

Islamic banking inspiration for the future



Paul Trowbridge Chief Executive Officer, UAB. (IMRAN KHALID)

By
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When majority of the banks are struggling to retain their last year's profit levels and some even finding it difficult to stay in the black, there have been a few banks that have been successful in improving their performance year after year. United Arab Bank (UAB) did it for the last year (2009) as well when the bank announced a 12 per cent growth in its net profit. UAB's Chief Executive Officer Paul Trowbridge told Emirates Business that the bank has put in enormous effort in reining in the cost and thus to bring down the cost to income ratio.

How did UAB manage to improve its profitability when others are struggling to retain the 2008 performance?

Using the resources and professional relationships of our 40 per cent shareholder Commercial Bank of Qatar [CBQ], we were able to take out layers of processes and bring the customer much closer to us – we eliminated paperwork and made processes much more user- friendly. There were some opportunities to reduce our cost-to-income ratio which we pursued and this work will continue. We pay an enormous amount of attention to costs. We also spent a lot of energy on reducing our funding costs but most importantly, the single biggest factor is that over a number of years, the bank has consistently focused on the trade, services and manufacturing sectors and away from real estate as prices escalated rapidly. While we are a small bank, our share of those sectors is much higher than others – so we are the quiet achiever in some ways.

Have you switched to the new Basel II pillar 3?

We are now fully compliant with Basel II requirements, and are well above the 11 per cent benchmark set by UAE Central Bank for the capital adequacy ratio [CAR].

UAB is committed and prepared for the implementation of Corporate Governance and Basel II. The bank is in line with the time-table for the implementation of Corporate Governance Regulations in PJSC as recommended by Securities and Commodity Authority [ESCA]. As regards Basel II, UAB has implemented the requirements of the Basel Accord under the guidance of the Central Bank of UAE covering the credit, market and operational risks for the bank. UAB has also started complying with Pillar 2 requirements concerning the supervisory review of its activities, and has made disclosures under Pillar 3 of the accord for the first time in this report, as required by the Central Bank of the UAE.

Can you explain what difference this has necessitated in the disclosure processes?

With Central Bank having already put into effect the requirements of Pillar 1 [Computation of CAR in accordance with Basel II accord) and Pillar 2 [Supervisory review by bank's own staff and by the Central Bank itself]; Pillar 3 was logically the next and the final step to be taken. These disclosures are likely to help rating agencies in better assessment of banks.

Lending for many banks has come to a halt. How about you? Where will you see your growth coming from in the current year?

We continue to lend selectively in our chosen sectors. There are also some sectors where we are underweight in, but in general, there is no change to our strategy in the commercial and corporate sector. We have recently launched Samara as a premium service proposition. It's not private banking – it is a highly professional service model – pure and simple.

When will you launch Islamic banking?

We will launch Islamic banking this year itself. UAB believes that this is a local bank with a 35-year history strongly tied to the founding of the UAE and I think we are turning to our history more as an inspiration for the future. Offering Islamic banking is a natural extension of that. We want people to have the choice.

What risk management measures will you be introducing in the context of the credit crisis?

Fortunately, we had already overhauled Risk Management [RM] regime in 2008 and started applying much more rigorous testing and "what if" scenarios to customers and in some cases securing our position much better. We had borrowed some RM techniques and advice from CBQ and that has helped us a lot. Of course, nothing is better than staying close to your customers and talking to them about their businesses, and their issues.

As you know, big corporates are asking for Standstills on loan repayment. How will this affect the banking industry?

The 2008-2009 period [and it is not over yet] has been the major global financial story of our lifetime. I think people and corporates are re-assessing their businesses and deciding what are their 'core' businesses and activities and what are not. In doing that, I think they are sensibly seeking the support of banks around emerging cash flows and asset prices. Any bank, in the interests of long-term relationships of their customers, would support that course of action. Sometimes that involves a 'standstill' – maybe that's just time to take a breath.

Regulators are talking about increasing bank capital being further increased. Any plans for you?

That's not really an issue for us. We are overcapitalised on our ratios and enjoy excess liquidity. That's part of the reason for the dividend lift this year.

PROFILE: Paul Trowbridge *Chief Executive Officer, UAB*

Trowbridge is an Australian-born banker with a proven track record in diverse top bank managerial roles. Holding a Bachelor of Economics, he started his career with Price Waterhouse and then spent more than 20 years in a range of general management, credit risk and corporate banking positions with Westpac Corporation, the largest Australian Bank and one of the world's highest rated banking institutions. Prior to his new role, he was Deputy CEO at National Bank of Oman.