# ENGAGEMENT, STRENGTHENING RELATIONSHIPS

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## The relationship between financial institutions and customers has transformed significantly over the years and these trends will shape engagement banking in 2023


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ENGAGEMENT BANKING


# Engagement, Strengthening Relationships

**The relationship between financial institutions and customers has transformed significantly over the years and these trends will shape engagement banking in 2023. Engagement with the needs of customers and clients, to better understand individual needs is becoming key to how banks will remain successful**

The financial services sector in the Middle East is abuzz with talk and activity on digitalisation strategy including digital onboarding and its regulation, digital banking, digital lending and how banks can develop robust customer acquisition and engagement.

The momentum for change had been building for years but the outbreak of the pandemic created the perfect conditions for an ambitious and fundamental rewriting of old rules. Digital transformation has become a key battleground for financial institutions in the Middle East—a competition that was intensified by the coronavirus.

Globally, larger banks have committed significant capital to digital-and-analytics transformations to enhance the customer experience across mobile and web channels. Despite these massive investments, most financial institutions still lag well behind consumer-technology companies in their efforts to engage customers with superior service and experiences.

Customers' lifestyle habits are increasingly motivated and directed by the speed and simplicity of digital services that are at their disposal; the same is true of how they want to bank. However, some financial institutions lack an interpretation of what matters to their customers and what drives engagement.

The relationship between banks and their customers has transformed significantly in the recent past and for banks that strive to be market leaders, integrating core personalisation elements across the range of touchpoints will be critical to delivering a superior experience and better outcomes.

"The reimagined engagement layer should provide the artificial intelligence (AI) bank with a deeper and more accurate understanding of each customer's context, behaviour, needs and preferences," said McKinsey.

Banks must take an entirely new approach to innovation to craft and deliver intelligent propositions. This calls for banks to free themselves from a 'product-centric' view whereby they develop new products and features and push them into the market through product bundles, but instead adopt a 'customer-first' strategy which starts with understanding customer needs.

As the world moves deeper into the post-pandemic era, and growth is expected to slow sharply, banks can chart a path through the current fog of uncertainty to reposition for a brighter future.

**Trend 1: Rise of neobanks & speedboats**

The Middle East's booming digital economy and supportive regulators have propelled the rise of challenger banks, digitally native entrants and neobanks as incumbents are ramping up efforts to penetrate the growing digital market. Customer preferences have evolved to a digital-first mindset and their expectations are anchored on seamless, real-time, integrated and personalised banking experiences.

Digital banks are unencumbered by the constraints of legacy business models and core systems. They leverage transparent product offerings to provide a wide range of easily accessible banking services in the platform approach that today's digitally savvy customers expect.

BCG's FinTech Control Tower revealed in November 2021 that there were about 250 digital challenger banks worldwide with more on the way. Digital banks are swiftly changing the field of play where incumbents are facing increasing competition from neobanks and challenger banks who are billing on customer experience as their point of sale.

"The full neobank, with 'Chinese walls' in terms of operation and management can and do have a cutting edge because they can offer a much more competitive range of products and services," said Ahmad Ghandour, Managing Director - Saudi Arabia and Regional Sales Director - Middle East at Backbase.

**Ahmad Ghandour**, Managing Director - Saudi Arabia and Regional Sales Director - Middle East at Backbase

YAP, the UAE's first independent digital bank opened its doors for business in August 2021. The digital banking platform, which secured a $41 million investment in July, is expanding into Saudi Arabia, Egypt, Morocco, Pakistan and Ghana.

Abu Dhabi-based challenger bank Wio Bank, which is jointly owned by ADQ, Alpha Dhabi Holding, e& and First Abu Dhabi Bank, started operations last month. Meanwhile, the UAE's first Shariah-compliant neobank Zand Bank is expected to open its doors for business soon after its shareholders acquired the majority of shares in Dubai Bank from Emirates NBD.

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Saudi Arabia's cabinet approved the licensing of a third digital bank, D360 Bank, with a capital of $440 million in February after the Gulf state licensed two other digital banks, STC Bank and Saudi Digital Bank, in 2021.

Global consulting firm Simon-Kucher & Partners said that if other markets are a good indicator of what will happen next, then the MENA region can expect more neobank competitors to appear very soon. Ghandour said that he expects to see an increasing number of fintechs turning to banks in the future, legacy banks creating speedboats that can compete with neobanks in the Middle East and challenger banks launching services in the market.

These challenger banks are competing with speedboats, independent, cost-effective and agile digital banking spinoffs of incumbent banks, including Emirates NBD's Liv., Dubai Islamic Bank's rabbit, Boubyan Bank's Nomo and National Bank of Kuwait's Weyay.

Traditional banks face intense pressure from new entrants in financial services including technology platforms such as Alibaba, Stripe and Square that have raised the bar by creating engaging and compelling customer journeys built around offering instant and seamless experiences.

Digital banks are putting customers firmly in control of their destination and preferred model for dealing with their bank and other service providers while emphasising user experience and product simplicity, unlike traditional banks that differentiate themselves by the quality of their relationship managers and a portfolio of complex products.

**Trend 2: Digital lending**

Over the past years, the digitisation of the financial services industry and the emergence of innovative technologies have seen a surge in the demand for a seamless experience and real-time payment services among banking customers. Globally, the mortgage and consumer lending industry has experienced unprecedented growth since the outbreak of the pandemic, but in the Middle East, it is still in its infancy.

Just like any other area of banking, customers are demanding a seamless, end-to-end and consistent lending experience that delivers instant decisions and immediate availability of funds. This presents an opportunity for banks to adopt flexible, open, real-time and easy-to-integrate lending solutions that brings credit cards, personal loans, auto loans and small business loans onto a single platform.

According to Sara Hoteit, Senior Business Development Manager at Backbase, "The rationale behind the emergence of digital lending is because, in this era, customers do not expect, rather they would demand to have a smooth and seamless experience when it comes to having loan needs including personal loans, car loans and SME micro-financing."

**Sara Hoteit**, Senior Business Development Manager at Backbase

Traditionally, the process to apply for Small and Medium Enterprises (SME) financing in the Middle East is time-consuming, taking between six to eight weeks and involves a paper-intensive underwriting process. With the majority of banking customers now preferring to conduct all financial activities digitally at home, the million-dollar question is how does digital lending differ from conventional lending? It digitises the entire lending process from application to disbursement.

Digital lending solutions provide a platform that ensures better lending outcomes both for banks and their customers. It enhances banks' customer engagement through the delivery of an intuitive digital application process for customers, streamlining underwriting and integrating with external credit score providers to accurately assess applicants and automate decisioning. Hoteit highlighted that banking customers are now expecting faster decisioning and hassle-free loan origination experiences and most importantly a clear vision of its process.

SMEs are one of the strongest drivers of economic development, innovation and employment in the Middle East. The sector is also playing a pivotal role in economic diversification in GCC countries as governments seek to wean their economies off heavy reliance on oil revenues and drive sustainable growth.

To close the GCC SME credit gap, which is estimated at $250 billion, deploying a targeted intelligent automation platform to optimise manual and paper-based processes across origination and servicing operations helps financial institutions to deliver fast and frictionless experiences. "Lending processes today are paper-based, human-intensive, time-consuming and therefore costly," Hoteit said while adding that this is causing financial institutions to lose customers, especially with the tedious and manual loan applications they offer.

Fintechs have been trailblazers in digital lending offering alternative financing options. Financial services providers should invest or partner with fintechs to develop and offer innovative digital solutions. Digital banking is challenging the traditional business model of commercial lending with differentiated offerings and services to enhance customer experience and allow faster decisions at a lower cost.

### Trend 3: Data analytics & innovative technologies

Banks possess real advantages against consumer internet companies regarding customer engagement and data, but they have yet to extract the full value of

**Amjad Ramahi**, Solutions Engineer at Backbase

these assets. Using data and innovative technologies such as AI, machine learning (ML) and the cloud to boost emotional connections might sound counterintuitive but it is what customers get from digital native neobanks and fintechs.

According to Mohammed Hawari, Senior Digital Strategy Consultant at Backbase, "AI will revolutionise customer engagement through the deployment of analytics as the data gathered from customers will serve as the fuel to the AI engines specifically designed to understand customers' preferences and trends."

To stay competitive, forward-leaning banks must become 'AI first' in vision and execution and this calls for the transformation of the full capability stack including the engagement layer, AI-powered decision-making, core technology and data infrastructure and operating model.

"Banks need to move from a traditional product-centric approach to a modern customer-first approach by leveraging on modern technologies like AI & ML while keeping the customer experience consistent across their customers preferred touch points," said Amjad Ramahi, Solutions Engineering – EMEA at Backbase.

Data-driven personalisation analyses customer transaction data in real-time and leverages AI and ML algorithms to determine what is important while translating insights into customised recommendations, content, offers and experiences.

The cloud is an enabler of advanced analytics, as these computer system resources provide a space to both store and

Mohammed Hawari, Senior Digital Strategy Consultant at Backbase

analyse large quantities of data in a scalable way, including through easy connectivity to mobile applications used by customers. In an era where customers can share their data, the ability to aggregate, manage and analyse data by financial institutions is becoming increasingly important.

Predictive models and data analytics are not new but market-leading banks complement insights with a decision engine that catalyses information to determine the next best action to take with customers.

## Trend 4: Open banking

The adoption of new digital habits and a dramatic movement toward online channels during the pandemic appear to have accelerated open banking. Muhammad Hassan, Solutions Engineer at Backbase said that traditionally, financial institutions did not feel comfortable sharing crucial and confidential customer data that could risk any forms of violations or provide an advantage to market competition.

"Banks in the Middle East region are now slowly embracing open banking concept as they are realising its potential and how it could help the banks to meet their KPIs/objectives," he said.

Open banking platforms allow financial services customers to securely share financial data in real-time and share account information and transaction history with external parties such as vendors, suppliers, business partners and other banks using APIs—a set of communication protocols used to develop computer applications.

Platforms are at the heart of open banking. To succeed with open banking, banks in the Middle East need to embrace the new innovative technologies that can manage interactions from internal and external users, start thinking like platform companies and relax their business models to connect people and processes with assets.

Open banking creates a positive impact in the financial service sector by strengthening the partnership between banks and fintechs. It also improves the financial infrastructure and guarantees better use of financial data for customers.

Saudi Central Bank (SAMA) issued the Gulf's Open Banking Framework last month, saying it is one of the key outputs of the Open Banking Program—which includes a comprehensive set of legislation, regulatory guidelines and technical standards. Saudi Arabia is implementing a market-driven strategy and the country's approach is inclined towards a more formal regulatory framework.

Bahrain is implementing a European-style regulation-driven approach while the UAE has adopted an American-style market-driven approach under the guidance of the Abu Dhabi Global Market and Dubai International Finance Centre.

The Middle East is one example of an emerging global open-banking microcosm. Oman announced plans to develop open finance services in May 2022 while Kuwait's central bank said in August of the same year that it would test open banking products within a regulatory sandbox. "One of the

Muhammad Hassan, Solutions Engineer at Backbase

main reasons for banks to be in favour of open banking is due to the success stories achieved in other parts of the world," said Hassan.

There are numerous use cases for open banking and common ones include seamless KYC processes—ecosystems in which APIs let customers link accounts across different banks and allow for the generation of personal finance recommendations and other bespoke services.

Open banking is shifting the financial services industry toward hyper-personalised, platform-based distribution while offering banks a window to expand their ecosystems and extend their reach. The innovation is being driven by regulatory requirements, technology and competitive dynamics that are calling for banks to use APIs to make certain customer data available to non-bank third parties.

Consumers have embraced these platforms with open arms, valuing the holistic experiences that these platforms offer for specific segments of their lives, whether it be content consumption or transportation.

The platform gives financial institutions the ability to increase engagement and user adoption while creating new revenue streams. It's built with an open architecture so financial institutions can take advantage of the wider ecosystem.

**Trend 5: Banking-as-a-Service (BaaS)**

The wave of digital transformation in the era of Industrial revolution 4.0 is being driven by the advancement of new technologies as previously closed industrial systems have become networked and open.

The financial services sector is no stranger to this, and Banking as a Service (BaaS) is a clear opportunity for banks in the Middle East to reimagine customer engagement, banks can unlock new value through better efficiency, expanded market access, and greater customer lifetime value.

Rita Younan, Senior Business Development Manager at Backbase said that several merchants are utilising BaaS in their service offering while giving an example of Amazon—the e-commerce platform that did not provide a customer's payment plan for their purchases, but instead customers had to go to a bank and ask for a loan which was a long process. "Now, by partnering with financial institutions, Amazon allows its customers to get a small loan with a single click and they get to decide how to complete their payment plan," Younan added.

**Rita Younan**, Senior Business Development Manager at Backbase

Customers no longer want banking apps that do not go beyond transactional service and payment processing instead they are demanding the same interactive and intuitive experiences they get from other digital services like super apps.

BaaS allows financial institutions to monetise their banking stacks such as data, capabilities and infrastructure by seamlessly integrating financial services and products into other kinds of customer activities, typically on non-financial digital platforms.

Consumers are increasingly using these platforms to access services such as e-commerce platforms, retail and lifestyle services. By integrating non-banking businesses with regulated financial infrastructure, BaaS may well be a land grab. If so, banks need to employ a customer-centric philosophy that focuses on building closer connections with people rather than taking a technology-first approach.

BaaS offerings are enabling new, specialised propositions and is bringing them to market faster. It is scalable and agile, for a financial institution, it is an opportunity to reach a greater number of customers at a lower cost—particularly suitable for entering new markets and then expanding.

Banks and financial institutions can meet rising customer expectations by focusing on 'engagement banking' to offer intelligent propositions and smart servicing that can seamlessly embed in partner ecosystems. To thrive in the AI-powered digital age, modern banks should develop effortless customer experiences instead of focusing on technology for its own sake.

These capabilities strengthen engagement significantly while supporting customers' financial activities across different contexts with intelligent, highly personalised solutions delivered through an interface that is efficient, intuitive and fast.

Banking customers are redefining their expectations, taking their cues from other industries that offer multichannel access, product simplicity, seamless integration and 'segment-of-one' targeting.

**Trend 6: Personalisation and enhancement of self-service capabilities**

Over the past years, the confluence of changing customer demands together with pressure to reduce costs and increase efficiency is reshaping the banking industry. We live in an age of unlimited choice where consumers are empowered, and their expectations are high.

To seize the growth opportunities in the Middle East, banks must prioritise the modernisation of self-service capabilities by focusing on engagement banking—which helps financial institutions to complement the lifestyles of their customers.

The rise of challenger banks and speedboats in recent years has redrawn the financial services sector landscape as today's digital native customer deserves a modern banking experience that offers a wide range of easily accessible services in the platform approach that today's customer has become used to.

Today's banking customers conduct most of their basic financial transactions via digital channels such as platforms and apps and these should be at the centre of every bank's distribution strategy. Banking leaders who value convenience should offer security-rich services through digital channels while those who put a premium on the personal touch should leverage innovative technologies to strengthen their engagement banking strategy. The combination of digital convenience and a personal touch is what sets leading banks apart.

Customers' lifestyle habits are increasingly being motivated and directed by the speed and simplicity of online services; the same applies to how they want to bank.

Digital onboarding has gained prominence amid the changes in regulations, innovative technologies, the rise of challenger banks and the closure of physical bank branches. It is a critical step in a customer's journey with a financial institution as it leaves a long-lasting impression in the clients' minds about how they perceive a financial institution.

Digital proficiency involves a wide range of capabilities. However, for financial institutions to thrive in the new operating environment, they need to calibrate their value proposition, bearing in mind the power of simultaneously simplifying and upgrading the customer experience and creating value through data. ■