



Which firm do you call on when the going gets tough?

The consultancy firms are keen to promote their services and offer companies ways out of the financial quagmire and onto solid footing. Consultancies tend to form their teams with a mixture of disciplines, experience and academia. They may not be super heroes but they can resuscitate ailing concerns and give them a new breath of life. **Johan Lee** reports.



THESE ARE TROUBLED TIMES for many in the banking industry. The melt-down on Wall Street, the bankruptcy of Lehman Brothers, the acquisition of venerated bank Merrill Lynch by Bank of America and the emergency rescue of AIG highlight the turmoil afflicting global finance. Given such difficult conditions, consultancy companies are often turned to by executives for help in navigating their own firms through choppy economic waters.

Islamic Banking @Finance contacted major consulting companies such as Deloitte & Touche, McKinsey & Company, Accenture, Solving Efeso, the Boston Consulting Group and KPMG to enquire about their Islamic banking practice. The latter two declined to participate. Deloitte, McKinsey, Accenture and Solving Efeso shared their views on the Islamic banking sector as well as key facts and figures about their consulting practice.

Each consultancy firm possesses its own unique strengths. Deloitte's team includes a Shariah scholar and has Islamic banking practices in the key Islamic banking capitals of Dubai, London and Kuala Lumpur. Accenture has a strong capital markets consultancy practice. Solving Efeso is strong on strategy in the Middle East. McKinsey stamps its authority by helping produce the annual *World Islamic Banking Competitiveness Report*, a key resource for many decision-makers.

Deloitte & Touche

Deloitte operates in 140 countries, employs 165,000 people and maintains Islamic banking consultancy practices in the UK, Middle East and Malaysia. Director Dawood Ahmedji says that, as complex debt instruments are not Shariah-compliant, the Islamic banking system has been relatively sheltered from the immediate fall-out in the global economy. On the other hand, the challenging conditions could present an opportunity for the Islamic financial sector.

"The turmoil will, however, present opportunities for Islamic financial institutions able to think creatively to develop products and markets," he says. Mr Ahmedji cautions, however, that it would be naive to ignore the indirect macro consequences, such as the loss of confidence in global markets and resulting slowdown in economic activity.

"The knock-on effects of other factors, such as currency and interest-rate changes, which Islamic banks use as benchmarks for pricing profit rates, will indirectly impact on operations, although this is unlikely to have a catastrophic effect. The key issues for Islamic banks operating in the Gulf Cooperation Council (GCC) are the prospects for the underlying economic sectors they are exposed to, particularly the real estate market," Mr Ahmedji says.

Deloitte sees Islamic finance continuing to grow as well as demand for consultancy services as organisations seek to enter the market by establishing operations or creating Shariah-compliant products. On the corporate finance side, increasing funds invested in Islamic private equity means more assets acquired through Shariah-compliant transaction structures.

When searching for a consultancy firm, Mr Dawood advises companies to choose only those best placed to help them achieve their objectives. "When determining selection criteria, banks should give careful consideration not only to evidence of delivering similar projects in the past, but also to advisors who have the skills to be able to think creatively and determine solutions tailored to them."

McKinsey

McKinsey is an established consultancy and has 80 offices in 58 countries. According to its research, McKinsey sees a growing demand for banking solutions that adhere to Shariah law. However, Islamic banks have to act quickly to maintain and

strengthen their credibility and close the gap with conventional rivals in product breadth and service quality.

McKinsey detects changing conditions as governments relax rules to build their domestic markets and aid in industry development, opening the door to hybrid banks offering both Islamic and conventional products as well as increasing the number of purely Islamic banks. Institutions entering these markets are employing a variety of strategies.

McKinsey points to the creation of separate brands for their Islamic offerings by HSBC and UBS. It cites Maybank in Malaysia and Samba Financial in Saudi Arabia, which have opened special branches that sell only Islamic banking products.

In countries such as the UAE, which restrict hybrid models, banks have established discrete Islamic businesses with separate legal entities, management, governance, brands and distribution channels. To compete in this environment, McKinsey says incumbent Islamic banks will have to follow the path taken by its conventional counterparts and formulate a competitive advantage. The firm says the most valuable customer segments must be identified and targeted with differentiated and higher quality offerings, increasing operational efficiency and improving risk management.

McKinsey suggests that Islamic banks should relook at how they run their Shariah-compliance initiatives. Islamic scholars who are respected in the religious community and are knowledgeable about modern finance are rare; consequently, they tend to be overburdened. McKinsey

A sampling of the IT consultancies

Satyam Satyam is listed on the Nasdaq stock exchange and operates in 65 countries. It regards Islamic banking as an extension of existing products and provides services that help banks extend their current IT/application infrastructure to meet Islamic banking requirements.

Its core differentiation is its combined global reach and IT and business consultancy service arm. It hires engineering graduates as well as experienced professionals. Its teams are drawn from its technology, market and business practices for domain specialists as well as core consulting practices. Its preference when charging is fixed price and deliverable engagements. Most of its technology consultants are based in India.

Cedar Consulting Cedar is headquartered in the US and has 15 offices worldwide. It has implemented core banking systems for several Islamic banks, including Dubai Islamic Bank (see *Islamic Banking & Finance* Issue 19) and ADCB Meethaq in Abu Dhabi.

Other Islamic banking clients include Bank Al Falah and First Gulf Bank. It is actively trying to extend its reach into the sector.



CONSULTANCY

says they should be allowed to dedicate themselves to ensuring a bank's compliance with Shariah principles. It proposes that the advisory role of assisting managers

with product development and structuring deals for customers should be given to in-house Shariah experts, who are experts in Islamic law but do not necessarily have

religious credentials.

Scale is one yardstick McKinsey says Islamic banks need to pay attention to, as it is vital to viable cost-income ratios. Merging with a conventional bank is often out of the question, as it could jeopardise the bank's credibility. The remaining options, says McKinsey, are cross-border expansion via mergers and acquisitions and the outsourcing of back-office functions. The former is risky, however, and the latter suffers from a dearth of outsource service providers, partly due to language barriers and the complexity of Islamic products.

Management consultancies that are active in the Islamic banking sector

Deloitte & Touche Deloitte delivers services in audit, tax, consulting, and financial advisory in 140 countries. Revenues for fiscal 2007 were US\$23.1 billion. Deloitte claims to have been the first professional services firm with a Shariah scholar in its Islamic finance team. According to Deloitte, each of its consulting teams "reflects the competencies identified as necessary to meet the client's requirement". As a case in point, it says an Islamic finance assignment required a team of six disciplines.

Deloitte's consultancy offerings reach across the spectrum, from large complex assignments such as building an Islamic financial institution from an idea through to reality, to more focused support: product development, establishing window operations and structuring corporate finance transactions. It has assisted clients in retail and investment banking; takaful; establishing Shariah-compliant funds; Islamic private equity and corporate finance.

McKinsey & Company McKinsey has been around for 80 years, helping large organisations improve their performance. McKinsey is the lead researcher of the annual *World Islamic Banking Competitiveness Report*. The report reviews the performance of the Islamic banking sector and makes recommendations on how Islamic financial institutions can capture opportunities and is a key resource for decision makers in Islamic banking.

This year's report highlighted three fronts that Islamic banks need to act on: sound risk management, a rethinking of their positioning and value propositions, and more stringent management of growth of their top and bottom lines. Results from the report show that GCC retail banks are between the emerging and consolidated phases of development and are expected to grow and contribute 50% of GCC banking revenue by 2011.

On Islamic wealth management, the report indicates that revenue margins in private wealth and asset management are higher in the GCC than in other regions. The report also states that the world takaful premium is still relatively small at US\$7.2 billion in 2007 driven partly by under penetration in main Islamic finance markets.

Accenture Accenture is a global management consulting, technology services and outsourcing company. It collaborates with clients to help them become high-performance businesses and governments.

Accenture's clients span the full range of industries and include 94 of the Fortune Global 100 and more than two-thirds of the Fortune Global 500. All top 100 clients in fiscal year 2007, based on revenue, have been clients for at least five years, and 85 have been clients for at least 10 years, the firm says.

Accenture delivers its services and solutions through 17 focused industry groups in five operating groups, a methodology that the firm says enables it to deliver solutions tailored to each client's industry.

Solving Efeso Solving Efeso has a strong presence in Europe, North America, South America, Middle East, Africa and South-East Asia. Solving Efeso has worked with over 300 major companies, including 30% of the 200 largest European groups. The company has been operating in the Middle East since 2006.

Solving Efeso Middle East & Africa claims to be among the fastest growing strategy firms in the region, advising major private and public institutions in real estate, manufacturing, banking, financial services and sustainable development.

Solving Efeso has been listed on the Paris stock exchange since 1998 and serves leading companies across a range of sectors. In Islamic finance, the firm channels its experience into products and services (new financial products; new regulations and changing financial market organisation); organisation (process costing; new markets and changing client targets, merger and acquisitions and partnerships and new distribution channels); and systems (new technology and outsourcing).

Accenture

Accenture has operations in 49 countries and revenues of US\$19.7 billion in fiscal 2007. Accenture sees Islamic banking as a niche market but one that is increasingly competitive and forecasts significant growth. It sees this happening in three stages.

Stage one is high net-worth individuals re-allocating their wealth into Islamic products and responding to the increasing sophistication and broadened range of Islamic financial products. Stage two will be driven by Muslims living in the developed world, particularly Europe. Stage three will be the demand from the middle class in emerging Islamic countries.

One challenge it sees in Islamic banking is the relatively expensive retail products—although the pricing gap with conventional banking has narrowed owing to greater competition and commoditisation. Awareness is another issue. Accenture feels that consumers are daunted by the complexity of Islamic principles and products and that banks need to work harder than their conventional counterparts to educate consumers.

Accenture says the shortage of liquidity in the secondary market needs to be addressed, because this could cause investors to hold their assets for longer than they originally intended.

On the issue of Shariah compliance, Accenture advocates that the creation of the Accounting and Auditing Organization for Islamic financial institutions will help drive standardisation, but it says that interpretation by individual scholars will always play a role.

Some purely Islamic banks will face additional regulatory challenges, it says, such as achieving compliance with Basel II and the capital requirements laid down by the Islamic Financial Services Board.



