02

# A delicate balancing act

# Outsourcing and offshoring non-core functions

**Managed services companies can help banks to outsource certain functions, for instance HR or client due diligence/know your customer. Varun Bhatia elaborates on how this gives rise to opportunities for operational and legal synergies.**

The last decade has been a challenging period for conventional banking. New technologies have accelerated the rise of digital banks and niche payment providers, which have been challenging the status quo. In general, the banking sector seems to be playing catch-up in a dynamic business environment, often hindered by legacy systems, poor quality data, fragmented operating models and manual processes, all of which require substantial investment to bring it on par with best in class. At the same time the needs of its customers, both internal and external, continue to rise with demands for straight-through processing wherever possible.

Given these constraints, banks have started to look towards cost-efficient solutions that can help standardize customer journeys, that can be highly digitized, automated and integrated within an existing channel experience.

While banks can benefit from the implementation of new technologies, technology itself can only solve part of the problem. Wider implications around legacy infrastructures and data repositories remain and investment requests in this environment are hard to come by. This has led several banks to consider alternate services that are not only able to support customer demands for consistent execution, but also provide for consolidated data storages, near real-time reporting, analytic driven insights to enable faster and accurate decision making, all at potentially lower operating costs. One such option is managed services. Managed services companies move away from a typical outsourcing model, to provide an enduring customer service experience, reliant not only on people but provide a leading service architecture using technology, processes and big data. Our understanding of the market indicates that while several banking clients have started a journey towards transformation of their non-core functional areas, albeit rather slowly. Those partnering with managed-services providers can have greatly accelerated throughput and enjoy productivity improvement in their banking operations.

## Realizing the value within CDD

Managed services companies can help banks optimize their footprint, business continuity planning (BCP) strategy, and total cost of operations. Many providers are offering attractive outcome-based pricing models which move away from a typical "your mess for less" approach by bringing in experience design, automation and re-engineering into the transition phase of the engagements. This also allows banks to adopt agility and co- ownership of outcomes as both banks' employees, and service provider resources, work cohesively as one team.

An area where managed services have truly transformed the way banks operate is with Client Due Diligence (CDD). CDD services which have been a major cost source for most banks have benefited from such models immensely by enhancing the customer experience using state-of-the-art technologies (e.g. case management, data aggregation, intelligent automation), process enhancements and a motivated workforce driven by customer behavior rather than policy requirements. Leading managed service providers in this space can bring in a suite of cutting-edge assets including automated workflows, character recognition, artificial intelligence (AI) and natural language processing (NLP)-based tools to enhance improvements. They are increasingly being used as "plug and play" models. These alliances have allowed banks to unlock value in their CDD operations and technology teams through these broad themes:

- Simplification of high-impact customer journeys and underlying processes
- Elimination of non-value added and standardization of retained activities
- Automation of repetitive manual tasks and processes
- Usage of analytics and insights to accelerate decision making
- Adopting agile ways of working

These themes from engaging managed services partners can easily be replicated within other functional areas as well e.g. Human Resources, and not only CDD. Questions remain, however. Do banks take the traditional route to try to revamp their customer lifecycle journeys themselves or copartner with strategic players? Do they launch multiple, siloed improvement projects versus an integrated transformation program keeping customer experience at its core?

## Determining the optimal approach

The approach banks decide to take will vary according to several factors, including the maturity of their internal support model (infrastructure, expertise and governance), and appetite to spend. For banks to reinstate (lost) profits, they will need to leverage an appropriate ecosystem, including partners and alliances to improve productivity and customer experience.

For expediting their shift towards agile and automated operations, leveraging the right partners will be instrumental to pivot quickly rather than investing in their own center of excellences and shared services set-up, which typically are capital intensive and have a multi-year rate of return cycle time.

The right partner can help with an integrated, orchestrated program which delivers higher business outcomes in shorter timelines.

Adopting these changes can take time. While most Middle Eastern banks have set aside budgets and focused efforts across different functional domains, unfortunately, a few home-brewed initiatives have realized sub-optimized outcomes.

Typical challenges witnessed include:

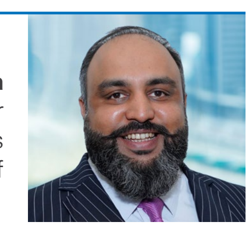
- Not fully understanding the real objectives of the program
- Multiple projects teams working on different areas of the customer lifecycle with little synergy
- Siloed, duplicative and inconsistent data repositories which hinder successful integration
- Hesitance to uproot legacy systems
- Processes are not streamlined beforehand, resulting in disjointed results

CBO has been seeking a restrictive policy on outsourcing by banks, particularly for core functions, considering customer confidentiality provisions and possible adverse impact on employment and career opportunities for Omanis, as well as overseas tax implications.

Managed services models will continue to be discussed, especially as countries face the brunt of subsequent waves of the Covid-19 pandemic. The economic pressure on the banking industry will likely mount as credit losses and a slow economic recovery will test resilience. We expect renewed efforts by banks in the Middle East to identify new ways of optimization of their non-core processes and to pivot towards a more digitally led and unified customer engagement process.

Choosing the right approach and partner could be a key differentiator for determining who emerges out of the pandemic stronger and prepared for the future.

**Varun Bhatia**
Partner
Managed Services
KPMG Lower Gulf



# How CFOs can reinvent their roles in an age of digital transformation

**Never has the pressure on banks' chief financial officers been so high for digital transformation. Just as banks seek to transform their business models to align with the expectations of the market and their customers, chief executives and chief information officers (CIOs) expect their finance functions to assume greater strategic responsibility, argues Vijay Baines.**

Most banks are still in control of their finance functions and of traditional value-protection activities such as the accounting of transactions and financial reporting. Typically, this type of activity (some recurring and routine) can be cost-optimized by the application of digital transformation technology. This can then free up finance to focus on strategic activities and generate value for the bank as a whole.

Many banks with lower-cost indexes with finance have been centralizing, standardizing, and externalizing significant components of the function, investing in cloud and end-to-end automation capabilities, and integrating financial and risk/reporting functions. Heightened automation will likely dramatically change the size, structure, and delivery model for finance.

These capabilities can make automatic processes that are typically delegated to shared-service centers; entities with less externalization can reduce the efficiency gap in more mature competitors.

The finance function of the future will likely be the main driver of change in banking as it harnesses digital transformation know-how. There are five main trends we have observed:

1 **Big Data** – Many banks are struggling with the proliferation of data and have invested heavily in data modeling, data mining, and data scientists. Results have been mixed to date, however: huge returns on investment have yet to be tapped from the integration of machine learning and cognitive computing. Some CFOs have struggled to understand the processes required to build up the data models, and data scientists have found it challenging to realize the promise of Big Data in delivering real value.

2 **Hybrid workforce** – As remote working has increased during the Covid-19 pandemic, many banks have had to invest heavily in remote working technology and automation, not just within the finance team, but also throughout the bank. With renewed pressures on costs, many CFOs are looking at new ways of operating using a blend of digital workers, third parties, as well as partners, to deliver value most rapidly in Finance & Operations.

3 **Enterprise resource planning** – Many banks who had invested heavily in enterprise resource planning (ERP) platforms, have now invested in microservices and intelligent automation (IA) to digitize the final mile of their processes. This proliferation of additional technologies means finance processes are now more automated than ever, and the real value of the digital worker may be realized within finance.

4 **Business demand** – The expectations of banking's business units seem to be increasing with many wanting real-time reporting, increased business partnering, and automated budgeting. Several leading banks have automated and digitalized these functions in order to support the business more rapidly, with investments in algorithmic forecasting, as well as chat bots helping answer basic finance queries. This can elevate the CFO to a true partner in the business, and to concentrate on strategic insights and business value.

5 **Self service** – Many banking customers can meet their finance needs using self-service toolsets through apps as well as the bank's website. So too the finance function is increasingly adopting self-service functionality, report production, trend analysis and automated budget queries. This helps to ease the operational burden, and can be met in real time by a combination of automation and data modelling.

That said, any digital transformation of the finance function should bear in mind the following factors:

- The need for the integration of finance and risk functions to leverage efficient management of available and reported information
- The set-up and sponsorship of excellence research centers in the finance function, as a core strategic role within the organization, capable of responding simultaneously to business requirements and risk reporting
- Control over budgeting processes and allocation of costs by line business through automation of functions and activities to support effective strategic decisions
- Speeding-up of innovation and transformation processes of the finance function in all domains (organization, technology and regulation), bypassing potential chronic "immobility" attributed to some financial institutions
- Migration to cloud technologies as baselines structures to support the business digitalization (core systems, extract, transform and load (ETL), data warehouse (DW), modeling, planning and reporting tools)
- The establishment of partnerships with FinTech platforms for outsourcing back-office activities
- The implementation of digital transformation platforms to support process optimization and control (business process management (BPM) and robotic process automation (RPA) platforms supported by artificial intelligence (AI) and machine learning (ML)
- The development of solutions supported by blockchain technology in order to mitigate operational error and increase process efficiency

The financial function of the future will likely evolve over the coming five years, with the focus expected to evolve from "reorganize and originate" to "digitalize to transform". To keep pace with a digital future, the DNA and culture of the CFO (and the entire finance structure) should be reinvented and planned at a strategic level.

**Vijay Bains**
Director
Finance Transformation
KPMG Lower Gulf

# Liquidity management during a pandemic

The banking industry has faced unparalleled challenges over the past twelve months due to Covid-19. Slim Ben Ali describes the seismic impact on financial institutions of volatile market conditions, liquidity pressure, deteriorating credit quality and continuity challenges.

The nature of the coronavirus outbreak is unprecedented in the twenty-first century, and is clearly beyond the realms of any traditional or even stressed business cycle. The crisis raised questions around banks' existing risk management frameworks in terms of their effectiveness and agility.

In the coming years, we believe banks will continue to enhance agility. We can therefore expect regulators to increase their focus on ensuring that banks demonstrate sound and robust risk-management practices, systems and controls to effectively manage the increasing level of risk—particularly credit risk.

Recently, we have seen a surge in non-performing loans (NPLs) for the majority of banks worldwide. Many have booked higher provisions, especially now that they have adopted IFRS 9. The next year will likely be equally challenging and a robust, advanced credit risk-management strategy will be crucial.

## Overhauling the credit risk model

Nevertheless, banks should take advantage of the recent macroeconomic environment to perform adjustments to their credit risk models, to increase responsiveness to external factors and improve the accuracy of their market predictions.

In fact, we expect banks will aim to become more proactive to prevent both a surge in credit defaults and the subsequent collapse in the value of collateral. This is a timely opportunity for banks to review their risk function. Among the most successful banks, the risk function of the future will likely assume a more proactive role and be involved in all business decision processes. And, with margins likely continuing to be squeezed and global macroeconomic uncertainty set to continue at least in the short term, the risk function will likely become a key differentiating factor among banks.

Smarter risk management through the life cycle, especially in the early stages of identification and prevention, should be another area of focus. This generally requires not only better analytics, tools and technology to spot risks before they escalate, but also adequate process, preventive controls and the right people.

Liquidity pressure remains yet another challenge, with the increase in savings utilization and deferrals in loan repayment. Ensuring healthy liquidity supply may prove problematic as banks will be required to continue lending at historical levels and supporting the economy, while maintaining adequate liquidity buffers and stable funding.

## Review of the ICAAP model

To enhance the efficacy and robustness of Internal Capital Adequacy Assessment Processes (ICAAP), licensed banks, other than domestic systematically important banks (D-SIB), should subject the ICAAP to an independent review through an internal or external audit process once every two years, separately from the SREP conducted by the CBO. The D-SIB, considering the systemic importance, should conduct the review annually.

We predict banks will continue to work to attract new depositors by offering competitive market rates, and/or delivering specific deposit campaigns with incentives. This could be an opportunity for banks to reshape the funding composition towards deposits categories that are less "liquidity consuming".

## Navigating the phase-out of LIBOR

The LIBOR transition adds further uncertainty to an already volatile environment, with potential impact on banks' products, models, systems, services, customers and even reputation.

We expect the transition from IBORs to the new risk-free rates (RFRs) to lead to considerable costs and risks for banks if not managed properly. As is common knowledge now, the new proposed alternative rates are significantly different from IBORs and will require changes to risk and valuation models, product design, hedging strategies and systems.

In addition, banks which are using internal models to calculate regulatory capital for their trading book exposure will also need to carefully consider the interaction between the transition and the implementation of the Fundamental Review of the Trading Book (FRTB) as part of Basel IV reform.

## A sustainable, digital future

The Basel IV framework, meanwhile, remains relevant: banks are anticipated to remain committed to implementing the new framework despite the change in timelines.

On 27 March 2020, the Basel Committee on Banking Supervision (BCBS) announced its deferral of the implementation of Basel IV by one year to 2023 in response to Covid-19. This delay could be an opportunity for the Basel committee to consider emerging issues such as climate risk and other elements of environmental, social and governance (ESG) and see whether these issues should be integrated into the reforms.

Lastly—but equally important, we expect the application of regulatory technology will transform risk management and compliance, presenting significant growth opportunities. We expect banks to actively consider how they can adopt RegTech developments to address areas of concern that have arisen due to Covid-19.

It is clear that successful banks will be the ones that look beyond deploying RegTech solutions as a purely defensive strategy to meet regulatory requirements, and instead use these solutions to drive efficiency, create a better customer experience, and pursue their agendas for growth.

**Slim Ben Ali**
Director
Financial Risk Management
KPMG Lower Gulf

# Restructure or liquidate?

**Rising levels of corporate debt globally have taken a toll on virtually every component of the system. Bruce Matthews delves into how banks can balance the needs of stakeholders in the GCC.**

The operating challenges of the past few years continue to act as stress factors for businesses. As is the case with most critical situations, effective action initially requires accurate diagnosis of the problem. Assessing the risks and pay-off is a critical next step. Restructuring or liquidation requires deliberation on nuances including the entities, the region, the culture, and the economy: these will differ significantly across instances and can impact the outcome for all parties involved. The insolvency landscape is complex to navigate from a legal perspective, but the basic principles may be kept simple to assess obstacles and help stimulate innovation.

Identifying a restructuring approach requires examining the situation from every angle. Two common perspectives in the restructuring industry are the entities' – the lender, and the company. These are often not aligned, and banks and companies need a holistic understanding of the other's perspective to circumvent frustrating complications.

In distressed situations, after determining what the problem is, the next step is to work out which tools can be used to solve it. These tools should add to transparency of the situation, provide clarity of options, and offer viable methodologies to fixing the problem. They include but are not limited to restructuring business reviews, 13-week cash flows, debt restructuring, asset sales, cash optimization, supply chain analysis or people and process re-engineering. Using them at the right time and in the correct way is vital to achieving the optimal outcome.

Liquidation is also a means to resolution, but with a more terminal outcome. But liquidation may result in a better outcome than the restructuring option, where the ongoing cost of solving the problem outweighs the value of assets, or where the fundamentals of the operation are flawed. However, it can destroy value quickly. Understanding the problem thoroughly, and considering other variables and obstacles, including the costs of winding down, will help to determine the best course of action.

In financial services sectors in Western economies, hybrid approaches have emerged, including the so-called 'bad bank' or 'distressed credit fund' concepts. These transfer the problem to someone else to solve, with reasons ranging from economies of scale or specialized skills.

## Regional norms

What is common practice in one region, in respect of speed and severity of action, bank enforcement, and debtor prevention from enforcement, may not be applicable in another.

This year, Oman celebrates its 51st National Day and, like other GCC members, is considered, in global terms, to be relatively young. A younger country may be able to leapfrog antiquated laws of other jurisdictions to better meet the technical sophistication of the times, or the political or cultural norms of the region. A newer jurisdiction may create more flexible laws, adapting the best elements of older regions to modern circumstances.

In Western jurisdictions, it is common to use insolvency legislation, such as court appointed administrators (UK Insolvency Act 1986), scheme of arrangement (UK Companies Act 2006), or Chapter 11 "Reorganization" and Chapter 7 "Liquidation" of the US Bankruptcy code.

Bankruptcy laws in the GCC are considered to be still in their infancy and are not used as frequently. Using them can help organizations find the ways in which they don't work, which leads to innovation.

Commonly available statistics show the benefits of speed in terms of recovery and cost for bankruptcy. Bankruptcy legislature in the Middle East has recently been overhauled. Oman recently passed Royal Decree 53/2019 promulgating the Bankruptcy Law which came into effect on 7 July 2020. The challenge remains for local entities to execute them with optimal speed and recovery.

Additionally, bank lending in the region may face issues such as lender fraud, local underwriting, weak corporate governance and poor information flow, which can affect speed and recovery.

According to CBO Circular BM 1160 issued on 15 April 2019, CBO has finalized the "Bank Resolution Framework for Oman" in line with the Financial Stability Board's "Key attributes of Effective Resolution Regimes for Financial Institutions". The purpose of the framework is to prepare banks for self-propelled recovery, and if circumstances necessitate, allow authorities to resolve them in an orderly way with minimal disruption and cost to the national exchequer while preserving financial stability.

## Spotlight on culture

Seeing an opportunity from one's own cultural lens can become opportunistic and ultimately lead organizations to develop methodologies that are incongruent with the cultural norms of the region.

It follows that if one is going to set up a 'bad bank' or 'distressed credit fund', it should be aligned with the cultural context of the region, work with the central bank, link into the processes of regional banks, and create value for that particular jurisdiction, rather than 'leaking' it out of the region. These models can be used to help stabilize the region or otherwise shore up existing gaps and build on regional strengths.

When looking to develop insolvency systems, the entities must make a concerted effort to understand the shareholders' culture, as well as the banking culture.

In other countries, bankers and other stakeholders are usually separate and non-related, so the process becomes depersonalized and legalistic. It enables a more arm's length level of accountability, yet may result in unbalanced approaches.

In the Middle East, there tends to be greater interconnectivity, which requires a thorough understanding of the relationships between organizations. The large expatriate population with diverse cultures adds another layer of nuance to navigate.

## Considering economic factors

The Middle East has a unique economic history, having experienced meteoric growth over the past decade. Businesses have expanded rapidly, followed by waves of international movement in credit and economic cycles. This has been accompanied by maturing businesses and familial wealth often propping businesses up, sometimes keeping them open even if they do not make "financial sense", as would be defined in the Western world.

The intersection of the pandemic with this unique confluence of factors lends itself to new opportunities to address the gaps in banking, credit and debt. Learning from what has worked and what hasn't will help lead the way forward. Local organizations need to develop organic solutions that are tailor-made to address challenges that are peculiar to this region, the culture and the economy, and may surprise the world with their innovative flair.

The most successful entrepreneurs and companies succeed when they are not fazed by their mistakes, but pivot by learning and growing from them. They find opportunities within challenges that would not have appeared had they not been open to exploring new avenues, and hence, pioneers are born.

**Bruce Matthews**
Partner
Deal Advisory - Restructuring
KPMG Lower Gulf

# Leveraging the cloud for operational resilience

**Cloud computing has significantly disrupted enterprises' approach to information technology. Sheikh Shadab Nawaz explains why it is critical that organizations adopt it to drive innovation and increase agility.**

With rapid growth in both spending and revenue, the public cloud services market is forecast to be worth more than USD 6 billion by 2024 in the MENA region, as per leading industry reports.Many banks in the Middle East are turning to cloud computing to achieve greater scalability, accelerate product development, and reduce cost. Most hyper-scale cloud service providers (CSP) have either established their data centers in the region already or are in the process of establishing them.

Regional examples include Alibaba, which has signed a memorandum of understanding (MoU) with Zain Telecommunications to provide Alibaba cloud services in Saudi Arabia. Meanwhile, Google is in the process of launching its Middle East data center in Qatar. There is also a slew of local cloud providers who have launched their cloud services in the region.

Today's cloud is much richer and more nuanced than it was at its inception over ten years ago. Cloud consumers now have more native options, stronger security and privacy tools, and improved measures for detecting, responding to and preventing security breaches. As regulations and knowledge surrounding the cloud continue to be enhanced, these advances have increased customer confidence and eased the burden for IT functions.

By migrating to cloud, financial services firms can leverage solutions that are inherently better suited to manage six key operational risks: cyber security, digital sovereignty, the remote workforce and customers, third party, technology, and facility.

## A robust cyber security framework

The technical infrastructure of CSPs is designed to safeguard the entire information processing lifecycle with secure infrastructure, services, data and internet connections.

**Secure infrastructure**

- Stringent supply chain vetting as part of the hardware and software acquisition process
- Secure hardware design
- Enhanced operating system for server and network equipment

**Secure services**

- Zero trust between services
- Certificate-based identification procedures for each service
- Inter-service communication restrictions through strict access management

**Secure data**

- Customer managed keys
- Customer owned keys
- External key manager

**Secure internet communications**

- Private IP space for internal workloads
- Transport layer security (TLS) based communication with internet facing workloads
- Multi-tier, multi-layer disk operating system (DoS) protection

## Digital sovereignty

Digital sovereignty includes three distinct pillars: data sovereignty, operational sovereignty, and software sovereignty. CSPs should provide adequate control over who can access customer data and who can manage the infrastructure (from service provider) that hosts customer data, and have the ability to run the services across different clouds, avoiding lock-in or concentration risk.

**Data sovereignty**

- Customers can store and manage encryption keys outside the cloud
- The customer has the authority to grant access to these keys based on detailed access justifications

**Operational sovereignty**

- Customers can restrict the deployment of new resources to specific provider regions
- Customers can limit service provider personnel access based on predefined attributes such as citizenship or geographic location

**Software sovereignty**

- Customers can make use of
- open-source technologies provided by CSPs to build a multi-cloud approach and enhance portability
- Customers can utilize technologies that support the deployment of applications across multiple clouds using orchestration tooling

## The remote workforce and customers

The pandemic has changed the way organizations will employ staff and service customers. We are likely to increasingly see a decoupling of employees and customers from geographical restrictions. This introduces several operational challenges, such as the need to work remotely and provide online services to customers, which in turn can increase operational risk. The cloud provides a number of potential solutions.

**Zero trust approach**

- CSPs should employ a zero trust-based approach to enable remote access for employees without traditional VPNs

**Built-in collaboration tools**

- Best-in-class remote collaboration tools to enhance productivity of a remote and distributed workforce

**Faster customer service**

- CSPs can enable organizations to deploy AI/machine learning based solutions to address customer queries rapidly

**High elasticity**

- CSPs can provide additional resources e.g. analytics on the fly, to meet significant traffic spikes for high workloads

## Managing third parties

Third party risk is a significant component of a firm's overall operational resilience position. CSPs can provide transparency via various mechanisms including audit and assurance, exit plans, and support for portability.

**Audit and assurance**

CSPs allow onsite audits and can provide necessary assurance through a third party compliance certification process

**Exit plan**

CSPs can support multi-cloud strategies as financial services organizations move their critical workloads to the cloud.

**Portability**

CSPs may support multi-cloud approaches through open-source technologies that can provide customers with adequate levels of portability. However, it is advisable that financial services organizations explore cloud native services where possible to fully leverage CSPs' managed services, only limiting their use where it will impact their exit plans.

## A metamorphic approach to technology risk

Traditionally, financial services organizations have implemented technological systems where front offices operate asynchronously with back offices. Most of these technologies are self-managed and on-premise. However, customers now expect real time omni-channel presence at any time. This requires a complete overhaul of technological systems. This can be a prohibitively costly and unattainable strategy which is prone to failure if organizations were to follow traditional models of on-premise IT. By migrating to the cloud, financial services organizations can ensure that their technology arms are focused on delivering high-quality applications and experiences to customers, and not on operating underlying infrastructures.

**Managed infrastructure**

Financial services organizations would be well advised to focus on delivering impactful products and an enhanced customer experience, rather than focusing on underlying infrastructure e.g. data centers, physical servers, and network equipment.

**Microservices deployment**

Most CSPs support microservices architecture that can reduce the technical debt associated with maintaining unsupported hardware and operating systems. CSPs can also provide different orchestration engines to manage the deployment and maintenance of microservices on a continuous basis.

## Rethinking the facility

CSPs build and maintain highly secure and resilient data centers with multiple layers of physical security and geographical spread. By migrating to the cloud, financial services organizations can get rid of the technology debt of costly data centers whose value depreciates; the associated operational costs of maintaining such facilities also increases over time.

**Multi-geographical spread**

CSPs may operate data centers across multiple regions and geographies, providing a level of protection against localized natural or man-made events e.g. natural calamities, riots, and attacks.

**24/7 support**

CSPs may have globally distributed support functions that can provide 24/7 support to financial services organizations in adverse situations.

**Reduced disaster recovery (DR) costs**

CSPs can help reduce costs of maintaining the costly and mostly idle infrastructure of DR sites. Financial services organizations may take advantage of the inherently resilient network of CSPs' data centers.

Operational resilience remains critical to financial services organizations, their customers and regulators. The cloud is a key capability that financial services organizations would be well advised to adopt—and indeed it has already been adopted by many—to maintain product and service excellence in the highly competitive Middle Eastern market.

**Sheikh Shadab Nawaz**
Director
Digital & Innovation
KPMG Lower Gulf

# Reimagining the employee journey and HR agenda

**The new ways of conducting business inevitably create a knowledge gap that must be bridged. Marketa Simkova makes the case for why the adoption of innovative business models should be accompanied by a focused people strategy for organizations to thrive.**

The global economy is witnessing profound change as digital platforms and technologies recast the relationships between customers, employees and employers. Digital transformation has become an integral feature for banks. Banks in Oman have started responding by initiating transformation processes and accelerating the adoption of digital technology. In the future, the banks will likely continue to focus on AI and robotic process automation (RPA), leading to minimal human intervention.

In front-office functions, banks are leveraging AI algorithms to enhance customer experience and deepen partnerships with internal and external stakeholders through chatbots and voice assistants to provide personalized insights and recommendations. Various AI strategies across banks' business lines are being implemented within middle-office functions to assess risks, detect and prevent payments fraud, improve processes for anti-money laundering (AML), and perform know-your-customer (KYC) regulatory checks. Back-office operations may benefit the most from process automation, in areas such as transaction processing, wire transfers and account openings.

## The transformative impact of automation

The changes in the customer journey consequently impact the employee journey.

As the traditional bricks-and-mortar branch banking model is replaced by FinTech and online banking, job roles and key skill requirements in banks will require a change. Employees are likely to focus more on value-adding tasks like capitalizing on data sciences and improving algorithms, leaving potentially monotonous and tedious operational tasks to be implemented by bots.

Internally, the employee experience offered by HR is set to undergo radical change. In the future, banks are projected to accelerate their reliance on RPA technologies to conduct HR functions such as onboarding, talent acquisition, compensation and benefits among others. RPA will likely take over tasks such as gathering employee documents and making new employee records, as well as autonomous updating of payroll inputs. Instead of spending hours on filing paperwork, HR employees may be able to engage in the more satisfying aspects of their jobs. We have also observed banks increasingly investing in workforce analytics. These changes can pave the way to a more interactive job domain for HR individuals where the function can be more "strategic", and contribute positively towards the organization's goals, leading to greater job satisfaction amongst employees.

## Investing in people

Yet with opportunities, come challenges. To successfully transition into a desired future state, it is not enough to have a bold vision and an impressive budget. The Oman banking sector is embarking on an exciting journey of innovation and transformation, though this must be combined with a focus on upskilling and reskilling employees, as well as drawing in new talent to bridge the knowledge gap. This challenge is not unique to the Oman banking industry, but a global phenomenon, with banking CEOs around the world identifying talent shortage as one of the main threats to their growth prospects.

To address this challenge, banks around the world are investing in talent development initiatives to focus on the upskilling and reskilling of their employees. For example, Canada's BMO bank has approached the reskilling of its employees as a journey, rather than an event. BMO provides employees with ongoing training, with several flexible and informal learning options. These development initiatives have helped the bank stay competitive despite the pandemic.

Locally, increasing the percentage of Omani talent in the banking sector is a key component of the national strategy and an ongoing aim for banks. Adequate focus on building analytical skills will be necessary as data mining continues to remain important. This will probably require partnerships between banking players, regulatory bodies and academia, to ensure that Omani fresh graduates are well equipped to address the changing needs of the banking sector.

## Does digitalization pose a threat?

Another concern that inevitably comes to mind is the fear of job losses due to AI and other technologies. While CEOs might view automation as a vehicle to reduce time and increase efficiency, employees may view AI-related initiatives as threatening. Such concerns are generally not without merit.

A study by Citibank revealed that "30% of bank jobs could be lost between 2015 and 2025, mainly due to retail banking automation." Industry experts expect this trend to keep growing in the future with lay-offs happening at a significant scale, as AI replaces the tasks of employees. However, digital transformation in the banking sector need not be disruptive to an employee's job security, nor hamper their drive to perform. If left unattended, these concerns can create an environment of uncertainty for existing employees, fueling fear and resistance which can harm the bottom line, break trust and hamper innovation efforts.

If managed well, employers can promote digitalization and obtain buy-in from employees. It is crucial for banks to proactively develop a clear 'case for change,' articulate why the change is happening, how it will impact those involved and how it will benefit them. A well-crafted change policy, including communication and stakeholder engagement strategies, can be a powerful tool to create alignment between business objectives and employees' passions, and enhance transparency. Putting together a sound change-management plan is essential to a successful transition to new ways of working with minimal disruption.

## Developing a roadmap for change

An effective change strategy can mitigate risk such as loss of talent, widespread panic, low morale and toxic rumors. For example, employees whose roles are becoming redundant can be provided with a development plan to support an effective transition to other roles and opportunities. In other instances, technology may translate to an adjustment of specific tasks an employee is undertaking. A re-training program can communicate to employees how automation can support them in attending to a wider array of customers than they could otherwise cater to.

Digital transformation unlocks an array of opportunities for the banking industry as traditional relationships between consumers, financial institutions and employees continue to be redefined. To capitalize on the opportunities of tomorrow, it is crucial for banking institutions to have a clear and well thought-out strategy to engage existing employees through effective communication, training and upskilling, while concurrently attracting diverse talent to support their vision.

**Marketa Simkova**
Partner
People & Change
KPMG Lower Gulf