Online Banking in the GCC

Internet banking is relatively untapped in the Gulf Cooperation Council countries. The potential is vast—but only for institutions willing to rethink the way they do business.
Since the mid-1990s, alternative sales and service channels have become ever more prominent in retail banking. The Internet gave this trend a further boost when online banking came on the scene. In developed markets, online banking has been growing by an average of 10 percent per year over the past decade, helping banks reduce costs, improve response times, and provide higher quality service, while helping clients save time. There, it is now a mature channel with 50 percent penetration on average and a focus on sales and customer retention.

Acquiring new customers online is virgin territory for the vast majority of GCC banks. **Online banking provides a substantial opportunity for GCC banks to gain market share.**

By contrast, online banking in the Arab states of the Gulf Cooperation Council (GCC) has not yet reached that level of maturity. Only a third of all GCC bank customers have signed up for online services, and only half of those—18 percent of total customers—are active online. However, several elements, including GCC demographics and user profiles, indicate that online banking in this region has a promising future.

To gain a deeper understanding of online banking in the GCC, its future trends and expectations, and the potential areas of improvement, A.T. Kearney conducted a study across all six GCC countries: Bahrain, Qatar, Oman, Kuwait, Saudi Arabia, and the United Arab Emirates (UAE). To this end, we asked senior management in leading banks to share their insights about opportunities and challenges and the factors that are driving change in regional online banking. Our findings confirm that the online channel will most likely become increasingly relevant, but there is a need for GCC banks to address the online opportunity in a more structured way, by defining both a clear strategy and addressing the implications for the banks’ operating models (see sidebar: A Promising Market with a Few Hurdles on page 3).

This paper takes a closer look at the study findings, the online opportunities available to GCC banks, the expected benefits for key stakeholders, and the ways in which banks can position their offerings to take full advantage of online banking.

**A Growing Opportunity**

The GCC region, with less than 20 percent online banking penetration, is in a cluster of countries where online banking has barely taken hold. In fact, the most developed areas have an average penetration around 50 percent, with spikes of about 70 percent in countries such as Japan, Korea, and Canada, and in Scandinavia. A middle cluster of countries, including many in southern Europe, shows a penetration range between 20 and 40 percent, and in developing countries online banking typically falls below 20 percent.

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1 With the current technological convergence, online banking today typically comprises banking access through not only computers, but also tablets and mobile phones (the latter often referred to specifically as mobile banking). Online banking penetration is defined as the percentage of bank clients using online banking.
A Promising Market with a Few Hurdles

The A.T. Kearney e-Commerce in the GCC Banking Industry study finds that GCC banks still consider online banking to be a secondary channel that has not yet reached maturity but is important to both profitability and serving customers. Following are the main findings of the study:

- **Online banking in the GCC has not yet reached maturity.** Only a third of all GCC bank customers are signed up for online services, and only half of those—18 percent of total customers—are active online.

- **Banks use the online channel in four ways.** On average, the main objectives of online banking are to increase sales, reduce costs, and provide information and after-sales service.

- **Sixty percent of e-banking customers are between the ages of 21 and 40.** These online customers represent the biggest share of the working population; they have families and jobs and need convenient ways to manage their money.

- **About 64 percent of e-banking customers are mass clients.** By contrast, wealthy customers prefer to manage their finances through personal banking advisors.

- **Customers use the online channel mainly for transactions and to ask questions.** More than 80 percent of GCC banks handle transactions and questions online; online bank sales, in particular to new customers, are still low.

- **Banks are promoting e-banking, but are not focused on customer migration.** Only 30 percent of GCC banks actively try to migrate traditional customers to the online channel.

- **Pricing and product differences exist between the online and traditional channels.** Banks typically show better prices online, but also offer a narrower product and service offering.

- **The volume of online banking is expected to increase significantly over the next five years.** Sales to new customers in particular are expected to grow from 5 percent to 26 percent of total sales.

- **The main challenges are customer awareness and trust.** Customers are reluctant to use e-banking because they are not aware of its advantages or are afraid of fraud.

- **GCC bankers have different views about success factors of the online channel.** They generally agree that IT systems can make the difference in their market proposition, followed by innovation, service, and operations.

However, local GCC banks appear well positioned to build on a solid online banking trend, based on several key factors:

**High e-adoption.** Internet usage in the GCC is relatively high, with 82 percent penetration in Qatar, 78 percent in the United Arab Emirates, 62 percent in Oman, 55 percent in Bahrain, 41 percent in Saudi Arabia, and 38 percent in Kuwait. Compared with Internet penetration rates in Europe and the United States in the early 2000s (25 and 40 percent respectively) when Internet banking was beginning to expand, GCC countries seem already well positioned to take advantage of their customers’ positive attitudes toward Internet use.

**Changing consumer profile.** Older customers (40+) who are most comfortable with banks that deliver financial services via traditional face-to-face interactions—often called digital deniers—still represent a vast group of banking customers in the GCC. Because of demographic dynamics, this older group is rapidly being outnumbered by younger bank customers known as Generation Facebook, a category of consumers with a much higher level of Internet
Online Banking in the GCC

competency (see sidebar: Two Different Customer Groups). Already, about 70 percent of online banking customers in the GCC are under 40 years of age, more than half of which are under 30 (see figure 1). These tech-savvy customers have greater needs and expectations for speed than the older generation. To satisfy both groups, banks will have to adapt the way they serve their clients.

Changing online behavior. So far, a key barrier to broader online banking adoption in the GCC, confirmed by our study, has been a lack of trust among customers, who fear online fraud. However, customers appear to be increasingly at ease with making financial transactions online. This trend may be related to the changing consumer profile and is confirmed by the region’s rapid adoption of e-commerce, with GCC volumes totaling $3.3 billion for 2010 and expected to rise exponentially in the coming years to reach $15 billion by 2015, catching up to e-commerce levels in Europe.

Two Different Customer Groups

A.T. Kearney’s Inside Tomorrow’s Retail Bank discusses five major trends that are redefining banks and highlights that retail banking is likely to become more customer-centric than ever before. Lumping all customers together or segmenting them by basic principles such as age, sex, income, or stage of life will not be enough for technology-driven customer approaches. Retail banking will be dealing with two core customer groups and their unique expectations:

- **Digital deniers.** This group of older customers will remain important for a certain time, especially because of their financial muscle. Although retail banking might be technology dominated, universal players still have an interest in serving these customers as long as they exist.

- **Generation Facebook.** These technology-friendly customers live in a digital world. They intuitively use, cut their teeth on, and quickly adopt new technologies. They are demanding and coveted, even though they are not necessarily the financially strongest group—yet.

Retail banking must offer adequate solutions for both groups of customers but be flexible enough to react to anticipated changes in customer attitudes. For example, the older generation may increasingly embrace new technology. Business models that are limited to one customer group don’t work.

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2 To read Inside Tomorrow’s Retail Bank, visit www.atkearney.com.

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Figure 1
Most e-banking customers in the GCC are in the 21 to 40 age group

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<tr>
<td>41-50</td>
<td>20%</td>
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<td>31-40</td>
<td>32%</td>
</tr>
<tr>
<td>21-30</td>
<td>27%</td>
</tr>
<tr>
<td>Under 21</td>
<td>10%</td>
</tr>
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Note: Percentage total is less than 100 due to rounding.
Source: e-Commerce in the GCC Banking Industry study, A.T. Kearney 2012
Low service levels in traditional channels. Retail banking customers in the GCC regard the quality of customer service they receive as the key differentiator among banks. Yet studies frequently show that GCC banks generally do not focus on customer satisfaction. Consider that about 75 percent of U.S. bank customers are satisfied with the service they receive, while in the UAE, for example, only half of all domestic bank customers and only 10 percent of the UAE’s expatriate customers say they are satisfied. A key reason for this is a lack of skilled personnel in the branches, linked to a high turnover of front office staff. By contrast, banks can exert almost full control of the customer experience in the online channel.

Low number of branches in some GCC countries. The number of branches per capita is still low in some GCC countries, most notably the Kingdom of Saudi Arabia. In these markets, online banking provides an opportunity for banks to gain new customers much more quickly than the traditional way of setting up new branches. This is, by the way, in stark contrast to the situation in Europe and the United States, where the emergence of online banking was accompanied by a reduction of the number of branches.

What’s In It for the Banks?

Our findings confirm that all banks recognize the Internet as a key strategic element in their channel mix, and they expect strong growth over the coming years in terms of both sales and transactions. For example, in the next five years, online services are expected to triple and online sales to new customers to increase fivefold (see figure 2). This may lead to several key benefits for banks, which will depend on a bank’s specific situation:

- Faster branch expansion. Online banking may allow banks more emphasis on light, kiosk-style outlets rather than full-fledged branches, thus supporting branch expansion plans.

- Branch refocus on sales. A reduced flow of in-branch transactions typically allows staff to spend more time on customer care and sales. This might also help to improve the customer experience substantially, as queues and waiting time are slashed.

Figure 2
Online volume is expected to increase in sales and services

Online channel volume in GCC banks†
(as % of total sales or transactions)

<table>
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<tr>
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<th>Online sales to current customers</th>
<th>Online sales to new customers</th>
<th>Online services (transactions)</th>
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<tr>
<td></td>
<td>Currently 18%</td>
<td>In 5 years 26%</td>
<td>In 5 years 34%</td>
</tr>
<tr>
<td></td>
<td>Currently 5%</td>
<td>In 5 years 11%</td>
<td></td>
</tr>
</tbody>
</table>

†Average of all study participants. Volume share currently varies greatly between banks, and for some banks is substantially higher than average, especially in regard to transactions.

Source: e-Commerce in the GCC Banking Industry study, A.T. Kearney 2012
Online Banking in the GCC

• **Acquisition of new clients.** At present, acquiring new customers online is virgin territory for the vast majority of GCC banks. Given the low banking penetration in some GCC countries or the restrictions some banks face in terms of number of branches, online banking provides a substantial opportunity for GCC banks to gain market share.

• **Improved customer retention.** The overriding advantage of the online channel as perceived by GCC banks is an improved customer experience and convenience. A well-designed online channel that improves the customer experience translates into lower attrition rates, a member-get-member effect, and a better understanding of customer needs.

• **Cost savings.** Because more online transactions will lead to fewer branch transactions, banks can reduce the number of tellers and support staff. This could also lead to a drop in the number and size of branches, which in turn will result in lower costs for renting and maintaining offices.

The importance and impact of these benefits varies among banks. Their relevance and magnitude are mainly driven by a bank’s online strategy and market position. We estimate that an improved online banking proposition can increase the operating profit of a typical GCC bank by up to 3 percent, without taking into account benefits arising from a potential branch transformation.

**Making the Right Choices**

GCC banks are well aware of the potential benefits of the online channel. In particular, they expect online banking to help them capture more sales, save fixed and variable costs, and improve customer service (see figure 3). Nevertheless, we believe banks can more effectively capitalize on online opportunities by thinking beyond what they are doing today in their online banking strategy.

**Figure 3**

**GCC banks use the online channel primarily to reduce costs, and improve profitability and customer service**

<table>
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<th>Ranked by order of importance</th>
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<td><strong>Top objectives</strong></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>5.25</td>
</tr>
<tr>
<td>Reduction in cost of sales</td>
<td>5.25</td>
</tr>
<tr>
<td>Customer care (after sales)</td>
<td>5.13</td>
</tr>
<tr>
<td>Provision of information</td>
<td>5.00</td>
</tr>
<tr>
<td>Cross-sell and upsell</td>
<td>4.75</td>
</tr>
<tr>
<td>Input for new product development</td>
<td>4.63</td>
</tr>
<tr>
<td>Brand positioning</td>
<td>4.00</td>
</tr>
<tr>
<td>Loyalty increase</td>
<td>3.75</td>
</tr>
</tbody>
</table>

Note: Rating scale is 1–9.
Source: e-Commerce in the GCC Banking Industry study, A.T. Kearney 2012
Typically, banks try to achieve one of two objectives in online banking. Established brick-and-mortar banks struggling to reduce costs look at the online opportunity to improve their productivity. By contrast, other banks aim at customer acquisition or even entering new markets. This implies two fundamentally different models, each with its own set of objectives, success factors, and risks:

**Online banking within a multichannel mix (“plus online”).** This model is usually a means to improve productivity by reducing costs, moving information and transaction volumes from the branches to the online channel, and refocusing branches on sales activities and potentially restructuring the branch network. The success of this model depends on clear positioning of the online channel versus the traditional one, supported by pricing differentiation and a proactive customer migration strategy. Creating an integrated channel experience is also important. The main risk in implementing this model is underestimating the need for a branch transformation plan, which typically culminates in minimally reduced physical channel costs and no increased sales capabilities.

**Sole focus on the online delivery channel (“pure online”).** By contrast, pure Internet banks are typically created to gain the maximum online advantage in terms of new customer acquisition and satisfaction, without being affected by the costs and weaknesses of a traditional bank’s operating model and infrastructure, such as IT legacy systems. Success is based on simplicity, scale, and the solid execution of a focused marketing and branding strategy. The challenges with this model are two-fold: failure to create a distinct market proposition and to meet all relevant regulatory requirements. These regulations in particular, if not real roadblocks, might require using physical networks, affecting the purity of the online proposition. ING Direct in Germany, for example, uses Deutsche Post network to complete its know your customer (KYC) policies (see sidebar: ING Direct’s Success).

### ING Direct’s Success

ING Direct first opened for business in Canada in 1997. Within a decade, the company had become the most successful direct bank in the world with more than 17 million customers. Today, the bank has in excess of 20 million customers in more than nine countries. The success of ING Direct rests on the combination of a few simple financial products, the solid execution of a focused marketing strategy, and an ability to maximize scale opportunities.

- **Simplicity.** The bank’s websites are characterized by simple navigation with obvious location cues, clear language with short sentences and strong calls to action, helpful graphics, and content that clearly explains the benefits of the bank’s products. Online application forms contain many best practices, such as efficient task flows, progress indicators, and an easy way for prospective clients to save their inputs through an application.

- **Solid execution.** The bank consistently adopts good practices. Innovative marketing, in search of good response rates, uses emerging techniques such as search-engine optimization, direct-response TV, viral marketing, and flash mobs. Operational marketing excellence allocates the marketing budget in search of the most effective media mix. Customer channeling migrates 78 percent of customer interactions from the telephone to the Web. Customer advocacy is exceptional: According to ING’s 2007 figures, 94 percent of its customers say they would recommend ING Direct.

- **Scale.** ING Direct has reduced operating costs per customer and generated profits by dividing its fixed costs across a large customer base. As a result, the bank’s ratio of operational costs (excluding marketing) to assets has typically been five to seven times lower than that of multichannel retail banks.

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Defining the right online strategy requires GCC banks to answer the following questions:

- **Which are the key objectives that the bank wants to achieve through the online channel?**
  Is it improving the customer experience, acquiring new clients, migrating customer transactions away from branches, or a blend of these? Both market potential and the banks’ specific competitive situation will drive these objectives.

- **Which are the key target segments for the online channel?** Are they, for example, the young and growing Generation Facebook or the traditional techno-averse customers? Are they new clients or existing clients? Current and future revenue pools and customer preferences will be vital for identifying target segments.

- **Which products and services should be offered?** Should closing sales online take priority? Or is the attention to be concentrated on servicing clients (the current focus of online banking in the GCC)? Customer needs and behavior and product complexity should drive the product suite. Using online banking as a sales channel rather than a service channel is a key white space in the GCC today.

- **Which key access modes should be offered?** Internet-based online banking or app-based using tablets or mobile phones? Given that mobile penetration in the GCC is even higher than Internet penetration, an online banking offer via smartphones might be of particular relevance.

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**Online services are expected to triple and online sales to new customers to increase fivefold in the next five years.**

Both plus online and pure online are appropriate models for GCC banks. Consider, for example, a GCC bank that wants to open a branch in another GCC country. As the bank will usually be allowed to open only a limited number of branches, the pure online model would enable the bank to tap into the broader retail banking market. Given that central banks in the GCC do not readily issue new banking licenses, plus online is, generally speaking, more relevant for the GCC. Even then, client acquisition may be a key driver. Banks in the Kingdom of Saudi Arabia, for example, should consider online banking as a means to better penetrate the market. The same applies to small, new banks and banks facing branch network restrictions (such as international banks in the UAE). The online banking offering of such banks needs to be geared toward customer acquisition rather than moving information and transaction volumes from the branches to the online channel.

**Success Factors: Plus Online versus Pure Online**

An online bank strategy must consider various challenges and implications for the bank’s operating model, based on whether the online channel is being aligned with existing traditional bank services or being developed solely as a pure online model. In the first case, dependencies with the existing business in particular have to be managed. In the second, the absence of legacy constraints has to be leveraged, while the absence of physical touch points has to be managed.
Plus Online
Traditional banks face challenges in developing an online presence. This is almost always due to a failure to manage fully the infrastructure and commercial changes required to deliver online banking to both existing and new customer groups. Some key actions can address these challenges:

- **Develop a clear customer migration plan.** Create a comprehensive plan that defines customer segments (or at least sales and transaction types) to be migrated, while alleviating any adverse impact on existing customers and the bank’s performance (avoiding cannibalization risks). A key incentive for customer migration is pricing, with better prices in the online channel.

- **Increase customer awareness and address security concerns.** The GCC banks we interviewed emphasized that a lack of customer awareness of online banking is still a major roadblock to growth. Therefore marketing campaigns migrating existing customers or trying to acquire new ones should strive to increase customer interest and confidence in online banking. A state-of-the-art online platform in terms of IT security is essential.

- **Adjust physical distribution channels.** Rethink the appearance, size, location, and number of branches that will be required to meet the challenges of serving diverse customer groups. To continue adding value, branches are likely to experience a radical change in their look and feel, as they can focus more on sales, and less on transactions, which may entail a need to retrain branch staff. In some markets, such as the UAE, online banking may also help banks reduce the number of their branches. In other markets, such as the Kingdom of Saudi Arabia, it may support banks’ branch expansion plans by allowing them more emphasis on light, kiosk-style sales outlets. In any case, it is important for banks to properly plan, drive, and monitor the impact of online banking on their physical distribution channels.

- **Give greater emphasis to online banking within the organization.** To properly reflect its importance, online banking needs to be given sufficient organizational clout. While online banking today is often a unit within alternative channels, it would benefit from moving closer to the head of retail banking or even the CEO. It should also have a performance management model tailored to online channel dynamics and measures.

- **Plan required improvements to IT architecture.** Create a clear vision, direction, and road map for necessary IT improvements, supported by a dedicated team to ensure continuity and speed of execution.

- **Differentiate online versus traditional processes.** All processes that imply a direct interaction with customers (typically front-end processes) need to be reviewed and differentiated to achieve online banking’s desired objectives, including speed, security, and simplicity.

Pure Online
When defining their online strategy, pure online banks face challenges about fully leveraging IT, overcoming regulatory hurdles, and creating value-added services to differentiate themselves in the market. Some key actions can address these challenges:

- **Fully leverage IT.** A key advantage of the pure online model is that there are no restrictions stemming from a legacy system. Therefore, a bank should try to fully leverage IT by maximizing seamless integration and close-loop processing, and in turn minimizing manual intervention. This can also be a key ingredient in creating an exceptional customer experience. Basically, there are two options when selecting an IT system: Buy off-the-shelf or develop a tailor-made
solution. The first option limits implementation risks while the second option provides more room for differentiation.

- **Satisfy all regulatory requirements when building online processes.** Legal regulatory requirements, which often differ between countries, need to be thoroughly analyzed, especially when setting up online banking processes. Look at Know Your Customer (KYC) policies as an example: In some countries, there is no major restriction for banks in managing KYC without the physical presence of the customer, while in other countries KYC could limit the “purity” of the online proposition—requiring a physical network—or, in the strictest countries, exclude the possibility of setting up a pure Internet operator if branches are legally required. When a physical presence (but not necessarily branches) is required, GCC banks can consider various options, such as a direct sales force, agents, or partnerships.

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**To continue adding value, branches are likely to experience a radical change in their look and feel, as they can focus more on sales, and less on transactions.**

- **Build up additional remote channels beyond the Internet.** Creating additional remote channels beyond the Internet, such as call centers, will address two of the main online customer needs (convenience and trust). An optimized distribution model across these channels will deliver convenience via quick responses, while channel reliability and coordination will prevent a breakdown of trust.

- **Create a differentiated and clear brand and marketing strategy.** Promoting the brand and creating a winning marketing campaign is a key challenge for online players. Most successful banks constantly invest to attract customers with innovative initiatives. ING Direct, for example, uses cafes in major cities such as Madrid, New York, Paris, and Sydney to serve coffee and offer complimentary Internet access with the sole purpose of promoting the bank’s brand and service offering.

Creating a Distinct Value Proposition

Whichever model is preferred, building a solid market value proposition is essential for a successful strategy. Three ingredients are necessary:

- **State-of-the-art customer interface.** As the customer interface largely defines customer experience in online banking, banks put a lot of emphasis on its design, with a focus on a few areas:
  
  — **Accessibility and speed** with the ability to perform real-time operations 24/7, 365 days a year
  
  — **Simplicity** through an understandable and user-friendly interface—this also entails simplicity in the product offering and documents required from the customer
  
  — **Security** using secure access platforms, including free firewall software
• **Competitive pricing.** A distinct online value proposition is often obtained via appealing and transparent pricing, such as the absence of fees for self-service—clearly different from the traditional channel.

• **Innovation.** Constant promotion of the newest technologies, such as mobile and tablets, and exploitation of online communication channels and networks, such as Facebook and Twitter, are known to attract online banking customers. An example of innovative online banking is the virtual branch, where customers can engage via webcam with customer service officers and enjoy a more personal touch. Product innovation, on the other hand, plays a limited role.

There is no perfect proposition, but leading banks tend to implement a balance of these ideas to create a distinct value proposition.

### The Way Forward

GCC banks are aware that online banking offers vast opportunities in the region. They have aggressive growth objectives and realize that online banking will increasingly become an important driver for acquiring customers while achieving operating cost reductions. Forward-thinking banks can gain immediate impact by developing their online channel strategies and calibrating their operating model while laying the foundation for growing advantage and early success.

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A.T. Kearney is a global team of forward-thinking, collaborative partners that delivers immediate, meaningful results and long-term transformative advantage to clients. Since 1926, we have been trusted advisors on CEO-agenda issues to the world’s leading organizations across all major industries and sectors. A.T. Kearney’s offices are located in major business centers in 39 countries.

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