

# Confidence in Kuwait

## INTERVIEW WITH SIMON VAUGHAN JOHNSON

CHIEF EXECUTIVE OFFICER, HSBC KUWAIT



**SIMON VAUGHAN JOHNSON**

is a graduate of the University of Stirling and joined HSBC in 1986. He obtained extensive international experience working in Hong Kong, the Middle East, South America and Europe in diverse business areas including commercial banking, global banking, private banking, trade services, payments, cash management and e-commerce. Prior to his current appointment he was HSBC's Regional Head of Commercial Banking for the Middle East and North Africa region and was responsible for driving business growth in 13 countries across all commercial banking segments in the region.

**K**uwait has succeeded in building a wealthy, innovative and relatively open economy with reported crude oil reserves of about 102 billion barrels, equating to around 9 per cent of world reserves. Kuwait enjoys a strong history of trade and financial investment, with a long term goal of encouraging a flourishing private sector. There is much to be proud of as Kuwait marks its 50th anniversary of independence and 20 years since the end of Iraq's invasion.

HSBC Bank Middle East Limited, Kuwait Branch, reopened when new foreign bank licenses were granted in 2005. HSBC sees significant potential for facilitating growth in the corporate and investment banking and markets businesses. HSBC Kuwait currently offers a full range of Corporate Banking products and services from its branch in Kuwait City which are aimed at meeting the domestic and international needs of its local, regional and global customers. The bank's CEO, Simon Vaughan Johnson, spoke to FIRST on the occasion of the 50th anniversary of Kuwait's independence.

### **How serious an impact has the global financial crisis had on the Kuwaiti financial system?**

Following the economic crisis, Kuwait's financial system faced a challenging period between 2009-10, which resulted in a fall in asset values and increased loan defaults. The investment companies sector was particularly affected and this in turn impacted banks with exposures to the sector. This was not a phenomenon unique to Kuwait, but the conditions were very challenging nonetheless and HSBC has played a proactive role on a number of restructuring mandates.

Having said that, banks in Kuwait remained well capitalised throughout the global crisis and there were none of the collapses that other emerging and developed markets experienced. Balance sheets are in much better shape now, customers have de-leveraged and loan to deposit ratios are at more comfortable levels.

Looking forward, HSBC forecasts healthy GDP growth of 4.3 per cent for the Kuwait economy in 2011 on the back of increased government spending and higher net export volumes.

### **What do you regard as the main drivers behind Kuwait's economic recovery?**

Higher oil output and prices will combine to boost growth in the real economy, as well as improving

liquidity and boosting deposits in the banking sector. This in turn should allow increased lending to the private sector, if appetite among lenders increases. It will also improve government finances, which will stimulate the economy in two ways. Firstly, additional spending measures announced by the government in Q111 will stimulate private consumption. Secondly, the government will be able to plough ahead with its ambitious four-year development plan, which includes US\$20 billion worth of infrastructure spending in the fiscal year 2011/12.

### **How would you compare Kuwait's banking sector to that of its fellow GCC members? What are its main strengths and weaknesses?**

The economies of the Gulf Cooperation Council (GCC) share a number of commonalities, the majority of them are large oil exporters with fixed exchange rates. The Kuwaiti banking system is one of the strongest in the MENA region, benefiting from a robust financial profile and a strong support mechanism delivered by the Central Bank of Kuwait. The banking system is facing increased competition, diversification, and demands on product innovation. These influences are encouraging banks to increase the quality of customer service and enhance product offerings. Clearly, this is a healthy situation and such an environment is essential for the sector to evolve further and remain competitive within the region and beyond.

### **What changes would you like to see to Kuwait's banking sector, realistically speaking?**

HSBC Bank Middle East Ltd is both the largest international bank in Kuwait and the region, and is present in 13 countries spanning from Algeria to Pakistan. We were the first (and only) bank in Kuwait when we established a presence in 1942.

Firstly, I would like to see the Kuwait banking sector and those customers served by the banking industry continue to strive for transparency. Secondly, at HSBC, we are fortunate to be employing a number of very talented Kuwaitis. It is most important, in my view, that the sector receives strong support to attract local talent from the market. We enjoy a very open and constructive dialogue with the Central Bank of Kuwait and I see the Regulator as one of my most important relationships. It is clear that the Central Bank of

Kuwait adopted a proactive approach during the crisis in order to protect the local economy, by implementing measures such as easing credit availability to encourage banks to lend more, and introducing local currency deposit guarantees.

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**How does Kuwait fit into the trade-focused strategy adopted by HSBC elsewhere in the region?**

Kuwaitis are very proud of their international trade heritage, just as I am proud of HSBC's. HSBC has a presence in all of Kuwait's top export destinations, which are currently Japan, the Republic of Korea, India, Taipei and the USA; as well as in its top import supply markets: The USA; China; Germany; Japan and the UAE. This enables HSBC to facilitate trade on the ground for Kuwaiti businesses with suppliers and buyers in these countries. We have a proven track record of delivering excellent trade services and solutions, providing connectivity to customers in 87 countries and territories.

The original reason for opening a branch in Kuwait in February 1942 was to finance trade in the Northern Gulf. This vision came from my namesake Frank Johnson. Some 70 years later, I share the same sense of exciting opportunity that he saw, as I survey a market with highly attractive demographic and economic dynamics. Kuwait is a key strategic market for HSBC in the region and Trade Services remain a strategic priority for HSBC in Kuwait and around the world.

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**Kuwait is arguably over-banked. Do you feel there are constraints on growth in the market?**

I would rather say that the market is adequately banked.

Furthermore, I believe that Kuwait is on a firm track following the enactment of the Privatisation and PPP Laws and more recently the 2010/2014 Development Plan. We wish to support these initiatives and to provide banking services which actively support their successful outcome.

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**What is your assessment of confidence levels within the Kuwaiti banking sector?**

Overall, I am very optimistic about confidence levels in Kuwait, both from my experience of speaking to Kuwaiti and regional customers when I was

Regional Head of Commercial Banking, MENA, as well as from recent experience as CEO here in Kuwait. Businessmen around the region are energised by the planned US\$108 billion capital development plan, and see strong fundamentals underpinning the Government's strategic development approach.

One of the ways in which we measure business confidence in the GCC is through the HSBC Business Confidence Index, which we have been running since 2007. The results show that after the impact of the financial crisis, which hit the Gulf in late 2008 and early 2009, confidence has returned to Kuwaiti businesses, and since September 2009, results have remained above 80 index points, on an index of 100.

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**What are your objectives for the bank's business in Kuwait in the medium term?**

I want to grow the business, and put Kuwait firmly back on the HSBC map. I shall be strongly focused on achieving sustainable revenue growth, as I believe that this is one of the most important legacies that a CEO must deliver.

The main services are aimed at the Corporate Banking sector, with a particular focus on providing trade, investment banking and payments and cash management services to this segment in support of the Government's development plan.

HSBC regards Kuwait as a key strategic market in the MENA region, and I will be striving to make HSBC the best place to bank, and to the best place to work in Kuwait. Strategically, we will focus on realising opportunities arising from the recycling of capital and wealth, bringing the world of international financial services to our Kuwait customer base to help them to successfully achieve their growth ambitions. E

**HSBC Bank Middle East Ltd is both the largest international bank in Kuwait and the region**



Kuwait City skyline at night – a strategic market for HSBC