
A Future Vision for the GCC Banking Industry

I would like at the outset of this important occasion to express my appreciation to H.E. Sheikh Hamad Al-Sayyari, Governor of the Saudi Arabian Monetary Agency (SAMA), for inviting me to participate in this conference, which is organized by Saudi banks and the Institute of Banking in Riyadh, in cooperation with SAMA. Also, I am pleased to be addressing such a distinguished gathering of prominent GCC banking and financial leaders.

In addressing future GCC banking outlooks, we must inevitably also address the challenges and ambitions facing our banks and which arise from successive developments and events, in addition to regulatory changes related to international banking activities. It goes without saying that all these changes have direct impact on the banks' main activities towards their economies and societies, and on their performance and ability to enhance, develop and expand their international competitive activities in light of trade globalization, the liberalization of financial services and the movement towards the creation of economic and financial blocks. These changes ultimately necessitate reaching a clear vision for the direction of the GCC banking industry and its future outlooks. This vision can be reached by exerting intensive efforts into interrelated matters, such as the following:

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- 1- Our banks should look objectively at their actual existence, in order to be able to draw suitable strategies of bank mergers, to establish large entities which can compete and face the challenges and risks of banking activities, locally and internationally. Small or weak institutions will not be able to face these challenges, or continue to hold their current positions, unless they decisively establish entities that have the ability to maintain their existence. In this context, the issues related to bank mergers in an international competitive environment may require that our banks include in their strategies certain ways in which they can emphasize the importance of strengthening their international banking relations through alliances with international banks, and the expansion of their mergers to include cross-border mergers.

 - 2- Investing in human capital and in information technology is necessary for bank management, if it is to work in a competitive environment, regionally and internationally. Such investment naturally requires continuous development in banking services and products, financial innovations and non-traditional uses of financial resources. These are goals and outlooks which require outstanding and qualified banking expertise.

Additionally, banks will have to enhance their policies concerning the managing and supervising of various banking risks, because of the increasing use of advanced

systems of electronic banking operations and applications in areas of information technology. Bank managements can thus achieve an optimum use of their financial resources, improve their services and products, and strengthen their systems of internal supervision over all aspects of banking activities.

- 3- On the other hand, discussing the future vision for the GCC banking industry requires that the banking and financial systems in these countries follow carefully all changes in banking and financial activities, especially those related to the principles of corporate governance which was in the forefront of the subject matter of much importance to the banking industry, and to economic management in various countries.

Undoubtedly, good corporate governance is crucial for any institution to remain and succeed in business for a long period of time. It depends greatly on the talents, experience and knowledge of those who are responsible for these institutions. Alan Greenspan sees in this context that banking governance is the first line of defense for a proper and safe banking system.

Recognizing the importance of the principles of corporate governance, the main concern is the development of the professional values and ethics of all those who manage and work for these institutions. This will require comprehensive change in habit, culture and approach, which have been initiated and which have accumulated over many years.

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- 4- Providing the proper opportunities to promote the role played by the GCC banking sector in serving its economies and societies requires developing the money and financial markets with respect to their instruments and institutions, including the issuance of a variety of debt instruments with different maturities. These will allow for the formation of an interest-rate structure capable of encouraging these issues by the private sector, developing these markets and their instruments and improving their instruments and working mechanisms. In addition, this will provide the basis for interaction between the monetary and real sectors of the economies of these countries, including more flexibility for the GCC banking sector to manage monetary flows and financial resources, with the objective of serving the operations of economic development. The existence of secondary markets for these issues, including market makers, would provide the proper success for them. Furthermore, it is useful for the development of these markets to include awareness campaigns for individuals and institutions, to reflect the characteristics and merits of these instruments.

 - 5- The GCC banking sector enjoys the confidence necessary for creating the financial prosperity shown in the three solid and coherent foundations of state solvency, a stable currency and a proper banking sector. To emphasize the importance of these foundations, and to include them among the future outlooks for the GCC banking industry, the supervisory authorities in our countries require

continual contact with the best international supervisory practices necessary for the protection of our banking and financial systems. This will deepen monetary and financial stability, and provide much confidence in the GCC banking environment, which will enhance the ability of these banks to play an increasingly important role, locally and internationally.

The supervisory authorities in our countries are required, at the same time, to provide a suitable climate for competitive environments and free markets. This can be done by strengthening the supervisory role of these authorities. In this context, Philip Hilderbrand, a member of the board of directors of the Swiss National Bank, points out that adherence to the principle of competition accompanies an effective supervisory system based on transparency, equality and a comprehensive struggle against all kinds of corruption. Hilderbrand also sees that a rigid supervisory system does not conflict with adherence to market freedom; on the contrary, it deepens the principle of economic freedom by means of promoting market safety and impartiality.

Also, the role of supervisory and monetary authorities in achieving monetary and financial stability in the GCC countries requires emphasizing the important role of independence, which ought to be provided by legislation to the GCC central banks and monetary agencies.

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- 6- Indeed, the future outlooks for the banking industry in our countries require banking legislation that should be parallel with the nature of banking activities. Such legislation should facilitate judicial procedures regarding banking disputes. Furthermore, I must emphasize the importance of having this legislation accompanied by the establishment of specialized judicial systems, aiming at a speedy resolution of banking and financial disputes.
- 7- Since the future vision for the GCC banking industry has to be set in light of economic policies that are appropriate for macroeconomic performance, I see it quite important to reconsider and emphasize the necessity of adopting proper reforms for the GCC economies.

Although the economic reform process includes diversified aspects, it is my view, within the framework of this conference, that the main aspect of these reforms is represented in correcting the structural imbalances which were caused by the long-lasting dominance of the public sector in economic activities in these countries. Undoubtedly, the needed reforms for the GCC banking outlooks will have to clearly identify the necessary approach to providing the proper environment for expanding the role of the private sector in the process of economic development, and in enhancing the comprehensive role that can be played by the GCC banking sector in serving the interest of the economies and societies of this region.

As I emphasize the contribution this conference will provide to reach our anticipated future vision for the GCC banking industry, with its enhanced status for regional and international levels, I hope to have succeeded in shedding some light on certain main issues of this conference.