



BNP PARIBAS
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The need for global connectivity in Islamic Finance

Jacques Tripon
CEO BNP Paribas Najmah

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Standardisation

Topic of a lot of discussion (among scholars, industry public bodies and industry leaders for the last years: numerous debate during international conferences.

Islamic bodies such as IDB & IFSB are addressing this subject.

But why do we need standardisation?

It is essential for our industry to grow, to expand geographically, to become an efficient market... in a nutshell, to become global.



1) Cost efficiency

- Structure
- Legal cost

=> competition will be on pricing => issuers benefiting

2) Enhance innovation

Structurers concentrating on innovation

- Our industry is still mimicking conventional products too much
- Using murabahas is not an entirely satisfactory answer to our needs of money market instruments
- Benchmark of most of our Islamic products are based on *Riba*: CDS, LIBOR...

3) Credibility/transparency

- Less disputes
- Trust/confidence



4) Risk management

- Diversification: by geography, by sector, using various instruments
- Liquidity
- Solvability
- Operational risk

5) Promote liquidity and a secondary market

- Snowball effect by attracting more players & investors

6) Development of Investment products

- Asset management funds
- ETF
- REIT



Conclusion

- Right direction: progress have been made
- Standards issued by IFSB, AAOFI, IIFM
- Works conducted by IDB members countries and IFSB to establish a financial stability in the Islamic Financial system
- Initiative taken by some central banks (Bank Negara, CBB)
- Islamic ISDA
- Islamic swift
- Enhance the role of AAOFI

Our industry has strong foundations thanks to the core tenets of Islam.
However without standardisation Islamic finance will remain a niche, reserved to Muslim countries.