

Open Banking in the MEA region: a revolution in the making

The MEA region has one of the world's fastest growing banking sectors, driven by the adoption of mobile applications by younger, tech-hungry consumers and the need to overhaul core banking systems in response to tighter regulation and governance standards.

Open Banking, which McKinsey & Company defines as "a collaborative model in which banking data is shared through APIs between two or more unaffiliated parties to deliver enhanced capabilities to the marketplace" promises to transform the traditional financial services industry globally. But a unique set of circumstances means that the financial services sector in the MEA region is ripe for the benefits promised by Open Banking.

The high proportion of the region's population who are still unbanked are effectively bypassing the traditional branch-based model and creating demand for innovative services based on smart technology. According to the [We Are Social 2018 report](#), UAE and Kuwait recorded amongst the highest penetration rates for access to the internet at 99 and 98 percent respectively, while the growth of internet users in Africa is up by more than 20 percent year-on-year.

On top of that, initiatives such as Saudi Arabia's 2030 vision - which seeks to reduce the region's dependency on oil revenues - is opening up more opportunities for Fintechs that are developing new approaches to payments, money transfers and cash management. A report published in 2017 by [the Wamda Research Lab](#) predicted that total investment in new Fintechs would double from the \$100 million recorded over the previous decade to \$200 million by 2020.

Progressing from competition to collaboration

Much has been made of the competition for customers that Fintechs and Big Techs (including Google, Apple, Facebook and Amazon) have created in financial services. Banks in the MEA region initially shrugged off the challenge, citing long-term customer loyalty to their brands and the superior security of their infrastructures.

Open Banking has put an end to this standoff. It ushers in a new era of collaboration that can only benefit customers and businesses - and ultimately the banks themselves. The past couple of years have seen many examples of banks collaborating with Fintechs to provide the services that customers want, on the mobile platforms that they prefer to use.

The truth is that Fintechs are agile and creative and adept at building innovative new solutions. It has been more difficult for large, traditional banks to progress at the same pace because of their reliance on inflexible legacy bank systems. They can now tap into the innovative thinking presented by Fintechs and partner with selected companies in order to secure IP and build it into their own product offerings.

Collaboration brings benefits to Fintechs too, because they can access larger customer

bases and reliable infrastructures. Open Banking means that banks effectively decouple customer channels from the back end. Customers no longer have to use their own bank's user interface to transact. Account holders can now authorise any software application to do this – and decide whether to use their bank's channels or not.

Customers can select the apps and services that they want to use at a particular time or life stage, whether that's paying for a coffee with their phone or using Bluetooth to transfer cash to a friend. There is no longer the same requirement to bank with a single brand for life.

Innovative ecosystems

The collaboration fuelled by Open Banking has introduced the innovative ecosystem, a blended model, delivering value and providing greater choice for the customer.

In some ways, an innovative ecosystem is similar to the app stores with which we are all familiar. The standards available to programmers, wherever they operate and whether they are students, independent software vendors, entrepreneurs or Fintechs, mean they can create applications that interact seamlessly with a core platform.

It is likely that banks in the MEA region in particular will see the benefits of maintaining innovative ecosystems, because of the much higher proportion of unbanked consumers who nevertheless wish to pay and manage money via their smartphones.

As ecosystems develop, they attract wider communities of creators seeking ways to deliver value without requiring huge upfront investment. Technology advances also mean that deep programming is replaced by low code, designer toolkits with rapid deployment cycles. The focus has shifted from development to design using pre-packaged design components to invent new customer experiences.

Rise of the robots

Big software vendors like Microsoft and IBM are making services in artificial intelligence, big data analytics and computing power available in the cloud. With so much technology capability, a whole new industry is opening up for entrepreneurs to create the next generation of personalized banking services at low cost.

Robotics process automation (RPA) will increase the pace of digitization across financial services, removing friction and reducing cost in the workflow. As the volumes of data being collected across the world continue to grow and Open Banking regulations encourage greater availability of this data to third parties, many new services are waiting to be created.

Beyond retail - a technology roadmap

There cannot be a bank in the world that is now unaware of the need to digitize processes, build innovative ecosystems and collaborate with third parties to deliver the services customers want to use. But Open Banking is not just about Open APIs, nor is it constrained to retail and consumer applications.

Indeed, some of the biggest opportunities exist in the wholesale/commercial space in reducing friction and increasing throughput by eliminating systems integration bottlenecks. This makes real-time machine to-machine connectivity for straight-through processing and

automated decision-making a reality.

Open banking will make it easier for banks to underpin the next generation of financial services being imagined by many people and organizations outside of banks' four walls today. But for this to happen, there needs to be an appropriate level of investment in banking platforms that can cope with such change.

An indication of how prepared banks are for these changes can be seen in [recent research](#) undertaken by Finastra in partnership with the European Financial Management Association (EFMA). Only 26% of respondents surveyed feel ready for Open Banking and 61% plan to make significant IT changes to comply with Open Banking and PSD2.

Over half (58%) believe an 'out of the box', 'bank as a platform' approach will help them address Open Banking since only the largest tier one banks can afford to invest in their own in-house platforms.

The future of finance is open

The emergence of innovative ecosystems that bring banks and Fintechs together, alongside entrepreneurs, student developers and other third-party providers, signals a positive shift for the MEA banking industry. It is also a prime opportunity to embrace advanced AI, machine learning, voice recognition and APIs to co-create powerful new customer experiences and back-end processes. With the right banking platform in place, the future of finance is well and truly open.

<https://www.forbesmiddleeast.com/open-banking-in-the-mea-region-a-revolution-in-the-making>