



# ARAB BUSINESS INTELLIGENCE REPORT

Financial Services

First Arab Business  
Intelligence Report, 2006



PRICEWATERHOUSECOOPERS 

مؤتمرات  
Moutamarat

# Introduction

Moutamarat and PricewaterhouseCoopers (PwC) conducted an extensive program of industry research across the Arab world in the second half of 2005. At the core of the survey are the opinions and predictions from 140 of the most prominent business leaders of the Arab world, and in-depth consultations with industry practitioners. We wish to express our gratitude to all the senior executives who contributed to the first Arab Business Intelligence Report (ABIR) and a very special thanks to the seven senior executives and two ministers who shared their time and insights with us through in-depth interviews.

List of senior executives and ministers interviewed in ABIR <sup>1</sup>

Mr. Akbar Al Baker, Chief Executive Officer, Qatar Airways, Qatar  
 Mr. Mazen Darwazah, Chairman, Hikma Pharmaceuticals, Jordan  
 H.E. Adil Douiri, Minister of Tourism, Morocco  
 Mrs. Maha K. Al-Ghunaim, Vice-Chairman and Managing Director, Global Investment House, Kuwait  
 H.E. Nada Haffadh, Minister of Health, Bahrain  
 Mr. Khalid Al Janahi, Chief Executive Officer, Dar Al Maal Al Islami, Bahrain  
 Dr. Ivo Janecka, Chief Executive Officer, Center for Planning & Quality, Dubai Healthcare City, UAE  
 Dr. Omar Bin Sulaiman, Director-General, Dubai International Financial Center, UAE  
 Dr. Mohamed Taymour, Chief Executive Officer and Vice-Chairman, EFG Hermes, Egypt

Moutamarat and PwC's networks of industry experts have examined and analyzed the research findings and their implications across the Arab world to give practical advice to the readers of this report. The detailed findings of the research will be debated with industry leaders in CEO forum meetings organized in partnership with Asharq Alawsat.

Over a period of six months, this unique research program looked at the state of three essential non-oil industries — Financial Services, Healthcare, and Travel and Tourism, all of which are bound to play a vital role in the diversification of Arab economies. This section is dedicated to Travel and Tourism. Moutamarat's significant involvement along with PwC's operational presence guarantees a solid base of expertise in each area. Moutamarat and PricewaterhouseCoopers also made the most of their extensive networks of corporate leaders, essential to the success of the program.

This study focuses on the following 14 Arab countries:

Algeria	Oman
Bahrain	Qatar
Egypt	Saudi Arabia
Jordan	Syria
Kuwait	Tunisia
Lebanon	United Arab Emirates (UAE)
Morocco	Yemen

Research is already being conducted for the second ABIR, which has increased its scope to include 18 countries and nine sectors. From the Gulf, we have Bahrain, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, the UAE and Yemen. The Levant has representatives from Jordan, Lebanon, Syria and the West Bank and Gaza. Taking part from North Africa are Algeria, Egypt, Libya, Morocco, the Sudan and Tunisia.

In addition to the Financial Services, Healthcare and Travel and Tourism industries covered in the first ABIR, the second survey also includes:

- Energy and Mining
- Engineering, Construction and Real Estate
- Entertainment and Media
- Information and Communication Technologies
- Retail and Consumer Goods
- Transport, Logistics and Storage

This expansion into new sectors over a wider geographical distribution will give an even greater insight into the industry trends and offer opinions and predictions of the respective industries from some of the most respected senior executives in the Arab business world.

<sup>1</sup> The titles reflect the positions held at the time of the interviews.

## Methodology

The survey used both quantitative and qualitative techniques. Between September 21st and November 29th, 2005, the quantitative method centered around a telephone survey in order to measure and quantify market opinions on future developments in Travel and Tourism. The qualitative insights were gained from a range of in-depth, face-to-face interviews, adding even more depth to the quantitative survey results. On top of this, there was a wide consultation across PwC's internal expert network to get the views of some key stakeholders from government and academic circles.

To produce a true sampling frame for the telephone survey, Moutamarat and PwC carried out extensive research on companies operating in Travel and Tourism across the Arab world. A regional list was made of the most prominent business figures in each sector — typically the Chairman, CEO or President. This produced an initial sample of 900 senior executives, which was later refined and edited to 668 names. These executives were then sent a personal invitation to take part in the survey, resulting in 140 telephone interviews — an overall response rate of 21%.

Using industry knowledge from across their networks, Moutamarat and PricewaterhouseCoopers designed a 20-minute telephone questionnaire, structured around the following headings:

- Economic outlook
- Sector growth and development
- Threats and barriers to growth
- Sector-specific issues
- Respondent profiling

The questionnaire, which was available in English, French and Arabic, mostly contained closed questions in a variety of answer formats. The respondents were also given the chance to provide more personal feedback on their sectors in an open-ended question at the end of the fourth section.

The telephone interviews were undertaken by PwC's International Survey Unit, an 80-seat multi-lingual outbound contact center based in Belfast, Northern Ireland. All in-house interviewers operate within the guidelines of the Market Research Society Code of Conduct. They are also accredited under the Interviewer Quality Control Scheme (IQCS), which is the industry quality standard for fieldwork.

The one-to-one personal interviews ran parallel to the telephone survey. They were planned by Moutamarat and PwC, and interviewees were selected according to their influence, breadth of insight and geographic distribution. The topics were along the same themes as the telephone questionnaire, but were all open-ended questions and were flexible in terms of content and structure.

A team of trained researchers and industry experts from PwC conducted a total of 31 qualitative interviews in the Travel and Tourism sector. They were carried out either at PwC offices or at the respondents' own premises, lasted between 60 and 90 minutes, and were tape-recorded with the permission of the interviewees.

# Executive summary

“In terms of Financial Services, what better place to be than in a region that needs development, growth projects, and buildings and infrastructure. It’s the best kind of place to be in; and the biggest risk you can take is not being here.”

Dr. Omar Bin Sulaiman  
Director-General  
Dubai International Financial Center, UAE

The survey results indicated an exceptionally buoyant mood in Arab Financial Services in early 2006, with an Arab Economic Confidence Index\* score of 75.81 out of 100, rising to 77.24 within banking. Banks and other providers were in a position to take advantage of excess liquidity and the massive growth potential across all sectors of the Arab world economy.

“In terms of Financial Services, what better place to be than in a region that needs development, growth projects, and buildings and infrastructure. It’s the best kind of place to be in; and the biggest risk you can take is not being here.”

Dr. Omar Bin Sulaiman  
Director-General  
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Future growth will tend to be financed by capital issues rather than lending. Examples of general economic growth effectively stimulating capital release are evident across the Arab world. In particular, large public-works projects commissioned by governments tend to release significant funds into the private sector.

## Market conditions support confidence

With the confidence of Financial Services so high, and considering market conditions and the vast number of opportunities in the Arab world, it is not surprising that Financial Services companies are investing heavily to support their own long-term growth.

There is a combination of different factors that have created this genuine confidence in the sector:

- The sheer amount of liquidity in the market, which has allowed companies to take larger, calculated risks
- Formal investment channels are now more regulated and broader in terms of product range
- The new ‘culture of information’, where we see continuous debate and analysis on Financial Services in the region’s mass media

## Building towards greater depth

A significant majority of senior executives in the Financial Services industry (79%) consider addressing the issues of ‘depth in capital markets’ and ‘balancing funding and liquidity’ as highly important to future growth. Our experts concluded that the short-term direction of the market has created an imbalance between funding and liquidity, and banks have tried to bridge the gap in the longer term by encouraging foreign investors to enter the market. Locally, the creation of secondary markets can also help to overcome the shortfall, as with the Liquidity Management Center in Bahrain for short-term Shariah-compliant treasury products.

It is generally accepted that there has been an ‘over-investment in securities’ due to the short-term investor mentality and the limited availability of alternative products. With the exception of GCC Property Investment Funds, few other markets have developed significantly. The rise in the number of different debt instruments and the infrastructure needed to support them will encourage investors to create longer-term strategies and build more depth in the market.

\*The Moutamarat/PwC Economic Confidence Index for the Arab World is derived from opinion data taken from the Arab Industry Survey questionnaire. It is based on senior executives’ perceptions of current and future economic conditions, combined with their confidence in meeting company revenue targets. The Economic Confidence Index follows comparable methodology to that used in The Conference Board Measure of CEO Confidence in the USA.

Consolidation within the industry could be another driving force behind increased depth. It would create a livelier market and support more globally competitive entities with higher capitalizations, broader capabilities and stronger technical expertise. Oman is a rare example of successful consolidation in an Arab banking market but, in general, industry players are reluctant to lose overall control.

## Support for pan-regional exchanges

Our survey showed that 67% of senior executives believe regional stock exchanges are important to the Arab world. In global terms, where many individual markets are relatively small, the clusters of national exchanges unnecessarily double up on infrastructure and resources, and so there is a certain logic to the development of single exchanges within distinct regions like the Gulf, the Levant and North Africa.

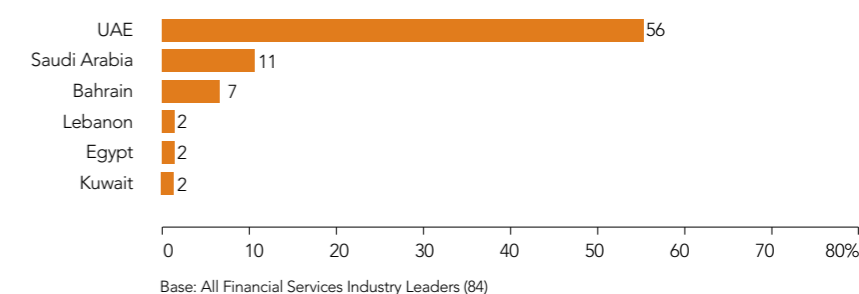
Many of the region’s exchanges show their lack of depth by relatively low trading volumes and a limited product range. Over the coming years, the major exchanges will not just have the highest volumes, but will be supported by the most transparent regulations and expertise, delivering depth, quality and efficiency. More than half of the senior executives (56%) agree that the UAE will still be home to the region’s most prominent exchange for at least the next three to five years.

Several industry analysts also feel that multi-hub models may emerge where individual countries and even cities dominate in their own specific niches. In the Gulf, for example, Dubai is likely to lead the way in terms of new listings, trading volumes and complex transactions. Bahrain is well positioned to lead the Islamic finance market, and Qatar has established expertise in project finance.

## Strategies and challenges to growth

Our research shows increasing sophistication in the Arab boardrooms of financial companies. Senior executives are largely focusing on long-term value drivers, which require a higher degree of sophistication in decision-making, while banks must also work towards compliance with Basel II. In addition, nearly half the companies surveyed in the Financial Services sector (46%) are looking for growth through mergers and acquisitions

Q. Looking forward 3-5 years from now, which country, if any, do you believe will be home to the Arab world’s most prominent pan-regional stock exchange?



and the same percentage are actively seeking a variety of commercial alliances. These strategies mark an important step for Arab Financial Services companies, who generally have ambitious plans for growth.

To sustain growth levels, market development and maturity driven by corporate ambition must accelerate even more. The current ‘lack of depth’ in the region’s capital markets is reflected in how product innovations often do not receive enough support in terms of technology and expertise. For this to be resolved, companies in the sector need to invest heavily in developing and importing human capital and technology. In addition, the appointment of executive directors is vital to improving Governance, Risk Management and Compliance (GRC) within the Arab world, increasing the quality and independence of management decision-making.

Senior executives in our survey felt that the most important areas of GRC to focus on are ‘improving risk management’ and ‘ensuring adequacy of internal controls’. Almost all (92%) agree that ‘increased transparency is vital to the integrity of the region’s capital markets’.

One third of Financial Services leaders responded that ‘improving people’ was the highest priority in terms of enhancing competitive performance. The ‘loss of key talent’ was cited by three quarters of those surveyed as either a significant factor or the largest threat to business. However, the strongest feelings of concern centered on ‘global terrorism’.

## Risk and regulatory reform

High growth across Arab markets has created new types of risks for companies to manage, requiring, for example, greater use of more complex derivatives. However, higher international volumes have also increased the need for expertise in sovereign risk, which again the region has struggled to supply.

## Bright future for Islamic finance

Islamic finance is perceived as becoming increasingly important. A significant number of senior executives (39%) believe that it will shape the future of the entire Arab world Financial Services sector. Like the rest of the industry though, Islamic finance must invest heavily in human capital to sustain current levels of growth. There are a limited number of Shariah scholars to support the sector, so training must be a priority for companies in the market. To help address this, the industry as a whole could possibly consider a ‘center of excellence’ focused purely on Islamic finance.

According to 22% of the senior executives, product innovation is the key challenge facing Islamic finance. So far, industry growth has been led by demand, and providers have reacted to the needs of the market. ‘Innovation’ in terms of developing compliant versions of conventional products has generally been required for relatively straightforward transactions.

# Economic confidence among Financial Services leaders

More than a quarter (29%) of our survey respondents believe Saudi Arabia is most likely to lead the Islamic market, with the UAE and Bahrain also featuring strongly with 14% and 12% respectively. The future market leader will be the country containing the most up-to-date regulation, the largest number of registered Islamic banks, the highest number of staff employed within the sector and the highest concentration of Shariah scholars.

At the moment, the Islamic finance market has a large number of small and medium-sized providers. Many analysts believe that the next five to ten years must see a period of consolidation and part of that will take place across borders. That, in turn, could determine which international center ultimately takes the lead in Islamic finance.

## Growth opportunities

Senior executives identified several emerging product areas with the potential for generating high revenue. 'Privatization' was cited as having high potential by 75% of those surveyed, followed by 'wealth management' (73%). The respondents are expecting that the most high-profile IPOs over the next 12 months will center around the telecoms sector.

The GCC countries and Egypt are seen as the most attractive markets for international expansion, and a significant number of senior executives identify China as a non-Arab country with exceptional potential. However, Arab banks are unlikely to undergo the complex procedures currently needed to acquire Chinese institutions.

## Other challenges

Arab business leaders listed 'increasing consistency in economic policy' (85%), 'reducing bureaucracy' (84%) and 'investing in infrastructure' (83%) as the most important initiatives for improving the business environment, along with greater and clearer communication by governments on their economic planning and strategy. 'Improving education' (87%) is cited as the highest priority.

Countries with a large indigenous population, like Saudi Arabia and Egypt, have the chance to develop domestic talent in the long term through higher education programs, whereas smaller markets like the UAE and Qatar, even in the long term, will have to keep importing foreign skills.

The rapid pace of growth in Financial Services is outstripping both the domestic labor supply and the available foreign expertise. As the Indian economy continues to thrive, for instance, GCC companies are less able to attract talent from the subcontinent. In addition, while the Arab market has grown and matured, demand for experienced investment banking professionals has increased, for example, to support and regulate activity in mergers and acquisitions. Experienced regulatory professionals have been particularly hard to supply, even via import strategies, due to the limited size of the industry.

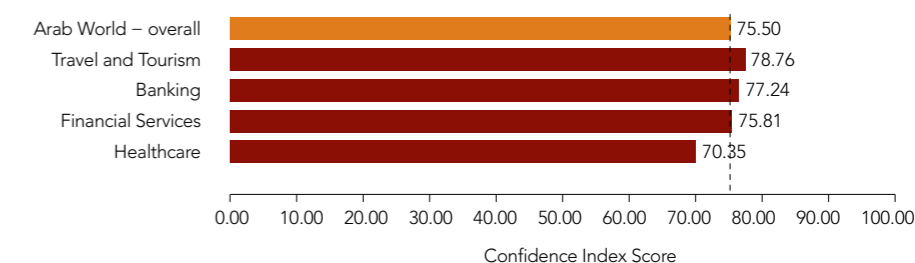
As the Arab Economic Confidence Index\* shows, the mood in the latter half of 2005 was extremely buoyant in Arab Financial Services, with a score of 75.81 out of 100, putting the sector in line with the pan-Arab average. Within banking, the index score rises to 77.24.

**"It's good news for banking customers, investors, and banking and finance professionals from all over the world with a stake in the region. Seeing how closely the region's financial institutions are connected to the economies of the countries, this is good news for the regional GCC economic growth too."**

Mrs. Maha K. Al-Ghunaim  
Vice-Chairman and Managing Director  
Global Investment House, Kuwait

Three quarters of senior executives in Financial Services believed that economic conditions during the survey period were better, compared to November 2004, and 82% agreed that conditions would have improved further in a year's time. Around 60% of industry leaders said that their company revenues would exceed targets in the same period. Overall, industry leaders within Financial Services were extremely positive about growth prospects for the whole sector, with exactly half being 'very' confident and a further 45% 'somewhat' confident. As part of Moutamarat's and PricewaterhouseCoopers' commitment to the Arab Business Intelligence Report, our second survey will investigate how justified that confidence was and monitor the level of confidence going forward.

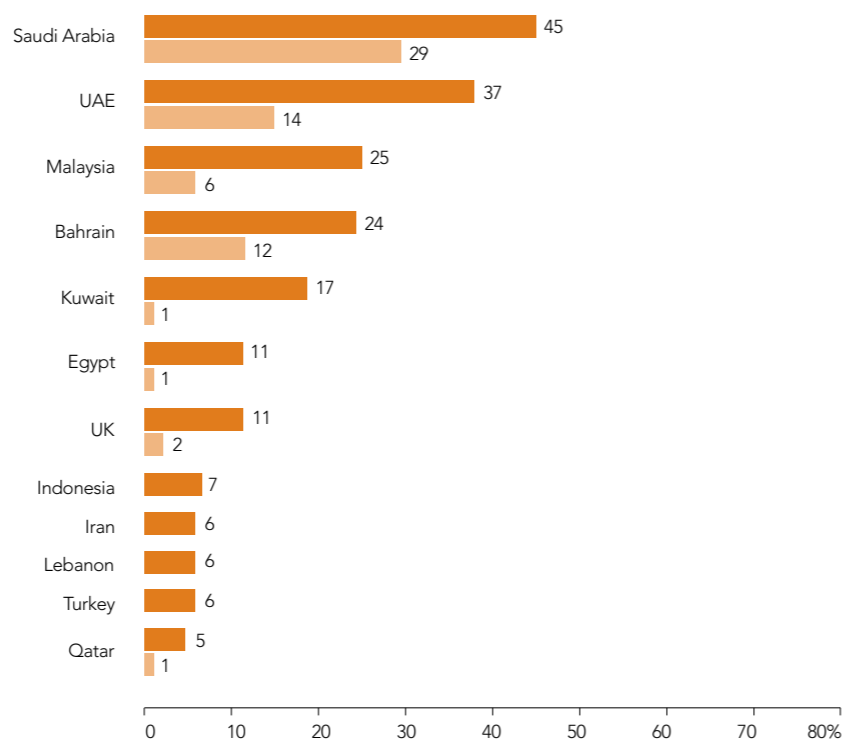
Arab World Economic Confidence Index 2006



\*Benchmark figure for USA taken from 'The Confidence Board CEO Survey' which uses a similar methodology to the Moutamarat/PwC Arab World Economic Confidence Index.

Base: 140 Arab Industry Leaders (Overall Arab World Index); 84 Financial Services Senior Executives (Sector Index)

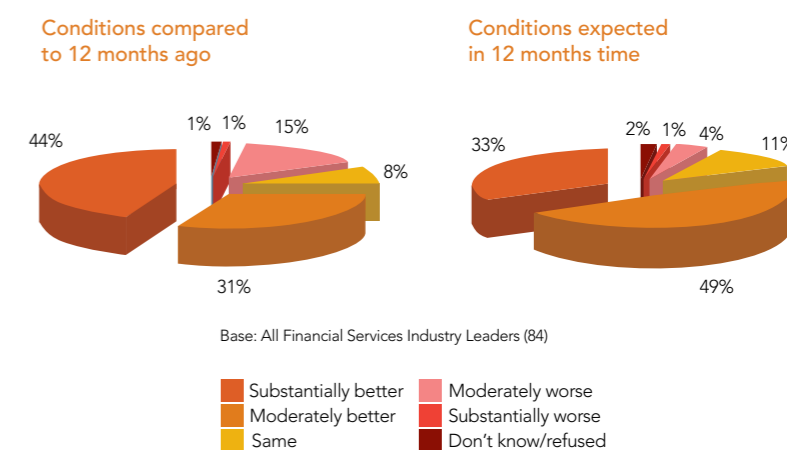
Q. Thinking about the global market place, which countries do you believe are going to lead future growth in Islamic Financial Services?



Base: All Financial Services Industry Leaders (84)

Legend:  
■ Any mention  
■ Identified as single most likely leaders

Q. Thinking about the current economic conditions in your country, would you say they are better or worse compared to 12 months ago? Looking ahead do you expect the economic conditions in your country to be better or worse in 12 months' time?



Base: All Financial Services Industry Leaders (84)

Legend:  
■ Substantially better  
■ Moderately better  
■ Same  
■ Moderately worse  
■ Substantially worse  
■ Don't know/refused

\*The Moutamarat/PwC Economic Confidence Index for the Arab World is derived from opinion data taken from the Arab Industry Survey questionnaire. It is based on senior executives' perceptions of current and future economic conditions, combined with their confidence in meeting company revenue targets. The Economic Confidence Index follows comparable methodology to that used in The Conference Board Measure of CEO Confidence in the USA.

## Improving the business environment for Financial Services

Next year's economic conditions:

# 82%

of senior executives expected further improvement

A large number of initiatives aimed at improving the business environment gain broad support from Arab senior executives. Business leaders feel most strongly about 'reducing bureaucracy' with two thirds describing such reforms as 'very' important. Although there is considerable scope to cut bureaucratic restraints even further, there is also a sense that progress is being made.

The most widely supported initiative relates to 'raising education levels within the workforce', which was rated 'very' important by 61% of respondents.

**"We need quality people, and many must be local for sustainability. We need to train them — create jobs, opportunities and wealth for them."**

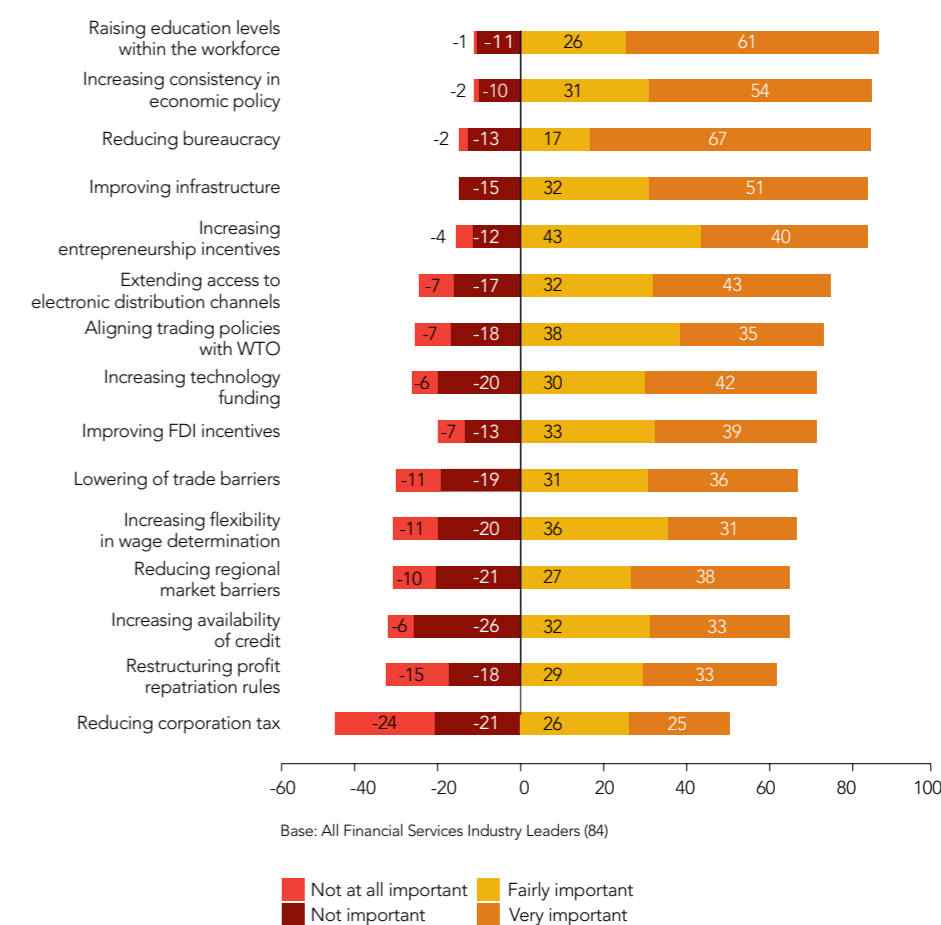
Dr. Omar Bin Sulaiman  
 Director-General  
 Dubai International Financial Center, UAE

The other broad initiatives that gain high levels of support are 'increasing consistency in economic policy' (54% 'very important') and 'improving infrastructure' (51%). Although there are large variations in corporation tax rules across the Arab world, the issue in general is seen as the least prominent — rated by 45% of senior executives as unimportant to business development. As with corporate tax, the 'availability of credit' has more resonance in some parts of the Arab world (such as North Africa) than others.

**"Bank credit to the private sector in Egypt for the last three or four years has been going down, which is very dangerous — lately it has started going up again but if you want to expand, if you want to create more jobs, then you have to supply the private sector with more credit in order to invest."**

Dr. Mohamed Taymour  
 Chief Executive Officer and Vice-Chairman  
 EFG Hermes, Egypt

Q. Thinking about the business environment in your country, please rate the importance of the following initiatives in relation to business development in your industry?



# Critical success factors for Financial Services companies

When asked about issues specific to the Financial Services sector, the majority of industry leaders (84%) rated the 'lack of depth in capital markets' as important or very important in relation to the growth of the sector. Many are concerned (65%) about 'over-investment in securities', although with the simultaneous rise in economic prosperity and genuine improvements in corporate performance, the general feeling is that it is too early to judge market performance.

**"Dubai and Saudi Arabia are, of course, markets that are mainly driven by liquidity more than anything else, but again they are exhibiting big jumps in profits. Nobody can tell whether these prices are too much or not. Let us see the results at the end of this year and our projections for 2006, and then we can talk about which companies are overvalued and which are not."**

Dr. Mohamed Taymour  
Chief Executive Officer and Vice-Chairman  
EFG Hermes, Egypt

Two thirds of the respondents agree that the creation of a pan-regional stock exchange is crucial to future growth, although feelings are stronger in the Gulf (82%) than in the Levant (58%) and North Africa (50%).

Overall, most senior executives (56%) believe that the UAE will remain the Arab world's most prominent pan-regional exchange in three to five years' time, with Saudi Arabia (11%) and Bahrain (7%) listed as the next most likely venues.

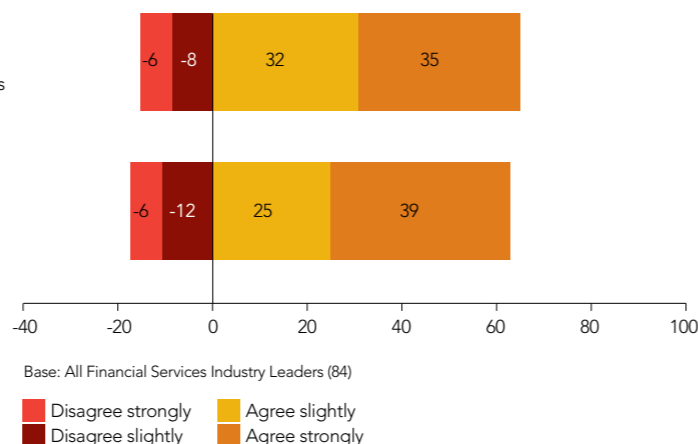
**"If you look at DIFC's vision, it's a global one alongside the world's major markets. Going east to west you have Hong Kong, Dubai, Frankfurt, London, and New York."**

Mike Stevenson  
Senior Partner and Middle East Regional Leader  
PricewaterhouseCoopers

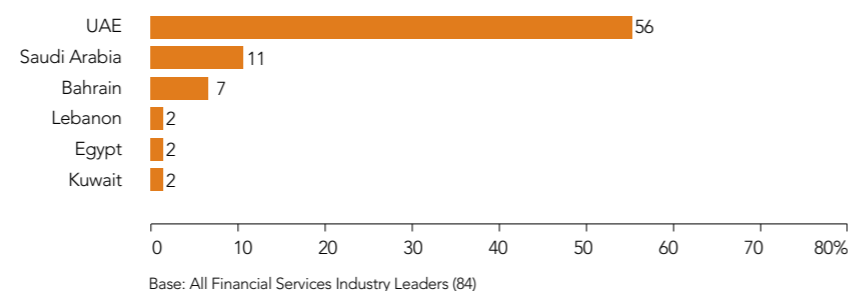
## Q. How strongly do you agree with the following statements about the future of the Financial Services industry?

The creation of a regional stock exchange in the Arab world is crucial to the future growth of my region's Financial Services industry

Barriers to regionalization and cross border expansion are stifling the development of financial services in the Arab world



## Q. Looking forward 3-5 years from now, which country, if any, do you believe will be home to the Arab world's most prominent pan-regional stock exchange?



In terms of enhancing competitive performance, 'improving people' is the highest priority for Financial Services leaders (33%), with another 7% also citing 'staff retention', which in the long term can be achieved by creating the right corporate culture.

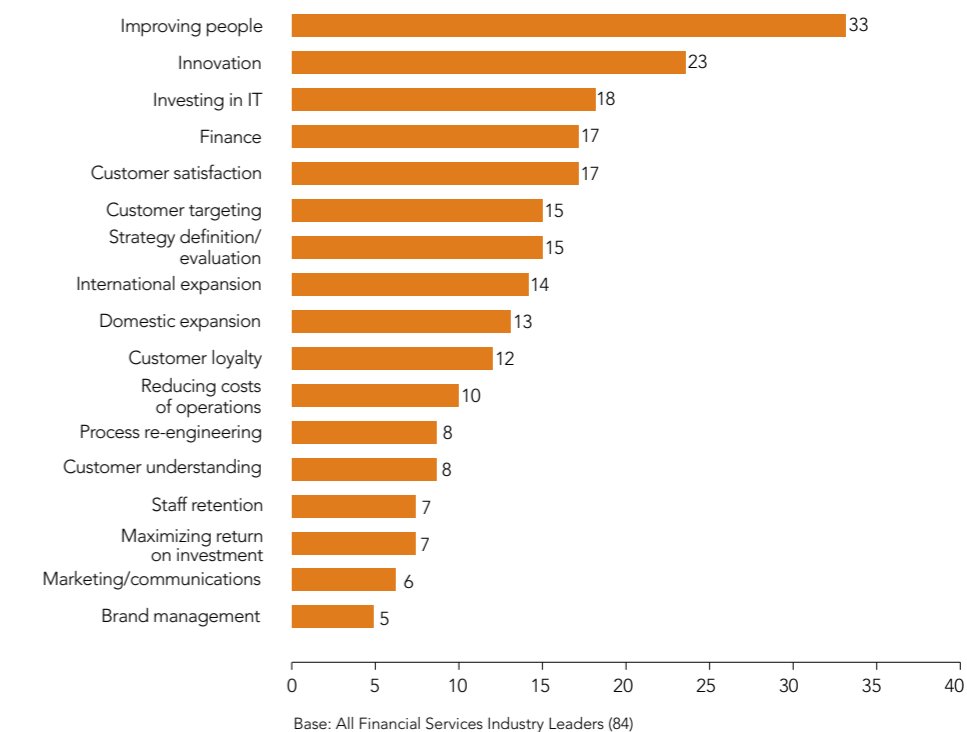
**"Our people have grown with the company and they are still here — all of them now have stock options or stocks — and they all feel that they are part of the company."**

Dr. Mohamed Taymour  
Chief Executive Officer and Vice-Chairman  
EFG Hermes, Egypt

Nearly a quarter (23%) of senior executives list innovation as a priority — a particularly critical issue for Islamic finance. In general, it is clear that the Financial Services sector sees the primary concerns as investment and growth. Some respondents (10%) agree that 'reducing operational costs' is a priority, but a higher proportion list 'investing in IT' (18%) and 'finance' (17%) as key targets.

Customer-related issues also feature particularly strongly, with 'satisfaction' (17%), 'targeting' (15%), 'customer loyalty' (12%) and 'understanding' (8%) all cited as high priorities. 'Brand management' is mentioned by just 5% of senior executives, but when later prompted as to the level of priority that should be given to branding, 29% rated it as a 'critical' priority. Interestingly, the 37% of senior executives who are confident of beating revenue targets regard 'brand management' as 'critical' compared to 15% of those that believe they will only match their revenue targets.

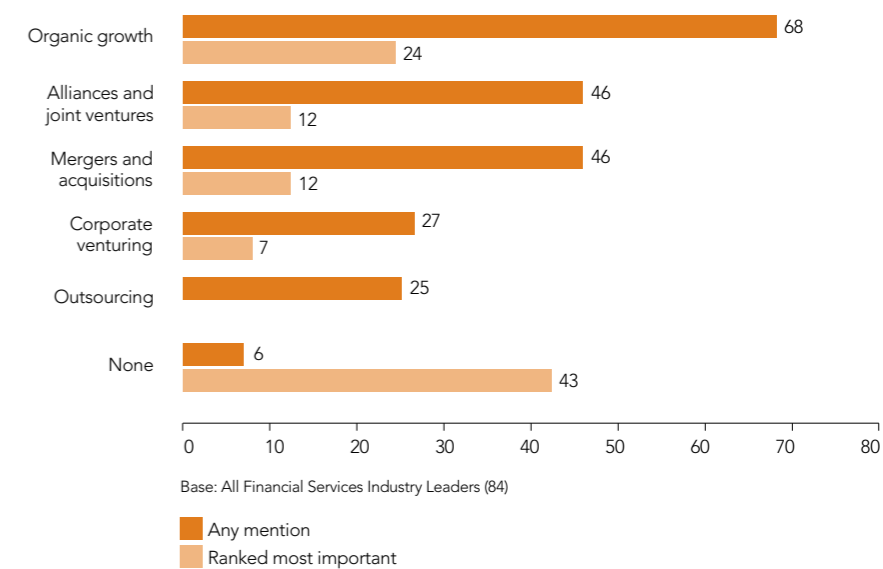
## Q. What do you consider to be the highest priorities for your business in order to improve competitive performance over the next 12 months?



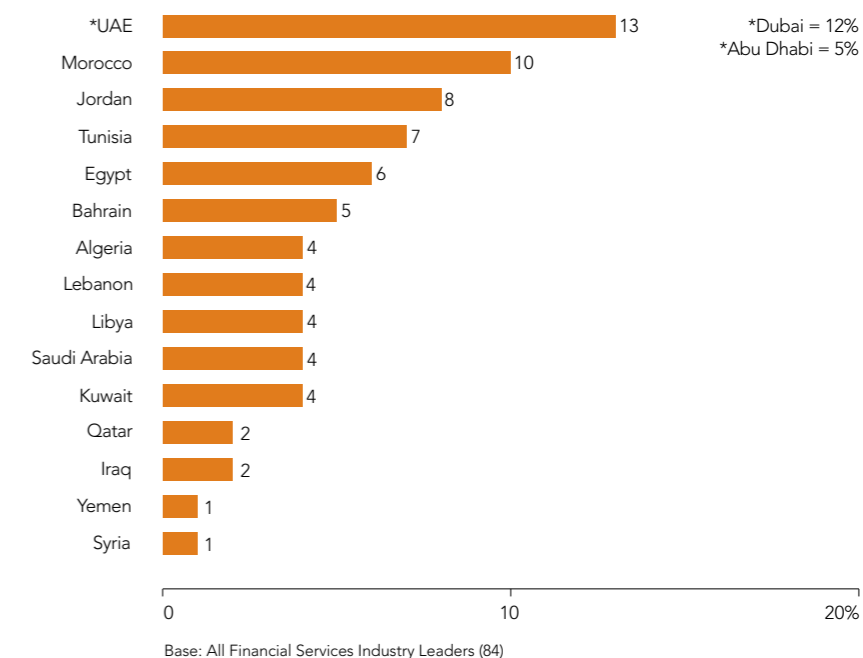
# Growth strategies in Financial Services

In 2006, Arab Financial Services companies will typically look to a number of simultaneous growth strategies. Over two thirds (68%) will continue to grow organically, and nearly half will pursue alliances and joint ventures (46%) and mergers and acquisitions (also 46%). The United Arab Emirates (13%), Morocco (10%) and Jordan (8%) are thought to hold the greatest potential for commercial alliances.

Q. Which, if any, of the following strategies will be responsible for driving growth at your organization this year?



Q. Which other Arab countries, if any, hold the greatest potential for forming commercial alliances or partnerships?



# Growth markets in Financial Services

The Arab Financial Services sector clearly identifies a number of geographical and product markets with high growth potential and 73% rate 'wealth management' highly, although the figure for North Africa falls to 58%. Three quarters of industry leaders say privatizations have high potential for generating revenues over the next 12 months. A number of Arab countries are considering share ownership by foreign nationals, which may contribute to increasing depth in capital markets. Family businesses are an increasingly important source of these revenues and public listings are often seen as the key to unlocking their growth.

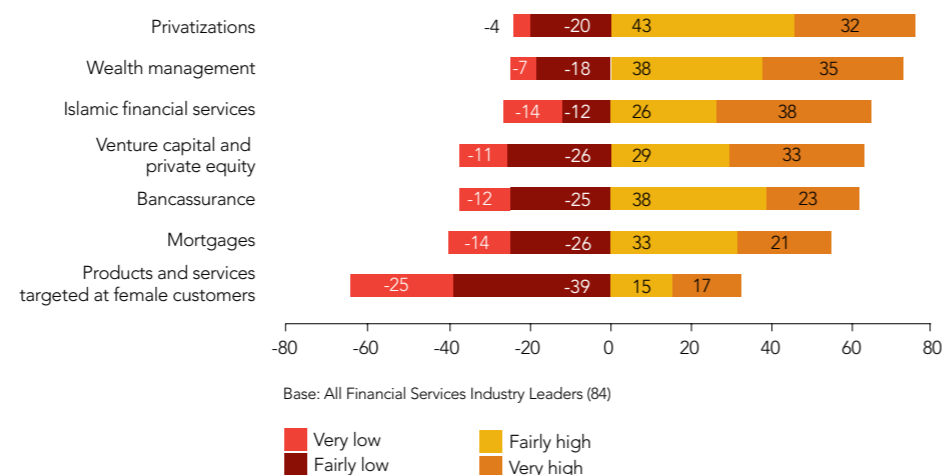
"I would encourage [family businesses] to look at the opportunities that exist around listing, such as diversifying your investor pool regionally and internationally, and developing ties with those sophisticated groups... All of this is good for you and secures the future wealth of your family... Leverage some of what you've worked hard for as a family all these years — share the growth with others."

Dr. Omar Bin Sulaiman  
Director-General  
Dubai International Financial Center, UAE

The majority of sector leaders give high ratings on private equity bancassurance and Islamic finance (see pages 19-20). At the other end of the scale, the lowest ratings were for products targeted specifically at female customers, although 47% of those based in the Levant see the market as having high potential. To date, female-oriented products and services have tended to center on the tailoring of distribution channels; for example, some retail banks have established women-only counters.

There is also a strong divide in the market for mortgages, where conditions continue to thrive in some Arab countries much more than in others.

Q. What potential do the following areas have in generating revenues over the next 12 months?



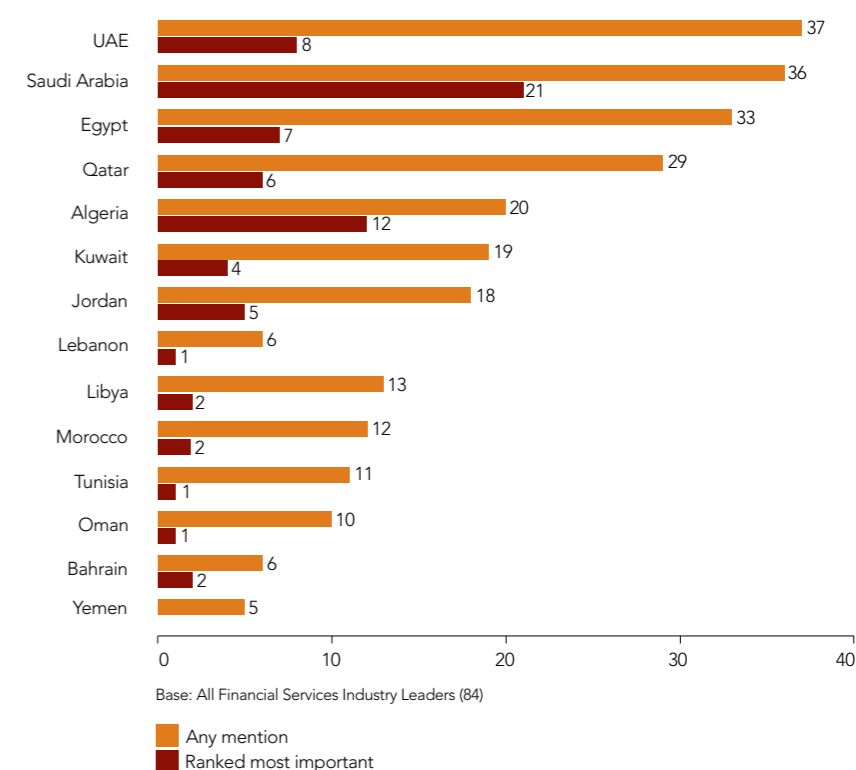
Q. Thinking about the global marketplace, which countries do you see as major growth markets for your industry?



When industry leaders were asked to consider global growth markets, the top three countries were Saudi Arabia (20%), the UAE (19%) and Qatar (18%). Saudi Arabia's recent moves towards WTO membership lowered some market-entry barriers allowing several foreign banks to supply essential investment expertise to support high levels of industry growth.

China (12%) is perceived to be the most prominent non-Arab market, but other significant countries include USA (8%), France (6%) and India (6%). Interestingly, Africa (led by Algeria) and Asia-Pacific represent greater opportunities for the sector than Europe or North America. When Arab industry leaders were asked to consider only those growth markets within the Arab world, the three most prominent countries were the UAE (37%), Saudi Arabia (36%) and Egypt (33%), although they listed Saudi Arabia (21%) as the single most important growth market followed by Algeria (12%).

Q. Thinking about the other countries within the Arab world, which countries do you see as the major growth markets for your industry?



# Threats to growth

Almost three quarters (74%) of industry leaders foretold the current 'mismatch between funding and liquidity' as an important issue facing the Financial Services sector. And while there is a strong feeling among Gulf-based senior executives that over-investment in securities now presents a significant challenge to the industry (77% rate the issue as important), the figure for North African industry leaders is much lower (38%). There is, though, a more unified belief across the Arab world that 'excessive exposure in the retail sector' is not going to have a significant impact on industry growth (49%).

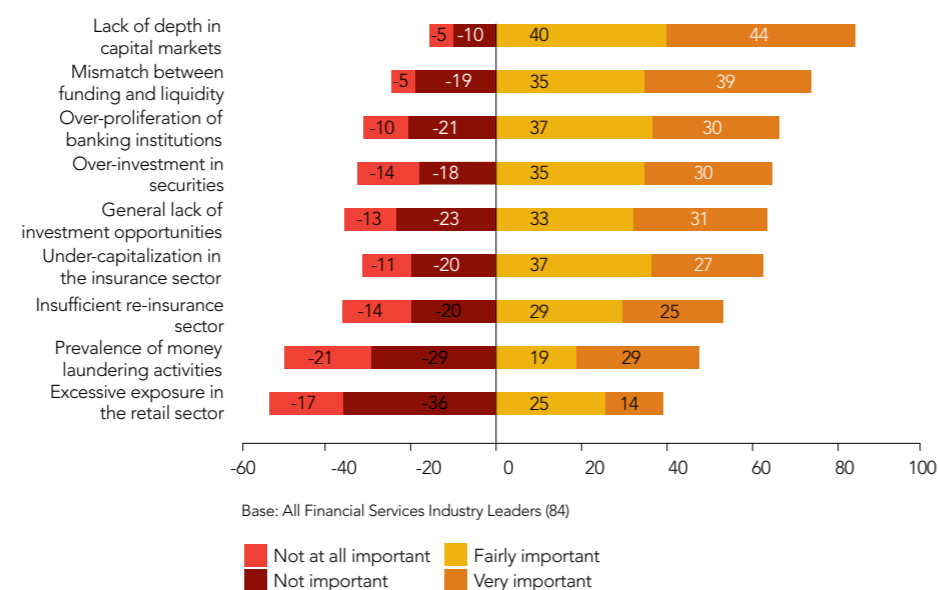
Just under two thirds (64%) of Arab leaders say that 'under-capitalization in the insurance sector' is an important issue affecting the whole Financial Services sector and concerns are particularly strong in North Africa where 77% rate the issue as important. The majority (54%) also suggest that deficiencies in re-insurance will impact on wider growth prospects. Development of the insurance industry must cover the sector as a whole and not just the core market. Currently, re-insurance is typically supplied by European firms and, excluding Lebanon, Arab countries tend to import actuarial services from abroad.

"The total paid premium in Egypt is something like 1.3% of GDP — in mature economies 7, 8 and 9% of GDP are paid annually as premiums for life or general insurance. So, the insurance industry in Egypt is very much backward — it is dominated by the public sector. Lately, they have offered licenses to foreign companies to start operations in Egypt but there are problems — for example, the stamp duty on premiums, and the unfair competition from public sector insurance companies."

Dr. Mohamed Taymour  
Chief Executive Officer and Vice-Chairman  
EFG Hermes, Egypt

Most senior executives regard the 'over-proliferation of banking institutions' as a significant challenge, although the strength of feeling varies by region with 79% rating the issue as important in the Levant compared to 54% in North Africa.

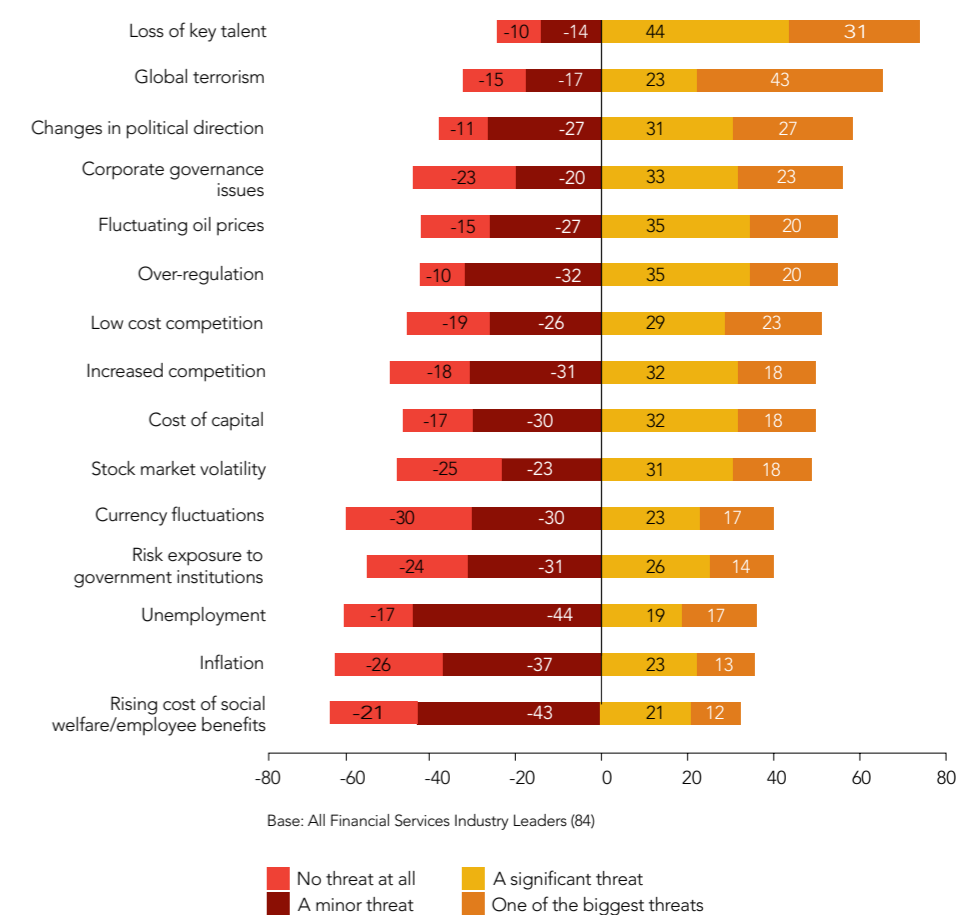
## Q. How significant are the following issues in relation to the future growth of the Financial Services industry as a whole?



More than two fifths (43%) of senior executives list 'global terrorism' as 'one of the biggest threats' to growth prospects in the Financial Services sector and 75% say 'losing of key talent' is 'at least significant'. Interestingly enough, the third most significant threat cited is 'political change' (58%).

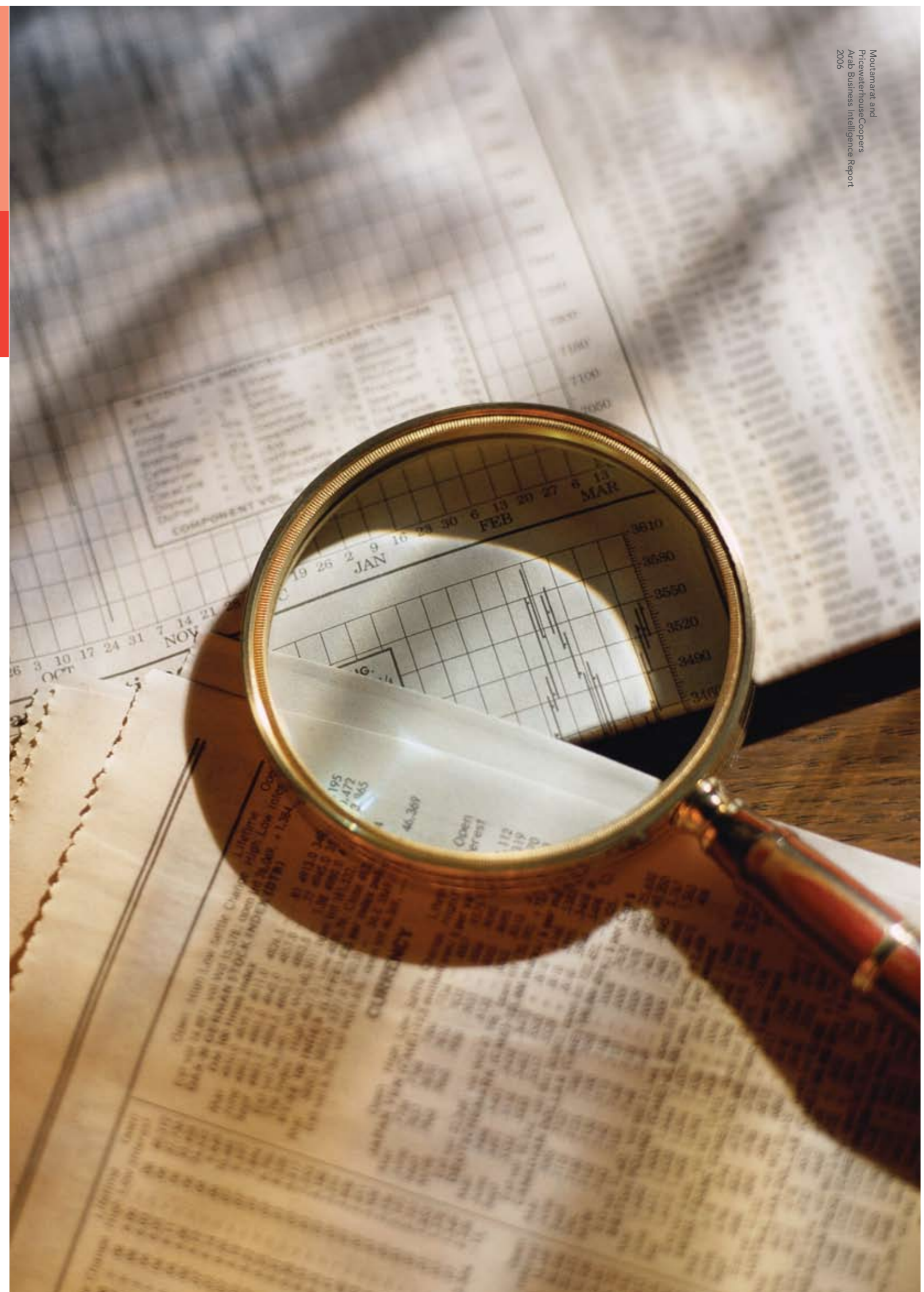
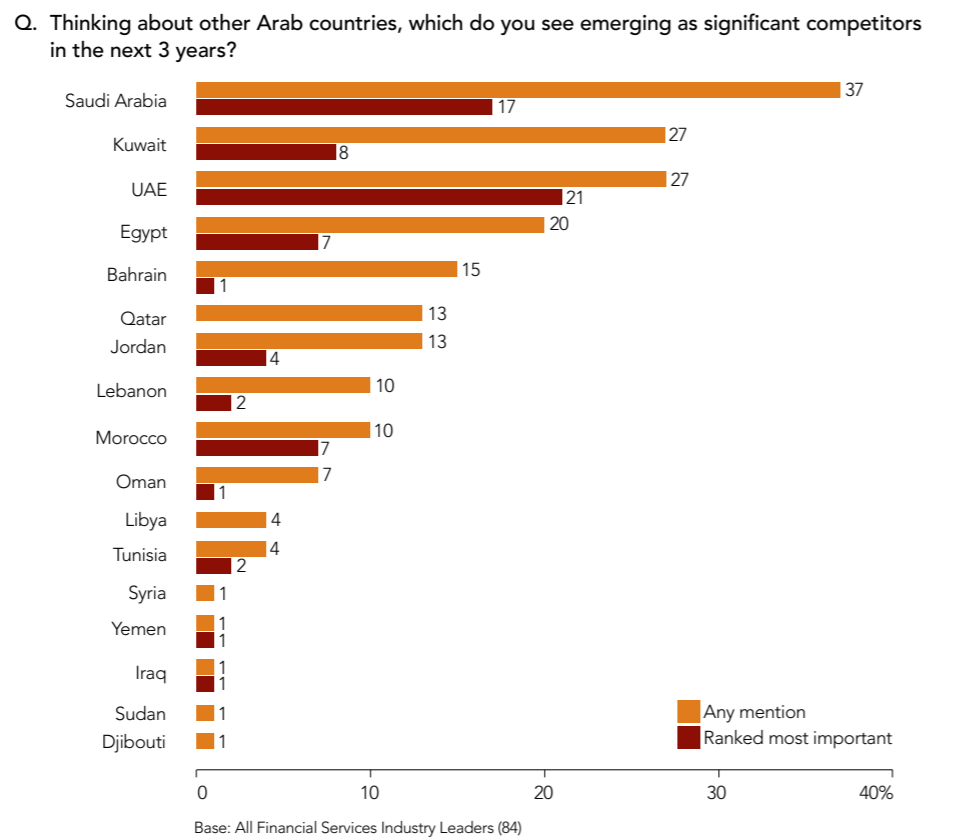
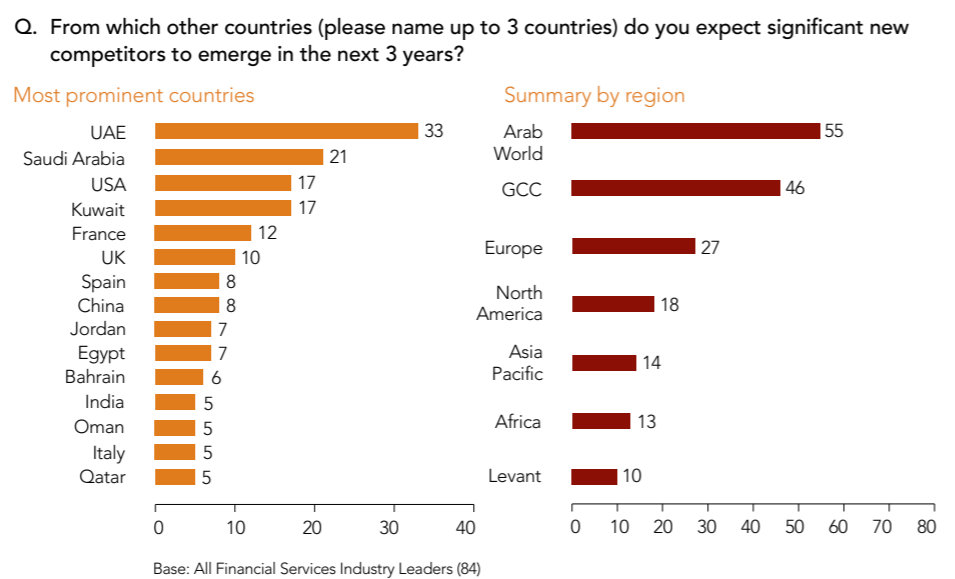
Currency fluctuations aren't generally regarded as a significant threat, and unemployment and inflation are both regarded as minor or negligible threats within the sector — although the impact is generally greater in North Africa compared to the rest of the Arab world. The majority of Financial Services senior executives support the idea of improved Foreign Direct Investment (FDI) incentives, largely because inward investment has been shown to have a positive impact on the macro-economic environment.

## Q. How big a threat are the following to your business growth prospects?



Arab industry leaders generally believe that they operate in highly competitive environments. Leaders within the Financial Services sector are divided over the potential threat of increased competition, with half regarding it as a significant threat to business growth and the other half as a minor threat. The UAE (33%) is predicted to be the most significant source of new competition over the next three years, and competitors from outside the Arab world are expected from the USA (17%), France (12%), and the UK (10%).

When asked to focus solely on Arab world competition, respondents were most likely to cite the UAE (21%), although Saudi Arabia (17%) also features strongly.

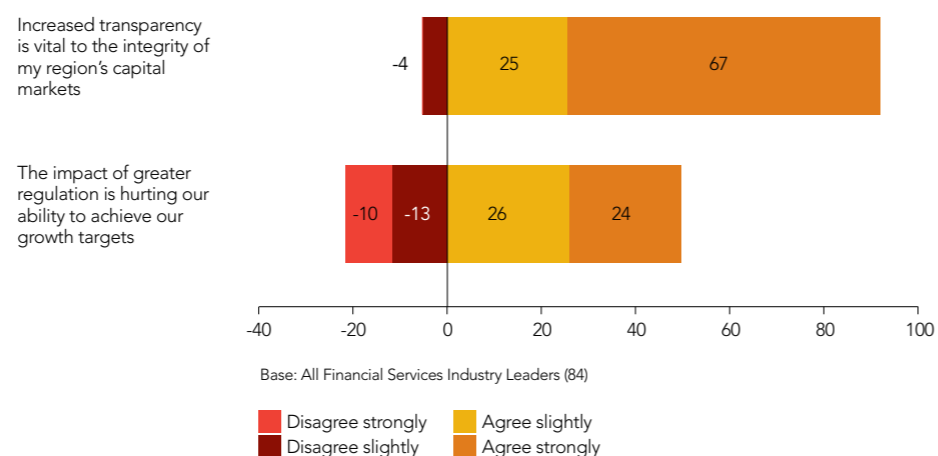


# Governance, Risk Management and Compliance

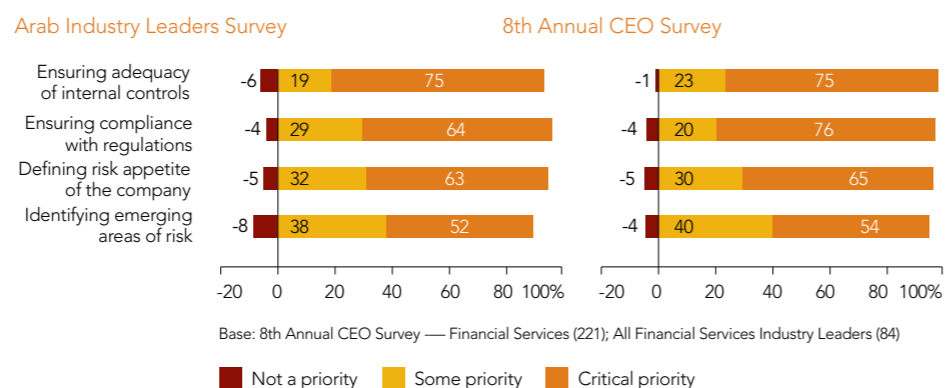
Financial Services leaders in the Arab world regard Governance, Risk Management and Compliance (GRC) as potentially cumbersome but highly important. Half of the respondents agree that greater regulation is hurting their ability to achieve growth targets, and most (55%) regard 'over-regulation' as a potential threat to business growth. There is clear evidence, though, that GRC is high on the agendas of Arab industry leaders. The vast majority of them (92%) agree that 'increased transparency is vital to the integrity of the region's capital markets' and nearly three quarters believe there should be a regional standard for GRC.

In terms of prioritizing risk management issues at board-level, Arab Financial Services companies are on par with their global counterparts. Using benchmarks from PwC's Eighth Annual CEO Survey, which polled 221 Financial Services leaders around the world, a similar level of importance is given to 'internal controls', 'compliance', 'defining risk' and 'identifying emerging areas of risk'.

**Q. How strongly do you agree with the following statements about the future of the Financial Services industry?**



**Q. How big a priority do you consider each of the following issues should be for board members of companies in your sector?**



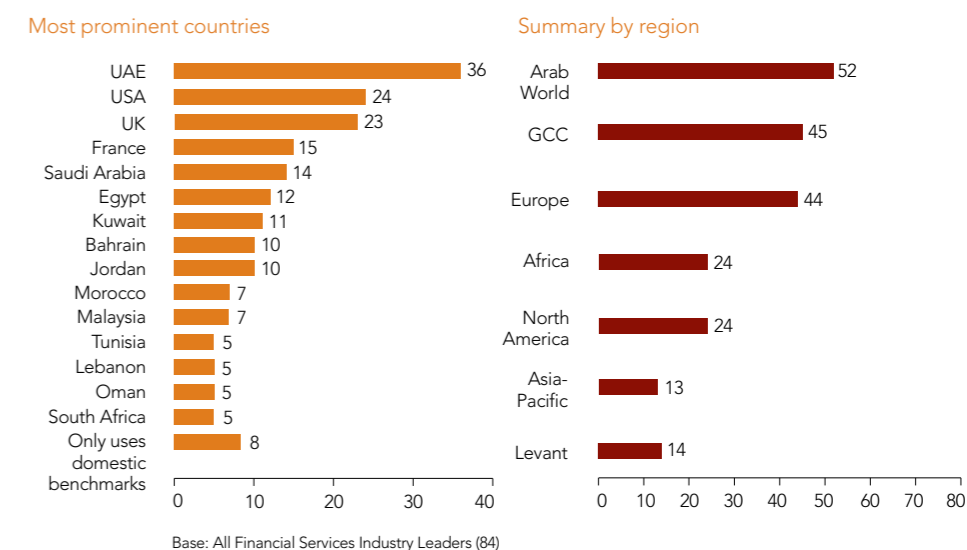
Almost all Arab senior executives (94%) identify 'improving risk management' as a priority, with almost three quarters (73%) rating it as 'critical' (this figure rises to 92% within the UAE). With many new entrants into the Arab world's growth markets, 'risk management awareness' becomes particularly important.

**"Managing risk becomes easy if you have come through a number of cycles. In other words, if somebody started a company two years ago and has only been in this growing market, they may really get into trouble — but we have gone through a number of cycles. So we know the pitfalls and we try to hedge. We have a very tight system for credit to customers, with various reports coming from an audit committee, a compliance officer and an internal auditor..."**

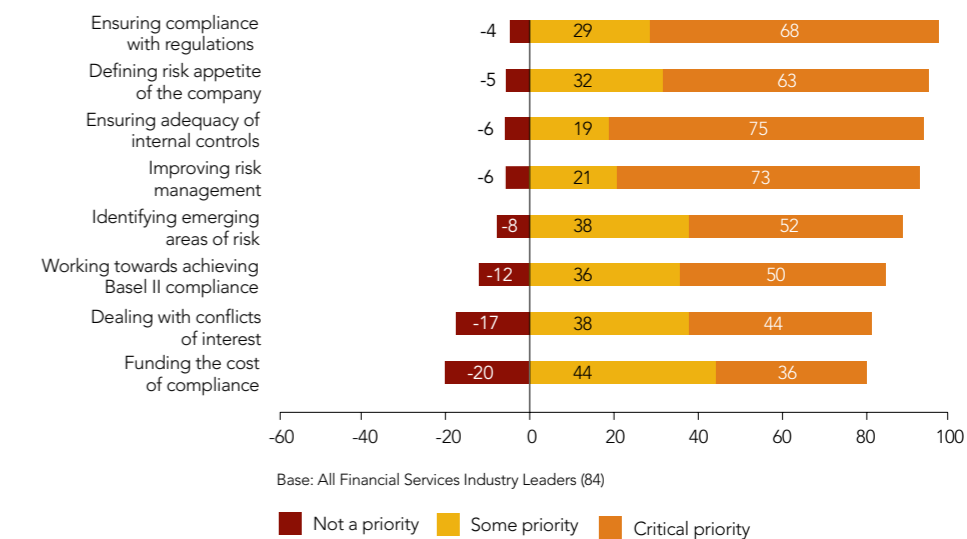
Dr. Mohamed Taymour  
 Chief Executive Officer and Vice-Chairman  
 EFG Hermes, Egypt

There is strong evidence of increasing sophistication in relation to risk management in the Arab world's Financial Services sector and the industry is seen to be moving towards Western standards. Half of the Arab Financial Services leaders surveyed rate 'working towards Basel II compliance' as a critical priority.

**Q. When benchmarking your organization against others, to which other countries do you turn for comparison?**



**Q. How big a priority do you consider each of the following issues should be for board members of companies in your sector?**



# Islamic Financial Services

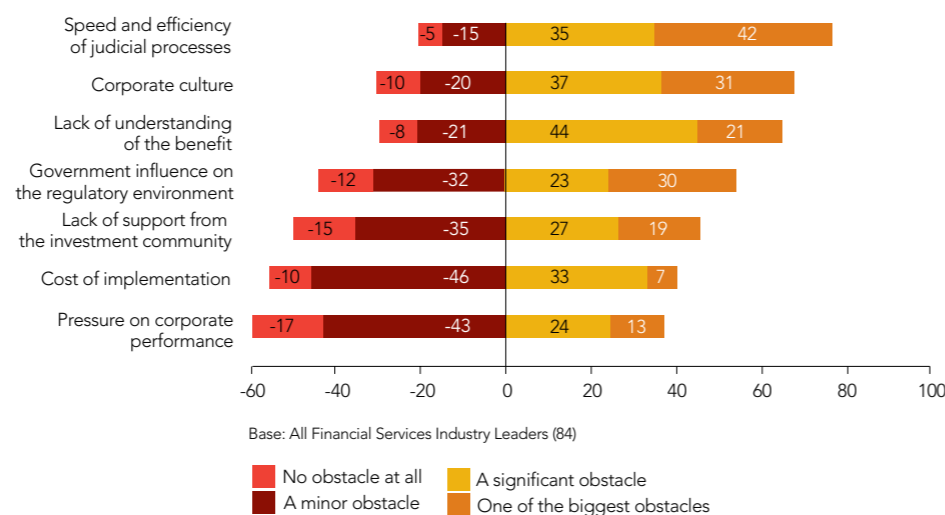
Respondents ranked 'speed and efficiency of judicial processes' as the biggest obstacle to successful GRC implementation (77%). The facilities for international arbitration, for example, are often flawed because the courts haven't been able to keep up with the increasing complexity of disputed transactions. Progress in this area is being made, but at a slow pace.

**"The judicial system is fair and not corrupt. But at the same time, it delays things for years and years, and you can take five or six or ten years to get a ruling on a commercial situation, and even if you do that, sometimes in execution it is not that easy to get your money from your adversary. That's a big problem and that's something that again is deterring investment in Egypt. The way to handle it would be mainly to create commercial courts — courts that are manned by a judge that has been trained to deal with commercial cases and that would be required to expedite the rulings and have special execution apparatus."**

Dr. Mohamed Taymour  
Chief Executive Officer and Vice-Chairman  
EFG Hermes, Egypt

More than two thirds (68%) of senior executives identify 'corporate culture' as a barrier, which may be related to a general 'lack of understanding of the benefit' of GRC measures — identified by 65% of industry leaders. For the majority of Arab Financial Services companies, the cost of implementing GRC measures is not a factor, and pressure on corporate performance is regarded by most as nothing more than a minor obstacle.

**Q. How big an obstacle do you consider each of the following factors to be in successfully implementing Governance, Risk Management and Compliance across countries in your region?**



Nearly two thirds (64%) of our senior executives regard Islamic finance as a potentially high growth market. The potential for Islamic Financial Services to generate revenues is rated highly by 64% of Arab leaders within the sector, and 39% agree that it will actually shape the direction of the entire Financial Services industry.

**"Islamic products are now established. They are part of the core business of the region and this situation has clearly been demand led."**

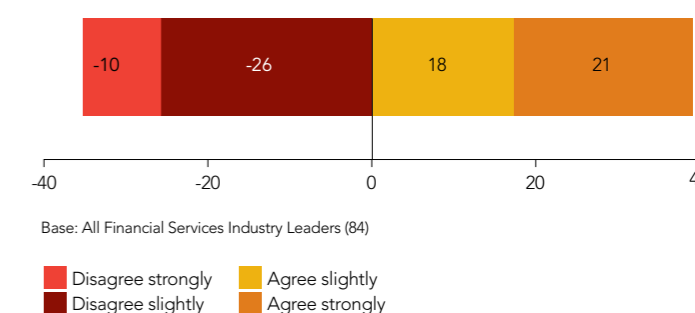
Mr. Khalid Al Janahi  
Chief Executive Officer  
Dar Al Maal Al Islami, Bahrain

The importance given to Islamic finance is mainly driven by the Gulf countries, where 87% of the region rates revenue potential highly. The figure for North Africa is just 31%, and while 62% in the Gulf believe Islamic products will shape the industry's future, only 12% in North Africa agree. Islamic finance is clearly less marketable to North African consumers compared to those in the Gulf and the Levant.

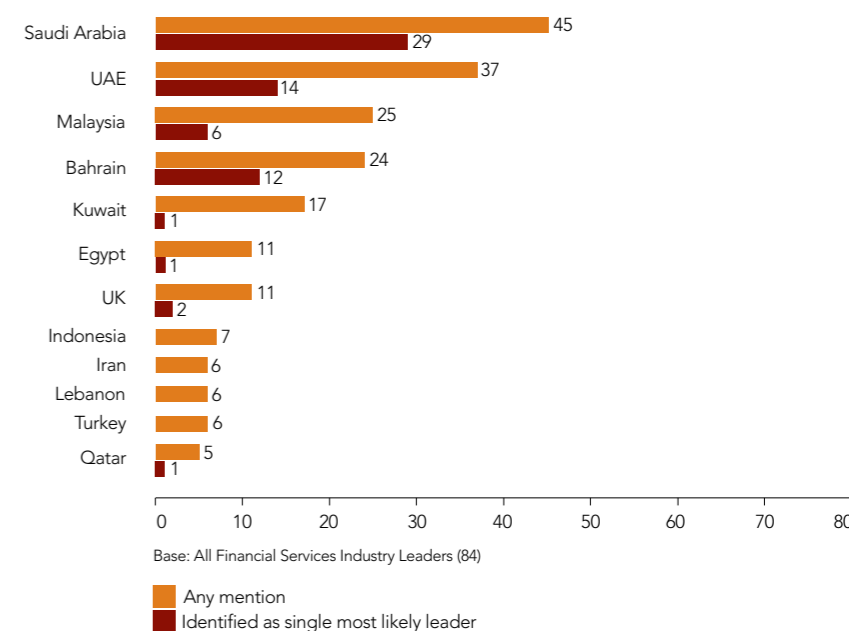
Saudi Arabia (29%) is most commonly identified as being the future leader in Islamic Financial Services, with the UAE (14%) and Bahrain (12%) also prominent. Ranked last is Qatar, which receives even fewer mentions than the UK. Outside the Arab world, the most prominent threat in this market is clearly identified as Malaysia.

**Q. How strongly do you agree with the following statements about the future of the Financial Services industry?**

The growth and Islamic products will shape the future direction of the entire Financial Services sector



**Q. Thinking about the global market place, which countries do you believe are going to lead future growth in Islamic Financial Services?**



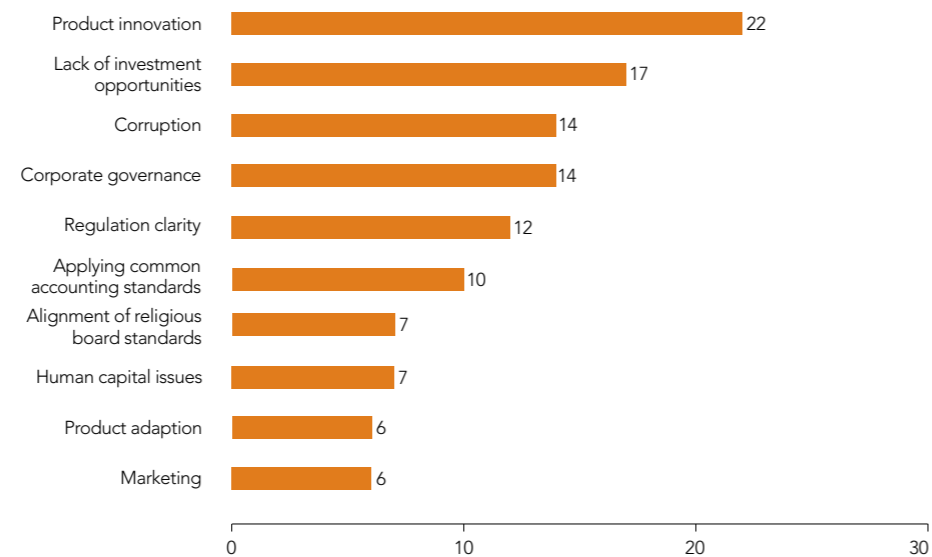
A general lack of investment opportunities is identified by 17% as a main challenge to Islamic finance, but the most important issue is 'product innovation' identified by 22%, with a further 6% citing 'product adaption'. Many of these challenges have their roots in human capital issues, which are directly referred to by 7% of senior executives. This area could be the key to success.

"[Providers in Islamic finance] need to invest substantially in Research & Development and Human Resources and you can't invest in one without investing in the other... The success of Islamic financial institutions in the future will be judged on the extent to which we have created our own products, through our own innovation and how we developed our own people. We should be judged on how much global demand there is for our products and our people because they are better than what is around elsewhere."

Mr. Khalid Al Janahi  
Chief Executive Officer  
Dar Al Maal Al Islami, Bahrain

GRC issues also feature strongly, with 'corruption' (14%) and 'regulation clarity' (12%) identified as being among the main challenges facing Islamic finance. While accounting standards are well established in markets such as Bahrain and the Sudan, there is plenty of scope for more clarity in most countries. A broad alignment of religious boards would certainly ease the transaction process between Islamic Financial Services companies, particularly international transactions between different centers of Islamic finance.

**Q. What do you believe are the main challenges facing the Islamic Financial Services industry over the next 12 months?**



Base: All Financial Services Industry Leaders (84)

Of senior executives,

64%

regard Islamic finance as a high growth market

### About Moutamarat

Created in July 2005, Moutamarat is the knowledge brand jointly owned by Tatweer and Saudi Research and Publishing Company (SRPC). Moutamarat manages research-based conferences in the Arab world and produces knowledge publications. It is one of the few examples of high-profile pan-Arab business initiatives that seek to create value for the whole region.

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