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# SPURRING DIGITAL BANKING IN THE GULF

Regional consumers purchase everything online but financial services. Bankers and regulators need to step up the pace of innovation.

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Consumers in the Middle East may be avid digital buyers. Yet the two big banking markets among the Gulf Cooperation Council (GCC) states,[1] Kingdom of Saudi Arabia and United Arab Emirates, rank well below developed Asia when it comes to purchasing digital financial services (exhibit). There is some urgency to stepping up the pace. Our research shows that over the next three to five years, competition from digital-only banks and fintech start-ups will heat up as it has in developed markets. The new competition could leave digital-laggard banks five to ten percentage points behind the winners when measured by return on equity.

Besides strong customer adoption of digital purchasing generally, increasingly multichannel consumer decision journeys and customer openness to purely digital propositions are intensifying the pressure on banks. In fact, we estimate about 80 percent of consumers in the two big banking markets are willing to shift from a third to more than half of their credit-card, savings, and borrowing activity to banks with strong digital offerings. Consumers, we found, want to be able to access value-added features, such as loyalty programs and discounts, through their mobile phones.

However, bank branches will not disappear from the GCC, in the short term at least. Despite the allure of digital offers, our survey shows that physical channels will continue to play major roles in banking. Banks will need to repurpose their branches for higher-value advisory services.

Attacker banks are likely to develop more focused digital experiences with much less costly service models. Fintechs will offer innovative, app-based services, as they are not held back by legacy IT costs and constraints.

Incumbents will therefore need to harness new technology to improve the customer experience, streamlining processes and using data and advanced analytics to drive revenues. To capture the digital opportunity, they must also elevate digital to the C-level; acquire and nurture digital talent through an organization tuned to creativity, flexibility, and speed; and build digital marketing capabilities that equal those of e-commerce players. They should also focus on creating strong ecosystems of partnerships. Q

[1] An alliance of six Middle Eastern countries: Bahrain, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia, and the United Arab Emirates.

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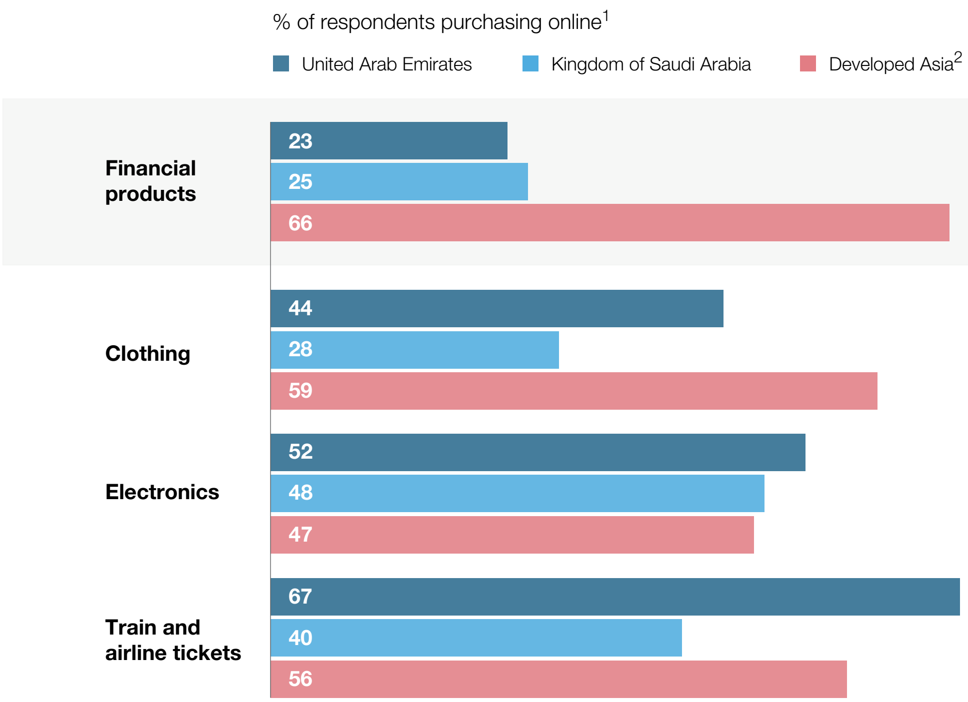
For the complete set of findings, see "Digital banking in the Gulf," on McKinsey.com.

Exhibit

## Only a quarter of respondents in Saudi Arabia and the United Arab Emirates have acquired financial products digitally, far fewer than in developed Asia.




[1] E-commerce penetration (overall share of consumers making online purchases) in developed Asia is 97%; in the United Arab Emirates, 96%; and in the Kingdom of Saudi Arabia, 82%.
[2] Australia, Hong Kong, Japan, Singapore, South Korea, and Taiwan.

Source: McKinsey online survey of 1,750 urban consumers in the United Arab Emirates and the Kingdom of Saudi Arabia, October 2016; Kishan Shirish, Sheinal Jayantilal, and George Haimari, *Digital banking in the Gulf: Keeping pace with consumers in a fast-moving marketplace*, November 2016, McKinsey.com