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## **Interview: Phillip Thorpe**

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## **The head of the Qatar Financial Center Regulatory Authority discusses the challenges faced by the global financial services industry.**

### **What has changed this year?**

Well, in terms of Davos [the World Economic Forum meeting last January], I'd like to say that from the financial perspective; we were hearing more constructive things from the financial services industry. I'd like to say that but I don't say that. I have not seen the kind of change, heard of the kind of change that I would have expected. I still see denial, I see people unable to move from their previous positions. I don't see understanding on the part of a lot of the financial services sector, and I suppose in particular, I failed to see the alignment of understanding in the financial sector with the public view. And that is the critical point. Public opinion has moved on in 12 months, and the financial services sector needs to move on as well and respond. We are seeing it at a political level, but not at an industry level. So that's a big point for me which so far is disappointing. We've heard some very strong statements from politicians who've been here; Sarkozy continuing a theme that we have seen from Obama and we've seen echoed in the U.K. Those are leading statements and I would have hoped we received a more positive response from the industry and from regulators.

### **What would it take for the financial services industry to do what they have to?**

It's a matter of understanding firstly the political environment operating and the public levels of concern. There is genuine anger about what has happened and it's no good assuming that business can continue as usual. They need to understand that this will convert into political action, then convert into regulatory action which will be limiting on business. Because there will be a great nervousness in the next few years about risk and that is going to be more costly in terms of capital. It's going to be more restrictive in terms of types of activities. My hope is that the industry will see the sense in leading the change, not waiting to have it delivered to them but thinking constructively about the matters that are concerning the public and therefore the politicians. I think changes will come about in terms of size of businesses that will happen. President Obama has talked about it; others are now talking about it. In the U.K. it's been spoken about. Separating commercial banks from propriety trading, I can see the cost of capital increasing because any regulator anywhere is going to say, "I'm not willing to rely upon money that might be offshore and unavailable to me if something goes wrong. I

want the money here in my own backyard.” We’re already seeing this. These will be pretty critical changes and should encourage the industry to proactively meet the political agenda.

### **What is Qatar doing in this direction?**

In Qatar, it’s a little bit quieter. We have been very fortunate to be at some distance from the issues in terms of the economic crisis. The banks have had some concerns about the quality of their lending book but they had not been involved in talks of assets, they’ve not really seen the subprime – those are not big issues. They have generally been well capitalized and more conservatively run. The government is undertaking a number of interventions to strengthen the local industry, and that has helped in terms of liquidity. Most important of all, we’re sitting in an economy that is growing at a great rate and which is robust and will grow even more in 2010 and 2011. That’s a very good place to be. We know the cash flow is good and we support a continued expansion in most sectors.

### **But what happened in Dubai will definitely affect Qatar also.**

It’s impacted perceptions about the region broadly. It’s quite annoying because people aren’t actually making a thorough examination of the different states. If you’re in Dubai, that’s one thing, but what happens in Abu Dhabi isn’t the same. What happens in Doha is not the same, but we all receive a little bit of the influenza from the infection in Dubai and that is unfortunate. That said, in Qatar, we saw the government go out with a bond issue very successfully, it was well received by the market, always subscribed, well priced. We see continuing interest in investment into Qatar.

There are plans by the government to help the issue of liquidity in the country. So there are distinctions and we think there’ll be lessons learned from Dubai, but perhaps they’re not that complicated. We are seeing a little bit of the consequence of a major property price adjustment in Doha, but for us that’s actually turning out to be both good and bad. Bad in the sense that property values are coming down, but good because we had quite significant inflation problems from rising property prices. In Doha we have a normal growth problem which is population increasing at a very rapid rate. Some say about 1 percent per month. Housing stock, it has not been keeping pace, so pressure on prices was considerable over 2007, 2008, and 2009. We’re now reaching to a point where some of the construction that was occurring in ‘08 and ‘09 is coming on the market and prices are coming down. To my mind, that’s a natural adjustment, that’s something to be welcomed, not to be worried about. And we are not really looking at the same scenario on property as you may be seeing in Dubai. We may have an over-supply for a short period, but I think with the basic population growth, prices will stabilize again.

### **What kind of changes are you seeing as a regulator?**

We’re doing well. I suspect most regulators all around the world are doing well, which is why we’re examining whether the assumptions we made are still good. We’re very fortunate we’ve not seen any significant consequences from the economic crisis, but that hasn’t stopped us looking at the way we treat capital. It hasn’t stopped us focusing on whether firms have good risk management systems. It certainly made us look very closely at the quality of human resources, and we are watching very closely the changes that are being proposed in other jurisdictions. One of our points of existence is that we are benchmarking the world’s best standards. If those standards are changing we need to consider what we need to do ourselves and make the changes that will follow. That’s a full-time job these days. But so far our analysis said we have a very robust financial services sector, the QFC environment has proven to be relatively immune. I think one of our pieces of good fortune is we are still at a fairly early stage of development. We have taken a very close look at the institutions we regulate, we’re very pleased with what we found in general, but we are very much aware that more change will be required as international standards change.