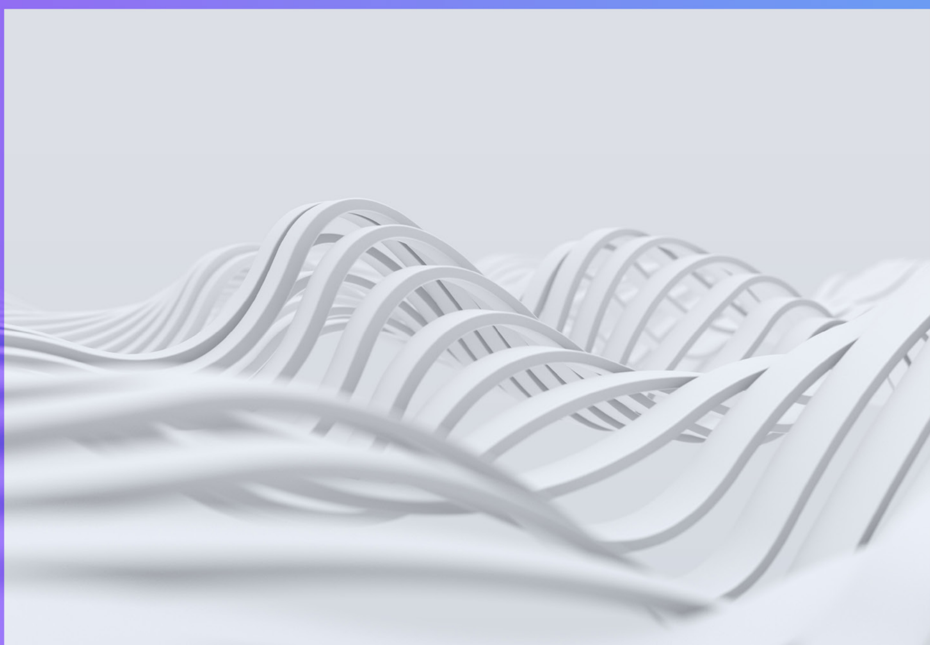
UAE banking perspectives 2022

Progression, pace and power: shaping financial services today and tomorrow



KPMG Lower Gulf
April 2022

Foreword

I am delighted to present the seventh edition of our annual publication, UAE Banking perspectives. In this report, our authors explore a spectrum of topics critical to the country's banking sector in the post-pandemic period.

In the hope that the Covid-19 pandemic will be contained, and economies will overcome challenges, the UAE's financial services sector is evolving to adopt new business resilience mechanisms. Local banks' CEOs are focusing on a number of vital areas including digitalization, addressing regulatory issues, corporate governance, and risk management.

In particular, four key themes have emerged that appear likely to influence the sector in the coming decades. We believe that the future of the local banking industry will be…

- Shaped by a progressive economic and fiscal environment
- Driven by innovative, responsible and disruptive trends
- Reinforced by evolving infrastructure capabilities
- Supported by connected control and risk frameworks

Throughout this report, our subject matter experts highlight opportunities and share opinions on emerging trends, challenges, and growth areas in the UAE banking industry. For the second consecutive year, KPMG has partnered with social media analytics company DataEQ to analyze the key drivers of consumer satisfaction amongst major UAE retail banks. We assess whether they are meeting conduct and service expectations.

There are also feature articles by two guest authors—leaders in the industry. This is the first time we have obtained an economist's viewpoint. Khatija Haque, Chief Economist and Head of Research of Emirates NBD, offers valuable insight on the impact of Covid-19 on global markets. We are also immensely excited to have the CEO of a digital bank, Olivier Crespin of Zand, share what the future of banking looks like, and comment on the sector's readiness for the challenges to come. Our warm thanks to them for contributing their insights.

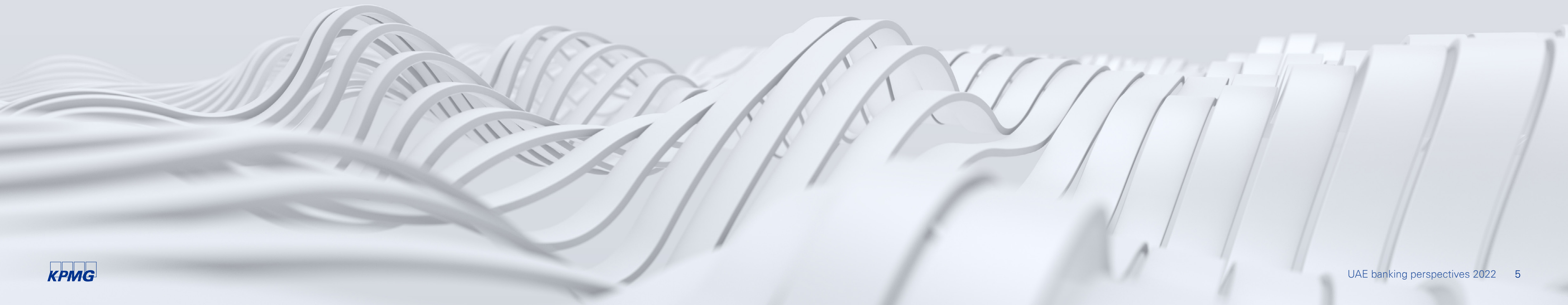
I trust you find the 2022 edition of UAE Banking perspectives thought-provoking and engaging. To further explore the topics covered, please contact me or any of the KPMG-featured authors.

Abbas Basrai
Partner, Head of Financial Services

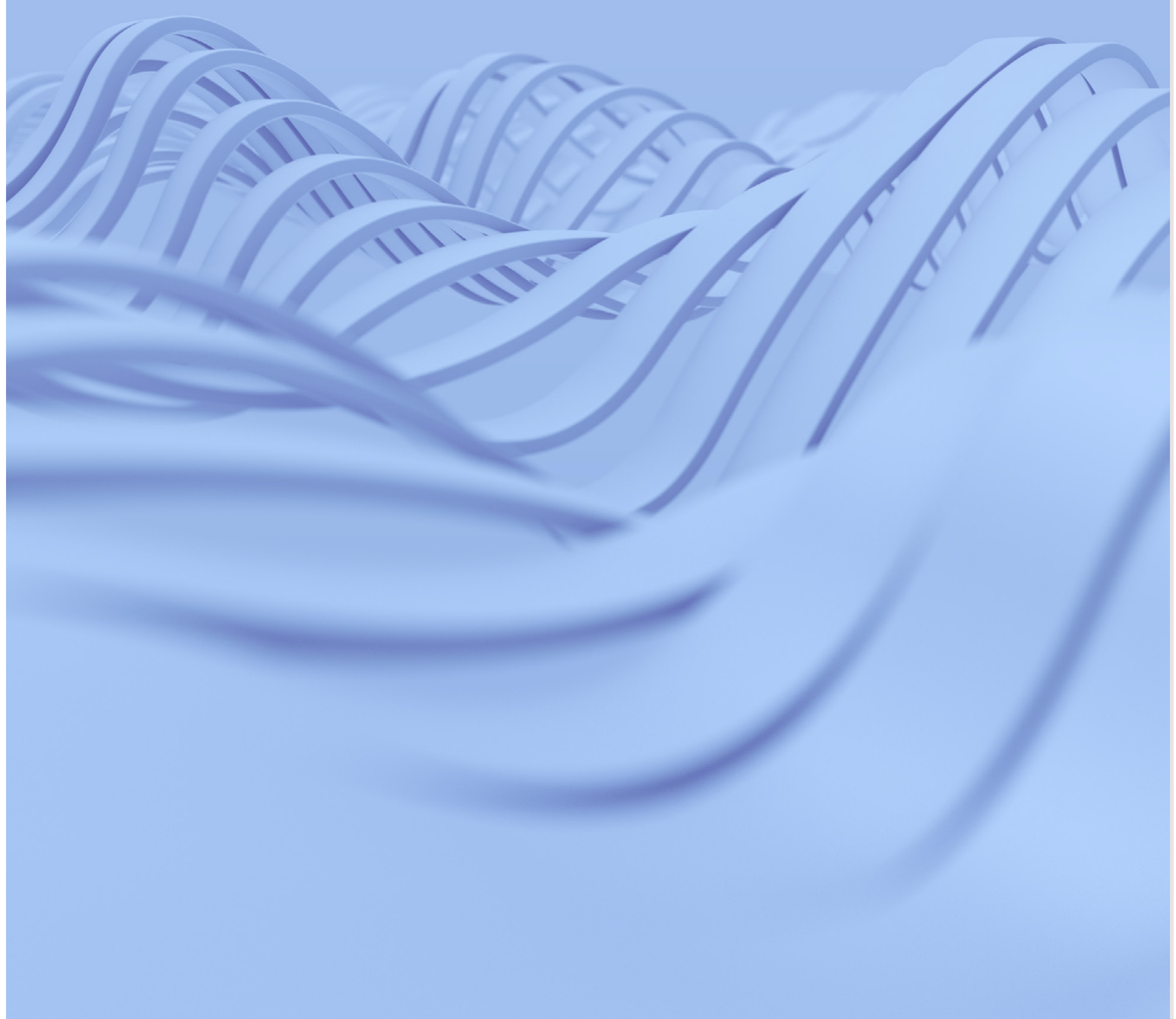
E: abasrai1@kpmg.com

Abbas is a banking specialist and focuses on audit and advisory services within the financial services sector. He has considerable experience of working with banks (both conventional and Islamic), sovereign wealth funds, investment and asset management companies and private equity funds. He has a particular interest and experience in the accounting, regulatory and control aspects of banking operations (from risk assessments to full reviews of front office supervision, product control, treasury, risk, and operations functions), including extensive work with regard to derivatives and structured transactions. Abbas qualified as a chartered accountant (ICAEW) while with KPMG in London.

Contents



Executive summary



The banking sector has enjoyed a promising year, with the top ten UAE banks reporting a 5% year-on-year increase in total assets to AED 2,989 billion in 2021, and a large increase of 42% in their net profits. This is mainly due to lower impairment charges, as banks had reported higher losses and customer defaults in the previous year because of the pandemic. The collective non-performing loans (NPL) ratio increased slightly to 7.3% in 2021 from 6.3% in 2020. Net interest margins continue to remain under pressure because of record low interest rates, exacerbated by increased competition.

Despite this, the capital position remains strong, with the capital adequacy ratio falling slightly from 18.0% to 17.3%, largely due to the growth in risk-weighted assets during the year. The loan-to-deposit ratio also decreased, from 86.3% to 82.4%. Meanwhile the overall liquidity position, cost-to-income ratio and return on equity of the market remained steady year-on-year.

We foresee the future of the UAE banking sector being shaped by the following…

A progressive economic and fiscal environment

In 2022, global growth is expected to slow as both fiscal and monetary support provided over the last two years is withdrawn, according to Emirates NBD's chief economist. Uncertainty remains elevated, with the rapid spread of the Omicron variant of the coronavirus posing a risk to growth in the first quarter of 2022. The speed and efficiency with which the UAE rolled out coronavirus vaccines in 2021 helped the country avoid further lockdowns, and put the economy in a strong position to benefit from the global rebound in activity in 2021.

The banking industry has had to contend with a slew of new regulatory considerations, one of the most significant being the introduction of the global minimum tax (GMT) in October 2021. At the time of publication, 137 countries (including the UAE) reached an unprecedented agreement on a 15% GMT rate. Banks will need to carefully model—and communicate to key stakeholders—the impact of these changes, and take them into account in their FY23 forecasts and beyond. On 31st January 2021, the UAE Ministry of Finance also announced the introduction of a federal corporate tax that will apply to all UAE businesses and commercial activities alike, except for the extraction of natural resources, which will remain subject to Emirate-level corporate taxation (CT). The announcement confirmed that banking operations will be subject to UAE CT, with further details to be provided in due course.

Amidst this upheaval, CFOs and the Finance function, in particular, are facing a host of challenges: organization silos, the imperative to reduce fraud and waste, an aging workforce and the war for talent, achieving a clean audit opinion, and budget constraints. Anticipating the "next normal" will require an enterprise-wide design approach that considers all angles of the operating model before deploying use case-driven initiatives.

Innovative, responsible and disruptive trends

Regulators are keen to align the UAE's digital agenda with the country's banking industry operations. Neobanks, like the homegrown Zand, are focusing on streamlining operations to conduct high-volume digital transactions. This would cater for the rising demand for digitization and identifying necessary hiring requirements to establish their brands. They are actively improving straight-through processing[1] methods to enhance customers' digital experience, and further leverage data to align products and services with customer expectations.

The typical customer is evolving, and banks need to move with the times. Clients with low amounts of investment capital now collectively form a key potential market. These individuals are looking for highly personalized advisory solutions from technologically sound advisors, and advanced platforms and features, to help them manage their family wealth and succession plans. Digitalization has reduced client-retention costs and improved access to their capital. As a result, many banks are working on strengthening their wealth management businesses. In the short term, banks are expecting growing competition from two types of technologically advanced players: emerging WealthTech firms that are developing advanced B2B and B2C digital solutions, and challenger banks – neo banks and payments firms.

Meanwhile, institutional cryptocurrency adoption is driving innovation in core banking services across custody, brokerage, trade clearing, settlement, payments, lending and more. The global crypto market cap has reached USD 2.03 trillion[1] —almost 18% of the market capitalization of gold.[2] As of 6 January 2022, the total crypto market volume over the last 24 hours was USD 137 billion. Crypto products and services have demonstrated tremendous potential for growth. Three banking segments – prime brokerage; yield generation via lending, borrowing and staking; and payments – stand out for their profit potential. Forbes identified the "cryptofication of banks" as one of the top five FinTech trends of 2022, due to increased demand, supply, and indeed banks' fear of missing out. It commented: "For banks, crypto will be to 2022 what social media was to 2015."[3]

The banking sector is also subject to mounting pressure from stakeholders and an ever-increasing list of regulations which require environmental, social and governance (ESG) considerations to be embedded in the way they operate. Financial institutions play a pivotal role in providing funding to combat climate change, challenge and incentivize ESG practices within their customer base, and support organizations as they work toward addressing the UN Sustainable Development Goals (UN SDGs). ESG is no longer a choice: it is an imperative. In fact, in a global survey by KPMG International in 2021, 75% of financial services (FS) CEOs were looking to lock in the sustainability and climate change gains made during the crisis. Thirty-four percent plan to invest more than 10% of revenues in their sustainability efforts.

Evolving infrastructure capabilities

Financial institutions' technological frameworks continue to become ever more sophisticated. Leveraging graphical user interface and drag-and-drop capability, low-code/no-code platforms can dramatically increase the speed of creation for sophisticated enterprise-class applications. These applications can incorporate complex business logic, automate workflow, integrate with existing information systems and enable a smooth user experience.

Concurrently, adopting a data-led strategy can result in better accuracy, optimized operations, improved compliance, and a better customer experience. Customer satisfaction increases exponentially as banks are able to ask the correct questions, avoid repetition and focus on the right transactions at the right time. A data-driven approach may enable banks to augment traditional risk factors with statistically derived attributes, create a more dynamic risk-assessment process by incorporating additional data points, and generate a scoring framework with a detailed web of risk factors.

As traditional FIs work to close the gaps in the digitization of processes, they are struggling to meet the demand for quick and secure transactions, data security, fraud detection and financial reporting. The solution may lie in outsourcing and offshoring a number of processes, including compliance, cyber security, data engineering, advanced analytics, level 1/2 anti-money laundering (AML) transaction monitoring, regulatory filings and customer due diligence.

Leading financial institutions are also implementing clearly defined Cloud strategies. Systems within numerous established banks can use traditional, outdated architecture and follow antiquarian approaches, preventing them from unlocking the full benefits of the Cloud. To effectively leverage it, banks may need to adopt digital labs, apply Kubernetes, DevSecOps, and other agile technologies.

Connected control and risk frameworks

In this volatile environment, strengthening corporate governance practices will continue to be on banks' agendas, especially since the issuance of the Central Bank of the United Arab Emirates' (CBUAE) Corporate Governance Regulation and Standards in July 2019. Banks are revising the mandates of their board, updating the assignment of authority, and developing key policies and processes corresponding to the management of conflicts of interest, related party transactions, insider trading and whistleblowing.

As customers become digitally savvy, social media perception becomes of paramount importance. For the second consecutive year, KPMG partnered with social media analytics company, DataEQ, to analyze the key drivers of consumer satisfaction amongst major UAE retail banks, and ascertain whether they are meeting expectations of conduct and service. Many customers frequently complained about a lack of efficient support for their reported issues relating to business conduct, which included suspected fraud and incorrect information being received.

Public interest in conduct risk infringements remains high, exacerbated by the pressure on employees and management to meet financial targets and contend with competitive threats. The failure to understand and mitigate conduct risk may expose banks to drastic regulatory action, fines and reputational damage, which can harm business for many years following the incident.

As banks adapt to the post-pandemic economy, they are relying heavily on Artificial Intelligence (AI) and Machine Learning (ML) to manage these diverse regulatory developments. From chatbots to fraud detection, innovative technological tools that utilize large volumes of data are increasingly being used for more efficient credit, investment and business-related decision making. AI and ML powered risk management solutions can also be used for model risk management (back-testing and model validation) and stress testing, as required by global prudential regulators.

In a bid to strengthen regulation, supervision and stability within the banking industry, the Basel Committee has introduced a standardized approach to calculate minimum operational risk capital requirements, effective January 2023. The new approach seeks to restore credibility in the calculation of risk weighted assets (RWAs) and to improve the comparability of banks' capital ratios. This means it is critical that banks maintain high quality operational risk teams, and use risk modeling and scenario analysis to assist with decision-making.

We believe banks have emerged stronger than ever after the economic slump brought about by the pandemic. To best serve the interests of all their stakeholders, financial institutions will do well to constantly adapt their operations and compliance functions to keep pace with the maturing regulatory landscape, become early adopters of nascent technologies, and embed environmental, social and governance (ESG) into all that they do.

Performance highlights

For the top 10 local banks

	2020	2021	%
Total assets *(USD billion)*	775.22	813.79	5.0%
Net profit *(USD billion)*	7.21	10.24	42.0%
Net assets *(USD billion)*	99.86	101.85	2.0%
Net provision charge on loans and advances (financing assets for Islamic banks) *(USD billion)*	8.67	7.83	-9.7%
Cost-income ratio (%)	38.0%	35.6%	0.3%
Capital adequacy ratio (%)	18.0%	17.3%	-0.7%

	2020	2021	%
Return on assets (%)	1.0%	1.3%	0.3%
Return on equity (%)	8.5%	11.7%	3.2%

Coverage ratios on loans

	2021	2020
Stage 1	1.1	0.9
Stage 2	13.2	15.4
Stage 3	59.1	51.4

Total loans subject to ECL

	2021	2020
Stage 1	90.7	90.4
Stage 2	5.0	5.2
Stage 3	4.3	4.4

Key
- Y-o-y improvement
- No change
- Y-o-y deterioration

The percentages are based on straight line averages of top 10 local banks

Highlights of the UAE Banking Sentiment Index 2022

For the second consecutive year, KPMG has partnered with social media analytics company, DataEQ (formerly BrandsEye), to analyze the key drivers of consumer satisfaction amongst major UAE retail banks, and ascertain whether they are meeting expectations of conduct and service.

The seven UAE banks included in the analysis are Abu Dhabi Commercial Bank, Abu Dhabi Islamic Bank, Commercial Bank of Dubai, Dubai Islamic Bank, Emirates NBD, First Abu Dhabi Bank, and Mashreq Bank UAE. DataEQ retrieved 172,588 public tweets mentioning these banks for the period from 1 January - 31 December 2021 and processed them using their unique Crowd and AI technology. The full study is due for release in March 2022; we summarize the key findings below.

Although still prominently negative, industry Net Sentiment improved from the 2021 study

All seven banks received negative Net Sentiment scores, resulting in an industry aggregate of -14.4%. However, this was an improvement on the industry aggregate of -37.7% in the 2021 study.[6]

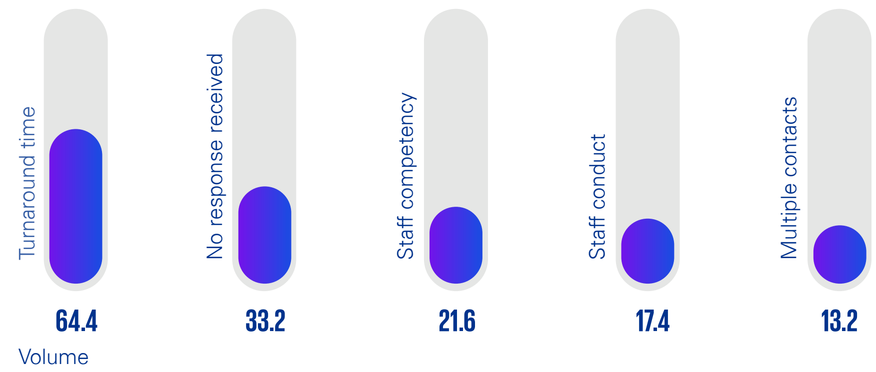
Industry net sentiment breakdown

	Overall net sentiment	Operational net sentiment	Reputational net sentiment
Current year	-14.4	-66.8	2.0
Previous year	-37.5	-70.6	-3.7

Customer service was the top driver of negativity, with a Net Sentiment of -83.9%

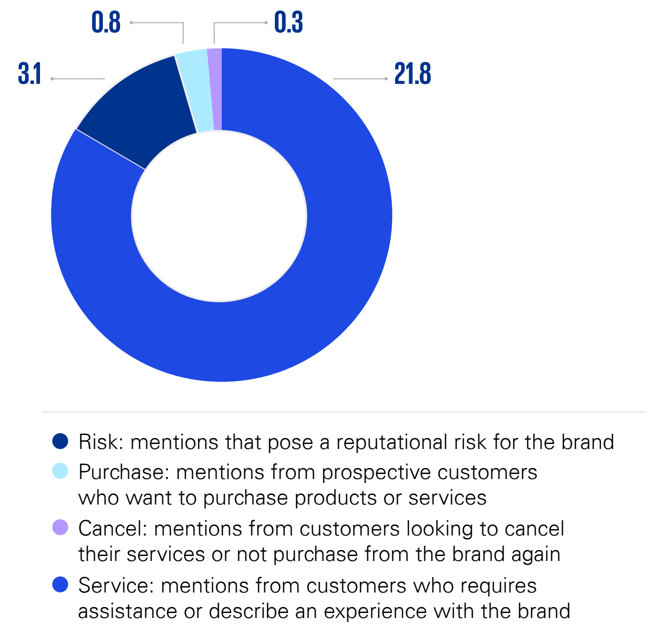
Consistent with the findings of the 2021 report, the main source of customer frustration was again slow turnaround time, with long wait times and delayed responses being the most common points of criticism towards the banks.

Topics driving customer service complaints



A third of all online conversation about banks required a response

One in every three online mentions regarding the banks posed a potential risk, contained a customer service request, an acquisition opportunity, or a cancellation threat. Any of these should be considered as requiring a response from the bank. This, however, means that almost two-thirds of all online conversation about the banks was noise for social customer service teams, hindering their ability to prioritise the mentions which did warrant a reply.



Content

Executive summary

Performance highlights

1 A progressive economic and fiscal environment

2 Innovative, responsible and disruptive trends

3 Evolving infrastructure capabilities

4 Connected control and risk frameworks

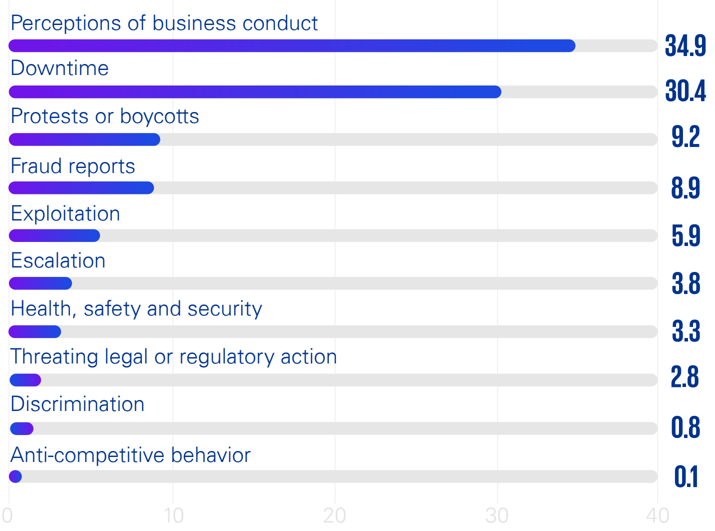
Key banking indicators

About KPMG

Perceptions of business conduct and downtime pose potential operational and reputational risk

Consumers frequently complained about a lack of efficient support for their reported issues relating to business conduct, which included suspected fraud and incorrect information being received. In downtime conversation, consumers mentioned not being able to access online banking and mobile apps.

Percentage of total risk volume



"With customers increasingly preferring to use digital channels for engagement with their bank, there is an opportunity to mine this valuable unstructured feedback for real-time insight, and importantly, an obligation to deliver effective, fair and compliant customer service on these channels."

Banks responded to 68.8% of priority consumer conversation on social media

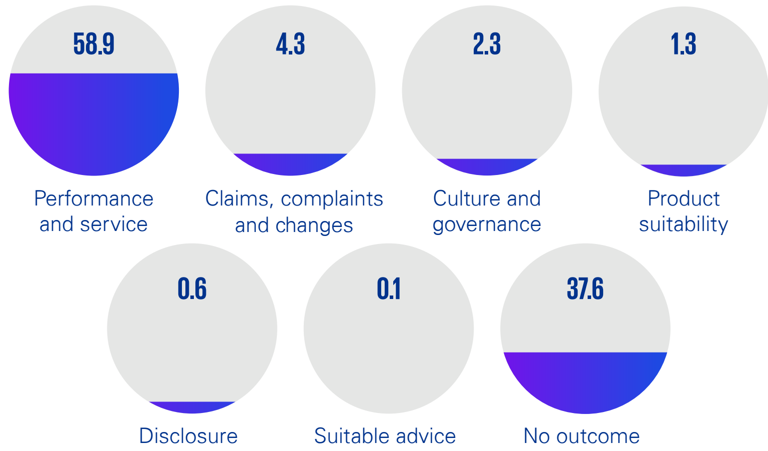
While banks still do not respond to close to a third of priority consumer conversation, the average time it took to respond was ten hours, which was an improvement from the 13 hours reported in the previous study.

Call centres were the most mentioned customer channel with high levels of negative feedback

In terms of communication channels, call centres were mentioned most frequently (45.7%), followed by branch (17.9%) and mobile apps (12.6%). Call centres had high levels of negative sentiment (-88.6%) on social media. Consumers expressed frustration at their calls going unanswered despite multiple attempts.

62.4% of consumer conversation referenced at least one market conduct theme

On average, 62.4% of all consumer mentions about the banks contained at least one of the six Treating Customers Fairly (TCF) outcomes. The TCF outcomes are a regulatory framework used in the UK, Australia, and South Africa by the financial services industry to report on the fair treatment of customers. Recent regulatory changes in the UAE look to develop similar standards for customer fairness. 'Performance and service' was the most notable conduct theme across the UAE banking industry, which is consistent with findings by DataEQ in other markets.



Nic Ray
CEO, DataEQ

KPMG

A progressive economic and fiscal environment

An audience with Khatija Haque

The economy has—in some respects—recovered from 2020's pandemic-related recession. Khatija Haque, Chief Economist and Head of Research of Emirates NBD, gives her views on the impact of Covid-19 on global markets.

What are your predictions for the health of the global economy in the wake of the pandemic?
The International Monetary Fund (IMF) estimates world GDP growth was 5.9% in 2021, up from a relative contraction of 3.1% in 2020. However, the recovery has been uneven, with advanced economies and those with greater coronavirus vaccine coverage faring better than low-income developing countries.

The headline global growth figure also masks the impact of several waves of the coronavirus which have buffeted the world and contributed to a high degree of uncertainty for policymakers, businesses, and consumers.

In 2022, global growth is expected to slow to 4.4% as both fiscal and monetary support provided over the last two years is withdrawn. Uncertainty remains elevated however, with the rapid spread of the Omicron variant of the coronavirus posing a risk to growth in the first quarter of 2022.

How has the UAE fared with respect to the pandemic and what do you expect in 2022?
The speed and efficiency with which the UAE rolled out coronavirus vaccines in 2021 helped the country avoid further lockdowns and put the economy in a strong position to benefit from the global rebound in activity in 2021. We estimate the UAE's non-oil sector grew 3.5% in 2021, underpinned by recovering domestic demand, along with a surge in global trade volumes and a modest rebound in international tourism.

We expect non-oil sector growth in the UAE to accelerate to 4.0% in 2022, even as global growth slows somewhat. Higher interest rates and a stronger dollar could prove to be headwinds to growth in the UAE in 2022, but the structural reforms implemented over the last couple of years will help to boost investment and drive growth over the medium term. These reforms include the expansion of longer-term residency visas to broader categories of residents and new pathways to citizenship, as well as wide-ranging changes to personal and labour laws, allowing 100% foreign ownership of onshore companies and most recently, the decision to align the UAE's working week with that of larger developed economies. These measures will serve to reduce barriers to investment and attract both human and financial capital to the UAE over the coming years.

Inflation has surged in many developed economies in 2021. What does this mean for monetary policy going forward?
Inflation in developed economies last year was higher than many economists, and central bankers, had expected. The exceptional fiscal support provided to households together with supply chain disruption and higher energy costs pushed US inflation to a 40-year high in December 2021. While some of those pressures will abate this year, inflation is likely to remain higher for longer than previously envisaged. As a result, the Federal Reserve has accelerated the tapering of asset purchases and is now expected to raise interest rates at least four times in 2022—much faster than was expected just a few months ago.

Other major central banks are also expected to tighten monetary policy this year, but at a more muted pace, which is likely to be reflected in a stronger US dollar.

Is inflation an issue in the UAE?
As in the rest of the world, inflation in the UAE is accelerating, although it remains low compared with some of the larger economies. While businesses have experienced rising costs for raw materials and shipping, the

survey data suggests that the extent of these price increases are less severe in this region, relative to North America and parts of Europe, for example.

For consumers, food and transport prices have been the main sources of inflation in the UAE in recent months with the latter driven by higher crude oil prices. Housing and utility costs—the biggest component of the consumer price index—remain deflationary for now but the rate of price decline has slowed. It can take 12-18 months for changes in rent to feed through to the consumer price index (CPI) due to the nature of the index. Nevertheless, inflation in the UAE is likely to continue to rise, averaging 2.0% in 2022.

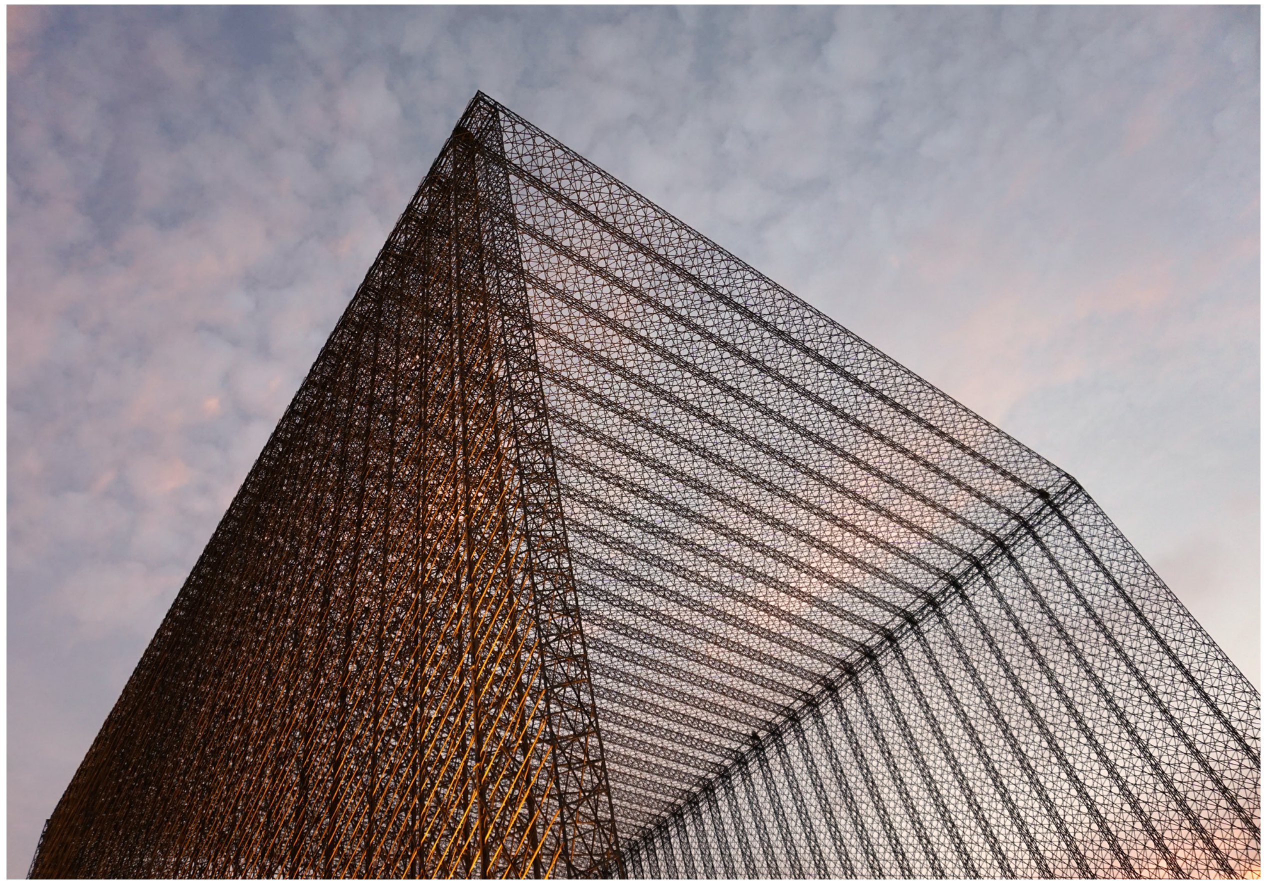
How did Expo 2020 Dubai impact the UAE economy?

Growth in the UAE in the final quarter of 2021 was likely the strongest it has been in two years, based on survey data. Expo 2020 was a key contributor to this faster growth, along with the relaxation of travel restrictions as the UAE entered its peak tourism season. However, the increase in activity in Q4 2021 led to only a slight increase in private sector employment, as firms remain cost conscious.

Preparations for Expo 2020 have anchored infrastructure investment in Dubai over the last decade, supporting GDP growth in the emirate even during periods of lower oil prices, when spending in other GCC countries was curtailed.

The transport, leisure and hospitality infrastructure that has been built over the last decade with Expo 2020 in mind will provide a platform for growth in the tourism and services sectors for years to come.

The redevelopment of the Expo site after the event will further contribute to Dubai's growth in the coming years, with the creation of a new smart and sustainable city – District 2020.



Khatija Haque,
Chief Economist and Head of Research, Emirates NBD

What the new UAE Corporate and Global Minimum Tax means for banks

"Understanding the impact of the global and domestic rules on jurisdictional profits, intra-group payments, investment portfolios and funds transfer pricing policies will be a significant priority for many teams and stakeholders to consider in 2022.

The proposed rules highlight the importance of the close working relationship required by tax and accounting teams to ensure all exposures are adequately managed for the benefit of the overall group and all relevant stakeholders."

Ludwig Nelson,
Head of Tax, Emirates NBD

Sweeping tax reforms have had a seismic impact on the industry. Shabana Begum sheds light on the implications of the recent UAE Federal Corporate Tax (CT) announcement and Pillar 2 of the Base Erosion and Profit Shifting (BEPS) initiative.

On 31st January 2022, the UAE Ministry of Finance (MoF) announced the introduction of a Federal Corporate Tax that will apply to all UAE businesses and commercial activities alike, except for the extraction of natural resources, which will remain subject to Emirate level corporate taxation. The announcement confirmed that banking operations will be subject to UAE CT, with further details on the current Emirate level corporate taxation to be provided in due course.

The CT will apply to financial accounting periods starting on or after 1st June 2023. The announcement represents the first time that a federal tax will apply to the banking sector in the UAE (separate from the existing Emirate-level taxes that have been historically levied on branches and subsidiaries of foreign banks). For almost all banks in the country, the corporate tax rate to be applied will be linked to the OECD's (Organization of Economic Cooperation and Development) Pillar 2 or Global Minimum Tax (GMT), BEPS initiative.

On 8th October 2021, 137 countries (at the time of publication), including the UAE, reached an unprecedented agreement on the introduction of a GMT at a rate of 15%. This agreement was reinforced on 20 December 2021 with the finalization of the Global Anti-Base Erosion (GLoBE) rules.

The GMT is the second pillar of a two-pillar solution, also referred to as Base Erosion and Profit Shifting (BEPS) 2.0 as announced by the OECD. This aims to ensure that multinational enterprises pay a fair share of tax wherever they operate.

Pillar 1 seeks to reallocate taxing rights of the world's largest groups, but excludes regulated financial services companies. Meanwhile Pillar 2 seeks to apply a minimum floor to tax competition and applies to multinational groups that have consolidated turnover in excess of EUR 750 million ("in scope groups"). Importantly for the banking sector, whilst Pillar 1 excludes regulated financial services, Pillar 2 or the GMT makes no such exclusion and banks are therefore firmly in scope of the GMT rules.

Rules and implementation timeline

Whilst for calendar year-ended banks, the UAE CT won't apply until 1st January 2024, the GMT will apply from January 2023, regardless of where the in-scope groups are headquartered or resident.

The UAE CT is expected to be based on financial accounting net profit or loss with minimal adjustments expected to derive taxable income. In contrast, the GMT is considerably more technical in nature. The GMT consists of three rules: the primary rule is the Income Inclusion Rule (IIR) which along with the Subject to Tax Rule (STTR) will be implemented in January 2023. The backstop rule to the IIR is the Undertaxed Payments Rule (UTPR) which will be implemented in January 2024.

The specific extent and nature of the impact for banks in the UAE in FY23 will depend on how the jurisdictions of the in-scope groups' structure implement the rules.

The current UAE banking tax environment

At present, no traditional CT is imposed on domestic banking groups. In contrast however, each of the individual UAE emirates have corporate tax banking decrees that apply CT on oil and gas production companies and branches of foreign banks.

The banking decrees specify limitations on a) interest on inter-bank/branch lending (i.e., interest to be based on prevailing inter-bank rates) and b) deductibility of regional management/head office expenses (capped at 2.5% of revenues). This will however, change with the introduction of the announced CT, which will apply transfer pricing regulations and domestic CT across all domestic banking groups as well as any branches or subsidiaries of foreign banks that at present are subject to Emirate-level banking decrees.

For branches of foreign banks, careful consideration of how the existing Emirates tax decrees (and for example any deferred tax assets, etc. already recognized in the branch accounts) will be transitioned to the new CT regime will be required.

Tax considerations for branches of foreign banks

Assuming the UAE does not introduce the GMT in 2023, for foreign banks with operations in the UAE, the impact of the GMT in FY23, may be felt at the level of the parent jurisdiction if the UAE Effective Tax Rate (ETR) is below 15%. With a headline corporate tax rate of 20% applied to branches of foreign banks in the UAE, it may seem that a ETR below the minimum rate of 15% would be unlikely for such branches in the UAE. This is however, possible, where for example the branch of a foreign bank enjoys any "tax exempt" income and/or uses a special economic zone in its structure such as the Dubai International Financial Centre or Abu Dhabi Global Market which offer zero percent corporate tax rates in their respective zones.

Such structures have been used by many foreign banks and may well have resulted in such organizations having UAE jurisdictional ETRs below 15% under the GMT rules. For such groups, there may be a potential top up tax levied in their parent jurisdiction if their parent jurisdiction introduces the primary rule of the GMT; the Income Inclusion Rule (IIR). The IIR allows parent entities to tax profits of their low tax entities in their parent jurisdiction. In such situations, branches of foreign banks may find that any UAE generated profits that are taxed below the minimum rate of 15% (less the actual UAE ETR) are then taxed in their parent jurisdiction.

However, even where the foreign parent does not introduce the IIR, UAE branches of foreign banks may find their profits could be subject to a top-up tax under the GMT backstop rule, the UTPR. From 2024, the CT will, however, apply. Where the UAE ETR is still below the GM rate (for the potential reasons noted above), the UTPR will allow foreign group entities to tax the profits of any group entities where those profits are not already subject to the minimum tax in either their country of residence or ultimate parent entity jurisdiction.

The impact for UAE headquartered banks

The impact of the GMT for UAE headquartered banks differs when compared to branches of foreign banks. This is largely because, at present, UAE headquartered banks are still not subject to a traditional banking corporate tax, unlike their foreign peers.

As a result, UAE headquartered banks in FY23 (again assuming the UAE does not introduce the GMT in 2023) are likely to have zero or low UAE ETRs. Therefore, they may be subject to the GMT from 2023 on any profits generated outside of the UAE and on any payments flowing into the UAE from group entities resident in foreign jurisdictions, by way of the STTR or UTPR. Examples of payments from group entities that are likely to be caught by the STTR include (but are not limited to) interest payments, royalties and/or management charges. From 2024, however, the domestic CT will apply. Assuming the UAE implements all of the Pillar 2 principles from 2024, all global profits (where not already taxed at 15%) of UAE banking groups will be topped up and taxed in the UAE.

Issues for banks to consider in FY22

Whilst there are expected to be differences in the way the GMT will impact UAE and foreign headquartered banks in FY23, the new rules are likely to result in additional tax cash outflow for groups in FY23 and in the future. The rules are complex: their implementation will require close collaboration between tax, accounting, and legal teams. Careful monitoring of how countries will implement the rules will be required. All banks will need to model (and communicate to key stakeholders) the impact of the changes and take the changes into account in their FY23 forecasts and beyond.

Consideration will also need to be given to any secondary implications of the rules, for example, the impact on any credit profiles or ratings of corporate customers in investment or wholesale banking, and the pricing of long-term contracts/financial instruments. The January announcement of the UAE CT has further highlighted the need to assess the impact. Whilst the additional rules will create further cash expense across the banking sector, it is worth noting that the UAE CT rates are the most competitive in the world and are likely to be met with a reduction in license/other operating fees, allowing UAE banks to ultimately improve cash flows.

Shabana Begum
Partner, Transfer Pricing, KPMG Lower Gulf
E: shabanabegum@kpmg.com

On the CFO 2022 agenda: anticipating the 'next normal'

As Covid-19 disruption reigns, embracing technology can no longer be an optional or a sequential process. Bhaskar Sahay discusses why banks need to embark on a continuous, accelerated transformation journey to overhaul their Finance functions.

Banks are facing an ever-increasing appetite to adopt innovative solutions, uncertainty in the marketplace, evolving regulatory requirements, increasing volumes of big data, and reduced capacity across the Finance function. There are a number of key themes that CFOs are focusing on to drive value, as elaborated upon in KPMG's 2021 Banking Finance Function Benchmarking report.

Strategy and value management

Our recent CIOs survey shows that only 8% of CIOs see 'Accounting and Finance' as an investment priority. CFOs should aspire to lead forward-looking Finance functions with an increased focus on creating value for the business by enabling organizational strategies through planning analytics, cost management, and business partnering.

Partially ignited by Covid-19, we have observed an increased focus on value creation activities notwithstanding the predominant focus on value protection activities. Undoubtedly, FTE (full-time equivalent) reduction initiatives are mainly targeting areas of value production. The ability to reverse the balance hinges on a higher level of data integration, enabled by high levels of data literacy within Finance function staff.

Using finance analytics in mergers and acquisitions can help identify value creation opportunities through the following initiatives:

- Client and product analytics for the combined entity
- Identifying revenue synergies through white space analysis uncovering untapped business opportunities
- Identifying opportunities for cost synergies through effective headcount and product catalogue rationalization
- Developing a consolidated single view of customer relationship management (CRM) data

Intelligent automation

Banking customers are digitally literate and expect financial institutions will match their tech-savviness through adopting technologies such as low code digital transformation, Machine Learning, Artificial Intelligence (AI), and advanced analytics.

KPMG recently bought together CFOs and finance executives to discuss how to leverage disruptive technologies to move their organizations forward. Themes included optimizing the back office through Robotic Process Automation (RPA), AI, and machine learning; capitalizing on data to gain valuable insight; blockchain integration as they foresee new financial operating models unfolding; and customer-centric strategic shifts creating business value and driving sustainable growth.

In the absence of a cloud infrastructure, higher IT spending has often indicated an architecture that is not integrated enough and requires human intervention to perform data transformation activities such as reconciliations. Conversely, banks have displayed a higher degree of platform integration, predominantly using single-vendor strategies that have resulted in a relatively higher level of IT costs, while also achieving total Cost of Finance (CoF) ratios below 2.25%. Combined with a cloud transition strategy, banks could see CoF ratios drop below 1.5% in the medium term.

Data strategy and governance

With the flux of data within the financial services industry, we have observed new revenue models and data monetization initiatives being developed through external partnerships with the Finance functions at the heart of these agendas. The need for a Finance function foundational data strategy is prominently supported by a culture change to drive and prioritize the deployment of analytics.

CFOs and finance executives should consider a data-driven and location-agnostic function where a single data model feeding a series of cloud-enabled engines is utilized, assessing the impact of management decisions and actions in a near real-time fashion.

Organizational agility

There is a growing trend for managed services and outsourcing if financial institutions are unable to scale their digital pool of resources. There has also been a rise in organizations offering third-party solutions for Finance functions such as performing end-to-end exceptions' handling. We have observed a focus on flatter agile structures with outcome-driven, digitally-enabled processes that optimize delivery mix and emphasize partnerships.

Financial institutions with mature sourcing models have sizeable shared services functions that spread their time in a relatively balanced way between governance, value protection, and value creation activities. We expect these centers to almost halve in size in the future, and predominantly be involved in data quality management and engine configuration.

The modern workforce and ways of working

The dynamics of the business are changing, and new ways of working have evolved. There is a need for a flexible approach that focuses on talent management from within and the acquisition of talent from the sizeable, virtual talent pool.

CFOs and Finance functions will become increasingly reliant on data scientists and design professionals who can maintain cloud enterprise architecture and engineer automated reporting and forecasting solutions to optimize end-to-end processes.

We foresee the traditional teardrop shape being inverted over the long term; smaller regional banks with limited low-cost sourcing might be able to truncate timelines. At the same time, the skill-set mix will become more balanced and less accounting-oriented. We will see a reduction in junior grades at the back of enterprise-to-enterprise process automation and digital reporting. The focus will be on attracting, managing, and retaining talent through more flexible finance career paths. Spans of control are going to naturally narrow, which is the inverse of what was considered leading practice five years ago.

CFOs and finance executives are facing a range of challenges: organization silos, manual data analysis, leadership adjustment, harnessing technology to improve business operations, reducing fraud and waste, an aging baby boomer workforce, achieving clean audit opinion, and budget constraints. Over the past few years, we have seen instances where organizations have started large-scale data lake programs without considering underlying business requirements and data architecture design. This is inadequate without establishing a robust strategic foundation. Anticipating the next normal requires an enterprise-wide design approach that considers all angles of the operating model before deploying use case-driven initiatives.

Bhaskar Sahay
Partner, Accounting and Finance
E: bsahay@kpmg.com

Content

Executive summary

Performance highlights

1 A progressive economic and fiscal environment

2 Innovative, responsible and disruptive trends

3 Evolving infrastructure capabilities

4 Connected control and risk frameworks

Key banking indicators

About KPMG

Innovative, responsible and disruptive trends

Neobanking 101: the evolution of digital banking in the UAE

We were delighted to invite a digital banking sector leader to KPMG's Dubai office, for a conversation with Abbas Basrai and Goncalo Traquina. Olivier Crespin, co-founder and CEO of Zand, tells us about the rising importance of neobanks in the post-pandemic period.

1. What is your vision for the future readiness of banks?

With new modes of digital banking, people are getting used to simpler ways of making transactions. To offer a seamless experience, banks require strong data management, coupled with the right set of analytics methods.

Trust plays a very important role, as does regulation from the Central Bank that aims to assure customers' safety. To meet these expectations, financial expertise in risk management related areas such as know-your-customer (KYC) procedures and anti-money laundering (AML) give comfort to regulators.

2. How is the rise of neobanks going to impact the UAE's economy?

Regulators are keen to align the UAE's digital agenda with the country's banking industry to progress towards a completely digital world. Even though over 50 commercial banks are currently operating in the country, the Central Bank of the UAE established in 2020 a dedicated FinTech office, paving the way for new native digital banks.

Additionally, these newly developed digital banks are focusing on streamlining operations to conduct high-volume digital transactions to cater to the rising demand for digitization. Banks are also moulding their business strategies to act as a platform to connect various forms of digital transactions. They are identifying necessary hiring requirements and other operational aspects to establish their brands.

3. Covid-19 has accelerated digitization across sectors. How would a future pandemic shape the banking industry over the next decade?

Covid-19 has acted as an accelerator to digitization in many ways, even in daily chores. People in the UAE are showcasing a digital readiness mindset. With a constant acceleration of this trend, digital banks are expected to fare well due to their innovative and agile nature. Our present aim is to streamline banking operations with minimal paperwork.

4. The generation gap between millennials and Gen Z is challenging various sectors globally. How do you think digital banks and neobanks will meet the varied expectations of these generations?

The rising demand for personalization of banking services is mostly observed among the millennial and Gen Z population, globally. A few key drivers identified for operational success include:

- Greater transparency in customers' transaction operations
- Increased focus on community welfare by giving back a portion of an organization's profit to society, as well as on environmental, social and governance (ESG) considerations—including offering financial literacy to customers. At Zand, ESG lies at the heart of our strategy
- Cost redemption and effective cost management in the digital banking space

5. What does 'Zand' stand for and how is it cementing its brand position in the UAE?

The term 'Zand' is derived from the word 'Sand' to reflect our roots, our approach, and how the customer's needs are ingrained in everything we do. Every particle of sand is unique and beautiful. That is how we see our customers, employees and partners. Yet, when we put the particles together, we create an ecosystem that is ever evolving. That's why the orb in our logo is incomplete, to highlight our ongoing evolution. Sand is silicon and therefore digital. We aim to create a digitally sound community, with greater focus on sustainability and giving back to society.

6. How do you expect the local banking industry to be disrupted with the launch of Zand's fully digitized corporate and retail banking services?

While launching Zand, our primary motive is to act as a market differentiator in our space. Some areas we considered prior to launch were:

— Ways to bring effective scalability and sustainability in digital banking operations, considering whether Zand's operations can be fully digitized

— Usage of data and analytics platforms to improve the customer experience and banking ecosystem, including lending processes and risk management operations

— Alignment of a digital bank's business strategies with the digital agenda of the UAE

— Breaking down silos between retail and corporate banking so both aspects of the business work together.

7. With the introduction of Zand or similar competitors in the global digital banking space, is physical banking expected to fade away?

Banking organizations are shifting to digital platforms quicker than expected, especially in the post-pandemic period. Many traditional banks are closing their physical branches, in turn extending digital banking operations.

Additionally, banks are trying to improve straight-through processing[2] methods to enhance customers' digital experience and further leverage data to align products and services with customer expectations. They are also venturing into the open banking space to bring about a revolution in the industry.

However, we still expect the essence of banking to remain intact for both traditional and digital banks, in terms of efficient risk management while handling clients, transactions and lending operations.

8. What role is Zand expected to play to ensure alignment with the UAE's sustainable future readiness plan?

To align with the UAE's long-term vision on digitization, we at Zand aim to focus on:

— Innovation and product launches, possibly venturing into areas such as stablecoin and cryptocurrency

— Building an effective risk management system in line with the guidelines of the Central Bank of the UAE

— Promoting growth of the country's digital space in line with global industry standards

9. What trends are we expecting to see in the banking industry in the near future?

The UAE's digital banking space is still in its nascent stages, with a relatively small footprint of fully digitized service providers. Among existing service providers, Zand will be the first to cater to a wide group of customers, covering retail and corporate clients. The UAE's digital banking space is expected to witness a number of trends, including:

— A move towards a trusted decentralized networking structure, away from the traditional mode of banking. Decentralized channels include mobile banking, digital wallets, etc.

— Enhanced transparency in digital transactions

— Adoption of well-regulated cryptocurrency operations.

10. How do you foresee the banking institutions contributing to the UAE's ESG agenda in the near future?

We expect ESG to gain importance in the UAE's digital banking space, especially with rising focus on the social and governance aspects in the post-pandemic period. Zand's recent alliance with Dubai Cares and the Asian Business Leadership Forum at Expo 2020 is focused on promoting financial inclusion.

Further, in line with our focus on supporting the Web 3.0[3] open banking initiative, we are planning to offer financial literacy programs, and increase the scope for traceability of transactions and the supply chain in banking to smoothen back-end operations, such as tracking supplier records for compliance activities.

11. How do you expect the banking industry to evolve in the next ten years?

Following the golden rule of Banking 5.0, we have identified a few key areas that we expect will gain prominence over the next decade. These include:

— Wider utilization of the 'metaverse' to harness the potential of virtual reality

— Increased digital footprint rather than concentrating on physical presence, and integration of various technologies to enhance the digital banking experience

— Easing the market entry process for new players, promoting the idea that any corporate can conduct banking operations

— Democratization of banking through the provision of financial education to increase awareness among customers.

Olivier Crespin
Co-founder and CEO
Zand Bank

Wealth management 2.0: a new wave of digital upheaval

The UAE is emerging as one of the leading destinations for wealth management and private banking globally, driven by a burgeoning HNWI (high net worth income) population that demands technologically advanced and highly customized banking and management solutions. Goncalo Traquina offers insight on trends and recommendations for financial institutions.

The UAE's positive post-Covid, pro-investment regulatory environment has been attracting a large amount of capital from around the world. The country is the largest wealth management center in the region, with approximately 83,000 millionaires living in the country and AuM (assets under management) of approximately USD 110 billion, followed by Israel with AuM of approximately USD 95 billion.

Over the past 20 years, the UAE has been one of the world's biggest recipients of migrating HNWIs.[10] As per New World Wealth's estimate, more than 35,000 HNWIs have moved to the Emirates over this period (2000 to 2020).[11] Many of these individuals have come from India, the Middle East and Africa, attracted by its excellent healthcare system, stable political system, comparatively low tax rates, status as an international business hub, luxury lifestyle offerings, superior shopping malls, and good international schools.

These individuals are looking for highly-personalized advisory solutions from technologically sound advisors, and advanced platforms and features, to help them manage their family wealth and succession plans.

Emerging market opportunities

As digitalization has reduced client retention costs and improved access to their capital, clients with low amounts of investment capital – who have never been considered highly important by wealth managers – now collectively form a key potential market. As a result, most of the incumbents are working on strengthening their wealth management businesses. In the short term, banks are expecting growing competition from two types of technologically advanced players: emerging WealthTech firms that are developing advanced B2B and B2C digital solutions, and challenger banks – neo banks and payments firms.

As seen in other regions, for instance Singapore and Hong Kong, it is expected that regional banks will introduce a wide range of integrated financial services offerings, and tap into their large, existing client base and local presence to retain market share in wealth management and private banking. However, with the growing threat of digital banks, these incumbents are likely to try to expand their digital offerings and channels, investing in emerging FinTechs and upgrading in-house capabilities.

Large international banks also have a strong presence in the region and are attractive due to their global capabilities and access to international markets and products. These banks are expected to increase their focus on wealth management and private banking, and seek to scale up and expand to neighboring markets in the region.

Unlike traditional banks, most FinTechs will focus on developing specific, targeted offerings. With supportive regulations from the CBUAE (Central Bank of the United Arab Emirates), ADGM (Abu Dhabi Global Market) or DIFC (Dubai International Financial Centre), these will rapidly grow in number, particularly in the payments and WealthTech space. However, with a lot of their solutions being B2B, most of these firms will be emerging as potential partners and tech solution providers to the incumbents, instead of pure competitors.

In Asia, governments are extending FS (financial service) licenses to non-FS players. Local (e.g. Alibaba and Tencent) as well global (e.g. Google and Amazon) tech giants are targeting the region's FS sector using payments as the gateway. The UAE may follow the same path as the CBUAE launches new licensing for the payments providers – the Retail Payment Services and Card Schemes (RPSCS) Regulation.[12] Although these firms will take time to establish themselves in the wealth management and private banking space, their vast customer reach from digital payments adoption and the support from their investors puts them in a competitive position.

The Central Bank of the UAE recently granted an in-principle approval to launch Wio, a new digital banking platform headquartered in Abu Dhabi. Wio will offer customers in the UAE a fully digital banking choice. A beta version will launch soon, catering to small and medium-sized businesses. The digital banking platform's primary shareholders ADQ and Alpha Dhabi own a combined stake of 65 per cent. Additionally, Etisalat holds 25 per cent, and First Abu Dhabi Bank (FAB), holds ten per cent.[13]

Major regional trends

— Advanced client-facing features from WealthTech firms: WealthTech players are pushing the boundaries in wealth management across most markets with their advanced client-facing capabilities, such as intuitive and comprehensive dashboards and intelligent portfolio recommendations available to investors and financial institutions. Another key aspect has been their development and strong application of internal solutions, such as data analytics and robo-advisor platforms. Partnering with some of the leading and emerging WealthTech platforms in each market can be highly beneficial for banks, as such features will help their advisors increase conversion rates, client engagement and the overall AuM.

— Increased focus on leveraging big data analytics: The wealth management and private banking segments, like the retail banking sector, are witnessing a rise in investments in big data analytics. Banks may gain insight about client diversity, events that drive revenue and loyalty, client behavior, financial attitude and investment motivation. They can use payments and spending data to predict investment patterns, and mine data for new prospective clients.

— Strengthen digital tools, capabilities of relationship managers: As digitalization has given clients access to a large amount of data, it has become important for banks to empower their relationship managers with advanced tools and capabilities to offer quick, tailored, and intelligent advice. Banks can look to develop or acquire several features offered by FinTechs to support financial advisors. These include easy to use dashboards, processing live and historical data to generate talking points for client meetings, storytelling tools for better and effective video interactions, better data visualization tools, voice-to-text technologies to speed up post-discussion call notes, and AI, machine learning and analytics to help boost recommendations.

— Integrate trading services into their online platforms: Given their wider product offerings vis-à-vis wealth managers, most leading banks offer trading services on their digital platforms. These include investing in securities and funds, monitoring stock prices, and providing real-time quotes and research insights. Moreover, stock analysis tools help analyse market movements and identify market entry or exit points. Trading-related news alerts (tailored as per banks' portfolios), providing detailed market analyses, can be leveraged to match leading practices.

Recommendations for banks

To tackle the intense competition foreseen in the regional wealth management market, banks must:

— increase their online offerings

— partner with more FinTechs for advanced solutions

— strengthen the digital capabilities of their advisors and possibly form their own virtual banks

— develop a smoother digital onboarding mechanism for wealth management and private banking clients

— enable quicker account opening by utilizing Artificial Intelligence (AI) technologies.

— facilitate the virtual interactions of relationship managers (RMs) with clients – leveraging live video calling, screen and document sharing and trainings for RMs to conduct one-on-one sessions and group-wide webinars.

— develop new digital products that align with the demands of current and future clients, taking into consideration changing investment strategies and risk appetites.

By making the latest market insight and advisory tools available to RMs, banks can help in the delivery of more impactful advice to clients. This can be achieved using intuitive dashboards, live data processing, voice-to-text technologies and data visualization and storytelling tools. Partnerships and investments in upcoming FinTechs and WealthTechs in the region may also leverage banks' advanced solutions for internal operations and client offerings.

From basic price and stock alerts to more detailed recommendations, banks need to enhance the existing range and quality of alerts being shared with clients, as well as augmenting the current level of access offered in trading — e.g. including securities in different currencies across more exchanges in various markets. Lastly, banks will do well to customize propositions and digital channels to cater to the needs and expectations of younger generations, who are more tech-savvy and prefer self-service investment platforms.

Goncalo Traquina
Partner | Head of Management Consulting, Financial services
E: gtraquina@kpmg.com

The meteoric rise of cryptocurrency

How banks compete in the digital world has changed forever. Paritosh Gambhir elaborates on the growing market acceptance of cryptoassets, the rapid advancement of crypto currency technology, and the burgeoning participation of financial institutions in the market.

Is it time for banks to get ready for virtual assets? Recently, His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai, approved a first-of-its-kind law to regulate virtual assets in Dubai. An independent authority has also been established to oversee the regulation, licensing and governance of virtual assets, non-fungible tokens (NFTs), and cryptocurrency. The authority's main responsibilities include regulating the issuance and release of virtual assets and NFTs, licensing, and protecting personal data, among others. Banks must ask themselves whether they are well prepared for this innovative regulatory release.

Institutional cryptoasset adoption is driving innovation in core banking products and services across custody, brokerage, trade clearing, settlement, payments, lending, and more. At the same time, a new operational infrastructure for banking is emerging, which has set the foundation for resilience and growth in a fast-changing industry.

In fact, the global crypto market cap has reached USD 2.03 trillion[14] — almost 18% the market capitalization of gold.[15] As of 6 January 2022, the total crypto market volume over the last 24 hours was USD 137 billion. Forbes identified the "cryptofication of banks" as one of the top five FinTech trends of 2022, due to increased demand, supply, and indeed banks' fear of missing out. It commented: "For banks, crypto will be to 2022 what social media was to 2015."[16]

Crypto products and services have demonstrated tremendous growth potential in the banking sector. There are multiple areas of opportunity for traditional banks, FinTechs, and digital native banks to deliver solutions for storing, moving, and using cryptoassets easily and securely. Three banking segments – prime brokerage; yield generation via lending, borrowing and staking; and payments – stand out for their profit potential.

1. Prime brokerage services

Custody – the management of assets and the underlying cryptographic keys that cryptoasset owners use to execute transactions – allows banks to add additional operations and services to their portfolio, including cash management, securities lending, leveraged trade execution, and other white-glove support.

2. Yield generation: crypto lending, borrowing and staking

The demand cycle for crypto borrowing and lending has risen dramatically across the full spectrum of crypto-market participants. This demand cycle is reflected in the dramatic growth of user adoption of centralized lending platform organizations. In both centralized and decentralized crypto-borrowing and lending models, users can deposit their cryptoassets to generate yield. Yield generation has proven to be critical value-adding service layer for participants who have taken investment positions with long horizons.

3. Payments

Around the world, digital payments are exploding in the business-to-business and business-to-consumer arena. Across these models, there has been an acute focus on cross-border payments to realize efficiencies in cost and settlement provided by stablecoins. Mobile payment apps have exploded in popularity, especially since social distancing has restricted the use of physical cash to some extent.

Key challenges

- Compliance with regulatory obligations: A patchwork of regulations has emerged and continues to evolve. Maintaining compliance with laws and regulations related to an array of financial crimes is already a major challenge.
- Fork management and governance: Forks occur when a single crypto blockchain breaks into two separate chains. They have a significant impact on crypto businesses.
- KYC and cryptoasset provenance: Crypto owners are identified not by names or account numbers but by cryptographic addresses that can be created at any time, by anyone, anywhere – this presents a unique challenge to KYC programs.
- Securing cryptoassets: Given the potentially high value of cryptoassets and the natively digital nature, crypto businesses and their customers are prime targets for cyber criminals.
- Accounting and financial reporting: Cryptoassets challenge traditional financial reporting boundaries. The accounting for these assets is an emerging area, with limited industry guidance.

A battle for custody

Further adding complexity is the fact that the regulatory environments affecting crypto custody businesses vary greatly from one jurisdiction to the next. Differences in rules at the state, national and international level are creating substantial compliance challenges for global financial institutions that deliver custody solutions.

Custody – the management of the cryptographic private keys that cryptoasset owners use to execute transactions – is a critical building block for crypto institutionalization. It is fundamental to earning customer trust in cryptoassets and allowing the market to scale. As cryptoassets proliferate, custodians have a tremendous opportunity to profit – both by earning management fees for delivering straightforward custodian services, and also by offering adjacent services only possible in the emerging crypto ecosystem.

For custodians trying to manage this regulatory complexity, an informed and detailed view of the changing regulatory landscape is paramount. Given the steep variation in the clarity and nature of different regulatory environments, decisions based on existing law and policy should be carefully calculated, weighing the risks and benefits of each course of action.

Regulatory aspects

Global regulators continue to debate governance frameworks and how to implement rules and regulations, which will allow a transparent and cyber free crypto trading market. The world of crypto branches minute by minute, and evolution of non-fungible tokens (NFTs) and De-Fi platforms continue to increase the gap created by crypto enthusiasts.

Positioning itself as a destination of choice for virtual asset investors and in response to global demand from the industry, the Abu Dhabi Global Market (ADGM) is the one of the first jurisdictions in the world to introduce a comprehensive and bespoke regulatory framework through its Financial Services Regulatory Authority (FSRA) to regulate virtual asset activities. The virtual asset framework focuses on robust governance, oversight and transparency. The rules cover a range of areas including anti-money laundering and combating financial crime, consumer protection, and technology governance.

The UAE's Securities and Commodities Authority (SCA), the local financial market watchdog, has issued a regulation on creation, issuance and marketing of virtual assets in the UAE. With this, the SCA aims to broaden its scope to include traditional financial markets, instruments and the alternative finance sector while encouraging market innovation and investor security.

The Dubai Financial Services Authority (DFSA) is also considering implementing a framework to regulate virtual or crypto assets. It is yet to be seen whether the Central Bank will follow suit.

Accounting and auditing considerations

As recommended by the International Accounting Standards Board, each crypto asset organization is required to assess the applicable accounting treatment, considering the type of crypto asset invested; for example, a typical crypto asset like Bitcoin versus a stable coin or a token backed by certain assets (or even an NFT). Currently, a lot of institutions would prefer to list the traditional top virtual assets. These virtual assets could be held for sale or for appreciation, thus the accounting treatment would differ in each circumstance.

Generally speaking, crypto assets held for sale should fall under the scope of IAS 2 – Inventories, as the asset is held in the ordinary course of business. However, an asset held for capital appreciation would fall under the scope of IAS 38 – Intangible Assets, as a virtual asset is considered an identifiable asset without physical substance which will provide future economic benefits. Caution is required to when looking at the accounting aspects; each transaction or crypto asset could involve different arrangements or business purposes, impacting the accounting implications.

Auditors need to take particular care when getting involved with crypto assets; assertions to consider include existence, ownership and valuation.

The cryptoasset framework

0 Plan

- Product-market fit
- Strategy and revenue models
- Leadership and governance

1 Onboard

- Customer onboarding, KYC, and investor qualification
- Asset provenance
- Account creation and funding
- Crypto key provisioning and exchange integration

2 Service and deliver

- Crypto order management, booking and settlement
- Transaction monitoring and anti-monet laundering (AML)
- Fork management and governance
- customer servicing

3 Protect

- Crypto storage and physical security
- Blockchain activity and threat monitoring
- Crypto key management & operations
- Privacy
- Cyber threat defense
- Resiliency and disaster recovery

4 Comply and report

- Regulatory compliance, integration, and reporting
- Finance, accounting and tax

Looking ahead

As blockchains evolve, there will continue to be new opportunities for asset owners to participate in consensus processes, governance decisions, and other rights afforded to them. Crypto custodians that support customers in exercising their rights as asset owners and using their assets in custody to the greatest economic advantage will gain competitive edge. They may also face requirements stemming from asset managers' fiduciary responsibilities to pursue revenue-generating opportunities on behalf of asset owners. Successful crypto custodians will focus on two fronts: building core capabilities for secure, resilient and compliant custody capabilities, and keeping pace with rapid technical changes that may drive new revenue and growth opportunities.

Banks looking to adopt crypto assets in the UAE will require careful consideration of the regulatory frameworks. Crypto is here to stay. It will keep evolving, day by day: the pace of change has never been so rapid – and will never be so slow again.

Paritosh Gambhir
Partner, Audit, Lead for blockchain and virtual assets
E: pgambhir3@kpmg.com

“

ADGM has been growing its position as a destination of choice for virtual assets and digital assets investors and catering to global demand from the industry. As an International Financial Centre, ADGM is also the first jurisdiction in the world to introduce a thorough and bespoke regulatory framework for the regulation of virtual assets activities, including those undertaken by multilateral trading facilities, brokers, custodians, asset managers and other intermediaries. The Financial Services Regulatory Authority is the regulator of virtual assets activities within the ADGM jurisdiction. Its broad framework facilitates the operation of industry-leading virtual asset players in a business-friendly environment.

Most importantly, ADGM's virtual assets and digital assets regulatory framework addresses the full range of associated risks, including those relating to market abuse and financial crime, consumer protection, technology governance, custody and exchange operations. Amongst the many truly unique aspects of ADGM's Virtual Assets framework, the provisions relating to market abuse and transaction reporting obligations apply.

ADGM's Financial Services Regulatory Authority

ESG in everything we do

Financial institutions play a pivotal role in providing funding to combat climate change, challenge and incentivize best ESG practices, and support organizations in addressing the UN Sustainable Development Goals (UN SDGs). Fadi Alshibabi argues that ESG is no longer a choice: it is an imperative.

The banking sector is subject to mounting pressure from stakeholders and an ever-increasing list of regulations which require ESG to be considered and embedded in the way the financial institution operates. In fact, in a global survey by KPMG International in 2021, 75% of Financial Services (FS) CEOs are looking to lock in the sustainability and climate change gains made during the crisis, and 34% plan to invest more than 10% of revenues in their sustainability efforts.

As ESG becomes a critical success factor for financial institutions, there are a breadth of considerations and adjustments which may be required:

— Understand your current baseline
This involves much more than simply quantifying the financial risks and probabilities. Financial institutions should create an understanding of common ESG expectations of key stakeholders (including regulatory authorities) and build awareness of leading ESG practices, current expectations, and emerging areas, particularly amongst senior management and board members. This includes taking the time to understand their current practices and exposures, including whether they have the right data and technology, the right capabilities, and the right processes to monitor and manage ESG appropriately going forward.

— Develop/optimize ESG strategies, frameworks, and products
Once the ESG sentiment and expectations are understood, these should be used to Optimise strategies, operational frameworks, and products with an aim not only to comply but to create competitive advantage. The ESG strategies should outline the organizations' objectives, focus areas and targets and the operational frameworks should facilitate decision-making regarding who to loan to and invest in. Financial institutions are increasingly adopting the principles of responsible banking and principles of responsible investing (PRI) as outlined by the United Nations Environment Programme Finance Initiative.

— Optimize governance frameworks
Governance frameworks should be adapted to ensure that ESG (especially climate) is a board level consideration, ESG committees are established with the requisite climate expertise to evaluate projects and support in ESG decision making, and ESG teams are established to monitor and manage ESG within the organisation. Additionally, to ensure accountability, best practices involve including ESG in role descriptions and performance evaluations where appropriate and, at a board level, including ESG as one of the KPIs linked to directors' remuneration.

— Risk identification and frameworks
Many financial institutions are concerned they are ill-prepared for the types of prudential and conduct risks which could arise because of climate risk and the move to a low carbon economy. For many, ESG factors remain a reputational risk, but they need to be more than that. Financial institutions should ensure that ESG risks are a lens through which all decisions are made, especially in relation to credit and valuation risks in their portfolios, and risk frameworks should be adapted to allow for that to occur.

— Reporting
With scrutiny on financial institutions (which in some jurisdictions is a regulatory requirement), many financial institutions produce reports to convey their ESG performance to the market. In most cases, this includes reporting only on their internal ESG performance, but market pressure is building to see impact investing reporting for financial institutions too, which would consolidate the ESG performance of their invested and funded assets.

— Assurance
With over USD 40.5 trillion[17] of global assets using ESG data to drive decisions, the need for Assurance to look to the credibility of the information being produced is becoming ever more critical. While there are few global regulations mandating Assurance, many organizations are recognizing the imperative and opting for voluntary assurance.

Wholistically incorporating ESG will not only improve the resilience of the financial institution but will also drive value for the stakeholders by providing them access to the broader pools of capital, and tangible debt pricing benefits if they can demonstrate that a positive ESG impact is delivered.

An evolving regulatory environment

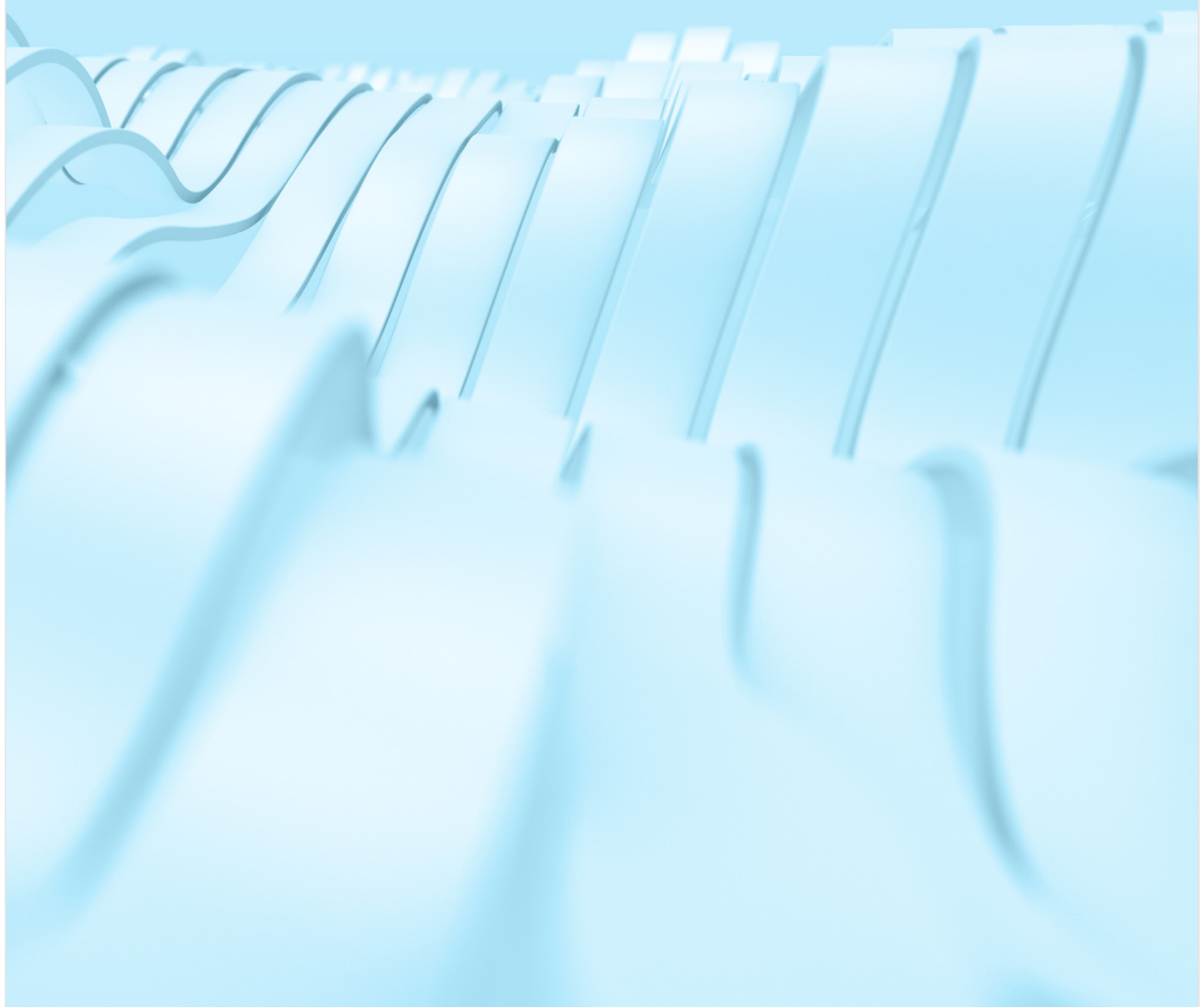
Seventy-two percent of global banks[18] indicated that climate change is a financial risk which will impact their businesses in the medium to long term. International regulators are setting out expectations for stress testing and climate risk management for banks. These may include climate stress testing to identify risks, not only at an operational level, but also at a lending one to predict the balance sheet evolution and related losses over the years. Organizations will also need to build on the climate stress testing capability as the requirements become more stringent.

The search for consistency also remains a priority. The key to achieving this, and to enabling the development of reliable market data, will be standardized definitions of E, S and G, globally. Recognizing the challenges that companies are facing in making ESG disclosures, standard-setting bodies are seeking to enhance and align their approaches to corporate reporting, both financial and non-financial. The emergence of mechanisms to drive consistency, such as the WEF (World Economic Forum) stakeholder capital metrics, and the recent formation of the International Sustainability Standards Board (ISSB), is expected to drive some level of consistency over the coming years.

Within the UAE, however, the lack of formal regulation from the central bank and regulators mean that unless individual banks have links to international regulators who mandate these areas, many UAE specific financial institutions are not considering ESG (including climate) in sufficient detail. Nevertheless, with the UAE having set a net zero target and COP28 (Abu Dhabi 2023) being held within the region, there is an expectation that the competitive and regulatory landscape will significantly shift over the coming years and align to some degree with the international market. This provides UAE financial institutions the opportunity to be frontrunners in the region, securing competitive advantage.

Fadi Alshibabi
Partner, Sustainability
E: falshihabi@kpmg.com

Evolving infrastructure capabilities



Leveraging low code/no code platforms to drive organizational change

Low-code concepts reduce the gap between corporate and IT functions, allowing both teams to work together to solve business needs. Ankit Uppal explores how banks can use these to automate operations and transform the customer experience.

The successive waves of technological disruption have dramatically changed the way financial service (FS) organizations create value for customers, employees and other stakeholders. The relentless pressure to innovate, cope with the pace of regulatory requirements and solve problems faster than ever is leading an increasing demand for applications and software solutions. FS organizations are increasingly adopting low-code platforms for rapid application development in a cost-effective manner.

Leveraging graphical user interface and drag-and-drop capability, low-code platforms can dramatically increase the speed of creation for sophisticated enterprise-class applications. These applications can incorporate complex business logic, automate workflow, integrate with existing information systems and enable a slick user experience. The low-code platform eliminates the need for creating frameworks, linking databases and other tasks that are typically included in the traditional development. Even novices without programming skills can use it to develop applications with relatively little aid from the IT department.

A plethora of applications

Many banks are using low-code platforms that come prepackaged with microservice-based architecture and Cloud-native functionalities, helping them collaborate with FinTech players to deliver advanced consumer value propositions and deliver sustained innovation across the front, middle and back-office functions. Globally, prominent banks are adopting low-code to:

- Enhance the customer experience: deploying digital solutions such as self-service customer portals, mobile applications and other digital platforms to promote an intuitive digital customer experience. Through low-code platforms, organizations build once and deploy everywhere so web and mobile users get the same experience. This multi-channel consistency helps boost productivity and enhance collaboration.
- Automate and orchestrate existing processes: leveraging the robust business process automation engine of low-code platforms to orchestrate multiple different applications. This allows the organization to build seamless experiences–an onboarding journey that orchestrates several systems, risk, AML, workflow, along with providing a front-end channel.
- Modernize legacy systems and uplift the employee experience: Building NextGen business applications using low-code platforms to supplement legacy systems such as core banking systems. This adds flexibility, enhances functionality and elevates the user experience (UX) and user interface (UI) of packaged software products.

With traditional software implementations, business leaders across FIs often focus on two things when it comes to low-code platforms: how long will it take to become operational and how much it is going to cost? Low-code platforms have proven to be up-to ten times faster than traditional software implementation. The speed at which low-code applications can be developed is one of its key propositions, as well as the cost efficiency of being able to deploy one technology for unlimited applications. Based on our experience, the total cost of ownership can be reduced by up-to 40%–considering it is implemented at the right scale–as compared to traditional software development. Because of its simple building block approach, low-code allows complex projects to be accomplished quickly, sometimes even in a few weeks.

Gartner predicts that by 2024, low-code and no-code tools will likely account for more than 65% of all application development within enterprises. This is how the landscape is evolving for the future of application development. Low-code is going main-stream, replacing traditional development, and becoming the customization layer for the software as a service (SaaS) solution.

Low-code in action

Low-code platforms can be used for digital transformation to streamline operations and improve the overall customer experience; this requires a modern and agile IT architecture to replace legacy systems.

Applications include:

— Front-end, mobile-first, fully responsive digital experiences

— Digital "know your customer" authentication and document signature

— Integration with business partners via the application programming interface (API)

— Digital assets shared across all products, channels and partners

— Replacing 70% of core systems

FIs are quickly realizing that low-code can be leveraged for a lot more than merely citizen developers building good-looking apps at speed. There is a clear shift in the way low-code is being consumed in banking. We are seeing more banks lean toward developer-centric platforms that enable serious and complex banking applications.

Ankit Uppal
Director, Experience Design and Innovation
E: auppal1@kpmg.com

The unifying fabric of the digital enterprise

Leading organizations are already looking ahead to a connected future where low-code platforms — by the adoption and convergence of emerging technologies, will unify front, middle and back office functions.

1 Front office

Low-code will enable harmonious multichannel user experiences across applications, and faster time-to-market for new product and service offerings

2 Middle office

Low-code will improve the integration and automation of the processes that span the enterprise, add a unifying orchestration layer across the organization's many different applications, and bring a digital user experience to legacy systems.

3 Back office

Low-code will modernize legacy systems, automate mundane, disconnected and manual tasks, and reduce the dependency on traditional, costly and lengthy custom development projects.

Data-driven analytics: enabling the financial services industry to fight financial crime

Regulators across jurisdictions are starting to view the adoption of innovative technological tools as vital factors to increase the effectiveness of their operations. Sachith Amarasekara reflects on how this is enabling banks to apply data led advanced analytics to their processes more aggressively.

The financial services industry—especially the banking sector—is evolving at an unprecedented pace. New entrants and ways of working are significantly challenging the status quo. Digitally led, these changes fundamentally alter how banks look at their operations and their financial crime compliance functions.

Banks are starting to use AI and ML capabilities to generate improved customer outcomes and achieve regulatory compliance. This is particularly relevant as some of the lowest levels of customer satisfaction ratings are due to services disrupted by compliance procedures.

Addressing crucial concerns

Banks are looking to eventually increase customers' satisfaction with their services. For instance, this may include issues such as system updates and bank consolidation. Concerns in relation to data integrity and accessibility are common as it is typical for compliance personnel to access multiple systems when performing business-as-usual (BAU) processes such as closing alerts. In addition, banks are facing increased regulatory focus as regulators across the globe are putting them on the front line in the fight against financial crime.

Although regulatory requirements provide detailed guidance, they tend to increase the compliance burden. Rigorous compliance requirements for monitoring non-traditional customer profiles may also pose increased risk for banks. Banks struggle to comply with these increased regulatory expectations due to manual processes and legacy technologies.

Such technology limitations and legacy systems can no longer keep pace with the complexity of the global banking environment and huge volumes of data being produced.

Moreover, the financial crime landscape is constantly changing as criminals are finding new ways to commit crime via new technology, channels or products including digital currencies. Despite a variety of systems built to investigate financial crime alerts, there is a constant backlog of pending reviews. An instant response by banks in a dynamic regulatory environment is to invest more in manpower and ramp up manual efforts to quickly tackle the current demands.

Another major concern for banks is the operational challenges posed by the pandemic. With compliance teams still largely working remotely in many jurisdictions, updating systems and practices may be problematic. Given the large volumes of sensitive data involved in anti-money laundering (AML) compliance work, this may be particularly true in terms of knowledge transfer and onsite discussions.

Adopting a data-driven approach

A data driven approach looks to address banks' major concerns in a systematic and automated way. On the contrary, traditional rule-based methodologies only cover the essence of regulatory requirements. Due to regulatory censure, operational efficiencies have not always been prioritized by banks. A data driven approach may enable banks to:

— augment traditional risk factors with statistically derived attributes created by a more meaningful combination of features and variables

— create a more dynamic risk assessment process by incorporating additional data points

— generate a scoring framework with a detailed web of risk factors

This looks to move away from the current rules-based approaches (RBA) which tend to incorrectly classify customers as high-risk. As a result, following the RBA often leads to customer resentment and eventually impedes the bank's relationships with clients. The data driven approach, on the other hand, depends on the maturity, confidence and availability of the bank's data. In any data driven approach, it is important to leverage dynamic risk factors, use a scientific approach through statistical analysis and continuously improve risk and data models.

Applying data-led analytics

In addition to tackling the key challenges identified above, adopting a data led strategy can directly result in better accuracy, optimized operations, richer data and a better customer experience. Customer satisfaction increases exponentially as banks are able to ask the correct questions, avoid repetition and focus on the right transactions at the right time. Machine learning can also offer improved forecasting accuracy due to models' ability to capture non-linear effects between scenario variables and risk factors. On the other hand, traditional models such as linear regression do not adequately capture non-linear relationships between the macro economy and the financials of a business. This is especially true in the event of a stress scenario.

Meanwhile, optimizing operations involves a reduction in false positives and the addition of data-led insight. This allows the compliance function to operate efficiently and effectively. Business functions within banks are increasingly using compliance data stores to obtain a better understanding of their existing customers, providing banks with richer data sets and enabling better targeting of new customers.

Amid the increasing sophistication of money laundering schemes, transforming the compliance function is an ever-evolving process. Coping with regulatory requirements and fighting financial crime by deploying sophisticated techniques should be a top priority for banks. This can lead to an increased capture rate of bad customers, reduced compliance costs and an improved customer experience. Managing money laundering risk is a journey— it is imperative that organizations exert every effort to use more advanced analytics to stay ahead of crime.

Sachith Amarasekara
Director, Forensics, AML, KYC, Transaction monitoring
E: samarasekara@kpmg.com

The move towards outsourcing and offshoring – the challenges and opportunities

Increasing governance issues, compliance requirements, remote working and new technologies have forced organizations to reconsider their operating model, technology stacks and customer journey. Varun Bhatia weighs the benefits and disadvantages of a workforce beyond borders.

Financial institutions (FI) are not new to outsourcing and offshoring various functions. While they have delivered cost advantages, a large percentage of FIs aren't getting the most out of their offshoring programs. To add to the complexity, the pandemic has reshaped the world and FIs are under more pressure than ever before.

FinTech firms and neo banks have spung up to meet rising customer demand and capture whitespaces. This has pushed traditional FIs to close the gaps in the digitization of processes and improve both employee and customer experiences. The rising demand for seamless processes, quick and secure transactions, data security, fraud detection and financial reporting is challenging the status quo. This is especially true for time-consuming manual processes, administrative tasks and other traditional operations which have been done the same way for several decades, pre and post offshoring.

Thinking digitally

It is evident FIs no longer have the option of debating leveraging cutting-edge technologies like artificial intelligence (AI), big data, Cloud platforms and automation. The harsh reality is that most FIs have not been able to realize the full potential of these technologies. They have tried to maintain operations in-house, or tried using what would typically be termed as "band-aid" solutions across a series of vertically integrated silos, with extensive task duplication and bureaucracy running across their businesses and markets. The question remains: what about the FIs that are too small or do not have the resources to adopt these disruptive technologies?

Cost reduction used to be the primary reason for offshoring. Traditionally, only transactional functions like customer service, IT, sales, accounting, payroll or back-office processes were considered "in-scope". Today, FIs are generating additional value by leveraging outsourcing and offshoring services for complex and critical functions. These include:

- Compliance
- Cyber security
- Data engineering
- Advanced analytics
- AML transaction monitoring
- Regulatory filings
- Customer due diligence

The role of third-party vendors and offshore setups is no longer limited to transactional activities–they are now leading digital initiatives and re-engineering operations by leveraging technology-first solutions that reduce risk and improve tangible outcomes.

The need to act with urgency

Digital business models have been growing across FIs with banks creating better apps, streamlining customer journeys and revamping their middle and back-office processes. However, they are struggling with the pace of change and adoption. FIs are stuck with old IT, data and operations mindsets which often obstruct meaningful transformative change. For this reason, working with an outsourcing or offshoring provider has the potential to change the game for FIs as they bring in technological and operational muscle, and access to a large talent pool.

Moreover, the scope of outsourcing and offshoring has evolved from labor to value arbitrage, which has become a core competence for outsourcing service providers. They can help in reimagining the customer journey across front, middle and back-office operations to optimize onshore and offshore resources, bring in proprietary tools and build better technology stacks.

Outsourcing at the heart of digital transformation

Reimagining operating models is no longer limited to tactical value-adds and minor process level innovation. The market for business process outsourcing (BPO) or shared services (captive) continues to grow rapidly, largely driven by the addition of new complex services.

Risks such as operating costs, limited talent, cultural barriers, operational risks, vendor mismanagement and data breaches require appropriate security measures to be put in place. This is usually achieved through compliance with local financial service (FS) policies and regulations by the Central Bank of the UAE (CBUAE) and Ministry of Finance (MoF).

To allow them to anticipate future trends and develop cutting edge technology to help their clients, FIs need to reflect upon a few questions:

- What is our tech architecture?
- What is our vendor or partnership strategy?
- Do we have capable delivery resources?
- Is the vendor's vision aligned with ours across structure, governance and the hiring approach?
- Will the service provider go above and beyond the typical scope of work to drive meaningful cross-enterprise impact?
- How will FIs measure the performance of the service provider based on joint priorities?

Large banks have already set up their own captive shared services and are open to using outsourcing service providers more than ever. However, when it boils down to the complexity of execution, selecting the right approach, toolset, delivery model and people to implement end-to-end services become essential in maximizing cost efficiency and process excellence. Leading service providers are focused on establishing remediation plans, working closely with industry experts, using agile operating models and building deep domain expertise. It is imperative FIs carefully identify and establish strategic partnerships to unlock lasting business outcomes, enabling them to fully rely on and leverage the benefits of outsourced or managed services.

Varun Bhatia
Partner, Managed Services

E: vbhatia3@kpmg.com

Banking on the future with Cloud

Many leading financial institutions (FI) have defined a Cloud strategy and some are already implementing data-center exit approaches. However, Alfonso Gutierrez believes banks are not unlocking its full potential.

Systems within numerous established banks often use traditional, outdated architecture and can follow antiquarian approaches which are preventing them from unlocking the full benefits of the Cloud. They are hampered by a variety of obstacles.

Simply plugging into the Cloud will not generate the value needed to directly enable business outcomes at the expected financial benefits or the pace required. Leveraging the Cloud means not to lift-and-shift, but to rationalize, consolidate and transform by systematically driving innovation, for instance via blockchain and digital labs. To maximize the advantage of the Cloud, banks may also need to apply new technologies for modernization (Kubernetes or low-code/no-code) and introduce agile methods and techniques (DevSecOps or design thinking).

Additionally, transformation and cultural change may not be addressed by department leaders—organizations have pockets of Cloud transformation teams that are not necessarily visible, causing inconsistent Cloud adoption in the organization. Banks are also struggling with the cultural change of managing the new technology ecosystem which requires governance across security, compliance, architecture, data, AI, DevOps and other parts of the organization.

Moreover, regulatory compliance and associated risks complicate adoption: regulatory compliance can slow down agility and adoption if Cloud security is not properly addressed from the beginning. Regulators are recognizing the potential risk of FIs consolidating their technology in a few Cloud hyper-scalers, which is something to consider with multi-Cloud and hybrid Cloud strategies.

Banks must overcome these challenges with the imperative to lead in the market before digital disruptors and fintech companies erode their business by enhancing or automating FS. The following key themes are crucial for banks to unlock the Cloud's potential:

- Implement the Cloud "center of excellence" to accelerate Cloud adoption and drive innovation
- Mitigate risk and ensure security compliance while adopting the Cloud
- Focus Cloud adoption on differentiation and innovation in the market

The Cloud "center of excellence"–a catalyst for change

Banks are starting to understand the need for a capability in the form of a Cloud center of excellence (CCoE). The CCoE modernizes applications and standardizes fast track adoption across the whole organization to unlock the Cloud's full potential. This capability is a cross-functional team of people. Their responsibilities include developing and managing the strategy, security compliance, governance, innovation, agile methods and best practices that the organization can leverage to transform the business.

This multi-disciplinary team will lead the implementation of the following capabilities:

- Cloud architecture and engineering: to implement new innovative solutions (digital labs), proof of concepts, and technologies like Kubernetes, PaaS and SaaS
- Cloud security and compliance: to drive continuous security assessment, Cloud security solutions and security controls monitoring
- Cloud management and orchestration: to manage and orchestrate automation for multi-Cloud and hybrid environments leveraging Infrastructure as Code (IaC)

Regulatory compliance no longer a burden

Banks can mitigate risks and ensure security compliance by ensuring that development, testing and production environments are provisioned automatically to meet regulatory requirements and controls. Continuous Cloud compliance monitoring will ensure adherence to configuration rules and controls to manage and mitigate potential security risks.

Banks are facing massive disruption and need to explore new business models. New entrants may leverage the Cloud to differentiate themselves from the inefficiencies and lack of innovation of traditional business models.

To accelerate business enablement and differentiation, banks would do well to collaborate with independent third parties to help with informed and unbiased decision making and strategy formulation, while leveraging partnerships with vendors for funding and discounts.

The new reality for banks requires action to unlock the Cloud's full potential while mitigating security risks. The adoption process must focus on differentiation and the business impact to avoid replication by competitors. Cloud is the foundation for digital differentiation in the omni-channel customer experience. It is also essential in creating new business models like open banking. The question remains: what will your bank do to survive this new reality?

Alfonso Gutierrez
Technical Director, Enterprise Solutions and Cloud

E: agutierrezh@kpmg.com

Connected control and risk frameworks

A maturing corporate governance landscape

Two and a half years have passed since the introduction of the Central Bank of the UAE (CBUAE) Corporate Governance Regulations. Maryam Zaman reflects on what we have learned since then.

As banks evaluate their performance for the last year and make plans for 2022, it is increasingly evident that resilience will continue to be the great differentiator of the pandemic era. This includes the strength of the strategy, organizational model, operations, and corporate governance. In fact, the unprecedented events of the past two years have put banks' corporate governance structures and practices to the test.

We also anticipate increased stakeholder expectations of a more equitable and sustainable future will compel UAE banks to further focus on their environmental, social, and governance (ESG) strategies. In fact, investor scrutiny of companies' ESG performance is even higher in the UAE than globally. According to KPMG's 2021 CEO Outlook - UAE, 84% of UAE CEOs are seeing greater demand from stakeholders — such as investors, regulators, and customers — for increased focus on ESG issues (compared with 58% globally). Strengthening corporate governance practices as part of an overall ESG commitment will continue to be on the agenda of boards. This focus is partially driven by the regulatory obligations introduced by the UAE Securities and Commodities Authority (SCA) and the UAE Central Bank (CBUAE) in the last two years.

Since the issuance of the CBUAE's Corporate Governance Regulation and Standards in July 2019, banks have been instituting sweeping changes to their corporate governance practices, including the following key initiatives:

— Assessing/revising the mandates of the board and board committees

— Updating the bank's delegation of authority to provide further clarity on the delegated powers of the board, senior management, and management committees

— Conducting independent performance assessments of their boards, board committees, and individual board members

— Developing/updating key policies and processes relating to the management of conflicts of interest, related party transactions, insider trading, and whistleblowing as part of the effort to build a strong governance and compliance culture

Disclosure of board and senior management remuneration

The CBUAE Corporate Governance Regulation requires banks to disclose their compensation and incentive policy, and aggregate quantitative information on compensation. Moreover, banks are required to disclose the individual remuneration of board members and key senior management personnel.

Competition between banks to attract and retain top talent will increase as compensation practices become transparent. In such a market, other factors—such as values, organizational culture, trust in leadership, market perception, and brand value—become increasingly important when competing for talent to drive growth ambitions and transformation initiatives.

Remuneration policies

Another area of focus for the banking sector in 2022 will be enhancing the existing compensation frameworks of the board, senior management, material risk takers and key control functions to ensure they account for a bank's risk profile. Risk-based compensation frameworks, designed to link incentive payouts to realized risks in the short and long term (for example, ensuring that a substantial portion of the senior management and material risk takers' variable compensation is deferred over at least three years), are yet to be widely adopted by UAE banks.

Conflict of interest management

Focus on effective conflict of interest management and oversight at all levels within a bank, including the board level, will continue in 2022. While most banks have a conflict-of-interest policy requiring timely disclosure of perceived, potential, or actual conflicts, managing conflict of interest and identifying related party transactions is primarily manual and reactive. As a result, in some instances, conflicts of interest and related party transactions are not disclosed on a timely basis. Automated tracking and reporting systems can help manage conflict of interest across the bank. Further, digitization will also help build relationship trees across the bank and automate the conflict disclosure, review, and reporting processes.

Structure and dynamics of board meetings

The structure of board meetings may also require revisiting. In addition to allocating time to reviewing historical performance, sufficient time must be allocated for meaningful two-way discussions between management and the board about forward-looking issues, such as the board's engagement in strategy.

To complement traditional quarterly meetings, boards are now holding additional sessions dedicated to discussions on strategic initiatives. In these sessions, senior management provides context and meaningful information to facilitate discussion, allowing the board to challenge key assumptions and provide valuable feedback. Only through a collaborative mindset – rather than a top-down or a bottom-up approach – can alignment between the strategy, values, and culture be achieved.

Diversity within the board

Board diversity across gender and talent is a critical focus area in 2022. The CBUAE Corporate Governance Regulation and Standards require 20% of the candidates for the membership to be female. Further, the SCA Governance Guide requires the board to have at least one female board member.[19] Several banks continue to struggle to meet these minimum requirements. To tackle this challenge, it is imperative for banks to instill a robust assessment and selection process of board candidates.

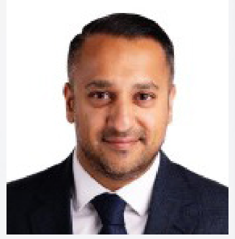
In addition, appropriate talent diversity at the board level may also require scrutiny to ensure the board is ready for a changing business and risk landscape. Indeed, new trends, including open banking, digital banking, business model disruptions, technological innovations, ESG focus, and cyber risk, amongst others, may require a more proactive approach to building the right mix of talent in the board.

In 2022, the banking industry must continue to navigate a macroeconomic environment greatly affected by the Covid-19 pandemic, accelerated technological disruption, and significant regulatory changes. Given these challenges, governance maturity is critical to a bank's future as a going concern and to its long-term success.

Maryam Zaman
Partner, Governance, Risk and Compliance (GRC)

E: mzaman@kpmg.com

"As the global banking sector continues to undergo rapid and immense technological, environmental and regulatory advances, our industry must enact robust corporate governance systems to meet this pace of development. At FAB, we believe that strong corporate governance can enable banks to approach change more effectively and consistently. At the same time, these frameworks can create the conditions for meaningful and sustainable growth for all."



Shargiil Bashir
Chief Sustainability Officer and Head of Corporate Governance
First Abu Dhabi Bank

Organizational conduct – from risk to an opportunity

Reputational costs are significant when conduct risk materializes. Aroon Kumar explains why this is particularly pertinent for banks, as they are uniquely reliant on the confidence and trust of their customers.

The events of the last two years and the associated disruption to how banks used to operate pre- pandemic have increased the risk of misconduct and compliance failure. This increase is driven by various factors, including the pressure on employees and management to meet financial targets, and contend with financial hardship and competitive threats. As a result, banks are beginning to recognize a new risk category, conduct risk.

Although lacking a widely accepted definition, conduct risk is generally understood to be the risk of inappropriate, unethical, or unlawful behavior on the part of an organization's board, management, or employees. KPMG has partnered with social media analytics company, DataEQ, to analyze the key drivers of consumer satisfaction amongst major UAE retail banks, and ascertain whether they are meeting expectations of conduct and service. Consumers frequently complained about a lack of efficient support for their reported issues relating to business conduct, which included suspected fraud and incorrect information being received.

Public interest in conduct risk infringements is high, and failure to understand and mitigate conduct risk may expose banks to drastic regulatory action, fines, and reputational damage, which can harm its business for many years following the incident.

Corporate values

The risk of misconduct is tightly linked to an organization's values and work culture, and the success of any business is linked to these aspects of behavior. In November 2020, the Central Bank of the UAE (CBUAE) issued the new Consumer Protection Regulation and Standards, aiming to protect consumers and contribute to the overall stability of the financial services industry by setting standards of business and market conduct.

Although these statements and regulatory developments are positive, most banks currently approach conduct risk management in a fragmented manner. Roles and responsibilities related to conduct risk across business units, senior management, control functions, and the board are unclear. Conduct risk is also generally not considered across all key areas and processes within an organization. Examples of such areas include the bank's risk appetite, product development process, collection, and recovery process, as well as the remediation and reporting of complaints and allegations.

The root of the matter

Understanding and addressing the drivers of conduct risk is essential in implementing appropriate mechanisms to mitigate the risks. While the starting point for this journey varies from one bank to another, there are three areas at the root of conduct risk:

— Inherent factors: characteristics intrinsic to financial markets and their participants, such as information asymmetries between banks and their customers

— Structures and behavior: The banking sector's products and services have certain inherent potential conflicts of interests that could prevent markets from working as well as they could

— Environmental factors: macro-economic developments that can impact financial markets and, in turn, put pressure on employees, management and boards to deliver promises to shareholders

Even with a conduct risk framework already in place, most banks still focus largely on materialized risk, such as fines and losses, instead of developing forward-looking risk indicators, "yellow flags", such as increased customer complaints by service, product, or location, missed training, excessive working hours, and high employee turnover. Indeed, according to KPMG and DataEQ's social media analysis, almost two-thirds of all online conversation about the banks was noise for social customer service teams, hindering their ability to prioritize the mentions which did warrant a reply. As a result, core questions remain unanswered, such as when a product moves from suitable for a customer to unsuitable. Such tipping point analysis that defines acceptable and unacceptable behavior is rarely conducted.

Addressing the risk

Like credit, market, interest, and operational risk, it is vital to tackle conduct risk more explicitly and systematically, using a holistic framework. A conduct risk framework must be tailored to the needs of a bank, based on its structure, strategy, size, business model, and geographic reach, and consider both short and long-term goals. The most successful frameworks are regularly subjected to board-level reviews that assess and challenge the framework. While a one-size-fits-all solution does not exist, at a minimum, a conduct risk framework should identify how conduct risk will be defined, incorporated in the risk appetite, and overseen across the bank. The framework should focus on

ensuring acceptable behavior through trainings, remuneration and incentives.

Internal risk assessments of the business, its products and organizational set up, and external assessments of macroeconomic and regulatory developments and changing customer expectations, should form the basis for defining appropriate controls to manage conduct risk. Controls should include information barriers, whistle blowing and complaint management mechanisms as well as communications and personal dealing monitoring, amongst others.

In addition, there are several questions that management and boards should ask when developing a conduct risk management framework.

— Do the board and senior management understand their roles in managing conduct risk?

— Has the board considered conduct risk in the bank's risk appetite statement?

— What support do employees receive to improve conduct in their business line or function?

— What proactive steps does the bank take to identify conduct risks in its business?

— Has the bank set appropriate conduct risk policies for board members and employees?

— How does the board monitor conduct at the board level and in the organization?

— How frequently is conduct risk on the agenda of the board or its committees?

— Has the board allocated responsibilities for managing conduct risk across all three lines of defense?

— How can a bank use existing or emerging technology to prevent or detect conduct risk?

The associated costs of building an effective conduct risk management framework should be seen as a long-term investment and a driver of business transformation, rather than a cost of compliance. A modern and well-designed framework is increasingly seen as a source of competitive advantage and an opportunity to facilitate long-term sustainable growth. By effectively managing conduct risk, banks can confidently grow, introduce new products, and innovate without worrying about unforeseen ethical, compliance and reputational failures.

Aroon Kumar
Associate Director, Governance, Risk and Compliance (GRC)
E: akumar30@kpmg.com

Innovative technologies in risk management

The banking industry, an industry that relies heavily on the use of data, is increasingly starting to adopt Artificial Intelligence (AI) and Machine Learning (ML) techniques. Abbas Basrai describes how it can leverage their powerful capabilities.

From chatbots to fraud detection, the banking sector is using AI/ML not only to automate processes and streamline operations for both the front and back offices, but also to enhance overall customer experience. AI and ML tools, with their advanced prediction techniques and capabilities to utilize large volumes of data, are increasingly being used in risk management, for quicker and more efficient credit, investment and business-related decision making.

A host of benefits

In risk management, AI/ML has become a symbol of improving efficiency and productivity while reducing costs. This has been possible due to the technologies' ability to handle and analyze large volumes of unstructured data at faster speeds, with considerably lower levels of human intervention.

AI/ML powered risk management solutions can be also used for model risk management (back-testing and model validation) and stress testing, as required by global prudential regulators, providing a range of benefits:

— **Superior forecasting accuracy:** Traditional regression models do not adequately capture non-linear relationships between the macro economy and the financials of a company, especially in the event of a stressed scenario. Machine learning offers improved forecasting accuracy due to models' abilities to capture nonlinear effects between scenario variables and risk factors.

— **Optimized variable selection process:** Feature/variable extraction processes take up a significant amount of time for risk models used for internal decision-making purposes. Machine Learning algorithms augmented with Big Data analytics platforms can process huge volumes of data and extract many variables. A rich feature set with a wide coverage of risk factors can lead to robust, data driven risk models for stress testing.

— **Richer data segmentation:** Appropriate granularity and segmentation are critical to deal with changing portfolio composition. Machine Learning algorithms enable superior segmentation and consider many attributes to segment data. Using unsupervised machine learning algorithms, combining both distance and density-based approaches for clustering, becomes a possibility, resulting in higher modelling accuracy and explanatory power.

Risk assessment
Credit scoring, credit underwriting, stress testing

Portfolio management
Customer segmentation, recommendations

Trading
Algorithmic trading

Customer support
Chatbots, robo-advice

Fraud prevention
AML and fraud detection

Pattern recognition

Knowledge based system

Deep learning

Voice/image recognition

Machine learning

Natural language processing

Use cases: staying ahead of the curve

Credit risk modelling

Banks traditionally use traditional credit risk models to predict categorical, continuous, or binary outcome variables (default/non default) as machine learning models are difficult to interpret and are not easily verifiable for regulatory purposes. Nevertheless, they can still be used to optimize parameters and improve the variable selection process in existing regulatory models.

AI based decision tree techniques can result in easily traceable and logical decision rules despite having non-linear characters. Unsupervised learning techniques can be used to analyze data for traditional credit risk modelling while classification methods such as support vector machines can predict key credit risk characteristics such as PD (probability of default) or LGD (loss given default) at a loan level.

Fraud detection

Banks have been using machine learning methodologies for credit card portfolios for years, with credit card transactions presenting banks with a rich source of data with which to process and train unsupervised learning algorithms. These algorithms have historically been highly accurate in predicting credit card fraud due to models' ability to develop, train and validate huge volumes of data.

Credit card payment systems are embedded with workflow engines that monitor card transactions to assess the likelihood of fraud. The rich transaction history available for credit card portfolios presents banks with the ability to distinguish between specific features present in fraudulent and non-fraudulent transactions.

Trader behavior

Technologies such as natural language processing and text mining are increasingly being used to monitor trader activity for rogue trading, insider trading and market manipulation.

By analyzing email traffic and calendar related data, check in/check out times, call times and trading portfolio data, systems are able to predict the probability of trader misconduct, saving millions in reputational and market risk for financial institutions.

Risks and challenges

There is no doubt that AI and ML, if implemented properly, can transform the banking industry. Vast amounts of data and sophisticated techniques may be used to build models that enhance risk management. However, there is a downside. These models amplify many elements of risk, and may be inadequate when dealing with current mechanisms and frameworks.

For example, traditional models (such as logistic regression), which are often based on clear statistical theories, use linear and low dimensional data as inputs. ML models, such as neural networks, utilize features such as dynamic training, high-dimensional data, hyper parameters, complex non-linear relationships, and linkages. Such features often render these models less transparent compared to traditional models. This, in turn, elevates model risk, as associated risks are harder to identify and assess. As a result, many banks are proceeding cautiously, restricting the use of AI and ML to low-risk applications.

Nevertheless, AI is being increasingly recognized across industries for its potential to significantly overhaul the day-to-day activities of a business. The technology has enabled banks and FIs to lower operational, regulatory, and compliance costs while simultaneously providing banks with accurate credit decision making capabilities.

AI/ML solutions have the potential to transform the financial industry, arming it with trusted and timely data for building competence around their customer intelligence, enabling successful implementation of their strategies and restricting potential losses.

Abbas Basrai

Partner I Head of Financial Services

E: abasrai1@kpmg.com

Operational risk in the new Basel framework

A new standardized approach introduced by the Basel committee has led to a number of changes for banks, with implications for how they manage their capital. Slim Ben Ali assesses its impact on financial institutions' levels of operational and regulatory risk.

Following a one-year deferral due to the Covid-19 pandemic, the Basel committee has introduced a standardized approach effective January 2023, building upon previous Basel accords, with the aim to strengthen risk management, regulation, supervision, and stability within the banking industry.

Currently, banks can choose the approach to take for calculating operational capital, with the possibility of capital savings in return for higher investments in risk management. Under the new Basel accord, banks will have to use a revised standardized approach (SA) to calculate the minimum operational risk capital requirements. This approach will replace all three existing approaches for operational risk under Pillar 1.

As with all Basel committee standards, the new SA applies to all internationally active banks on a consolidated basis, and national supervisors may also apply the framework to non-internationally active banks.

The new approach seeks to restore credibility in the calculation of risk weighted assets (RWAs) and to improve the comparability of banks' capital ratios. It is therefore critical that banks maintain high quality operational risk teams, use processes such as risk modeling and scenario analysis to assist with business decision making, and embed operational risk management mindsets into the business.

Components of the new standardized approach

The new formula for the standardized approach consists of two main components – a business indicator component (BIC) (a measure of a bank's income) and a loss component (LC), from which an internal loss multiplier (ILM) is derived, a measure of a bank's historical losses. The minimum (pillar 1) operational risk capital (ORC) requirement is the product of the BIC and the ILM, with risk weighted assets for operational risk being the capital requirement multiplied by 12.5.

This shift has major implications for banks' internal loss data and how it could be used to derive business value and risk management insight.

In practical terms, the ILM is the only variable a bank has significant control over, but its impact can be crucial and the new formula is predicted to affect banks to varying degrees.

Given the fact that the revised operational risk framework will not take effect until 1 January 2023, banks have time to improve their processes for collecting, managing, and analyzing internal loss data to reduce their ILM and thus the ORC.

Implications for banks

The implementation of the new standardized approach framework will have potential impact on the bank's data, systems, business models and capital.

— Data, systems and processes: Banks will have to ensure their internal loss data collection processes are sufficiently robust and cover the required ten-year history. Banks must have robust processes for appropriately capturing operational risk loss data, including loss dates, accounting dates and recovery data. They may need to invest in training and incentive schemes for individuals involved in LC, in data quality processes and in documentation to ensure that LC is of a sufficiently high quality. Moreover, risk management teams will need to work together with finance to define exactly how the components of the business indicator are derived from the profit and loss accounts.

Documented policies and procedures for identifying and reporting operational risk events must serve as the starting point for managing data capture and quality. Associated procedures and processes must be validated before a bank's loss data can be used to calculate capital charge for operational risk. Regular independent reviews by corporate internal audit functions and external independent party are also required.

Many banks already have systems for capturing operational loss data but with the new framework, banks may need to enhance their existing system to capture all the required operational loss data elements. Banks will also need to continue to have independent assurance that operational loss tracking systems, processes, and controls provide for high quality data.

Exploring the latest advances in robotic process automation (RPA) and cognitive technology to streamline and automate routine activities, such as data collection, cleansing, and storage can be also something that banks may consider in the future.

— Business model and capital: The definition of the BIC – as compared to gross income currently used for calculating the simpler pillar 1 approaches – generates higher capital requirements for some business activities. Banks would do well to analyze their different business lines to ensure they remain sustainable in all aspects (including profitability, customer expectations and capital usage). Moreover, due to the bucketing of the business indicator, larger banks are expected to face higher capital charges compared to smaller ones, which might have an influence on strategic decisions, especially those related to achieving non-organic growth through mergers and acquisitions.

Although the new framework will not come into force until 2023, all banks should ensure they are incorporating the new approach into their capital planning process, as well as in risk adjusted return measures at an early stage.

Implementing the new approach

The Basel Committee on Banking Supervision (BCBS) has introduced a single non-model-based method for calculating operational risk capital, the SA. This will replace all three existing approaches for operational risk under Pillar 1 and will become effective starting 1st January 2023.

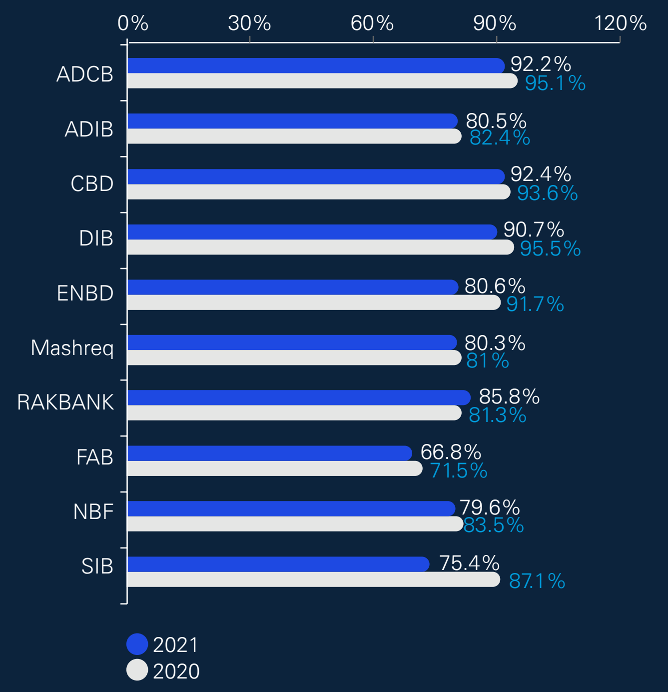
The main objectives of the BCBS in defining this new framework were to improve comparability and simplicity, which might be challenging given the scope of national discretion and the use of opaque Pillar 2 capital requirements. We expect a high level of variability in capital impact across banks and across jurisdictions under the new approach. Nevertheless, we believe that it will have significant impact on the way banks manage operational risk and presents a valuable opportunity for financial institutions to embrace new technologies and techniques including big data analytics and predictive risk intelligence.

Slim Ben Ali
Director I Financial Risk Management

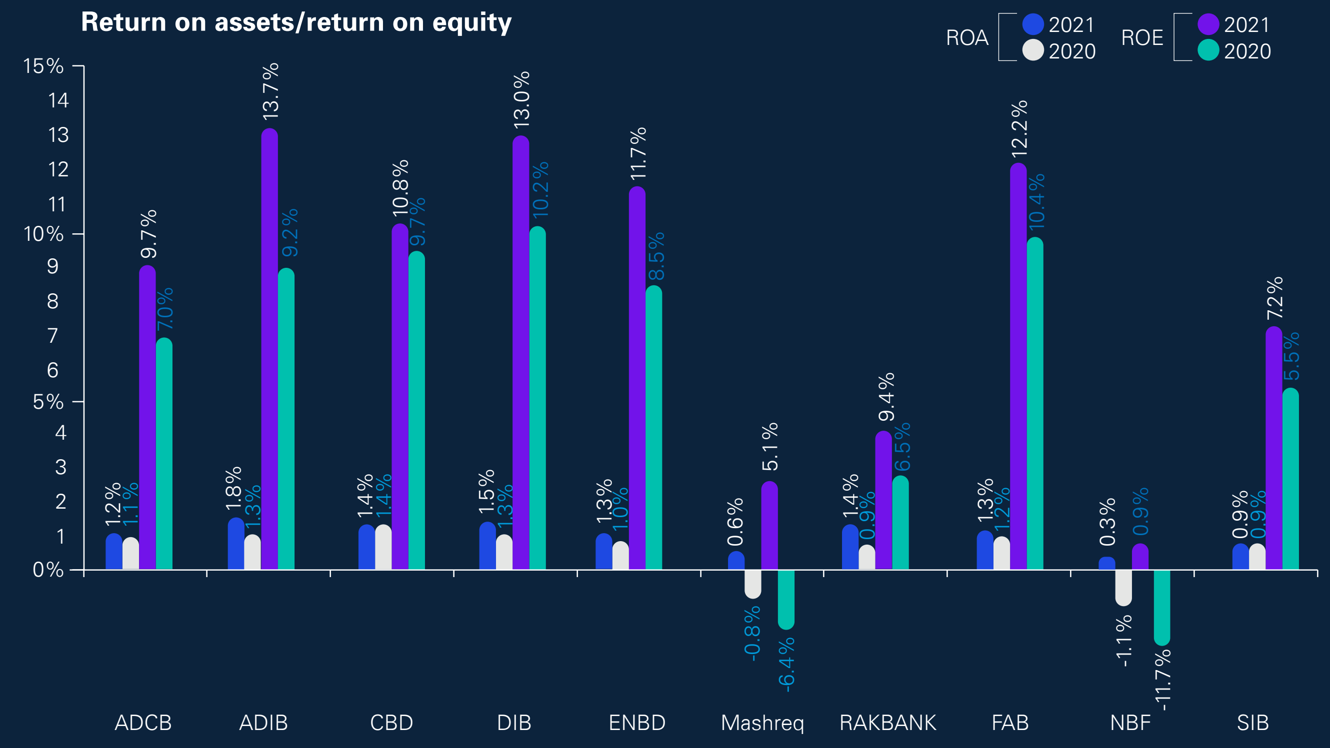
E: sbenali2@kpmg.com

Key banking indicators

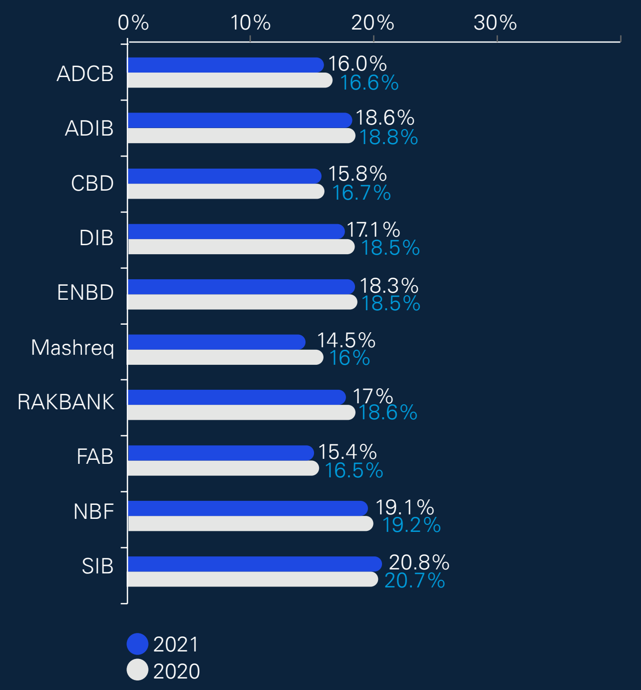
Loan deposit ratio



Return on assets/return on equity



Capital adequacy ratio



Glossary

Net Profit attributable to the equity holders of the bank

Loan Deposit Ratio (LDR) is calculated as loans and advances to customers (or financing assets in case of Islamic Banks) divided by customer deposits (including unrestricted investment accounts in case of Islamic Banks).

Capital Adequacy Ratio (CAR) is calculated as total eligible capital divided by total risk weighted assets.

Return on Assets (ROA) is calculated as net profit attributable to the equity holders divided by average assets.

Return on Equity (ROE) is calculated as net profit attributable to the equity holders divided by average equity.

Average assets are calculated as (total assets for the current year + total assets for previous year) divided by 2

Average equity is calculated as (total equity for current year + total equity for previous year) divided by 2

Non-performing loans and advances (or, in the case of Islamic banks, non-performing financing assets)

Total (gross) loans and advances [or total (or gross) financing assets for Islamic banks]

Coverage Ratio is calculated as provisions (including interest in suspense) for the respective stages as a percentage of relevant exposure.

Abu Dhabi Commercial Bank - ADCB

Abu Dhabi Islamic Bank - ADIB

Commercial Bank of Dubai - CBD

Dubai Islamic Bank - DIB

Emirates NBD - ENBD

Mashreq Bank - Mashreq

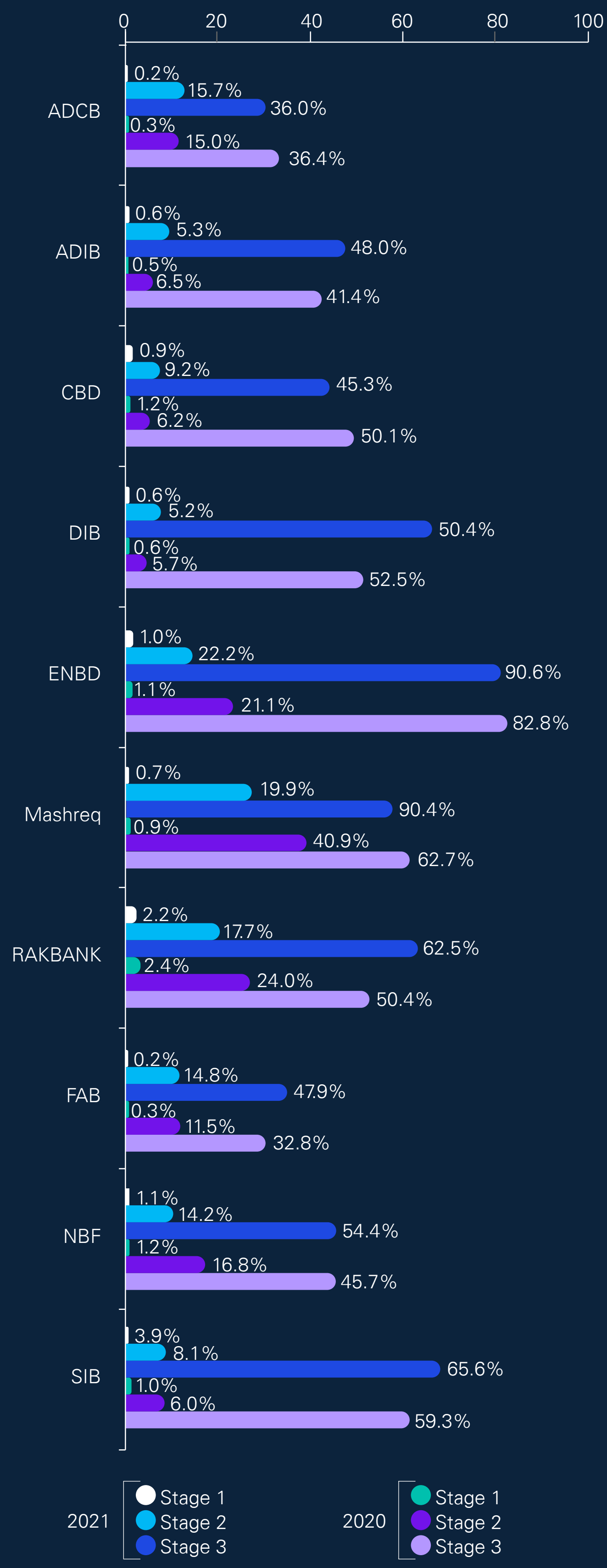
RAK Bank - RAKBANK

First Abu Dhabi Bank - FAB

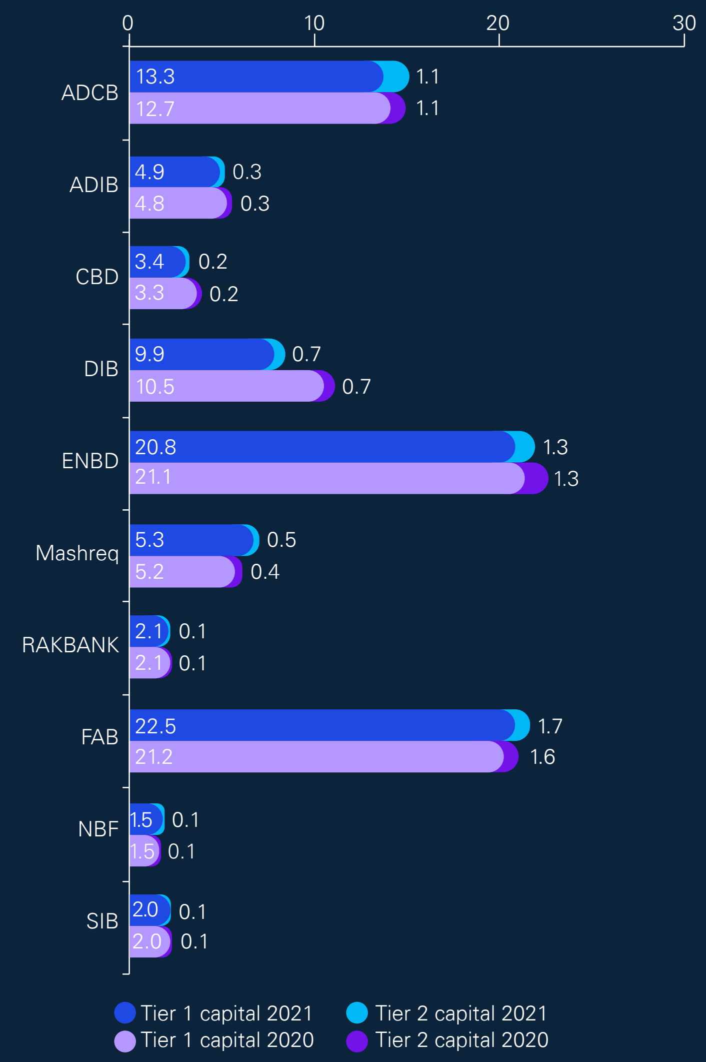
National Bank of Fujairah - NBF

Sharjah Islamic Bank - SIB

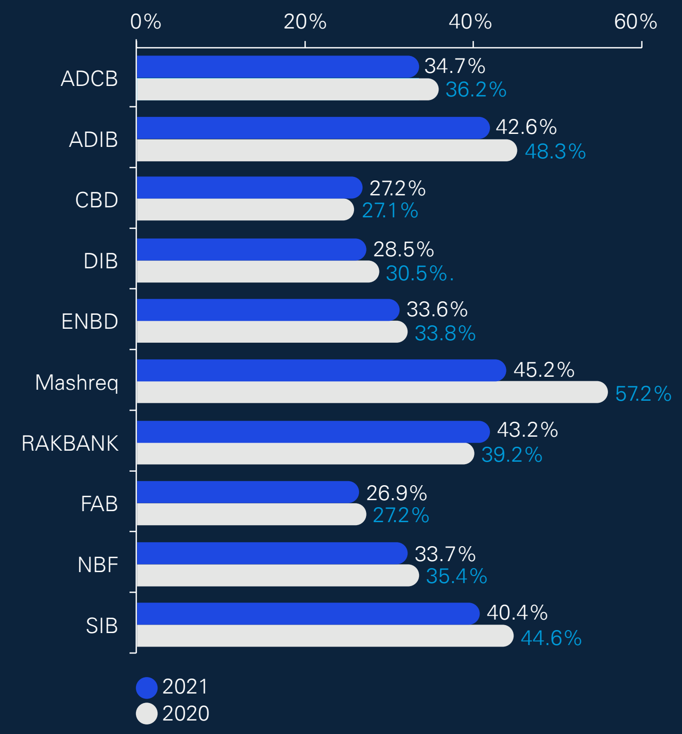
Coverage ratios on loans by stage



Regulatory capital
(US$ billion)



Cost-income ratio

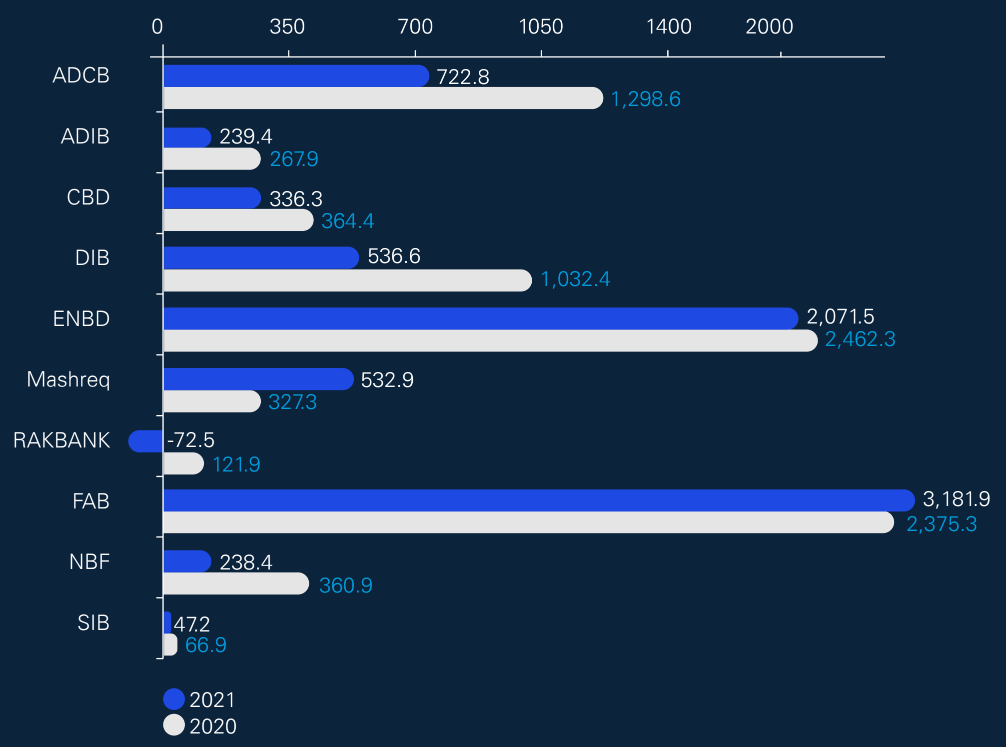


Credit rating

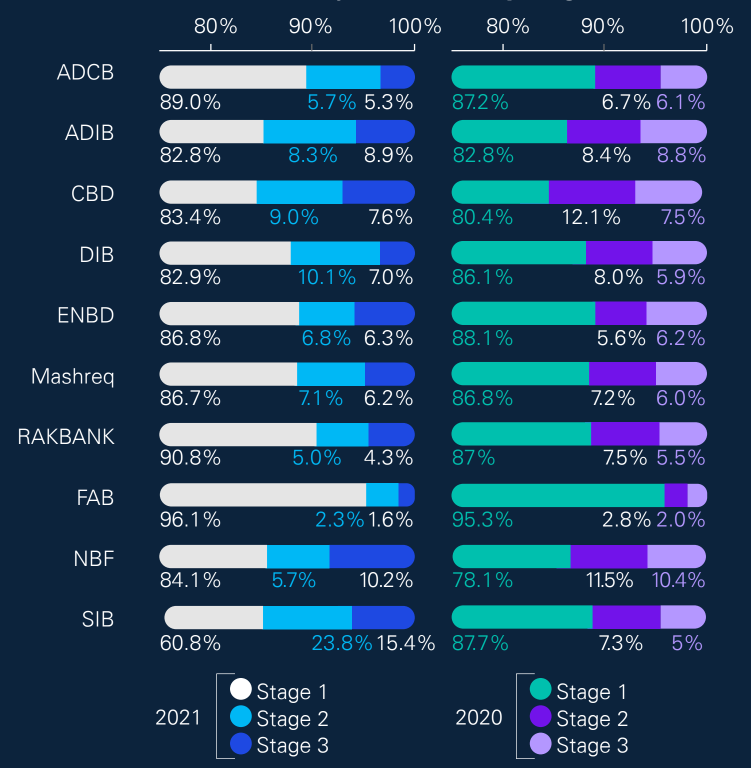
Bank Name	S&P-Long term issuer	S&P-Outlook stable negative	Moody-Long term issuer	Moody-Outlook stable negative	Fitch-Long term issuer	Fitch-Outlook
ADCB	A	STABLE	Aa3	STABLE	A+	STABLE
ADIB	NA	NA	A1	STABLE	A+	STABLE
CBD	NA	NA	A3	STABLE	A-	STABLE
DIB	NA	NA	A2	STABLE	A	STABLE
ENBD	NA	NA	A2	STABLE	A+	STABLE
Mashreq	A-	STABLE	A3	STABLE	A	STABLE
RAK	NA	NA	A3	STABLE	BBB+	STABLE
FAB	AA-	STABLE	Aa2	STABLE	AA-	STABLE
NBF	BBB	STABLE	A3	STABLE	NA	NA
SIB	A-	STABLE	A3u	NEGATIVE	BBB+	STABLE
UAE	NA	NA	Aa2	STABLE	AA-	STABLE

Source: Bloomberg. Credit ratings are as of 24th March 2022.

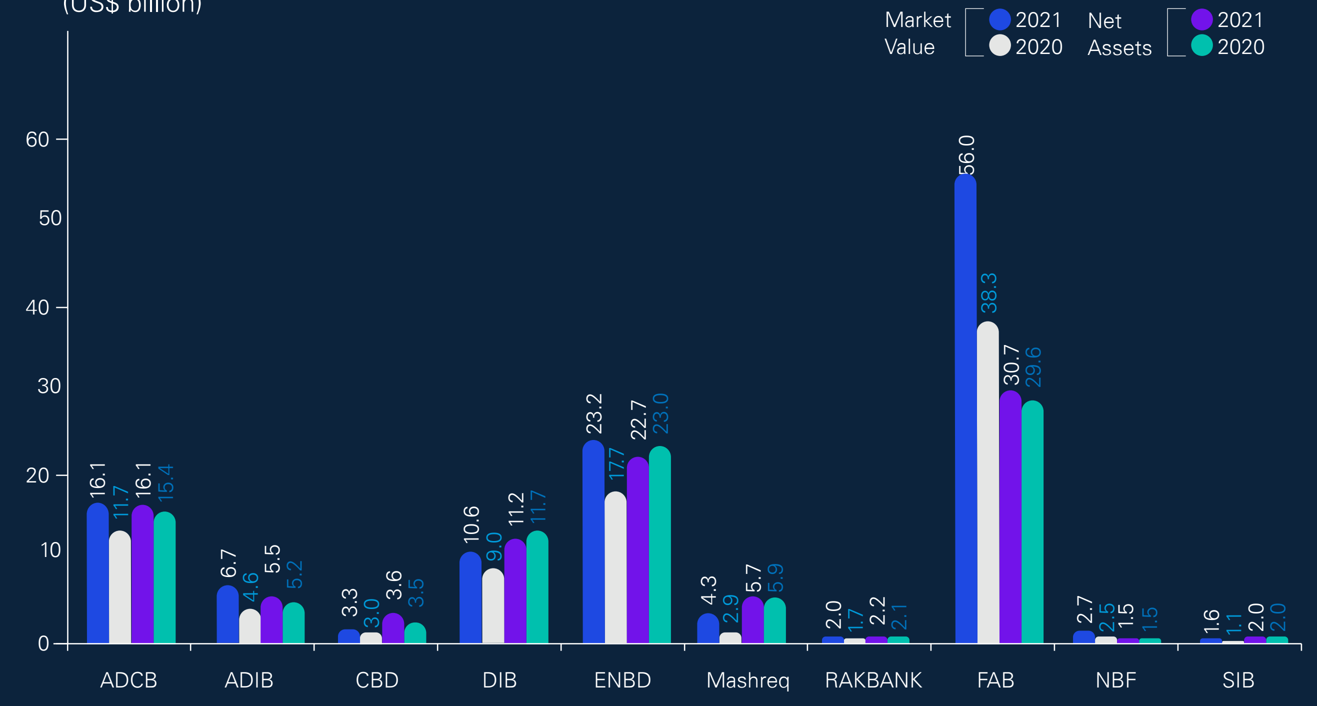
Net impairment charge on loans and advances
(US$ million)



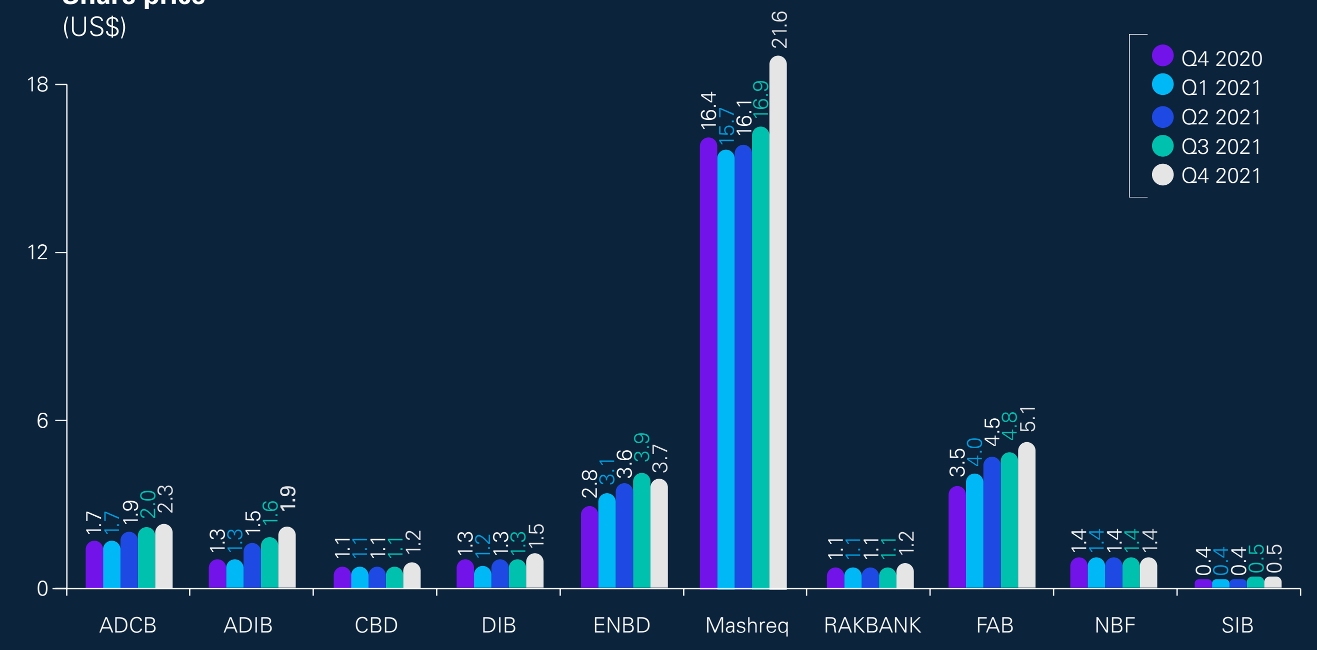
Total loans subject to ECL - by stages



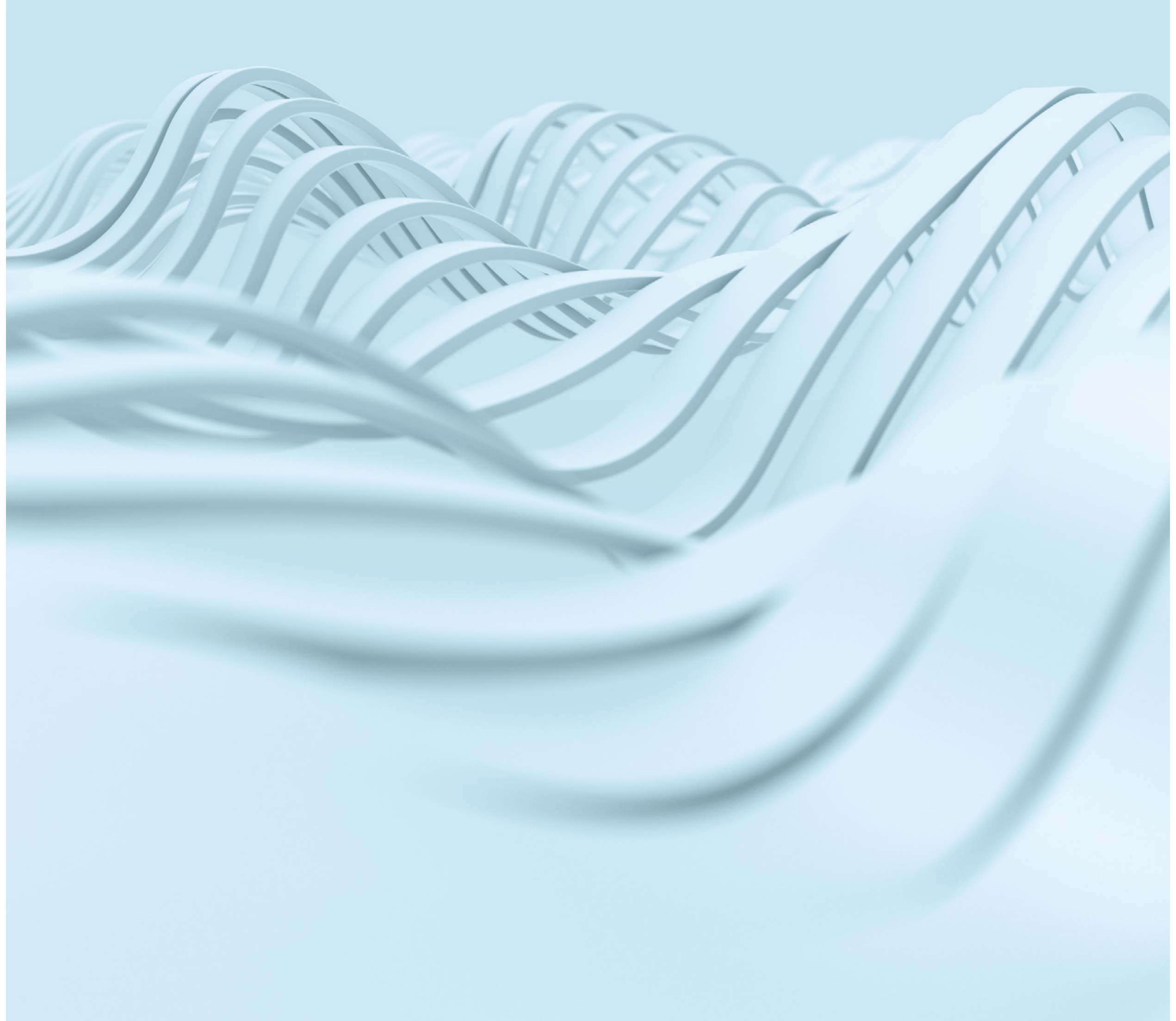
Market value/Net assets
(US$ billion)



Share price
(US$)



About KPMG



For almost 50 years, KPMG Lower Gulf Limited has been providing audit, tax and advisory services to a broad range of domestic and international, public and private sector clients across all major aspects of business and the economy in the United Arab Emirates and in the Sultanate of Oman. We work alongside our clients by building trust, mitigating risks and identifying business opportunities.

KPMG Lower Gulf is part of KPMG International Cooperative's global network of professional member firms. The KPMG network includes approximately 236,000 professionals in over 145 countries. KPMG in the UAE and Oman is well connected with its global member network and combines its local knowledge with international expertise, providing the sector and specialist skills required by our clients.

KPMG is widely represented in the Middle East: along with offices in the UAE and Oman, the firm operates in Saudi Arabia, Bahrain, Kuwait, Qatar, Egypt, Jordan, the Lebanon, Palestine and Iraq. Established in 1973, the Lower Gulf firm now employs approximately 1,783 people, including about 192 partners and directors across the UAE and Oman.

Our KPMG IMPACT initiative aims to help clients future-proof their businesses amid times of increasing focus towards issues such as climate change and social inequality. The goal is to help them achieve success across 17 major Sustainable Development Goals (SDGs) and become more resilient and socially conscious.

As we continue to grow, we aim to evolve and progress, striving for the highest levels of public trust in our work. Our values are: Integrity: We do what is right; Excellence: We never stop learning and improving; Courage: We think and act boldly; Together: We respect each other and draw strength from our differences; For Better: We do what matters.

To meet the changing needs of our clients, we have adopted an approach aligned with our global purpose: Inspiring Confidence, Empowering Change. Our three pillars – exceptional quality of service, an unwavering commitment to the public interest, and building empowered teams – are the foundation of our firm.

Disclaimer: Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

References

[1] https://coinmarketcap.com/

[2] https://companiesmarketcap.com/gold/marketcap/

[3] The Top 5 Trends in FinTech and Banking For 2022 (forbes.com)

[4] Only public tweets were included in this study due to limitations imposed by other social media platforms.

[5] The DataEQ Crowd is a proprietary crowd sourcing platform comprising a network of trained and vetted local language contributors. The full data EQ methodology can be found in the 2021 study.

[6] The 2021 study covered a shorter timeframe of 1 October – 31 December 2020.

[7] https://home.kpmg/uk/en/home/insights/2021/03/banking-finance-function-benchmarking.html

[8] https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/10/harvey-nash-kpmg-cio-survey-2020.pdf

[9] Further information can be found in "The move towards outsourcing and offshoring – the challenges and opportunities" section.

https://info.kpmg.us/content/dam/advisory/en/pdfs/2020/kpmg-cracking-crypto-currency.pdf

https://assets.kpmg/content/dam/kpmg/us/pdf/2018/11/institutionalization-cryptoassets.pdf

https://assets.kpmg/content/dam/kpmg/ca/pdf/2021/08/navigating-institutional-adoption-of-cryptoassets-en.pdf

https://coinmarketcap.com/

https://advisory.kpmg.us/content/dam/advisory/en/pdfs/2021/banking-blueprint-for-crypto-world.pdf

[10] https://newworldwealth.com/

[11] https://citywiremiddleeast.com/news/beating-covid-blues-uae-s-hnwi-wealth-surges-to-870bn/a1475488

[12] https://centralbank.ae/en/node/2491

[13] https://gulfbusiness.com/uaes-adq-alpha-dhabi-etisalat-and-fab-to-launch-next-gen-banking-platform/

[14] https://coinmarketcap.com/

[15] https://companiesmarketcap.com/gold/marketcap/

[16] The Top 5 Trends In FinTech And Banking For 2022 (forbes.com)

[17] Global ESG-data driven assets hit $40.5 trillion | Pensions & Investments (pionline.com)

[18] Climate risk is financial risk – For banks it's a board - KPMG Global (home.kpmg)

[19] https://www.sca.gov.ae/en/media-center/news/14/3/2021/board-of-directors-of-sca-approves-the-obligation-of-listed-companies-to-represent-women-in-the.aspx

Contributors

The information in this report is based on our authors' in-depth knowledge of the UAE's financial services industry, allied with detailed analysis of banks' financial performance. The GCC listed banks results report compares the performance of approximately 60 of the GCC's leading listed banks. A snapshot of those findings is included on pages 31-33.

Contact us

Nader Haffar
Chairman and CEO
KPMG Lower Gulf Limited

E: naderhaffar@kpmg.com

Abbas Basrai
Partner | Head of Financial Services
KPMG Lower Gulf Limited

E: abasrai1@kpmg.com

Osama Harmouche
Partner | Head of Audit
KPMG Lower Gulf Limited

E: oharmouche@kmpg.com

Farhan Syed
Partner I Head of Advisory
KPMG Lower Gulf Limited

E: farhansyed1@kpmg.com

Stuart Cioccarelli
Partner | Head of Tax
KPMG Lower Gulf Limited

E: scioccarelli@kpmg.com

www.kpmg.com/ae
www.kpmg.com/om

Follow us on:

@kpmg_lowergulf

Designed by Creative UAE

Publication name: Banking Perspective

Publication number: 3901

Publication date: April 2022