Islamic funds gain stronger foothold

StanChart CEO talks about potential of Islamic banking in Bangladesh

SUMAN SAHA

BANGLADESH can improve its weak infrastructures by utilising Islamic funds available globally, said a senior official of a foreign bank.

The country's stable economy can help attract more Islamic funds from international financiers, said Afaq Khan, chief executive officer (Islamic banking) of Standard Chartered Bank.

Khan was sharing his views on the prospects of Islamic banking in an interview with The Daily Star at Sonargaon Hotel recently.

"The total size of the world's Islamic funds is estimated at $1-$1.3 trillion, which is growing at 15-20 percent on average annually," said Khan, who came to Dhaka to launch the bank's Shariah-based product Saadiq for its corporate clients in the country.

Most shariah-based financiers in the world are eager to invest in large infrastructure projects, he said. Bangladesh can attract these investors, thanks to a positive economic outlook of the country.

"All the ingredients are here to attract the Islamic financiers as you have a stable economy, stable regulations and fast economic growth," said Khan.

The country needs to tell its success stories and future plans to the Islamic investment community globally, he added.

Standard Chartered Saadiq is ready to cooperate with the government in the processes of bringing in the Islamic investors to the country by utilising its global network, said Khan.

Islamic banking is now an issue of great interest for many, including the western non-Muslims, as the system remained almost unhurt during the global financial crisis, said the official.

Shariah-based banking is growing much faster than conventional banking, he said. Currently, the banking giant has Islamic banking operation in six countries -- Indonesia, Malaysia, UAE, Bahrain, Pakistan and Bangladesh.

Of the countries, Indonesia has the highest annual growth rate at 45 percent, followed by Bangladesh at 25-30 percent, said the 50-year-old official.

"Conventional banking is riskier than Islamic banking because it deals with debt trading and keeps itself involved in market speculations, which the European and American banks experienced," he said.

"At present 19 percent of the industry assets and 16 percent of the industry deposits are Islamic. So, there is an accelerated demand for Islamic banking products in the market," said Khan.

The London-based bank started its Islamic banking operation in Bangladesh in 2004 with consumer banking products under the bank's group branding Saadiq.

"Islamic banking operates in real economy. This banking has no room for gambling, speculation, excess leverage, or the greed for windfall profit," said Khan.

He joined StanChart in 2003 with a mandate to launch the Islamic

Afaq Khan

business division for the bank. Since then, he has been responsible for the strategic build-up of a global Islamic banking business covering retail, corporate and investment banking with a wider product capabilities and award winning solutions.

Khan, who has 22 years of banking experience, believes Bangladesh could be a big market for the Islamic banks. "Around 90 percent people here are Muslims. So, the country has an immense potential for the growth of Islamic banking."

But he feels the business prospect would depend on diversification of products, services and adequate training of the officials.

"Saadiq" is the brand of this bank's Islamic banking, which has rolled out more than 250 products and solutions relating to consumer and wholesale banking.

An Islamic bank traditionally generates its profits from Sharia-compliant investment activities. This profit is shared back with the bank's customers at a pre-agreed ratio. An account holder is entitled to a share of these profits according to the funds he holds in his account.

Khan said Islamic banking differs from conventional banking, primarily because it does not look to charge or deliver interest.

In Islamic banking, profit is generated through investment and trading, said Khan, who did an MBA from the University of Western Illinois in the US.

The official said this return rate has to match the level of return provided by interest levels of conventional banking.

Islamic banking in Bangladesh continues to show strong growth since its launch in 1983.

At present, out of 47 banks, seven private commercial banks are operating as full-fledged Islamic banks. Besides, 16 conventional banks are engaged in Islamic banking, according to Bangladesh Bank's annual report for 2010-11.

The total deposits with Islamic banks and Islamic banking branches of the conventional banks stood at Tk 67,580 crore by the end of December 2010. This deposit accounts for 17.5 percent of the deposits with the total banking system, according to BB Data.

Total credit of the Islamic banks and the Islamic banking branches of the conventional banks stood at Tk 62,870 crore by the end of December 2010. This was 19.1 percent of the credit of the total banking system.

The global banking giant targets Bangladesh as one of the potential markets for its Islamic financial products and services.

As part of the move, the bank launched its Shariah-based wholesale banking product Saadiq for its corporate clients on August 2. Earlier the product was for retail customers only.

The Saadiq brand will offer a core comprehensive suite of products related to cash management, trade, term and working capital financing for corporate clients to fulfil their banking requirements in a Shariah compliant way.

Getting on with the neighbour: Lessons from Sri Lanka

AFP

Maldives President Mohamed Waheed (2L) and wife Ilham Hussain (R) pose with Sri Lankan President Mahinda Rajapaksa (2R) and Shiranthi Rajapaksa (L) in the capital Colombo on Thursday.

ROHAN SAMARAJIVA

IT was reported that a group of experts had recently met in Dhaka to discuss the pros and cons of a bilateral trade agreement with India.

According to the report the consensus was against an agreement. One speaker had referred to the Indo-Lanka Free Trade Agreement (ILFTA), saying it had been a failure. This is contrary to the facts.

The ILFTA has been a great success, increasing the volume and diversity of Sri Lanka's exports to India. The overall imbalance remains, but most of India's exports to Sri Lanka are items outside the scope of the FTA such as petroleum products and motor vehicles.

There is controversy on the expansion of the FTA into a Comprehensive Economic Partnership Agreement (CEPA) that would provide a legal framework for trade in services and for investment.

The opposition comes from a few industrialists who appear to be driven by atavistic fears of India more than by evidence. Those opposed to the CEPA have made it very clear they are not asking for the abrogation of the FTA, which in revised form will become a part of the proposed CEPA. The Ceylon Chamber of Commerce supports the CEPA.

Sri Lanka was the first country to sign a free trade agreement with India, back in 1998. It had flaws, as would be expected when it was a first for both countries. There were port-of-entry constraints that have since been removed.

Sausages from Sri Lanka rotted in the Chennai port because the testing had to be done in Kanpur. Sri Lankan exporters were surprised by state-level taxes that were not covered by the FTA, a document that bound only the central government.

India hit the emergency stop on two commodities exported from Sri Lanka, pepper and vanaspati. The latter was produced in Sri Lanka by Indian investors who found an arbitrage opportunity. Now that India has rationalised its tariffs, the arbitrage opportunity no longer exists.

Sri Lanka started negotiating a CEPA in 2003, just behind Singapore. Today, Sri Lanka is at the back of the line, with India having concluded similar agreements with many countries, including Singapore, Korea, Japan and even the European Union.

During the recent visit of the Indian Minister of Commerce Anand Sharma, the fate of the unsigned agreement was the elephant in the middle of the room that occupied everyone's attention, but was not spoken of by the Indian delegation.

Instead, Sharma talked about what India would do for Sri Lanka: export zones for auto parts and pharmaceuticals, greater support for oil exploration, a bilateral committee to help increase Sri Lanka exports, among others.

He was talking about the asymmetrical approach embodied in the FTA and CEPA, but not in so many words.

He also talked about doubling bilateral trade to $10 billion by 2015 and massive increases in Indian investments in Sri Lanka. That this would require legal frameworks in the form of investment and extended trade agreements was implied but not stated.

What's in it for them?

In conditions of imperfect information, people base their decisions on short cuts, the fancy word being heuristics.

So, when people who do not quite know how to assess a trade or investment agreement hear one party advocate it, even in implicit form, the heuristic kicks in. What's in it for them? If they are for it, it must be bad for us.

READ MORE ON B3

Apple wins, Samsung set for bounce-back

REUTERS, Seoul

DEFEAT in a bitter patent wrangle with Apple Inc, its smartphone rival and biggest customer, will dent Samsung Electronics Co's $21 billion cash-pile, but could actually help cement its leadership in the global smartphone market.

A US court has ordered Samsung -- which sold around 50 million phones in April-June, almost twice the number of iPhones -- to pay $1.05 billion damages, after ruling that the South Korean firm infringed on some Apple patents.

While the verdict was a big win for Apple, the damages are less than half the $2.5 billion compensation it sought -- although that could yet be increased by the judge -- and are just 1.5 percent of annual revenues from Samsung's telecoms business.

That phone and tablet business is the powerhouse behind Samsung's growth, earning around 70 percent of total profit. The group had net profit of $4.5 billion in April-June.

Samsung could also see its popular Galaxy smartphone banned from sale in the United States. But its skill as a "fast executioner" -- quick to match others' innovations -- would likely mean tweaked, non-patent infringing devices would be on the market soon after any ban came into place.

"Samsung has already made some design changes to new products since the litigation first started more than a year ago," said Seo Won-seok, an analyst at Korea Investment & Securities. "With the ruling, they are now more likely to make further changes or they could simply decide to raise product prices to cover patent-related payments."

Also, Apple's demands for Samsung to pay it a royalty on its phone sales could hit rival phones using Google's Android operating system more than it hits Samsung. If anything, the blaze of publicity from the high-profile, high-stakes U.S. litigation has made Samsung's brand more recognisable.

The California jury had only begun deliberating on Wednesday after a complex weeks-long trial. Friday's verdict on seven Apple patent claims and five Samsung patent claims suggests the nine-person panel had little difficulty in concluding that Samsung had copied some features of Apple's iPhone and iPad.

It could lead to an outright ban on sales of key Samsung products, with Apple saying it planned to file for a sales injunction within seven days and the judge in the case setting a hearing on September 20.

Because the jury found "wilful" infringement, Apple could seek triple damages.

The US ruling, read out to a packed federal courtroom in San Jose, just miles from Apple's headquarters, came less than 24 hours after a Seoul court found that while the iPhone and Galaxy look very similar Samsung hadn't violated Apple's design.

Samsung issued a defiant response to the U.S. decision, which it called "a loss for the American consumer", indicating the legal tussle is far from over. "This is not the final word in this case or in battles being waged in courts and tribunals around the world, some of which have already rejected many of Apple's claims," Samsung said in a statement.

Nomura analyst CW Chung, speaking before the verdict, predicted it could take "many years" for Apple and Samsung to settle the case whatever the result of this round, leaving the two firmly in control of the $200 billion-plus global smartphone market.