

## 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.

— Editor

### 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 service 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

■ Routine Financial transactions will

■ The Bank of the Future

1. What will the bank of the future look like?

■ Banking has always been a technology business.

■ 2017 marks the 50th anniversary (1967) of the ATM and 1980s saw mass adoption

■ The bank of the future will be driven by three main factors:

1. Customer demand of using latest technologies, preference to mobile

2. 24/7 accessibility

3. Cost pressures

■ Banks moving towards digital banking driven by cost pressures and declining profit margins in the US.

■ It costs \$0.65 for a deposit transaction in a branch

■ \$0.08 per ATM transaction

■ \$0.03 per mobile deposit

■ Customer visits to the branches have declined worldwide, particularly in developed countries; digital banking is a cheaper and more favourable option for customers.

■ Several banks in UK and US are planning to downsize branch network

■ Wells Fargo in US plans to close 200 Branches in 2017 and 250 in 2018 in US;

■ Bank of America and JP Morgan Chase also have similar strategies

■ Banks are moving towards fewer flagship branches showcasing a digital customer experience

■ Digital-only banks are yet to pose a true threat to the conventional banks. Customers are still hesitating to take the risk of letting a start-up manage their money. However, these banks are gaining ground (already started in Europe more than US).

■ This is why incumbent banks need to rethink its roles in the new developing ecosystem alongside its vision of how banking would look like

■ Moving from service providers to enablers.

■ Banks need to embed in the life-style of customers by providing instant gratification and fulfillment.

■ Be cognisant that Regulatory bodies are catching up (Europe PSD2-payment services directive, Faster Payment UK) allowing FinTech more opportunities in providing financial services.

■ Because Banks have gained customer trust over many years, banks will remain central to the eco-system by providing AML/ KYC compliance and critical back-end support.

■ Innovation will transform banking as we know it through the collaboration of various players in the eco-system.

■ Enabling faster payment service through the use of authentication APIs (e.g. perform KYC for AML purposes) without the need for physical presence or documents

■ Advancement of technologies relating to authentication such as digital signature;

■ Technologies such as facial recognition enhancing and simplifying online transactions security

■ Availability of APIs that will allow the different service providers to exchange information and thus perform transactions, mainly driven by development in the FinTech world.

■ eRetailers, social media companies and FinTech will provide specialised

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

■ Interactive Teller Machines with integrated video 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 analysis 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

■ 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 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 centres with separate budgets and autonomy are key steps in developing an internal culture of innovation within a bank.