

Business

Trade tension could impact financial markets in Gulf region, says expert

Citibank economist allays fears over global recession



KUWAIT: (From left to right), Moderator and Editor at Large Reuters Axel Threfall, and panelists Central Bank of Bahrain Governor Rasheed Mohammed Al-Maraj, CEO, Mashreq Group, UAE, Abdul Aziz Al-Ghurair, Global Chief Economist, Citibank, Dr Catherine Mann and Deputy Group CEO Shaikha Khaled Al-Bahar during the 'International Banking Conference: Shaping the Future' yesterday. —Photos by Yasser Al-Zayyat

By Nawara Fatahova

KUWAIT: Kuwait Times spoke with Dr Catherine Mann, Global Chief Economist for Citibank, during the Central Bank of Kuwait's International Banking Conference: 'Shaping the Future', in Kuwait City yesterday.

KT: What is your expectation for the global economy in the next year? Do you think we will see a global recession?

Dr Catherine Mann: The question about the global recession is misplaced. The likelihood of having a global recession is quite low. In fact, in our predictions, we see some improvement in emerging markets, even as the advanced economies are slowing. So we have diversions in prospects for advanced economies and emerging markets. It's rare for emerging markets to be the locomotive for the global economy. So there is a fragility and we are concerned about that, but right now, we don't have a global recession on the horizon.

KT: How do you see this impacting the Gulf region in case of a possible recession?

Dr Mann: We worry about the consequences of an escalation of trade tensions between the US and China,

which will have a global impact through global value chains. On top of this fragility, there is definitely a concern that advanced economies are slowing, which has an implication on the demand for major energy products from the Gulf region. If this trade tension escalates, it will impact financial markets and cause turbulence in financial markets. That is going to create additional downdrafts for the global economy.

KT: What are the main factors that will trigger or lead to a recession?

Dr Mann: The centerpiece for our concerns is trade - most people think of trade in goods and services. But our analyses find that financial turbulence might be associated with trade tensions getting worse. This financial turbulence is the more important factor. In many countries, the central banks are easing policy to buoy up financial markets so that they don't become a conduit for worsening trade tensions.

This is also a problem, because if you buoy up financial markets, and trade tensions continue to get worse, you have the possibility of asset bubbles. If the real economy is getting worse and assets are being underpinned by central bank easing, that's not a recipe for a stable economy going

forward. So there are number of different concerns that we have on the real side, with trade on the financial side and turbulence coming from trade.

KT: How do you see fintech progressing as a segment of the global financial industry? Do you see it overtaking traditional banking/investment houses or working more in partnership/collaborations? Or perhaps being absorbed or competed with by traditional financial establishments?

Dr Mann: I think that fintech is creating competition and new innovations in delivering services for consumer-oriented retail banking. They are very important in terms of payment systems, but there are so many aspects, where large multinational banks that have many different product areas they can offer a client. These are the economies of scope - in other words, these products and services work together to serve the client.

So far, fintech has not been able to produce competitive products where there is economy of scope. Fintech is relatively more adaptable, competitive and innovative in the consumer retail banking space. There are some differences in the uptake of innovation and fintech is going to be a competitive threat.



Dr Catherine Mann, Global Chief Economist for Citibank, during the interview

KFH has a proven track-record in digital transformation, says Al-Nahedh

KUWAIT: Group Chief Executive Officer at Kuwait Finance House (KFH) Mazin Saad Al-Nahedh said that the banking and financial industry is undergoing a process of digital transformation where many processes - often transactional - are being fully automated.

He added during his participation in the CBK International Banking Conference, Shaping the Future: "We're living through a disruptive time where innovation is very strategic to competitive industries such as banking. Therefore, banks with competitive advantages will need to move faster to adapt to this ever-evolving environment given that the recent innovations are being adopted more quickly.

Today, many banks work in a fast-paced and competitive environment which challenges their current business models due to the Digitalization.

Al-Nahedh added during the discussion panel entitled Future Banking Models: What Lies Ahead, that to adapt to the fast-changing and competitive environment:

- Banks should partner with Fintech companies to keep upgrading their services while innovating new ones.
- Legacy systems should be replaced by using high-end systems that can match the increasing needs of enhancement.
- The change of mindset is significantly important. This can be achieved through hiring specialized personnel who promptly adapt change in efforts to avoid being left behind.

He pointed out that Kuwaiti banks are keen to invest in banking and financial technology and digital transformation. This trend will enhance the role of the private sector in the Kuwaiti economy as it is a key part of Kuwait's 2035 vision to become a regional financial and commercial hub.

Digital technologies enable shorter operational lead times, higher asset utilization and maximum product quality. Cost reductions of 3.8 percent per annum on average are forecasted.

Digital innovation

In this context, I am pleased to say that Kuwait Finance House (KFH) is an undisputed leader in innovation to expand and enhance the range of products and services. KFH released the first fully automated 24hr digital self-service branches in Kuwait under the theme of KFH-Go and the first automated virtual queuing system for customers under the theme of Skiplino, showing the emphasis on convenience and higher levels of service quality, putting KFH at the forefront of innovation in the region as KFH taps into blockchain technology as an enabler for its growth.

Al-Nahedh indicated: "digital disruptions are all around us. For example, Facebook, the world's largest media company, generates no content. Uber, the world's largest taxi company, owns no cars."

In such a mobile-first world, many financial institutions will gradually give up the traditional operating model to adopt a completely different one to remain relevant, in particular in two main segments: payments and financings.

Indeed, in a highly competitive market, the only thing that is permanent is change. The best Banks anticipate the need to evolve and adapt in a continuous cycle to the change in customer expectations especially when it comes to technological advancement.

He added: "In our region, banks have already begun the transition of adopting and utilizing the disruptive technologies. Many of these financial institutions are teaming up with financial services technology providers who own unique solutions and expertise in areas outside of the banks' traditional scope. They offer a range of services ranging from consultation, analysis and technical support to the creation of digital platforms and apps.

Across the MENA, the GCC countries made the most advances in adopting digital transformation. The digital economy accounts for 8.0 percent in Bahrain and 5.1 percent in Kuwait-but less than 1 percent in both Oman and Qatar. Bahrain's high score is mainly driven by that country's high digital exports to regional neighbors.

In Kuwait, digital innovation market (Smart services and software) is set to reach \$989million (KWD 293 million). Kuwait vision 2035 is set to leverage digitalization.

At KFH level, we have some interesting figures to look at. The following figures reflect how KFH effectively utilizes these technologies to ensure that its business and customer expectations are aligned. In 2018, the total usage of KFH online services reached roughly 90 million. The number of registered KFH Online users reached over 450 thousand customers as of July 2019. New users signing up from January to July in 2018 reached 53 thousand, while it surged by 11 percent reaching 59 thousand for the same period in 2019.

These numbers confirm that we are on track and are adapting well to the digital era demands. Moreover, in KFH, we have embraced this change and introduced a wide range of high-end digital services over the past few years."

Al-Nahedh said that in the new digital phase, the banking industry has seen a shift in terms of customer preferences and behavior due to the rapid expansion of mobile and internet connectivity. New financial technology platforms and IT infrastructure have emerged to contribute to changing the traditional banking concept which keeps abreast of customers' experience.

Today, customers want relevant advice and product information at their fingertips as they go about their daily lives. As most customers want quick and easy access to service offerings, safety, security and fairness are now topping the list of their expectations. In our region, innovation is a primary driver for banks to meet the customer expectations and growth as well, where the overwhelming majority of population is young and highly tech savvy. Banks also could use it in the best interests of their customers.

Customers are at the center of the traditional banking industry being a service-oriented industry. The dynamic customer environment will without doubt have a direct impact.

To put matters in perspective, banks must determine customer needs and desires, focusing on the requirements that matter most to them, developing a comprehensive understanding of their needs and behaviors across segments and channels. The key is to use technology as a measuring tool to keep pace with changing customer needs. The flow of customer behavioral information should also be maintained in the bank's database. Among areas that banks can focus on, is prioritizing improvement based on customer experience, expectations and operational cost. Given the rapid transfor-



KUWAIT: Mazin Al-Nahedh (third right) with other speakers during the international banking conference, 'Shaping the Future' yesterday.



KUWAIT: Group CEO at KFH Mazin Saad Al-Nahedh honoring Central Bank Governor Dr. Mohammad Y Al-Hashel during the international banking conference yesterday.

mation, customers always expect faster, better, and safer services. Therefore, a continuous review of the key processes needs to be instituted. It should be a part of the bank's bi-annual or quarterly review.

He continued: "As the entire banking system evolves with the digitization agenda and gains access to new technologies, there is an opportunity for regulators to play a vital role to ensure banks achieve smooth business models' transformation. This needs to be driven by a supportive regulatory environment in which banks can operate, transform and innovate while ensuring that customers are protected."

He pointed out that there are several trends unfolding locally, regionally and even globally. The first trend is regulation, where the Central Bank of Kuwait issues the regulation for Electronic Payments to install much-needed discipline in the payments world.

Regulation

There is also regional regulation that has been issued, regulating token sales, Telco/banking licensing wallets, etc. The regulatory scene continues to be very high paced and very pivotal in determining the direction of the markets and more importantly in protecting consumers from loose technologies, this builds more trust and confidence in digital technology.

The regulatory authorities have played a partnership role as well as a supportive role with the banking sector since it is the lifeblood of the local economy. They have found a balance between allowing banks to utilize new technologies, and work towards transforming their operating models, while at the same time setting the guidelines that will protect the interests of all stakeholders (shareholders, customers, the public etc.).