REGIONAL REVIEW

Retail Banking in the Middle East

Digital Transformation

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Retail Banking in the Middle East: Digital Transformation is one of a series of Regional Review publications from Efma, examining a selection of the most prominent developments in the retail banking industry in specific geographies. With comment and insight from a wide variety of regional retail banking experts, this review serves as a forum for industry leaders to exchange ideas, share their strategies, discuss the common challenges they face and shed some light on the ways in which they are driving innovation both within their own organisations and across the wider region.

This review brings together some of the best examples of digital transformation taking place across the Middle East region through a mix of interviews, case studies, innovation highlights and report abstracts covering topics from mobile banking and branch technology to SME services and fintechs.

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Foreword

Banks in the Middle East are making significant progress on their journey to digital transformation. An extremely dynamic marketplace brings a complex array of challenges for financial services providers, including navigating a fast-moving payments landscape, capitalising on the high levels of smartphone penetration and social media use in the region, and finding the right strategy to turn the threats posed by fintechs into opportunities.

In this Regional Review we consider how banks in the Middle East are addressing the challenges presented in the financial services sector today, and find out how they are embracing new technology and a spirit of innovation to deliver products and services that optimise their business operations and fulfil their customers' differing needs.

This publication includes interviews with twenty of the Middle East banking industry's most pioneering leaders, providing fascinating insight into the factors that are driving decision making in the region, and the initiatives underway that will transform the sector over the coming years.

We also find out more about some of the most interesting new projects in the region, with case studies on best practice in areas such as mobile payments, interactive teller machines and banking by social media. And we profile some of the most exciting innovations to come from the Middle East, like virtual reality banking and chatbot services.

Thank you to the Efma members who have dedicated time to contribute to our first Regional Review for the Middle East region. Their experience and insight is of great value for the whole industry's digital transformation.

We hope you find this Regional Review an informative and valuable resource.

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The Middle East banking sector can leapfrog its way to digital success

Edwin Van der Ouderaa, Amr El Saadani and Oliver Reppel of Accenture explain how banks in the Middle East can transform their operations and move towards a position of digital leadership

At the recent World Economic Forum in Davos, Switzerland, the continuation of the Fourth Industrial Revolution was one of the most-discussed topics by CEOs and heads of state who see the tremendous potential for digital technologies to add real value to industry and society. While there is much excitement about the opportunity, there is also a realisation that all organisations are facing digital disruption and many are experiencing what we call a 'digital culture shock'. Many are overwhelmed by the pace and scale of digital disruption, and are unsure how to move ahead.

In addition to digital disruption, the current economic climate continues to be a challenge across the globe, with factors such as the low cost of oil and political uncertainty proving more of a challenge than ever, especially in the financial sector where banks are under considerable and sustained pressure. Where growth was once deemed easy, banks now need to modernise, control costs and actively seek engagement with existing and potential customers.

The key drivers of digital change and innovation are the evolving technological capabilities available in the market, the pressured macro- and microeconomic situation, customers, who are demanding change, and security, which is playing a key role in how banks need to act in the digital age.

'Be digital' and 'go digital' are phrases that we are hearing increasingly in relation to the banking sector. These terms go hand-in-hand, with 'be digital' referring to the need to remain in the market and on top of current technology, and 'go digital' referring to the process of how new and innovative technologies are integrated and implemented.

Banks have a need to 'be digital', by transforming on the inside through adapting or changing their core systems so they can do the real-time transactions based on the technology and infrastructure at hand. Banks need to 'go digital', which means having digital as the main driver when interacting with their retail and business customers. This is not solely about having a smartphone interface as the main service vehicle, but also includes chat and video. It is about cognitive 'liquid services' such as chat-bots, a Siri type of dialogue, using smart cognitive engines that give advice on house financing, insurance, financial good health, to name but a few, all the while working in harmonious collaboration with human advisors.

The key tenant of digital banking is that it provides financial services in the moment, place and context of the client, in real-time, both personalised and relevant. This is the concept of GAFAA banking (Google, Apple, Facebook, Amazon, Alibaba). It is also called 'Uberisation' – through this process transactions become seamless and invisible.

Take the example of purchasing a car – smart technologies allow a bank to pinpoint a customer's location through a geolocation system, showing that they are in a car showroom, and using the camera to know which car model is being viewed. The bank can then suggest financing options the user may need. This concept was pioneered very successfully by Santander Brazil. The sales journey seamlessly integrates financing, extended warranty, insurance and other services with just one tap on a smartphone and a digital signature. All credit scoring, commercial pricing, personal financial management analysis – to advise whether the car is too expensive or not – and the terms of loan – duration, repayment sequence and deposit – is done automatically and in the background in real-time. In fact, the 'analytics of people-like-you' has already predicted which car the user was likely to buy and because the bank has a lot of information about that user already they can calculate a pre-score for all likely purchases. The best digital banks like BBVA and mBank understand the 'zero moment of truth' (ZMOT) well and use real-time marketing to follow us through our lives and propose payment and credit products in the moment, like in the case of buying a car.

This is a perfect example of the key concept behind GAFAA banking, which is the ZMOT. A term coined by Google through its research, ZMOT expresses the process we all go through in our brain while we start thinking of things we want to do until the moment we are clear about decisions we take. For business-to-consumer companies, the ZMOT is their sales funnel, because at the end of the ZMOT, when someone is at the car dealership or the shopping mall, their decision to finally buy something becomes the 'first moment of truth'. We all have 10 to 20 ZMOT processes going on in our brain at any moment of time. Some are very short, such as 'I am thirsty, I need a coffee, where shall I go and get it?', or they can be long, for example 'Should we have children now, should we buy a bigger house?'. Through 'people-like-you', the GAFAA system can very accurately predict what people will decide and buy. So much more than ever we express our feelings and ideas on social media and we leave traces throughout our search patterns. ZMOT can be monitored, analysed and predicted. This is how Google and Facebook optimise advertising. More than half of US advertising is now online and 60% of this goes only to these two companies. The same trend is visible everywhere in the world with Alibaba, Tencent, to name a few. These companies are in this position primarily because of their analytical capabilities, data and technology driven business models, and a modernised IT landscape. This is a challenge for banks whereby they must adapt and develop in parallel with fintech companies in an ever-increasing regulated environment. Banks like mBank, BBVA and Santander have already understood how to harness big data and behavioural patterns to anticipate the needs of the clients and service them in a personalised way.

Many banks have developed a real-time mortgage application. This 'in the moment' banking will allow users to determine whether they are applicable for a specific mortgage and start the application process through a few simple steps on their smartphone. Imagine that in a couple of years, customers would expect to receive a mortgage quote while standing outside a house they wish to buy. Customers want to know immediately whether they can afford the house, banks must be able to give them the answers 'in the moment'. Customers will want to shake hands with the seller without having to go back to the banks and wait several weeks for a tentative answer and fear the sale may fall through.

Take the example of the UK housing market. Even in such a mature and sophisticated real-estate market like the UK, almost half of house sales fall through because the correct financing does not materialise. This happens on average four weeks after the buyer and seller shake hands.

The long term strategic journey of a bank is paramount. Banks must be aware that their role in the flow of financial services is at risk from fintech companies. The GAFAA banking system in real time is an area of major focus as other players come into the market and offer services without legacy issues.

Banks in the region need to be aware and explore potential opportunities instead of waiting to act – proactive engagement and collaboration with fintechs during early stages rather than scrambling afterwards to catch-up. This can assist the bank in enriching their offering on a specific target customer group, leverage alternative channels to offer core banking products and adopting innovative solutions to increase efficiency. Some banks are welcoming fintech companies to harness their creativity and talent to develop their APIs (application programming interfaces). Several banks are beginning to create ecosystems which will come from fintechs in the future.

Burdened by their legacy systems, the local markets are now taking innovative ideas and spearheading them in a newly active and eager digital and social environment. There is now a real movement across all banks to transform their systems to adopt new technologies with service-oriented architecture to better capture the digital innovations and make them ready for the future.

The United Arab Emirates (UAE) and Saudi Arabia have all the advantages and drivers to be successful in the digital age. Both countries can leverage the supporting governance structure, the appetite to invest, the need for economic diversification, and the need to improve efficiency. Furthermore, governments, institutions, businesses and entrepreneurs alike can take full advantage of tried and tested innovations from other parts of the world and implement them in the local economy, adding additional value and adapting as they see fit. Due to the nature of the banking sector in the Middle East, banks can innovate in both classic and Islamic banking functions alike. The sheer experience and pioneering advances in Islamic banking gives banks in the region the possibility to create powerful new digital Islamic banking products.

The Middle East, most notably the UAE and Saudi Arabia, has a young, dynamic, highly educated and fast growing population. This section of the population is extremely eager to utilise new digital technologies and is very active on current digital and social platforms. For example, it is predicted that 23 million smart devices will be sold in Saudi Arabia in 2017. There is a clear trend in the decreased usage of traditional payment methods, such as cash and cheque, and a growing adoption rate of e-wallet usage across the retail sector.

This young and digital-savvy market is an eager and attractive base upon which to try out new innovative services, and likewise to engage with banks – to go as far as suggesting the design and development of the next generation of banks, like the Italian bank Widiba that asked its customers to design the features of the next generation bank. The state-of-the-art trade and industry facilities are also perfect for testing and deploying innovation at scale and taking a key leadership position in the world. This in turn will make the Middle East even more of a magnet for the best and brightest talent to come to live and work, and in turn helps to diversify the economy in both a sustainable and durable way.

The region has an interesting combination of population segments, each bringing their own needs. These segments can be categorised into three distinctive groups: the local Arab population, with a significant spending power; western expats with a specific expat lifestyle; and blue collar eastern workers that are in constant contact with their home families and have a great need for remittance. Each population segment is active and engaged in digital, providing an opportunity for growth and innovation, and for a strong pivot to more digital technologies.

> Some banks are welcoming fintechs to harness their creativity and talent ”

The region now has a well-established tradition of innovation, which is government-promoted, in combination with speedy application at scale. It is becoming increasingly important for banks in the Middle East to collaborate with fintechs – to serve customer needs, act in an agile manner and improve efficiency. The Middle East can learn from the leading fintechs across the world, and with its own innovation initiatives can develop the next and newest generation of innovation, making the Middle East a hub for fintech innovation, and attracting talent from across the world.

The UAE's new Regulatory Framework for Stored Values and Electronic Payment Systems will open the market to fintechs and innovation. It is expected that banks will use different models for different customer segments, online banking channels for the older generation, older millennials using bank-based apps, and younger generations using chat type apps. The future of banking must carefully navigate the needs of each segment and incorporate digital accordingly. These factors will play a key part in defining and developing the bank of the future.

One area where the region is already accelerating its innovation intentions is blockchain, which brings a disruptive change and evolution in the encrypted security of transactions. This has significant value-add applications in securely transacting tokenised assets such as intellectual property rights, voting rights, health records, music authorship rights, property records, securities and money. It is already in full play in Dubai where a public services blockchain migration plan until 2020 is already defined. However, there are still many opportunities for its additional use in areas where Saudi Arabia and the UAE can be the pioneers and frontrunners in all government transactions, such as land registry and housing purchases, various types of loans, trade finance and other trade transactional activities. As the Middle East continues to invest heavily in both public and private infrastructure, services and industries away from oil, IoT (internet of things) in trade and heavy industries, self-driving vehicles, intelligent houses, smart infrastructure and transport nets, and many other areas, globally unique set of platforms will enable the development of the next generation of integrated financial services.

With the pace of change and innovation racing ahead and new variables coming into play, along with the need for constant innovation and improvement, banks in Middle East need to stay in the market and at the same time develop themselves as players in the market without disruption to customers at the front-end. Accenture's Two-Speed Banking Transformational Road Map incorporates the different components of the bank of the future, along with creating a reliable template for long-term transitioning, and room for manoeuvre when new opportunities and challenges arise each day. Two speed transformation allows a bank to 'go digital' and at the same time 'be digital'. This two-speed model allows clients to gradually transition their business model and at the same time take full advantage of new technological capabilities in the short term.

Of course, change is constant, and with that in mind Accenture's roadmap has flexibility built in. In a digital world, new things can be invented, tried and then become outdated at a fast pace when they are superseded. The time it takes to implement changes between the front end and back end can often vary largely, due to older legacy systems in place. Temporary APIs, robotics and other techniques can be used to attach to the old legacy technology on an ongoing basis until completion. Through this approach the Accenture roadmap becomes a reliable guide and a reactive tool to allow for meaningful long-term change without a bank ever having to step out of the market while it undergoes a total overhaul of its systems.

For quite some time there has been a strong willingness to innovate in Dubai. This attitude and eagerness is growing more palpable across the rest of the UAE and Saudi Arabia. Combined with a population that is becoming more digitised, a strong government and industry support, the banking sector is well placed to move forward and go digital. The region has the luxury of learning from successful experiences from across the world, thus providing the opportunity to adapt and best use digital technology successes locally.

In the next two years, the Middle East will leapfrog into the digital age by adapting the best digital technologies from around the world and implementing them successfully and constructively in the local market. For banks to be best placed to meet the needs of the changing market, they need to be innovative and ready for change, they must act in the moment and look to the future. ■

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Digital winners vs the banking dinosaurs

How are technology, changing customer preferences and economic factors changing the retail banking landscape in Middle East? Fahim uz Zaman of Efma speaks to retail banking leaders in the region to find out

The changing macroeconomic environment, increased competition, and proliferation of digital and mobile technologies, combined with growing customer expectations means that banks have to look again at how to reach and serve customers and deliver the customer experience that their clients expect and demand. Leading minds in retail banking in the Middle East share how and where changes are happening, and what will be the key components of a successful transformation journey.

The macro environment is changing retail banking dynamics
"There are a number of macro trends that are impacting us at the moment," says Suvrat Saigal, Managing Director & Head of Global Retail at National Bank of Abu Dhabi. "The falling price of oil is having a big effect on our economy, and this is filtering down to the job market and consumer attitudes to spending. Confidence levels are lower than they have been, and this influences borrowing and investment patterns."

Interest rates are likely to change too. "For a while now, we have lived in a world with virtually zero interest rates," says Saigal. "We expect a rise in interest rates over the coming months – to what extent we're unsure of yet. In return, retail banks, particularly in this region, are likely to shift their focus to deposits – something they have largely ignored over the last seven years because it didn't make them enough money."

Over time, then, Saigal expects the industry to refocus on deposit growth. But because the number of deposits being made isn't necessarily going to grow, success is going to come down to market share. "The competition for those deposits will be fierce," he says. "This is why banks are going to have to look to differentiate themselves, and this ultimately comes down to product innovation."

"You need to do something to stand out," says Saigal. "In my opinion, there are two key areas you can do this: change the way you distribute your products and services – in particular this is about providing a seamless digital and physical experience – and make it as simple and convenient for customers to engage with your business."

Digitisation and changing customer expectations
Digitisation is forcing banks to look again at their delivery models for products and services. "The evolution of mobile and digital technologies has meant banks have had to rethink their policies and the way they deliver products and services to meet new customer demands," says Suvo Sarkar, Group Head of Retail and Wealth Management at Emirates NBD.

Growing digitisation and the proliferation of mobile devices means that customers expect to be served immediately, anywhere they want and whichever way they like.

Explaining this trend, Sarkar says: "Customers expect to be able to pick the products or services they want and to find all the information they need immediately, wherever they are. The combination of self-service and customisation is transforming the way retail customers want to bank, so when they want help they expect to get it immediately, at any time of the day or night."

According to Mudassar Aqil, CEO of FINCA Microfinance Bank, the cumulative consumer experience of the digital solutions that retail banking players bring to the market will determine success or failure. The winning solution will amalgamate a digital solution's ease of use and seamless customer experience.

The optimum model to reach customers in digital age
The optimum delivery model for customers in the region will combine the global trend of digitisation with local customer behavior and preferences. Explaining this, Suresh Bajpai, Head of Consumer Banking Group at the National Bank of Kuwait, says: "The global trend is all about digitisation, putting the bank in the customer's hands and offering

instant access to products and services that are relevant to their lifestyle. The regional trend in GCC (Gulf Cooperation Council) states is that malls are becoming social destinations for both locals and nationals. Now the challenge facing the consumer banking industry is to bring together those two trends to deliver a customer experience that is easy to use and relevant to customer in GCC."

Talking about the changing role of existing physical channels and new digital channels in the region, Philip King, Head of Retail Banking–UAE at Abu Dhabi Islamic Bank, says: "I don't think the branch is going to disappear anytime soon as I think it has an advisory role to play. I think transactional banking will shift from more to the digital channels and that's a good thing as it will mean people can enjoy the branch experience without having to queue."

King believes that the digital offering will be used by digitally-active customers for transactions they feel comfortable with, such as quick transactions, balance checks, payments and top-ups. "But when they want personal advice, those people want to come to the relationship manager," he says.

Discussing the emergence of digital plays and digital models in the region and across the globe, Martin Leong, AGM, Retail and Consumer Banking at Commercial Bank, says: "Digital banking could be seen as the cannibalisation of traditional banking. But digital isn't a threat, it's an opportunity for us to disrupt our own industry before other organisations come and do it for us."

Key ingredients of the digital transformation journey

"Digital transformation cannot simply take the form of digitising a process. A lot of work is needed initially to look at every single process and every customer journey to see what is lacking. After that, you need to identify how much of it can be digitised," says Sarkar.

A co-creative approach is the only way to truly deliver the experience customers want. "We can't change the world alone, and in the world of banking we need to work with our partners, whether they are merchants, IT vendors or from other industries, to co-create innovations that work for the customers," says Sarkar.

Other major attributes of the successful players will be their flexibility and ability to adapt quickly to a changing environment. "I think that the ability to react with speed and flexibility are going to be important differentiators in this industry in the future. Those banks that are able to adapt and keep up with their customer needs are going to be the ones that will ultimately thrive in this uncertain world," says Saigal. ■

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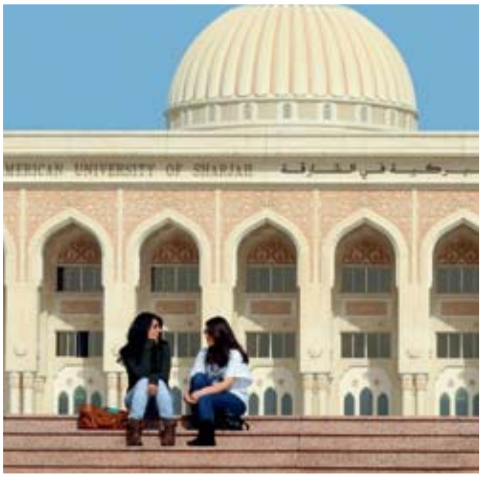

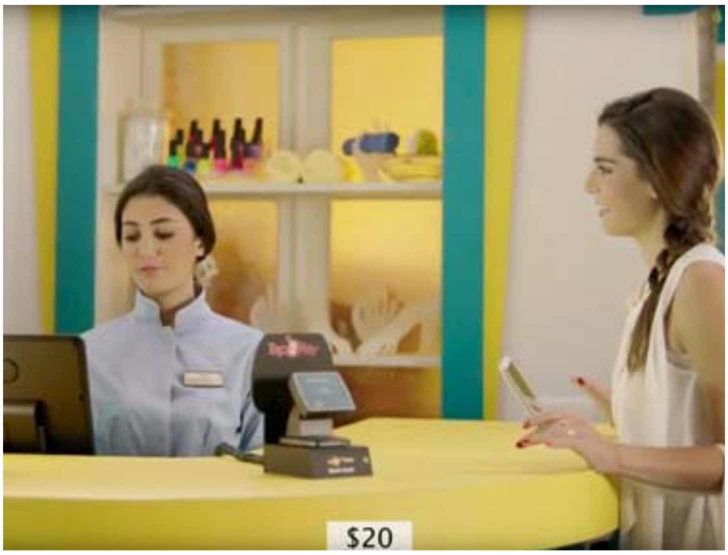

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