HOW COVID-19 IS DRIVING DIGITIZATION IN THE MIDDLE EAST

Corporates in the Middle East are innovating to improve efficiency, lower costs and enhance risk management by automating their flows at a faster pace.

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The Middle East, like the rest of the world, has and continues to face unprecedented challenges as a result of COVID-19 and the ensuing lockdowns put in place to stem the spread of the pandemic. In addition, oil producing countries in the region have suffered from lower prices caused by oversupply, weaker demand and industry dynamics, which have affected government revenues and the ability to combat the health and economic crisis.

For Middle Eastern corporates, the COVID-19 crisis prompted an immediate need for liquidity, which was only partly resolved by the intervention of central banks in the region. Those companies working with leading global banks have been able to access innovative cash and trade solutions that have delivered not just liquidity, but also significant efficiency gains and improved risk management. At the heart of these solutions is digitization, which – while already an important trend before the pandemic – has dramatically accelerated in recent months.

Why digital makes a difference

During the first phase of the COVID-19 crisis, many countries across the Middle East introduced lockdowns, severely restricting the ability of physical premises to trade. In response, an increasing number of companies have accelerated moves towards direct-to-consumer (D2C) strategies and eCommerce. Anecdotal evidence suggests that many companies have doubled or tripled their online sales over the course of 2020.

Clients embracing digitization need to ensure that their banks can support their needs. For instance, Citi has helped a regional airline implement the digital receivables solution, lowering costs, improving efficiency and offering an enhanced customer experience.

Timeliness of payments has also become critical given the challenging business environment. Companies want to settle instantly, taking advantage of the growing number of instant payment schemes across the Middle East, such as in the UAE, Jordan and Morocco. Again, companies' banks need to have invested in digital solutions to facilitate access to such opportunities.

Cross-border and cross-currency payments are a huge part of flows in the Middle East: Citi has recently introduced a solution for clients in the UAE to automate cross-currency payments into many corridors – anywhere, including shortly, the ability to make instant payments to India, a key trade corridor. This cross-border payment solution is helping to transform regional payments, integrating FX into the payment process and providing end-to-end visibility and full automation.

Digital wallets are becoming more important as companies pivot to D2C: it is important to offer consumers their preferred payment instruments, both to improve sales – by reducing discarded shopping carts – and build consumer loyalty. Digital wallets can also improve financial inclusion and help to drive cash out of the economy – an important consideration during COVID-19. Increasing the range of payment options can increase complexity. But there are solutions that allow clients to pay into wallets or use instant payments and other instruments in multiple countries via single streamlined solutions.

As companies expand across the region, the speed of account opening is critical. Again, digitization has a central role to play. Where regulations allow, such as the UAE and Bahrain, banks can accept documents digitally, enabling onboarding within 2 days. Similarly, it is now possible to effectively digitise customer services, allowing clients to follow up transaction queries online; and offer real-time transaction status, reducing the need to raise a query.

Increasing digitisation of banking services means that it is important for banks to partner with fintechs in order to offer innovative solutions and reduce time-to-market. We have seen examples of partnerships with local in-country payment facilitators and card processing providers (including Octet in Turkey and Fawry in Egypt) as well as a collection point network that opens new receivables collection opportunities, also in Egypt.

Working capital comes to the fore

During the COVID-19 crisis, corporates have increased their focus on working capital solutions, with greater utilization of supply finance lines, and a drive to create supply chain efficiencies to manage costs. The liquidity crunch has also encouraged companies to accelerate their access to liquidity through short term borrowing in the form of receivable discounting and trade loans.

As a result, there has been greater uptake in trade finance solutions. Given the emergence of a second wave of COVID-19 in many countries, and a likely consequent impact on economies, this growth in demand for trade finance solutions can be expected to continue. Sectors especially impacted by the pandemic, such as airlines and FMCG – as well as the critical oil and gas sector – have been among the most enthusiastic adopters of digital trade solutions in recent months.

As with cash, companies want automated digital trade solutions in order to increase efficiency, visibility and control. To help deliver these objectives, banks are partnering with fintechs in the trade finance and trade services space, to accelerate turnaround times and improve cost efficiency. Digitization can also mitigate risks by reducing manual intervention, which is prone to operational errors and a greater risk of fraud.

In the current environment, banks' balance sheets are inevitably constrained. Working with multilateral organisations and export credit agencies (ECAs) can help banks and their treasury clients deploy capital more efficiently and mitigate credit risk while at the same time relieving capacity constraints. Recognizing these constraints, both multilaterals and ECAs have come up with out of the box solutions and demonstrated greater flexibility in providing risk cover for short term lending and receivable discounting. Partnering with these multilaterals has helped banks drive the dialogue especially with the public sector and governments in the GCC and North Africa in order for them to gain access to funding solutions both for their working capital requirements as well as their capex during this pandemic.

COVID-19 has changed everything

The pandemic has been challenging for individuals, companies and governments across the Middle East. But the region has shown itself to be flexible and innovative. Digitization was already a significant trend across the region but COVID-19 has accelerated uptake: Approximately 75% of Citi's regional trade flows are now digital, for instance.

As companies advance their eCommerce and digital strategies, they will increasingly move to a 24/7 business environment. To gain access to the solutions and support treasury needs to prosper in this new world – and remain resilient and versatile during the COVID-19 threat – Treasury needs to partner with a bank with a proven commitment to innovation and the Middle East.

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