

## Collaborate to innovate: accelerating digital transformation in banking

### Open Banking can help banks in the Middle East speed up their much-needed digitalization to better serve tech-savvy consumers

Middle Eastern banks need to speed up their efforts to offer innovative services to a rising Millennial population that expects more than it is currently offered. The key to solving this riddle? A joint effort to accelerate the pace of digital transformation – collaboration to innovate faster.

#### Digital awareness is high

The Middle East is a fertile ground for Open Banking. First, the region is tech savvy – and increasingly so. At 64.5 percent, internet penetration is well above the global average (55.1 percent), and already exceeding 90 percent in some of the smaller GCC states such as the United Arab Emirates, according to [WorldInternetStats](#). The rate of internet penetration actually tripled in the past eight years, according to ICANN, the non-for-profit Internet domain name organization. Smartphone adoption is also high: more than nine in ten consumers in the UAE and Saudi Arabia own one. Secondly, the region is young – almost half the population is under 25, the UN estimates. This means that the potential for a digitally driven “Millennial dividend” is huge.

#### Digitizing society

The region’s governments are all too aware of this. There is also a drive to diversify oil-reliant economies. Digitally transforming their countries to reap the benefits of the e-economy is key. Saudi Arabia’s ambitious “National Transformation Programme 2020” and “Smart Dubai 2021” offer a solid roadmap for this transformation. Both programs aim to create an environment where the most innovative technologies and initiatives can prosper, such as e-government; smart cities; the Internet of Things (IoT); blockchain or Fintech hubs for Islamic banking. In fact, the context has become so favourable for tech entrepreneurship that the region has recently seen its first Arabian unicorns emerge. Last year souq.com, an online retailer, was taken over by Amazon, while at the time of writing this article, rumours abounded that Uber was circling around ride-sharing app owner Careem. Overall, tech start-ups in the Middle East and North Africa secured US\$650 million in investment across 270 deals in 2017, [ArabNet’s](#) *The State of Digital Investments in MENA* estimates.

#### Banks investing in digitization

The region’s banks are, of course, not immune from this wave of digitalization. Research firm Gartner estimates that IT spending in MENA this year will top US\$155 billion, with

banking and securities firms leading spending growth (+3.6 percent), followed by insurance (+2.9 percent) and investments into analytics, blockchain, artificial intelligence and software applications. Emirates NBD (ENBD), one of the largest banks in the GCC, has committed no less than Dh1 billion for digital transformation. Large-scale digital banking initiatives in the region are focused on creating digital-only platforms; rationalising branch networks; automating back office functions; and increasing mobile banking services as retail online buying activity is set to soar in the region in the years ahead. Research and Markets estimates that the combined e-commerce sales of the Gulf countries will more than double between 2017 and 2020. Criteo, the performance marketing technology company, estimates that 43 percent of e-commerce transactions in the MENA are currently made through mobile devices.

## **Playing catch-up**

Are the region's banks ready for this opportunity and for other channels of engagement with customers? Not quite, according to Deloitte, which describes them as "digital latecomers" that need to open up to collaborative innovation in a 2018 report on *Digital Banking Maturity*. "Banks with limited presence of strategic partnerships with external companies (...) old banking world in new channels," the consultancy said. "In many cases customers are demanding more digital solutions for greater convenience, which would also bring cost savings benefits to banks," the CEO of Mashreq Bank and Chairman of the UAE Banks Federation, Abdul Aziz Al Ghurair, said in a study commissioned by his bank. Fintechs are proving fierce competitors to traditional banks amongst Millennials because they can offer younger customers the innovations they crave quicker. Banks can either replicate what Fintechs do by responding with equally innovative solutions - or partner with them. There is appetite for this in the region: a 2017 Fintech study by EY showed that 70% of bankers believe GCC banks are open to integrating innovations by Fintech providers. "The variety of ways in which Fintech innovations are being adopted by the banking sector is increasing and we may even see banks collaborating to build 'shared-cost Fintech solutions' in the future," the consultancy said.

## **PSD2, coming soon to the Middle East?**

This vision has started to become a reality. Innovation hubs gathering the financial sector's players are mushrooming in the region. Earlier this year, Bahrain launched FinTech Bay, a hub gathering over 50 partners, including banks, corporates, government bodies, universities and Fintechs. Its mission? Collaborate to develop new applications at speed and low cost. Fintech Hive, meanwhile, is the first financial technology accelerator in the region. Launched last year in Dubai's International Finance Centre (DIFC), it gathers Fintech start-ups and major financial institutions, including First Abu Dhabi Bank, Arab Bank, Noor Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates Islamic, Emirates NBD, HSBC, Mashreq, Standard Chartered, UAE Exchange and Visa etc. Another key element paving the way for open banking to blossom in the region is the Payment Services Directive (PSD2) that came into effect in early 2018 in the EU. By requiring banks to grant qualified third parties automated access to customer transaction accounts and data to create new products, the directive is a game-changer that should inspire the region to follow suit. Of course data privacy issues will have to be overcome, which is what the EU's General Data Protection Regulation (GDPR) is attempting to address. The challenge ahead is big - but so is the appetite for Open Banking in the Middle East.

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