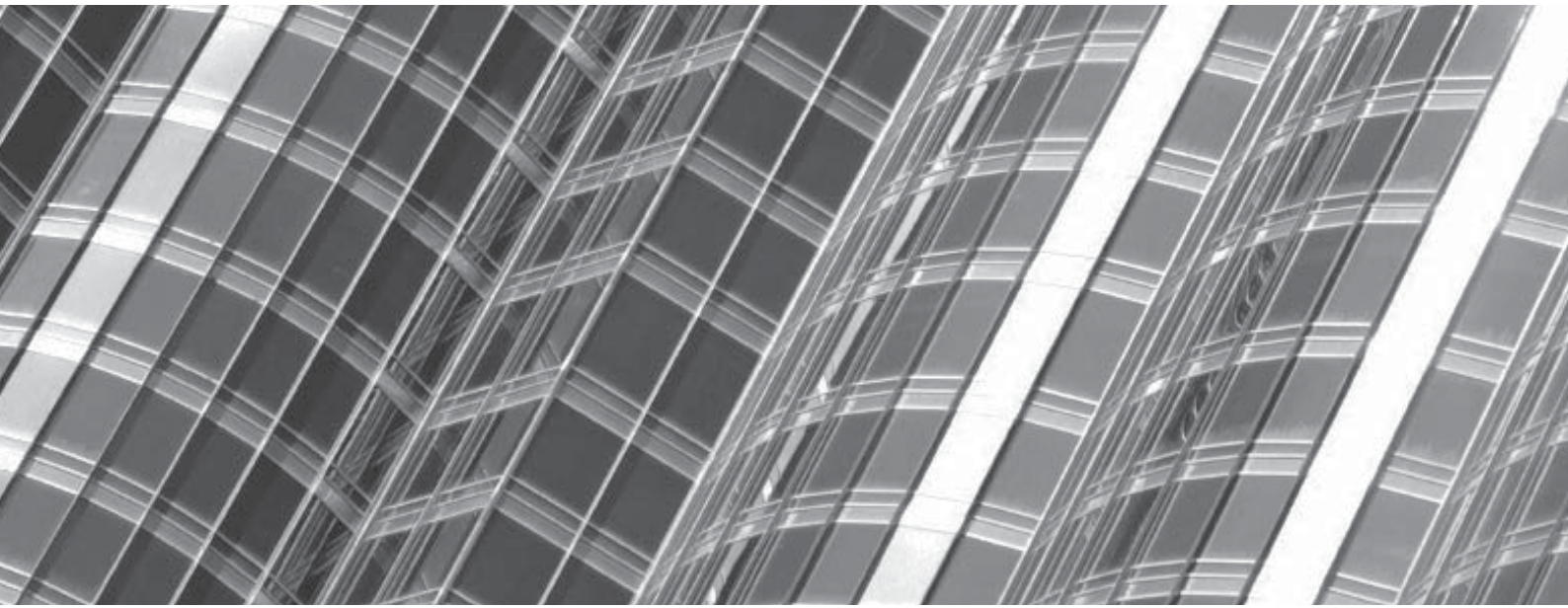


BAIN & COMPANY

# FORUM FINANCE

Middle East and North Africa



## **Regional Markets: Challenges & Opportunities**

DECEMBER 2010

In 2011, Bain & Company launches the “Bain Financial Afkar” a series of workshops, bringing together a small group of select executives from the Banking and Insurance corporate world for informal discussions on critical industry issues.

We provide a platform with knowledge and on-the-ground experience presented by the best experts and help facilitate an off-the-record discussion among peers on topics relating to burning questions for the region.

The Bain Afkar is also an opportunity to meet other strategic leaders in financial services, most facing similar challenges, and expand your existing network - all in a very informal and friendly environment.

If you are interested in attending, please contact [caroline.detalle@bain.com](mailto:caroline.detalle@bain.com) for more information.

Bain & Company’s Forum Finance is a quarterly publication that focuses on the critical issues facing banks, insurance companies and other financial institutions in the Middle East and North Africa.

Should you want to subscribe to this free publication and receive the registration form, please contact:

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Content: Alexander Iannaccone, Bianca Leodari, Julien Faye, Philippe De Backer, Francois de Vivies

**It is my pleasure to present the first edition of Bain & Company's Forum Finance, a quarterly publication that focuses on critical issues facing banks, insurance companies and other financial institutions in the Middle East and North Africa.**

The challenges these financial services organizations face are many. Drawing on the experience of our regional team and a global network of more than 300 specialists, we will address topics ranging from growth strategy to distribution channels to effective decision making. Far from claiming to have the last word on these topics, we want to make Forum Finance a starting point for dialogue. With that in mind, each edition will contain an interview with a leader in this sector.

In this edition, we explore the challenges facing brokerage houses in the region and the trajectory of regional equity markets. We also feature an interview with Sameer Al-Ansari, CEO of SHUAA Capital, on the outlook for investment banking and lessons on managing in turbulent times.



A handwritten signature in black ink, appearing to read 'Julien Faye', written over a light gray background.

**Julien Faye**

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# BROKERS, HANG ON FOR BETTER DAYS



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After a spectacular boom in trading activity and index levels through mid-2008, GCC markets have struggled to sustain a rebound after the global recession. According to industry data, the traded value on MENA bourses has dropped by 65 percent, from nearly \$1.7 trillion in 2007 to \$585 billion in 2009.

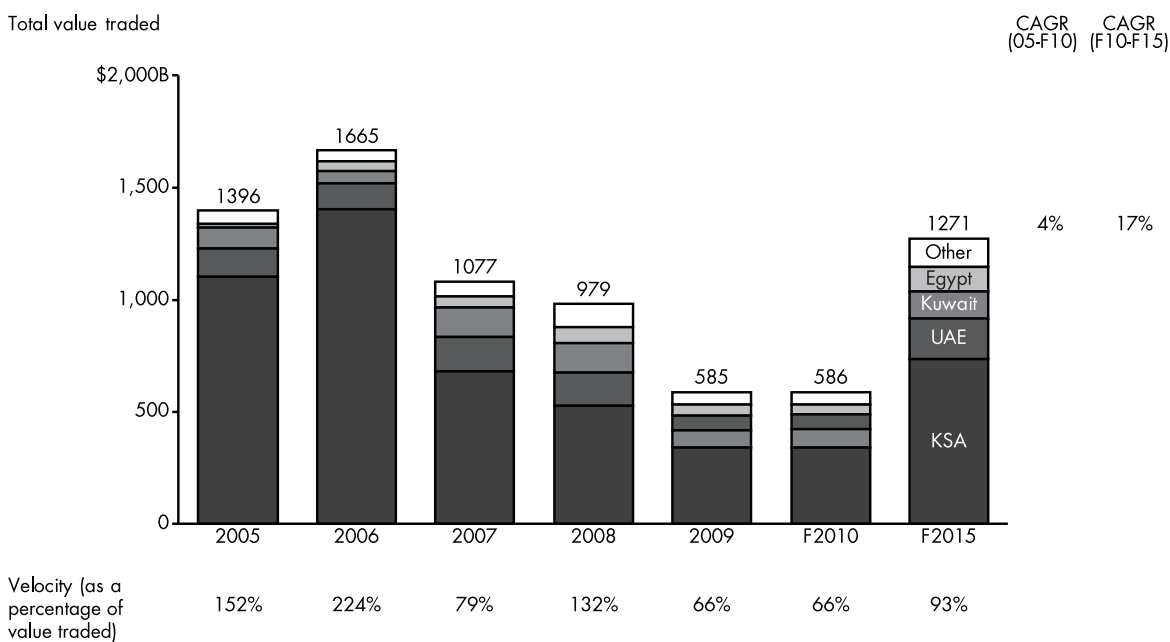
For the region’s brokerage industry, this has been a particularly challenging time. In addition to the drop in market activity, brokers have also seen downward pressure on commissions and share gains by new electronic brokers.

Brokerage firms need to address these challenges by answering three key questions:

## I. Hang on or exit?

Many brokerage houses are not the core business of their parent companies, which are generally family conglomerates or broader financial institutions. Given the regulatory capital requirements, fixed cost base and highly competitive playing field, owners need to assess whether it is worth the investments required to stay in the business.

Figure 1: Value traded on MENA stock exchanges



- Increasing demand for direct regional access
- Institutions to gain share vs. current individual-dominated market
- Product ranges to extend from long equity to fixed income and derivatives
- Increasing share of online vs. phone/physical channels

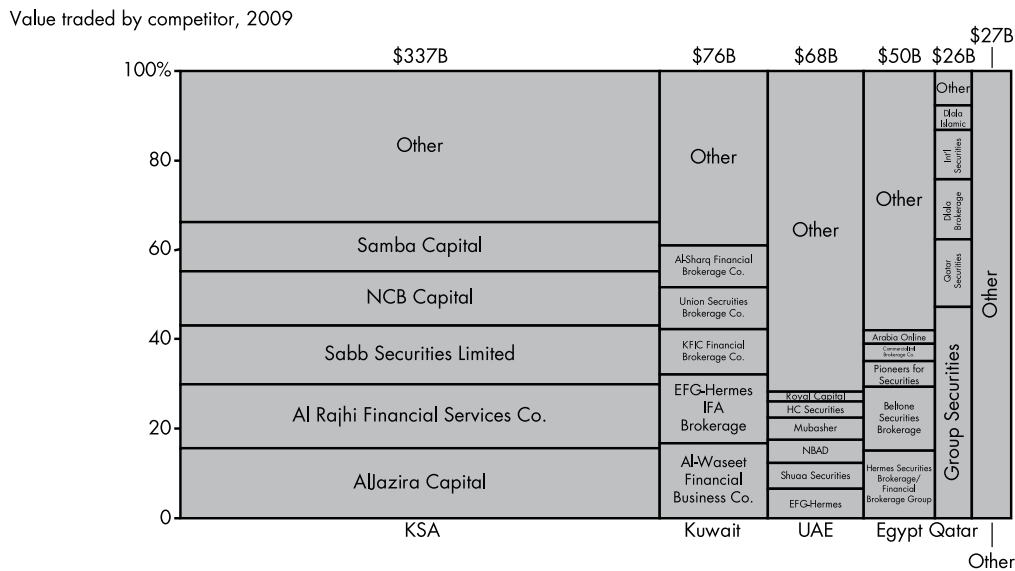
Note: 'Other' include: Bahrain, Qatar, Oman, Iraq, Lebanon, Syria, Jordan, Libya, Tunisia and Morocco

## II. Where is my customer sweet spot?

For those that choose to endure, the key to surviving through tough times and thriving in the future is proper customer segmentation and focus on core customer groups. The customer “sweet spot” will differ for each broker depending on capabilities.

Owners need to assess whether it is worth the investments required to stay in the business

Figure 2: Market map of MENA brokerage houses



Note: 'Other' include: Bahrain, Oman, Lebanon, Syria, Jordan, Tunisia and Morocco; Moroccan brokers market shares based on volume traded vs value traded for all other countries

Institutional clients can be segmented into those that require significant advice and trade execution capabilities (“high-touch”) and those that simply want access to the market (“low-touch”). Serving “low-touch” institutions is a question of having the proper technology whereas a full-service, “high-touch” offering requires deep trading expertise and an experienced research team.

Affluent individuals can be segmented into two broad groups of “buy and hold” investors who are looking for low risk, long term capital appreciation and the “day traders” who follow the market minute-to-minute and seek high returns in shorter time frames. The first group often requires ac-

cess to products that provide diversification (e.g. mutual funds) and low risk-return profiles (e.g. fixed income). The second group needs a market-information platform, trading ideas and news alerts, as well as an easy-to-use electronic trading platform.

A final group of individuals – which we call “instividuals” – are those that are so affluent that their wealth management needs often overlap with those of institutional investors. Companies aiming to compete in this lucrative space will need to provide top-quality investment and estate-planning expertise, a deep bench of research talent, and a full palette of financial products,

including opportunities to participate in private equity, hedge funds and offshore investments. Local firms that focus on “instividuals” need to realize that they are competing against major international investment firms and private banks that can leverage global capabilities.

▄▄ *Firms that focus on individuals can no longer afford to wait for the phone to ring with a trade* ▄▄

### III. How can I provide better value to these customers?

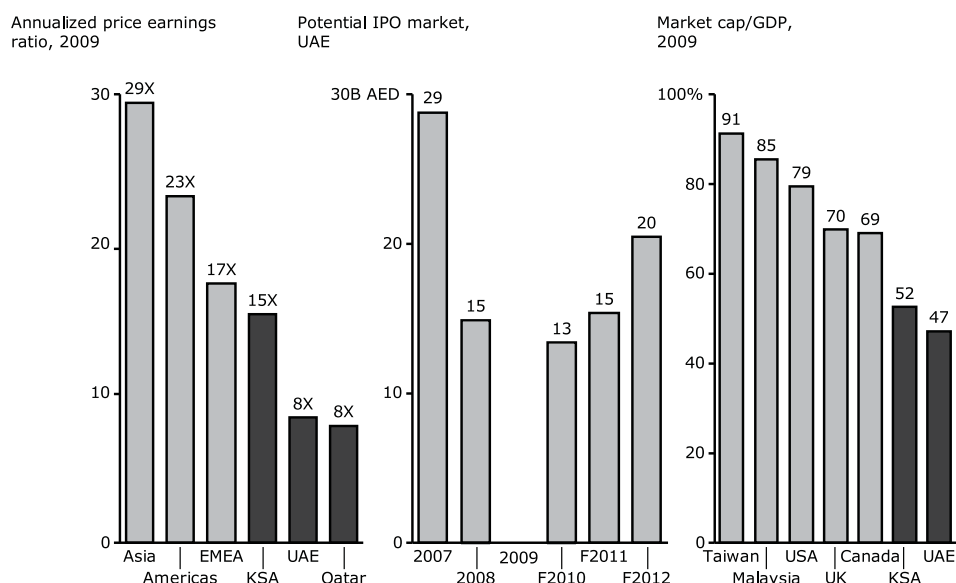
Once the core customers have been identified, brokerage businesses need to rigorously examine their current capabilities and take the necessary steps to provide the best value. For brokers focused on institutions, this will mean upgrading back-office processes and trading technology to

international best-practices and providing access to multiple markets in the region. When “high-touch” institutions are the target, it also means improving the calibre of the research, sales, and trading teams.

Firms that focus on individuals can no longer afford to wait for the phone to ring with a trade. They have to proactively seek new customers and get feedback from their top clients on how their product and service offerings can be improved. For example, brokerage houses attached to retail banks need to cross-sell their services through their parent banks’ branch networks. Brokers need to know if, how, in what language and with what frequency their clients want to receive trading ideas and advice.

In all cases, pricing should be driven by cost to serve. There is currently little differentiation based on client segment or distribution channels such as online versus phone-to-trader. In other markets, pricing is dramatically tiered with individuals paying as much as five times more to trade by phone than to trade online.

Figure 3: Room for growth in regional capital markets



For brokers that can hold on through the storm, we see potential for an attractive playing field on the horizon. Signs of life are already apparent in local markets, but it remains to be seen whether this momentum can be sustained. Yet in the longer run, we believe that three forces are likely to drive growth in GCC markets.

1

### INCREASED “FLOAT” OF THE ECONOMY

Ownership is still for the most part in the hands of privately-held family conglomerates and government-owned entities. Market capitalization as a percentage of GDP is a good measure of the extent to which public equity markets have penetrated the economy: in 2009, this measure was low in the UAE (47%) and Saudi Arabia (52%) compared the US (79%), Malaysia (85%) and Taiwan (91%). Increased “float” of the economy will boost the opportunities for investors and, in turn, the size of the pie for brokerage firms.

2

### BETTER VALUATIONS

Price to earnings (P/E) ratios in the GCC are significantly lower than other regions. In the UAE and Qatar, P/E ratios in 2009 were approximately 8x compared to an average of 29x in Asia and 23x in the Americas. As the valuations of currently listed companies improve, the overall market capitalization will rise.

3

### GROWING INVESTOR BASE

On the retail side, there is significant room for growth in the investor base driven by the increasing penetration of financial services. While high net-worth investors are a healthily developed investor segment, the mass affluent and retail segments have yet to reach maturity. On the institutional investor side, we expect that the local asset management industry has significant room for growth (see figure 3). Attracting significant foreign investment may require regulatory changes, but the opportunity there is large. Bain & Company estimates that being classified as an “emerging market” by Morgan Stanley Capital International has the potential to bring at least \$13 billion in capital to GCC equity markets.

The message from the market to local brokerage firms could not be clearer. Brokers are no longer in the days of easy money when clients were beating down their doors. Now, to reprise an old advertising tag line used by a former U.S. brokerage firm, they will have to go out and earn it.

**”** *I believe that the survivors of such a turbulent time will emerge stronger, bigger and more successful*

**”**

## **INTERVIEW**

Sameer Al Ansari, CEO,  
SHUAA Capital



## Philippe De Backer: What is your outlook for the investment banking market in MENA?

We believe strongly in the region, both in its fundamentals and opportunities. With oil prices north of \$60, government spending will continue to play a core role. The private sector will also play a growing role with the increasing drive toward diversification and public-private partnerships.

As a player in the capital markets and the financial sector, we see numerous attractive valuations in the region. We are very clear and confident that the UAE markets are undervalued and will bounce back strongly. Saudi Arabia continues to be a huge market with significant potential for growth and a positive impact on business across the region. Every time I visit, I get more excited about the Saudi story and its impact on the region: a young and growing population, strong GDP growth, high oil prices, a growing consumer society, and relatively low risk-rating. Valuations are low based on these very strong fundamentals –and that is true across the region - which is why we believe there is great potential for increased local investment and foreign direct investment.

“ For Dubai, it has been well and truly the perfect storm ”

## Julien Faye: Why is there still a lack of trust in UAE markets? Do you think specific actions need to be taken at a government and private sector level or is it a question of time?

For Dubai, it has been well and truly the perfect storm. For the last 18 months, the three key pillars of the UAE’s economy – the banking sector, real estate and capital markets – have been feed-

ing off each other in a negative way. We experienced both a global financial crisis and a local real estate crisis which led to a 75% fall in stock markets with huge wealth erosion as a result. The banks had a significant exposure to real estate directly and indirectly through mortgages and personal loans, as well as a huge exposure to capital markets through their own portfolios and funds.

“ Local presence and relationships are paramount to success in this region and in this sector, but that by itself is not enough to win ”

18 months into it, I think the outcome is very positive: we have not defaulted as a city or a country in the face of a perfect storm scenario. We have managed through this extremely difficult time, and the government and its advisors have done a great job of getting us there. Dubai’s September government-bond issue is a testament to this: a \$1.25 billion issuance with competitive pricing that was four times oversubscribed.

When it comes to capital markets, many changes are needed in order to improve liquidity. We need to rethink the way stocks can be traded, ownership rules, foreign investment rules, share classes, ability to short sell, and inclusion on global emerging market indices. All of this will have a positive impact on valuations and the economy of the UAE as a whole – and this story is very similar throughout the region.

## Philippe De Backer: Do you feel markets coming alive again in the region?

Since early September there has been a positive feel to markets, and evidence that things have improved has appeared: higher volumes and liquidity, better valuations and a nice bounce in stock markets across the region, particularly in the UAE. All of that will help with market sentiment, the creation of wealth, and investor confidence which will then lead to the opening up of the IPO markets again which further stimulates the market. It is a circle. Unfortunately, for the last 18 months it has been a vicious circle; I think we've finally gone into a stage where we've arrested that downward spiral and begun to unwind upward. Sentiment and perception are important, and they seem to have finally turned positive.

**Julien Faye: What will be the attributes of winners in the capital markets area in the next three to five years?**

Local presence and relationships are paramount to success in this region and in this sector, but that by itself is not enough to win. The winners will be the ones that adapt and understand how markets are changing and how customers' demands are changing, whether corporate or institutional or individual. Additionally, being able to be a one-stop-shop for customers in the region – not by replicating models or trying to do everything alone, but by creating the right partnerships and the right relationships.

**Philippe De Backer: What are the lessons you have learned as a CEO managing through turbulence?**

First of all, you focus on the basics, on your core business and do it well. Secondly, you must keep a very close eye on cash flow and on managing liquidity, because in times like these that is what can kill an organization. Everything else you can manage, but liquidity can't be overlooked.

People are the most important asset in any organization. Knowing who your stars are, making sure you do not lose them, and strengthening teams through the right hires is very important in

managing through difficult times. You must also make sure that you have the right compensation structures in place, short and long term, to keep your teams intact in the long term.

Being patient. Although, in such stressful times, it is probably the last thing one has, you must strive to have patience. It takes patience to get through a period like this: you have to take your time and build slowly. If you think you can go in there and just break a few heads, it is not going to happen. You will lose a lot more if you try to do things in a hurry.

“ It takes patience to get through a period like this. You have to take your time and build slowly ”

You have to understand who your clients are and what they want from you because the world has changed and you have to change with it. You have to adapt, be nimble and open to change.

Lastly, rebuild relationships and create the kinds of consolidations that are necessary to win.

I believe that the survivors of such a turbulent time will emerge stronger, bigger and more successful. That is why you need to understand your current landscape, where your organization fits, and be a player in shaping the future rather than just being a follower.

# BAIN & COMPANY

## **Bain's business is helping make companies more valuable.**

Founded in 1973 on the principle that consultants must measure their success in terms of their clients' results, Bain works with top management teams to beat competitors and generate substantial, lasting financial impact. Our clients have historically outperformed the stock market 4:1.

## **Who we work with**

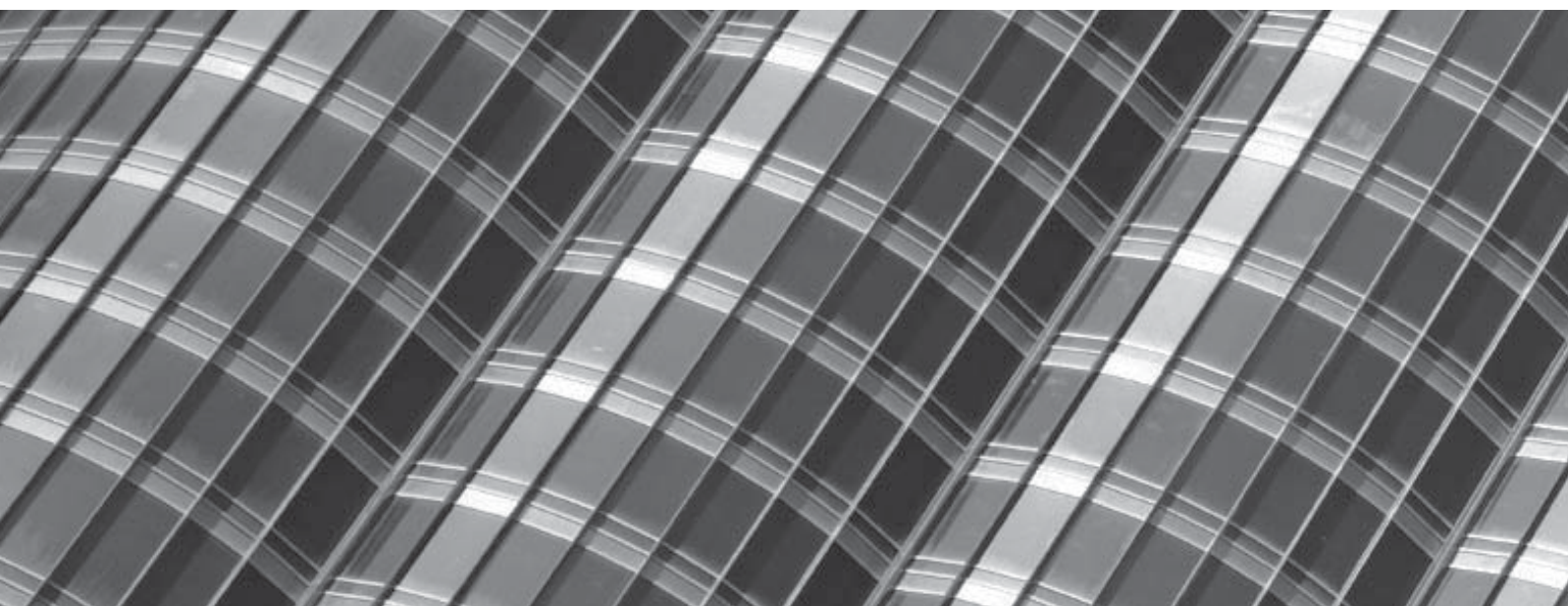
Our clients are typically bold, ambitious business leaders. They have the talent, the will and the open-mindedness required to succeed. They are not satisfied with the status quo.

## **What we do**

We help companies find where to make their money, make more of it faster and sustain its growth longer. We help management make the big decisions: on strategy, operations, technology, mergers and acquisitions and organization. Where appropriate, we work with them to make it happen.

## **How we do it**

We realize that helping an organization change requires more than just a recommendation. So we try to put ourselves in our clients' shoes and focus on practical actions.



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