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Business Strategies in a New Global Financial Order

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The global background

From global crisis to financial reforms



- The process of deleveraging and disclosure is ongoing.
- Banks should set/revise medium-term business strategies assuming continuing high risk aversion rather than a return to business as usual.
- What are the key parameters? What are the risks?
- Global macroeconomic outlook: The emerging economies have a greater role in restoring global growth and financial stability.
- Through the new G-20, international coordination on maintaining the stimulus packages and various reforms by Standard Setting Bodies spread over a couple of years.
- 2010-11 should be for stimulating economic growth while designing a new global financial order.
- It may not be smooth sailing.

The global agenda for reform

Potential effects on corporate strategies



- At recent summits, the G-20 agreed to coordinate their actions in four key areas:
 - Fiscal stimulus packages
 - Monetary policy & financial sector interventions
 - Regulatory reforms, and,
 - Strengthening international financial institutions
- Major challenges in execution.
- The G-20 agreed to expand the membership and role of the Financial Stability Board (FSB) to coordinate the work streams of various Standard Setting Bodies, e.g. BCBS, IASB/US FASB, IOSCO.
- Key proposed reforms affecting banks.
- But financial markets are already imposing harsh discipline in a disorderly way: forcing higher capital requirements, lower leverage, better disclosure, etc.

Implications for Islamic finance

Banks need to be proactive



- The operating environment will continue to be tough, but Islamic finance has an opportunity to enhance its relative competitiveness.
- Are the reforms relevant to Islamic finance? Are they welcome?
- The Islamic Financial Services Board (IFSB) is the relevant body. A Taskforce on Islamic Finance and Global Financial Stability set up by the Islamic Development Bank (IDB) has recommended (inter alia) establishing an Islamic Financial Stability Forum.
- Islamic finance should not be behind the curve. National regulators and bankers' associations have a special duty to perform.
- Banks need to be proactive to make sure their interests are represented.