Banking sector overview

The last 12 months have been extremely challenging for both UAE consumers and the banking sector. Certain that the Covid-19 shock will continue to reverberate in 2021, banks are operating in an environment of low interest rates and profitability.

According to KPMG's UAE banking perspectives 2021 report, net profit for the top 10 UAE banks has dropped by 61% on average, compared with 2019[1]. This is attributable to the significant increase in the provision charge on loans, with banks expecting higher losses and customer defaults because of the pandemic. Net interest margin continues to be under pressure due to record-low interest rates, exacerbated by increased competition from incumbents, as well as new fully digital banks. However, banks' capital and liquidity position remain strong.

Despite expected growth from strategic events such as Expo 2020 and a recovering hydrocarbon sector, gross domestic product (GDP) is predicted to return to 2019 levels by 2022[2]. The UAE banking sector's recovery will likely be gradual in 2021, as banks' asset quality may deteriorate, and the cost of risk further increases. In addition, the Central Bank of the UAE (CBUAE) will gradually lift forbearance measures in the second half of 2021.

Accelerating digitalization

Based on current market performance, cost-reduction initiatives will be at the top of banks' agendas. Measures include reducing their physical footprints, relocating staff to lower cost areas, and leveraging opportunities offered by digitalization. The latter will also enable a reduction in turnaround times and improve customer experience.[3]

Banks will also accelerate implementation of digital solutions across wide-ranging services. As they respond to shifting customer needs and preferences for digital channels, organizations will refocus transformation programs around critical processes. With growing financial pressure and an increasingly competitive landscape, digital and data may well become a foundational enabler for banks' operating models and supply chains. A shift to digital processes will also lower barriers among customers looking to switch financial providers. It is therefore crucial to build trust and sustain value throughout customer experiences and interactions.

As banks navigate this new digital landscape, they will need to pivot and adapt to the changing environment to emerge stronger, post Covid-19. The need for well-defined and tested technology and cyber frameworks is critical for banks, as they strive for resilience.

Changing expectations

As the impact of Covid-19 continues to unfold, banks will need to rethink business and operating models, based on a new "future of work" paradigm. We are witnessing demographic changes and shifting societal norms—people are living longer, more women are participating in the workforce, greater flexibility and a focus on outcomes not hours—combined with rapid acceleration in technology. These factors will impact the future of financial services and automation of work—the future of the banking industry is going to be very different.

Additionally, consumers' attention to 'value for money' is the result of a fundamental change in purchase priorities that will continue for the foreseeable future. As customer behavior continues to evolve, banks will redefine segments and determine how to best realign their products and services to meet changing consumer profiles.

Shifting priorities

We also believe that it is a decisive moment for banks—a time to consider which areas of their portfolios are core to their business. Mergers and acquisitions (M&A), both in terms of divestment of non-core businesses and investment in core areas, will be key when optimizing product portfolios.

Finally, changing regulations, increasing cost pressures and a desire to simplify and standardize, collectively create a need for simpler (and fewer) products, easy-to-understand pricing and thoroughly enabled digital processes.

Banks would do well to focus on the outcomes of regulatory compliance processes, driving benefits that go beyond 'ticking the box'. A benefit of the current economic downturn is that it provides considerable new data on loss rates and customer behavior under stress conditions. Banks have an opportunity to harness this data to develop enhanced and more predictive risk models. In turn, output will generate more robust management information while also meeting regulatory requirements.

1 UAE Banking Perspectives 2021, Link
2 Arabian Business: "UAE economy forecast to 'fully recover' in 2022 with 3.5% GDP growth", Link
3 UAE Banking Perspectives 2021, Link

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