

International Conventional Banks: Making Waves in Islamic Banking II

In part 2 of this article, Warren Edwardes, Head of Treasury and Capital Markets, Marketing & Sales at KBC Bank, London, speaks in his personal capacity to IslamiQ.com about the participation of international conventional banks in Islamic banking, its impact on the industry and future scenarios.

By Sharifah Hafizah

Edwardes is no stranger to Islamic banking, having been involved in the sector for over 15 years. Prior to joining KBC Bank, late last year, he was chief executive officer at Delphi Risk Management, the London-based financial instrument innovation and risk management consultancy, which he founded.

He was on the board of Charterhouse Bank as director, Financial Engineering in the Capital Markets Division, and has also worked for the Equitable Life Assurance Society, the U.K. government Actuary's Department, and the treasuries of Barclays British Gas and Midland Bank. It was in 1985, at Midland Bank, that he first came across Islamic banking.

Since then, he has been involved with Islamic banking, as part of his portfolios, and has spoken at and chaired numerous Islamic banking conferences. At a conference on Islamic Banking & Finance held in Kuala Lumpur in April 2001, Edwardes delivered a presentation entitled "The Demystification of Islamic Banking".

Below is the excerpt of the IslamiQ.com's interview with Mr. Edwardes after the presentation

IQ: How do you explain the increased participation of conventional banks in Islamic banking, lately?

WE: I think it is a natural thing, and there are parallels with the way that banks went into Internet banking.

A number of internet-only banks were created in the U.S., U.K. and Europe, some as stand-alone operations by conventional banks. Most of these pure Internet banks are struggling, or have wound-up development plans. But conventional banks have opened Internet banking facilities as a normal part of doing business. Just as the Internet-only banks were created to service a perceived demand from customers who had computers and Internet connections and to use that as a channel to serve their customers, Islamic banking services have similarly not been provided on a missionary basis.

Islamic banking services were created to meet a perceived customer demand for banking and insurance products and services that comply with Islamic laws.

Therefore, if conventional banks regarded Islamic banks as a threat and want to recapture that part of banking and insurance business, they will have to restructure in order to provide such services as part of their normal business.

They have adapted to provide Internet banking business, or whatever the customer-demand happened to be. In Malaysia, that customer's banking need happens to be Islamic banking. The demand for Islamic banking has been mainly in Malaysia, the Middle East and Indonesia.

We see HSBC and Citibank providing more Islamic products in Malaysia than they do in London because of customer demand. But there are also signs of growing demand for Islamic banking in Europe and the U.S.

IQ: Will this increased participation cause a threat to the pure Islamic banks?

WE: As Islamic banks grow quickly, it is the conventional banks that will see Islamic banks as a threat. In the long run, yes, but by and large international global brand names are not known for innovation. They are known for responding to new products and services.

It is the small, lean and new institutions that usually create new products and innovative services. However, once a new product or service is perceived as a threat to conventional businesses, they will respond by providing a competing product and then take over.

But at end of the day, the international brand name banks with good ratings will have the edge.

IQ: So where does this leave pure Islamic banks?

WE: I suspect the future in banking will be more proactive than reactive. You either react to competition or you forge ahead of the competition. It is also a question of demand. We see in Malaysia that a majority of Muslim retail clients are still prepared to use conventional products and they don't go to a brand name bank asking for Islamic banking services.

IQ: Do you think this has more to do with the service provided?

WE: I believe that clients worldwide would rather go to a brand name with ratings, and that provides appropriate service, regardless of whether it's Islamic or otherwise.

But given a choice between a pure Islamic bank and a highly rated reputable international bank providing the same service, a client would rather go to the one that has a brand name than the one that provides Islamic-only services, without the brand name.

IQ: How long do you foresee before pure Islamic banks can build that kind of reputation?

WE: To create a brand name is very difficult. It's important to have a first mover advantage, and I do not see how in the short term, that can happen in Islamic banking.

Even from the start of Internet banking two years ago till now, only a handful have made their name at the initial level, and those that have made it are not pure start-up companies but part of a solid company.

IQ: Do you think this will be among the major challenges for Islamic banking?

WE: Islamic banking is but 25 years old. It has not yet been seen as a threat because the demand for Islamic banking has not been as rapid as the demand for Internet banking. But once Islamic banking is seen by both customer and banks globally as important to business, there will always be international banks that will recreate the product or buy them (Islamic banks).

Under a dual banking system like Malaysia, I foresee a future where Islamic banks will be purchased by conventional banks. This will bring about a reversal of the recent trend to create separate Islamic banks.

And in five years time, because of increasing competition from conventional banks, I would expect pure Islamic banks to be either taken over by conventional banks, either domestic or international.

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