

**Contemporary Issues
in**

Islamic Law

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Serials

CONTEMPORARY ISSUES IN ISLAMIC LAW

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Regulation of Islamic Banks and Allegations of Lax Control of Money-Laundering

Norhashimah Mohd. Yasin

Introduction

In recent years, particularly since the terrorist attacks in New York on 11 September 2001, the spotlight has been cast on the role of Islamic Banks in money laundering and terrorism financing. The main allegation, particularly from American law enforcement agencies and the US State Department,¹ is that regulations of Islamic banks is lax compared to that of conventional banks. The allegations are often of a blanket nature and do not distinguish between countries. It is notable that the Financial Action Task Force (FATF), which is the leading body for the combating of money laundering and terrorism financing, has not passed such type of comment in any of their reports.

The State Department said:

"Some terrorist groups may also use Islamic banks to move funds. Islamic banks operate within Islamic law, which prohibit the payment of interest and certain other activities. They have proliferated throughout Africa, Asia and the Middle East since the mid-1970s. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere. Many of these banks are not subject to a wide range of anti-money laundering regulations and controls normally imposed on secular commercial banks nor do they