

'Banking the ecosystem': using data to enhance customer experience

The manifold ways in which people interact with financial services are swiftly evolving. Banks' operating models should therefore remain agile or risk obsolescence. Abbas Basrai explains why data is set to be a crucial area of differentiation amongst banks in the future.

We are at the cusp of a new decade, one that can shape the future of banking; change being a constant. In the United Arab Emirates (UAE), we are eagerly awaiting the launch of the first digital-only banks in the coming months. Globally, technology and telecom companies are seeking expansion into financial services to build and strengthen customer relationships across every aspect of their lives.

We believe those banks that are likely to be successful in the long run may be the ones that have a comprehensive data strategy, and that can leverage their data to enhance customer experience and business growth.

With margins likely continuing to be squeezed and global macroeconomic uncertainty set to carry on for the time being, we expect leading banks to design

innovative and forward-looking business and operating models. The most successful banks will likely be those that embrace technology and adopt artificial intelligence (AI), and related digital solutions.

It is advisable that banks embrace creativity when it comes to digitalization. Truly creative banks may seek to partner with technology and consulting firms to build their own AI-enabled solutions, which can then be taken to market as a new revenue stream for the banks.

The notion of 'open banking' has been central to financial services in the recent past. Open banking is a model in which data is shared between multiple, unrelated entities. Although the notion of customer focus is hardly revolutionary, the implications for banks and other traditional financial services firms can be far reaching and warrant thorough strategic analysis.

Opening up

Open application programming interfaces (APIs) are often mentioned in connection with open banking and data sharing. While APIs can be powerful enablers, they are not the sole means through which data can be shared. China is proof that, given suitable market conditions, it is possible for data-sharing models to enjoy widespread acceptance and adoption without public sector involvement—the most successful examples being the superapps WeChat and Alibaba.

Whilst open banking could be of great benefit to customers, it may also result in hurdles in some areas, for example cyber security, changing business models, and regulatory oversight.³



A potential security difficulty, for example, could lie in the potential paucity of universal technical standards. Liability could also be a worry: involving third-party providers in the banking process can accentuate the risk of fraudsters getting access to clients' financial records information. And lack of awareness of what open banking can do can make clients less likely to consent to their data being shared. This might restrict financial institutions and fintech firms' capacity for inventiveness.

In certain jurisdictions, screen scraping (using a computer program to copy data from a website) and reverse engineering are still

common. These practices can create a challenge for banks of balancing security against accessibility. At the same time, there are an increasing number of third parties who are being given access to data, making it essential they collaborate to mitigate problems of inconsistency. The UK appears to have taken a lead in open banking, with the regulator aiming to establish a new framework.

The UAE Central Bank (CBUAE) has announced that it is to launch a FinTech Office to support financial innovation within the country and position the Central Bank (CB) as the coordinating authority for fintech activities. CB governor, Mubarak Rashid Al Mansouri, said the office

would establish fintech-sector prudential and market-conduct regulatory requirements, and ensure the CB was an enabler and facilitator of UAE-based fintech activities.⁴

Regulators in the Gulf, have introduced a few new fintech-related initiatives. In October 2019, the UAE Securities and Commodities Authority published draft regulations that would govern crypto-assets, thus establishing norms for an assortment of industry players.

At the same time, Abu Dhabi Global Market has established an electronic structure designed to assess applications from firms seeking to set up a digital bank.

A single platform

Another important aspect is the logic of 'banking the ecosystem', which is an interconnected set of services where customers can fulfill a variety of needs in a single integrated experience. This integration of services may represent the cornerstone of digital banking in the years to come. There is no reason why banks should be limited to offering only traditional core banking services and should not be able to integrate products and services from a variety of providers, all focused on helping the consumer simplify their daily lives without leaving a bank's portal. This would, in theory, create a differentiated experience that can improve customer satisfaction, increase loyalty and generate additional revenue streams. It is not essential this model be delivered by a traditional bank.

A good analogy would be the non-financial travel ecosystems that help travelers secure flights, accommodation, rental cars, tour guides and even restaurant and entertainment options. Now compare that to an expat moving to the UAE, opening a bank account, and securing a place to live (communicating with real estate companies and brokers), insurance (via an insurance broker), transport (via auto dealers), furniture and domestic appliances (via stores and supermarkets). There should be no need to visit different platforms: the market could move from a 'product-push' sales mentality to a proactive one that encourages 'needs-driven' solution offerings.

Take WeChat, for instance, which enables users to send messages, make payments, invest, order taxis, buy bus tickets and more, from a single integrated system. Today, customer experience expectations are set by non-financial organizations (Google, Amazon, Facebook, and Apple, among others). This is potentially why we are increasingly seeing the development of ecosystems connecting banks, fintechs, marketplaces, and other digital platforms into a single environment, with services available within a few clicks.

A clear strategy is key

By initiating such ecosystems, banks can place themselves at the center of customers' financial journeys. For example, small and medium-sized enterprises (SMEs) spend a significant proportion of their time on non-business activities, such as banking, tax, bookkeeping and payroll management. More important, many may be facing challenges about accessing basic banking services due to the difficulty of assessing their businesses' profitability and accurately quantifying their risk exposure. By creating an ecosystem that goes beyond servicing the core financial needs of SMEs to integrate their broader needs as well, banks can establish themselves as a vital component of the SME lifecycle.

To understand the direction in which a bank should position its digital ecosystem, it should identify its strengths in terms of products, services and client base. It can then define targets and objectives, for example, targeting millennials, or the 'unbanked' population.

Offering digital-banking platforms is now almost a prerequisite but is not solely enough in the context of meeting user expectations, set by high-quality daily experience with entertainment or social-media platforms. Building a secure, stable foundation upon which to lay the groundwork is key. This may take the form of building a data management platform that enables cross-functional data collection, and transferring data to the cloud. Building APIs, and taking advantage of innovations in data analytics, are logical next steps.

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