International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 7, Issue 2, pp: (705-709), Month: October 2019 - March 2020, Available at: www.researchpublish.com

"Tsunami" technology… between the development of banking and the requirements of customers of banks in the Arabian Gulf countries

Wijdan Daham Aftan

***Abstract:* The first opportunity for the emergence of the financial technology dates back to 2008, following the global financial crisis and subsequent bank bailouts. The traditional banks have begun to back down on the financial technology, with four US and UK banks cutting their workforce by 350,000 over the past seven years. As the financial technology offers solutions and developments in bank-controlled financial instruments such as the remittances, the business credit cards and other operations, creating attractive alternatives and easy-to-use digital destinations. The technology has played a major role in the development of banking operations and improving the performance of the banking services to the customers. The banking sector is at a crossroads. The technology has led to unprecedented transformation, with the mobile devices and the Internet in particular, and has revolutionized the banking landscape like no other. Innovations in the field of the payment have led the way, but in the end the entire banking value chain will be affected. Obstacles to entry into the market and the business have been greatly curtailed by the technology, reducing the ability of conventional banks to counter competitive threats while dealing with the overwhelming burden of regulation. Simply put, many banks are not well equipped for this rapidly changing market**

***Keywords:* traditional banks, financial technology, global financial crisis, banking sector.**

1. INTRODUCTION

The first opportunity for the emergence of the financial technology dates back to 2008, following the global financial crisis and subsequent bank bailouts. The traditional banks have begun to back down on the financial technology, with four US and UK banks cutting their workforce by 350,000 over the past seven years. As the financial technology offers solutions and developments in bank-controlled financial instruments such as the remittances, the business credit cards and other operations, creating attractive alternatives and easy-to-use digital destinations.

The technology has played a major role in the development of banking operations and improving the performance of the banking services to the customers. The banking sector is at a crossroads. The technology has led to unprecedented transformation, with the mobile devices and the Internet in particular, and has revolutionized the banking landscape like no other. Innovations in the field of the payment have led the way, but in the end the entire banking value chain will be affected.

Obstacles to entry into the market and the business have been greatly curtailed by the technology, reducing the ability of conventional banks to counter competitive threats while dealing with the overwhelming burden of regulation. Simply put, many banks are not well equipped for this rapidly changing market.

The banks in the Gulf Arab countries have invested hundreds of millions of dollars over the past years to develop and modernize their services and services to take a leading position in the banking services similar to developed countries. The banking in the Middle East in general has developed rapidly in the recent years, but the systems, despite their development, are still lacking. Fraud is a source of concern, and the banking institutions must deal with this very seriously. Arab Bank's Head of Arab Banking Noor Nohawy said: "The banking in the Middle East has developed very rapidly over the last 20 years." In the 1980s, there were few banks and weak capital, but in the 1990s, the banks had a major upgrade and were able to catch up with the global markets in terms of capital, the credit and the risk. The six Gulf Arab states - Bahrain, Saudi Arabia, Kuwait, Qatar, Oman and the United Arab Emirates - have invested "hundreds of millions of dollars over the past years. There are no close figures on the volume of spending by the banks in the region to develop their services, including the technology and the telecommunications, but ABC, one of the largest banks in the Arab world alone, estimates it invests about $ 25 million a year. There is fierce competition in the region over who will act as the financial centre. No country in the region can say that it has succeeded more than others. Of course, the Dubai model is a success story and has a story that most third world countries can take as an example of success. All Arab countries have developed well for the banking. Regulatory laws have also developed but I think they are still below the level of banking. I think regulators have a lot to keep up with the rapid changes in banks

Therefore, the Gulf region is witnessing a significant progress in consumer orientation towards the use of the digital services, which provides an opportunity for the financial services providers to provide innovative services and make a quantum leap in the market. For this, the local banks have spent millions of dollars for the development of online banking, or through smart on the mobile applications.

S & P The Global Credit Rating believes that technological innovation in the financial sector is becoming a global trend for both developed and developing economies. The agency also believes that the financial technology can reduce the profitability of some banking activities in the Gulf region and that it will change the way these banks operate over time. While we do not expect a major disruption to lending activity in the Gulf region, which is still based on the corporate sector. And that financial technology can affect the banking sector for individuals, specifically money transfer and foreign exchange. This will push some banks to make changes to their operations by increasing reliance on the digital technology, reducing the number of branches, and restructuring employees.

It boasts the banking sector in the Gulf countries and the superiority of the actual digital services on its rivals in the Middle East region, which suffers many of the banks of the bureaucratic procedures, and the slow completion of the transactions, at the time of the second may mean the loss of a deal or an opportunity or redeem something. Despite this boasting, this is the development witnessed by the Gulf banking sector over the years. However, the digital banking continues to suffer from weak demand due to the banks' failure to develop their digital platforms, partial legal and regulatory controls imposed by the central banks, and constant emphasis on the electronic banking due to money laundering, organized crime and terrorist operations around the world. Which directly affects the appetite of consumers and the decision to break into the world of the digital experience.

As well the results of Ernst & Young's analysis of the digital banking in the Gulf countries in 2015 indicate low rates of the smart phone usage in conducting banking transactions. Where only 14% of customer banking transactions are conducted via smartphones. Although smartphones are a lifestyle for the vast majority of Gulf bank customers. Where about 98% of bank customers participating in the study have modern smart phones. According to the Ernst & Young study, which has continued with more than 2,000 customers in Saudi Arabia, UAE, Qatar and Kuwait. Analysed 700,000 entries via social networks, and discussed 30 banks and 80 officials from the banking sector. Mobile banking has not fully matured in the Gulf States. A great deal of the banking is still done through home computers or ATMs, or through the traditional channels by communicating with bank employees, such as branches or the call centres, with only a limited number of the mobile banking transactions.

The degree to which clients link to their banks depends on emotional motives that no one can control, while the digital experience is closely related to the nature and quality of the service that directly affects their mental decisions. In order to translate this into reality, the study examined four Gulf countries - the UAE, Kuwait, Qatar and Saudi Arabia. The results of the study are equal in the four countries where 42% of the customers are satisfied with the digital experience in Qatar, but only 19% of the customers do. While 34% of Saudis are satisfied with the experience, but the reality is that 15% of customers use it. 50% of Kuwaiti customers are satisfied with telephone banking but only 27% use it. Forty-five percent of customers in the UAE are satisfied with the experience, but only 34% use it. These statistics mean that Kuwait and the UAE are similar in terms of their progress, but from the use of smart phone banking, the problem is converging in the four countries surveyed.

There are two things that are currently absent that need to be emphasized as they relate to the digital experience of customers. The central banks should develop regulatory controls for the digital experiences and must be linked to other controls such as cyber security, information security and cyber security procedures in general. Controls for the digital experiments are currently fragmented. For example, the banking controls have been set up over the smart phones and cyber security, but there is no regulatory framework for the digital experiences for customers.

But the question that arises here is : what are the reasons that delay the regulatory framework of the digital experiences for customers by the central banks mode?

The answer is, sometimes, that the central banks sometimes begin to set controls or wait for the development and control of markets to regulate controls after examining market reaction in terms of commercial need. In one way or another, if banks were to provide more digital solutions and products to customers more, there would have to be a farewell to a regulatory framework. The situation applies to the famous saying egg or hen first ,but from my point of view, banks should start developing their operations to provide greater and more innovative digital solutions to their customers. As we have seen, there is a need in the market for this, and in fact, central banks are required to regulate the regulatory framework for digital customer experience.

A new study by McKenzie on urban consumers in the UAE and Saudi Arabia shows that at least 80% of consumers in these countries prefer to carry out their banking business through computers, smartphones and tablets. They visit the branches and call the customer service hotline just to meet specific and more complex needs.

Although there are some structural obstacles, consumer behaviour towards digital services is likely to increase, which requires both new and active companies in the market to prepare to keep abreast of this new situation. Companies operating in a market that is able to keep pace with changing consumer preferences, and new companies that are expected to serve these customers in new ways and at lower cost, will gain competitive advantages. Those who do not keep pace with development and fail to deliver digital experiences attractive to consumers lose their market share and become marginalized in three to five years.

The future of digital banking development is to establish financial banking units in banks or to invest in partnerships with companies specializing in financial technology, which will help banks to provide more digital financial services and banking transactions via smart phones. In addition, several other steps will lead to the development of digital banking in terms of the development of regulatory controls, review the management of business in the banks themselves, and continuous communication between customers and banks to inform them to provide this type of transactions to them.

There are many different types of financial technology, but the seven most common types, according to different sector sources, are technology use:

- Payments / Transfers: To replace traditional payment systems or money transfers, the most common examples are distributed accounts and coded currencies.
- Lending: Linking financiers with customers who need finance (for example, retail companies or small and medium enterprises). One of the most common examples is direct lending platforms and group financing.
- Personal / Institutional Finance: Combines the above two services by providing banking services on digital platforms.
- Investor banking / Capital Markets: Provides services normally provided by investment banks (for example, social trading or collect funding).
- Insurance Technology: Offering insurance products directly to customers or more efficient solutions to timely risk assessment of insurance companies.
- Wealth Management: Provides wealth management solutions to its clients with the support of automated learning.
- Regulatory Control Technology: Helps companies comply with regulations.

The first three types of financial technology may disrupt the activities of Gulf banks by contributing to reducing revenues from some activities and pushing for more efficiency, in our view. We believe that the other four types of financial technology can also be a reason to disrupt activities in banks, but only in the medium term, either because of the weak contribution of these activities to bank net profits, or the importance of long-term relationships and confidence for other types of activities.

Financial technology may disrupt money transfers by Gulf banks. Financial technology companies, by definition, focus on reducing the fees and duration of the transfer. The World Bank estimated the average global cost of conversion to be 2.7% in the third quarter of 2017 (to convert US $ 200; estimated global average of 5.5%). This is far from the UN goal of a global average of 0.3% by 2030. Financial technology may also disrupt the payment service because it will reduce end-user costs (and revenue to service providers) due to declining subscriber numbers.

Gulf banks have recently begun to recognize the potential risks and opportunities arising from the development of financial technology. According to Ernst & Young's report on financial technology in the Gulf countries in 2017, only 42% of the Gulf banks that participated in the Ernst & Young survey had fairly good knowledge of the financial technology sector. While 93% of Gulf banks questioned the potential impact of financial technology companies on their business in the short term. In the same survey, 86% of Gulf banks predicted that the volume of activities that Gulf banks could lose to tech companies would not exceed 15% of banking activities in the next five years, believing that money transfer and brokerage would be the most likely activities to be affected. It is worth mentioning that Ernst & Young conducted the survey in 2016, so Gulf banks' perception of the risks posed by financial technology is likely to have improved since then. However, these findings can be interpreted with the firm belief that regulators will protect Gulf banks from major crises.

We see that as Gulf banks rush to understand the potential risks of financial technology, the better it is to be able to take defensive measures or develop strategies to cooperate with new financial technology companies. Cooperation may take the form of a partnership with certain financial technology companies with specific services, for example; allowing financial technology companies to use the banking system's infrastructure for clearing and settlement operations. The defense measures will focus primarily on strengthening mobile banking services, restructuring branches and refocusing employees on value added services instead of focusing on less profitable recurring operations. At the same time, we expect that some Gulf banking activities will remain protected from the financial technology revolution. These activities include corporate lending, which is a major activity in Gulf banks.

The role of regulators and authorities ranges from protecting banks to taking advantage of opportunities. Regulators in the Gulf region are closely monitoring financial technology, not only from a financial stability perspective but also from a cooperation perspective. Fin Tech Hive at Dubai International Financial Centre (DIFC), the regulatory sandboxes established by the Dubai Financial Services Authority (DFSA) and similar initiatives in Abu Dhabi and Bahrain are examples of how regulators deal with the financial technology sector. While Fin Tech Hive helps financial technology companies leverage cooperation with senior executives at the DIFC over a 12-week program, the sandboxes regulatory agency allows financial technology companies to test their innovations in the real market within a restrictive regulatory environment. We see regulators not only focusing on consumer protection, but also on protecting their financial systems from the possibility of any major disruption from unorganized entities. A common theme in national development plans in most Gulf countries is to increase support for small and medium-sized enterprises to pave the way for better economic diversification. Thus, unsecured direct-lending markets and equity-based collective-stock platforms receive support from the government. In Dubai, the Dubai International Financial Centre (DIFC) Authority launched the regulatory framework for loan platforms and group-based investment financing earlier this year, licensing a direct lending company and another equity-based group financing platform.

Financial technology will have little impact on Gulf banks' credit ratings at the moment. We do not expect financial technology alone to have a significant impact on our credit ratings for Gulf banks over the next two years. This is because we believe that banks will be able to adapt to their changing operating environments by combining cooperation with financial technology companies and cost cutting measures. We also believe that regulators will continue to protect the financial stability of their banking systems. We are currently looking at financial technology as a new competitor to the banking sector, but it has not yet reached a level of change in the rules of the game for the operations of banks in the Gulf region. Therefore, they do not yet constitute a negative factor for the banks' credit ratings over the period of our expectations. However, we believe that financial technology will gain significant momentum. The ultimate impact on banks' credit ratings depends not only on how banks respond to new competition and weaknesses in their business models, but also depends on the responsiveness of regulators and regulators to the growing influence of financial technology.

2. CONCLUSION

In the end, according to the Ernst & Young report, 47% of Gulf banks are planning to allocates a budget of $ 5 million to $ 10 million to increase their mobile banking services and meet customers' demand for these innovative services. Based on the above, it can be said that the Gulf States are actively involved in shaping the future in the banking sector. This step comes in line with the requirements of the current era and driven by several factors, including the request of customers who prefer digital and electronic transactions in many transactions such as hotel reservations and flights to the various purchases. The existence of digital banks will not dispense with the presence of branches, but it is expected that the usual way to provide different services in a different way will change completely. The introduction of digital banks on the other hand poses new challenges for banks in how to communicate with customers without the opportunity to meet them, as in traditional branches.

REFERENCES

[1] Arabian Business. (2015). *Analysis: Banking sector in the GCC*. [online] Available at: http://arabic.arabianbusiness.com.

[2] Al-sharq. (2016). Seetharaman: Digital technology is a tool to achieve community well-being. [online] Available at: http://www.al-sharq.com.

[3] Argaam. (2017). The future of the banking sector: Will financial technology disrupt the business models of banks in the GCC?. [online] Available at: http://www.argaam.com.

[4] Abu Shamala, A. (2017). A technology boom is invading UAE banks with billions of investments. [online] alkhaleej. Available at: http://www.alkhaleej.ae.

[5] Muslim, B. (2019). Advantages of digital banks threaten traditional banks. [online] Alwatan. Available at: http://www.alwatan.com.sa.

[6] shorouk news. (2019). Demand for smart banking is making its way to the UAE. [online] Available at: http://www.shorouknews.com.