

Islamic Finance Forum

Key Contributor

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DISTINGUISHED GUESTS, LADIES AND GENTLEMEN.

Good morning and welcome. In the next fifteen minutes or so, we will examine the need and opportunity for Low Income Banking in the United Arab Emirates.

UAE – a brief history and where it stands today

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The United Arab Emirates has attracted worldwide attention as one of the fastest growing economies today. The discovery of oil in the decades following the collapse of the Ottoman Empire and the use of oil proceeds to pursue policies that will develop and diversify the economy to benefit current and future generations, is at the heart of this growth. To achieve this diversification, the country has worked closely with international markets to develop its trade, investment and financial markets. The result has been a consistent year-on-year real GDP growth of more than 8% since 2004. US crude struck a record high price of \$100.09 on January 3rd, and oil prices are expected to continue their upward trend amidst fears of tightening supply. Why, one may ask, amidst an environment of increasing oil prices and economic boom, would an oil-rich country like the United Arab Emirates need or require low income banking? Herein lies the crux of the matter and the central theme of my talk today. Ladies and gentleman, while the need for low income banking is obvious in developing countries such as Bangladesh, India, Pakistan and other nations, it is equally necessary, if not obvious, in the oil-rich nations of the Middle East. We need a Grameen Bank not only in Bangladesh but in the UAE as well.

Expatriate population statistics for the UAE

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Expatriate population accounts for more than 80% of total population in the UAE. According to industry estimates, UAE's bankable population, defined as those who earn more than \$100 dollars per month and are above the age of 20, in 2006 stood at approximately 3.2 million people. Of this number, only 1.2 million people have bank accounts. It is estimated that an astounding 1.8 to 2 million people, earning less than AED 3,000 per month, i.e. the low income segment, remain without bank accounts. The current minimum account balances required by banks and the high maintenance charges make it impossible for the low income segment to open bank accounts.

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Why have these people been excluded from the right to have bank accounts? Any necessary work that pays an honest wage carries its own honor and dignity and every person has the right to manage and safeguard this hard earned money either by putting in a bank account, repatriating it back home or in any other way deemed fit. The choice must be available to all segments of society regardless of nationality or status.

Major economic sectors that employ low income workers

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The majority of the low income segment is concentrated in three main sectors in the UAE – construction, wholesale retail and manufacturing. These three sectors together employ 51% of UAE's labor force and 65% of its low income labor force. The labor force is expected to grow at 4.5% in the next five years. The importance of

these segments to the growth of the country cannot be underestimated as is evident from the huge number of large-scale projects and Dubai's recognition as the trading hub of the region. In 2006 UAE's construction industry reported an estimated annual growth rate of 8.01% and the country has the highest per capita expenditure on construction in the world.

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Abu Dhabi, Dubai and Sharjah are the centre of construction activity with over half of the large scale construction firms, those with over 500 employees, located in Dubai. These large construction companies employ approximately 43% of the construction workers. Dubai employs more than 67% of UAE's labor force in construction and 70% in wholesale retail. According to the Economic Intelligence Unit, the UAE's nominal GDP is expected to grow at a compounded annual growth rate of 5.7% until 2011 with 51% of this growth being attributed to the construction, wholesale retail and manufacturing sectors.

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Therefore it is shocking that the labor force employed by these sectors, which constitute the backbone of the economy, remain without a basic facility such as a bank account. The fact also remains that the expenditure patterns and demographics of the low income segment are fairly consistent making this segment easy to cater to.

The current situation regarding low income banking in the UAE today

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Even more shocking is the fact that this problem has not been addressed till date. Of the 49 local and foreign banks in the UAE, not one of them offers products and services to include the low income segment due to perceived low profitability and

high cost of account management. However these reasons are not sufficient to exclude such a large segment of population from basic banking services. One could argue that the low income segment could be seen as any other specialized segment of banking where product and service innovation would overcome the problems I just mentioned.

Noor Islamic Bank's initiative regarding low income banking

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The fact that we are here today must send a clear signal that the UAE and the GCC region are in as much need of low income banking as are other more obvious countries of South Asia. By offering banking services to the low income segment, we can preserve the dignity of every individual in this segment, irrespective of the size of his disposable income. However, I am not merely here to preach but to practice what I preach and am very proud to announce that Noor Islamic Bank is the first bank in the UAE to offer products and services to the low income segment. The birth of Noor Islamic Bank is concurrent with innovation, we want to push the boundaries of banking, redefine it and be unlimited in the scope of our offerings. We have entered into a joint venture agreement with Emirates Post to create the first world class postal bank in the GCC catering to the UAE's rural, urban, local and expatriate low income segments. The tremendous network of Emirates Post outlets in the country will enable us to extend our reach to every corner of the UAE.

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Noor Post Bank will not only offer the low income segment the opportunity to open a bank account but will go a step further and offer other asset products such as loans and insurance packages as well.

What we need to do going forward

In conclusion, let's not forget that these are real people with real needs and that low income banking is a critical step towards economic progress of the underprivileged. Ladies and gentlemen, thank you for your time today. I would like to end my session with a quote from Nelson Mandela *"Massive poverty and obscene inequality are such terrible scourges of our time - times in which the world boasts breathtaking advances in science, technology, industry and wealth accumulation- that they have to rank alongside slavery and apartheid as social evils."*