



Creating the Next Generation of Islamic Finance Solutions: The Product Innovation Imperative

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Gatehouse Bank - Overview

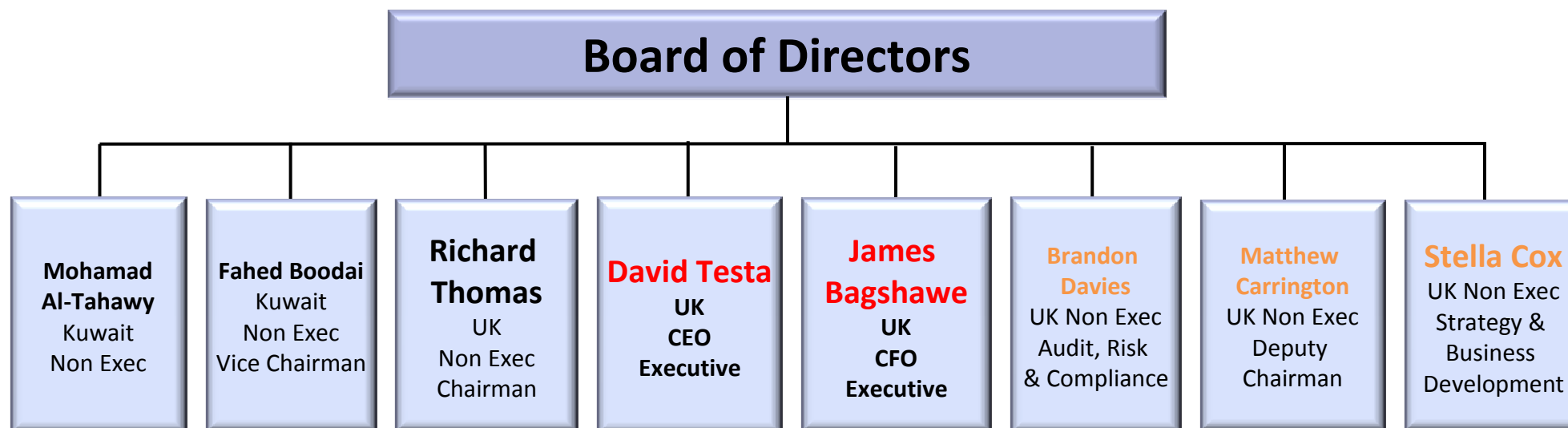
- ❑ **Gatehouse Bank plc (“Gatehouse”)** received approval from the **Financial Services Authority on 21st April 2008 for a licence** to act as a Shariah-compliant deposit taking banking entity operating in the UK

- ❑ Gatehouse is a wholly-owned subsidiary of The Securities House in Kuwait

- ❑ Gatehouse has an **authorised capital** of £225 million:
 - up to £100 million to be paid in by The Securities House (£50 million already paid)

- ❑ Gatehouse is operating as a **Shariah-compliant wholesale investment bank based in the City of London** focusing on :
 - Islamic capital markets
 - Institutional wealth management
 - Shariah advisory services
 - Islamic treasury business

Gatehouse Bank - Overview



Shariah Supervisory Board:

- Sheikh Nizam Yaquby (Chairman)
- Dr. Abdul Aziz Al-Qassar
- Mufti Muhammad Nurullah Shikder
- Shaykh Haytham Tamim

The imperative to innovate in a crisis?

- ❑ A snapshot of the world according to the Financial Times, Friday 21st November 2008:
 - “the bond market expects historically low interest rates in the developed world, which will fail to avert a protracted dose of slow growth and deflation”
 - “[the] superior potential [of stocks] to grow over time is now valued as worthless”
 - “the price of crude oil fell to below \$50 [a barrel], its lowest level since 2005, in spite of the widespread belief that world production is near its peak level and is set to decline”
 - “this is an historic loss of confidence in the western economy”

When written in Chinese, the word "crisis" is composed of two characters. One represents danger and the other represents opportunity

John F. Kennedy

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- Islamic finance: a „white knight“ for the world’s economic woes?
- Funding gap: can Islamic financial institutions step up to the plate?
- Cheap assets: a buying opportunity?

Keeping it simple....

- ❑ A growing acknowledgement that institutions need to go ‘back to basics’
- ❑ Governor Zeti Akhtar Aziz has this piece of advice for industry players (IFN 20th November 2008):
 - “As innovation of Islamic financial products and services intensifies and as Islamic finance becomes more integrated with the international financial system, it becomes imperative that the foundations upon which Islamic finance has been built remain intact. This will be the key to sustaining the resilience of the Islamic financial system in this more challenging international financial environment.”
- ❑ Not all measures are in the hands of the practitioners:
 - Benchmark issues needed for liquidity, eg where are the GCC sovereign Sukuk issues?
 - Urgent need for more practicable AAOIFI standards on Sukuk structures
- ❑ But some are:
 - No need to replicate each and every conventional product
 - Imperative for widely-acceptable Repo product to generate liquidity
 - Co-operation in standardisation initiatives

Looking at the glass half full...

- ❑ Asset diversification:
 - Defensive sectors in a troubled climate
 - Availability of cheap assets in more established sectors, eg real estate
 - Yield products – cash is king!
 - Increasing interest in direct investments vs fund of funds approach
 - ‘Ethical’ finance will enhance market penetration of Islamic products in non-Muslim countries

- ❑ Standardisation:
 - Cross-jurisdictional agreements for the repo product to assist Sukuk market
 - IIFM have recently introduced the Master agreement for Treasury Placement (MATP)
 - Gatehouse is leading the London Islamic Bank initiative to standardise Treasury products
 - Hedging instruments: growing use of profit rate swaps and FX forwards
 - ISDA continues to work with the regulators to find derivative solutions

- ❑ Geographic innovation:
 - UK – 5 authorised Islamic Banks with more pending approval
 - France – recent initial announcements by the government regarding Islamic finance
 - Hong Kong, Singapore and Japan: all actively working on government-led initiatives

Shukran!

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