

The Central Bank of Qatar's directive: Impact on Islamic banks

AMJAD HUSSAIN discusses the impact of the Central Bank of Qatar's directive requiring conventional banks to stop offering Islamic banking services.

Earlier this month Reuters assessed the impact of the Central Bank of Qatar (QCB)'s February 2011 directive to conventional banks, requiring them to stop offering Islamic products and close their Islamic windows. Reuter's assessment was that the expected windfall for the Islamic banks has not yet materialized and the ban seems to have had little impact on the conventional banks.

Before the ban, the IMF estimated that the Islamic banking assets in Qatar during 2010 accounted for 31% of total assets. By QCB's reckoning, those assets grew 35% last year.

That marked a slowdown, however, from the 39% expansion the previous year. Interestingly, the conventional banks seem to have been little affected, with assets growing 23% in 2011, up from a 16% increase during 2010.

In fact, contrary to Moody's prediction that Qatar National Bank would be negatively impacted, its assets jumped 25% last year and there was actually a slight improvement on its return on assets.

Effect of the ban

So what do these figures suggest? Firstly, it seems that many of the conventional banks have been successful in maintaining their deposits by converting their Islamic customers to conventional ones, probably based on pricing and service quality and the administrative inconvenience of transferring banks.

In fact, Qatar saw only the International Bank of Qatar complete a sale of its Islamic window business. Secondly, some of the Islamic banks may have suffered from the slowdown in growth that is being seen globally, offsetting the windfall that they might have received from the closure of the windows.

With the decline of QCB's regulated institutions offering Islamic banking services from 12 to four, the IMF's

January 2012 report suggests that there is now a need to "manage the impact on banking sector competition in view of the decline in the number of [Islamic banks]." It remains to be seen whether the newly level playing field, a factor that may have been one of the motivators

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behind the QCB's ruling, will impact competition; particularly in the corporate finance market.

We are aware of some continuing dialogue between conventional banks (with their technically 'closed-down' operations) and some Islamic banks looking to find value by transferring any remaining customers.

It will be interesting to see how long this courtship will continue and when the regulator will step in and call it a day.

In my view, one of the key areas that

Islamic banks need to concentrate upon is how ready they are to support the development that is required to be carried out in Doha from now until the World Cup in 2022. The anticipated activity is likely to provide opportunity for Qatar-based Islamic banks to consider their product portfolio and see if they can add new products to ensure that they are capable of providing the full range of services that their customers will require.

This review also requires a certain amount of critical self-analysis to see what areas of the business need further work.

There are some positive signs in the market to suggest that Islamic banks are starting to respond to the challenges of the World Cup expenditure.

We recently saw Qatar Islamic Bank sign a financing arrangement with the Middle East Dredging Company to assist in connection with its recent award of a QAR4.5 billion (US\$ 1.2 billion) contract to carry out dredging work at the New Port Project.

The port is expected to cater for the growth in container traffic and support the increase in vessels supplying goods for the World Cup infrastructure work. The port will have annual capacity in excess of six million containers and a railway station connected to the GCC railway network.

It was also encouraging to see that Qatar-based Islamic banks are looking beyond Qatar's borders for expansion. Barwa Bank recently became the first ever Qatari bank to participate at a senior level in a sovereign issue outside of Qatar when it stepped up to the plate to co-manage Dubai's recent US\$1.25 billion Sukuk issuance.

In connection with this deal Khalid Mahdi Al Ahbabi, the AGM head of wholesale banking, said: "Barwa Bank won over many other competing banks

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to co-manage this transaction thanks to our capabilities, connections and strong market presence in Qatar.” This is a positive trend.

In other recent news in Qatar, we have seen the QCB partnering with Bloomberg to launch the first ever Qatar interbank offer rate (Qibor) aimed at encouraging a more active interbank market in Qatar. Qibor fixings for eight different tenures, ranging from overnight to a year, will be based upon the contributed offer rates quoted by nine panel banks and will be publicly available each business day. The purpose of this is to enhance transparency and liquidity in the local market and has been largely welcomed by commentators.

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Sovereign Sukuk?

There has recently been much rumor and excitement about the planned sovereign Sukuk in Qatar. Reports claim that Standard Chartered, Deutsche Bank, HSBC, Barwa Bank and QInvest have been mandated on this prestigious appointment.

This will be first sovereign Sukuk issued by Qatar since 2007, when it raised US\$700million and mandated HSBC and Qatar International Islamic Bank. Details of the mandate have not been formally released and are eagerly awaited.

So, it seems like the hot summer in Qatar is going to get hotter with the increase in activity in the Islamic banking sector.

The Islamic banks are growing and getting ready to lend to companies who are being awarded government contacts; QCB continues to intervene in the market place to address regulatory concerns and issues at an early stage; and the government is keen to do its bit by supporting local liquidity through its Sukuk issuance. (3)

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