

Islamic Banking after 9/11: The Broad Perspective

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9/11: keeping the perspective

- “There are two frequent responses to any great historical event, both inappropriate if not downright mistaken: to say that everything has changed and to say that nothing has changed.” (Fred Halliday, *Two hours that shook the world.*)

Remember:

Casablanca Economic Summit

Arafat-Rabin handshake at the White House



Main impact: Islamic finance in western markets

- Western institutions more wary of anything with an “Islamic” brand
- Western institutions may curtail expansion of existing Islamic operations (business volumes less assured, greater regulatory burden, reputation risk)
- Possible reduction in availability of interbank facilities from western institutions for Islamic banks

But also

- “Muslim” money being repatriated from US into local institutions

But, many aspects of Islamic finance unaffected

- Many areas of Islamic finance are managed primarily by Muslims for Muslims.
 - **Islamic retail banks in Muslim countries**
 - **Islamic bonds issued by Muslim Governments (eg Bahrain, Malaysia)**
 - **Islamic mortgage lenders in the west (eg Lariba)**
- The clients of these institutions are impervious to
 - > **the current scrutiny and criticism of Islamic institutions in the western press**
 - > **heightened concern & scrutiny by western regulators**

Scrutiny of financial institutions is increasing...unconnected to 9/11

- Investigations into accounting standards and practices, post Enron
- Greater scrutiny of offshore financial centres
- Efforts to standardise and strengthen financial reporting standards
- New capital adequacy standards (Basle 2) require and encourage stronger internal controls and credit scoring

Attitude of Muslim governments to Islamic finance will be key

- Governments of Muslim countries tread a difficult path in “managing” domestic Islamic sentiment
 - **allow it to let of steam**
 - **keep it under control**
- Governments always influence and frequently control:
 - >licensing of financial institutions
 - >regulation of financial institutions
 - > enforcement of the law
 - > the “soft” boundaries of acceptable religious activity

Islamic finance is multi-faceted

- Difficult to define what we mean by Islamic finance
- The ethical perspectives driving Islamic finance are often not dependent on “Islamic branding”.
(Comparison: Grameen Bank in Bangladesh)
- So...impact of 9/11 on Islamic banks will also be multi-faceted.

