The Future Of Banking In The Middle East

NUCORO

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01 Overview

Digitalisation has gone beyond a move to get ahead of the competition; it is now a basic part of staying in business.

Globally, consumers are demanding instant access to their finances, Fintechs are rising up and competing with traditional banks and the regulatory landscape is becoming more complex.

This report investigates the impact of digitalisation on banks in the Middle East today and the opportunities it will bring for the future.

Customer Needs Are Changing

Abdul Aziz Al Ghurair who has led Mashreq Bank since 1990 said:

"In the next 10 years, the banking system will go through a lot of challenges because customers are demanding more changes. The banks that will survive the next 10 years are the ones that will almost transform themselves into a Fintech with a banking licence."

Ignoring or deferring digital innovation is not a viable option for any business that is serious about longevity. Where previously a trusted brand name could attract and retain clients, the more digitally savvy generations now demand instant access, transparency, convenience and lower transaction costs.

Consumers expect businesses to serve all of their needs quickly and effectively and those with unreliable, slow technology and poor consumer experiences will not last.

These trends will only increase as younger generations enter the financial services markets and begin to inherit family wealth.

Which Banks Will Win The Race To Digitalisation?

We are currently in a race against time before the big digital companies are able to operate like a bank.

Middle East Banks have huge potential to gain market share; the bank that wins will become a digital giant before the digital giant can become a bank.

To do so, banks will need to be able to operate efficiently at scale, use and understand their customer data better than anyone else, understand their customer needs fully and make use of analytics and artificial intelligence to anticipate and service client needs better than the competition.

02 Setting up projects for success

Studies show that around 84% of digital innovation projects fail.

Financial services businesses have a lot to manage and adding on the complexity of a digitalisation project is more than most can manage successfully alone.

Many businesses in the financial sector have a myriad of legacy systems that make digital innovation complex, risky and expensive; especially if internal staff do not have sufficient technical knowledge and expertise.

It also relies on working carefully with regulators to ensure developments do not fall foul of the industry rules.

Projects that lack expert guidance will often take longer, require more resources and more budget.

However, if an expert Fintech partner can guide an organisation through the process successfully, the efficiency gains for operations and the benefits for customer experience are significant.

Culturally it is also very common for these projects to be met with internal resistance, scepticism or even fear. Technology is often associated with a threat to jobs.

However, the reality is that digital innovation is changing the nature of work and careers; freeing humans from the more tedious and repetitive work to focus on more interesting and meaningful interactions with clients.

The most successful digital innovation projects tend to be ones where a traditional business has partnered with an expert.

This partnership of business understanding and technology expertise is the perfect recipe for bringing the best of what exists into the next generation.

Seven steps to win with digitalisation:

1. **Digitise end-to-end customer journeys**

   Banks can be complex organisations with many legacy systems. Processes need to be redesigned so there are no friction points for clients.

2. **Leverage big data, analytics and AI**

   Greater data insights enable banks to personalise services for their customers and to be more profitable.

3. **Pursue partnerships**

   Work with partners to bring in skills and expertise not held internally. For example, working with Fintechs or directly with digital giants.

4. **Adopt new ways of working**

   Banks should take a more agile approach to developing new tech.

5. **Attract and retain digital talent**

   Banks need top digital talent to compete today. Even with a pool of engaged internal talent, partnerships with Fintechs or boutique engineering firms are still likely to be needed.

6. **Simplify technology and data infrastructure**

   As much as possible, move away from vertically integrated technology stacks to horizontally layered, platform-based technologies.

7. **Ensure cybersecurity resilience**

   This is necessary for even basic survival. Chief Risk Officers should identify the best providers and form strategic partnerships with promising Fintechs and Risktechs.

Boston Consulting Group 2019

03 The Early Digitalisation Pace Setters

Mashreq Bank of Dubai launched its digital-only bank, Neo, in 2017. Neo was reported to be the first digital bank in the Gulf Cooperation Council (GCC) region, offering current accounts, savings, investments and stock trading within an app. The launch was supported by a mobile financial services company and was completed in five months.

Emirates NBD has carefully built digital propositions based on the emerging trends in its customer base, launching digital bank Liv for millennials and digital business bank E20.

Even smaller banks are seeing the need to innovate and getting resourceful to make it happen.

Commercial Bank of Qatar (CBQ) now offers instant money transfers to India through its '60 seconds remittance service'. Prior to launching this service, the bank would typically process 500 transactions a month. The number reached closer to 100,000 in March 2019 according to an interview with CEO Joseph Abraham in Euromoney.

Mobile Adoption

According to reports by mobile industry trade body GSMA, by 2023 the contribution that mobile makes to the Middle East and North Africa (MENA) economy will reach just over $220 billion.

The market has one of the most penetrated mobile markets in the world with penetration rates of 70% or more in almost half of the region's countries versus a global average of 66% (2018). The GCC Arab States have the highest subscriber penetration in the region.

The growth is expected to continue, with total smartphone connections in MENA predicted to exceed 500 million by 2025. This trend is being driven by the adoption of more affordable devices.

Mobile internet usage in the region is predicted to grow at a compound annual growth rate of 5.4% to 2025, with this growth primarily driven by 2G users to mobile broadband networks. Younger demographics are opting straight for 3G and 4G plans. 5G has also now entered the market.

Any digitalisation plans need to factor in a strong presence on mobile devices to meet the demands from customers to have access to manage their money on the go.

Mobile platforms will also play a key role in supporting the region to reduce its reliance on cash. While 60% of people in MENA have a bank account, cash remains a dominant form of payment.

Investment in digitalisation is changing this picture along with specific interventions from governments in the region.

For example, Saudi Arabia is aiming to achieve an e-payment target of 70% by 2030 under its Vision 2030 reform plan and Egypt has mandated that cashless payments be offered by public and private entities.

04 Digitalisation, Self Service and Disintermediation

Younger generations demand instant access to their finances alongside speed and transparency. As the younger generations of the Middle East inherit family wealth this will impact how their financial needs are serviced across the industry.

Clients are becoming more receptive to digital banking and online robo advice for its convenience and in some cases, cost competitiveness. Some experts go as far as asking whether financial technology such as big data, machine learning and blockchain could one day make traditional financial institutions obsolete.

A change of that magnitude is difficult to predict with any certainty, however, it is prudent for all financial institutions to look at how they can best keep pace with changing consumer demands and the opportunities presented by technology. This is essential to avoid falling victim to disintermediation as other organisations offer direct to consumer offers at potentially lower cost and higher convenience.

05 New Revenue Streams: Wealth and Investment Management

According to a report by Ernst & Young (EY), there is a strong appetite from clients to adopt digital solutions for regular access to their investments and financial advice.

The study found that 46% of Middle East clients value 'simple intuitive digital processes' for their wealth management activity and 25% of clients already receive some form of advice through a mobile app.

The banking industry has the advantage of being able to easily add digital wealth management to an offering, without disturbing many of its existing services, unlike other firms that are revamping their central speciality as a business – attempting to change a car's tyres while still driving it, if you will.

Robo-advice capabilities offer a particular benefit of enhancing scalability for banks as a way of engaging their customers with new services.

They can achieve this with a minimal increase in headcount while enabling existing staff to focus on growing and managing core banking product sales.

06 A Huge Opportunity For Middle East Banks

Technology has the ability to revitalise the delivery and execution of the products banks offer – retaining what makes them successful now, while introducing new diverse capabilities that will help them thrive in the future.

Gaps in banks' current offerings have become the blueprints for the digital challenger; namely simple, highly-targeted routes to addressing underserved areas of the banking sector in areas like customer experience and accessibility.

It is more than coincidence that Fintechs have been very specific in their approach to applying digital tools.

The best (and least complicated) way to start, for many established banks at least, comes from adopting market-ready platforms, as opposed to – for example – attempting to overhaul the entire back-office of their existing product range.

The threat of losing business to technically-capable competitors has been felt in many industries and has led several large incumbents to spend sizeable amounts on launching digitisation projects to the tune of many millions over the last decade.

It is also why finding options that extend a bank's product range, through services like investment and automated saving, can be a great option – without disrupting the core of the business model.

Banking relationships can vary between customers; from the high-touch needs of those often interacting with a current account, to the more low-touch clients with pensions or savings, only interacting with the bank every now and then.

Maintaining an effective and available system of access to customers on those occasions when they do need to engage is key – and is a major reason why digital tools can have such a great impact.

Additional services like investments and savings help to diversify offerings, re-engage with clients and significantly improve access to services, thereby building on the customisation aspects that have made digital financial products so attractive to retail clients.

"The way banks interact with their customers has changed fundamentally – and that goes for customers of all ages. Convenience is the way to drive these services forward – and digitally capable tools are the way to provide that convenience in a really transformative and powerful way."

John McCann, CRO, Nucoro

07 Picking the right partner

It can be easy to fall into the trap of thinking that banks have time to play with. As BCG concludes in its 2019 digital report "It's easy to ignore a new wave of disruption forming at a distance but impossible to navigate through it once it is upon you. Banks that are not preparing now will pay a price later on."

Not all banks will have the talents and resources in-house to maximise on the next phase of opportunities. For this reason, partnerships with solutions providers are often the best way to deliver the transformation quickly and effectively.

At Nucoro, we believe in the power of technology to transform the way business is done and how clients are served. We partner with banks, wealth managers, IFAs, insurance providers and other financial services businesses who want to be more agile, efficient and innovative than they've ever been before.

Together we rethink what is possible in the future. For those with ambition, the opportunity to become one of the challengers is there for the taking.

About Nucoro

The Investments and Savings Innovation Platform

Our mission is to give as many people as possible access to the right investment and savings products. In such a hyper-personalised world, we believe access, control and transparency should be a fundamental part of all our financial experiences.

A paperless, seamless experience

Our digital onboarding which includes bespoke suitability assessments can either work as a self-service option or advisor led for higher-touch relationships.

A flexible view of your future finances

With custom dashboards our investment platform does all of this for you, so that beautiful charts and simple explanations are available for your clients and your advisors.

Empower your clients with full visibility

The Nucoro Platform allows your clients to view their progress against their savings or investment goals, either set by themselves or in collaboration with you.

Move money at the touch of a button

Gone are the days of mountains of form filling, your digital investment solution should allow your clients to transfer their money at the touch of a button.

Let's chat about how tech is transforming financial services.

We are excited for the role technology can play in giving customers the tools and the services they need to secure their financial future. **Contact the team at partnerships@nucoro.com** to talk about a potential collaboration.

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