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Innovation-Led Growth: Six Questions For MENA Banks

With global regulatory reform and compliance systems largely in place and the surge in regulatory change stabilizing, global banks are redirecting their focus to growing their business. The global banking sector is considerably healthier now than it was at the start of the global financial crisis.

Global banks are optimistic about the outlook of their financial performance and increasingly confident in their ability to deliver sustainable growth despite global challenges such as Brexit in the UK, an increasingly unpredictable political landscape in the US, and the Chinese economy slowdown.

The MENA region is facing similar uncertainty. While consolidation is becoming a necessity, as witnessed by more than six ongoing and possible banking combinations, consolidation on its own is not the solution. Consolidation has to be meaningful. Otherwise, the results of a combined two or three smaller parts into one is similar to combining two or three small problems into a bigger one.

Global banks are also facing increasing competition from a range of new market entrants, including digital stand-alone banks, FinTechs, large telcos, e-commerce firms and institutions offering high-touch and high-tech branch services, e-commerce and telecommunications firms, and in some markets, platform-banking providers.

Such “challengers” have emerged in response to rapidly changing customer expectations and behaviors, and are forcing banks to invest in customer technology to prevent customer leakage and preserve their value chain. As a result, banks have turned their attention to ambitious but challenging goals for achieving “digital maturity” as a matter of necessity to be able to face such new market players.

There are six key questions that MENA banks need to consider to assess whether they are ready for innovation-led growth, and whether they are able to define and measure innovation-led growth in concrete and real terms.

Does my strategy take into account rapidly changing revenue and profit pools?

Implementing new technology independent of strategy is ineffective. Banks need to define their operating model as well as focus markets, customers and products. This should be effectively articulated to stakeholders to ensure commitment to the innovation initiatives.

The strategy should also be frequently reassessed in light of the speed of technological change and the emerging non-banking market entrants. From a MENA perspective, banking strategies have to be country specific: a banking strategy in Egypt would entail a digitally-enabled agenda heavy on financial inclusion. However, a banking strategy in the GCC may focus more on the depth of products, ease of use, convenient access and personalization.

What is my role in the ecosystem and how do I innovate efficiently?

The most successful banks in the future will be those that are more flexible and efficient through their participation in a strong ecosystem. Success for banks will be based on building a better ecosystem, not a bigger one. Those banks will be stronger and leaner, augmented through external collaboration with FinTech firms, utilities, managed service providers and even competitors.

Banks should embrace new market entrants rather than compete with them. The culture will be one of collaboration, not protectionism. This applies to MENA banks working with or investing in FinTechs and with regulators facilitating the environments for FinTech hubs to invest in.

How do I implement strategic change in a rapidly evolving digital environment?

New technologies and solutions should not drive a need to use them—there is often a limited advantage to being a first mover. Any advantage can be quickly eroded by fast followers who learn lessons from, and gain greater efficiencies than, first movers. Banks typically spend approximately 75% of their IT budgets on maintaining legacy architecture, often on tactical patches that may embed poor processes. This presents a challenge to a bank's ability to become fully digital.

Wholesale digitalization is not a significant feature of the banking landscape because of the associated costs. Banks should consider a variety of alternatives, ranging from whether they are able to launch a greenfield digital bank to which they can migrate customers over time, to re-platforming the core.

How do I change my talent to support a more digital business?

Banks will need new talent and a well-communicated innovation process to move from regulatory-driven transformation to innovation-led change. This has implications for talent acquisition at all levels of the organization. Opportunities to develop people in the retained organization will arise as new capabilities will be required, existing skill sets must be converted and new, more agile ways of working must be introduced. Automation will free people up to perform more value-added tasks.

To support the talent shift, banks must establish and communicate an innovation process. It must be driven from the top, encouraging innovation and building lessons learned into the process. Talent sourcing will be a consideration for banks to adopt a variable talent market place strategy wherein temporary resources may be used on bank projects rather than investing in permanent resources.

Am I sufficiently considering new risks and the need to embed cybersecurity in my strategy?

As the pace and scale of technological change reaches hyper-innovation, banks must handle increased levels of complexity that blur the perimeters between internal and external risks. In addition to cyber risk, change risk expands as new technologies are on-boarded. Managing these developing risks is key to maintaining high levels of digital trust. By infusing cybersecurity concepts and practices throughout the innovation process, banks will be better able to identify and mitigate digital risk.

How do I transform my technology and the technology organization?

Maturity is a moving target—a bank can be viewed as a digital leader until the next advance in technology, and then it will need to reassess the organization’s operational alignment, capabilities, targets, strategies and investment plans. The most successful banks understand where emerging technologies support strategic objectives, but it is important not to get caught up in the hype about new and unproven technology. Firms will need to demonstrate to regulators and stakeholders that they understand the risks associated with technological innovation and pursue them in a way that not only manages those risks, but also enhances operational and financial resilience.

As banks move to become innovation-led digital leaders, they must be able to measure and monitor the success of innovation and be aware that achieving it is not an endpoint goal, but rather an iterative thinking process that is embedded in a bank’s culture. Innovation-led growth will be a main factor in insulating MENA banks from any possible economic downturns in the long run.

Robert Abboud is the MENA Financial Services Advisory Leader for EY.

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