HAVE UAE BANKS ATTAINED SALVATION FROM FINANCIAL CRISES AND BEEN READY FOR EXPO 2020?

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Abstract

The United Arab Emirates takes the lead in the MENA region, moving up to 12th position in global economy, according to the global competiveness report 2014 - 2015. At the same time, the country has successfully won the bid for Expo 2020 and its strong driver toward reformation has anchored many initiatives to enhance competitiveness. With a theme of "Connecting Minds, Creating the future, the Expo 2020 will be focusing on three sub themes of Opportunity, Mobility and Sustainability." The trio is based on sound investment policy which in turn is determined by the existing condition and future projection of financial institutions, especially banks. Since the advent of the coupling effect of recession in UAE, the banking industry was on rampant deleveraging and continuous butting with balance sheet repairs, has finally surmounted the bad phase. The banks are now blushed with cash due to the channelization of capital inflows into UAE due to low interest rate and easy banking policy in the country. Experts and analyst believe that Dubai Expo 2020 will take the UAE banking industry to a next generation banking service and facilities. There is a growing funding requirement in the country and banking and financial institutions are going to play a quintessential role in facilitating and boosting up the economy.

Amidst all such high expectation the truth seems to be sidelined that last decades has witnessed many global financial crises and UAE was affected by the last one (2007-2009 with recession-year 2008). The global financial crises and its coupling effect in various countries has soured the balance sheet and paralyzed the financial health of many industries across the globe. A continuous bleed in the balance sheet and soured income statement will take years to bring back the banking industry on track. In order to examine the health of the banks, the research aims to propose a diagnostic tool "Dual-Logit Financial Aptitude Assessor" to assess the risk of financial distress by forecasting its probability of occurrence. The proposed model will help in providing an early warning system to the banks so as to take preventing measure and equip themselves before the things go worst.

The research is using dual Logistic Regression Analysis (Multinomial and Binary); in order to diagnose the financial aptitude in banking industry, and then dissect and focus on Dubai Financial Institutions (FI). Due to lack of information and absence of failure records, the following criterion was set, based on the FI is considered a corporate: "The financial institution is considered healthy if and only if the whole moderating variables (unhealthy symptoms) are positive (net operating cash flow, net operating working capital+ total loans and EBITDA)", according this criterion, the data is divided into 8 classes, one healthy and 7 classes for unhealthy cases, as shown in the table. The independent variables are only accounting information based on CAMEL+C Model (Capital Adequacy, Assets Quality, Management Efficiency, Earning Ability and Liquidity plus Cash Flow Stability).

Table I: MVs and target DV Relation

Classes	*Symptom 1*	*Symptom 2*	*Symptom 3*	*Target DV*
Class 8	*Positive*	*Positive*	*Positive*	*Healthy*
Class 7	*Positive*	*Positive*	*Negative*	
Class ...	*Positive*	*Negative*	*Positive*	
Class ...	*Negative*	*Positive*	*Negative*	
Class 2	*Negative*	*Negative*	*Positive*	
Class 1	*Negative*	*Negative*	*Negative*	*Distressed*

The paper represents a proactive study that revolves Financial Institutions financial aptitude diagnosing and assessing the risk of financial distress via forecasting its probability of occurrence. The sample has been drawn from the available financial statements (Financial Ratio-Based Model) that represents 25 national Financial Institutions, as listed in UAE-SCA (Securities and Commodities Authority) and the Central Bank of UAE. The observations are annually based, covering span of ten-year (2005-2014) which includes pre and post period of recession.

The recession year 2008 records the lowest health percentage (14% overall and 0% in Dubai). The significant financial ratios (the driver ratios) are: Debt Ratio, Total Loans to Total Net Assets ratio and Net Cash Flow to Gross Income, theses drivers build the model with high accuracy rates (overall accuracy rate (classification and prediction) is 81.17% with Type II error - which reflects the highest cost – 9.01%) and the model is statistically significant and reliable one.

Table II: The Financial Aptitude Status in Duabi's FI

	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*Total*
Total	*5*	*5*	*7*	*7*	*8*	*9*	*9*	*9*	*10*	*9*	*78*
Healthy	*1*	*1*	*3*	*0*	*3*	*4*	*2*	*5*	*5*	*6*	*30*
Unhealthy	*4*	*4*	*4*	*7*	*5*	*5*	*7*	*4*	*5*	*3*	*48*
H%	*20%*	*20%*	*43%*	*0%*	*38%*	*44%*	*22%*	*56%*	*50%*	*67%*	*38.46%*

The results find that UAE banking industry has attained salvation from the last financial crisis, especially last three years 2012, 2013 and 2014, furthermore the research represents significant, reliable and robust model. For future research, re-considering the unhealthy symptoms criteria to reflect more reliability, reality, robustness and obeying the practical experience in FIs financial health assessment.

Key Words
Financial Aptitude Diagnosis, Multinomial Logistic Regression Analysis, Financial Crisis Salvation, UAE Banking Sector

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