

Prudent management gives UAB an edge



Ahmed Ramzan/Gulf News

Shaikh Faisal Bin Sultan Bin Salem Al Qasimi, chairman of United Arab Bank (UAB), and Paul Trowbridge, chief executive, managed to steer UAB from the fallout of the global economic downturn.

Sharjah: A combination of prudent lending policies and a professional approach to risk management has kept the Sharjah-based United Arab Bank (UAB) protected from the impact of mounting bad loans that affected the banking industry in the wake of the global financial crisis.

While the bank intends to continue its cautious policies, it has plans to expand its businesses in niche retail segments, Islamic financial services and wealth management.

Incorporated in 1975, UAB offers a range of financial services in both corporate and retail banking throughout the UAE.

The bank was established as a joint venture between UAE investors and Société Générale (SG). UAB became part of a GCC regional banking alliance in December 2007 following the acquisition of a 40 per cent stake by the Commercial Bank of Qatar, Qatar's largest private sector bank.

Shaikh Faisal Bin Sultan Bin Salem Al Qasimi, chairman of UAB since its inception, and Paul Trowbridge, the Australian-born chief executive with more than 20 years of financial experience, spoke to Gulf News about UAB's plans.

Gulf News: UAB seems to have withstood the impact of the financial crisis. Despite many banks in the country and the region reporting substantial losses or declines in profits, your bank has been reporting healthy growth in profits up until last quarter. What do you attribute this to?

Paul Trowbridge: I would say that UAB has been a prudent and conservative bank over the last 25 years. Its overall prudence has helped it to maintain steady growth.

Do you attribute your conservative approach to lending to your successful navigation of the economic downturn?

Shaikh Faisal: Since the bank's inception, we have been a very cautious institution. In the 1980s too, there were similar problems with the construction-related [sector]. Since that time, our policy has always been not to be very aggressive in lending to this sector [lest we] lose our money.

It wouldn't be wrong to say that we were established with the objective of a steady and solid institution and in the beginning we had the partnership and management alliance with Société Générale which adopted a prudent management style. Of course, even after they left, we continue to be very cautious in our lending approach.

While most banks were very aggressive in expanding their retail operations during the recent boom, UAB has been relatively low profile in the retail market and the real estate segment. In retrospect, it must have helped the bank maintain a healthy balance sheet. Was this a conscious decision?

Shaikh Faisal: Our board has always been very clear about our policies. Our main lending strategy is to work within moderate risk.

We select our customers very carefully and evaluate their repayment capacity prior to lending. In some cases we take adequate securities before the loans are sanctioned.

Broadly, what is the kind of your customer profile? Are you focusing only on the corporate sector?

Trowbridge: We were set up to look after the needs of the local community, focusing mostly on manufacturing, trade, and the service industry. We have never been a player in the property sector.

Even at the height of the boom we were not tempted to enter this segment. That is one reason our balance sheet is in a much better shape compared to many of our peers from the region.

Were you impacted by substantial across the board decline in asset prices and forced to do some write-downs in the last few quarters?

Shaikh Faisal: We did not make any writedowns as we had been very selective about our customers.

In addition to managing our own interests we also took steps to help our customers repay their loans if they faced any problems due to the global crisis.

If you go through our books for the past several years you can see that provisions for bad loans have been minimal. [The] same has been the case during the past few years and the first two quarters of 2009.

Your retail presence is very limited in the UAE. In recent months we have seen efforts to enter the top end of the credit card market. Are you going to expand the retail side of business in the UAE and the region sometime in the near future?

Trowbridge: We have always been primarily a player in the corporate segment. However, we always had a small segment of retail customers handpicked from the corporate segment for whom we offered niche retail services.

In the retail segment, we have been quite selective. Our strategy has been focused on dealing only with those people who we choose to deal with. As a result, over a long period of time we

have been able to become a successful player in the premium segment of the corporate market.

Now we want to adapt the same strategy to become a premium player in the retail segment.

The credit card offering we have is targeted at the top end of the market - the affluent. It is not a product for everyone but rather a premium service for premium customers.

Currently, we have no intention to be a mass market player in the retail business. We are not aiming to have a large number of branches.

Isn't the retail segment more profitable? By leaving out the mass market of the retail segment, aren't you giving up an opportunity?

Trowbridge: The mass market of the retail segment, like the property sector, is profitable if you are on the right side of the cycle. You could lose a lot of money if you are caught in the wrong side of the cycle with lots of retail exposure.

We could issue credit cards to a lot of people. We could probably issue our platinum cards to a lot more people, if we aggressively market it. If we do not select the right customer segment we could end up with large amounts in default.

Regionally, Sharia compliant products have become very popular during the recent years. Taking advantage of this opportunity many regional institutions have either set up Islamic banking subsidiaries, special windows or have started offering a bouquet of such products. Do you have any plans to enter this segment of the market?

Shaikh Faisal: The Commercial Bank of Qatar (CBQ) has Islamic Banking products and services in their portfolio. The board has been considering such an option and it is still very much on our agenda.

Trowbridge: The board and management are keen to provide appropriate products that have demand in the local and regional environment, keeping in mind [that] we are primarily an Arab bank and operating in a region where there is a strong demand for Sharia compliant products. We are taking early steps to offer a limited number of Islamic products to our customers.

Are you planning an Islamic window or an Islamic banking subsidiary?

Shaikh Faisal: Currently we are in the process of determining the shape of this initiative. The CBQ has the expertise and infrastructure in place, and this would offer us an invaluable chance to extend that expertise and experience to UAB within the most convenient shape and medium.

What is the one big lesson you think that the regional banking industry must learn from the financial crisis?

Trowbridge: Banking is all about taking measured risks. That is the beginning and end of it. It is all about assessment, buying and selling of risks. People around the world have, in some way or the other, forgotten about that in recent years.

Whenever we have a very strong world economy, people start thinking that banking is other than what it is. The key lesson for the industry is to re-examine the risk management structures and go back to the basics.

Banking is not about selling for the sake of selling. It is about a serious undertaking that if someone borrows money it has to be repaid on time meeting all obligations in the contract.