

The Expanding Payments Universe

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The payments space is changing faster than any other area of the financial services sector driven by advancements in financial technology and evolving customer expectations that have shattered the status quo and opened the window for new players that are challenging incumbent banks.

Non-banking players including e-commerce firms, merchants and social media platforms now offer instant payment solutions, a trend that is disrupting and driving rapid changes in the sector. Characterised by tap, touch, speak, grab and go, digital payments have gained popularity over the past two years as cash usage ebbs.

appropriately align operations to achieve the required performance improvements.

MEA Finance, in partnership with **Volante** Technologies, hosted an exclusive roundtable themed **Modernization of the Payment Landscape** in Dubai, where industry experts from the financial services sector shed some insight on how financial services providers can leverage the cloud, payment infrastructure, data and open banking to broaden their payments services.

Volante, a US-based cloud payments and financial messaging solutions provider works with more than 100 banks, financial institutions, market infrastructures, clearinghouses and corporate treasuries to accelerate their

the customer's checkout experience. The outbreak of the pandemic pushed more shoppers online and together with changing customer preferences, as well as demands among the young tech-savvy customer base, it is driving a surge in global payments volumes.

Payment's modernisation

The payments sector, just like any other branch of the financial services ecosystem, has surely seen more than its fair share of disruption in the last decade. The changing customer behaviours and reimagined customer experiences, intense regulatory environment as well as payments innovators who are backing open and standardised



The outbreak of the pandemic saw the volume of digital payments soaring to record highs and generating as much as 10 years' worth of growth in just 24 months. The payments industry remains among the best-performing financial services product segments but unfortunately for banks, this momentum is no longer extending to most of them, especially under the current operating conditions.

For banks, the traditional main providers of payments services, to maintain a competitive edge in the payment ecosystem, industry experts say success will depend on how they assess capabilities, determine the role of the service in market strategies and

digital transformation. The company counts Citibank, Qatar Islamic Bank UK, BNY Mellon, Bank Leumi UK and FIMBank among its customers.

Growth in the payments sector is receiving a boost from the ongoing shift towards subscription-based billing, a boon for the region's payments-as-a-service (PaaS) and software-as-a-service solution (SaaS) providers. McKinsey said that open-source software, serverless architecture and SaaS have become must-haves for technology players and traditional financial institutions launching new fintech businesses.

Meanwhile, the growth in e-commerce is also critical to the success of digital payments because it directly enhances

platforms such as Square and its peers are driving the biggest disruptions in the payments ecosystem.

Domenico Scaffidi, Vice President of Global Industry & Regulatory Affairs at Volante in his opening remarks said that 80% of CEOs in the payments industry are really worried about the transformation currently underway in the market while citing PwC, one of their company's advisors that are supporting it in understanding the changes in the financial services sector.

Financial institutions for the past decade have undergone various efforts to modernise the payments sector, thanks to the technological innovations in the industry that are expected to continue ▶

- ▶ fuelling disruptive business models in the payments space globally.

The first phase of modernisation in the payments space saw financial institutions consolidating channel and payment client-facing applications and the next phase is currently underway in which institutions are aligning to various global standards including ISO20022 and open banking.

The leverage, the traction and the migration to ISO 20022, the new payments messaging choice for real-time systems, are evident in the payments industry but then, the reality is what a bank can build on top of that technology such as creating new value services, said Scaffidi.

“We need the technology, but we need to understand how financial institutions, corporates, biller companies and all our clients from the financial services sector to switch banks, thanks to the future of open banking, and the capability for a corporates to change banks,” he said while highlighting that around 82% of all global financial institutions that work in partnership with Volante are worried of losing business to new entrants such as e-commerce firms, payments startups and fintechs that have all stormed the payments space.

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Scaffidi said that Volante’s strategy in a region such as the Middle East where there are several investment initiatives in the local payment ecosystem such as Buna, involves the creation of a foundation for partnerships with local players to build a strong and long-term relationship. Volante’s foundation is based on three important pillars, which include building partnerships with payments firms, mitigating risks and enhancing the ecosystem.

Anand Sampath, Executive Director, Head - Global Payables & Receivables at First Abu Dhabi Bank (FAB) weighed in saying that up until now there are as many as 56 jurisdictions that offer instant payments, but with the outbreak

of COVID the expectations of corporates and retail customers have changed significantly. “Banks need to get up to this, to make sure that we ride the wave, from the perspective of making sure that we work with this modernization of payments internally also, from the bank’s perspective,” Sampath added.

Volante said that through partnerships it seeks to understand a client’s new business model, how to get fresh revenue as well as formulate new strategy and new added-value services built on the technology that it offers.

The partnerships that the company creates with local payment companies allow them to introduce new products and services into the market swiftly as the industry is changing rapidly. “So, time to market means that when a payments firm knocks on the door of a solution provider asking for new added-value services, competitive end-to-end production or cheaper production, we need to be ready,” said Scaffidi.

The payments industry was alive with activity last year and 2022 is promising to be another busy year with continuing transformation underway in the payments market and an array of strategic opportunities coming into focus. ▶

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– Ahmed Hamam



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➤ Max Di Gregorio, Managing Director of Financial Services at Accenture, said that the UAE central bank launched the Gulf state's National Payment Systems Strategy (NPSS) in March 2022 and the move is a significant step towards the modernization of the payment infrastructure in the country.

Indeed, S&P Global said, "We expect key lessons from the pandemic to spark an enhanced focus on payments infrastructure modernisation in 2022 as merchants look to accommodate operational shifts (e.g., accelerated e-commerce growth, expedited fulfilment) and new customer demands (e.g., contactless payments, curb side pickup) that have continued to accelerate over the past 18 months."

Di Gregorio concurred with Scaffidi saying that the payment industry is undergoing unprecedented changes. "A significant number of trends are impacting the business from a regulatory perspective, and we see a very dynamic environment, open banking, open data and open finance," Di Gregorio added.

He hailed countries such as the UK, which launched its national payments framework many years ago including the US and the rest of the European zone. Meanwhile, in the Middle East, the Saudi Central Bank (SAMA) launched the kingdom's Instant Payment System (IPS) Sarie in February 2021, Egypt unveiled its national system for instant payments network in March, as the UAE expects its NPSS to be widely in service by end of the year or the beginning of 2023.

and international standards including ISO20022. The launch of an NPSS in the UAE will facilitate the migration to ISO20022 for SWIFT and on top of the clearing and settlement, the platform will also provide new value-added services that will be enabled through multiple releases in the coming two years.

The new platform will transform the UAE's financial services ecosystem and marks the beginning of the next generation of payment services in the region that seeks to provide safe, innovative and convenient electronic payments in the Middle East.

An Accenture-led consortium that includes Abu Dhabi-based artificial intelligence (AI) and cloud computing firm G42 and SIA, now part of Nexi Group, was



On mitigating risks, Scaffidi said that when corporates think of data privacy concerns, some of the questions that are being asked include whether companies are compliant with the new regulation. This calls for the creation of a safe environment for players in the payments market while increasing resiliency and adding Service Level Agreements (SLA).

"Our SLA is very close to the regulator, it's very close to the service provider. We offer the last mile connectivity in SWIFT. And all that is to reduce the risk of outages and of failing when offering a service to clients," Scaffidi added.

Taking a leaf out of Bahrain's book, Sameer Nemazie, Director, Transaction Banking MENA at Standard Chartered Bank said that the Gulf state has had a lot of success with its instant payment infrastructure, and "we see a lot of volume coming through it, I think one of the successes that they've had is because the provider that's doing these payments, the entire infrastructure is the central bank itself."

The million-dollar question is what is NPSS and why is it so important? Di Gregorio said that it is an instant clearing and settlement platform that is available 24/7 and is compliant with best practices

tasked with the building and operating the UAE's instant payment platform over the next five years. The consortium will also overhaul the country's current payment systems, operate the target financial market infrastructure and provide the data centre infrastructure to deliver new capabilities such as e-checks to digitalize check-based payments and a payments application to accelerate adoption.

C-level executives in the Middle East region's financial services industry are up against mounting pressures to drive top-of-funnel growth and increase customer lifetime value and the modernisation of payments infrastructure is expected to

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- Sashi Mundhra

Rakesh said the non-card market is the one being targeted by digital payments firms such as Block while drawing on how MasterCard acquired a controlling stake in UK payments processing company VocaLink Holdings for \$913 million (GBP 700 million).

Monetizing payments

SaaS-based platforms such as UAE-based InstaShop and Careem leverage data to solve customer pain points like offering e-commerce services, managing finances, or scheduling home services and charge a monthly fee to access that service.

Banks can monetize payments by charging customers for payments and payment-related features or enter



have a significant transformative impact on business over the next three years.

Vibhor Mundhada, CEO of NeoPay said that debit and credit cards will continue to be the preferred choice of payments as business models will continue to change where new age rates could still drive credit at the point of sale or checkout.

“Companies who have been doing traditional rails of payments such as Block, formerly Square, have launched their app, a lot of that credit sits outside the traditional MasterCard or Visa space,” Mundhada said while adding that the ability to do value-added services with the data that companies generate from

payments is happening at the moment of proof.

Mundhada heads NeoPay, the payments unit of Dubai’s Mashreq Bank, which was carved out into a new standalone business in March 2022 and seeks to help businesses handle credit and debit card payments amid a pandemic-fuelled e-commerce boom.

Sanjay Rakesh, Head of Corporate Banking Operations at Zand weighed in saying that MasterCard and Visa have around 15-20% market share in the Middle East region but there are a lot more untapped markets “depending on how you slice and dice the regional market.”

revenue-sharing agreements with service providers. Stripe identified five primary ways to monetize payments and payment-related features including charging customers a fee to access payments, marking up each transaction, introducing fees for advanced payment features as well as adding a fee in cases where customers use other payment gateways and charging for advanced, customized reporting.

Salim Awan, Managing Director, Institutional Payments Solutions at Magnati said his company is leveraging data from payments to create a platform in partnership with fintechs ▶

- ▶ and companies from different sectors that can help deliver value to the market. The payments firm recently launched a service that enables it to study payments users (consumer end) to figure out spending habits, an initiative that can turn data into extra revenue by identifying likely customers for retailers.

“The customer data and actionable insights can help merchants, or businesses, or the government, to offer the customer the right type of services which that consumer wants,” said Awan.

Sashi Mundhra, Director of Presales MENA at Volante Technologies said that payments have always been considered a service that is provided as part of a

“ THE RETAIL BANKING PAYMENTS MARKET IS GREAT, BUT WHERE FINANCIAL INSTITUTIONS ARE MAKING MONEY WHEN IT COMES TO PAYMENT IS USUALLY ON THE CORPORATE SIDE ”

– Houssam Chaker

sets of customers—the digital natives who want 24/7/365 instant and real-time payments and the traditional corporate clients who are still transforming to the digital native phase.

language as the treasury or finance professionals care about business more than the method of payment.

Adding to the corporate use case perspective, Tariq Hoodbhoy, Managing



product, but banks can also study “how this product can add to the top line, how it can help save the bottom line, as well as how the data models can be extended to be a value proposition to other products.”

Customer data is key to financial institutions, and it is the manual that helps them meet customers’ preferences and expectations as well as explore new avenues of growth or new business models.

Jagadeshwaran K Managing Director - Treasury & Trade Solutions, Citi said that given that Citibank is globally present, “we are already participating in instant payments worldwide and it all starts with the customer.” He said that there are two

For, Houssam Chaker, Regional Head of the Middle East at Volante Technologies, “the retail banking payments market is great, but where financial institutions are making money when it comes to payment is usually on the corporate side.”

Chaker said it is important for banks to know how to onboard corporate clients given that corporate onboarding is a huge subject, especially in the Middle East region where financial institutions are facing difficulties because of infrastructure challenges between corporate customers’ Account Reconciliation Package (ARP) and the banks. Corporate onboarding challenges usually originate from being unable to understand the customer

Director-Head of Treasury Advisory at First Abu Dhabi Bank, said that every banking service, or product is being commoditized and “at the end of the day, for any banking service, there are all these new instructions coming in, it’s a commodity now.”

Meanwhile, Ahmed Hamam, the Head of Product Development & Channel Implementation, Abu Dhabi Commercial Bank (ADCB) said that the problem with financial institutions is that they are stuck on whether they’re going to make more money from payments. “The future is going to be led by what the markets and the behavior of the consumer are demanding from you. Whether you’re

a bank, a technology company or a supermarket... it's all about what the consumer wants," said Hamam.

Navneet Dave, Regional Managing Director, Group Processing at Network International also weighed in saying as a payment processor, Network provides services to banks, fintechs and clients from industries operating in between 40-50 geographies. For Dave, the appetite for value-added services in the market is huge and clients are always asking for a more agile payment ecosystem.

Shajeeb Hamza, Senior Digital Transformation Officer at Abu Dhabi Islamic Bank (ADIB) said that though banks—legacy payment players—have

"The solution is in the cloud. It could be a private cloud, public cloud, or hybrid cloud models," said Scaffidi. McKinsey said that the public cloud means that the infrastructure is owned by cloud computing service providers, hybrid cloud infrastructure is composed of two or more types of cloud (private, public) that are maintained independently while private cloud means that the infrastructure is built for an individual customer's exclusive use.

Scaffidi said that banks are investing millions of dollars in emerging technologies as part of their broader business strategy but to generate genuine business value from this type of digital transformation financial institutions

should choose cloud infrastructure that meets desired level of trade-offs between factors such as scalability and data security.

Cloud computing offers a dynamic platform to develop, trial and offer innovative services in the financial service industry, payments included, while driving operating and business model transformation. The cloud is enhancing innovation across the payment services sector enabling high data security and cost-effectiveness on the part of banks, and it also drives innovation as financial institutions keep on introducing new services and products to maintain their market



to satisfy in general the compliance and the regulatory bodies, they have to meet the demands and requirements of many of the stakeholders and parties they serve. It is in that phase that most financial institutions are a little bit slow in delivering new value-added services, he added.

The future of payments is cloud

The rapid growth of cloud-based financial services is offering banks a window to be more innovative and efficient in-service delivery, but it is also opening up the industry to new entrants such as fintechs, global retail giants as well as card networks and neobanks.

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position and meet customers' evolving demands and expectations.

The cloudification of the payments space is being powered by financial institutions' need for resilience and scalability, payments infrastructure upgrades and the cloud's ability to respond in agile ways to market disruptions and drive continuous improvement.

"When we say cloud-readiness, one of the things that need to be considered is the cloud economics. A bank cannot have a cloud infrastructure for payments and another for other services it offers. Banks must consider the overall cloud economics so that all systems can co-exist," added Mundhra.

- There are around six cloud delivery models including Infrastructure as a Service (IaaS), Platform as a Service (PaaS), Software as a Service (SaaS) as well as Managed Services (MS), Business Process as a Service (BPaaS) and Cloud Stack.

Zand's Rakesh said that it's a necessity that financial institutions should be cloud-ready especially when the technology solutions that they are going to implement are not in-house.

SaaS allows banks to use the software as needed without having to own or maintain it themselves, while serverless architecture removes the need for financial institutions to run their own servers, freeing up time and resources for customers and operations.

However, drawing on the success of M-Pesa in Kenya, Alipay and WeChat in China and Unified Payments Interface (UPI) in India, Victor Penna, Executive Vice President, GTB Co-head Mashreq, argued that the infrastructure does not count for a payment system to be a success. The above payments systems were backed with demonetization, low-cost providers coming to the market, and they backed it up with debit cards, which are all aimed at fostering financial inclusion.

Penna said the biggest issue in the Middle East market is the lack of financial inclusion while highlighting that instant payment services take cash out of the economy and replace transactions with card-based transactions, QRs codes in Asia and SEPA Instant in the Eurozone.

Devid Jegerson, Head of Customer Experience and Platform Development at the National Bank of Fujairah (NBF) said that the infrastructure is part of the problem. "The point is that infrastructure is very complicated, it's very complex, and it's dragging us into the discussion around regulation, the company infrastructure, project management when the consumer just wants efficient service."

Olivier Crespin, Co-Founder & CEO of Zand also echoed the same sentiments saying that infrastructure is key. Crespin said banks need a kind of regulatory push



from the government. "When the Indian government introduced UPI in 2016, we didn't have a choice, the bank had to implement it in six months," he said.

Cloud computing liberates financial companies from non-core businesses such as information technology infrastructure and data centres while enabling access to flexible storage and computing services at a lower cost.

Standardising messaging

The adoption of ISO 20022, a globally developed methodology for transmitting data that provides a consistent messaging standard for payments, by financial institutions is expected to bolster the acceleration of cross-border,

cross-currency instant and business-to-business payments in the next five years.

ISO 20022 is emerging as a common language and model for financial messages across the world. SWIFT projected that 80% of global, high-value payments by volume will be processed through this standardised messaging system as major currencies are adopting it.

Onur Ozan, Regional Head - Middle East, North Africa and Turkey at SWIFT said that payment modernization is also taking place on the traditional systems such as Real-Time Gross Settlement (RTGS) and Automated Clearing House (ACH) and "one thing that is common that we observed is that most of these

“ A SIGNIFICANT NUMBER OF TRENDS ARE IMPACTING THE BUSINESS FROM A REGULATORY PERSPECTIVE, AND WE SEE A VERY DYNAMIC ENVIRONMENT, OPEN BANKING, OPEN DATA, OPEN FINANCE ”

- Max Di Gregorio

new systems being introduced or being modernized are on ISO 20022.”

ISO 20022 offers universal payments messaging language rather than managing multiple market systems that speak different languages. The formatting standard’s structure and dedicated fields for payment details create communication efficiency.

Magnati’s Awan called for an inclusive ecosystem saying that the time has come for the creation of comprehensive partnerships because fintechs, banks, regulators and other financial institutions have to “work together to a point where you can probably be able to keep pace with the changes which are taking place in the industry.”

“ WE EXPECT KEY LESSONS FROM THE PANDEMIC TO SPARK AN ENHANCED FOCUS ON PAYMENTS INFRASTRUCTURE MODERNISATION IN 2022 AS MERCHANTS LOOK TO ACCOMMODATE OPERATIONAL SHIFTS AND NEW CUSTOMER DEMANDS THAT HAVE CONTINUED TO ACCELERATE OVER THE PAST 18 MONTHS ”

- S&P Global



SWIFT said that from November 2022, it expects ISO 20022 to revolutionaries the way its community exchanges payments messages; a move that is set to unlock numerous opportunities for financial institutions including boosting operational efficiency, enhancing customer experience and enabling innovative new value-added services.

“And a lot of this is valid for the cross-border payments, and this is what payment is about, and ISO 20022 is making a lot of data available to make this corporate onboarding easier,” said Chaker.

“We have the infrastructure, we have this new, rich messaging format, but we’ll see which players will take advantage of that,” said Hanni El-Sayed, Director,

Accenture Strategy - Financial Services. El-Sayed said that when PSD2 was introduced in Europe it was more about compliance getting the bare minimum done to satisfy the regulator and move on with my other priorities but whoever is going to fully capitalize ISO 20022 and bring new products to market is going to maintain a competitive edge in the market.

Open banking

With the adoption of open banking across the Middle East, legacy banks are slowly losing their tight control of customer data and total dominance in the payment service sector, which is forcing several regional lenders to carve out their payments portfolios to allow a more flexible approach to growth.

Open banking is playing a significant role in the rise of the open data economy as it makes payments easier and more transparent while loosening incumbent banks’ tight control of customer data and their near monopoly over payment services. The European Union’s revised Payment Services Directive (PSD2) and open banking make it much easier for new entrants to launch new products and services while transforming the ways certain banking propositions work, according to global management consulting firm Kearney.

The GCC region is one example of an emerging global open-banking microcosm. Bahrain is implementing a European-style regulation-driven approach and the UAE has adopted an



► American-style market-driven approach under the guidance of the Abu Dhabi Global Market and Dubai International Finance Centre.

Saudi Arabia is also implementing a market-driven strategy, but the kingdom's approach is inclined towards a more formal regulatory framework though its regulations don't follow Bahrain in requiring the opening up of APIs, which facilitate data sharing, or in mandating security standards.

Outside the GCC region, several countries including India, Japan, Singapore, and South Korea are implementing a market-driven approach. These countries do not currently have formal or compulsory open banking regimes, but their policymakers are introducing wide-ranging measures to promote and accelerate data-sharing frameworks in the financial service.

The emergence of new technologies and the evolving customer requirements have driven major innovations in the

payments industry. As the process of re-examining long-standing payments value propositions is already underway, Volante's Scaffidi called on banks in the Middle East region to stop investing in black boxes that make the banks compliant with the requirements of the current operating environment, at the tactical level, "but rather what is happening in the long-term strategies, knowing that the payment ecosystem is changing every day."

Participants included Ahmed Hamam, Head - Product & Channel Implementation, ADCB, **Anand Sampath**, Executive Director, Cash Product Management Global Transaction Banking and **Tariq Hoodbhoy**, Managing Director & Head of Treasury Advisory Global Transaction Banking from FAB, **Devid Jegerson**, Head of Customer Experience & Platform Development, National Bank of Fujairah, **Shajeeb Hamza**, Senior Digital Transformation Officer from ADIB, **Max Di Gregorio**, Managing

Director Financial Services, **Hanni El-Sayed**, Director, Accenture Strategy Financial Services, **Haysam Abouzeid**, Technology Consultant from Accenture, **Jagadeshwaran K**, Managing Director - Treasury and Trade Solutions MENAPT, Citi, **Navneet Dave**, Regional Managing Director - Processing - GCC, Network International, **Olivier Crespin**, CEO, Zand, **Onur Ozan**, Managing Director/Regional Head Middle East, North Africa & Turkey, SWIFT, **Salim Awan**, Managing Director, Magnati, **Sameer Nemazie**, Director, Cash Products MENA, Standard Chartered Bank, **Sanjay Rakesh**, Head - Corporate Banking, Zand, **Victor Penna**, Executive Vice President, GTB Co-head and **Vibhor Mundhaba**, CEO, NeoPay of Mashreq and also attending the event were **Mohamed Al Ali**, Managing Director & Head of Cash Management and **Yasmin Imam**, Executive Director from FAB. Moderated by **Andrew Cover**, Director, MEA Finance Magazine ♦