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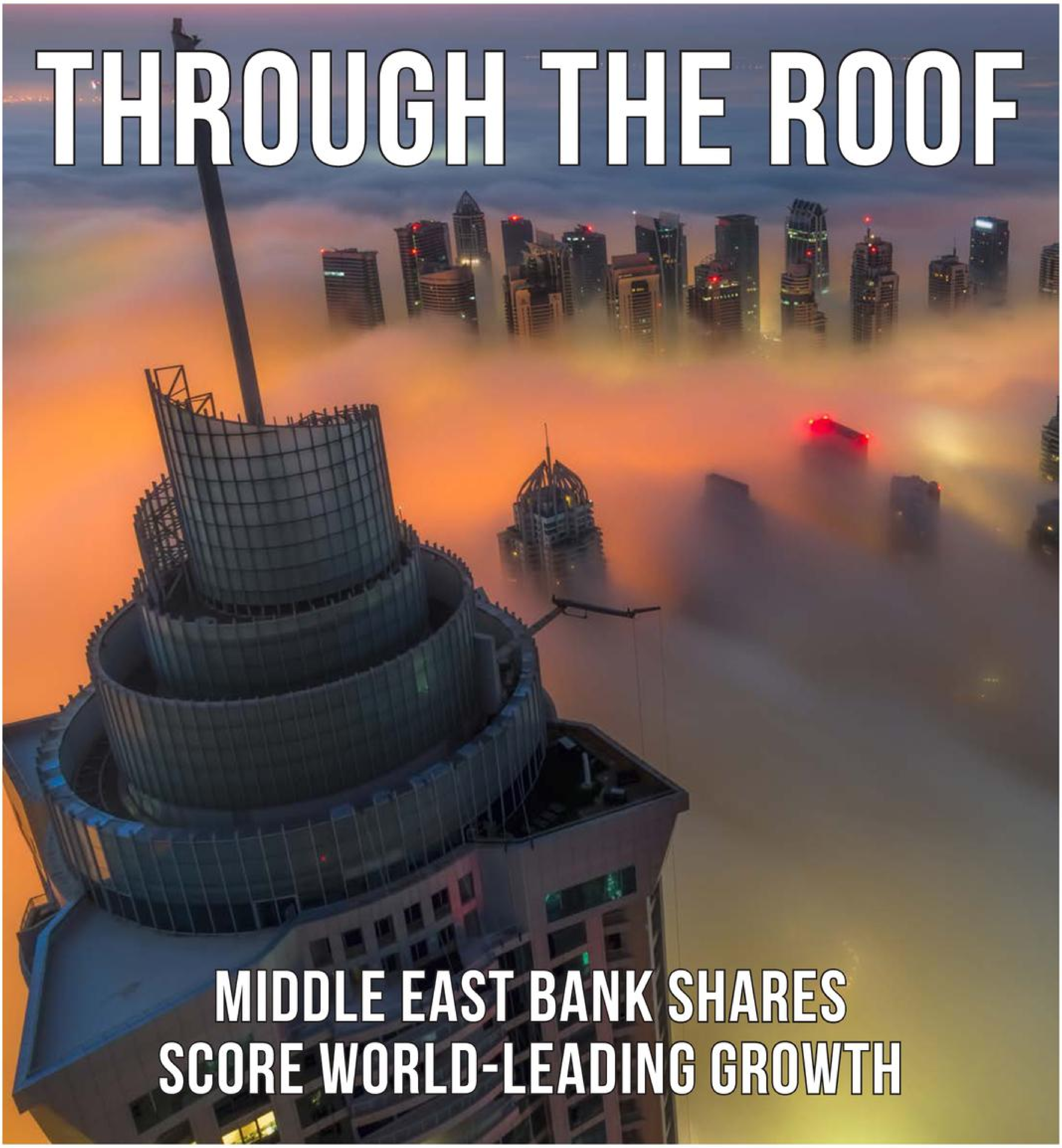


MIDDLE EAST BANK SHARES SCORE WORLD-LEADING GROWTH

INNOVATION

How Yapı Kredi is revamping the Turkish banking industry

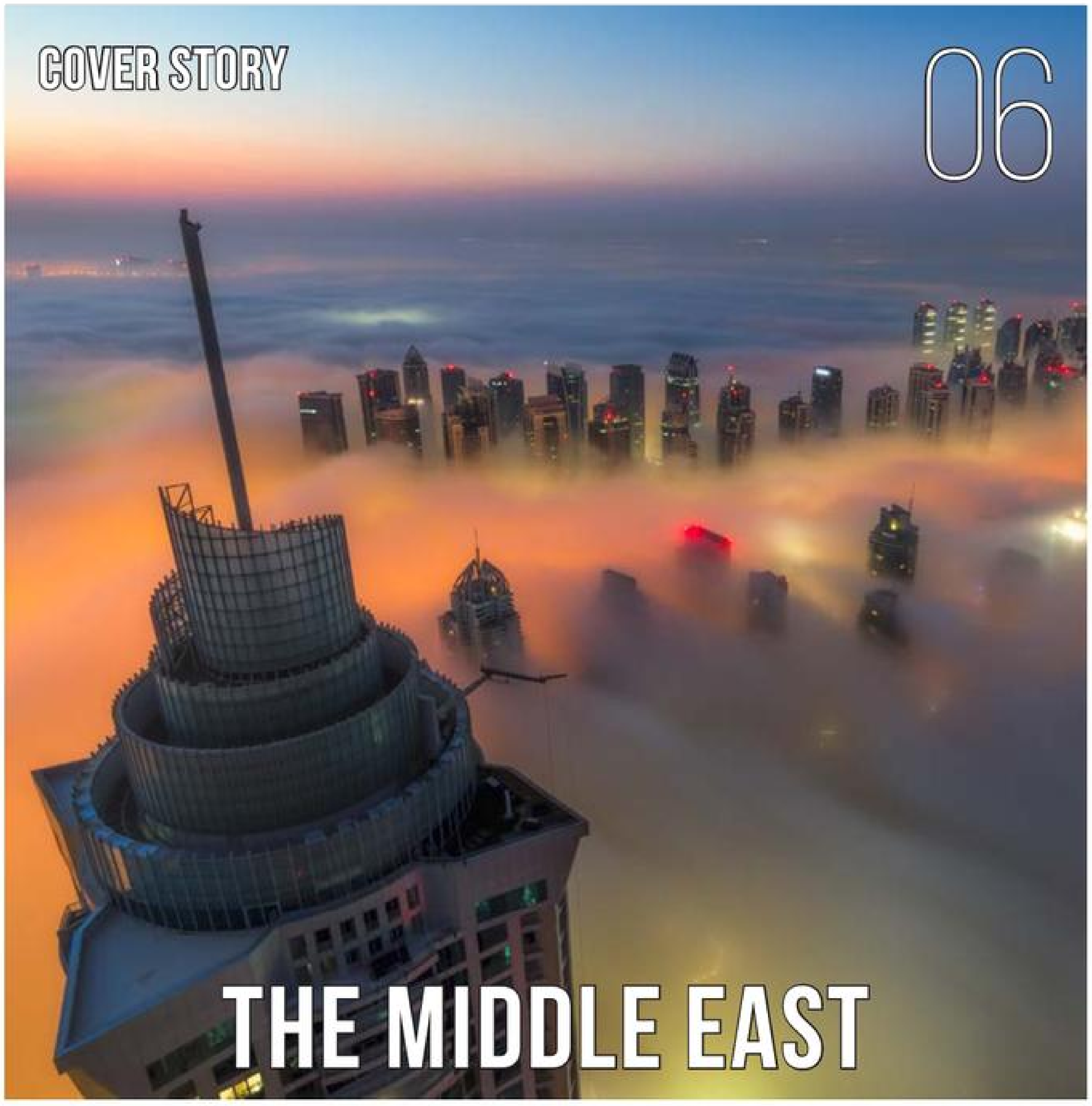
DISTRIBUTION

86 400 will soon give Australians an alternative to the dominant Big Four

FEATURE

US regional bank BB&T has the potential to weather an economic downturn

THIS MONTH



Editor:
Douglas Blakey
+44 (0)20 7406 6523
douglas.blakey@verdict.co.uk

Group Editorial Director:
Ana Gyorkos
+44 (0)20 7406 6707
ana.gyorkos@globaldata.com

Head of Subscriptions:
Alex Aubrey
+44 (0)20 3096 2603
alex.aubrey@verdict.co.uk

Senior Reporter:
Patrick Brusnahan
+44 (0)20 7406 6526
patrick.brusnahan@verdict.co.uk

Sub-editor:
Nick Midgley
+44 (0)161 359 5829
nick.midgley@uk.timetric.com

Director of Events:
Ray Giddings
+44 (0)20 3096 2585
ray.giddings@compelo.com

Junior Reporter:
Briony Richter
+44 (0)20 7406 6701
briony.richter@verdict.co.uk

Publishing Assistant:
Mishelle Thurai
+44 (0)20 7406 8633
mishelle.thurai@verdict.co.uk

Customer Services: +44 (0)20 3096 2603 or +44 (0)20 3096 2636, briefings@verdict.co.uk

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As a subscriber you are automatically entitled to online access to Retail Banker International.
For more information, please telephone +44 (0)20 7406 6536 or email briefings@verdict.co.uk.

London Office: John Carpenter House, John Carpenter Street, London, EC4Y 0AN

Asia Office: 1 Finlayson Green, #09-01, Singapore 049246
Tel: +65 6383 4688, Fax: +65 6383 5433 Email: asiapacific@sg.timetric.com

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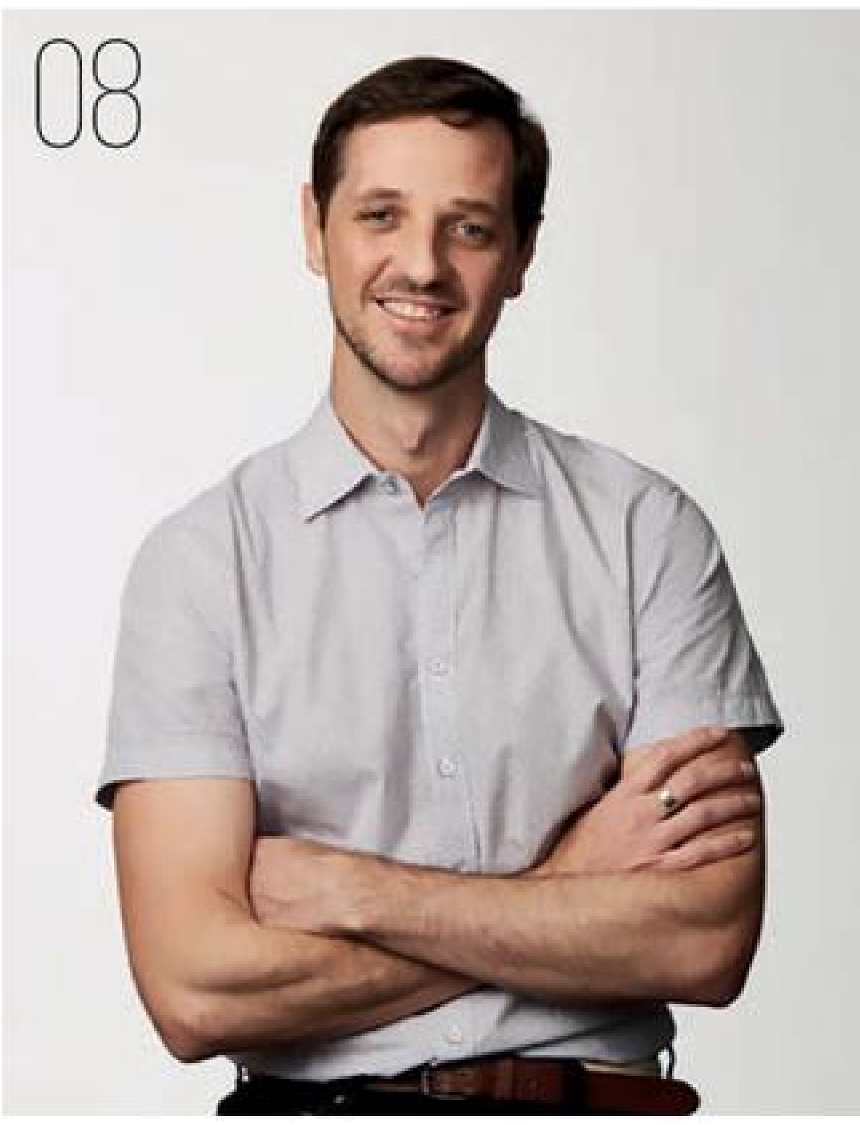

HAPPY BIRTHDAY, OPEN BANKING

Douglas Blakey, Editor

As *RBI* goes to print, Open Banking in the UK celebrates its first birthday on 13 January.

Before looking forward, let us look back very briefly to the launch of Open Banking. There was a lot of hype surrounding the launch, and many industry observers who ought to know better spoke a lot of nonsense about how quickly Open Banking would transform the industry.

It was, we were told, a game-changer. Open Banking would disrupt the incumbents. It would help to accelerate switching rates. There would be innovation on a scale not previously witnessed. The end result would be considerable benefits to consumers, who would gladly share their personal data with third parties.

Big ambitions

Many evangelists went even further and claimed that Open Banking represented a new revenue-generating opportunity for the incumbents. The Open Banking revolution would be such a success in the UK that markets outside Europe would be keen to accelerate their plans for similar plans.

We heard similar arguments and ridiculously optimistic forecasts around the time the UK rolled out seven-day switching. The ludicrous claims by some that seven-day switching would bring about 6% or even 10% switching rates were always a nonsense – and that is borne out by the figures: as previously noted in *RBI*, switching rates remain stuck at around 2% per year.

Open Banking supporters' ambitions were undoubtedly ambitious, but it is not objectionable to promote innovation, encourage customer choice or empower customers. The fact that it is an opt-in system, and the safeguarding of data is at the heart of the system, is to be applauded. It is also unarguable that for certain types of transaction, such as international payments and travel, the likes of TransferWise and Revolut are helping to lower costs for a growing number of customers.

Nationwide – Open Banking for Good

There are also examples of how Open Banking may boost financial inclusion. Nationwide's Open Banking for Good initiative, focusing on boosting products that encourage financial inclusion, is deservedly attractive favourable comment.

However, the claims that disruptors help to boost competition and lower costs do not apply across the entire sector. Take Viola Black as just one such example. A new player on the scene has kicked off the New Year with a mega ad campaign across London's public transport system. If ever there was a case of what is essentially a prepaid card product offering more hype than substance, this is it. And if it persists with its expensive fee structure, it is hard to see it gaining significant customer numbers.

Far from viewing Open Banking as a new revenue opportunity, the impression given by many incumbents is that this is more of a regulatory-compliance requirement. Off-the-record comments from senior UK bankers suggest that many have only developed a limited Open Banking strategy to date – and privately, many admit that they are not satisfied with their progress.

A degree of rational, calm, realistic reflection is more appropriate at this stage, rather than the hype of the evangelists or the negativity of those eager to write off Open Banking prematurely. Data-breach embarrassments such as the Cambridge Analytica scandal do little to encourage a sceptical public to share data. Data sharing is, after all, core to the potential success of Open Banking.

It would, however, be wrong to argue that such scandals mean Open Banking is doomed to fail to catch on. Nor do I accept the argument, advanced by some, that the requirements of the Strong Customer Authentication initiative have the potential to make the consumer experience worse, and in turn kill off Open Banking's prospects.

Yolt – one of many early successes

It was always going to be a slow – or slowish – process, and talk of quick, seismic and transformational changes was always unrealistic. Equally unrealistic are those forecasting now that 2019 will be the year that Open Banking really takes off, whatever that means. It was always going to take time. The established banks are still working out where to develop in-house or work with external consultancies and tech providers.

But on a positive note, account-aggregation services are now readily available – and for free – on the app stores. To give one example, Yolt – the first TTP to connect to all CMA9 banks using the Open Banking APIs in September 2018 – surpassed 0.5 million registered users last year.

As the Open Banking Implementation Entity reports, there are now 100 regulated providers, of which 17 Third Party Providers are now using Open Banking in the UK. Open Banking technology was reportedly used 17.5 million times in November last year, up from 13.9 million in October and 6.5 million in September.

There was never going to be a killer app in the first year. In brief: give it time, but for Lord's sake, cut down on the hype. ■

GET IN TOUCH WITH THE EDITOR AT: DOUGLAS.BLAKEY@VERDICT.CO.UK

AFTER A STRONG 2018: MIDDLE EAST M&A ACTIVITY SET TO ACCELERATE IN 2019

2018 was an excellent year for the share price performances of Middle East banks. As *Douglas Blakey* reports, more than one half of the region's largest banks by market cap posted double-digit price rises

Ending 2018 as the largest Middle East bank by market capitalisation is Qatar National Bank (QNB).

QNB's share price soared by just over 50% during 2018 for a market cap of $49.0bn. Qatar Islamic Bank's share price is up by 57% while Commercial Bank of Qatar (+40%) also enjoyed a strong 2018. And each of the above Qatari banks outperformed the Qatari stock exchange, which soared by 20% in US dollar-denominated terms in 2018.

QATARI STRENGTH

In all, eight banks from Qatar feature in the list (see table). The performance of Qatar's banks is all the more impressive after four countries cut trade ties with the country: the UAE, Saudi Arabia, Bahrain and Egypt cut diplomatic ties with Qatar in June 2017, alleging Qatari support for Islamist groups.

But Qatar's banks boast strong levels of liquidity, high asset quality and strong capitalisation. The largest eight Qatari banks posted combined net profits of QAR12bn ($3.3bn) in the first half of 18, up more than 10% year on year. Liquidity injections from the Qatar Central Bank are helping to offset the effects of the trade blockade. There is also evidence of non-resident deposits returning to Qatari banks, highlighting foreign depositors' confidence.

Analysts do not expect the Qatari banks to require any additional central bank support. Capital levels at Qatari banks of around 17% remain well above Basel III guidelines, and non-performing loans remain at around 1.7% of capital – and well within the bank's risk appetite.

The largest eight Qatari banks posted combined net profits of QAR12bn in the first half of 18, up more than 10% year-on-year. Returns on equity are about 14% across the sector. Analysts forecast deposit growth of around 6% in 2018, rising to 7.5% in 2019. Loan growth of 5% in 2018 is forecast to rise to 7% in 2019.

UAE GAINS

Eleven of the largest 50 Middle East banks by market cap are based in the UAE.

The UAE ADX General Index rose by more than 11% in 2018, and a number of UAE banks share prices performed even more strongly – notably, the country's largest bank, First Abu Dhabi Bank: its share price rose by 28.4% in 2018.

Emirates NBD (+12.2%) and Abu Dhabi Commercial Bank (+13.6%) also outperformed the market. 2018 represents a most significant year in the history of Emirates NBD. In May, it agreed to acquire Turkey's fifth-largest bank, Denizbank, from Russian state lender Sberbank for $3.2bn.

Emirates NBD's reputation for digital innovation is also being boosted by a number of successful initiatives. In December, Emirates NBD became the first bank in the region to support Fitbit Pay and Garmin Pay. That news followed the November announcement that Emirates NBD debit and credit card customers can use Google Pay.

LIV GOES FROM STRENGTH TO STRENGTH

In addition, Emirates NBD is the first bank in the region to integrate its core systems with WhatsApp, enabling the bank to launch customised banking services via the messaging app in the UAE.

Liv, the Emirates NBD digital sub-brand, also goes from strength to strength. It was established as a lifestyle-led proposition featuring intuitive tools to help customers keep track of finances on one app. Liv now has over 100,000 customers.

Another 2018 highlight for Emirates NBD is the roll out of EasyHub. In partnership with Diebold Nixdorf, EasyHub is the region's first integrated digital mini-branch. It enables customers to sign up for new products, and also offers a variety of teller services open beyond normal banking hours.

Elsewhere in the UAE, local banks' 2018 performance was mixed. Loss-making Invest Bank, in particular, is being hit by exposure to the UAE's challenged real estate and construction sectors. The 15-branch strong Invest Bank's loan book comprises loans to these sectors of around 40%.

At the end of 2018, the Sharjah government announced that it was to take a majority stake in struggling Invest Bank, in an effective bailout. Invest Bank has been linked to a potential merger with local lender Bank of Sharjah.

MERGERS ACCELERATE

Looking ahead to 2019, bank merger talk will remain front-page news in the region.

The UAE is grossly overbanked, with 22 local banks serving a population of less than 10 million. That is changing, however, with one mega-merger expected to close in the first half of 2019. This involves a three-way merger of Abu Dhabi Commercial Bank, Union National Bank and Al Hilal Bank.

If successfully concluded, the new bank will have combined assets of about $115bn. It will be the fifth-largest bank in the region, after QNB, FAB, Emirates NBD and National Commercial Bank.

SAUDI ARABIA SOARS

Of the 50 largest 50 Middle East banks by market cap, 12 are based in Saudi Arabia.

In 2018, 11 of the 12 Saudi banks posted double digit-rises in their share prices. Merger activity is also in evidence in Saudi Arabia. In particular, Saudi British Bank agreed a $5bn deal to snap up Alawwal Bank in May 2018. Once that deal closes, the new bank will have assets of more than $70bn. An even bigger deal may result from a possible merger involving National Commercial and Riyad Bank. If that deal comes off, the combined entity would have assets of around $180bn.

Elsewhere in the region, Barwa Bank and International Bank of Qatar reached an agreement to merge in August. And in Oman, National Bank of Oman is considering a merger with Bank Dhofar.

Looking ahead, the World Bank is upbeat about the region's growth prospects. Growth in the GCC countries is estimated to have improved to 2.0% in 2018. Increased oil production and prices have eased fiscal consolidation pressures, enabling higher public spending and supporting higher current account balances.

In 2019, the World Bank forecasts GCC growth of 2.6%, with higher investment and regulatory reforms anticipated to support stronger growth. ■

MIDDLE EAST – TOP 50 BANKS BY MARKET CAPITALISTION, 2 JANUARY 2019

RANK	BANK	$BN	2018 PRICE CHANGE
1	Qatar National Bank Qatar	49.0	50.6%
2	First Abu Dhabi Bank UAE	41.6	28.4%
3	Al Rahji Bank S Arabia	39.8	38.1%
4	National Commercial Bank S Arabia	38.4	27.9%
5	Samba Financial Group S Arabia	17.6	33.6%
6	National Bank of Kuwait	17.1	20.7%
7	Riyad Bank S Arabia	15.6	50.3%
8	Emirates Islamic UAE	14.8	2.1%
9	Emirates NBD UAE	13.8	12.2%
10	Saudi British Bank S Arabia	13.8	26.1%
11	Kuwait Finance House	13.0	13.9%
12	Abu Dhabi Commercial Bank UAE	11.7	13.6%
13	Banque Saudi Fransi S Arabia	10.5	10.2%
14	Qatar Islamic Bank	10.1	57.8%
15	Alinma Bank S Arabia	9.6	22.6%
16	Dubai Islamic Bank UAE	9.1	-11.8%
17	Bank Leumi Israel	9.0	6.5%
18	Arab National Bank S Arabia	8.9	29.9%
19	Masraf Al Rayan Qatar	8.7	3.4%
20	Bank Hapoalim Israel	8.7	-7.1%
21	Arab Bank Jordan	5.6	8.9%
22	Ahli United Bank Bahrain	5.5	4.6%
23	Alawwal Bank S Arabia	4.7	30.5%
24	Bank Albilad S Arabia	4.6	30.9%
25	Commercial Bank Qatar	4.5	43.8%
26	Boubyan Bank Kuwait	4.3	33.1%
27	Mizrahi Tefahot Bank Israel	4.2	-1.5%
28	Abu Dhabi Islamic Bank UAE	4.0	13.2%
29	Mashreqbank UAE	3.8	11.4%
30	Housing Bank Trade & Finance Jordan	3.7	0.0%
31	Union National Bank Abu Dhabi	3.6	23.8%
32	Saudi Investment Bank S Arabia	3.6	17.1%
33	Israel Discount Bank	3.6	13.4%
34	Bank AlJazira S Arabia	3.3	29.3%
35	Commercial Bank of Kuwait	3.1	32.4%
36	Bank Muscat Oman	3.1	5.1%
37	Commercial Bank of Dubai UAE	3.0	-2.5%
38	Qatar International Islamic Bank	2.8	14.4%
39	Gulf Bank Kuwait	2.7	8.7%
40	National Bank of Bahrain	2.3	6.1%
41	First International Bank Israel	2.2	8.8%
42	National Bank of Fujairah UAE	2.1	4.5%
43	Blom Bank Lebanon	2.0	-20.2%
44	Bank Audi Lebanon	1.9	-14.1%
45	Doha Bank Qatar	1.9	-24.8%
46	National Bank Ras Al Khaimah UAE	1.9	-8.6%
47	Ahli Bank Qatar	1.6	-12.5%
48	National Bank Umm Al Qaiwain UAE	1.5	0.5%
49	Arab Banking Corporation Bahrain	1.3	23.8%
50=	Byblos Bank Lebanon	1.2	-10.4%
50=	Al-Khalij Commercial Bank Qatar	1.2	-13.3%
50=	Bank Dhofar Oman	1.2	-18.9%

Source: RBI

YAPI KREDİ: TRANSFORMING THE TURKISH BANKING MARKET

The Turkish banking sector has strong growth potential and has overcome financial upheavals over the past decade. *Briony Richter* speaks to Yakup Doğan, assistant general manager at Yapı Kredi, about how the bank is revamping the industry

Yapı Kredi is one of the largest banks in Turkey, with a network of over 842 branches across the country.

Yapı Kredi was established in 1944 as Turkey's first national retail-focused private bank, and has TRY365.1bn ($67.1bn) in assets. In 2018, Turkey's political and economic turmoil caused its currency to hit a new low, unsettling investors in the process; however, the banking sector seems to have pulled through, and Yapı Kredi certainly shows no sign of slowing down on innovation.

Rapid changes across the banking sector are transforming the way in which banks communicate with customers. There is greater focus on customers' financial habits and lifestyles to better understand their needs. Speaking to *RBI,* assistant general manager Yakup Doğan describes how Yapı Kredi connects with its customers.

"Users now demand products and services via new channels, such as mobile or wearable technologies, which are becoming more and more prevalent in everyday life," he explains. "It is now critical to develop products and services compatible with the new technologies that meet customers' needs, make their lives easier and offer them special solutions."

For banks aiming to enhance the overall customer experience, it is critical to embrace the personalisation tools that will facilitate a seamless and tailored banking experience.

"Yapı Kredi has set its vision to lead the digital transformation in banking, and renovated all its platforms and infrastructure accordingly," Doğan says. "In the last three years, we have focused on designing The Digital Bank of Turkey. Our three-pillar strategy focuses on customer experience, data analysis, and digitisation of infrastructure and processes.

"We plan our investments in the digital domain accordingly, and implement these in line with the latest technologies and trends. Yapı Kredi has a strong digitisation strategy; we adapt our digital channels to technological developments constantly. With our innovative approach and devotion to pioneering the digitisation of our sector, we continue to introduce new technologies that will make life easier for our customers."

STRATEGIC PILLARS

Doğan continues: "While we are delivering digital products and services, and implementing our strategic pillars, our focus is on driving innovations that make customers' lives easier.

"Since 2015, we have been launching one innovative solution every month, or at least bimonthly, and we continue to deliver new innovations at an increasing pace. At this point, it is crucial to map the specific customer need with the right experience and technology. At Yapı Kredi, we offer our customers the innovations or products that we apply the right technology at the right time."

As of November 2018, the bank's digital banking customer base had increased by 27% and the mobile banking customer base by 33% year on year. Furthermore, the share of digital channels in non-cash transactions has grown to 96%.

"Currently, the focus of banking is a multichannel strategy – a term that describes all end-to-end digital banking transactions," Doğan highlights.

"At Yapı Kredi, we are moving beyond multichannel: we are designing and switching to an ecosystem. Lately, we have significantly increased our investments in digital banking. In the last two years, we have introduced crucial new products to the sector, and added value to our customers' lives. While doing this, first and foremost we have positioned Yapı Kredi Mobile as the Remote Control of the Bank. Consequently, we integrated innovative functions into Yapı Kredi Mobile, introducing new milestones in the digital transformation of banking."

Digital and mobile banking enables customers quick access and a secure platform to conduct a wide range of banking tasks. As digital continues to surge, one wonders if branches will survive in the future. Doğan explains that while mobile banking is enhancing customer satisfaction, Yapı Kredi firmly believes that branches will remain a fundamental part of the industry. He highlights that all banks will continue to take advantage of digital tools, but communicating face to face will still have its place for supporting customers when searching for new products or services.

For many customers, it is about having the balance between both worlds. Customers still feel it necessary to go into a branch to discuss advisory services such as mortgages, car loans and investment products.

At Yapı Kredi, Doğan says the "hybrid banking" model will become the key to growth across the financial industry. The bank has already started to implement digital transformation within its branches, and will continue to combine both physical and digital innovations.

YAPI KREDİ MOBILE

The popularity of mobile payments has surged in recent years following increases to spending limits on contactless payments, as well as a rapid expansion in the locations where such payments are accessible.

Consumers regularly log on to mobile banking to conduct routine tasks such as checking balances, transferring funds and making quick P2P payments. However, in order to keep customers engaged, banks need to take service levels up a notch by providing more unique and personal services, coupled with heightened security.

The Yapı Kredi Wallet was introduced for the bank's card customers in January 2016, enabling registered users to add credit card details to the wallet and make contactless in-store mobile payments. Users can also find information on nearby shopping locations, claim promotional campaign benefits, and access credit card transaction details and other financial information.

Expanding on what sets Yapı Kredi Mobile apart from other competitors, Doğan says: "In the last two years, Yapı Kredi has introduced 35 innovations that constitute milestones in the digital transformation of banking.

"Using Yapı Kredi Mobile, our customers can carry out banking transactions wherever and whenever they wish. Yapı Kredi offers its customers secure and password-free access to Yapı Kredi Mobile via Eye-ID, as the first in Turkey and Europe. We make our customers' lives easier through features like cash withdrawal and deposit via QR code without touching an ATM, and direct connection to the Customer Relations Center.

"The Banking Keyboard enables fast money transfers via messaging apps on smartphones, without switching to another screen or app. Our customers can transfer money swiftly and conveniently via Siri and iMessage with voice or text messages.

"Through the mobile payment feature of Yapı Kredi Mobile, our customers enjoy contactless and secure shopping by holding their NFC-based Android phones near POS devices. Moreover, we offer banking services via the WhatsApp and Facebook Messenger chat bots – another first in the sector."

According to GlobalData, 43% of Turkish consumers have a mobile wallet, while 27% like being early adopters and a further 26% are comfortable with using mobile wallets for payments. Furthermore, 48% of smartphone owners are ready for mobile payments at the POS as soon as they are available.

Yakup Doğan, Yapı Kredi

"Using Yapı Kredi Mobile, our customers can book appointments at requested dates and time slots at any branch. They can view branch density maps to decide which branch to pick. Customers who have lost their cards can use the Don't Panic button on Yapı Kredi Mobile to instantly place a temporary block on their cards and continue transactions on their mobile app," he says.

"They can notify the bank for lost or stolen cards, and request new cards. Furthermore, customers can make donations to prestigious civil society organisations via Yapı Kredi Mobile, as well as our internet branch. With all these features, we not only expand the boundaries of Yapı Kredi Mobile as the Remote Control of the Bank, but also those of mobile banking in Turkey overall."

Aiming to assist its customers beyond banking tasks, Yapı Kredi has collaborated with Ford, and introduced a new feature to make drivers' lives easier. The Yapı Kredi Mobile app integrates into vehicles with Ford's Sync 3 Applink technology, enabling Ford customers to safely access Yapı Kredi while driving, keeping their eyes on the road and hands on the wheel. Drivers can also use the app to receive market updates and exchange rates through voice commands in Turkish, and also connect to the Yapı Kredi Customer Relations Centre while on the road, without having to dial a number, also through voice commands in Turkish.

Via Yapı Kredi Mobile, Ford drivers who have the stock navigation system in their vehicles can get directions to the nearest ATM or branch through voice commands. The service is currently available for iOS devices, but Doğan states that it will be made available for Android users in the near future.

He adds: "With an innovative approach, we use NFC technology on Yapı Kredi Mobile login, a first in Turkey. Our customers simply need to hold their credit cards near their NFC-based phones and enter their card PIN.

"We have also added the Jet Transactions menu on the Yapı Kredi Mobile login screen. We have thus enabled cash deposit and withdrawal via QR code, remittance to mobile, and payment via QR code transactions to be carried out in a swift and convenient manner.

"Moreover, Yapı Kredi has come up with innovations to expedite the payment experience in online shopping. When shopping online, our customers can complete payments by scanning QR codes via Yapı Kredi Mobile. As the leading corporation in Turkey's banking sector, our newest feature allows consumers to become Yapı Kredi customers without visiting to a branch, by simply contacting video assistants via Yapı Kredi Mobile."

ADOPTION AND LOYALTY

The number of consumers using mobile payments in Turkey increased throughout 2018. Furthermore, the proportion of those not aware of mobile wallets fell by nine percentage points, indicating that Turkish consumers are gradually embracing new technology and are keen on mobile wallets to make payments. To further increase mobile wallet use, banks such as Yapı Kredi will have to continue creating innovative and rewarding solutions to maintain brand loyalty.

Asked what is on the horizon for Yapı Kredi, Doğan concludes: "In line with our digital banking strategy that foregrounds both the human aspect and technology, we will continue to work on technologies that will make an impact in the near future, such as machine learning, artificial intelligence, Big Data and the Internet of Things. Moving to the future, we will mostly focus on machine learning, deep learning, neuro-linguistic programming, speech recognition and computer vision, blockchain, and an Open Banking API that we believe will completely change the definition of the banking.

"We will continue to publish comprehensive APIs that we believe will make a difference in the world of finance technology by helping innovative ideas become realities. We think these advancements will democratise banking, create smarter experiences, and make customers' daily lives much more seamless than ever, wherever they are." ■

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