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National Bank of Kuwait looks to diversification

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Kuwaiti banks are flush with liquidity, says Salah al-Fulaij, CEO of NBK–Kuwait

While the resignation of Kuwait's government on 14 November was unexpected, it was hardly surprising. Friction between Kuwait's appointed cabinet and its elected parliament has led to the resignation of several governments in recent years, as well as multiple cabinet reshuffles and the dissolution of parliament.

The frequent fallouts between the government and parliament reflect the robust nature of Kuwait's parliamentary democracy. But from a business and investment point of view, it is deeply frustrating.

(https://www.meed.com/wp-content/uploads/2019/11/Salah_al_Fulaij_bio.gif)As a sovereign entity, Kuwait has successfully insulated itself against the recent geopolitical headwinds in the region as well as the volatility in the oil markets. The country's GDP growth remains solid, albeit dampened by lower oil prices, and its sovereign credit rating remains top tier. But the slow pace of economic reforms aimed at stimulating private sector investment allied with lower-than-expected levels of public sector spending has disappointed the business community.

Biography

2015-present	CEO National Bank of Kuwait (NBK) – Kuwait
2007	CEO NBK Capital
1985	Joined NBK Group
1979-1985	Bachelor's degree in industrial engineering and Master's of business administration, University of Miami, Florida, US

"Business in Kuwait is a mixed bag," says Salah al-Fulaij, CEO of National Bank of Kuwait (NBK) – Kuwait. "The underlying fundamentals are strong, but there are structural challenges."

Business landscape

Few people are better placed to assess Kuwait's business landscape than Al-Fulaij. He is responsible for the domestic operations of Kuwait's biggest and oldest bank. And in a career with the bank spanning more than 34 years, Al-Fulaij has been deeply involved in most areas of business and finance in Kuwait.

"The economy is undiversified," he says. "So that increases the impact of the global slowdown. And there are some domestic challenges. For example, the slowdown in project awards. I do not see a reason [why] it has been slow."

With about $166bn-worth of projects in planning, Kuwait has a strong pipeline of future projects. And the country's lenders, led by NBK, are sitting on abundant liquidity and strong capital positions, and are keen to provide facilities to the local market.

But the country's political disagreements have led to delays on some of Kuwait's most ambitious projects, the latest being the cancellation in October of the advisory services contract for the Al-Zour North 2 and 3 and Al-Khiran independent water and power projects (IWPPs). "It is disappointing," says Al-Fulaij. "There is a lot of dependence on capital expenditure and the trickle down to small and medium-sized enterprises.

> *"Kuwait is in an excellent position to grow. It has a low break-even oil price and income is high"*

(https://www.meed.com/wp-content/uploads/2019/11/Vision2035.gif)"But we have to look at the glass being half full," he says.

"Kuwait is in an excellent position to grow. It has a low break-even oil price and income is high. The price of oil is stable and we have a young, entrepreneurial population."

Established in 1952, NBK is Kuwait's biggest bank, with NBK Group reporting more than $95bn in assets and $51.9bn in deposits at the end of September 2019. It was the first national bank established in the Arabian Gulf and today is the fifth-biggest bank in the GCC by value of assets.

"There is an abundance of liquidity," notes Al-Fulaij. "We [Kuwait's banks] are flush with Kuwaiti dinar."

Al-Fulaij says that one of the principle reasons that Kuwait's banks are in such a healthy fiscal position is because the Central Bank of Kuwait was quick to implement regulatory changes to protect bank liquidity following the 2008 global international financial crisis.

"The Central bank of Kuwait (CBK) was proactive in securing solid capital and high provisions in Kuwait's banking system," he says. "It led the wagon, not jumped on it like many international banking regulators, when it came to risk management."

As a result, he says, all of Kuwait's banks maintain higher levels of capital provisions than what is required by the international regulators through the recently introduced Basel III and IFRS9 regulations.

Concern about the outlook for global growth has suppressed bullishness about the outlook for oil prices, leading to lower-than-expected spending by the government so far in this fiscal year, which has triggered a slump in the value of major project contract awards in 2019. And even before the latest government resignation, the outlook for project spending looked likely to be disrupted by parliamentary elections scheduled for 2020.

“Capital spending is an important factor,” says Al-Fulaij. “The government budgeted a 17 per cent increase in spending year-on-year. But the current level is only 4 per cent up. We hope that between now and April, there will be an increase in capital expenditure. We need infrastructure.”

Diversification

Headquartered in Kuwait, and with close to 3,000 employees, NBK offers a range of corporate, Islamic, retail and investment banking solutions to individual, corporate and institutional clients across the Middle East and North Africa, and around the world.

In 2018, NBK Group reported net income of $1.229m on full year revenues of $4,364m, a profit margin of just above 28 per cent. NBK’s revenues in 2018 were 17.9 per cent higher than in 2017, while its net income in 2018 was up 15.4 per cent on the previous year.

And despite challenging macroeconomic conditions in 2019 that have seen slower demand for credit in Kuwait, the bank increased its loan book in the first nine months of 2019.In October, NBK Group reported a net income of $993m for the first three quarters of 2019, up 10.9 per cent on the same period in 2018, with assets increasing 6.6 per cent.

A key factor in the bank’s success is its strategy to diversify and digitise its operations. “NBK has a competitive advantage,” notes Al-Fulaij. “It is uniquely placed to be able to provide Islamic or conventional services because of its subsidiary Boubyan Bank [which focuses on Islamic banking] and NBK, a major conventional bank. Boubyan represented 16.8 per cent of operating income in the first three quarters of the year. NBK International Banking Group delivered more than 24 per cent of operating income. This is the uniqueness of NBK. If the local market shrinks, we have the international and we have an Islamic subsidiary. We always diversify.”

Vision 2035

In 2017, the government launched Kuwait Vision 2035, setting out a programme of economic and fiscal reforms aimed at boosting growth through private sector investment and diversifying the economy.

Vision 2035 seeks to deliver about $100bn of investment in Kuwait between 2017 and 2021, with about one third of the investment coming from the private sector.

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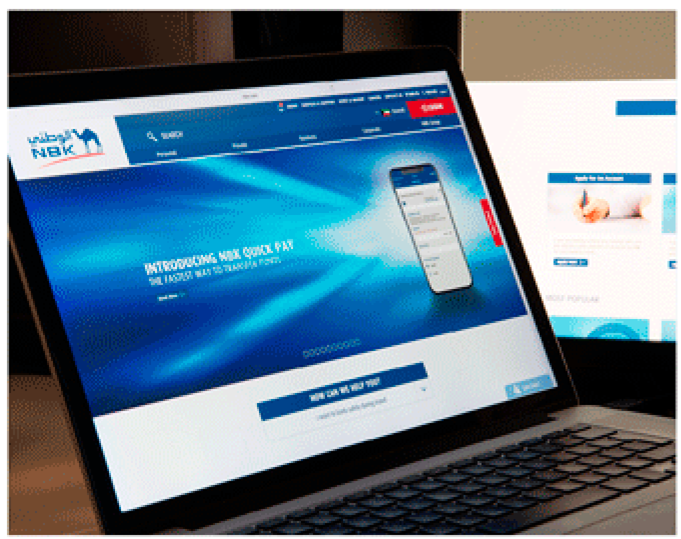

content/uploads/2019/11/Salah_al_Fulaij3.gif)"Vision 2035 keeps us optimistic, despite some of the setbacks," says Al-Fulaij. "The banks have a major development role and are key partners in Vision 2035. But they need government support in facilitation and execution."

Al-Fulaij would like to see the government putting greater effort into delivering the Vision 2035 objectives.

"There are three areas of change that we would like to see," he says. "The first is to increase the contribution of the private sector. We need to improve privatisation. We want to see the government accelerate the privatisation programme through things such as the initial public offering of IWPPs."

"The second change we would like is in the execution of projects," he says. "We need to execute as soon as possible. The Jaber al-Ahmed cultural centre is beautiful, but it was developed by the Amiri Diwan. We need all parts of government to come up with projects and execute."

A key element of the investment programme is the use of public-private partnership (PPP) schemes to deliver key projects, including the Al-Khiran IWPP and the Kabd municipal solid waste treatment project. Kuwait has struggled to deliver its PPP plans.

"The third change we need is to activate the PPP projects," he says. "These have been [delayed] for years."

Energy opportunity

Al-Fulaij says that growing project activity in the oil and gas sector is an area of increased opportunity for companies in Kuwait, and particularly for Kuwait's banks.

"We are forecasting bigger borrowing requirements from the energy sector"

(https://www.meed.com/wp-content/uploads/2019/11/Vision2035_2-1.gif)"The main area of spending is energy," he says. "Kuwait Petroleum Company (KPC) will play a key [role]."

Earlier this year, NBK and Kuwait Finance House co-arranged a five-year syndicated revolving loan and Murabaha facility at KD350m ($1.2bn) for KPC, to be used for general corporate purposes.

"The oil sector is moving ahead and we think it will be bigger in 2020," says Al-Fulaij.

Downstream plans may also need to solicit local lenders' support. Kuwait Integrated Petroleum Industries Company is understood to be seeking lending facilities for a planned petrochemicals project near the Al-Zour refinery in the south of the country, estimated to cost KD3bn.

“That is positive for us because NBK is the main financier for the energy sector,” he says. “We are forecasting bigger borrowing requirements from the energy sector.”

Digital transformation

It is not only the corporate sector that is evolving. The changing behaviour of NBK’s retail banking customers means that the bank is having to transform at a rapid pace.

“About 60 per cent of the population is under 30,” says Al-Fulaij. “What is attractive to them? A few years ago, it was mobile first. Now it is mobile only. In the first three quarters of 2019, mobile transactions increased by 70 per cent year-on-year while online transactions fell by 30 per cent.”

“We have got to be agile,” says Al-Fulaij. “Banking is now all about being faster and more convenient. We have to know what our clients want. We have to learn through research.”