

An *IFC Reports* Interview with

**Mr. Michel Accad,
Chief Executive Officer,
Gulf Bank, Kuwait**

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For our special report on Kuwait



IFC REPORTS: Kuwait recovered from the economic crisis comparatively fast after a 4.6% GDP contraction in 2009 to having a 3.2% increase in GDP (Gross Domestic Product) for 2010 and an expected 4.7% increase in 2011. Many interviewees and analysts have attribute this recovery partly to the Financial Stability Law in 2009 which provided liquidity and investor confidence. Do you share this opinion?

MR. MICHEL ACCAD: To be honest, it may have been part of the reason. But more notably the oil prices increased and that is always good if you are an oil exporting country, as that automatically has an impact on your GDP growth. Having said that, I think that the Central Bank and the monetary authorities in general, have made the right decisions in terms of liquidity and restoring confidence in the system which if you remember was affected in late 2008.

IFC REPORTS: Given the vision of His Highness the Amir is to reposition the country as financial hub by 2035, if you had to compare Kuwait's current financial sector to the other countries in the GCC (Gulf Cooperation Council), what would be your assessment?

MR. MICHEL ACCAD: It is a difficult question because I am not sure that being a regional hub should be an aspiration for Kuwait. Firstly you have other countries that are well-positioned. We know that historically Bahrain was very well entrenched but now it has lost that position to Dubai. Qatar is also getting in on the game, so how many financial centers do you need? We definitely need to develop the capital markets further, and they have named a new authority (The Capital Markets Authority). This is excellent from a confidence point of view and it may help attract investment to Kuwait. I think that Kuwait should become a local player rather than a regional player.

IFC REPORTS: Given all the recent uprisings in the MENA region (Middle East & North Africa), what is your opinion on the stability of Kuwait and the need to promote this to foreign investors?

MR. MICHEL ACCAD: In general, what we are witnessing is quite historical for the region. The region may be going through what Eastern Europe and Russia went through several years ago, and this increase in transparency and governance is very welcome in general. Kuwait is one of the countries that have a tendency to be more insulated like Qatar and the UAE. They have the advantage of having relatively small populations and relatively high GDP so there is not the same level of mass discontent that is fuelling all of those revolutions. It is also more developed democratically compared to many other countries in the area. It has a parliament which acts as a safety net for discontent within an institutional framework. So I think Kuwait is best positioned because it is fairly insulated, although nobody is completely insulated.

IFC REPORTS: Touching upon some recent changes in Kuwait, most notably the unanimously approved development plan last year which aims for \$125 billion dollars worth of projects to be undertaken in 5 years. What is your opinion on the plan and do you think it will be effective in spurring private sector participation and the diversification of the economy?

MR. MICHEL ACCAD: In my view, it is a definite yes. Of course, it would perhaps be unrealistic to hope that the full amount would be disbursed, especially as fast as everyone would like it to, but even if you have a fraction of the investments take place, I think that it will make a big difference in Kuwait. Even if it's \$50 billion over 7 years, that is still a significant amount of money and that is enough to move the economy.

Some of the projects have already been awarded and some of the investments are taking place, with most of the opportunities being in the energy and construction sector. We have in fact invested in many of the projects, and, although our typical market share is in the range of 13%, with some of the new projects, we in fact have a market share in the range of 30%.

IFC REPORTS: Do you believe the CMA (Capital Markets Authority) will be effective in promoting foreign participation by increasing investor confidence?

MR. MICHEL ACCAD: I think so. Once again this is an attempt to bring a bit more governance, transparency and regulation. I think this is to the advantage of the minority interests in various companies that will be listed. This is extremely positive and it should attract more people into the Kuwaiti market. Of course, perhaps today because of the climate you may not be expecting investors to invest in Kuwait and other markets in the region right now given the various issues, but over time I think it is a splendid initiative and I think it is about time we had an independent authority here.

IFC REPORTS: Gulf Bank was established in 1960 and later commenced operations in 1961. It is currently the second largest conventional bank in Kuwait. On a comparative note, what are the main differentiating factors between this local bank and others?

MR. MICHEL ACCAD: Gulf Bank went through a challenging time in 2008 and it had to be recapitalized, but since then we have been focused on the local market on conventional, commercial and retail banking. We really want to be a dominant domestic player and we do not have regional or international aspirations at the moment, nor do we have aspirations to get involved in Islamic banking, brokerage, asset management or insurance. We are a very customer focused bank. A lot of the banks will tell you that they want to differentiate themselves through customer satisfaction, but this has been a historical differentiating factor in Gulf Bank. For instance, historically we have been viewed as understanding our customers' needs and helping our customers. I think we are working much more on that.

We really believe that this will continue to be a crucial differentiator between us and the competition. By the way, it is easier to have this as a differentiator when you are focused on a single country with a limited set of products. It is much more difficult if you do everything and you have a presence in many countries. We have over 50 branches in Kuwait and we want the service that customers receive in our branches and through phone banking and the internet to be consistently excellent.

IFC REPORTS: At the beginning of this year you said that Gulf Bank needs to continue to be aggressive because you really did not think that it was the end of the crisis in the

region. Since then you have reported net profits of 19 million in 2010 which is great compared to the losses incurred in 2009. Would you still agree with that comment?

MR. MICHEL ACCAD: First you have the political developments in the region in general that put additional pressure on recovery. I agree that people have to be quite aggressive when it comes to recognizing problems. It may well be that asset prices in the region have not yet stabilized. I believe that there could be more to come, therefore the banks and the financial institutions need to remain conservative, and this is our plan.

Nevertheless, because we have been very aggressive in our provisioning policy, while we continue to provision for either existing problems that occur from time to time or for potential issues that could come up in the future, we still expect the bottom line to increase significantly in 2011 compared to 2010. I made a statement 2 to 3 quarters ago that despite all the pressure, we expect every quarter to be better than the quarter before, and I still stand by this.

IFC REPORTS: From your perspective, what are the main opportunities for foreign companies looking to invest in Kuwait and what role can Gulf Bank play either as partners or clients?

MR. MICHEL ACCAD: A lot of the development work will be undertaken by foreign companies that have the expertise, like foreign construction companies. They will need local partners both on the technical front and on the financial front. We are developing our project finance and corporate finance team right now; we have hired world-class talent to lead this new unit in Gulf Bank. I think that we can contribute a lot in terms of advisory and corporate finance etc. I believe that there is a great deal of room for foreign companies to invest over here. Even though the Government may not require additional funding, you have an interim period. For instance, if you have a contractor coming in to do some work he knows that he will ultimately be paid by the Government and the Government does not need financing, but in the meantime he may need to import some raw materials and a bank has to help him with that trade finance business. It is like bridge finance, ultimately payment will be through government funds coming in but they will come in a bit later.

IFC REPORTS: How important would you consider the USA as a global leader in technology and know-how, and importantly companies based in New York for the development and future success of Kuwait?

MR. MICHEL ACCAD: I think that rather than looking at specific markets and companies we should look more at the areas where investment is required. Oil and gas require investment and a lot of companies in the US are experts in that. You also have construction for infrastructure development and there are American companies involved in that. I do not think that there is anything specific of interest for purely financial investors, but US companies definitely.

IFC REPORTS: CSR (Corporate Social Responsibility) plays a major role in business strategies across different sectors around the world. How is it deployed here through your strategy?

MR. MICHEL ACCAD: So far we have been very active, but not really in a focused way. Over time, I would like us to become much more focused. We are participating in a cancer society for children at the moment and we have helped to raise significant funds through a marathon that took place some time ago. We are also quite active in the health sector and education. Going forward, instead of investing in various projects in many sectors, I believe we need to focus on one big issue, be it green development, health or education for example. You can do a lot of small things here and there which will make a difference in the end, but not for everything. We are having internal discussions to decide on what area we would like to focus on.

We want to be a very active player in CSR, because we believe we have to give back to the community. We had a discussion about this just a couple of weeks back. We need to look at what the Kuwaiti community expects and where we can make more of a difference.

IFC REPORTS: On a personal level, what words of encouragement would you have for the young entrepreneurs of today and what role model of leadership would you classify as the keys to your success?

MR. MICHEL ACCAD: On a personal basis I do not know, but I will tell you what I value highly as a manager. A lot of people in this part of the world tend to be rather autocratic and they value centralized decision-making, but I do not think this approach promotes the people under you to take responsibility for things. One of the key values we have in Gulf Bank is empowerment. I think this is important as when you start to manage a relatively large organization you would be deluding yourself if you tried to micromanage or make every decision. So you need to surround yourself with people who are as competent or even more competent as you are and give them the opportunity to shine. When you give that to people, it is incredible what they can deliver. My 'success' is due to the people around me; they are the ones who have done all the work.

IFC REPORTS: Given we will be publishing the report on the week of the 19th June, the Kuwait's true independence, is there any final message you would like to convey to our American audience?

MR. MICHEL ACCAD: There is going to be a lot of investment through the Government's development plan in Kuwait and I think that there are opportunities. The amounts are substantial and it is challenging and quite interesting. I think they need to start looking at the opportunities here and the details of the development plan. As we said, maybe not everything will happen in the set timeframe, but a lot of things will happen. We and others in the financial sector can help.

IFC REPORTS: It has been an absolute pleasure, thank you very much for your time.