

## **SAMBA- The New –Age Bank of Saudi Arabia (A case study of Samba’s Strategic Move)**

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### **Abstract**

Today Samba is well known brand of banking sector of Saudi Arabia. Samba Financial group is growing and emerging entity in the Saudi Arabia. Samba Bank comes out with number of innovations in its products and services along with following all the marketing trends like CRM and other marketing efforts for the customer satisfactions, at the same time simultaneously maintaining its bottom line. The present case is an attempt to indicate the major strategies of Samba bank and how it is moving strategically in the new age of Globalizations. The first part of the paper will cover the profile of bank and its achievements, the second part will highlight the strategies mainly focused on Takeover, mergers& acquisition and expansions, along with its services and product innovations and also covering quality of services, diversity and leadership in banking industry of Saudi Arabia. An attempt has been made to analyze the overall corporate strategy of samba bank in the new age of Banking.

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### **SAMBA**

The word samba is very familiar in the banking Industry of Saudi Arabia .The genesis of samba bank are not very old. Samba Financial group was come into existence or formed according to Royal decree dated 12 February 1980.

### **Objective of the case study**

The main objective of the case study is to focus on the overall strategies of Samba Bank.

The present case is an attempt to highlight the financial strategies covering Takeover, mergers & acquisition, dividend, corporate governance ,on the other hand marketing stratigies are comprises of product strategies ,CRM and Social responsibility.

### **Takeover Strategies**

The group taker over the existence branches of Citibank in Jeddah and Riyadh which were opened in 1955 and 1966 respectively and in this way the group came into existence Known as Samba Financial Group. This was the first strategic move to take over the citi bank branches in

Jeddah and Riyadh by acquiring 44.5% of stake of equity sold to Saudi Public and additional 15.5% of the stake was sold to a selected group of Saudi founders including members of the Board of Directors. In this way Samba has acquired 60% stake of equity in the first round. According to Technical Management agreement citi bank accepted the responsibility to manage the new banks by providing technical support.

At the end of the year 1991 the hold of citi bank decreased by 10% and it retains only 30 % ownership of the Samba capital. The 10 percent stake was sold to two Saudi national agencies for social welfare. On May 26, 2004 citi bank sold its remaining 20% stake of equity to Saudi agencies and then after it came into full felled as SAMBA Bank of Saudi Arabia.

### **Mergers, Acquisition and Expansions**

The one of the objective of the business is maximizing the wealth and in this regards Samba bank marched forward for series of mergers and acquisitions. In the year 1999 United Saudi Bank (USB) merged with Samba by opting to swap ratio was almost 1:3.2.

In the year 2007, It acquired major stake of crescent commercial bank in Pakistan, later on named as Samba Bank limited. In the year 2008 Samba financial group started Samba Dubai branch. During the same year Samba also manage License from Indian Competent authorities to operate as Foreign Institution Investor (FII) in India.

In the year 2010, Samba launched first bank in Doha, capital city of Qatar. Not only in gulf and Asia, samba has its presence in west also. Samba started as a representative office in 1984 in UK, later on upgraded to full licensed bank in 1987. Samba U .K branch is located in porch area of central London. Presently Samba bank focused on corporate and Investment banking, private wealth management, trade finance and Treasury.

### **Services and Product Strategies**

Samba has broadly classified its banking into two broad groups' i.e. personal banking and Business banking i.e. two major sections. In case of personal banking it provides various services and products to individuals mainly comprises of private banking, account opening, credit cards, Islamic products, speed cash, Samba Diamond and Ladies Banking.

### **Product Innovations**

Samba providing wide range of banking products to individuals along with its routine products above, some of the innovation discussed as follows-

**(A) Samba Diamond:** It provides a new dimension of personal banking services and especially tailored made for the customers conducted in total comforts and privacy. It provides Samba Diamond center exclusively for Male and Female respectively.

**(B)Samba Gold:** Membership into samba gold gains customer to access samba gold centers. In the present set up the special feature is that a certified Samba gold officer shall take care of customer banking needs. I give the opportunity for international investments.

**(c) Ladies banking:** Samba offers wide range of services for ladies designed to give all flexibility and convenience.

**(d) AL Khair Personal Finance:** Al Khair personal finance is mainly to provide financial assistance to an individual for its basic needs for example buying a car ,home ,house renovation, children education, wedding expenses, Holiday and Travelling or additional cash for any other needs.

**(E) Bayat Al Khair Finance:** It is a home finance solution for the individuals. Bayat Al Khair is a shariah compliant solution to purchase Villas, ready apartments, building and land or self constructed house.

**(F)Islamic Products:** Samba provides its customers with wide range of products in accordance with the Islamic Shariah principles. For this purpose it has established the Islamic Banking Division “IBD”in August of 1996.For this reasons all the division accounts are separated from other Samba services, and are governed by the principles of the Islamic Shariah.

On the other hand in case of Business banking, it rendered services and its products to corporate sector clients. It mainly comprises of three areas corporate, Commercial and Corporate Investment services. In corporate banking Samba is a main provider of financial products and services to Saudi and International organizations. It provides cash Management, online services, Trade services, treasury and Islamic banking. In the area of commercial services they provide account opening and payments, trade services, financing and credit. Last but not least in investment banking, it comprises of Samba capital investment banking which offers broad range of services of two interrelated business segments- Capital raising (Equity and debt)and advisory(Mergers and Acquisitions).

### **Financial soundness**

The main foundation of any banking is based on the financial soundness of individual banks. Samba financial group is well known for its financial soundness in the banking industry of Kingdom. It is listed in the Saudi stock exchange. Samba following various financial strategies to keep them financially sound. The first and most important strategy is maintaining strong corporate governance.

### **Corporate Governance**

The Financial statements (consolidated) are prepared in accordance with GAAP and accounting standards for financial institutions as framed by Saudi Arabian Monetary agency (SAMA) and the IFRS. The consolidated Financial Statements are also according to Banking Control law and the regulations for companies in the Saudi Arabia. The financial statements’ audited by world known professional firms like Ernst & Young and Price water cooper (PWC). Samba is following all measures and policies for their corporate governance this was proved by the survey conducted by “Global Finance”, 2013(International publication specialized in banking and financial banking) highlighted the performance of samba bank and considered as safest bank of Saudi Arabia indicating the various criteria such as growth in assets, profit abilities ratio and overall solvency of bank. Samba has series of achievements for its financial soundness such as

for its corporate governance, risk management & compliance. For financial soundness following strategies were followed by Samba bank- -

### Capital adequacy

For any bank capital adequacy is the major measure for its financial soundness-The management of Samba periodically reviews the capital base and level of risk weighted assets to ensure capital is adequate. According to financial report, 2012 of samba bank “it has issued guidance regarding the implementation of Basel II disclosure which is effective from January 1, 2008. Accordingly calculated under the Basel II framework, the group risk weighted assets (RWA), total capital and related ratios on a consolidated group basis and a standalone basis for its significant banking subsidiary calculated for the credit market and operational risk”.

Table No-1.1 highlight the capital adequacy ratio of samba bank for the tree consecutive year from the year 2010 to 2012. The figures of year 2013 will be available at the end of the current year.

**Table No-1.1: Capital Adequacy Ratio of Samba Bank**

<b>Samba Financial Group consolidated</b>	<b>2012 (SR 000)</b>	<b>2011 (SR 000)</b>	<b>2010 (SR 000)</b>
Credit Risk RWA	142,000,392	132,691,373	120,579,963
Operational Risk RWA	11,733,132	11,925,831	12,373,375
Market Risk RWA	12,936,644	11,433,133	10,533,560
<b>Total RWA</b>	<b>166,670,168</b>	<b>156,050,317</b>	<b>143,486,898</b>
Tier I capital	31,714,417	28,231,034	25,575,235
Tier II capital	1,696,695	1,658,642	1,507,250
<b>Total of Tier I &amp;II capital</b>	<b>33,411,112</b>	<b>29,889,676</b>	<b>27,082,485</b>
<b>Capital Adequacy Ratio</b>			
Tier I Ratio	<b>19.0%</b>	<b>18.1%</b>	<b>17.8%</b>
Tier I + II Ratio	<b>20.0%</b>	<b>19.2%</b>	<b>18.9%</b>

(Sources-www.samba.com)

From the above table no. 1.1, it is indicated that Samba bank has positive CAR, which sounds the financial strength of bank. It is indicated from above that from the year 2010 to year 2013, the ratio increased from 17.8% to 19 % for Tier capital and on the other hand for tier I plus II capital it is increased from 18.9 % to 20 %, so it is concluded that in both the cases, it has upward trend from year 2010 to year 2012.

### Credit Risk

According to financial report (2012) of Samba bank, it states that Credit risk is the risk that a customer will fail to discharge its financial obligation to the Group and will cause the Group to incur a financial loss. The Group seeks to manage its credit risk exposure by ensuring that its customers meet the minimum credit standards defined by the Group's management and through diversification of lending activities to ensure that there is no undue concentration of risks with individuals, or within groups of customers in specific locations or businesses. The Group continually assesses and monitors credit exposures to ensure timely identification of potential problem credits. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances, and by limiting the duration of exposure. In certain cases the Group may also close out transactions and settle on a net present value basis.

### Dividends

There are various types of dividends policies such as regular dividends, irregular dividends, constant payouts, or stable plus extra dividends, even sometimes organizations no dividends declaration, generally, it happens in the adverse conditions. But in case of Samba bank, the dividend policies sound good which is payable after deducting the applicable zakat and income taxes. It can be observed from the following table no.1.2 for last three years dividends.

**Table No.1.2: Dividend paid by Samba Bank**

Year	Final Dividend	Dividend per share	Final Dividend per share	Interim Dividend per share
2012	SR943 Million	SR 1.65	SR .85	SR .80
2011	SR831 Million	SR 1.65	SR .85	SR .80
2010	SR 732Million	SR 1.65	SR .75	SR .90

(Sources-www.samba.com)

From the above table no1.2, it depicts that Samba bank has constant dividends payouts from the year 2010 to 2012 at SR1.65 per share, which indicated the financial soundness of organization.

### Reserves and Surpluses

For the future contingencies, Samba has keeping aside a fixed part of its profits as statutory and general reserves, as it is indicated from its financial reports (2012) that bank apportioned a fixed percentage of profits in accordance with the Banking Control Law of the Kingdom of Saudi Arabia and the Articles of Association of the Bank, a minimum of 25% of the net income for the year is required to be transferred to a statutory reserve until this reserve equals the paid up capital of the Bank. Since the statutory reserve now equals the paid up capital, no amount has been transferred from 2012 net income (2011: SAR Nil) to the statutory reserve. The statutory reserve is not currently available for distribution.

From the above it indicated that Samba has strong financial position in the banking industry of Saudi Arabia.

### **CRM is the locus of marketing of Samba**

Samba vision is to be renowned and premier bank in Saudi Arabia, leading in all products and relationship management. Samba followed CRM in both areas that is Personnel and Business banking. Samba has independent department for Customer care.

### **Corporate Social Responsibility**

Samba is not decapitate in its gesture towards the corporate social responsibilities, this can be significantly visible by the following actions.

#### **(a) Strategic alliance agreement with Microsoft**

According to the reports of samba bank it is stated that they are marching forward to improve the community knowledge. According to Mr. Eisa Al Eisa, Managing Director and CEO of Samba Financial Group said that Samba Financial Group has announced a strategic alliance with Microsoft Arabia to undertake technical training under the umbrella of Samba's social responsibility programs for the development of Saudi Youth. He mentioned that "this agreement is part of Samba's extensive efforts to provide every possible support to boost the quality of its training programs, aimed at educating and developing Saudi youth".

#### **(b) ATMs for Visually Impaired Customers**

According to news published by samba bank stated by Mr. Eisa Al Eisa, Managing Director and CEO that "we have developed a unique system with Voice guidance facility to provide ATM services for the Visually Impaired People. The first ATM was installed on September 7, 2000 at General Secretariat of Special Education, located in the vicinity of Diplomatic Quarter in Riyadh. This installation is in fact a step forward from Samba towards providing community service for blind and illiterate people. In addition to the Voice Guidance, the ATM key Board, Screen Buttons & other outlets have been equipped with "Braille" messages / instructions to ease the ATM usage by blind people".

### **Conclusion**

From the above, it is concluded that Samba bank moving towards globalised banking by adopting all major strategies to become more customer friendly, technology savvy and financially sound bank in the Kingdom of Saudi Arabia.

### **Required**

- (1) How you will rate the Merger& acquisition, Takeover and expansion strategy of Samba bank.
- (2) What will be your comments and suggestion for Innovative product strategies of Samba bank?

- (3) Comment on Financial soundness of Samba bank.
- (4) Is Samba bank putting sufficient efforts for CSR?

**Key Words:** Mergers and Acquisitions, Takeovers and expansion, Innovative products, CRM (Customer relationship Management), CSR (Corporate social responsibilities), Strategic Alliance Basel Norms II and III, Corporate Governance

### References

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