

BUSINESS

NBK at forefront of tech adaptation

Bank aims to provide superior customer experience: Al Fulajj

Following is the interview with Salah Al Fulajj at the ArabNet Kuwait conference.

Background/History of Digital Transformation

1. When did National Bank of Kuwait first introduce digital services for clients & how did the investment in technology progress over time? Ideally displayed as a timeline visual

Today the world as we know is "Digital" and "Connected"

■ 51.7% (-3.8Billion) of the world is online

■ Almost two-thirds of the world's population now has a mobile phone

■ More than half of the world's web traffic now comes from mobile phones

■ 2.80 billion global social media users in 2017, equalling 37% penetration

As a result, the financial market has seen massive shift towards digital channels

■ ~ With 1.2 billion users worldwide at the end of 2016, mobile banking has become the main touch point for banks

■ Consumer card payments surpassed cash payments for the first time in 2016, registering \$ 23.1 Trillion compared to \$ 22.6 Trillion cash transactions

NBK has been at the forefront of technology adoption to ensure superior customer service to our customers; NBK launched Online Banking services way back in 1998.

Before the digital revolution in NBK, technology adoption started with ATMs.

■ This was followed by the introduction of CDM (Cash Deposit Machines) and in 2016 we launched our Interactive Teller Machines (ITMs).

■ NBK has the largest ATM network with over 280 ATMs/ CDMs/ ITMs, largest branch network of 68 Branches and largest POS network of 12K POS machines

■ NBK launched its Multi-Currency ATMs (2014)

■ NBK launched the Special needs ATM (2016, 1st in Kuwait)

■ NBK has 6 branches dedicated to Special Needs customers reiterating our commitment towards its special-needs customers

NBK has the largest Call Centre in Financial services in Kuwait and has evolved into a Contact Centre serving customer needs with a dedicated digital response team offering 24/7 service across:

■ IVR

■ Voice

■ Social media channels (2015)

■ WhatsApp (2016)

■ Online chat (2017)

The last couple of years have been the tipping point for digital transformation in NBK as part of our vision of "Mobile First" Strategy and "Bank in your Hands"

■ NBK which has the largest POS network, introduced NFC through our Tap and Pay cards (December, 2016 – in a record time of 3 months) and became the largest NFC enabled POS network and highest number of NFC enabled Cards in Kuwait

■ NBK recently launched NFC wearables (Wrist band) (1st in MENA) and Stickers (1st in Kuwait). Wrist bands and Stickers can be your wallet now.

■ Established largest presence among banks in social media with more than 1 million total followers and has response time of less than 7 minutes across:

■ Twitter (450K)

■ Instagram (300K)

■ Facebook (2.12K)

■ YouTube (48K)

■ Snapchat

■ The Mobile Banking App is continuously refreshed to adopt to latest technologies with a mobile-first strategy in mind.

■ Our website was recently revamped to be mobile responsive and enable customers to easily compare products and apply online. NBK website won the prestigious Web Marketing Association (WMA) 2017 WebAward for "Bank Standard of Excellence".

Strategically we target cash and paper, both as our enemies and opportunities:

■ Continuously focus on changing the habits of our customers from mobile usage to digital money, encouraging and educating customer to use alternative channels

■ Eliminate paperwork and Automate processes in order to provide our customers with efficient and seamless customer experience

2. Can we graph digital channels adoption? Highlighting the percentage of people accessing their accounts and conducting banking/financial services online/mobile vs at branch/phone?

Middle East and Kuwait markets have witnessed high digital adoption:

■ Internet Penetration

■ 58.7% (-150 Million) of the Middle East is Online

■ 78.4% (-3.2 Million) of Kuwait is Online

■ Mobile/Smartphone penetration

■ 312 Million Middle East mobile users in 2017 (127% penetration)

■ 7.78 Million Kuwait mobile users in 2017 (192% penetration)

■ Social Media Penetration

■ 93 Million Active on Social Media in the Middle East, equalling 38% penetration.

■ 3 Million Active on Social Media in the Kuwait, equalling 74% penetration;

■ Kuwait Market has seen the



Salah Al-Fulajj speaking at the ArabNet Kuwait conference in Kuwait City.

set of services in the form of APIs that can be consumed by incumbent banks.

2. What services will it stop providing? What services will it stop providing?

■ Customer service will occur more on the digital channels;

■ Accessibility and 24-7 quick service will be pivotal to meet increasing customer demand

■ Artificial Intelligence (AI) will help in automating customer service with chatbots.

■ Voice recognition integration with Financial services (Barclays bank integration with Apple Siri) will ensure customers can "Speak Out" their banking order, further enhancing use of remote channels.

■ ITM/ Virtual Branch/robotics/ IoT as service channels will increase their presence

■ Robo-advisory for wealth management

■ Open API (Application

Programming Interface) between banks and third party solution providers will allow both to develop a mutually beneficial eco-system.

■ This will result in greater collaboration and integration rather than disintermediation.

■ Some banks are beginning to offer themselves as a platform for their FinTech "competitors".

■ Banks on the other hand can leverage the data available with large eRetailers and Social media GAFA platforms

Technology trends in banking over next 5 years

■ Blockchain is the being seen as future of banking as secure and cost effective means of transacting

■ Chatbots and Automated servicing of customers with authentication through Biometrics/ Facial recognition

■ Voice enable process could reduce the learning curve for technology migrants (non-tech savvy generation)

■ Increased usage of Big data, Artificial Intelligence in areas such as Wealth Management

■ NBK's Interactive Teller Machines with integrated voice calling capabilities)

■ Increasing use of artificial intelligence and machine learning will reduce needs for outsourcing and move back to insourcing of back office work & instant fulfilment

■ Peer 2 Peer (P2P) Lending will grow however will not be a major threat to established banks given the higher interest rates and risk involved

■ Location based real time offers through machine learning and use of big data analytics

5. What new skill set/new types of employees will the bank of the future need?

■ Branch employees must transform from traditional tellers to "universal bankers" who help customers plan their financial futures – and direct them to bank products that fit their individual needs. The education and calibre of service personnel will continue to transition from task-doers to expert consultants

■ Data analysts and experts are skill set that will be in greater demand. Demand for employees who are "Digital Natives" will be much higher than "Digital Migrants"

■ Since most transactions and interactions will move digital/social, it is key to have relevant skill set to be able to service customers in a digital environment

FinTech and Banking

1. How do you believe payments will evolve?

■ Taking into account the swift technological evolution, customers are

migrate to digital channels

■ With digital payments increasing, the need for physical money and cheques will decline.

■ STP (straight through Processing) for transfers will be a necessity

Traditional Products and Services will be replaced or transformed with new way of banking

■ Collaborating with FinTechs will result in development of new and innovative services.

■ Banks will transform into enablers rather than service providers.

■ E.g.: Debit card is an example of a product that was useful in the past but may not be necessary in the future with digital wallets.

■ Banks will move from one size fits all to developing personalized products assisted by the data analytics and data mining capabilities. With Big Data facilitating a better understanding of customer behaviour

3. What will the branch of the future look like? First – will branches continue to exist? What services will these branches provide? Will those branches have staff?

We shouldn't restrict ourselves into any rigid concept for future branches.

■ With on-going shift to digital channels, Branch networks will be consolidated with less need for transacting in person. Larger flagship "community experience" centers will dominate the network in urban markets, while rural markets will still have access to full-service site.

NBK recently introduced 2 state of the art branches in Khatian and Bayan with no teller windows and digital experience and customer experience similar to an airport lounge.

■ Branch Design of the future: User-intuitive spaces that are easy to navigate and learn.

■ Successful branch designs will be modular and flexible to allow tech to phase in and out.

■ Hand-held technologies like tablets will become more prolific, with heightened functionality and integration with both core systems and CRMs.

■ Biometric authentication, such as retinal scans, could eliminate the need for consumers to remember their account number and PIN before withdrawing or depositing money

■ Automation to play a larger role in branches in the coming years. Customer requests and on-boarding will be much faster than today. The need for paper will decline with auto-signature and application processing.

■ The human element will never go away, but will see it take a virtual route. Rather than visiting a local branch and speaking to an advisor in

person, banks may deploy video conferencing that allow consumers to chat with financial experts located around the country.

■ High-value interactions, consultations and service issues will become the primary purpose for branches for more affluent customers to justify the cost.

■ For mass customers, even complex transaction such as wealth management is being automated today.

4. What other technology trends do you see affecting how banking services will be delivered in the next 5 years? Virtual reality? Beacons? Social media payment/banking services

■ Non-financial Technology providers will increasingly be used for financial services such as in-store payments, international money transfers, lending, wealth management, property investment etc.

■ Open API (Application

Programming Interface) between banks and third party solution providers will allow both to develop a mutually beneficial eco-system.

■ This will result in greater collaboration and integration rather than disintermediation.

■ Some banks are beginning to offer themselves as a platform for their FinTech "competitors".

■ Banks on the other hand can leverage the data available with large eRetailers and Social media GAFA platforms

Technology trends in banking over next 5 years

■ Blockchain is the being seen as future of banking as secure and cost effective means of transacting

■ Chatbots and Automated servicing of customers with authentication through Biometrics/ Facial recognition

■ Voice enable process could reduce the learning curve for technology migrants (non-tech savvy generation)

■ Increased usage of Big data, Artificial Intelligence in areas such as Wealth Management

■ NBK's Interactive Teller Machines with integrated voice calling capabilities)

■ Increasing use of artificial intelligence and machine learning will reduce needs for outsourcing and move back to insourcing of back office work & instant fulfilment

■ Peer 2 Peer (P2P) Lending will grow however will not be a major threat to established banks given the higher interest rates and risk involved

■ Location based real time offers through machine learning and use of big data analytics

5. What new skill set/new types of employees will the bank of the future need?

■ Branch employees must transform from traditional tellers to "universal bankers" who help customers plan their financial futures – and direct them to bank products that fit their individual needs. The education and calibre of service personnel will continue to transition from task-doers to expert consultants

■ Data analysts and experts are skill set that will be in greater demand. Demand for employees who are "Digital Natives" will be much higher than "Digital Migrants"

■ Since most transactions and interactions will move digital/social, it is key to have relevant skill set to be able to service customers in a digital environment

FinTech and Banking

1. How do you believe payments will evolve?

■ Taking into account the swift technological evolution, customers are

becoming more demanding

■ Non-traditional competitors are building disruptive innovation to address unmet and unforeseen needs of customers.

■ This disruption is being led by FinTech, Social Media, and other technology startups.

■ Reducing the dependencies on traditional means of banking and payments and sometimes inventing new ones (such as Bitcoin, Block chain, P2P lending).

■ Offering unmatched user centric customer experience (quick, simple, 24x7).

■ Payments and Fund transfers are areas where non-conventional competition have already made significant progress

■ PayPal is the undisputed leader in digital payments in the US and Europe (payment volume of \$ 354 Billion in 2016);

■ Alipay (users sent \$1 trillion in 2016) and WeChat are the top players in China

■ Apple, Google, and Samsung have launched their own payment wallet

■ WhatsApp is launching payment integration

■ Personal finance (peer to peer financing) and Crowd funding are other developing areas

■ Remittance space has also expanded thanks to companies such as TransferWise, Remitly, WorldRemit, and Azimo.

2. What role do you see banks playing in the payment space, especially in relation to major players like Apple Pay and Samsung Pay?

■ Payments business is moving towards a commoditized model with multiple players entering the ecosystem.

■ Banks still form the backbone of the ecosystem holding "trust" and money of the customer (Debit/Credit cards)

■ Banks will continue to provide the governance and compliance to regulation required in terms of strict KYC/AML norms.

■ Banks are also launching their own mobile wallets and would need to similarly adapt as per the changing times.

■ New Players will move in and old players will move out from the payments ecosystem. We will see increased partnerships between banks and new players.

3. What role will blockchain play in the medium-term future and how will it affect the banking sector? What should banks do to stay ahead in this space?

■ Upcoming Blockchain technology is seen as the future in banking and could do what Internet did to the media business.

■ The "killer app" for the early internet was email; it's what drove adoption and strengthened the network.

■ The "killer app" for block chain is yet to be discovered given regulatory focus on Bitcoin and Crypto currencies.

■ However once blockchain acceptability improves we will see shift in how banking is done.

Advantages of the blockchain in the medium term are:

■ Quicker transactions: Blockchain shows the potential to reduce TAT by decentralising ledger.

■ Transparency and Accessibility: ■ Compared to firewalls, mobile encryptions have the advantage of allowing users to access transaction details anytime, anywhere with internet access.

■ Blockchain informs users about the entire transactional story, which makes the exchange of messages between parties that takes place in conventional banking look obsolete

■ Reduced transaction costs: Blockchain accelerates transactions which reduce the costs involved. It renders third parties and their charges unnecessary.

■ Fraud Reduction: ■ Most banking systems are built on a centralized database being vulnerable to cyberattack

■ While blockchain is essentially distributed ledger where each block

contains a timestamp and holds batches of individual transactions with a link to a previous block.

■ However, Blockchain still has quite a long way to go before it can become mainstream.

■ Security

■ Regulatory hindrances

■ Industry hostility

Some areas where Banks are exploring use of block chain are:

■ Trade Finance (Deutsche Bank, HSBC, KBC, Natixis, Rabobank, Société Générale and UniCredit) are building a platform to shift trade finance to blockchain technology

■ Liquidity Management: A technology solution to the liquidity problem is being created by CIBC, Commerzbank, Credit Suisse, ING and UBS, along with the blockchain consortium R3 and the liquidity management software company HQLAX.

They are building a distributed ledger specifically for banks to trade highly liquid securities with one another and thus be better able to manage their liquidity ratios.

4. What strategies should banks pursue in the FinTech space? How can they stay ahead of FinTech disruption?

1. Collaboration

2. Partnership

3. Coexistence

Banks are struggling to keep up with the rapid technological changes and disruptions unlike FinTechs.

■ Legacy systems being outdated

■ Integration and security are major challenges

■ Security challenges prevents banks from being nimble and banking simplicity in products unlike FinTechs.

In 2016, financial technology companies around the world raised a total of ~\$36 billion in financing across over 1500 funding rounds from over 1700 unique investors

Nevertheless, FinTechs are facing headwinds of regulation and governance.

■ Regulatory bodies will eventually take part in this transformation to adapt to the new means of doing business.

■ Triggering the birth of RegTech (Regulation Technology) whose investment tripling in the last 3 years and totalled \$2.3 Billion.

Banks Partnership/Collaboration/Coexistence with FinTechs is a Win-Win Opportunity for both. It will help to deliver:

1. Meet Customer Innovation demands through Tech Adoption

2. Operational Efficiency to reduce cost of doing business

3. Leverage Customer Know-how (Big Data and AI)

■ Several examples of partnerships between Banks and FinTechs to name few:

■ JP Morgan Chase's deals with OnDeck Capital and Digital Asset Holdings

■ Bank of America's partnerships with Microsoft and Capital One

■ Barclays has launched accelerator programs for FinTech startups as part of its Rise open innovation platform in London, New York, Manchester and Africa

4. What is National Bank of Kuwait strategy when it comes to FinTech startups? Will it accelerate/invest/acquire/partner with fintech companies in the future, and what kind of companies is it interested in?

■ NBK's aims to provide superior customer experience across all touch points including all digital channels with a "Mobile First" strategy.

■ NBK is at the forefront of technology adoption as evidenced by the being 1st to market in several digital first initiatives in the region. (Whatsapp, Wearables, Highest in Social Media especially in today's world)

■ NBK is continuously monitoring the market and looking at opportunities to invest/partner/acquire FinTech technology in order to be the best in class services to our customers.

The digital space and in particular payments are key areas of interest for NBK and we are constantly looking out for new avenues and areas to invest in.

■ You will soon hear announcements for some new developments from NBK. I cannot share it in this forum due to confidentiality at this point of time.

5. How can banks encourage innovation internally to stay ahead?

■ Innovation led by the leadership: Innovation needs to be top priority for all organizations especially in today's world where disruption is the norm.

■ Leaders have to play a primary role in encouraging innovation in the organization. (Please talk about your own example of leading from the front to launch NFC tap & pay Cards and Wearables)

3 key steps to encourage innovation internally:

1. Create a culture of innovation: Employees need to be encouraged and rewarded for innovation even for ideas with minimal impact. This will encourage them to push their boundaries and think outside the box.

2. Reward success and failure: Innovation is not without failures and hence even failure of ideas need to be rewarded in order to encourage the employees.

3. Innovation Centre: Developing internal innovation centers with separate budgets and autonomy are key steps in developing an internal culture of innovation within a bank.