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Saudi prince leads banking revolution

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JEDDAH (Reuter) - A Saudi Arabian prince is leading a quiet revolution in the Moslem world.

Prince Mohammed al-Faisal is spearheading a drive to create banks that operate under Islamic law. And in just three years, a network of Islamic banks has been established stretching from Pakistan through the Arab countries of the Middle East to Switzerland.

Now Moslem bankers are lining up to join the Islamic Banks International Association. It is based in Jeddah and obeys the rules of Islam, which prohibit the payment of interest on deposits or loans.

Prince Mohammed, the association's president, said 15 banks want to join the existing 10 Islamic banks that are changing the face of banking in the Moslem world.

Islamic banking is based on the Koranic bar on usury, defined by some Islamic authorities as excessive interest rates and by others as any interest rate.

Islamic banks, however, can make a profit because religious law condones the ideas of private property and wealth and the use of credit for productive ventures.

Prince Mohammed, son of the late King Faisal, explained that the recent emergence of Islamic banks alongside the established commercial banking systems reflects the desire of Moslems to obey religious law.

"We had been living with a schizophrenic type of arrangement. On the one hand, we knew we were doing something wrong in accepting interest and on the other we didn't admit it," he said.

The prince said that as education and awareness increased, people began to demand that something be done about the situation.

He added that in researching an advanced banking system that would meet Moslem needs, it was found that the monetarist outlook in the world economy might be one reason for the cyclical problems of recession and inflation.

"In our research to find the ideal Moslem system, we may also be able to solve the major economic problems of the world."

The research, which began 15 years ago, led to the formation in August, 1977, of the Islamic Banks International Association, which co-ordinates **Islamic banking** world-wide.

The founding banks were the Nasser Social Bank of Egypt, Faisal Islamic Banks of Sudan and Egypt and Dubai Islamic Bank.

Now they have been joined by three Islamic banks in Pakistan, Kuwait Finance House, Bahrein Islamic Bank and Islamic Investment Co., registered in Sharjah in the United Arab Emirates and operating from Geneva.

The Jordan Islamic Bank, the Jeddah-based Islamic Development Bank and the Islamic International Bank of Cairo are observers.

Prince Mohammed said that while the association has applications to establish 15 new Islamic banks in various countries, "we have been delaying because we want to feel our way in the market."

Association officials said the existing members have more than $1-b illion (U.S.) in deposits and capital, double the figure of a year earlier.

The Islamic banks use a wide range of banking techniques, from travellers' cheques to foreign exchange and transfer payments. They differ from ordinary commercial banking in that the business is conducted for fees or a share of the profit rather than interest payments.

Under the system, called murabaha, a bank depends on the person or company receiving its cash to make a profit. If a loss is incurred, the Islamic bank shares the shortfall.

Selecting customers is therefore an important part of the Islamic bank manager's job.

The Geneva-based Islamic Investment Co., for example, is active in the commodity markets, buying and selling contracts for everything from gold to farm produce. Only interest-bearing instruments such as U.S. Treasury bills and bank deposits cannot be used in managing money.

The Islamic Development Bank, set up under the auspices of the 41-m ember Islamic Conference, is a major source of funds for development projects, with financing on the profit-sharing principle.

Plans are being drawn up for an Islamic central bank, perhaps centred on the Islamic Development Bank.

The whole movement received a boost when the central bank governors of Islamic countries meeting in Riyadh agreed to set up a committee to study ways of establishing an Islamic economic system.

From banking, Islamic economics has spread to insurance, which in its normal western form is barred by Islamic law.

Ibrahim Kamel, Islamic Investment Co. executive vice-president, said his firm ran an insurance trust that was more than 10 per cent profitable to participants. A car insurance trust made a profit of more than 15 per cent in the first six months this year, he added.

In all spheres of **Islamic banking** and finance, the rewards are good, association officials said. They expect profits of 15 to 20 per cent from the ventures, healthy by the most stringent standards.

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