كلية الإدارة والاقتصاد
College of Business and Economics
QATAR UNIVERSITY جامعة قطر

مركز الريادة والتميز المؤسسي
Center for Entrepreneurship & Organizational Excellence

CASE HUB

Old habits die hard: The case of Gulf National Islamic Bank

Abdullah Seyam
Graduate Student, College of Business & Economics, Qatar University

Fawwaz Al Amiri
Graduate Student, College of Business & Economics, Qatar University

Rana Sobh
Dean and Professor, College of Business & Economics, Qatar University

Case No. 2023-003

February 2023

Old habits die hard:

The case of Gulf National Islamic Bank

It was the closing of 2012. Khalid Ahmed, the Chairman of the Gulf National Islamic Bank (GNIB), was profoundly concerned about his bank's declining profits since 2006, and the rising cost to income ratio. Prior to 2006, GNIB's operating indicators were consistently growing so Khalid did not understand what had gone wrong. The market analysis and forecast reports seemed to indicate support for growth but the bank's key profitability indicators depicted otherwise. The government of Qatar had supported the banking sector to safeguard its economic stability by assisting all banks to survive the 2008 crisis. However, even four years later, in 2012, GNIB was still unable to rebound to its previous performance. The board of directors and the management had come under growing criticism by shareholders due to the bank's falling profits. Khalid wondered if there were other reasons for the declining profits, and how was he supposed to face the shareholders in the next 2013 Annual General Assembly (AGA) meeting?

Gulf National Islamic Bank

Gulf National Islamic Bank (GNIB) was established in 1978 as the first Islamic Bank in Qatar. The bank grew steadily over the years with a consistent increase in its key performance indicators. GNIB's strategy, being implemented since its establishment, had allowed it to grow and become the largest Islamic bank and the second largest bank (by assets) in the country. However, since 2006 and the 2008's financial crisis, the bank's financial performance had consistently declined year by year (Exhibit 1). In 2012, GNIB's total market share decreased to 9% from 30% in 2006.

Exhibit 1. The company's financial performance (2008-2011)

Company Financials

QAR million unless otherwise mentioned

	2008	2009	2010	2011	YoY (%)	CAGR (%) (2008-11)
Interest Income	**2,399**	**2,092**	**1,965**	**2,407**	**22.5%**	**0.1%**
Operating Income	2,555	2,402	2,281	2,682	17.6%	1.6%
Total Assets	33,543	39,273	51,877	58,286	12.4%	20.2%
Shareholder's Equity	7,143	9,005	9,052	11,202	23.8%	16.2%
Total Debt	8,697	8,691	11,125	16,059	44.3%	22.7%
Cash & Cash Equivalents	1,023	1,338	1,875	1,833	-2.2%	21.4%
Net Operating Margin (%)	106.5%	114.8%	116.1%	111.4%	-	-
ROE (%)	**23.0%**	**14.7%**	**13.9%**	**12.2%**	**-**	**-**
ROA (%)	4.9%	3.4%	2.4%	2.3%	-	-
EPS (QAR)	8.5	6.1	5.9	5.9	0.0%	-11.5%
Book Value Per Share (QAR)	36.3	43.6	41.8	47.4	13.4%	9.3%
Dividend Per Share (QAR)	7.0	6.0	5.0	4.5	-10.0%	-13.7%

Source: Company filing, Qatar Exchange

Qatar's Banking Sector

Qatar's banking sector has been consistently growing in parallel to the country's economic growth. The Qatar's banking sector consists of 19 banks: 5 local exclusively Islamic banks; 6 local conventional banks; 7 foreign banks; and 1 development bank. In 2008, all banks suffered negative effects and recorded losses of assets and revenues. The government supported the sector throughout the crisis by taking a number of measures to protect economic stability. One month after the crisis, the government announced it would buy a 20% stake in all domestic banks listed in Qatar Exchange market. Six months later, the government announced that it would purchase $2.8 billion worth of real-estate and other financing exposures from local banks. Mr. Khalid believed that these measures had helped the bank survive the 2008 crisis and recover from the negative implications. The governmental interventions allowed banks in Qatar to outperform other banks in the GCC region and they had a significantly lower percentage of non-performing assets and gross loans. Despite the government's support and positive economic and demographic factors, GNIB missed growth opportunities since 2006. It seemed that the 2008 crisis may not necessarily have been the main reason for the declining profits and Khalid felt intense pressure to consider recovery strategies. Was there a new market that GNIB could explore or expand into?

Market Analysis

In 2010, Islamic banking assets in the Middle East and North Africa (MENA) region increased to US$416 billion, representing a five-year Compound Annual Growth Rate of 20% compared to less than 9% for conventional banks. The Islamic banking industry was expected to more than double to US$990 billion by 2015 in the MENA region (EY, 2011). In Qatar, the growth had been supported with increasing population, as it grew dramatically between 2004 and 2010, from 700 thousand to 1.7 million people. The number of economically active population doubled three times from 400 thousand people to 1.2 million in seven years in the period from 2004 to 2011 along with the growth of disposable income. The competition was less noticeable during the years of the population growth (2004-2010). While, conventional banks had to face established competitors, the Islamic banks, on the other hand, were dominating the market and saw little need to change.

Exhibit 2: Qatar's population growth

2002-2012		
Year	Pop.	±% p.a.
2002	676,498	—
2003	713,859	+5.52%
2004	744,029	+4.23%
2005	906,123	+21.79%
2006	1,042,947	+15.10%
2007	1,218,250	+16.81%
2008	1,448,479	+18.90%
2009	1,638,626	+13.13%
2010	1,699,435	+3.71%
2011	1,732,717	+1.96%
2012	1,832,903	+5.78%

Source: Qatar Statistics Authority[2]

1950-2010		
Year	Pop.	±% p.a.
1950	25,000	—
1960	47,000	+6.52%
1970	108,000	+8.68%
1980	222,000	+7.47%
1990	474,000	+7.88%
2000	591,000	+2.23%
2010	1,759,000	+11.52%

Source: United Nations[3]

Census Results		
Year	Pop.	±% p.a.
1986	369,079	—
1997	522,023	+3.20%
2004	744,029	+5.19%
2010	1,699,435	+14.76%

Source: Qatar Statistics Authority

GNIB's service offerings

Islamic Economy offers many finance, deposit, and investment options, both to retail and corporate customers. However, GNIB offers only the common options. The bank did not change its product offerings since 1996, when they migrated into the new core banking system that allowed to offer new products. Due to the limited number of available products, the bank had to price their services and products significantly higher than the average market prices. When conducting pricing surveys, GNIB had only considered Islamic banks and Islamic finance houses as their competition and did not take into consideration conventional banks. However, more alternatives were being offered in the market at considerably lower prices, supported by comprehensive aftersales services.

The Competition

Since 1978, GNIB was dominating the Islamic banking market share as it was the only Islamic bank in the market. However, in 1991, Khalifa International Islamic Bank (KIIB), the second Islamic bank, was established. The market share of GNIB remained consistent due to a high demand for Sharia compliant products. Even with little promotional effort, economic and demographic growth had positively contributed to the performance of both banks. However, in 2005, the government announced a new Islamic bank in Qatar, Masraf Al Khaleej, with a proposed capital of US$ 2.1 billion. The GNIB's board and management did not see it as a threat, despite its capital investment being three times the amount of that of GNIB. In the same year, a group of private investors established Quick Finance, a finance house also operating per Sharia Law, offering the most common financing products with flexible lending procedures. In 2006, Masraf Al Khaleej bank commenced operations and promoted a modern and innovative banking experience. By 2011, the total number of banks and finance houses (both Islamic and conventional) grew to 24.

The competitive environment had resulted in conventional banks' ongoing improvements to service and delivery options. In response to fierce competition, new and innovative services and distribution channels were introduced to enhance the banking experience. The domestic banks had started to adopt the examples of large global banks in the service and delivery domain. However, such services as Automated Teller Machines (ATMs), Internet Banking, Mobile Banking, call centers, and branches required high investments. Masraf Al Khaleej set new Islamic banking standards in the market by investing heavily in remote service and delivery channels such as internet banking, mobile banking and a 24/7 call center. They introduced ATMs that enabled customers to conduct most of their banking transactions. In addition, the mobile and internet banking also offered many features that appealed to sophisticated customers.

While at GNIB, the board and the management were more concerned with the costs, as until 2006, all capital expenditure proposals were highly scrutinized. Investments and capital budgeting on service and delivery channels were thought to have high opportunity costs, since the bank's customer base was growing, and they did not see the need to offer modern services. The board believed that the bank's customers were attracted to GNIB for being the largest Islamic bank.

With increased number of customers, potential customers, and changes in the market, banks needed to invest in their IT systems to comply with new regulations. Subsequently, GNIB had to abide. GNIB invested heavily in IT infrastructure, hardware, and information security. However, most of these enhancements were mandated by the regulatory authorities. The bank also invested heavily in frequent improvements on internal systems and applications, as these were mostly bought from external vendors. In 2010, due to the rising maintenance costs of the various current systems, the board decided to consolidate all systems into one universal core banking system. However, by 2012 this strategic decision had not yet moved into implementation.

When Masraf Al Khaleej was established, its board and management focused on creating a brand associated with innovation and cutting-edge technology. After four years of operations, not only did they succeed in achieving this goal, despite being a recent brand, but their strategy has unintentionally influenced the GNIB's brand being viewed as old and rigid. For Masraf Al Khaleej bank, it took only 4 years to achieve what GNIB has achieved in 30 years. As the competition had exponentially intensified, Khalid's concern grew, and he struggled to find what GNIB could do differently and compete with its rivals.

Annual General Assembly of 2013

The AGA of 2013 was to be held as scheduled to discuss GNIB's performance during 2012. However, in this meeting, the shareholders would not only ask the board to give reasons for the previous year's poor performance. The shareholders would also expect to see the future strategy based on the current and future market conditions. Khalid and the management team had to not only address the bank's declining profits but to come up with new proposals for improvements in face of the growing competition.