

IFN KUWAIT

On Air

FORUM & REPORT 2020

IFN KUWAIT ONAIR REPORT

19th - 20th OCTOBER

2020

MULTILATERAL STRATEGIC PARTNERS



STRATEGIC PARTNER



TECHNOLOGY PARTNER



PARTNERS



Day 1

Kuwait: A compelling proposition

Page 4

Forum Overview

Page 6



Day 2

Finding the funding

Page 9

Forum Overview

Page 11



OTHERS

Companies' List

Page 13



DISCUSSION INTRODUCTION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE TO FLOURISH IN KUWAIT

The world has changed. How our industry - Islamic banking, finance and investment - chooses to respond to these changes may be a generation-defining moment. Can Islamic finance in Kuwait use this opportunity to become truly responsible, inclusive and ethical, while at the same time contributing to the country's growth and development? How can we as an industry ensure this is substance over form on a permanent basis? What opportunities do the UN Principles for Responsible Banking offer Islamic financial institutions in Kuwait? How can the core values of Islamic finance be further applied to sustainable and socially responsible finance and investment strategies? What is an accurate assessment of the situation with bank consolidation in Kuwait, and what will be the best course of action for the domestic Islamic banking industry? We ask a respected panel for a new roadmap to success for Islamic banking, finance and capital markets in Kuwait.

YOUR PANEL



ISSAM AL TAWARI
*Founder and Managing Partner,
 Newbury Consulting*



CASSIM DOCRAT
Director, DDCAP (DIFC)



DR JAMSHAI ANWAR CHATTHA
*Former Assistant Secretary-General,
 IFSB*



MOHAMMED BADER AL-JOUAN
Senior Advisor – Banking Sector



NITISH BHOJNAGARWALA
*Vice-President, Senior Credit Officer,
 Moody's Investors Service*



TARIQ AL-RIFAI
*CEO, Quorum Centre for Strategic
 StudiesService*



KUWAIT: A COMPELLING PROPOSITION

IFN returned once again to Kuwait for yet another lively, positive and progressive forum discussing the latest achievements and enormous future potential of the Kingdom within the Islamic finance arena. Already an important market for Islamic finance and with a long-standing commitment to Shariah compliant banking, recent regulatory progress in Kuwait has paved the way for yet further growth, allowing the country to stretch its wings as a pioneer within the Islamic finance industry. LAUREN MCAUGHTRY writes.

The potentially groundbreaking amendment of the public debt law, which if passed could signal the nation's first sovereign Sukuk, has been awaited with bated breath, and provided an obvious focal point for the event, while Kuwaiti investors have also been recognized for their active momentum both in the GCC, the US and Europe, bringing an asset management flavor to the table.

Back to basics

The first day kicked off with a comprehensive discussion on 'Back to Basics', looking in detail at all the opportunities for Islamic finance to flourish in the state. Moderated by Issam Al Tawari, the founder

and managing partner at Newbury Consulting, the panel debated how Islamic finance in Kuwait could contribute to the country's growth and development while still supporting sustainable and socially responsible finance and investment strategies.

The wide-ranging conversation also discussed the complexities of bank consolidation in the country and evaluated the best course of action for the domestic Islamic banking industry, attempting to create a new roadmap for success across the retail, wholesale and capital markets.

There is no denying that Kuwait in 2020 has faced some challenges, and

it has been an exceptional year from all angles. Oil prices started the year at US\$60 and dropped to as low as US\$11. Kuwait's budget is based on a price of about US\$55 and it is currently sitting at about US\$41, making the situation obviously uncomfortable. Kuwait entered the year with a deficit of around KWD9.4 billion (US\$30.66 billion), and this is expected to go up to KWD13–14 billion (US\$42.41–45.67 billion), so the public debt law and the possibility of Sukuk comes at a timely point — but what can the Kingdom's economy expect over the coming year? Kuwait saw the longest lockdown in the world, and along with the oil price shock the COVID-19 crisis has also shaken its economy — particularly with the

deferral of consumer loan payments, which has cost the Kuwaiti banking system an estimated US\$1 billion and seen the potential postponement of the long-awaited Kuwait Finance House (KFH)/Ahli United Bank (AUB) merger. Moody's Investors Service downgraded the sovereign for the first time in September, a month that also saw the tragic passing of Emir Sheikh Sabah Al-Ahmed Al-Sabah.

The implication of all of these elements will be drastic on both the Kuwaiti economy and the Kuwaiti financial system. But can the Kingdom's Islamic banking system weather the storm? On the whole, the panelists were optimistic.

"Kuwait's major source of revenue is in trouble. So Kuwait is absolutely in trouble. The only question is the magnitude of the trouble"

- Dr
Jamshaid
Anwar
Chattha



Dr Jamshaid Anwar Chattha, the former assistant secretary-general of the IFSB, was matter-of-fact about the situation. "Kuwait's major source of revenue is in trouble. So Kuwait is absolutely in trouble. The only question is the magnitude of the trouble, and what efforts are taken to get out of this trouble," he stated. "The banking sector entered the crisis from a position of considerable strength, but the health crisis and the oil price crash is going to make things very difficult for them and we will see that coming through in the 2021 results.

Mohammed Bader Al-Jouan, a senior advisor of investments at Ahli Capital Investment Company, agreed. "The country's macroeconomics is not healthy, no. But the environment for doing business in Kuwait before

COVID-19 was on a slow growth track, and I believe it will go back to that."

"Kuwait is facing a fiscal crisis, but it is not unique — the entire region is facing a crisis," pointed out Tariq Al-Rifai, CEO of the Quorum Centre for Strategic Studies. "The Kuwaiti central bank is very conservative, even compared to its peers in the region, and that has helped it weather this storm quite well. But going forward, it will need to become more entrepreneurial and come up with some more ideas to energize the sector going forward."

"Islamic banks have been extremely resilient and in our assessment we feel they have the right buffers in terms of capital and loan-loss reserves that will help them navigate future challenges"

- Nitish
Bhojnagarwala



Nitish Bhojnagarwala, the vice-president and senior credit officer at Moody's Investors Service, gave some valuable context. "Despite the unique position of Kuwait due to its reliance on oil prices, from an economic standpoint we expect non-oil GDP, which is where most of the Islamic banks and financial institutions do their business, to see a 4.5% decline in 2020, but we expect that to recover in 2021 with growth of 2.2%, and then a further 2+% growth in 2022.

So growth and the economic activity will come back. From a macro standpoint there are no unique headwinds, and some emerging markets have declined much more than Kuwait. And from a banking and financial institutions' perspective, they are coming into this from a position of strength, and the system is one of the most resilient in the region — which has much to do with the way the central bank

has been running things, and its focus on building up high provisions. There is certainly a recovery in the pipeline."

In fact, the outlook is surprisingly optimistic, despite the headwinds. "While the medium- to long-term prospects are good, in the short term there are some challenges ahead, primarily driven by COVID-19," admitted Cassim Docrat, a director at DDCAP. "But in the wholesale market on the liquidity management side, we have found quite a resilient climate with liquidity being managed very well.

In terms of new business there hasn't been a lot of activity, but in terms of resilience, most of the Islamic institutions we deal with have not seen much fallout yet, especially when compared to other markets in the region. That resilience is interesting."

"Islamic banks have been extremely resilient and in our assessment we feel they have the right buffers in terms of capital and loan-loss reserves that will help them navigate future challenges," agreed Nitish.

"While the medium- to long-term prospects are good, in the short term there are some challenges ahead, primarily driven by COVID-19"

- Cassim Docrat



Within the central bank, the inclusion of a higher Shariah authority could be a new beginning, suggested Cassim, that could push Islamic banking forward in Kuwait. In addition, the inter-country merger between KFH and Bahrain's AUB could be immensely important, on the scale of the Abu Dhabi Commercial Bank–Union National Bank–Al Hilal Bank merger in Dubai, when it comes to creating an influential player with real clout in the Islamic space. 🌟

KEY TAKEAWAYS

Kuwait's Islamic financial services sector is well established, with a long history of pioneering within that area in both Islamic banking and Takaful, or Islamic insurance. The segment has expanded in recent years, building on the country's reputation as an emerging center for Shariah compliant banking, insurance and investment products. The government has enacted a series of laws and regulations aimed at further developing Islamic finance, and there remains a strong demand for such products.

This is reflected in the country's increasing global share of Shariah compliant assets, with Kuwait accounting for 6.3% of such products in 2019, up from 6% during the same period of 2018, according to the IFS Industry Stability Report 2019 published by Kuala Lumpur-based IFSB in July 2019. The GCC as a whole was home to 44.3% of all Islamic financial assets in 2019.

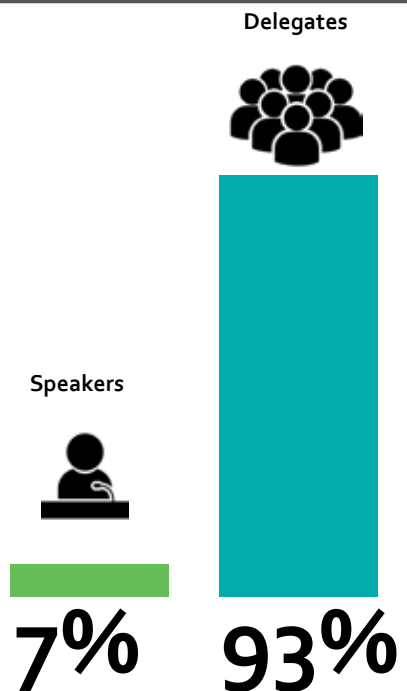
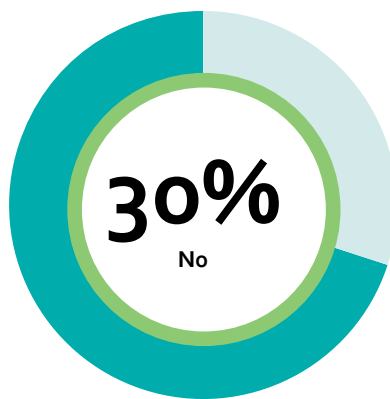
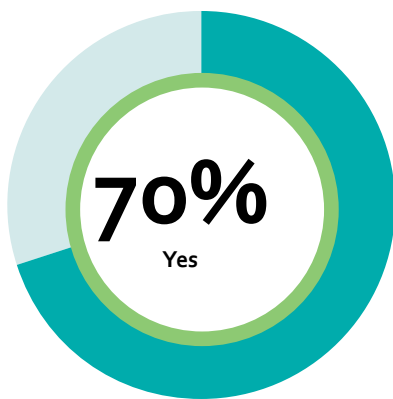


Mohammed Bader Al-Jouan is a senior advisor of investments at Ahli Capital Investment Company.

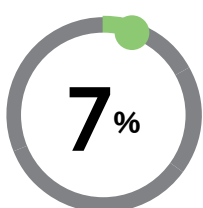


DELEGATES WHO WOULD LIKE TO ATTEND IFN KUWAIT FORUM 2021

DELEGATE BREAKDOWN



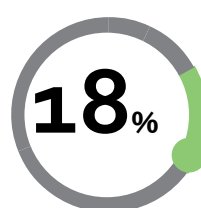
DELEGATE JOB TITLE BREAKDOWN



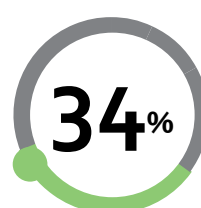
Executive



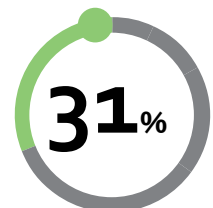
Others



Management



Senior Management



Board Level Management

DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)



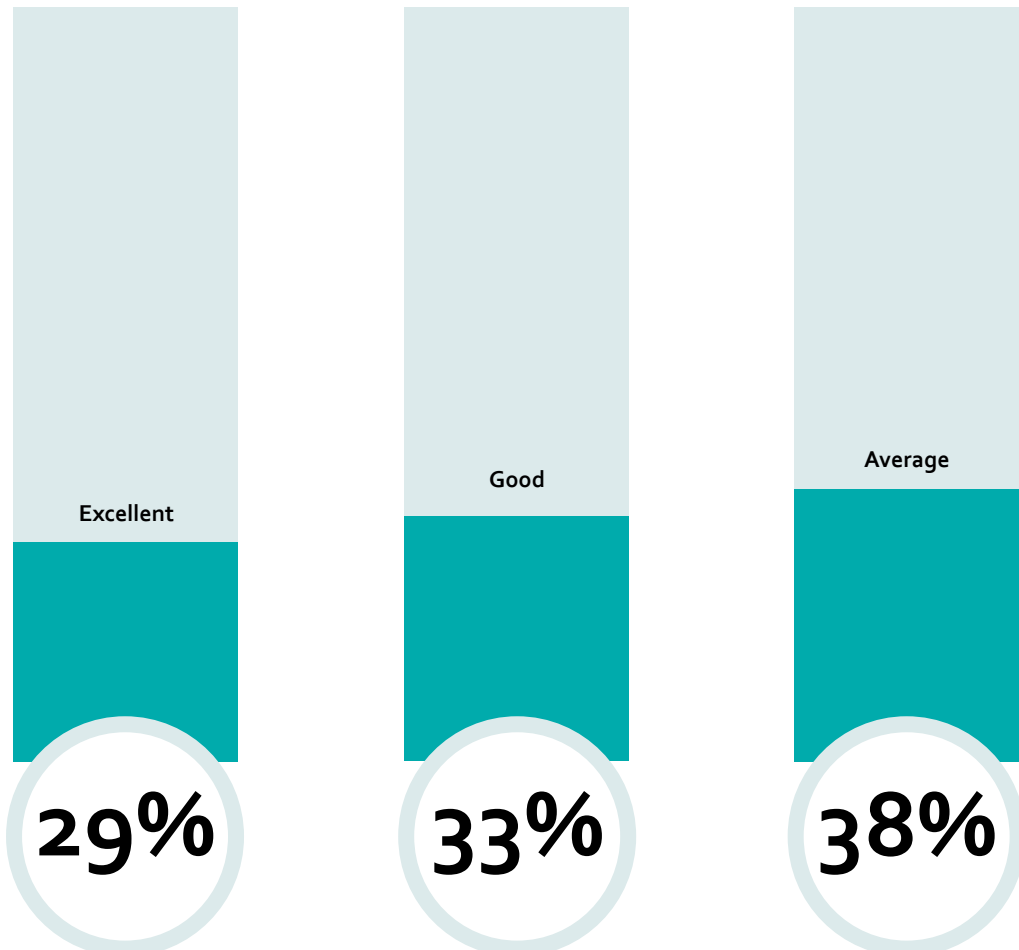
55%
Local



45%
International

SESSION EVALUATION

BACK-TO-BASICS: OPPORTUNITIES FOR ISLAMIC FINANCE
TO FLOURISH IN KUWAIT



FUNDING, INFRASTRUCTURE, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN KUWAIT

Are Sukuk still a viable option for Kuwaiti banks seeking to enhance liquidity and capital management, while diversifying funding sources? What can technology, particularly tools such as blockchain, offer capital market and asset management innovation in Kuwait? What more needs to be done to drive the issue of Shariah compliant tradeable securities, including Sukuk, in the country? What regulatory changes would be helpful and constructive toward this objective? How can Islamic finance mobilize in Kuwait to address the imminent challenges of the real economy and provide not just liquidity support, but solvency support to the corporate sector? How can sustainable and responsible investment make progress in Kuwait and can the UN Sustainable Development Goals be applied to the State's Islamic finance activities? Lastly, we examine the country's infrastructure requirements in the coming years and ask what can be funded through Islamic facilities, how can risk be effectively managed and do public-private partnerships offer a viable opportunity?

YOUR PANEL



ABDULKADER THOMAS
Group CEO, SHAPE™
Knowledge Services



AJAI THOMAS
Chief Financial Officer, Kuwait
International Bank



DR HESSAH AL-MOTAIRI
Assistant Professor, Department of
Mathematics, Kuwait University



M.R. RAGHU
Executive Vice President and Managing
Director, Marmore Mena Intelligence



NOURA ALABDULKAREEM
Head of Markets Sector, Boursa Kuwait



FINDING THE FUNDING

The second day took the conversation to a whole new level, drilling deep into the real opportunities that exist in Kuwait and how these can realistically be funded.

Led by veteran Islamic finance expert and SHAPE Group CEO Abdulkader Thomas, it discussed the viability of Sukuk as an option for Kuwaiti banks to enhance their liquidity and explored the benefits that technology could bring to the table for banks seeking to diversify their funding sources.

Never shy of touching on controversial topics, the panel also debated honestly and openly the requirement for ongoing regulatory change to help address the ongoing challenges in the real economy and mobilize Islamic finance to provide much-needed support during the current COVID-19 crisis.

Finally, it also examined the country's infrastructure requirements in the coming years, asking what could perhaps be funded through Islamic facilities, how

could that risk be effectively managed and whether public-private partnerships offered a viable opportunity to do so.

"Our market is in love with two asset classes: it's always either equities or real estate," elaborated Noura Alabdulkareem, the head of the markets sector at Boursa Kuwait. "The flow of liquidity between these two asset classes is not ideal, whether it terms of portfolio allocation or risk mitigation. This brings us to bonds and Sukuk — how can such a global asset class be of such negligible value in our market?"

The knowledge of such an asset class locally is largely reserved for treasury desks within banks, and some investment firms that offer some type of fixed income funds. Last time I checked the central bank website, the total issuances of the government were around KWD4.5 billion

"Our market is in love with two asset classes: it's always either equities or real estate"

— Noura Alabdulkareem



(US\$14.68 billion), the majority focusing on short-term maturities. Part of our initiative here at Bourse Kuwait is to create a platform for actually trading fixed income and Sukuk. As we try to bridge that gap, we realized our market is fragmented in terms of types and means of trading.



We have the backing of the Capital Markets Authority, and we are making great efforts to advance the fixed income asset class by creating more robust rules and creating this platform for trading. But will that bring in investors who will adopt? We have a non-existent yield curve, a relatively small value of corporate issuances, a scarcity of trading between banks and a lack of detailed knowledge of the asset class.

"But in 2020–21, Islamic banks will focus more on improving asset quality, and focus less on business growth"

– MR Raghu



The main driver of the Kuwaiti capital market is the retail investors, and we need to get them involved and raise awareness

about the importance of bonds and Sukuk. We should phase out the CBK [Central Bank of Kuwait] full guarantee of deposits, so that people invest in CBK issuances rather than locking their money up in guaranteed deposits."

"The public debt law, that would allow the government to issue bonds and Sukuk, hasn't been approved yet but we are waiting for it to launch and it should be imminent"

- Dr Hessah Al-Motairi



"Kuwait has officially recorded a budget deficit, and they need to issue public debt," pointed out Dr Hessah Al-Motairi,

an assistant professor in the Department of Mathematics at Kuwait University.

"The public debt law, that would allow the government to issue bonds and Sukuk, hasn't been approved yet but we are waiting for it to launch and it should be imminent."

MR Raghu, the executive vice-president and managing director at Marmore Mena Intelligence, pointed out that Islamic banks still entered the current pandemic in a very good position in terms of asset quality, profitability and capitalization. "This is probably what is sustaining us now. But in 2020–21, Islamic banks will focus more on improving asset quality, and focus less on business growth. So we need to be mindful of the big picture."

Finally Ajai Thomas, CFO at Kuwait International Bank, was articulate on the importance of sustainable and socially responsible finance, particularly through the UN Sustainable Development Goals and how these correlate to real asset-based, ethical Islamic finance objectives.

To hear the full conversation and learn more about the detailed opportunities, challenges and outlook for Islamic finance in Kuwait, download or listen to the whole event for free at redmoneyevents.com. ☺

KEY TAKEAWAYS

Bursa Kuwait is working to build a diversified platform to embrace conventional and Islamic instruments. The mandate includes instrument standardization. A challenge is that local investors prefer equity and real estate investments. Bursa seeks to build retail awareness about fixed income alternatives. Yet, one wonders if retail investors would switch to fixed income, including Sukuk, as long as the central bank offers deposit protection.

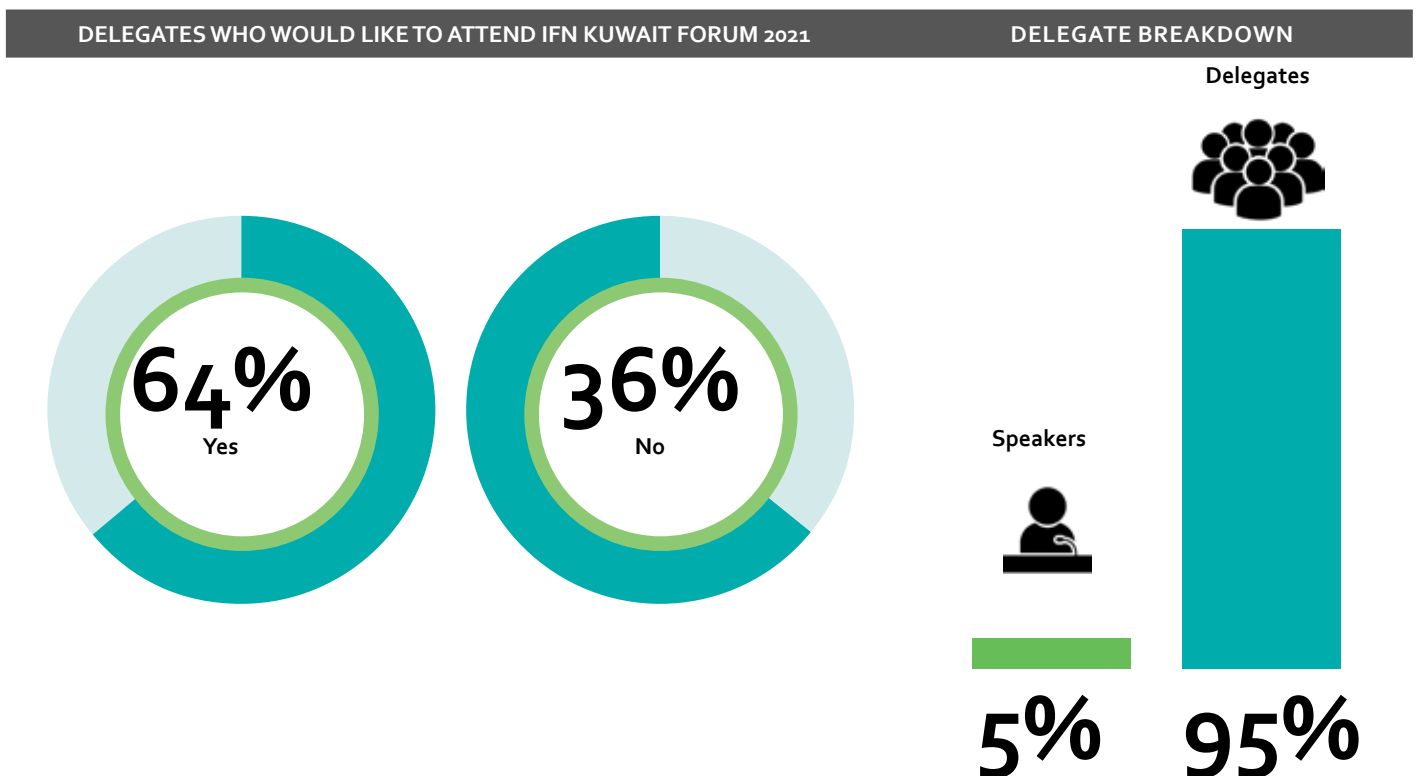
To develop the Sukuk market, corporate issuers need the market to embrace international investors. There is a disconnect between Kuwait and the international market. Today, all clearing in Kuwait is local. International investors require transparency, a yield curve and the global clearing companies. Opportunities for economic growth and investment it seems will come from Kuwait's proposed KWD150 billion (US\$489.33 billion)-worth of anticipated infrastructure projects.

Despite the recent difficulties and COVID-19, the panelists found a number of areas for optimism. It was noted that the decline in asset quality was creating an opportunity for mergers and acquisitions in the banking sector. This might make for a more efficient market. Environmental, social and governance (ESG) is slowly percolating in the domestic market. Yet as Kuwait prepares for inclusion in the MSCI Emerging Markets Index, MSCI's ESG team visited Kuwait.

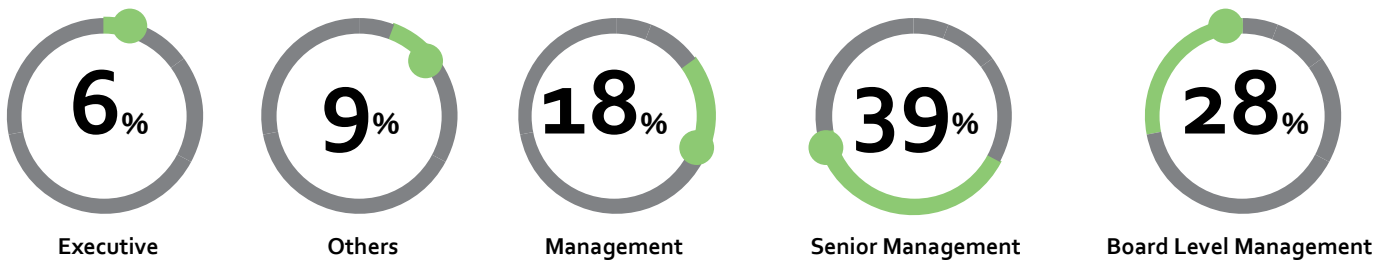
The audience wished to know the implications of the central bank's Shariah board. Though it is a good idea to usher in standardization, however, there are concerns that some scholars may lack technical knowledge to examine some instruments and projects. From Bursa Kuwait's perspective, Shariah is an investor preference.

Despite Kuwait's strong financial position, the sudden increase in deficit spending has a negative impact on the country. The panelists agreed on the importance of the public debt law, ideally with a ceiling above KWD20 billion (US\$65.24 billion).

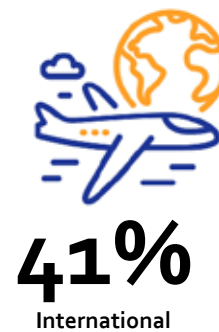
Abdulkader Thomas is group CEO of SHAPE Knowledge Services.



DELEGATE JOB TITLE BREAKDOWN

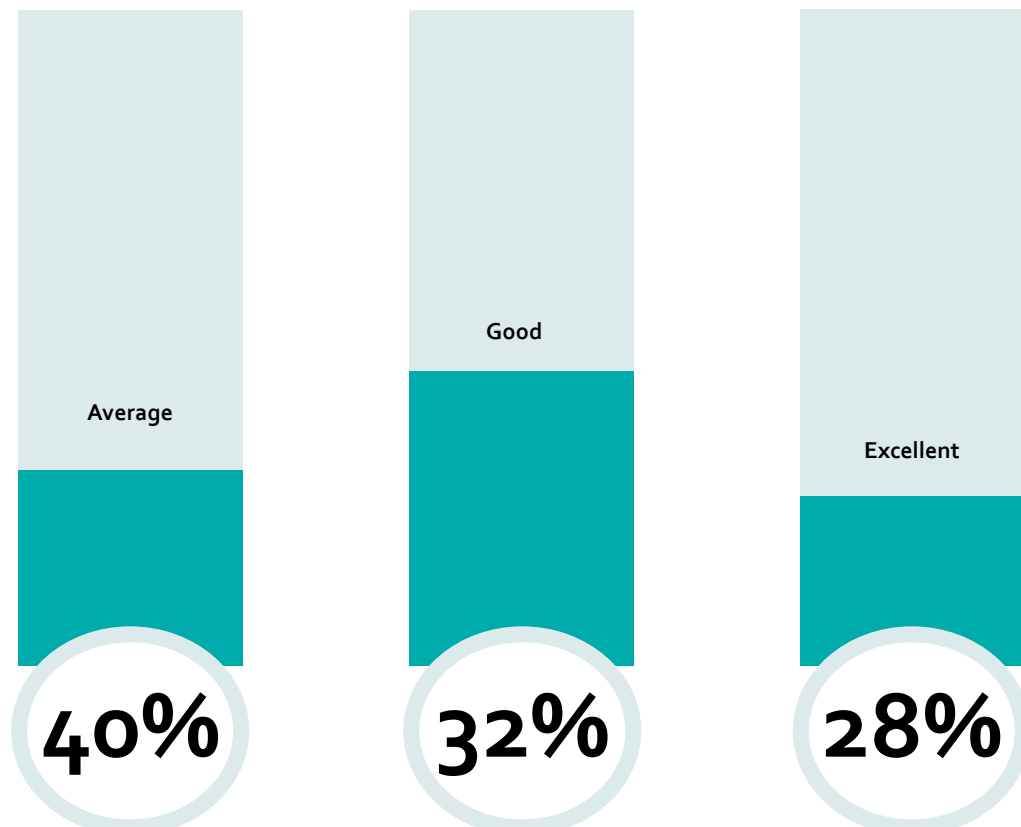


DELEGATE BREAKDOWN (INTERNATIONAL & LOCAL)



SESSION EVALUATION

FUNDING, INFRASTRUCTURE, CAPITAL MARKETS AND RESPONSIBLE FINANCE INITIATIVES IN KUWAIT



Abu Issa Holding	FTI Consulting	Kuwait Petroleum Corporation
Accuracy Beginning Business	HAGNUS Group	Kuwait University
Action Group Holdings (AGH)	Hamad Bin Khalifa University	Marmore Mena Intelligence
Addecco Middle East (FAB)	Howard Kennedy	Moody's Investors Service
AIFC	Ibriz	MuslimPay
Al Manar Financing & Leasing	ICLA Legal & Corporate Services	National Bank of Pakistan
Al-Bahar Group	Iconify Consulting and Creative	National Investment Company
Al-Hossam Legal	IFSB	Newbury Consulting
Aljuman Import and Export	Industrial Bank of Kuwait	Patti
Ausscar Financial Group	Infopro	Powas equinox Insurance Broker
Autoriti Monetari Brunei Darusalam	Ingenious Haus Group	Quorum Centre for Strategic Studies
Bank Boubyan	International Shariah Research	Qurain Petrochemical
Bank of London & Middle East	Interplan Financial Incorporation	Qurain Petrochemical Industries
BLIDA University	Islamic Corporation Developmen	Rays Gen.Trading & Cosulting
Boubyan Bank	Islamic Development Bank ICIEC	Rayyanat Najd
Boursa Kuwait	JGTC	SAL Gropu
Credit Rating & Collection	Kamco Investment Company	Salaam Gateway
Cykube	Keepers Advisory Services	Saudi Real Estate Refinance Co
DDCAP	KFUPM	Selim Megatama Group
Distinct Model Schools	KILAW	SHAPE Knowledge Services
Eiger Trading Advisors	KIPCO	SinoGulf (DIFC)
Ellani Software Solutions	Korea University	TAIF Digital
Energy investment	Kout Pictures	TAJ Bank
Fairway Group	Kuwait Finance House (Bahrain)	The CIB
FINEOPOLIS Consulting	Kuwait Financial Centre Markaz	United Nations
First Abudhabi Bank	Kuwait Fund	Universiti Pendidikan Sultan Idris
First Securities Brokerage Co	Kuwait International Bank	Vanguards Academy
Foot Anstey	Kuwait Investment Authority	Warba Bank