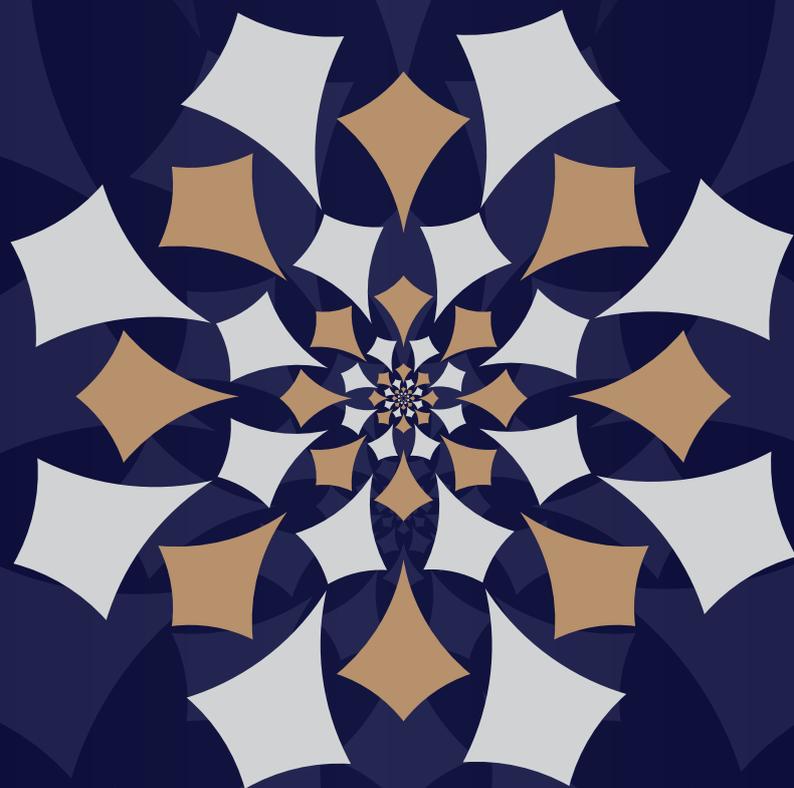


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## 80 YEARS OF KUWAITI BANKING SPECIAL REPORT

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# Kuwait Finance House

# **The Islamic Bank**

## For Good Life

The Banker  
**ISLAMIC** ★  
Bank of the Year  
**AWARDS**  
**2022**  
**WINNER**

**KUWAIT**

## EXECUTIVE SUMMARY



Image: Ibrahim Muhamed

# EXECUTIVE SUMMARY

*Kuwait's* banking sector is 80 years old, and is going from strength to strength.

## **A BEGINNING, 80 YEARS AGO**

In the aftermath of the discovery of oil, the British Bank of the Middle East (BBME) was founded, in 1942, ushering in the age of modern banking in Kuwait. In Kuwait, as in the rest of the Gulf, BBME had a banking monopoly that lasted until 1952. When the National Bank of Kuwait (NBK) was founded in 1952, it became the first locally owned bank in the country. It was started by a group of well-known business owners who believed the local economy was being underserved from a banking perspective, and it immediately became recognized as a regional leader in terms of expansion and innovation. More national banks soon followed, some of them having mandates to carry out particular economic duties, notably the Credit and Savings Bank, the Industrial Bank of Kuwait, and the Real Estate Bank of Kuwait. Finance for domestic initiatives, agriculture, and housing were among these services. Accompanying this flourishing of domestic institutions, the level of government control over the industry grew.

## **THE BIRTH OF A CENTRAL BANK AND A NATIONAL CURRENCY**

Kuwait did not have its own currency until becoming an indepen-

dent state in the early 1960s; instead, it used a combination of regional currencies, such as Indian and Gulf rupees. To correct this, the Kuwait Currency Board (KCB) was set up in 1960. It later oversaw the creation of the Kuwaiti dinar, a new national currency that went into use in 1961. The Central Bank of Kuwait (CBK) superseded the KCB under Law No. 32, which was issued by the government in 1968 and continues to serve as the industry's regulator. The law also gave rise to the first comprehensive financial regulatory framework in the country, which, after multiple revisions, now serves as the backbone of the present regulatory system.

## **BECOMING RESILIENT AFTER CRISES AND BROADENING HORIZONS**

The CBK's first financial regulatory structure was insufficient to defend the industry from the financial collapse of 1982, which was brought on by an overheated illegal stock market called the Souk Al Manakh. With investors using post-dated cheques to generate an unsustainable increase in credit, the previous camel market had developed into a hotbed of unregulated financial speculation. One of these checks bounced, signaling a catastrophe. By the time the government intervened to shut down the market, the collapse had



resulted in debts totaling more than USD26 billion in 1983.

The financial system was destabilized; the only bank in Kuwait to remain solvent was NBK, and the CBK was forced to save a number of institutions that were crucial to the stability of the system. The regulator's longer-term response was to tighten oversight of sector activity, but the 1990–1991 Gulf War once more completely disrupted the banking industry.

The financial sector's stability was once again put to the test by the global economic crisis of 2008. The global liquidity crisis came after a period of steady expansion for Kuwait's financial institutions. During that time, the banking sector's assets more than doubled from KD11.5 billion (USD38 billion) to KD26.9 billion (USD89 billion), according to statistics from the CBK. Kuwait's tightly regulated banks were well protected against the external shock when the crisis struck, as seen by the comparatively modest increase in non-performing loans between 2007 and 2010 by regional standards, while banking assets kept growing, albeit more slowly than before. More recently, after COVID-19, the Kuwaiti banking industry once again demonstrated its resiliency. With the sector considerably affected by the outbreak, the Central Bank of Kuwait released more money under the approach of "only if needed." Overall, banks have recovered and are back to their pre-pandemic performance ratios.

With crises Kuwaiti banks have had to look out to new markets to expand their operations. Some Kuwaiti banks have found homes away from home in fastest-growing economies in the region with large populations such as Turkey or Egypt. For instance, the contribution of Kuwait Finance House's subsidiaries to its profit ranges between 25 and 30%, mostly from KFH-Turkey. ABK-Egypt is one of the fastest-growing banks in Egypt, constituting 20% of ABK's total profits.

#### TODAY'S MARKET AND TRENDS

The banking sector, which consists of 11 local banks, is currently a prominent part of Kuwait's economy. According to the New Kuwait 2035 vision, the nation wants to establish itself as a regional and potentially even global financial center. After the worldwide coronavirus pandemic in 2020, the overall aggregated amount of profits after tax for listed banks in Kuwait fell to KD592 million from KD1.2 billion in 2019.

With a score of 620 on the Global Financial Centers Index, Kuwait is among the top financial hubs in the Middle East and Africa. The private institute Z/Yen rates financial hubs based on a variety of criteria, including competitiveness, business environment, human resources, taxation, and infrastructure. Kuwait is one of the top Middle Eastern nations for financial technology and online banking. There were about 28 financial technology startups in the country in 2020. With a rising understanding of the necessity for banking institutions to embrace sustainable finance frameworks, responsible lending, and operational procedures in order to manage risk and draw in foreign investment, the regulatory environment for Gulf financial service providers is evolving. Kuwaiti banks are aware of the fact that the advancement of ecological, social, and governance (ESG) agendas within banking institutions depend heavily on digitalization.

#### ISLAMIC BANKING

Kuwait also plays a vital role in the development of Islamic banking, not just in the Middle East but also globally. Kuwait holds about 6.3% of the world's Islamic banking assets. It is ranked fifth, after the UAE, Malaysia, Saudi Arabia, and Iran. As of 2020, Kuwait's Islamic banks had grown by 8.8%, compared to the country's conventional banks, which had grown by just 0.5% over that time. ✖

## INTERVIEW



## A STEADY *hand*

The Central Bank of Kuwait has played a significant role in ensuring the local financial services sector remains resilient in the face of global crises and serve the national economy as best it can.

Basel A. Al-Haroon  
GOVERNOR,  
CENTRAL BANK OF KUWAIT (CBK)

### What are your future approaches for digital transformation of the Kuwaiti banking sector?

The future approach adopted by the Central Bank of Kuwait toward the digital transformation of the Kuwaiti banking sector is commensurate with its keenness to develop the banking and financial industry, stimulate creativity, and deploy the modern technologies for reinforcement of monetary and financial stability in a business environment that is witnessing elevating complications and risks. The strategy of CBK is intended to achieve further development and accelerate the digital transformation at the level of CBK and the banking and financial sector to motivate creativity and providing better services to clients. Therefore, CBK has set a framework for the banks in Kuwait to provide and develop their digital banking services according to three primary models of digital banking business, namely foundation of digital banking units at such banks, cooperation with a third party, or establishment of new digital banks. Within the same context, CBK is keen to introduce a more enabling technological environment, motivate sustainable innovation, and implement a set of relevant remedies and actions including regulation of electronic payment and the issuance of cybersecurity strategic framework that requires Kuwaiti banks to develop their future looking strategies and update them regularly. CBK has also issued the Regulatory Sandbox Framework to provide a safe space for testing the innovative products that will contribute to the digital transformation of the banking sector.

### How can new regulations and standards accelerate the economic reforms in Kuwait?

Undoubtedly, the present rentier economy of Kuwait is no longer sustainable. In light of recent global developments, there is an urgent need for prompt movement on several levels in two correlative parallel courses: the first is financial and includes quick short-term actions to tackle the public budget situations irrespective of the oil price levels, while the second course is to create

a sustainable economic state by liberating the economy and emphasizing on transformation of the present Kuwaiti rentier economic model into a service, knowledge-based, and productive economy. The first course is related to containment of the increasing current expenditure and well-considered phased out reduction thereof, non-reduction of the added-value investment expenditure and emphasis on its developmental role, restricting the government role to the regulatory and supervisory aspects in the economic activity, activating the market mechanisms and incentives system, reinforcing economic efficiency, as well as developing non-oil revenues through re-pricing of some public goods and services for rationalizing the use thereof and upgrading their efficiency. As for the second course, efforts are needed to reshape the domestic economy to counter the growing challenges. Therefore, the concept of productivity in non-mining industries should be promoted in the private sector for more economic diversification, expansion of the economy size, attraction of domestic and foreign investments in intangible sectors such as knowledge-based assets including digital information (software and databases), as well as the importance of investment in digitization and digital services and supply chains, coping with transformation of remote business models that would enable Kuwait to develop in the fields of financial innovations related to digitization, AI, robots, and blockchains, which drive out prosperity and sustainability.

### What are the consequences of lifting the deposit guarantee on the banking sector?

With the receding of the negative repercussions of the global financial crisis in 2008, Kuwait, like several other countries, passed Law No. (30) of 2008 to guarantee deposits at local banks with the aim of reinforcing trust in the domestic banking sector. However, the issue whether this law shall remain in force and effect or be superseded has become a matter of debate. The financial positions of banks and the financial stability

#### BIO

Basel Al-Haroon has been Governor of CBK since April 2022. He has over 33 years of experience in various public and private institutions in Kuwait's banking and finance sectors and was a founding member of the first Capital Markets Authority's (CMA) Board of Commissioners. Al-Haroon holds an MBA with honors from the American University of Beirut and a bachelor of science in business administration with honors from Saint Augustine University in the US.



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