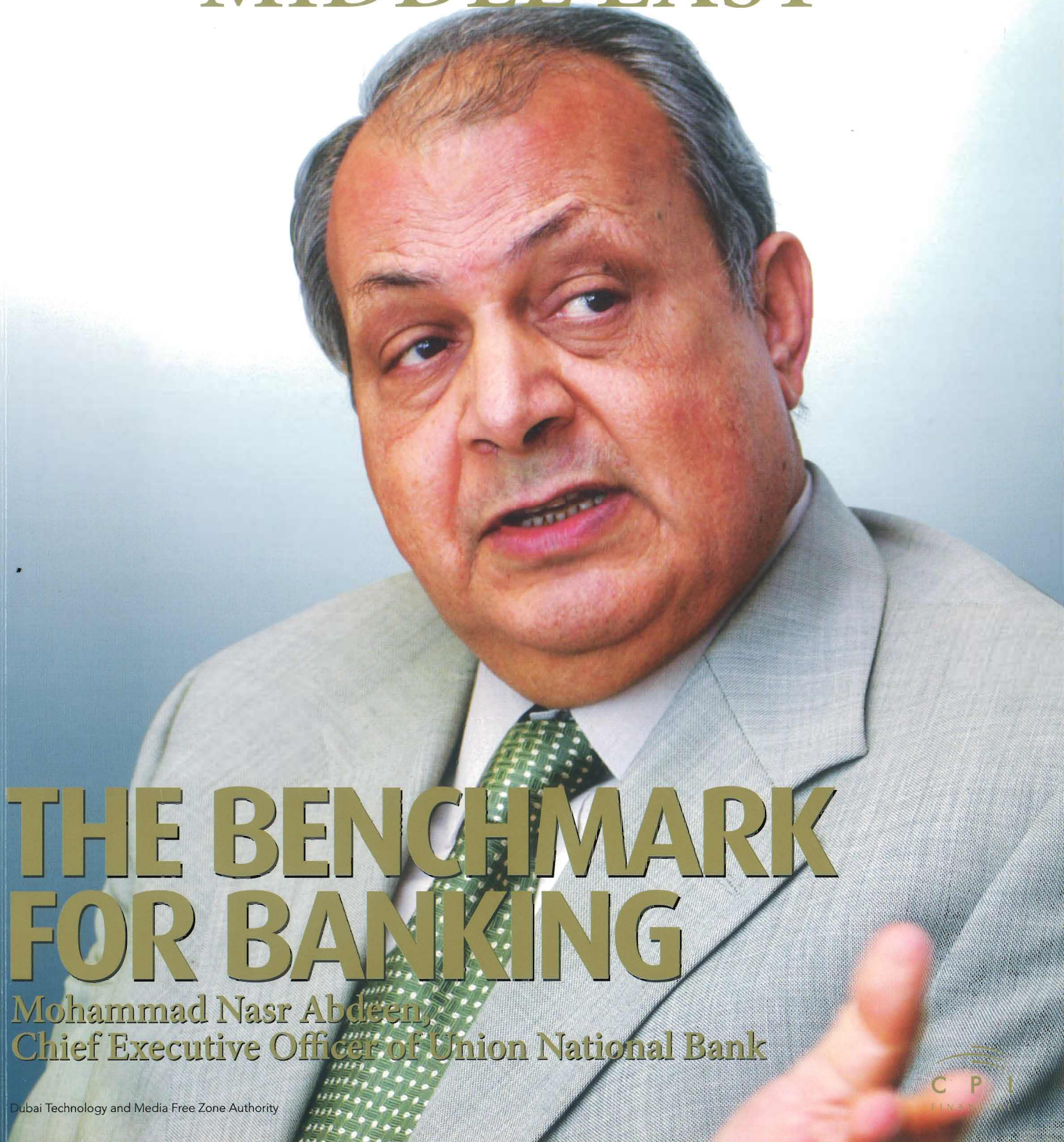


Banker

MIDDLE EAST



THE BENCHMARK FOR BANKING

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It's time to go international

In case you hadn't heard, the world is flat! Sanjiv Anand claims recent challenges in the UAE economic and banking context have again brought to the forefront the criticality of having a diversified international business book, both from an opportunity and a risk management perspective

For years, banks and businesses across the GCC have talked about having an international business portfolio. The execution, however, has been opportunistic, or at minimal level. The challenge in the financial services space, especially banking is even greater, as central bank regulations, and politics makes it even more difficult. For example, while most GCC banks would like to have strong presence in Saudi Arabia, getting approvals is difficult – for many years Emirates NBD has wanted to grow beyond its one-two branch operation.

Some 90 per cent of UBS's book is international. DBS, an interesting example based in the city state of Singapore (somewhat like Dubai) derives 50 per cent of its income from overseas; and HSBC for years has successfully executed a 50 per cent international strategy. So having a strong and successful international strategy is a given, not an option anymore.

THE OPPORTUNITY

Excluding Qatar, the United Arab Emirates (UAE) is one of the most overbanked markets in the region. With an approximate 90,000 population per

bank, or 6,000 per branch, it sits at the other extreme of Egypt with 26,000 population per branch.

for expansion, but if policy would encourage it, mergers would make the most sense. This is especially

Table 1: Banking Network

#	Country	# Banks	# Branches	Popln./Bank ('000)	Popln./Branch	Assets: GDP
1	Qatar	15	202	60	4,455	0.74
2	Kuwait	17	275	200	12,364	0.82
3	Oman	17	362	159	7,459	0.68
4	UAE	52	765	90	6,150	1.49
5	KSA	18	1,353	1,350	17,960	1.23
6	Libya	16	471	392	13,326	0.45
7	Egypt	110	3,107	742	26,254	1.20
8	Jordan	24	650	246	9,086	2.08

Source: Cefar Research

So attempting expansion in the UAE may be a bad idea. What are the options? Kuwait, Qatar and Oman have always been attractive, and even in the last few quarters of global financial challenge, Qatar and Oman have had positive growth. The Asset/GDP ratio's in these markets is also below one making it interesting.

Other markets such as the Kingdom of Saudi Arabia (KSA) and Jordan may present challenges

true if the customer base is small and margins low. Dubai Islamic Bank has adopted an aggressive equity investment strategy to diversify internationally, and in some markets, the bank is getting it right.

The largest opportunity is in Islamic banking. The GCC Muslim population is 90 per cent of the total. However, Islamic assets and deposits are only about 23 per cent of total financial. Kuwait is at about 40 per cent.

Table 2: Islamic Banking

#	Country	Islamic Banks (#)	Islamic Asset (\$ Bn)	Islamic Deposit (\$ Bn)	Islamic Asset (%)	Islamic Deposit (%)	Muslim popln. (%)	Penetration
1	Global	292	505	420	1%	1%	22%	4.5%
2	Malaysia	19	65	39	18%	14%	60%	23%
3	UK	10	10	8	.3%	.1%	3%	3%
4	GCC	40	180	120	22%	23%	90%	26%
5	UAE	8	45	30	14%	16%	65%	25%
6	Kuwait	3	41	25	30%	35%	85%	41%

Source: Cedar Research

North Africa provides interesting opportunities. There is a 92 per cent Muslim population with <10 per cent Islamic banking penetration. In spite of the challenges of conducting business in Egypt, the opportunity is still strong, along with Algeria. Countries like Libya and Morocco currently do not allow for Islamic banking, but this will change in the future.

QNB, NBK, and Arab Banking Corporation (Bahrain). They have got to about 30 per cent of international assets compared to a 50 per cent of HSBC, which is quite commendable. Even banks such as Al Rajhi and BankMuscat, which have a smaller international presence have shown a remarkable international asset book growth.

25 per cent international assets), no other bank has been able to establish a regional footprint. Some of them have even reduced their international asset book from an overall perspective. While NBAD, QNB and BankMuscat have focused on expansion in the region, some have attempted a global expansion. I don't know that there is a perfect model at this stage. Qatar and Libya are clearly popular destinations for UAE banks.

As evident in the chart, NBAD and QNB are best positioned to take their international game to the next level and compete with Arab Bank. Mashreq also has a good opportunity, provided it focuses on international growth. DIB has made a serious effort in going international; however, its current international operations are only eight per cent of banking assets. There have been some execution challenges but with a recent 26 per cent growth in their international book, there is a high likelihood of acceleration. Emirates NBD's international expansion strategy potentially needs to be revisited. As one of the largest banks in the region, leadership in this area is critical.

Table 3: International Profile

#	Benchmark Banks	# Intl countries	# Intl branches	Intl Assets %	Asset Growth	Intl Asset Growth	Assets / branch (USD Mn)
1	QNB	10	10	30%	33%	17%	1,277
2	Bank Muscat	3	3	28%	43%	102%	1,463
3	Arab Bank	~30	~420	78%	7%	3%	139
4	ABC Bahrain	16	~65	19%	-13%	1%	325
5	Al Rajhi	1	19	25%	25%	330%	582
6	NBK	14	65	35%	23%	-7%	227

Source: Cedar Research

THE EXPERIENCE

There are a number of examples of banks that have expanded in the region such as Arab Bank (Jordan),

From a UAE context, it's a mixed bag: apart from NBAD (10 countries, 20 per cent international assets), and Mashreq (seven countries,

THE EXECUTION CHALLENGES

While there is a tendency to blame regulatory challenges for limited success in international markets, the challenge is mostly internal and is about the need to execute better. There is a context to this. Most Middle East banks are quite comfortable in their own countries where the environment is well understood and well managed by them. When they try to go overseas, both understanding and managing the external environment combined with the internal challenges become issues.

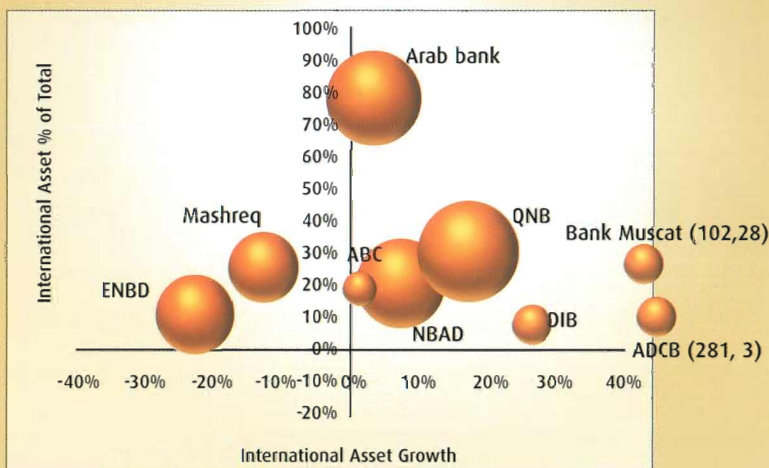
It starts with not having a well documented international strategy, with clear rationale and prioritisation of countries. Why are we going

Table 4: UAE Banks International Profile

#	UAE Banks	# Intl countries	# Intl branches	Intl Assets %	Asset Growth	Intl Asset Growth	Assets / branch (USD Mn)
1	ENBD	7	-	11%	11%	-23%	n/a
2	NBAD	10	45	20%	18%	7%	197
3	ADCB	1	2	3%	39%	281%	598
4	First Gulf Bank	4	3	-	47%	-	n/a
5	DIB	4	14	8%	1%	26%	131
6	Mashreq	7	23	25%	6%	-13%	274

Source: Cedar Research

Chart 1: Select Bank Asset Size & Growth – International



Source: Annual Reports, Cedar Research

overseas? Is it for liquidity, is it for asset growth, is it for cross-border trade, is it because we have a better quality banking operation to offer? What is it? Since this is often not clear, the execution is impacted. Then there is confusion about what the partnership approach will be. Do we want only a fresh banking license, are we willing to do an acquisition and bite the bullet, or then do a JV. I often hear that doing a transaction in Egypt is over-priced. Well, that depends on the perspective. And then the JV becomes an issue. Most firms are

not good at managing JV's. There is often conflict over shareholder and/or management control.

If all of the above is figured out, then the execution becomes a challenge. What stays at head office versus what stays in country? How much do you centralise? What authority do you give your country head, and how do you treat him in your head office hierarchy? Do you use a matrix structure? How will you manage credit risk? Should a credit head in Dubai be deciding credit for an operation in Egypt? These are some of the challenges that come

up. There is no one right answer. There are many right answers – it all depends on the bank and its strategy. However what I will say is that there are many examples of multinational global banks (e.g. HSBC, Citi) which have got this right over many years, and it's a good idea to learn from their successes and failures. Too many Middle East banks attempt to re-invent the wheel!

I know it has become somewhat of a cliché nowadays, but the world is now flat. So be brave and pursue the new world opportunities. However always remember, that risk also travels fast in a flat world. ■

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