Volume XXXII
Autumn 2021
£5.95

ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

ARAB BANKS AND THE BATTLE AGAINST LONG COVID

LATEST BANKING DEVELOPMENTS IN PALESTINE

REASONS FOR OPTIMISM IN LIBYA

BAHRAIN ADJUSTS TO NEW ROLE AS FINANCIAL CENTRE

CLIMATE CHANGE AND ENERGY TRANSITION IN THE MIDDLE EAST

FINANCIAL CRIME AND COMPLIANCE IN THE MENA REGION

TRUST STRUCTURES FOR WEALTH PRESERVATION IN THE MIDDLE EAST

Arab Bankers Association
جمعية المصرفيين العرب

Volume XXXII, Autumn 2021

Contents

Contents

ARAB Banker

***Arab Banker* is the global magazine of the Arab Bankers Association (ABA)**

43 Upper Grosvenor Street
London W1K 2NJ, UK

Telephone + 44 (0) 20 7659 4889
Fax + 44 (0) 20 7659 4868
Email office@arab-bankers.co.uk

George Kanaan
Chief Executive Officer
gkanaan@arab-bankers.co.uk

Andrew Cunningham
Editor in Chief
acunningham@arab-bankers.co.uk

Hanan AlMasood
Business Development and Public Relations
halmasood@arab-bankers.co.uk

Gabriella Sidoli
Accounts and Administration
gsidoli@arab-bankers.co.uk

Talar Joulhajian (in Beirut)
Business Development
Telephone: + 961 1 991620
tjoulhajian@arab-bankers.co.uk

***Arab Banker* is designed and printed by JPS Print Consultants**
P O Box 1048, Beaconsfield, Bucks, HP9 2YF
Phone: 0800 0834 827
info@jpsprintconsultants.com

For enquiries about advertising:
George Kanaan,
CEO, Arab Bankers Association

For enquiries about editorial:
Andrew Cunningham,
Editor in Chief, Arab Bankers Association

Business Initiatives
and Enablers Development Center

Riyad Bank is under supervision and control of the Saudi Arabian Central Bank

Launching for the first time in the Kingdom..

Tourism Partners
Program

25 Goals

Financial and Non-Financial supporting Tourism Sector allocated to 5 Business Segments: Small, Medium, Large, Extra-Large and Iconic Projects

Will be..
Realized in 2021

Joint Key Performance Indicators
Between Public and Private Sectors

Financing Transactions
Up to..
2 Billion Saudi Riyals

Tourism Destinations
7 Across the Kingdom and part of the National Tourism Strategy "NTS"

Accommodation
36 Projects

Modern Lifestyle
46 Projects

Experience & Adventures
31 Projects

Activating.. the signed agreements between both parties

Complementing.. Private sector partnership reinforcement program "Shareek"

Executing.. the strategy of both parties towards the Tourism Sector

Achieving.. tourism targets in Saudi Vision 2030

بنك الرياض
riyad bank

Tourism Development Fund
صنـــدوق التنمـــية السيـــاحي

riyadbank.com
bied-tdf@riyadbank.com

Back to Work in the Shadow of Covid-19

I had hoped it would have been otherwise, but we are not going back to work after Covid-19, we are going to live with the virus and under its long shadow.

It is certain that the UK has done better than other countries with its vaccination program. Vaccines do what they are supposed to do, but they are not bullet proof, and many people remain unconvinced of their efficacy, leaving large segments of the population unprotected. In many other countries, Covid rages on and fear remains rampant. Meanwhile, the threat of new variants is ever present.

Learning to live with the virus presents banks with multiple challenges. In July, we held a webinar on '*hybrid*' working – one such challenge. Many questions were raised but few answered. Undoubtedly, the productivity of certain personnel is superior while they work from home. If a bank chooses to take advantage of that, it is left with the problem of integrating staff into a working team. What happens to the '*culture*' of the firm? If a bank chooses to have everyone return, it may end up losing some staff who do not wish to face the long, crowded commute to work via public transport. Are staggered working schedules a solution?

Matters can get complicated when considering staff who have worked happily from second homes in foreign locations – in some instances to the advantage for their banks. What regulatory and legal issues arise if this practice continues? What cyber security threats could ensue and how well can they be addressed? This is not to speak of the serious managerial challenges that arise when teams are widely dispersed between offices, homes, and far-flung locations. How is performance monitored? Does monitoring matter or do we have to resort to management by objectives, almost on a project basis?

None of us will be surprised if the pandemic leads various institutions into changing business models. How does private banking work if traveling remains constrained? Many of banks' wealthiest clients are old and movement during the pandemic presents them with increased threats. Can technology make up for the gap and can technological solutions be made safe and reliable? Banking is a business based on relationships and human contact. Within a country, the pandemic presents no challenge, but cross-border interactions need to be replaced, at least to a certain extent, by other means. Longer term, this will probably be unworkable and other solutions may have to be found. The architecture of banking may have to change.

In the face of a pandemic such as we have had, we have to be adaptable and resilient. Our members have survived difficult times before and have demonstrated that they possess these qualities to an excellent level. After all, we belong to a part of the world in which normal life is a continuing stress test. With this, I remain optimistic about their future. Arab banks will do well for themselves and for the City of London. The Global Financial Crisis did not faze them, neither did the Arab Spring, nor did Brexit. Our members will survive the Covid pandemic and come out stronger.

The Arab Bankers Association has adapted itself to the pandemic by resorting to the use of webinars in lieu of seminars and other in-person events. With this, we were able to achieve our professional objectives and remain useful to our members. We had extremely valuable sessions with both of the UK's bank regulators using teleconferencing methods. We have been successful in retaining our membership which rose to the challenge of keeping us financially stable in the face of the loss of our income from events.

However, we look forward to the day when we can return to in-person events, albeit safely and considerately. In truth, there is no replacement for personal contact and its contribution to our well-being professionally, socially, and psychologically. Zoom can get us this far, but no further.

One of our great achievements has been our ability to produce this magazine twice during this difficult period. I congratulate our Editor in Chief and his co-workers on this accomplishment. I am also grateful to the members who have supported them in this wonderful effort. I hope you enjoy the second issue in times of Covid-19 – the ninth since we relaunched it in 2013 – and derive sustenance from reading it.

George Kanaan
Chief Executive Officer
Arab Bankers Association

Covid and climate change dominate the Arab banking agenda

Covid and climate change are the two big themes addressed in this year's edition of *Arab Banker*. Both are having a direct effect on banks' performance and their prospects for the future, but in both cases the impact on banks is also being driven by the ways in which Covid and climate change are influencing social and political attitudes both globally and in the Middle East.

Eighteen months after the start of the Covid pandemic, it is clear that we are very far from conquering the disease, despite effective mass-vaccination programmes in many Western countries. On pages 12–13, I review some statistics on Covid infections and deaths in the Middle East and conclude that the publicly available data do not give us a good indication of the extent to which the pandemic is raging or under control in the region. The biggest danger for some Middle East countries seems to lie in complacency.

The articles on credit ratings (pages 28–29) and our annual survey of GCC banking (pages 43–45) demonstrate that Covid has had little effect on banks' profitability and solvency, thanks largely to the economic support measures introduced by national governments. But Ahli United Bank's Adel El-Labban (pages 14-15) and HSBC's Gareth Thomas (pages 52–53) address some of the more fundamental ways in which banks are adjusting how they work to reflect changed relationships with customers and changed customer expectations.

At the same time as banks have been responding to Covid, they have also been responding to a more demanding agenda around climate change. Specifically, regulators are moving beyond their focus on disclosure and towards requirements for banks to incorporate the effects of climate change on profitability, capital and long-term strategic planning (pages 62–63). As Gerald Butt explains on pages 46–47, climate change presents particular challenges for economies and societies in the Middle East, many of which are dependent on potentially obsolete carbon-based industries and all of which already face practical day-to-day challenges related to high temperatures.

But this magazine addresses many issues in addition to Covid and climate change. On pages 21–23, the Governor of the Palestine Monetary Authority, Dr Feras Milhem, describes how he and his colleagues are successfully promoting financial inclusion and economic development in Palestine, despite Israeli occupation and oppression. I am also delighted that on pages 76–79 we are able to showcase the work of The Balfour Project, a UK charity, which is bringing new perspectives on Israel-Palestine to new audiences.

We interview the CEO of the Bahrain Bankers Association, Dr Waheed al-Qassim, on pages 17–19; we describe Kuwait's budgetary challenges on pages 25–26; we consider prospects for Libya's financial system on pages 31–33; and we provide a broad perspective on the continuing economic and financial breakdown in Lebanon on pages 37–38.

On pages 55–57, we profile the MENA Financial Crime and Compliance Group, which is celebrating its fifth anniversary, and then on pages 58–60, Themis Services help us understand the consequences for banks and senior managers of compliance failures.

Elsewhere in the magazine, Jersey's VG gives an excellent insight into the value of trust structures and their potential use in preserving the wealth of Shari'ah-compliant investors; London property surveyors Belleveue Mortlakes describes how the little-known vehicle of LPA receiverships is presenting interesting new opportunities in the UK property market; and lawyers Mishcon de Reya describe how financial regulation has been changing in response to new relationships between banks and customers, often as a result of new technology.

This is the ninth edition of *Arab Banker* that has been published since we relaunched it in 2013. I am particularly pleased that, this year and last, we have been able to produce the magazine on time, with 84 pages, despite the challenges of the Covid pandemic.

Thanks go to members of the Association's Board of Directors for their support and in particular to George Kanaan, the Association's CEO, whose enthusiasm and practical help are vital to the success of the magazine. Many thanks are also due to Antony Gray, who designs the magazine and continues to ensure that its appearance is sharp and relevant; and to Jason Smith of JPS Print Consultants, who prints the magazine and manages its distribution.

Andrew Cunningham
Editor in Chief

Changes to senior personnel at Arab banks in London


Stephen Blyth


Yasser Ibrahim


Rajeev Adrian

Stephen Blyth retired as General Manager of Arab National Bank's (ANB's) London branch at the end of August. He has been replaced by Yasser Ibrahim.

Mr Blyth was appointed General Manager in 2016, having previously served as Deputy General Manager. He had been with ANB in various roles, including in Riyadh, since 2001.

Although Mr Blyth has retired from working full time, we understand that after taking a break to travel and spend time with his family, he may return to the banking scene in 2022.

Yasser Ibrahim returned to London after two years in Frankfurt with ODDO-BHF where he was Managing Director and Partner, International Banking and co-Head of International Banking Sales. Before moving to Frankfurt, Mr Ibrahim had been CEO and Managing Director of National Bank of Egypt (UK) Ltd. Prior to that, he had spent 25 years with Commerzbank in a variety of locations.

Paul Jennings retired as Chief Executive and Managing Director of Arab Banking Corporation International Bank (ABCIB), the London subsidiary of Bahrain-based Bank ABC. Mr Jennings had been with Bank ABC in various capacities for more than 20 years and represented the bank as a director of its subsidiary in Brazil, Banco ABC Brazil.

Rajeev Adrian has been appointed CEO of ABCIB. Prior to his appointment Mr Adrian was Deputy CEO and CFO of ABCIB.

Before joining ABCIB, Mr Adrian worked at the Royal Bank of Scotland (RBS) where he held various positions including CFO of International Banking, Chief Administration Officer of Global Banking and Markets, and Senior Strategist. Prior to RBS, he worked at Lehman Brothers London as Strategist in the European Corporate Strategy Division, Product Controller of the Investment Banking Division and Head of the Business Analysis Team. Mr Adrian started his career in Australia working at the Office of the Auditor General and the Australian Securities Commission.

Within the London Arab banking community, there were two other senior changes towards the end of 2020. Eddie Norton replaced Suzie Aliker as CEO of British Arab Commercial Bank and Andrew Ball replaced Giles Cunningham as CEO of Bank of London and the Middle East (BLME). Mr Norton joined from HSBC, where he had been Head of Capital Strategic Initiatives in the Global Banking and Markets division. Mr Ball had been with BLME for five years, most recently as Head of Business. He had previously worked for International Bank of Qatar.

HSBC announces new leaders for Middle East business

Stephen Moss was appointed HSBC's Regional CEO for the Middle East, North Africa and Turkey (MENAT) in April 2021, replacing Martin Tricaud. Mr Moss is a member of HSBC's Group Executive Committee and has relocated from London to the UAE as part of the bank's drive to move more of its senior leaders to growth markets. He has been with HSBC for nearly 30 years and his previous roles include Chief of Staff to the Group CEO and group head of Mergers and Acquisitions.

Samir Asaf was appointed non-executive Chairman of HSBC Middle East Holdings and HSBC Bank Middle East Ltd, with effect from 1 May. He succeeded David Eldon, who stepped down after more than 10 years as Chairman and 53 years of association with HSBC's Middle East businesses. Mr Eldon has been appointed non-executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation.

At the time of his appointment, Mr Asaf was Chairman of HSBC Corporate and Institutional Banking, and had previously led the bank's Global Banking and Markets division.

Tony Cripps was appointed CEO of SABB (Saudi British Bank), in April 2021. HSBC is SABB's largest shareholder with a 31% stake. Before moving to Riyadh, Mr Cripps spent four years as HSBC's CEO in Singapore and before that he spent four years as CEO of Australia. He replaced David Dew.

In 2018, SABB acquired Al-Awwal Bank, previously known as Saudi Hollandi Bank. Royal Bank of Scotland held a significant stake in Saudi Hollandi after its acquisition of ABN-Amro Bank and disposed of its investment as part of a broad deleveraging strategy. SABB is the third biggest Saudi commercial bank, ranked by equity.

Saudi and Emirati authorities approve creation of stand-alone digital banks

The Saudi cabinet has approved the creation of two new stand-alone digital banks. STC Pay – a local payment firm – will be converted into a digital bank with capital of SR2.5 bn ($0.7 bn) and Saudi Digital Bank will be created by Saudi investors with capital of SR1.5 bn ($0.4 bn).

In the UAE, Zand Bank is being created by backers who include Mohammed Al-Abbar, who heads several major property developments in Dubai.

Many digital banks already exist in the GCC, but they are offshoots of existing commercial banks. They include E.20, which is part of Emirates NBD, MashreqNeo, Bank ABC's Ila and GIB's 'meem'. All are trying to attract younger clients who supposedly will not interact with physical bank branches and personnel, and who are sufficiently skilled and confident with technology to manage their financial affairs through smartphones and other digital devices. But these digital banks are also leveraging the huge customer base of their parents, and their regulatory status.

In contrast, the new stand-alone digital banks are starting with no banking infrastructure – not even a licence – but they do have a customer base.

The experience in Western Europe shows that digital banks may become sustainable, but they are not necessarily transformational. The UK's Starling Bank is often held up as an example of a successful digital start-up. It was first authorised in 2016 and, by mid-2020, showed loans and deposits of about £1 bn – a tremendous performance for a newcomer, but still tiny in terms of UK banking. Starling Bank is interesting and, to some, inspiring; but it is hard to argue that it is a threat to the big UK banks.

STC Pay, with its authorised capital of SR 2.5 bn, will be about one-sixth of the size of the smallest Saudi bank, Saudi Investment Bank.

Nonetheless, the licensing of stand-alone digital banks brings into the regulated banking system new institutions and investors who may have different business relationships that they are able to exploit. The threat to the existing banks comes from non-financial companies that already have a huge number of loyal customers but are yet to venture into the arena of regulated financial services. Al-Jazeera Bank, anyone?!

New Central Bank Governor for UAE, and new CEO for the UAE's largest bank


Kahlid al-Tammimi


Hana al-Rostamani

Khalid al-Tammimi was appointed Governor of the Central Bank of the UAE in April 2021, replacing Abdulhamid Saeed, who had been appointed a year before.

Mr Tammimi had been appointed Vice Governor in February 2021. He had held senior positions in the General Pension and Social Securities Authority and in the Emirates Integrated Telecommunications Authority. He had also held a position in the Abu Dhabi Investment Council.

Mr Saeed had been Chief Executive of First Abu Dhabi Bank (FAB), and Managing Director of First Gulf Bank, which was one of the two banks that formed FAB. Earlier in his career he had worked for Citibank.

In January, FAB announced that Hana al-Rostamani would succeed André Sayegh as CEO of FAB, becoming the first woman to lead a major commercial bank in the UAE. Ms Rostamani had been Deputy CEO and Head of Personal Banking. In this position she was also Chairperson of FAB Private Bank Suisse.

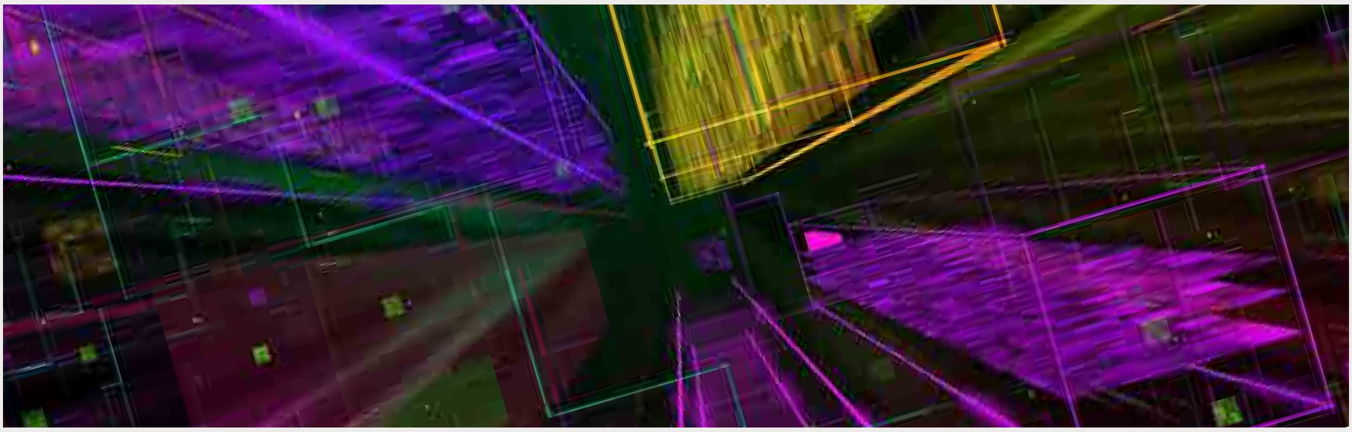
Paul Mason

We are sad to report the death, in March, of Paul Mason, the former General Manager of Qatar National Bank's (QNB's) UK operations. He had been violently assaulted in central London over the holiday period at the end of 2020 and never recovered.

Mr Mason joined QNB in 2015 after two decades with Australia & New Zealand Bank (ANZ), during which he held positions in London, Bahrain, Pakistan, Melbourne and Vanuatu, among others.

A good banker, Mr Mason was also good company. He was well respected and well liked in the Arab banking community and more broadly within UK financial markets. Mr Mason engaged in a range of charitable activities through his position as a Freeman of the City of London and as a Trustee of the Lyme Regis (Philpot) Museum.

Tony Worthington, QNB UK's head of Corporate and Institutional Bank, took over Mr Mason's responsibilities as Acting General Manager.



NCB-Samba merger creates new force in Saudi banking

The merger of Saudi Arabia's National Commercial Bank (NCB) and Samba Financial Group, to create Saudi National Bank (SNB) is by far the largest banking merger in Saudi history.

The merger was expected to be completed during the third quarter of 2021. Shareholder meetings were held over the summer to vote the necessary merger resolutions.

There are precedents for mergers and acquisitions in the Saudi banking system, although the only example in recent years has been the Saudi British Bank's purchase of Al-Awwal Bank. Samba Financial Group mopped up several underperforming banks in the late 1980s.

The NCB-Samba merger is between two well-performing institutions, neither of which was finding life difficult on its own. NCB approached Riyad Bank in 2018, but after a year both parties decided to abandon merger discussions.

SNB's merger documents show pro-forma total equity of $32 bn, based on June 2020 figures for the two banks. This compares with end-2020 equity of $29,691.5 mn for First Abu Dhabi Bank, $26,873.9 mn for Qatar National Bank (QNB) and $23,041.6 mn for Emirates NBD. (See pages 43–45 for more on recent developments in GCC banking.)

An investor presentation from October 2020 claimed that the new bank would have a market capitalisation of $45.5 bn, a little less than QNB and a little more than Saudi Arabia's own Al-Rajhi bank.

The new bank will be headquartered in Riyadh. This is significant because NCB's head office is in Jeddah, which historically was a far larger commercial centre than Riyadh. In recent decades, all banks except NCB and Bank Al-Jazira have headquartered their offices in Riyadh.

Saudi government agencies are expected to own 51% of the new bank. This is a natural consequence of combining the government shareholdings in both NCB and Samba. The Public Investment Fund is expected to hold 37.2% of the new bank, the Public Pension Fund about 7.4% and the General Organisation for Social Insurance 5.8%. In 2014, the Saudi government's stake in NCB was diluted when the bank sold 25% of its shares in a $6 bn IPO. The question therefore arises as to whether SNB will hold an IPO to dilute the Saudi government's majority stake.

The new bank's board of directors will be chaired by Ammar al-Khudairy, who had been the Chairman of Samba, and its Managing Director will be Saeed al-Ghamdi, who had most recently been the Chairman of NCB and was previously its CEO. The Board will be expanding by two members to 11. Saudi government agencies will have six representatives, the existing NCB Board will have three and the existing Samba board two.

The new bank is expected to have a 30% share of the Saudi banking market. The October 2020 investor presentation predicted that SNB would have a corporate loan portfolio of more than double its nearest Saudi rivals, and that it would have the second-largest retail-loan balances, still significantly behind Al-Rajhi but well ahead of the third-placed bank, Riyad Bank.

The merger is slated to create SR800 mn ($213 mn) in annual cost synergies. One source of such cost reductions will come from a 'review of overlapping physical networks' – otherwise known as branch closures and the combining of back-office operations. Compulsory redundancies – which are usually one of the biggest sources of cost savings in bank mergers – are not expected.

NCB has historically been strong in retail banking, while Samba has been strong in affluent and private banking. Both have solid franchises in corporate banking and treasury. Retail banking will provide about 40% of operating income, corporate banking about 25% and treasury 23%. Capital markets are expected to provide about 5% and international business 6%.

Neither bank has a strong international infrastructure, although NCB does have a material presence in Turkey through its 67% stake in Turkiye Finans Katilim Bankasi. NCB has wholesale branches in Bahrain and Singapore, a capital markets subsidiary in Dubai, and offices in Seoul and Shanghai. Samba has branches in Dubai and in Pakistan.

Neither bank has a presence in London, or indeed in any European capital. Samba closed its London branch in 2016, saying that it was not able to make sufficient profits. NCB left London in the 1990s as part of the unravelling of Khaled bin Mahfouz's business network – a network that had included the disgraced Bank of Credit and Commerce International. (NCB had been created in the 1950s by the Bin Mahfouz and Kaki families.)

One of the attractions to NCB of the ill-fated merger with Riyad Bank was that the latter has a substantial and well-established London branch.

In early July, SNB was rated A1 by Moody's and A- by both Fitch and S&P. The Moody's and S&P ratings place the bank at the same level as the Saudi sovereign rating, while Fitch has the bank one notch below its rating on the sovereign.


We're planning to make the lowest impact
We think that business is at the heart of a low carbon future for us all. That's why we are committing between $750bn and $1trn to drive sustainable transitions over the next 9 years, to help businesses transform the spaces we live and work.
Find out how you can play your part.
www.business.hsbc.com/bpfp
HSBC
Issued by HSBC Bank plc

Preparing for the long battle against Covid

Arab Banker's Editor, Andrew Cunningham, reviews some of the ways in which the Covid pandemic has been affecting the Middle East.

When countries around the world went into their first lockdowns, in March 2020, the hope was that Covid-19 would be conquered, and life would return to normal within a few months. The effects of those weeks of lockdown on banks' customers would be severe, but banks were well capitalised and more liquid than in previous years. After the global financial crisis of 2008, and the European sovereign crisis of 2013, central banks recognised the need for early and massive intervention to support their financial systems.

Everyone expected that banks would be able to ride out the economic consequences of the lockdown and quickly resume normal operations.

That expectation was correct in financial terms – banks remained well capitalised and liquid throughout the spring and summer of 2020 – but by the autumn, it was clear that the persistence of the virus, and its ability to mutate, were turning the pandemic into a medium and long-term threat to economic growth, and that it could have far-reaching consequences for the way in which companies and financial institutions interact with clients and staff.

Globally, governments have responded in different ways to the pandemic, and the Middle East has been no exception. Strict lockdowns and curfews were introduced in Jordan and Tunisia (at least in the early months), while elsewhere social distancing rules have been less than strict and only loosely enforced.

Quantifying the medical impact of Covid-19 in the Middle East is hindered by doubts over the reliability of data. Many Middle Eastern governments lack the ability to track Covid infections or deaths due to Covid with the same accuracy and timeliness of governments in Western Europe or in some Asian countries.

Publicly available statistics, based on figures issued by national governments, present some counter-intuitive data. For example, according to Worldometers.com – a website that tracks data from every country in the world – infection rates in Egypt and Algeria have been among the lowest in the Middle East, despite their overcrowded cities and feeble vaccination programmes. It is scarcely credible that Covid cases per million of population in those two countries can be around 4-6% of the infection rate in the United Kingdom (UK). Covid deaths per million show a similarly low rate compared to the UK. (See the table on the next page.)

According to the data, the infection rate in Bahrain has been more than 10 times that in Saudi Arabia, and double that in the UAE; with death rates respectively around four times higher. Given the similar demographic and lifestyle patterns in all three countries, such differences are hard to understand unless they relate to the efficiency of data collection and the methodology of data entry.

Whatever the data may say, the real-life consequences of Covid-19 are often painfully clear. In early 2021, Tunisia's health minister said that the country's health system had "collapsed" as infection rates and deaths reached their highest levels since the start of the pandemic. Two weeks later, he was sacked by the prime minister, amid chaotic scenes at vaccination centres, and the president put the army in charge of the government's response to the pandemic. At the time, only 4% of the population had received two doses of the vaccine.

This writer recalls being told by senior Tunisian bankers in July 2020 that all lockdown measures were being lifted since the pandemic was clearly under control. (One should recognise that such ill-founded optimism has been a leitmotif of governments' responses all over the world since the start of the pandemic.)

In June 2021, Oman's health minister said that his country's health system had been "exhausted" by the pandemic and that hospitalisations that month were the highest they had ever been.

In Iraq, 92 people died in July 2021 when a fire swept through a hospital in Nasiriya. Eighty-two had died in April when a fire broke out in a Covid ward in Baghdad. The causes of the fires were hotly debated (could oxygen cannisters in Covid wards have fuelled the flames?), but few denied that the stress placed on Iraq's creaking public health system by the Covid pandemic made such disasters more likely to occur, and harder to fight.

Another very visible consequence of the pandemic has been the restrictions placed on pilgrimages to Mecca. This year, Saudi Arabia restricted the annual pilgrimage to 60,000 nationals and residents of the Kingdom, all of whom had to be vaccinated, less than 65 years old, and free of chronic illnesses. In 2020, the Kingdom allowed even fewer to attend.

However, in late July 2021, the Saudi Hajj (pilgrimage) ministry announced that it was re-opening the Umrah – the shorter pilgrimage that can be made at any time of year – provided that visitors fulfilled certain conditions.

In some respects, Middle Eastern governments have far more leeway to combat Covid-19 than those in Western Europe or North America. Over the summer of 2021, discussion in Western Europe focussed on the conflict between continuing 'hard' lockdowns in order to maximise the suppression of the disease, versus the restrictions of liberty that such measures entail. In the Middle East, the ability of governments to restrict liberty, for a variety of reasons, is well established (if not universally accepted). The region's governments may be at a disadvantage when purchasing and deploying vaccines, but when seeking to reduce infections through restricting social interaction, they have a freedom of action that would be unthinkable in Western Europe and North America.

It is hard to make long-term predictions about the economic effect of the pandemic on Middle Eastern economies, and even harder to generalise about the effect on the region as a whole. For example, tourist arrivals in Egypt fell to 3.5 mn in 2020, down from 13.1 mn in 2019. But on the other hand, in the 12 months to June 2021, Egypt received $5.4 bn from the IMF under a one-year Standby Agreement. Tourism in Tunisia and Morocco has also been affected, but neither country received the same level of support from international agencies. Tunisia, for example, received $100 mn from the World Bank in March 2021 to support vaccine deployment, after receiving $35 mn in 2020.

Like their counterparts in the West, most commercial banks have continued to report profits, albeit by taking advantage of relaxed accounting conventions related to non-performing loans, and of government support packages. (See pages 43–45.)

As *Arab Banker* was going to press in early September 2021, it was clear that the world would be battling Covid for months, and probably years to come. The impact on the Middle East of this long struggle will take many forms. Tourism revenues will remain subdued and there will be less business travel through hubs such as Dubai and Doha. Saudi Arabia's aim to have 30 mn pilgrims performing the Umrah annually – one of the key objectives of the Kingdom's Vision 2030 – looks unachievable over the medium term.

It is surely only a matter of time before we see a major outbreak of infections in one of the Middle East's large and overcrowded cities. Public anger at governments' failure to provide health care for those infected, and vaccinations for those at risk, is likely to increase.

The battle against Covid in the Middle East is far from over, and the ways in which it will impact the region remain far from clear. ■

Data valid on 15 July 2021*	Covid deaths per million	Covid cases per million	Covid tests per million	Deaths due to Covid (number)
Tunisia	1,410	43,412	167,890	16,845
Lebanon	1,169	80,805	696,426	7,881
Jordan	957	73,637	790,855	9,864
Bahrain	782	151,797	2,960,093	1,378
Palestine	686	60,383	369,919	3,585
Oman	668	55,159	295,791	3,498
Kuwait	498	87,806	733,681	2,158
Libya	466	30,795	170,740	3,249
Iraq	430	35,410	299,942	17,677
Morocco	252	14,648	189,890	9,404
Saudi Arabia	227	14,275	659,115	8,020
Qatar	213	79,699	797,345	599
UAE	188	65,392	6,150,024	1,880
Egypt	157	2,717	29,415	16,418
Syria	106	1,439	5,774	1,901
Algeria	87	3,331	230,861	3,882
Yemen	45	228	4,231	1,366
United Kingdom	1,883	76,612	3,338,379	128,530

Source: Worldometers.com, accessed 15 July 2021

Ahli United Bank embraces the trend towards digitalisation as Covid-19 transforms banking

A year ago, *Arab Banker* asked Adel El-Labban, the Group Chief Executive of Ahli United Bank (AUB), to describe how his bank was responding to the Covid pandemic. He highlighted the ways in which the bank had moved quickly to protect the health of its staff and to maintain the availability of the services that it had been providing to clients.

A year later, the global pandemic is still with us. We asked Mr. El-Labban to reflect on what he and his colleagues have learned over the past year, and to identify ways in which the pandemic could have a permanent impact on how his bank operates in future.

Despite the profound effect that the pandemic has had on the global economy, there has been no dramatic change to our business model in terms of products – our customers essentially want the same services as they did before the pandemic. What has changed is the way in which we market and deliver our products. We have had a huge move to digitalise product delivery to ensure smooth remote connectivity and create client-friendly journeys in all interactions with AUB.

In this context, the importance of automation is often underestimated – high levels of internal automation are the indispensable prerequisite for digitalisation of banking services. We are fortunate that the level of automation in our bank was high before the pandemic, and this enabled us to fully switch delivery mechanisms to electronic channels.

This increased digitalisation is affecting the way in which we work. Most obviously, employment needs and practices are changing. If we can smoothly function with fewer than half our employees in the office for long periods of time, and the rest working from home, considerable room exists for re-visiting staff numbers, configurations, locations and, most importantly, required skill sets.

Changing employment model

The number of people needed to handle operational client requirements or who do repetitive jobs that can be easily replicated by automation and improved process engineering is reducing. These trends will continue. Going forward, members of staff who continue to interact directly with clients will have to have higher levels of technology and data literacy since they are going to be selling, managing and explaining technology-based products to clients using remote digital connections and data-driven analytics. As a result, the number of staff positions required in data-related

functions has considerably increased, as our ability to capture, cleanse and mine internal and external data sources has rapidly evolved. It will continue to do so to become the second cornerstone of our future strategy, alongside automation and digitalization.

While the employment model is changing, perhaps irreversibly, our core challenge is retaining a homogeneous corporate culture and commitment forged by close daily interaction in the workspace, while managing the increasing personal preferences for full or partial work-at-home flexibility. Each firm and its staff will have to develop their own point of equilibrium in this matter, probably through an iterative process as the modalities of the post-pandemic 'back-to-work' trend starts to unfold over the coming months. The only certainty is that an exact reversion to pre-pandemic work and employee-engagement practices will not happen.

Changing the way we assess risk

The other big long-term change arising from the pandemic is the way in which we assess risk. As a commercial bank, we essentially make our returns by taking measured risks on companies and individuals to whom we lend money. Historically, the management of those risks was focused on areas such as financial capacity, available collaterals and cashflows, and the strength of a firm's business model. Now, we are spending much more time looking at supply chains, operational resilience, and the quality of a firm's technological infrastructure and its e-commerce model. Simply put, a commercial firm that does not have effective, updated IT capabilities, including an e-commerce model, is facing a competitive disadvantage of considerable magnitude and may not be considered a bankable risk.

A corollary of the above new changes is the transforming need for physical infrastructure for commercial activities. Beyond certain limited market exceptions, the demand for office space should decline and branch closures, already happening, should accelerate over the coming years. On the personnel front, this will be coupled by a shift towards larger residential accommodation in less urban, more affordable areas to improve staff quality of life and provide room for remote workspace. E-commerce brings its own dramatic shifts as major stores are falling like dominoes and warehouses are flourishing to support the associated logistical changes.

A 'watershed moment' for global banking

A year ago, I described the pandemic as a 'watershed moment' for the global banking industry and I still believe that is true. The full spectrum of changes is not yet apparent or fully captured in our business and employment models. Once automation and digitalisation happen you cannot reverse them or their associated consequences. Once data is entrenched, well-calibrated artificial intelligence and improved analytics are a major and ongoing game changer. The idea of 'business as usual' based on a head office and physical infrastructure to accommodate staff in certain locations to serve clients in a face-to-face context is fundamentally dying.

The Covid pandemic has forced banks to become more agile in terms of their staff, business and risk thinking, and less dependent on their physical assets and traditional working models. Although the pandemic has been an appalling and very badly managed global crisis, it has accelerated many positive trends in banking and other industries which AUB is embracing as an integral part of its future growth and competitiveness. ■

Adel El-Labban

Adel El-Labban has been Group Chief Executive Officer of Ahli United Bank since 2000. Before that, he led Commercial International Bank of Egypt. AUB is one of the biggest banks in the Middle East. Based in Bahrain, it has significant overseas operations that include subsidiaries in the UK, Kuwait and Egypt. In 2015, Mr El-Labban received the ABA's annual award for distinguished service to Arab banking.


To secure the lifestyle of your dreams, start planning for the future today.
Success depends on good timing and good support. As the leading bank in the Middle East and Africa, QNB can help you decide how and when to take the next step in your personal or professional life.
QNB
qnb.com

New initiatives maintain Bahrain's position as an international banking centre

The Bahraini banking system rose to prominence in the 1970s as the centre for international banking operations in the Gulf region. As the economies of the Gulf states and the wider Middle East have developed over the past 50 years, so has the Bahraini banking system.

Arab Banker asked Dr Waheed al-Qassim, the Chief Executive Officer of the Bahrain Association of Banks (BAB), to explain recent developments in the country's banking system, including initiatives to create a new Banking Court, to forbid discrimination and to increase awareness of the dangers of cybercrime.

ARAB BANKER: How has the structure of the Bahraini banking system been changing in recent years?

DR WAHEED AL-QASSIM: We've seen several mergers and acquisitions that have enabled local banks to become stronger, and we've also seen the regulatory environment evolving to ensure that our banking system remains up to date with international standards and that Bahrain remains an attractive venue for regional and international banks.

There has been a lot of merger-and-acquisition activity among GCC banks over the past three or four years and this is leading to the creation of bigger and stronger banks. Bahrain has been part of this trend: we've seen National Bank of Bahrain buying Bahrain Islamic Bank and we know that Bank of Bahrain and Kuwait is in discussions with Ithmaar Bank. I would note that another Bahraini bank, Gulf International Bank, recently received a local commercial banking licence to operate in Saudi Arabia.

At the same time, some banks that prospered in past times have closed because their business models are no longer suited to modern banking. This is a positive process – the Bahraini banking system has always moved with the times, and it will continue to evolve as regulatory expectations, business models and customer expectations change.

Bahrain was the first GCC country to develop a sizeable, internationally focussed banking industry. Now that banking industries in other GCC countries have evolved, what will Bahrain's role be in the years ahead?

Our banking system goes back more than 100 years, so we have a long history of responding to change and ensuring that our laws, regulations and banking infrastructure remain attractive to the international banking community, while also meeting the needs of Bahraini citizens. That's why we're developing our legal infrastructure with the creation of a new Special Banking Court; it's why we were early adopters of the international agenda on environmental and social issues; and it explains why we recognise that the banking industry needs to incorporate respect for human rights into its everyday operations.

We believe that banks in Bahrain will continue to play a crucial role in the development of the Bahraini economy and in the financial empowerment of our citizens, while continuing to be an international banking and financial centre that offers an efficient, well-regulated base from which to conduct banking business in the Middle East region and beyond.

What's the purpose of the proposed new Special Banking Court?

The proposal for a Special Banking Court is a very important initiative for Bahrain and its banking system, and is part of our efforts to ensure that we keep pace with global developments and maintain Bahrain's position as a leading international financial centre.

The new Court will achieve several objectives:

It will accelerate the pace at which banking cases are heard – we don't want a litigant to feel that they have to accept a settlement simply because they're afraid that the litigation process will take too long.

It will ensure that judgements are quickly implemented – this is important because delayed implementation sometimes leads to interest being payable, to fines or even to additional lawsuits.

It will further develop legal competency in Bahrain in the specialised field of banking and will facilitate Bahrain's participation in international bodies and organisations related to specialised banking law.

More generally, we expect the Court to enhance Bahrain's reputation among the global investor community. Investors can be assured that their rights and investments will be protected, and that any disputes will be resolved fairly and promptly.

BAB's members fully support the creation of the new Court, so we've been working with all the relevant government bodies to make it a reality. Specifically, Bahrain's Supreme Judicial Council has created a joint committee to consider legal and technical matters related to the creation of the new Court. Members of the committee are drawn from the Ministry of Justice, the Central Bank of Bahrain and the BAB, among others.

More than 100 years of banking in Bahrain

Bahrain issued its first banking licence in 1918 to Eastern Bank, which subsequently became Grindlays Bank and then Standard Chartered. To be precise, the 'licence' was a letter, dated 18 August 1918, from the ruler of Bahrain, Sheikh Isa bin Ali bin Khalifa, to a senior Eastern Bank official. In 1944, British Bank of the Middle East, now HSBC, received the second banking licence. Bank of Bahrain, a forerunner of National Bank of Bahrain, became active in the 1950s. Arab Bank of Jordan was also an early entrant.

It was in the 1970s that the internationalisation of Bahraini banking began to accelerate. In additional to local banks, Bahrain licensed 'Offshore Banking Units' to provide a secure, well-regulated platform from which international banks could conduct business in the GCC and beyond. Many regional banks from the Middle East also used Bahrain as the centre for their international operations.

In 2006, the Central Bank of Bahrain restructured the licensing system, abolishing 'Offshore' status and replacing it with a distinction between 'retail' and 'wholesale' banks. Most of the banks that had been licensed as 'Offshore Banking Units' converted to wholesale licences, and some local banks have both retail and wholesale licences.

In recent decades, there has also been a big expansion in Islamic banking in the Middle East, with many new institutions being created, either for banking or for private equity investment. Bahrain was able to establish itself as an attractive base for Islamic banks. It developed clear and distinct licensing criteria and regulations for both retail and wholesale Islamic banks. The Central Bank required Islamic banks to present their financial statements in line with the accounting policies developed by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI), which is based in Bahrain, so that the particular features of income recognition and balance-sheet structure that pertain to Islamic banks are clearly presented to the investor and wider stakeholder community.

One issue that we were discussing over the summer was how the Court will treat cases involving Islamic banks. We're hoping that for such cases, the BAB will be able to provide expert judges who're experienced in Islamic law.

Of course, we should note that we already have a dispute-resolution body: the Bahrain Chamber for Dispute Resolution. However, the Chamber's areas of competence are limited: it can only hear claims that have a value less than $1.3 mn and in which at least one of the parties is a financial institution licensed by the Central Bank of Bahrain, or where the dispute is of an international commercial nature.

In contrast, the proposed Special Banking Court will hear all kinds of cases related to the banking sector, including disputes between banks and customers, and between banks themselves. It will also consider a wide range of judicial cases, including disputes related to bounced cheques.

What are Bahraini banks doing to align themselves with environmental and social priorities of banking regulators, and of society as a whole?

We've been taking environment and social issues very seriously for some time. In 2017, we created a permanent committee to develop recommendations for the banking sector and to help banks to integrate sustainable finance into their operations. More than 17 leading banks and financial institutions contribute to the work of this committee.

Through this committee we've developed a policy framework on Environment and Social Matters (which can be seen on our website); we've organised awareness sessions for our members, some of which have been led by international speakers who're recognised as global experts in their field; and we've worked with the Central Bank to develop regulatory policies related to sustainable finance.

I'm very proud of the work that we've done with Tamkeen, a government agency that promotes entrepreneurship and private-sector business. Together we've been developing an incentive mechanism and credit-support programme to encourage banks to finance and invest in renewable energy.

Globally, we're seeing respect for human rights becoming an issue that banks are expected to incorporate into their work. What's Bahrain doing to stay abreast of this global trend?

The first thing to say is that this is an issue that the Bahrain government takes very seriously. The Bahrain Human Rights Council approved the UN Guidelines on business and human rights in 2011.

We've been working with the Central Bank and with commercial banks to develop practices and draft legislation that will protect the rights of borrowers, whether they are Bahrainis or foreigners. As a result of these measures, banks are now prohibited from discriminating between borrowers based on their nationality – the solvency of the borrower has to be the principal criterion in making a credit decision.

We also have employment-related legislation in Bahrain to prohibit salary differentials or other forms of discrimination that are based on gender, ethnicity, language or religion.

We've been working with the National Organisation of Human Rights to help banks understand how respect for human rights can be incorporated into banking operations, for example by ensuring that employees have clear contracts of employment and safe working environments.

In Bahrain, we treat data breaches and the misuse of customer or employee information as extreme violations of the rights of individuals, especially if significant financial information is improperly disclosed.

Furthermore, banks in Bahrain have internal regulations – which are approved by their boards of directors – to protect employees who report any violations of the rights of customers. Banks have created 'hot lines' through which employees can report such violations anonymously.

How have Bahraini banks responded to the Covid pandemic?

Banks have responded by helping those people who've been most affected by the pandemic, and by ensuring that their employees and other stakeholders are kept safe.

For example, Bahraini banks have contributed more than BD10 mn ($25.5 mn) to the 'Feena Khair' programme that has been organised under the Royal Humanitarian Foundation, led by one of the king's sons, Sheikh Nasser bin Hamad Al Khalifa. This money is used to support both Bahrainis and foreigners who're having economic difficulties as a result of Covid, for example by distributing laptops to schoolchildren, distributing financial aid directly to needy families and supporting medical research.

The Bahrain Association of Banks was created by Ministerial Decree in 1979. It is affiliated with the Central Bank of Bahrain and operates under its administration, while at the same time enjoying considerable independence. The Association provides an open forum where Bahraini banks can come together to discuss and solve shared problems; and it provides a channel of communication between the banking system and the Central Bank.

The Association's members comprise locally incorporated banks, and the subsidiaries and branches of foreign banks that are licensed in Bahrain. In recent years, the BAB has extended its operations beyond its membership to take into account issues that face the financial sector as a whole.

There are currently 370 financial institutions holding licences from the Central Bank of Bahrain, with total assets of nearly $200 bn. Bahraini institutions comprise 91 of the total, of which 18 are licensed as Islamic banks.

The Association is governed by a Board of Directors that is appointed by the members and is managed by its Chief Executive Officer, Dr Qassim, and his team. The Association's offices are in the NBB Tower, in the centre of Manama. Until 2016, the Association was known in English as the Bahrain Society of Banks, and it sometimes still appears under this name in internet searches.

Dr Waheed al-Qassim has led the BAB since 2015. He previously held high-level public positions in the Bahraini government, and from 2009 to 2013 was CEO of Bahrain's Ebdaa Bank for Microfinance. He holds a doctorate from Durham University in the UK and a Masters from the US Naval Postgraduate School in California.

Banks have also been working with the Central Bank to agree ways to relieve the financial pressure on people who're having difficulty repaying their loans: for example, retail banks, finance companies and micro-finance institutions have postponed principal repayments and interest for all borrowers for 15 months.

Banks have also been taking particular care with the handling of paper money – disinfecting bank notes by exposing them to ultra-violet light or high temperatures,and isolating them for at least 72 hours. Employees who handle paper money are required, by the Central Bank, to use personal-protection equipment.

At the BAB we've been helping banks understand the broad implications of having a large proportion of staff working from home. For example, we've been showing banks how they need to alter the way they do staff appraisals, because you cannot appraise staff who've been working from home for months in the same way as you used to appraise staff when you saw them in the office every day. We've also been lobbying banks to take care of their customers who're visiting branches – if you're limiting the number of people who can be inside a branch at any one time, then you have to take care of those who're waiting outside, especially during the summer months in Bahrain, when it's very hot and sunlight is very strong.

Bahraini banks' response to Covid-19 has been helped by all the work they've done in recent years to digitalise their operations. When the National Taskforce for Combatting the Coronavirus began specifying the percentages of bank employees and government employees who should be working from home, organisations were able to scale up their digital operations quickly and avoid any disruption to customer service.

Cybercrime has been increasing during the Covid pandemic. Has this been a problem in Bahrain?

We have a sophisticated financial system that's integrated into global markets and capital flows, so we have to take precautions against cybercrime in the same ways that any big financial centre does.

The BAB has been involved in the creation of an inter-governmental committee that's boosting awareness of the various types of electronic fraud measures. The committee comprises the Ministry of Interior, the Ministry of Commerce, the Telecommunications Authority, the Central Bank, the Bahrain Bourse and our own representatives.

The committee has been running a campaign to show people how cybercriminals impersonate bank employees with the aim of acquiring their bank data and other personal information. We've also highlighted fraudulent SMS messages that ask recipients to claim prizes by opening a link, and fraudulent 'financing schemes' that may claim to offer loans for projects, but are actually trying to acquire information about someone's bank account or even get them to pay money up front in the expectation of receiving a large loan. More generally, because more people have been shopping on-line during the pandemic, we've been issuing warnings about using suspicious websites or those that don't seem to offer secure protection of data.

It's often said that cyber criminals target old people, but one point that we've been stressing is that cyber criminals have been targeting people of all ages, and many young people have been defrauded. Everyone needs to be on their guard, whether they are young or old.

We're delivering these messages through videos, SMS, billboards on the streets and through social media. We've also been giving interviews on TV and radio. Importantly, we've been producing material in Urdu and English, not just Arabic. ■

Digitalisation is the key as Palestinian banks focus on financial inclusion and promoting economic growth

The Palestinian banking sector is growing and, despite the Coronavirus pandemic and the continuing Israeli occupation, 10 of its 13 banks declared net profits for 2020. The average capital ratio of Palestinian banks, according to the Basel III standards, was 15.7% at the end of December 2020 – well in excess of international standards.

The Palestine Monetary Authority (PMA), which combines the roles of central bank and bank regulator, has an ambitious plan to develop the Palestinian banking sector. *Arab Banker* spoke to PMA's Governor, Dr Feras Milhem, who was appointed in January 2021, about his priorities for the future and the challenges that he faces.

***ARAB BANKER*: What are your top priorities for developing the Palestinian banking system in the years ahead?**

FERAS MILHEM: At the end of 2020, we launched our new five-year strategy and this focusses on the digital transformation of our banking sector. There are many different aspects of this strategy.

Within the PMA itself, we'll be moving some of our inspection functions online with the aim of improving the timeliness of our off-site supervision and reporting. Our on-site inspectors will be paying particular attention to banks' IT infrastructure and to the management of treasury operations.

In relation to the banks that we supervise, we are pushing digitalisation as a way to increase financial inclusion: according to our Demand Side Survey conducted in 2016, only 36.4% of adults had access to financial services. Right now, we estimate that 44.3% of Palestinian adults have access to financial services, such as a bank account. Digital banking will make it easier for those in more remote areas to access banking services, and in particular it will make financial payments more efficient and secure.

Last year, we issued five licences to e-payment firms with the aim of reaching out to a wider population, especially in remote areas and those who don't have a bank account. The main services provided by Payment Service Providers are point-of-sale machines, e-wallets that enable depositing and withdrawing money, small-amount money transfer, bill payments, payment to merchants, mobile top-up, and debit and digital cards. We hope that e-payment firms promote the culture of electronic payments.

We have created a Fintech Hub within the PMA where we work with technology experts, universities and young entrepreneurs to develop new financial products.

Another aspect of our five-year strategy is to promote economic growth in Palestine. In principle, this is the responsibility of the Palestinian Authority not the PMA, but the Authority's means are limited, so last year we created a $300-mn special programme called *Istidaama* (Sustainability). We are using funds in our own balance sheet to support micro, small and medium enterprises (MSMEs). We provide money to local banks and to credit agencies who then lend the money to enterprises, with the banks and agencies taking the credit risk. The maximum interest rate that the banks and agencies can charge is 3%.

We reviewed this programme earlier this year and found that banks were reluctant to use it – they often lack the experience of how to make loans to the MSME sector – and much of the $300 mn facility was unused. As a result, we're speaking to some international development banks about creating a credit-guarantee scheme that will give banks greater confidence to lend. In total, the new *Istidaama* will channel $435 mn, including $200 mn from the European Investment Bank and $25 mn from the Islamic Bank for Development. The new *Istidaama* will not only finance enterprises most affected by Covid-19, but it will also be directed to economic development and to the creation of new jobs.

The UNDP and the EU, in partnership with PMA and the Ministry of National Economy, are providing technical assistance to enterprises to help them apply to the new financing scheme. In order to overcome challenges MSMEs face in accessing financing, the PMA has designed a $10 mn programme with a ceiling of $10,000 per project, with an interest rate of zero.

The PMA has signed agreements with the European Palestinian Credit Guarantee Fund and the Middle East Initiative to cover up to 70% of credit guarantees in order to encourage banks to finance micro projects that employ up to four people. One final thing to add is that the new *Istidaama* scheme encourages applications from particular sectors, such as health, online education, green energy and digital economy, with no loan ceiling.

Another important part of our five-year plan is to improve cybersecurity within the Palestinian banking system. We've started with ourselves, at the PMA, in order to send a clear message to the commercial banks about how much importance we attach to this. We bought some new cyber-protection packages for our own operations and introduced new policies on how we manage our data. We have begun to conduct cybersecurity inspections of banks, and we're enforcing the message that they need to upgrade their systems, not only to protect themselves from attack, but also to protect their clients' data.

How does the Israeli occupation limit your ability to fulfil your objectives?

The most obvious obstacle that we face is that we don't have our own currency: Palestine uses Israeli shekels, US dollars and Jordanian dinars. Under the 1994 Paris Protocol that governs economic relations between Palestine and Israel, we need Israeli agreement to introduce our own currency. We're studying the creation of a digital currency or an accounting currency, but we're a long way from being able to implement one. Although the introduction of a digital currency isn't covered by the Paris Protocol, we'll have to liaise with the Bank of Israel if we are to introduce one.

A second problem is that we don't have full control of our territories and this presents practical problems when our banks want to open branches – and of course, expanding the network of branches is a key element in our plans to increase financial inclusion. In Area C of the West Bank – which covers about 60% of the territory – the Palestinian Authority is not in charge of security, and we don't want to license branches unless we can be sure that they'll be safe. This is especially so in the areas close to the Green Line, that separates Israel from the Palestinian territories, where security is often weak. This is a complex issue, but the bottom line is that not being in control of our own territories limits the ability of our banks to expand their physical operations.

Then there's the problem of moving cash between the West Bank and the Gaza Strip. Every time we want to provide Gaza with physical cash, we have to get permission from the Israeli authorities.

In recent years we've also been having a growing problem with the accumulation of shekels within our own banks. These shekels arise from Palestinian workers in Israel being paid in shekels and bringing their money home, or simply as a result of trade between Palestine and Israel. There are 120,000 Palestinian labourers working in Israel and 80% of them are paid in cash. Because Palestinians aren't allowed to open bank accounts in Israel, they bring this cash, in shekels, back with them to Palestine and deposit it in Palestinian banks. By the way, Israelis aren't allowed to open bank accounts in Palestine either.

Since the start of relations between the PMA and the Bank of Israel our banks have been able to transfer accumulated shekels up to a ceiling of IS 4 bn ($1.2 bn) per quarter. The ceiling is no longer high enough to accommodate the shekels that are deposited in cash in our banks and which need to

Dr Feras Milham

Dr Feras Milham was appointed Governor of the PMA and Chairman of its Board on 3 January 2021. He had previously served as a Board Member for five years, and was the Authority's Ombudsman from 2012 to 2015. Dr Milhem is a lawyer by training, earning degrees from Sidi Mohamed Ben Abdellah University in Fez in Morocco, Birzeit University in Palestine and, for his doctorate, Vrije Universiteit in Brussels . He served as the team leader of the Rule of Law (Justice and Security) office of the International Quartet, and also led the Quartet's Economic Relationship portfolio.

be transferred out into Israeli banks (with the Palestinian banks receiving dollars or other currencies in return). We are now discussing with the Bank of Israel how both of us can establish new companies that will be able to clear transactions between Palestine and Israel. This is something that we need to fix quickly – it really is a big problem for our banks.

Of course, an obvious solution to some of these problems is to reduce the role of cash in our economy. We can't stop Israelis paying Palestinians in cash, but we can try to move more of our own economy onto cashless platforms. That's one reason why digitalisation is such an important part of our five-year strategy. But even here we face obstacles. Digital banking is dependent on good telephony. The two mobile networks in Palestine use 3G. Israel uses 4G or 5G. We need permission from the Israeli authorities to introduce 4G or 5G and, so far, we haven't been able to get it.

How is the PMA able to exercise monetary policy in Palestine when you don't have your own currency?

The lack of our own currency prevents us from controlling monetary policy directly, for example by adjusting the volume of money in the Palestinian economy and moving interest rates, but we are able to take indirect measures to influence the money supply. We can use our own reserves to provide more liquidity to banks and we can change the reserve ratio – the percentage of banks' deposits that they have to place with us. During the current pandemic, we reduced the banks' reserve requirements to 5% from 6% to release money into the economy.

Is the PMA able to inspect and supervise Palestinian banks in Gaza, despite the political differences between the two regions?

Yes, we can. The PMA is one of the few national institutions in Palestine that hasn't been affected by the political difficulties and, as a result, we work both in the West Bank and in Gaza. We have an office in Gaza with 88 staff, which is about a third of our total staff.

However, I would point out that Hamas has created two new banks in Gaza which are outside our control: Islamic National Bank and Bank al-Intaj. We didn't license these banks and don't supervise them.

What steps is the PMA taking to ensure that Palestinian banks that it licenses and supervises conform to international standards on money laundering and financial crime?

This is something that we take very seriously. We have a Financial Follow-up Unit (FFU) – what some other people call a financial intelligence unit (FIU) – which we finance, but which is organisationally independent. It has 30 staff who are really top notch – very professional and very active. In fact, our FFU has been providing technical assistance and advice to other FIUs in the Middle East.

More generally, at the PMA we work closely with MENA-FATF, the regional branch of the Financial Action Task Force (FATF), and we try to adopt best-practice standards from other bodies such as the Basel Committee, the IMF and the US Treasury. The FFU is a member of the Egmont Group of financial intelligence units. Later this year, MENA-FATF will conduct a 'mutual evaluation' of our anti-money laundering and countering-the-financing-of-terrorism (AML-CFT) rules and practices.

The fact is that in these areas the eyes of the world are on us, so we have to make sure that we adhere to the highest standards.

What role can foreign banks play in the development of the Palestinian banking system?

At the moment, we have six overseas banks operating in Palestine, five of which are Jordanian, and one is Egyptian. I'm very keen to see more involvement by international and regional banks in Palestine through branches or subsidiaries. GCC banks are planning to expand their operations in this region, and I hope that they'll include branches or subsidiaries in Palestine as part of that expansion.

We have excellent relations with banks in Europe and the US, but we have suffered from the global trend among big international banks to reduce the number of their correspondent-banking relationships.

There's a lot of demand for Islamic financial products in Palestine right now. In recent years we've licensed three new local Islamic banks, but we need to develop Islamic finance further, and I think Islamic banks in the GCC have a lot to contribute. Developing stronger relations with international and regional banks will also help us to develop digital banking and fintech. ■

Taking the short view and the long view on Kuwait's budgetary challenges

Rating downgrades, government liquidity crises and a parliament that is more interested in political point scoring than addressing the country's financial and social challenges – those are the stories that have been written about Kuwait over the past year. But is Kuwait really heading for a financial and economic crisis?

Arab Banker's Editor, Andrew Cunningham, takes a longer view, and finds some grounds for optimism.

When I first started studying the Middle East in 1980, Kuwait was seen as the wealthiest of the Gulf states and also the most dynamic. That view was based on the huge wealth that the small emirate had amassed since it began exporting oil in 1946, and the very visible presence of Kuwaiti money – both institutional and personal – in London.

A Kuwait Investment Board began operations in London – based in the Bank of England – in 1953; Kuwaiti commercial banks clubbed together to found United Bank of Kuwait in London in 1966; and in 1974, the Kuwait Investment Office (as the Board had become), became a major player in the London property market through its acquisition of St Martins Real Estate Group. More visibly, Kuwaiti citizens could be seen on the streets of Knightsbridge and Mayfair, and in the clinics on Harley Street.

Kuwaiti financial markets were leading the way in the Middle East, with innovative bond issues, a dynamic stock exchange and a domestic real-estate market that produced some of the first iconic buildings in the Gulf.

So, what happened next? Why are we not still talking about the innovation and dynamism of Kuwait and its financial markets?

In 1982, Kuwait's stock market crashed, devasting the domestic economy. Banks had extended loans to enable citizens to speculate on the official and the unofficial exchanges, so when prices collapsed, thousands of Kuwaitis were left with debts they could not pay, and all but one of the banks had non-performing loans that overwhelmed their balance sheets. The mass of indebtedness stretched to the highest levels of Kuwaiti society, making the problem a political issue as well as a financial one.

The Kuwaiti economy was beginning to revive when Saddam Husain's tanks rolled into Kuwait on the morning of 2 August 1990, beginning an occupation that ended only when US-led forces expelled the invaders six months later. Despite the destruction wreaked by the departing Iraqi forces, oil production quickly resumed. Kuwait's huge financial reserves had been ring-fenced by the international community to prevent Saddam's government stealing them. Bank head offices and branches had been left relatively unscathed during the occupation. When one CEO returned to his office after the liberation, he found his reading glasses in his desk drawer, just where he had placed them when he hurriedly left the bank six months earlier.

The stock exchange crash and the Iraqi invasion still resonate in the Kuwaiti financial landscape today, even if both are now more than 30 years in the past. Since then, many of the challenges to Kuwait's financial dynamism have been external rather than internal. Dubai emerged during the 1990s as a major commercial hub with an offshore financial centre; Saudi Arabia gradually made it easier for foreign bankers to do business inside the Kingdom, rather than from outside; and Qatar's development of its gas reserves enabled it to assume the mantle of the new and fabulously rich Gulf state, much as Kuwait had done so many years before.

The economic challenges facing Kuwait today are similar to those of its neighbours: an over-reliance on earnings from oil and gas, the prices of which are volatile; and spending commitments that are inflexible and large.

Kuwait's current budget foresees oil and gas revenues accounting for 84% of total revenues, while spending on government salaries and subsidies comprises 72% of expenditure. The vast gap between revenues and expenditures means that spending on government salaries alone exceeds projected oil revenues by some margin. (See table, 'The Short View'.)

The Short View: Kuwaiti budgets 21/22 and 20/21

$ mn unless otherwise stated	Year to 31/3/22	Year to 31/3/21
Revenues	**36,272**	**24,898**
oil revenues	30,291	18,679
Expenditure	**76,493**	**71,538**
salaries and related government costs	41,794	40,112
subsidies	12,997	11,875
Deficit	**40,221**	**46,640**
Oill revenues % total revenues	84	75
Salaries and subsidies % total expenditure	72	73

Source: Ministry of Finance. Original figures in Kuwaiti Dinars converted to dollars at KD1 = US$ 3.31886

The Long View: Kuwaiti budget deficits, oil production and oil prices

	To 31/3/22	To 31/3/21	To 31/3/20	To 31/3/19	To 31/3/18	To 31/3/17	To 31/3/16	To 31/3/15
Revenues ($bn)	36.2	25.6	57.1	68.0	53.1	43.5	45.1	82.6
Expenditure ($bn)	76.3	71.4	70.0	72.4	66.0	58.7	60.4	71.0
Surplus/deficit ($ bn)	-40.2	-45.8	-12.9	-4.3	-12.9	-15.3	-15.3	11.6
	IH 2021	Year 2020	Year 2019	Year 2018	Year 2017	Year 2016	Year 2015	Year 2014
Crude oil production (000 b/d)	2,341	2,432	2,687	2,745	2,708	2,853	2,764	2,779
Price of Brent crude oil (Brent) ($/b)	66.2	43.2	64.2	71.7	54.7	43.6	52.3	99.0

Kuwaiti budgets run to 31 March, but statistics on crude oil production and prices are most easily accessible as averages for years to 31 December. This table aligns full year figures for production and prices with the budgetary year in which the first nine months of that year fall.
Sources: Kuwait Ministry of Finance, OPEC Monthly Oil Report (for production figures), Middle East Economic Survey (for prices).

The budget assumes an oil price of $30/b, which now looks pessimistic. ICE Brent averaged $66.2/b in the first seven months of 2021. But for the budget to break even, Kuwait would need a price of $90/b, according to a Ministry of Finance presentation.

The last time Kuwait reported a budget surplus was in the year to March 2015, when oil prices were around $100/b. Since then, the cumulative deficit, if we include the current year's budget and last year's, has been $147 bn. (See table, 'The Long View'.) Most of that deficit is assumed to occur this year and last and, as already noted, the projected deficit this year looks overly pessimistic. Annual deficits of around $12 bn–$15 bn appear to be the norm, given oil prices of around $60/b–$70/b.

Plugging those annual revenue gaps of around $15 bn is easily sustainable for Kuwait over the medium term, but deficits of $40 bn are not. Furthermore, the larger-than-normal deficits of this year and last have, for the first time, made financial management a significant issue for Kuwait.

By September 2020, Kuwait's General Reserve Fund was entirely depleted, according to the Ministry of Finance. This was the fund that held Kuwait's more liquid assets. The Fund for Future Generations held assets of around $500 bn in mid-2020, but many of its investments were illiquid.

The obvious short-term solution for a country that, at that time, held ratings in the double-A range, is to borrow, especially given historically low international interest rates. But Kuwait's parliament has been blocking a debt law that would enable the government to raise modest amounts of money, under strict conditions.

Kuwait's apparent inability to change the structure of its budget or to introduce more flexible deficit financing tools led all three international rating agencies to downgrade its sovereign rating to A+ over the past 18 months. (The most recent was S&P's downgrade on 16 July.)

Ironically, Kuwait's feisty political system has proved to be an impediment to reform, rather than a catalyst. Alone among the GCC states, Kuwait has a parliament that challenges the government (which is appointed by the hereditary Emir) and seeks to hold ministers to account. Yet all too often, the parliament blocks and obstructs, rather than leading change and pushing ideas.

The parliament's frustration with the political system is understandable. In recent decades Kuwait has not followed the trend of some of its neighbours in allowing power to fall to a new and sometimes more youthful generation. The current Emir, who took the throne in September 2020, is 83 years old, and his two predecessors were in their mid-70s when they assumed theirs.

Kuwait has the tools it needs to make its fiscal and budgetary positions more sustainable. The government's financial reserves, though illiquid, are huge. Despite the rating downgrades, well-managed sovereign bond issues, backed by high single-A ratings, would be eagerly subscribed by international investors. There is a level of public debate on economic and social issues which is far more open than in neighbouring countries that face similar financial challenges. If these resources can be marshalled correctly, Kuwait will easily be able to confront the challenges ahead. ■

REGIONAL BANKING

AT YOUR SERVICE ACROSS THE REGION

Enjoy ABK's Simpler Banking services in Kuwait, UAE, and Egypt.

Simpler Banking

eahli.com

Ahlan Ahli 1 899 899

الأهلي
ABK

Sovereign ratings in Middle East withstand Covid-19 pressure

Sovereign ratings in the Middle East have been resilient over the past 18 months, despite the economic dislocations caused by the Covid-19 pandemic. For most countries in the region, rating changes, or the lack of them, have been driven by more fundamental and longer-term factors. *Arab Banker's* Editor, Andrew Cunningham, highlights some of the important rating movements over the past year and a half.

In early 2020, the arrival of Covid-19 in the Middle East, combined with an extraordinary collapse in oil prices, appeared to threaten the budgetary stability of many countries in the region.

Surely rating downgrades could not be far behind?

In fact, ratings on Middle East governments have been remarkably stable. The table on the opposite page compares ratings and rating outlooks in early July 2021 with those at the start of 2020, and with ratings five years ago, in mid-2016. Most of the changes occurred in the years before the pandemic, rather than over the past 18 months.

The pandemic has brought some changes – Morocco and Tunisia have both been downgraded, with Morocco losing its investment-grade ratings from Fitch and S&P.

Bahrain and Oman have continued their long-term march down the rating scales, with further downgrades during the pandemic. After being downgraded by S&P to B+ in December 2017, Bahrain held on to a stable outlook for most of the pandemic, but saw it changed to negative in May this year, despite firmer oil prices: the "tentative" pace of financial reform was insufficient to stabilise the country's debt-to-GDP ratio, S&P said.

Ratings on Sharjah (not shown in the table opposite) have also continued the downward path that began before the pandemic. Both Moody's and S&P rate the emirate BBB-, several notches below the A range that it enjoyed just a few years ago. S&P downgraded Ras al-Khaimah (also not shown), citing both the effects of the pandemic and low oil prices on economic growth.

Last year, Fitch and Moody's moved their outlooks on Saudi Arabia to negative, but the ratings themselves did not change. Moody's took its action in May 2020, citing pressure on the Saudi government's fiscal position as a result of lower oil prices. Fitch acted in November, again citing fiscal pressure arising from low oil prices. Neither agency has restored the stable outlook, despite the recovery in oil prices, which in mid-2021 had reached levels not seen for several years.

Qatar and the UAE have retained their double-A ratings with stable outlooks. All three agencies cut Qatar's rating by one notch during the Saudi/UAE-led embargo, but none has chosen to restore it since the embargo ended in January 2021.

The ratings on Kuwait are the most interesting in the region. The country has enjoyed solid double-A ratings for decades, based on its huge financial reserves, low-cost oil production and minimal public debt. Yet in March 2020, S&P downgraded Kuwait by one notch to AA-, and in September, Moody's downgraded it by two notches to A1 (A+ in Fitch/S&P notation). Fitch changed its outlook to negative in February 2021. S&P downgraded again to A+ on 16 July.

These rating actions on Kuwait were driven partly by the fall in oil prices, but also by fiscal inflexibility. The agencies pointed out that the greater part of Kuwait's undoubtedly large foreign reserves is illiquid and that the liquid portion, held in the General Reserve Fund, was almost completely exhausted by mid-2020. Kuwait's feisty political system acts as impediment to reform rather than a catalyst – the National Assembly refused for months to pass a modest debt law that would ease the government's short-term liquidity shortages. It has also been unwilling to tackle any of the harder budgetary issues, such as the high percentage of government spending that is devoted to public-sector salaries, pensions and other social projects.

Without a significant improvement in the policy environment, or the quality of budgetary management – neither of which is likely – it is hard to see Kuwait retaining its double-A status.

Egypt has held on to the upgrades that it received after signing its deal with the IMF in late 2016 and Jordan's ratings have been unaffected by the Covid pandemic.

Lebanon, of course, is a distinct case, having defaulted on rated debt, beginning in March 2020.

Globally, rating agencies have become more optimistic over the past few months or, at a minimum, less pessimistic. In March 2020, Fitch had negative outlooks or negative credit watches on 16% of its sovereign ratings. This rose to 34% in January 2021 but fell back slightly to 33% in May 2021. The figures for financial institutions rated by Fitch were 11%, rising to 47% and then 43% in May 2021.

S&P tells a similar story but is cautious about prospects in emerging markets. A recent report noted that while vaccine rollouts offer optimism and countries are becoming better at coping with the economic effects of surges in Covid-19, "the picture remains mixed for emerging markets where the threats of a resurgence in cases (and the consequent drag on the economy) persist". ■

Ratings on governments in the Middle East ('sovereign ratings')

(Moody's ratings are shown using Fitch/S&P notation to facilitate comparison)

		6 July 2021	1 January 2020	J July 2016
Bahrain	Fitch	B+ stable	BB- stable	BB+
	Moody's	B2 negative outlook	B2 stable outlook	Ba2
	S&P	B+ negative	B+ positive	BB-
Egypt	Fitch	B+ stable	B+ stable	B
	Moody's	B stable	B stable	B-
	S&P	B stable	B stable	B-
Iraq	Fitch	B- stable	B- stable	Not rated
	Moody's	Caa1 stable	Caa1 stable	Not rated
	S&P	B- stable	B- stable	Not rated
Jordan	Fitch	Not rated	Not rated	Not rated
	Moody's	B1 stable	B1 stable	B1
	S&P	B+ stable	B+ stable	BB-
Kuwait	Fitch	AA negative	AA stable	AA
	Moody's	A+ stable	AA stable	AA
	S&P	AA- negative	AA stable	AA
Lebanon	Fitch	Rating withdrawn	CC review down	B
	Moody's	C no outlook	Caa2 review down	B2
	S&P	SD	CCC negative	B-
Morocco	Fitch	BB+ stable	BBB- stable	BBB-
	Moody's	BB+ negative	BB+ stable	BB+
	S&P	BB+ stable	BBB- stable	BBB-
Oman	Fitch	BB- negative	BB+ stable	BBB
	Moody's	BB+ negative	BB+ negative	BBB+
	S&P	B+ stable	BB negative	BBB-
Qatar	Fitch	AA- stable	AA- stable	AA
	Moody's	AA- stable	AA- stable	AA
	S&P	AA- stable	AA- stable	AA
Saudi Arabia	Fitch	A negative	A stable	AA-
	Moody's	A+ negative	A+ stable	A+
	S&P	A- stable	A- stable	A-
Tunisia	Fitch	B negative	B+ negative	BB-
	Moody's	B- negative	B negative	BB-
	S&P	Not rated	Not rated	Not rated
UAE	Fitch	AA- stable	Not rated	Not rated
	Moody's	AA stable	AA stable	AA
	S&P	Not rated	Not rated	Not rated

After nearly 10 years of civil war, at last there are reasons to be optimistic about Libya

Libya has been in a state of almost constant civil war since the overthrow of Colonel Qadhafi in 2011, but a ceasefire brokered in October 2020 has been respected and is leading many to predict that the reconstruction of Libya's shattered economy and society may at last be possible. *Arab Banker* presents a review of latest developments.

The most important recent development has been the establishment of the Government of National Unity (GNU), with Abdul Hamid Debaibah as Prime Minister. Mr Debaibah and the GNU were selected in February 2021 by the Libya Political Dialogue Forum – a loose group of political and civil society leaders convened by the United Nations.

On 10 March, a unified House of Representatives met in Sirte to approve Mr Debaibah's cabinet and take other decisions. This unified House brought together representatives from both the internationally-recognised Government of National Accord (GNA), which had been based in Tripoli and led by Fayez al-Serraj; and the 'breakaway' parliament that had established itself in Benghazi in the east of the country.

It is generally agreed that one of the most important tasks for the GNU is to organise elections for a president and a new parliament. The date has been set for 24 December 2021, which is quite ambitious since there are still many legal issues that will need to be resolved before elections can take place. For example, there are some disagreements in Libya about whether a new constitution and electoral law should be approved ahead of elections – and it is unlikely that there will be enough time to do that before 24 December – or whether they should go ahead under the current constitution and law. Nonetheless, there is considerable support in Libya for sticking to the target date. On 24 July, General Haftar, who had led the Benghazi-based military breakaway movement, endorsed the election process and insisted that voting should take place on 24 December.

The continued presence in Libya of foreign fighters, backed by regional powers, is another important issue that needs to be resolved, even if there has been no serious fighting since a ceasefire was brokered in October 2020. The UN has estimated that there are 20,000 foreign fighters in Libya, including Turkish forces in Tripoli who have been supporting the GNA, and Russians in the east who have been backing General Haftar.

There has also been a lot of controversy over the government's budget, with the House of Representatives sending the draft back for revision several times. In some cases, representatives from the east of Libya appeared to be using the budget discussions as leverage for concessions on other matters, such as the conditions under which General Haftar's forces would demobilise.

Nonetheless, the peace and stability that Libya has seen over the past year, combined with the political process, are having a favourable effect on the Libyan economy as a whole, and also on the banking sector.

The country's oil industry now appears to be working well. Production over the summer of about 1.2 mn b/d was not much less than the amount Libya was exporting before the fall of Colonel Qadhafi and the start of the civil war in 2011. The National Oil Corporation's current plan sees production levels rising to 2.2 mn b/d by 2025, although reaching that figure will be dependent on huge foreign investment, which is far from assured.

Snapshot of Libyan banking sector: aggregate assets and liabilities of Libyan commercial banks

31 December 2020	LD mn	US $ mn ($1= LD 1.3)	US $ mn ($1 = LD 4.48)
Placements with Central Bank of Libya	85,363.2	65,664.0	19,054.3
Placements with banks abroad	3,210.9	2,469.9	716.7
Credit	16,996.7	13,074.4	3,793.9
Other assets	20,537.1	15,797.8	4,584.2
Assets = Liabilities	**126,107.9**	**97,006.1**	**28,149.1**
Deposits*	102,194.1	78,610.8	22,811.2
Borrowings from banks abroad	220.4	169.5	49.2
Other liabilities	16,847.0	12,959.2	3,760.5
Capital and reserves	6,846.4	5,266.5	1,528.2

**Of which, private sector, 60,573.5; public sector, 29,529.2; government ministries and funds, 12,093.5.*

Source: Central Bank of Libya, website. The exchange rate was $1 = LD 1.3 at the end of last year, but the Dinar was devalued during the first week of 2021. The table converts the original figures, in Libyan Dinars, into Dollars using both the old and new exchange rates.

Looking more broadly, it is clear that rebuilding infrastructure will be a priority, since well-functioning roads, communications networks, and electricity and water services will not only stimulate economic growth but will break down geographic divisions. The prime minister has made it clear that he wants to improve the national electricity network, and in early July he re-opened the coastal road that connects the east of Libya with the west.

The new government appears to be committed to developing digital services and improving IT networks and internet access. It is working on a new cyber law, and the Central Bank is looking to roll out new digital services and facilitate e-payments.

The central bank has a big role to play

Another priority is the unification of the Central Bank of Libya (CBL). During the civil war a small parallel central bank was created in Tobruk. This institution even issued some currency of its own.

In early July, an international audit of both banks was completed as a preliminary step towards unification. The audit was conducted by Deloitte, working with local officials, and with the assistance of the UN Support Mission in Libya (UNSMIL).

The lack of a government budget also presents problems for the CBL, since in the absence of a budget, the government has been borrowing funds from it. The fiscal relationship between the Central Bank and the government/Ministry of Finance will have to be defined as Libyan institutions mature. There is also a huge amount of work to be done to modernise commercial banking practices.

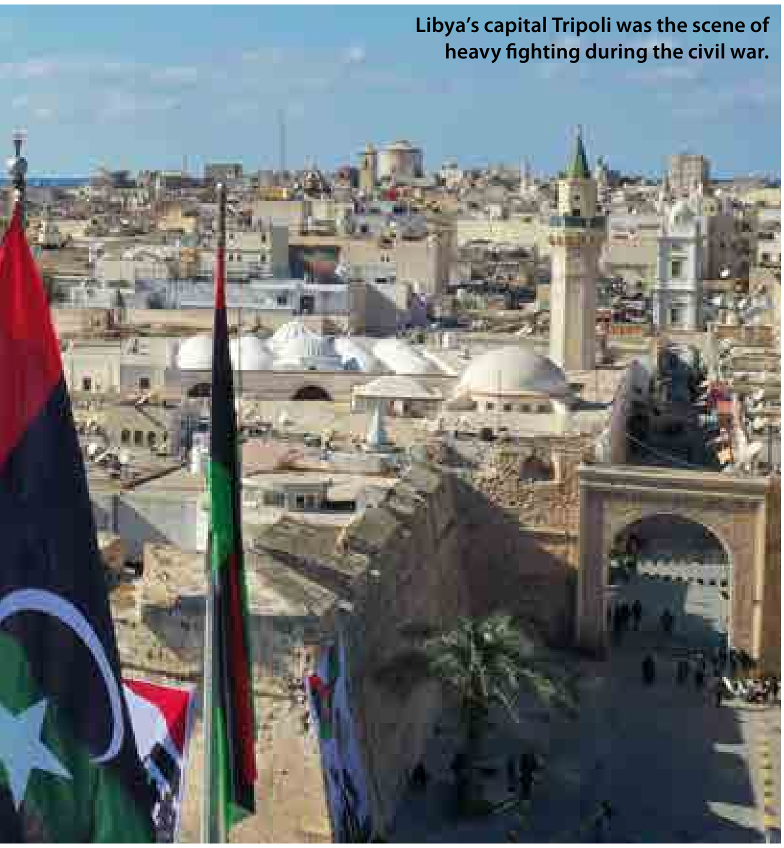
In January 2021, the CBL unified the exchange rate. A rate of $1=LD1.3 had been used for official transactions but was also extended to private companies and individuals under very limited conditions. A rate of $1=LD3.9 was used for all other private transactions. The black-market rate was even higher – around $1 = LD6. After meeting for the first time in six years, the Board of the Central Bank announced in December 2020 that a new rate of $1=LD4.48 would apply from 3 January 2021.

The Governor of CBL is Saddek El Kaber, who was appointed in September 2011. He maintained his position even though his relationship with former Prime Minister Serraj was said to have been tense (he would not be alone in that). His relationship with Prime Minister Debaibah is said to be good. Mr Kaber is an experienced commercial banker. Before becoming Governor, he had run Umma Bank, one of Libya's largest commercial banks, and earlier in his career he had been Deputy CEO of ABC International Bank in London. He later became Chairman of Bank ABC. In 2016, Mr Kaber received the Arab Bankers Association's award for Distinguished Service to Arab Banking.

Mr Kaber is pushing banks to improve their levels of service and promote financial inclusion so that more Libyans can have access to banking services. The CBL is running projects to increase digitalisation and e-commerce and is working to launch a regulatory sandbox to encourage and nurture new ideas and products in the banking system.

A lot of effort is also going into ensuring that anti-money laundering (AML) and countering-the-financing-of-terrorism (CFT) practices comply with international standards, and that compliance is rigorous and effective. The CBL has a Financial Information Unit.

Throughout the 10 years of civil war, which at times included intense fighting in the centre of Tripoli and other cities, Libyan banks remained connected to the international banking system. As a result, many banks and many of their customers have been able to retain commercial relationships with overseas firms. According to



Libya's capital Tripoli was the scene of heavy fighting during the civil war.

CBL figures, Libyan banks were processing about $1.8 bn of letters of credit per month in mid-2021.

Observers give a lot of credit to Mr Kaber for keeping these lines to the international community open. Throughout the war, he pushed banks to develop their compliance systems, their disclosure, and their governance, and he also encouraged them to think more about technology-based solutions that can reduce the economy's reliance on cash.

Currently there are 21 commercial banks in Libya, including Libyan Foreign Bank and the Development Bank, and there are 24 representative offices of foreign banks licensed by the CBL.

The banking system is diverse in terms of its ownership and in terms of its size. There are four big state-owned banks: Jumhouria, Al-Tijari al-Watani, Al-Waha and Sahara Bank. There are some Libyan banks that have foreign stakeholders: Bahrain-based Ahli United Bank has a 40% stake in United Bank for Commerce & Investment; and Bank ABC has a 49% stake in Mediterranean Bank.

Despite the ceasefire and the political stability, visiting Libya remains hard. At the time of writing, in late July, the international airport in Tripoli had yet to re-open, so land entry through Tunisia was the only practicable way for international travellers to get in. Nonetheless, Libyan bankers and officials are making clear that they want to strengthen relationships with financial professionals and business people from the West and from Asia.

While travel to Libya remains difficult, those who want to keep abreast of financial developments can use bodies such as the Libya British Business Council, which presents a range of online events every month and has other resources for those seeking to do business in Libya. Over the summer of 2021, the Council began a cycle of events on banking and financial topics, and these are expected to continue into early 2022. ■

Libyan Foreign Bank: the sleeping giant awakes

The re-emergence of Libyan Foreign Bank (LFB) as a major regional player is going to be one of the most interesting developments to watch in Middle East finance in the years ahead.

The bank is owned by the Central Bank of Libya, and in early 2021, Governor Kaber appointed Mohammed al-Daraat as its Chairman. Over the summer Khaled al-Gonsul was appointed as Managing Director. A new Board of Directors has been appointed, and a new senior management team.

Observers say that the bank's equity is likely to be around $11 bn, of which about $4 bn comprises its majority stake in Bahrain-based Bank ABC. By way of comparison, equity of $11 bn would make the bank about the tenth largest bank in the GCC.

But it is LFB's international network that makes it so interesting. In Europe, the bank has majority or significant holdings in London-based British Arab Commercial Bank; in UBAF and Banque BIA, both in Paris; in Banca UBAE in Rome; and in Aresbank in Madrid. In Turkey, it has a significant stake in Arap Türk Bankasi.

LFB also has a substantial network in the Middle East. The jewel in the crown is Bank ABC – it is not by chance that Governor Kaber is also Chairman of Bank ABC – but the network also includes Suez Canal Bank and Arab International Bank in Egypt, al-Masraf in the UAE, ALUBAF International Bank in Bahrain and North Africa Commercial Bank in Lebanon. It also has stakes in ALUBAF International Bank in Tunisia and Banque du Maghreb Arabe pour l'Investissement et le Commerce (BAMIC) in Algeria.

LFB also owns banks in the Sahel as a result of Colonel Qadhafi's efforts to promote Libya as a regional power in Africa. Subsidiaries or affiliates of LFB exist in Mauritania, Mali, Niger and Chad; in Togo and Burkina Faso; and Uganda.

The banks mentioned above are only the most prominent. There are several more. Some are dormant, others are tiny, but all are licensed, supervised, and ready to be revived and expanded when the occasion arises.

Much of this network has its origins in the consortium-bank Union de Banques Arabes et Françaises (UBAF) that was founded in Paris in 1970 and which subsequently created numerous subsidiaries throughout the Middle East and Europe. UBAF was created by the Arab League and nearly every Arab country took a stake in it, alongside Credit Lyonnais which was its 'Banque de Référence' in France. When many Arab banks faced difficulties in the 1980s, in part due to over-expansion and in part due to the devastating collapse in oil prices in the middle of the decade, shareholders were called on to contribute new capital.

Many of those shareholders declined to participate, but Libyan Arab Foreign Bank (as it was then called) consistently fulfilled its obligations to recapitalise banks which were in trouble. This process continued into the early 1990s, after which US sanctions on Libya made new investment impossible. But by that time, Libyan Foreign Bank had amassed the huge network of subsidiaries and affiliates that it is now seeking to revive.

It will be fascinating to watch how LFB's new Board and management develop this un-rivalled regional and international network.

Taking environmental sustainability into every corner of the bank: Egypt's Commercial International Bank leads the way

Every bank knows it needs to take sustainability seriously and reduce its carbon footprint, but what does that mean in practice? *Arab Banker* asked Hussein Abaza, the Chief Executive Officer and Managing Director of Egypt's Commercial International Bank to describe the practical measures that his bank is taking to reduce its carbon footprint and promote more sustainable business practices.

ARAB BANKER: What is the role of CIB's Sustainable Finance Division and how is it integrated into the management structure of CIB?

HUSSEIN ABAZA: We created the Sustainable Finance Division (SFD) so that we could integrate our sustainability programmes throughout the bank's policies, operations and culture. We recognise that all our businesses have the potential to affect people and the planet in positive and negative ways, and we want to ensure that our products and services will minimise any negative impacts and maximise sustainable value to customers and other stakeholders.

For example, our Board of Directors has created a Sustainability Committee to provide strategic guidance and to oversee the implementation of our ESG objectives. The creation of the committee is also a recognition that the directors have fiduciary responsibilities to fulfil in the area of ESG.

For day-to-day operations, we have created a Sustainable Finance Steering Committee that includes both directors and senior managers. The committee's scope covers risk management, revenue generation, our ecological footprint and our sustainable finance programmes. The committee will also oversee our reporting on ESG issues.

We have also established a Sustainable Finance Department that will ensure that sustainability is at the centre of our business strategies and that through our work as a commercial bank we will be contributing to Egypt's sustainable development goals.

I would add that CIB was the first bank in Egypt to appoint a Chief Sustainability Officer. Dr Dalia Abdel Kader reports to me directly. She has represented Egypt at regional and international groups and was instrumental in the launch of the Principles for Responsible Banking in the MENA region.

You recently conducted a Life Cycle Assessment of your credit and debit cards. What does that mean and why is it relevant to your work on sustainability?

The Life Cycle Assessment (LCA) considered the environmental impact of our credit and debit cards from the time that they are first created from raw materials to the time that they decompose in the environment. We were the first bank in the whole MENA region to conduct such an analysis.

As a result of the LCA we have different scenarios for lowering the environmental impact of our card payment business and achieving maximum ecological efficiency. Among the action points that arose were the need to support and encourage people to use cardless solutions such as e-wallets and mobile payments; increasing the lifetime of debit and credit cards; using renewable energy to power our ATMs; using more ecologically sustainable materials to

manufacture our cards; and increasing the recycling rates for all systems and components in our payment card business.

CIB took the lead in issuing green bonds. What are the targeted sectors of the bond and the highlights of the process?

In June this year we issued $100 mn of five-year fixed rate bonds in a private placement with the International Finance Corporation. These were the first green bonds to be issued by a bank in Egypt.

We will use the proceeds to finance projects including green buildings, renewable energy, water and wastewater management and energy-efficient transportation.

At the same time that we issued the green bonds, we published our Green Bond Framework that sets out the selection criteria that we will apply to those seeking to access funding under our green bond programme. The framework was audited by Vigeo Eiris which is an affiliate of Moody's Investors Service, and it complies with the Green Bond Principles that were published by the International Capital Markets Association in 2018.

What are you doing to improve your climate related transparency and disclosure?

We joined the Task Force for Climate Related Financial Disclosure (TCFD) in August 2020. We were the first Egyptian bank and the second in the Middle East to do so. As a result, we now assess the potential impact of various climate scenarios on our business and financial performance, and we are developing a benchmarking database to compare how we work with the TCFD recommendations.

We do take this very seriously. Making climate-related financial disclosures will oblige us to assess climate change scenarios and determine their impact on our investments and credit portfolio. A team from our risk department has recently joined a group that is working under the supervision of the United Nations Environment Programme (UNEP) Finance Initiative to learn the mechanisms and requirements for climate-related disclosures.

What is CIB doing to reduce its own energy usage and carbon footprint?

CIB is founding signatory of the Net Zero Banking Alliance that includes 43 international banks and was announced last April. Accordingly, we are focused on reaching net zero prior to 2050. Towards this end, the bank is enacting several tracks to revise our policies and operations and systematically diminish our direct carbon footprint as a bank and our indirect impact through helping our clients decrease their carbon footprint as well. We conducted a carbon footprint assessment of all our branches and used it to set carbon emission reduction targets for electricity, refrigerant leakage, water usage, paper usage, aerial and ground transportation, and waste generation. Putting all the individual pieces together, CIB hopes to reduce its greenhouse gas emissions by 10% by 2025, against a baseline of 2018.

We believe that all employees have a role to play in this initiative. In fact, we will only be successful if everyone plays their part. So, for example, we created a 'Paper Champions' initiatives to encourage employees across all our branches to change the way they use paper. We have also shredded and recycled out-dated bank documents using a specialised company, Paper Kneading, that disposes of paper in an ecologically friendly way. And of course, we are developing our digital businesses and products that are inherently less dependent on paper forms and documents. We are already making good progress with this programme: despite increasing headcount and branch numbers, we reduced paper consumption by 8% in 2020, compared to 2019.

We have implemented an Air Conditioning Enhancement Initiative that has entailed the complete overhaul of air conditioning systems in two of our busiest branches. We have installed numerous photovoltaic power stations that will not only reduce energy consumption but will also bring material cost savings in terms of those branches energy bills.

We now have 'green walls' – vertical surfaces comprising plants and flowers – in all our branches. For each square metre of green wall, 2.3 kg of CO_2 is extracted from the atmosphere and 1.7 kgs of oxygen created.

There are so many other things that we have been working on, including better re-use of dismantled items (which brings cost savings as well as ecological benefits), reduced use of plastic bottles and plastic bags, and sterilisation and cleaning of air conditioning ducts and pipes.

We have also been implementing an Energy Management System at one of our larger offices. This integrates energy management, monitoring and awareness into an overall company policy that governs our corporate approach to energy use and performance. ■

Hussein Abaza

Hussein Abaza has been Chief Executive Officer and a Board member of Commercial International Bank since 2017 and in June 2021 he was also appointed Managing Director. He had previously led the bank's institutional banking division and had served as its Chief Operating Officer. Earlier in his career he worked for ESG Hermes Asset Management as its Head of Research and then as its Managing Director..


The explosion at the Beirut port added to Lebanon's financial and political problems.

Lebanon's financial crisis deepens as political class defer difficult decisions

Two years into the Lebanese financial crisis, the country's political class is still refusing to take the hard decisions that will enable a recovery to begin. *Arab Banker's* Editor, Andrew Cunningham, considers how the crisis has evolved in recent months and the steps that will need to be taken for Lebanon to emerge from its crisis.

On 27 March 2020, Lebanon's Ministry of Finance delivered a presentation to bondholders, setting out the process by which it hoped to renegotiate the obligations on which it had defaulted a few weeks before.

A month later, the Ministry published a detailed Economic Reform Plan, comprising a new long-term economic strategy, fundamental adjustments to budgetary revenues and expenditures, and a restructuring of the banking system.

But as *Arab Banker* was going to press in August 2021, none of these ambitious goals had been achieved; key advisors who had drafted the Reform Plan had resigned; and no support package from the IMF had been agreed, despite the Plan citing such a package as a pre-requisite for its success.

One reason for the lack of progress has been the sheer depth of the problems that Lebanon is facing. The country has lived for decades on borrowed money (often borrowed from itself through complex financial-engineering operations between the central bank and commercial banks) and an overvalued exchange rate. Any move to a sustainable budgetary profile will entail huge reductions in subsidies and in the volume of government salaries and pensions, and a long-awaited restructuring of the state electricity authority. But implementing those reforms will bring yet greater hardship to the most vulnerable sectors of society, who have been most affected by the financial collapse.

The World Bank has estimated that Lebanon's financial crisis is among the most profound of any since the mid-19th century and possibly among the worst three. Gross domestic product fell by 40% from 2018–2020, the World Bank said. In 2020, 40% of households were having difficulties accessing food and other basic needs, according to the World Food Programme. Sporadic electricity production will be made possible only as a result of fuel oil imports from Iraq, for which Lebanon will pay with vaguely defined 'medical and consultancy' services. (In mid-August the agreement was still be to implemented.) As for the banking system, former advisors to the Ministry of Finance estimate that three-quarters of banks' assets – about $80 bn – comprise exposure to the Banque du Liban, far exceeding the central bank's reserves.

In response to the crisis, the central bank has been introducing multiple exchange rates. These supposedly cushion certain industries and certain people from the full effects of exchange-rate devaluation. The need to re-unify such multiple exchange rates as part of any reform package only complicates an already-difficult monetary landscape.

The explosion at the port of Beirut, in August 2020, added to Lebanon's problems. The explosion killed more than 200 people, injured thousands and left tens of thousands homeless. Public anger at the incompetence and apparent corruption that enabled the explosion to happen forced Prime Minister Hassan Diab to announce his government's resignation, deepening the country's political paralysis.

But perhaps the most fundamental challenge that Lebanon faces lies in the inability of its political elite to agree a common position on the way forward. It is important to note that the April 2020 Reform Plan was prepared by technocrats in the Ministry of Finance, and only published after considerable haggling among political figures and the banking community.

For decades, Lebanon has been run by community leaders, often acting through formal political structures, such as the Presidency or the Parliament, but sometimes not. One of the factors that typically delays government formation is the equitable distribution of ministries, some of which confer greater powers of patronage than others. Smooth political process has also been hampered in recent years by the changing balance of economic and demographic power in Lebanon, and in particular between the previously dominant Maronite community and the previously marginal Shi'ites. It is a changing balance that some find hard to accept.

In the weeks following the explosion, French President Emanuel Macron made two visits to Beirut and urged lawmakers to form a government by mid-September as a precursor to agreeing a support package with the IMF in October. Of course, no such government was formed.

In July 2021, France's ambassador to Lebanon delivered an extraordinary rebuke to Hassan Diab, still acting as caretaker prime minister, who had said that a "siege" had been imposed on Lebanon and that it would lead to social unrest. Ambassador Anne Grillo replied that Lebanon's troubles were not the result of an external siege but rather, "It is the result of your own responsibilities, all of you, for years, of the political class."

It is not only in the political sphere that the same faces continue to dominate.

At the time of writing, Riad Salamé retained his position as Governor of the Banque du Liban. Over the past few months, authorities in France and Switzerland have opened investigations into the sources of Mr Salamé's wealth; but he remains in place, having been appointed for a further six-year term in 2017. (Mr Salamé denies any wrongdoing.)

Mr Salamé has been at the centre of Lebanon's economic and banking activities for nearly 20 years, including those of economic growth under former Prime Minister Rafic Hariri (who first appointed him, in 1993). He oversaw the complex financial engineering that enabled the banks to show profits in recent years, and he has been a trusted interlocutor with US authorities investigating the financing of terrorist organisations. If Mr Salamé does leave his post before his term expires in mid-2023, what he does with his accumulated knowledge of the Lebanese financial system will be a key part of any agreement that he reaches with the authorities.

In June, the Association of Banks in Lebanon re-elected Salim Sfeir as its Chairman for a further two years. The Association's Vice President and Secretary remain unchanged, while a new Treasurer was chosen from among the previous Board members. Speaking after his re-election, Mr Sfeir commented that no bank had gone bankrupt during the current crisis, and that no deposit had been lost. While legally true (for example, no bank has been declared bankrupt), these statements will appear odd to the owners of banks in which liabilities far exceed any reasonable valuation of their assets; and to bank customers who are only able to withdraw foreign currency deposits in local currency, at heavily discounted exchange rates, and in small month-by-month instalments.

Against the background of political paralysis, the situation in Lebanon remains volatile. In late July, Najeeb Mikati, was asked to form a new government. Mr Mikati has served as prime minister twice before and is a billionaire who made much of his money in telecommunications. As the summer drew to a close, France was said to be deepening its efforts to arrange a multinational financial-support package.

Lebanon has faced many crises before, including a 15-year civil war that wrecked much of Beirut, killed tens of thousands and temporarily divided the country into religiously based cantonments. The settlement of the civil war came partly when the warring parties were too exhausted to continue but, more significantly, when Saudi Arabia provided sufficient incentives for all parties to set aside their differences.

This time, with Saudi Arabia lacking the clout it once had in Lebanon, a settlement will require Lebanese political and business leaders to accept huge financial losses on their investments and, if the government's finances are to be reformed, a reduction in their powers of patronage. For some people in Lebanon, there is much to lose, as well as much to gain, in a viable settlement of the country's economic and financial problems. ■

Open banking and digitalisation offer new channels and products for banks and their customers

Open banking enables customers to safely share information across banking platforms and gives banks opportunities to leverage it to improve customer service and profitability. It is a potent tool that is being embraced in the more advanced Middle Eastern banking systems.

Arab Banker asked Vikas Sethi, the Group Chief Digital Officer at Bahrain's Gulf International Bank (GIB) to tell us how open banking is developing in Bahrain in general and at his bank in particular, and also to provide a broad perspective on how digitalisation in all its forms is transforming the ways in which GIB does business.

ARAB BANKER: What is Bahrain doing to develop open banking?

VIKAS SETHI: Bahrain has been a regional pioneer in the field of open banking and continues to advance policies, the ecosystem and the regulations that are needed for open banking to flourish. The Central Bank of Bahrain (CBB) and the related fintech associations have a very mature outlook on this issue and they've been putting the necessary infrastructure in place. The central bank took a very collaborative approach in preparing Framework guidelines and the Framework's specifications themselves were detailed and in line with global standards, with specific variations to accommodate a regional context.

Another aspect that's bound to assist the potential acceleration of open banking is Bahrain's robust 'Sandbox' infrastructure and procedures that help to foster innovation. Bahrain has been at the forefront of financial innovation in the GCC, and the clear and open policies coupled with optimal supervision on cloud infrastructure, data privacy, digital identity and digital financial solutions help drive investment and collaboration in the space of open banking.

How is GIB responding to the new opportunities for open banking in Bahrain?

GIB has used 'open' APIs, integration and collaboration in line with the recently approved regulatory framework even before the publishing of APIs became mandatory for banks. The authorities in Bahrain have continuously encouraged the adoption of standards and services that improve the availability, inclusion and cost of financial services to customers.

Digital products and digital journeys will continue to be at the core of GIB's service proposition. Our consumer-asset products began to be offered in a fully digital mode late last year. We have established a set of open services that we leverage across our transaction-banking offerings and we will continue to build on and expand these across our business segments and markets. On the business side, banks need to find new ways of serving their customers by embedding banking services into their core businesses, business systems and infrastructure. We will increasingly work with regional and global fintechs to onboard them via our open-banking sandbox, and to collaborate on developing business solutions and products that help build new revenue streams, improve the experience for customers onboarding or transacting with us, and automate our internal processes.

Please would you update us on GIB's digital offering 'meem' in Saudi Arabia. Is it different from the digital service that you offer elsewhere in the bank?

We launched 'meem' Digital Banking in Saudi Arabia in 2014. It was the first digital Shari'ah retail bank in the world and it has pioneered products such as a multicurrency debit card and flexible advances against deposits delivered digitally. 'Meem' remains at the heart of GIB's digital journey and shares the same strategic enablers as the rest of our business lines: simpler customer experience, data, partnerships and digital servicing. What currently differentiates 'meem' from the rest of our business lines is that all our products and services in Saudi Arabia are 100% digital, supported by the Saudi digital ecosystem that drives e-promissory notes and verified digital signatures. Consequently, our customers have no need to visit us in our branches. This applies to everything from opening an initial account, applications for credit cards, personal finance and home finance, as well as cashless services supported by tap-and-pay mechanisms, all of which align well with and contribute to the delivery of Saudi Vision 2030's goals for digital and cashless financial services in the Kingdom.

Can digitalisation help to promote financial inclusion?

Digitalisation offers ever-expanding access to financial services across a broad spectrum of unbanked or underserved groups and individuals, facilitated by data-based financial technology, transformative business models and ambitious reforms. Developments such as digital-identity-based onboarding, mobile payment systems, crowdfunding, blockchain, and peer-to-peer lending platforms are drastically transforming the financial industry by challenging its infrastructure, operations and incumbent institutions. The industry's growing digitalisation has given

Vikas Sethi

Vikas Sethi is GIB's Group Chief Digital Officer and is based in the bank's head office in Bahrain. He joined the bank in August 2019 and was promoted to his present position one year later. Before joining GIB, Vikas spent nearly 11 years with Gulf Bank in Kuwait, and before that he held senior positions in Barclays and in Capgemini.

rise to new ways of allocating capital, managing risks, and carrying out financial transactions.

Technological innovations in finance are steadily lowering transaction costs and bridging geographic distances, which are two major impediments to financial inclusion. Two other critical elements that are key to propelling universal access to finance are financial literacy programmes to broaden awareness of the financial sector and the opportunities it can offer for consumers and business to thrive; and regulatory enhancement to reassure people about the integrity of an evolving industry and to guard against governance inadvertently impeding progress of fintech developments.

Digital banking and innovation have been at the heart of GIB's strategy, even prior to the pandemic. Our growing digital capabilities are supporting a multi-faceted approach in contributing to financial inclusion. This ranges from expanding our infrastructure and services in digital payments; expanding collaborations, including a live digital-financing platform for micro, small and medium enterprises (MSME) through a fintech partnership; expanding other offerings to MSMEs; and enhancing our digital retail offering, including a recent launch of an online mortgages programme. In addition, we are committed to enhancing local awareness of the financial sector and investing in local talent. We'll continue to pursue partnerships that help us assess and meet the needs of historically underserved segments.

How is digitalisation of finance helping in the fight against cyber crime and other forms of financial crime?

Digitalisation of the customer experience, channels and processes creates a new set of challenges with respect to the potential for cyber crime. The physical interface with the customer for traditional verification and authentication has been replaced by automated and digital options for consumers. It's quite common for individuals to have been in a banking relationship for years without a physical interaction of any sort with the institution.

On the other hand, the automation and digitisation of customer-facing and internal processes have reduced the need for manual intervention. This has vastly improved the capacity of financial institutions to capture, analyse and act on data in a manner that was never possible on a manual basis. The ability of institutions to detect, predict and prevent financial fraud, our ability to authenticate genuine customers and transactions with minimal intrusion – as well as the ability to share data and insights with partners and correspondents and to act on them in real time – has vastly improved.

Digital advancements in distributed ledger technology, AI and analytics have helped us greatly improve the range of analysis that can be brought to bear in examining trends and determining abnormal patterns and acting on them, and this includes analysing data and data patterns received from the regulators, partners and correspondents, as well as wider data sources such as social media.

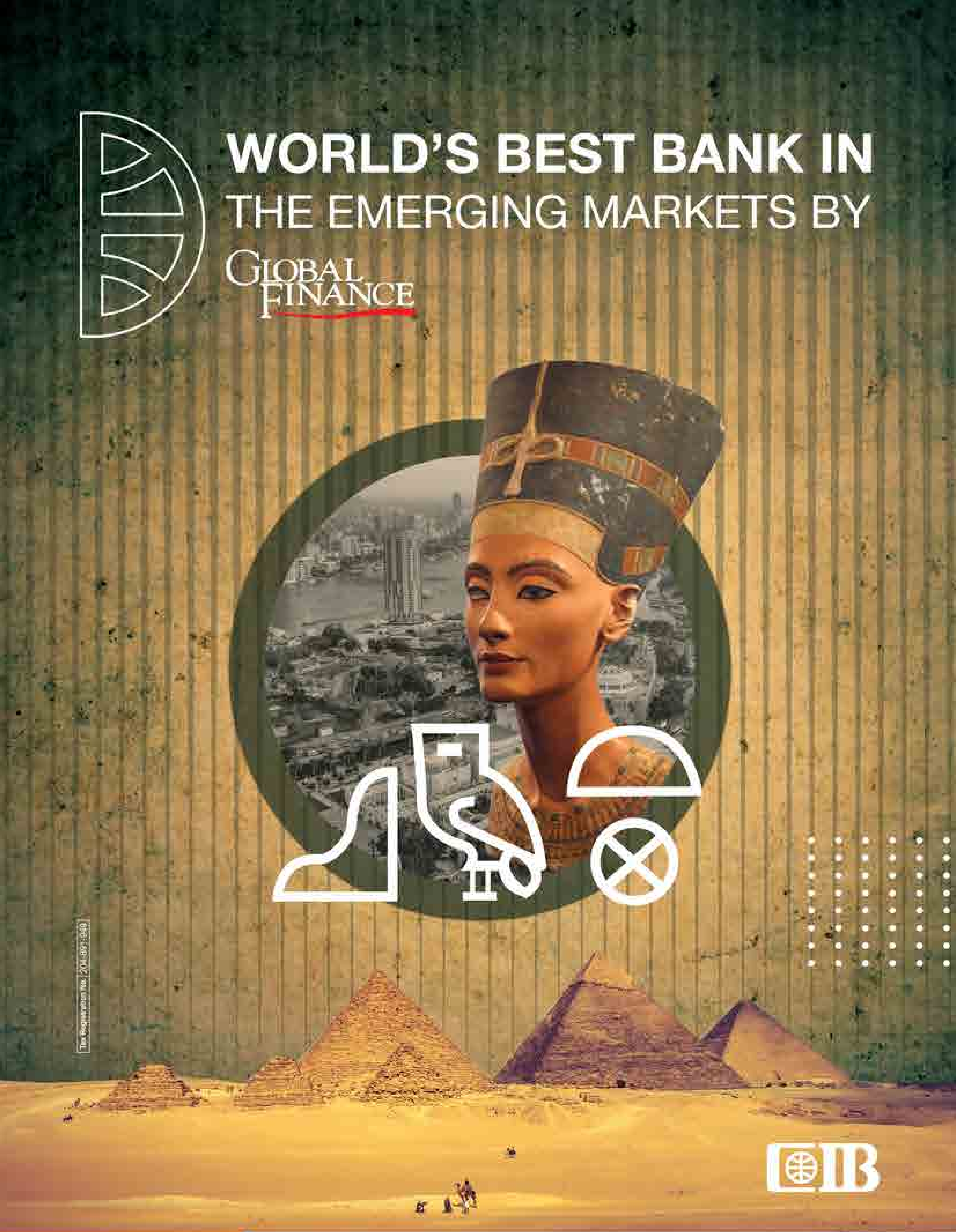
How is digital banking helping you overcome the challenges associated with the Covid pandemic?

The pandemic and the resulting challenges have created a strong impetus and strengthened the argument for a digital approach to business and operations. The principles of disaster management and business continuity have had to be applied to adapt to what's now a new and evolving normal. We've had to stress-test our readiness and modify our assumptions and digital plans. A number of our early initiatives on the digital front have achieved accelerated outcomes in light of the Covid-19 situation. From responding to clients' needs to assessing risk, fraud and cyber-security postures, the crisis has been a unique enabler of a new culture and way of thinking.

Priorities have shifted to the adoption of adaptable and open standards, and to outcome-based assessments as the workforce shifts to an out-of-office environment and the increased provision of the full set of products and customer services, as well as internal processes, onto digital channels. The need to refresh strategic digital objectives more frequently has been clearly evidenced. One key internal challenge has been the replacement of co-located agile teams with virtually connected workgroups that have built a collaboration methodology as they've worked. Formalising these structures and sharing key lessons and success factors will be key to continuing to think, act and deliver at pace. The crisis has also resulted in greater focus on collaboration and integration with key government and regulatory agencies and partners to deliver last-mile integration of digital solutions for consumers as well as businesses, moving away from physical signatures, developing and enhancing standards for digital identity and enabling contactless and remote payment solutions.

What do you think is the next stage for digitalisation of banking worldwide and for GIB specifically?

The digitalisation and tokenisation of physical assets and custodial services involving digital assets for consumers as well as businesses – such as trade contracts, contracts for real assets and commodities – is an area of great potential. We need to prepare ourselves to better anticipate and predict outcomes based on customer preferences and behaviour. As consumers and businesses take greater ownership of their data, we are looking to open banking and open services with adaptable fee structures to develop new propositions. We believe that banks will need to develop and nurture communities of developers, fintechs and financial institutions to avoid disintermediation and stay relevant. With the open services, there will come a need for more intelligent, data-based and less intrusive fraud-and-security management. Where customers choose to or need to use a GIB channel, we're working with global innovators to make the process of accessing, transacting and providing feedback as seamless, uniform and simple as possible regardless of the channel or channels they choose. ■



WORLD'S BEST BANK IN
THE EMERGING MARKETS BY
GLOBAL FINANCE
CIB

GCC banks withstand the pressures of the Covid pandemic

Banks in the GCC are coping well with the economic effects of Covid-19, with the vast majority continuing to report operating and net profits, and capital levels well in excess of international standards. There are exceptions, and a few banks that have been struggling in recent years continue to face difficulties; but the overall picture is of a region with healthy banks that are responding well to the challenges and opportunities thrown up by the Covid pandemic. However, longer-term threats lie on the horizon.

Arab Banker's Editor, Andrew Cunningham, reviews the GCC banking landscape.

There were 65 active commercial banks in the GCC at the end of 2020, and 54 of these reported net profits for the year. Fifty-nine showed total risk-adjusted capital ratios above 15%, and many had capital ratios significantly higher.

But there were signs of strain: among the 54 profitable banks, 42 showed lower profits than the previous year.

In some cases, performance was driven by particular circumstances that had little to do with the Covid pandemic. The biggest single net loss for 2020 was reported by Saudi British Bank, but this was due to a write-down of goodwill following the bank's purchase of Al-Awwal Bank. Without this write-down, Saudi British would have reported healthy net profits similar to those it achieved in 2019. The bank's end-2020 capital ratio of 21.8% was one of the highest in region.

Problems that pre-date the pandemic continued to afflict the Sharjah banking system. Bank of Sharjah, Investbank and United Arab Bank all reported significant losses for the second year in succession, although Sharjah Islamic Bank remains profitable and well-capitalised. It has been clear for decades that four banks are too many for the small emirate of Sharjah, but the federal authorities have been unable to enforce consolidation against the wishes of the Sharjah authorities.

Only one of the 65 active banks had not published its end-2020 results on its website by the end of July: Abu Dhabi-based Al-Masraf. The bank is owned by the Emirates Investment Authority and Libyan Foreign Bank, with 42.3% each, and Banque Extérieure d'Algérie with 15.4%. It has been profitable in recent years.

The larger GCC banks were reporting their half-year results as *Arab Banker* was going to press in late July. Emirates NBD reported net profits below those for the first half of 2020, but higher than those for the second half. Allocations to loan-loss provisions were down, although the non-performing loan ratio was marginally higher at 6.3%. First Abu Dhabi Bank (FAB) reported first-half net profits 11% higher than in 2020 and a non-performing loan ratio of 3.9%. Qatar National Bank (QNB) also reported a rise in net profits compared to the first half of 2020, despite an increase in loan-loss provisions. FAB and QNB showed higher net loan balances at the end of June 2021

GCC banking mergers continue, but at slower pace

Merger and acquisition activity among GCC banks has slowed over the past year as banks have focused on responding to the Covid crisis, but it has not stopped. The merger between Saudi Arabia's National Commercial Bank (NCB) and Samba Financial Group, due for completion by the end of 2021, ranks among the most significant of the last decade.

Rationalisation of the Bahrain banking system has continued with Bank of Bahrain and Kuwait (BBK) expected to acquire Ithmaar Bank. This move follows the acquisition of Bahrain Islamic Bank (BIB) by National Bank of Bahrain (NBB). BBK and NBB have been stalwarts of Bahrain's domestic banking scene since the 1980s, surviving numerous economic and political crises in the region. The acquisition of Ithmaar and BIB removes from the Bahrain market two banks that have been struggling in recent years.

Unlike the Sharjah banks, mentioned in the main article, Qatari banks have recognised the perils of over-banking, despite Qatar having one of the richest and most vibrant economies in the region. Al-Khaliji Bank – one of the youngest of Qatar's nine domestic commercial banks – is merging with Masraf al-Rayan after failing to make an impact on the local banking scene. Two years ago, Barwa Bank – another of the more recently-licensed banks – merged with International Bank of Qatar to form Dukhan Bank.

The Omani banking system continues to look crowded, despite the acquisition in 2019 of Alizz bank by Oman Arab Bank. The topography of Oman is different to that of countries such as Qatar, Kuwait and the individual emirates of the UAE. The country is large and the population widely spread, but even so, eight banks for a country with a population of 5 mn and a hydrocarbon-based economy with a gross domestic product of around $75 bn looks excessive.

The merger between Saudi Arabia's National Commercial Bank – the Kingdom's oldest bank – and Samba Financial Group brings together two banks that have been performing well in recent years and are merging from positions of strength to create a national and regional champion. Saudi National Bank (SNB) will be the largest in the GCC. (See page 10 for more details.) The creation of SNB follows consolidation in both Abu Dhabi and Dubai: First Abu Dhabi Bank was created through the merger of National Bank of Abu Dhabi and First Gulf Bank, and Abu Dhabi Commercial Bank absorbed both Union National Bank and al-Hilal. At a smaller level, Dubai Islamic Bank acquired Noor Bank.

Only the Kuwaiti banking system appears immune to the desire either to create regional champions or mop up the stragglers. The emirate has 10 banks, including Boubyan, which is a subsidiary of National Bank of Kuwait. Apart from Ahli United Bank's acquisition of Bank of Kuwait and the Middle East in the early 2000s, and NBK's acquisition of Boubyan in 2009, there has not been a single corporate merger or acquisition in the Kuwaiti banking system for at least 35 years.

than at the end of December 2020. National Bank of Kuwait reported higher profits for the first half compared to 2020, and a bigger loan portfolio compared to the end of December 2020.

GCC banks have benefitted from a range of programmes introduced by their governments to protect businesses and citizens from the economic effects of the Covid pandemic. These measures can be divided into three parts: support for the economy, direct support for banks' balance sheets, and accounting forbearance.

Support for the economy has included direct payments to citizens, reductions or postponements of taxes due, and guaranteed loan programmes under which banks can extend credit to businesses in the knowledge that the credit risk is being taken by their government. Balance sheet support has included the placement of low-cost deposits with banks, either as liquidity support, or in order to compensate them for foregoing interest on loans from affected borrowers. Accounting forbearance has included allowing banks not to treat certain missed interest payments as 'Significant Increases in Credit Risk' (SICR), and so avoid the increases in loan-loss provisions that SICRs entail.

In all of these areas, the measures taken in the GCC (and elsewhere in the Middle East) are similar to those in Western Europe and Asia, and the outcome has been the same: banks generally reporting lower profitability, but not suffering any existential crises.

Of course, many factors could change this picture in the year ahead if the Covid pandemic continues; but GCC economies, banks and societies are better placed to withstand a long pandemic than their peers in the West. Many businesses are staffed by expatriate workers, who leave the country if they lose their jobs, removing the issue of unemployment to their home nations. May indigenous citizens work in government jobs, which will not be abolished, however long the pandemic lasts. Governments in the GCC have the financial resources to continue supporting their banks, their small businesses and their citizens. GCC governments are accustomed to supporting their banks when they face liquidity difficulties (for example, when oil prices are low) and it is unthinkable that they will not continue to do so.

The bigger threat to GCC banks lies – as it always has done – in the price of oil. Historically this has been a short or medium-term issue, but the global policy agenda around climate change is now also making it a long-term issue. (See Gerald Butt's article on Covid-19 and Climate Change on pages 46–47.)

The first Covid lockdown in March 2020 coincided with an astonishing collapse in the price of oil that was initially driven by divisions among the major oil-producing nations, and then by fears that the global economy would enter a deep recession as a result of the pandemic. At the time, many bankers were more concerned about the oil price than about Covid.

Agreements between the oil producers and the revival of global economic demand have underpinned a steady rise in oil prices during 2021. The average price of ICE Brent was $66.23/b in the year to 22 July, compared to $43.21 for the whole of 2020, according to figures published by *Middle East Economic Survey*.

Over the longer term, far more significant challenges lie in the global move away from hydrocarbons, which will reduce demand for oil and gas. All GCC governments have limited political leeway to make the economic and social reforms that would make their budgets and current accounts less dependent on oil and gas revenues, but the accelerating climate change agenda is shortening the time they have to make the adjustments needed. For the sake of their banking systems, as well as their budgets, GCC governments need to move more quickly. ■

Largest 50 GCC commercial banks, ranked by equity size (end-2020)*

	All figures in $ mn except for the capital ratio which is %		Equity	Assets	Net Loans	Customers' Deposits	Net Profit	Total Capital Ratio (Basel)
1	First Abu Dhabi Bank	UAE (Abu Dhabi)	29,691.5	250,261.5	105,283.7	147,283.1	2,873.5	16.5
2	Qatar National Bank	Qatar	26,873.9	284,269.2	200,731.4	204,875.4	3,350.9	19.1
3	Emirates NBD	UAE (Dubai)	23,041.6	190,090.3	120,777.0	126,401.5	1,896.6	18.5
4	National Commercial Bank	Saudi Arabia	21,389.1	159,840.3	92,448.6	111,036.7	3,082.5	20.3
5	Al-Rajhi Bank	Saudi Arabia	15,497.1	125,010.6	84,183.6	102,027.3	2,825.3	19.1
6	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	15,412.6	111,958.5	65,073.4	68,455.4	1,037.2	17.2
7	National Bank of Kuwait	Kuwait	13,622.9	97,761.0	57,583.7	56,267.5	851.0	18.4
8	Saudi British Bank	Saudi Arabia	13,535.4	73,714.9	40,861.8	50,425.6	-1,111.3	21.8
9	Samba Financial Group	Saudi Arabia	12,812.5	79,179.5	41,603.3	55,384.1	1,121.0	19.5
10	Riyad Bank	Saudi Arabia	11,827.1	82,683.9	51,022.0	54,139.8	1,257.2	19.1
11	Dubai Islamic Bank	UAE (Dubai)	11,744.5	78,846.7	53,558.7	56,073.7	860.4	18.5
12	Banque Saudi Fransi	Saudi Arabia	10,302.1	51,749.1	34,814.7	33,893.9	412.3	21.6
13	Arab National Bank	Saudi Arabia	7,937.0	48,102.0	30,227.8	34,491.3	551.7	22.0
14	Kuwait Finance House	Kuwait	6,913.0	70,735.9	35,355.9	50,389.2	606.0	17.5
15	Al-Inma Bank	Saudi Arabia	6,513.9	41,830.7	29,649.9	31,852.1	524.2	19.0
16	Qatar Islamic Bank	Qatar	6,435.8	48,354.5	33,022.6	32,765.1	838.7	19.4
17	Commercial Bank of Qatar	Qatar	6,148.6	42,599.7	26,817.5	21,018.8	360.9	17.8
18	Mashreqbank	UAE (Dubai)	5,497.3	43,166.1	19,478.5	24,033.5	-328.2	16.0
19	Bank Muscat	Oman	5,324.5	32,447.8	23,286.0	21,826.4	425.7	20.8
20	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	5,217.8	34,804.5	22,712.5	27,577.6	436.8	19.4
21	Ahli United Bank	Bahrain	5,036.3	40,071.2	20,719.9	25,182.6	452.2	16.1
22	Bank ABC	Bahrain	4,144.0	30,407.0	15,656.0	17,173.0	-75.0	17.5
23	Saudi Investment Bank	Saudi Arabia	4,088.0	26,633.9	14,685.3	16,037.1	261.2	21.2
24	Masraf al-Rayyan	Qatar	4,046.8	33,589.0	23,845.9	19,113.1	604.7	20.3
25	Doha Bank	Qatar	3,825.7	28,715.0	18,151.4	15,268.2	195.0	19.8
26	Commercial Bank of Dubai	UAE (Dubai)	3,527.3	26,511.7	17,778.2	18,993.2	305.0	16.7
27	Dukhan Bank (ex Barwa/IBQ)	Qatar	3,190.4	23,932.7	16,234.2	14,943.1	157.1	16.4
28	Bank al-Jazira	Saudi Arabia	3,030.3	24,555.2	14,388.6	18,132.9	9.0	23.6
29	Gulf International Bank	Bahrain	3,012.5	29,550.1	10,433.5	19,577.9	-308.0	17.2
30	Burgan Bank	Kuwait	2,894.3	23,376.9	14,294.0	13,459.4	112.2	18.1
31	Bank al-Bilad	Saudi Arabia	2,861.2	25,529.8	18,695.9	19,079.3	359.6	18.0
32	Qatar Intl. Islamic Bank	Qatar	2,308.4	17,004.2	11,235.8	10,081.6	260.1	16.6
33	Commercial Bank of Kuwait	Kuwait	2,279.1	14,437.8	7,497.5	7,792.9	0.2	17.8
34	National Bank of Ras al-Kheimah	UAE (Ras al-Kh.)	2,136.2	14,370.1	8,180.3	10,060.0	137.6	18.6
35	Gulf Bank	Kuwait	2,096.8	20,108.9	13,542.0	13,269.6	94.7	18.3
36	Al Khaliji Commercial Bank	Qatar	2,085.7	15,667.4	9,402.9	8,531.0	189.4	19.4
37	Sharjah Islamic Bank	UAE (Sharjah)	2,081.9	14,595.6	7,969.9	9,151.6	110.5	20.7
38	Boubyan Bank	Kuwait	2,061.6	21,176.1	15,867.2	16,802.8	110.2	16.9
39	Al Ahli Bank of Kuwait	Kuwait	1,944.2	15,963.9	10,254.3	11,466.2	-228.6	18.7
40	Bank Dhofar	Oman	1,813.1	11,091.4	8,508.1	7,455.3	79.7	17.6
41	Ahli Bank of Qatar	Qatar	1,740.3	13,188.6	9,294.1	7,471.5	188.6	16.9
42	Ahli United Bank, Kuwait	Kuwait	1,655.4	14,375.9	10,243.1	9,896.0	97.7	15.7
43	National Bank of Fujairah	UAE (Fujairah)	1,544.6	10,857.2	6,765.1	8,105.4	-129.7	19.2
44	National Bank of Bahrain	Bahrain	1,396.0	11,568.7	5,764.2	8,181.2	134.5	22.3
45	Sohar International Bank	Oman	1,385.3	9,384.9	6,522.8	5,814.3	52.1	19.1
46	National Bank of Oman	Oman	1,381.4	9,464.8	7,524.3	6,584.5	47.2	16.4
47	Bank of Bahrain and Kuwait	Bahrain	1,370.7	10,028.3	4,149.0	5,780.0	140.3	21.8
48	National Bank of Umm al-Qaiwain	UAE (Umm al-Q.)	1,279.1	3,688.6	2,080.3	2,239.7	57.7	40.3
49	Kuwait International Bank	Kuwait	1,159.0	9,216.4	6,510.3	5,410.9	0.3	17.5
50	Oman Arab Bank	Oman	1,124.5	8,598.0	6,866.7	7,178.8	37.0	15.10

** Includes GCC commercial banks that are licensed by their central bank. Source for data is publicly available financial statements.*

Energy transition: words continue to outweigh action

The world is starting to move away from the burning of fossil fuels and towards renewable sources of energy. But is transition happening fast enough to allow Gulf states to remain inhabitable? Gerald Butt has been finding out.

Much has changed in the world of energy in the past couple of years. The light breeze of pledges to reduce fossil-fuel use has worked itself up into a blizzard. Hardly a day goes by without a country or an oil company setting new and increasingly ambitious targets for the reduction of CO_2 emissions.

"A clean-energy economy is an obligation," said Joe Biden as he campaigned for the US presidency. His plan sees America achieving net-zero emissions by 2050. The UK government has gone further: by 2035 it wants to have cut carbon emissions by 78% compared with 1990 levels.

The EU recently waded in, with the European Commission agreeing on a set of climate, energy, transport and taxation policies aimed at reducing net greenhouse-gas emissions by at least 55% by 2030 – against 1990 data.

Among the major international oil companies, BP has led the way with a commitment to cut oil and gas production by 40% this decade, while keeping cash flow steady by focusing on "high-margin assets and cost cutting". ExxonMobil's CEO, Darren Woods, said his company's Low Carbon Solutions business will focus on "large-scale emission reduction with new carbon and capture storage opportunities around the world". ExxonMobil is investing $3 bn on lower-emission energy solutions through 2025, "on top of $10 bn we've spent over the past two decades".

Mukesh Ambani, head of India's energy giant, Reliance

Industries, summed up current moves towards renewables: "The age of fossil fuels cannot continue much longer. The huge quantities of carbon it has entered into the environment have endangered life on earth."

This all looks like a pretty solid manifesto for change. But how are all these various targets to be met? The International Energy Agency (IEA) came up with suggestions in its report published in May 2021, *Net Zero by 2050: A Roadmap for the Global Energy Sector.* One of the targets suggested by the IEA was that, from today, there should be "no investment in new fossil-fuel supply projects". Such statements led to a storm when the report was published, with some misinterpreting it as a swipe at the oil and gas industry, rather than a look at what would need to happen to achieve net zero by 2050.

La La Land?

Saudi Arabia's Energy Minister, Prince Abdulaziz bin Salman, was unimpressed by the IEA's report. "I would have to express my view that I believe it is a sequel of the 'La La Land' movie. Why should I take it seriously?"

The Saudi view is that oil demand in Asia will continue to rise, even if it falls in the West. So the kingdom intends to keeping pumping to meet demand. But, at the same time it implicitly acknowledges that energy is in a transition phase. "Saudi Arabia is no longer an oil country," the energy minister added. "It's an energy-producing country … we are low-cost in producing oil, low-cost in producing gas, and low-cost in producing renewables, and will definitely be the least-cost producer of hydrogen."

So while the language and the emphasis differ, all participants in the global energy sector – producers as well as consumers – agree that a change is happening.

The goals may be honourable, but the methods for achieving them are by no means assured. The IEA admits this: "Most of the reductions in CO_2 through 2030 come from technologies already on the market today. But in 2050, almost half the reductions come from technologies that are currently in the demonstration or prototype phase." Major innovation efforts are needed, it adds.

Questions are also raised by those outside the energy business. A columnist in the London Times newspaper applauded the British government's drive towards renewables. But, he wondered, "for batteries, where is the lithium coming from? How will the staggering increase in electricity be met without gas generators? How can our transmission grid possibly cope?"

Bill Farren-Price, a seasoned energy analyst and Director in the Macro Oil Team at energy advisory firm Enverus, agrees that "there is a difference between political long-term pledges and the regulation, laws and technologies to actually deliver them. There is a huge gap between the two. There's no realistic prospect of many of the net-zero goals being reached yet."

Energy transition is only just beginning

In short, we are still only at the start of the transition process. There were encouraging signs in 2020 when greenhouse gas emissions fell, reflecting the global economic slowdown caused by the Covid pandemic. But recovery in 2021 will largely erase those reductions as mobility increases and trade and manufacturing pick up again.

In Farren-Price's view, there are some bright spots. "Electric vehicle penetration," he says, "is running faster than most forecast. Renewable power is becoming cost-competitive with gas and roll-out is strong in some countries like the UK. But this is not yet a global trend. Coal-fuelled power stations are still being built in China. Without a global agreed system to price carbon, progress will be very regional and patchy."

As long as demand for oil and gas remains strong in Asia, Gulf producers will be eager to pocket the revenue from exports for as long as possible, even as their renewable sector expands. But those Gulf states arguably have more reason than most others to hope that the factors driving climate change are successfully challenged and eventually eliminated.

Failure to counter climate change threatens the Gulf's long-term sustainability. In the course of just one month in the summer of 2019, states of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) experienced several days when the temperature was well above 50° C. Saudi Arabia recorded a high of 55° C. Scientists forecast that global temperatures are set to continue to rise, lending credence to the predictions of several research institutes that some GCC cities could be uninhabitable by the 2050s. To put it bluntly, temperatures will have passed a point where humans can produce enough sweat to keep bodies cool.

In the Gulf, as in many other parts of the world, the debate over climate change has been late in starting. Farren-Price says that "despite climate-led events, such as fires, floods and rising sea levels, it seems there's not yet sufficient concern to win global political support for expensive mitigation efforts".

A blizzard of statements of good intent will not achieve a complete energy transition until pledges are converted into action. And that point, it seems, is still some way off. ■

Gerald Butt

Gerald Butt, a former BBC Middle East Correspondent and editor of Middle East Economic Survey, is a UK-based consultant and writer on the region. He is an adviser to the Oxford Analytica think tank and the author of several books on the Middle East.

Trust structures offer flexible vehicles to protect family wealth for both conventional and Shari'ah-compliant investors

Within the next 10 years, 25,000 high-net-worth individuals are going to transfer $15 trillion to a younger generation. It is hardly surprising that questions around efficient wealth transfer are high on the agenda of many wealthy families. Yet, recent research has indicated that many wealthy individuals doubt the ability of their next generation to manage family businesses well and to preserve the wealth that they have created.

As a result, trusts, foundations and similar legal structures that are designed specifically to ensure an orderly transition of wealth between generations are receiving more attention in the GCC states and other prosperous Middle East countries.

Arab Banker asked Trevor Norman, an Islamic finance expert with Jersey-based firm VG, to explain how trusts work and whether they can meet the needs of Muslim investors and others from the Middle East.

ARAB BANKER: What is the purpose of a trust structure and how does it work?

TREVOR NORMAN: A trust is a legal obligation that is created when someone known as a 'settlor' transfers legal ownership of assets to another person, or persons, who are known as 'trustees' for the benefit of 'beneficiaries'. The beneficiaries can be themselves or another trust, a charity, an institution, or a 'class of beneficiaries', which can be a defined group such as individuals or family members of the settlor.

The concept of a legal trust is very old, both in the West and in the Middle East. In the West, Roman Law had a well-developed concept of trust created by wills and inheritance, but these did not develop into instruments that could be used during someone's lifetime – 'living trusts' – until the 12th century. In fact, some people think that living trusts were introduced to Europe by Crusaders returning from the Middle East and that they are based on Islamic waqfs: endowments of property under Islamic law that are used for charitable or religious purposes.

There are many reasons for establishing a trust. From the perspective of succession planning or inheritance, trusts can be used to defer or avoid liability to pay income tax and capital taxes that arise from the ownership of assets located in other jurisdictions. They can also be used to ensure continuity of ownership and of management of a family's property during the lifetime of the settlor and after his or her death.

Trusts can also be used to protect assets against political risk – by taking the assets out of a place with an unstable or uncertain legal environment and putting them into a legal environment that is transparent and predictable. They can be used to avoid inheritance laws or probate formalities: for example, some countries in the Middle East prescribe that assets are divided in a particular way when they are inherited, and those rules might not be consistent with how someone wants their assets to be divided. Trusts can also be used for charitable purposes – ensuring that the assets will always be used for the purposes intended by the settlor.

Jersey, in the British Channel Islands, which is where my firm is based, was one of the first jurisdictions to codify the common law of trust through the Trusts (Jersey) Law of 1984. That law was subsequently used by other jurisdictions, including Bahrain, as a template for their own laws. There are now more than 30,000 trusts administered in Jersey, with a total value exceeding £600 bn.

How can a settlor be sure that the trustee will act in accordance with his wishes?

It is certainly true that a trustee has very wide powers over the assets of the trust and, as a result, it is also sometimes true that settlors are reluctant to transfer property to trustees for fear of losing control of it.

It is a fundamental principle of trusts that the trustee must act in the best interests of the beneficiaries. By establishing a trust in the lifetime of the settlor, a relationship can be built between the settlor and their trustee, with the trustee learning the intricacies of the family dynamics and gaining a broad understanding of the purpose of the wealth and the values and beliefs of the settlor and their family. The outcome should be that the values and beliefs endure in the trust and are continued during the time of future generations.

When trustees are not close to members of the family or well known to the beneficiaries it can be difficult for trustees to know what the best interests of the beneficiaries are and for the settlor to have confidence that the trustee will use the trust's assets appropriately. As a result, trustees usually look to the settlor for guidance. This can be communicated in different ways.

A Trust Instrument includes provisions or reservation of powers such that the settlor can advise on aspects of the trust or include certain clauses requiring the trustees to manage the assets in a certain way. For example, a Trust Instrument could be used to require that assets be managed in accordance with Shari'ah principles.

A Letter of Wishes is a memorandum setting out the settlor's wishes on the way in which the trust should be administered. This is not binding on the trustee – it is intended for guidance only – but trustees generally respect the settlor's wishes and strive to act in accordance with them.

The Use of a Protector entails the settlor appointing a protector who usually does not have any positive powers over the trustee but does have the power to veto certain of their decisions if they feel that they are using their powers in an undesirable fashion.

Why are there different types of trust, and what is the difference between them?

In its simplest form, a trust is often managed by a professional third-party trustee, who manages the trust's assets in the best interests of the beneficiaries, which may have been determined and communicated in one of the three ways I just outlined.

A Private Trust Company (PTC) is an alternative structure that gives more control to family members. A PTC is an entity whose sole purpose is to act as trustee in relation to a specific trust or trusts, and can be established such that its activities are restricted to the assets of a specific family; and members of that family can be designated directors of the PTC, alongside a professional trustee. This is particularly suitable when there is an intention that a family trust concentrate its investments substantially, or even exclusively, in a closely held family business.

For example, we at VG are administering a PTC structure that was created to hold various companies that themselves owned income-generating assets and other companies that provide goods and services to the family's core business. Although the income-generating companies could be held through a traditional trust structure, the companies providing goods and services to the family need direct input from family members – so family members need to be directors of the trustee company – and a PTC structure is more appropriate.

A Jersey Foundation is a useful structure for families that do not want to transfer control of their assets to a trustee. The Foundation is managed by a Council that must include a Qualified Member (who must be a regulated person or service provider), or a Guardian, who can be the founder, to oversee the decisions of the Council. Other Council members can be members of the family. Another advantage of a Jersey Foundation is that it can have underlying companies that handle specific tasks, such as wealth management, succession planning and charitable giving.

We find that Jersey Foundations are used more as asset-holding vehicles, since they can engage in trading only if it is incidental to their main activities and objectives. The Foundation is a distinct legal entity, like a corporation, and it can sue (and be sued) in its own name, it can hold any type of assets, and it can be used for a wide variety of other financial structuring purposes. Although Foundations are commonly used for charitable and philanthropic purposes, we at VG have also established Foundations to own art and also to own 'wasting assets' such as luxury yachts: 'wasting assets' cannot be owned by a traditional trust because such trusts are required to ensure that its assets are enhanced over time for the benefit of the beneficiaries.

Do these structures work in the Middle East?

Yes, they do.

Jersey's 1984 Trust Law has been updated and amended many times and we frequently use it to protect and manage assets that were originally based in the Middle East and are owned by people or corporations that were, or currently are, domiciled in the region.

Some countries in the Middle East have created their own trust structures under their own laws, and these are effective in those jurisdictions. For example, Bahrain enacted a Trust Law in 2006, and substantially amended it in 2016; and

Trevor Norman

Trevor Norman is a Director of VG and an acknowledged industry expert in Shari'ah-compliant finance. He has been advising VG's clients in the Middle East and beyond for more than 25 years during which time he has worked on a wide variety of Shari'ah-compliant transactions that have included real-estate funds, specialist Shari'ah-screened equity funds and sukuk structures. In recent years he has used this specialist knowledge to assist GCC families and institutions to structure the ownership of their assets using trusts and other vehicles. He is a Fellow of The Institute of Chartered Accountants in England and Wales, and is a member of the Society of Trust and Estate Practitioners (STEP).

VG is one of Jersey's largest independent and privately-owned providers of trust and corporate services with a range of solutions that includes funds, companies, trusts, foundations and structures to hold real estate investment. The firm is widely recognised for its award-winning expertise in Islamic finance. For details of the legal and regulatory status of VG, please visit www.vg.je.

the Trust Law of the Dubai International Financial Centre (DIFC), first enacted in 2005, has been updated many times.

In 2016, the Abu Dhabi Global Market (ADGM – the offshore financial centre in Abu Dhabi) issued a Trust Law which was closely followed by a Foundations Law in 2017. We are seeing the ADGM Foundations Law increasingly being used in combination with Jersey trust structures to hold regionally based real estate assets.

In 2020, the United Arab Emirates (UAE) passed an Onshore Trust Law, which is designed to open the door to trusts that own assets located in the UAE: the point being that trusts established in the DIFC and the ADGM cannot own 'onshore' assets. This is a very significant development, in view of the huge amounts of family wealth in the UAE and it points towards a wider use of trusts in the preservation of family wealth for future generations.

What is the difference between a trust structure and an Islamic waqf?

They are many similarities but there are also several differences. These differences do mean that in certain circumstances waqfs do not provide the solutions that people are typically looking for when they use trusts.

For example, trust assets are owned by trustees and these trustees may buy, sell and deal with the assets as they deem appropriate. In a waqf, a person called a mutawwali administers the assets, but s/he is generally not able to sell the assets without explicit permission from a Shari'ah court.

Another difference is that a waqf may continue to exist indefinitely, but for an English-Law trust, the 'rule against perpetuities' will require that the assets must be distributed to beneficiaries within a certain period of time. However, since 2006, a Jersey trust may exist for an indefinite period, or for any stated fixed period – a flexibility that is not applicable for a waqf.

A person who creates a waqf, known as the waqif, does not have the power to revoke a waqf, whereas trust law gives a settlor the power to revoke a trust.

However, the most important difference is that a waqif is generally prevented from having an interest in the assets of the waqf, whereas a settlor may be appointed as a beneficiary of a trust.

As a result of these differences, a trust's flexibility and its ability to adapt to changes in the circumstances or the needs of beneficiaries make it a more useful vehicle for the ownership and management of assets and for succession planning.

Can a Jersey Trust be Shari'ah compliant?

Yes, it can.

The flexibility of the structure, together with the ability to classify the specific requirements of the settlor into the trust instrument, mean that it is possible to establish a Shari'ah-compliant trust. The three main areas to be documented will be investment policies, distributions, and zakat:

The settlor may make a requirement in the Trust Instrument that the investment policies are in accordance with Shari'ah law. When a trust has a large portfolio of investments and stocks and shares it is unlikely that the trustees will be able to do the screening and selection process themselves, so they usually employ a specialist investment manager, or they invest in a Shari'ah-compliant investment fund. Similarly, any loans or bank accounts have to be free of interest receipts or payments.

Many trust instruments provide simply that "distributions shall be made at such times and in such amounts as the trustee determines in the trustee's sole discretion"; or that "distributions shall be made in the trustee's discretion for the support, maintenance, education, and needs of the beneficiaries". However, if the settlor wants the trust to be fully Shari'ah-compliant these wide powers of distribution are not appropriate.

In such circumstances, the settlor should consider and communicate to the trustees their expectations and hopes for the beneficiaries and how the assets in the trust will or should impact those expectations. The settlor should also consider the extent to which these expectations are in line with Shari'ah principles relating to inheritance. The distribution provisions within the trust instrument can then be tailored to meet the requirements and expectations of the settlor.

After the settlor has transferred the assets to a trust, the settlor is no longer the legal owner of those assets and therefore the responsibility for payment of zakat falls on the trustees. (Payment of zakat is a religious obligation and comprises the donation, each year, to a charitable cause, of a certain proportion of wealth that exceeds the amounts needed to provide for the essential requirements of a person or a family.) Whether the trustees are Muslims or not, if the settlor has required that the trust should comply with the provisions of the Shari'ah, either by having this included in the terms of the trust or in his letter of wishes, the trustees will be obliged to pay zakat based on the assets of the trust.

How is the trust sector likely to develop in the years ahead?

A recent study prepared by Jersey Finance found that 92% of high-net-worth clients surveyed in the Gulf region were poorly prepared and inadequately structured for the transition of their wealth across generations. The study also estimated that only 6% of family businesses will survive to the third generation if current structures are not made more efficient.

There are several factors driving these concerns about the efficient inter-generational transfer of wealth. They include demographic changes, the increased use of family offices, the higher expectations and greater education of younger family members, and threats arising from political uncertainty.

In the past, one structure would have been required to cater for the assets located within the Gulf region and others for worldwide assets; but increasing links and cooperation between Jersey and centres such as the ADGM and the DIFC are making it easier for Jersey Trust or Foundation structures to facilitate the transition of personal and business assets that are based both outside the Gulf and, with a bit of creative structuring, inside the Gulf.

The evolving legal and regulatory landscape around trusts, combined with greater co-operation that we are seeing between Gulf jurisdictions and Jersey, will offer increasing opportunities for GCC families and individuals to work with firms such as VG, who have decades of experience in the region. Together, we can take advantage of the evolving laws and rules to protect wealth for a wide variety of clients, all with their own particular circumstances and their individual objectives. ■

Covid-19 and climate change clarify key Middle East challenges

Two topics have captured headlines around the world in the past 12 months and both have profound implications for the economies of the Middle East: Covid-19 and climate change. In the following article, Gareth Thomas, HSBC's Head of Global Banking for the Middle East, North Africa and Turkey, describes how both are transforming the way customers view sustainability and business resilience.

Covid has, unsurprisingly, been the most searched term on Google for more than a year. Perhaps a little more surprisingly, coverage of climate change in Middle East newspapers has hit its highest level since 2010 – with only coverage in North America gaining greater traction, according to data from the Media and Climate Change Observatory.

These are important signals as the topics highlight the focal points for policymakers and businesses as they navigate the near and long-term risk horizons.

The near-term need to create a strong and sustained recovery from the economic shock triggered by the pandemic has given rise to the refrain "build back better". It is a slogan that also carries connotations for the long term, particularly if viewed through a climate lens.

The fight against Covid-19 has arguably shown that making big, global, structural changes fast is entirely possible. It has given impetus to the view that with the right policy mix, business acumen, financing resource and behavioural will, initiatives to tackle climate change can be embedded into the build-back from the pandemic's impact to create a more sustainable global economic model.

The Middle East is familiar with the scale of change being articulated. Governments around the region have already invested heavily in economic diversification programmes that are promoting, and delivering, tangible change in the structure of domestic economies. These plans have reduced dependency on oil, supported the growth of alternative economic activity and strengthened supply-chain security – including in critical areas such as food.

Leading the change needed to improve the resilience of the models of the future – from supply chains to smart infrastructure, to digitally-driven and sustainable economic diversification and wealth creation – is a task to which the world must rise.

Banks are key to this. Our own commitment at HSBC is to help lead the transition to a global net zero economy, both in our own operations and supply chain; and to support our customers in their own transitions. This leadership takes many forms.

At a headline level, it is aligning the financed emissions from our portfolio of customers to net zero by 2050 or sooner. To help get there, our target by 2030 is to provide between $750 bn and $1 trillion of finance and investment towards the transition.

At a customer level, it is everything from raising funds through green, social sustainability and sustainability-linked bonds, to financing green projects and new technology that open up opportunities and avenues to net zero, to supporting smaller companies to develop sustainability and environmental, social and governance (ESG) strategies through our Living Business Programme.

For communities, it is supporting umbrella programmes to bring bright ideas to life, such as the UAE's Technology Innovation Pioneer Programme, and to help scale up nature-based solutions for carbon capture through our Climate Solutions Partnership.

And at an industry level, HSBC is working with peers and regulators to mobilise the financial system to take action on climate change, collaborating to develop globally-relevant common standards to gauge progress. Our work with the Dubai Financial Market and the Bahrain Bourse, among others, helps sets the standard.

The potential in this region is one reason why we created our Middle East Sustainable and Transition Finance team and focused it solely on supporting customer journeys to net zero – from multinationals to individual entrepreneurs – and to originate and execute business opportunities.

What lies ahead is a multi-decade opportunity in a region that is second only to Asia in terms of its economic growth rate, which sits at the crossroads of East-West trade flows worth $1.8 trillion a year, and which is both the main source of the world's oil and of its brightest prospects for renewables.

Green bond issuance globally hit a record of $269.5 bn in 2020, with transactions originating from 53 economies worldwide – including the first sovereign green bond from the Middle East and North Africa region for Egypt, a $750-mn transaction on which HSBC advised.

The pace of global issuance in 2021 is again record-breaking, with $202.4 bn of green bonds sold in the first half of the year, taking cumulative issuance to $1.3 trillion since the market's 2015 creation.

Governments in the Middle East are setting increasingly ambitious renewable-energy targets, with installed capacity up around 50% from 58.6 gigawatts (GW) in 2020 from 38.4 GW in 2016. Still, the International Renewable Energy Agency estimates investments of $160 bn a year are needed up to 2050 region-wide to achieve a "transforming energy scenario" aligned to global policy pledges on climate change.

Hydrogen could be a game changer for the region

Abu Dhabi, Dubai, Saudi Arabia and Oman have all announced plans to make 'green' hydrogen – created when renewable energy is used to split water atoms, generating no carbon emissions – in a fast-emerging energy market that Bloomberg NEF estimates could be worth $700 bn by 2050.

'Blue' hydrogen, created by using natural gas to split the water atoms and capturing the carbon dioxide produced, is also featuring on the agenda as a transition fuel alongside the abundant liquefied natural gas resources of the region, with coal-to-gas switching saving the world at least 500 mn tonnes of carbon dioxide emissions since 2010, according to the International Energy Agency.

Meanwhile, corporates are mapping out their transition journeys with increasing detail, with HSBC's Navigator survey of more than 10,000 companies in 39 markets worldwide underscoring how important sustainability has become to businesses since the start of the pandemic, especially so in the Middle East.

A full 99% of UAE companies surveyed for Navigator think there are multiple opportunities for their business from improving their environmental and ethical sustainability, with 96% of them anticipating that a focus on sustainability will drive growth, compared with a global average of 86%.

Applying a sustainability lens can dramatically improve supply-chain resilience, as climate change will increase the frequency, magnitude and scope of acute supply-chain disruptions; create chronic changes that companies must adapt to; and create new types of risks that have not typically been addressed by supply-chain risk-management programmes.

The Task Force on Climate-Related Financial Disclosures recommends that all companies report climate-related risks, including governance approach, climate-resilience strategy, risk management, and resilience metrics and targets. More than 500 companies have signed up to do so.

In the recovery from Covid-19, there is an opportunity to put sustainability at the heart of efforts to accelerate investment in carbon transition across the Middle East.

The first step for many will be to adopt digital technology to replace manual, paper-based processes. The support we at HSBC have provided to customers through the pandemic has helped companies across the region make this transitional move.

Over the course of 2020, more than 1,000 clients switched to our digital corporate banking platform, HSBCnet. Adoption is so robust that we are now 100% digital for corporate-customer transactions in the UAE and Bahrain.

The digital shift triggered by the pandemic has greatly improved supply-chain analytics, boosting transparency and agility to eliminate waste and inefficiency. Sharing data, research and ideas digitally helps bridge divides, accelerate innovation and deliver flexibility in the way people do their jobs.

We think that sophisticated data use will also be a catalyst for corporate restructuring, creating an additional pipeline of investment opportunities alongside the fast-growing range of sustainable infrastructure projects that promote comprehensive, cost-effective decarbonisation outcomes.

Capital is evidently seeking out such opportunities. In the past 10 years, annual global energy transition investment alone nearly doubled to $501 bn in 2020 from $290 bn in 2011, according to data tracked by Bloomberg.

Leading the transition to net zero is our goal. If the barometer of the region's media is any guide, it is a transition on which customers across the Middle East are keenly focused as the region builds back better from Covid-19. ■

Gareth Thomas

Gareth Thomas leads HSBC's investment banking business in the Middle East, North Africa and Turkey region. Gareth is the senior banker advising governments, related enterprises, development banks and major corporations across the Middle East, the region that has been the principal geographic focus of his 30-year career.

MENA FCCG celebrates five years of fighting financial crime in the Middle East

In recent years, criminals have increasingly exploited the globalisation of financial markets to further their illicit activities. Five years ago, the MENA Financial Crime Compliance Group (MENA FCCG) was created to drive collective action in the fight against money laundering and terrorist finance in the Middle East. The group currently consists of 13 leading financial institutions from nine MENA countries.

The idea of forming the group was first raised during the US-MENA Private-Sector Dialogue (PSD) meeting in New York in 2014. The suggestion was welcomed by Union of Arab Banks (UAB) and was followed by a series of discussions with financial institutions that were contacted to form the Founding Members. The group was officially launched in September 2016, with the inaugural meeting taking place in Bahrain.

To mark the 5th anniversary of that inaugural meeting, *Arab Banker* spoke to Michael Matossian, the Chief Compliance Officer at Arab Bank, who first planted the seeds for the Group's creation and is the current Deputy Chair.

ARAB BANKER: What was the purpose behind the creation of the MENA FCCG?

MICHAEL MATOSSIAN: Banks in the MENA region have made significant progress over the past decade in strengthening their processes, controls and expertise around anti-money laundering and combatting the financing of terrorism (AML/CFT), but recent geopolitical risks and regulatory developments have been raising the compliance standards for banks globally, including in the MENA region.

This highlights the importance of collective action and cross-border cooperation, and led us to set up a regional body that enables members to share best practices. Simply put, MENA FCCG aims to make MENA a safer place to do business by building increased capacity within banks, creating closer alignment with international leading practices and leveraging the benefits of public-private-sector collaboration.

The aim was also to ensure the global financial community can have greater confidence that financial institutions in the MENA region are addressing AML/CFT issues effectively. This in turn will reduce the likelihood of international banks downgrading their correspondent banking relationships in the region – something that was a major area of concern around the time we were preparing to launch the MENA FCCG.

> *"MENA FCCG is now extending its outreach to Arab financial institutions across Europe to engage and empower a wider range of compliance professionals working in Arab banks. The objective is to create a support network and to share best-practice tools to strengthen compliance governance, leading to enhanced relationships with international banking communities, including regulators."*
>
> Wissam Fattouh
> Chair MENA FCCG and Secretary General of the Union of Arab Banks

How is MENA FCCG structured?

Membership in the MENA FCCG is by invitation, based on a bank's ability to influence positive change in their country, the size of the institution, and other factors, and is limited to the member institutions' Chief Compliance Officer and/or Head of AML/Financial Crime or the Money Laundering Reporting Officer (MLRO). Potential new members initially join the group with an observer status for a period of six months, after which existing members vote on full membership. The group has an Advisory Committee that steers its strategy and deliverables, subject to consultation with members. The Secretary General of the Union of Arab Banks (UAB), Wissam Fattouh, is our Chairman. Both Refinitiv (previously Thompson Reuters) and UAB are Strategic Partners in the group, supplementing its strength. By way of example, in 2019, we released a Financial Crime Survey in collaboration with UAB to gain a better understanding of how MENA banks measure against global AML/CFT standards and to identify pain points in order to adjust our priorities accordingly. Likewise, we have utilised Refinitiv's platform to deliver complimentary webinars on critical AML/CFT topics.

A fundamental pillar of our work is outreach to banks across the region and offering a helping hand in the fight against financial crime. We believe that 'open source' collaboration is vital to build expertise across the MENA banking community. Adding material on our website, including compliance toolkits, is a vital part of our work, and we are particularly pleased to have so much material in Arabic.

L–R: Michael Matossian, Wissam Fattouh, Secretary General, Union of Arab Banks, Adel al-Quleish, Previous Executive Secretary, MENA-FATF.

What partner organisations does the MENA FCCG work with, both globally and within MENA?

We work with a wide variety of global bodies, spanning both the public sector and the private sector. We work with the Wolfsberg Group, the Global Coalition to Fight Financial Crime, the Institute of International Finance, the Arab Monetary Fund and others. We also work closely with MENA FATF, the regional associate of the Paris-based Financial Action Task Force. For example, in 2017 we provided a memo to MENA FATF on actions that could result in a more effective CFT regime across the MENA region.

I'm pleased that over the past five years we've established the MENA FCCG as an interlocutor on AML/CFT matters relating to MENA banks. For example, we participate in the US-MENA Private-Sector Dialogue meetings. We have also taken part in OECD's 'Public and Private Sectors' Alliances in the fight against corruption in MENA and GCC countries, and the European Union-MENA Private-Sector Dialogue on Correspondent Banking, AML, and CFT.

We've also provided our opinion on the regional cross-border payment system led by the Arab Monetary Fund. This system, known as BUNA, is aiming to create inter-country clearing for regional currencies, including the US dollar and the Euro, and we're providing guidance to MENA-based banks on risk and regulatory matters to ensure compliance with international leading practices, including as they relate to sanctions.

We also have alliances with some private-sector entities such as K2 Integrity and the Association of Certified Money Laundering Specialists.

What relationship do you have with financial regulators in the MENA?

We always try to involve financial regulators in our events and our discussions. For example, when we held our plenary meeting in Amman in the spring of 2019 (the last face-to-face plenary before the Covid pandemic), we invited the former Head of the Jordanian Anti-Money Laundering and Counter-Terrorist Financing Unit to brief us on their latest initiatives.

> *"MENA FCCG not only plays a crucial role in enhancing financial crime literacy in the region, it's also a key partner for the Global Coalition to Fight Financial Crime, with its MENA chapter bringing together senior policy makers with unprecedented expertise and innovative solutions."*
>
> Che Sidanius
> Global Head of Financial Crime & Industry Affairs, Refinitiv

We position ourselves as a leading advisor in the MENA region on how best to comply with regulations that combat financial crime, while also providing commentary and feedback on global regulations affecting the region. Looking forward, establishing minimum operating standards for MENA banks is among the group's objectives.

Do you think the AML/CFT agenda is different in MENA from other regions, such as Asia or Western Europe?

Although there are some areas where the MENA agenda is different, such as increased use of cash in financial transactions, the more important point is that financial crime is cross-border and therefore we have to combine our experiences and work together, focussing on the common challenges that we face.

Sanctions compliance is a key area of risk for MENA banks and for others who're doing business in the region. There has also been an increase in anti-bribery and corruption (ABC) regulations in the region. In addition, the Wolfsberg Group's Correspondent Bank Due Diligence Questionnaire (CBDDQ) added a new section on ABC. It's

> *"It was obvious that MENA FCCG was going to be a crucial partner for the MENA Chapter of the GCFFC. By creating our special alliance, we've paired our abilities and integrated our resources to maximum effect in the fight against financial crime in the MENA region."*
>
> Ibtissem Lassoued
> Chair, MENA Chapter, Global Coalition to Fight Financial Crime

evident that combatting bribery and corruption has become a far more significant element in MENA banks' compliance programmes than they were a few years ago.

Another significant risk for MENA countries is that of not passing the FATF mutual evaluations under its enhanced methodology that focusses on technical compliance and effectiveness. Concerns about being designated as a jurisdiction with AML/CFT deficiencies are leading to increased pressure on banks to ensure that financial crime programmes are effective in tackling illicit actors.

I'd also note that some regulators in the region are now mandating enterprise-wide financial crime risk self-assessments that effectively require banks to identify risk factors across different dimensions such as the jurisdiction, the financial product/service/delivery channel and the customer.

Putting all that together, I think the AML/CFT agenda in MENA has become much more stringent in recent years and that expectations of MENA banks and the requirements placed upon them are stricter.

What areas of AML/CFT do MENA banks find most difficult to fulfil and comply with?

A key challenge is optimising the use of new technology related to AML/CFT to drive increased efficiency and effectiveness. Although many have implemented advanced systems to generate alerts and identify suspicious financial flows and sanctioned individuals, such tools require constant tuning and further application of artificial intelligence and machine learning to advance financial crime detection. This requires technology-savvy staff with strong financial intelligence experience who can manage and analyse big data. People with such backgrounds are in high demand.

Banks also need to ensure that they have appropriate governance and control structures around the AML/CFT technology that they use. An additional challenge arises if regulatory guidance is inconsistent.

In early 2021, you were appointed Vice Chair of the MENA chapter of the Global Coalition to Fight Financial Crime (GCFFC). What is the purpose of this initiative?

By way of background, Europol, the World Economic Forum and Refinitiv formed the Coalition back in 2018. A number of leading worldwide organisations are now members, including the MENA FCCG. The GCFFC is a group that aims to promote more effective public and private-sector collaboration and engage policy makers in addressing the financial crime challenges worldwide.

In early 2021, we established the GCFFC MENA Chapter with Ibtissem Lassoued as Chair. I was appointed Vice Chair. GCFFC MENA Chapter and MENA FCCG then formed a strategic alliance. Both organisations bring complementary strengths to joint initiatives, with the GCFFC drawing on its international infrastructure to provide world-leading technical support, and the MENA FCCG contributing the expertise and outreach of its network of leading private banks.

A key collaboration area between MENA FCCG and GCFFC MENA Chapter is undertaking actions to establish the first-ever Public Private Partnership (PPP) in the MENA region. We're calling it the MENA Financial Information Sharing Alliance (MENA FISA). We had an initial meeting with MENA FATF and we're envisioning a regional PPP drawing from the example of the Europol Financial Intelligence Public-Private Partnership (EFIPPP). Key benefits MENA FISA is expected to reap include more timely and relevant reporting in response to active investigations or live incidents, improved quality and usability suspicious reporting, as well as improved law enforcement outcomes supporting investigations, prosecutions, asset recovery or other disruption of criminal networks.

You have material on the MENA FCCG website in English and Arabic but not French. How do you engage with banks in Francophone North Africa?

We are engaging with Francophone Africa through the large amount of Arabic language material on our website. For example, when we released a detailed assessment questionnaire and a guide on ABC, we made sure the material was also available in Arabic. We have also provided a guidance and an assessment questionnaire in Arabic and English on privacy and data protection. MENA FCCG has also posted on its website the Wolfsberg's CBDDQ 13 Capacity Building videos with Arabic voiceover, as well as an Arabic version of Wolfsberg's CBDDQ Guidance.

Deepening the involvement with North African banks is a priority for us and we're currently reaching out to regulators in Tunisia, Algeria, Morocco and Sudan. We also hope that we'll soon be able to start producing some material in French, which is the language of business in most North African countries. ■

Michael Matossian

Michael Matossian is the key founder of MENA FCCG and its current Deputy Chair. Based in Amman, he is the Chief Compliance Officer at Arab Bank and the Chair of the bank's Ethics Committee. Mr Matossian has more than 35 years of experience in regulatory risk management, anti-money laundering and corporate governance. He participates in a number of national and international task forces addressing financial crime and compliance matters. MENA FCCG's website is www.menafccg.com

Financial crime and senior management: understanding the consequences of compliance failures

The 2008 global financial crisis demonstrated how the actions of banks and bankers can have a huge impact on national economies, and the European sovereign crisis of 2013 re-enforced this message.

In the following article, Nadia O'Shaughnessy and Maria Nizzero of financial crime specialist organisation Themis describe how regulatory tolerance for bad compliance has been changing, and what bank managers should be doing to ensure that they – and the banks they manage – meet the increasingly stringent expectations of regulators and society as a whole.

Unsurprisingly, the first reaction of lawmakers and financial regulators to the recent financial crises was to create stronger banks by forcing them to hold more capital and more liquid funds, and to improve their risk management.

But the re-regulation of global banking did not stop there. It was widely believed that some senior managers had turned a blind eye to questionable activities, while others actively promoted a culture of recklessness and unnecessary risk-taking that inevitably contributed to the crises of 2008 and 2013.

The result was a focus on banking culture and a wider appraisal of the activities of banks, looking beyond their role in providing finance to consider whether they could be involved, wittingly or unwittingly, in illegal activities that impact society as a whole.

There was also a focus on accountability. One of the striking features of the 2008 global financial crisis was that very few people were held to account for bad or reckless decisions. Lawmakers and regulators believed that this lack of accountability contributed to many of the poor decisions that led to the crisis.

In the UK, regulators created the Senior Managers and Certification Regime (SM&CR) that has increased accountability for senior managers in banks and has also helped to instil a stronger culture of compliance from the top all the way down the management structure.

The SM&CR not only requires designated managers to understand their legal and regulatory responsibilities, it also makes them directly liable for any wrongdoing covered by regulatory provisions. Ignorance is no longer an excuse. Within the financial crime field, senior managers must get compliance right if they want to avoid the regulators' sanctions: these could include financial fines levied on them personally and disqualification from holding senior positions in future.

Financial crime: a destructive force for businesses

The consequences of being involved in financial crime go far beyond the financial losses that a firm may suffer, although these can be significant. In October 2020, Goldman Sachs agreed to pay approximately $5.4 bn in penalties to UK and US regulators to settle cases related to its involvement in the 1MDB corruption case in Malaysia. This sum was approximately 16% of the bank's net revenues for the first nine months of 2020. In April 2021, ABN AMRO was fined €480 mn (around $581 mn) by the Dutch financial crime regulator in respect of loose financial crime controls, and €180 mn ($218 mn) of the total was the amount the regulator estimated that the bank had 'saved' by not having sufficiently strong financial crime compliance systems.

In addition to the fines imposed by the regulators, there may be lost customer revenue, and money stolen directly by the criminals. Furthermore, after imposing a fine, regulators typically impose stringent anti-financial-crime-compliance requirements that absorb huge amounts of management time, quite apart from their cost.

Customer loss and reputational damage associated with financial crime scandals also represent severe risks for an organisation's financial health. This is demonstrated by recent cases like that of Australian hedge fund Levitas, which collapsed in November 2020 when a key investor redeemed its assets after the firm fell for a sophisticated AU$ 8-mn phishing scam. Increasingly, we are seeing that clients, staff and shareholders will not forgive an organisation if it exposes them to financial crime threats.

But the reputational and financial damage associated with financial crime exposure does not stop at the organisational level. Following a scandal, senior managers at the helm of these organisations increasingly run the risk of losing their certification and being banned from working in financial services. For instance, in January 2021, two former chief executives of private bank Julius Baer were formally reprimanded by the Swiss regulator, Finma, for their serious shortcomings in compliance measures related to the handling of dirty money from Venezuela's state-owned company Petroleos de Venezuela. Furthermore, it was reported that Julius Baer would withhold millions of francs in bonuses from both former CEOs. In all sectors, but particularly those such as private banking or wealth management where trust between a relationship manager and their client is vital, reputational damage of this sort can quickly lead to customer loss.

Nadia O'Shaughnessy and **Maria Nizzero**

Nadia O'Shaughnessy is Insight Director at Themis. After obtaining a double masters in International Political Economy at the London School of Economics and Sciences Po, she completed assignments with the UN, the NATO Parliamentary Assembly and the European Commission.

Maria Nizzero is Associate Director of Analysis at Themis. She is an expert researcher in financial crime, organised crime and terrorism, and previously worked for Dow Jones. She has an ML in criminology from the University of Barcelona and an MA in International Relations from the Universitat Pompeu Fabra of Barcelona.

Themis is a financial crime specialist that works to help firms identify, monitor and manage their financial crime risks. Their platform helps organisations understand strategic threats through an ESG and socio-economic lens and protects their customers, staff, suppliers and shareholders from criminal attacks or association. The Arab Bankers Association has partnered with Themis to provide its members with the very latest financial-crime-related insight, delivering analysis of the latest threats, criminal techniques and regulatory requirements, as well as specialist financial crime training. Learn more via www.crime.financial.

Personal accountability and liability of senior managers under the SM&CR

Big recent scandals, such as those implicating NatWest, ABN AMRO and Goldman Sachs, highlight the point that financial crime is often linked to misconduct, inadequate oversight or the promotion of a corporate culture of risk, recklessness and secrecy by certain senior managers. Regulators are increasingly aware of the role that individuals can play, and this is being reflected in new rules that regulators are setting.

First introduced through the Financial Services (Banking Reform) Act 2013 and applied to the banking sector since March 2016, the SM&CR is the Financial Conduct Authority's (FCA's) attempt to remodel the UK's regulatory framework with the aim of reducing harm to consumers, strengthening market integrity and holding senior management responsible for the mismanagement of risk, in particular financial crime risk. The regime helps firms establish effective governance by setting new standards of personal conduct that make individuals personally liable and accountable for their actions and that encourage the development of a culture where staff understand and take ownership of their responsibilities and question every client or supplier relationship.

The Banking Reform Act also gave rise to a new criminal offence, 'S36 Offence relating to a decision causing a financial institution to fail', which introduced prison sentences of up to seven years for senior financial-sector employees found liable for decisions that cause a financial institution to fail. There are two other key criminal offences of which those who are the 'directing mind and will' in a company must take notice: the corporate offence of 'failing to prevent bribery' under the Bribery Act 2010 and the corporate offence of 'failing to prevent criminal facilitation of tax evasion' under the Criminal Finances Act 2017.

Beyond these criminal offences, the SM&CR has gone a long way towards strengthening the accountability of senior management by placing the onus on managers to take responsibility for both their own actions and those of their employees. Aside from potential criminal conviction, senior managers who fall foul of the act risk having their lives seriously disrupted by regulatory investigations and they face fines of up to 40% of their income.

Full mastery over the SM&CR and related requirements can be particularly challenging for senior managers of banks in the UK whose headquarters are in other parts of the world. In the Middle East, we often see a culture of central control where decisions over clients, systems and budgets are made in the head office, where the regulatory environment may be significantly different from that in the UK. The FCA's stance is very clear – regardless of what happens at head office, they want to see that the local UK management team has the autonomy to decide which clients are onboarded or relinquished and that the UK team has the authority to establish UK systems and controls to detect and prevent financial-crime-risk events. Middle Eastern banks should not take this lightly if they want to maintain good relationships with regulators in the UK.

Furthermore, the FCA is not the only regulator that has increased its focus on the personal accountability of senior managers. In recent years, the European Commission has been conducting a consultation for an individual 'accountability regime' under the Capital Requirements Directive, which would mirror some provisions of the UK's SM&CR regime by making senior managers accountable if they promote, condone or ignore unethical conduct or breaches of financial crime controls. In Germany, a 'presumption of responsibility' regime makes board members collectively liable for breaches of their duties unless they can demonstrate they acted with due care and skill. Similarly, in Ireland, the Central Bank has been pushing for progress on the introduction of a Senior Executive Accountability Regime (SEAR) as part of a broader proposed Individual Accountability Framework.

Further afield, the Monetary Authority of Singapore (MAS) introduced Individual Accountability and Conduct Guidelines in October 2020. These increase senior managers' personal accountability for both their own conduct and that of their employees. In the US, the Department of Justice issued guidance in 2015 that strengthened its ability to pursue individual employees for misconduct in corporate crime cases. The US Securities and Exchange Commission also strongly endorsed the UK's SM&CR when it came into existence, with its Chair at the time, Mary Jo White, deeming it "a very intriguing set of changes" for the US to watch closely.

The importance of anti-financial crime culture

Senior managers are essential gatekeepers upon whom clients and regulators rely to prevent, detect and report potential misconduct. It is their duty to set a company's culture and embody its values, and they should be actively engaged in moulding their firm's approach to financial crime mitigation. This means educating themselves about the risks to which their organisation is exposed, ensuring that steps are taken to address them and understanding the very real costs of getting their anti-financial crime (AFC) governance wrong.

For an AFC culture to be adopted by employees, it is crucial to secure the full support of senior management and so foster the right 'tone at the top'. However, when we surveyed financial services professionals in 2020, only 21% of respondents believed that financial crime frameworks were 'high' on their organisation's senior management agenda and 'well-embedded' into the firm's corporate DNA.

The sign of a good culture is when every member of staff questions their client and supplier relationships, asking, for example: why are they banking with us, do their transactions fit within their expected or given reasons for operating this account, who are we really dealing with, what does the end-to-end supply chain look like, and, above all, does this relationship or transaction make sense? It is important to recognise that, while a bank may only deal with legitimate customers or trade, individual criminals and organised crime groups (OCGs) are actively trying to break down the bank's defences. Members of OCGs are often smart, highly trained and digitally sophisticated financial experts who may employ a larger and better qualified team of analysts than most banks do. Although it is the banker's responsibility as a senior manager to ensure that there are effective systems and controls in place, establishing a culture where this level of questioning across the organisation (from top to bottom) is a norm is the most effective way for a team to spot suspicious activity or red flags.

How can you set the right tone at the top?

Regulators will expect senior managers, and in particular the CEOs of international banks in London, to be able to fully articulate the financial crime risks their business is exposed to and the control frameworks they have in place to mitigate these risks. They will interview you one-on-one, away from your Head of Compliance or Money Laundering Reporting Officer (MLRO), and they will expect you to have detailed knowledge.

They will also want to see *evidence* of how you personally – as a senior manager – have worked to educate your team, set an appropriate risk appetite and put in place effective controls. They will be looking for evidence of this in the minutes of Executive Committee and Board meetings, as well as evidence of horizon scanning to ensure your organisation is staying on top of the changing regulatory and threat landscape. They will be looking for evidence of how you monitor specific financial crime risks, and evidence that you have an understanding of the anti-financial crime strengths and vulnerabilities across your business.

CEOs and senior managers should not be afraid to ask difficult questions and they should pay attention to both what their employees are saying and what they are *not* saying. It should also be evident that they should promote the creation of open reporting channels and respond to any signs of wrongdoing or failure to comply with regulatory expectations. Moreover, they must create an enabling environment so that their MLRO or equivalent can highlight any potential issues without fear of reprisal or intimidation. It is an MLRO's responsibility to bring before the board a review of financial crime systems, but it is also the duty of senior managers to actively listen to and support MLROs in mitigating risks. Failure to do so can lead not only to large fines from regulators, as the recent Goldman Sachs case shows, but also to loss of licence, customers and reputation and, in a worst-case scenario, criminal convictions.

Regulators are paying ever more attention to the crucial role that senior managers play in fostering a culture of anti-financial-crime compliance. By promoting accountability regimes, the FCA and others are demonstrating that they will hold executives accountable for failings of oversight and misconduct, and signalling that they will no longer accept ignorance as an excuse.

But it is not just the regulators setting this agenda. The support of regulators may be a necessary condition for building and maintaining a successful international franchise, but it is not sufficient: customers, suppliers and investors are increasingly choosing to deal with banks that can show commitment to the social impact of their work. This includes protecting their stakeholders from financial criminals and ensuring that their own banking systems are not exploited by those criminals. From a regulatory, business and societal perspective, the costs of getting anti-financial crime governance wrong are very high. ■

Climate change and banks: regulators turn their focus to risk management and metrics

Hardly a week goes by without another policy statement or guidance document on climate change being issued by a standard setter, bank regulator or international agency, and with politicians, NGOs and environmental activists increasingly vocal on the subject, it is hard for banks to identify the issues that will have direct relevance for their operations.

Arab Banker's Editor, Andrew Cunningham, describes how regulators' thinking on climate change risks has been evolving, and highlights some important recent publications.

A recent presentation by a London-based consulting firm identified 21 key documents on climate change that their clients should be incorporating into their strategic planning. And those 21 only scratched the surface of the literature on climate change-related disclosures and risk management for financial institutions.

In Western Europe, public dialogue on climate change has become shrill in recent years, partly due to the activities of protest movements such as Extinction Rebellion – some of whose adherents disrupt public transport and block roads in the middle of cities – and partly also as political parties compete to be seen as the most concerned and alarmed about the effects of climate change.

From the point of view of banks, the focus is narrowing rather than broadening, and becoming more technical and less general. The pressure for more disclosure of climate change-related risks continues, but there is increasing interest from regulators on quantifying the effect of climate change on banks' earnings and capital.

Financial regulators have for some years been assessing the effect that climate change might have on banking systems as a whole. These assessments took into account both physical risks and transition risks – the duality around which all thinking on climate change risks has coalesced in recent years.

Physical risks are those that arise from more severe climate and weather-related events, such as flooding, forest fires or drought. Transition risks are those that arise as economies implement measures to reduce carbon output. These include higher taxes on certain industries that might then become less profitable – and so less able to repay their loans to banks.

Transition risks raise the possibility of financial institutions holding 'stranded assets' – investments in or loans to industries that are no longer profitable due to changes in tax regimes or because few customers want to buy their products.

In 2018, De Nederlandsche Bank (DNB – the Dutch central bank) conducted an 'Energy Stress Test' that made some plausible assumptions about technological developments and policy changes. It concluded that, under their scenario, Dutch banks' CET 1 capital ratios would fall by 4.3%. In a separate study, in 2019, DNB found that 8.8% of Dutch banks' mortgage exposures were located in flood-risk zones

In 2020, France's banking regulator, the Autorité de Contrôle Prudentiel et de Résolution (ACPR) conducted a pilot exercise on climate risk, based on a 30-year time horizon and a dynamic balance sheet assumption from 2025 to 2050. (Under the dynamic assumption, banks had to predict how their balance sheet would evolve over 25 years, taking into account both physical and transition risks.) The ACPR concluded that French banks' exposures within France benefited from the high share of nuclear power in electricity production in France (as opposed, say, to coal-fired production plants) but the authority noted that nuclear power is subject to particular risks – during a severe drought in France in 2020, falling water levels hampered the cooling of some nuclear power plants, forcing a temporary move back to coal-fired power stations.

Macro-studies such as these have led to increasingly prescriptive statements from supervisors on steps that banks should take to incorporate climate risks into their broader risk-governance frameworks.

In January 2020, Germany's financial regulatory authority, BaFin, issued a Guidance Note on Dealing with

Sustainability Risks. The note was interesting in its scope, if not in its detail. Sections entitled 'Risk Control function', 'Compliance function' and 'Internal Audit function' were barely 50 words long, but their effect was to put those functions on notice, along with many other areas of a bank's operations, that they are expected to integrate sustainability risks arising from climate change into their everyday work.

More detailed guidance came in May 2020, when the European Central Bank (ECB), which supervises banks in the Eurozone, issued guidance on climate-related and environmental risks. The document made clear that the European financial authorities expected banks to incorporate risks related to climate change into their overall risk-management framework – including their risk-appetite statements – and capital-planning exercises.

From the end of 2020, 'significant institutions' in the Eurozone – about 120 banks that are directly supervised by the authorities in Frankfurt – have been required to inform the ECB of any ways in which their own practices diverge from the guidance in the May 2020 document.

In the UK, the head of the Prudential Regulation Authority (PRA), Sam Woods, wrote to bank CEOs in July 2020 telling them that they should have "fully embedded" their approaches to managing climate-related financial risks throughout their organisation by the end of 2021. In his letter, Woods noted that the end-2021 deadline would mark two-and-a-half years since the PRA had issued clear supervisory guidance on climate change risks, and two years since banks had been required to allocate responsibility for climate-related financial risks to a named senior manager.

Despite these exhortations, banks still have difficulty in identifying the various ways in which climate change risks can be transmitted to their own individual operations, and also how to quantify those risks.

In April 2021, the Basel Committee on Banking Supervision published separate studies to provide guidance on both those questions.

The first, on transmission channels, noted that in the past, research focussed on how climate-related risks affect economies or individual industry sectors and not on the ways in which climate-related risks flow through onto banks' balance sheets and income statements.

The Committee identified transmission channels as, for example, companies, households and local governments, to which banks might lend, but also assets such as shares or property that they might hold on their balance sheets.

The Committee also recognised that the extent to which climate risks affect those channels will vary depending on factors such as geography, the degree to which a country's economy is diversified and the ability of a government to make policy changes.

For banks in the Middle East, such 'Sources of Variability' as they are known, could be significant. The macro-economic effect of financial institutions refusing to invest in oil and gas assets will be greater in Algeria and Iraq, which rely on foreign investment, than in Qatar and Saudi Arabia, which have large financial resources of their own.

It will be interesting to see whether the Iraqi government will be able to attract the billions of dollars in private-sector investment that it needs to develop its oil industry – and support its budget.

The inability of some oil-and-gas-exporting countries in the Middle East to develop new, carbon-neutral industries, or even simply for their governments to reduce expenditure as revenues from oil and gas decline, could make them more vulnerable to aspects of climate change than, say, countries in Western Europe that have more diverse economies and more flexible policy environments.

The Basel Committee is clear that the impact of climate change risks, however great or small they may be, can be seen through traditional categories, such as credit, market, operational and liquidity risk. The Committee also identified reputational risk as a relevant category, arising from changing market or consumer sentiment.

The Basel Committee's second study, addressing the measurement of risks, reinforced the point that the impact of climate change risks can be mapped to traditional risk categories but it also recognised how difficult it will be to quantify those impacts in monetary terms.

For example, the variability of climate change impact – already mentioned above – will compel banks to conduct highly granular analysis for risks that may appear to be similar. A company's ability to service its debts can, to a significant extent, be assessed through reference to some standard financial cash-flow ratios which are common to all companies in the same industry. As a result, losses can be modelled across industries and geographies with some degree of confidence. However, the effects of climate change may cut across debt-service ability in different ways, depending on the extent to which the company's home country or home government is affected and how it is able to respond. As a result, the applicability of credit models will be reduced.

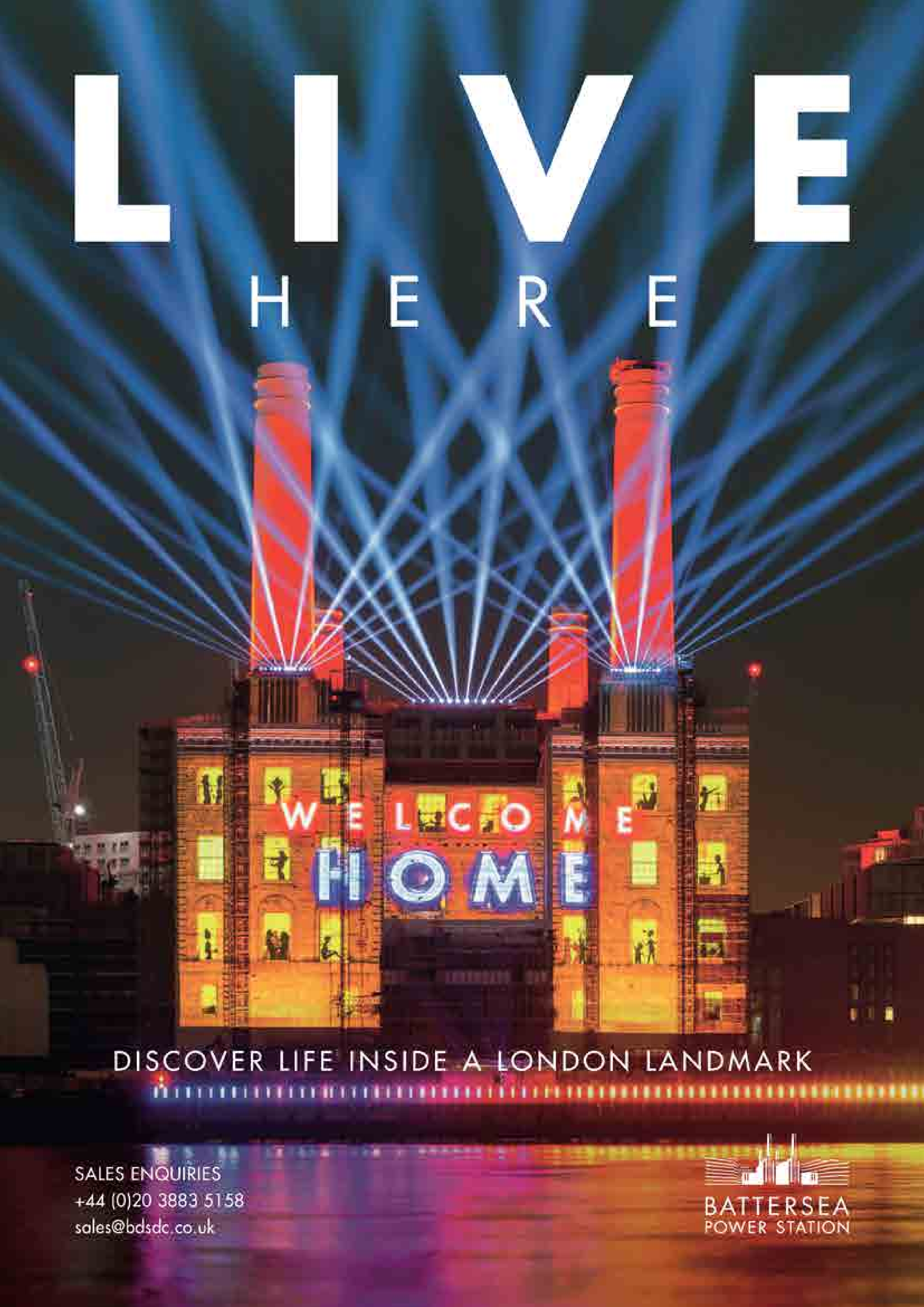
Another problem arises from the unprecedented nature of the climate change threat. Many risk models depend on data sets from previous economic cycles to predict how assets will perform in future. No such data sets for previous climate threats exist.

A further challenge arises from the time horizon over which climate change risks should be assessed. Oil-exporting countries in the Middle East provide an example. Suppose a bank takes a long-term exposure to a liquefied natural gas (LNG) project – the success of that investment will be heavily dependent on the pace at which the global energy mix moves away from LNG and towards greater use of sustainable energy. But judging the pace of that transition is complex and dependent on multiple factors.

The Basel Committee's guidance will lead to greater pressure from regulators for banks to incorporate climate change into their capital-planning processes. The Bank of England's Biennial Exploratory Scenario, issued in June 2021, which is part of the stress-testing regime that it applies to major UK banks and insurance companies, states that the results of the exercise will not be used to set banks' capital requirements; but it is clearly understood that banks will be projecting what their climate-related losses would be under the Scenario, even if no supervisory action follows – for the moment.

Such initiatives are not confined to Western Europe. Bank regulators in Singapore and in Australia have issued firm statements on the financial risks of climate change and how they expect their banks to respond.

Can it be long before financial regulators in the Middle East start to draw on the wealth of literature available and start imposing climate-related risk requirements on their own banks? ■


LIVE
HERE
WELCOME
HOME
DISCOVER LIFE INSIDE A LONDON LANDMARK
SALES ENQUIRIES
+44 (0)20 3883 5158
sales@bdsdc.co.uk
BATTERSEA
POWER STATION

Financial regulation adapts to new developments in financial technology: banks beware!

The regulatory burden on banks has increased massively over the past 10 years, both in terms of prudential measures – higher capital and liquidity requirements being the most obvious – and regulatory scrutiny of bank-customer relationships.

One aspect of this is the changing nature of the 'regulatory perimeter' that defines the scope of regulation, and another is the way in which banks' obligations to their customers are being forced to evolve. Innovation in financial technologies and the development of new banking products are adding twists to the ways in which banks interact with existing and potential customers.

Arab Banker asked Charlotte Wilson, a legal director at Mishcon de Reya, to explain how the interface between regulators, banks and customers is changing, and we asked Charlotte's colleague Tom Grogan, who leads Mishcon's technology consulting business MDRxTECH, to give us an example of good regulatory practice from the Middle East.

ARAB BANKER: Can you explain what's meant by 'Regulatory Perimeter'

CHARLOTTE WILSON: The regulatory perimeter defines the areas of financial services that are subject to regulation. For example, providing a mortgage is, in most cases, a regulated activity, so if a bank provides you with a mortgage, it must do so in a way that complies with relevant regulations – among other things it will have to take steps to assure itself that you're likely to be able to repay the loan. On the other hand, if I, as an individual, lend you, as an individual, £1,000 in cash, that's a matter between you and me. As long as we don't break the law (for example, as long as we don't use counterfeit banknotes) then it's not a matter for financial regulators.

In the UK, banks are inevitably dual-regulated: they'll be authorised by both the Prudential Regulation Authority (PRA), which will focus on the safety and soundness of a firm, and by the Financial Conduct Authority (FCA), which will focus on a firm's conduct and behaviour. I said, 'inevitably' because although it is possible for banks to conduct activities that fall outside the FCA's perimeter – for example if a bank were to engage only in narrowly-defined corporate lending – in practice it's hard to think of circumstances in which a bank would not – in several different ways – fall within the FCA's regulatory perimeter.

The FCA's strategic objective is to "ensure that markets function well" and it has three operational objectives:

protecting consumers, protecting financial markets and promoting competition. Note that it's not part of the FCA's remit to ensure that no one ever loses money. It will protect consumers from fraud and mis-selling and, depending on the sophistication of the consumer, will protect them from investments that they're deemed not suitable to participate in, but it won't protect them from their own bad decisions or bad judgement.

How are regulators' approaches to bank-customer relationships changing?

There are two ways. Firstly, the FCA is strengthening its oversight of activities that already fall within the perimeter, and secondly, it's considering whether to extend its oversight beyond the current perimeter to take in new products and services.

On the first point, the key issues include protecting vulnerable customers, accountability of bank executives for failures of control, and banks' operational resilience. These are not new issues, but the regulators are now taking even more interest in them. The issue of executive accountability – expressed in the UK's Senior Managers and Certification Regime – grew out of the global financial crisis of 2008. Increased attention to operational resilience is being driven in part by the increased vulnerability of banks to cyberattacks and technology failures.

As for the issue of new products and services which may be brought within the perimeter, this is being driven by the increasing use of sophisticated banking technology and the development of crypto-assets.

Historically, the UK regulators have taken an approach which is 'technology neutral'. That means that the regulators don't care how a product is delivered – face-to-face in a branch, over the phone or through an App without human intervention. The only thing that matters is whether the product itself falls within the regulatory perimeter.

However, this approach is becoming more complex. Take the hypothetical example of a bank that buys software that's based on artificial intelligence (AI) and uses it to identify customers and sell them products. Historically, a software provider would be outside the perimeter, but if the software provider is now using AI to decide how to target customers and what products might be suitable for them, are they not now engaging in a regulated activity? Of course, the bank that's selling the products is captured, but perhaps the software provider, who has written the code, should be too.

Bankers and entrepreneurs in the Middle East are embracing the opportunities offered by digitalisation to develop new financial products, and the region's financial regulators have not been slow to respond with new rules and guidance. Mishcon de Reya's Tom Grogan provides an example of steps being taken by the authorities in the UAE.

The UAE began creating international finance centres some years ago: the Dubai International Financial Centre (DIFC) was established in the mid-2000s and more recently Abu Dhabi has created the Abu Dhabi Global Market (ADGM). These centres have positioned themselves as global leaders in the development of effective and permissive regulatory regimes for advanced fintech and regtech.

HUB71, for example, is an ADGM initiative dedicated to technology-based start-ups and small companies. The name references the year in which the UAE came into existence – 1971. What distinguishes ADGM from other 'sandbox'-style regimes in other financial regulators globally is the way in which it has captured the lessons from its innovation activities to better inform legislation and regulation.

In many other jurisdictions, we're seeing laws and regulations struggling to keep up with technological innovation in the financial industry. So, for example, if someone is hoping to build and launch a new technology business, one of the first things they'll do is investigate how permissive the local regulatory regime is of their proposed venture. In many jurisdictions, the regulatory regime is either opaque (would-be market participants don't know or understand what the rules are) or prohibitive (typically because the regulators have been unable to understand, assess and put in place mechanisms to mitigate the associated risks). In contrast, ADGM and DIFC have been proactive and agile in developing and implementing appropriate regimes that protect against harm, while encouraging the innovation required to properly pursue the long-term vision of the UAE government.

That concept of a long-term vision is important. The UAE's Vision 2030 document, which maps out its economic, financial and social strategy over the coming decade, places huge emphasis on the diversification of the economy away from fossil fuels. Indeed, an expression that I hear a lot in Abu Dhabi is "data is the new oil".

We've been proud to contribute to the development of Abu Dhabi's digital agenda over the last few years. We worked with the Abu Dhabi Digital Authority and Berkeley Research Group to develop a bespoke evaluation framework to help public-sector entities in the emirate identify new technologies as they emerge and determine the level of government intervention appropriate to ensure that Abu Dhabi is well placed to capitalise on them. By way of example, 3-D printing is an interesting technology with some novel applications, but it's probably not efficient for Abu Dhabi to spend millions of dirhams intervening in 3-D printing in the name of economic diversification. There just isn't the need, nor does it particularly speak to Vision 2030.

By contrast, it may be worth considering another exciting technology – and one with a natural affinity to Vision 2030: machine learning. Abu Dhabi has a realistic possibility of becoming a global leader in the industry due to its relatively small population and high levels of smartphone diffusion and internet connectivity for data collection. Investing heavily now could mean that Abu Dhabi is best positioned to make the most of these advantages.


Charlotte Wilson and **Tom Grogan**

Charlotte Wilson is a Legal Director specialising in financial services advice and regulation. She is particularly interested in the way emerging technologies are being used to shape the regulatory landscape.

Tom Grogan is head of MDRxTECH, Mishcon de Reya's technology consulting and development business that specialises in complex transformation projects. He has a deep understanding of emerging technologies such as artificial intelligence, machine learning and distributed leger technologies.

Mishcon de Reya is a London-based international law firm that employs more than 900 people, including more than 500 lawyers, to offer a wide range of legal services to companies and individuals. www.mishcon.com

How do these issues affect banks who are offering a stable set of products to a customer base that is quite traditional in its outlook – for example, a customer base where financial innovation is less important than high-touch personal service?

Even if a bank is offering the same kind of products as it's been doing for years, to the same kind of customers, it needs to recognise that regulators are going to be taking a look at the relationship between the bank and its customers in new and different ways. What may have been acceptable a few years ago, in terms of customer interaction and information disclosure, may be changing. As a result, banks should be following the regulatory landscape as it's applicable to their businesses and customer relationships.

What are the areas of the regulatory perimeter around which Mischon de Reya is doing most work?

A lot of our work is with new businesses, or with new business streams within existing firms, helping them to understand whether their activities will fall within the scope of regulation and what that might involve going forwards. Firms using emerging technologies – fintech businesses and firms operating in the crypto space – are often right on the boundary of regulation and need to understand what activities may (or may not) tip them over the edge. These are new ways of doing business, involving new processes and sometimes new types of client relationships, so deciding what falls within current regulatory scope can be quite challenging. For the next few years, it's going to be more difficult than in the past to distinguish business that falls inside the regulatory perimeter and what falls outside, and I think we'll perhaps have to start thinking in terms of a porous perimeter through which products and services might pass as a result of quite minor adjustments.

There's also work to be done with banks who are squarely within the regulatory perimeter. The increased regulatory focus on protecting customers, especially those considered to be 'vulnerable', is forcing banks to think much more carefully about who they can offer services to, and their marketing strategies.

How has the Covid pandemic affected these issues?

The pandemic itself – issues of health, working from home, social distancing and so on – haven't caused changes per se, but the consequences of those responses to Covid, in the form of increased innovation and digitalisation of banking services have done. Neither regulators nor banks themselves are yet sure about the extent to which the design and provision of banking services will be permanently changed as a result of the pandemic. I do think we can say that the trend away from face-to-face interaction between bank staff and their customers has been accelerated and this has important consequences for the scope of regulation.

That said, it's important not to let the Covid pandemic – significant though it is – overshadow other issues that have far-reaching impact on the regulatory perimeter. The way in which banks are being held to account for their attention to environmental and social issues is changing how they market and supply a variety of traditional banking services; and I wouldn't underestimate how the regulators' interest in operational resilience will affect their approach to the provision of certain traditional banking products going forwards. ■

Covid pandemic shines light on LPA receiverships for property investment

There are numerous ways in which the Covid pandemic is affecting the UK property market. Most obviously, many property owners are having difficulty making loan payments, either due to their personal circumstances – such as loss of income – or due to the circumstances of their tenants, who may be defaulting on rental agreements or negotiating steep discounts to their rental payments as a condition of staying within contract.

As a result, the role of property receivers has been expanding. In particular, there has been an increase in the use of 'LPA Receiverships' that enable a lender to delegate to a specialised firm the task of managing a property, dealing with tenants and maximising the value of a sale.

In the following article, Shaf Ali and Samir Faiad of London property surveyors Belleveue Mortlakes, explain why lenders use LPA Receiverships and how their increased use is opening new investment opportunities for those looking to broaden their exposure to UK property.

LPA stands for Law of Property Act, and an LPA receiver is an individual appointed, under the terms of that Act, by a property lender to perform certain tasks on the lender's behalf.

In practice, an LPA receiver is appointed as a result of a default or breach of lending terms. The LPA receiver manages the property, insures it, collects rental income and effectively steps into the shoes of the borrower. The receiver's powers are defined both by the Law of Property Act and within the 'legal charge', which is a document that enables a lender to protect funds which they have lent. The receiver's principal duty is to collect funds which are owed to the lender and this often, though not always, leads to the property being sold.

Firms that finance property purchases, such as banks, boutique investment houses or asset managers, do not want to get involved in the details of property management and sales. Their expertise lies in spotting industry trends, making credit decisions on who to lend to, and structuring financing packages. Most banks also have expertise in restructuring loans when a borrower is having difficulty paying, but sometimes the only way for a lender to recover their money is through the appointment of a receiver.

By appointing a receiver, lenders create distance between themselves and the borrower, and they minimise reputational risks which could arise during the course of managing and disposing of the property that has been used to secure the loan.

For example, earlier this year, a lender appointed us to sell a property that he had received as security for a loan. The property was in Chester Terrace, Regents Park, one of the wealthiest parts of London. Nonetheless, the borrower, who was not a UK national, had insufficient funds in the UK to service the loan and was not able to transfer funds from his country of residence.

Fortunately, the property was vacant, so we were easily able to take possession of it. However, service charges were

Shaf Ali MRICS – Partner

Shaf Ali is the co-founder of Belleveue Mortlakes Chartered Surveyors and one of its partners. Acting as the Head of Valuations, he focuses on providing professional services for a number of financial institutions. Shaf has over 25 years' experience in the property industry and is a qualified member of the Royal Institution of Chartered Surveyors. With a globally active client base, he specialises in commercial and residential secured lending valuations.

Samir Faiad MRICS – Associate Surveyor

Samir Faiad is a Chartered Surveyor & Associate at Belleveue Mortlakes. Having lived in Sierra Leone and Lebanon, he is adept at dealing with international clients. Samir specialises in both commercial and residential valuations and plays an important role in training new staff.

Belleveue Mortlakes is a London-based firm of Chartered Surveyors that specialises in valuations for both commercial and residential properties, and also acts as LPA Property Receivers. It is currently working with about 40 banks and financial institutions in the UK and overseas.

in arrears and there were some other management charges that had not been paid, so we had to work with the Crown Estates, which held the freehold to the property, to define the extent of those liabilities, which would be covered from the proceeds of the sale.

The Crown Estates, which manage land and property belonging to the Queen, have particular rules and conditions, and it can sometimes take longer than usual to resolve issues such as unauthorised changes to the property, and legal licences for assignment of leases. However, we have dealt with many receiverships on Crown Estates land, so before we started looking for someone to buy the property, we prepared a full legal pack that covered all the points required in the transfer of a lease on the Crown Estates.

This was a high-value property, and we decided that the best way to dispose of it would be through a 'private treaty' – appointing a well-known and established residential agency to market and sell the property.

As a result of that work, we were able to conclude the sale within two months of being appointed, whereas such sales often take six-to-nine months. The lender recovered all the money that it was owed, including defaulted interest and expenses; and the surplus was sent to the borrower.

We generally dispose of properties through an estate agent or through auction – the route we choose is very much driven by the type of property and the profile of likely buyers.

We would typically dispose of properties through auction when they are commercial investments such as retail or mixed-use; or when the property has significant defects or issues with planning permission: those types of property appeal to cash buyers because it is difficult to get finance for them.

The behaviour of the borrower also has an influence on the method of disposal we use. Remember that we are only called in after a borrower has defaulted. Putting a property up for auction sends a clear signal that the property will be sold at a specific time, and this sometimes gives the borrower sufficient motivation to come to terms with the lender or to redeem the property by refinancing it with another lender.

Commission rates and expenses are not usually a factor in deciding whether to put a property into auction or sell it privately – commission rates do not differ much, although on higher-value properties there is sometimes more scope to negotiate commissions with a private-treaty estate agency rather than with an auctioneer.

A good LPA receiver knows how much a property will be worth and will also have a good understanding of which auction houses and which estate agents are likely to have the right purchasers among their existing applicants.

Of course, there are circumstances in which we do not end up selling a property. In fact, this is an area which can sometimes distinguish a really good LPA receiver from the rest. The receiver's primary duty is to recover money owed to the lender, but there are many tactics that good receivers can use to facilitate a redemption without actually disposing of a property. For example, when a borrower shows a genuine desire to make good on missed payments and they are able to show the receiver documentation to that effect, then the receiver may just confine efforts to exerting pressure on the borrower and his or her financial advisors to repay what is owed as quickly as possible. On the other hand, if a receiver believes that a borrower is not acting in good faith, then a slightly harsher approach may be called for, leading to a sale of the property, regardless of the borrower's wishes.

One thing that has been changing over the past year as a result of the Coronavirus pandemic is that investors are starting to take an active interest in properties controlled by receivers.

Formerly used as a religious building, this Grade II Listed building was reconfigured to form a 12-bedroom dwelling. Belleveue Mortlakes facilitated the restructuring of the existing loan in default and so avoided the sale of the building. Approximate value £4,250,000.

We are seeing them reaching out not only to estate agents but also to LPA receivers such as ourselves.

The big question for investors is how the UK property market will develop in the years ahead as government support for tenants, and for the economy as a whole, winds down, and as the long-lasting economic and social impact of the Covid pandemic start to become clear.

At this point, the only thing we would say with confidence is that different parts of the UK property market will perform in different ways. It is a mistake to speak of 'the UK property market' as a whole either gaining value or losing value. High-end private property, low-end private property, commercial properties such as rows of shops on a high street, office buildings and retail parks, have very different financial profiles. They are all responding differently to social changes such as working from home, lower disposable income (for some people), and a more cautious attitude to travelling and using public transport.

That uncertainty presents opportunities for investors who can move quickly to buy distressed properties that lenders are keen to dispose of. As the use of LPA receivership structures – and the work of LPA receivers – becomes better known, we expect this area of the property market to grow in size. ■

As the LPA, Belleveue Mortlakes was able to restructure the outstanding loan on this property by identifying and negotiating with new lenders who specialise in this type of property.

Belleveue Mortlakes was appointed LPA for this seven bedroom, 'Arts & Crafts' style country house. We identified latent value (in the form of a historic mortgage) and secured a revaluation of the property to cover outstanding payments due. Approximate value £4,400,000.

Continuing to serve our members through three lockdowns

The Association's financial position remains strong.

Like everyone else, we expected, or at least hoped, that the first lockdown in the United Kingdom would last just a few weeks after it was introduced in late March 2020. By the end of the summer, we knew that the pandemic would be with us for a while, and we accepted that our annual Gala Dinner, usually held in late October or early November, would have to be postponed. But we were optimistic of being able to bring our members and their friends back together for a grand Christmas party. Of course, as the year progressed it became clear that a Christmas party would not be possible.

So, we continued to organise our seminars over video, and we kept in close touch with our members. During the first half of 2021, we organised seminars on subjects such as LIBOR transition, cyber security and regulatory change, and we deepened our relationship with some members by launching special projects focussed on environment, social and governance issues, and on financial crime.

As spring progressed, we were confident that we would be able to hold a 2021 summer party – the British government's timetable for lifting the lockdown measures was on track, with 21 June set as the date when all restrictions would end. The alarming spread of a new Covid variant in late May and early June led the government to postpone by four weeks the ending of restrictions, including the one limiting gatherings to a maximum of six people, even if outside: we had no choice but to postpone the summer party.

Our optimism has been dashed so many times over the past 18 months that we are hesitant to make predictions about when we will resume face-to-face events. At the time of writing, we were hoping to have held one by the time *Arab Banker* was published at the end of September, with more following quickly in its wake. At the risk of tempting fate, we are very hopeful that our 2021 Christmas party will go ahead.

The Association continues to enjoy a strong financial position, despite our inability to hold live events, which in the past have been a significant source of revenue. We have not furloughed or made redundant any members of our staff and we have maintained our offices at the Arab British Chamber of Commerce Building in London's West End.

At the beginning of the year, we launched our new website. This was designed by the London-based firm Space Galleon and has a sharper look – our previous website was eight years old – and increased functionality. We have been working hard to increase the number of members' photos that are displayed on the site and to keep it up to date with events and news that are likely to be of interest to members and others who may be visiting it.

This edition of *Arab Banker* is the ninth since its relaunch in 2013. Publication has not been interrupted by the pandemic, either last year or this year. Each of the re-launched *Arab Banker* magazines has appeared on time at the end of September and each has produced a small profit, except for the first edition which covered its costs.

The Arab Bankers Association is led by George Kanaan, our Chief Executive Officer. He is assisted in London by Hanan AlMasood who manages Business Development and Press Relations, and by Gabriella Sidoli who manages Accounts and Administration. Talar Joulhajian manages Business Development from Beirut. Andrew Cunningham is Editor in Chief, overseeing and writing content for our website, producing brochures and leaflets, and producing *Arab Banker* magazine. ■


Talar Joulhajian


Hanan AlMasood


Gabriella Sidoli

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting. A list of serving board members, as of 2 September 2021, is given below.

Abdulaziz Al-Khereiji (ABA Chairman; Board member since 2012)
Abdulaziz has been working within London's financial services sector for 30 years. He joined Riyad Bank's London branch in 1996 and is now its Chief Manager. He is also Riyad Bank's Senior Vice President for Overseas Units and, in this capacity, he manages the bank's international offices in the United States and Asia, focusing on clients' business activities in the Kingdom of Saudi Arabia and the GCC as a whole.

Fawzi Dajani (ABA Vice Chairman; Board member since 2008)
Fawzi is the Managing Director of National Bank of Kuwait (International) plc, the London-based subsidiary and European arm of National Bank of Kuwait (NBK). Fawzi joined NBK in 1985 and held positions in Singapore, Kuwait and London before leaving to take up senior posts at Merrill Lynch International Bank and then HSBC Private Bank. He re-joined National Bank of Kuwait (International) in 2005 and was appointed Managing Director in 2007.

Hani Salem (ABA Treasurer; Board member since 2016)
Hani is a Director in PwC's Banking and Capital Markets assurance practice. He has more than 13 years experience auditing and advising international banks, corporate service providers, sovereign wealth funds, real estate funds and other financial services firms in the Channel Islands, the UK and the Middle East. He is currently providing strategic consulting and assurance services to a number of financial services organisations. Hani is a Certified Public Accountant from the New Hampshire Board of Accountancy.

George Kanaan (ABA CEO; Board member since 2009)
George was appointed Chief Executive Officer of the Arab Bankers Association in August 2009. He began his banking career with Citibank in New York in 1975 and spent three years with First Chicago in London from 1984. He returned to Citibank in 1987 to establish and become General Manager of the London branch of Saudi American Bank (which was managed and partly owned by Citibank) and its associated investment company. After leaving Saudi American Bank, he established and managed a family office and acted as a consultant to Arab companies and high-net-worth individuals.

Vivien Davies (Board member since 2012)
Vivien is a partner in the international law firm Fieldfisher, which is headquartered in London. She is an Arabic speaker and is the head of the MENA Group at Fieldfisher. During her career she has specialised in company, banking and commercial disputes, including complex cross-border disputes and international arbitration. In addition to general commercial clients, Vivien regularly acts for foreign banks and enterprises from the hospitality, construction and healthcare sectors, together with media organisations.

Ayda Habboush (Board member since 2020)
Ayda is a partner in the Corporate department of Trowers & Hamlins LLP and is head of the firm's Hotel and Leisure Group. She has almost 15 years' experience as a corporate solicitor. Ayda specialises in advising banks, institutional investors and ultra-high-net-worth investors on the acquisition/sale of commercial real estate, including offices, hotels, serviced apartments and student accommodation, as well as advising clients on the structuring of cross-border investments. As a member of Trowers' Islamic Finance Team, Ayda also advises on the corporate structuring of Shari'ah-compliant acquisitions and on the establishment of Shari'ah-compliant offshore funds. Ayda also regularly provides general corporate advice regarding joint ventures, group re-organisations and corporate insolvency. She is fluent in Arabic and French.

Yasser Ibrahim (Board member since 2018)
Yasser was appointed General Manager of Arab National Bank's London branch in August 2021. Previously, he had worked in Frankfurt as Managing Director of International Banking and Co-Head of International Banking Sales at ODDO BHF. Prior to his move to Frankfurt, he had been Chief Executive Officer and Managing Director of National Bank of Egypt (UK) Ltd in London. Yasser spent more than 25 years at Commerzbank in Germany, Bahrain and Egypt. In his last function at Commerzbank he served as Managing Director and head of the bank's Representative Office in Cairo. Yasser also served as Non-executive Chairman of the Board of Directors of Mercedes-Benz Egypt SAE and as the Vice Chairman of the German-Arab Chamber of Industry and Commerce.

Paul Jennings (Board member since 2016)
Paul is the former Managing Director and CEO of ABC International Bank plc. Previously, he was Deputy CEO of ABC International Bank plc and Group Head, Global Trade Finance, of Arab Banking Corporation BSC. Paul joined ABC International Bank plc in September 1999 and has more than 35 years' experience in the international wholesale banking sector. He also represented Bank ABC as a Director of Banco ABC Brasil SA.

Hani Kablawi (Board member since 2010)
Hani is a Senior Executive Vice President at BNY Mellon. He serves as the bank's Chairman for International and is based in London. He is also Chairman of BNY Mellon's UK Bank, head of its London branch, and non-executive director of its European Bank. Hani was previously Chairman of EMEA and CEO of the group's Asset Servicing business, which accounts for a third of group revenues and earnings. He has held a number of leadership roles based out of the US, Middle East and Europe.

Haytham Kamhiyah (Board member since 2020)
Haytham was appointed as the CEO and a board member of Europe Arab Bank plc in December 2018, and as Chairman of the Board of Directors of Europe Arab Bank SA France in 2019. Prior to this, he had been CEO of Emirates Development Bank in the UAE. Haytham started his career with Arthur Andersen and then joined Capital Bank of Jordan in 1996, where he progressed to become General Manager in May 2005. He has served as a director of several organisations, including Jordan International Investment Group, Ithmar Islamic Finance Company and Safwa Islamic Bank.

Charbel Khazen (Board member since 2014)
Charbel is a Senior Vice President at Bahrain-based Gulf International Bank (GIB) and the Head of its London branch. He is based in London where he started his career in 1989 and has lived since 1985. Charbel joined GIB in 1995 and has held his current position since 2006. Before joining GIB, Charbel worked for Qatar National Bank and Europe Arab Bank (then known as Arab Bank) in London. Most of his banking career has focused on corporate and institutional banking, with an emphasis on relationship management and business development.

Ralph Al Raheb (Board member since 2016)
Ralph is a Managing Director of Morgan Stanley and Head of Emerging Markets Onshore and Offshore Coverage for Europe, the Middle East and Africa. He is a member of the Morgan Stanley MENA Management Committee, and the Cross-Divisional CEEMEA Management Committee. Ralph joined Morgan Stanley in Paris in 2003 as an analyst in fixed income sales covering French financial institutions. He transferred from Paris to London in July 2004 to cover the MENA region, and in 2010 he became head of fixed income sales for MENA. In 2018, he became Head of Emerging Markets Onshore Coverage for CEEMEA. In 2020, Ralph became head of EM Onshore and Offshore Sales for Europe, the Middle East and Africa.

Sami Tamim (Board member since 2018)
Sami serves as the CEO and member of the board of Ahli United Bank (UK) plc, which he joined in 2014. He began his career in banking in 1985 with Banque de la Méditerranée in his native Lebanon, before moving to the UK where he led corporate banking at Banque de la Méditerranée (UK) Ltd. He subsequently joined Saudi American Bank (Samba) in London where he led the Private Banking team. Sami then joined Coutts Bank in Geneva before returning to London in 2005 to join Citibank as a Director in its Private Banking division, followed by UBS in a similar role. Sami has broad banking experience which includes commercial banking, trade finance, private banking and, in his current capacity at AUB UK, corporate governance and senior managerial oversight.

Rakan Al-Tarawneh (Board member since 2020)
Rakan is the CEO of Jordan International Bank in London. He has held this role since April 2017, prior to which he had served as Deputy CEO since April 2013. He has been with the bank since 2011. Rakan has more than 20 years' experience in the financial services industry. He holds a master's in accounting & finance and is a CFA Charter holder. During his banking career, Rakan has acquired particular experience in credit, investment and portfolio management.

Amr Turk (Board member since 2010)
Amr is the General Manager of the London branch of Banque Banorient France. He is based in London. Amr joined the Planning and Administration Division of Saudi Oger in Riyadh in 1983. In 1984, he joined BLOM Bank France (as it was then called) and was among the first staff to be involved in setting up the London branch that was, and continues to be, focused on providing private banking services, property finance and documentary credits. With over 30 years in the UK, Amr has developed an in-depth knowledge of the financial system and has established links with many corporations and individuals seeking banking services in London.

ABA programme of technical seminars continued during the pandemic lockdown

We continued to hold technical seminars of topics of direct interest to our members, including those related to the pandemic.

We were unable to hold face-to-face seminars during the first half of 2021, but our programme of technical seminars continued on-line. These events put subject-matter experts in front of our members to address issues that are of particular interest to Arab banks in London and to the wider community of financial-industry practitioners.

Financial criminals have been taking advantage of the changes to working practices and patterns, and there has been a huge increase in cybercrime and fraud over the past year. In May, we brought experts from FTI Consulting and law firm Mishcon de Reya to brief our members on the most common types of financial-crime threats, and the ways in which banks, and bank staff, can defend themselves.

Also in May, risk specialists Themis gave a presentation on money laundering and terrorist financing, with a focus on how it is affecting correspondent-banking relationships – a topic that is particularly relevant to banks in the Middle East. In June, Themis co-hosted an invitation-only roundtable with Clive Gordon, the Financial Conduct Authority's Head of Financial Crime Specialist Supervision.

Our programme of events extended beyond the pandemic to keep our members appraised of developments on sanctions – law firm Fieldfisher gave a presentation that included examples from the sanctions regime applied to Iran; solicitors TLT updated members on LIBOR transition; and Grant Thornton provided a briefing on latest regulatory developments in the UK.

We also continued to act as an interlocutor between Arab banks in London and the UK financial regulators and supervisors. In March, eight officials from the Prudential Regulation Authority briefed the CEOs of Arab banks' subsidiaries and branches on the themes on which their supervisory visits were focusing. ■

Deepening our relationships to provide more value to members

We are keen to leverage the expertise and contacts of our corporate members to bring benefits to all, both in the form of business connections and in terms of knowledge sharing.

Earlier this year, we created a Regulatory Committee of the Association to ensure that we are addressing regulatory issues in a timely and detailed manner. The committee comprises representatives from four of our Corporate Members. It decided to train its initial focus on evolving regulatory expectations related to Environmental, Social and Governance (ESG) matters. So we formed a partnership with Grant Thornton, another of our Corporate Members, to produce a briefing document on ESG for Arab banks in the UK and in the Middle East.

Grant Thornton produced the framework of the document, and the committee members provided the Arab-banking perspectives, drawing on their own experiences of overseeing regulatory compliance in the subsidiaries and branches of Arab banks in London and of integrating that UK-based approach into work being conducted in their head offices. We expect to be distributing this report in both the UK and the Middle East during the autumn.

We have also been deepening our relationship with Themis, the UK-based financial-crime-risk specialist. Together, we and Themis are working with the MENA Financial Crime and Compliance Group (which is featured on pages 55–57) to bridge the gap between European compliance officers working in Arab banks, and compliance officers in the Middle East. We began by compiling a list of compliance officers and Money Laundering Reporting Officers (MLROs) working in Arab commercial banks in London, Paris and Frankfurt. We then distributed a questionnaire to understand the biggest challenges that these people were facing, and how a dialogue with banks in the Middle East could be of most value to them. We expect to continue this project through 2022. ■


Balfour Project Fellows, 2020–21. Back row, L–R: Sam Lytton Cobbold, Jack Walton, Gilang Al Gifari, Rosie Richards, Jordan Jones. Front Row, L–R: Matan Rosenstrauch, Ruth Foster, Aimée-Stephanie Reid, Adam Abdalla, Francesca Vawdrey, Martha Scott-Cracknell, Sarah Chaya Smith. Not shown: Omar Sharif, Stav Salpeter, Haneen Zeglam.

New perspectives on Israel-Palestine for new audiences

Two years ago, a British charity, the Balfour Project, began sponsoring groups of students to explore and report on key areas of the asymmetrical conflict between the Israelis and the Palestinians, in order to promote a better understanding of this conflict and of the factors driving events in the region today.

Crucially, the programme brings together students with a wide variety of perspectives and ethnic backgrounds. As a result, the output of their work spans many of the divisions that characterise reporting and discussion on the Israel-Palestine conflict. *Arab Banker* asked the Coordinator of the Fellowships Programme, Matan Rosenstrauch, to explain the Programme's objectives, and on the following pages we provide a snapshot of the Programme's three most recent projects.

***ARAB BANKER*: There's a huge amount written about the conflict in Israel-Palestine. Why did the Balfour Project decide that more research is needed?**

MATAN ROSENSTRAUCH: First of all, by bringing together young people from different backgrounds we hope to provide a fresher and more nuanced perspective to many of the narratives around the Israel-Palestinian conflict.

One of the projects that has just finished, related to 'Area C' on the West Bank, was produced by a team comprising a Palestinian, an Israeli and a British person. They each bring different perspectives to that piece of work.

Furthermore, by putting together teams of young people with different backgrounds and perspectives, we hope to be able to challenge the idea that Israel-Palestine has to be a zero-sum game in which one side can only gain if another loses.

I would stress that the Programme is as much about outreach and advocacy as it is about research – what we do with the research when we have it is vitally important. We make clear to prospective Fellows that they're expected to reach out in their universities, and beyond, to challenge entrenched views and introduce new perspectives into old controversies and debates.

Who are the Fellows who undertake the research and how are they chosen?

Most of the Fellows are enrolled in Middle East studies programmes at British universities, but this isn't a requirement. We have one Fellow this year who's studying cyber security. We want Fellows who already have some knowledge and experience of events in Palestine and Israel and who can be effective peace advocates as part of the Balfour Project's wider programme of advocacy.

We give the Fellows training on public speaking, effective writing and other soft skills that will enable them to communicate effectively. We can also guide them on their research and make introductions to people who'll be useful contacts, but the Fellows bring most of the subject-matter expertise themselves. The purpose of the Programme is not for us to educate them, it's for them to find ways to educate others.

The Fellows Programme runs over the course of an academic year, starting in September. Applicants have to write a personal statement, and send us their curriculum vitae and a short video explaining why they are suitable.

How do you decide what subjects to cover?

We have an advisory board of scholars who're based at British universities, and we meet with them to get ideas not only about potential subject matter but also on how we can take innovative approaches to established issues and controversies. For example, it was during one of those meetings that the idea first arose of exploring the importance of maps through an exhibition of paintings, rather than through a historical study of maps themselves.

I work with the Fellows to refine their ideas and ensure that they have access to the full resources and contract base of the Balfour Project. I push the Fellows to think in terms of, 'What do we want to change?', rather than 'What do we want to do?'.

Recognising Bedouin communities in the West Bank's 'Area C'

There are 27,500 Bedouins living in 'Area C' of the West Bank, most of whom live a traditional way of life based on herding animals. These communities are often the most affected by the Israeli occupation, but they are also the least recognised.

Three Balfour Project Fellows have been researching how Bedouin patterns of life have been altered over the past 75 years, beginning with the power vacuum created by Britain's chaotic abandonment of its League of Nations mandate in 1948, to the Oslo accords of 1993 and their repercussions today.

Adam Abdalla, one of the Fellows working on the project explains: "Area C comprises most of the land area of the West Bank and it's under the control of the Israeli authorities. Bedouins and animal herders who live in this area suffer constant harassment, which often includes having their houses and encampments destroyed by Israeli military forces to accommodate the expansion of Israeli settlements that are illegal under international law."

Jordan Jones continues: "Most of the families in Area C are living in dwellings that don't have permits – remember that for every 500 building permits that are issued to Israelis in Area C, only one is issued to a Palestinian. That's not a formal policy – it's what happens in practice. As a result, the Israeli authorities demolish Palestinian homes, citing their 'illegality' and demanding that Palestinians pay for the costly demolitions themselves. This often results in Palestinians demolishing their own homes in order to avoid these costs. Furthermore, the Israelis often create military 'firing zones' on land owned by Bedouin and herding communities, forcefully displacing them, even though this is illegal under international law."

Last July, the three Fellows produced a report detailing how the demographic pattern of life has changed for Bedouin and herder communities over the past 75 years and describing current living conditions. The report can be accessed on the Fellows' page of the Balfour Project's website.

The Fellows hope the report will be a living document that will not only raise awareness of the often-forgotten Bedouin and herder communities but will also be a resource that can be deployed by and for policy makers. "Our analysis has shown continuous side-lining of Bedouin communities throughout history," says Stav Salpeter, the third of the Fellows working on this project. "We recommend that the British government acknowledges its historic role and recognises the rights of Bedouin communities as indigenous people under international law to address the contemporary injustices they face."

The Israeli army often creates military 'firing zones' on land owned by Bedouin and herding communities

How does the Balfour Project oversee the work that the Fellows do?

I work with the Fellows day-to-day, and John McHugo, one of our Trustees, oversees the programme as a whole.

My own background is in anti-occupation activism, mostly in Jewish diaspora communities. Professionally, I work at King's College London, teaching Hebrew.

John McHugo worked as a lawyer specialising in international boundary cases in the Middle East. Since taking early retirement in 2007, he has been writing history books aimed at explaining to a Western audience why the Middle East is the way it is today.

In these pages we are profiling three projects that the Fellows completed over the summer. What can we expect from the Fellows programme in 2022?

The subjects that the Fellows address evolve by a process of osmosis depending on their particular interests as individuals. We're hoping that this year's programme will be bigger than last year's: 20 Fellows rather than 14. We're also keen to maintain or expand the geographical diversity of institutions involved. Over the past year, we've had Fellows working in Belfast in Northern Ireland, and Edinburgh in Scotland – it's important to us that we aren't simply drawing on students at English universities or in London.

Beyond that, we'll be looking for young people who think in innovative ways and who can help us build an exciting programme of advocacy in matters related to Israel and Palestine. The Balfour Project as a whole is intent on informing people in Britain and beyond about Britain's historical role in Palestine and how events that occurred under the British Mandate, more than 70 years ago, still impact the lives of people living in Israel and Palestine. The Fellows Programme is just one aspect of the Balfour Project's work. ■

Getting the facts about how Israel-Palestine is taught in schools

Promoting well-informed dialogue on Palestine and Israel is central to the Balfour Project's mission, so the Project has always taken an interest in how the region's history, and its current events, are presented in schools and in textbooks.

Three Balfour Project Fellows have been investigating how Palestine-Israel is addressed in different types of British schools.

"The first thing that became clear, is that there's very little information on what's being taught about Palestine-Israel in British schools and also that there's very little guidance from the educational authorities on what should be taught," says Sam Lytton Cobbold, one of the three fellows.

In July, the Fellows published an insightful research report, summarising their findings. (It can be seen on the Fellows page on the Balfour Project's website.)

Among those findings was that many students educated in state schools – which is the vast majority in the UK – said the lack of school tuition on Israel-Palestine left them lacking confidence when discussing the topic with friends and colleagues in later life. This often led to them avoiding the subject or reinforcing views that they already held.

The report also found a big disparity between teaching in Jewish schools and Muslim schools: those who had attended Jewish schools remembered constant references to Israel, but those at Muslim schools hardly recalled any mention of Palestine. One Jewish participant had clear memories of, "going to school in blue and white for Israel Independence Day...with the whole school dressed in Israeli flags"; but participants from Muslim schools said that Palestine was rarely brought up.

"We hope the report will make people aware of the different narratives that are being taught in schools, and that if those narratives are biased or one-sided, they will reinforce opinions and stereotypes, rather than encouraging debate and promoting open discussions," says Aimée-Stephanie Reid, one of the other Fellows who worked on the report.

Holding Britain to Account for Equal Rights in Palestine

The Balfour Project began as an informal group in 2011 and was formally incorporated as a charity in 2017 with the aim of informing British people about Britain's historic role in dividing Palestine, and of urging the British government to acknowledge its historic responsibility to protect the rights of both peoples, Arabs and Jews.

The Project's origins lie in a visit to Jordan in 2008 by its founders, Monica and Roger Spooner. While there, they learned about the McMahon-Hussain correspondence, in which Britain promised the Arabs a state, including Palestine, and about the Balfour Declaration, two years later, which reneged on that promise. Returning to London, they wondered how the centenary of the Balfour Declaration would be marked. They began gathering like-minded people, who shared their view that more needed to be done to recognise Britain's historic role in creating many of the problems which continue to afflict that part of the Middle East.

The Balfour Declaration, issued in November 1917, committed the British government to the creation of a national home for the Jewish people, provided that the rights of the existing non-Jewish communities in Palestine were not affected.

The Project's current chairman is Sir Vincent Fean, who was Britain's Consul-General in Jerusalem from 2010 to 2014, having previously served as Ambassador to Libya.

"Britain's role in creating the state of Israel has not been forgotten in the region," says Sir Vincent, "nor has the fact that Britain failed to protect the rights of Palestinians in the years when it held the League of Nations mandate for Palestine, from 1922 until 1948. As a result, we at the Balfour Project believe that Britain has a historic and continuing responsibility to uphold the rights of Palestinians and of Israelis, on the basis of equality."


Sir Vincent Fean

From small beginnings, the Balfour Project now has a list of Patrons that includes bishops, leaders of the Britain's Jewish and

Maps and the Impact of Colonialism

Earlier this year, Rosie Richards and Francesca Vawdrey curated a virtual exhibition by Palestinian artists, exploring the way in which maps were used by British authorities to achieve policy aims in Palestine, and to highlight the continuing relevance of maps in the current conflict between Palestine and Israel.

Rosie Richards explains: "We chose 'Mapping' as the subject for our work under the Fellows programme because maps were central to the partition of Palestine under the British colonial mandate and to the subsequent dispossession of Palestinians who were living there. Maps also remain incredibly important to what's happening in Palestine today, with communities being legitimised or delegitimised by new maps that are being drawn up by new authorities who're perpetuating a colonial tradition."

Palestinian artists from the West Bank, Gaza and the diaspora contributed works to the exhibition which was posted on the artsteps.com virtual exhibition space. Over 30 works were exhibited, accompanied by commentary written by the artists and curators outlining the historical context of the work and its relevance to the theme.

Among the works shown was Liberty by Mirna Sassine, a Palestinian-Israeli artist. The painting is a surrealist expression of conflict, breaking free and liberty. It depicts a solitary tree, illuminated against a sunset, being torn down, the lines of rope disrupting the otherwise serene scenery.

The exhibition entailed some difficult discussions and decisions. It was originally planned as an exhibition of work by both Israeli and Palestinian artists, but the Palestinians refused to exhibit alongside Israelis, partly because such co-operation could lead to difficulties in Palestine and also because some objected to the implication that British colonial policies had equivalent impact on Israelis and on Palestinians. "We explained this situation to the Israeli artists who had hoped to exhibit, and they were very understanding," says Rosie. "They wished us well and have supported the exhibition."

The Balfour Project hopes that the paintings will illustrate, better than any textbook, the effect that maps can have on communities and on public thinking. Says Francesca: "Maps are drawn, then re-drawn, and re-drawn again, often in quite arbitrary ways. But their impact can be considerable. That was true when British governments were drawing maps of Palestine in the early 20th century, and it's true today, when we study, for example, the map of 'Area C' in the West Bank. The map appears to show that most of the land is controlled by Palestinians, but in practice it's controlled by the Israeli authorities – in ways that aren't apparent on the map itself."

Liberty by Palestinian Israeli artist Mirna Sassine, photographed by Joseph Saadeh

Tickets for the exhibition are available to purchase through the link: www.eventbrite.com/e/mapping-an-palestinian-exhibition-tickets-159661900041

Muslim communities, and Members of the House of Lords. Its executive team has backgrounds in the Foreign Office, the UN, the law and journalism.

When the Balfour Project held a conference last May entitled "Israel-Palestine: in search of the rule of law", the opening address was given by Baroness Hale, the President of the UK's Supreme Court from 2017 to 2020, and the first panel was chaired by the Rt Hon. Dominic Grieve QC, the former British Attorney General.

In practical terms, the Balfour Project urges the British government to recognise the State of Palestine alongside the State of Israel, it highlights the unequal rights and living standards that apply to Palestinians on the one side and Israelis on the other, and it seeks an end to the occupation of the West Bank (including East Jerusalem) and Gaza that began in 1967.

The Project works to raise awareness at many levels, from meetings in the British Parliament to seminars in universities and schools. Sir Vincent is secretary to an informal Westminster Palestine/Israel cross-party group which meets monthly to concert action in the House of Commons and the House of Lords. The Project also acts as the secretariat to a network of European Parliamentarians for Israeli-Palestinian Equality, currently comprising members from 14 European national parliaments, and the European Parliament.

The Project organises regular talks on Britain's role in Palestine-Israel, past and present, and flagship conferences such as the two-day event on the rule of law last May. The Project's website is a treasure trove of information and original documents.

It is hardly surprising that there are many religious leaders involved in the Balfour Project, given the centrality of Jerusalem for Judaism, Christianity and Islam. Some, such as Christopher Chessun, the Bishop of Southwark, and Rabbi Danny Rich act as Patrons. Others such as the Very Reverend Nicholas Frayling, or Bishop Michael Doe, are Trustees or members of the Advisory Board.

"It's important to stress that the Balfour Project recognises the rights of Israelis as well as the rights of Palestinians," says Sir Vincent, "and that's reflected in the people who're involved in the various bodies that govern our activities. Our focus is on us, the British, and our responsibility, though our approach attracts Israelis as well as Palestinians. All of us engaged in the Project are united in the belief that international law and human rights must be upheld in both Israel and Palestine, and that Britain has a particular responsibility to help bring that about, for the good of all".

www.balfourproject.org

Become a Member

The Arab Bankers Association (ABA) was founded in London in 1980 as a non profit-making organisation. Its aims are to promote the professional interests of Arab bankers in Europe and the Middle East, provide services to the Arab banking and financial community and enhance overall awareness of recent financial industry developments.

The ABA seeks to develop ties between Arab professionals working in financial services and to encourage the exchange of views, information and expertise between the banking and financial sectors in the Arab world and their counterparts in the United Kingdom and other countries.

Arab Bankers Association

جمعية المصرفيين العرب

ABA Membership Application

PLEASE TICK ✓ BELOW AS APPLICABLE

I wish to become a member of the Arab Bankers Association in the category of:

☐ **Individual Membership** | Annual fee £200

☐ **Young Professional** (less than seven years' experience in the banking and financial sector) | Annual fee £75

☐ **Associate (corporate) Membership** | Annual fee £3,500

Family name .... DOB: ....

Nationality ....

Institution ....

Position/Title ....

Address ....

....

....

Telephone ....

Fax ....

E-mail ....

ABA Sponsor/Referee ....

☐ **I enclose payment**
(Cheques made payable to: *Arab Bankers Association*)

☐ **Please bill me**

☐ **Please debit my card**

Please debit my ☐ Amex ☐ Delta ☐ Electron ☐ Maestro ☐ Mastercard ☐ Solo ☐ Switch ☐ Visa credit/charge card

Card No: .... Expiry: ....

Signed: .... Date: ....

Post or fax to:

ABA
43 Upper Grosvenor Street
London W1K 2NJ

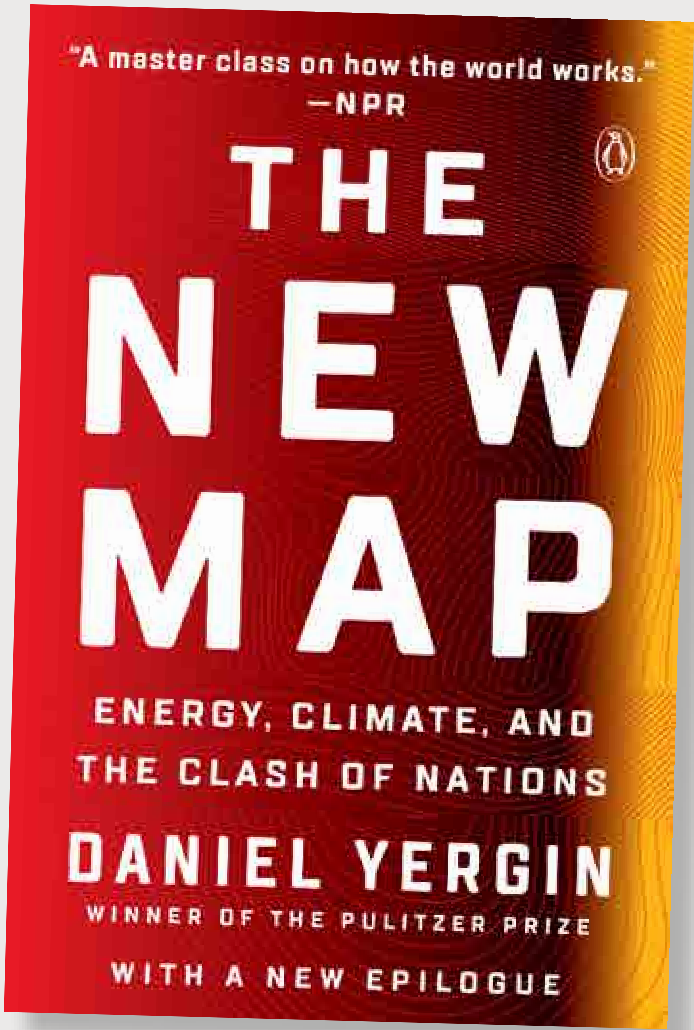
T +44 (0)20 7659 4889
F +44 (0)20 7659 4868

www.arab-bankers.co.uk

The New Map

Daniel Yergin

492 pages. Penguin Press. £25 hardback



Thirty years ago, Daniel Yergin wrote 'The Prize', a history of the global oil industry that remains the standard work on the subject. He has since written or co-authored books on Cold War politics, Russia's emergence from the Soviet Union and the relationship between free markets and globalisation.

His latest work, 'The New Map', brings together his knowledge and understanding of these subjects to consider how changes to global energy markets and the climate change agenda are together creating new geopolitical rivalries and political flashpoints.

It's a good read.

The book comprises four chapters that focus on particular countries or regions – the US, Russia, China and the Middle East; and two that cut across geography by analysing the future of road transportation and the impact of the climate change agenda on energy consumption.

The chapter on the Middle East is the longest – 130 pages – and trots through the key events of recent Middle Eastern history: Sykes-Picot and the creation of the current nation states, the Iranian revolution, Iraq's three wars (invasions of Iran in 1980 and Kuwait in 1990, and invasion by American and other powers in 2003), the rise of ISIS, the Arab Spring, Saudi Arabia under Mohammed bin Salman, and so on. If you've been following Middle Eastern politics over the last few decades, there isn't much here that will be new, but the chapter does provide a useful tour d'horizon.

Similarly, the chapter on China will not offer much to China specialists, but for those of us who are not, Dr Yergin provides startling statistics on the extent to which China has become either a leading or dominant power in the global economy.

In 2000, 17.3 mn cars were sold in the US, but only 1.9 mn in China. In 2019, 17.0 mn were sold in the US, but 25 mn in China. In 2005, US trade with the 10 ASEAN-group countries was 50% greater than China's; but by 2020, China's was 50% greater than that of the US. From 2011 to 2013, China consumed more cement than the US consumed in the whole of the 20th century.

Dr Yergin is excellent in explaining China's efforts to dominate the South China Sea, and the significance of an exclusive economic zone (EEZ), extending 200 miles (321 km), which confers economic rights such as fishing and exploitation of minerals in the seabed; and territorial waters, extending 12 miles, that confer control. China has been treating the South China Sea as territorial waters, which legally it is not, rather than an EEZ, which to some extent it is.

The chapter on the US focuses on the development of shale oil and gas, and the US' transition from being a net importer of oil to being a net exporter. The chapter on Russia is good on the diplomacy surrounding its gas pipelines to the West and its increasing exports to China: Russia has now passed Saudi Arabia as the biggest supplier of crude oil to China.

The chapter on road transportation is well written and brings out the complexity and interconnectedness of current developments. Dr Yergin parses the subject into three areas: electric vehicles, 'ride hailing' (using firms such as Uber or Lyft rather than owning one's own car), and self-drive cars.

Successful car manufacturers are good at assembling the various pieces of hardware that make up a car – wheels, engine, windows, etc – and then constructing the final product. In contrast, a successful self-driving car will be the result of superb software and coding ... but it will still need wheels, an engine, windows, etc. Although traditional manufacturers such as GM and Volkswagen are investing heavily in self-driving cars, it was Google that made the first big breakthrough, in 2010, when one of its autonomous cars drove itself from Silicon Valley, in northern California, to Santa Monica, in the south.

There will doubtless be huge changes in the way we use road transportation in the decades ahead, but the details are still hard to predict. How do you insure an electric car? If my electric car hits yours, am I liable for the damage, or should liability lie with the manufacturer who wrote the software for the car's guidance system? If we are more concerned about the risk of infections, as a result of the Covid pandemic, will the trend towards using ride-hailing services reverse, as we retreat to the medical safety of our own vehicles?

There are more references in this book to Uber than to OPEC, and there are more references to the Spratly Islands, in the South China Sea, than to the Strait of Hormuz. The global energy map is changing, geographically and technologically. Dr Yergin explains it well. ■

Andrew Cunningham

Russia rising: Putin's foreign policy in the Middle East and North Africa

Edited by Dimitar Bechev, Nicu Popescu and Stanislav Secrieru

209 pages. I.B. Tauris. £21.99 paperback

Russia's influence in the Middle East is greater now than at any time since the early 1980s, when its occupation of Afghanistan enabled it to establish military bases close to the Gulf, while the US still reeled from the overthrow of the Shah of Iran, a key ally in the region, and from deadly attacks on its troops in Lebanon.

This revival of Russian influence has arisen largely through Russia's successful intervention in Syria, which has demonstrated not only the effectiveness of its military forces, but also its willingness to stand by those it has identified as its allies.

Russia's influence is being seen elsewhere in the region, from greater access to the Gulf states, vastly increased arms sales to Algeria, increased trade with Egypt, and participation in decisions on global crude oil supplies, through its membership of the OPEC+ group of oil exporters.

This short book addresses Russia's engagement with the entire region, from the Maghreb to Iran and Turkey, and comprises 15 short essays by a wide range of contributors, several of whom currently work for Western or local think tanks in Moscow or have done so in the past. Some essays are more interesting than others, but all provide insight into a particular aspect – geographical or thematic – of Russia's current engagement with the Middle East.

The significance of Russia's intervention in Syria, which began in 2015, is well described by Anton Lavrov, a Moscow-based defence analyst. Citing a 2019 source, he notes that Russia has tested 359 new weapons in Syria, many of them for the first time. Repeated use has enabled weapons to be modified and improved in response to testing in battle. Sixty-eight thousand Russian officers and soldiers served tours in Syria during the first three years of the intervention, including nearly all the country's combat aviation crews.

The war has also enabled Russia to improve its reconnaissance capabilities, for example through the use of drones. (Lavrov points out that modern high-precision weapons are now so advanced that locating targets is a more difficult task than actually hitting them.)

The Syrian operation has been Russia's first large-scale overseas military intervention since the fall of the Soviet Union in 1991. Over the past six years Russia has demonstrated its ability to sustain a sizeable military operation and presence overseas; it has avoided becoming bogged down – this has not been 'Russia's Vietnam' as some had hoped; and it has fulfilled its ultimate objective of enabling its ally, Bashar al-Asad, to regain and retain control of most of the country.

The revival of Russian influence elsewhere in the Middle East is often seen through increased arms exports, which had fallen to almost insignificant levels during the 1990s and early 2000s. In an essay devoted to the subject of arms sales, Timofey Borisov, another Russia-based analyst, notes that Moscow's first major arms sale in the Middle East after the break-up of the Soviet Union was a $7.5 bn package agreed with Algeria. This led to several other weapons deals with Algeria, often including some of Russia's most sophisticated weaponry. The absurdity of Algeria's weapons-procurement policy is evident from the fact that since 2006 it has received more than 500 T-90Sa tanks. Borisov notes that France, Germany and the UK have between 200 and 250 each!

Russia's relations with the Arab Gulf states were strained in the early 2000s by Moscow's suspicions that GCC governments were supporting Islamic insurgents who were challenging Russia's military campaigns in the northern Caucuses. However, in recent years Moscow has used soft diplomacy to upgrade and strengthen ties in the region: state visits, participation in significant conferences, and trade and investment. Saudi Arabia increased the number of Russian pilgrims permitted to perform the annual pilgrimage. The number of Russians visiting Mecca is larger than ever.

Other essays in this volume address Russia's relationship with Egypt (strengthening but hampered by Egypt's dependence on large aid payments from the US) and Israel (many points of agreement, such as fear of Islamic extremism, but differing views on the role of Iran in the region). Mark Katz, from George Mason University in Virginia, also notes that more than 1 mn Russian speakers have emigrated to Israel since 1991.

Relations with Iran and Turkey are complex. Iran can be useful for Moscow in Syria, Central Asia, and the Caucuses; but Russia's support for Iran must fall short of allowing it to start a war in the Gulf. As for Turkey, there is a 'marriage of convenience' according to Dimitar Bechev, of the Atlantic Council in Washington, albeit one where interests sometimes collide, as they did in Libya when each backed different sides in the civil war.

The editors bring all these strings together in an excellent final essay in which they conclude that Russia's footprint in the Middle East has expanded beyond recognition in recent years, but that Moscow's achievements have incurred costs, both financial and in terms of pushback from the West and some regional powers. The balance sheet, they say, is mixed. ■

A.C.

Best Consumer Digital Bank in the Middle East

National Bank of Kuwait
nbk.com