In this Technology Spotlight, we take a closer look at the significant trends that are impacting financial institutions in the Gulf Cooperation Council (GCC) region. We highlight how adopting a digital-first approach and utilizing cloud technology is crucial for achieving success. Additionally, we delve into the strategic partnership between Kyndryl and Microsoft Azure and their vital role in this important market.

Financial Institutions in GCC Are Going Digital-First: Key Technology Best Practices for Resilience and Growth

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Key Trends Shaping the GCC Financial Services Sector

The current business environment in the Middle East is heavily influenced by the changes brought about by the COVID-19 pandemic. Today, organizations are focused on accelerating their digital journeys shaped by the learnings from the pandemic. At the same time, it is also frequently disrupted by new factors, such as dwindling economic growth, inflation, and geopolitical conflicts. When it comes to the financial sector in the Gulf Cooperation Council (GCC) countries, there are also several other key factors in play.

Financial institutions in the region are benefiting significantly from the economic diversification efforts being pursued by national governments. Efforts are being focused on developing a strong digital economy, with particular attention given to the growth of fintech and the overall digital transformation of the financial sector. All the national vision programs — Saudi National Vision 2030, We The UAE 2031, Qatar National Vision 2030, Kuwait Vision 2035, Oman Vision 2040, and Bahrain Vision 2030 — emphasize the development and modernization of the financial sector.

The initiatives resulting from these programs have a significant impact on the digital evolution of financial institutions in the Gulf region. For example, Saudi Arabia's Financial Sector Development program focuses on creating a cashless society and supporting fintech. In the UAE, the Financial Infrastructure Transformation Programme launched by the central bank focuses on expediting the digital transformation of the financial services industry in the country. The program encompasses various initiatives that address digital payments, digital currency, open banking, fintech, cloud technology, customer experience, and digital compliance. Focusing on fintech, Qatar introduced the Qatar FinTech Strategy 2023, which aims to enhance the digital infrastructure, regulations, skills, and innovation in financial technology.
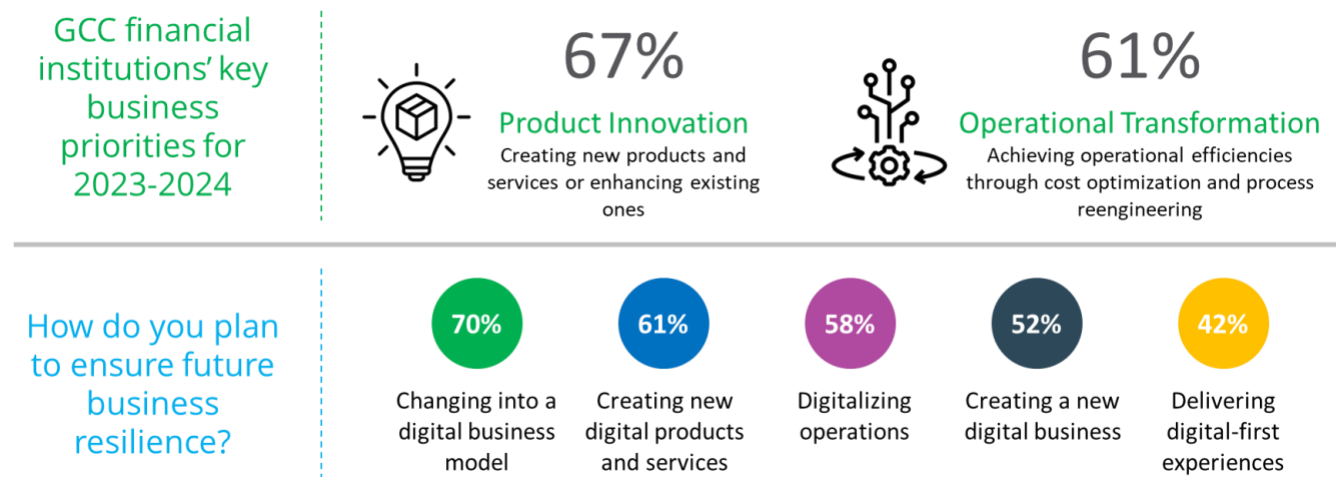
The finance industry has always been at the forefront of adopting new technologies. However, the constantly disrupted post-pandemic environment warrants rapid and scalable innovation. To remain competitive and resilient in the new era, financial institutions are taking a digital-first approach to their business. This approach takes digital transformation to a whole new level, making digital the go-to choice for all business aspects. Whether it is enhancing the customer experience, delivering products and services, streamlining backend operations, improving employee experience, or collaborating with partners, digital is the default option.

The Digital-First Approach & Key Digital Priorities

Today, the dominance (and the survival) of a financial institution depends on two key questions: How can we meet the needs of the digital-savvy generation who have become the primary demographic of both customers and employees? And How can we leverage digital technologies to increase efficiency? This has led to the emergence of two overarching business priorities: product innovation and operational transformation. A survey conducted by IDC among the business leaders in financial institutions in the GCC highlights this trend. The top priorities for these organizations are creating new products and services, enhancing the existing ones, and improving operational efficiency through cost optimization and process reengineering.

Digital progress has quickened among the financial institutions in GCC, but the standards for success have become more demanding. In the wake of the pandemic and experiments with digital transformation, business leaders are now looking to achieve these business objectives through a digital-first approach with clear and measurable business outcomes. By embracing a digital-first strategy, an organization integrates digital technology into its core operations. This results in significant transformations in internal and external processes, including how the organization interacts with customers, citizens, suppliers, and partners. It also affects how the organization attracts, manages, and retains employees, as well as the products, services, and experiences it offers.

Figure 1: The Changing Business Priorities and the Digital Routes to Resilience

GCC financial institutions' key business priorities for 2023-2024

67% Product Innovation — Creating new products and services or enhancing existing ones

61% Operational Transformation — Achieving operational efficiencies through cost optimization and process reengineering

How do you plan to ensure future business resilience?

70% Changing into a digital business model

61% Creating new digital products and services

58% Digitalizing operations

52% Creating a new digital business

42% Delivering digital-first experiences

Source: IDC CIO DX Survey 2023 (GCC; N = 33).
Q: What are your organization's key business priorities for the next 12–18 months?
Q: Which of the following is your organization going to focus on to ensure future business resilience?

In the GCC, financial institutions are actively embracing the digital-first approach. According to IDC's research, most are in the process of adopting a digital business model that covers both products and services, along with internal operations. This involves various aspects, such as digitalizing existing products, services, and experiences, and creating new ones. Launching new digital businesses altogether, such as digital-only banks, and converting physical branches into smart branches are some of the key pathways banks are taking. For example, the first digital-only bank was launched in the UAE in 2017. Today there are 9 of them. In Saudi Arabia, the fintech ecosystem is expanding rapidly. The country has around 150 fintech businesses today compared to just 10 in 2018. The Kingdom plans to increase this number to 500+ by 2030.

Many front-runners in the region are reaping significant benefits from their digital investments. For example, one of the leading banks in the UAE posted a record 130% surge in profits in the first half of 2023, and the bank attributes its investment in technology and AI-enabled agile launch of new digital products and services as a key driver of business growth. In another example, a leading bank in Saudi Arabia launched 70+ new digital products and services in 2022 in the corporate banking business line. This helped the bank to achieve a 71% increase in active digital customers. The bank also diversified its revenue sources by launching a digital marketplace that provides customers with new services, such as cloud-based accounting, from third parties.

## *Challenges in the Digital-First Journey*

As financial institutions pursue their digital-first journeys, they face significant challenges with skills, achieving speed and scale, and legacy systems. The pace of skills development often lags behind technology development, creating a skills gap. Becoming a digital-first organization involves the use of a multitude of technologies, such as cloud computing, data analytics, artificial intelligence and machine learning (ML), blockchain, the Internet of Things (IoT), edge computing, and the Metaverse, which makes acquiring and developing skills particularly challenging.

The capability to bring about rapid and large-scale transformation sets digital leaders apart from the laggards. However, achieving this is also among the most difficult aspects of adopting a digital-first approach. Many financial institutions in the region have only achieved partial digital transformation, limiting it to specific departments or initiatives. For digital maturity to be a competitive differentiator, organizations must advance from isolated pockets of innovation to enterprise-wide efforts.

The financial institutions in the Gulf region are also hindered by legacy systems. According to IDC's survey, over one-third of these financial institutions have indicated the fragmented nature of their IT environment as a key obstacle to their digital-first journey. Instead of using modern, integrated software with advanced features in data analytics and AI/ML, many organizations rely on basic or standalone applications to manage their critical tasks.

In a digital-first business, data is the most crucial asset. The continuous and seamless flow of data within the organization, feeding various systems and generating value in the process, is a key factor differentiating a digital-first enterprise. This is also central to enabling informed decision-making, automation, and generating value in industry ecosystem play. The disparate outdated systems cannot effectively use enterprise intelligence to create value and often lack the integration capabilities that enable organizations to work effectively in industry ecosystems, especially with fintech. They also make it harder for businesses to respond to market situations in a timely manner and increase cybersecurity risks by providing unprotected gateways for hackers and cybercriminals. Modernizing these disparate, monolithic applications thus becomes a critical prerequisite for building a digital-first business.

Figure 2: Key Roadblocks for Financial Institutions on Their Digital-First Journey
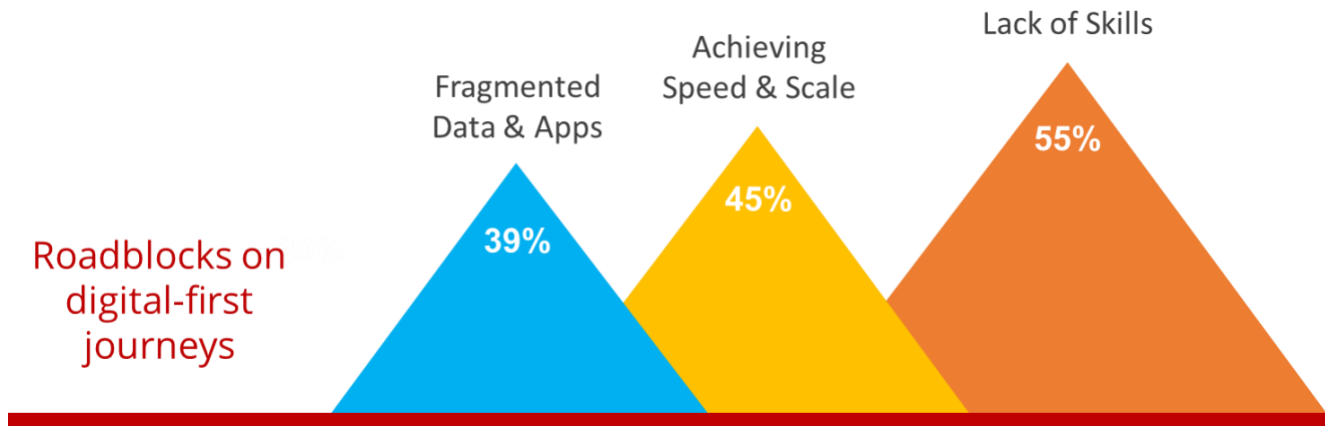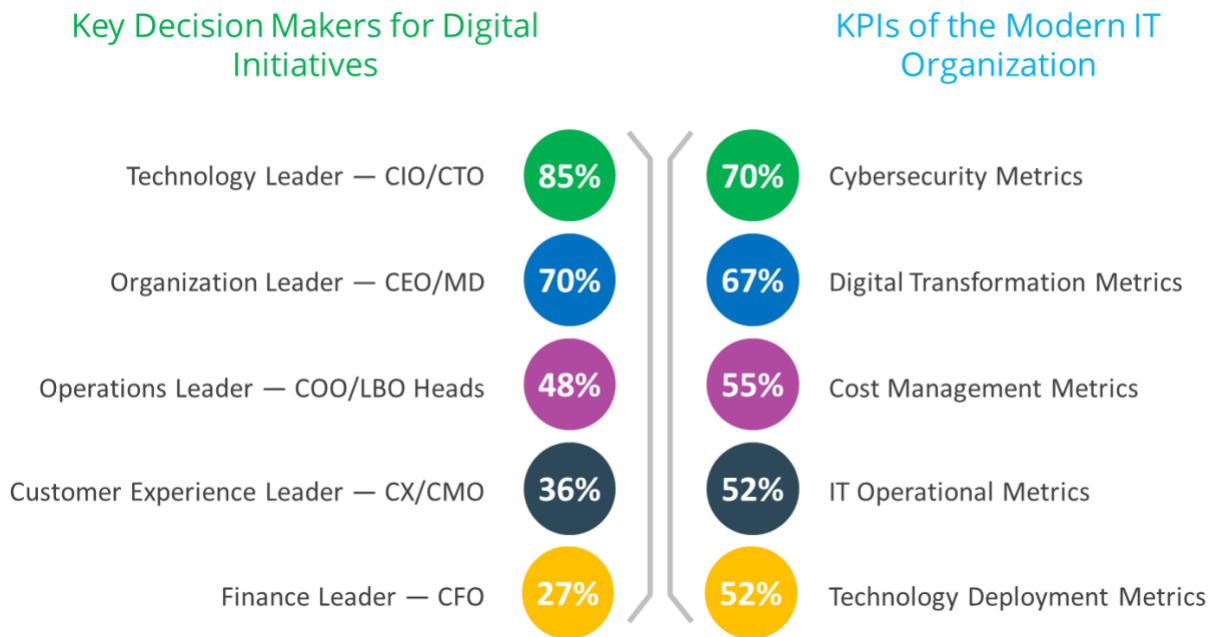

Source: IDC CIO DX Survey 2023 (GCC; N = 33)
Q: What are the top challenges your organization faces today in driving digital innovation?

Creating a Modern IT Organization for a New Age Financial Institution

As financial institutions explored digital transformation, the responsibility for these initiatives naturally fell on the IT organization and its leaders. However, as the transformation advances and technology becomes more integral to the institution's operations, the role of IT and the CIO must evolve. Digital-first businesses are dynamic enterprises that must continuously alter business and operating models, relying on digital platforms. To enable this, IT leaders have to rethink both their role and the role of the IT organization, transitioning from technical to strategic business leaders. In the new world, IT is not an organization — it is the very fabric of the enterprise.

The evolving role also means that technology leaders need new playbooks. Today's IT leaders face new challenges, including the increasing influence of operational business leaders and the complexity of implementing digital business strategies. Demands from business leaders have increased, and IT is asked to provide guidance on new digital-focused business strategies. Many a time, CIOs find their roles being challenged by line-of-business (LOB) counterparts who better demonstrate the ability to align technology with the organization's mission and customers. In addition, CIOs are taking on new responsibilities such as privacy and ethics, sustainability, and business resilience. Despite these changes, the traditional responsibilities centered around technology management, operational reliability and efficiency, and the security of enterprise systems and data remain critical. These changes are reflected in the KPIs used to measure the success of the CIO and IT organization, as depicted in Figure 3.

Figure 3: The Evolving Role of the CIO and the IT Organization

Key Decision Makers for Digital Initiatives | KPIs of the Modern IT Organization

Technology Leader — CIO/CTO — **85%** | **70%** Cybersecurity Metrics

Organization Leader — CEO/MD — **70%** | **67%** Digital Transformation Metrics

Operations Leader — COO/LBO Heads — **48%** | **55%** Cost Management Metrics

Customer Experience Leader — CX/CMO — **36%** | **52%** IT Operational Metrics

Finance Leader — CFO — **27%** | **52%** Technology Deployment Metrics

Source: IDC CIO DX Survey 2023 (GCC; N = 33).
Q: Who are the key decision-makers and influencers regarding digital initiatives in your organization?
Q: Which of the following performance areas will form a significant part of the IT department's KPIs in 2023?

Building the Capabilities for a Digital-First Enterprise

As organizations embark on their digital-first journeys, it is crucial to develop essential digital capabilities that will serve as key drivers for the future success of the enterprise. Today, IT teams in progressive financial institutions in the GCC heavily invest in enhancing the capabilities detailed below.

Cybersecurity

In recent years, organizations have experienced a surge in cyber threats and attacks as their online presence has expanded to include remote devices of employees, customers, and partners in their ecosystem. This has compelled financial institutions to reconsider security measures beyond traditional risk management activities. They now recognize the significance of digital trustworthiness for the success of their business. Therefore, as financial institutions embrace a digital-first approach, it is essential that they expedite their security programs and redefine accountability for security and privacy.

Data & Analytics

In today's business landscape, having strong data capabilities is essential for unlocking value. As data-fueled decision-making becomes commonplace, IT departments are expected to leverage enterprise intelligence to enhance data accessibility throughout the enterprise. Therefore, optimizing and democratizing data are fundamental for reducing skill scarcity, producing data-driven decision value, and providing a substantial competitive edge. For example, banks have been increasingly using analytics in lending to improve collection rates by relying on insights about the customer to create a hyper-personalized treatment. IDC predicts that by the end of

2023, the greater use of analytics and AI/ML in collections will improve collection efficiency rates by at least 25% globally.

Automation & AI

Many financial institutions in the GCC have embraced robotic process automation (RPA) as an essential part of their business strategy. Banks have made significant progress in automating repetitive tasks, freeing valuable employee time, and lowering costs. This has particularly benefited institutions in handling administrative tasks related to fraud, risk, compliance, operational efficiency, and customer engagement. With the rapid advancements in AI/ML technology, financial institutions now have even greater opportunities to automate further. For instance, generative AI-based tools can provide valuable insights and guidance on strategic decision-making by analyzing macroeconomic data such as GDP, interest rates, and inflation indicators. Recently, a leading banking group in the UAE announced a transformation focused on harnessing the power of generative AI. The plan involves using tools such as ChatGPT and Microsoft 365 Copilot across all business and support functions, as well as enabling IT teams with Github Copilot X.

Cloud

A digital-first enterprise, and the modern IT environment that enables it, is built on a cloud foundation. For a new-age financial institution that strives to do more with less, a cloud-first approach offers significant advantages, including simplifying and standardizing the application landscape, reducing costs, and supporting scalability. For example, IDC estimates that by 2027, 65% of companies will save over $1 million annually using event-driven automation, reducing repetitive IT ops tasks, and moving to a fully autonomous digital infrastructure. A leading bank in UAE increased the developer and infrastructure team productivity by 60% by standardizing the infrastructure, services, APIs, and tools across the cloud and on-premises environments. Cloud also enables enterprises to access modern functionalities and leverage emerging technologies (such as AI) and addresses one of the key challenges facing modern-day organizations — access to skills.

Application Modernization

In the GCC region, most financial institutions rely on outdated legacy systems that cannot keep up with the real-time transactions or personalized services that customers demand. This was especially apparent during the pandemic, as many organizations struggled to respond due to their reliance on inflexible legacy architectures. As a result, more organizations are prioritizing application modernization to improve their resiliency and their ability to adapt to adverse economic conditions in the future.

A digital-first financial institution views a modern application as a business enabler that utilizes the latest technology to enhance customer experiences with personalized engagement, faster response to market changes, and the ability to offer new products and services, opening up new revenue opportunities. Take the example of the contact center, which is being rapidly transformed with a digital-first omnichannel. The modernization of the function is seeing two migration fronts: from on-premises to cloud and the continuous evolution of the cloud-based environment. The frontrunner organizations are now in a position to take advantage of the latest innovations leading off with generative AI. ChatGPT-like technologies deployed in the contact center can potentially change the environments that handle large amounts of mostly unstructured information that need to be retrieved and reconstructed in a usable format.

Figure 4: Strategic IT Capabilities for a Digital-First Approach

Capability	Percentage
Security	55%
Data	55%
Process Automation	52%
Cloud	48%
Application Modernization	39%

Source: IDC CIO DX Survey 2023 (GCC; N = 33)
Q: In which of the following strategic IT capabilities does your organization plan to significantly increase investments (by 10% or more) in the next 12–18 months?

Essential Guidance

Financial institutions are faced with important decisions. Those who fail to modernize and transform into a digital-first business will fall behind their peers. To thrive and better meet the shifting demands of customers in this new digital business era, banks will need to strengthen their digital infrastructure to improve scalability and resiliency and seamlessly integrate into broader ecosystems. Below are six IDC predictions from key sub-sectors — retail banking, corporate banking, and insurance — that highlight the trends and key messages discussed in this technology spotlight.

1

Go Digital-First

By 2025, 40% of global corporate banking revenue will be accrued through collaborative engagements such as embedded finance, banking as a service, and platform integration.

2

Shift CIO Role from Technical to Strategic

By 2025, 70% of CIOs will find their roles being challenged by LOB counterparts who better demonstrate the ability to align technology with the organization's mission and customer demands.

3

Automate

To cope with skills shortages, employee needs, and work that is beyond human abilities, by 2026, 75% of CIOs will broadly augment critical systems with embedded intelligence and automated technologies.

4

Data-Driven Banking

By 2024, alternative data (such as utility, cell phone, and rent payments) most closely associated with unbanked and underbanked borrowers will be used by lenders for credit decisions in 75% of consumer loans.

5

Tackle Cyber Fraud and Threats with Tech

By 2025, 85% of insurers worldwide will invest in AI-powered fraud detection technologies to support claims management functions.

6

Modernize with Cloud

By the end of 2023, to support new business needs, insurers will start modernizing 50% of core workloads with cloud-native technologies and implementing standardized, integrated regulatory policies for multicloud flexibility.

Considering Kyndryl & Microsoft

Kyndryl is one of the world's largest IT infrastructure and transformation services providers, serving over 4,000 enterprise customers, which includes 75 Fortune 100 companies in more than 60 countries. With its strong global workforce, the company designs, builds, manages, and modernizes complex, mission-critical information systems for its customers.

Kyndryl is a Microsoft Azure Expert Managed Service Provider and is among the elite group within the vast Microsoft Partner ecosystem that has achieved Azure Expert MSP certification status. Together, Kyndryl and Microsoft deliver solutions in areas such as hybrid cloud adoption, mainframe modernization, and mission-critical workload transformation, with enhanced security and AI-powered data modernization. Kyndryl provides advisory, application assessment, design, and implementation services, as well as offering DevSecOps, application modernization, and management services of the applications and infrastructure.

Many organizations continue to rely on mainframes to manage their most critical applications and sensitive data but struggle to unlock and transform their mainframe data into actionable intelligence and insights. Kyndryl and Microsoft help customers by enabling cloud-based insights and innovation with the mainframe. Making mainframe data available through Microsoft Azure cloud environments unlocks data silos and opens the enterprise to the transformative benefits of cloud-based applications, machine learning, and AI. Connecting mainframe data to Microsoft Power Platform via the Mainframe Data Pipe yields greater accessibility to the data across the organization. By democratizing mainframe data and making it accessible to analytics, automation, machine learning, and AI applications, Kyndryl and Microsoft can help financial institutions improve decision making with data-driven solutions designed to deliver immediate business value.

Kyndryl offers industry-specific modernization platforms that help financial institutions to modernize, transform, and manage technology to enable faster and more agile delivery of differentiated products and services meeting customer demands, driving growth, and guarding against increasing security threats.

Case Study: Laurentian Bank

Laurentian Bank of Canada provides a broad range of personal and business financial services for customers in Canada and the United States. Founded in Montreal in 1846, the bank has more than 2,900 employees today and manages $46.1 billion in balance sheet assets and $30.2 billion in assets under administration.

In 2022, with the help of Kyndryl, Laurentian Bank launched a new cloud landing zone to leverage cloud platforms such as Microsoft Azure. The new cloud landing zone provides the bank with a strong foundation to deploy its next-generation hybrid multicloud environment, allowing them to deliver engaging customer experiences and innovative digital capabilities.

This new environment enables the bank's digital services to function efficiently and securely, providing customers with an optimal and seamless experience at all interaction touchpoints. It also allows the bank to accelerate the introduction of its digital onboarding solution and deliver its reimagined and more customer-centric VISA experience.

Kyndryl's expertise in systems integration across applications from many vendors was central to the bank's progress in its cloud transformation journey. Kyndryl's deep understanding of mission-critical systems, along with many years of providing managed services to the bank, resulted in innovation and differentiated capabilities tailored to the bank's needs. Kyndryl's ability to tap into a broad set of technologies and skills, aided by its global strategic alliances, including Microsoft Azure, supported Laurentian Bank's specific transformation goals and helped them deliver more efficient and improved services to customers.

> *"With this milestone, we are executing several key priorities of Laurentian Bank's strategic plan, including enabling our digital-first approach and accelerating the introduction of our digital onboarding solution. Through the strategic partnership with Kyndryl, we are able to drive innovation with greater agility and speed."*
>
> **Beel Yaqub,**
> **Executive Vice President & Chief Information Technology Officer**
> **Laurentian Bank**

About the Analysts

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Jebin George handles IDC's software, cloud, and industry-specific research across the Middle East, Turkey, and Africa (META). In this role, he works closely with technology and country analysts to understand industry-specific digital transformation trends, analyze technology spending patterns, and advise end users and technology suppliers. Jebin has over 13 years of experience conducting technology-related market research across the META region.

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Chris Ngwenyama is IDC's software, cloud, telecom, and IoT research manager, who has been working with technology vendors, telecoms, datacenter operators, cloud providers, and end-user organizations for 14 years, providing them with strategic insights on market size and emerging market trends, as well as competitor analysis. He provides ongoing research for IDC's Continuous Information Service (CIS), market forecasts, custom consulting, and go-to-market services.

IDC Custom Solutions

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