Middle East

Point of View

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The disruption...
Regulating cryptocurrency

...And how to deal with it
Business Continuity Management

Yours if you can afford it
Dubai's housing market

Home delivery
Potential for e-commerce in the region

We are 25!

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Spring 2018
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Published by Deloitte & Touche (M.E.)

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A word from the editorial team

It is, undeniably, the age of woman.

It has been over 45 years since Helen Reddy famously sang "I am woman, hear me roar." Now women from all industries, from the movie studios in Hollywood to the boardrooms of the Arab world, have done just that. And the world has had no choice but to stand up and listen.

But as any woman will tell you, she could not fulfil her true potential without the right partner. Sometimes this partner is the person you live with, sometimes it is your mentor, and sometimes it is your workplace, or even anyone in a position to offer you support.

We are proud, in this 25th issue, to be covering Deloitte's own champions of women's rights and gender equality. In a special insert, Rana Salhab, David Sproul and Emma Codd, recipients of the 2017 Financial Times' HERoes award for champions of women in business, weigh in on what it takes to empower women in the workplace: the differences in the Middle East and Europe, and gender pay gap.

There is no doubt that changes in the cultural landscape will eventually affect changes in the workplace. That is precisely what Ghassan Turqieh says in his article *Agile in the public sector* in which he posits that change in the public sector is not a choice, but a necessity. "Leaders need to consider modernizing their approach to managing the day-to-day business," he says. "Moreover, particularly in Saudi Arabia, women are becoming increasingly involved, heavily encouraged and expected to participate in the workforce. These dynamics will inevitably drive public sector leaders to modernize, embrace changes and deploy appropriate talent solutions, not only to maintain a motivated workforce internally but also to address their citizens' needs," he continues.

Ziad Haddad takes the other viewpoint when it comes to Business Continuity Management i.e. the ability of an organization to maintain essential functions during, and after a disaster has occurred, seeing it not only as a necessity but as a system that, "when properly implemented [...] not only affects strategy but also protects all the processes of high value to the organization." Read more on the subject in his article *Business continuity: a different perspective*.

But sometimes what is called for is not continuity, rather, disruption. E-commerce has drastically changed the global retail market say Anish Mehta and Sachin Bhanvari in their article, *Going digital: the next frontier for Middle East retail*. "But this megatrend," they say, "which has transformed the dynamics of consumer behavior and business models in retail, remains untapped in the Middle East and offers huge potential for industry players."

Who says disruption, says fintech, and who says fintech, says cryptocurrency. In the first of our two enlightening articles on this digital evolution, Rajeev Patel and Uthman Al-Basri caution that "failure to address it early, can trounce even the most dominant of companies [...] The use of blockchain technology has enabled the rapid ascent of cryptocurrencies such as Bitcoin into public discourse, igniting a frenzy of interest while creating fundamental challenges to regulators and money markets." In their article on fintech, they warn readers not to "remain analogue in a digital world."

From their side, Nipun Srivastava and Saad Qureshi counsel that cryptocurrencies are still "highly volatile." In their article *Regulating cryptocurrencies*, they outline some of the challenges regarding the adoption of cryptocurrencies and some of the ways forward in regulating them.

In my own article charting the last eight years and celebrating our 25th issue, I mention that some of our perennial features include the construction and property sector in Dubai and this issue is no exception. Martin Cooper, in his article *The development of Dubai's affordable housing sector*, addresses some of the challenges facing this vital yet troubled sector.

We are very proud to have come this far with you, dear reader, and hope that you have been enjoying reading our magazine as much as we have enjoyed producing it. Here's to the next 25!

ME PoV editorial team

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We are 25!

Since that first issue, the world has done a triple somersault, flipped on its axis twice and was spewed out of a financial vortex from which it is still reeling.

Eight years and twenty-five issues ago, the *Middle East Point of View magazine* was conceived. The mandate: to create a magazine that conveys "uninhibited and independent views and opinions" on the region's issues of most concern, especially as regards regulation, environment and sustainability, fiscal reform and corporate governance.

The first issue rolled hot off the press in the spring of 2010, entitled "On the region's burning issues." These included corporate restructuring, fraud, rise of the CFO, business intelligence, risk management in the construction business, taxation, telecoms, corporate responsibility and sustainability.

At the time, Facebook was only a virtual yearbook, Airbnb had just launched and Uber had yet to be born. To many people, the cloud was still a mass of condensed water vapor floating high in the sky. Sometimes it would release raindrops. Smartphones were not yet a "necessity." And we're not even mentioning Instagram.

We've come a long way.

Now and then

Since that first issue, the world has done a triple somersault, flipped on its axis twice and was spewed out of a financial vortex from which it is still reeling. Meanwhile in the Middle East, housing prices in Dubai soared, crude oil prices tanked, and political upheaval ran hand-in-hand with the imperative to compete in, and conform to, a technological world advancing at a rapidly alarming rate.

When we first launched, if you were living in the Gulf you were paying no taxes, Dubai 2020 was a decade away, borrowing money was probably easier and the Arab Spring had yet to bloom.

And the world probably seemed a lot less scary. You probably still had to head towards a brick-and-mortar building to make a banking transaction. Today, as a company, as an individual, as a bank or even a public sector entity, you have to watch your every move, make sure your present is compliant and your future is mapped out and the ever-accelerating rate of change accounted for. Big or small, incorporated or family-owned, you have to work harder to retain talent (these millennials are hard to please but they are talented!), your C-Suite has to keep up to speed with issues that may seem beyond their grasp and, assuming you're in the Gulf, you have to budget for VAT.

You've come a long way.

Since that first issue, what was then considered a disruption is now simply a way of life. As a reader, chances are you are either on Facebook, have taken an Uber at least once and stayed in an Airbnb listed property. If not, you're resisting change quite well! But perhaps most of your files are in the clouds without you even knowing.

Through it all, *Middle East Point of View* was present, shedding light and translating these changes with objectivity and a poised, even manner, an insider look from the people directly implicated in these changes.

Naturally, there are recurring themes: IFRS, risk and compliance, technology, family business and real estate are some

of our perennial features. Then there are those issues where we peak more closely at issues dear to our hearts, like education or Islamic finance. We also have country specials like Malta, Iraq and Qatar.

But challenge ourselves we must and rest on our laurels we must not. So sometimes we also delve into stories as explorers, with topics as Wikileaks, Virtual Reality and Big Data.

Now then

So what about the next twenty-five issues? Where might we all be then? If there is one thing we have learnt in the last eight years is that unpredictability is the only predicate, and that anything can happen. In fact, we even devoted our Summer 2017 issue to the subject.

We are lucky to be living in an age of revolutions. We get to witness change as it happens, live it and be part of it. As the world turns around, however, we also get to feel the jitters that pierce us as the ground shakes under our feet.

My personal prediction is that the world will not slow down, the jitters will continue and the huge earthly engine will continue to spin with ever-increasing speed. We will not rest. But we will adapt, like we always have. The brain is a marvelous organ.

Then and now

So what will we say about today in our 50th issue? Will we still be debating the viability of cryptocurrencies? Will we be communicating in words or emojis? Today we speak of agility in the workplace, and of Fintech. We live in the era of compound words, of nouns acting as verbs ("ping" anyone?) and of acronyms turning into words—such as GIFify (Graphics Interchange Format, in case you were wondering.) We now accept disruption as a given, we just concentrate on how to deal with it.

Perhaps one of the things we will say about today is that we started talking about succession. Be it family businesses or huge multi-national companies like Saudi Aramco, business in the Middle East is starting to plan for the future.

And for the next eight years and twenty-five issues, *Middle East Point of View* will be there to analyze it.

And you will probably be reading it on the windshield of your self-driving car.

by **Rana Hanna**, Editor, Middle East Point of View magazine

We are lucky to be living in an age of revolutions. We get to witness change as it happens, live it and be part of it. As the world turns around, however, we also get to feel the jitters that pierce us as the ground shakes under our feet.

Agile in the public sector

Globally, the public sector is undergoing radical digital reforms and transformations as a result of increasing costs and budget pressures, the changing needs of citizens and most importantly, the rise of new technological breakthroughs and disruptions.

It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.[1] Gazelles, known for their agility rather than their strength, are able to survive by evading predator attacks. They are born with physical characteristics that enable them to switch rapidly from a rest state to an escaping and evading state when risks and changes are detected and adapt quickly to their new surroundings. Agile organizations share strong similarities with gazelles; they have particular characteristics and attributes that allow them to change or adapt in response to changes in the market and react successfully to the rise of new competitors and disruptive innovations. More recently, organizational agility has reached a new level of importance in the public sector especially in light of the rapid ongoing technological developments that are changing both the corporate and public landscapes in many ways. Will public sector organizations be able to embrace organizational agility?

Key drivers for the rise of agile organizations in the public sector

The rise of agile organizations in the public sector is driven by the need to face, adapt to, and embrace the fast-moving changes that are affecting the sector and how it serves its citizens. Globally, the public sector is undergoing radical digital reforms and transformations as a result of increasing costs and budget pressures, the changing needs of citizens and most importantly, the rise of new technological breakthroughs and disruptions.

Regionally, similar trends apply, more so for countries where less dependence on oil is the target. For example, The UAE ICT 2021 Strategy and UAE National Innovation Strategy prioritize digital technology as one of the top seven national sectors. In Saudi Arabia, Digital Transformation is a top-four priority in the National Transformation Plan (NTP) 2020.[2]

Key attributes of agile organizations

Agile organizations have certain attributes that allow them to meet market demands and adjust to trends and ongoing internal and external challenges. They have an embedded culture that focuses on strategic thinking, exploration of innovations and changes, adaptability and proactivity.[3] They understand technological advancements, embrace disruption and build on it to provide better solutions to their customers.

In addition, teams in agile organizations are structured differently compared to traditional hierarchical organizations; they are cross-functional, share a strong purpose, commit to each other to deliver, and can deliver end-to-end business value. Cross-functional team members retain their autonomy in their respective area of focus and set their own work pace and supervise their own activities. However, they are expected to collaborate and leverage from each other's skillsets to achieve the desirable outcomes. As a matter of fact, Spotify, one of the world's leading music streaming services that has more than 60 million active users in over 60 countries is an example of companies that "have grown up in the digital age and designed their organizations to be nimble while placing the customer at the center of all product decisions. They accomplish this by unleashing powerful teams of employees that work cross-functionally to achieve clear outcomes."[4]

Moreover, those teams have distinct communication rules. Rather than setting rigid communication processes and policies, they promote communication channels that drive knowledge-sharing, teamwork and radical transparency. These channels enable the fast and efficient flow of information and help the organization adapt to changes and constantly improve. Social media, for instance, is now, more than ever, being used as a main tool to facilitate fast and prompt communication among teams. By simply creating a WhatsApp group, messages reach team members anytime, anywhere around the world. The speed at which messages can be conveyed allows for fast action and reduced turnaround times in addressing potential issues.

To also achieve agility, the decision-making authority shall be not centralized in one individual; it shall be distributed across the different laterals and verticals in the organization. Leaders are not involved in the day-to-day operations, they are strategy- and vision-focused and customer-centric. They emphasize the need to broaden their professional network and leverage it to deliver value-added outcomes to their customers. Their involvement in the day-to-day business is mainly limited to enabling teams to succeed by coaching, guiding and mentoring team members rather than controlling and directing them. "Effective leaders in this new model should be able to think beyond individual functions; operate without command and control behavior; create diversity; stimulate collaboration; while coaching employees and enabling teams to succeed."[4]

Acquiring attributes of agile organizations will most likely enable the public sector to adapt to changing dynamics and offer value-added services to their citizens. Adjusting rapidly to citizens' demands, providing solutions to their different concerns and shaping public needs in the long run are all priorities for public entities.

How can the public sector acquire agile attributes?

Acquiring attributes of agile organizations will most likely enable the public sector to adapt to changing dynamics and offer value-added services to their citizens. Adjusting rapidly to citizens' demands, providing solutions to their different concerns and shaping public needs in the long run are all priorities for public entities.

The technological landscape

As digital transformation initiatives are being implemented as part of national visions to enhance citizens' journey, governments have started embedding technologies in their operational landscape. It is predicted that the active base of fingerprint reader-equipped devices will top one billion in 2018, and that the number of countries using biometrics in national identity schemes will grow.[5] In fact, estimates show that from 2016 to 2021, 3.2 billion chip-based National e-IDs will be issued by 103 countries while 485 million National ID cards that integrate biometrics into non-chip based card programs will be delivered by 33 countries.[6] The largest scheme so far is in India, which has collected facial, fingerprint and iris data for one billion registrants. Such technology could be used as an additional way of accessing services such as tax payments, medical records or even e-voting on mobiles.[5]

Indoor digital navigation will become significantly more commonplace over the next five years. Satellite navigations systems have revolutionized how people find places. Being able to use a smartphone to navigate buildings could be particularly useful to the public sector.[5] Patients, visitors and staff

In forming transient cross-functional teams and adopting a flexible design at the "edges," public sector organizations will exhibit, to a certain extent, agile organizational traits.

could move more effectively around sprawling facilities like hospitals. Employees in major public sector offices could save time finding free desks, meeting rooms or each other. And the emergency services could quickly pinpoint individuals in need of help.

Public sector organizations in the GCC have started to build on technological advancement and innovation; digital transformation initiatives are already in place but fast-developing technologies such as biometrics, indoor navigation or even self-driving cars could have particularly profound consequences for the citizens they serve. Governments would eventually face the inevitable need to rapidly and efficiently integrate technological innovations into the core of their operations to have better visibility on their citizens' needs and to ensure a response aligned with changing market dynamics.

In surveys and interviews conducted by Deloitte with government leaders and officials across several countries, 75 percent of the respondents considered that digital technologies are disrupting the public sector.[7] Public sector organizations are put in a position where embracing technological advancement is a must to be able to respond to citizens' needs. In leveraging agile organizations' attributes in general and understanding technological advancement in particular, public sector organizations will be able to capitalize and build on technology and innovation to better respond to citizens' demands related to quality, diversification, ease and speed of services.

The structural landscape

Having permanent cross-functional teams in a public sector organization can be challenging given the nature of the industry. However, transient cross-functional teams can be formed in these types of organizations and utilized via tactical interventions aimed at ultimately serving stakeholders' needs. Based on the particularities of each initiative, temporary cross-functional teams can be formed from employees assuming parallel responsibilities: one related to the initiative in play and the second related to the individual's original day-to-day job.

Nevertheless, establishing such cross-functional capabilities could be deemed complex given the nature of public sector organizations. Similar restructuring initiatives could be perceived as farfetched, especially at the core of the operation. Flexible design, however, could be introduced and incubated on the "edges" of the organization most threatened by disruption, while protecting the stable and successful "core". Efforts to redesign organizations would be protective of the core while allowing the organization to tackle new initiatives and innovative ideas on its edge.[4]

As mentioned earlier, a key attribute of agile organizations is cross-functional teams. In forming transient cross-functional teams and adopting a flexible design at the "edges," public sector organizations will exhibit, to a certain extent, agile organizational traits. In leveraging those attributes, public sector organizations will be better positioned to respond faster to citizens' changing

needs. They will ensure an efficient flow of information and a faster decision-making process, as well as promote quality services and tailored solutions to meet citizens' needs and expectations.

The cultural landscape

Changes in the national cultural landscape are also rapidly reflecting on the internal cultures of organizations. Leaders need to consider modernizing their approach to managing the day-to-day business. According to United Nations statistics in 2017, 43 percent of the GCC population is currently under the age of 30.[8] Moreover, particularly in Saudi Arabia, women are becoming increasingly involved, heavily encouraged and expected to participate in the workforce. These dynamics will inevitably drive public sector leaders to modernize, embrace changes and deploy appropriate talent solutions, not only to maintain a motivated workforce internally but also to address their citizens' needs. Leadership training programs, workforce planning and succession management are potential solutions for answering these changes. Leveraging talent solutions would contribute to shaping a workforce of public servants ready to embrace the changing cultural dynamics; a workforce that has the ability to rapidly understand citizens' changing needs and utilize proper technological advancements to better serve them.

Conclusion

Successful and valued public sector organizations are the ones that possess attributes and characteristics that enable them to respond rapidly and defiantly to the ever-changing needs of citizens and adapt to the constantly evolving socioeconomic environment. To be perceived as completely agile might be unrealistic for public sector organizations given the internal and external factors that come into play, but by adopting some agile traits, these organizations could view changes as opportunities, not as pitfalls. In the private sector, some companies are able to capitalize on innovation, improve their performance and record major successes. Toyota, Apple, General Electric, Home Depot, Google, Whole Foods, Starbucks, FedEx, Netflix, and Ritz Carlton are all leading companies in their respective industries.[3] They all exhibit common traits that are attributes of the agile organization. Leveraging agile characteristics already acquired in the private sector and even exploring public-private partnerships opportunities, would pave the way for enhanced focus on "public customer" or citizen experience by responding faster to changing needs and providing improved and tailored solutions. John Chambers, former Cisco CEO once said: "Without exception, all of my biggest mistakes occurred because I moved too slowly."[3] Will the public sector adopt organization agility to cope with the fast-moving pace achieved by privately owned businesses?

by **Ghassan Turqieh**, Partner and Human Capital Leader, **Hanna Aoun,** Manager, and **Elie Nasr**, Business Analyst, Consulting, Deloitte, Middle East

To be perceived as completely agile might be unrealistic for public sector organizations given the internal and external factors that come into play, but by adopting some agile traits, these organizations could view changes as opportunities, not as pitfalls.

Endnotes

1. Leon C. Megginson, Professor of Management and Marketing at Louisiana State University at Baton Rouge (in a 1963 speech on Charles Darwin's 'The Origin of Species')
2. Deloitte National Transformation in the Middle East A Digital Journey
3. Abe Harraf, Professor University of Northern Colorado Kaylynn Tate, Research Assistant University of Northern Colorado, Attributes of Agile Organizations
4. Deloitte POV, Unlocking the flexible organization, 2016
5. Deloitte Tech predictions 2017 for the public sector
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Business continuity

A different perspective

Business Continuity Management (BCM)—the ability of an organization to maintain essential functions during, and after a disaster has occurred—should not be perceived as a compliance requirement only. When properly implemented, it is a system that not only affects strategy, but also protects all the processes of high value to the organization.

Organizations around the world are now recognizing the importance of a Business Continuity Management system to help them navigate turbulent waters.

Imagine being able to focus solely on your organization's strategic growth without having to worry about external threats. Global financial crises, political tension, pandemic outbreaks, terrorism, cyber-attacks and natural hazards have become part of the business lexicon regardless of sector or location and have increased the level of uncertainty and fear that now govern many businesses. Organizations around the world are now recognizing the importance of a Business Continuity Management system to help them navigate turbulent waters, as well as its effectiveness as a first step towards Organizational Resilience—the ability of an organization to anticipate, prepare for, and respond and adapt to incremental change and sudden disruptions in order to survive and prosper.

The Gulf countries in particular have started to develop tailor-made standards in alignment with the International Organization for Standardization (ISO)—such as NCEMA 7000-2015 in the United Arab Emirates (UAE) and SAMA BCM Framework 2017 in Saudi Arabia—and implementing them across government entities, especially critical national infrastructure, effectively creating an immune system protecting the country's reputation and the safety of its population.

The question that often arises is: why invest so much effort and time in a system perceived as corrective and that requires a significant amount of resources, not only to implement but to keep running?

Three compelling reasons

While it is true that a functional and effective Business Continuity Management system will require ongoing time and effort, especially from top management, past experience has shown that incidents can, and will occur at any time and probably when least expected. Organizations should understand the critical operations driving their business, and their respective vulnerabilities, in order to develop the right strategies and ensure continuity, stability and business sustainability. There are various key organizational benefits to business continuity within the organization:

- **Overview of the time-critical activities and the threats landscape**
  The two pillars of an effective business continuity management system are the Business Impact Analysis (BIA) and the Threat Risk Assessment (TRA.) BIA consists of providing detailed information about the minimum requirements (in terms of facilities, personnel, equipment, dependencies, vital documents and technology) of every activity deemed time-critical. TRA presents an in-depth analysis of the threats that could have a drastic impact on the organization and the likelihood of it happening. This analysis phase provides an overview of the organization's critical activities and resources and helps evaluate recovery priorities and assess any threat leading to business disruption.

  In addition, this analysis helps top management better understand the functionality of the organization and reconsider what actually are its time-critical activities and resources in order to develop an accurate and comprehensive investment strategy.

- **Enhance image and confidence of stakeholders**
  Communication during a crisis is a key element to recover and maintain a good reputation. As part of the BCM system, Crisis Communications, by the right person at the right time and through the right channels, are essential to address the interested stakeholders

and prevent rumors or leaks of confidential information. A business continuity plan will define the communications flow and assign the various roles of who will contact employees' families, address the media (and what to say,) notify interested parties, as well as how employees will act under media pressure. An effective Business Continuity framework helps address the different stakeholder concerns in a confident manner to provide the required assurance and help build the trust relationship through each phase of the response and recovery by conveying the accurate information to the relevant sources. As a result, organizations will benefit from a strong brand and image that reflects the confidence and skill of top management to overcoming the unexpected.

- **Return on investment even without any crisis occurring**
  Implementing recovery strategies is imperative to a successful Business Continuity Management system, but it is also an expensive part, due to the required investment of time, money and technology. However, without well-defined and tested strategies, recovering the resources during a crisis—whether the impact is on personnel, equipment, technology or supply chain—will exponentially increase the cost, as compared with a preventive recovery strategy, due to the short notice and the urgency of investment in previously untested strategies that may turn out to be ineffective. In addition, establishing a Business Continuity Management system will either lower the organization's insurance cost or allow it to upgrade to premium policies without additional cost. A joint survey by the British Insurance Brokers' Association (BIBA) and the Cabinet Office revealed that a large proportion of insurers (83.3 percent) "would provide a discount or improved insurance terms to a business interruption policy if a business continuity plan were in place."

Every organization needs a source of assurance, especially for the external stakeholders, in order to grow and survive. The importance of business continuity resides in providing effective recovery strategies and a strong brand image, facilitating the strategic objective of achieving a resilient organization. Once Business Continuity is established, unlimited options to maintain and improve the system are available to reach the required maturity level and drive the organization towards resilience. One of the most effective solutions would certainly be automation: reducing human effort and human error to a minimum by keeping the system accurately up-to-date.

by **Ziad El Haddad**, Principal, and **Naji Zoghbi**, Business Analyst, Risk Advisory, Deloitte, Middle East

An effective Business Continuity framework helps address the different stakeholder concerns in a confident manner to provide the required assurance and help build the trust relationship through each phase of the response and recovery by conveying the accurate information to the relevant sources.

Going digital

The next frontier for Middle East retail

The proliferation of e-commerce has drastically changed the global retail market. But this megatrend, which has transformed the dynamics of consumer behavior and business models in retail, remains untapped in the Middle East and offers huge potential for industry players.

OPEN

The regional retail market is on the verge of a digital disruption, with industry players undergoing a structural shift from traditional in-store concept to online channel through the adoption of digital technologies.

Major drivers of e-commerce growth in the Middle East, especially in the Gulf region, would be a high spending potential—owing to a high per capita income—developed transport logistics networks, rising internet penetration levels and a growing tech-savvy youth population. The presence of just a few players makes the market an attractive destination for e-commerce investment. With market barriers easing—improved infrastructure, ease of obtaining licenses and better warehousing facilities—and high investment potential, the region's e-commerce market looks poised for strong growth.

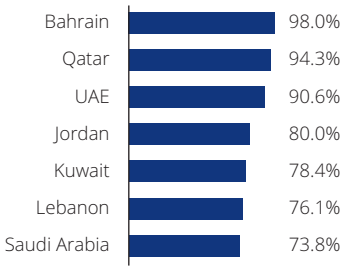
Shift from traditional brick-and mortar-model to e-commerce

Currently, only 15 percent of businesses in the Middle East have an online presence and almost 90 percent of the online purchases in the region are shipped from abroad, according to technology research company Gartner. This trend is expected to reverse soon with the launch of Noon.com, a large regional e-commerce player, the entry of major international players, such as Amazon (through the acquisition of Souq.com), and by increasing technology adoption.

According to *Forbes Middle East* and Marmore MENA Intelligence, online sales in the Middle East are estimated to account for only 2 percent of the overall retail sales, much lower than the 15 percent in developed markets: the untapped potential for e-commerce players is huge.

The regional retail market is on the verge of a digital disruption, with industry players undergoing a structural shift from traditional in-store concept to online channel through the adoption of digital technologies. The overall brand strategy would be to establish a strong omnichannel presence to offer a seamless consumer experience.

Figure 1: Internet Penetration by Country, June 2017



Source: Internet World Stats

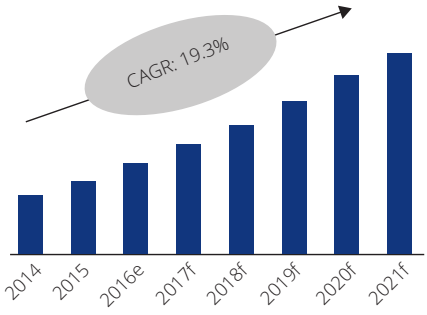
Total population	Internet users	Active social media users	Mobile subscriptions	Active mobile social users
246 million Urbanization: 68%	**147 million** Penetration: 60%	**93 million** Penetration: 38%	**312 million** vs. Population: 127%	**83 million** Penetration: 34%

Moreover, the region has seen tremendous growth in internet connectivity in recent years, with penetration exceeding 90 percent in Qatar, Bahrain, and the UAE. As per the findings of a Hootsuite and We Are Social study and Internet World Stats, the Middle East accounted for 3.8 percent of the global internet-using population as of June 2017 at 147 million users, an increase of 15 percent from 128 million users in 2016. The region's current internet penetration rate is 60 percent, well above the global average of 51.7 percent. Such a lucrative consumer base presents huge potential for e-commerce players looking to foray into the region's e-commerce market.

Rising e-commerce revenue

The region's online sales revenues have been increasing consistently. In 2016, the revenue was US$22.4 billion, up 24.4 percent from US$18 billion in 2015. The market forecast is to reach US$48.8 billion in 2021, at a compound aggregate growth rate (CAGR) of 16.9 percent during 2016-2021. The UAE is expected to lead the market, followed by Saudi Arabia and Qatar. These countries are expected to jointly account for more than 50 percent of the forecast revenue in 2021.

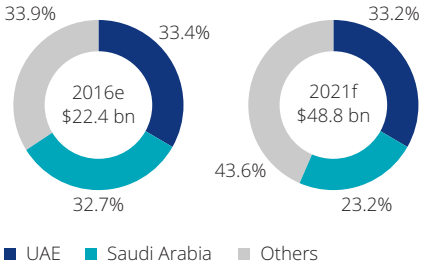
Figure 2: Middle East e-commerce market size ($bn)



Source: BMI Research

Even traditional brick-and-mortar retailers are now focusing on providing their customers with an additional online retail platform to augment their revenues. For instance, Carrefour and Lulu Group, two of the largest retailers in the Middle East, launched online shopping portals in the UAE.

Figure 3: E-commerce market size by country (%)



Source: BMI Research

On the products front, the clothing and footwear, and consumer electronics and media segments led the online shopping category in 2015 with the grocery category at the bottom as most people prefer buying groceries in stores. This trend is expected to continue in the future as well. In the UAE, the airline and hotel reservations category leads, followed by clothing and footwear, and consumer electronics and media.

Shopping goes mobile

As the trend of shopping on mobile gathers pace, due to the increase in smartphone use and technological advancement, regional players have launched mobile applications in order to attract more customers. Ikea introduced its mobile app in 2013 and Souq.com launched Arabic and English versions of its app in 2014. As mobile technology advances in terms of ease-of-shopping and offering more secure payment options, more consumers are likely to gravitate towards e-commerce and m-commerce.

E-commerce players in the Middle East and consolidation in the industry

Amazon acquired Dubai-based Souq.com in 2017, which had over 50 million customers and operations in all GCC states, positioning itself as a major e-commerce player in the region. With the Amazon Prime membership in place, the company is looking to attract more customers in the future. In addition, in late 2017, Amazon announced the launch of its AWS Data Center in Bahrain as part of its market expansion plan for the region.

Noon.com was launched in October 2017 as a regional rival to Amazon. The US$1 billion e-commerce platform based out of Saudi Arabia was founded by Mohamed Alabbar, Chairman of Emaar. Similar to Amazon, a tech fund led by Mohamed Alabbar acquired UAE-based JadoPado.com in May 2017 prior to the launch of Noon.com.

Other notable e-commerce players include Namshi.com, ebay, Ali Express, Nahel.com, Ubuy.com, Aido.com, Awok.com, Mumzworld.com, and the number is only expected to grow. Moreover, traditional retail chains are on their way to transitioning to the e-commerce model to serve both online and traditional customers.

Initiatives to support the future of e-commerce

E-governance initiatives

As part of the announced e-governance initiatives, local governments were in the process of integrating paper-based information services such as passports/visa issuance, vehicle licensing, logistics tracking and utilities billing/payments and migrating to the online platform, where they are integrated with standardized or universal online payment platforms. These platforms tend to form the basis for

online shopping systems, guaranteeing a risk-free experience for consumers. Government-led digitization initiatives are expected to further boost the e-commerce market in the future.

E-commerce hub establishment in the UAE
The UAE government set up a duty-free e-commerce hub Matajircom in 2014, as an initiative to work closely with local and international companies. It is aimed to position Dubai as a global e-commerce marketplace by bringing local and international markets closer.

Digital adoption and transformation
The combination of factors such as high adoption of mobile devices, the readiness of the population to adopt new technology, and digitization initiatives from local governments have positioned the region for a digital transformation. As per consultants Accenture's technology outlook, the technologies that will reshape the region into a digital economy include Internet of Me, Outcome Economy, Platform Revolution, Intelligent Enterprise, and Workforce Reimagined.

E-commerce trends

Shift towards localization
Retailers have realized that language and localization are extremely important factors to be considered when entering overseas markets. Luxury brands such as Burberry, Dolce & Gabbana, and jewelry retailer Blue Nile have launched Arabic language sites aimed at experimental shoppers in the UAE, with content-based advertising in Arabic as well. These initiatives will attract more local customers who have avoided e-shopping owing to language barriers.

Cross-border e-commerce
A large chunk of online shoppers in the Middle East have begun accepting cross-border products. Online shoppers in the UAE made 58 percent of their online purchases from overseas vendors in 2016. The recent improvement in gateway security, along with reliable and free shipping methods, have largely persuaded many buyers to purchase products from outside the region.

Effect of social media on e-commerce
E-shopping behavior is influenced by products/brands reviews from social media platforms. Currently, 93 million people, 63.3 percent of the region's internet-using population, were active on social media. At 99 percent, Qatar and the UAE lead the region's social media penetration rate (the UAE with 9.2 million users and Qatar with 2.4 million users.) Though social media penetration in Saudi Arabia is low, it is growing at a rate of 73 percent year-on-year, far exceeding the global average of 21 percent. Social media platforms such as Facebook, Twitter and Instagram play an important role in influencing buying behavior. Positive brand/product reviews drive sales. E-commerce players can leverage this platform to drive sales further.

Technology advancement
Though the Middle East e-commerce market is still untapped, the technology trends that influence the global e-commerce market are expected to be introduced in compliance with local regulations. The trends include use of chatbots, artificial intelligence (AI), and Big Data for customer interactions, wearables and mobile devices for payments, same-day delivery, and usage of drones for delivery.

Digitization in food delivery
The region's online food delivery service sector is growing due to digital evolution. Even the restaurants that have been operating for years now rely on online services for a significant chunk of their business. UberEats, Deliveroo and online platforms such as MakeMyMeal are generating a majority of their business through online channels.

The key catalyst for strong growth of the regional e-commerce market would be a shift in the cultural mindset. Can e-commerce act as an alternative to the traditional shopping experience?

Innovation in e-commerce payments space
Though the majority of payments for online purchases in the region are currently made through cash on delivery, this could change soon. A growing m-commerce market and digitization initiatives by governments are expected to transform the region's payment ecosystem, leading to increased use of online payment systems, such as digital wallets and netbanking. For example, to support digital payment services, the Central Bank of the UAE has issued a regulatory framework for electronic payment systems.

Challenges

Clogged logistics
The high trade barriers in the region act as a blockage for logistics and online retailers to ship products. These barriers affect small e-commerce players due to high tariffs, changing regulations and volatile currency exchange rates.

Payment systems and delivery
The region has low credit card penetration. Moreover, as per an A.T. Kearney study, buyers made 60-70 percent of their e-commerce payments through cash on delivery due to a lack of trust in online payment systems and internet frauds.

As the region lacks postal codes, the last-mile delivery system is severely affected. Also, the limited number of orders will result in high costs for last-mile delivery.

Impact of Value Added Tax (VAT) in the GCC

The implementation of VAT in the UAE and Saudi Arabia, the leading e-commerce markets in the region, is expected to impact buyers as well as businesses. On the consumer front, as most online purchases are shipped from outside the region, tax would be applicable not only on goods but also on services. On the business front, as the tax system is new in the region, the companies must introduce effective VAT compliance systems, which would lead to higher costs. As more countries introduce VAT, e-commerce players need to be prepared to comply in a manner such that additional costs are not passed on to customers.

What about the future?

The key catalyst for strong growth of the regional e-commerce market would be a shift in the cultural mindset. Can e-commerce act as an alternative to the traditional shopping experience? Or will both the in-store and digital commerce channels complement each other and to grow?

It would be interesting to see what strategies major players deploy to overcome the cultural barriers. But one thing is for sure, e-commerce in the Middle East is here to stay and grow.

by **Anish Mehta**, Director, and **Sachin Bhandari**, Senior Manager, Deloitte, UAE

Interview with Mr. Madhava M S Rao, Chief Information Officer, Lulu Group International

Why e-commerce?

Businesses today are seeking ways to adopt the changes of consumer's demanding preferences in an effective and robust manner. With the spread of disruptive technologies, customers today expect retailers to provide the most personalized shopping experience. Multi-channel retailing offers plenty of opportunities for retailers by offering unique insights into customer preferences.

Where is m-commerce now?

The simple answer is mostly everywhere. With boom in smartphone and tablets, the m-commerce has grown rapidly and retailers present in this channel have significantly gained share in their online sales. And you cannot look at m-commerce today without addressing "showrooming", it is when a customer goes into the traditional brick-and-mortar store to check out a product, then instead of purchasing it at that store, finds the same product online and buys it for a better price. The rise of m-commerce has spurred showrooming growth as well. Retailers present in all the channels have significant brand advantage over others.

Opportunity to retailers

With a presence across different engagement points, retailers gain opportunities to understand consumer behavior with better data collection and insights, which helps drive sales and profits. This not only helps in gaining consumer loyalty but also to drive efficiencies and enhanced productivity from the employees who can benefit from the new innovative technology and serve the customers better. By committing resources and investment on new initiatives, retailers can be more transparent and consistent across all customer queries thereby improving the brand recall value and customer perception.

It would be interesting to see what strategies major players deploy to overcome the cultural barriers. But one thing is for sure, e-commerce in the Middle East is here to stay and grow.

Fintech

Don’t be analogue in a digital world

CREDIT CARD
CREDIT CARD
CREDIT CARD
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The rise of fintech

Financial technology (fintech) is revolutionizing the banking landscape the same way Uber has disrupted the taxi industry and Airbnb has shaken up the hospitality sector. This digital evolution, and failure to address it early, can trounce even the most dominant of companies. Kodak's refusal to support digital, and its subsequent demise, is a cautionary tale for any company and a sign to innovative start-ups that even the most monolithic corporations can become vulnerable.

Fintech refers to technology-enabled products and services that improve traditional financial services. They are often faster, cheaper, more convenient or more accessible, and in most cases, they are developed by start-ups.

In the past few years, fintech has emerged as one of the primary challengers and disruptors of the once-traditional banking industry. Innovative banking services that offer increased efficiency and lower costs have helped propel the rise of fintech in a global industry that has amassed over US$100 billion in investments. A backdrop of smartphone proliferation, technology-reliant consumers and easing of some regulatory barriers have also paved the way for growth, which has seen the number of fintech pioneers grow to over one thousand companies in 2017.

The disruption

At the forefront of this disruption are agile innovations such as peer-to-peer lending and crowdfunding, that are threatening to render some traditional banking services obsolete as they provide alternative lending platforms and widen access to capital.

The fast-growing payments arena, previously a formidable forte of banks, is now under attack with entrants such as Apply Pay and Samsung Pay vying for market share. The use of blockchain technology has enabled the rapid ascent of cryptocurrencies such as Bitcoin into public discourse, igniting a frenzy of interest while creating fundamental challenges to regulators and money markets.

In the past few years, fintech has emerged as one of the primary challengers and disruptors of the once-traditional banking industry.

Stock trading apps and Robo-Advisors are challenging traditional investment and wealth management models, creating margin pressures and forcing banks to re-think strategies.

Such competitors no longer require the bricks-and-mortar footprints, nor do they need to provide the same depth of products and services. New entrants can unbundle a formerly interlocked segment of the banking ecosystem in a bid to redistribute the vast profit pools available in the industry.

Regional impact

Fintech disruption in advanced financial hubs such as London (widely considered the fintech capital) has permeated the banking ecosystem. In the GCC, fintech has made steady advancements and alarmed incumbents but remains at an embryonic stage and has yet to cause the tremors that have impacted players in mature markets.

Lending and saving segments carry higher barriers to entry as they invoke regulatory hurdles and require strong balance sheets. Banks in the region also tend to be backed by governments and influential stakeholders, dampening the development of some start-ups within this area of the banking ecosystem.

The payments and remittance models have been the most exposed and at the heart of this disruption as they remain the least capital intensive and most technologically intensive. The GCC boasts one of the highest smartphone penetration levels and is characterized by a youthful population, providing further impetus to the rise in digital payments.

Embracing fintech

While regional banks recognize the disruptive influence of fintech on their industry, many lack a sense of urgency and indeed, lag behind peers within the region.

Those that have adopted a proactive outlook are partnering with start-ups that provide fintech solutions such as payment gateways and remittance solutions, while other, larger banks are allocating capital to explore potential investments in the start-up space.

Across the GCC, banks in the United Arab Emirates (UAE) have taken the lead in embracing fintech. Emirates NBD, for example, has positioned itself as a technology leader, launching the Emirates NBD Future Lab and announcing its commitment to invest AED1 billion in the space. Its subsidiary,

Emirates Islamic Bank, ascribes to a vision of "digitize or die", being the first Islamic Bank in the UAE to support both, Apple Pay and Samsung Pay.

Mashreq Bank has gone one step further and developed Mashreq Pay, an organically developed mobile wallet that can be used to make purchases. The bank also launched the region's first digital-only bank, Mashreq Neo–and has begun to utilize robotics to manage accounts.

Elsewhere in the GCC, Riyad Bank launched the first contactless payment method in Saudi Arabia, a country where cash has long been the primary payment method.

Within Islamic Banking, a sector that is often incorrectly perceived as being slower to engage in technologies, leading banks have begun to respond to the fintech disruption and are intent on capitalizing from this burgeoning sector. In Bahrain, a major player in the region's Islamic Banking sector, three banks announced in December 2017 the establishment of a company dedicated to research and development of Sharia-compliant fintech products.

Regulatory participation

The importance of fintech has certainly not gone unnoticed by regulators. In the UAE, the Dubai International Financial Centre launched the FinTech Hive in 2017, an accelerator program that provides a platform to nascent technology firms, with similar initiatives in Bahrain and Abu Dhabi. The Dubai Financial Services Authority is also in the process of rolling out a supervisory environment to aid the development of fintech.

As investment continues and traditional policies governing the financial services sector evolve to capture new technologies, fintech is likely to flourish in the region.

The UAE Central Bank and the Saudi Arabian Monetary Authority announced plans to use blockchain technology to issue a digital currency accepted in cross-border transactions between the two countries.

The future for GCC banks

As investment continues and traditional policies governing the financial services sector evolve to capture new technologies, fintech is likely to flourish in the region. Disruption will not be a one-time event but rather a continuous pressure to innovate that will shape customer behavior, business models and the long-term structure of the industry. The most successful banks will be those that can adapt and stay abreast of trends as the financial services environment evolves.

Although many players have made progress in responding to the disruption, the pace of change has been slow and there remain obstacles to growth in the shape of a lack of skilled IT workers along with continued underspend on technology. Other banks that have long recognized the risks of fintech to their businesses have been slow to innovate owing to internal bureaucracy.

Banks that will be least impacted by this sea of change will have embraced the disruption by gaining a lead on their peers and investing in technology platforms, talent, in-house technology incubators, accelerators and forged partnerships with fintech companies.

Incumbents can ill-afford to dismiss the rise of fintech from their strategic priorities, and those that continue to rely on their name or size alone may experience margin pressures, loss of market share, and ultimately, the discontinuation of business lines as they lose viability in the face of lower cost fintech solutions.

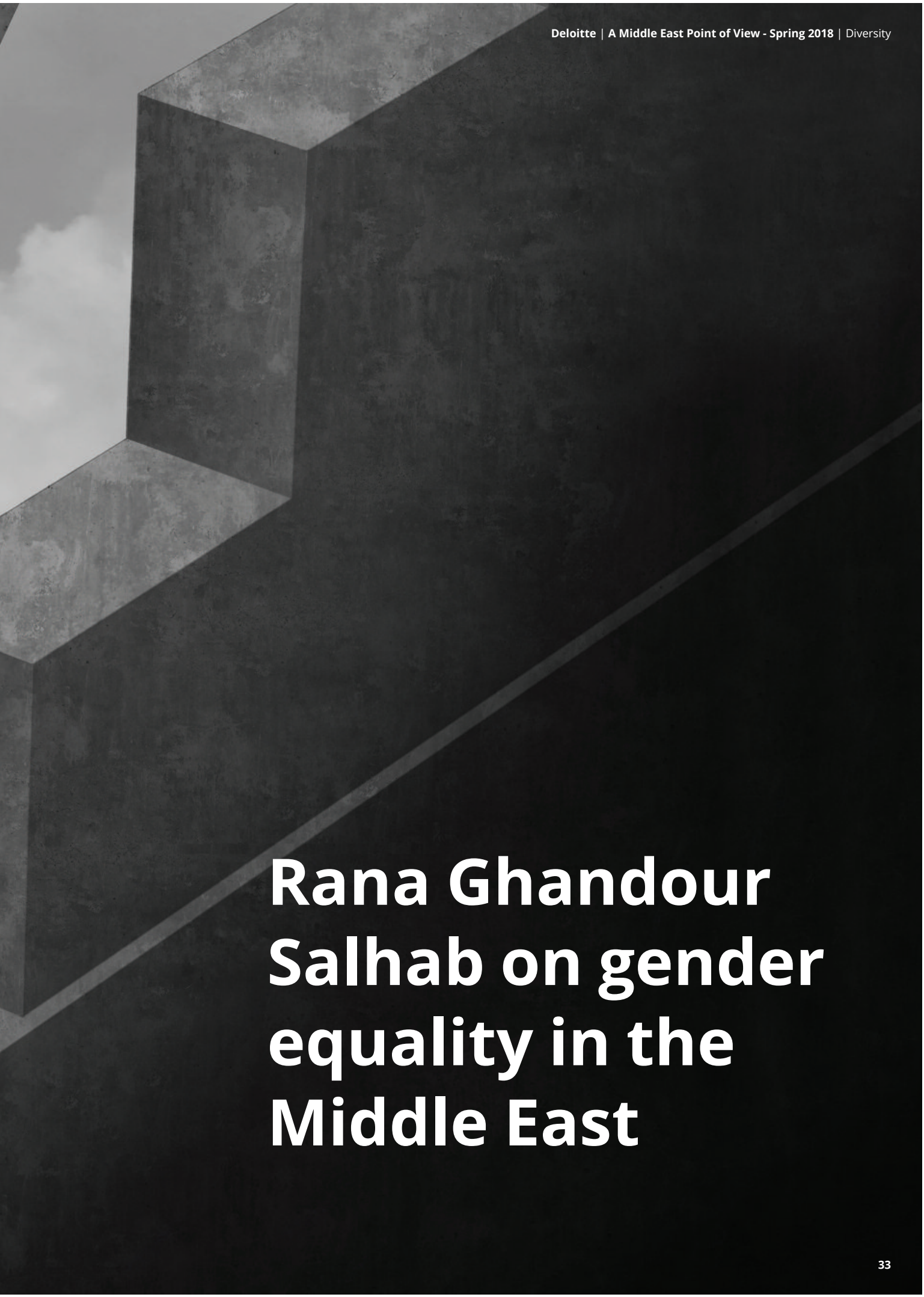
Closing thoughts

While the fintech evolution in some advanced economies is reaching tipping point, the extent of disruption to GCC banks has been less pronounced thus far. However, the pace of disruption is likely to accelerate as a combination of rising investments and cross-industry partnerships fuel the rise of fintech and its acceptance as a credible component of the banking ecosystem. Banks should act now and shift their strategic focus in order to remain competitive with faster moving new entrants.

by **Rajeev Patel**, Director and **Uthman Al-Basri**, Manager, Financial Advisory, Deloitte, Middle East

FT HERoes award

In September 2017, *Financial Times*, in association with HERoes, a gender equality initiative, named three Deloitte leaders on their 2017 "Champions of Women in Business" lists. We asked Rana Ghandour Salhab, David Sproul and Emma Codd to share their views about gender parity and women in business initiatives and challenges.



Rana Ghandour Salhab on gender equality in the Middle East

There are many talented and qualified women in the region and we need to help this talent rise up to the challenge and grasp the opportunities offered by businesses. There is a need to create a cultural shift, so that recognizing women for their potential is not hindered by subconscious biases, or driven only by the desire to show an increase in figures.

There is little doubt that gender parity and pay gap are headline-making news today. Where does the Arab world stand?

Women in the Arab world are making great strides in commerce and industry and are advancing as entrepreneurs, due to rising access to education—where women now outnumber men in universities in many Arab countries—and opportunities provided by the knowledge economy and digital platforms. Female entrepreneurs in the region are also growing in number and influence thanks to an encouraging startup environment. Many business incubators and accelerators have started up in major cities across the region in the last three years as well as across organizations and recognition and award programs specifically targeting women.

I want to stress that empowering women is a game changer for our region, and it is governments and organizations that need to take heed of that. At 26 percent, the figure for female labor participation in the Middle East North Africa region is one of the lowest in the world. Even when women are hired, there is high attrition so that very few women reach senior level positions. In fact, men occupy an overwhelming 98.5 percent of boardroom seats in the region.

This is beginning to change as more Arab women, even in what is perceived to be more traditional societies, are increasingly assuming ministerial, board and chief executive positions, and a woman leads the capital market in one of the GCC countries. However, the pace of change can, and should be, faster.

There are many talented and qualified women in the region and we need to help this talent rise up to the challenge and grasp the opportunities offered by businesses. There is a need to create a cultural shift, so that recognizing women for their potential is not hindered by subconscious biases, or driven only by the desire to show an increase in figures. Organizations need to recognize the added value of female talent in the Arab world to the economy as a whole and to their business, and invest in their attraction, recruitment, development, and retention. The role of men and of leadership commitment and inclusive leadership, in particular, are crucial to this process.

It seems wherever we look, the situation is not rosier. With so few women in key leadership positions in the West, who should we learn from? What should we emulate?

Yes that's true. When asked whether they believe women are treated unfairly in the workplace because of their gender, both women and men across the world had similar perceptions of stereotyping and bias.

The biggest barriers to women's access to leadership positions—and this is as true in the West as in the Middle East, the East, the South and everywhere—are tied to a masculine corporate culture that is not sufficiently inclusive. Practices emanating from conscious and unconscious biases result in failure to develop and promote women leaders, inadequate leadership accountability, lack of women role models and lack of adequate support, mentoring and benefits related to retaining women.

What we need to emulate from the West are changing perceptions, tackling stereotyping through awareness, learning and role modeling, in addition to the adoption of gender-blind laws, some of which we lack in our part of the world and that continues to hinder gender equality. We can also benefit from the tried and tested policies and practices in the West that succeeded in allowing women to participate in the economy and advance their careers while managing their demanding family roles.

What is Deloitte doing?

The most impactful thing Deloitte is doing to create an inclusive environment is making leaders accountable: at Deloitte Middle East we introduced gender targets that are set by the Business leaders themselves. That is because the business case must be articulated and leadership commitment should be made clear. Then it turns to the task of building and cascading accountability.

Most importantly for us in the region is the participation of men in the dialogue. Men should stand up against all forms of gender discrimination and harassment and realize this is not only a women's issue. It is their issue too; they cannot be passive observers.

Most importantly for us in the region is the participation of men in the dialogue. Men should stand up against all forms of gender discrimination and harassment and realize this is not only a women's issue. It is their issue too; they cannot be passive observers. Gender parity improves GDP and the wellbeing of nations.

Another step Deloitte is taking is trying to limit the leakage on the corporate highway. While the male/female ratio at the new hire level is increasingly close to 50/50 in a number of our practices in the Arab region, the female leadership pipeline leaks significantly. The practices we are adopting to advance women into leadership positions are the introduction of high potential development plans, mentoring programs, workplace flexibility

policies, women networks and diversity and inclusive leadership awareness workshops for current leaders.

Deloitte is also active as a champion of women in our communities. We believe in an integrated, holistic diversity and inclusion strategy that expands beyond our internal practices. We advocate that diversity in the boardroom and in senior roles is a competitive business tool. We offer external collaboration for mentoring and support and our partners sit on governmental, business and NGO advisory councils for women empowerment across the region. We offer advice, support and thought leadership studies. In collaboration with the 30% Club—GCC chapter—we published a research study on the perceptions of both, national and expat leaders in the Arab world towards the progress of women to senior management and board-level positions, in order to drive the dialogue and creation of solutions.

In March 2018 we launched the Deloitte Accelerator for Social Innovation in the Middle East (DASI), a program that is tailored to Arab entrepreneurs and social businesses with full or partial female ownership and management. It covers 14 Middle Eastern countries and is designed to combat the region's social challenges by aiding small to medium-sized social enterprises grow through customized Deloitte support packs, mentorship and skills development valued at over US$100,000. This is just one of our programs under WorldClass, our global social impact initiative to empower 50 million people to succeed in the rapidly changing global economy.

By stepping off the corporate ladder women create an absence of female role models in the workplace, which itself stands in the way of gender diversity.

You have always been an advocate of women helping themselves and each other. Where should they start? What advice you would offer these women looking to step up the corporate ladder?

I think the one place they should start is not stepping off the corporate ladder. Women who step off the corporate

ladder because of obstacles in advancing their careers risk being trapped in a vicious cycle: they are lauded for sticking to their beliefs, but by going "off-balance sheet," they make it harder to achieve gender parity in the executive ranks.

Also, by stepping off the corporate ladder women create an absence of female role models in the workplace, which itself stands in the way of gender diversity.

Women who face this decision should demand a more inclusive environment that offers both flexibility and a level playing field. However, flexibility does not mean one size fits all, and who best to tell corporations what flexibility is? The women themselves. They should speak out and participate in offering creative solutions.

Therefore, my advice to women looking to make headway in their organization's hierarchical structure is, first, to make the right choices at critical junctions in their careers. Have a long-term view: that is, do not allow short-term considerations to affect your career in the long run. Look for a career not a job, a culture not a company, a future not a role.

Watch out for, and change, what I call Career Limiting Behaviors (CLBs) to Career Boosting Behaviors (CBBs). Promote your expertise and your accomplishments, as invisible work is not recognized. Men network and women cluster especially in business settings, so network smartly. Ask for what you want, be it a raise, a promotion, or a challenging assignment. Take risks and make sure your personal presence is noted: there is no return for blending in the background. Differentiate yourself and get noted.

And lastly, assess social and business situations in flexing your style and actions between good female attributes of team work and empathy and what is traditionally known as "masculine traits" — defined as aggressiveness, assertiveness, and confidence. Research suggests that for women to be successful they must simultaneously present themselves as self-confident and dominant while tempering these qualities with displays of communal characteristics. The combination of these learned behavior patterns may be the greatest determinant of workplace success.

by **Rana Ghandour Salhab**, Deloitte Middle East Managing Partner for Talent and Communications *(recognized in the Top 10 Financial Times HERoes Global Champions of Women in Business list)*

For women to be successful they must simultaneously present themselves as self-confident and dominant while tempering these qualities with displays of communal characteristics.

David Sproul on gender equality

Our capacity to meet our clients' evolving needs, to innovate and to thrive in the long-term is dependent on our workforce being diverse.

Why does gender equality matter to you as Chief Executive of Deloitte NWE?

To be a successful firm, we need the best people working for us, and the best people aren't all male–it is really as simple as that. We therefore need to do everything we can to make sure we create an environment where everyone has equal opportunity to thrive and succeed, regardless of their gender, or any other diversity aspect. Our capacity to meet our clients' evolving needs, to innovate and to thrive in the long-term is dependent on our workforce being diverse.

I strongly believe that the responsibility for tackling this issue sits with leadership, not with Human Resources teams. Gender equality has been a personal priority for me for some time in the UK, and continues to be in my role as Chief Executive of Deloitte North West Europe. And I am glad to say that everyone on the NWE Executive feels equally strongly about this. Promoting gender diversity is top of our Talent agenda and we have set ourselves a target that by June 2020, 20 percent of our North West Europe partners will be female.

What are the challenges you face in making gender equality a reality for Deloitte North West Europe? And what actions are you taking in response?

We are a people business, and client relationships are the bedrock of our success: our people at all grades are passionate about giving their best to our clients. But our focus on gender has identified that there are some clear 'pain points' in our career life-cycle. One example is a greater gender imbalance at middle management levels and above, typically when women take time off to start a family or start encountering other caring responsibilities. While there are several factors at play here, the two main issues are undoubtedly work-life balance and career development.

Action is taking place across NWE to address these pain points and empower our people to balance their professional and personal priorities: we're rolling out innovative agile working and return-to-work initiatives, targeted career development training, mentoring and coaching schemes for our high-potential female practitioners, and we're improving recruitment processes and materials to address unconscious bias.

Although progress is being made, achieving sustainable change takes long-term commitment in building an environment that fosters true inclusion and promotes diversity as a strength in every dimension of our business. My focus as Chief Executive is to create a culture that is underpinned by respect, where everyone in our firm is judged on the value they can–or could–bring.

What is being done to reduce the difficulties that women in Europe face when trying to compete in what are still male-dominated leadership platforms?

In my role, I am privileged to have regular conversations with many of our client leaders and in other professional services firms throughout Europe, and our firm works closely with organizations dedicated to addressing gender inequality in leadership.

From these interactions, it is clear that most businesses in our region face the same challenge around lack of diversity at the top. Although the solutions will vary for each business depending on their culture, sector and other factors, we can learn from one another and momentum is building to remove the corporate or cultural barriers that stand in the way of women achieving their leadership potential.

There is also increased transparency required by European governments on reporting standards, which I believe is a critical step in helping companies understand the scale of the challenge, measure their progress and take meaningful action. A prime example is the new regulation around reporting gender pay gaps in the UK: it has exposed some significant discrepancies–take the case of the BBC and its highest paid employees–and has caused some helpful public debate on causes and solutions.

Deloitte was one of the first large companies to voluntarily report our gender pay gap in the UK in 2015 before it was mandatory, and we have reported it annually ever since. (Editor's note: see Emma Codd's article on p. 36) Clients and other stakeholders come to us to discuss our experience and I am proud that we are being seen as taking the lead on diversity and equality.

by **David Sproul**, Senior Partner and Chief Executive, Deloitte North West Europe and Deloitte UK *(named as one of the FT HERoes Top 30 Male Champions of Women in Business in the UK)*

Promoting gender diversity is top of our Talent agenda and we have set ourselves a target that by June 2020, 20 percent of our North West Europe partners will be female.

Emma Codd on gender pay gap

Increasing gender pay gap transparency is something we've taken a leading and visible position on for some time in the UK. We believe it will play a critical role in achieving greater gender balance within organizations.

What is gender pay gap reporting?
Under new legislation that came into force in April 2017, UK employers with more than 250 employees are now required to publish their gender pay gap on an annual basis. The gender pay gap serves to illustrate the percentage difference between the average male and female earnings within an organization as a whole. Thus, it is not a measure of whether men and women are paid the same for the same role (namely, equal pay, for which there has been legislation in place in the UK since 1970.)

The legislation is very prescriptive as to the data that must be publicly reported by employers, with a requirement to calculate and report:

- Their average gender pay gap (both mean and median averages)
- Their average gender bonus gap (both mean and median averages)
- The proportion of men and women receiving bonuses
- The proportion of men and women in each quartile of the organization's pay structure

It also requires that the data used for calculations to be as at 5 April of the reporting year, thus ensuring that each employer reporting is doing so at the same point in time.

You acknowledge that Deloitte UK has a gender pay gap and that the firm has "fully understood why we have a gap" and that it is taking clear steps to close it–what are the main reasons for the firm's gender pay gap and what are the actions being taken to close it?
Increasing gender pay gap transparency is something we've taken a leading and visible position on for some time in the UK. We believe it will play a critical role in achieving greater gender balance within organizations. To this end, we have been voluntarily reporting our gender pay gap in the UK since 2015, well before the new legislation came into force, and we also worked closely with the UK's Government Equalities Office to produce their 2016 report Trailblazing Transparency: Mending the Gap. Our focus on gender pay gap transparency also led to us being awarded the prestigious Business in the Community Transparency Award in 2016.

As at 5 April 2017, our mean pay gap was 18.2 percent (median: 15.3 percent) and mean bonus gap was 50.9 percent (median: 39.1 percent.) While the new regulations require a slightly different calculating methodology (and our previous reports did not include our bonus gap), when we use a like for like calculation year on year we can see that our gap is reducing.

The analysis conducted in support of our gender pay gap report showed the clear cause of our gap, namely that women hold significantly fewer senior positions within our firm than men. While women made up 43 percent of our overall workforce in April 2017, only 18 percent of our partners (those attracting the highest levels of remuneration) were female. Indeed, further analysis shows that once this structural issue is removed our mean pay gap reduces to around 2.5 percent.

To close our gender pay gap we therefore need to ensure that our most senior grades are balanced from a gender perspective and we know this takes long-term commitment and a sustained focus led by our firm's leadership.

By the time we reported our gender pay gap under the new legislation we were three years into a clear plan to improve gender balance that we had published to

all our firm. We also had an existing target that we had set in 2012, namely that in 2020, 25 percent of our UK partners will be female. At the time this target was set this stood at 12 percent.

Our 2014 plan sets out the actions that we need to take to improve gender balance. It makes clear that success will only be achieved through a focus on culture and targeted interventions. When devising the plan we conducted a rigorous data analysis to identify our pain points: those points in our career lifecycle that were adversely impacting our gender balance. We asked our female employees to tell us about the things that were affecting their experience with us. This resulted in us understanding, not only of the interventions that would make a difference, but also that without a focus on ensuring that we always provide an inclusive culture underpinned by respect, where women are able to balance a successful career with life outside work, the interventions would have little impact.

Our plan sets out the areas on which we are focusing our efforts. These include:

- Ensuring that our recruiting processes, marketing and targeting activities at entry level and experienced hire recruitment successfully attract an equal share of women and men;
- Ensuring that we are able to identify our high potential female talent and then provide them with the sponsorship and tailored development required;
- Enabling women to re-enter the workplace after a career break of two or more years through our Return to Work internship program; and
- Ensuring that primary carers (male and female) are provided with coaching support–and the support of their line manager–when coming back to work from maternity/parental leave.

Our data shows that our focus on culture has had the most significant impact on our numbers. Our people tell us that they now feel trusted to work in a way that is beneficial for both, themselves and the business, and are therefore able to balance work and life.

Our data shows that our focus on culture has had the most significant impact on our numbers. Our people tell us that they now feel trusted to work in a way that is beneficial for both, themselves and the business, and are therefore able to balance work and life. They also tell us that the environment within which they work is truly inclusive.

We know we're moving in the right direction: the proportion of female partners at Deloitte UK has increased from 12 percent in 2012 to 19 percent in 2017. We are recruiting more women, both at entry level and experienced hire, and women are choosing to stay with us.

While we know that we have a long way to go, we believe that we are focusing on the right things to ensure that we really do achieve gender balance and therefore fully close our gender pay gap.

by **Emma Codd**, Managing Partner for Talent Deloitte North West Europe and Deloitte UK *(named as one of FTHeroes Top 50 Female Champions of Women in Business in the UK)*

Regulating cryptocurrencies

ethereum

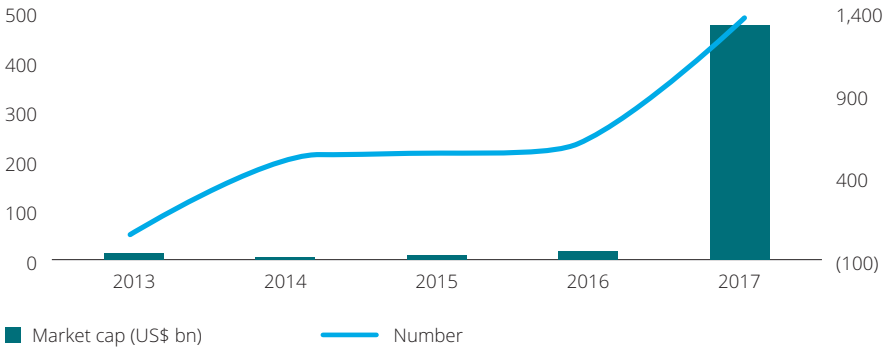
Virtual currency (VC) and digital currency are a new class of digital assets (money) that allow borderless transactions. The number and valuation of virtual currencies has risen to over 1,300 VCs with a total market capitalization of over US$465 billion as of December 2017 (Figure 1).

However, the industry remains highly volatile. Some instances of this volatility are:

- Value of a Bitcoin has increased by 293 percent in the last three months of 2017 (October–December) and 17 percent in one day (11 December 2017) to over US$18,000 after being launched on the Chicago Board Options Exchange's (CBOE) future exchange market.
- Ethereum lost US$17.5 billion in market value (50 percent from its peak) in only four weeks in July 2017. It has since risen by almost four times its value to US$63.71 billion.

Given the increasing demand for, and potential of cryptocurrencies, a number of countries have passed regulations affecting these digital assets. In April 2017, Japan recognized cryptocurrencies as a legal method of payment. In October 2017, Australia passed a law (to be applicable from July 2018) to remove a double taxation problem for those accepting digital currencies. Recently, the International Monetary Fund's (IMF) Managing Director, Christine Lagarde, talked about the potential of virtual currencies to replace traditional monies in the coming decade.

Figure 1: Market capitalization of virtual currencies



A major reason for the volatility in the value of cryptocurrencies has been a lack of security.

On the other hand a number of regulators, including central banks, are struggling to catch up and come to terms with this phenomenon, and are considering ways to evaluate and regulate cryptocurrencies to benefit from the opportunity and mitigate associated risks.

Challenges facing cryptocurrencies

Speculation: Cryptocurrencies have no valuation basis, which has led to a speculative bubble. In addition, the severe volatility has led to a decrease in the usage and acceptance of the cryptocurrencies as most buyers choose to retain their holding in the hope of multiplying their values.

Control: Cryptocurrencies present a bigger challenge to central banks and governments as they can potentially compete with fiat money (paper money considered as legal tender by a government decree), which will impact their planning and monetary policy.

Jurisdiction: The openness and cross-border nature of cryptocurrency transactions and wallets presents a unique problem to central banks and governments in terms of jurisdiction and regulation.

Criminal financial activity: The most pressing cryptocurrency concern remains ensuring financial integrity, specifically, combating financial crime. The opacity of most cryptocurrency networks presents significant challenges for law enforcement authorities.

The Financial Action Task Force (FATF) has determined the anonymity and cross-border reach of virtual currencies to be particularly concerning, with the points of intersection with a regulated fiat currency system posing the greatest money laundering (ML)/terrorist financing (TF) risk.

Hacking: A major reason for the volatility in the value of cryptocurrencies has been a lack of security. There have been a number of incidents where hackers have stolen currencies worth millions of dollars.

Regulating cryptocurrencies–the way forward

In light of these concerns, governments and regulators have taken steps to protect consumer interests and prevent financial crime activity.

In July 2014, the New York State Department of Financial Services proposed Bit License, a comprehensive regulation of virtual currencies, after gathering inputs from a comprehensive community of bitcoin supporters and the financial industry.

However, much remains to be done by the regulators in this area. We believe there are two areas where central banks and other regulators can play a direct and active role in regulating cryptocurrencies: The area of introducing or endorsing a closed loop currency and regulating points of conversion as well as intermediaries.

Closed loop currency: Regulators could look at introducing and/or endorsing a cryptocurrency that could scale with demand. Such a cryptocurrency would enable the regulator to monitor the end-to-end transaction process and manage issues related to price stability, security and reliability that other cryptocurrencies face.

In December 2017, the central banks of the United Arab Emirates (UAE) and Saudi Arabia announced plans to introduce a pilot initiative to test a new cryptocurrency for cross-border payments between the two countries.

The People's Bank of China recently announced that China has completed trial runs on algorithms that will be used to supply a digital currency. The UK, Sweden and Canada have also been considering the adoption of digital currencies.

It is only a matter of time before the world embraces this technology and works to overcome its constraints.

Regulating access points: Cryptocurrency administrators and exchanges usually fall within covered entities for the purpose of Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) preventive measures, while users usually do not. Regulators could make it mandatory by law for all cryptocurrency intermediaries involved in currency transactions to have a compliance program, including AML, to implement preventive measures and report suspicious transactions. The law introduced should allow third parties approved by respective central banks to carry out verification activities to ensure they are up to the approved standards and to avoid any conflicts of interest.

However, if cryptocurrencies become so widespread that there is no longer a need for participants to cash out i.e. convert the cryptocurrency into fiat money, it may be necessary to extend regulations to other virtual network participants, such as wallet service providers and payment processors.

Some jurisdictions, such as the United States, Germany, the UK and Canada, have taken steps to clarify the applicability of existing AML/CFT obligations to certain VC businesses. Other jurisdictions, such as Italy, have taken a different approach by issuing warnings to their financial sectors on ML/TF risks posed by VC businesses, while China has gone as far as barring the interaction between VCs and the formal financial sector.

Adopting a holistic regulatory approach could help address issues around jurisdiction. This would mean international coordination between central banks and regulators to introduce global standard regulations around purchase, trade and acceptance of cryptocurrencies.

Conclusion

Similar to how the Internet changed the way people carry out their daily activities, cryptocurrencies and blockchain platforms will likely have the same transformative impact. Although still evolving, they have already introduced cheaper and quicker ways to carry out monetary transactions. It is only a matter of time before the world embraces this technology and works to overcome its constraints.

Instead of pushing the cryptocurrencies to the periphery of financial systems, the central banks and other regulators as well as market authorities must play a leading role in making them mainstream. While challenges remain on jurisdiction in light of the borderless nature of transactions, one way to overcome these could be to regulate the points where cryptocurrency is exchanged for real money, goods or services. For this to happen, there should first be a comprehensive understanding of cryptocurrencies and a will to address related concerns.

by **Nipun Srivastava**, Director, and **Saad Qureshi**, Assistant Director, Financial Advisory, Deloitte, Middle East

The development of Dubai's affordable housing sector

With the cost of living in Dubai rising at a rate higher than wage inflation for many workers, housing affordability is becoming more of an issue.

Introduction

Residential development in Dubai has increasingly focused on the mid-market sector in recent years. Developers have launched mid-market residential projects in locations that include Al Furjan, Dubailand, Dubai Production City, Dubai South and Jumeirah Village Circle. In addition to adding to the substantive inventory of Dubai's mid-market housing sector, certain residential developers in the emirate have started to offer three to five-year phased payment plans in an attempt to access this sector and, in some cases, convert renters into buyers.

But affordability remains an issue for a number of residential households in Dubai despite these developments. Data from global advisory firm Oxford Economics indicates that approximately 40 percent of Dubai's households had a monthly income of approximately AED31,000 (or US$8,440) in 2017. The number of households within this income category has almost doubled over the last ten years and is likely to continue to expand in the future.

Affordable housing usually refers to housing costs that equate to approximately 30 percent or less of total monthly household income. To approximately 40 percent of households in Dubai, rents or mortgage repayments are deemed affordable if they are less than AED9,300 (US$2,532) per month—or approximately AED112,000 (c. US$40,500) per year.

Is housing in Dubai becoming more affordable?

From November 2014 to November 2017, sale prices for residential property in Dubai experienced a decline. Based on average residential sale price data from real estate market information service company REIDIN, Dubai's residential market experienced an average decline of approximately 15 percent from its peak in Q3 2014. Between Q3 2016 and Q3 2017, average sale prices for residential property in Dubai declined by approximately 2 percent, while average rents also declined by approximately 7 percent over the same period.

These declines were largely a result of low oil prices impacting government spending and denting investor confidence, as well as a strong local currency reducing the purchasing power of key international source markets, such as India, Russia and the UK.

With the cost of living in Dubai rising at a rate higher than wage inflation for many workers, housing affordability is becoming more of an issue. Given that expatriates make up over 90 percent of Dubai's population, it is important that the emirate address this issue in order to remain competitive in attracting and retaining globally mobile workers.

Government policy and key challenges

The Dubai Land Department has indicated that new policies may be implemented in 2018 to support the development of the mid-market residential sector. The specific nature of these policies has yet to be published, but some of the key issues for consideration are outlined below.

Margins are typically low in the real estate development industry in Dubai in comparison with other industries.

Combined with a number of relatively fixed development costs such as land and infrastructure, these low margins often mean that developers in Dubai typically make more profit on luxury residential developments than on mid-market residences.

A key barrier to the development of Dubai's mid-market sector is escalating land prices. According to data from REIDIN, the average price of land in Dubai increased from AED327 (US$101) per sq. ft.* in October 2015 to AED412 (US$112) per sq. ft. in October 2017. Combined with the decrease in residential sales prices since Q3 2014, escalating land prices have put further pressure on developers' margins.

In mature markets, the cost of land typically represents approximately 15-25 percent of the end sale price of a residential project. In Dubai, at AED412 per sq. ft., this represents a significantly larger proportion of end sale prices for residential property.

Another barrier to the development of Dubai's mid-market sector is infrastructure costs. These costs, which include electricity, water, waste water, district cooling and roads, remain broadly static regardless of the type and specification of residential product developed. As such, developers can often drive higher margins from the development of luxury residential property than projects that are marketed at the low to middle income brackets.

Conclusions

Barriers to the development of Dubai's mid-market sector, which include escalating land prices in central locations, can put pressure on developers' margins, particularly when combined with high infrastructure costs.

The proposed, but as yet unpublished, government policies aimed at addressing the issue of affordable housing in Dubai will be welcome, as the emirate's growing middle class is likely to drive further demand for this type of residential development. The key challenge will be addressing the interests of all stakeholders, particularly residential developers, who will be reluctant to place further pressure on margins in an already challenging market.

by **Martin Cooper**, Director, Financial Advisory, Deloitte, Middle East

Endnotes

* A square foot is 0.092 square meters

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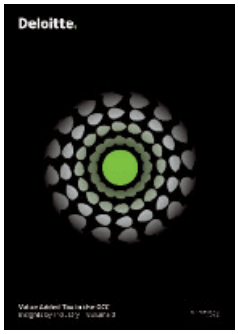

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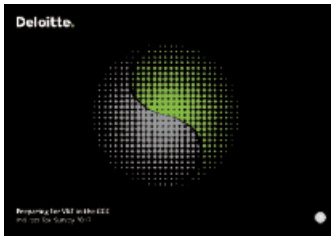

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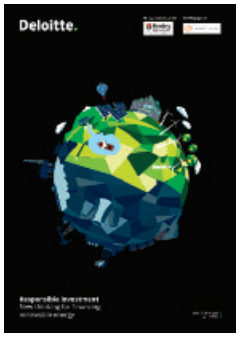

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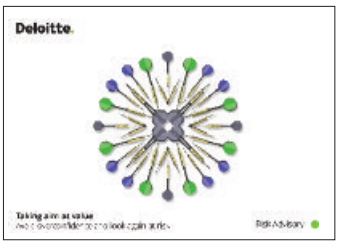

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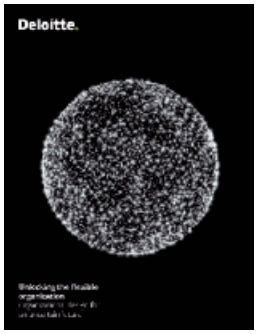

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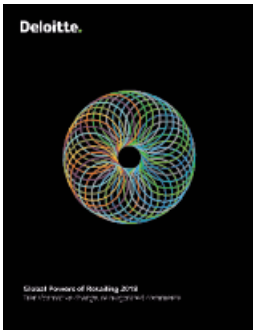

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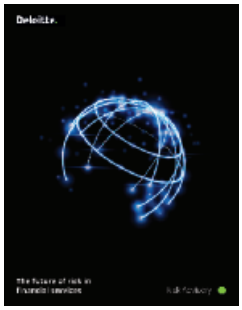

The future of risk in financial services

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