

Dubai's Islamic bank mystery and the case for reform

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What's going on with Dubai Islamic Bank? The emirate's financial community is abuzz with speculation, following a spate of arrests of former employees in a widening corruption probe.

Much to the disappointment of business, the details of the inquiry into the city's largest Islamic bank are a mystery. Also unclear is whether there is any connection to another probe into Deyaar Development, DIB's real estate affiliate.

Although several people have been detained, the Dubai authorities have not bothered to issue statements, hold press conferences, or otherwise inform the public about their progress or disclose whether anyone has been charged.

The police, government and public prosecutor did not even react when a Pakistani banker, one of the detainees in the DIB case, alleged that he had been tortured. Rafatul Islam Usmani has pressed charges against the bank, filing his case in the US because, he says, he has no faith in Dubai's legal system.

DIB, which is 30 per cent owned by the government, has said little, beyond telling the market that the investigation would not have an impact on its financials. On Sunday, amid all the controversy, the bank won a regional magazine award as the year's "Best Islamic Bank".

None of this, of course, is a surprise to people who know the Middle East, a region of opaque legal systems, rife with accusations of human rights abuses. But this is Dubai, an ambitious little city-state on a frenetic drive to establish itself as an international business centre.

The emirate has invested in building its brand and in creating the infrastructure that business wants. Its selling pitch has been remarkably successful: the world's top financial institutions have all set up a base there to service a region flooded with petrodollars.

The Dubai International Financial Centre is the main attraction. Created as a sort of superior parallel system, it promises to apply international standards that are many steps ahead of domestic laws. It fancies itself as a future hub of international arbitration, having set up a centre in partnership with the London Court of International Arbitration. And it has its own corporate governance institute, with a mandate to promote corporate governance and institution building across the region.

But Dubai's ambitions do not always square with the realities on the ground. The DIFC's protection goes only so far - for all criminal cases it is the United Arab Emirates federal law that applies. And that system, as one lawyer says privately, "horribly lags behind the buildings, the money, the salaries and the marketing of Dubai".

It is obviously a step in the right direction for the Dubai authorities to be investigating fraud allegations in government-affiliated institutions. The emirate has been desperate to shed the image of a haven for all sorts of dubious activity, including money laundering (and the central bank has tightened the rules there). In the past, financial irregularities were quickly swept under the carpet, avoiding Dubai the embarrassment.

But what is the point of proactive police action unless it carries assurances that detainees are treated fairly and that the legal system will not be abused? Diplomats tell us that the UAE regulatory and legal system is not as dysfunctional as other places in the Arab world. But a US state department human rights report is disquieting: it notes that the judiciary's independence is questionable and, although the constitution prohibits arbitrary arrest, the law permits indefinite prolonged detention without appeal. Judges can renew 30-day extensions to the detention period indefinitely and without charge.

Lawyers and companies flocking to Dubai are well briefed on the shortcomings of the system. Unfortunately, they are loath to criticise it openly, lest they irritate the authorities or lose business. The muted reaction eases the pressure. But if Dubai is to call itself an international financial centre, then it is in its own interest to be making the case for transparency and legal reform across the UAE.