

Opening Address of the Conference on “The Outlook and Future of Banks and Challenges of Globalization”

It pleases me to address you today on the occasion of the opening of the conference on “The Outlook and Future of Banks, and Challenges of Globalization”. First, I would like to commend the interest of the Diplomatic Center for Strategic Studies in this important topic. I also wish to thank Mr. Abdullah Bishara, Head of the Diplomatic Center for Strategic Studies, as well as the organizers of this conference, for inviting me to open this session. This conference is particularly important because it coincides with today’s fast pace of globalization, integration of world markets, deregulation and liberalization, aimed at achieving market economies, and the shift toward new technologies.

Despite the comprehensiveness of the main topics addressed by this conference and their coverage of the outlook and future of banks in Arab, Gulf and Islamic countries in general, the path followed by Kuwaiti banks can be viewed as a path that is not isolated from that of its counterparts in these countries. Therefore, I wish to avail myself of this important conference to highlight the main determinants of the efficiency of banking activity in the State of Kuwait, before attempting to foretell its future against the backdrop of globalization. I shall also briefly mention some future preparations necessary to confront expected threats and impacts on banking activity in the State of Kuwait.

Addressing the current situation of banking activity in the State of Kuwait and the main developments it has passed through to date requires focusing first on current requirements for efficient banking. Admittedly, these requirements represent an intricate topic with many ramifications. This is due to the fact that banking activity is linked to many economic, social, judicial, administrative and technical considerations, particularly since the banking sector provides numerous and diversified services to different segments of the society, as well as to other economic sectors and institutional units.

It can be said that the activities of the different economic sectors are influenced by the efficiency of the banking system in catering for their needs for financial services, and in developing, improving and innovating these services. Furthermore, the efficiency of the banking system influences and is influenced by the surrounding environment, as well as by inputs that dictate its course of action. This highlights the importance of the available institutional foundation and legislation that regulates banking activity, especially in view of the foreign competition confronting Kuwaiti banks in the local market. In this connection, it is to be acknowledged that the protectionism underlying the previous system of legislation - which constrained the activity of foreign banks in the domestic market - is no longer justifiable under the present state of affairs. The trends toward liberalization and globalization in the main financial markets and the fast pace of technological development in the information and communication systems have ushered in a new situation which has changed the conditions of the competition faced by banks in the local market.

Professional practices are quite important, too, in achieving banking efficiency. Of relevance in this regard are the management practices in the banking sector, particularly managers' keenness to develop their plans and programs, as well as the extent of their assimilation of new developments concerning their activities. This demonstrates the importance of quality considerations in current or innovated services, the internal control systems developed and relied on, as well as the risk management methods and other important matters connected to banking activity.

Local banks are therefore part of the private sector. Under the current structure of our national economy those operating in that sector enjoy an adequate level of freedom in making decisions. Consequently, those in charge of running local banks, namely shareholders and top management, have to shoulder their responsibilities in this regard and be held accountable for the outcome of their decisions.

In discussing the role and requirements of a competitive atmosphere that results in the efficient performance of the private sector in the State of Kuwait, we need to emphasize that a dynamic and continually renewed approach should be adopted in fulfilling such requirements, so as to ensure continuous development and innovation in banking and financial services, and thereby keep abreast of the main changes occurring in the banking industry at large. Particularly manifest among these changes are the increasing diversification of services and instruments provided by banks and financial institutions, the clear expansion in their scope of activities, and the emergence of “universal banking”, which has become an established reality and a growing international phenomenon.

Therefore, in addition to providing basic banking services related to the acceptance of deposits and extension of credit in their customary forms, banks have undertaken to diversify the areas of their banking and financial activities, expand these areas and develop the instruments they apply. They have thereby undertaken to broaden their scope of action to encompass an array of various activities, such as applying diverse methods of financing and insuring projects, making direct investments in private projects, managing investment portfolios and providing investment-trustee services, establishing companies and investment funds, managing and underwriting offerings, securitising banking assets, offering consultancy services in banking, finance and investments, and providing an integrated package of customer services.

Given the role of banks in financial intermediation, the concept of “universal banking” should not be viewed as a framework within which banks may engage in high-risk economic activities, as this may jeopardize their positions and confront them with many obstacles and difficulties unrelated to their banking business, and possibly entail the loss of that portion of national savings which they are allowed to gather. In my belief, and in light of the outcome of its application in other countries, the “universal banking” concept does not involve engaging in any of these high-risk activities; rather, it is confined to providing a

wide range of banking and financial services, and represents one of the means of providing the services outlined above.

In addition to the above, it is necessary to point out the following two issues concerning the requirements of efficiency in carrying out banking business:

First: Many aspects of the supervisory rules and regulations applied to banking and financial activity in Kuwait, particularly Law No. (32) of 1968 concerning currency, the Central Bank of Kuwait and regulating the banking business, require drastic revision. Yet, this need for revision does not preclude acknowledging that these rules and regulations currently provide a general foundation to build on in developing and diversifying the banking and financial services industry. This demonstrates that these rules and regulations are comprehensive and provide local banks with the means of diversifying their services system so as to encompass numerous financial and investment services that tally with the strategies followed by the management of these banks.

Second: We are proud of the position reached by the banking sector in the State of Kuwait, and appreciate the considerable achievements of local banks in enhancing their financial positions and raising their financial indicators of adequacy, liquidity and profitability during recent years, which has improved their rating by specialized international agencies. Nevertheless, further sustained efforts are needed for the improvement and diversification of the financial and banking activities of these banks, in order to keep abreast of the developments outlined above. This is especially the case as the improvement in these services has been too slow to match the rapid pace of these developments internationally or to meet the current domestic demand for these services.

Assessing the future of the banking business in the State of Kuwait against the backdrop of the globalization phenomenon is a much more complicated and intricate subject than dealing with the state of affairs of

the banking business and the requirements for its efficiency. In fact, our outlook needs to be based on an adequate knowledge of the expected directions of factors currently influencing banking activity, and a full awareness of the course of forthcoming changes in that activity internationally. This necessitates granting due consideration to the following:

1. Globalization is an unavoidable phenomenon. Market mergers, which have occurred either, as a result of liberalization in many countries or as the outcome of the revolution in advanced technologies, are nowadays an established fact. Therefore, the banking and financial sector in the State of Kuwait must align itself with this phenomenon, in order to derive maximum profit from its positive aspects and the opportunities it offers, and to minimize its risks and challenges.
2. For the banking activity in the State of Kuwait to keep abreast of and seriously interact with globalization and liberalization, proper awareness and clear foresight are required, along with serious preparedness to deal with expected developments, so as to enhance the performance of the banking system, to keep in line with the accelerated changes brought about by the challenges of globalization and liberalization, and to apply electronic technology in the banking business and trade.

To my mind, the future preparedness needed for confronting those challenges is exemplified in these three important elements:

First element of preparedness: The banking system shall maintain an adequate level of interest in enhancing and upgrading its performance, hence the inevitability of banks' increasing their investments in all aspects of advanced banking technology. The future directions for developing and modernizing banking activity in Kuwait, particularly by developing innovative products so as to meet the changes in customers'

requirements and live up to the new conditions imposed by international trade and globalization, make it compulsory for banks to efficiently engage in applying the various aspects of electronic trade and banking, such as using local and international communications and electronic-payment networks.

Second element of preparedness: There should be well-devised means for grooming national financial banking cadres. This calls for the banking and financial units in the State of Kuwait to further invest in the human element, through serious and intensive programs aimed at enhancing the efficiency and productivity of national cadres to levels imposed by the challenges of the forthcoming period.

Third element of preparedness: Competition expected to be faced by local banks in the coming years shall be granted due consideration and met with adequate preparedness. This demonstrates the importance of merging financial and banking institutions into large entities capable of standing up to the requirements and changes ushered in by globalization, liberalization and competition, through the enhanced efficiency of these entities, their proper level of transparency and higher standards of capital adequacy, liquidity, lending and risk management. Thereby, we can ensure the upgrading of the performance and competitiveness of these banking and financial units to locally and internationally acceptable levels. This is particularly required, as new banks - among which are foreign banks - will enter the market, and other banks will participate in national banking activities according to provisions of the Islamic Sharia'a, while banks in the State of Kuwait will shift from conventional to "universal banking" practices.

I hope to have succeeded in shedding light on certain issues concerning the current state of affairs and the future of banking activity in the State of Kuwait. We have a long way to go before reaching our targeted growth and enhancement of the banking system, which will allow us to be a part of this age of globalization, with its challenges and the opportunities it presents.
