# SHARED RISK & REWARD

Issue 118 – October 7, 2012

**Reading List**

HSBC to restructure its Islamic finance business (Press Release)

HSBC scales back Islamic business in global review (Reuters)

**Blog Posts This Week**

Observations on the possible structure of the QIB mudaraba sukuk

IILM ready for maiden USD sukuk in "a matter of months"



**SHARING RISK**
1500 SW FIRST AVE., SUITE 910
PORTLAND, OR 97201

http://www.sharingrisk.org
@sharingrisk
Sharing Risk Blog

## Conventional Banks Retreat

During the last week, HSBC announced it was pulling out of most of the markets where it offers Islamic finance (specifically the UK, the UAE, Bahrain, Bangladesh, Singapore and Mauritius), with the exception of wholesale Islamic financing and sukuk products. HSBC Amanah's decision is noteworthy because of how many years it has been involved in the industry.

There has long been a tension between wholly Islamic banks (mostly located and operating in only one country) and the global banks that offer Islamic finance through Islamic windows. While there has been a lot of growth in the industry's reach through these Islamic windows, and they have put significant competitive pressure on the industry as a whole to become more efficient, they also have a cost.

The global banks have crowded out wholly Islamic banks, which may have limited the ability of these Islamic banks to grow outside of their home markets. Without the brand recognition that the global banks have outside of their home markets, they are at a disadvantage.

Global banks have also stymied the development of wholly Islamic banks that face higher funding costs, and reduced profitability from having to compete with the conventional banks' Islamic windows. This is the flip side of the positive competitive pressure that banks like HSBC introduce in the market that lowers the spread between the cost of Islamic banking and conventional banking.

While the decision from HSBC was rightly seen as newsworthy, it should not come as a surprise. First, many European banks have retreated back towards their home markets to some degree as they deal with the ongoing European debt crisis. Second, HSBC is a truly massive bank (it has $2.65 *trillion* in assets) so any segment of its business has to be pretty big to move the needle, and this looks to be at least some of the reason why it is retrenching to the larger Islamic finance markets in Malaysia and Saudi Arabia, with a limited presence in Indonesia.

It will be interesting to see whether other banks with Islamic windows reach a similar conclusion and open the smaller markets to wholly Islamic banks. That would be a more natural way to make the transition towards wholly Islamic banks than the Qatar Central Bank directive which shut down conventional banks' Islamic windows.

Until next week,
Blake Goud