The Hunt for Growth Across The Middle East

Are you ready to rise?
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Introduction

Many Middle Eastern financial institutions have shown impressive resilience over the last couple of years. Most of the region’s largest banks have grown their assets and remained profitable despite the slowdown in economic growth, which has largely been attributable to sustained low oil prices. At the same time, Middle Eastern firms have been dedicating significant resources to becoming Basel III-compliant.

Now, as the regional and global economic outlook shows gradual signs of improvement, the region’s institutions are cautiously optimistic about growth. But they also recognize that achieving operational excellence will be critical to capturing these new opportunities while maintaining a grip on costs.

Our research, based on a survey of 1,042 senior-level decision-makers (see About the research in the Appendix), reveals key insights about how financial services firms must now rethink their operating models to position themselves for growth – and what the industry’s leaders are doing to set themselves apart.

Its message is clear: firms that are closest to achieving operational excellence are reaping the rewards, growing more rapidly than their rivals.

What are the Readiness Leaders doing differently, and how can others follow their lead?
1. Financial services firms in the Middle East are cautiously optimistic about the outlook for growth.

Almost half (49 percent) of Middle Eastern institutions are somewhat or highly confident about hitting their growth targets for the next 12 months. However, more than a quarter (28 percent) of firms are pessimistic about their prospects.

Middle Eastern firms’ confidence is on a par with European firms, but they are less bullish than institutions in other developing regions: 78 percent of the firms we surveyed in Latin America and 68 percent of the firms we surveyed in Africa say they are optimistic about meeting growth targets.

2. Middle Eastern institutions are primarily focused on customer acquisition and market expansion.

Acquiring new customers is the most important focus for Middle East institutions, with 50 percent citing this as one of their top three growth objectives for the next 12 months. In addition, 44 percent hope to expand into new developed markets, perhaps to capture new growth opportunities in the Asian market, as we have seen in recent moves by some banks in the Middle East.

Middle Eastern firms are notably less likely than business in other regions to be prioritizing improved operating margins over the next 12 months, with only 31 percent of firms citing this as one of their top three growth objectives, compared to 50 percent in North America and Europe. As Middle Eastern institutions expand their global footprint, however, it will become increasingly important that they drive new levels of efficiency.

Figure 1. Growth objectives for the year ahead
3. As they pursue new growth opportunities, Middle Eastern firms need the agility to respond to disruptive competitors and a shifting political and regulatory environment.

Middle Eastern firms see economic growth in their key markets as their biggest potential growth opportunity over the next three to five years, with 51 percent citing this as one of the three external factors they are most optimistic about.

At the same time, Middle Eastern firms face new threats from disruptive competitors: 31 percent are concerned about new market entrants such as fintech firms. And familiar threats to growth abound too: 31 percent are concerned about the political outlook, and 59 percent feel that regulation will remain a significant hindrance to their growth plans over the next 12 months.

31% are concerned about new market entrants.

Figure 2. Opportunities and threats over the next three to five years

- Countries implementing protectionist policies: 42% opportunity, 27% threat
- Divergence in central bank interest rates: 44% opportunity, 27% threat
- Projected economic growth in my key market(s): 51% opportunity, 34% threat
- Brexit – The U.K. leaving the European Union: 22% opportunity, 16% threat
- Political outlook in my key market(s): 31% opportunity, 19% threat
- Government spending policy in my key market(s): 35% opportunity, 27% threat
- Tax policy in my key market(s): 38% opportunity, 21% threat
- Disruptive new market entrants: 31% opportunity, 28% threat
- Emerging technologies: 31% opportunity, 23% threat
- Cybersecurity: 21% opportunity, 13% threat
- Fee pressure: 19% opportunity, 6% threat

Figure 2. Opportunities and threats over the next three to five years
The FIS Readiness Index

The FIS Readiness Index scores industry respondents against six key operational enablers of growth — indicating where you should focus for a better chance of achieving your growth objectives.
Six operational principles are critical levers of growth in the years ahead:

**Automation:**
The level of process automation across the transaction lifecycle; artificial intelligence (AI) in combination with exception-based workflow is the highest parameter.

**Data management:**
Data management capability, including integration of data across the organization, predictive analytics and visualization.

**Emerging technology:**
Maturity of emerging technology adoption across mobile, AI and distributed ledger solutions.

**Digital innovation:**
Level of activity directed at strengthening digital innovation and propensity of organizational culture for innovation.

**Customer experience:**
Performance across customer service metrics, including customization of products and services, mobile delivery, responsiveness and transparency.

**Talent:**
Level of digital competencies in data analytics, software development, digital distribution and digital transformation.
Accelerating growth readiness
Middle East firms are making progress with introducing greater levels of automation in their operations, working hard to unify IT systems and to introduce exception-based workflows to minimize manual interventions. As yet, however, only a handful have added an additional layer of automation using tools such as AI and robotics.

Today, only 3 percent of Middle Eastern institutions have fully automated exception management and workflow, while 73 percent have low levels or no automation. This will be an area of focus over the next three to five years, as 43 percent hope to reach near-full or full automation of exception management and workflow during this time.

Even then, full automation using AI solutions will remain elusive for most: only 7 percent expect to reach this level of sophistication.

Only 7% of firms expect to achieve full automation using AI solutions.
Middle Eastern firms show good progress on data management, perhaps driven by the regulatory imperative they have faced in recent years. In our survey, 70 percent say they are effective at unifying data sources across the organization.

Many firms in the region are now focused on extracting greater value from their data: 65 percent are effective at using visual tools such as dashboards to drive decision-making, while the same number say this about employing predictive analytics techniques to anticipate threats and opportunities. For the remaining 35 percent, developing the capability to extract more value from data will be critical to maintaining competitiveness going forward.

70% of firms say they are effective at unifying data sources across the organization.
Figure 3. Data management capability

- Unifying data sources across the organization:
  - Highly ineffective: 5%
  - Ineffective: 7%
  - Neither effective nor ineffective: 17%
  - Effective: 48%
  - Highly effective: 22%
  - Don’t know: 1%

- Combining external data with internal data to better inform decision-making:
  - Highly ineffective: 6%
  - Ineffective: 5%
  - Neither effective nor ineffective: 17%
  - Effective: 56%
  - Highly effective: 15%
  - Don’t know: 1%

- Ability to visualize and simplify complex organizational data for decision-making:
  - Highly ineffective: 6%
  - Ineffective: 6%
  - Neither effective nor ineffective: 22%
  - Effective: 51%
  - Highly effective: 14%
  - Don’t know: 1%

- Advanced analytics for predictive identification of risk and opportunities:
  - Highly ineffective: 5%
  - Ineffective: 8%
  - Neither effective nor ineffective: 20%
  - Effective: 48%
  - Highly effective: 17%
  - Don’t know: 2%
The Middle Eastern institutions in our survey are further advanced than those in most other regions when it comes to implementing live AI and distributed ledger technology (DLT) solutions: 22 percent say they have implemented some form of AI, and 21 percent say this about DLT solutions.

There is significant development activity underway in the region too: 49 percent of firms say they are in the development phase with AI solutions, while 56 percent say the same about DLT solutions.

The most common applications being explored for AI in the region are risk management (56 percent), claims processing (50 percent) and automation (46 percent). And for blockchain, firms are looking at applications such as regulatory reporting and collateral management (both cited by 61 percent).

49% of firms say they are in the development phase with AI solutions

56% of firms say they are in the development phase with DLT solutions
Figure 4. Progress on emerging technology implementation

<table>
<thead>
<tr>
<th>Technology</th>
<th>No plans to implement</th>
<th>Considering its potential application</th>
<th>Piloting/testing</th>
<th>Some live implementation</th>
<th>Researching and developing</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distributed ledger technology</td>
<td>6%</td>
<td>15%</td>
<td>28%</td>
<td>28%</td>
<td>21%</td>
<td>2%</td>
</tr>
<tr>
<td>Artificial intelligence/machine learning</td>
<td>14%</td>
<td>15%</td>
<td>24%</td>
<td>24%</td>
<td>22%</td>
<td>1%</td>
</tr>
<tr>
<td>Advanced customer relationship management software</td>
<td>6%</td>
<td>17%</td>
<td>31%</td>
<td>21%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>eDelivery/online customer services</td>
<td>4%</td>
<td>10%</td>
<td>31%</td>
<td>31%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Mobile services for customers</td>
<td>4%</td>
<td>15%</td>
<td>37%</td>
<td>15%</td>
<td>29%</td>
<td></td>
</tr>
</tbody>
</table>
Their progress on emerging technologies shows that Middle Eastern firms recognize the digital innovation imperative. However, several barriers are standing in the way of innovation: 47 percent of firms cite regulatory risk as a hurdle, more than in any other region, while 34 percent are nervous about cyber risk. Organizational issues are also problematic, with 34 percent concerned the culture of their business does not lend itself to innovation.

That said, firms in the region are pursuing a host of strategies to accelerate digital innovation. Almost half (48 percent) have pursued collaborations with innovative third parties over the past 12 months, while 35 percent have acquired innovative firms − far more than the average M&A figure globally of 16 percent. The acquisition of new third-party technology (37 percent) has also been an important strategy.

These efforts are expected to continue over the next 12 months, with significant numbers of Middle Eastern firms planning more such initiatives.

47% of firms cite regulatory risk as a hurdle to digital innovation, more than in any other region.

Figure 5. Strategies for accelerating digital innovation

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Past 12 months</th>
<th>Next 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborating with innovative third parties</td>
<td>48%</td>
<td>36%</td>
</tr>
<tr>
<td>Outsourcing non-core services to free up resource</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Acquiring innovative firms</td>
<td>35%</td>
<td>22%</td>
</tr>
<tr>
<td>Setting up incubator or accelerator programs</td>
<td>28%</td>
<td>21%</td>
</tr>
<tr>
<td>Recruiting digital technology expertise</td>
<td>37%</td>
<td>34%</td>
</tr>
<tr>
<td>Appointing board-level roles with responsibility for digital innovation</td>
<td>14%</td>
<td>20%</td>
</tr>
<tr>
<td>Encouraging a more open innovation culture across functions</td>
<td>30%</td>
<td>37%</td>
</tr>
<tr>
<td>Purchasing third-party technology</td>
<td>37%</td>
<td>38%</td>
</tr>
</tbody>
</table>
The vast majority of Middle Eastern firms are satisfied with their ability to deliver customized products for their customers: 84 percent say they offer an effective service in this regard. In addition, 82 percent say the online delivery of services is effective.

However, transparency on fees is an area of relative weakness in comparison: 71 percent believe they are effective at this, versus 74 percent who say this globally.

Where firms in the Middle East feel that customers’ expectations are not being met effectively, they’re most likely to blame their inability to understand or analyze customer needs, with 57 percent citing this as a problem. Better use of data analytics tools therefore represents an opportunity here.

Redefining the customer experience

57% cite their inability to understand or analyze customer needs as a problem.
Institutions in the Middle East see digital distribution skills as imperative to their ability to achieve their growth objectives over the next 12 months, with 75 percent citing these as quite or very important. Software development expertise (67 percent), digital change know-how (64 percent) and big data analytics proficiency (64 percent) are also seen as important.

Moreover, firms in the region are more likely to be focused on the importance of skills in emerging technologies such as blockchain (67 percent) and AI (62 percent).

In some of these areas, Middle East firms are particularly concerned about talent gaps. Only 57 percent regard their AI skills as up to scratch, while a third (34 percent) don’t regard their digital change talent highly.

75% see digital distribution skills as imperative to their ability to achieve their growth objectives over the next 12 months.
Figure 6. Importance of digital skills for growth (next 12 months)

| Digital distribution/delivery expertise | 75% |
| Software development/programming expertise | 67% |
| Distributed ledger technology expertise | 67% |
| Digital change/ transformation expertise | 64% |
| Big data analytics/data science expertise | 64% |
| Artificial intelligence/robotics expertise | 62% |
| Algorithmic and automated trading developers | 51% |
Six steps to becoming growth ready

Just as the regional and global economic outlook is gradually improving, so is the optimism of Middle Eastern institutions. However, as they pursue new customers and contemplate entering new markets – the top two growth objectives across the pool of respondents – they also need the agility to respond to disruptive competitors and a shifting political and regulatory environment.

Our research shows that firms in the Middle East can increase their growth readiness by addressing six key areas of their operating model.
1. DEEPEN AUTOMATION
Institutions must respond to efficiency and data needs by increasing automation across more areas of trading and back-office operations – but also areas of low automation such as middle-office activities. They need to overlay workflow onto exception management before they can implement AI and machine learning solutions.

2. EXCEL WITH DATA
At a minimum, firms need to draw a line under fragmented systems, moving to a single source of truth on data across the organization. But this is just the first step of a multi-tiered approach. Customized real-time data must be available to business users, while advanced AI solutions should be layered on top to create better predictive insights.

3. ADD VALUE WITH EMERGING TECHNOLOGY
Senior leaders must take a longer-term outlook on embracing enabling technologies such as AI, blockchain and mobile to create a compelling new value proposition for customers. Our Readiness Leaders are adopting AI to drive automation, performance and risk analytics, but an even more transformative approach may be necessary: players that redefine how they service customers will differentiate themselves the most and capture new opportunities.

4. ACCELERATE INNOVATION
Responding to regulatory requirements, cyber risk and complex legacy IT is stifling progress on digital innovation. Institutions must find ways to overcome these issues to expedite the process. Teaming up with innovative third parties – and finding ways to make these collaborations more effective – will be an increasingly important part of the solution.

5. REIMAGINE THE CUSTOMER EXPERIENCE
Finding new digitally-driven mechanisms for engaging customers will be a critical driver of growth in the years ahead. Digital and mobile access to services are the industry’s weakest area of customer servicing. New offerings will need to provide not only greater access to real-time information via online and mobile but through direct market access too, such as enabling trading activity.

6. RECRUIT THE SPECIALIST TALENT
The new operating model for growth will be ineffective unless the financial services workforce is rethought. In particular, this means putting new skills such as data science specialists in place, enabling them to work in close collaboration with the front office to drive more value and better outcomes for customers.

WHAT’S YOUR GROWTH READINESS?
ARE YOU READY TO RISE?

Benchmark your growth readiness
FISReadinessReport.com
Appendix

About the research

Survey
Between March and May 2017, FIS and Longitude Research conducted a survey of 1,042 senior-level respondents across the buy and sell sides of the financial services market.

Interviews
We also conducted more than 20 in-depth qualitative interviews with industry leaders.

Charts may not add up to 100 percent due to rounding.
Methodology – The FIS Readiness Index

About
The index collates and measures 1,042 executives’ self-assessment of their institutions’ performance in six operational areas that are representative of how firms achieve growth:

Questions
For each category, executives were asked to respond to a series of self-assessment questions about their company’s performance within each area (for example, how well their company performs in unifying data sources across the organization or the extent to which it offers customers a tailored customer service). The questions were tailored to different types of business across the buy and sell sides.

Scoring
The majority of questions included in the index asked executives to rank their businesses on a scale of 1 to 5, where 5 = highly effective/active, etc., and 1 = highly ineffective (respondents who chose “Don’t know” were given a neutral score of 3).

Several questions, such as those related to innovation, asked respondents to choose from a range of activities or strategies that their companies may be involved in, such as M&A, third-party collaborations or incubator programs). For these questions, companies undertaking at least five activities were awarded a top score, with the remaining responses scaled accordingly.

Building the FIS Readiness Index
The question scores were aggregated for each individual respondent, first to a category score and then overall. To allow for more refined insights, both category and overall scores were placed on a scale of 1 to 10, where 10 is best. As shown above, as we believe each area accords equal merit, the categories each receive an equal weighting in the index.

FIS Readiness Leaders
Based on those scores, the top 20 percent of all respondents were deemed Readiness Leaders. The industry breakdown of the Readiness Leaders versus the total survey responses is as follows:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Readiness Leaders</th>
<th>Responses by industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurers</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Broker-dealers</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Commercial and investment banks</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fund administrators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurers</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Insurers</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>Insurers</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Insurers</td>
<td>6%</td>
<td>6%</td>
</tr>
</tbody>
</table>
About FIS
FIS is a global leader in financial services technology, with a focus on retail and institutional banking, payments, asset and wealth management, risk and compliance, consulting and outsourcing solutions. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves more than 20,000 customers in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 55,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of Standard & Poor’s 500® Index. For more information about FIS, visit www.fisglobal.com