correct implementation of law is one of these cases which has not received much attention during almost three decades of Islamic banking experience in the country.

Fortunately, during the recent years, bank's authorities have turned their attention to this issue to some extent and a council called "Advisory Council for Banking and Islamic Finance" was formed in Monetary and Banking Research Institute in the central bank of Islamic Republic of Iran in 2004. This council composed of juridical, economic and banking experts has examined Shariah issues and doubts

raised in usury-free banking area and proposed some suggestion for improving the current situation. Also this council has provided some suggestion for Money and Credit Council on some cases through examining new banking tools.

The above-mentioned council was transferred after two years to the banking assistant department in Ministry of Economic Affairs and Finance and examined challenges and barriers to the correct implementation of usury-free banking with a more coherent team. This council after three years, in addition to examining the current issues in the banking system of the country, proposed a plan called "a new model for usury-free banking in Iran". This plan was presented in various domestic and international scientific circles and it seems that implementing it can remove some of usury-free banking problems in the country (Mousavian2010, p 11).

After management changes in the central bank and in early 2010, a council called the juridical council of the central bank in Islamic Republic of Iran was formed in the central bank. This council consisting of juridical, economic and banking experts, works to supervise that newly proposed tools are in accordance with Shariah principles. The above-mentioned council, though has no formal and legal position, has prepared numerous approvals for various issues which include formulating Shariah instructions for issuing participation securities, formulating Shariah instructions for issuing certificate of deposit currency, formulating Shariah instructions for using future currency transactions to cover risk, devising inter-bank transaction tools in usury-free banking, formulating Shariah instructions for repurchase agreement or repo in usury-free banking and formulating Shariah instructions for different applications of purchasing loan (Mousavian2010, pp 12-13).

So based on what is suggested, the experience of Shariah supervision in implementing Islamic banking in Iran can have special aspects. First, banks and financial institutions are not committed to establish a juridical committee; second, the juridical committee of the central bank as the supreme juridical authority in Islamic banking area enjoys no legal position and only has advisory authorities; third, there is no law on Shariah supervision. Fourth, no section within the central bank or within financial institutions is committed to consider contracts used in the institution are within Shariah and that both parties signing the contracts in the bank have a correct understanding of what they are signing, etc which are all within the most primary presuppositions for correctly implementing usury-free banking law in the country. According to these points, one can claim that the present model of Shariah supervision in the country would be placed in minimal approaches group for Shariah supervision.

3. Shariah Supervision Model for Islamic Banking System in the Islamic Country

As said before, though Islamic Republic of Iran is among few countries which have passed usury-free banking law, all institutions are working based on Islamic banking and conventional banking has no place in it, in comparison to other countries, Shariah supervision is not in a proper situation. In fact, according to the proposed indicators in previous sections, Iranian supervision model falls under the group of countries with minimal Shariah supervision on Islamic financial institutions. A model in which no financial institution enjoys a juridical council with definite legal position, the juridical council of the central bank has no definite legal position and only has advisory authorities and there is no law for Shariah supervision.

Based on this point and regarding the necessity of fully implementing economy and Islamic banking in an Islamic country like Iran, it seems that a comprehensive model for providing the task of Shariah supervision in usury-free banking system is required to be presented in the country using other countries' experiences (as it is seen, they have acted more strongly than Iran on Shariah supervision). Certainly, this point should be taken into account that the operational model of Shariah supervision for Iran should be devised gradually and through trial and error test and in interaction with existing laws and conditions in Iran. Therefore, we cannot expect that Shariah supervision model be created suddenly in Iranian banking system, but this process requires a proper planning and the central bank's serious attempt and financial institutions' cooperation and this process should take place step-by-step.

Based on the studied experiences and presented analyses in the previous sections, the following administrative model for developing Shariah supervision system in usury-free banking in the country that their Shariah supervision system is in Minimal approach can be offered for short-term, mid-term and long-term periods as follows:

First, short-term: it is suggested that a Shariah supervision teamwork (supervision on implementing Islamic banking law) be formed in short term in supervisory section of banks and financial institutions of the central bank and the juridical council of the central bank be integrated in it. It is required that the legal position of this teamwork be defined exactly. It is better in the short run to consider just the advisory responsibility and at maximum, the supervisory responsibility for this institution which is regarded as the supreme juridical authority in the banking area.

Second, mid-term (2-4 years): it is suggested that in mid-term the administrative authorities be handed over to Shariah supervision teamwork of the central bank. So it is required that units under Shariah supervision teamwork be formed and work as the administrative hands of this teamwork. It is also suggested that all active banks and financial institutions in the country be authorized to form a juridical committee in their own institutions (if they wish). Certainly, it is proper to just consider

advisory and supervisory (and not administrative) authorities for these committees in mid-term. In addition, it is necessary that the central bank formulate instructions on the establishment and activity of juridical committees and carefully identify the criteria relating to the establishment and activity of these committees (including duties, authorities, how to be elected, the activity period and etc) and provide authorities for institutions to form juridical committees and impart them to all banks and financial institutions simultaneously. It is proper that the central bank provide some incentive measures for institutions which attempt to establish juridical committees.

Third, long-term (4-6 years): it is suggested that all banks and financial institutions be committed to juridical committees' establishment under the central banks' Shariah supervision teamwork in the long run. Also is it required that in addition to advisory and supervisory authorities, the administrative duties be considered for active committees in the central branches of various banks so that they are authorized in practice to prevent implementing processes, contracts and relations which are somehow problematic within Shariah.

It is also required that the central bank continuously improve Shariah supervision instruction. In addition, it is proper that the central bank's Shariah supervision teamwork attempts to formulate "Islamic banking indicator" defining some special and measurable elements (e.g. the contracts used in the institution are correct) and annually state it for all banks and banking institutions. This indicator which can vary in the range of zero to hundred, shows the extent to which a financial institution's performance is Islamic. Having the institutions committed to provide this indicator to the public, creates competitive backgrounds among financial institutions to strengthen their Islamic performance to attract more customers.

4. Expected Advantages and Challenges for Implementing Shariah Supervision Model in Islamic countries

4.1. Expected Advantages

It seems that applying the proposed model in this study in Shariah supervision area can have the following advantages for banks, financial institutions and the whole finance system of the country:

1. An increase in the public trust that the banking system's performance is Islamic.
2. An increase in the banks, financial institutions and the public trust in other countries that Islamic banking system's performance is veritably Islamic.
3. Strengthening the supervision on the statute, instructions and contracts used in financial institutions to be in accordance with Shariah principles.
4. Allowing for understanding the problems of implementing Islamic banking in practice and attempting to remove them.

5. Strengthening the supervision on the correctly implementing laws on Islamic banking in various institutions.
6. Strengthening the required backgrounds for updating laws and instructions in proportion with financial institutions' need.
7. Strengthening the possibility to regulate statutes and administrative instructions for implementing Islamic banking proportionate to financial institutions' practical needs.
8. Strengthening backgrounds for designing and applying new tools and methods for Islamic banking.
9. Strengthening the education of banking system interest groups (management, staff, depositors and the receivers of facilities) on the generalities of Islamic banking and criteria related to various contracts.
10. Creating coordination and integrity in Shariah interpretations and differences in finance and banking activities area and designing contracts in such a way that the least juridical differences take place.
11. Providing qualitative and quantitative frameworks and standards for having the banking operation in accordance with Islamic Shariah.
12. Supporting the researches pertinent to Islamic tools and the effort for having them applied.
13. Commenting on juridical doubts in some finance tolls and providing proper solutions.
14. Preparing a list of controls related to Islamic banking for supervisors to do their inspection.
15. Determining the least Shariah standards (positive and negative) for various contracts.
16. Providing the indicator that banking operation and banks and Islamic financial institutions' rating is within Shariah and publishing this indicator for depositors and investors periodically.
17. Formulating accounting and auditing standards for Islamic banks and attempting to apply them in Islamic financial institutions.
18. An increase in the interaction possibility between Islamic banks in Iran and in other countries through creating a connection among juridical committees

4.2. Possible Challenges and Solutions

It seems that there are challenges in making the proposed model applied which is based on forming the authority juridical committee in the central bank with forming juridical committees in all financial institutions. Following some of the most important challenges and elementary solutions would be presented.

A) Being Cost- Intensive

One of the drawbacks of the proposed model may be that it is cost-intensive. It means that forming juridical committees in financial institutions which are profit institutions in nature and look for maximizing their own benefits, is a cost-intensive action. Though, implementing the proposed model in the area of forming and strengthening the duties of the central bank's juridical committees is justified, forming this group of committees in banks and financial institutions is not economically justified. In response to this, it can be said that first, implementing Islamic banking is a cost-intensive action and it is required that banking system pay the related costs. Also strengthening the Islamic aspect of banking system's performance can strengthen the amount of deposits attracted in the banking system by increasing the public and religious scholars' trust, so correctly forming these committees can also have economic benefits for the institutions. In addition, correctly implementing the proposed model and the proper management of the central bank in this regard (e.g. formulating and publishing Islamic banking indicator periodically) would lead to a competitive atmosphere among various institutions so that they will try to attract more deposits through increasing the extent to which their performance is Islamic.

B) Interfering with Banks and Financial Institutions' Internal Affairs (Corporate Governance)

The central bank, banks and various financial institutions have different and varied sections; each of them has a special task. Forming a special institution under the name of juridical committee in the central bank and/or in the financial institutions may cause this committee's tasks interfere with those of other institutions. A solution suggested for this challenge can be to regulate the instructions related to Shariah supervision in the central bank so that the function and/or the juridical committee's special tasks in the financial institutions to be exactly clear in such a way that there will be no interference between the tasks of this section with those of other active sections in the institution.

C) The Shortage of Specialized Forces to Attend in Juridical Committees

Considering the number of banks and financial institutions, it seems that at present there are not sufficient specialized forces to attend in these committees and also there is no authority to determine individuals' eligibility in Islamic banking area. It seems that the solution for this challenge in the short run is to allow the juridical committees' members to attend in more than one committee (within a given framework) and in the long run to train specialized forces for this area. Also Shariah supervision teamwork in the central bank can take exams, oral or written, periodically and provide various certificates to the individuals with least competencies in the Islamic banking area.

D) Differences among Juridical Adjudications

One of the problems that juridical committees can face in the proposed model is that there are differences between jurists. For example, some religious authorities consider a kind of contract as legitimate and some do not consider it permissible and this can cause differences among juridical committees' members of an institution and/or juridical committees in various institutions. The solution proposed for this can be first, to strengthen the position of the central bank's teamwork to solve these problems and second, to familiarize committees' members with different viewpoints and to attempt to regulate activities related to Islamic banking in such a way that maximum jurists' viewpoints are included.

5. Conclusion, Suggested Policies and the Perspective of Future Studies

This study tried to review the existing experiences and models of other countries on the issue of supervising the implementation of Islamic banking and categorizing them in three groups (minimal approaches, median approaches and maximal approaches) and a country's experience has been examined for each of these approaches. Then while studying Iranian experience in Shariah supervision, it has been seen that Iranian model is placed within the minimal approaches group and regarding the various advantages that Shariah supervision can have for the banking network, it is proper that this model be strengthened. Then, while proposing a model for strengthening Shariah supervision in the banking network of the one Islamic country with minimal supervision system, expected advantages and challenges for the proposed model were discussed and some solutions were presented. The findings of this study show that the benefits for initiating Shariah supervision are considerable and its disadvantages are controllable.

The proposed policies in this study suggest that supervisory authorities for money market in the Islamic countries should pay much attention to Shariah supervision. In fact, they should try to consider the prototype model proposed in this study and through developing it in various dimensions, pave the way for initiating Shariah supervision system in financial institutions of the country. Specifically it is suggested that:

- A) The central bank and not other supervisory institutions should be in charge of supervising the correct implementation of usury-free banking in the country.
- B) It is better that the central bank's juridical council have a formal and legal position and also have its authorities increased from advisory level to the supervisory (supervising the correct implementation of Islamic banking) and administrative levels (the power to prevent activities considered not within Shariah).
- C) It is better that the central bank provide the necessary legal backgrounds for forming "juridical committees" in active banks and institutions in such a way that every bank would

have an independent juridical committee and this committee would provide advisory and supervisory services to all branches of the mentioned financial institution.

- D) It is required that in the first step, the central bank's juridical council prepare the administrative statute for forming juridical committees in Islamic financial institutions of the country (including how to choose the members, the framework of the activity, how to formulate the annual report on the institution's Sharia performance; juridical committees' authorities, tasks, laws and duties against the board, general assembly and other sections of the bank, etc) and impart it to all financial institutions in the country.
- E) It is better that the central bank's statute be regulated in such a way that there will be maximum interaction (least interference) between financial institutions' juridical committees and other specialized sections.
- F) It is better that the central bank's statute be regulated in such a way that it will allow for the proper competition between various financial institutions regarding correctly implementing Islamic banking, using new contracts and methods, etc.
- G) It is better that in short-term, due to the lack of specialized forces to implement Shariah supervision task, the central bank's statute be regulated in such a way that juridical committees' members of an institution can attend in other institutions (within a given framework).
- H) It is better that the central bank's statute provide computable indicators on implementing usury-free banking and ask the institutions' juridical committees to score financial institutions' performance based on these indicators. These scores at the end of financial year should be in the report of the institution's juridical committee to the general assembly, the board, central bank and the public. Therefore, financial institutions' depositors and customers can choose between different institutions based on the score of "to such extent the performance is Islamic" and this would prepare the way for competition among financial institutions in implementing usury-free banking.

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