Title : Dubai's banks may eventually seek consolidation

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Dubai's banks may eventually seek consolidation

Expansion, specialisation and internationalisation have been big on Dubai's banking agenda in recent years. The next wave might be right around the corner: Consolidation.

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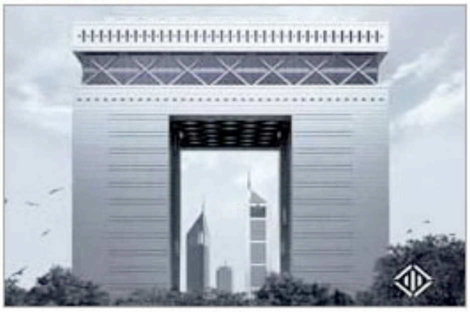
It might be too early to judge which bank has done well during the financial crisis. But for Dubai's banks it is not too late to show the world who is on the right track.



The Dubai International Financial Centre currently houses 243 firms

Most of the 52 banks in the UAE have reported positive results during the last three consecutive quarters. 'I do not think that UAE banks are deeply involved in the subprime crisis', Peter M. Baltussen, CEO of Commercial Bank of Dubai, number nine in the market, said in October 2007.

As far as banks under UAE law are concerned, Baltussen proved to be right.

Less affected by the financial crisis

Although financials were hit hard at the Dubai Financial Market (the DFM Bank Index lost on a 12-month basis - as of October 30 - 40.78%, outperforming the DFM General Index by an insignificant 3.7%) the financial crisis did not trigger shock waves.

Double and even triple-digit profit increases were reported, especially by the Islamic banks for the first nine months in 2008. The healthy development should not be mixed with the banks and financial intermediaries licensed in the DIFC, which is not governed by the UAE Central Bank, but by the Dubai Financial Services Authority (DFSA).

The DFSA is the sole regulatory of the 2004-created DIFC, where 243 authorised firms reside. Among them are leading banks like ICBC of China, Citigroup, HSBC, Deutsche Bank or Credit Suisse.

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Other major players in the GCC are Saudi Arabia's National Commercial Bank (NCB) and Al Rajhi Bank (and National Bank of Kuwait). The latter also has the biggest network abroad, with branches in Singapore, Baghdad, Jeddah, Geneva, London and New York.

Financial Institutions are reaping benefits from the government's strategy of positioning Dubai as the pivot hub between East Asia and Europe. Trade is on the rise, and the real estate sector became the main driver.

In August 2007 total bank deposits in the UAE crossed $1bn for the first time. However, Standard and Poor's has revised six GCC bank's outlook from positive to stable, among them Emirates NBD.

With falling oil prices, an expected economic slowdown and liquidity tightening, S and P argues, creates fresh challenges to the banks. The government's support should help Dubai's financial sector to continues to follow the three paths it has chosen during the last five years, which are expansion, specialisation and internationalisation.

Bank expansion

In terms of expansion it is enough to drive Dubai's main roads and to walk up and downs the city's major shopping malls to see the growing numbers of branches and ATM stations.

With the emirate's total population growing from below one million to roughly 1.5 million, local and foreign banks have been keen in attracting retail clients. With Dubai's population doubling every five years, banks have expanded their product line.

Each of the over 1.2 million expatriates needs access to ATMs, credit cards, deposit facilities and real estate financing solutions. Three new bank licenses have been granted for foreign banks since 2007: for Doha Bank, Saudi's Samba Financial Group and NBK.

But expansion knows precise borders in the UAE: By law, foreign banks are not allowed to operate more than eight branches in the country. Expatriates who are looking for 'their' familiar branch (such as HSBC or Standard Chartered) know too well about this limitation when they face long queues in front of the cash counter.

Most of these banks have chosen Dubai as a base: Out of 28 foreign banks in the UAE, 20 run their headquarter in 'the gateway to the gulf'. Branches of foreign banks are taxed 20% of their taxable income, while local banks pay no corporate income taxes but municipal taxes which are set by each of the seven emirates.

Sector specialisation

In order to handle this limitation, foreign banks invested massively in new distribution channels. Internet banking, pocket PCs and phone banking have become a standard. **Habib Bank AG Zurich is considered to provide the best eBanking services in the GCC, it was also the first bank to establish stock trading over PDA.**

Dubai has also seen the rise of Islamic banking and finance like no other place in the GCC. Dubai Islamic Bank, founded in 1975, is the oldest regulated bank to operate solely under Shariah principles.

Noor Islamic Bank is the latest candidate which aims to tap into this growing market. 'Islamic Banking was rarely combined with good service and we aim to change this', says Hussain Al Qemzi, Group CEO of Noor Islamic Bank and Noor Investment Group.

No conventional bank can afford not to offer Shariah Finance. 'The biggest challenge is to find the right people', CBD's CEO Peter Baltussen said when his bank launched Attijari Al Islami.

According to management consulting firm A. T. Kearney, the industry in the Gulf is in need of 30,000 employees until 2018. Sanjay Vig, Managing Director of Swiss bank branch Sarasin-Alpen in the DIFC, estimates that until 2010 Islamic assets in the UAE will grow 33 % per year and will reach $88bn, or a quarter of all bank assets.

At the end of 2007, CBD also lunched Al Dana Wealth management, which is open for clients of the higher income class. Baltussen: 'A clear market segmentation is key to higher margins in banking, especially in a heterogenic market like Dubai with its 1.5 million inhabitants from over 150 countries.'

Growing internationalization

After Emirates Bank announced its merger with National Bank of Dubai to create Emirates NBD in 2007, the new entity is on the way to being the biggest bank in the Middle East with assets under management of $107bn.

Expansion is not only a matter of increasing branches at home, but also of going abroad. Dubai Islamic Bank sees Pakistan as a major target market abroad, where it has opened 28 branches since 2006. Dubai Bank, meanwhile, sees the GCC and Turkey as new fields of operation.

Hussain Al-Qemzi announced at Noor's first press conference in January 2008 that his bank aims to enter new markets in East Asia (Malaysia), the GCC and the UK. With the start of 2008, all banks in the UAE had to adapt the strict capital and disclosure standards of the Basel II-regime.

Where is Dubai's banking sector heading to? Dr. Habib Al Mulla, the former chairman of the DFSA mentioned in the past the possibility that one day the DIFC and the UAE legal environment will merge.

Dr. Al Mulla referred to the expansion of the Qatar Financial Centre (QFC) legal framework to the entire Daulat Al-Qatar. So how long can Dubai afford to run two legal financial systems in parallel? The solution to these queries will lead, after the dust from the global financial crisis has settled, to consolidation. 'The UAE is overbanked, no doubt about that', Baltussen says.

And he adds: 'Despite the high attention the DIFC attracts, the real money is still earned outside the centre.' With less money earned in the wake of the financial crisis, more mergers and acquisitions are expected.

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