

***The Post- invasion State of Affairs
in Kuwaiti Banking and Financial Institutions ⁽¹⁾***

It was with great pleasure that I received the kind invitation of the Supreme Kuwaiti Committee to shed some light on “the post–invasion state of affairs in Kuwaiti banking and financial institutions”. At the same time I am glad to meet with you and speak to you about this important and vital matter, which I believe concerns every citizen and resident of our beloved Kuwait. Also, it concerns a significant part of our trade and financial relations with the outside world.

It is worth mentioning that Kuwaiti banking and financial institutions have gone through several major phases since the beginning of the era of independence. The main features of these phases are as follows:

First phase: The period from 1961 to 1982, which is considered the establishment and expansion phase:

During this phase, the Central Bank of Kuwait, the commercial banks, the Kuwait Finance House and the major financial institutions in the country were established, with the exception of the National Bank of Kuwait, which was set up in the early fifties.

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Also, specialized banks that focus on financing specific activities, such as the Kuwait Real Estate Bank and the Industrial Bank of Kuwait, were founded. Kuwaiti banks expanded locally and abroad by opening local and overseas branches. In other words, this period witnessed growth in the volume, number and types of banks and financial institutions in Kuwait. Also the profits of these institutions saw significant increase during this period. In the meantime, the country experienced economic euphoria as a result of the increase in oil prices and in turn in oil revenues, which considerably increased public spending. Therefore, the government devoted increased effort to building public utilities and completing the infrastructure. This euphoria was positively reflected in the performance of banks and financial institutions, earning them profits during this period which did not necessarily reflect the real capabilities of their management. This phase ended with the collapse of Kuwait stock market, which affected economic activity in general and that of banks and financial institutions in particular.

Second Phase: The period from 1983 to 1984, the phase of the Securities Market's negative effects on the banks and financial institutions:

The securities market crisis, which began in the second half of 1982, led to severe negative repercussions of the performance of Kuwaiti

banks and financial institutions, as the value of their financial and real estate assets in Kuwait plummeted.

The weakness in private sector activities and the decline in the prices of these assets resulted in what is known as the “difficult debt crisis”. This endangered the financial positions of some major banks and financial institutions, while some smaller institutions actually collapsed.

Third Phase: The period from 1985 to July 1990, the phase of assessing the size of the problem, and solving it through the implementation of the Difficult Credit Facilities Settlement Program, building provisions and starting to improve management efficiency:

The Central Bank of Kuwait began setting the criteria for provisions required against difficult bank debts in order to assess the volume of the problem. Later, the Central Bank introduced the Difficult Credit Facilities Settlement Program, which was sanctioned by the Cabinet of Ministers on 10 August 1986, and actually implemented starting from 1987. By the end of the first half of 1990 almost 90% of the program was finished.

The Consequences of the Iraqi Aggression

During the period before the brutal Iraqi invasion, the Kuwaiti banks and financial institutions had made significant progress in getting rid of the effects of the difficult debt crisis, in order to focus on their normal role in the economy, i.e. receiving funds from depositors, rendering various banking services, financing different economic activities, playing intermediary role in transactions with the outside world, and managing others' funds.

The monetary authority in Kuwait, represented by the Central Bank of Kuwait, was monitoring developments in the international markets and the fast tempo of changes in Europe and other places, for the purpose of studying the possibility of developing the financial services sector in Kuwait, including the possibility of restructuring the banking and financial institutions and encouraging mergers to reinforce their ability to keep pace with developments and compete in the international markets. For example, the Central Bank of Kuwait had recently begun to review and amend the current supervisory standards in the light of the international tendency toward convergence of these standards.

Some Kuwaiti banks and other financial institutions were getting prepared for the expected changes in Europe to improve their financial positions by opening branches and offices, as well as establishing at-

tached or affiliated companies abroad. This trend represented a reaction to expectations of the single European market after 1992 and its effects on non-European banking and financial institutions.

Available statistics indicate that the total volume of Kuwaiti bank assets exceeded KD 12 billion at the end of May 1990 and that foreign assets constituted 25.5% of this total. The value of foreign assets had reached KD 3061 million by the end of May 1990, against KD1644.4 million for foreign liabilities.

The brutal Iraqi invasion of Kuwait halted banking activities in Kuwait as a consequence of the fall of the headquarters and branches of banks and financial institutions falling under the control of the Iraqi occupation. The main consequences of the occupation were as follows:

- 1- The head offices of Kuwaiti banks and financial institutions ceased banking operations and transactions with the outside world, and communications with banks and financial institutions abroad were cut off.
- 2- The Kuwaiti financial institutions abroad were unable to use their data bases and records. This was obvious during the first few weeks of occupation.

- 3- The financial positions of major borrowers deteriorated due to the destruction, looting and pillaging of their assets. This resulted in increased deterioration in the financial position of banks and financial institutions.
- 4- The decisions taken by many leading countries to freeze Kuwaiti assets incapacitated Kuwaiti banks and financial institutions from utilizing their assets abroad, due to the ban imposed on operating these assets, especially during the early period of occupation.

The first response of authorities in major countries was to freeze Kuwaiti assets in their countries, to prevent occupation authorities from benefiting from these assets. The response of the Kuwaiti government and its representatives abroad was quick. During the few days after the invasion and the imposed freeze, revision of freeze orders began and these were gradually relaxed at the request of the legitimate Kuwaiti authorities. Relaxation and lifting of the ban was done upon the request of Kuwaiti authorities and its representatives in various countries on a case-by-case basis.

The ban decisions depended to a great extent on ascertaining that the concerned Kuwaiti institutions were not under the control or wishes of Iraqi occupation authorities, and that the decision makers in these institutions were not subject to any pressure from occupation authorities.

Therefore, these countries classified Kuwaiti institutions (financial and non-financial) into many types, as follows:

- 1- Institutions subject to freeze and ban orders.
- 2- Institutions subject to freeze orders, but permitted to carry out some operations with special licenses issued against an affidavit from concerned authorities that the Iraqi regime would not benefit from them.
- 3- Institutions still under consideration by the authorities in concerned countries.
- 4- Institutions exempted from freeze orders.

The freeze orders, in various degrees, included institutions resident in Kuwait as well as institutions which were legally foreign with Kuwait having a significant share in them (complete Kuwaiti ownership or joint ownership).

During the early days of the occupation, the Kuwaiti banking and financial institutions, with the cooperation of and in coordination with the Central Bank of Kuwait, started contacting all banks and financial institutions in various foreign countries, to confirm that the authority to sign for these institutions was limited to their chairmen or the latter's representatives abroad. Also they asked the foreign institutions to

supply them with any data and information on the balances of the financial transactions between these institutions and the Kuwaiti banks, in order to help in rebuilding the financial records of Kuwaiti banks and financial institutions.

The process of rebuilding accounts was the first stage in the government plan to support confidence in Kuwaiti banks. The legitimate authorities announced, in the early stages of the occupation, the State's commitment to support Kuwaiti bank liquidity to meet their obligations to the inter-bank market and foreign exchange market. Since the Central Bank is the lender of last resort for Kuwaiti banks, we began to help some banks which had finished the preparation of relevant data to honour their obligations to foreign banks.

Kuwaiti banks and financial institutions which had a noticeable and strong presence abroad before the brutal Iraqi invasion showed facility in adjusting and regrouping abroad. It is worth mentioning that a limited number of Kuwaiti banks have branches in major financial centers, while others have representative offices or subsidiary companies in many international centers. The Central Bank of Kuwait, while supporting the banks and financial institutions, reviewed with them the possibilities and prospects of improving their operations from abroad during the occupation period.

Views on the Post–Occupation Stage

The occupation and its implications for the banking sector and financial system in Kuwait has opened up prospects for future planning, i.e. for the post liberation stage. I think that this stage should be based on three major elements, which are:

- 1- Re-structuring and mergers to create stronger institutions that can compete domestically and internationally.
- 2- Encouraging, recruiting and training national manpower in the banking and financial sector.
- 3- Integrating the Kuwaiti banking and financial sector into the world economy, and considering the possibility of allowing the presence of some international banking and financial institutions in the Kuwaiti market. In addition to the competitive advantages that would result from it, this would strengthen the financial relationships with the major banking centers, and lead to increased confidence in the Kuwaiti banking financial sector in the future. In spite of the significance of the role of the banking system in the reconstruction process after the liberation, the trend toward opening up the Kuwaiti market for some leading international banks has far more advantages than the instantaneous effects on the banking sector.

The above-mentioned elements form general guidelines for the banking and financial sector in Kuwait. The Central Bank of Kuwait is now cooperating and coordinating with other parties to develop and finalize these elements for a feasible working plan after the end of the brutal Iraqi occupation of Kuwait. No doubt the immediate priorities after the liberation require focusing in the short run on the rescue programs and reconstruction of public utilities inside Kuwait; however, I think it is also necessary to make an execution plan for the medium run to develop the banking and financial sector with the benefit of the experience of the previous stages.