Amendments to Central Bank Law

In a statement to the press on 19 February 2004, H.E. Sheikh Salem Abdulaziz Al-Sabah, the Governor of CBK, stated that the issuance of Law No. 28/2004 amending certain provisions of Law No. 32/1968 (concerning currency, the Central Bank of Kuwait and the banking business) on 27 January 2004 represents an important stride toward enhancement of banking regulation in the State of Kuwait to conform with the international developments in the field of banking supervision on the one hand, and the liberalization of financial services within the context of the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO) on the other hand.

As regards the details of amendments in the abovementioned Law, H.E. the Governor indicated that the Law strengthens the ability of CBK to carry out consolidated supervision by allowing it to exchange data and information with supervisory authorities abroad, inspect external branches and subsidiaries of Kuwaiti banks. It imposes limits on the ownership concentration in Kuwaiti banks by setting the maximum ratio of any individual ownership (direct or indirect) in a bank at 5% of the bank capital, unless prior consent is obtained from CBK and excluding government entities and positions existing prior to this Law. Should an individual ownership exceed this limit for any reason, the excess must be disposed off within the period specified by CBK.

The Law also eliminates the legal restriction on the entry of foreign banks into the local market that existed prior to this Law and which required participation of Kuwaiti government or Kuwaiti banking and financial institutions in the capital of these foreign banks. This elimination conforms to the liberalization of financial services within the context of the GATS, and at the same time allows the implementation of the decision issued by the Higher Council of the Gulf Cooperation Council (GCC) in December 1997 allowing national banks to open branches in member countries according to specific rules.

H.E. the Governor added that to reinforce the capital base of local banks in the face of competition from international banks, the minimum capital of a bank has been raised to seventy five million Kuwaiti dinars, and the the minimum capital for a branch of a foreign bank has been raised from three million to fifteen million dinars. To achieve the desired discipline in the local market, the Law prohibits any entity, other than banks and investment companies registered with CBK, from receiving funds from others for investment, while it increases penalty on violation of this provision and on banking practiced by other than banks registered with CBK to a maximum of two years of imprisonment and one hundred thousand Kuwaiti dinars fine or one any one of these two punishments.

Moreover, the Law expands the scope and responsibilities of bank external auditors to reinforce the CBK supervision of banks. The Law includes diversity and graduality of penalties on violations by banks and other units under CBK supervision as an effective deterrence tool.

Taking into account the importance of increasing the number of national workforce in Kuwaiti banks, the units under CBK supervision, and branches of foreign banks operating in the State of Kuwait, the Law sets a minimum ratio of national workforce in these units at either 50% of total workforce in each unit, or the ratio specified by the Council of Ministers in pursuance of Article 9 of Law No. 19/2000 (concerning support of national workforce and encouraging it to work in non-government entities) whichever is greater. Kuwaiti banks, units under CBK supervision and branches of foreign banks shall satisfy this ratio within three years from the date this Law comes into effect, and branches of foreign banks that are licensed shall satisfy this ratio within three years from the date they are licensed to operate in the State of Kuwait.

H.E. the Governor concluded his statement by indicating that these amendments cover certain shortcomings in banking legislation in the State of Kuwait in accordance with the Principles of Effective Banking Supervision set by the Basle Committee on Banking Supervision, which are considered a key reference for the supervision system assessments of countries carried out by relevant international institutions. These assessments in turn are considered an element of the financial position evaluation of countries carried out by those institutions.

(Link to amended Central Bank Law No. 32/1968)

23 February 2004