

Islamic Financial Services Board Conference

The Challenges Ahead

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London – 19 May 2004

Excellencies, Distinguished Guests, Ladies and Gentlemen. Assalam Alaikum.

You have spent two days discussing some of the most important issues in Islamic finance in great detail. This is the last session and I propose to step back a little bit and look at what I think is the key theme here.

For a bank like HSBC that theme is meeting an obvious customer need.

HSBC is a company with operations in 79 countries and territories around the world.

So our customer base is naturally diverse. We have around 110 million customers, which you can divide into any number of large and small groups. It is spread by geography: Brazilians, Americans, Arabs, Indians, Chinese, Vietnamese...

Our customer base has practically every way of life or cultural group you can think of. With differences between them, some subtle, some obvious. Different ways of eating together, different ways of exchanging business cards, different rules of life, and so on.

And of course in these days of globalisation, different cultures jostle alongside each other in many places as never before.

We at HSBC have this diversity because of our geographical spread. But actually, we – and many other more domestic companies – meet much of it in just one place.

Take the UK, for example. This is a market which is itself becoming more and more diverse in terms of the ethnicity of the client base, and also through social changes like the increased participation of women in economic life.

We are here in London which is one of the best examples of all. It has more than 30 different linguistic communities of over 10,000 people, several of which are of course Muslim communities.

And in any market, it makes nothing other than complete sense to ensure that we are responsive to the needs of our customers. Their diversity is our diversity. Banks exist to look after their customers' financial needs amid all this diversity. Our retail customers look

to us for retail products, for mortgages and pensions. Our sovereign, corporate and institutional customers look for us to raise finance or provide investment opportunities through bond issues, or through equities. And our customers want to conduct their business in all sorts of different and diverse ways.

One of the most distinctive and important ways is, of course, Islamic financing.

Self-evidently, Islamic financing is important in Muslim countries. A quarter of the countries in which HSBC operates are Muslim; we have millions of Muslim customers, so the case for HSBC providing Islamic services when we are permitted to do so is not exactly rocket science.

And, of course, there is a significant Muslim population in many non-Muslim countries. There are up to 20 million Muslims in Europe.

So we need to provide these customers with products and services and in ways that fit their laws and customs.

There is nothing as distinctive in world financial markets as Islamic financing – the nearest secular parallel would SRI – the socially responsible investment market in, for example, the UK and US.

That is why we created HSBC Amanah, in 1998. We felt that an international financial institution such as HSBC could add considerable value to the Muslim community market around the world. And I believe that HSBC has increased the shelf space available for the Islamic finance industry and contributed to its overall growth.

Of course HSBC does this through a very careful and thorough process consistent with our normal way of doing business. And one of the most important ways we do this is through our Board of respected and senior Islamic scholars. When we formed the Board, we took great care to find internationally recognised and pre-eminent scholars and we are privileged to have their supervision to make sure that what we produce is authentic and fully Shariah-compliant. We do this because we want to create something of the highest possible standard for this important customer group.

One of the great competitive advantages of HSBC's international reach is that we can take what we learn in

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one country and use it in another. We can reach the parts that other, more domestic banks, cannot.

Innovations like our Shariah-compliant mortgage and pension products in the UK, have made Islamic financing available to Muslims in a way never possible before.

Of course for products like mortgages, impediments such as double stamp duties need to be removed as happened in the UK. We are grateful to the Chancellor for this and I am happy to say that HSBC played a part in the discussions that led to this change.

And with significant Muslim minorities banking with us elsewhere in the world, we have a duty and an opportunity to help them arrange their finances in a way that they had not been able to before. This we are doing.

Islamic finance does not sit in a world of its own. It overlaps with conventional financial techniques. On the sovereign and institutional side, Sukuks can be structured in a way that make them attractive investments to Muslim and non-Muslim alike. And I would make the point that Islamic financing is at its best when it offers a competitive product to all.

The success of the first global Sukuk of the Government of Malaysia in 2002, which I am pleased to say was arranged by HSBC Amanah, has led to a review of ownership laws, trust laws and the possible use of Sukuk under civil law using the agency structure in many IDB member countries.

The Sukuk proposition will continue to develop and is being well supported by LMC (Liquidity Management Company) and the IIFM (International Islamic Financial Markets) in Bahrain.

A vital point about the Malaysian issue is that 30 per cent was taken up by Islamic investors and 70 per cent by conventional – if that is the right word – investors. Similarly the Qatar Global Sukuk was 35 per cent Islamic and 65 per cent conventional.

The speed of development of Islamic finance will depend on the competitiveness of the products. Some 40 per cent of our Islamic corporate financing in Malaysia is from non-Muslims.

There is a great need to encourage and facilitate good quality secondary markets. At the moment Sukuks are very much a buy-and-hold investment. As more Sukuk issuance takes place from sovereigns, multinationals, public-sector companies and corporates, we will see a desire to trade both for liquidity and return reasons. The deeper and more liquid the market, the more competitive the product will be.

The desire to trade, to create liquid markets, is about exploring the risk/return curve. This will also apply to other Shariah-compliant structures, to structured alternate assets such as real-estate funds, to Islamic private equity and to the development of Islamic hedging products. The more investors that are able to participate – Islamic or otherwise – the quicker the development will be.

To maintain progress the industry needs to meet the challenges of consistent regulation, transparency among the market players, and striking the sometimes difficult balance between market and principle. In fact all of the important issues that you have heard about over the last two days.

Regulators, together with industry organisations such as the Accounting & Auditing Organisation of Islamic Financial Institutions (AAOIFI), are helping to spread best practice for the growing Islamic financial services industry.

I would particularly highlight the contribution of the IDB Group in creating the Industry Infrastructure for the Islamic Financial Services Industry.

The development of an enabling framework requires close collaboration between regulators, Islamic financial institutions and industry-building institutions.

On that point, let me take this opportunity to thank the Islamic Financial Services Board for inviting me today and add HSBC's support to their efforts to set supervisory standards and principles for the regulation and supervision of the Islamic financial services industry.

Growth in Islamic finance will come alongside the development of traditional capital markets. Looking forward, step-by-step, a series of regulatory changes can be made in IDB member countries that will support the growth of the industry.

At this conference, you have heard some of these changes discussed by those who will drive the process forward.

Additionally, efforts to build Shariah-compliant benchmarks are also important. With time and good fortune, progress in these areas will be of great benefit to the Islamic financial services industry, its customers and to the economies of IDB member countries.

Where is Islamic Finance today? This is a business that has come a long way and that still has a long way to go. If we are climbing the mountain, then we are some way up from the valley, looking towards the summit. And we can see the path.

competitive advantage