



# The frictionless future for payments



**On 16<sup>th</sup> of June, 2021, senior bankers and top executives from leading financial institutions gathered for the *MEA Finance and Volante Technologies Roundtable* in Dubai to discuss the emergence of new technologies and how evolving customer needs are driving major innovations in the payments industry while offering financial institutions a window to be more innovative and efficient in delivering service**

**G**lobally, payments remain among the best-performing financial services product segments but unfortunately for banks – traditionally the main providers of payments services – this momentum is no longer extending to most of them especially under the current operating conditions. Non-banking players including e-commerce firms, fintechs, merchants and social media platforms now offer instant payment solutions, a trend that is disrupting and driving rapid changes in the sector.

For banks to maintain a competitive edge in the payment ecosystem, McKinsey said, “Success will depend on thoughtfully assessing capabilities, determining the role of payments in market strategies, and appropriately aligning payments operations to achieve the required performance improvements.”

Although the prolonged COVID-19 pandemic has put the world economy on an uncertain footing and is presenting a set of unprecedented challenges to the financial services sector, it also accelerated and strengthened the adoption of instant payment solutions, a trend that was also gaining momentum across the GCC region.


The GCC region’s digital payments volumes have soared since the pandemic hit, reportedly generating as much as 10

years’ worth of growth across B2C, B2B, and P2P spaces in just over 12 months.

Industry experts from different financial institutions and payments solutions providers gathered for **Volante Technologies and MEA Finance Roundtable** themed ***Future of Payments – The Winning Strategy*** in Dubai to gain insight into the evolving payments sector and how financial services providers can leverage cloud, payment infrastructure, data and Open Banking to broaden their payments services.

US-based Volante Technologies is a cloud payments and financial messaging solutions provider helping more than 100 banks, financial institutions, market infrastructures, clearinghouses and corporate treasuries to accelerate their digital transformation. The company counts Citibank, Qatar Islamic Bank UK, BNY Mellon, Bank Leumi UK and FIMBank among its customers.

The changes in the global payments sector are being driven by the growth in e-commerce as the pandemic is pushing more shoppers online, evolving customer preferences and demands among the young tech-savvy customer base and the understandable fear that cash might be a possible vector of the virus.

In the Middle East region, the growth of the payments industry can also be attributed to regional governments’ 



- ▶ support that is seeing banks leveraging these adoption rates to advance their digital transformation strategies.

Though outsourcing of the full payments stack is a possibility, a new generation of instant payments and financial messaging solutions providers are emerging allowing financial institutions to swiftly expand their footprint while modernizing their payments product portfolio without incurring high upfront investment.

Payments-as-a-service (PaaS) players operate cutting-edge cloud-based platforms to provide specialized services, such as card issuing, payments clearing, cross-border payments, disbursements and e-commerce gateways, said McKinsey.

As instant payments are significantly enhancing the speed of settling payments (the making and receiving of a payment), Boston Consulting Group and Swift expect the global payments sectors' revenue to hit the \$1.8 trillion mark in 2024, from \$1.5 trillion in 2019, buoyed by sustained growth in e-commerce and electronic transactions and greater innovation.

## Fostering growth

The MENA region payments market is expected to register an annual growth rate of 6.5% between 2020 and 2025, according to ResearchAndMarkets.com. The outbreak of the pandemic and its economic fallout has undoubtedly



accelerated a string of existing trends in both consumer and business behaviors while introducing new developments that saw the use of instant payment methods surpassing the use of cash and debit cards in the Gulf region.

The million-dollar question becomes how PaaS in the cloud is disrupting the payment ecosystem and is PaaS the answer to the Middle East region's evolving payments sector?

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

payments industry. It is also offering financial institutions a window to be more innovative and efficient in delivering services.

Deloitte said that it normally takes one business day between the time when the payer dispatches the payment instruction and the time the recipient will be able to re-use the transferred amount of money. However, with cloud and PaaS this will happen in real-time, all year around the clock, with the funds being available immediately for use by the recipient.

Prasad Mopidevi, the Chief Technology Officer at Commercial Bank of Dubai, said, "Payments as we know, no longer have the traditional definition and that calls for the requirement to change and support a world that requires 24/7 social media kind of facilities".

Mopidevi highlighted that the upscaling of the payments ecosystem should not be just on the customer and retail side, but also on the institutional side of things where it involves players in the payments sector such as financial institutions and regulators, though it comes with its share of challenges.

**“ FOR REGIONAL BANKS, I THINK THE BALANCE IS THERE AND THE COMPETITION FROM NEW ENTRANTS IS WELCOME BECAUSE IT IS FORCING MORE INCUMBENT BANKS TO FRANKLY WAKE UP AND CONSIDER THESE FORWARD-LOOKING STRATEGIES AND BE A BIT MORE AGILE ”**

- David Aldred

- ▶ Ajayi Singh Pundir, Director, Global Industry & Regulatory Affairs, Business Development, Middle East and Africa at Volante Technologies, said that the way the payments industry has evolved is a collaboration of what an institution can do beyond considering deploying software and how a firm can deploy an ecosystem around that software.

“There are hundreds of fintechs offering hundreds of value-added services to financial services providers out there. Bringing these together is one of the best ways of ensuring that as an ecosystem, the payments sector combines what these firms have to offer and provides that value to the

in real-time and in a swift manner,” said Yazbeck.

To maintain a competitive edge in a crowded market or adapt to changing operating environment, payment services providers across the GCC should understand the expectations and requirements of their customer base. Accenture said that as the payments market is evolving, customer experience is becoming the prime competitive differentiator.

Alaa Al Rousan, Senior Account Director at SWIFT, said that with the increasing need for companies to meet customers’ expectations while providing intuitive, seamless, responsive and

new services and new markets faster while leveraging collaboration with fintechs.

David Aldred, Managing Director - Treasury and Trade Solutions Business Head, MENA & Pakistan at Citi, said that the developments in the payments sector are taking place at a faster pace, which is exciting, but also keeps banking executives awake at night wondering what is the best step into the future?

“For regional banks, I think the balance is there and the competition from new entrants is welcome because it is forcing more incumbent banks to frankly wake up and consider these



end customer or the macroeconomy”, said Pundir.

Naim Yazbeck, Regional Director, Enterprise and Partner Group (EPG) at Microsoft Gulf, weighed in saying that as someone who works for one of the world’s biggest cloud technology providers, banks and fintechs can leverage cloud solutions to enhance their digital payments services.

“The payments ecosystem is not only about how a payment process is performed but also how the cloud can bring large amounts of data combined with the payments service so that companies can make informed decisions

efficient services, the payments sector is now a warzone – financial institutions are looking for more volumes to justify reducing the cost and the possibility to make the operating cost more efficient from their perspective.

Financial institutions that have the volume that justifies building infrastructure such as investing in the cloud and collaborating with financial technology solutions providers such as Volante are doing it with ease, but it’s a different story for small firms that have a small customer base.

PaaS in the cloud is expected to assist financial institutions to launch

forward-looking strategies, and be a bit more agile,” said Aldred.

## Leveraging the cloud

As the demands from digitally savvy corporate and consumer customers increase amid competition and increased regulation, financial services providers are being forced to fundamentally calibrate their operating and business models. IBM said, “Beyond cost reduction and scalability, speed to market is perceived as the major benefit by cloud users.”

Afzal Khanani, Head of Strategy & Transformation at Abu Dhabi Islamic Bank,

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- Naim Yazbeck

financial institutions because they have invested so much in their legacy infrastructure which hosts the majority of current backup services. Moving all these systems to the cloud poses bigger and multi-dimensional challenges to large banks.”

Jain said that banks should have a balancing act in place to manage the investment in the existing infrastructure as they transition to new solutions that are aimed at advancing service delivery. Managing both seamlessly, assumes a much larger challenge for the financial service providers, he added.

With several cloud solution providers expanding their presence in the Middle



said, “PaaS in the cloud is an enabler, and it will support financial service providers to reduce operational cost while maintaining a competitive edge in a crowded market.”

Cloud computing offers a dynamic platform to develop, trial and offer innovative services—driving operating and business model transformation. According to Volanté, PaaS in the cloud offers resiliency, is cost-effective and accelerates customer onboarding, allowing organizations to focus their operating and business models while meeting customers’ demands.

Onur Ozan, Regional Head - Middle East, North Africa and Turkey at SWIFT

said given that financial institutions are often chasing after regulation and innovation to cope up with the changes, PaaS in the cloud allows financial services providers to offload some complexities to outsourcing.

Saurabh Jain, Head of Digital Wallets and New Payment Initiatives at Mashreq Bank, said, “PaaS in the cloud seems the right solution in the current operating environment amid the complexity of the payment ecosystem and changing customer requirements. However, this approach becomes much more complex when it comes to large financial services providers and legacy

East, financial institutions are tapping into the cloud to boost operational efficiency while improving their ability to partner, source, and collaborate with fintechs.

“Now for the banks, you must know, there are two ways to do business. One is that we keep continuing the way we are doing today and then within another five or 10 years we’ll be out of business, or we need to open up and probably the cloud is the best way to open up, where you have open APIs, where you can have a participative type of partnership with all the other players which are small or big within the payments ecosystem,” Salim ▶

- Awan, Managing Director - Institutional Payments Solutions at Magnati weighed in.

Banks are also leveraging the cloud to significantly expand their customer value proposition and geographic footprint while changing their role within an industry or even tap into a different industry.

“The higher the intensity of cloud adoption in the financial service sector, the greater the benefits will be,” said IBM. It is no surprise that most disruptors in the financial service began their journey in the cloud and benefit from low entry costs, scalability and speed to market from the abundance of plug and play composable components available to incorporate into their offerings within and across clouds.

Digital payments professionals and bankers who attended the MEA Finance and Volante roundtable underscored that the shift to cloud computing in the financial service sector is inevitable and can be the key to maintain a competitive advantage in a market such as the GCC region.

There are three areas where the cloud has been driving innovation in the payments sector and these include high data security, cost-effectiveness on the part of banks and as an enabler of innovation as banks keep on introducing new services and products to maintain their market position and meet customers’ evolving demands and expectations.

## Regulations

The expansion of the tech innovations in the financial service sector is introducing a new set of security risks and challenges that requires a review of the security infrastructure that is currently in use. Since the outbreak of the pandemic, there has been a surge in cyber-attacks and malicious hacking cases.

However, just like any financial technology, instant payments are not immune to mobile security and data privacy risks. Accenture said that though the cloud’s efficiency in terms of time

and money is its most popular feature, organizations are realizing that cutting corners on the cloud can render their organizational processes opaque, opening a plethora of discreet entry points for cybercriminals.

“Payments is a very complex ecosystem, and it is fragmented as well, yes expectations from customers are high, but regulation is also dominating and changing this ecosystem,” said Ozan.

Ozan said that financial institutions are operating under significant pressure

box is no longer to leave a country or certain jurisdiction, said Puri.

“With PaaS in the cloud, financial services providers are outsourcing services to other companies that are fintechs and aggregators instead of them doing the work or processes themselves,” said Puri.

Ozan said that there is significant regulation happening in the payments sector, whether it is Open Banking, Payment Services Directive (PSD) the scheme in the UK, or what Middle East region regulators are working on.



## **PAYMENTS-AS-A-SERVICE PLAYERS OPERATE CUTTING-EDGE CLOUD-BASED PLATFORMS TO PROVIDE SPECIALIZED SERVICES, SUCH AS CARD ISSUING, PAYMENTS CLEARING, CROSS-BORDER PAYMENTS, DISBURSEMENTS AND E-COMMERCE GATEWAYS**

- McKinsey

in a bid to meet customer demands and expectations, regulatory requirements, keeping up with changes in technology among other forces.

The explosion in digital payment options together with skyrocketing adoption across the Middle East region was met with an increase in cybercriminal activity as hackers are becoming more sophisticated and aggressive, making occasional headlines by stealing customer data.

Vivek Puri, Sales Director - the Middle East at Volante Technologies, said that the cloud is one of the best innovations of the century and it is being used by almost everyone through a remotely accessible server. With the cloud, the only thing that has happened is the box that used to be stored in a company’s IT Department is now located miles and with the current regulations, that small

Drawing an example from the payments infrastructures already available in the GCC region such as Buna, Ozan highlighted that all these regulatory-driven initiatives are leaving a strong footprint in the payments sector, adding, “there is a lot of catching up to be done by the bankers.” Hence in this context, looking at regulation from a payments perspective instead of the financial sector shows that PaaS in the cloud has a significant role to play.

Pundir concurred with Ozan, saying there is a bit of catch-up to be done by regional banks, payment solutions companies or payment services such as Buna. Several changes that are currently being witnessed in the payments industry are being driven by technological disruption not necessarily regulatory.

For Pundir, regulation is one aspect of that change that is taking place in the



ecosystem and the major development that needs to be tackled is technological change with regulations. The move is expected to enable financial institutions to unbundle what they thought were the right products on offer, or service they expected to bring in revenues. by joining forces with other corporates and fintechs while acquiring the right technologies to advance services delivery.

Awan weighed in saying that following the outbreak of the pandemic there has been a surge in the adoption of instant digital payment services and people in the Gulf region and entire Middle East region are using various wallets to settle payments. Regional countries are also digitalizing payments for governments services and the trend is expected to ease regulations.

Kartik Taneja, Executive VP, Head of Payments/General Manager - Idfaa payments at Mashreq Bank, said that regulation is helping the financial service sector and financial watchdogs must be more reflective of the advantages of

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the measures they are implementing in the industry.

“And in particular, I find a lot of PSD is extremely regressive towards innovation. When you regulate some form when you regulate margins, right? What happens is that there is an arbitrage which is created with every regulation, that there’s a possibility of an unintended consequence,” added Taneja.

Ali Imran, Head of Transaction Banking & Wholesale Digital Services, Commercial Bank of Dubai, also weighed in on regulation in the payments sector saying regulation is twofold, one is the consumer protection part and the other innovation - these go hand in hand.

Nzaar Ihsan, Senior Vice President - Business Manager Cards at Mashreq, said, “I think some discontented banks will continue to control everything, I think that’s the issue, we will not wake up one day and our lanes will have been bypassed, our regulation would have been bypassed, then the regulations will evolve to legitimize what is happening.” ➤

- Awan also echoed the same sentiments, saying financial watchdogs are being forced to adapt to the innovations in the financial services sector and on their own they will not liberate the market unless a certain development pushes them. Awan identified the market, consumer needs and expectations and cost as the three elements that are driving innovation in the financial services industry and not the regulators.

## Enabling environment

In March, Buna – the cross-border and multi-currency payment system owned by the Arab Monetary Fund, said that it is considering launching instant payments at a later stage, in addition to trade finance solutions, securities settlement and ATM/ POS processing service. The move is expected to complement Buna's current offering of multi-currency cross-border interbank payments, commercial payments and consumer remittances.

Khanani said that the overall dynamics of the payments industry have changed – the efficiency is the game, cheaper infrastructure is a need and the banking sector is being confronted by a lot of external forces including competition from new non-banking entrants, regulatory requirements and evolving customers' requirements.

With its messaging platform, products and services in use by over 11,000 banking and securities organizations and corporate customers globally, SWIFT offers products and services to facilitate access and integration, identification, analysis and regulatory compliance.

The relationship between financial institutions and payment solution providers is no longer about competition but is now about collaboration through adopting cutting-edge technology services to meet customer needs and expectations.

Aldred said that traditional bank's viewed fintechs initially as competitors, but these new non-banking entrants have become clients and partners to the

financial services sector, adding that who would think incumbent banks such as Goldman Sachs would venture into the payments industry and go as far as tapping into the cloud and APIs, and ignore the legacy technology that has been in use in the sector for decades.

Several regional lenders are leading or participating in several accelerators, incubators and training programs to advance access to instant payment technologies and enhance service delivery. For fintechs and startups, such partnerships provide easy access to resources, data, funding, space and

region can be considered as a battle to achieve competitive advantages using precise strategies to obtain favorable positions.

"The requirements of new customer demographics have also changed, and their expectations are clear – if I click a button a payment is settled, if I put a card or my mobile phone near a wireless POS terminal a contactless payment has been initiated. So, there are too many things happening at this point and fintechs are playing a crucial role," said Khanani.

Sameer Nemazie, Director, Transaction Banking at Standard Chartered Bank,

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– Afzal Khanani

networking opportunities to test and showcase their prototypes.

The partnership between PaaS in the cloud solutions providers and banks is crucial for the financial sector because it allows players in the industry to calibrate their business models while enabling them to bundle some of the solutions available on the market to meet customers' demands, whether it be embedded banking, lending, working capital and data solutions, said Aldred.

The competition between instant payment services providers in the GCC

posed a question, "How do you incentivize someone to use your products?" Nemazie said that an institution could implement a scheme allowing for the payment of for example \$5 or \$10, every time a sale is done. He added that "It's about trying to bring in some of those schemes back into the payments ecosystem and making it easier or making it more trustworthy for someone to say, Okay, I see value in terms of what I'm doing or what I'm selling."

Awan joined in saying several fintechs that opened their doors for business in the last decade have grown bigger,





dwarfing some financial institutions in terms of their size, services and products they offer as well as the regions they cover. This is because these companies, mostly startups, are open to adaptability, they are agile, have created partnerships across the value chain and accept the current challenging market trends.

### **Embracing the new technology**

Although the banks in the Middle East have made significant progress in their digital transformation journey compared to their peers in other financial centers such as Hong Kong and London, the fact that payments represent the most frequent touchpoints between financial institutions and their clients makes digital investment in the sector more important than ever.

Houssam Chaker, Regional Sales Head at Volante Technologies, said that instant payment is a revolution going on around the world, and regionally it is already in full swing in Saudi Arabia and Bahrain and its coming to the UAE big time.

“The big definition of instant payment today is if you see for instance what’s happening because of the COVID-19 pandemic, is that we all have big pressure on cash management and cash flow management,” said Chaker.

Chaker noted that instant payments are also based on size and quantity too and a lot of data is attached to these payments, hence there will be two payments using an instant payment and can attach invoices to accompany the payments.

McKinsey has said that carving out the payments business allows a more flexible approach to growth while also establishing a currency that makes subsequent consolidation possible, as carve-outs can tap into the higher valuation afforded payments companies.

Treating payments as a stand-alone entity for example in the case of Emirates NBD’s Network International and First Abu Dhabi Bank’s Magnati allows for the expansion of services across the

financial services sector and opens the service to a broader array of customers, thereby driving scale and improving profitability.

Murali Krishna, Associate Vice President, FX -Products, Emirates NDB, said that the Middle East financial service market should probably take a leaf from North America, where PaaS in the cloud solutions are being developed so that the integration process becomes plug and play for banks.

Krishna also highlighted that one of the common issues that usually affect financial institutions is the amount of time it takes to onboard customers to the new service. “By building the connectivity with fintechs and cloud aggregators, our ability to connect one time to the cloud, and then allow customers to come in and plug and play with equal labor and infrastructure will be a game-changer that the clients would want,” said Krishna.

The advancement in the Middle East payments industry is being driven by a shift in consumers and businesses ▶



behavior towards e-commerce platforms and associated services, and support from regional governments making it imperative for banks to provide frictionless payments solutions. It is also opening the door to new entrants such as fintechs, global retail giants as well as card networks and neobanks.

Tushar Gaur, Sales Director, Middle East, and North Africa at Volante Technologies said instant payment services were brought into existence from the cash surplus economies. "From an end-consumer perspective and using instant payment service as an option, I can also benefit from the service not just in terms of the convenience it offers," said Gaur adding that if a consumer has an option of using instant payment at any point in time, they can manage the cash they have.

"On the contrary, from an institutional point of view, I know the amount I have, and I can manage that, I can do an instant payment and on the other side, the corporate or vendor receiving the payment is satisfied and I can save as well in the process," he added.

Gulf region countries are spearheading different digital payments initiatives such as Oman's Mobile Payments Clearing and Settlement System, UAE's e-Dirham, DubaiPay, BenefitPay in Bahrain and Saudi Arabia's Sarie - all of which are meant to enable service providers and government entities to offer payment facilities around the clock.

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- Murali Krishna

Nemazie said that in terms of resources and the operating environment, we should appreciate efforts by banks and countries in the Middle East to drive innovation as regional governments are pushing towards cashless economies. This is the point where regulatory support for innovation is coming in.

However, banks are also expected to continue to be vigilant about their choice of fintechs to partner with and the type of controls do they have in place, and that is probably going to be a slowdown, added Nemazie.

The growth of instant payments services in the region is also driven by their popularity among small businesses and start-ups. Instant payment is expected to revolutionize the payments sector and its application into the retail industry, standard B2B transactions and the entire trade sector is projected to potentially disrupt

the market in terms of how business is currently being conducted.

The *Volante Technologies* and *MEA Finance* Roundtable was attended by representatives of several financial institutions in the UAE including Afzal Khanani from **ADIB**, David Aldred from **Citi**, Prasad Mopidevi and Ali Imran from **Commercial Bank of Dubai**, Murali Krishna from **Emirates NBD**, Salim Awan from **Magnati**, Kartik Taneja, Nzaar Ihsan and Saurabh Jain from **Mashreq** and Sameer Nemazie from **Standard Chartered Bank**. Also, on the panel of speakers were Naim Yazbeck from **Microsoft** as well as Onur Ozan and Alaa AlRousan from **SWIFT**, the world's largest interbank electronic payments messaging system. At the roundtable panel representing **Volante Technologies** were Houssam Chaker, Vivek Puri, Tushar Guar and Ajay Singh Pundir. ♦