PROSPERING IN THE DIGITAL WORLD

INNOVATIONS ARE CHANGING CORPORATES AND ECONOMIES. TO SUPPORT TREASURY IN THIS EVOLVING WORLD, BANKS MUST PIVOT TO TECHNOLOGY AND ADOPT A MORE OPEN MINDSET WHEN IT COMES TO PARTNERSHIPS WITH FINTECHS, WRITES DAVID ALDRED

The pace of technological change in the Middle East, North Africa, Pakistan and Turkey (MENAPT) is accelerating. Smartphones are part of everyday life for millions of people, and corporates across the region are embracing e-commerce opportunities and new business models. At the same time, there is a vibrant fintech scene, with innovative ideas transforming how people and companies interact with each other and make payments.

Governments across MENAPT appreciate the significant economic benefits that advanced financial market infrastructures can deliver. As a recent National Payment Systems Strategy report by the State Bank of Pakistan notes, they can “strengthen the markets they serve, play a critical role in fostering financial stability and hence contribute to a strong economy”.

Pakistan believes migrating to electronic payments will boost GDP by 7% and create 4 million jobs by 2025. A strong digital economy requires a robust digital infrastructure, with digital money, payments and identity being ubiquitous enablers. To transform society, countries across MENAPT are innovating at an unprecedented rate; in some cases, the lack of legacy infrastructure is allowing emerging markets to leapfrog developed countries.

In Pakistan, for example, digital payments are seen as a way to bypass limited card point-of-sale and ATM infrastructure.

Important regional initiatives include the United Arab Emirates’ (UAE’s) introduction of Immediate Payment Instruction, which enables users to make an immediate payment or transfer to another bank account in the UAE in real time, 24/7, 365 days a year and without any cut-offs. Similar solutions exist in Jordan (eFAWATEER) and Egypt (Fawry - which now handles 2.5 million daily transactions and had a transaction volume of $2.1bn in 2018), while Morocco has recently launched Fatourati.

Governments are eager to move to a cashless society to increase consumer spending and payment flows (and broaden the tax base); India’s demonetisation initiative in 2016 is perhaps the best-known example of this being put into action.

According to Citi and Imperial College London, a 10% increase in digital money adoption by countries within their Digital Money Index would facilitate access to formal financial services and cheaper credit for 220 million individuals globally. That would deliver a $150bn lift in consumer spending, which raises businesses’ revenues, while digital payments also cut cash-handling costs for businesses by $100bn.

Meanwhile, governments would gain $100bn more in taxes and savings of $200bn by digitising disbursements. In total, up to $1 trillion of new flows would enter the formal economy.

How banks can help
Against this backdrop of technological change, corporate treasuries need to ensure that risk – both in relation to traditional treasury concerns such as FX or counterparty risk, and new risks with regard to data, for instance – is effectively managed. As companies shift to new business models, only treasury has the connectivity across the organisation – linking finance, sales, procurement and many other functions – to take the holistic view necessary to manage such real-time risks.

To remain relevant to treasury in this rapidly evolving environment, banks need to up their game. While digitisation has been a key theme for many banks – especially those that operate globally – they need to ensure that they are positioned to develop relevant solutions to support their clients in the face of technological disruption. That means delivering payment solutions that offer speed, transparency, low costs and
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Convenience. Banking partners should be investing in global technology infrastructure to provide a consistent way to connect with faster payments, digital wallets and other alternative payment methods around the world, such as WorldLink. The goal is to deliver a simple, global and digital cross-currency payments solution.

Banks are innovating, both individually and as an industry: solutions such as SWIFT gpi enable the tracking of payments and visibility of costs across the payment chain. However, to a large extent, the fintech sector has emerged to fill the gaps left by traditional payment systems.

Fintechs have innovated in areas such as FX costs and improved the accessibility of digital payments via mobile or e-wallets and are rapidly imbedding additional value into a payment.

Consequently, banks need to adopt a new, more agile and open mindset, and recognise that they do not have all the answers. A decade ago, fintechs were largely seen as competitors to banks – and some still are. But more frequently, they are partners (and clients – they often need access to global financial infrastructure in order to facilitate payments for their customers). Collaboration with innovative fintechs is critical for banks to bring solutions to market rapidly and deliver added value around payments (for example, by improving reconciliation).

Citi has embraced strategic fintech partnerships – an approach that has delivered some notable recent solutions for the bank. For example, working with HighRadius, Citi created Citi Smart Match, which leverages HighRadius’s proprietary machine-learning technology along with Citi’s cash management infrastructure. Citi Smart Match automates manually intensive accounts receivable processes, reducing costs, decreasing days sales outstanding and optimising working capital.

The new landscape

The emerging digital payment landscape in MENAPT offers enormous opportunities for corporates, but also creates new risks and challenges. Treasury needs to work with a bank that understands this new environment.

The future of business requires greater value to be embedded in payments – the data associated with payments is the key to customer relationships, efficient reconciliation, transparent FX and much more. Banks must therefore continue to invest in connectivity and payment innovation and execution to offer effective client support and deliver greater efficiency, reduced friction and increased value from payments.

While banks must drive their own innovation agenda, there remains a strong case for partnerships and the need to proactively seek opportunities to work with other providers, including fintechs, to ensure corporates have access to the payment methods that will enable them to grow their business and prosper in the new digital era.

1 www.sbp.org.pk/P5/PDF/NPSS.pdf
2 fawry.com/fawry-in-numbers
3 www.citibank.com/icq/sa/digital_symposium/digital_money_index/