

# Banker

MIDDLE EAST

DECEMBER 2003 ISSUE 42

[www.bankerme.com](http://www.bankerme.com)

WORLD ISLAMIC BANKING CONFERENCE  
SPECIAL ISSUE

A portrait of an elderly man with white hair and glasses, wearing a dark blue suit, white shirt, and patterned tie. He is smiling slightly and looking towards the camera. The background is a blurred indoor setting with greenery.

## THE IMPORTANCE OF GOING PRIVATE

Why TAIB has decided to change  
its business strategy

PLUS: BRANCH RENEWAL | ROADMAP FOR ISLAMIC BANKING | DIFC AND BFH: FRIENDS OR FOES? | ACQUISITION FINANCE



# Why TAIB is becoming a private bank

Bahrain's TAIB Bank is increasing its capital from \$125 million to \$200 million and is changing its business focus and strategy. *Banker Middle East* asks Iqbal G. Mamadani, Vice-Chairman and CEO, to explain the move

**W**hen it was founded back in 1979 as the Trans-Arabian Investment Bank, TAIB Bank earned itself the distinction of becoming the first investment bank licensed to operate in the Kingdom of Bahrain. Since then, TAIB has built up an international network of eight offices spanning six countries, and it maintains either subsidiary banks or brokerages in markets as diverse as India, Turkey, Kazakhstan, the US and the UK. While the bank's Bahrain headquarters have traditionally been the anchor of its services to HNWI and institutional clients, the international network has grown in response to perceived centres of excellence and new market opportunities. For example, in New York and London TAIB specialises in real estate brokerage, while in Turkey it is an asset management broker and in India a private equity broker. As a result of an EGM held on 22nd October, however, TAIB's management has now been authorised by shareholders to undertake the next step in the bank's evolution. As of Q1 2004, TAIB will begin to make a strategic transition to become a full service private bank.

Results for 2002 were a rather nasty shock for the bank, posting a \$10.5 million net loss against a \$10.2 million net profit for 2001. The decline was attributed by TAIB's Chairman, Sheikh Abdulrahman Al Jeraisy, to upheaval in the international equities markets, which "created a loss in our trading securities portfolio". The loss was also the bank's first setback after 14

years of positive earnings.

At the time of the 2002 results announcement, TAIB's board indicated to shareholders that it was exploring the impact of initiating a transition to become a private bank. Though Iqbal Mamdani, Vice-Chairman and CEO of TAIB brushes off the suggestion that the 2002 loss was the catalyst for change, he does concede that times are changing in the investment banking industry. For this reason, as he explains to *Banker Middle East*, TAIB has decided make sure that it changes along with the times.

**Do you see the decision to become a private bank as a change of direction, or rather as an expansion of TAIB's business?**

It's a shift in the strategy really. If you look at TAIB historically this is our 25th year of operations, and every ten years or so there's been a shift in the economic or geopolitical conditions that has meant we've needed to reposition ourselves. After all, we're a niche player and we need to compete effectively with larger international banking players.

Post 9/11 we've seen that client preferences are shifting to wanting to be with a reputable local bank offering comprehensive wealth management advice. So we feel that now is the right time to make a strategic change; to offer our own products and to move to an open architecture as other wealth management firms and private banks around the world are doing. What this

means is that we offer our own products in areas where we feel we have niche expertise - for example we have unique expertise in India and 22 years in the US. Apart from that though, we feel that there are certain other products that we should be offering to our clients that are 'best-of-breed'. We have a close working relationship with our clients, and we want to be able to offer them investment opportunities from right across the global financial services industry.

Secondly, as business becomes ever more competitive, our clients need to find the right jurisdictions in which to set up their companies and their trusts. More and more people now are considering how to structure their wealth and then how to pass it on to the next generation. This takes some planning, and historically most of such planning services have been offered from financial centres outside the region. Now, we're going to offer them here.

Thirdly, we perceive there to be a lot of interest in Islamic assets. There's a lot of growth in the Islamic banking industry, but what we're seeing now is that most Islamic institutions are very good at enhancing the liability side of the balance sheet - ie they're very good at getting deposits in. What they're not so good at is product development, and often they're relying on an external party that may not have that strong a grasp of the tenets of Islam. This is where we feel we have strengths, as we've always been good at creating new products. Just before we announced the private banking initiative, for example, we launched three new Islamic funds. Two of these, the TAIB Islamic GCC Equities Index fund and the TAIB Islamic UK Equities Index fund, are the first of their kind ever to be launched. They form part of our objective of giving Islamic investors a diverse range of investment opportunities in different markets.

**How in practice will TAIB become a one-stop shop? By giving your clients access to 'best-of-breed' third party funds, you're sounding rather like an IFA.**

First of all we are creating our own funds and we're not just broking third party funds. At the moment we're building our own healthcare fund in the US, for example. If you're an IFA you might recommend this fund to your client, but after that you're only really monitoring performance. What we're doing is creating our own funds and investing our own money into them. Within that fund we select best-of-breed fund managers and we then monitor their performance on a weekly basis. If we find that their performance is lagging behind the peer group, then we're at liberty to change the fund managers. An IFA just doesn't have that degree of influence, and in our part of the world it's very important to build credibility. At the end of the day, the way to build credibility is to put your money where your mouth is.

For our asset allocation activities, we've hired Jim Schlagheck, who's our Executive VP heading up our private bank initiative. If you look at his background, he has many years of private banking experience in various jurisdictions, including time with American Express, UBS, and recently he was Head of Private



Banking for Julius Baer in New York. So he brings us a great depth of knowledge in private banking. With his help we've been able to identify the best means of modelling fund performance and fund managers, and now we've been able to train two of our people in Bahrain on the latest asset allocation strategies and technologies to customise our own models.

**You also plan to plan to sell your products on through other regional banks, is that correct?**

As I said earlier we have many years of structuring experience, and our direct focus now is on UHNWIs. We don't have the capacity to handle lower or middle market clients. There are two ways of doing that, and one is to make strategic alliances with banks in the region where we can offer our products for them to white label for their clients. We offer a technology platform that enables these banks and their clients to access information directly; meaning they can get real-time valuations and we can execute trades for them in the Indian and US markets.

**Have you initiated the shift to private banking because the investment banking market is just too tough these days?**

Profitability may have been one of the reasons, but I wouldn't pick it out as the most important one. A lot of investment banks in the region have been involved in private equity (PE), as we have. Like others we wanted to offer the full range of investment banking services, including brokerage, corporate finance advisory, real estate and PE. If you look at some other local investment banks though, PE is still very much their primary focus, with some secondary interest in real estate. Our view is that the future of PE in traditional markets like the US is not that rosy. Firstly there are far fewer opportunities in the market that there were five to ten years ago. Secondly there's a lot of PE money around in a lot of funds. There's a tremendous amount of liquidity looking for PE deals, and with TAIB's scale we believe we'd be hard pressed to get the best deals under these circumstances. GCC clients have also been burnt by PE, especially after the dot.bomb, so we're not keen to go to a client and suggest that he invest \$100 million into a PE deal that might

give him a 30% IIR or that might lose his capital.

The trend of customer preferences is actually going the other way. We're seeing more customers looking for capital guaranteed products and products that offer a regular return. People interested in double or nothing three years down the track are now few and far between. So in this way our decision to change our strategic focus is as much a response to customer demand as anything else.

**You have decided to offer Swiss-style numbered accounts as part of your private banking offering. Why is this, given that the EU claims Swiss numbered accounts inhibit transparency and that all banks today are concerned by the threat of being linked to terrorist and criminal finance?**

Well firstly I'd remind you that all financial institutions in Bahrain are obliged to follow BMA policies on know-your-customer. These are rigorous policies, and we follow them to the letter. Remember too that TAIB has been in business for 25 years, and so we know many of our customers very well indeed.

Our main motive for this move is because we realise that private clients rate confidentiality very highly. The transparency issue that you raised regarding EU countries applies to tax evasion, and that is simply not an issue in this part of the world. Our intent is to create a positive sentiment whereby we show to clients that we really respect their desire for confidentiality.

**You're planning two rights issues: \$55 million before the year end then \$30 million next year. Is your objective to boost your capital adequacy reserves or to tap new sources of liquidity?**

Despite our results from 2002, we have a very high level of capital adequacy. The rationale behind the rights issues is that in the private banking business, your clients must have absolute faith in you. You therefore have to go the extra mile to ensure that there are no questions at all about your financial strength. These rights issues will therefore give us a strong capital base and for the second issue particularly we're looking for strategic investors who will help expand our business. Strategic institutional shareholders, perhaps from outside the region, can share in our growth, and we can also look at selling some of their products through our distribution chain.

**Can you explain what the three new Islamic index funds TAIB launched in October are and what makes them unique?**

Well to take one as an example, no one has done an Islamic index based on the FTSE before. Similarly people have built funds that invest in GCC stocks before, but not ones that are Islamic and indexed to GCC stocks. That is what distinguishes our product from others in the market today.

**How are you determining which UK stocks are acceptable under Shariah law for your Islamic UK Equities Index fund?**

We were one of the first GCC banks to set up a Dow Jones Islamic fund some four years ago - the TAIB Crescent Fund. We've followed the DJ Islamic index since launch, and incidentally the fund is up around 25% this year. Based on our experience with this fund, we asked ourselves what might make companies traded on the FTSE Shariah-compliant. We studied hard - our people in London and Bahrain researched this project for almost six months - and we identified those companies whose activities we could determine as Shariah-compliant. Our internal Shariah board then reviewed all of our research prior to launch.

**TAIB launched trust services in April this year. Are you able to offer these services in local jurisdictions yet?**

The trust services we're offering today really depend on our client needs. Much depends on the client's location and his desire to pass wealth on to his heirs. We advise on the different offshore jurisdictions in which one can set up a trust, and we help with the structuring process. Secondly, we're now looking at the possibility of setting up Islamic trust funds using the principle of 'Waqf', though I can't talk about any details at this stage.

**As part of your repositioning are you planning any changes to your geographical markets?**

We're not planning to expand into any other geographic markets right now. We want to grow our roots deeper in the markets that we're already in, specifically the GCC market. We've actually already made some strategic changes in our overseas markets ready for the change. Earlier this year we set up a private banking unit in Turkey. In India we've set up portfolio management services within TAIB Securities India, targeting Gulf-based clients and NRIs who are keen to invest in India. We can do this because TAIB is one of the very few foreign financial institutions licensed by SEBI to open sub-accounts for our Gulf clients in India. As you may know, under current SEBI legislation GCC nationals are not allowed to invest directly into Indian equities, you have to go through a fund. Through TAIB, however, GCC nationals can invest directly into the equities they choose.

**You are planning to open a Swiss office next year though aren't you?**

We actually began operations in Switzerland in 1982. After the Gulf war we decided that the Swiss office didn't make business sense, but now in the new environment we feel it could be very useful to have a Swiss office again. Really one needs a Swiss arm to meet private banking clients' global requirements. I can say that we're in the final stages of negotiations with a European bank to create a 50/50 joint venture with them so that we'll be able to offer our private banking services in Switzerland. ■