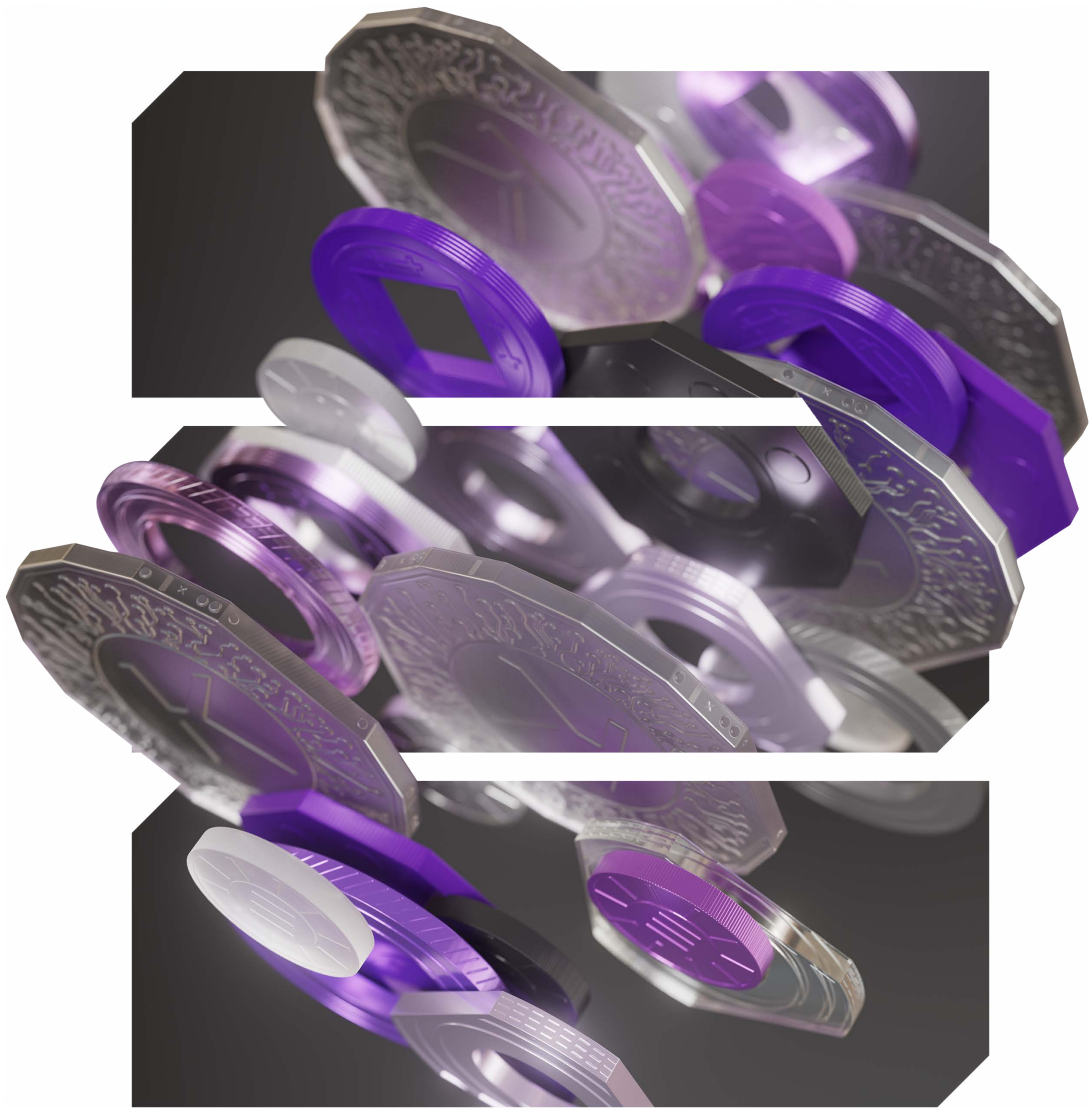


GCC Retail Banking Radar 2024

Making the shift from resilience to regeneration



KEARNEY

Making the shift from resilience to regeneration

After a particularly torrid period for the global economy, GCC countries—and their banking institutions—have a steadier outlook than most. Retail banks are already transforming to meet a rapidly changing financial landscape. But which strategies and priorities will win out in the coming years? Kearney's GCC Retail Banking Radar 2024 provides a snapshot of where the region's banks are today, and which challenges and opportunities should be front and center as they look to the future.

Over the past few years, the global economy has been rocked by one crisis after another. From spikes in inflation and interest rates to prolonged supply chain disruptions, deepening geopolitical and regional divides, and the onset of worsening climate conditions, volatility is now "situation normal." While some fluctuations, notably those in inflation and the supply chain, appear to be stabilizing and the prospect of a global recession seems to have receded, economic growth remains under threat. In fact, the World Bank has forecast that 2024 will conclude the [slowest half-decade of GDP growth in 30 years](#).

These are not the only challenges facing today's banks. At the same time, advances in technology are ripping up the rule book in all industries, adding more fuel to the fire and changing consumers' perspectives on how products and services should be delivered—and what constitutes an acceptable experience. With the economy in an age of "polycrisis," banks must also flex and adapt to a world that is increasingly run on digital terms, in which consumers have a growing choice of providers, physical means of payment are being superseded, sustainability is a core imperative, and sources of growth are shifting.

Challenges and opportunities in the GCC

GCC countries have not been immune to these influences. All have seen an increase in their benchmark interest rates to 5 percent or more in the past few years, except in Kuwait, where the rate has been hovering at just over 4 percent (see figure 1).

Across the region, these adjustments are acting as strategic measures to counteract the effects of global inflation and uphold currency pegs to the US dollar, while reining in domestic inflation. However, rate hikes can also inadvertently suppress both economic growth and consumer spending, while heightening the debt servicing burden, so must be carefully managed.

The GCC and its banking industry are widely expected to remain relatively steady in the midst of a wider economic slowdown.

Figure 1
Other than Kuwait, all GCC countries have seen an increase in their benchmark interest rates to 5 percent or more in the past few years

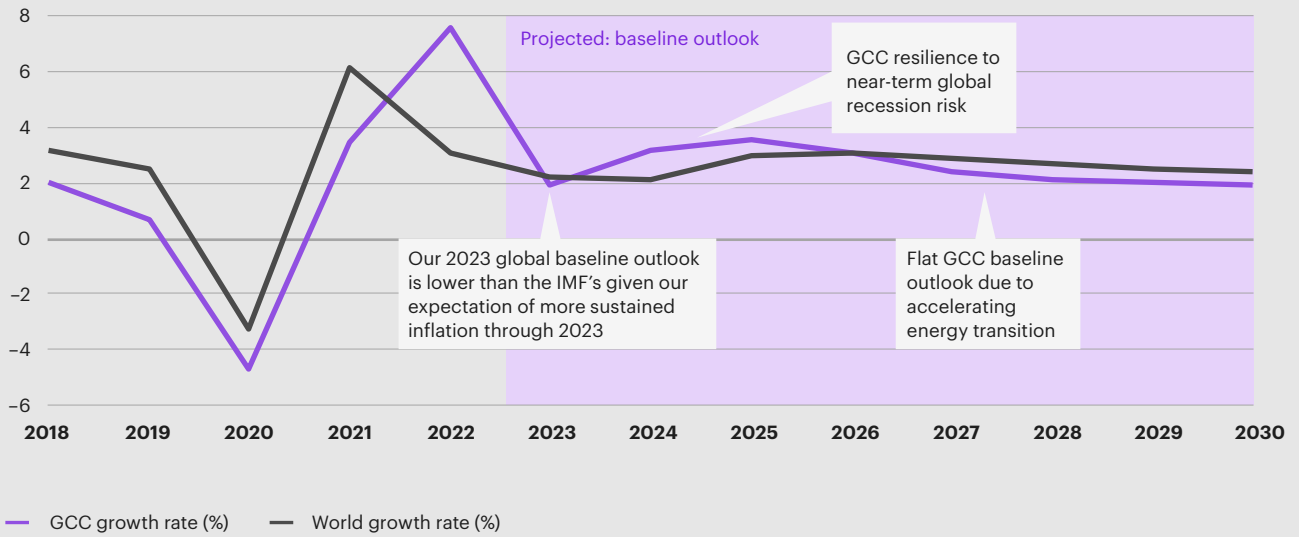
Country	Year	Central Bank interest rates (% refinancing operations)	Inflation, consumer price index (% year-on-year)
Bahrain	2021	1	-0.6
	2022	2.6	3.6
	2023	6	0.1
Kuwait	2021	1.5	3.4
	2022	2.3	4
	2023	4.1	3.6
Oman	2021	0.5	1.7
	2022	2.3	2.5
	2023	5.7	0.9
Qatar	2021	2.5	2.3
	2022	5.5	5
	2023	6.3	3
Saudi Arabia	2021	0.5	3.1
	2022	2	2.5
	2023	5.2	2.4
UAE	2021	0.1	0
	2022	1.8	4.8
	2023	5.1	3.3

Source: Kearney analysis

Figure 2

In the medium term, growth is expected to flatten

Baseline global and GCC economic growth forecast, 2023–2030
(Real GDP, YoY percentage growth)



Sources: Oxford Economics; Kearney National Transformations Institute

Despite these influences, the GCC and its banking industry are widely expected to **remain relatively steady** in the midst of a wider economic slowdown, thanks to sustained demand for hydrocarbons, limited inflation pass-through, and a growing influx of global investments, particularly from Asia. However, in the medium term, growth is expected to flatten as the global energy transition takes hold, constraining oil-driven GDP and encouraging further policy reform that accelerates the non-oil economy (see figure 2).

GCC countries, particularly the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE), have ambitious national strategies to capitalize on short-term opportunities and shore themselves up against the challenges that are predicted in the medium term. For example, the KSA's **Financial Sector Development Program (FSDP)**, part of the country's Vision 2030, has outlined a number of objectives to shape the future of the financial sector, including increasing bank financing for small and medium-sized enterprises (SMEs) and promoting digital payments. Both hold significant potential to boost the economy, as we explore in more detail below. In the UAE, the **FIT Transformation Program** is also supporting the growth of digital transactions, with initiatives including an instant payments platform and a new digital currency. These prominent national strategies have provided the rationale and the opportunity for banks to transform how they deliver and create a massive step-change in terms of what the industry is capable of.

But what's actually happening on the ground and how are banks responding? We surveyed and interviewed more than 100 banking executives in Bahrain, Kuwait, Qatar, KSA, and the UAE to find out.

1. Banks face significant challenges

The first thing we wanted to know was how banks view the current macroeconomic environment. They confirmed that it's tough out there: 81 percent acknowledged that the industry faces several challenges, including those coming from slower growth and rising interest rates. Fifty-two percent emphasized the impact of surging interest rates on their operations and the broader regional economy, while 49 percent called out increased borrowing costs, 48 percent indicated the impact of market volatility on their investment strategies, and a slightly smaller group (45 percent) cited difficulties in accessing funding. These challenges have impacted banks' funding position and liquidity, as well as their overall profitability.

2. But they are not standing still

In response to the curveballs being thrown their way, 57 percent of the organizations we surveyed have revised their strategic objectives, while just under half are revising financial forecasts and budgets (49 percent) and changing their marketing and sales strategies (48 percent).

While interest rates are expected to go down in the second half of 2024, they remain high. To counteract their effects and reduce the impact of continuing market volatility, banks are optimizing and restructuring the balance sheet. This includes moves such as offering new products (for example, covered bonds), reviewing funding sources, and introducing new credit products into the market.

Banks are also making operational changes. Forty-four percent of our respondents said that they are cutting costs and using technology to streamline how things get done. Understanding market dynamics and consumer behavior has also become a priority, with 43 percent saying this has made their organizations more resilient to the changes happening around them.

Making the move from resilience to regeneration

Becoming more resilient is one thing. It infers that banks have the ability to adapt and transform, especially in difficult circumstances. But is it enough to take them forward into the future? In our view, today's organizations need an approach that's less tied to crisis thinking. Rather than getting stuck in react mode, it's time to evolve and shift to a more proactive approach. We call this **regeneration**, and we see four major themes that will help GCC banks become more regenerative in the months and years ahead.

1. Rethinking how to serve SMEs

SMEs play a vital role in maintaining and growing global economies. In the GCC, they account for around 95 percent of registered corporations across the region, and a significant portion of private sector jobs. By contributing to growing volumes of non-oil GDP, they are also instrumental in countries' efforts to progress economic diversification. However, despite their outsized contribution to employment, national income, and innovation, SMEs face ongoing difficulties in securing adequate funding and support.

Forward-looking banks are not only focusing on closing the SME funding gap, they are putting time and effort into catering to SMEs' needs as they change over time, which involves rethinking their segmentation strategies, value propositions, and strategic partnerships. Leading banks are also rethinking the full breadth of services that SMEs require, from opening an account and enabling point-of-sale and e-commerce payment services to addressing their short- and long-term financing needs. Other moves include providing additional services, such as supply chain financing, trade finance options, insurance provisions to help manage risk, and payroll support.

By taking a comprehensive approach, banks are not only ensuring that the SME segment can continue to grow and promote economic development, they are also strengthening their own position in the financial ecosystem.

2. Unleashing the transformative power of technology and data

With national agendas focused on creating digital-first economies, we already know that banks are introducing advanced technologies, digital methodologies, and advanced data analytics to optimize their operations. However, the real prize is not improving internal KPIs; rather, it's doing things in a way that makes life as simple and easy as possible for customers, so they have compelling reasons to join—and to stay. Churn might not historically have been a problem for GCC banks. But with new competitors flooding the market with the digital experience customers have come to expect, this won't always be a given.

In this context, the launch of the KSA's Open Banking program in 2024 is set to be a game-changer. This will enable banks to share customers' data securely with their consent, improving the service experience and fostering more innovation and competition. What's more, with new digital banks like STC Bank coming onto the scene, this is redefining the banking experience as customer-centric, digital-first strategies take hold. Combined, these developments mean that winning will increasingly rest on banks' ability to use technology and data to secure customer loyalty, manage risk, and achieve operational excellence.

3. Moving to a cashless society

As the financial services industry becomes increasingly digitalized, one crucial aspect of this transformation has already begun to take hold across GCC economies: the move to digital payments. To put this in context, while approximately 70 percent of point-of-sale transactions were made in cash in 2018, by 2022 this had dropped to around 40 percent, and some projections suggest that by 2026 it will be fewer than 30 percent.

In KSA, the shift has been even more pronounced. According to the Saudi Central Bank (SAMA), in 2021 electronic payments accounted for more than 57 percent of total retail transactions, eclipsing the 55 percent target set by the FSDP. This shows that digital payments are rapidly becoming an essential part of the country's shift to a digital-first economy.

As more customers look to tap, swipe, and click their way to new purchases, banks must make sure that they can cater for these needs across all segments, including governments and businesses of all sizes—from sole proprietors to the largest corporates—as well as individual consumers. In the UAE, for example, several initiatives are under way to modernize the country's payments infrastructure. These include a strategic partnership with India, which has seen the launch of Jaywan, a new debit card for the UAE market, which is based on India's RuPay card stack, and an agreement to link the two countries' [instant payment platforms](#), UPI and AANI. Together, these developments will boost e-commerce and digital transactions in the UAE, supporting its digitization agenda and increasing payment options while reducing the cost of payments, which will help to increase financial inclusion. Overall, the country will become more competitive, enhancing its position as a global payments leader.

However, as the UAE's example demonstrates, progress is not something that any single institution can do, or benefit from, on its own. Rather, to create the shift GCC governments are looking for, and make digital payments a reality for their countries' economies, banks have to be actively involved in designing and iterating new payment systems and mechanisms so they are accessible and fit for purpose across the entire financial ecosystem.

4. Embedding sustainability and the ESG agenda

Truly regenerative businesses don't focus only on their own individual concerns; they are tightly integrated with the needs and systems of the world in which they operate. And in today's society, that means embedding sustainability and the ESG agenda into organizations' strategic priorities. Governing authorities, customers, citizens, and shareholders alike are putting more pressure on all types of business to help build a sustainable future—and to show exactly how they are doing it. Across the GCC, countries are at the sharp end of the effects of climate change, for example. Yet only 14 percent of the region's banks consider themselves to be industry leading when it comes to ESG maturity, with the majority labeling themselves as being in reactive management. This leaves a sizeable gap. We will discuss how banks can work to close it.

Takeaways

In a global economy that is lacking in dynamism, GCC economies appear to have a more promising future. However, the region's banks also face several strategic and operational challenges. With national strategic objectives and four key regenerative themes behind them, banks have a ready-made platform for innovation and growth. How they choose to respond will determine whether they can move on from resilience, and whether they will sink or swim during the coming years.

Stay tuned for more articles in this series

This article introduces the economic climate that serves as a backdrop to Kearney's proprietary GCC Retail Banking Radar 2024, based on a survey of 100 senior banking executives from across the region. Look out for the remaining articles in this series, in which we'll explore the four key regenerative themes for GCC banks in more detail. Next time, we'll delve into what's happening in the SME market. Look out for our analysis of the most pressing issues in the GCC retail banking sector today, and how banks can respond.

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Small but mighty: why banks need to rethink how they serve SMEs

SMEs play a vital role in maintaining and growing global economies. But despite their outsized contribution to employment, national income, and innovation, they face ongoing difficulties in securing adequate funding and support. Are they really a top priority for today's banks?

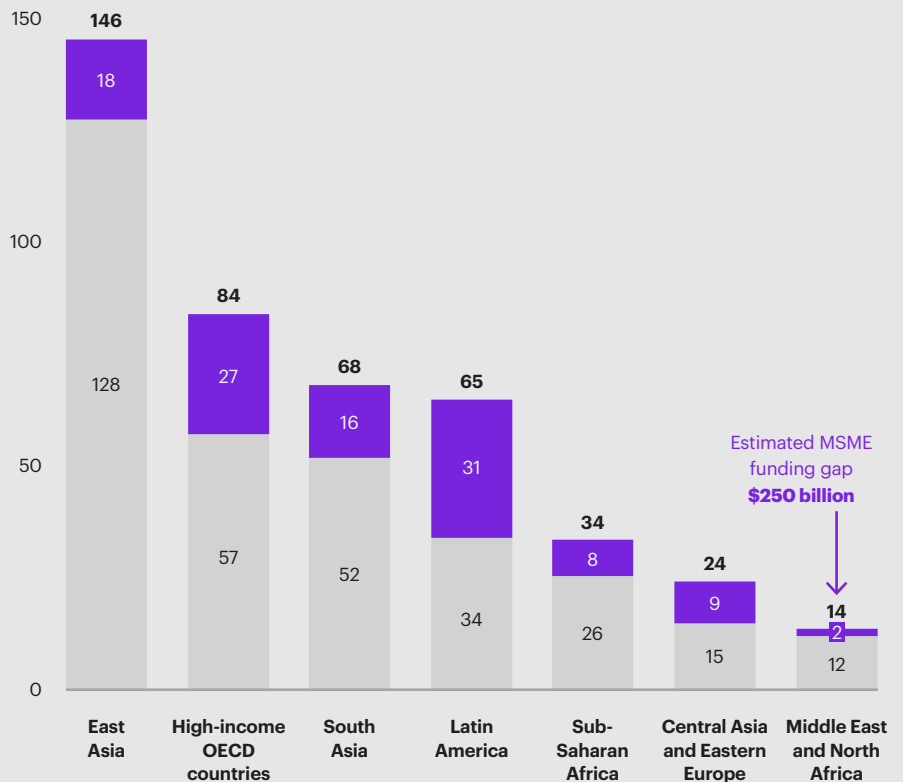
According to Kearney's GCC Retail Banking Radar 2024, there's more work to be done on understanding the sector's evolving needs, and both segmentation approaches and value propositions require a rethink if they're to reflect SMEs' true contribution to economic success.

Small and medium-sized enterprises (SMEs) punch above their weight in the global economic landscape, contributing significantly to job creation and growth. According to the [World Bank](#), they represent about 90 percent of businesses and more than 50 percent of employment worldwide, while in developing economies they are responsible for up to 40 percent of GDP (see figure 3).

Figure 3
MSMEs represent about 90 percent of businesses and more than 50 percent of employment worldwide

Number of MSMEs (million) in each region (formal and informal)

- With deposit accounts
- With loans or overdrafts



Note: MSME is micro, small, and medium enterprises; OECD is the Organisation for Economic Co-operation and Development.

Source: Kearney research

SMEs in Gulf economies are no exception, accounting for around 95 percent of registered corporations across the region. In the Kingdom of Saudi Arabia (KSA), they are responsible for around half of total private sector jobs, while in the United Arab Emirates (UAE) the figure is even higher at 50 to 60 percent. SMEs are also playing an important role in economic diversification; they currently contribute [around a third](#) of non-oil GDP in KSA and [more than 60 percent](#) of non-oil GDP in the UAE.

Given these figures, it's no surprise that the region's banks have SMEs firmly in their sights. In our study of senior banking executives from GCC countries, 74 percent of respondents said that their organizations have given higher priority to the development of the sector, particularly when it comes to funding and supporting SMEs' specific needs.

However, the SME funding gap remains an uncomfortable reality across the region. Just as one example, SME financing by commercial banks in KSA is not more than [7 percent](#) of overall corporate lending, with similar disparities in other GCC markets. Kearney estimates suggest that the total financing gap for SMEs across the region is more than \$250 billion.

This gap is not only a problem for the SME market across the region. With jobs and national prosperity also hinging on the sector's success, it's also a substantial barrier to countries' overall economic prospects. According to the [International Monetary Fund](#), improving financial inclusion for SMEs could boost annual economic growth by 1 percent per year, and lead to a potential 16 million jobs by 2025 in the Middle East and Central Asia regions.

Smart banks will capitalize on this crucial segment to close the financing gap and take their countries' economies to the next level. But this will mean changing some longstanding attitudes around lending policy and risk. With smaller businesses typically having lower turnover rates and credit scores, coupled with higher risk profiles and failure rates, banks will have to reexamine how to expand their credit provisions in a way that supports SMEs better and adequately protects their own interests. First, this will require them to develop a much deeper understanding of what today's SMEs really need.

SMEs' needs are evolving

While access to affordable finance remains a key priority for most SMEs, in reality what they require from their banking provider has expanded significantly in recent years. This can be traced back to a combination of factors, including:

1. External influences

For established banks across the GCC there are two major—and related—external influences changing the financial landscape. The first is **increasing competition** from neobanks, fintechs, and non-financial institutions, which are creating more choice for a growing generation of customers who prize seamless and convenient experiences, and self-service.

Behind this is a broader **technological shift**, which has spawned an increasingly digital environment that includes e-commerce, digital payments, cloud solutions, and artificial intelligence. This has forced the issue for most SMEs on digital transformation and introduced new requirements around introducing and operating advanced technologies, such as infrastructure advice, cybersecurity protocols, and integrated financial and business management platforms, along with system setup, training, and ongoing maintenance support.

2. The business life cycle

In addition to these external changes, banks must also bear in mind that SMEs' needs are evolving as they mature and grow. From the start-up phase and early innovative concepts through seed funding and scaling up to restructuring, floating, or potentially exiting the business, what they need from banks radically changes over time, going far beyond core financial services (see figure 4).

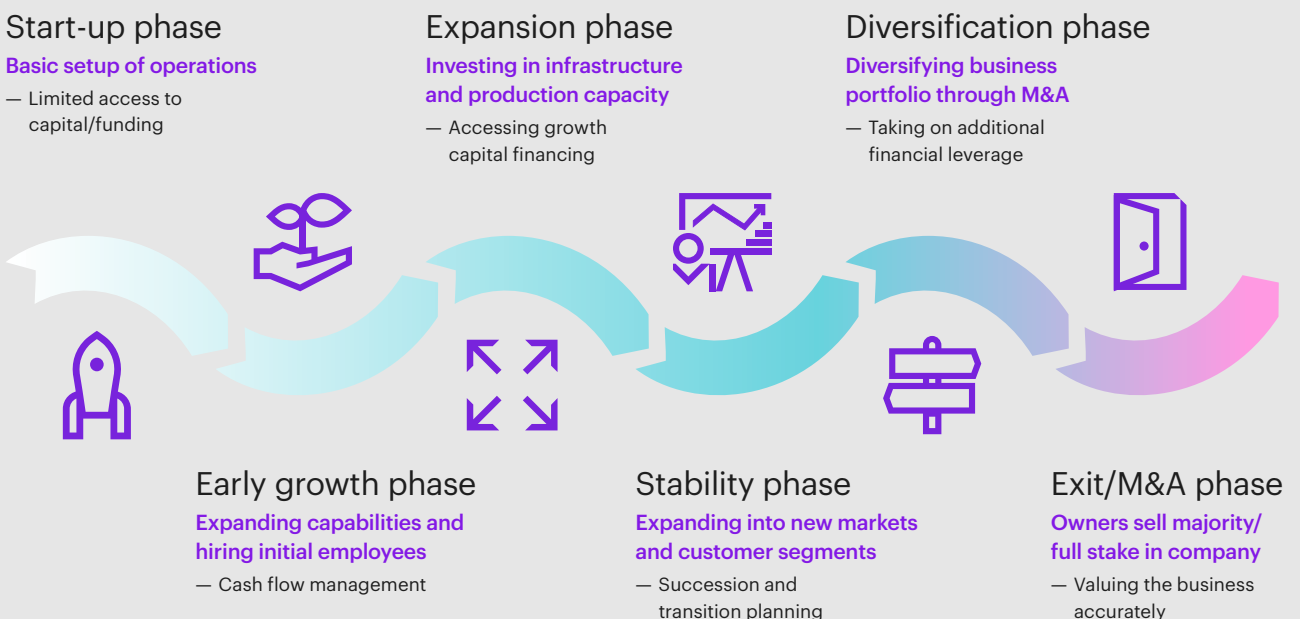
Examples of some of these developments include:

1. Geographic expansion. With more ambitious SMEs targeting additional regional or global markets, this introduces new challenges around compliance, taxation, logistics, and currency risk, to name a few. Businesses going into new territory don't just need funding for the expansion, they also need sound trade consulting and risk management advice to help them do business across borders and in different regulatory jurisdictions.

2. Industry requirements. The type of business that SMEs are in also has a major influence on their financial needs. Whether it's manufacturing, retail, healthcare, technology, food and beverage, logistics, or another sector entirely, varying business models and regulatory environments mean that banks also need to become industry specialists if they are to offer the depth of advice that today's SMEs require.

3. Digital maturity. The extent to which SMEs have adopted new technologies also has a knock-on effect on the type of financial solutions they need to operate effectively. For example, basic payment systems such as the ability to take card payments or process online transactions either locally or internationally are enough for some firms, while others want to use more advanced capabilities like analytics platforms to gain deeper insights into their financial performance and inform their strategic direction.

Figure 4
How SMEs' needs evolve throughout the business life cycle



Source: Kearney analysis

New life cycle phases + new tech = new needs

Together, these influences mean that SMEs' requirements go way beyond financing, making comprehensive packages that combine consulting, technology, and other non-funding services a must-have for banks. Our survey results bear this out. According to our respondents, banks' top priorities for supporting SMEs include streamlining operational processes (50 percent), enhancing market access (44 percent), and providing access to non-banking products and services (44 percent). Rather than survival capital, SMEs in the GCC are looking for specialized solutions to help them achieve their long-term strategic ambitions (see sidebar: Using the stock market to help close the SME financing gap).

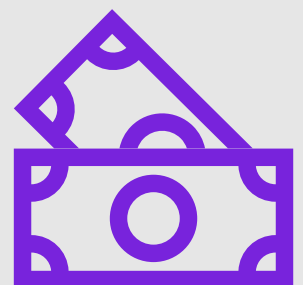
Rethinking SME segmentation

If we know one thing, it's that there's no such thing as an average SME. To get under the skin of what is now a dizzyingly diverse set of requirements, banks need to go much deeper than traditional segmentation strategies allow. For example, rather than being led by conventional indicators like annual turnover or employee headcount, it's now essential to include characteristics like those we have already described, including life cycle stage, digital maturity, industry sector or sub-sector, and any expansion plans.

Case study: using the stock market to help close the SME financing gap

One institution responding to these evolving needs is Nomu, KSA's parallel stock market. Launched in 2021, Nomu is an alternative platform for companies to be publicly listed. With lighter listing requirements than the country's main stock exchange, it also acts as an additional source of capital for high-potential SMEs that are already profitable or moving in that direction. By helping companies that want to expand, it is helping to close the ongoing financing gap for GCC SMEs, improving their visibility, attracting new investors, and raising larger funding rounds to support their ambitions. As part of this, ongoing disclosures and periodic financial reporting gradually prepare firms that want to transition to the main capital market. With 79 listed companies and a combined market capitalization of SAR 49.3 billion as of February 2024, Nomu ultimately helps ambitious SMEs not only to become listed companies, but to achieve their growth objectives and future potential.

However, success stories like Nomu are few and far between across the region, and only 15 percent of our survey respondents said that their banks offer tailored products or services to meet SMEs' changing needs. This indicates that there's plenty of room for those with an appetite for growth and innovation to step up and provide for this vital segment. Doing so will rest on banks' rethinking SME segmentation and redesigning the value proposition around targeted solutions and strategic partnerships.



Another important classification for segmentation in the GCC is ownership structure. If we consider family businesses versus partnerships or corporate-owned franchises, each of these has distinct characteristics. For example, some family-owned businesses across the region act as diverse conglomerates, which are also used to manage family wealth and personal investments.

Last but not least, let's not forget strategic orientation. Different growth strategies (for example, product-based vs. location-based) will also shape which solutions are most relevant.

By getting down to this level of detail, and including both quantitative and qualitative data, banks will be much better equipped to customize the products and services they offer based on genuine customer insights, giving them the ability to strategically target different groups effectively (see figure 5).

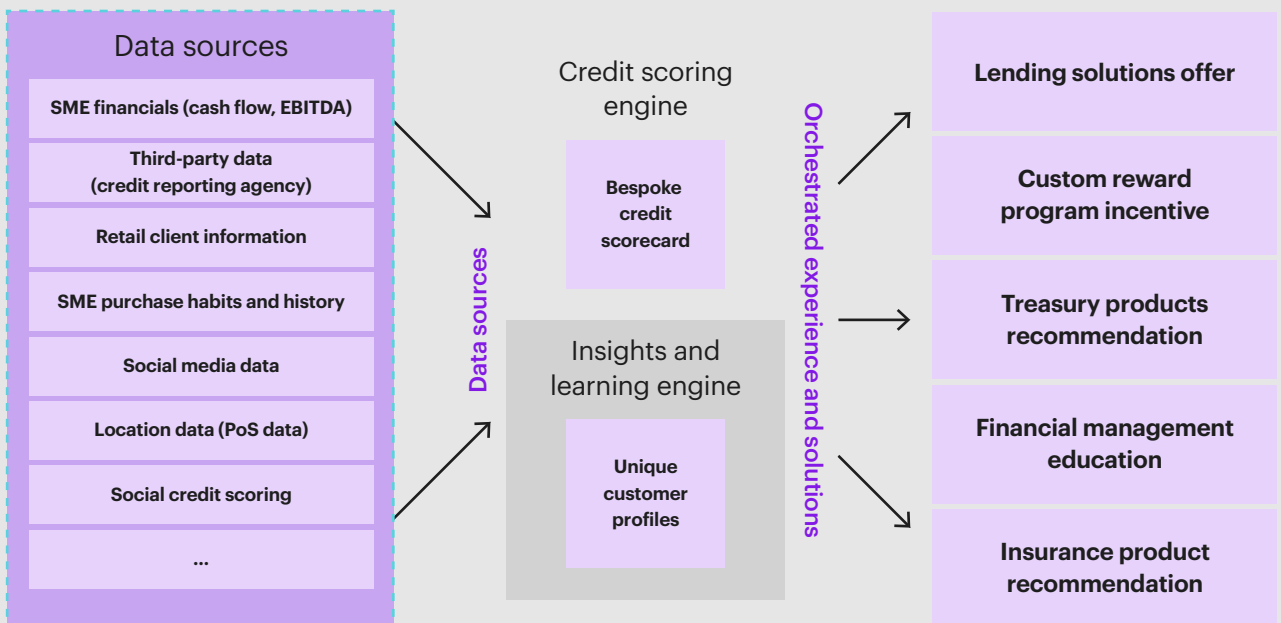
With new segmentation rules paving the way for more relevant and meaningful products and services, banks will also find that they are able to offer more value to SME customers.

Redesigning the value proposition

As we have seen, the new SME value proposition is one that must be built on both financing and advisory capabilities. There are four keys to success here:

- 1. Developing intelligence-led insights.** To uncover detailed insights about the SME market and specific customers, banks will need a sophisticated data environment in which advanced analytics sweep a wide variety of internal and external datasets to produce accurate and comprehensive profiles.
- 2. Designing wrapped solutions.** By dovetailing and bundling complementary funding and non-funding services, banks will be able to smooth and streamline the customer experience for SMEs, adding even more value to their businesses.

Figure 5
How different data sources can help to customize SME solutions



Source: Kearney analysis

Clever use of partnerships will help banks to extend their core competencies and fill any service gaps.

3. Forming strategic alliances. When you're talking transformation on this scale, it's impossible to do everything on your own. Clever use of partnerships will help banks to extend their core competencies and fill any service gaps (see sidebar: Deep dive: forming strategic financing partnerships). But they also open up new opportunities for innovation. For example, by collaborating with fintechs, consultancies, industry bodies, and government agencies, banks can go way beyond delivering what's possible today, and instead take a central role in developing and distributing new, advanced solutions, such as tailored bundles for underserved segments.

4. Optimizing servicing models. Redesigning the value proposition also gives banks the chance to consider how things get done, as well as what they deliver to customers. Branch networks, service channels, and account management models are all ripe for reinvention, with the aim of ensuring seamless, customized experiences that build trust and form the basis for lasting relationships.

Deep dive: forming strategic financing partnerships

Alongside commercial banks, development finance institutions (DFIs) and SME development funds play a vital role in bridging financing gaps. In the GCC, entities like KSA's Social Development Bank (SDB), the UAE's Khalifa Fund, and Qatar Fund for Development have provided billions in subsidized loans and grants to thousands of SMEs over the years.

However, these mechanisms do have certain limitations. For instance, fragmented application and due diligence processes make onboarding too complex, while development and repayment data is discrete rather than shared, limiting its potential to enhance risk assessment models.

Bringing the public and private spheres together could create more impact. As a few examples, applying commercial financing capabilities to development bank subsidies could significantly extend their reach, while combining infrastructure investment with incubator programs would provide ecosystem-wide stimulation, and data-sharing agreements could help clients move to non-subsidized funding options over time.

More three-way partnerships between SMEs, commercial banks, and development funds will create win-win-win scenarios that enable enterprises to become more self-sufficient while reducing risk for each partner, strengthening the SME value chain from start-up to scale-up.

For banks, it's an opportunity to place themselves center stage on the national economic agenda. However, becoming a strategic partner at this level also means reconsidering how mature the organization is when it comes to the operating model, available skills, risk frameworks, and technological advances. Those that get it right will be well-positioned to strengthen their standing within the SME ecosystem and broader economic landscape.

Takeaways

SMEs are the bedrock of today's GCC economies, but they are chronically underserved. With financing no longer enough to satisfy their evolving needs, banks must rethink both what support they provide and how they go about providing it. Sophisticated segmentation strategies backed by refreshed value propositions will help banks profile and target priority customers, while smart financing partnerships will not only help close the SME financing gap, but also place banks at the forefront of their countries' economic future. It's all there for the taking.

Stay tuned for more articles in this series

This article explores one of the key themes from Kearney's proprietary GCC Retail Banking Radar 2024, based on a survey of 100 senior banking executives from across the region. Next time, we'll explore the role of technology and data in banking operations before casting an eye over the shift to digital payments and developments with the environmental, social, and governance (ESG) agenda. Look out for our analysis of the most pressing issues in the GCC retail banking sector today, and how banks can respond.

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Seamless experiences, slick operations: how banks are reaping the digital dividend

The digital mandate is nothing new for retail banks, but in 2024 it will assume even more importance as competition opens up further and market volatility continues to challenge liquidity and profits. Kearney's GCC Retail Banking Radar 2024 reveals why technology and data are at the heart of securing customer loyalty and operational excellence.

In today's market, retail bank customers are spoiled with choice. Digital providers are vying with traditional banks to look after their finances, with open banking protocols enabling fintechs, smaller banks, and non-financial institutions to make a grab for their piece of the pie. At the same time, embedded finance solutions are creating new access points to products and services from a host of different providers. GCC countries are making significant strides here. Having launched the region's first [Open Finance Lab](#), the United Arab Emirates (UAE) is among those leading the way on positioning open banking as a smart economic choice, while open banking frameworks in the [Kingdom of Saudi Arabia \(KSA\)](#) and [Bahrain](#) are laying the foundations for other global fintech hubs within the GCC.

It's good news for customers, but in other parts of the world, banks are seeing loyalty falter. In fact, the perception data specialist Caliber, which surveyed consumers in Brazil, China, France, Germany, Japan, the UK, and the United States, expects almost one in four (23 percent) to [switch banks](#) in the 12 months to June 2024. While it's common for consumers in GCC countries to have multiple bank accounts with different providers, and many still rely on traditional means of payment, the plethora of new, shiny alternatives now at their disposal could make moving a simpler and more appealing prospect.

As we discussed in the first article in this series, forecasts indicate that GCC economies—and therefore financial institutions—will remain resilient despite a continuing global slowdown in 2024, as non-energy sectors push GDP up. However, with the region's banking executives also telling us that borrowing costs, access to funding, and delivering on their investment strategies remain major challenges, it's not all going to be plain sailing.

To be fit for today's higher-cost, slower-growth environment, and to stop churn from becoming a threat, it's clear that all banks must turn the dial even further on **improving the customer experience**, which also means **optimizing their operations**. In our view, digitalization and intelligent data management lie at the heart of realizing these ambitions.

Seamless customer experiences

When asked to name the major changes in customer behavior and preferences impacting their organization, 41 percent of banking executives from across the region pointed to rising expectations of a seamless and convenient experience. GCC retail bank customers are also keen on self-service options; 38 percent of our survey respondents named these as the second most significant change.

While there are subtle differences between countries (for example, customers in the KSA place more focus on digital channels and online transactions, and in the UAE, a seamless experience is more important), this gives banks across the region another clear signal that making customers their primary focus must be a top strategic priority.

Putting customers front and center

From our own client work, we know that seamless customer experiences are only possible when organizations adopt a genuinely customer-centric approach. As digital technologies become more embedded in all aspects of everyday life, consumers have come to expect convenient, personalized, and user-friendly experiences at their fingertips. For banks, this means offering omnichannel banking options that hang together effortlessly, such as easy access to account information, payment methods, and the ability to complete transactions remotely. The prize? Those that get it right will be more likely to attract and retain customers in the long run.

There are several ways that banks are making the shift.

1. Adopting platforms and cloud solutions to integrate, standardize, and simplify. In response to today's "everything, everywhere, all at once" consumer expectations, banks are increasingly using platforms and cloud storage capabilities to host, integrate, and standardize what they offer. By connecting legacy systems, discrete workflows, and multiple data sources in the background, the platform brings everything together, making it easier for customers to do what they need to, in a way that feels simple, consistent, and joined up.

In the GCC, cloud adoption has started to gain traction, thanks to the security and agility it offers. However, some concerns remain around hosting locations, given that some data is required by law to be stored within national borders. In the KSA, digital banks have been given the go-ahead to host services in the cloud, while central banks across the region are spearheading the development of specialist services such as robust know your customer (KYC) systems and advanced security centers. These initiatives play a vital role in supporting operational levels within banks by ensuring regulatory compliance, mitigating risks, fostering customer trust, safeguarding data privacy, and enhancing operational resilience. As a result, banks are able to navigate a complex and dynamic digital finance landscape securely, allowing them to innovate and drive sustainable growth.

2. Using digital to accentuate the personal. Banks are now employing advanced technologies to deliver an increasingly personalized service to customers. For example, by using geofencing to detect where a customer is, analyzing their transaction history and spending preferences, and applying some behavioral analysis and defined rules using AI, banks can push a tailored notification or pop-up straight to the customer's device, highlighting the latest offers that are available nearby—in real time. All of this is made possible by powerful platforms that aggregate and analyze diverse datasets from multiple sources, including browsing behavior, transaction histories, demographics, income, spending habits, and life stage. AI and ML also combine with customer relationship management (CRM) systems to play a pivotal role in this process, by continually refining and adapting offerings based on evolving customer relationships.

3. Ensuring security, building trust. Of course, the smoothest experiences and most carefully crafted service levels don't mean anything if your finances, or your data, aren't secure. Trust has always been the cornerstone of the banking relationship, and as the world becomes more digitized banks must step up their efforts to combat fraud and protect their customers. With safety another crucial concern, many banks are now building AI and automation into their monitoring systems, which allows problematic patterns to be identified and dealt with quickly.

Banks are also integrating enhanced security measures and authentication protocols into their digital platforms, particularly through device binding, which—as the name suggests—ties a user’s account to a specific mobile or web device, adding an extra layer of protection against unauthorized access. Advanced fraud controls include biometric tools like fingerprint and facial recognition, while two-factor authentication (2FA) adds an extra layer of verification, combining passwords with one-time codes sent to registered devices, and AI-powered behavioral analytics scans for anomalies, triggering alerts when suspicious activity is detected.

The output of all these developments is better customer relationships. But banks and their customers are also benefiting as technology and data combine to streamline and speed up processes, reduce costs, and improve outcomes inside and outside the organization.

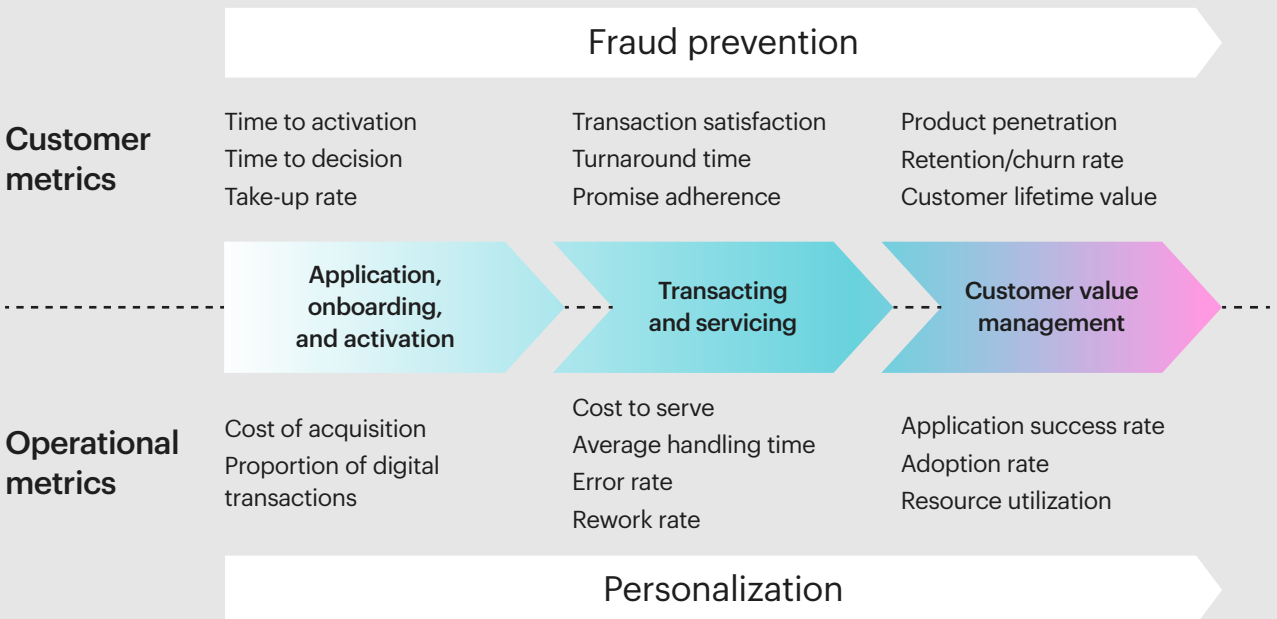
Slicker operations

Digitalizing and automating banking operations can significantly improve important performance measures for banks themselves and for their customers. We can see compelling examples throughout the entire customer journey, from applying to join a new provider and managing everyday interactions to how the relationship develops and deepens over the customer’s lifetime (see figure 6).

The customer life cycle starts with application, onboarding, and activation, where potential customers apply for a bank account or other product and—if their application is accepted—they are brought on board and their services are activated. Transacting and servicing is where customers engage in typical banking activities such as transferring money, making payments, and contacting customer services. In the customer value management phase, bank activity is all about maximizing satisfaction, retaining customers, and increasing their overall lifetime value. Throughout, fraud prevention and personalization remain priority to protect security and deliver tailored experiences.

Figure 6

Digitalization can significantly improve important performance measures for banks and their customers



Source: Kearney analysis

1. Applications, onboarding, and activation. As many frustrated banking customers will attest, even the simplest banking product can be hampered by complex, tedious onboarding and activation processes. These often have multiple steps that weave in and out of different channels. However, it doesn't have to be this way. In our experience, simply streamlining the process and delivering it via a mobile app, for example, can cut the cost of delivering by up to 45 percent. Taking this one step further, fully digitizing onboarding and activation journeys typically results in a customer acquisition cost (CAC) up to 65 percent lower than that of traditional banks. This naturally varies by product type—for example, complex products that involve manual processes will take longer and be more expensive as a result. However, banks also have digital KYC identity and verification solutions to draw on, which improve the onboarding experience and increase conversion rates.

2. Transactions and servicing. Once new customers have successfully joined up, they typically need to contact their bank either to carry out simple transactions or ask common questions, or with more complex, potentially emotional queries that require the human touch. In the former case, interactions can largely be handled by self-service, which makes them ripe for automation through chatbots and generative AI. In fact, 33 percent of our respondents said that using AI and chatbots in customer service is one of the main ways that advances in technology are influencing their organization. In addition, 24 percent stated that robotic process automation (RPA) is increasingly being used to handle repetitive, rule-based processes like updating customer records, freeing up agents to provide in-person support where this is needed. Interestingly, process mining, which we talk about in more detail below, has also been shown to reduce average handling times by between 30 and 50 percent, by taking out slack and improving operational processes (see sidebar: Deep dive: using process mining to uncover improvement opportunities on page 18).

3. Managing the ongoing relationship. As time goes on, banks can use the technology tools at their disposal to become even more indispensable to their customers by getting to know them better and offering new products and services to meet their changing needs. This is where customer value management (CVM) comes into play. By focusing on creating, delivering, and capturing value for customers, CVM goes beyond merely ensuring satisfaction; it also maximizes value for banks by uncovering new selling opportunities, improving operational efficiencies, and boosting retention rates. Banks across the region are already adopting this approach by using AI to identify and suggest new products and services that are tailored to individual needs and preferences.

The ultimate goal: customer lifetime value

By making smart use of digital technologies and data, banks will be able to proactively adapt to the evolving preferences and behaviors of their customers and supercharge their operational efficiencies. In the process, they will also get closer to the ultimate goal: building customer lifetime value. In other words, they will move from a focus on individual transactions and interactions to a comprehensive view of the entire relationship, including potential future revenues. By doing this, banks get to know who their most profitable customers are, which prospective customers are likely to bring in most value, and what marketing strategies will work best for them, allowing for more strategic decisions and more effective daily operations.

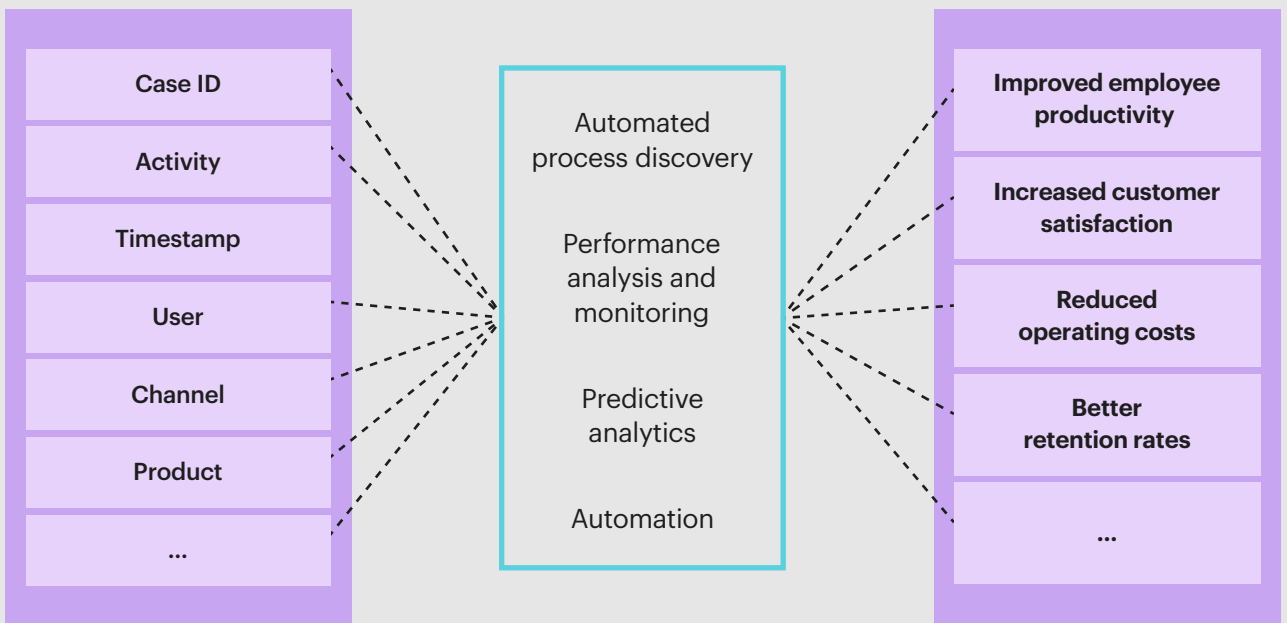
Deep dive: using process mining to uncover improvement opportunities

While many technology tools offer banks ample potential to streamline and enhance their operations, process mining, which combines data mining with process analytics, stands out. With the ability to gain complete visibility of all the processes in a value chain, and an objective, system-agnostic view of how they work—in real time—it allows organizations to find new opportunities to improve and add value, using their own data. As we will see, it can also help banks to fulfill their regulatory obligations. There are three key steps (see figure):

1. Capturing specific process data points, for example activity type, timestamp, user, product, channel, and so on
2. Visualizing the actual process flow as it happens and determining the root cause of any bottlenecks
3. Defining the new target state, then identifying initiatives and a road map to get there

Process mining works by pulling in real process data from across an organization and analyzing this to uncover any problems and their root causes using techniques including predictive analytics, performance analysis, and continuous monitoring. By uncovering insights into workflow patterns, bottlenecks, and inefficiencies, actionable recommendations can then be made to enhance operational effectiveness, optimize processes, reduce costs, and improve overall performance.

Figure
How different data sources can help to customize SME solutions



Source: Kearney analysis

Some of the benefits that process mining brings to the table include reducing operational costs by 30 to 75 percent, rework rates by 60 to 90 percent, and error rates by a remarkable 70 to 90 percent. Just let those figures sink in. On the customer relationship side of the equation, process mining can also significantly reduce handling times. As one example, straight-through processing (STP), which processes transactions electronically rather than manually, can be increased by 20 percent, helping staff become more efficient. In total, process mining can reduce handling times by 30 to 50 percent.

With these and many other potential improvements on tap, it's easy to see how process mining can be a pivotal asset to banks when it comes to regulatory compliance, thanks to its ability to identify control weaknesses. This not only shields banks from regulatory fines but also shows up in improved audit findings.

So, what do banks need to make process mining work to their advantage? In our experience, it means embedding some foundational technology and data capabilities.

- **A low-code development environment.** Low-code environments enhance process mining in several ways, including giving organizations the ability to turn insights into improvements without needing to use off-the-shelf solutions or in-depth programming knowledge. Additionally, it means a broader range of stakeholders can be involved in making improvements that cater for specific user needs, rather than assuming one size fits all.
- **AI.** Adding AI into the process mining equation will deliver a quantum leap in effectiveness, thanks to the technology's vast capabilities for processing data, applying predictive analytics, generating scenarios, automating improvements, detecting anomalies, and customizing solutions, to name a few examples. For instance, AI can quickly generate important new documents like standard operating procedures in various languages and to suit different legal and regulatory environments when processes are updated.
- **Data-led decision-making.** It won't be any surprise to learn that the availability, accessibility, and quality of an organization's data will also have a huge influence on the success—or otherwise—of its process mining initiatives. This means that starting from a robust data perspective is crucial.

Underpinning everything: effective regulation

Last but not least, regulations have a major impact on how banks in the GCC can capitalize on advances in technology and data, and governments across the region have been using regulatory reform as a way of diversifying their economies and advancing the Gulf's presence in international financial markets.

One notable theme for retail banks is open banking, as discussed at the beginning of this article, which has led to several regulatory frameworks and financial technology sandboxes being established across the region. In addition, there have been some other important developments, including:

1. **Digital assets.** As digital assets like cryptocurrencies, digital art, and multimedia content become more prominent, authorities in the region are adopting different approaches. The UAE has created the world's first independent regulator for digital assets, the [Virtual Assets Regulatory Authority \(VARA\)](#), in the emirate of Dubai, and in parallel the UAE's Securities and Commodities Authority has begun to [receive new license applications](#) from companies interested in providing digital asset services. Elsewhere, Qatari regulators began consultation on introducing a [digital assets framework](#) in late 2023, while in Kuwait, the Capital Markets Authority [banned all types of virtual currency transactions](#) to prevent money laundering.

2. Artificial intelligence. With developments in AI and particularly generative AI accelerating at a runaway pace, authorities are tasked with future proofing how the technologies are used in a way that protects society without stifling innovation. Both the UAE and KSA have made moves to become hubs for AI investment. The UAE has formed its own [government ministry for AI](#) and designed a proprietary [open-source large language model](#) as part of its 2031 National AI Strategy, and the KSA has approved a series of changes to its [data privacy rules](#) to help businesses develop and embed AI solutions in line with other international standards. Both countries signed the [Bletchley Declaration](#) at the first AI Safety Summit in November 2023, and Qatar is also exploring a regulatory framework for AI as part of its [national strategy](#).

3. Open banking. Initially conceived as a way of promoting competition in the payments and banking industry, banks around the world have started opening up their data, a move that is also playing a key role in driving innovation and empowering customers. This has prompted regulators to adopt various measures that enable and manage cross-industry data sharing effectively. In KSA, the Saudi Arabian Monetary Authority (SAMA) has led the development of the country's open banking framework and established the Open Banking Lab. Similarly, the UAE has launched an Open Finance Lab, reflecting the region's commitment to embracing financial transparency. Other countries across the region have also introduced their own sets of rules and products to govern and manage the risks associated with open banking as part of a collective effort to make sure it is implemented across the sector in a responsible way that benefits all parties.

4. Security and cybercrime. To tackle the new risks arising from a digitally enabled financial landscape, GCC countries have also been establishing a variety of regulations related to combating the financing of terrorism (CFT), to address and mitigate the activities of extremist and terrorist groups; anti-money laundering (AML), to prevent and prosecute money laundering activities; and know your customer (KYC), to verify the identity of individual and business clients. The overall aim is to create a more secure and trustworthy operating environment that reduces the likelihood of financial crimes, working in line with international standards like the [Financial Action Task Force \(FATF\) recommendations](#). One recent initiative is a new [Cyber Anti-Fraud Program](#), launched by the Saudi Central Bank (SAMA) in September 2023.

Adapting to and complying with regulation can be costly and time-consuming, but the potential consequences of non-compliance far outweigh these, meaning shifts in the regulatory environment will continue to have a significant impact on how retail banks plan for and implement new technologies throughout 2024 and beyond.

Takeaways

Some things haven't changed. Leading banks have always known that to stay ahead, they must always be working to give their customers the best possible experience, which means staying agile and keeping their operational capabilities in peak form. These facts still hold true today.

However, the means to achieving those priorities have changed. While many GCC customers still use traditional banking and payment methods, they have also become used to a world that runs on digital, data-driven, self-service solutions. Sooner rather than later, they will expect banking providers to be on the same page, offering similar (or better) experiences as their other preferred retailers and service providers.

Leading banks will not only be prepared for this shift, but they will be at the forefront of making it happen and technology and data will play a leading role in the transformation.

Stay tuned for more articles in this series

This article explores one of the key themes from Kearney's proprietary GCC Retail Banking Radar 2024, based on a survey of 100 senior banking executives from across the region. Next time, we'll explore how the shift to digital payments is progressing before delving into developments in the environmental, social, and governance (ESG) agenda. Look out for our analysis of the most pressing issues in the GCC retail banking sector today, and how banks can respond.

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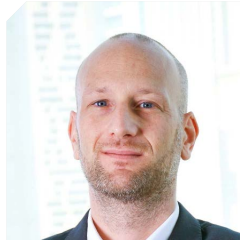
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From cash to clicks: navigating the digital payment transformation in banking

Digital payment systems are on the rise worldwide, and the GCC is no exception. Here, however, banks are not only taking care of the technical details, they're at the forefront of shaping the transformation. What's really in it for the region's banks, and how can they be sure of success in the long run? Kearney's GCC Retail Banking Radar 2024 has some of the answers.

Cash once reigned supreme as the backbone of most economic transactions. However, the move toward electronic and contactless payments has been gaining momentum for some years. As with most major societal shifts, there are many reasons behind this, but prime among them are the advent of the Internet, the introduction of the smartphone, and a more recent inflection point—the COVID-19 pandemic. Combined, these have driven a new appetite for digital rather than physical transactions in almost every economy, turning them from a once-rare phenomenon to standard practice in just a few decades.

Worldwide, while the sheer scale of production of coins and notes shows how deeply rooted cash is in our economies and societies, digital payments are on an accelerated upward track. Digital payments will reach a total transaction value of \$11.55 trillion in 2024, and hit \$16.62 trillion by 2028, a compound annual growth rate (CAGR) of about 10 percent.

With a growing range of digital payment methods on the table, including instant payments, domestic card schemes, and central bank digital currencies (CBDCs), banks face a crucial challenge. In addition to supporting this growth they must also effectively implement and communicate the benefits of diverse payment options to their customers.

Digital payments will reach a total transaction value of \$11.55 trillion in 2024, and hit \$16.62 trillion by 2028, a CAGR of about 10 percent.

Digital payments are taking off in the GCC

In the GCC, the financial landscape is swinging decisively toward digital as nations aim to achieve financial inclusion, bolster the small and medium-sized enterprise (SME) sector, and integrate advanced technologies into the economic framework. Five key influences are spurring this shift:

1. A new competitive landscape

As we discussed in the third article in this series, today's retail bank customers are spoiled with choice thanks to a host of new, digital providers and easier access to embedded finance solutions. And while churn isn't yet a problem, traditional banks have cottoned on to the rising popularity of digital finance. More than half of the organizations we surveyed now consider non-banking institutions like fintechs a competitive threat, and many are making their own investments in technology and data to keep up as the market continues to evolve.

2. An influx of new payment methods

Across the region, there has already been a marked switch in payment preferences. To put this in context, while roughly 70 percent of point-of-sale transactions were made in cash in 2018, by 2022 this had dropped to around 40 percent, and some projections suggest that by 2026 it will be fewer than 30 percent. Conversely, the value of point-of-sale transactions made via digital wallets tripled between 2018 and 2022, and is anticipated to stretch to an eightfold increase by 2026. According to Piyush Dubey, a partner in our Middle East and Africa financial institutions practice, [50 percent of transactions](#) in the Kingdom of Saudi Arabia (KSA) and the United Arab Emirates (UAE) are now taking place digitally.

Banks are feeling it: 37 percent of our survey respondents told us that the shift toward digital channels and online transactions was one of the three biggest changes in customer behavior affecting their organization, and almost one in three (30 percent) said that digital products and channels like payment solutions and online banking were one of the top three technological influences.

3. Business goes digital

Businesses are also getting in on the action, with cashless transactions now particularly evident in the UAE's SME sector. This saw an increase of more than 40 percent in 2022 alone, and between 2018 and 2022, the overall value of digital payments in the country doubled. With SMEs accounting for around 95 percent of registered corporations across the region, this is a move banks can't afford to ignore, as all types of business from the largest corporate to the smallest grocery store begin to embrace digital payments. In short, they are becoming a core part of everyday life.

4. The rise of e-commerce

Already gaining traction, then given a considerable push by COVID-19, e-commerce has also served to embed digital payment methods across the GCC. According to Worldpay's [Global Payments Report 2024](#), for example, credit cards were the leading e-commerce payment method in the UAE during 2023, accounting for 37 percent of transaction value, while in the KSA debit cards and prepaid cards formed the most popular payment category, clocking up 33 percent. By contrast, cash on delivery was responsible for only 9 percent of transaction value in KSA and 6 percent in the UAE, and is expected to decline to 5 percent across the Middle East and Africa region as a whole by 2027.

5. A growing appetite for short-term financing

Another trend gathering momentum in the payments space is buy now, pay later (BNPL), which offers consumers flexibility to break up purchases into manageable installments and gives them access to interest-free credit. While particularly popular among younger shoppers, rising prices mean BNPL has seen more take-up across all age groups globally.

Digital payments are firmly on the national financial agenda

All the influences we have discussed are cranking up the rationale for change. But perhaps most importantly for GCC banks, national agendas are also compelling financial institutions to transform as they push to develop increasingly digital economies. This has spawned a spate of programs and initiatives in all GCC countries, aimed at creating more interconnected financial ecosystems in which funds and currencies move freely between various parts and players, and complementing existing payment mechanisms like real-time gross settlement (RTGS), cheque clearing systems, payment gateways, and direct debit authorizations.

Recent developments include:

Instant payment systems. These are revolutionizing peer-to-peer (P2P) transfers by offering more straightforward alternatives to traditional methods like international bank account number (IBAN) transfers, as sending money is as easy as typing in a recipient's phone number or email address. Small and medium-sized enterprises (SMEs) and sole proprietors are able to accept consumer payments via static QR codes and send digital payment requests, while dynamic QR codes are allowing large merchants to cut costs and streamline transactions.

Domestic card schemes have been endorsed by central banks and cut transaction costs by 20 to 50 percent on average. As they are regulated locally, this gives governing authorities more visibility over transactions and more peace of mind when it comes to security concerns. In addition, these schemes are bolstering national sovereignty by providing greater oversight of the payments market and propelling the development of critical infrastructure.

CBDCs have emerged as a widespread new interest: countries representing 98 percent of global GDP are currently exploring their potential, although to date implementation has been sparse. Issued by central banks, they are a government-backed digital form of a country's own currency. Unlike cryptocurrencies, they are controlled and regulated centrally, which ensures stability and reliability. They come in two main forms:

- 1. Wholesale.** These enable domestic and international business-to-business (B2B) and business-to-government (B2G) transactions, mainly between financial institutions and central banks.
- 2. Retail.** These enable domestic and international person-to-business (P2B) and government-to-person (G2P) transactions, as well as P2P transfers.

CBDCs really come into their own for transactions that have traditionally involved intermediaries and verification. Examples include the settlement process, whereby securities can be delivered immediately, taking out the risk of parties defaulting on payment; cross-border transactions, where intermediary fees could be significantly reduced; and investments in tokenized assets, which can benefit from real-time contract verification and payments, as well as the automation of specified payments.

But the advantages of CBDCs go way beyond taking out the middle man. For a start, they're "always on" and can be programmed to process or automate specific operations. If we also consider their ability to reduce transaction costs, increase processing speeds, and enable greater transparency and system integrity, they hold massive potential for financial systems to become more efficient, cost-effective, and secure, while allowing targeted monetary and fiscal policies to be developed.

What's next for digital payments?

Coupled with other innovations like BNPL and donate now, pay later (DNPL) schemes, the new payment methods we have described are clearly turning the financial ecosystem on its head. But where do GCC banks go from here?

The shift to digital payments is an evolution that presents both opportunities and challenges for central banks and other financial institutions. But one thing is for sure: to succeed, they need to not only consider how they develop, deliver, and communicate about new payment methods with their own clients, but they must build an entire ecosystem that opens up new payment options in a way that ensures efficiency, customer satisfaction, and financial inclusion.

The shift to digital payments is an evolution that presents both opportunities and challenges for central banks and other financial institutions.

Seven golden rules for success

For banks looking to introduce digital payments and integrate them into their nations' economies and their own suites of services, we see seven golden rules for success:

1. Strategic fit

Banks must first make sure that introducing new payment methods is in harmony with their broader strategic objectives, whether the goal is to enhance the customer experience, broaden their market reach, or boost efficiency. Doing this work up front will establish the right support framework for new growth activities, help to prioritize and allocate resources, and inform the implementation timeline.

2. Technical and operational readiness

The technology infrastructure, organization, and wider society need to be equipped to handle the new demands placed on them. From a technology standpoint, this includes building in security, scalability, and integration capabilities so that new digital transactions systems slot in seamlessly and are interoperable with other payment networks, from the development phase through to testing, issue reporting, and implementation. Another crucial success factor is choosing the right implementation model as early as possible, whether this will be achieved using purely internal resources or whether third-party vendor support will be needed. Operational readiness is equally important, which means banks also need to prioritize plans to train employees, update internal processes and procedures, and communicate about the new products and services they are developing, both internally and externally.

3. Maximum diversity

Being able to cater to all participants in the financial ecosystem—from individuals to sole traders, businesses of all sizes, and government institutions—is really a no-brainer for banks: it makes sound commercial sense. But over and above this, banks are key players in improving financial inclusion, which has a fundamental role in building long-term economic stability and growth. This means developing solutions that will bring in those who have historically lacked access to financial products and services. For instance, in 2020, it was estimated that around [70 percent of the adult population](#) across the GCC did not have access to a bank account. Initiatives like instant payments, which include static and dynamic QR codes for different sizes of business, and mobile transfers that allow people to make payments or send money to other individuals, are a great example of how to give customers more options. Accessibility and convenience are key.

4. Seamless experiences

As we outlined in the third article in this series, our increasingly digitalized world has led customers to expect a very different experience from the companies they choose to interact with. In fact, 41 percent of our survey respondents said that rising expectations of a seamless and convenient experience was the major change in customer behavior and preferences impacting their organization. As banks prepare to shift from cash to digital payments, this will require shrewd investments in both technology and infrastructure and careful consideration of the customer journey. User-friendly interfaces, quicker transaction times, and fewer unnecessary steps will all help to deliver a smooth and rapid transition.

5. Enhanced security and privacy

As payments become progressively more digital and less physical, this introduces something of a double-edged sword for banks. On the one hand, although less reliance on cash helps to reduce theft and fraud, on the other, data and cybersecurity issues assume much more importance. With attacks on the rise and the GCC facing some of the [highest costs per cyber incident globally](#), customers will want to know that their personal information—and their funds—are safe. Mirroring global trends, GCC customers are becoming more aware of how their personal and financial information is collected, stored, used, and shared. In response, regulatory bodies across the region have been actively working on frameworks that protect customer data while encouraging responsible data sharing.

6. Switched-on customers

It's one thing to offer consumers more convenience and choice when it comes to how they pay for things. But banks also need to bear in mind that navigating a whole new set of options could be overwhelming for some. This makes engaging and educating customers another critical role. Clear, accessible, and comprehensive information about the new products and services available will lead to informed decisions that best suit customers' individual needs and preferences. From simple brochures to online learning and personal consultations, putting the effort in here will not only boost adoption and uptake, but it will also enhance customer satisfaction and trust and promote financial literacy and inclusion at a national level, helping countries adjust to an era of "digital everything."

7. Cross-system collaboration

But perhaps the most significant rule for success is that banks can't tackle this transformation alone. As an industry of networks, one change in part of the ecosystem will cause multiple ripples elsewhere, and so the evolution of payment systems will require full-scale collaboration across the public and private sectors, with regulatory bodies, supervisory authorities, and other financial institutions. According to the executives we surveyed, GCC banks are well aware of this; almost one in three (32 percent) are already strengthening their partnerships or collaborations with fintechs, for example, to boost their own capabilities. More broadly, across the region there has been significant collaboration between central banks and supranational authorities to implement regional payment systems (like AFAQ, which handles real-time payments), laying the foundations for further integration between economies.

The paths that individual financial players take in embedding digital payments will obviously be shaped by national strategic priorities. However, with new strategic offerings and revenue streams up for grabs, they would do well to employ attractive pricing as a way of fostering interest and adoption. Finally, with so much at stake, it will be crucial for banks to keep a close eye on the development and rollout of new payment systems and evaluate their implications.

Takeaways

Financial systems across the GCC are on the cusp of a pivotal transformation. As economies shift toward digital payments, the scene is set for banks to play a fundamental role in building the future. Does this mean cash will disappear? It's unlikely in the short term: convenience, control, and cultural norms all mean that many transactions are still made using notes and coins. However, with digital banking and payments on the rise, complacency isn't really an option. Instead, the smart option for banks will be running hybrid systems that preserve the integrity of cash while expanding customer choice, access, and flexibility through digital payment solutions. To summarize: the near future will be cash-light, rather than cash-less.

Stay tuned for the final article in this series

This article explores one of the key themes from Kearney's proprietary GCC Retail Banking Radar 2024, based on a survey of 100 senior banking executives from across the region. For the final article in this series, we'll delve into how the environmental, social, and governance (ESG) agenda is influencing the retail banking sector. In the meantime, why not check out our previous articles on the overall outlook for GCC banks, why banks need to rethink how they serve SMEs, and how technology and data are transforming the customer experience and operational efficiency. Look out for our analysis of the most pressing issues in the GCC retail banking sector today, and how banks can respond.

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Sustainable finance, sustainable operations: it's time for GCC banks to advance their ESG agendas

Banks might be the financial powerhouse behind global ESG investments, but when it comes to their own sustainability initiatives, only 14 percent are leading the way. With stark warnings about climate action stacking up and stakeholders piling on the pressure for organizations to actively contribute to a better world, what's next for banks, and how can they get some traction on their ESG plans? Kearney's GCC Retail Banking Radar 2024 investigates.

ESG considerations are gaining prominence in every sector and economy. COP28's [global stocktake](#) on climate action in Dubai revealed slow progress when it comes to both reducing emissions and financing necessary adjustments. Urgent action is needed, as highlighted in our report, [Bridging the regional divide](#). The [Global Climate Finance Center](#), launched during COP28 with members such as ADQ, BlackRock, HSBC, and Masdar, underscores the importance of mobilizing finance for climate action. Environmental and financial concerns are just part of the picture. Social impact and governance are also under scrutiny from a wide variety of stakeholders seeking responsible action from organizations regarding people, planet, and profits.

For banks, there's an additional mandate: to provide services that boost financial flows to sustainable development—sustainable finance—and mitigate the impact of climate events by rebalancing risk and maintaining stability. Central banks and regulators are adapting frameworks to meet these requirements, however, with COP29 set to focus on financing, the need for effective ESG strategies across the sector is only increasing. In the GCC, national agendas have pushed ESG to the forefront for banks. Programs such as the Saudi Green Initiative and the [Middle East Green Initiative](#) aim to reduce emissions and improve regulation with voluntary ESG guidelines, like the Abu Dhabi Sustainable Finance Declaration, emphasizing this commitment. Collaborative action, such as the \$100 billion Partnership for Accelerating Clean Energy ([PACE](#)) between the United Arab Emirates (UAE) and the United States, and a memorandum of understanding (MoU) on energy efficiency between the Kingdom of Saudi Arabia (KSA) and Greece, is also playing a crucial role.

Much of this progress revolves around finance. According to [S&P Global](#), green, social, sustainable, and sustainable-linked bond issuance, including sustainable sukuk, reached \$19.4 billion in the Middle East by September 2023. Demand is expected to continue as large-scale government-backed ESG efforts, including the [NEOM green hydrogen production facility](#) and initiatives by [DEWA](#) and [QatarEnergy](#), drive further sustainable financing.

Providing financial support for nations' sustainability agendas is a key priority for banks, but how are they doing in their own operations? Our survey of more than 100 banking executives across the region set out to uncover the answers.

Banks are behind the curve in their own race to sustainability

The first major finding from our survey is that ESG is still at a relatively early stage in GCC banks. While mature organizations are leading their industries on the journey to sustainability, and shaping how the market evolves, almost two-thirds (66 percent) of our executives said that their organizations' ESG capabilities are limited, and action is mainly reactive, driven by regulatory changes or shareholder pressure. By contrast, only 14 percent consider themselves as industry leaders.

While mature organizations are leading their industries, almost two-thirds of our executives said that their organizations' ESG capabilities are limited.

Looking deeper into banks' current areas of focus when it comes to ESG, we discovered three clear strategic priorities:

1. Product innovation

Forty-eight percent of our respondents recognize the importance of getting innovative "green" products and services into the market, such as green home loans and green sukus. Despite this, only 12 percent have launched their own offerings in this category. The rest should take note: among this early adopter minority, 92 percent reported experiencing higher economic benefits for their organization, signaling ESG's potential to add to the bottom line.

2. Social responsibility and community engagement

With deep-seated cultural influences that value generosity and giving prevalent across the GCC, its banks are also playing their part in giving back to society, with 48 percent committed to fostering social responsibility and community engagement as one of their top ESG priorities. Encouraging financial literacy is one way that banks can support the citizens in their communities. The National Bank of Kuwait's [Bankee](#) program is used in schools to teach students about basic financial terminology and practice, for example. Additionally, there has been a significant push for ESG reporting within GCC countries. This has prompted the establishment of ESG reporting frameworks, urging banks to showcase their commitment and assume accountability for their impact on the community.

3. Governance and ethics

A similar number (45 percent) of banks told us that how they do business continues to be a key strategic priority. Banks across the region are already known for having robust, well-established governance frameworks and strong ethical standards; now they are using these capabilities to make sure that they can build trust and credibility in how they approach sustainability.

The sustainability challenge is a transformation challenge

Despite having clear ESG ambitions and priorities, banks across the region are still struggling to get off the mark. Looking into this in more detail with our survey respondents, we found that some fundamental transformation challenges are at the heart of the matter.

- To begin with, there's a **lack of stakeholder awareness and engagement**, one of the integral building blocks for any significant change. Almost 40 percent of banking executives highlighted this as an issue, which means they have a large job on their hands to get customers, investors, employees, suppliers, and shareholders on board when it comes to the importance of ESG.
- If we look at the next issue banks are facing, it becomes clear why stakeholders might not understand their position on sustainability concerns, or the actions that banks are taking to address these. This is because 38 percent of banks **lack clear sustainability goals and targets**. As the saying goes, you can't manage what you can't measure, and banks will fail to make genuine progress on ESG unless they are clear about exactly what they aim to achieve.
- Just over a third of banks also told us that **limited internal knowledge and capabilities** are hampering their ambitions when it comes to embedding sustainable practices. The green skills gap is by no means limited to the banking industry, or the GCC for that matter, however it's an issue that will only become more important as economies continue to shift away from oil.
- Given this significant mix of challenges, it's no surprise that another 38 percent of banking leaders are coming up against **resistance to change** within their own organizations on ESG matters—and there's no way of getting away from this without tackling each of the other areas that are lacking.

Covering all the bases

There's really no time to lose for banks on sustainability. It's also clear that for any organization to really switch it up on ESG, it means entering major transformation territory—albeit a transformation that will continue to evolve, or **regenerate**, over time. Here are our tips to make it real, make it matter, and make it last.¹

1. Across the ecosystem

- Begin by positioning your ESG goals and initiatives in line with broader **national sustainability and ESG objectives**. This can foster collaboration with government bodies and regulators. For example, look for opportunities to align your goals with national sustainability topics, projects, and initiatives.
- The next crucial step is **building an ambitious narrative** that chimes with all stakeholders. That means inviting them in and sharing your plans, so awareness and engagement start to build from the get go.
- On that note, make sure you have a detailed plan to **engage with customers, employees, and other stakeholder groups** at every stage of the journey, so they understand what you're doing and why it's important to them, and you understand their opinions, preferences, and concerns around ESG topics.

¹ Regenerate is a means of looking at your organization in a way that combines the systems of business with the systems of the world, creating a future that works for everyone. For more information, please click [here](#).

2. With customers

- There are many ways that **detailed information about your customers' preferences** will help you progress along the ESG journey. Surveys and market research can be used to gauge customer sentiment and preferences on ESG and sustainability, while demographics and consumer behavior will predict which products and services are likely to catch the eye of particular segments, who will pay (or pay more) for sustainable products, and where sustainable investment options are likely to be popular.
- All of the data mentioned above can be used to **build new, sustainable products** including green bonds, sukuks, or additional services such as platforms for purpose-driven small businesses.
- Banks can also encourage the adoption of sustainable practices by **rewarding customers for making ESG-friendly choices**. This could range from offering incentives for green finance products, to promoting investments that are linked to sustainable funds, and offering credit cards that make donations to nonprofit organizations based on a percentage of the customer's card purchases.

3. Inside the organization

- If you really want to switch it up on ESG, you have to **make it a leadership priority**. Without that commitment and vocal, visible support, the truth is that you'll struggle to make much headway. Tying personal performance and rewards to sustainability takes things one step further, providing a structured framework for tracking and measuring progress on ESG, and showing everyone that the bank's leadership are not only saying the right things, but they also have skin in the game.
- Ensure **robust reporting and communication mechanisms**, which will keep you on track with everyone who needs to be in the know, from employees to regulators and governing authorities. Effective data governance is a must-have here.
- Build an **ESG center of excellence** from the outset. This will create focus and dedicated effort as you get the ball rolling with your ESG plans. The center can set strategy, orchestrate programs, monitor performance, develop new products and services, gather data and insights, and generally be the beating heart of the organization's ESG efforts, until the time is right to broaden responsibilities out through the rest of the organization.

- Conduct **comprehensive ESG data collection** initiatives spanning the entire supply chain, covering suppliers, customers, and counterparties. This not only opens doors to new business opportunities but also ensures compliance with increasingly stringent regulatory requirements. By gathering ESG-related data across the ecosystem, you'll uncover areas for sustainable growth, enhance operational efficiency, and strengthen stakeholder trust.
- Integrate **ESG into risk management strategies**, by embedding ESG risk considerations into credit decision-making processes. This ensures that environmental, social, and governance factors are systematically assessed and addressed in lending practices, aligning with the broader sustainability goals of the organization.
- **The ultimate goal: creating an ESG culture and mindset**. There's no set timeframe for transitioning from central control to universal accountability, but ideally, this is what you'll have been working toward since day one. Fostering a culture where everyone naturally thinks "sustainability" and behaves accordingly will take time, effort, and focus. No two organizations are the same, but basically this is about weaving ESG principles through every employee touchpoint, from your processes and policies to ways of working, training programs, goal setting, reward and recognition mechanisms, and a common understanding of "how we do things here."

It's clear that for any organization to really switch it up on ESG, it means entering major transformation territory.

Takeaways

Banks have some way to go before their own ESG efforts match up to the sustainable finance they provide for other organizations and institutions. There's no lack of ambition when it comes to meeting the sustainability agenda, but decisive action is needed for banks to come out of react mode and into a more regenerative mindset. Core transformation principles will be key, along with an acceptance that this is a long-term calling rather than a route to quick ROI.

[Check out the other articles in this series](#)

This article explores one of the key themes from Kearney's proprietary GCC Retail Banking Radar 2024, based on a survey of 100 senior banking executives from across the region. We've reached the final chapter in the series, so thanks for reading. If you missed any of our previous articles on the overall outlook for GCC banks, how technology and data are transforming the customer experience and operational efficiency, why banks need to rethink how they serve SMEs, or their role in the shift to digital payments, why not have a look now. Stay up to date on our analysis of the most pressing issues in the GCC retail banking sector today, and how banks can respond.

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