

# Strategic environment of the banking industry in UAE: An analytical study on First Abu Dhabi Bank

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## Abstract

**Purpose of the Study:** To analyze the strategic environment factors those may have significant impact on the banking industry in UAE in general and on the First Gulf Bank in Specific.

**Study design/methodology/approach:** Qualitative approach, based on case-based analysis has been adopted in this paper. Relevant information and data have been collected from the available secondary sources and the same have been attempted to relate or to contextualize in the appropriate theoretical models such as PESTLE analysis, Porter's 5 forces model/analysis, SWOT analysis etc. related to the topic.

**Findings:** It has been found that the chosen organization, i.e., the First Gulf bank needs to continuously reinvent itself in the fast-changing strategic environment affecting the very dynamic banking industry in UAE. The models applied in the present case-based paper have attempted to identify the relative importance of the factors as per the appropriateness of the situations and have found the need of timely and adequate internal responses to the external challenges.

**Implications of the study:** The paper has the academic implications of introspecting into real organizational scenario in the very uncertain and challenging environment. The observations made in the paper can be immensely helpful for the furtherance of the study on the strategic environment analysis in a more advanced manner.

**Keywords:** Strategic environment, strategic environment analysis models/framework, qualitative research, implications of the study

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## **Strategic environment of the banking industry in UAE: An analytical study on First Abu Dhabi Bank**

**Introduction:** In April 2017, National Bank of Abu Dhabi (**NBAD**) and First Gulf Bank (**FGB**) merged to create First Abu Dhabi Bank (**FAB**). FAB has become the largest bank in the UAE and one of the largest financial institutions in the world and now known as First Abu Dhabi Bank. The banking sector of the UAE is one of the most competitive business sectors in the whole Gulf region. With the government's plan to diversify the economy and reduce reliance on the oil sector, the spending on the development of the service sector increased in the early 2000s (**Bricault, 2012**). As a result, a large number of domestic and international banks expanded their operations in the UAE market. Currently, 23 domestic and 34 international banks are operating in the UAE (**George et al., 2017**). Banks incorporated in Abu Dhabi and Dubai maintain the major share of total domestic assets of the country. The presence of such high number of banks has compressed the margins and made competition stiff in the banking sector of UAE (**George et al., 2017**). In such a market, the significance of effective strategic planning increases manifold to attain competitive advantages. This report, therefore, performs a strategic analysis of First Abu Dhabi Bank (**FAB**) to analyse its competitiveness and propose solutions for improving competitive position in the market.

First Abu Dhabi Bank, the largest bank of the UAE market was established in 2016 because of merger between First Gulf Bank and National Bank of Abu Dhabi. Before merging, both banks had substantial market share and stood at number 2 and 3 in terms of market share with NBAD at 24% and FGB 15% (Financial Times, 2016). By following a merger strategy, both banks surpassed the Emirates Bank which was the previous market leader and a close competitor of both FGB and NBAD. This merger brought synergies for the business as the FAB got accredited and positive ranking by major ranking institutions in the world. Global Finance has marked FAB as the safest banking institution in UAE and Middle East and also ranked it as the best bank of UAE (**Platt, 2020**). Based on the Tier 1 capital approach, the bank is ranked as number 1 in UAE, number 2 in Middle East and number 85 globally in the list of top 1000 banks of the world in 2020. Furthermore, the Forbes' list of 2000 largest public companies listed FAB as 4<sup>th</sup> in the Middle East and 303<sup>rd</sup> globally (**Murphy et al., 2021**).

Currently, FAB provides services related to corporate investment and personal banking and services by subsidiaries in areas of real estate management and brokerage/securities (FAB, 2021). In 2019, FAB also

started its international expansion and currently, it is operating in UAE, Asia Pacific, Europe, America, Africa and Middle East.

**Objective of the study:** The present paper has attempted to analyze the strategic environment factors those may have significant impact on the banking industry in UAE in general and on the First Gulf Bank in Specific. The paper as also analyzed the challenges faced by the banking organizations in UAE due to very dynamic environment and finally has made some appropriate recommendations.

**Research design &Methodology:** Qualitative approach, based on case based analysis has been adopted in this paper. Relevant information and data have been collected from the available secondary sources and attempts have been to relate them or to contextualize in the appropriate theoretical models such as PESTLE analysis, Porter's 5 forces model/analysis, SWOT analysis etc. related to the topic.

### **Findings & discussions: Internal Factor Analysis (SWOT):**

#### **Strengths**

FAB is highly competitive as compared to other banks operating in UAE owing to its innovative strategies and customer services. FAB is the pioneer in mobile and digital banking services in UAE. It is the first bank to introduce mobile app that allows clients to do all their transactions online through digital platforms. The year 2019, witnessed 50% increase in mobile registration and engagement and its digital transactions increased four times as compared to 2018 (Benito, 2020). Moreover, it has a strongest distribution network in UAE with 80 branches in UAE and 514 ATMs (FAB Annual Report, 2019). This makes FAB an easily reachable option for customers and helps to increase customer base for the bank. FAB is also the largest bank of UAE based on its assets and market capitalization (**FAB Annual Report, 2019**). Based on its ranking and awards, FAB is considered the safest bank of UAE and highly competitive with the world's leading banks as it is ranked on 108 in the world by its assets. FAB is following a good diversification strategy apart from providing personal and corporate investment banking, and it is also operating its subsidiaries in real estate management and securities investment.

#### **Weaknesses**

Huge brand recognition and high assets level make FAB equally compatible to top international banks and its expansion strategy is only limited to local geographical regions. The majority of the expansion is done in Middle East

countries and only 11% of the total revenue comes from business outside the UAE (**Zarrouk, 2021**).

### **Opportunities:**

The goals and the vision of FAB focus on the innovation and exploitation of technology to provide new services. Till now, FAB has been a market leader in the UAE when it comes to provide digital and internet-based banking services. In the coming few years, digital currencies like Bitcoin and Ethereum will be rising both as opportunities and threats for the banking system. If FAB becomes able to exploit this opportunity at the right time, it may be able to save itself from the threats arising from the growth of digital currencies because individuals have started converting their paper money into digital currencies rapidly (**Mogul et al., 2021**).

FAB digital currency services such as processing payments, offering escrow (holding an asset or fund before they are transferred from one party to another as per stipulated norms), enabling international cash transactions, facilitating customers exchange their money for digital currencies, and even granting loans in digital currency. Moreover, to exploit this opportunity at the early stages many international banks are launching their own digital currencies. As FAB already has good market repute and high asset level, launch of its own digital currency can be an exploitable opportunity for the business (**Mogul et al., 2021**).

### **Threats**

The UAE government has relaxed policies and regulations related to the banking system and owing to this many international local banks can enter in the market easily. The presence of high number of international and local banks and financial institutions is causing compression in the profitability and liquidity margins (**George et al., 2017**). In this situation, FAB can face critical threats of competition in coming years if it fails to adopt technological advancement, international expansion, and diversification. The high reliance on the local market of UAE for the long term may cause problems for the business. Moreover, due to Covid, the whole banking sector is facing weak credit demand (Platt, 2020)

Another serious threat for FAB is the recent retail lending strategy of Emirates NBD which is a close rival of FAB. FAB and Emirates NBD together hold 50% market share of the UAE banking sector. Emirates NBD took an aggressive strategy of increasing consumer lending which increased the retail lending of Emirates NBD by 51% from 2017 to 2020. With this strategy, Emirates NBD managed to secure a lot of customers and FAB was

on the disadvantage for this strategy because its retail lending strategy is not aggressive (**Smith and Ahmed, 2021**).

### **External Factor analysis**

#### **Porter's 5 Forces analysis:**

Porter's 5 forces analysis helps in analyzing the strengths of competitive forces in an industry and thus outlines the attractiveness of an industry. The 5 forces, mentioned by Porter, form an important external environment for any industry and impact the operations of all business in an industry. Following is the detailed analysis of Porter's 5 forces for the banking industry of UAE and its effect on FAB.

##### **i. Bargaining Power of Buyers (High)**

The buyer's power to bargain for leverage has an impact on the profitability of the organization. With so many local and international banks operating in the banking industry of UAE, buyers gain substantial power to bargain for the leverages. Each bank is offering its customized products for the consumers to gain higher market share. In such as case, FAB has to set its prices competitively to retain its customer. The technological advancements also play an important role here. With the advent of internet and digital banking, the switching time and cost are quite low for the buyers and they can easily switch from one bank to another (**Bedeley, 2014**). Moreover, with internet services, they can acquire information about the services and products of different banks in a minute. With all these facilitates buyer can exert great pressure on the pricing and services of the banks.

##### **ii. Threats for substitute (Moderate)**

The threat for substitutes in the UAE banking industry is medium. The threat is considered high with other alternatives being in abundance and giving a better price. There is no doubt that there is a lot of innovation taking place in terms of financial services nowadays as a lot of financial institutions, digital currencies organizations and even mobile network organizations are offering different investment, transaction processing and financial growth related services to customers. These firms are cutting costs by leveraging technology and including the untapped market. Yet many of these products are very advanced, volatile and require more expansion as compared to banking services. Therefore, banks are facing moderate threats but with the advancement of technology, these threats are subject to be increased (**Rudnicki, 2017**).

### iii. Threats of new entry

There are fundamental obstacles linked with each business; the banking industry has certain limitations involved. The industry requires high capital investment and compliance with complex regulatory framework. The banking sector of UAE is highly saturated and a few banks on the top occupy the major share of the banking market. In these circumstances, it is difficult for a new firm to enter in the industry. But with venture capital opportunities, these problems are reduced, the prospective firms can get investment from investment firms in return of share in equity. This is making the threats of new entry moderate in UAE banking sector (**Zarrouk, et al, 2021**).

### iv. Bargaining Power of Supplier

The power of suppliers is determined by underlying elements such as the nature of supply, the number of suppliers, supplier concentration, and the importance of the suppliers' products (**Tomlin, 2009**). The suppliers have moderate power in the UAE banking industry. The main suppliers are retail customers, institutional investors and financial experts. A single individual investor cannot exert high power on a firm, however, the investment by institutional customers comes after thorough analysis of a bank's performance. Although a major portion of capital comes from retail investors, institutional investors are also an important source of supplies for the banks and their decisions matters for the future of the banks. Therefore, bargaining power of suppliers is moderate in the UAE banking industry.

### v. Rivalry in Existing Firms

The closest rivals of the FAB are Emirate NBD, Dubai Islamic Bank and Abu Dhabi Commercial Banks. All these banks offer similar products and services to their customers and compete in terms of pricing, revenue and profitability. In this saturated market, all these firms come up with technological advancement and aggressive strategies to get market share which makes rivalry high in this industry. For instance, Emirates NBD took an aggressive stand on its retail lending strategy. FAB and Emirates NBD together hold 50% market share of the UAE banking sector. Emirates NBD took an aggressive strategy of increasing consumer lending which increased the retail lending of Emirates NBD by 51% in 2020 compared to 2017. With this strategy, Emirates NBD managed to secure a lot of customers and FAB was on the disadvantage for this strategy because its retail lending strategy is not aggressive (**Matt Smith and Rehan Ahmad, 2021**). The strategies like these can hit FAB badly but FAB has a strong assets base to come up with more aggressive strategies.



### **Strategic Proposal for FAB:**

Based on the internal and external analysis of FAB, we have explored different strengths, weaknesses and areas of development for FAB. In this section, ANSOFF matrix has been used to produce strategic development strategies for FAB based on analysis from the previous sections. ANSOFF matrix is a tool for product and market development that allows firms to plan their strategies for growth. The following picture depicts the strategies proposed under ANSOFF matrix:

New market and existing markets, market penetration.

Market development, product development and Diversification.

#### a. Market Penetration

In this segment, FAB should try to increase the number of its customers by coming up with more aggressive price cuts and promotions. Specially, it is losing customers in retail banking, so this segment needs a more aggressive strategy. The merger strategy of FAB and NBAD was an excellent approach toward market penetration, and it combined the competitive advantages of both organizations. The firm can explore more opportunities like these, for instance, acquiring weak competitors to gain more market share.

#### b. Market Development

The firm needs to take its current products to new markets as well. As highlighted above, only 10% of the total revenue comes from international business and this is mostly from Middle East. FAB is recognized at global level and successfully competes with many internationally renowned banks in the UAE market. The need is high that FAB to enter into the international market with more aggressive expansion. The UAE market is fragmented now and profitability of FAB may reduce if it fails to expand internationally with a rapid pace. Merging with other international banks can be a great option for international expansion (**Barbosa, 2020**).

#### c. Product Development

This area needs more focus than any other strategy as with technological advancement many alternative products are being offered by banks and financial institutions which is increasing competition in the market. FAB is already a market leader in development of its mobile banking app and internet banking services. Digital transformation like cloud, artificial

intelligence and blockchain technologies are producing new alternatives and allowing new firms to enter the market. In order to remain the market leader, FAB should use the block chain technology to develop its own digital currency. It should also offer digital currency services such as processing payments, offering escrow services, enabling international cash transactions, facilitating customers exchange their money for digital currencies, and even granting loans in the digital currency. **Mogul et al., (2021)**, in article, 'How Banks can Succeed in Cryptocurrency', published in Boston Consulting Group states that,

*'...cryptocurrencies are a vehicle with great prospects. They have the potential to outperform conventional banking products while offering greater efficiency, less bureaucracy, and more transparency'.*

Thus, a market for these products may increase in the coming 3-5 years and many international banks have started their efforts to exploit this opportunity. For example, in 2019, JP Morgan introduced its own cryptocurrency with the name of JP coin which it uses for fund transfers and faster business transactions for its customers. FAB should also adopt similar product development strategies.

A new strategy does not come without challenges and to operate in a competitive market, challenges are unavoidable. Few major challenges that FAB can face in adoption of cryptocurrencies are the volatility and uncertainties related to these currencies. In the current period these currencies have shown a rapid price change. However, many banks, financial institutions and governments themselves are testing their strategies for implementing crypto currencies. Recently, more than 100 banks have tested instant payments with the use of the cryptocurrency Ripple. European Central Bank and many other businesses have developed a special task force to manage the future perspectives for digital currencies (**Mogul et al., 2021**).

For international expansion, FAB may have to face different social, economic, political and legal challenges related to each country. These factors change from country to country. To manage these challenges, merger with local banks can be a good strategy for expanding in countries where intensity of these challenges is high. For low-risk countries, FAB can enter on its own as it already has an established reputation in terms of rating and reliability.

Overall, it can be believed that FAB may face a set of challenges while implementing these strategies but it will improve their competitive advantages in the long run. By exploiting technological advancement and the crypto market at the right time, FAB can get first mover advantage in the



market. With international expansion also, the trust and recognition of the customers for the bank will improve.

**Implications of the study:** The paper has the academic implications of introspecting into real organizational scenario in the very uncertain and challenging environment. The observations made in the paper can be immensely helpful for the furtherance of the study on the strategic environment analysis in a more advanced manner.

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