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ARAB Banker

The Global Magazine of the Arab Bankers Association (ABA)

COVID-19
ARAB BANKS RESPOND

CRISIS IN LEBANON
ORIGINS AND SOLUTIONS

THE ARAB BANKERS ASSOCIATION AT 40

TURKEY'S AGGRESSIVE STANCE IN THE EASTERN MEDITERRANEAN

ISLAMIC FINANCE 2.0: WHAT FUTURE FOR THE SHARI'AH COMPLIANT INDUSTRY?

PROFILE OF THE QATARI BANKING SYSTEM

GCC BANKING: EVOLUTION AND NEXT STEPS

Arab Bankers Association
جمعية المصرفيين العرب

Volume XXXI, Autumn 2020

Contents

Contents

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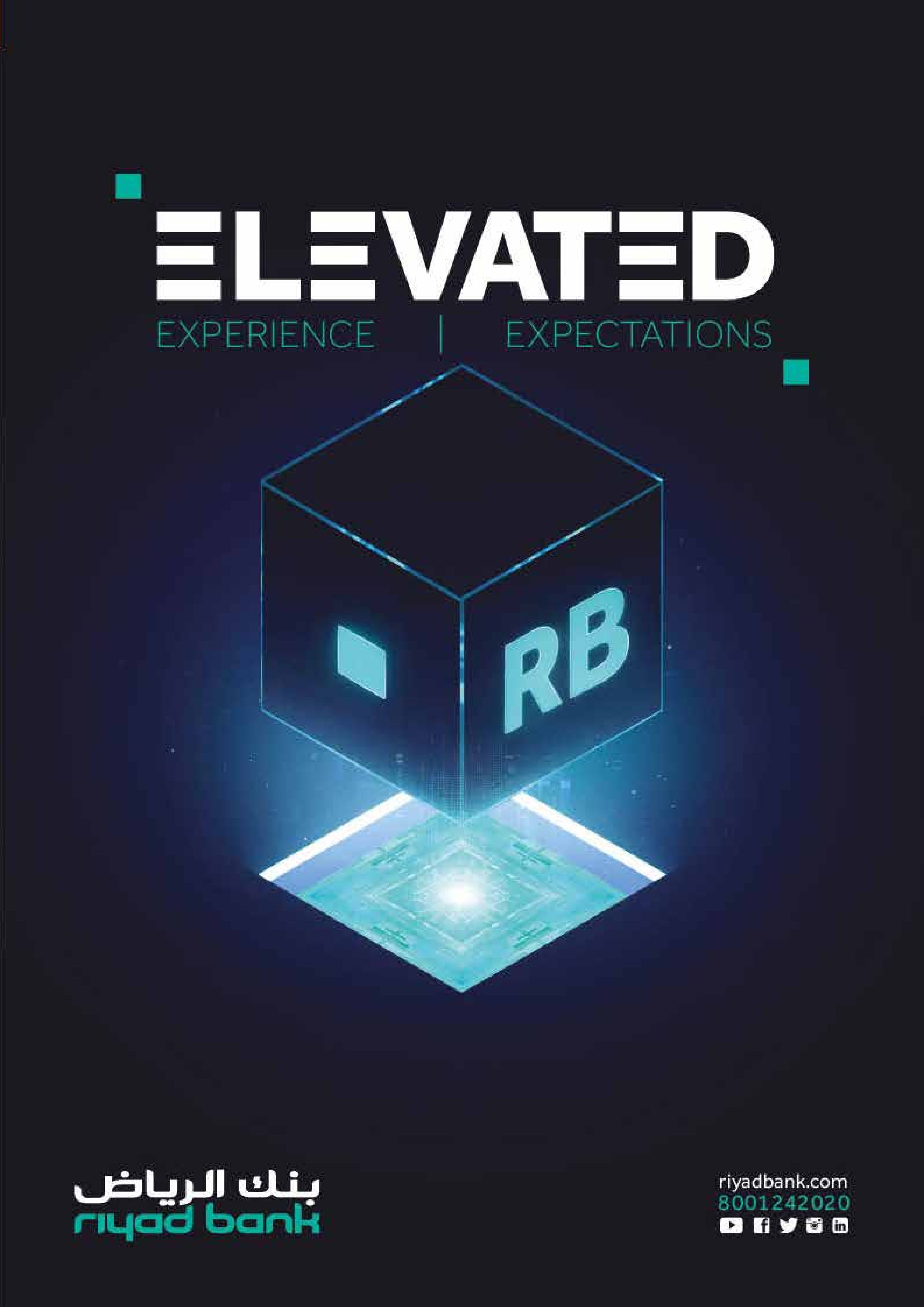
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Covid-19 heaps additional challenges on the Middle East

Last year I bemoaned the environment in which Arab banking found itself. In the broader Arab world my chief concern was the geopolitical situation in the area. For those who are based in London it was Brexit, and particularly a Brexit without a working arrangement with the EU, which presented a threat of an unknown but not very serious quantity. I lauded the success of Arab banks in having weathered years of political upheaval. In London, I commended the banks on their handling of Brexit and in minimising whatever ill effects it entailed for them.

The year 2020 has loaded misery upon misery on the Arab world and its economies. Covid-19 was a truly unexpected factor that brought the area and much of the world to a standstill. At the time of writing, its progress is unclear and the continuing threat from it cannot be fully evaluated. The damage done has already been great and recovery slow and sputtering. Entire economic sectors have been shut down and hope for their immediate revival is slim at best. Vaccines and treatments for this virus lie in the future. Fears of a second wave raise big questions about what our economies will look like in the winter ahead.

Covid-19 has brought the Middle East a very specific piece of bad news: the price of oil. In the early stages of the pandemic, the oil price hit lows unseen in decades, only to recover modestly after aggressive action by producers. But the writing is on the wall and the long-term decline in the use of petroleum seems to have accelerated. Is the area on the verge of a future where oil will not play a major part in its economies? Is it prepared?

The banking industry in the Arab world seems destined to put up with complex and endless political schisms, wars of varying scale, shrinking economies and an erosion in the value of its economic mainstay. The impact on the quality of loan portfolios, liquidity and the ability to raise capital will be severe. The banks have to get ready to meet these challenges. The increase in bank mergers, a proper response, that we saw in the past year should accelerate. The area needs bigger banks and fewer of them.

Arab banks have historically been very conservatively managed. This conservatism, coupled with a greater reliance on technology and great attention to costs, has to become the guiding principle upon which banking practice in the area is based. Dependence on branches and subsidiaries in the international financial markets, primarily London, should become of greater importance. The move to subsidiarisation would please not only host country regulators but also many of their clients

One of the more highly regarded of Arab banking systems was in Lebanon. That system seized up suddenly towards the last quarter of 2019. Many had expected this, but few expressed their concern coherently and publicly. A resolution of this crisis, which has severely impacted the living standards of the Lebanese and caused great distress amongst bank shareholders and depositors, awaits a unified approach by the various parties. This unity of purpose and vision has eluded all concerned and, most recently, led to the cessation of the essential dialogue with the IMF.

The Arab Bankers Association has persevered through it all and continued to offer its members an invaluable service. Our seminars have been replaced by webinars covering the many concerns raised by a membership in lockdown. We took advantage of our strong financial position to offer those webinars free of charge. Many more are in the pipeline. We have also maintained web-based contact between bank CEOs and senior teams from the FCA and the PRA. Those sessions have proven to be of great value to both parties.

We most sincerely hope that there will be light at the end of this very dark tunnel. We trust in the capabilities of the managements of our member banks and their regulators. We are certain that they will manage through this difficult situation and emerge from it stronger. The ABA will do its best to help them with this. We commit to stay the course and to serve in these times of crisis as a reliable partner.

We look forward to the day when we can bring you all together again to our events, social as well as professional, so that you may resume that essential human contact that we have all begun to sorely miss, and whose value Covid-19 has so amply demonstrated.

George Kanaan
Chief Executive Officer
Arab Bankers Association

Can you tell me how this ends?

Six months after the spread of Covid-19 sent the world into lockdown we still have no idea how much longer we will live in the shadow of this global pandemic. As countries loosen their restrictions on movement and foreign travel, the uncertainties seem to be increasing rather than receding.

It is hard to tell just how much of a health threat – as opposed to an economic threat – Covid-19 poses in the Arab world. If we take the figures posted by governments around the world, the number of deaths in the Middle East is small, compared to those recorded in Europe in April, and to those recorded in central and Latin America and the US in July. But even if we accept the official figures coming out of the Middle East – and for many countries in the region there is no more reason to believe official figures on Covid-19 deaths than on anything else – the death toll is not going down.

So, six months into the pandemic, its trajectory in the Middle East is uncertain. The same can be said for Africa and India, whose own rates of infection could have a significant influence on those that will be seen in many Middle Eastern countries.

Globally, the ability of governments to test their populations for Covid-19 infection is increasing and large-scale testing, combined which tracking those who have come into contact with infected people, has been shown to be an important factor in reducing the spread of the virus. Yet rigorous testing and follow-up is beyond the administrative ability of many of the most vulnerable countries in the Middle East.

As for the prospects of a vaccine, the news seems to change from day to day, but the medical experts consistently warn against unfounded optimism.

Middle Eastern governments are trying to protect their corporations and their citizens by reducing taxes and fees, making targeted cash payments, and providing funds to banks to enable them to make new loans and grant payment deferrals on existing facilities.

The economic cost of such measures has been made all the higher due to events in the oil market. After an extraordinary collapse at the start of the year – when futures prices briefly turned negative – oil prices have recovered, but still remain below the average levels seen during the past three years. Lower oil prices are reducing remittances that non-oil exporters receive from their citizens working abroad and, in the case of Egypt, reduced global trade is leading to lower revenues from the Suez Canal. The collapse in the tourist industry adds another significant burden to many countries in the region.

Financial statements for the first half of 2020 provided the first formal indications of the extent to which Covid-19 will affect Arab banks. As expected, provisions against loan losses were, in most cases, sharply increased, though most banks continued to report net profits, unlike many Western banks, whose heavy provisions plunged them into net losses.

Central bank guidance on how to treat delinquent debtors during the pandemic, combined with differing views on how to apply the IFRS-9 accounting standard, are generating considerable room for judgement over the level of provisions that banks should be taking. We are unlikely to have a full appreciation of the effects of the Covid-19 pandemic on bank profitability until full-year results for 2020 are published early next year.

In this edition of *Arab Banker*, we try to address some of the issues facing our industry as a result of the pandemic. The Group Chief Executive of Ahli United Bank, Adel El-Labban, and the Chairman of Commercial International Bank, Hisham Ezz al-Arab, describe the measures that their banks have been taking to address both the immediate and longer-term challenges arising from Covid-19. HSBC describes how it is accelerating its digital strategies to respond to supply chain disruptions.

We also have contributions from Grant Thornton, the law firm TLT and property finance boutique Mutual Finance, each describing different aspects of the financial sector's response to the pandemic.

The other big financial story in the Middle East this year has been the collapse of the Lebanese economy and its banking system. We address this issue in three separate articles, which include the perspectives of the Association of Banks in Lebanon and of a former advisor to the Minister of Finance.

Elsewhere, we present a profile of the Qatari banking sector, consider the prospects for Islamic banking, and hear from Gerald Butt about Turkey's increasingly active stance in the Eastern Mediterranean.

We also look back on the history of the Arab Bankers Association (ABA), which this year is celebrating its 40th anniversary. We review the history of Arab banks in London, and hear from Chris Keen, who led United Bank of Kuwait in London for much of the 1980s and 1990s, and we describe the evolution of GCC banking over the past 40 years.

As always, my thanks are due to George Kanaan, the Chief Executive Officer of the ABA for his enthusiasm and practical support in the production of this magazine. Thanks are also due to Antony Gray, who designs the magazine and ensures that its appearance remains sharp; and to Jason Smith of JPS Print Consultants, who prints the magazine and manages its distribution.

Andrew Cunningham
Editor in Chief

New Governor at Central Bank of UAE

Abdulhamid Saeed was appointed Governor of the Central Bank of the UAE on 2 April. He had previously been Chief Executive Officer of First Abu Dhabi Bank (FAB), having been appointed to that role when the bank was formed from the merger in March 2017 of First Gulf Bank, of which he was Managing Director, and National Bank of Abu Dhabi. Earlier in his career, Mr Saeed had worked for Citibank.

Mr Saeed replaces Mubarak Rashed Al-Mansoori, who had been appointed in 2014.

André Sayegh, who had previously been FAB's Deputy Chief Executive and Group Head of Corporate and Investment Banking, has been appointed to replace Mr Saeed as Group Chief Executive of FAB. Before the merger, Mr Sayegh had been Chief Executive Officer of First Gulf Bank.

Rasheed al-Maraj confirmed for another term at Central Bank of Bahrain

Rasheed al-Maraj was appointed for a further five-year term as Governor of the Central Bank of Bahrain, with effect from May. He has held the position since 2005, making him the longest-serving central bank Governor in the GCC, just ahead of Abdulla Bin Saoud al-Thani, the Governor of the Central Bank of Qatar, who was appointed in 2006.

Mohammed al-Hashel, the Governor of the Central Bank of Kuwait, was appointed in 2012; Dr Ahmed al-Kholifey, Governor of the Saudi Arabian Monetary Agency, was appointed in 2016; and Salim bin Abdullah al-Amir, the Governor of the Central Bank of Oman, was appointed in 2017.

CEO of Kuwait Finance House resigns

Mazen al-Nahedh stepped down suddenly as Chief Executive of Kuwait Finance House (KFH) in June. He was due to be replaced by Ahmed al-Kharji, the Group Chief Corporate Banking Officer.

No explanation was given by KFH for Mr Nahedh's abrupt departure, although there has been speculation that he had been less convinced than some of KFH's board members of the benefits of the bank's planned merger with Bahrain-based Ahli United Bank, especially in view of the additional challenges that all GCC banks are facing as a result of the effects of the Covid-19 outbreak and the fall in oil prices.

Michel Accad appointed Executive General Manager at BankMed

Michel Accad was appointed Executive General Manager of Lebanon's BankMed with effect from 1 May, replacing Mr Raoul Nehme. Mr Accad had previously served as an independent board member of BankMed.

Before joining BankMed, Mr Accad had spent nearly 10 years in Kuwait, first as CEO of Gulf Bank then as CEO of Ahli Bank of Kuwait. He retired from Ahli Bank in January. Earlier in his career, Mr Accad had worked at Arab Bank in Jordan and at Citibank.

Mr Nehme took the helm at BankMed in 2018 after Jordanian businessman Alaa al-Khawaja bought a 42.24% stake in the bank from Ayman Hariri. BankMed was previously named Banque de la Méditerranée.

ADIB ends regulated activity in London; CEO resigns in Abu Dhabi

ADIB UK, the wholly-owned subsidiary of Abu Dhabi Islamic Bank, has closed its regulated banking operations in the UK. The bank said that all regulated banking services, such as current accounts, savings and deposits would cease by the end of July. The bank had been led in London by Keith McLeod. ADIB said that in future its operations in the UK would focus on commercial real-estate financing services.

At the end of May, ADIB's CEO, Mazin Manna, resigned after a little over one year in the job. Manna joined ADIB from Credit Agricole CIB, where he had been CEO for the Middle East and North Africa. Prior to that he had spent 24 years with Citibank. Manna took the CEO position at ADIB after a long period during which the bank had been led by its Vice Chairman, after the previous CEO, Tirad Mahmoud, took medical leave in 2017.

ADIB said that Sandeep Chouhan would replace Manna as Acting CEO. Chouhan had joined ADIB in April as Chief Operating Officer. He had previously spent five years as Group Chief Operating Officer at Dubai-based Mashreq Bank, and before that had worked at Commercial Bank of Qatar, also as Group Chief Operating Officer.

More GCC banks begin merger talks

National Commercial Bank (NCB) and Samba Financial Group announced on 25 June that they had entered into a framework agreement to negotiate a merger. The announcements stated that both banks intended to complete due diligence and agree financial terms within four months of the announcement.

NCB is the biggest Saudi bank, with equity of $18.6 bn at the end of 2019. Samba is the fourth biggest with equity of $12.1 bn. Saudi British Bank became the second-biggest Saudi bank following its takeover of Al-Awwal Bank (formerly Saudi Hollandi Bank). Al-Rajhi is the third biggest.

In late 2018, NCB announced that it was in merger talks with Riyad Bank, but these were called off a year later. Riyad Bank has a subsidiary in London which would have been a useful addition to NCB's international portfolio. Samba no longer has a presence in London, having closed its branch in 2016. NCB closed its branch in London more than 20 years ago.

When NCB held an IPO in 2014, it announced that it would convert all of its operations to a Shari'ah-compliant basis within a few years. The announcement was made to ensure the support of Shari'ah scholars, some of whom had questioned whether Muslims should invest in a bank that earned a material amount of its income from interest-based activities. In fact, most of NCB's activities were already Shari'ah-compliant at that time. Samba also has substantial Shari'ah-compliant operations, although it is a conventional bank.

Saudi Arabia's Public Investment Fund, its sovereign wealth fund, held 44% of NCB and 23% of Samba on 2 July, according to the Saudi stock exchange. Other Saudi government funds held 10% of NCB and 19% of Samba. Neither bank had any other shareholders with stakes greater than 5%.

Two Qatari banks, Masraf al-Rayan and Al-Khalij Commercial Bank announced on 30 June that they had entered into initial merger discussions. Masraf al-Rayan is an Islamic bank and Al-Khalij is a conventional bank. The announcement made clear that a merged bank would be run on Shari'ah-compliant principles.

At the end of 2019, Masraf al-Rayan had shareholders' equity of $3.9 bn and Al-Khalij had equity of $1.9 bn. Masraf al-Rayan had previously considered a three-way merger with Barwa Bank (Shari'ah-compliant) and International Bank of Qatar (conventional). That merger went ahead without Masraf al-Rayan last year. (For more details please see the profile of Qatari banking on pages 29–31.)

New appointments for Lebanon's central bank and bank supervisor

On 11 June, Lebanon's Council of Ministers appointed four new Deputy Governors to the Banque du Liban, Lebanon's central banking authority, and appointed a new Board at the Banking Control Commission (BCC), which regulates and supervises Lebanese banks. The Council also appointed a new chairman to the Special Investigation Commission (SIC), Lebanon's financial intelligence unit.

The new appointments to the Banque du Liban were Wasim Mansoori (First Deputy Governor), Salim Shaheen, (Second Deputy Governor), Bashir Yagdaan, (Third Deputy Governor) and Alexander Muradian (Fourth Deputy Governor).

The previous four Deputy Governors had all served two five-year terms, beginning in 2009, so the new appointments were a year overdue.

The appointment of the new Deputy Governors does not, formally, affect the position of Riad Salamé who was appointed to his latest six-year term in May 2017. However, as *Arab Banker* was going to press, Mr Salamé's position was looking increasingly unsure. On 20 July, a Lebanese judge ruled that his assets should be seized, following allegations that he had violated articles of the country's penal code. Around the same time, reports surfaced alleging that Salamé had personally intervened to determine the value that certain assets were given in the institution's audited accounts.

Mayya Dabbagh was appointed Chairman of Lebanon's BCC with effect from 12 June. She is joined by four new Commissioners, none of whom has served before.

Mrs Dabbagh worked for the BCC from 2004–11 as Head of Offsite Supervision, and then as a consultant on banking supervision. In 2017, she was elected as an independent non-executive director of BankMed.

The Chairman (that is the official title) and the four Board Members always serve a five-year term, so there is nothing unusual in the timing of the appointments last June. However, it is unusual that no members of the previous board have been given a second five-year mandate.

Of the four board members, Dr Joseph Haddad is the representative of the Association of Banks in Lebanon and Marwan Mikhael is the representative of the National Deposit Guarantee Institute.

Shadi Hanna replaces Abdul Hafiz Mansour as Secretary of the SIC. Mansour had served since 2009,

Algeria embraces financial reform … again

The Governor of Algeria's central bank, Ayman Benabderrahmane, was named as the country's new Finance Minister in a partial government reshuffle that was announced on 24 June. At the same time, the former chief executive of Sonatrach, the state-owned oil company, was appointed as the new Minister for Energy.

Finance and energy are the two key portfolios as Algeria addresses the immediate challenges posed by low oil prices and Covid-19, alongside decades-old issues of structural fiscal deficits, inefficient public institutions and corruption.

Benabderrahmane replaced Abderrahmane Raouya, who had been appointed on 3 January as part of the first government announced by President Abdelmajid Tebboune following his election two weeks earlier. Mr Raouya served as Finance Minister between 2017 and March 2019 under former President Abdulaziz Bouteflika and his Prime Minister Ahmed Ouyahia.

In June, Mr Raouya presented a revised annual budget to the Council of Ministers. This anticipated oil and gas revenues of $20.6 bn in 2020, rather than the $37.4 bn originally anticipated. The revised budget predicted that Algeria's financial reserves would fall to $44.2 bn by the end of this year (compared to nearly $200 bn at the end of 2013).

Under the revised budget, the Council of Ministers approved exempting those with a monthly income of less than DZD30,000 ($200) from paying taxes with effect from 1 June (though the period of exemption was not defined). The minimum monthly wage was increased to DZD20,000 from DZD2,000. The budget for 'operating expenditures' was reduced to half the level budgeted in 2019, compared to a cut of 30% that had originally been foreseen.

On 18 July, Mr Benabderrahmane delivered a major policy statement in which he announced a review of the tax system in Algeria, with a focus on broadening the tax base. He estimated that hundreds of thousands of Algerians were not paying any tax, often because the government authorities were incapable of identifying and collecting tax due. Mr Benadberrahmane also lamented the role played by banks in Algeria, which he described as an impediment to economic development. Specifically, he cited the lack of financial inclusion. He said that there were 1,600 bank branches in Algeria, which was fewer than a quarter of those seen in neighbouring countries. He gave the example of the Messaad area in Jelfa, south of Algiers, where 300,000 inhabitants do not have access to a single bank branch.

There are many good reasons for bringing more people into the formal banking sector, but from the point of view of a cash-strapped Ministry of Finance, the more deposits that are placed in banks, the more the Ministry (or central bank) will be able to raise funds by issuing treasury bills and bonds.

The need to find new pools of finance is presumably one of the reasons for the government's renewed enthusiasm for Islamic banking – a subject that has been raised in previous years. In March this year, the Central Bank named eight Shari'ah-compliant financial products that Algerian banks would be permitted to offer. Minister Benabderrahmane has said that two state-owned banks have been given permission to begin promoting Islamic products although, in line with traditional Algerian public relations practices, he did not say which ones.

Mr Benabderrahmane has also said that there are no 'taboos' regarding bank reform in Algeria and that he would welcome the creation of new privately-owned banks. However, he specified that such new banks would have Algerian investors.

Covid-19 presents Arab economies and banks with unanswerable questions

Jordan is receiving IMF support to address the economic consequences of Covid-19

The half-year results posted by many Arab banks showed profits despite higher loan-loss provisions, but it is generally accepted that this is the calm before the storm. Middle East economies are being assailed from all sides – though they are hardly alone in that – and bank performance will suffer accordingly. However, Arab banks began this year with exceptionally high capital levels, and these should ensure that their survival, however painful the next few years might be.

Arab Banker's Editor, Andrew Cunningham, looks at some of the challenges that Middle East economies and their banks will face in the year ahead.

Governments in the Middle East reacted swiftly to the economic and business challenges arising from the Covid-19 pandemic. In common with governments everywhere, they announced fiscal stimulus packages and instructed or encouraged banks to grant repayment holidays to debtors. Monetary authorities reduced interest rates and cut banks' reserve requirements.

The headline numbers were dramatic. The Central Bank of the UAE announced a Dh100 bn ($27 bn) programme on 15 March and increased it to Dh256 bn three weeks later. The Saudi government announced a SR70 bn ($19 bn) package just days after the country's central bank, SAMA, had announced SR50 bn of measures to enable local banks to defer interest payments due from local businesses and individuals. Morocco created a MD33 bn ($3 bn) fund to upgrade the country's health sector and mitigate the social impact of the pandemic.

However, the headline numbers over-simplify what has been a complex series of measures that will affect Middle East governments' finances in many different ways. Many of the support measures announced by central governments entail forgoing fees and taxes which they had been hoping to collect, so the effect will be a reduction in anticipated revenues rather than a new expense. That said, the measures have also included cash payments: the Egyptian government has been disbursing between EgP600 ($37) and EgP1,765 per month to some of those working in the tourism sector.

Saudi Arabia has also implemented measures to subsidise the salaries of workers in heavily affected industries, but it has also trebled Value Added Tax (to 15%) and abolished some of its income support measures for government employees.

Reducing interest rates takes some of the pressure off heavily indebted companies, but it also supports the finances of those heavily indebted governments whose bills and bonds have been bought by local banks. For example, the Central Bank of Egypt's decision on 16 March to reduce its overnight deposit rate by 3% to 9.25% will significantly reduce the government's debt service burden (which accounted for about 45% of total revenues, when both foreign and domestic borrowing is taken into account) while simultaneously reducing the interest income earned by the country's banks (who lend more to their own government than they do to the Egyptian private sector).

Multinational lenders have also been quick to announce support packages for emerging market countries. In May, the IMF extended $396 mn to Jordan through its Rapid Financing Instrument (RFI), a programme that was created some time ago to provide emergency balance-of-payments assistance to governments (for example following a natural disaster) and which has now been increased in size and pointed towards those governments who are facing difficulties arising from the Covid-19 pandemic. The facility for Jordan is expected to cover about one quarter of the country's external financing needs.

In April the IMF approved a $745 mn RFI facility to Tunisia and in May it approved $2.8 bn for Egypt. In July, the European Investment Bank approved $1.1 bn in financing for Egypt's public transportation sector and $800 mn for small and medium-sized businesses that are affected by Covid-19. The European Bank for Reconstruction and Development has also been increasing its financial assistance to the countries where it works in North Africa and the Middle East.

However, such external support will only cover a small proportion of the expenditures and foregone revenues that Middle East governments will face as a result of Covid-19. In late July, credit rating agency S&P estimated that GCC governments' debt would rise by about $100 bn over the course of 2020 alone, even after taking into account an expected drawdown of $80 bn in state reserves.

Even Kuwait is expected to enter the international debt markets by the end of the year. Unlike its Gulf neighbours, Kuwait has eschewed borrowing in recent years, relying instead on its massive financial reserves to cover budget deficits. However, recent reports indicate that the liquidity of the remaining reserves (which are still huge) has been depleted, leaving the government with the choice of calling on local banks to fund the deficits, or issuing Eurobonds. A new debt law, that will empower the government to raise money overseas, has been delayed in the Kuwaiti parliament for months, but the economic challenges of Covid-19 are expected to focus law-makers' minds and enable the passage of the law. Kuwait is expected to raise about $15 bn after the law is approved. With very little international debt outstanding, and credit ratings in the AA range, investor appetite for Kuwaiti bonds should be high, despite reduced global liquidity.

Oil price declines add to oil exporters' problems

For oil exporters, the costs associated with the Covid-19 pandemic are only part of the problem. Oil prices collapsed in early in 2020 in response to a disagreement between Russia and Saudi Arabia over oil production targets and they remained subdued even after that immediate incident had passed, due to an expectation of reduced economic activity (and therefore reduced energy demand) in the years ahead.

Brent crude averaged $42/barrel in the year to 16 July, compared to $64/b in 2019 and $73/b in 2018.

As a result, oil producers are facing the need to increase expenditure (or forego revenues) in response to the economic effects of Covid-19, while at the same time seeing their principal source of income decline.

The question of what price oil exporters need in order to balance their budgets is complex and variable, and of

Crude oil prices, and Middle East oil production

Avg. price ($/b)	y-t-d 2020	2019	2018	2017	2016	2015	2014	2013	2012
Brent crude oil	42.17	64.16	72.69	54.64	43.32	52.32	98.97	108.56	111.63
Oil production: '000 b/d	May-20	2019	2018	2017	2016	2015	2014	2013	2012
Algeria	819	1,022	1,042	1,043	1,090	1,106	1,151	1,159	1,210
Iraq	4,165	4,678	4,550	4,446	4,392	3,934	3,265	3,027	2,979
Kuwait	2,198	2,687	2,745	2,708	2,853	2,728	2,774	2,822	2,793
Libya	82	1,097	951	817	390	405	473	928	1,393
Saudi Arabia	8,482	9,771	10,311	9,954	10,406	10,139	9,683	9,586	9,737
UAE	2,477	3,094	2,986	2,915	2,979	2,891	2,761	1,741	2,624
Total 'Arab OPEC'	18,223	22,349	22,585	21,883	22,110	21,203	20,107	19,263	20,736
Total OPEC	24,195	29,337	31,344	32,017	32,643	31,470	30,771	30,198	31,132
Total non-OPEC	61,080	65,030	63,010	59,450	57,020	57,850	55,640	54,240	52,860

Notes on data consistency and on sources.

1. Figures for oil prices are taken from the IEA until 2016, after which they are taken from Middle East Economic Survey. 2020 year-to-date refers to the period up until 16 July.

2. Figures on oil production are taken from OPEC's Monthly Oil Market Report (MOMR). The figures should not be taken too literally, since the MOMR constantly revises its numbers. The important thing is to see the long-term trend. The figures in this table have been taken from the January editions of the MOMR, except for 2020 which are from the July 2020 edition. Note that the figures for May 2020 are not 'year-to-date' but for the month of May only.

3. Note that OPEC members were not consistent over the period shown in the table. Most importantly, Qatar announced in December 2018 its intention to leave OPEC. In previous years, Qatar had been producing 600,000–750,000 b/d.

course differs widely between countries. (Most obviously, if a country exports more oil from one year to the next, then it can generate the same revenues with a lower price.) Algeria is generally assumed to need a price of at least $100/b to stand a chance of balancing its budgets, while Kuwait and Qatar can get by with prices around $50/b.

However, the long-term trend is for production to remain broadly constant while the financing needs increase as economies expand. Simply put, the threshold price the oil exporters need to balance their budgets is steadily rising. The increase in crude oil production by Arab exporters over the past 10 years is almost wholly attributable to Iraq, which has been rebuilding its oil industry after the destruction caused by the US invasion of 2003 and its aftermath. (See table on page 13).

Leaving aside the immediate and medium-term challenges of Covid-19, oil exporters are in a long-term race with the clean energy and environmental movement: can the exporters restructure their economies and reduce their dependence on oil and gas revenues faster than global demand for oil and gas decreases?

In February, the IMF published a research paper entitled, "The future of oil and fiscal sustainability in the Gulf region". This predicted that the region's net wealth would be depleted over the next 20–30 years in the absence of big increases in tax rates and changes to the employment practices that have led both to expensive public sector wage burdens and inefficient bureaucracies. The paper also called into question many of the prestigious development projects that have been undertaken in the region, noting that the economic return on such projects has been declining.

Banks face short- and medium-term challenges

Many Middle Eastern banks are facing the challenges of Covid-19 and low oil prices from a position of strength although, as with the Middle East's economies and governments, it is hard to generalise across the region as a whole.

GCC banks are well capitalised and generally profitable. Mergers and acquisitions have been removing weaker banks from the scene and this process seems set to continue over the next year. Banks in Egypt, Jordan and Morocco entered 2020 with generally healthy balance sheets and profitability. Tunisian banks continue to pursue restructuring and reform, though the state-owned banks remain burdened by huge amounts of non-performing loans from previous years.

Lebanese banks are of course a special case and their problems are well known. (See pages 24–27). Algerian banks have been hampered by political unrest and economic uncertainty for over a year. The financial statements of the state-owned Algerian banks offer no reliable pointers to their true profitability and solvency.

Financial statements for the first half of 2020 were starting to trickle out as Arab Banker was going to press. Qatar National Bank and Emirates NBD both reported big increases in loan-loss provisions; but both were still able to report strong earnings and capital levels far in excess of international norms. The first Saudi banks to report showed the same profile of net profits reduced by higher loan-loss provisions, but strong underlying capital ratios.

Over the next year, Middle East banks will face many of the same problems that are facing banks worldwide as they make judgements on the extent of loan loss provisions that need to be taken against delinquent loans. IFRS 9 requires banks to recognise a deterioration in a client's ability to repay at the next reporting period, even if no interest payment has been missed. Yet, if provisions are taken against all clients whose ability to repay has been impaired by Covid-19, the additional charges will overwhelm the income statements of even the most profitable of the Middle East's banks. In the year ahead, it will be auditing firms, who express opinions on the adequacy of provisioning and sign off banks' public accounts, who will have one of the most important roles to play in determining whether banks can continue to declare profits.

Slower economic growth – or negative economic growth – will affect all economies in the Middle East. Some, such as those of Dubai and Bahrain, that are heavily dependent on providing cross-border services, or those dependent on tourism, such as Egypt, Morocco and, again, Dubai, will be particularly hard hit. All banks will face the twin challenges of fewer business opportunities and higher provisions on existing credit facilities.

This is hardly the first time that the Middle East banks have faced such difficulties. What is different this time is the impact of the public health crisis. It is too early to tell whether Covid-19 has already been suppressed in the Middle East or whether a second wave will emerge, either from within or imported from outside. What is even more difficult to predict is how social patterns – work practices, consumption trends, leisure pursuits – will change. In such circumstances, we should expect business strategies based on caution and conservatism rather than innovation in the year ahead. ■

Egypt is receiving support from the IMF and other multilateral agencies to address the economic consequences of Covid-19


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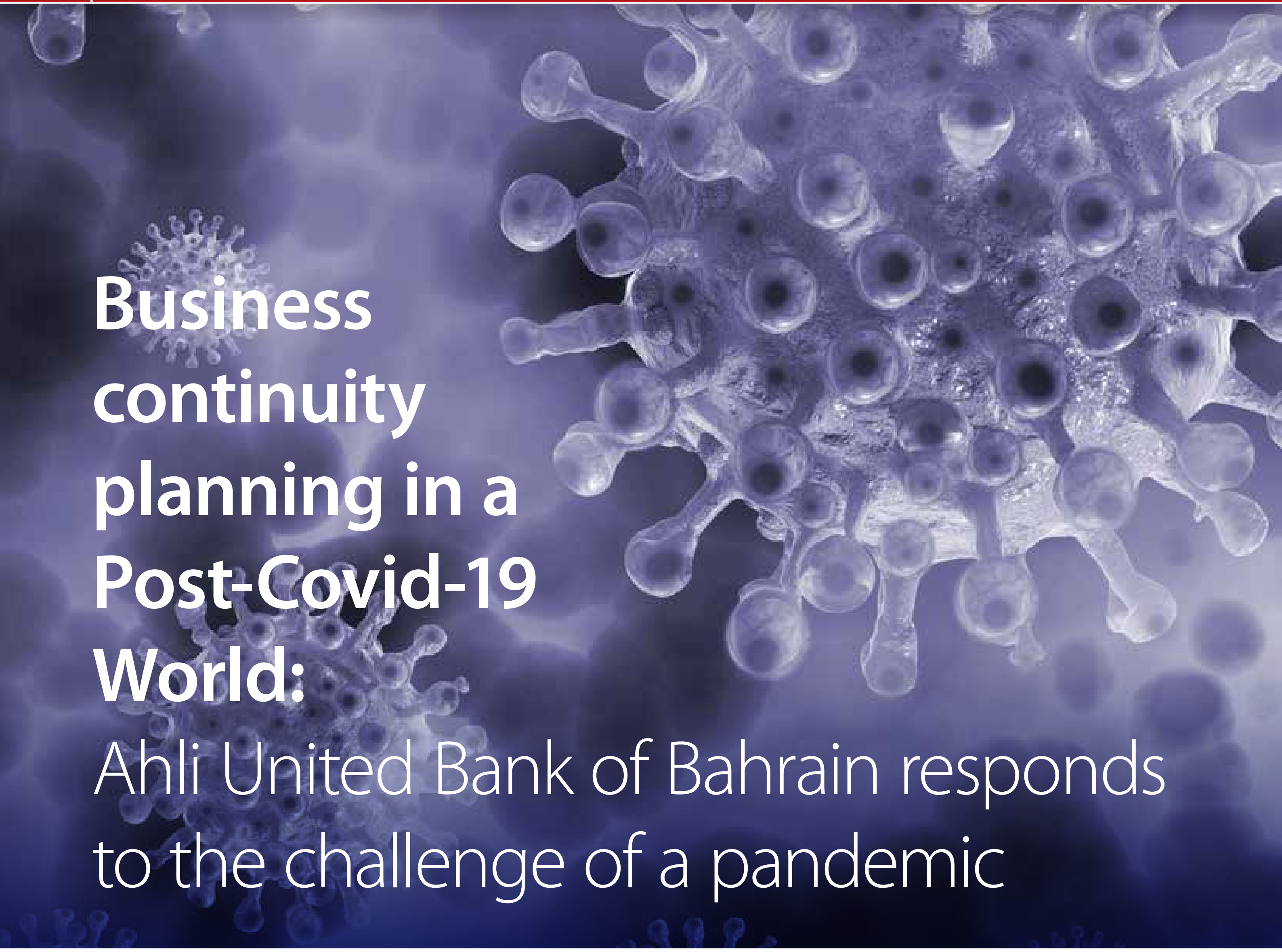


Business continuity planning in a Post-Covid-19 World:

Ahli United Bank of Bahrain responds to the challenge of a pandemic

Covid-19 has forced banks to re-assess their business continuity plans and to re-imagine the types of disruption that they could face in future.

In the following article, Adel El-Labban, the Group CEO of Bahrain's Ahli United Bank (AUB), describes how his bank responded to the Covid-19 outbreak, and how its approach to business continuity has changed as a result.

Our main and first priority was, and continues to be, to protect the health of our staff and of all clients and counterparties dealing with AUB. Human life is sacrosanct. Financial damage or loss is ultimately transient and recoverable, however painful its impact in the short term may be.

The second leg of our planning simultaneously focused on the two key components of our business, namely business continuity from an operational processing and client-service delivery context, and on the maintenance of adequate liquidity and capital for our banking needs under highly stressed conditions.

Maintenance of our institutional capabilities in their broadest human, physical and financial scope is the overriding priority during any crisis situation. It overrides the normal objectives of sustainable profit maximisation and revenue expansion which dominate the business-as-usual (BAU) state.

Like other banks, we had business continuity plans (BCPs) in place long before the outbreak of Covid-19 but, as with other banks, these plans were rooted in scenarios that foresaw us losing access to key physical infrastructure – our head office building for example – or finding that our information systems were being disrupted or corrupted, either as a result of a malicious attack or of a benign technical fault. We were well prepared to transfer staff to an alternative site and our data was effectively backed up on a real-time basis. All necessary roll-out protocols and contingencies for this core scenario were periodically tested and ready to go.

Covid-19 presented us with a completely different proposition. It added the dimension of a full or partial lockdown to our real-life contingency requirement for maintaining our operations as close as possible to the BAU configuration. In such a situation, access to original or alternative offices would not exist or would at best be seriously constrained. A modified remote continuity plan had to be quickly designed, tested and then upgraded to a more extreme and comprehensive full lockdown scenario as the disease spread.

It is important to recognise that the SARS epidemic in 2003 and the more recent outbreaks of MERS did not disrupt business operations in the Middle East. On the other hand, the Covid-19 pandemic took us and the rest of the world into completely uncharted territory. Our closest earlier experience of a semi-complete lockdown, albeit of a very short duration, was what happened during the Arab Spring events of 2011, which were our best reference point for managing the current situation. Civil disturbance and government curfews had then created a de facto lockdown situation with limited but not zero access to premises for a few very hectic days during which AUB continued to provide uninterrupted basic banking services. We now had to very rapidly upgrade our capabilities to an absolute nil-access scenario for a more extended period with no exact end in sight because this represented the worse possible scenario in case of a sustained, multi-wave Covid-19 surge requiring more severe social distancing and containment measures.

Emergency Protocols Triggered

In short, a crisis situation would emerge on the operational side if we reached a full lockdown situation without adequate preparation. It was extremely irritating that the considerable planning and efforts invested in our existing business continuity measures could not adequately cope with this extreme proposition. Despite many decades of banking experience under very extreme conditions, this was a first for me and for my colleagues. An immediate broad-based plan was launched on an emergency basis to develop an interim partial lockdown solution to address the social distancing and reduced staff attendance response needed for the health of our staff and clients, as well as the remote management of our internal processing and external client requirements. This was tested and expanded into a full lockdown or zero-attendance scenario to ensure staff familiarity with necessary procedures and to iron out any implementation problems.

The testing for both the partial and full remote lockdown business continuity protocols revealed a lot about the organisation and individual staff members. Errors were high in the early tests, partially due to the accelerated pace of roll-out. Prompt remedial action was taken through refreshed guidance and training. In cases attributable to lack of acceptable focus or application by staff members, a firmer approach was adopted. The gravity of the issue was re-emphasised as the scope for error handling would be quite limited in a real full-lockdown scenario. The subsequent tests massively improved as the organisational and individual focus tightened. Innovations and improvements were suggested by staff of all levels of seniority and implemented wherever feasible or appropriate.

Maintaining Customer Service

Our remote plan was targeted to ensure that we could continue to serve our customers in an environment where most or all of our staff were not able to be physically present in bank branches or have any physical contact with customers, or with each other.

This entailed reviewing all our operations to assess the extent to which they were reliant on human intervention, and the extent to which we could transition non-automated transactions to a full digital service.

Of course, there are wide variations – the degree of reliance on human intervention differs according to location and the type of banking service. For example, our operations in Dubai and the UK are highly automated, but those in Egypt and Libya are less so.

You cannot re-stock an ATM with cash remotely – anywhere in the world – but in the UK very few transactions are dependent on cash, whereas in the GCC region a lot of transactions are still done with cash.

Much of the work on a letter of credit can be done digitally, but negotiated documents still require human interaction. This is a residual challenge which we are working to resolve remotely on a priority basis.

Despite the urgency and intensity involved with rolling out and testing these measures, which included extensive daily senior management team meetings for close to three weeks, AUB managed to achieve a quantum leap in its business continuity capabilities.

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. Ahli United Bank 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 distiguished service to Arab banking.

It was a challenging but very satisfying experience for all participants, including myself, to quickly maximise our service delivery capabilities to clients and counterparties with minimal reduction or disruption in terms of range and quality over an extended period.

Many of our colleagues were surprised by the intensity of these efforts in the midst of unprecedented turmoil in the financial markets and a general depressive mood created by the pandemic. The exercise was, however, a necessity and the hard work focused minds away from the stressful medical and market developments.

Our governing mantra was, and continues to be, to focus on areas where our efforts can make a difference and have a sustainable impact. The operational resilience of the bank clearly falls in this category, whereas market gyrations are beyond our influence or control and can only be mitigated or exploited to a certain degree.

A key associated risk which has surged in this very volatile environment is cyber fraud from both internal and external sources as all industries have massively expanded their reliance on remote access and communications. It is not simply a matter of hacking attacks of different types to disrupt or penetrate systems. It imposes a new set of operational control and monitoring challenges in a decentralised and more fluid operating environment. We need to rapidly adjust to, cope with and control its risks, which may and probably will remain with us going forward even after the Covid-19 crisis has run its course.

The outcome will serve as a very useful operational platform for the AUB Group across eight countries in terms of meeting any future business continuity challenges and for expanding and upgrading its remote delivery capabilities in the context of our broader digital strategies.

In my view, the Covid pandemic will be recognised as a watershed moment in the evolution of banking. It has exponentially accelerated in the space of a few months the ongoing drive towards digitalisation. AUB has become a quasi de facto digital bank by virtue of medical necessity before financial and strategic imperatives. Necessity is truly the mother of innovation!

Going forward, the business-as-usual vs business continuity plan modes of operation will become an antiquated dichotomy. The new changes have liberated the business to a very large degree from locational dependence. In fact, BAU has merged with BCP to create a new flexible business framework which can cater in an almost seamless manner with both the normal and the exceptional condition. This is a revolutionary step forward in terms of shattering long-held, strongly entrenched operational practices and methodologies.

However, any bank's survival and ability to compete and prosper in the future is not just a matter of staff health and business continuity. These are necessary but not sufficient conditions. The financial dimension is of equally critical importance and priority in contingency planning and response.

Financial Stability

Given our experience in many previous crises and disruptions, which have hit our region and the world over the past two decades, our primary initial financial focus is liquidity retention and stabilisation.

Our experiences of the 9/11 attacks and the 2008 financial crisis had already shifted our liability model to limited dependence on wholesale market sources for our funding needs. This facilitates deposit retention when dealing with longstanding established clients who have known us for years and are comfortable with our ability to weather storms.

The proactive response of our various regulators in terms of relaxing liquidity ratios to all banks has given AUB and all regional banks much greater flexibility to raise funds and manage their costs in the post Covid-19 environment.

On the capital side, AUB, like most GCC banks, is well capitalised relative to Basel III benchmarks. The future challenge to capital adequacy will come from potential increases in loan and investment provisions triggered by the economic damage from the lockdown period which effectively immobilised our core economies for several months.

It was clear to us right from the start that this crisis was going to be prolonged, so in addition to the three areas that I have already mentioned – safeguarding staff, maximising our operational ability to serve customers remotely and protecting our balance sheet – we also had to adjust our risk profile. Essentially, we are not willing to accept new risks at this time and are advising our clients that while we will continue to provide them with banking services and facilities, they should be adjusting their own business plans and risk profiles to take account of more difficult economic conditions over the medium term.

It is too early in the cycle to fully crystallise the Covid-19 impact in the form of asset impairments. However, we expect our credit and investment provision needs will increase in 2020 and will adversely affect our profits, but not our capital base. AUB has always had a solid credit-risk culture, with an NPL ratio of under 2% backed by 85% + in cash provisions. We also run very limited open market or treasury risks. This conservative positioning has served us well during earlier problem times and should help us in containing the financial impact of Covid-19 on our portfolio.

This pandemic has unfortunately come with an unprecedented historic collapse in the price of oil and natural gas. This sector is the major economic driver in the GCC. Its inevitable contraction in 2020 has and will continue to hit hard the overall regional economy by reducing its revenue inflows which are the major source of regional banking liquidity and the major source of investment funds for new infrastructure and project investments.

The overlapping of the Covid-19 and energy crises means that the damage will be deeper and longer in oil producing economies. It will also be a major wake-up call for accelerating structural reform, expanding the private sector role, removing impediments to foreign investment and achieving true diversification in their sources of economic revenue from sustainable sources as a matter of critical priority and necessity.

We expect a difficult two-year period, at least. Our key weapons in facing this adversity remain focus, common sense, prior-crisis experience, staff cohesion and hard work to help our clients and protect our business. There will be light at the end of the tunnel even if the situation is currently looking dark. ■


Supporting trade
across five continents

Egypt's Commercial International Bank focuses on digital banking to overcome the challenges of Covid-19

The Covid-19 pandemic has forced banks and their clients to accelerate the use of digital banking for a wider range of products and services. In the following interview, Hisham Ezz al-Arab, the Chairman and Managing Director of Egypt's Commercial International Bank (CIB), explains how his bank has responded to the challenges of the pandemic.

ARAB BANKER: How effective were CIB's business continuity plans in the face of the Coronavirus pandemic and the lockdown?

HISHAM EZZ AL-ARAB: We concentrated on three aspects: employees, customers and financial position.

For our employees, we activated our work-from-home plans. Half of the bank's employees were instructed to work from home, with priority given to those at greatest risk from the disease, such as pregnant women and mothers with unmet childcare needs.

We also set up a dedicated 24/7 hotline which staff could use to report any Coronavirus symptoms. We used this channel to help staff arrange medical appointments and advise them on safety measures. All CIB staff and their families already enjoyed medical insurance provided by the nation's top insurers.

Additionally, we reduced the number of employees operating in branches without affecting our capacity to service branch clients.

As for our customers, we have long been core supporters of the Central Bank of Egypt's efforts to promote the development of digital, non-cash solutions for easy transfer of funds, purchases, bill payments and more. Before the pandemic, we had introduced a comprehensive suite of digital payment solutions that minimise clients' need to use cash, accommodate their busy lifestyles and reduce their need to visit branches. CIB holds a number-one ranking for domestic digital transfers and government e-payments, and market shares of 25% in both internet and mobile banking: we have the background needed to boost awareness among the general public.

CIB's clients can avoid public places by banking from home with access to internet banking and a range of products. If clients still want to venture out, hand sanitiser dispensers are being installed at all of our ATMs.

How is CIB's financial situation being affected by the Covid-19 outbreak?

We remain in full compliance with all regulatory ratio requirements. With regards to liquidity and capital adequacy, more than 50% of our assets are in the form of sovereign investments. We have a capital adequacy ratio of 26%, putting us in a solid position to withstand any economic recession. At the end of 2019, we held total capital of EGP 52 billion, 90% of which was classified as tier-one capital. CIB's provisioning policy has been highly successful in shielding us from external shocks in recent years: our coverage ratio stood at 247% at the end of 2019. CIB has in place a Contingency Funding Plan to manage any new liquidity requirements, and we have minimised market risk by restricting our trading book position.

How has CIB's senior management team communicated among itself during the crisis and how has it been able to transmit decisions down into the business lines?

Communication between the members of the senior management team was crucial. We ensure that we stay connected using several tools, such as phone calls, emails and video conferencing to bring the whole team together, discuss updates and formulate action plans. The decisions resulting from these discussions are cascaded to our employees through email and our internal network (intranet), with directives to personally inform members of our staff who might not have access to these tools, like some members of our sales team.

We have a crisis management committee which has been drawing on our experience of the political crisis in Egypt nearly 10 years ago. The committee meets most weeks, and comprises nine people, including all the members of the senior management group.

How will your business continuity plans change as a result of what you have learned from the Covid-19 crisis?

Our business model has proven its resilience in facing the challenges posed by the crisis. Our early adoption of digital banking provided a crucial advantage to our bank. A large number of our customers has already been using our digital products, eliminating the adaptation stage and reducing the number of issues they faced which might have needed a face-to-face presence in our branches.

For the post-Covid world, we will continue expanding our digital offerings, further reducing traffic in branches.

Hisham Ezz al-Arab

Hisham Ezz al-Arab is the Chairman and Managing Director of Commercial International Bank, which is Egypt's largest privately-owned bank. He also chairs the Federation of Egyptian Banks and is co-chair of the Institute of International Finance's Emerging Market Advisory Council. Mr al-Arab has been leading CIB as its Chairman and Managing Director since 2002.

Do you think the Egyptian banking and financial market will be permanently changed by the Covid-19 pandemic and lockdown?

I think several, if not all, Egyptian banks will expedite their digital transformation and introduce more digital products to their clients. This crisis has shown how important these tools are and the importance of drawing traffic away from branches to increase efficiency and overall customer satisfaction.

Additionally, in their day-to-day business, banks will adopt video conferencing and other remote connection tools, relying less on physical meetings, especially cross-border ones. Working from home will be a tool given to those whose jobs allow it because, as this crisis has shown, many tasks can be done remotely, saving time and resources for both the bank and employees.

Don't underestimate the level of internet connectivity in Egypt. The level of mobile phone penetration, even in remote areas, is very high and so the possibility exists to extend mobile banking to all areas of the country.

How do you think the experience of the pandemic and the lockdown will affect CIB's long-term strategy?

The current circumstances have shown that pandemics don't only exist in history books or science fiction movies. They can happen in our lifetimes, and we should keep contingency plans to lessen their impact on our businesses.

The future of banking lies with digital products and remote banking. This crisis has shown how important banks are to our economy; but what happens when customers can't go to the branch? We must produce innovative, easy-to-use, remote tools for customers of all ages and educational and social backgrounds to use.

We must also expand our financial inclusion activities to make sure the underbanked and unbanked segments of our population can benefit from our services. The daily labourer incentive, distributed by the government to some of the most economically vulnerable of our society, was disbursed through pre-paid cards and ATMs. We must ensure not only that they have access to these services, but also that they have learned how to use them securely to safeguard their funds.

What impact do you think the pandemic and lockdown will have on the Egyptian economy as a whole?

All economies the world over have been affected by this unprecedented global event. The extent of the losses will only be known after the world returns to a state of normalcy. Vital sectors of the Egyptian economy are suffering due to the global shutdown, such as tourism, which isn't expected to come back before spring/summer 2021. Remittances are low due to a number of Egyptian workers abroad being let go from their jobs, and the Suez Canal revenues have also been affected.

However, the Egyptian government took a number of measures to ensure that the economy can withstand these difficult times, Egypt has entered the crisis from a point of strength after achieving high economic growth in 2019, and, according to projections from several international financial institutions such as the IMF and the World Bank, it's the only country in the MENA region that won't undergo a recession in 2020. ■

Navigating global trade disruption

Martin Tricaud, CEO of HSBC's Middle East, North Africa and Turkey (MENAT) region, explains how Covid-19 is accelerating digital strategies and supply chain resilience.

The global Covid-19 pandemic is super-charging changes to global trade – changes that have been a long-time coming.

Corporates, financial institutions and governments have been forced to think hard about the longer-term and they are accelerating many changes including digitisation, automation and localised manufacturing. Supply chain security in particular has come into focus for many businesses, which are now having to address their reliance on highly concentrated and opaque supply chains.

Against a backdrop of ongoing trade disputes, nation-wide lockdowns and a slowing global economy, the knee-jerk reaction is protectionism but global problems require global solutions. Renewed protectionism would only put a brake on the recovery.

Global trade rules do allow for temporary export restrictions to prevent or relieve critical shortages. Covid-19 has so far resulted in over 100 export bans on food, pharmaceuticals and medical supplies.

However, as the WTO and IMF have together warned, what makes sense in an isolated emergency can be severely damaging in a global crisis. Export restriction measures can disrupt supply chains, depress production and misdirect scarce, critical products and workers precisely from where they are most needed. As governments counter in response, this can quickly spiral, exacerbating the crisis.

What we need to remember is that this is fundamentally a supply and demand story. The global supply chains of tomorrow will be radically different from those we see today – and it's our responsibility to grasp this opportunity to make a difference for humanity and the planet.

Navigating disruption

An estimated 80% of global trade passes through supply chains, which illustrates how important it is for businesses to map their supply chains and identify high-risk concentrations right down to component level to ensure that there is no single point of failure.

The next step is then to diversify supply chains to become better geared to maintaining efficiency.

Such a move would not only secure supply in case of similar future disruptions but also reduce business vulnerability to such unpredictable shocks and increase flexibility despite a likely increase in costs.

In a global trade hub such as the United Arab Emirates, 41% of businesses are feeling a very strong impact of the Covid-19 pandemic on their supply chains, the second highest proportion globally behind India, at 46%, according to the latest HSBC Navigator global research.

At the same time, more than four-fifths of businesses are challenged or need to make changes, yet only 18% consider themselves sufficiently agile to ensure stability in the changed conditions.

Some 72% of the UAE-based companies now plan to take more measures to ensure the security of their supply chains in the next 1–2 years with the reading higher than 67% for all markets, the survey showed.

Digital lifeline

As the perils of the pandemic clearly showed, technology is going to play an even greater role in the coming years in managing and financing trade, with digital banking platforms a key element to keep goods flowing during times of distress.

Trade finance has traditionally been heavily paper-based. Letters of Credit (LCs) in particular need to physically move documents in order to be processed, which is harder when movement is limited.

Our pioneering work in the use of blockchain technology had already helped to slash LC transaction times from 5–10 days to as little as a few hours.

Greater dividends will also be possible as and when electronic trade documents (such as bills of lading) are recognised by authorities. The Indian Shipping Ministry recently requested permission from the Commerce Ministry to permit recognition of electronic trade documents to facilitate trade through Indian ports. Similar initiatives, if approved by other governments, would also benefit global trade more widely.

The global supply chains of tomorrow will be radically different from those we see today – and it's our responsibility to grasp this opportunity to make a difference for humanity and the planet.

The importance of digitising trade was highlighted in the early days of the Covid-19 pandemic as countries reacted by closing borders, and implementing curfews and lockdowns. Concerns grew about the movement of supplies around the world, especially for essential goods.

In the space of a few weeks, we helped hundreds of business customers in the Middle East onto our corporate banking platform, HSBCnet, joining thousands of others regionally. In April 2020, there was a 275% increase in customer engagement with HSBCnet in the Middle East.

Providing this digital lifeline has been crucial to supply chains. Customers have rerouted their business to HSBC, using our global reach to manage the risk of unforeseen disruption to payments.

During the first three months of 2020, we processed $15.8 bn of trade in the region, with notable surges in the food and healthcare sectors. We responded by ramping up transaction times: 75% of health care transactions and 83% of food sector transactions are processed within 24 hours. And we did so

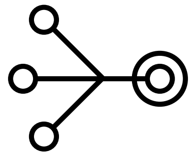
Building back better

41%

of **UAE businesses feel sustainability** is more important than ever before

HSBC's Navigator surveyed more than 2,600 business decision-makers in 14 markets. Research by Kantar for HSBC, May 2020.

Reshaping, not re-shoring



72%

of UAE businesses intend to increase measures to **ensure the security of their supply chains** in the next 1–2 years

HSBC's Navigator surveyed more than 2,600 business decision-makers in 14 markets. Research by Kantar for HSBC, May 2020.

while ensuring service standards increased in excess of our stipulated customer agreements.

For example, in Egypt, one of our largest pharmaceutical customers ramped up its inventory, securing production capabilities for up to six months. The sudden surge of import flows required an acceleration of processes to enable the swift release of goods to meet factory production needs. Our digital processing allowed that to happen and the customer now routes all of its import business through HSBC.

Sustainabile resilience

With sustainability firmly in focus, HSBC, as a leading global trade bank, is ideally placed to support its customers and other companies seeking to do business with each other in a more responsible and sustainable way.

In many industries, it is mainly a company's supply chain that is responsible for the majority of greenhouse gas emissions, accounting for more than 80% of such emissions. By setting high procurement standards, buyers can help drive sustainable practices in supplier firms.

To help this transformation drive, HSBC is forming partnerships with customers, NGOs and other key stakeholders and ensuring that its community investment programmes support sustainability in various sectors, including apparel and food.

Last year, HSBC partnered with US retail giant Walmart to launch a finance programme that pegs a supplier's financing rate to its sustainability standards. Under this scheme, Walmart's suppliers who demonstrate progress in their sustainability credentials will have access to improved financing from HSBC.

The joint initiative follows Walmart's Project Gigaton, which aims to eliminate one gigaton of greenhouse gas emissions from its global value chain of upstream suppliers and downstream consumers by 2030.

The HSBC Navigator survey offers further evidence that sustainability will remain at the top of company agendas going forward, with global and regional companies mirroring the global trend.

Martin Tricaud

Martin Tricaud is Group General Manager, Chief Executive Officer MENAT for the HSBC Group and Deputy Chairman of HSBC Bank Middle East Ltd. He is based in Dubai. Martin's previous positions with HSBC have included Chief Executive Officer in South Korea and CEO of HSBC Australia and Senior General Manager, HSBC Egypt.

Some 41% of UAE businesses feel that sustainability is more important than ever before, nearly on par with all markets, while a significant majority agreed that the need to reassess their operations will enable them to rebuild their business on firmer environmental foundations.

We have seen an increase in customers exploring our sustainable bond, linked-loans and trade offerings, as they look to embed resilience and ESG strategies in their models, for investors and, ultimately, valuations. Digital strategies and ESG-linked financing strategies will be crucial to the build back in terms of trade and wider business and communities, allowing us all to thrive.

What this means for the Middle East

The Covid-19 pandemic is acting as a catalyst for change across the region and altering the way we work and do business. In a post-Covid word, supply chains will be redefined. Countries will start looking closer to home to ramp up manufacturing capacity and production locally in industries such as textiles and agriculture.

In the UAE, for example, there has always been a strong entrepreneurial spirit and we are seeing that come through in how they are adapting to new ways of working and accelerating transformational plans. The crisis has forced many businesses to rethink their technology investment strategy.

According to the HSBC Navigator survey, two thirds of companies in the UAE strongly agreed that times of adversity show how businesses can leverage technology to enhance or improve how they work. This was the second highest reading behind Mexico with 70%. It has also shown that investing in technology is what 64% of companies plan to do over the next five years while a quarter of businesses in the UAE view it as a top priority.

As we move forward, the pressure faced by many companies, governments and institutions will result in a shift and acceleration of digitisation and automation. When one part of the network was disrupted by a crisis like Covid-19, the whole ecosystem became vulnerable. There were many lessons learned from the pandemic. As a result, supply chains will be redefined and a new business order will emerge in our region post Covid-19.

There will also be a need to drive a greater economic integration intra-regionally to unlock the potential of the region – one of the fastest growing globally. Governments, the public and private sector have an obligation and purpose to drive this and provide cohesive guidelines and recommendations across areas such as the standards of trade and the priority sectors mentioned, labour flexibility, ease of doing business, data sharing, and the urban design of our future cities that will drive the competitiveness of the region, stimulate economic growth and allow companies to thrive, whether they be locally-founded or international investors. ■

A year of living dangerously

On 17 October 2019, the streets of Beirut erupted in protest. The immediate trigger was the government's announcement of a new tax on telephone calls made through WhatsApp and other applications; but the new tax – just 20 cents per day – was a symptom of a much deeper discontent. Economic conditions had been deteriorating for months. The cost of living had been rising as the government reduced subsidies on basic goods and looked for ways to increase revenue. Banks were already rationing the availability of dollars, and the effects were starting to be felt among those with only modest incomes. Underlying the looming economic crisis was growing popular frustration with a government, and a political class, that were incapable and unwilling to move away from a corrupt and discredited political system that, many believed, was the real cause of the crisis.

On this page, *Arab Banker's* editor, Andrew Cunningham, provides an overview of events in Lebanon over the past year. In the following pages we hear the views of Dr. Henri Chaoul who helped write the Reform Programme published by the Ministry of Finance in April but subsequently parted company from the Ministry, and Dr. Salim Sfeir, the Chairman of the Association of Banks in Lebanon.

The 20-cent tax on WhatsApp was withdrawn within hours of protesters taking over the streets of Central Beirut, but the unrest continued and deepened in the weeks that followed. Banks closed on 18 October and remained shut for nearly two weeks. Sometimes protests turned violent – some bank branches were ransacked – but the overwhelming majority did not. Roads were blocked, government buildings including the Central Bank were blockaded, and the inevitable campsite was set up in Martyrs' Square for the hard-core enthusiasts pledging to remain until all their demands were met.

On 29 October, Prime Minister Saad Hariri and his government resigned.

Demonstrations continued sporadically for months – it was only the Covid-19 lockdown that brought them to an end.

When the banks re-opened at the end of October 2019, they began rationing the distribution of dollars. There was some guidance from the Banque du Liban, to the effect that foreign currency should be made available only for necessary imports and for necessary personal expenditure (such as money for students studying abroad), but it was the banks making the rules. The Central Bank said that formal capital controls were a matter for a government, not a central bank, and it was not until 21 January that a new government was formed under Prime Minister Hassan Diab.

On 7 March, Diab announced that Lebanon would default on a $1.2bn Eurobond payment falling due two days later. On 27 March, the Ministry of Finance delivered a 'Situation Update for Lebanon's Creditors', outlining the extent of the country's economic collapse and presenting initial ideas for a recovery plan.

The more detailed Reform Plan was published at the end of April, having undergone revisions to accommodate various political interests. The plan addressed the government's chronic fiscal imbalances, stating the need to comprehensively restructure outstanding debt and, finally, to restructure the banking system.

Among the more striking pages of the Reform Plan were those detailing the losses accumulated by the Banque du Liban. These amounted to more than $40bn (which is not much less than Lebanon's GDP) and arose both from long-term accounting practices and from the more recent 'financial engineering' operations that the Central Bank had been using both to suck in dollars from the commercial banks and to enable them to make such deposits attractive to customers.

Within two weeks of the plan being announced, the Banque du Liban and the government were issuing public statements accusing each other of being responsible for the economic crisis. Central Bank Governor Riad Salamé valiantly defended his institution, stating that its monetary operations had been fully disclosed to government authorities, and that they had been necessary to support the government's budget deficits.

Salamé was first appointed Governor in 1993 and began his current six-year term in 2017. For many years he was lionised in the international financial community and credited with the gravity-defying growth of the Lebanese economy since the ending of the civil war in 1990. As Arab Banker went to press in late July, Salamé was still in post, but his days of collecting 'Best Central Banker of the Year' awards were over.

By early July, the exchange rate had fallen to around LP5,500 to the dollar, although day-to-day fluctuations were sometimes extreme. When the rate fell by 25% on 11 June, protesters flooded onto the streets and blocked roads in the major cities. Meanwhile, the Banque du Liban doggedly continued posting the official rate of $1=LP1,507.5 on the home page of its website.

As for the commercial banks, writing down to zero the value of shareholders' equity will be the easiest part of the necessary restructuring. The extent of losses to be imposed on bond holders and depositors will be where the hard decisions begin.

Over the summer, discussions and disputes continued about the extent to which losses in the Central Bank and the commercial banks would need to be crystallised. Incredibly, some continued to believe that external solutions might enable Lebanon to postpone the reckoning: "The difficulties will be completely different if the Americans issue a statement that they will not allow the Lebanese economy to collapse," was one such pipe dream that this writer heard.

But there will be no white knight riding to the rescue. This time, optimism, Lebanon's most abundant natural resource, will not be enough. ■

Charting a course out of the Lebanese economic and financial crisis

Lebanon's government published its Reform Programme at the end of April, setting off a national debate on the measures that the state, and the banks, should take to resolve the current crisis and chart a sustainable economic and financial strategy for the future.

One of the architects of that Reform Programme was Henri Chaoul, a PhD economist who has held senior investment roles in Europe, the GCC and the US. But in mid-June, Chaoul resigned from his advisory role to the Minister of Finance, saying he no longer believed that Lebanon's political elite – backed by the country's financiers – was willing to make the hard choices necessary to put the country on a sustainable path.

Arab Banker asked Dr Chaoul to give his interpretation of Lebanon's current financial crisis, and to explain his decision to resign as an advisor to the Minister of Finance.

ARAB BANKER: Can you help us understand the extent of the economic and financial crisis in Lebanon?

HENRI CHAOUL: Lebanon is facing three inter-connected crises.

Firstly, we have a fiscal crisis. On the expenditure side, about 50% of the budget expenditure is allocated to public sector wages and to the state-owned electricity company, which despite years of subsidisation is still unable to provide a reliable electricity service. If you add interest expense, the total bill added up to 120% of revenues in 2018. On the revenue side, we suffer from tax evasion and an inability to enforce customs duties on our borders. Lebanon's tax receipts are equivalent to about 20% of GDP: a more appropriate ratio for a country such as Lebanon would be 30–35%.

One consequence of all this is that we spend far less on our social safety net than we need to, because our ability to spend on social issues is being crowded out by the cost of wages and the electricity company. The same goes for infrastructure investment.

The long-term cumulative effect of these fiscal imbalances is that we now have a debt-to-GDP ratio north of 170%. This is unsustainable, and it led to the decision by the government in March 2020 to default on Eurobond obligations.

We then have a balance-of-payments and currency crisis. Our current account is continuously in deficit. The deficit is about 30% of GDP right now. This imbalance is due in part to our lack of exports, and also to the long-standing over-valuation of our currency. These chronic balance of payments deficits have resulted in an ever-increasing role for the banking sector, which has assumed an over-sized role in sourcing private sector dollars – in the form of private sector deposits – which in turn were invested with the government by the banks and used to maintain the balance of payments.

Finally, there is the banking crisis. Banks closed their doors for two weeks in October last year, and they have been restricting the withdrawal of foreign currency deposits since then. But the crisis facing the banks isn't fundamentally a matter of liquidity only but also one of solvency. At the end of September 2019, Lebanon's commercial banks held deposits of about $170 bn ($120 bn in hard currency and $50 bn in local currency). Yet, the Banque du Liban, the Central Bank, was holding only about $22 bn in dollar deposits. So, Lebanese banks found themselves completely unable to honour the dollar deposits that they hold.

Do you think that the policy of pegging the Lebanese pound to the dollar was a mistake?

As a free market economist, I am philosophically opposed to currency pegs, but I can see that in the 1990s Lebanon was at a point when our financial system needed a firm anchor to enable it to attract deposits. The mistake was to maintain the peg for so long.

We missed an opportunity in 2008, when a lot of money was flowing into Lebanon in a 'flight to safety' as a result of the global financial crisis. That was really the last chance to remove the peg, and we missed it. From 2011, we began to be

Dr Henri Chaoul

Dr Henri Chaoul is the Founder and Managing Partner of Levantine Partners, a corporate finance boutique firm based in Beirut. He advised the Lebanese Minister of Finance on the creation of the Reform Programme published in April 2020, but resigned from his advisory role in mid-June. Henri previously worked as the Chief Investment Officer of AlKhabeer Capital in Saudi Arabia, and before that worked at a number of firms including Credit Suisse, Monitor Group, KPMG and A T Kearney. He received his PhD in economics from Columbia University.

hit by various crises – political, economic, financial – and soon the dislocations in our financial system became so large that that the old solutions of asking the French or the Saudis for a few billion dollars to support the currency were no longer sufficient.

How did the nexus between the commercial banking system and the sovereign (including the Central Bank) become so toxic?

Since the 1990s, the banks have been attracting dollar deposits by offering higher interest rates than available globally, and then channelling a large proportion of those deposits to the sovereign, which played its part in the scheme by offering high interest rates on its treasury bills and bonds, as well as on deposits at the Central Bank. Those were accentuated by a number of financial engineering schemes between the Central Bank and some banks, thus resulting in a steady increase in the commercial banks' exposure to the sovereign to reach today north of 70% of the deposits.

There was a point of inflection in 2015 when two large commercial banks needed help to overcome losses on operations in some of their overseas operations, including Saudi Arabia, Turkey, Egypt, and of course Syria. The Banque du Liban structured some special facilities – essentially, swaps – for these banks, but soon these financial engineering tools were being used more widely and the banking system as a whole became reliant on them to maintain profitability. From then on there was no going back. The swap operations became more and more complex as the Central Bank searched for new ways to attract deposits from the commercial banks and to enable the commercial banks to offer high rates of interest to their own depositors.

What's shocking is that banks continued to distribute dividends while knowing full well that their profitability was a purely accounting one, using in fact depositors' cash to pay dividends. Further, these dividends were almost completely attributable to the support that the banks were receiving through Central Bank swaps.

This system was clearly unsustainable, but the first signs of the current crisis didn't appear until 2017, when we saw higher-than-usual conversions into dollars by retail investors; and then in 2018 when banks started delaying the issuance of letters of credit, or asking for bigger dollar deposits to cover them. This trend continued during 2019 until the full political and economic crisis exploded on 17 October last year. But, to be clear, what happened on 17 October was the result of factors that had been building up for some time. Events in October were a symptom and not the cause of the current crisis.

What has to be done to make the banking sector solvent again?

The losses in the financial system are probably greater than $75 bn, so, given the system's $200 bn aggregate balance sheet size, we are looking at a deleveraging of about 37%. While an analysis has to be done on a bank-by-bank basis, shareholders' equity and bonds must be written down first. Given the amounts in question, the banks need to be fully recapitalised. The plan has suggested, however, a number of initiatives as a first line of defence to finance such losses. Examples of those include a clawback on high interest paid, a return of illegally gotten monies, an audit of public tenders etc. Once this first line of defence is consummated and the equity of banks written down, then the question arises of what to do with deposits. Clearly, the social consequences of bailing in deposits are severe.

I'm advocating an approach that accepts that some deposits will have to be bailed in, but which offers compensation in the form of claims on a newly created asset management company which will manage government assets. Income from the management of these assets will be used to repay depositors and, over time, sales through privatisation will enable depositors to receive capital distributions.

An important point to bear in mind is that deposits of less than $100,000 comprise 92% of all deposit accounts in the banking system, but only 14% of the total value. In contrast, there are only about 20,000 accounts with deposits of $1 mn or more (and of course some people have more than one account, so the number of people with deposits greater than $1 mn is less than 20,000).

In recapitalising the banks, we have to give priority to protecting, or at least compensating, small depositors and forcing the bigger losses on those with bigger deposits, who by the way tend to be the same people that dominate the political scene in Lebanon, and who should be taking some responsibility for the extent of the problems we are facing.

What are the long-term prospects for Lebanese banks?

The long-term prospects for the banks will be dependent on the long-term prospects for the economy. There's no point organising a complex restructuring/bail-in operation if banks and the economy then go back to the way they were before. That means that we need to reform the fiscal side of things and change the business model of the country so that the government and the country are no longer dependent on foreign currency financing.

If we can do that, then we should be able to shrink the banking sector and have a smaller number of banks whose core activity is the intermediation of funds between depositors and private sector borrowers. Bank profits in recent times have been based on high interest rates that have been funded by losses at the Central Bank and, to be frank, banking secrecy. Neither of these sources of profitability are sustainable or should be allowed to continue.

Why did you resign from your position as an advisor to the Ministry of Finance?

I resigned because I believed that political interests were hijacking the Reform Programme in order to protect their own interests. Specifically, I believe that certain circles are trying to engineer a solution to the banking crisis that will entail transferring the ownership of state assets to them as compensation for the loss of their investments or deposits in banks. Further, selling the gold stock is under discussion. Frankly, I see such a scheme as daylight robbery – a huge theft of state assets which ought to belong to the Lebanese people as a whole. More fundamentally, these people don't seem to realise that the only way out of our current problems is to recognise the extent of the losses that exist in the banking system today, and to put in place a fundamental economic reform plan which will ensure that, if we are able to solve today's problems, we don't end up back in the same place in a few years' time. Economic reform will entail fundamental changes to the way politics and business are conducted in Lebanon. ■

Association of Banks in Lebanon charts a course out of the crisis

Throughout the economic and financial crisis in Lebanon, the Association of Banks in Lebanon (ABL) has been playing a significant role, representing the interests of its members to government bodies, explaining the broader role of banks in society, and assisting individual banks as they navigate extraordinary challenges. *Arab Banker* asked Dr. Salim Safir, the Association's Chairman, to comment on the current economic situation in Lebanon and to give his views on how Lebanese banks can best emerge from the current crisis.

Dr. Salim Sfeir

Dr. Salim Sfeir was elected to the Chairmanship of the ABL in June 2019. He led a management buy-in of Bank of Beirut in 1993 and since then the bank has expanded over four continents. He previously held senior positions in Bank Med and was a founder of Wedge Bank. Dr Sfeir is heavily involved in philanthropic activity and has been particularly associated with educational projects.

ARAB BANKER: What role has the Association of Banks in Lebanon (ABL) been playing during the banking and economic crisis in Lebanon that began in late 2019?

DR. SALIM SFEIR: The main objective of ABL is to protect and advance the interests of the banking sector. And when we say the banking sector, we mean the interests of the depositors and the investors. But since the country plunged into the current economic crisis, we felt our duty is to engage the government and other institutions to help put together an economic recovery strategy.

Do you think that the Economic Recovery Plan that has been announced by the Ministry of Finance is realistic and appropriate?

Despite the good intentions, we believe the government plan lacks a vision. It is simply an accounting plan based on questionable figures. You cannot recover the economy through a book-entry exercise. Our economy is a dynamic one, and the public sector reforms are a prerequisite to any serious attempt to get out of the current crisis.

Do you support the Ministry of Finance's intention to shrink the banking sector, both in terms of the size of its assets and in terms of the number of big banks?

The banking sector doesn't need any restructuring or reforms introduced by the government. The sector as in the past will adjust according to the market, and we have a history of successful self-restructuring, otherwise we wouldn't have flourished over recent decades despite repeated political upheavals. Our relationship with the Bank of Lebanon and the appropriate regulatory bodies is exemplary.

Do you think that retail depositors should contribute to the recapitalisation of the banking sector?

At all times the banking sector tries to attract more equity to widen the horizons of the economy. The more equity we have the more we can help develop the economy. The investor in a bank's equity has a different profile from other investors. The banking sector investor should be a long term investor and should be able to cope with the positive and negative cycle of the industry.

How will Lebanese banks be able to contribute to the revival of economic activity in Lebanon over the medium term?

We have done it in the past. The banking sector is the main engine of the private sector. We need an efficient lean public sector and political stability, and we can help put Lebanon on the path of sustainable growth once again.

What support should the Banking Control Commission provide to the banking system, in the form of regulatory forbearance or lower prudential requirements?

We have enjoyed a good working and fruitful relationship with the Central Bank and all regulatory commissions and this professional relationship helped Lebanon weather the global financial collapse in 2008. Our problems have always been generated by the political bickering in the country that paralysed the government, and, of course, years of fiscal irresponsibility

There has been a lot of hostility towards banks and bankers in Lebanon in recent months. How can Lebanese banks rebuild the trust between themselves and the Lebanese people?

The hostility is towards mismanagement and the corruption of those who ran the country for decades, but people unfortunately took their anger out at banks and ATMs.

We know our market and we know our clients. Banks in Lebanon have enjoyed a great relationship with the public since the independence from France in the 1940s. We represent prosperity and good living in the eyes of the public. Once the government meets its obligations and releases what it owes to banks, we can in a very short period of time restore the excellent relationship with our depositors. ■

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A BANK TO TRUST

Qatar will continue its journey of nation building, despite impact of Covid-19 pandemic

Despite being one of the smallest Arab countries in terms of population and land mass, Qatar has emerged as one of the region's largest economies with some of its largest banks. Qatar's international profile has been shaped by vast gas reserves, a huge overseas investment programme, and an ability to host eye-catching sporting events.

Arab Banker presents a profile of Qatar's economic and financial development.

Many people reading this article (and the person writing it) can remember a time, not so long ago, when the pyramid-shaped Sheraton Hotel dominated the small bay around which banks and companies clustered in Qatar's capital city, Doha.

The iconic hotel, which hosted the GCC Heads of State meeting held in Doha in 1983, has now been overshadowed by hotels and office blocks that began spreading outwards from the bay as Qatar started exporting liquefied natural gas (LNG) during the 1990s, complementing its already mature crude oil exports.

Those LNG exports have transformed Qatar from a financial backwater to a global hydrocarbon power with fabulous wealth. Qatar is now the fifth-largest Arab economy, despite having one of the smallest populations. Its per-capita GDP is one of the highest in the world.

The country's banking system has followed the expansion of the economy. Since 1995, aggregate assets of Qatari commercial banks have shown a compound average growth rate of 17%.

Qatar National Bank (QNB), the country's biggest, is now the largest in the Middle East when ranked by assets and second only to First Abu Dhabi Bank when ranked by equity. Like the system as a whole, its assets and equity have shown

Qatari commercial banks: key financial figures and ratios (QR mn except for ratios that are %)

	Qatar National Bank	Qatar Islamic Bank	Commercial Bank	Masraf Al-Rayan	Doha Bank	Barwa Bank	Qatar International Islamic Bank	Al Khalij Commercial Bank	Ahli Bank
	Conventional	Islamic	Conventional	Islamic	Conventional	Islamic	Islamic	Conventional	Conventional
Equity	94,719.2	22,159.3	21,756.2	14,131.5	13,317.9	11,504.4	8,160.2	7,003.2	5,958.7
Assets	944,697.7	163,519.2	147,536.5	106,396.5	108,208.4	77,130.7	56,831.4	53,767.7	43,914.9
Loans	678,681.8	113,753.6	88,009.4	74,837.3	65,784.3	51,924.1	37,010.5	30,816.7	31,591.1
Deposits	684,488.9	111,620.6	76,296.6	65,612.6	58,463.8	47,534.0	31,228.5	29,191.1	25,499.9
Net profits	14,460.8	2,984.6	2,021.0	2,188.1	753.9	765.0	927.0	646.3	675.2
Risk-weighted capital ratio	18.90	19.50	16.35	20.3	17.75	17.60	18.50	19.10	17.12
Equity/Assets (unweighted	10.03	13.44	14.75	13.3	12.31	14.92	14.36	13.02	13.57
ROAA End 2019	1.60	1.88	1.43	2.15	0.74	1.26	1.73	1.22	1.60
Avg ROAA (2017–19)	2.09	1.73	1.03	2.13	0.94	1.50	1.81	1.09	1.63
ROAE End 2019	15.80	13.91	9.71	15.85	5.79	8.36	12.37	9.52	11.78
Avg ROAE (2017–19)	16.67	12.54	6.95	15.77	6.56	9.72	12.54	8.66	12.24
Cost/income End 2019	26.59	22.79	28.25	22.78	33.60	33.88	54.95	27.95	27.31
Avg Cost/income (2017–19)	27.61	24.89	33.08	22.62	33.11	36.68	25.15	28.10	28.66

Source: Banks' financial statements

a compound annual growth rate of 17–18% over the past 24 years.

QNB has dominated the Qatari banking system since it was founded in 1964. Fifty-per-cent owned by the government's investment arm, it is as big as all the other banks in Qatar combined. In addition to dominating the domestic market, QNB has significant overseas operations: following the purchase of Finansbank in 2016, it has more employees outside Qatar than at home. In 2014 it took a 23% stake in the pan-African bank Ecobank, and in 2013 it bought Société Générale's Egyptian operations (National Société Générale Bank – NSGB).

QNB has been in London for decades and the role played by the branch here has expanded in line with the growth in Qatar's international stature and wealth. Through its private banking operations, the branch serves wealthy individuals operating in the UK, while at a corporate level it meets the needs of Qatari institutions investing or doing business in the UK, although the branch's remit also extends into other northern European countries. The connection with the Qatari government is useful – the Qatari sovereign wealth fund owns Harrods, and QNB provides Harrods with banking services.

Despite the overwhelming size of QNB, many of the other local banks are not small: Qatar Islamic Bank is one of the oldest Islamic banks in the region and the 15th-biggest in the GCC. Commercial Bank of Qatar, another long-established bank, is not far behind.

Over the past two years, there has been some consolidation in the Qatari banking system. Barwa Bank merged with International Bank of Qatar and Masraf al-Rayyan has announced plans to merge with Al-Khaliji, one of the more recently licensed Qatari banks. If this second merger goes ahead, Qatar will have eight domestic commercial banks, another seven branches of foreign banks and one foreign bank representative office.

Qatar has been reluctant to grant new licenses for foreign banks, even for branch operations. Instead, it has used the Qatar Financial Centre (QFC) as a platform from which foreign banks (and some local institutions such as Qatar First Bank) are able to offer a limited range of services that focus on corporate banking and private clients.

The QFC was established in 2005 as a rival to the recently established Dubai International Financial Centre, but has never been able to match Dubai's regional appeal, although it now boasts more than 900 registered firms which include financial service providers, such as law firms and accountants, as well as banks. Firms based in the QFC are regulated by the Qatar Financial Centre Regulatory Authority (QFCRA).

In March 2012, the Central Bank was designated the 'Supreme Authority' for financial regulation, giving it precedence over the QFCRA and the Qatar Financial Markets Authority, which regulates capital market activity. The central bank also regulates insurance. The Governor of the Central Bank is the Chairman of Qatar's Financial Stability Committee.

Quick response to the Covid-19

The Qatari government and the Central Bank moved quickly to support local banks as the global effects of the Coronavirus took hold. A QR75 bn ($21 bn) package targeted SMEs and vulnerable sectors by forgoing water and electricity payments due to government agencies and

Gross domestic product of ten largest Arab economies, 2019 ($mn)

Saudi Arabia	792,967
UAE	421,142
Egypt	303,175
Iraq	234,094
Qatar	183,466
Algeria	169,988
Kuwait	134,761
Morocco	118,725
Oman	76,983
Lebanon	53,367

Source: World Bank

reducing customs duties on certain items such as food and medicine. The Central Bank set up a repo facility to improve bank liquidity and enable banks to postpone instalments due on existing loans and to extend new loans. Government investment funds were instructed to increase their investments in the local stock market by an aggregate amount of QR10 bn.

Qatari banks' financial statements for the first half of 2020 show that most increased their provisions against bad debts in the second quarter of the year, but operating income – before provisions – remained strong, enabling net profits to show little impact from Coronavirus.

As an oil and gas economy, Qatar has been affected, like other countries in the region, by low oil prices during the first half of 2020. However, Qatar's state reserves are huge in relation to its budgetary needs and will remain so for decades to come. Unlike Saudi Arabia, for example, there is no near-term pressure to reform the structure of government finances.

Economic boycott

In June 2017, a group of Arab states imposed an economic boycott on Qatar, accusing its government of offering support to hard-line Islamist groups and thereby violating a 2014 GCC agreement. Various countries joined the boycott, whose measures included banning Qatar-registered aircraft and ships from their air and sea ports. Qatari diplomats and expatriates were expelled from some of the boycotting countries. Banks in boycotting countries cut their lines to Qatari banks. (Jordan restored ties with Qatar in July 2019.)

Residents of Doha insist that the boycott has had little effect on the Qatari economy or on everyday life. Within two weeks of the embargo taking effect, alternative supply chains had been established with Iran and Turkey. Port facilities in Qatar were upgraded and imports of building materials returned to pre-embargo levels. Oman took over Dubai's role as the transhipment point for Qatari imports. Frosty relations with banks in boycotting countries have had no sustained impact on the liquidity profile of Qatari banks.

It is generally agreed by those analysing the region that countries would happily end the boycott if a way could be found to do so. (It is worth remembering that Qatar has continued supplying the UAE with natural gas via the Dolphin pipeline throughout the boycott.) In the meantime, the effects of Coronavirus and low oil prices are far more significant for the Qatari economy than the boycott.

Football World Cup accelerates infrastructure development

In November and December 2022, Qatar will host the football World Cup, the first Muslim nation, and the smallest country, ever to do so. Since the decision was announced by FIFA, football's global governing body, in 2010, Qatar has used the forthcoming tournament as a catalyst for the rapid development of domestic transport, hotels and, of course, sporting venues. One local resident comments that infrastructural development that could have taken 20 years to complete under normal conditions is being achieved in less than half that time.

The story of Qatar over the past four decades has been one of nation building and, from the point of view of the Qatari ruling authorities, the hosting of the world's biggest sporting tournament is another step in that nation-building journey.

Since Sheikh Tamim succeeded his father as Emir in 2013, Qatar has adopted a more modest international profile. Soon after the handover of power, the new Emir replaced the country's high-profile Prime Minister, Hamad Bin Jassim, who had been responsible for much of the swagger that Qatar had been projecting on the world stage.

The embargo can be seen as another 'nation-building' event, enabling Qatari citizens and institutions to rally around their flag in the face of threats from overseas.

The Coronavirus will give Qatar another opportunity to re-assess its profile in the region and the wider world. Most obviously, it seems inconceivable that Qatar Airways will have such a high international profile in an age when journeys by air will be so sharply reduced. Funds to invest in prestige projects overseas will be curtailed as the government focusses on supporting the local economy. But all of this will occur within a context of enormous underlying financial strength, and hydrocarbon reserves that will keep Qatar at the top table of hydrocarbon exporters.

There will be no shortage of resources for further nation building. ■

Equity and Assets of largest Arab banking systems, end-2019 ($mn) *

	Equity	Assets
UAE	107,076	840,141
Saudi Arabia	104,878	701,634
Qatar	42,698	425,702
Kuwait	30,328	227,888
Egypt	25,068	366,009
Bahrain	n/a	204,907
Morocco	15,090	152,784
Iraq	12,993	112,647
Jordan	11,499	75,659

** Notes on data and sources*

All figures are taken from Central Bank statistical bulletins and therefore capture only institutions that are licensed by their central bank. (So, they do not include banks that are licensed in 'offshore' centres such as the DIFC or the QFC.) The Central Bank of Bahrain does not provide an equity figure for all its banks. All equity figures need to be treated with a little care, since they may or may not include some loan loss provisions. Figures in local currency have been converted to US dollars.

The Banque du Liban's website shows Lebanese banks having equity of $21 bn at the end of 2019 and assets of $217 bn, if the exchange rate of $1 = LP1,507 is used. However, both the statistics and the exchange rate are now subject to some debate.

Middle East credit ratings robust in face of initial coronavirus shocks

As *Arab Banker* was going to press, credit ratings on Middle East governments were showing some resilience, despite the effects of the Covid-19 and the exceptional budgetary measures that many governments were taking to support their economies and their financial institutions.

In the following article, *Arab Banker*'s Editor, Andrew Cunningham, reviews the changes to sovereign ratings in the Middle East during the first four months of the Covid-19 crisis while also considering some longer-term trends in the region's credit ratings.

Credit ratings on Middle East sovereigns were on a long-term downward trend even before the twin shocks of the oil price collapse and the Covid-19 outbreak at the beginning of this year.

Bahrain, Oman, Jordan and Tunisia have all seen multi-notch downgrades by some or all of the three major international agencies over the last five years. These were driven largely by the effects of the oil price collapse of 2014 – when prices halved from around $100/b to around $50, or even less.

Although prices firmed in 2018 and 2019, they remained below or barely higher than the levels that oil exporters need to balance their budgets. Reduced oil revenues tightened economic conditions across the region, affecting even the oil importers through lower remittances, and a decline in regional tourism and financial aid.

The high point of Middle East ratings was the period before the oil price collapse of 2014 when the region as a whole was flush with liquidity. Oman and Bahrain enjoyed investment grade ratings, with Oman holding a rating of A1 from Moody's between 2010 and 2016. Following another one notch downgrade in June this year, Moody's now rates the sultanate at Ba3, eight notches below A1. Bahrain also held investment grade ratings before the oil price

What is the rating on Dubai?

The Emirate of Dubai is not rated by any of the major international rating agencies, but it is possible to get an idea of what the rating would be by looking at ratings assigned to entities that are owned or controlled by the Dubai government.

Moody's rates the Dubai Electricity and Water Authority (DEWA) Baa2, with a negative outlook. The rating was downgraded by one notch in April this year, with Moody's commenting that DEWA's operating performance "will likely deteriorate as a result of the likely decline in the expatriate population and the slowdown in economic activity of the emirate". One factor in Moody's analysis is the possibility that DEWA will be under pressure to make large dividend transfers to the government of Dubai as a result of the latter's deteriorating economic health.

In July, S&P downgraded DIFC Investments and two related property companies, Emaar Properties and Emaar Malls, to BB+ from BBB-. In its press release, S&P cited the Dubai government's weaker ability to provide support to the three companies. Previously, DIFC Investments had received a one-notch uplift (to BBB-) as a result of the implied likelihood and ability of the Government of Dubai to support its operations, if a financial crisis arose. The rating action in July removed that uplift, implying that S&P values the Dubai government's likelihood and willingness to provide support at BB+.

Both Fitch and Moody's rate Dubai Aerospace Enterprise at BBB-/Baa3. The company is owned by the Investment Corporation of Dubai, which is an arm of the government.

It is therefore reasonable to assume that if a rating were assigned to the Government of Dubai it would be either at BBB-, the lowest investment grade rating, or BB+, the highest sub-investment grade rating.

Ratings on Middle East sovereigns, with outlooks (Downloaded 13 July 2020)

Bahrain	Fitch	BB-	Stable outlook
	Moody's	B2	Stable outlook
	S&P	B+	Stable outlook
Kuwait	Fitch	AA	Stable outlook
	Moody's	Aa2	Review for downgrade
	S&P	AA-	Stable outlook
Oman	Fitch	BB	Negative outlook
	Moody's	Ba3	Negative outlook
	S&P	BB-	Negative outlook
Qatar	Fitch	AA-	Stable outlook
	Moody's	Aa3	Stable outlook
	S&P	AA-	Stable outlook
Saudi Arabia	Fitch	A	Stable outlook
	Moody's	A1	Negative outlook
	S&P	A-	Stable outlook
UAE	Fitch (Abu Dhabi only)	AA	Stable outlook
	Moody's (UAE)	Aa2	Stable outlook
	S&P (Abu Dhabi only)	AA	Stable outlook
Sharjah	Fitch	BBB+	Stable outlook
	Moody's	Baa2	Stable outlook
	S&P	BBB	Negative outlook
Ras al-Khaimeh	Fitch	A	Stable outlook
	Moody's	not rated	
	S&P	A	Neagtive outlook
Egypt	Fitch	B+	Stable outlook
	Moody's	B2	Stable outlook
	S&P	B	Stable outlook
Iraq	Fitch	B-	Negative outlook
	Moody's	Caa1	Stable outlook
	S&P	B-	Stable outlook
Jordan	Fitch	BB-	Negative outlook
	Moody's	B1	Stable outlook
	S&P	B+	Stable outlook
Lebanon	Fitch	RD	n/a
	Moody's	Ca	Stable outlook
	S&P	SD	n/a
Morocco	Fitch	BBB-	Negative outlook
	Moody's	Ba1	Stable outlook
	S&P	BBB-	Stable outlook
Tunisia	Fitch	B	Stable outlook
	Moody's	B2	Review for downgrade
	S&P	not rated	

collapse (with an A2 from Moody's at one point) but following downgrades in 2017–2018 it now languishes in low BB or single-B territory.

Tunisia has suffered a series of downgrades since its revolution in 2011. It entered that year with a Moody's rating of Baa2, but now sits six notches lower at B2. Fitch rates Tunisia at the same level.

Lebanon holds the lowest ratings in the region following its decision in March to default on Eurobonds falling due.

Qatar was downgraded by one notch by all three rating agencies after an embargo was imposed by some neighbouring states in 2017, but at AA- (from all three) it remains one of the highest rated countries in the Middle East. The outlooks on its ratings are stable.

Bucking this trend has been Egypt, which was has been upgraded in recent years as rating agencies expressed confidence in the country's economic reforms and the IMF support programme. These have stabilised the economy after the political turmoil that followed the overthrow of President Mubarak in 2011. Egypt was rated just below investment grade before its revolution of 2011 and reached a nadir in 2014–15 with a Moody's rating of Caa – a level that signals imminent default. Moody's has upgraded Egypt twice since 2014, most recently last year. S&P and Fitch have also upgraded their ratings.

It is hard to tell where ratings will develop in the year ahead. Logically, one would expect a slew of downgrades as budget deficits tighten as a result of government measures to support their economies and, in the case of the oil exporters, lower oil revenues. However, during the summer of this year, the signals from the rating agencies were mixed.

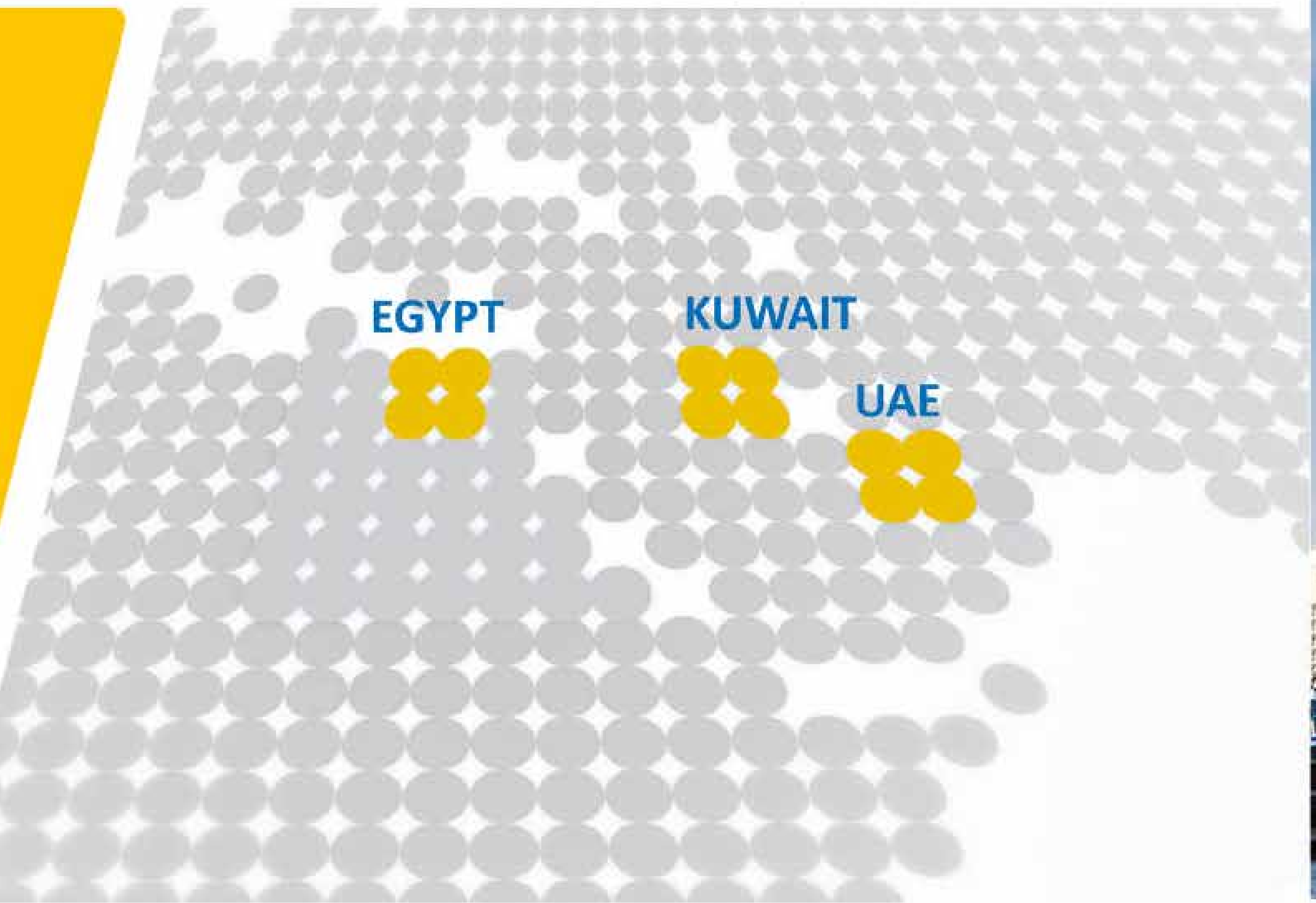
S&P downgraded Kuwait by one notch to AA- in March, the same month that Moody's announced a review for downgrade. Moody's has a negative outlook on Saudi Arabia, but the outlooks from Fitch and S&P are stable (though Fitch downgraded by one notch in September 2019). Qatar and the UAE retain stable outlooks on all their ratings.

The rating actions on Kuwait attracted particular interest because the Gulf state continues to enjoy huge financial reserves and low debt levels. In lowering Kuwait's rating, S&P cited not only reduced oil revenues but also the slow pace of economic reform. Specifically, S&P said that the introduction of taxes had been long delayed, and reforms to diversify economic activity and the labour market had achieved limited results. The agency also noted that the Kuwaiti parliament had not passed a revised debt law authorising the government to borrow – raising questions of how future government deficits would be financed.

The Covid-19 crisis has compromised the ratings of banks worldwide. At the end of December 2019, 11% of all banks rated by S&P had positive outlooks and 12% had negative outlooks. By early June, the percentage on positive outlook had fallen to 1% while the those on negative outlook had risen to 29%. There is no reason to believe that banks in the Middle East should be immune from this trend.

Even strong banks in the region will be affected, since their ratings are often constrained by those of their home governments – the effect of the 'sovereign ceiling'. The ratings on weak banks are often pulled up towards the rating of the government due to an expectation of government support in a crisis. As ratings on governments are lowered, so are those on banks whose ratings are, for whatever reason, aligned with those of their governments.

In the absence of a sustained increase in oil prices, we should expect continuing pressure on the ratings of all governments and banks in the GCC as the long-term economic effects of Covid-19 deepen in the months ahead. For the oil importers outside the Gulf, higher oil prices would only increase pressure on budgets and current accounts. ■


EGYPT
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GCC banking over the past 40 years: a story of resilience and growth

A cursory glance at a list of the biggest GCC banks from the late 1980s gives the impression that little has changed over the past 40 years. National Commercial Bank, Qatar National Bank, Arab Banking Corporation, Gulf International Bank and several Kuwaiti banks were all prominent 30–40 years ago, and they remain so today.

But this simple comparison masks many significant changes in GCC banking, and these have made the region's banking system immeasurably stronger and more sustainable.

Arab Banker's Editor, Andrew Cunningham, who has been writing about GCC banks for most of the past 40 years, considers how the region's banking systems have evolved.

The expansion, contraction and health of banks in the six GCC states has always been driven by the extent of financial liquidity in the region.

Although some GCC banks were created by local merchant families in the 1950s and 1960s – National Bank of Kuwait and Saudi Arabia's National Commercial Bank are examples – it was not until the region was inundated with cash in the mid-1970s, following the quadrupling of oil prices in 1973–4, that a large number of new, locally-capitalised banks, was established.

The second big increase in oil prices, following the Iranian revolution in 1979, was even more significant than the first in terms of the amount of cash that flowed into the region, and it led to a second wave of new banks being created.

Many of the banks established at that time are familiar to us today, but the underlying structure of GCC banking during the 1970s and early 1980s was very different.

Kuwait had begun enjoying large oil revenues earlier than other countries, and as a result Kuwaiti banks and investment houses were well developed with strong international profiles by the early 1980s. Three big investment firms, known as the 'Three Ks' (KIC, KIIC and KFTCIC) were among the most prominent Middle East financial institutions, recycling huge amounts of money through global markets, and particularly through London.

Kuwait lost its position as the leading Middle East financial market when the local stock market crashed in 1982 leaving the banks with huge bad debts, many of which were uncollectable because they were owed by prominent local individuals.

Bahrain was the GCC's banking centre in the 1980s

The second oil boom led to the creation of numerous offshore banks in Bahrain, which had been designated by the recently formed Gulf Cooperation Council as the

Largest 50 GCC commercial banks, ranked by equity size (end-2019)*

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)	29,418.3	223,820.7	111,071.4	141,367.0	3,428.9	16.9
2	Qatar National Bank	Qatar	26,064.4	259,957.3	186,756.3	188,354.3	3,979.3	18.9
3	Emirates NBD	UAE (Dubai)	22,218.8	186,068.7	119,112.5	184,274.4	3,949.3	18.5
4	National Commercial Bank	Saudi Arabia	18,614.8	135,303.9	75,295.7	94,260.5	3,063.1	18.7
5	Abu Dhabi Commercial Bank	UAE (Abu Dhabi)	15,166.4	110,317.6	68,079.3	71,367.8	1,305.0	16.9
6	Saudi British Bank	Saudi Arabia	14,979.8	70,810.2	41,257.4	51,257.1	750.1	19.4
7	National Bank of Kuwait	Kuwait	14,076.4	96,740.6	54,706.7	52,651.0	1,407.9	17.8
8	Al-Rajhi Bank	Saudi Arabia	13,654.5	102,448.5	66,598.6	83,328.9	2,709.6	19.9
9	Samba Financial Group	Saudi Arabia	12,122.7	68,177.9	37,768.1	48,056.1	1,064.5	18.5
10	Riyad Bank	Saudi Arabia	10,821.8	70,894.6	46,406.7	51,884.3	1,494.3	18.1
11	Dubai Islamic Bank	UAE (Dubai)	9,457.5	63,117.6	41,093.5	44,770.9	1,389.4	16.6
12	Banque Saudi Fransi	Saudi Arabia	8,788.0	47,518.1	33,535.0	35,432.1	830.9	19.2
13	Arab National Bank	Saudi Arabia	7,560.1	48,930.1	31,697.8	37,910.4	806.0	19.0
14	Kuwait Finance House	Kuwait	7,414.5	64,087.3	30,857.7	44,791.6	865.3	17.7
15	Qatar Islamic Bank	Qatar	6,097.7	44,996.4	31,302.2	30,715.2	821.3	19.5
16	Mashreqbank	UAE (Dubai)	6,056.7	43,412.8	20,740.2	24,770.7	581.7	16.3
17	Commercial Bank of Qatar	Qatar	5,986.8	40,598.4	24,218.0	20,994.9	556.1	16.4
18	Alinma Bank	Saudi Arabia	5,986.8	35,165.9	25,286.6	27,223.5	676.1	20.0
19	Ahli United Bank	Bahrain	5,361.5	40,280.1	20,742.4	25,518.1	788.8	16.4
20	Bank Muscat	Oman	5,216.3	32,014.3	23,125.2	20,952.0	483.4	19.7
21	Abu Dhabi Islamic Bank	UAE (Abu Dhabi)	5,201.8	34,306.1	22,085.6	27,612.2	708.3	18.9
22	Bank-ABC	Bahrain	4,489.0	30,068.0	16,452.0	16,666.0	194.0	17.9
23	Masraf Al Rayyan	Qatar	3,888.6	29,231.7	20,561.1	18,026.6	601.2	20.3
24	Saudi Investment Bank	Saudi Arabia	3,736.1	26,890.6	15,233.9	18,420.1	63.9	18.3
25	Doha Bank	Qatar	3,664.8	29,776.3	18,102.2	16,087.8	207.5	17.8
26	Gulf International Bank	Bahrain	3,296.3	30,241.7	9,876.1	21,223.3	63.0	18.4
27	Barwa Bank	Qatar	3,165.7	21,224.4	14,288.4	13,080.2	210.5	17.6
28	Burgan Bank	Kuwait	3,147.4	23,402.8	14,159.7	13,190.3	280.6	16.8
29	Bank Al Jazira	Saudi Arabia	3,091.3	23,084.2	13,246.0	16,723.3	264.3	24.6
30	Commercial Bank of Dubai	UAE (Dubai)	2,782.0	23,981.0	16,387.1	17,245.8	381.3	14.2
31	Bank AlBilad	Saudi Arabia	2,514.2	22,959.1	15,833.9	17,817.1	331.7	17.5
32	Commercial Bank of Kuwait	Kuwait	2,421.6	16,106.0	7,491.5	8,106.9	0.3	18.2*
33	Al Ahli Bank of Kuwait	Kuwait	2,283.8	16,138.7	10,628.0	10,972.0	95.2	18.7
34	Qatar International Islamic Bank	Qatar	2,245.5	15,638.6	10,184.4	8,593.3	255.1	18.5
35	Gulf Bank	Kuwait	2,195.5	20,641.2	13,962.4	13,054.5	210.2	17.1
36	Boubyan Bank	Kuwait	2,158.8	17,518.3	12,323.8	14,367.6	207.2	20.3
37	National Bank of Ras Al Khaimah	UAE (Ras Al Khaimeh)	2,135.3	15,553.7	9,408.2	10,027.9	298.3	16.8
38	Sharjah Islamic Bank	UAE (Sharjah)	2,050.2	12,632.2	6,846.4	7,437.4	148.5	22.8
39	Al Khalij Commercial Bank	Qatar	1,927.1	14,795.5	8,480.0	8,032.7	177.8	19.1
40	Bank Dhofar	Oman	1,787.4	11,267.7	7,979.2	7,666.4	78.7	17.9
41	Noor Bank	UAE (Dubai)	1,750.7	12,906.1	8,387.5	9,608.8	136.2	16.8
42	National Bank of Fujairah	UAE (Fujairah)	1,729.3	11,655.9	7,378.1	8,699.9	150.4	17.8
43	Ahli United Bank (Kuwait)	Kuwait	1,706.1	14,381.5	9,977.2	8,913.6	181.8	16.0
44	Ahli Bank of Qatar	Qatar	1,639.7	12,084.3	8,693.1	7,016.9	185.8	17.1
45	National Bank of Oman	Oman	1,442.8	9,493.6	7,297.5	6,594.0	133.9	16.6
46	Bank of Bahrain and Kuwait	Bahrain	1,460.1	10,316.6	4,460.0	5,790.9	202.9	21.7
47	National Bank of Bahrain	Bahrain	1,420.8	8,526.9	3,239.6	5,589.4	198.1	37.3
48	Kuwait International bank	Kuwait	1,240.7	8,882.6	6,165.8	4,857.1	57.2	19.2
49	Sohar International Bank	Oman	1,396.4	9,130.0	6,392.6	5,463.0	89.6	18.9
50	National Bank of Umm al-Qaiwain	UAE (Umm al-Q.)	1,298.9	3,893.1	2,250.1	2,460.3	115.6	38.2

** Includes commercial banks that are licensed by GCC central banks. Source for data is banks publicly available financial statements. Commercial Bank of Kuwait's Capital Ratio refers to 3Q 2019.*

region's banking centre. Bahrain's neighbours recognised that since the island lacked significant oil wealth it would need to develop its service industries. Some of the institutions created during those liquidity-fuelled years still exist, such as Arab Banking Corporation (ABC, now Bank-ABC) and Gulf International Bank; but there was also a huge number of smaller institutions with no distinct strategy or business model other than recycling back to the West the vast flows of oil revenues that were flowing into the region. Many of the banks created at that time no longer conduct business.

In the 1970s and 80s, Bahrain was not only an international banking centre, but also a route into the Saudi economy for those institutions that were not part of Saudi-incorporated joint-venture banks. As it became easier for foreign bankers to do business in Saudi Arabia without having a physical presence in the Kingdom, Bahrain's advantage was reduced.

Modern banking in the GCC took shape in the 1990s

GCC banking as we know it today took shape during the mid-1990s. Many of the smaller Bahrain offshore banks closed, and several Saudi banks merged to make stronger, larger institutions. Weaker banks in Dubai were merged into stronger banks which then rode the spectacular rise of Dubai's economy during the late 1990s and 2000s.

It is easy to forget how precarious GCC banking was 40 years ago. When oil prices collapsed to less than $10/B in 1986, having been around $35/B a few years before, GCC economies were devastated and business activity ground to a halt.

Saudi Arabia's National Commercial Bank published no annual accounts for three years in a row during the late 1980s because it could not reach agreement with its auditors on the recognition of bad debts owing from prominent local individuals. Several banks in Abu Dhabi and Dubai had lent vast amounts to local businessmen in the early 1980s and had no chance of enforcing payment through the courts when money dried up a few years later. During the Sharjah banking crisis of the early 1990s, which was the result of over-expansion and then low oil prices, the sacked British CEO of a local bank was briefly put under house arrest.

Today, nearly all GCC banks have strong management teams, clear strategies and solid balance sheets. All are suffering as a result of the Covid-19 crisis and the fall in oil prices that began earlier this year; but there is no expectation that large swathes of the GCC banking system will become technically insolvent and rely on regulatory forbearance to avoid closure.

Supervisors in the GCC enforce international banking standards, such as the Basel capital and liquidity ratios, and the banks themselves disclose significant amounts of information to investors through their 'Pillar 3' reports.

Islamic banking is now a prominent part of GCC banking

One of the biggest changes over the past 40 years has been the rise of 'Islamic' banks. Dubai Islamic Bank, Kuwait Finance House and Qatar Islamic Bank were pioneers; but in the early 1980s, Islamic banking in the Middle East was dominated by two sprawling groups – Dallah al-Baraka and Dar al-Maal al-Islami. Both were owned by Saudi businessmen (Salih Kamel and Prince Mohammed al-Faysal),

Biggest banks in the GCC, where are they now?

The table on page 38 lists the biggest banks in the GCC at the end of 1988. Many no longer feature in today's rankings. In most cases, this is because they were acquired by or merged into other institutions to create stronger banks that still exist. Saudi Cairo Bank, which was acquired by United Saudi Commercial Bank, which itself was then acquired by Saudi American Bank, is a good example. Samba Financial Group, as it is now called, remains one of the premier banking groups in the region.

Some banks simply changed their name: the confusingly named Bank of Oman (which had always been based in Dubai) was re-named Mashreqbank in the early 1990s. However, some banks from the 1980s, including some that had been quite prominent in the early days of GCC banking, were wound down after years of poor results: Al Bahrain Arab African Bank is one example.

The overall picture is one of resilience. Twenty of the 25 biggest-50 banks from 1988 are still operating under the same name. Four of the other five continue to exist in different guises. Only the ill-fated Arlabank – created in the 1980s to recycle Gulf petrodollars into Latin America – no longer operates.

National Bank of Dubai merged with Emirates Bank International to create Emirates NBD in 2007.

National Bank of Abu Dhabi merged with First Gulf Bank (which did not exist in 1988) to create First Abu Dhabi Bank in 2017.

Bank of Kuwait and the Middle East was acquired by Ahli United Bank in 2001.

Saudi Cairo Bank was acquired by United Saudi Commercial Bank in the late 1980s (see below).

Emirates Bank International merged with National Bank of Dubai in the early 1990s.

Arab Bank for Investment and Foreign Trade has been renamed AlMasraf.

Bank of Credit and Commerce (Emirates) was part of the Bank of Credit and Commerce International (BCCI) group that was closed by regulators in 1991.

Kuwait Asia Bank was a Bahrain offshore bank, majority owned by Kuwaiti institutions, that went into decline in the late 1980s and was wound down in the early 1990s.

Middle East Bank was acquired by Emirates Bank International in 1988.

United Saudi Commercial Bank was acquired by Saudi American Bank in the early 1990s.

Bahraini Saudi Bank was acquired by Al-Salam Bank in 2009.

Gulf Riyad Bank was a Bahrain offshore bank owned by Riyad Bank and Credit Lyonnais. It was wound down in the early 1990s.

Al Bahrain Arab African Bank was a Bahrain offshore bank largely owned by Kuwaiti institutions. It went into voluntary liquidation in 1990s.

Oman International Bank was acquired by HSBC Oman in 2012.

Bank of Oman Bahrain and Kuwait was acquired by another Omani bank in the early 1990s, but its exact fate has been lost in the mists of time.

The author would like to thank Basim Itayim, former Publisher of Middle East Economic Survey, *for his help in identifying the fate of some of the banks above.*

GCC Banks, End 1988 Equity and Assets

			Equity ($mn)	Assets ($mn)
1	Arab Banking Corporation	Bahrain	1,441	19,127
2	Riyad Bank	Saudi Arabia	1,153	8,588
3	National Bank of Kuwait	Kuwait	908	12,326
4	National Bank of Dubai	UAE-Dubai	863	6,022
5	National Commercial Bank	Saudi Arabia	853	21,098
6	Gulf International Bank	Bahrain	726	9,203
7	Gulf Bank	Kuwait	699	6,727
8	Commercial Bank of Kuwait	Kuwait	553	6,333
9	Burgan Bank	Kuwait	544	4,274
10	AlAhli Bank of Kuwait	Kuwait	500	6,216
11	National Bank of Abu Dhabi	UAE-Abu Dhabi	453	6,699
12	Bank of Kuwait & the Middle East	Kuwait	450	3,769
13	Saudi American Bank	Saudi Arabia	436	6,414
14	Arab National Bank	Saudi Arabia	429	3,617
15	Abu Dhabi Commercial Bank	UAE-Abu Dhabi	353	2,529
16	Qatar National Bank	Qatar	299	2,969
17	Saudi French Bank	Saudi Arabia	280	4,682
18	Bahrain International Bank	Bahrain	207	372
19	Arlabank	Bahrain	198	1,362
20	Bank of Bahrain and Kuwait	Bahrain	189	2,027
21	Bank of Oman	UAE-Dubai	188	2,871
22	Saudi British Bank	Saudi Arabia	171	3,039
23	National Bank of Bahrain (end-1987)	Bahrain	169	1,446
24	Al-Rajhi	Saudi Arabia	163	4,012
25	Saudi Cairo Bank	Saudi Arabia	162	2,064
26	Emirates Bank International	UAE-Dubai	160	1,583
27	Kuwait Finance House	Kuwait	159	3,962
28	Saudi Hollandi Bank	Saudi Arabia	158	2,596
29	Bahrain Middle East Bank	Bahrain	142	514
30	Arab Bank for Investment & Foreign Trade	UAE-Abu Dhabi	115	1,002
31	National Bank of Sharjah	UAE-Sharjah	110	740
32	Bank of Credit and Commerce	UAE-Dubai	107	1,458
33	Kuwait Asia Bank	Bahrain	88	309
34	Bank al-Jazira	Saudi Arabia	82	1,316
35	National Bank of Umm al-Qaiwain	UAE-Umm al-Qaiwain	78	145
36	Commercial Bank of Dubai	Dubai	74	332
37	Middle East Bank	UAE-Dubai	69	921
38	Investment Bank for Trade and Finance	UAE-Abu Dhabi	67	607
39	AlUbaf Arab International Bank	Bahrain	66	846
40	Doha Bank	Qatar	65	526
41	United Saudi Commercial Bank	Saudi Arabia	60	1,156
42	National Bank of Oman	Oman	59	931
43	Saudi Investment Bank	Saudi Arabia	56	1,258
44	Bahraini Saudi Bank	Bahrain	55	233
45	First Gulf Bank of Ajman	UAE-Ajman	55	113
46	Gulf Riyad Bank	Bahrain	53	808
47	United Arab Bank	UAE-Abu Dhabi	48	287
48	National Bank of Fujairah	UAE-Fujairah	43	106
49	Al-Ahli Commercial Bank	Bahrain	42	438
50	Bank of Sharjah	UAE-Sharjah	40	200
51	Al-Bahrain Arab African Bank	Bahrain	35	766
52	Commercial Bank of Qatar	Qatar	35	227
53	Oman International Bank	Oman	31	426
54	Bank of Oman, Bahrain and Kuwait	Oman	30	259
55	Qatar Islamic Bank	Qatar	20	355
56	Oman Arab Bank	Oman	20	278

This table is based on data that appeared in Middle East Economic Digest in 1989.

but neither was able to obtain a license to conduct banking business in Saudi Arabia and their banking operations elsewhere in the GCC were small in scale.

Overt Islamic banking in Saudi Arabia did not begin until Al-Rajhi was forced to convert its currency exchange operations into a bank in 1987, and so bring under the control of the Saudi Arabian Monetary Agency the deposit-taking business that it had effectively been running alongside its exchange business.

Today, about one third of GCC commercial banks operate on a wholly Islamic basis, and all others offer Shari'ah-compliant products alongside their conventional ones. All new banking licenses issued by central banks in the GCC over the past 15 years have been for the creation of Islamic banks; no new conventional banks have been licensed except in cases where conventional banks merged. Islamic finance is no longer a niche market. It is woven into the fabric of Gulf finance.

Another recent development has been the creation of 'offshore' banking centres such as the Dubai International Financial Centre (DIFC), the Qatar Financial Centre (QFC) and the Abu Dhabi Global Market (ADGM).

All of these centres are essentially 'work-arounds' to entice international firms to implant offices and staff without being exposed to cumbersome local licensing procedures or relying on antiquated and uncertain court systems. The DIFC led the way, enabling financial and service firms to conduct a limited amount of local business while using the DIFC as a regional hub, and in the process bringing employment and spending to the local economy. The QFC was created to compete with the DIFC but has yet to establish itself as a regional centre in the way its rival has. The ADGM is a product of Abu Dhabi's desire to take a more assertive stance within the UAE federation and create business infrastructure that is more reflective of its stupendous wealth.

Crucial to all three centres have been the legal and regulatory carve-outs that isolate member firms from local laws and regulations. That is why Riyadh's King Abdullah Financial District has so far failed to make a mark – it is essentially a real estate development, operating under the same legal and regulatory regime as the rest of the Kingdom.

Expansion into the wider Middle East

The past three years have seen roughly one third of all commercial banks in the region engaged in mergers or acquisitions. Unlike the banking shake-out of the 1990s, banks now being acquired, or finding themselves the junior partner in a merger, are not insolvent or failing. In nearly every case they have been profitable and adequately capitalised, but unlikely to be able to build market shares and grow on their own.

As GCC banks developed their international business in the 1970s and 1980s, many opened branches or representative offices in London, which remains the principal overseas centre for GCC banking. Many also opened offices in New York. Today, only a handful of GCC banks are present there – the risks associated with the US legal system are deemed too great, especially given the balance of pro-Israeli and anti-Arab sentiment that pervades much, though of course not all, US society.

Over the past 20 years, economic and financial reform across the whole of the Middle East has opened up opportunities to build regional business franchises in ways that were not previously possible or desirable. In the past, many Middle Eastern regulators were reluctant to grant access to other banks from the Middle East (although they often courted Western banks). Now, such regulators are much more open to banks from within the region establishing branches or taking large holdings in local banks.

Furthermore, opportunities to conduct profitable banking business are far greater now in countries such as Egypt, Turkey, Jordan and Tunisia (and, until 2011, in Libya). GCC banks often see greater opportunities and fewer risks in these regional markets than in the global financial centres. For example, Bahrain's Bank-ABC spent the first few years of its existence establishing offices in London, New York and Singapore, and investing in banks in Brazil, Hong Kong, Thailand and Spain. Today, it has one of the biggest Middle East networks of any Arab bank, and a more focussed international presence.

GCC banks are now far more prominent among the larger international banks than before, though it is difficult to tell how far this is due to the expansion of GCC banks rather than the shrinking of global banks since the global financial crisis.

When The Banker magazine published its list of the 1,000 biggest banks in the world in 1990 (based on banks' most recently published capital funds), the highest placed bank from the GCC was Arab Banking Corporation at 171. Only one other bank joined ABC in the top 200 – Riyad Bank. Thirty-one GCC banks were listed in the top 1,000 (including two of the Three Ks, which were investment houses not banks).

The Banker's 2020 edition listed 13 GCC banks in the top 200 and 60 in the top 1,000.

Facing the future

So, what will GCC banks look like 40 years from now?

The answer will be driven by the strength and dynamism of the GCC economies. That, in turn, will be driven by the ability of GCC governments to become less reliant on oil revenues. Once Covid-19 is conquered, the environmentalist agenda will reassert itself. It is inconceivable that the global economy will be as reliant on oil and gas in 40 years' time as it is today.

If GCC governments are unable to transition to new economic models and ensure that their political and social structures are aligned with those new models, the GCC states will start to resemble economies such as Jordan and Morocco – reasonably prosperous, but not super rich, and certainly not among the top business priorities for the global investment community.

But the demise of the Gulf states has often been predicted over the past 40 years, and the GCC has always proved its detractors wrong. GCC economies, and their banks, survived crushing declines in oil revenues in the 1980s and more recently in 2015 and 2016. Their governments were touched by the Arab Spring of 2011, but none was in any danger of being overthrown.

GCC banks are stronger now than at any point in the past 40 years. It would be unwise to bet against them. ■

The author would like to acknowledge the help of Stephen Timewell, Editor Emeritus of The Banker, in identifying GCC banks that have appeared in The Banker's rankings.

Turkey raises Arab and European alarm

The involvement of Turkish forces in Syria, northern Iraq and, most recently, Libya is prompting speculation that Turkey may have renewed imperial ambitions. *Arab Banker* asked Middle East analyst Gerald Butt to examine Turkey's motives and the implications of its regional strategy for both the Eastern Mediterranean and Europe.

Do not be surprised if Turkey is frequently in the headlines in the year ahead. For that is exactly where its increasingly autocratic leader, President Recep Tayyip Erdogan, wants Turkey to be as he brazenly expands his country's footprint in the region.

Turkey's battles with the Kurds in the east of the country and in their bases in northern Iraq, and its involvement in the war in Syria have been part of Ankara's narrative for some years. The unilateral Libya adventure is something new – and startling.

The effective use of Turkish-manufactured military drones and the deployment of Islamist militiamen from Syria enabled the forces of the Tripoli-based (and internationally recognised) Government of National Accord (GNA) to lift the siege of the capital. The government forces then drove fighters loyal to the Benghazi-headquartered warlord Khalifa Haftar (supported by Russia) eastwards.

The Turkish military intervention took the world by surprise and left it wondering what lies ahead. Viewed from an Arab perspective, probably few would disagree with the assessment of Saudi Shoura Council member and political scientist Dr Ibrahim Nahas. Writing in the daily *Al-Riyadh*, he said the region appeared to be watching the reawakening of "historical Ottoman-Turkish aspirations to dominate Arab lands."

Turkey denies seeking to re-establish the Ottoman empire. But it has offered no apology for a strategy that has seen the expansion of its reach in the Eastern Mediterranean Sea – and now into North Africa – in an unequivocally assertive and controversial manner. The Turks label the strategy *Mavi Vatan* – Blue Homeland. It has an emotive and strong nationalist resonance that plays well among most Turks, not just Erdogan loyalists.

The strategy has its roots in a dispute over the divided island of Cyprus. Since 1974, Turkish forces have been deployed in the northern half of Cyprus, and repeated UN attempts to broker an agreement on reunification that is acceptable to both Greek and Turkish Cypriots have failed. The government of the Republic of Cyprus nevertheless decided more than a decade ago to search for oil and gas in the waters of its economic exclusion zone (EEZ). Major international energy companies took up the challenge.

Turkey argued that Cyprus should have delayed energy exploration until the island was reunited so that Turkish Cypriots could share the spoils. When the Cypriot government did not respond, Turkey itself began drilling around Cyprus in areas it said were within its continental shelf, which partly overlaps the Cyprus EEZ. Turkey's maritime claims are not internationally recognised, while those of Cyprus are. On

one occasion, Turkish warships prevented an Italian drilling vessel reaching a site in one of the Cypriot blocks. Despite international protests, Turkey has continued to explore around Cyprus.

Ankara-Tripoli agreement

Then, in 2019, out of the blue came an agreement between Turkey and the GNA in Tripoli covering military cooperation and maritime jurisdiction. Under the terms of the deal, Libya can request military assistance (which it has done). The two sides have also agreed a common maritime border mid-way between their two countries, with waters to the north and south overlapping Greece's EEZ – and some Greek islands in the Turkish-claimed area. Turkey is also permitted, under the joint deal, to explore for hydrocarbons off the Libyan coast.

Predictably, the Cypriot and Greek governments led the chorus denouncing the Turkish-Libyan agreement, with other European countries and the United States joining it. Cyprus said the agreement had no validity, and Greece called it a distortion of international law. Egypt said the agreement was illegal.

Turkey rejected the criticism. On the issue of Cypriot waters and Greek islands being swallowed up by the claimed maritime zone, a foreign ministry spokesman in Ankara said, "islands cannot have a cut-off effect on the coastal projection of Turkey, the country with the longest continental coastline in the Eastern Mediterranean". He added that "through this agreement with Libya, the two countries have clearly manifested their intention not to allow any fait accompli [on the part of Cyprus]".

For Turks, the maritime claims in the Eastern Med are commensurate with the size and perceived importance of their country in the region. For Europeans, as much as for Arabs, Turkey's Blue Homeland strategy is disturbing: the two powers on the ground in Libya are Russia and Turkey. Between them they could decide the fate of a large country on Europe's doorstep.

Marc Pierini, a former EU ambassador to Turkey, in an article for the Carnegie Europe think tank, sounds the alarm: "Libya is a European emergency ... A permanent use of air and naval bases by both Russia and Turkey would be a major game changer for western Europe's security and have implications for NATO and the United States as well."

The Libya crisis has already unsettled both Europe and NATO. President Macron of France has said Turkey is "playing a dangerous game" in Libya and his country will not allow it. By contrast, Italy's foreign minister Lorenzo Guerini, after talks with his Turkish opposite number in Ankara, said his meeting had been positive and friendly. So, there are open divisions on Libya within Europe.

NATO divisions

At the same time, warships from two NATO states, France and Turkey, came close to exchanging fire in June as the French sought to inspect a Libya-bound cargo vessel. France, in protest, pulled out of a NATO Mediterranean patrol and was enraged that other member states took no diplomatic action to support it. Another indication that the alliance is "brain dead", said President Macron.

It is an alarming state of affairs from a European/Western perspective. Michael Tanchum a professor at the Hebrew University in Jerusalem tweeted that while the 2011 NATO intervention had taken Libya to the point of dysfunction, now "Libya is making NATO divided to the point of dysfunction".

In the opinion of veteran French diplomat Michel Duclos,

Gerald Butt

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

writing in *Le Monde*, US disengagement from the region, "paves the way for second-tier powers that don't hesitate to use force. There are no more rules or referees." Duclos argues that both Russia and Turkey are exploiting the vacuum that the US departure has left.

Russia may not harbour a desire to make Libya Moscow's colony; but it would not turn down a chance to expand its presence beyond Syria and acquire a Libyan military base.

Turkey, for its part, points out that it has historic ties to Libya. "Don't underestimate our sentimental attachment to it," a former Turkish diplomat said. "Remember it was part of the Ottoman empire until 1912." During the Muammar Qadhafi era, Turkey had strong business and commercial relations with Libya. Ankara denies seeking to re-colonise Libya, but it definitely wants to re-establish those links. It hopes, by backing the legitimate government in Tripoli, to acquire special-nation status and benefit from lucrative reconstruction contracts and oil sold at preferential rates.

Turkey's economic woes

Putting aside speculation and hyperbole, this gets closer to the nub of the issue. Erdogan faces an election in 2023 and the economy looks like being the key topic in the campaign. Things have not been going well on that front, and they have been made even worse by the effects of Covid-19. During the summer an opinion poll showed that 60% of Turks described economic conditions as either bad or very bad. With inflation at more than 10% and no prospect of pay rises to match, poverty and unemployment are on the increase. The result is that support for Erdogan's AK Party is slipping. In a poll listing the most popular mayors in Turkey's main cities, the first eight were from the main opposition party.

Erdogan needs a strong and sustained injection of cash and a foreign policy triumph that will distract the public from domestic hardships. He is betting on Libya answering both calls.

Realistically, there is little that the countries around Libya – Arab or European – can do, short of embroiling themselves in another war. As French diplomat Duclos said, Europe is at a loss when faced by "uninhibited regional actors". In this atmosphere, individual states may not seek to build empires, but they might be tempted to use force to extend influence or secure economic booty. The only long-term practical solution, perhaps, is the rather prosaic and old fashioned one of diplomacy and negotiations. "For a stabilised Mediterranean," Italy's Guerini said, "we need to work together and all shoulder responsibility."

But it is a vision of consensus-building that new powers in the region – assertive and uninhibited as they are – may not be quick to embrace. ■

A cause for celebration: Arab banks and the Arab Bankers Association celebrate 40 years of working together

A little over 40 years ago, in March 1980, 80 people met in London to create a new organisation: the Arab Bankers Association (ABA) of London. *Arab Banker's* editor, Andrew Cunningham, reviews the history of the Association and some of the personalities who shaped it.

The men who founded the ABA (and they were all men) had recently moved to London from Beirut, where a civil war was destroying the city that had been the banking centre of the Middle East. Many were representatives of banks that were trying to build business in the Middle East following the quadrupling of oil prices a few years earlier. They included Munir Haddad of Dresdner Bank, Antoine Zananiri of Crocker National Bank and Ghayath al-Yafi of Merrill Lynch International. Others worked for Arab banks based in the Middle East that were hoping to expand their international operations into London and other European financial centres: they included Nooruddin Nooruddin of National Bank of Bahrain, Walid Niazi of Gulf International Bank, and Elie el-Hadj of Al-Rajhi Company (it was not at that time a bank).

The founders' first thought was to create an Arab Bankers Club, in part because they wanted to replicate the foreign bankers group that had begun meeting at the Alcazar Hotel in Beirut after the Lebanese Bankers Association revoked the membership of foreign banks because they had become too numerous and could outvote the domestic banks on formal decisions. (The St Georges was the preferred hotel for business lunches but, at LP25 for the buffet, the Alcazar was cheaper and the rooftop view just as good.)

However, others, including Farid Barakat, who led National Bank of Abu Dhabi's London branch (and would continue to do so until 2018), wanted to model the new body on the British Bankers Association, with a focus on helping its members navigate the challenges of operating in a foreign jurisdiction, as well as being a forum through which like-minded professionals could meet socially.

At the first General Assembly in March 1980, Antoine Zananiri declined calls to become the Association's first Chairman, arguing that the post should be held by a Muslim. As a result, Bashir Zouheiri, the former Chairman of Syria Commercial Bank, who was leading European-Arab Bank in London, was elected Chairman of the Association, with Sabih Shukri, of the Saudi-owned Allied Arab Bank, as Deputy. Zananiri, a Christian, took the role of Secretary General.

For many years, the Saudi Arabian Monetary Agency was a member of the Association, represented in the early years by Ahmed Abd al-Latif, who went on to lead Riyad Bank.

This was a time when Arab banks were seen as takers of deals not originators, and one of the pressing issues discussed within the ABA was how Arab banks could take a more active role in international financial markets. Identifying and recruiting experienced Arab bankers was another issue, and for the consortium banks who lacked their own deposit base, funding was a perennial challenge.

London was clearly the major centre for Arab banking outside the Middle East. Four Saudi banks were represented in the capital: National Commercial Bank, Riyad Bank, Saudi American Bank and Arab National Bank. Al-Rajhi, though not a bank, was busy developing Islamic financing,

Ultimate home of Arab banks and offices in London and France

	UK	France
GCC	15	8
Egypt	1	1
Jordan	2	1
Morocco	1	3
Lebanon	3	5
Other	1	1
Total	23	18
of which, from the GCC		
Bahrain	3	1
Kuwait	3	3
Oman	0	0
Qatar	3	3
Saudi Arabia	2	0
UAE	4	1

Bank-ABC and Gulf International Bank have two legal entities in London, but for the purposes of this table, which is to identify which countries are most heavily represented in the UK and France, the two entities are counted as one.

ADIB (UK), the subsidiary of Abu Dhabi Islamic Bank, is in the process of surrendering its license.

The source for data is the Bank of England's list of banks and bank branches, dated 2 April 2020 and the website of the Banque de France.

Key challenges for Arab banks resonate through the back pages of *Arab Banker* magazine

Arab Banker magazine has been published since the earliest days of the Arab Bankers Association, but it has had many different formats and designs during that time. The example below, from March 1990, was produced by Stephen Timewell, who edited the magazine in the late 1980s and early 90s (and subsequently went on to edit *The Banker* magazine of the *Financial Times*).

Although Arab banking has changed enormously over the past 30 years, many of the issues addressed in the March 1990 edition seem familiar.

Ibrahim Dabdoub, the Chief General Manager of National Bank of Kuwait, identified the three challenges facing Arab banks as the need for high-quality resources, and particularly human resources; the challenge of operating in increasingly complex financial environments; and the risks associated with new products and growing competition. Abdulla Saudi, the President of Arab Banking Corporation described his bank's plans to open its capital structure through a public share offering. Elsewhere in the magazine, two academics, one Saudi and one British, outlined the difficulties that banks face when trying to lend to SMEs; and the Chief Economist of Gulf Bank considered the possibility of mergers between Kuwaiti banks. (Kuwait now has more banks than when that article was written, and no mergers have taken place!) The 'news' section of the magazine included the headline, "Arab banks expand in Turkey".

The March 1990 edition also reproduced a recent speech by former Saudi oil minister Zaki Yamani on the prospects for oil and for OPEC during the 1990s. He concluded the speech with a reference to, "the recent phenomenon of global warming", and commented that, "We still know very little about how serious a threat it poses…and we should do our utmost to understand its causes and impact."

In the subsequent edition of the magazine, dated June 1990, the Chairman of Barclays Bank, Andrew Buxton, questioned whether Frankfurt would supplant London as Europe's principal financial centre. He concluded that while there was no room for complacency, the prospect of London being "supplanted as the major international financial centre in Europe seems unlikely".

both commercial and retail. There were four Kuwaiti banks: National Bank of Kuwait; Gulf Bank; Commercial Bank of Kuwait; and Bank of Kuwait and the Middle East. Qatar National Bank, National Bank of Abu Dhabi, Arab Banking Corporation and Gulf International Bank all had a significant presence.

Representation from outside the GCC was less consistent. National Bank of Egypt and Jordan's Arab Bank had well-established UK operations, as did some of the Lebanese banks.

There were many big personalities on the Arab banking scene during these early years. 'Jinx' Grafftey-Smith, who led National Commercial Bank's operations in London, had an inexhaustible store of jokes and anecdotes (many of an unprintable nature) that he would invariably deploy to warm up a serious business conversation. John Finnigan strutted around London as the head of National Bank of Kuwait's London branch before departing for Doha to lead Qatar National Bank. More quietly, Chris Keen oversaw a significant treasury operation at United Bank of Kuwait, while developing property finance products for Kuwaiti investors (see pages 48–49). Abdulla Saudi, the President of Arab Banking Corporation, was a frequent visitor to London, as was Ghazi Abdul-Jawad, who led Gulf International Bank.

During the late 1980s, the Kuwait Investment Office (KIO) and its general manager Fuad Jaffer were seldom out of the news. The KIO was not only active in London but, with various associates, was also involved in a series of aggressive and high-profile acquisitions in Spain. Less controversially, London was where the first international financing deals for Qatar were arranged. A $400 mn deal for Qatar General Petroleum Corporation dragged on for months in 1989, with the borrower's lack of experience in international financial markets plain for all to see. But the deal opened the way for subsequent financings that enabled Qatar to build its

Antoine Zananiri (right) greets Abdul-Majid Shoman, the Chairman of Arab Bank, at an ABA reception in 1982 to celebrate the 50th anniversary of the foundation of Arab Bank.

liquefied natural gas industry.

Meanwhile in Paris, many Arab-owned banks had their licenses withdrawn or sought injections of new capital. Several of these banks had Lebanese shareholders, others had Saudi shareholders, but all lacked a deposit base and a clear lending strategy. Established when liquidity was strong, they were unable to survive the ups and downs of the economic cycle and had limited access to new capital when their balance sheets were forced to recognise large write-downs. Although some London-based Arab financial institutions did face difficulties, London contained fewer institutions that lacked a clear raison d'être and were dependent on a few deep-pocketed individuals.

During the 1990s, the business infrastructure in the GCC, and in particular in Dubai, developed, making it easier to base senior staff there, both from the perspective of work efficiency and the attractiveness of living conditions. At the same time, Middle East banking markets were liberalising and cautiously issuing banking licenses for regional banks. As a result, many of the large Middle Eastern banks began to focus on building networks within the Middle East – Egypt's bank privatisation programme offered particularly interesting opportunities – rather than in the major international centres.

New rules on capital, greater focus on returns on investment, and tighter regulation made subsidiaries and branches in centres such as London, New York and Paris more expensive and harder to justify in the absence of compelling business reasons.

Nonetheless, few Arab banks left London during this time and the ABA continued to prosper, holding large social events, including well-attended Gala Dinners, and seminars focussed on specific financial issues. For nearly all this time the Association remained at its offices at 1–2 Hanover Street.

Ghayth Armanazi led the Association as Secretary General from the mid-1980s to the early 1990s, for much of that time under the Chairmanship of Mustapha Serageldin, the representative in London of Bank of Kuwait and the

Arab banks in London*	Name of parent institution
ABC International Bank	Bank ABC, Bahrain
ADIB (UK)	Abu Dhabi Islamic Bank, Abu Dhabi
Ahli United Bank (UK)	Ahli United Bank, Bahrain
Al Rayan Bank	70% Masraf al-Rayan, Qatar and 30% Qatar Holding
Bank of Beirut (UK)	Bank of Beirut, Lebanon
Bank of London and the Middle East	Majority owned by Boubyan Bank of Kuwait, which is majority owned by National Bank of Kuwait
BMCE Bank International	BMCE Bank, Morocco
British Arab Commercial Bank	88% Libya Foreign Bank, 6% Banque Centrale Populaire (Morocco), 6% Banque Extérieure d'Algérie
Europe Arab Bank	Arab Bank, Jordan
Gatehouse Bank	Ultimately owned by Kuwaiti investors
Gulf International Bank (UK)	Gulf International Bank, Bahrain
Jordan International Bank	Jordan International Bank
National Bank of Egypt (UK)	National Bank of Egypt
National Bank of Kuwait (International)	National Bank of Kuwait
QIB (UK)	Qatar Islamic Bank, Qatar

Branches in London of Arab Banks**	Parent bank
Ara Banking Corporation	Bank ABC, Bahrain
Arab National Bank	Arab National Bank, Saudi Arabia, which is 40% owned by Arab Bank, Jordan
Blom Bank France	Branch of Paris-based Blom Bank France, which is owned by Blom Bank, Lebanon
Byblos Bank Europe	Branch of Brussels-based Byblos Bank Europe
Emirates NBD	Emirates NBD, Dubai
First Abu Dhabi Bank	First Abu Dhabi Bank
Gulf International Bank	Gulf International Bank, Bahrain
Mashreqbank	Mashreqbank, Dubai
Qatar National Bank	Qatar National Bank
Riyad Bank	Riyad Bank, Saudi Arabia

** Taken from Bank of England's List of Banks, 2 April 2020*

*** Taken from Bank of England list of banks (incorporated inside the European Economic Area and outside it) authorised to accept deposits through a branch in the UK, 2 April 2020*

The Bank of England's list also includes Banque Chaabi du Maroc as a bank authorised to establish a branch but not to collect deposits.

George Kardouche led the ABA during the late 1990s and 2000s.

Middle East. Armanazi recalls that during the 1980s, all the international banks in London were trying to develop relationships with the Arab banks: "Arab banks had plenty of money and everyone was trying to get a piece of the action."

In the 1990s, George Kardouche took over the Chairmanship with Basil al-Ghalayini as Secretary General. Kardouche later took on more of an executive-chairman role, leading the Association for many years in the 2000s.

George Kanaan was appointed with the new title of Chief Executive Officer in 2009, leading the association initially under the Acting Chairmanship of Nofal Barbar, who at that time worked for ABC International Bank in London.

The lists of ABA board members over the last decades represent not only a record of the prominent bankers who have been shaping our industry, both in London and in the Middle East, but they also provide a record of the major institutions active in Arab banking, some of whom have fallen by the wayside. Who now remembers the intriguing Crédit des Bergues, based in Switzerland, or the Kuwaiti-owned property firm The International Investor?

The Association continues to count nearly all the London-based Arab banks as corporate members, but what has changed in recent years is the number of financial service firms – lawyers, accountants, property companies – that are active corporate members. Many have deep knowledge and experience of Middle East finance; others are seeking to build stronger business relationships with the Arab banking community.

Forty years after its foundation, the Arab Banking Association continues to evolve, reflecting the changes in the London Arab banking community, and looking to the future with confidence. ■

Arab banks and bank branches in Paris	Ultimate parent company*	Legal status
Al-Khaliji France	Al-Khalij Commercial Bank, Qatar	Bank
Attijariwafa	Attijariwafa Bank, Morocco	Bank
Bank Audi France	Bank Audi, Lebanon	Bank
Bank of London and the Middle East	Bank of London and the Middle East, London	Credit Inst. (Cross Border Services)
Bank Chaabi du Maroc	Banque Centrale Populaire, Morocco	Bank
Banque Misr	Banque Misr, Egypt	Bank
BEMO Europe Banque Privée	Banque BEMO, Lebanon	Branch
Blom Bank France	Blom Bank Lebanon	Bank
BMCE Bank International	BMCE Bank Morocco	Branch
Byblos Bank Europe	Byblos Bank, Lebanon	Branch (Branch of Belgian operations)
Europe Arab Bank	Arab Bank, Jordan	Bank
First Abu Dhabi Bank	First Abu Dhabi Bank	Bank
Fransabank France	Fransabank, Lebanon	Bank
Gatehouse Bank	Gatehouse Bank, London	Credit Inst. (Cross Border Services)
Gulf International Bank	Gulf International Bank, Bahrain	Credit Inst. (Cross Border Services)
NBK France	NBK, Kuwait	Bank
Qatar National Bank	Qatar National Bank	Bank
QIB (UK)	Qatar Islamic Bank	Credit Inst. (Cross Border Services)
U.B.A.F.	U.B.A.F. France	Bank

** The ultimate parent company is not necessarily the same as the owner of the French legal entity mentioned on the left. For example, Byblos Bank Europe is owned by a legal entity in Belgium.*

Souce: Autorité de contrôle prudentiel et de résolution (ACPR), Paris

Managing a Kuwaiti bank in London: Chris Keen reflects on past times

As Chief Executive of United Bank of Kuwait (UBK), Chris Keen was a key member of the Arab banking community in London during the 1980s and 1990s. *Arab Banker* asked him to reflect, in his own words, on his time with UBK and more broadly on his experience of managing an Arab-owned bank in London.

Kuwaiti involvement in the City of London dates back to the 1950s, when the Kuwait Investment Board – the forerunner to the Kuwait Investment Office – established an office inside the Bank of England; so it was only natural that a Kuwaiti-owned bank would be one of the first Arab banks to be licensed to operate in London. UBK began operations as a London-based Kuwait-owned bank in 1966.

UBK was a consortium bank. We had been created by the Kuwaiti commercial banks who saw a need for a presence in London but lacked the individual resources to capitalise and fund their own branches or subsidiaries. Although consortium banking has gone out of fashion now, for many years it was a very successful model. It was also flexible. Over time, our shareholding structure evolved as banks decided that they wanted their own presence – and became competitors – so withdrew from UBK; and as other Kuwaiti institutions, such as Kuwait Real Estate Bank, developed and decided that a window into London would be useful. We also benefited from strong government support through Kuwait's Public Institute for Social Security, which eventually became our biggest shareholder.

There were other consortium banks in London at the time, such as Saudi Investment Bank, which had JP Morgan as one of its core shareholders, and which performed a similar role for some Saudi banks as we were performing for the Kuwaitis. There was also the UBAF network, which had a particularly diverse set of shareholders. The UBAF operation in London was one of the few financial institutions at the time that really understood Libya. Banque Arabe et Internationale d'Investissement (BAII), which had a wide shareholding base, was registered in Luxembourg, but had its main operation in Paris with Société Générale as its reference shareholder.

Our original mandate was to facilitate the export of capital. Kuwait had the good fortune to find and develop its oil resources early, and, with a small population, its capital surpluses quickly built up. Over time, we expanded our operations to include private banking through our three branches, and property finance. In fact, I believe that UBK was the first bank in London to securitise UK residential mortgages. Guy Hands led the transaction for Goldman Sachs, which entailed selling tranches of mortgages that our property division, under Mark Burton, had originated.

We were also one of the first banks in Britain to get into Islamic banking, which was very new, even in the Middle East, in those days.

One thing we didn't do was balance-of-payments lending in what would now be termed Emerging Markets. Most banks, and particularly some of the other Arab-owned consortium banks, got themselves into difficulty with that sort of business because it was highly cyclical, commoditised and offered thin margins.

I also made sure that UBK didn't take part in the Eurotunnel financing. One city grandee accused me of being 'unpatriotic' for refusing to fund Margaret Thatcher's favourite project, but I had been advised by a friend that budget projections for large excavation projects – which was

basically all that the Eurotunnel was – were notoriously uncertain, so I stood my ground. I'm glad I did – the Eurotunnel financing was rescheduled several times. Lenders lost most of their money and shareholders lost all of it.

Bank regulation was very different in those days. It was firm and professional, but far less intrusive than it is today. The regulators made an effort to understand our business and the relationship that we had with our shareholders, but they were sometimes a bit cautious when reviewing transactions or counterparties with whom they were unfamiliar. That said, it was a big advantage for the Bank of England (which was the bank regulator at that time) to have a resident advisor inside the Central Bank of Kuwait – he was able to provide guidance and explanations to the people supervising Kuwaiti financial activity in London.

I was running UBK when Saddam Husain's tanks stormed into Kuwait early in the morning of Thursday 2 August 1990. It was an awful time. The occupation was brutal. Those who were out of the country on business or who had been able to get out during the occupation were often separated from their families in Kuwait.

Our immediate challenge was to cover withdrawals. We usually paid out about £1 mn in cash during the course of a day over the summer months – when a lot of Kuwaitis brought their whole families to London for several weeks. On the first day of the Iraqi occupation, we had paid out more than a million by mid-morning. The Bank of England and the Treasury understood the situation quickly and sent cash round to us – our head office was opposite the Bank of England, a stone's throw from Bank underground station, and our branches were in Baker Street, Knightsbridge and Edgware Road. We dragged bundles of cash through our banking halls and stacked them on the tellers' desks. It's amazing to think about it now: we didn't consider the risk of robbery, we just had to show people that we had the cash if they wanted it. And it worked, the panic quickly subsided.

"I ... made sure that UBK didn't take part in the Eurotunnel financing. One city grandee accused me of being 'unpatriotic' for refusing to fund Margaret Thatcher's favourite project."

The more fundamental problem was to keep as much as possible of the Kuwaiti financial system functioning, and to keep it out of the hands of Saddam. We provided office space to a number of Kuwaiti banks and institutions during the occupation and we continued to provide banking services to our clients. National Bank of Kuwait also had a significant operation in London at the time and did much the same as us. One of the institutions that we hosted was the Kuwait Fund for Arab Economic Development, which continued its work, lending money to developing countries, throughout the occupation.

I still feel very proud of the role played by UBK, and the whole Kuwaiti financial sector, during the occupation of Kuwait.

In the mid-1990s, consortium banking started to go out of fashion. Banks were scrutinising their capital ratios more closely and that meant it was harder to justify holding a small equity stake in a foreign bank. GCC banks were also getting bigger and, with increased scale, they started looking to have their own operations in London, whose position within global financial markets was getting bigger and bigger. In the late 1990s, one of those expanding GCC banks, Ahli United Bank, bought UBK, adding it (I had left by then) to the domestic Kuwaiti franchise that they already had through their ownership of Bank of Kuwait and the Middle East. ■

Since leaving UBK in 1998, Chris Keen has worked with hedge funds and asset managers in London. His current roles include being a Non-Executive Director of Trefoil Capital Advisors and Maunby Investment Management. He also chairs Aston Mansfield, a community charity in East London.

Islamic Finance 2.0: what is next for the Shari'ah-compliant financial industry?

Islamic finance has been part of the development of Arab banking since the first huge inflows of oil revenues transformed Middle Eastern finance in the mid-1970s, but for many years Islamic banks were marginal players far from the mainstream.

Now, Islamic banks – and Islamic finance as a whole, including insurance, capital markets and asset management – have become part of the fabric of Middle Eastern financial services. It is hard to think of a single GCC bank that does not offer Shari'ah-compliant products or a Middle Eastern country that is not courting the Shari'ah-compliant investment community.

Islamic banks and financial institutions are now able to replicate, in a Shari'ah-compliant manner, nearly all the economic functions of conventional financial products. Perhaps for that very reason, the pace of innovation appears to have slowed.

So, where does Islamic finance go from here? *Arab Banker* asked Harris Irfan, who developed Islamic capital markets in the GCC during the 2000s and now works with Shari'ah-compliant start-up companies, for his views on how Islamic finance is likely to develop in the years ahead.

ARAB BANKER: Has Islamic finance gone as far as it is going to go in terms of developing products and increasing its share of financial services in the Muslim world?

HARRIS IRFAN: Islamic finance has enjoyed a degree of success to date. Muslims who want to conduct their financial affairs in a manner approved by Shari'ah scholars are now able to do so, whether that means using banking services, investing in Shariah-screened equities, using takaful insurance or buying sukuk rather than conventional bonds. All of this is possible and easy in a way that was not a couple of decades ago.

That said, there is a legitimate grievance in some circles that Islamic finance has not fully addressed what scholars refer to as *maqasid al-Shari'a*, the objectives of Shari'a. Much of the industry has focused on luxury real estate financing and trophy assets, and in some markets, it ignores SME financing or social inclusion. Retail customers in particular have often complained that they see little or no difference in the ethical outlook of an Islamic bank versus the conventional equivalent. Where, for example, are considerations of environmental, social and governance concerns? This may partly explain why take-up of Islamic products in some markets has slowed in recent years.

Islamic banks have also not been the quickest off the mark to embrace the revolution in financial technology. Like their conventional counterparts, they tend to view technology as an enabler, not a disrupter: in other words, a means to make their products less costly and more efficient, but without radically altering its fundamental nature. Hand in hand with making improvement in costs and efficiency in their existing operations, Islamic banks would also do well to learn from conventional fintech challenger institutions and potentially grab a slice of a younger, more tech-savvy, more entrepreneurial and more socially aware demographic.

This newer breed of Islamic fintech is likely to attract a wider customer base, including the non-Muslim market. The potential even exists for a full-service global digital Islamic challenger institution. Through the work I do for the UK Islamic FinTech Panel and iE5, the global Islamic economy accelerator, I am currently having around a dozen conversations with prospective stakeholders in this field.

What types of products and services are these new players developing?

The Islamic finance market is seeing the emergence of crowdfunding investment platforms (for example, for real estate investments), e-money payment technology, debt-free home financing (on a risk-sharing basis), SME financing, charity payment apps, on-line halal insurance brokerage, market data and intelligence providers, e-learning platforms, and robo-advisory and digital wealth management products. We are not far away from seeing the emergence of a tech-based retail bank challenger.

For example, a Shari'ah sensitive investor who does not have sufficient funds to buy a property outright can now invest as little as £100 in income-generating real estate via a crowdfunding platform called Yielders. Yielders is the first Islamic fintech in the UK to be authorised by the Financial Conduct Authority. Similarly, Wahed Invest, the online halal wealth management platform and robo-advisor, allows investors to start with a minimum allocation of £100.

Islamic fintech is not just concerned with replicating the services of traditional financial institutions. In the last ten nights of the month of Ramadan, considered the most holy nights of the year in the Islamic calendar and a time when many Muslims are making their annual donations to charity, the app MyTenNights automates donations over those last ten nights. Other tech companies are working on more sophisticated platforms to connect mosques and charities to donors in a slick and efficient manner.

IslamicMarkets.com, the market intelligence provider and e-learning platform, has recently undergone a fresh funding round to set it on the way to becoming the leading data provider for the global Islamic economy. The Covid-19 crisis has, paradoxically, boosted its business because of the trend towards remote learning and desktop research.

These are just some examples of the myriad of tech companies making inroads into the digital Islamic finance and halal economy.

Harris Irfan

Harris Irfan is a Partner at Gateway Global LLP, the professional services firm, Chairman of the UK Islamic Fintech Panel and board member of multiple tech companies, including the Islamic/ethical economy accelerator, iE5. Harris co-founded Deutsche Bank's Islamic finance team and was CEO of its Islamic finance subsidiary. He was subsequently appointed Global Head of Islamic Finance at Barclays and Head of Investment Banking at European Islamic Investment Bank/Rasmala. Harris is author of *Heaven's Bankers: Inside the Hidden World of Islamic Finance* and was ranked in the UK Top 100 BAME Tech Leaders by the Financial Times/Inclusive Tech Alliance.

New companies such as those you just described are interesting, but won't the role that they play within the Muslim community be marginal?

Such companies are marginal today, but there are two reasons why I think they will be important in shaping the future of Islamic finance.

First, these are companies that are developing genuine technology-led financial products, as opposed to providing a technological gateway to existing financial services, which is, with all due respect, how technology is being used by many traditional 'bricks and mortar' Islamic and conventional banks.

Second, these new innovative companies have a vision that extends well beyond traditional banking and finance to take into consideration, for example, lifestyle choices that are more relevant to Muslim communities, such as ethical questions related to environmental and social issues. These are firms that have Shari'ah values in their DNA from the moment they are formed, and their management teams live the values that their companies espouse. In fact, these companies' cultures are themselves reflections of their founders' personal values.

In contrast, and in my opinion, for many traditional financial institutions, both Shari'ah-compliant and conventional, topics such as ESG, the UN's Sustainable Development Goals, or wider economic considerations like charity (zakat and sadaqa), or endowments (awqaf), are still marketing tools or compliance issues that are appended to the underlying business model.

That sounds fine in theory, but how will these firms be able to touch millions – or hundreds of millions of people – including those in countries where financial services are still quite rudimentary?

This is, literally, the £64 mn/bn question! Or to be more accurate, the $5 trillion question if we take the whole global Islamic economy into account.

I am seeing a very interesting evolution currently taking place in the industry. A number of start-ups are working on standalone products, each dealing with one aspect of the financial services industry. But their social network, dynamism and shared experience mean they are collaborating with and learning from each other at an extraordinary rate. Some forward-thinking investors are getting close to these early-stage entrepreneurs and, in some cases, are even seeking to build up a portfolio of diverse Islamic fintechs with a view to consolidating them into something that is greater than the sum of its parts.

Of course, it is equally possible that traditional financial institutions will become investors in these technology-led start-ups and acquire one or more of these tech start-ups to bolster their own tech capabilities and widen their customer base. That means the reach could increase exponentially, just as it has done for conventional fintech firms like Revolut.

This is not a theoretical possibility I am putting forward. This is actually happening through the work of the UK Islamic FinTech Panel and its members, who include international hubs like Dubai, Bahrain and Qatar. There have been a number of successful funding rounds of Islamic fintechs in the past 12 months which point towards an industry boom not dissimilar to that of the early 2000s.

I don't want to speculate wildly and over-optimistically about the future in this current economic crisis, but I do think it is noteworthy that the bolder investors have not slowed down due diligence on investments as a result of the Covid-19 pandemic. If anything, some of these companies, like the market intelligence provider, IslamicMarkets.com, are getting even busier through promoting their e-learning and other remote tech capabilities.

Historically, the GCC and Malaysia have been the regions where we have seen the greatest development of Islamic finance, both in terms of Shari'ah-compliant financial products and regulatory infrastructure. Do you think these regions will continue to be the leaders?

The GCC and Malaysia are demographically much more important to the Islamic markets than the UK and US. However, we are seeing the emergence of Islamic fintechs from the latter two, especially London, simply due to the extraordinary financial and technology talent that already exists there, as well as London's connectivity with the rest of the world. As a result, we see funding and financing platforms like Yielders and Primary Finance, as well as a raft of potential Islamic banking and wealth management platforms, like Kestrl.

Southeast Asia also maintains its reputation in Islamic finance and technology, as evidenced by IslamicMarkets.com in Kuala Lumpur and Blossom Finance in Jakarta, which is the first 'smart sukuk' platform.

What's critical to all of these emerging fintechs is global connectivity. If an entrepreneur develops a product that has regulatory approval in a market with a population of less than a million and no passporting rights outside that market, his or her company will struggle to build scale. Sharing of ideas is as important as lowering of trade barriers, and London is still the number one (conventional) fintech location in the world. In the last count of Islamic fintech companies, it ranked second behind Malaysia, which is extraordinary given the UK's much smaller Muslim population and the lack of formal governance oversight to bolster and encourage this specific niche industry (although that is changing with the advent of the UK Islamic Fintech Panel). London's central time zone and links with the Gulf and other Muslim-majority regions give it a geographical and political neutrality. I believe London will lead the development of the next tech-focused phase of the Islamic finance industry, but it will require those crucial links with the Gulf and Malaysia to make it a success.

How is the Islamic scholar community responding to financial innovation and fintech in Shari'ah-compliant markets?

Just as we're seeing the emergence of young and forward-thinking tech companies, we're also seeing a new class of scholar emerging. The industry will always need the wisdom and experience of established figures like Bahrain's Sheikh Nizam Yaquby and Malaysia's Dr Daud Bakar, and they continue to offer valuable guidance as the industry evolves.

But recently, names like the UK's Mufti Faraz Adam have started to make a name for themselves in areas that need fresh thinking at a sophisticated level. Mufti Faraz's paper on the Shari'ah considerations of Bitcoin, for example, was a technical *tour de force*, and a stark contrast to the misguided diatribes of some social media community scholars and imams who chose to attack cryptocurrencies without apparently any insight into modern finance or economics.

Scholars like Dr Daud and others like Primary Finance's Sheikh Badrul Hasan are also proving to be entrepreneurs in their own right, investing in and managing companies. Such a relationship between business and compliance is symbiotic rather than conflicting in nature, and in my opinion will lead to greater innovation and progress. ■

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The best of both worlds: investments that are both Shari'ah-compliant and sustainable

Jersey has established itself as a centre for structuring Shari'ah-compliant transactions

Shari'ah-compliant finance was taking an ethical view of investing long before the rise of sustainable investment strategies in Western financial markets.

Now, as both Shari'ah-compliant and sustainable investments expand, investors and issuers are finding increasing complementarity between Shari'ah-compliant investments and those that also comply with international standards on sustainability and ethical investing.

Arab Banker asked Trevor Norman, who leads the Islamic Finance practice at Jersey-based fiduciary services firm VG, to explain how these two investment markets are converging.

***ARAB BANKER*: What are the main principles of Islamic finance that are aligned with those behind sustainable investing?**

TREVOR NORMAN: The underlying function of Islamic finance is to serve the needs and requirements of its customers, so it's not surprising that the core products aren't that different from the products and services provided in a traditional Western or conventional financial system. Islamic finance evolved to service the requirements of Muslims and as such it operates within certain core principles derived from Shari'ah Law. This requires that any Islamic financial institution operates within appropriate moral and ethical principles, and that it promotes transactions that are for the public good, which has a natural link to socially responsible or sustainable investing.

The term that's commonly used to summarise this is *maslaha*. The literal translation is 'benefit' but *maslaha* refers to any action taken to promote any one of the five basic objectives of the Shari'ah: protection of faith, life, offspring, property and reason. In summary, the activities of Islamic finance are only appropriate if they serve the public's benefit or welfare and are not speculative.

Are Shari'ah-compliant structures likely to have any features that a conventional investor finds surprising, or even unacceptable?

Initially it may seem that there are several features of Shari'ah-compliant investment structures that conventional investors or their advisers may question, but the majority of these arise either from a lack of knowledge or simple misunderstanding. Such features include Shari'ah screening, terminology, and the role of a Shari'ah Supervisory Board; but all of these, and other potential barriers, can be resolved through education and sharing of information.

For example:

- **Limited investment horizons**. It's often thought, incorrectly, that Shari'ah Law only allows Muslims to invest in companies undertaking certain activities. The actual position is really the opposite. Muslims are allowed to invest in any company or transaction, unless the underlying activities are considered to be ***haram*** (disallowed or harmful activities under Shari'ah), or where it's financed in a ***haram*** manner, for example when there's too much interest-bearing debt.
- **Interest versus profit**: Whereas the earning (or payment) of interest is forbidden (as "usury", in cases where the return is guaranteed irrespective of performance of the underlying investment), the sharing of profits (and losses) from economic activity is fundamental to the concepts of partnership in Islamic finance. This is best summarised by a phrase that was commonly used in Islamic financial contracts: "The profits that Allah bestows on our joint venture."
- **Terminology**: I was recently on a call with an adviser who queried "the differences between the three forms of contract starting with M", to which I responded, "Do you mean Mudarabah, Murabahah and Musharakah?" I had to confess that, even after 20 years involvement in this sector, there are still times I have to think which of these may apply in a particular contractual relationship between two parties in a commercial investment structure or transaction. Each of these Islamic contracts has an economic parallel in conventional finance – most obviously the Islamic product Ijara which is very close to conventional leasing – although the subtle differences must be noted and adhered to.
- **Cost v benefits of a Shari'ah supervisory board**: There are several misconceptions which largely arise from lack of knowledge or experience in dealing with Shari'ah scholars. Once it's explained that their role is as a passive adviser to be consulted over issues requiring clarification, rather than active investment selection or involvement in the management of the structure, this is no longer a major problem. Fortunately, the days of '*fatwa* shopping' (in which investment managers would consult a series of scholars until they received the opinion they wanted) are long behind us and many investment structures are now subject to more general approval as the Islamic finance sector has matured, and the use of precedents and standardisation of documentation have started to become a reality.

Trevor Norman

Trevor Norman is the Director of the Islamic Finance and Funds Group at VG. He is a Chartered Accountant and member of Society of Trust and Real Estate Practitioners (STEP). As an acknowledged industry specialist in Islamic finance, he assists GCC families and institutions in structuring the ownership of assets through the use of structures established in Jersey and elsewhere. Since 1995, he has worked on a wide variety of Shariah-compliant transactions, including several real estate funds, various specialist Shariah-screened equity funds, and Sukuk structures.

VG is one of Jersey's largest, independent and privately-owned providers of fiduciary and administration solutions, with a range of services including funds, companies, trusts, foundations and structures to hold real estate investment. The firm is widely recognised for its award-winning expertise in Islamic finance.

In summary, the real problem is a lack of knowledge regarding the differences between a Shari'ah-compliant investment structure and a conventional structure; or as I would prefer to put it, a lack of knowledge regarding the similarities.

What are the principal guidelines for ethical investors worldwide?

There are many variations on the definition and basis of ethical investing, but the generally agreed summary is that it's a type of investing that takes into account investors' personal values and beliefs. As such, it will mean different things to different people. An individual's values are derived from sub-sets of social, moral, religious, political and environmental values, many of which overlap with others, and some may even conflict.

These factors include:

Social: Societal factors dictate what's acceptable to a particular society and what's not. As I mentioned earlier, in a Muslim society these are generally summarised within the concept of *maslaha*, which requires that a Muslim considers what could be beneficial to society as a whole, prior to making investments.

Moral: Investors won't invest in any industry or company that doesn't align with their moral values. For example, if an investor has strong feelings that certain industries such as tobacco manufacturing companies are against their morals, they wouldn't want to invest in this sector. Typically, this form of investing is viewed as negative screening, and has certain similarities to haram screening, which is one example of the overlap between these categories.

Religious: Every religion has its own practices, beliefs and culture; but while certain sectors of the media seem to concentrate on the differences, I prefer to highlight the similarities. Most of your readers will be very aware of the prohibitions under Shari'ah Law relating to investing in alcohol production, but this is also to be found in the preaching of John Wesley, the founder of the Methodist Church, along with his injunction to refrain from investing in industries that harm others.

Political: The political climate can affect the way investors perceive the state of the economy and thus influence their investing patterns. This is particularly important in times of crisis similar to those we have recently seen, and in previous economic downturns where investors' confidence in governments and their policies influences the choice over whether to invest or divest.

Environmental: Environmental or 'green' investing is rapidly growing in importance. What started in the 1990s as a move away from fossil fuels and into investment in renewable energy such as wind farms, has developed into an increased focus on mankind's effect on the environment, sometimes referred to as the 'Blue Planet' effect, and this in turn has led to the establishment of several 'green' investment funds.

It follows that ethical investing is a very personal matter, and the criteria described above will influence different people in different ways, so generic policies and standards for ethical investing are not possible. However, within the green sector, standards for green bonds are evolving, such that with a greater sharing of information by organisations such as the Climate Bond Initiative and the International Capital Market Association's Green Bond Principles it's anticipated that international standards and guidelines will be agreed.

Can you give some examples of how Shari'ah-compliant financial products and sustainable financial products are overlapping?

As I said earlier, sustainable investment isn't new. There has been overlap in the asset management industry for some time, with Shari'ah-compliant fund managers embracing sustainability standards in order to broaden their investor base, and some evidence of conventional managers adopting procedures and screening to attract Muslim clients and investors for that same reason.

Malaysia has led the way in this sector. In 2014, the Malaysian Securities Commission revised its Sukuk guidelines by incorporating new requirements for the issuance of socially responsible investing (SRI) Sukuk. These guidelines set out that the proceeds of SRI Sukuk can be used to preserve the environment and natural resources, conserve the use of energy, promote the use of renewable energy and reduce greenhouse gas emission. These are still early days in the development of Green Sukuk, but it does already seem clear that Sukuk structures lend themselves easily to sustainable finance. By their very nature, Sukuk are restricted to a pool of approved assets and environmentally friendly projects, and so enable a socially responsible client to invest in renewable or clean energy initiatives.

One advantage of Sukuk is their similarity to a securitised debt instrument that's more widely understood by the conventional markets. In one Sukuk structure that we established for a client in the mid-2000s the whole tranche for one tier of the overall issue was purchased by the investment arm of a UK high-street bank. Following various discussions regarding the differences and similarities of Sukuk and conventional debt securities, they decided to invest based upon the quality of the underlying issuer and the return that was supported by the underlying assets. Conversely, in another structure, we were working towards issuing conventional debt secured against the leases of a pool of assets; but following interest from an Islamic financial institution the structure was reworked to become Sukuk al-Ijara.

Unfortunately, although Sukuk would seem to be an obvious answer for any corporate with green or sustainable credentials seeking to raise medium-term funding, low interest rates and the availability of cheap conventional debt in some markets are having an adverse impact on Sukuk issuance, although this may change in a post Covid-19 business environment

Why is VG, a firm based in Jersey, so heavily involved in this intersection between Shari'ah-compliant and sustainable funds?

VG launched Jersey's first Shari'ah-compliant real estate fund for a Geneva-based Islamic Finance Institution in 1996 and this led to us establishing a number of similar structures for other clients. As a result, we found that we had developed some useful expertise in an expanding and very exciting part of global financial markets. Since then, we've continued to expand our offering to support clients in the Muslim world, whether they're looking for a Shariah-compliant structure for international real estate investment, or a Shariah-compliant fund.

A major factor in the continuation and development of our offerings in the GCC and other markets was the flexibility of Jersey's commercial laws. I've never had a problem accommodating Shari'ah-compliant forms within Jersey's legal system. Furthermore, our regulatory authority has been receptive to the requirements of these structures.

As a forward-thinking jurisdiction, Jersey prides itself on providing innovative products and services. We've developed a range of competitive, flexible structures that can be adapted to meet philanthropic and sustainable investment objectives including trusts, foundations, limited partnerships and a variety of fund structures. Jersey is recognised as a choice domicile for Alternative Investment Funds, as evidenced by its growth in assets under management in the past 12 months.

VG's long-standing track record of establishing Shari'ah-compliant and ethically focussed structures, coupled with Jersey's credentials as a jurisdiction for sustainable and Shari'ah finance, offers a natural fit for clients looking to a provider to administer Shari'ah-compliant and sustainable funds. ■

SMCR in a Covid-19 and post-Covid-19 world

The UK's Senior Managers and Certification Regime (SMCR) has transformed the responsibilities and accountability of senior managers working in UK banks, including branches of overseas banks. Entering into force in 2016, SMCR has forced senior managers and other staff to take more direct responsibility for their work and conduct, while also clarifying where responsibility for various aspects of the business lies.

But SMCR was designed in a pre-Covid-19 world, when most meetings were held face-to-face and working from home was exceptional rather than common. As the Covid-19 pandemic recedes, many practices from the lockdown will remain – it is unrealistic to think that everything will return to the way it was before.

Arab Banker asked Bruk Woldegabreil, who supports banking client relationships for Grant Thornton, and Sonia Shah, the firm's SMCR subject matter expert, to identify some best practices for aligning new work practices with the SMCR regime.

***ARAB BANKER*: We are seeing banks phasing the return of their staff to their offices. Does the need to comply with SMCR have any bearing on the order in which staff should be brought back?**

The SMCR itself does not prescribe any order in which staff should return to work – after all, when SMCR was conceived, no one was anticipating the kind of disruption that we've seen under the Covid-19 lockdown. What matters is that those who hold Senior Management Functions (SMFs) need to continue to comply with all of the Regime's requirements, whether their colleagues or teams are based remotely or are back, physically, in the office.

We expect that firms will be placing greater emphasis on the wellbeing of their personnel and that they will follow government guidelines in supporting people when they return to their offices. For those continuing to work from home, SMFs should ensure that their teams continue to maintain business continuity and that individuals in the firm are in good physical and mental health and wellbeing, for example by checking in with them through video calls or organising a virtual social event.

One of the lasting changes brought about by the Covid-19 lockdown is likely to be that staff, including senior managers, will be spending a greater proportion of their time working from home. What implications does this have for SMCR compliance?

The fact that some staff are now working remotely, and some elements of the business are being conducted in very different ways, does not give license for SMFs or firms as a whole to operate outside the established organisational structure which has been documented, and shared with the Regulator, in the firm's 'Responsibility Map'. When a situation arises that requires a decision from an SMF, the firm's protocols will still need to be followed, and that includes ensuring that senior managers can be brought into the decision-making process when necessary – whether by web conferencing or other means – and documenting such discussions in the same way that was done before, including any accommodation of web conferencing to loop in the necessary senior decision makers.

Regulators are aware of the challenges being faced by firms and have shown a degree of flexibility on certain timelines. That said, the Regulators' codes of conduct, applicable rules and expectations on firms have not changed and the need to keep regulators appraised of any relevant challenges that a firm is facing, the solutions that are being put in place, and officers who are accountable, remains as important as ever. Despite the difficult circumstances that everyone is dealing with, it's important to give regulators warning if deadlines or reporting dates are going to be missed. The Regulators, as before, do not welcome surprises.

We have seen that firms are able to maintain their business flows even while a significant number of people are working from home – we are all now much more proficient at using

Bruk Woldegabreil

Bruk Woldegabreil leads Grant Thornton's relationships with small-to-medium-sized banks, challenger retail brands and new digital platform financial services providers. He is the key contact for overseas banks in the UK and specialises in business risk services, such as internal audit, tax and regulatory matters.

Sonia Shah

Sonia Shah leads Grant Thornton's SM&CR and Governance Assurance practice in London and works both with UK companies and the firm's global clientele. She is a key contact for regulatory governance matters in the finance, risk and compliance team.

tools such as Zoom, Teams etc than we were a few months ago. However, some of the senior managers that we speak to are also worried about the volume of meetings that are being scheduled and that these risk taking over people's lives, especially when they have to allocate time for home-schooling and additional care for vulnerable friends and family. The time saved by not having to travel to work has often been cannibalised by other, Covid-specific, obligations.

Are video conferences the same as face-to-face meetings from an SMCR point of view? For example, if a bank is holding a credit committee meeting and approving loans, through a video conference, is there anything that it needs to do differently from when it holds a credit committee through a face-to-face meeting with nearly all the attendees present in the room?

Meetings that were previously held face-to-face should be held in a virtual format if face-to-face is no longer viable. The inability to meet face-to-face is not an excuse not to meet. Similar to when meetings are held in a room, during a virtual meeting, what people say can be recorded. It is important to record the face of the person speaking at any given time and, in the case of Board Meetings, for the Company Secretary to keep minutes just as they would for a face-to-face Board Meeting. Most web-conferencing platforms, such as Teams, Zoom etc, have a 'chat' function appended to the video screen where attendees can make notes to the Chair and seek an opportunity to voice any concerns, and such chat text could be considered for inclusion in the summary of virtual meetings.

Any decisions that require a vote should be clearly documented – this could be applied in different ways, dependent on a firm's technology, but each vote and voter should be clearly identifiable, and the record should be available for inspection at a later date. Board packs still need to be sent ahead of meetings but, now in a virtual format, Company Secretaries need to exercise caution in their communication methods with Independent Non-Executive Directors who operate through a personal email address. Personal email addresses often do not have the same level of encryption as corporate addresses and so are more vulnerable to fraudsters who are trying to find a route into a firm's servers and data systems.

A lot of organisations are trying to reduce their operating expenses and, at the same time, some of their product lines are seeing very low business volumes. To what extent can banks redeploy or even furlough senior staff whose workloads are reduced as a result of Covid-19?

We've seen banks redeploying their staff to other departments if they have transferable skill sets, for example, to get more staff into the departments that are dealing with the surge of business loan applications on the back of the UK Government's support schemes. The Government and Regulators are also encouraging firms to restart their established operations and, where any disruptions have been felt, to maintain continuity of critical services for financial services clients.

If any colleagues are being furloughed, a firm should assess the potential impact on other areas of the business which are dependent on these people. So, if an SMF of a product line is furloughed (including its associated management function), then the firm needs to assess which 'active' SMF would be responsible for this area while it's mothballed and ensure that the firm's communications, especially its website, provide clarity on services that either have delays or have been suspended.

Do banks need to inform regulators if their working practices have changed: for example, if a much greater proportion of participants in a key regular meeting are now dialling in rather than being physically present, or if those holding senior management functions are now spending a materially greater amount of time working from home?

Banks do not need to inform the Regulator regarding remote or alternative working arrangements that they have put in place, insofar as the firm is using established business continuity processes which the Regulator would either have known of or would reasonably expect of the firm. However, if the firm's Responsibility Map has changed in terms of key decision makers, e.g. due to serious illness, or if a 'material' issue has obstructed the firm from carrying out its resilience measures, then the Regulators must be informed, in line with Principle 11 of the FCA's Handbook and Fundamental Rule 7 of the PRA's Rulebook.

Other circumstances where the Regulators need to be informed would be, but not limited to, when the firm is unable to meet any regulatory requirement or when it's in financial difficulty and, therefore, concerned about its capital and liquidity requirements.

For regular engagements with the Regulator that have now had to be adapted into a virtual format, the same principles would remain in play: ensure attendees have prepared (and submitted) any requests from the Regulator ahead of the video call, maintain good web-conferencing discipline with one person speaking at a time, and make sure that all IT aspects of the call are in place and properly understood well before the meeting is due to start: getting stuck dialling into a meeting with the Regulator would come across in the same way as arriving physically late to a face-to-face meeting. ■

Responding to data requests effectively and efficiently in a post-Covid-19 world

Following the implementation of the General Data Protection Regulation (GDPR) in 2018, there has been a huge increase in the number of data subject access requests made to banks and other firms. Whether this is an intended or unintended consequence of the Regulation is a moot point. The fact is that companies are having to devote unprecedented resources – both in terms of staff time and financial cost – to understanding the new requirements and fulfilling their obligations.

Gareth Oldale manages the Data Privacy and Cybersecurity Practice at UK law firm TLT and is based in London. In the following interview, he identifies priorities for banks when they receive data subject access requests.

ARAB BANKER: What has changed, as a result of the GDPR, in terms of people's rights to access data that is held about themselves?

GARETH OLDALE: One major feature of the GDPR is to require firms to inform people when they collect data on them, for example when they use cookies to monitor people's actions when accessing a website. The levels of transparency required have definitely increased when compared to the old legal regime. The GDPR also made changes to the rights that people have in respect of data that has been collected about them. Under the old Data Protection Act, people had, for many years, been able to demand to see data held on them in electronic form. The GDPR brought in additional rights related, for example, to data portability and the right to erasure of personal data (the so-called 'right to be forgotten'), but its biggest impact has come from the way the GDPR makes people's rights clearer and easier to enforce.

The most evident effect of these enhanced rights has been a huge increase in the number of data subject access requests (DSARs).

What are the changes that the GDPR made to the DSARs regime?

Firms used to be able to charge £10 for handling a DSAR, which wasn't a lot, but it was enough to make some people stop and think, especially if they were planning to submit multiple requests. Under the GDPR, organisations can no longer charge for processing the request, unless there are exceptional circumstances (e.g. if the request is manifestly unfounded or excessive). Another change under the GDPR is that the time that firms have to respond to a data request has been reduced to one month from 40 days. Whilst this time period can occasionally be extended by a further two months, to make three months in total, the circumstances in which the extension can be applied are extremely limited.

There is also a general trend for plaintiffs to use DSARs as a litigation tool – they have always been able to do so but making a DSAR is now much more routine. In particular, post-GDPR there has been a surge in demands from claims management companies (CMCs) acting on behalf of large groups of individuals, for example following large-scale data breaches. CMCs now regularly submit bulk DSARs on behalf of their clients, meaning that banks can find themselves with an influx of several hundred complex DSARs all arriving on the same date from a CMC, and all requiring a response within a month. Requests of this nature require a huge amount of resources in order to respond to the DSARs within the statutory time period.

I think what has really changed over the past couple of years is that people are more aware of their data rights than in the past, as a result of the publicity around GDPR implementation.

All of the above factors, when taken together, mean that organisations now come under far greater pressure when responding to DSARs. The number and complexity of DSARs have gone up, the time for responding to them has gone down, and the penalties for transgressing the GDPR have

Gareth Oldale

As TLT's Head of Data Privacy and Cybersecurity, Gareth advises private and public sector clients on data protection, privacy and matters related to information law. He acts as the external data protection officer for a number of clients. He is regularly instructed to advise on cybersecurity and cyber breach issues.

TLT is a leading UK commercial law firm that provides advice across all areas of law that can affect banks doing business in the UK or entering into lending arrangements based on English law. It specialises in a number of key sectors including financial services, and has a deep heritage advising non-UK banks on issues that include complex and high profile matters.

increased significantly – including fines of up to €20 million or 4% of annual worldwide turnover for the most serious breaches.

What are the typical reasons why people make a DSAR request?

By their very nature, DSARs often occur in an adversarial context. For example, DSARs are routinely issued by employees who have been dismissed or made redundant, or when there has been a data breach and people are considering a claim or class action against the firm responsible.

Sometimes we see DSARs submitted by bank customers who are aggrieved that they have been refused a loan or had an account opening request rejected, and they want to use a DSAR to find out why.

Can a firm ignore a DSAR?

DSARs cannot be ignored. Data controllers have a statutory obligation to respond to requests of this nature and failure to do so could lead to enforcement action, including potentially very large fines in the most serious cases.

Whilst DSARs cannot be ignored, there are various exemptions which could apply, depending on the circumstances in each case. For example, personal data relating to a third party should not normally be disclosed. Similarly, where legal professional privilege applies, any personal data contained within those documents would likely be exempt from disclosure.

More generally, DSARs can also be rejected if they are found to be, 'manifestly unfounded or excessive'. So, if a company is confident it can show that a request is rooted in a personal grudge or is being used to harass an organisation, then it could have grounds for refusing to comply because the request is 'manifestly unfounded'. As for 'excessive' – that might, for example, encompass a series of requests for the same data made over a short span of time.

However, firms should bear in mind that the GDPR's focus is on protecting individuals rather than firms, so they should be very sure of their ground, and take legal advice, before refusing to comply with a DSAR. Both the courts and the Information Commissioner's Office (ICO – the regulator) have made clear that they will take narrow interpretations of the law when considering exceptions to DSAR rights under the GDPR.

How can a firm minimise the cost of responding to a DSAR?

The first thing is to try to work with the person who has issued the request to find out what they want. Unless the request is a malicious attempt to cause the company as much inconvenience as possible, the person requesting probably doesn't want to have to wade through tens of thousands of emails any more than the company does. So, an approach that says, 'Let's work together to get you what you want' can often be effective.

But if a company has to comply with the request – and in the vast majority of cases it does – then the company must undertake a search that is 'reasonable and proportionate'. In practice, in the case of a very wide DSAR (e.g. 'give me a copy of all personal data that you hold on me'), this will entail reviewing emails of everyone with whom the requester has

had contact, and messages between that person and others that are stored on work phones, including social media applications such as WhatsApp. That's a huge task.

Having said that, the fact that a requester is mentioned in a document does not in itself mean that that document constitutes 'personal data' that must be disclosed. In order for information to constitute personal data, it must do more than simply identify the individual – it must concern them in some way. The courts have made clear that the purpose of DSARs is to enable a requester to check whether the data controller's processing of their personal data has unlawfully infringed their privacy – a DSAR is not an automatic 'key' to any information in which the requester may be named or involved.

The burden of responding to a DSAR is widened by the need to redact information that's confidential to other individuals, or which comprises information relating to the company's general commercial activities. For example, if an email contains three paragraphs of text setting out the terms of a new loan facility, one containing personal data relating to a third-party loan applicant and then a final paragraph relating to the individual who has submitted the DSAR, it's likely to be the case that only the final paragraph of the email should be disclosed in response to the DSAR. Attention therefore needs to be given to ensuring that only information which should be disclosed, is disclosed, especially where documents contain information relating to more than one individual. We have advised organisations on a number of data breach claims recently where one individual has submitted a DSAR and has then received personal data relating to a third party in error. This usually happens because insufficient time is spent reviewing the documents before issuing a response to the DSAR. It's an issue which can be easily avoided by applying greater diligence to the DSAR review process.

CCTV is another area of particular concern. The regulator has made clear that CCTV falls within the scope of the GDPR so, for example, if a customer is captured on a CCTV camera in a banking hall, that might need to be disclosed in response to a DSAR. However, the identities of other people in the CCTV footage would first need to be obscured (unless they had consented to their personal data being shared with the person submitting the DSAR), for example by pixilating their faces.

At TLT we have electronic tools that can conduct searches of vast data sets, and help to make the redactions more efficiently, according to a set of criteria established by the company responding to the DSAR. It's not only quicker and cheaper than using staff to handle the whole request, but it's also more reliable.

As the number of DSARs increases, firms are not only eager to find technology-based solutions, but in many cases they're also keen to outsource the DSAR response process so as to minimise the disruption to their businesses.

How effective is an electronic search?

Electronic searches and other technological tools cannot completely replace human involvement, but they can conduct a lot of the 'early stage' work and so enable human intervention to begin at a later stage in the process, when it can add more value, for example, by ensuring that search criteria have been properly set, or ensuring that alternative names used by the plaintiff have been searched.

As a result of the Covid-19 outbreak, we are all now painfully aware that our staff are vulnerable to viruses, not just our computer systems. All firms are now looking for tools to automate processes as a way of enhancing their reliability – it's not just a question of cost savings, although those are significant.

Running a computer-based response to a DSAR is also much quicker than using human staff. For example, the technology tools can quickly de-duplicate long threads of emails, which can significantly reduce the number of documents requiring human intervention. As such, although a technological solution cannot be a substitute for all human involvement, it will certainly reduce the level of dependency on human staff.

Can firms expect any loosening of their GDPR obligations as a result of the additional burden presented by the Covid-19 outbreak?

The ICO issued a statement on 15 April in which it recognised that, as a result of the Covid-19 outbreak, organisations are facing staff and operating capacity shortages, some firms have had to re-deploy staff, and many organisations are facing financial pressures. The ICO said that, as a result, it would take pragmatic and proportionate approaches to its regulation during the Covid-19 emergency, recognising, for example, that it might take firms longer to respond to data requests. The ICO also said it would take into account that a shortage of resources could be a mitigating factor in any data breach by a regulated firm.

This is not to say that firms now have free rein to ignore GDPR requirements when handling DSARs. The ICO has also confirmed that the statutory time periods for responding to DSARs (and data breaches) remain unchanged. It's more that the ICO will take into account difficulties faced by organisations resulting from the Covid-19 pandemic if it receives complaints from individuals of delays by those organisations in responding to DSARs. To put it another way, the rules have not changed, but the ICO's approach to regulating infringements of those rules has been temporarily altered.

As we emerge from the crisis, we at TLT would certainly not advise firms to assume that the ICO will continue to take a lenient approach going forward. ■

Covid-19 lockdown brings opportunities for those taking flexible and innovative approaches to property finance

Mutual Finance Ltd, is a London-based property firm that has financed annual transactions worth hundreds of millions of pounds. In the following article, Mutual Finance's Founder and Managing Director, Raed Hanna, explains how the Covid-19 pandemic affected the London commercial property market over the spring and summer of 2020, and he considers the industry's prospects for the months ahead.

In early 2020, we were all sitting in our offices watching the news as China seemed to be wrapped up in another epidemic that was similar to SARS and it all felt so remote and removed from us here in the UK. However, things swiftly moved on, and before we knew it Italy, then Spain and the rest of Europe, followed very quickly. In early March, I sat in our Mayfair offices and spoke to the team about the prospect of having to work from home – and even at that point the whole scenario seemed surreal and distant. Never for one moment did I expect that we would be vacating the office and the entire Mutual Finance team would be working from home for the next six months. There were some obvious teething troubles with IT and communication, but these all seemed to get resolved quickly and people adjusted to home working.

That being said, the entire real estate industry was in the same position and very quickly all offices were emptied; staff were either sent home to work or placed on furlough. The initial reaction was one of calm. The people we spoke to were all rather cautious, but at the same time positive that we would work our way through this.

But what actually happened in the marketplace?

In the lending world we saw an immediate response on all new business. This is not to say that all lenders shut up shop and stopped lending. They just took a little time to adjust to the new economic environment and decide how best to progress. There were a few banks which took some time to alter their credit policy to take on board the challenges of Covid-19. However, most lenders took a sector-by-sector view and continued to lend on more prudent terms. Typically, we saw margins increase by about 0.5% and loan-to-value (LTV) ratios reduce slightly too. One or two institutions did stop lending entirely, but this was driven by their requirement to assist existing clients and manage current loan books.

One point that should be noted is that existing business that was already agreed, with credit lines approved, was generally honoured without significant change. Lenders did all that they could to make sure that where clients had commitments to complete transactions, they were able to do so in a timely and efficient manner. For example, Citibank's hotel team completed a £340 mn deal for Constellation Hotels to finance two super-prime London assets – the Berkeley and the Connaught. So even transactions on assets that were facing the deepest slump were still being completed.

In the general commercial real estate sector, the first thing that we saw occurring was a plea from tenants to landlords to be patient and work with them to overcome their inability to pay rents. Then, of course, in turn we saw landlords turning to banks and asking the same of them. Our experience has generally been that tenants, landlords and banks have been collaborative in trying to deal with these situations. For the most part, we did not see too much of an issue with the end-March/first-quarter rental payments and overall these were paid in part or full, with agreements to deal with any shortfalls put in place. But this left us worried about what would happen at the end of June/second quarter.

June came and went, and again there was a collective approach from all parties to try to get things moving. The retail and hospitality sectors were hit the hardest and very few were able meet rental obligations in June. This, of course, creates a cascade effect where cash does not flow through the system and ultimately debt does not get serviced, whether that be interest or amortisation. Typically, we would see lenders taking a hard line with facilities in default; but government guidance to show some forbearance has created a stay of execution for a large number of facilities. The payment extensions offered and the enforced patience being shown by lenders are giving tenants and landlords time to enter dialogue and resolve the issues.

A positive example of how tenants and landlords have been working together is highlighted by our experience in the hotel sector. One of our clients owns a major central-London hotel that is let to an international hotel chain on fully repairing and insuring (FRI) lease terms. The lease had about seven-to-eight years remaining until the tenant would be able to exercise a break option. The tenant approached the landlord ahead of the end-June quarter to open a dialogue regarding a rental mortarium. Of course, the landlord saw this as an opportunity to re-negotiate the current lease terms.

In a good-spirited discussion, the landlord asked the tenant to consider removing the break option and indeed to extend

Travelodge and Whitbread, the owner of Premier Inn, have taken very different strategies in dealing with their landlords.

the lease to a 'term-certain' (that is, no possibility of change) 25 years. The tenant had no intention of leaving one of its best-performing London hotels and therefore was amenable to considering the request. Ultimately it was agreed that the lease would be extended in exchange for a six-month rental break. This meant, however, that the value of the asset increased significantly from around £150 mn to around £200 mn. Throughout this discussion, bankers were consulted and indeed were part of the decision-making process, giving their blessing and consent. The banks' overall LTV position improved meaningfully from around 70% to around 55% once the new lease was agreed.

There have, of course, been some winners in the market: we have seen banks eager to look at deals for food retailers, storage, distribution and family residential transactions in the private rented sector.

If you look at the attitude of the two leading UK hotel chains –Travelodge and Whitbread (which owns Premier Inn) – they have both taken very different strategies in dealing with their landlords. Travelodge is taking a very uncompromising approach, threatening a Corporate Voluntary Arrangement (CVA) to prevent landlords' action. On the other hand, Whitbread has been working with landlords and has turned to shareholders for support. It has successfully completed a £1 bn rights issue (which was heavily oversubscribed) which will provide the company with additional funds to weather the transition back to normality, and even expand its existing offerings. The two attitudes could not be further apart.

Our clients who are based in the residential development industry seem surprisingly upbeat at present. Although initially some building sites slowed down and estate agents were unable to provide viewings, this has now changed. We hear from our clients that they are selling new homes faster than before the lockdown and that the stamp duty holiday is boosting sales. They have also commented that the difficulties in the commercial sector are very positive for them. It would appear that a number of town-centre commercial properties and sites will now become available at a reduced price due to tenant failure. This frees up these 'brownfield' opportunities for the development of new homes.

But what is going to happen next?

I think from an economic standpoint the worst is yet to come. Inevitably there are going to be further casualties in the retail sector. Tenants are going to fail and leave landlords with vacant properties where the prospect of re-letting is bleak. Unable to meet their loan covenants and repayment obligations, landlords will struggle. Ultimately the goodwill and tolerance of the lenders will run out and we will see banks begin to take action. I do not believe this will happen in a stampede, but a gradual increase in pace and action appears unavoidable. We are not seeing any fire sales at the moment and nobody is off-loading stock or panic selling. Yields are still firm and there are plenty of buyers waiting in the wings.

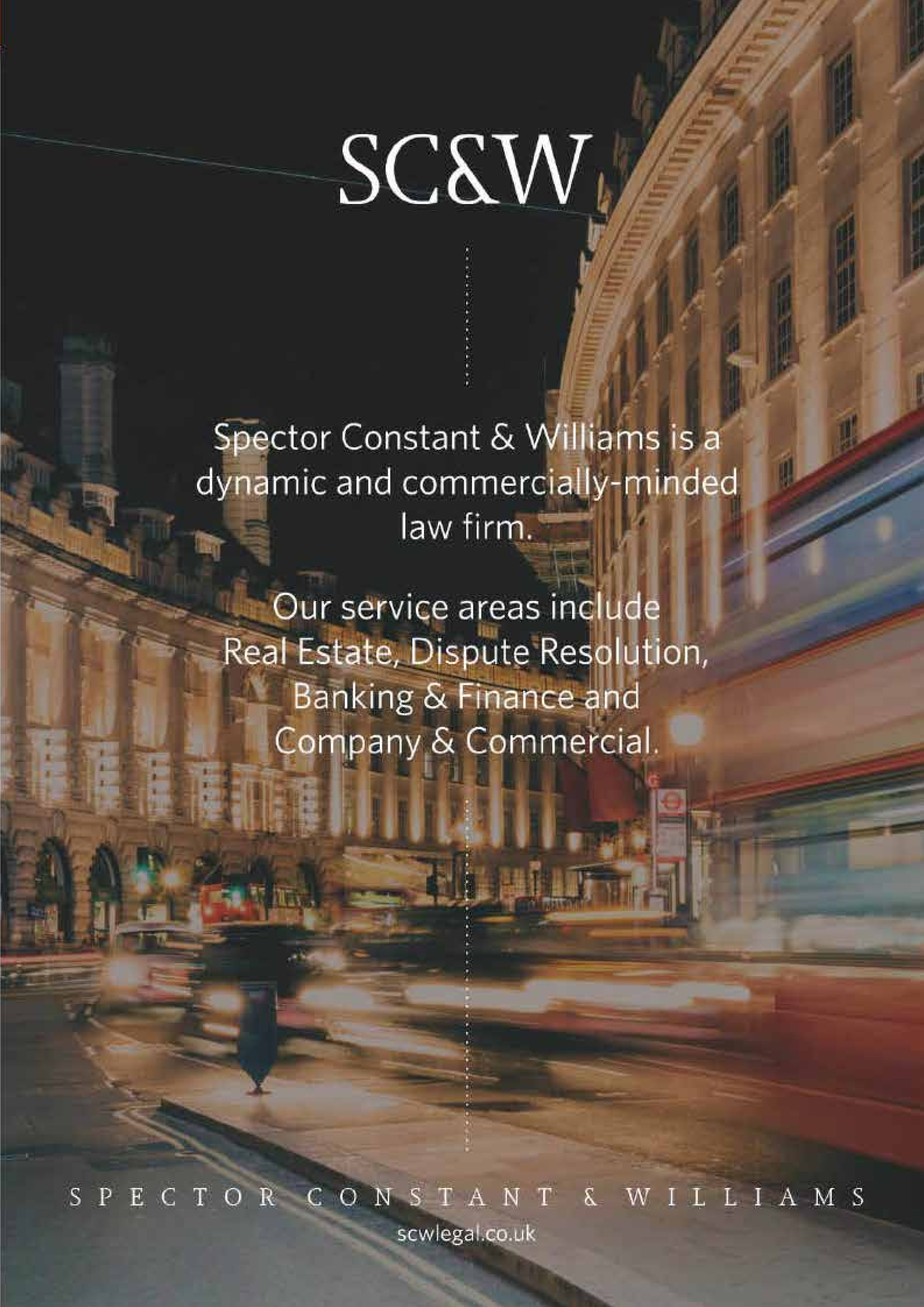
Many borrowers, through no fault of their own, will experience hardship. We still do not know how long and how deep the economic downturn will be, so lenders will continue to focus on lending to resilient sectors that stand the greatest chance of surviving the ravages of this pandemic. Sadly, in the short term, it is not going to be easy for many businesses. Apart from the lucky few, most companies will be focusing on survival, not growth, and banks will back those that are likely to prevail as winners within their sector.

This of, course, means that there is an entire swathe of sectors where finance is currently either absent, difficult or reserved for the elite. At the moment, leisure, hotels and hospitality are not on the radar of any lenders. It is these businesses that are going to be under scrutiny for the foreseeable future.

But as I opened this article, I reiterate my feelings that property is a tough industry used to rolling with all types of challenges. In fact, it may well be that this unfortunate event will be an opportunity for many to work in a market that has been crowded and highly priced for the past few years.

Uncertainty creates liquidity and the chance to work in a marketplace in which distress creates willing vendors and potential buyers with cash to invest. Every property cycle and market has opportunists looking to take advantage.

I do, however, believe that this event is temporary and that we should look beyond the current situation. We will get through this and people will look back on this time with some pride as once again the property and banking industry prove how robust, diverse and competitive we can be. ■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Continuing to serve the Arab banking community during the Covid-19 lock-down

We responded to the Covid-19 lockdown by organising a series of webinars for our members. Our financial position remains healthy.

We moved swiftly to adjust our activities when London went into lockdown at the end of March. We worked with our corporate members to design and deliver a wide range of webinars which were directly related to the challenges that Arab banks (and others) were facing.

Between April and the end of July we offered 15 webinars to our members on subjects that included the increased risk of cybercrime, the challenges of customer due diligence and non-performing loan recoveries.

We continued to act as an interlocutor between UK regulators and the London Arab banking community, arranging conference calls in May with both the Prudential Regulation Authority and the Financial Conduct Authority.

In January, we held one of our regular meetings between UK bank regulators and Arab banks in London; and in February we organised an evening seminar, on the fight against financial crime, sponsored by FTI Consulting and Mishcon de Reya; and a corporate members' lunch on the transition away from Libor, that was sponsored by law firm TLT.

As a result of the Covid-19 lockdown, we had no choice but to cancel our Eid Party, at the end of Ramadan, and our summer party, which had been scheduled for July. We remained optimistic for a time that our annual Gala Dinner, usually held at the end of October, would be able to proceed, but over the course of the summer it became clear that this too would be unrealistic. We are now reviewing whether to hold our 2021 Gala Dinner in April or at the end of October.

As Arab Banker was going to press, we were optimistic that we would be able to gather our members and friends together in December for our Christmas party.

During the lockdown, our CEO, George Kanaan, was in daily contact with ABA staff, who were all working from home.

At the end of July, we had 37 corporate members comprising branches and subsidiaries of Arab banks in London, Middle Eastern banks who subscribe directly from their head offices, and a wide range of financial services firms such as accountants, lawyers, consultants and property companies.

Our inability to hold face-to-face events reduced our revenue during the first half of 2020 and is expected to continue to weigh on our finances during the second half. Nonetheless, the Association entered the Covid-19 crisis in an exceptionally strong financial position. We have not furloughed or made redundant any of our staff.

The strength of our financial position was evident from the fact that in June we signed a contract with Space Galleon, a London-based web design firm, to upgrade and re-design our website. Our previous website, commissioned in 2013, was increasingly at risk of cyber attacks. By the time you read this, the new website (www.arab-bankers.co.uk) should be operational. We believe it will be easier to use than the previous site and will enable us to present a wider variety of material. The number of people accessing our website has been increasing steadily in recent years, and we expect that this trend will accelerate as a result of Space Galleon's work.

This edition of *Arab Banker* is the eighth since its relaunch in 2013. Each of the relaunched editions has appeared on time at the end of September and each (including this one) has produced a small profit for the magazine, except for the first issue 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 Public 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. ■


Gabriella Sidoli


Hanan AlMasood

Board of Directors

The ABA's Board of Directors is elected at the Annual General Meeting. A list of serving Board members, as of August 2020, is given below.

Abdulaziz Al-Khereiji (ABA Chairman; Board member since 2012)
Abdulaziz has been working within London's financial services sector for over 29 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 has been Managing Director of National Bank of Kuwait (International) since 2007.

Hani Salem (ABA Treasurer; Board member since 2016)
Hani is a Senior Manager in PwC's Banking and Capital Markets assurance practice. He has more than 10 years' experience auditing and advising international banks, sovereign wealth funds and other financial services firms in the UK and the Middle East. He is currently providing audit and other assurance services to one of the largest European banking and financial services organisations.

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.

Stephen Blyth (Board member since 2016)
Stephen is the General Manager of Arab National Bank's (ANB) London branch. He was appointed to this role in October 2016 having previously been acting General Manager and Deputy General Manager. He is a seasoned banker with more than 40 years' experience, much of it in the Gulf region. He has been with ANB in various senior roles since 1991, and between 1994 and 2004 was based in the bank's head office in Riyadh, Saudi Arabia. Stephen has held a variety of positions during his banking career, and for the last 14 years, in addition to jointly running ANB's London branch, much of his time has been focused on regulatory change.

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 co-head of the firm's Hotel and Leisure Group. She has almost 15 years' experience as a corporate solicitor. During her career Ayda has been involved in a broad range of work including mergers and acquisitions (both in the UK and abroad), with a particular focus on inward investment from the MENA and ASEAN regions, advising banks, institutional investors and ultra-high net worth investors. As a member of Trowers' Islamic Finance Team, Ayda advises on the corporate structuring of Shari'ah-compliant acquisitions and on the establishment of Shari'ah-compliant offshore funds. She is a fluent Arabic and French speaker.

Yasser Ibrahim (Board member since 2018)
Yasser is Managing Director, International Banking, and Co-Head of International Banking Sales at ODDO BHF, based in Frankfurt. Prior to his appointment he had been Chief Executive Officer and Managing Director of National Bank of Egypt (UK) Ltd in London. Before that, Yasser had spent more than 25 year 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 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 over 35 years' experience in the international wholesale banking sector. He also represents 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 Europe, Middle East and Africa and as CEO of its Global Asset Servicing Division, which accounts for over a third of revenues and earnings. He is based in London. Hani was previously head of EMEA investment services and has held a number of business, country and client management roles in New York, Abu Dhabi, Dubai and London.

Haytham Kamhiyah (Board member since 2020)
Haytham was appointed CEO of Europe Arab Bank in December 2018, prior to which 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 there 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 Coverage for the CEEMEA Region. He is a member of the Morgan Stanley MENA Management Committee. Ralph joined Morgan Stanley 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 2014, Ralph became head of fixed income for MENA; and in 2018, he became Head of Emerging Markets Onshore Coverage for CEEMEA. He was named Vice President in December 2007, Executive Director in December 2009 and Managing Director in January 2015.

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.

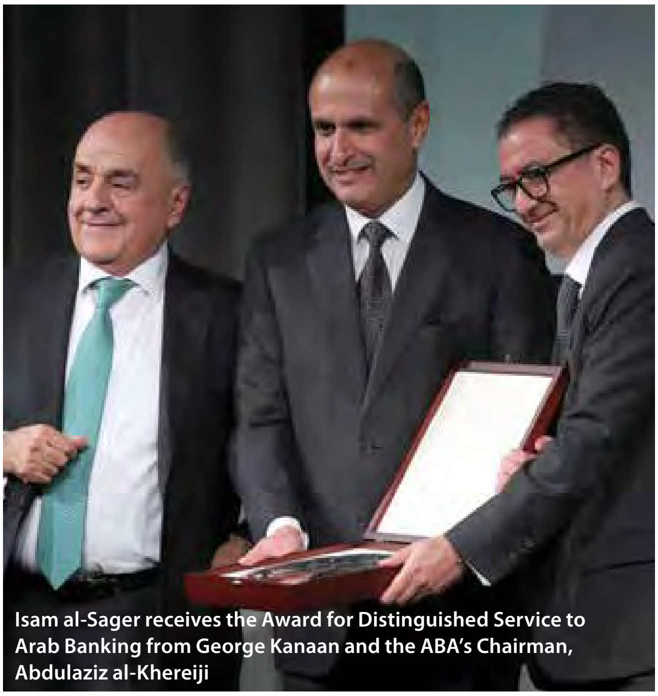
Rakan Al-Tarawneh (Board member since 2020)
Rakan is the CEO of Jordan International Bank in London. He has held this role since April 2017, prior to which he had served as Deputy CEO since April 2013. He has been with the bank since 2011. Rakan has more than 20 years' experience in the financial services 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 BLOM Bank 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 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 he has established links with many corporations and individuals seeking banking services in London.

Nearly 300 guests attended

ABA Gala Dinner: NBK's Isam al-Sager receives Annual Award for Distinguished Service to Arab Banking

Our annual Gala dinner attracted nearly 300 guests and confirmed the ABA's role as the premier forum for dialogue between the London and the Arab financial communities.



Isam al-Sager receives the Award for Distinguished Service to Arab Banking from George Kanaan and the ABA's Chairman, Abdulaziz al-Khereiji

Our Annual Gala Dinner was held at the JW Marriott, Grosvenor House, in Park Lane on 23 October.

The evening began with an introduction from the Arab Bankers Association's Chief Executive Officer, George Kanaan, who reflected on his 10 years at the helm. He noted that the Association is in better health now than at any point since he took the Chief Executive's role, with more corporate members playing a wider role, and a stronger balance sheet.

George was followed by Lord Hill of Oareford, a former European Commissioner for Financial Affairs and Leader of the House of Lords, who described, in very positive terms, the role that Britain will be able to play in the Middle East and beyond after its departure from the European Union.


Katia Jamo and Charbel Khazen, Gulf International Bank


Stephen Blyth, Arab National Bank London; Alexandra Kenna, C. Savva & Associates, Cyprus; Faris al-Ramadhi, Arab National Bank; and Mrs Angelina Blyth.


Lord Oareford delivers the keynote address


Lord Mountevans introduced Isam al-Sager


Sirens Encore provided the musical entertainment


George Kanaan and Hani Kablawi, BNY Mellon, share a joke


Magician Stephen James entertains the Riyad Bank table

The highlight of the evening was the presentation of our Annual Award for Distinguished Service to Arab Banking to Isam al-Sager, the Group Chief Executive Officer of National Bank of Kuwait.

Lord Mountevans, a former Lord Mayor of the City of London, introduced Mr Sager, referring not only to NBK's long association with London, but also to the very long-standing relationship between the UK and Kuwait. Lord Mountevans noted that Britain and Kuwait had signed a Treaty of Friendship 120 years ago, in 1899.

In his acceptance speech, Mr Sager reviewed some of the highlights of his long career in Kuwaiti banking, which have included supporting customers and staff during the Iraqi occupation of 1990–91 and piloting the bank during the Global Financial Crisis. He also looked ahead to the way in which digital banking will change and enhance the relationship that NBK is able to have with its customers.

Three opera singers – 'Sirens Encore' – entertained the guests during the evening with dazzling performances of traditional songs and recent West End hits. Magicians Spencer Wood and Stephen James caused amazement both before and during the dinner with their close-up tricks, often involving disappearing £20 notes ... which subsequently reappeared inside lemons!

We were particularly pleased by the large number of guests who flew in from the Middle East, making our dinner even more cosmopolitan than in previous years. ■

Helping our members to protect themselves from financial crime

Our first evening seminar of 2020 was focused on the threats posed by financial criminals.

On 13 February, five expert speakers explained the ways in which banks are vulnerable to financial crime, and steps that they can take to protect themselves. Guy Wilkes, a former regulator who is now a Partner at Mishcon de Reya, outlined what the UK regulatory authorities expect banks to be doing to keep themselves and their customers safe.

Other speakers were Federica Taccogna, Senior Managing Director and Partner at FTI Consulting; Piers Rake, Managing Director at FTI Consulting; and Matthew Ewens, Managing Associate at Mishcon de Reya.

Moderating the seminar was Michael Worms, Risk and Control Officer at BNY Mellon.

The seminar was followed by a buffet dinner during which participants were able to talk informally with the speakers.

The event was sponsored by Mishcon de Reya and FTI Consulting. ■


Matthew Ewens, Mishcon de Reya


Michael Worms, BNY Mellon


Grace Ogedengbe, Bank ABC; Salem Ehtawsh, Bank ABC; Carol Duncan, Lindsey Duncan Nederland


Robert Garai, Arab National Bank; Federica Taccogna, FTI Consulting; Martin Watson, BLME


Guy Wilkes, Mishcon de Reya


The team from Belleveue Mortlakes


Piers Rake, FTI Consulting

Facilitating a dialogue with regulators and other authorities

The Arab Bankers Association acts as an interlocutor between the UK Arab banking community and UK regulators. Over the past two years, this role has expanded to include facilitating a dialogue with the UK tax authorities.

Meetings with banking regulators occur approximately every six months, and alternate between the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

These meetings continued, on-line, during the Covid-19 lockdown. We held a conference call with the PRA on 7 May and with the FCA on 21 May. During these calls, the regulators briefed the heads of Arab banks on the measures they were taking to support the banking sector during the Covid-19 crisis, and also on changes to regulatory expectations arising from the challenges that the banks were facing.

On 22 January 2020, we had hosted seven officials from the PRA, including the Head of its Overseas Banking Division, Tanveer Hussain. The main topics discussed were the areas of risk on which the PRA is currently focusing, the PRA's work and expectations on operational resilience, its work and emerging expectations on how banks should respond to the climate change agenda, and recent interactions with home regulators in the Middle East.

On 22 September 2019, we hosted a meeting with the FCA that focused in particular on the concept of 'harms' that the Authority had identified and whose prevention was considered a regulatory priority. Four senior supervisors from the FCA attended the meeting.

We were due to hold a meeting with Her Majesty's Revenue and Customs (HMRC – the UK tax authority) on 25 November 2019, but this had to be postponed when the UK Parliamentary election was called for 12 December. Government officials are not permitted to discuss policy issues in the weeks preceding an election, a practice known as [pre-election] purdah. We had previously met with HMRC officials on 24 June 2019. ■

Moving our operations on-line during the lockdown

We held a series of on-line webinars during the lockdown and promoted events being held by our corporate members.

We had to suspend face-to-face events at the end of March when the UK government restricted public gatherings due to the Covid-19 outbreak. However, we compensated for this by launching a series of on-line webinars for our members, and by promoting events that were being offered by our corporate members to their own clients. All of these events focussed on the challenges that have arisen for banks as a result of the Covid-19 pandemic.

We held 15 ABA-branded webinars between April and the end of July.

For example, FTI Consulting provided a series of three webinars that addressed how to onboard new customers when face-to-face customer due diligence is unfeasible, the increased risks of sanction busting and the types of cybercrime that have become more prevalent during the crisis.

Risk consultancy Themis delivered a seminar on steps that firms should take to ensure their staff avoid becoming victims of cyber scammers when working from home. Themis also invited ABA members to attend a seminar reviewing the recently announced assessment of anti-money laundering measures in the UAE.

Other webinars were delivered by Mishcon de Reya, PwC and Towers & Hamlins.

Before the lockdown Grant Thornton was preparing to host a series of 'Regulatory Round-tables' for ABA member banks that would focus on preparing a collective response to regulatory consultations. We were pleased that Grant Thornton decided to press ahead with the programme, despite the Covid-19 crisis, using video technology instead of face-to-face meetings. ■

It's time to party!

We are looking forward to resuming our programme of social events once the Covid-19 lockdown eases further.

The ABA is a very social organisation. We work hard to help our members keep up-to-date with financial sector developments affecting Arab banks, and we are proud of the role we play as an interlocutor between UK regulators and the Arab banking community ... but we also like having fun.

Usually, we hold four social events during the course of a year: the Eid/Ramadan party, a summer party, the Gala Dinner and a Christmas party.

This year, we were unable to hold our Eid/Ramadan party and our summer party due to the Covid-19 lockdowns, and, as *Arab Banker* was going to press, the prospects for a Gala Dinner – which brings together nearly 300 people in a single room – did not look promising. However, we are optimistic that we'll be able to bring everyone back together for a Christmas party in mid-December. Keep an eye on our website where we'll post details when we have them. Meanwhile, here are some photos from last year's Christmas Party. ■


George Kanaan with Nicolas Bremer, Alexander & Partner


Zeena Farouk, National Bank of Kuwait


Shakil Aslam, Grant Thornton with Mrs Soulaf Kanaan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Children in AMAR's school in Basra

The AMAR Foundation: a small organisation doing big work in Iraq

Iraq is rarely out of the news. Civil war, violence and political turmoil, combined with the country's strategic position and significant oil exports, ensure a steady flow of grim stories to our televisions, computer screens and newspapers.

Amid the turmoil, there are positive stories to be told and *Arab Banker* wants these to be heard.

For the past 30 years, the AMAR International Charitable Foundation, a small London-based NGO, has been working with Iraqis to improve healthcare and education among some of the most vulnerable sectors of society. *Arab Banker* asked Andrew Methven, AMAR's Chief of Staff, to tell us more about AMAR's work.

***ARAB BANKER*: How did AMAR get started and what do you do?**

ANDREW METHVEN: We were founded shortly after the first Gulf War by Emma Nicholson MP (now Baroness Nicholson of Winterbourne) who had visited southern Iraq and witnessed the destruction of the Marsh Arab communities – many of the so-called Marsh Arabs had risen up against Saddam Hussein after Iraqi troops were expelled from Kuwait, but their rebellion was brutally crushed. Thousands went into exile in Iran and Lebanon. Emma raised private funds and began organising health clinics and schools for those refugees.

In the course of this work, Emma and her late husband saved and then cared for an Iraqi child called Amar Kanim, and it was he who initially gave his name to the charity. By the way, 30 years later, Amar is still living in the UK and doing well.

AMAR's model is to employ local doctors, teachers and nurses, in their own health clinics and schools (or we help build them), helping them to help themselves and their own


AMAR's Patron, HRH The Prince of Wales, meets the Yazidi survivors' choir during their visit to the UK in 2019

refugee communities. The London office makes occasional visits to assure quality and provide some technical advice on professional development. We have several eminent doctors and educators on our board.

Work with exiled Marsh Arabs dominated AMAR's work for the first 10 years of our existence, but after the fall of Saddam in 2003 we broadened our scope both geographically within Iraq and in terms of the types of problems that we tried to address. For example, we've been running vocational training for Iraqis in the Basra region, alongside mobile health clinics. Some of this work has been sponsored by the Rumailah Oil Company on behalf of the Basra Oil Company, which is obliged to invest in local social welfare as part of its contract to extract oil from the fields in southern Iraq. We've also been extending our work to include psychiatric health as well as physical health.

More recently, a lot of our activities have been in northern Iraq and Kurdistan. After Daesh was expelled from Mosul in 2017, we began working with people who'd been displaced during the occupation of Mosul and in particular with the Yazidi community, which had been particularly badly treated by Daesh.

Why did you extend your work to include psychiatric health?

There were several reasons including, most obviously, the pressing need in a war-torn country, coupled with the atrocities of Daesh, and the low provision for psychiatric health in the local health system. The World Health Organisation (WHO) recognises this latter point and talks about the 'Mental Health Gap'. Some local health directorates have less than 2% of the specialist psychiatric treatment capacity of other countries. But you can do something for about 80% of cases for 80% of the time if local general practitioners (family doctors) and social workers at the primary clinic level are given fairly short extra training to recognise and treat the most common and less complex conditions. AMAR teamed up with the Health Director of Dohuk Governorate, himself a psychiatrist and, following WHO guidelines, initially helped train general practitioners in eight clinics. Following that success, we secured funding from the US State Department for a programme called 'Escaping Darkness' that we rolled out in the Kurdish region and in Baghdad across 36 clinics. We've since secured new funding for this programme from the WHO. It's now called 'Into the Light' and we are running 12 clinics in Dohuk, just north of Mosul in the Kurdish region of Iraq, that address mental health issues.

It's important to realise that although it's now three years since Daesh was expelled from Mosul, many of the people who fled still haven't been able to return home. These internally displaced persons (IDPs) often suffer a lot of psychological problems as well as physical problems.

Last year we ran a music programme for the Yazidi community. This included recording Yazidi music, so as to preserve it (it's now archived in the Bodleian Library of Oxford University), and teaching Yazidi music to those still living in camps. We even brought a Yazidi choir to Britain last year, and it performed in Westminster Abbey and Oxford, and for AMAR's Patron, HRH The Prince of Wales. We firmly believe in the mental health benefits of music-as-therapy.

How is your work being affected by the Covid-19 outbreak?

Covid-19 has certainly made our work more difficult. In areas where curfews have been imposed, we've conducted some training programmes for local staff through video conferencing; but many of our staff find it hard to get to work, or to get home. We've also seen curfews being imposed, lifted and then imposed again, so it has been hard to implement consistent solutions.

That said, we've been active in fighting Covid-19. We received funding from a private donor to launch a mobile testing laboratory amongst the IDP camps in Dohuk, and

Andrew Methven

Andrew Methven has served as AMAR's Chief of Staff since 2016. Andrew previously led strategy and commercial operations for several political risk firms covering the Middle East and Africa. He served for 20 years in the British Army, during which he completed assignments in Bosnia and Iraq, and held staff roles in the Ministry of Defence.

over the summer we were given funds to provide personal protection equipment for our clinics and schools in Baghdad.

Do you only work in Iraq?

No, we have a long-running programme in Romania, and we're about to start a new programme in Somaliland.

In Romania we have a huge volunteer network of youth groups, which mix able-bodied and disabled children, the latter often from the infamous Romanian orphanages. The mix is about 30/70 orphans or disabled to non-orphans. The programme is called the *Associata Childrens' High Level Group*, and it's well known in Romania. The youth clubs expose the disabled and orphans to activities such as singing and dancing which they otherwise just wouldn't see.

Our forthcoming programme in Somaliland will comprise mobile health laboratories that will offer health checks and provide basic health services, mainly in rural areas.

How do you fund your activities?

We have an annual budget of about £5 mn which comes from institutional grants, corporate social responsibility programmes, other private donations and our own fund-raising efforts. Institutional donors include the WHO, Western governments and large companies that are active in Iraq. These organisations fund specific time-limited projects. Private donors tend to comprise Iraqis living in the UK and the US.

We hold a range of fundraising events during the course of the year, such as a gala dinner, and also some discussion/speaker evenings. Of course, we've not been able to hold these during the Covid-19 lockdown, but in early July we did hold 'virtual' fund-raising meetings for supporters in the UK and US. Our doctors and other experts were able to describe the situation on the ground in Iraq, and technology was an advantage – we had a higher turnout than for our routine speaker meetings in London, and it saved us the time and expense of flying to the US. Of course, this isn't a substitute for meetings in person, but it shows what can still be done with a little bit of innovation.

Some of our programmes contain an element of self-funding, such as the orphans' school in Basra where those who can pay effectively subsidise those who cannot.

What is the governance structure of AMAR?

We have a Board of Trustees that's chaired by Baroness Nicholson. Day to day, I manage the operations here in London with Chris Frost, who is our Treasurer. Ashley Goodall and Shwan Aziz, formerly of the Deputy Prime Minister's office in Baghdad, work part time to publicise what we do.

We have a Country Director in Iraq, and a team of Iraqi doctors, teachers, engineers and administrators who are based in Basra and Dohuk. We also have a few permanent and part-time staff overseeing our youth clubs in Romania, although that's mostly volunteer-run.

We're honoured to have HRH The Prince of Wales, Prince Charles, as our Patron. The Yazidi survivors' choir was presented to HRH at a private audience earlier this year.

What can we expect from AMAR in the next few months?

Right now, we're working hard to fit out a maternity and paediatrics hospital in Basra – the challenge is both logistical and financial, but we're optimistic that we'll be able to open it by the end of the year.

We have successfully built a mobile health lab to assist in IDP camps in the Kurdistan Region of Iraq, including against Covid-19, which should be operational in the autumn. And we're copying this model to construct and then donate, through crowdfunding by the diaspora, two similar mobile health labs in Somaliland. These should be in action by the end of the summer.

We're also planning some more activities for supporters in London. These will either be virtual events or, if social distancing restrictions ease further, face-to-face. For example, in the past, Baroness Nicholson has arranged for us to hold events at the House of Lords, and we hope to be able to hold such events again soon. Details of future events will be posted on our website: www.amarfoundation.org

More generally, we're always happy to meet people with an interest in medical and social programmes in Iraq and elsewhere in the Middle East, and to try to find ways to involve them in our programmes. ■


Baroness Nicolson, AMAR's Chairman, visiting health clinics in Kurdistan


AMAR's mobile health clinics serve local communities in southern and northern Iraq

Black Wave

Kim Ghattas

346 pages. Wildfire. £20 hardback

This is a disturbing book, but one that needs to be read. Its focus is on the rivalry between Saudi Arabia and Iran, but the narrative extends far beyond those two countries to paint a clear picture of the trends that have been shaping the Middle East during the past 40 years.

There is little in the book that is new, although the author has interviewed several of the key protagonists of the events she describes. The book's strength lies in showing the broad context in which events occurred and how they interacted and fed off each other. Over the course of 300 pages, what starts as a simple tale develops into a complex and compelling narrative.

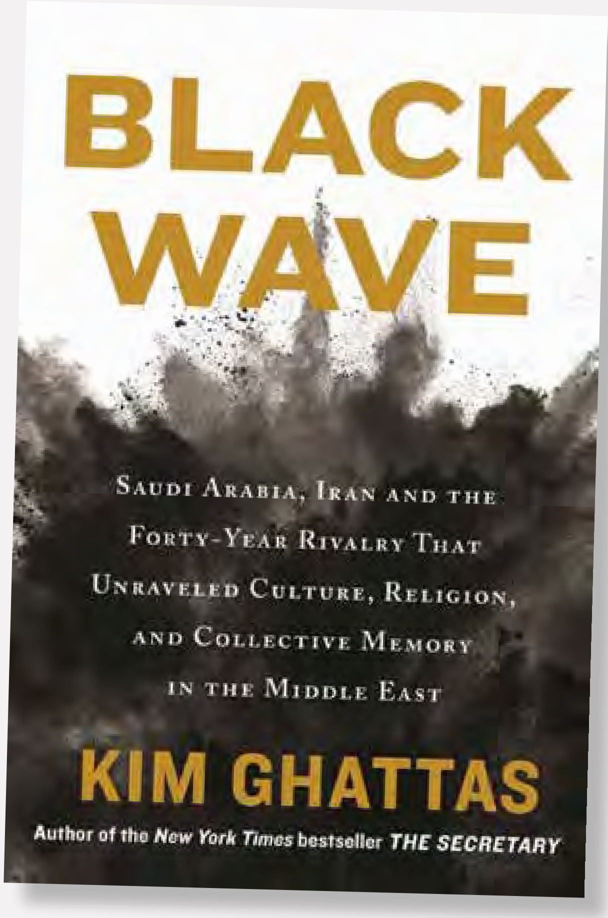
We are all familiar with the three seminal events of 1979 that empowered the forces of intolerance and religious obscurantism in the Middle East: the revolution in Iran, the take-over of the Holy Mosque in Mecca by religious extremists and the Soviet invasion of Afghanistan. But to these three Ghattas adds the announcement by President Zia of Pakistan that his country would transform its legal and social structure to conform with his version of Islamic law.

The integration of events in Pakistan into what is primarily a Middle Eastern story is perhaps this book's greatest strength. Pakistan did not actively export militant Islam in the Middle East in the manner of some other countries, but the imposition of supposedly Islamic laws and customs, such as requiring female TV presenters to be veiled, and Pakistan's facilitation of militant Islamic activity in Afghanistan, gave strength to all those who were advocating a narrower and more exclusionary vision of Islam.

For this reviewer, one of the most disturbing stories in the book is the assassination, in January 2011, of Salmaan Taseer, who, as Governor of Punjab, had defended a Pakistani farmer accused of blasphemy. Taseer's murder elicited almost no outcry from the public or government officials, in part because 500 Islamic scholars had warned Pakistanis not to offer prayers for the dead Governor, if they wanted to avoid meeting the same fate. In contrast, tens of thousands protested against the execution of Taseer's killer, whom Pakistan's religious affairs minister declared a martyr.

Nonetheless, this is primarily a book about the Middle East. Ghattas points out that there were effectively two 'Islamic' revolutions in 1979: the one in Iran that everyone talks about; and one that was less dramatic, but in many ways similar in its social impact, in Saudi Arabia. In the months that followed the execution of the Islamic extremists who had taken over the Holy Mosque in Mecca in November that year, women presenters were taken off Saudi television, small cinemas in Jeddah were closed and the religious police were empowered to enforce prayer times.

The book is well structured into digestible chapters. For example, Chapter 7 describes the Iranian entry into Lebanon in 1983. Chapter 11 revolves around the killing of the Egyptian secularist Farag Foda in 1992 – a murder that elicited a huge public outcry, in contrast to the abandoning of Governor Taseer in Pakistan nearly 20 years later. Chapter 17 traces the evolution of ISIS in Syria and its takeover of Raqqa. The text is well written and easy to read.



A theme that emerges from these pages is how leaders, and others, have underestimated the ability of apparently marginal movements to force their way onto the regional stage. Mohammed ibn Abdulwahhab was mocked by religious leaders when he developed a literalist interpretation of Islam in the eighteenth century, and local people in his Arabian desert settlement accused him of heresy. Yet Abdulwahhab's theology continues to underpin the Saudi state today. In 1965, Egyptian president Gamal Nasser openly taunted the leader of the Muslim Brotherhood for requesting that the veil be made compulsory, drawing hoots of supportive laughter from the crowd. Few Lebanese citizens took Hezbollah seriously when it extended its influence out of the Baka'a Valley and into Beirut in the early 1980s.

Ghattas tries to end with some optimism. Decrying the routine portrayal of the Middle East as a region perpetually mired in war and death, she correctly points to the music, art, bookshops, entrepreneurship and much more that are expressions of a more liberal and positive underlying landscape. Yet it is hard to see such expressions as anything more than small and unconnected eddies that are unable to influence a far more powerful ideological stream. In the 1960s and 70s, amid the undeniable corruption and incompetence of Middle East governments, there was a broad trend towards greater cultural openness and increasing roles for women. It is hard to discern such a broad trend today.

Ghattas was born and raised in Lebanon, and says she wrote this book in an attempt to answer the question, "What has happened to us?" When I finished this excellent book, I found myself asking the question that an American general put to his staff during the depths of the war in Iraq: "Tell me how this ends." ■

Andrew Cunningham

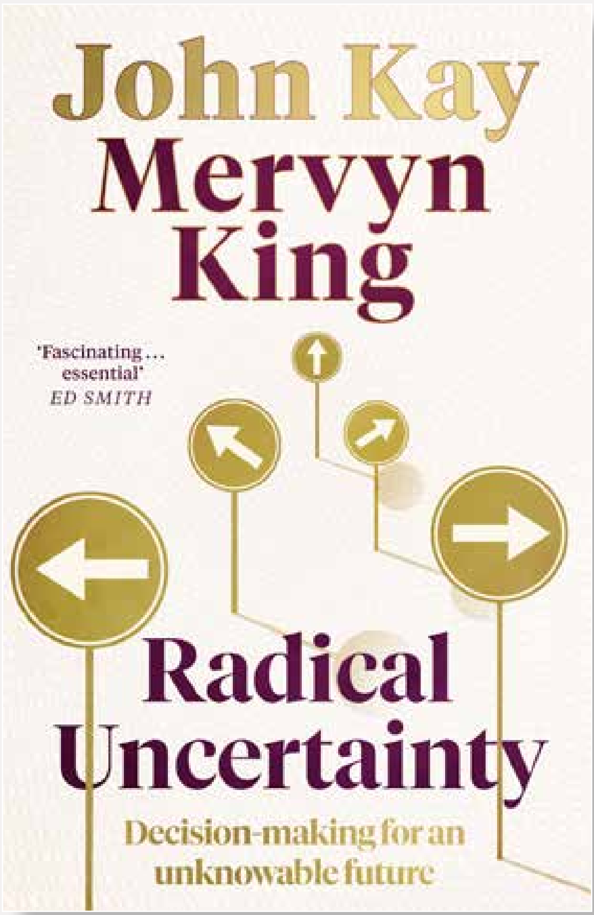
Radical Uncertainty

John Kay and Mervyn King

528 pages. The Bridge Street Press. £25 hardback

This book is an impassioned critique of mainstream macroeconomics as it has been practised over the past 70 years and, in particular, of the profession's obsession with models and its faith in their predictive powers.

In the 1920s and 1930s, the eminent economists Frank Knight, in Chicago, and John Maynard Keynes, in Cambridge, separately argued for a distinction between a measurable uncertainty, which they termed a 'risk', and unmeasurable uncertainty. Playing roulette is subject to risk, which can be measured, whereas judging the price of gold 20 years from now cannot, in the view of Knight and Keynes, be measured, since that price will be driven by a vast multiplicity of factors, many of which today are not observable, let alone quantifiable.



The spin of the roulette wheel, say Kay and King, is a 'resolvable uncertainty' which can be calculated with mathematics. It is a puzzle with an objective answer. In contrast, the price of gold in 20 years' time falls into the category of 'radical uncertainty'. It is a mystery, and if asked to make a prediction, our only sensible response should be to say, "I don't know".

But after the Second World War, this distinction between risk and uncertainty was rejected by many leading economists, including the doyen of the Chicago school of economics, Milton Friedman. It was he who stated that, "We may treat people as if they assigned numerical probabilities to every conceivable event." In doing so, Friedman opened the way to decades of macro-economic research which assumes that everyone acts with the objective of optimising their situation and with the benefit of complete knowledge.

And if that is how people have behaved, then economists and mathematicians can build models to predict how people will behave in future, and how systems in which they operate will perform.

The destruction of this notion lies at the core of this excellent book. The authors mount their attack on several levels: the impossibility of perfect knowledge in most real-life situations; the misuse or misunderstanding of language (saying that there is a 70% chance that Philadelphia is the capital of Pennsylvania is an absurd statement, because Philadelphia either is or is not the capital – the statement confuses confidence with likelihood); and the fallacy of using 'small world' models to predict 'big world' events.

(In case you're wondering, the capital of Pennsylvania is Harrisburg!)

Mervyn King was Governor of the Bank of England for 10 years until 2013 and John Kay combines academic work with directorships of several public companies. Both men witnessed the failure of complex financial models to predict the global financial crisis. Their experience of the corporate worlds leads to scathing comments about company business plans that confuse facts with aspiration; and their experience of public policy brings them to equally harsh criticisms of the complex macro-economic models that underlie much government decision making.

But this book is not simply a diatribe against the economics profession. The chapters in which the authors explore how we as humans develop reference narratives to help us answer the question "What is going on here?" are particularly interesting and take the book far beyond economics and mathematics and into the territory of anthropology and evolutionary biology.

Whereas economists see 'biases' in human behaviour – occasions when we act in ways that do not logically optimise our situation – the authors also see an evolutionary process that has enabled humans to become the dominant species. Computers are efficient in solving well-defined puzzles, but humans excel at finding ways to cope with open-ended mysteries including problems that are ill defined, ambiguous and are being encountered for the first time. Humans are not, the authors state, "defective versions of computers, trained to optimise in small-world problems, but human beings with individual and collective intelligence".

The academic prowess of this book is magnificent, but the text is also peppered with real-life stories: President Obama's decision to authorise the navy SEALs' attack on Osama Bin Laden's compound in Abbottabad, evidence presented in the OJ Simpson trial, the UK government's WebTAG model that appraises the costs/benefits of infrastructure projects, and the complex computations that underlie space exploration are four of the many examples.

This is a book that everyone involved in finance and banking should read. It punctures many of the fallacies inherent in the decisions and plans that we make, and it shows us a better way to think about the world around us and how we should conduct our lives within it. ■

A.C.

Islamic Finance, Principles and Practice

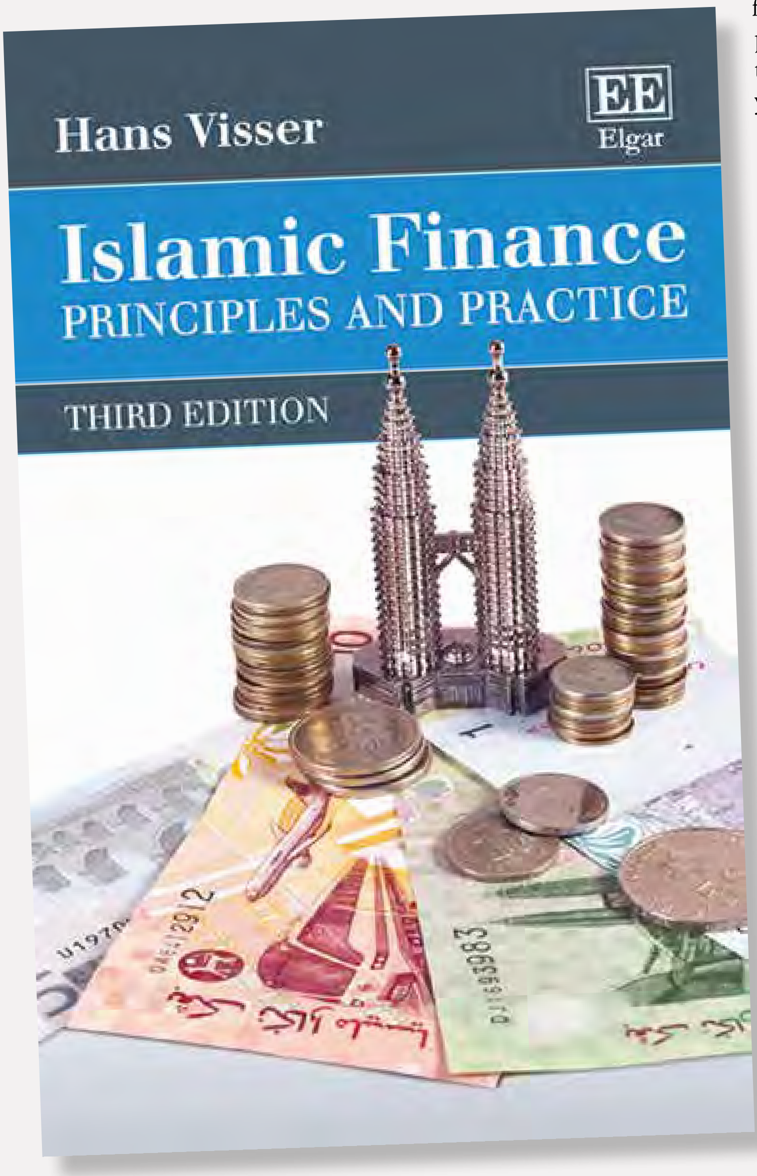
Hans Visser

288 pages. Edward Elgar Publishing. £90 (hardback), £22 as an eBook

There are many bad books on Islamic finance, but this is not one of them. Hans Visser clearly understands his subject and he has done his research. This is the book's third edition and it contains up-to-date statistics and examples.

The book moves logically through explanations of the foundations of Islamic finance and economics to descriptions of the operations of Islamic banks and the products they use, and sketches of non-banking sectors such as insurance, investment and waqf. This leads to a consideration of public finance, including monetary policy and banking supervision, before the author steps back to offer broad opinions on the achievements, challenges and possible future directions of the industry.

Some Islamic finance enthusiasts will find Visser's opinions too negative, but others will see a realistic portrayal of an industry that sometimes struggles to offer customers the range of products already available from conventional institutions without stretching the fundamental principles of Islamic finance almost to breaking point.



Reading through the book, one is struck by the versatility of 'sale and buy back' structures that enable providers of finance to earn a return, in the form of a 'mark-up', on the money they extend. Largely fictional, such sales and purchases back are deployed to provide credit facilities, short-term funding (equivalent to conventional 'repos') and working capital. Visser points out the diversity of opinions on these structures. Malaysian institutions are happy to use the 'inah' sale and buy-back structure, but inah is shunned elsewhere. 'Tawarruq', which entails three parties engaging in multiple sales and purchases, is accepted in some of its forms in some jurisdictions but rejected in others.

The obligation to trade monetary debt at par value also emerges as a key constraint on the industry, since a secondary market will never develop for instruments that can only trade at par. But again, there are different opinions, with some schools of thought and some jurisdictions taking a more flexible approach to trading debts and receivables at market values.

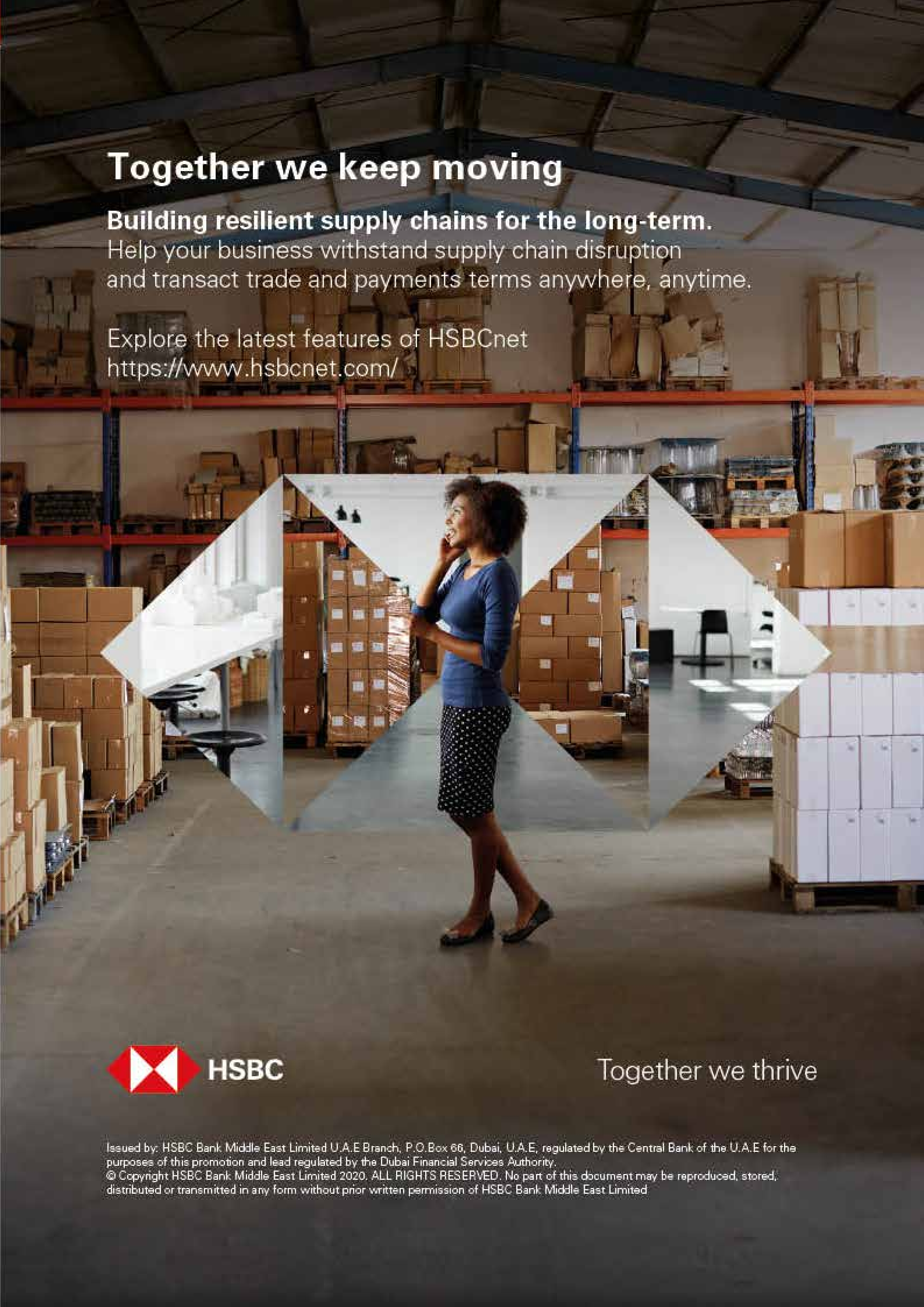
Some readers will find the explanations of Islamic law too abstruse for their needs; but Visser has a sure touch, so if you need to know the basics this is a good place to find them. Similarly, the section on Islamic financial products may be too extensive for some; but it is easy to dip in and out of the detail according to how much you know already. That said, this is not a long book, the index and references account for 50 of its 288 pages, and other notes reduce still further the size of the core text.

Visser could perhaps have given greater recognition to the successes of Islamic finance over the past 20 years. Whatever one thinks of their doctrinal purity, Islamic banks have mushroomed in response to clear demand from customers and investors. One third of all commercial banks in the GCC now operate on a fully Islamic basis, and all the others offer some form of Islamic finance as part of their wider conventional business: in the early 1990s, Islamic banking had been a niche business in the GCC. Outside the GCC, almost every country in the Middle East has enabled its institutions to offer Islamic financial services; Malaysia has emerged as an Islamic financial powerhouse; and countries such as Kazakhstan now court the Islamic market in their efforts to attract foreign investment.

Visser is right to conclude his book by asking where Islamic finance goes from here – liberalisation of Islamic norms to improve the industry's competitive position vis-à-vis its conventional rivals, or a stricter approach that squeezes out the more dubious Shari'ah interpretations in favour of a purer, more distinct, but narrower industry.

The development of Islamic finance over the past 50 years has been driven by broad economic trends, changing attitudes to religion in Muslim countries, and a search for an identity that is distinct from Western role models. These will continue to be the factors determining the future of Islamic finance in years to come. ■

A.C.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