

# Banking on Ukraine's Expanding Middle Class

ProCredit Bank's Viktor Ponomarenko sees growing appetite for innovation among customers



Photographer: Natalya Kravchuk

About the interviewee: **Viktor Ponomarenko** is the General Manager of ProCredit Bank in Ukraine

The Ukrainian banking industry as a whole returned to profit in 2018 as the sector's far-reaching post-Maidan reforms continued to bear fruit. As Ukraine's banks have adapted to the new economic climate in the country since 2014, ProCredit Bank has been one of the top pound-for-pound performers and has remained consistently ahead of the industry's recovery curve. The

bank reported SME loan portfolio growth of 34% in 2018, which is only marginally down on the 35% achieved in 2017 and 40% in 2016.

While these robust stats are obviously welcome, ProCredit Bank officials say the most significant progress of the past year actually came in the development of the bank's offer for private customers. For the

past few years, ProCredit Bank has been working on a long-term strategy to provide the kind of personal banking services that the growing Ukrainian middle classes increasingly expect. This has meant reinventing the options available to the bank's private customers, with a new emphasis on convenience, transparency, and value via digital innovation and a membership-style flat fee system that allows financially active account holders to maximize benefits while avoiding hidden costs. According to ProCredit Bank's General Manager in Ukraine Viktor Ponomarenko, 2018 was the year when this vision took shape.

"2018 was one of our most successful years in terms of business growth and development," says Ponomarenko. "This progress is not something that can necessarily be measured in numbers alone. In many ways, it was qualitative rather than quantitative in nature. The task we set ourselves was to align our private customer services with the expectations of our target audience. We see the middle class segment as exactly where we aim to do business. This segment is growing, so we need to expand with it. This means trying to understand what middle class customers need from a bank and what kinds of services they will require in

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the years ahead. Our goal has been to anticipate this coming demand. We now feel we have a very strong offer in place.”

Catering to Ukraine’s middle classes primarily means shifting the bank’s business model towards digital banking services. Over the past year, ProCredit Bank has upgraded its e-banking platform and launched a highly popular app that remains a work in progress with additional functionality introduced throughout 2018. Since January 2019, new customers have been able to open an account online without visiting a physical branch at all. These digital innovations have benefited from the bank’s membership of the German-based international ProCredit Group. This has enabled the Ukrainian division to make the most of existing e-banking technology best practices while adapting them to local market conditions, resulting in digital banking services that are both fully EU compliant and tailored to the requirements of the Ukrainian market. Meanwhile, cost effectiveness comes thanks to a flat fee approach that offers obvious benefits to middle class clients who traditionally tend to be among the most active day-to-day users of banking services. “We believe this is the most transparent and competitive approach to the issue of banking fees, especially for those who perform transactions on a daily basis,” explains Ponomarenko. “It is commonplace in many Western markets but is not yet the industry standard in Ukraine. This means that it can sometimes take a little time for Ukrainian customers to become comfortable with the format. However, once they are better acquainted

with this approach, they quickly recognize the advantages it brings.” One of the clearest indications that this fee formula is winning converts, he says, is the fact that the bank is increasingly attracting new private customers by word of mouth as friends and colleagues share their experience.

The move towards digital banking is enabling ProCredit Bank to reduce its physical branch presence throughout Ukraine, with the bank now down to just nine branches nationwide. Ponomarenko says that even this minimal presence is becoming increasingly redundant, but concedes that some customers do still favor face-to-face contact. Nevertheless, with fewer branches to maintain, this allows the bank to invest elsewhere and upgrade its online offer further. “The concept of physical branch networks is becoming outdated. Branches will probably remain a feature for some time to come, but the good news is we are no longer depend on them in order to make our business grow. On the contrary, we are seeing a readiness to embrace the benefits of digital banking. This is particularly true when it comes to the middle class segment. We have found that our private banking customers are very quick to adapt to new ways of conducting their banking business.”

This adaptability is a prominent feature of today’s Ukraine. The pace of change in the country during recent years has helped to create a dynamic climate where Ukrainian consumers in general are more inclined to embrace innovation. According to Mastercard officials, Ukraine

was the number four nation globally during Q4 2018 in terms of contactless payments, a statistic that underlines the country’s enthusiasm for new banking tools. According to Ponomarenko, this strengthens the case for digital banking and offers a clear indication of where the Ukrainian industry will be in a few years from now. “The figures for contactless payments say a lot about Ukrainian attitudes towards technology. Ukrainians are comfortable with innovation and tend to be rapid adopters of new technologies. We have found with our own customers that people are very open to using new banking services. They also quickly become very demanding. Once you convince them that a certain new service is the right way to go, you can expect customers to press for even greater innovation.”

Ukrainian society’s aptitude for innovative banking tools appears to bode well for ProCredit Bank as it continues along the route towards greater digitalization of services. Ponomarenko feels vindicated by the response he has encountered so far to the bank’s online focus, but acknowledges that the challenge now is to remain at the cutting edge of a sector that is advancing in leaps and bounds. “We have a clear idea of where we want to be one year from now,” he says. “We will keep improving our service offer with things like additional functionality and security upgrades. It is clear to us that the customers of the future will demand a different kind of banking service. In fact, they are already demanding it. Our strategy is to introduce these services today so that tomorrow we find ourselves ahead of the competition.”