HUNGRY FOR CHANGE

GCC corporates have an ever-increasing appetite for the latest automated payment solutions and liquidity management practices, says Ollie Baillie

Right now, the Middle East is one of the most exciting places in the world in which to do business. Economic challenges in Europe and the US are highlighting the strength of economies in the Gulf Cooperation Council (GCC), where GDP is predicted to grow by 3.9% in 2013.*

The dynamism of the Middle East is also reflected in the evolution of corporates' approach to cash management. They increasingly want to harness the new technology that is available to them and automate practices that were previously done manually. As a result, they are adopting electronic banking and technology, such as SWIFT, to achieve efficiencies and lower costs. In addition, they are using regional and global solutions to link their operations across the Gulf and between continents. There are also some locally based corporates that still prefer manual instruments – cheques, for example – but wish to increase their efficiency without sacrificing their perceived benefits of security and ownership.

GCC corporates will keep adopting more automated solutions as a means to achieve efficiencies, particularly as they become more international in their outlook and prepare to compete on a global basis. The use of online banking by corporates is still relatively low across the GCC when compared with other jurisdictions such as the UK, or even the US, where online banking has replaced cheques as the dominant payment instrument. Nevertheless, the GCC is moving in the same direction and an increasing number of corporates are taking up online banking every year.

But while personal take-up of electronic banking by CFOs and FDs has been fairly strong, they are less happy to use it for their companies. Many corporates in the region have a low risk appetite as a result of the volatile global economic climate and some high-profile cases of fraud. So while finance leaders may readily use e-banking for their personal money, they are more conservative about using online banking for the company's cash. But if banks and technology suppliers can explain the benefits of automating processes and payments to their clients and reassure them over security issues, this should lead to greater take-up of online banking by companies.

SWIFT is also an underused tool by companies in the GCC, even though it can be an excellent way to capture efficiencies. Barclays has 1,000 corporates worldwide using SWIFT for corporates, but only 25 of them are in the Middle East. Globally, SWIFT is used for trade messages, payments and services. With the United Arab Emirates (UAE), in particular, being such a trade hub, corporates that make effective use of SWIFT trade services will enjoy even greater differentiation. It's much more efficient for companies to use SWIFT than standard documentation and it will help them to be better clients and suppliers to other companies around the world.

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Driving change

The UAE government and central bank have done good work by introducing business-friendly regulation and infrastructure, such as the free zones, and a real-time local gross settlement system. Direct debits will also come into effect this year. As a result, more progressive companies are moving into the GCC and are helping to evolve business – and cash management – practices. According to feedback from corporate clients, four main drivers of evolution need to be present over the next five years for the region to achieve its full potential: corporates taking a longer-term focus; changes in buying and selling behaviour; a supportive regulatory environment; and better collaboration with partners and peers.

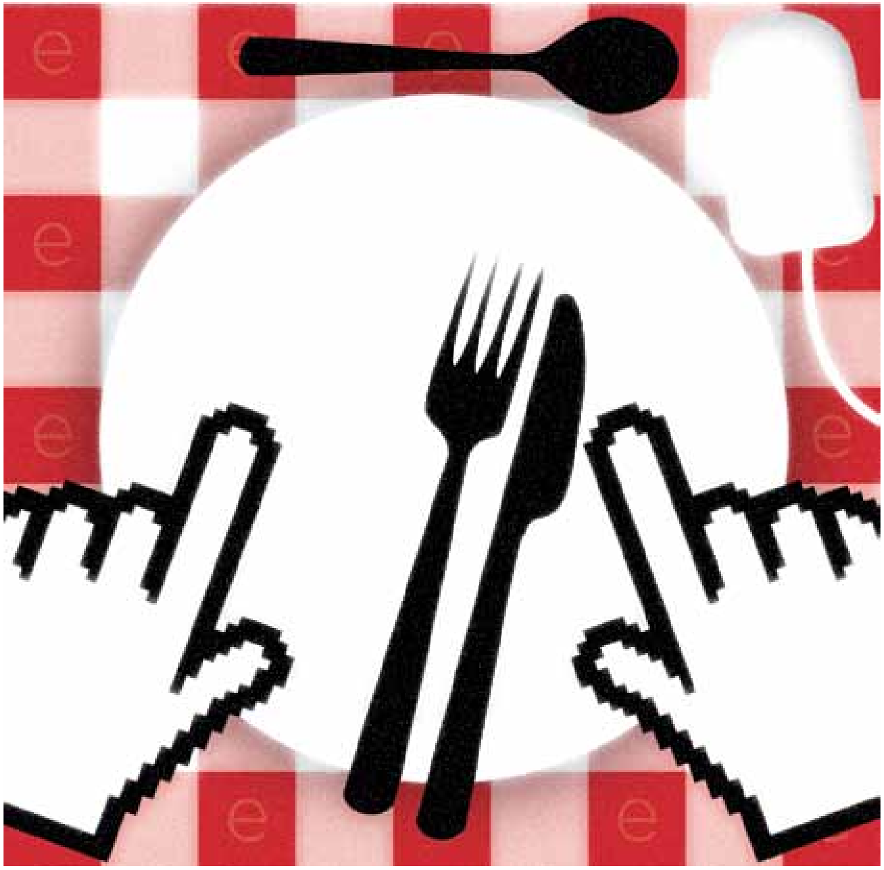
1 Longer-term focus

While it is easy for people to come and work in the GCC, it is also easy for them to move on. The market is transient. As a result, some of the people who come make short-term decisions to accomplish tactical objectives and don't take a longer-term view of what will be best for the company in five or 10 years' time. In addition, the boards of some multinationals lack an understanding of the region and see it potentially as a 'boom and bust' economy, shying away from long-term investment for fear of a downturn. Some also struggle to work out where the GCC fits in with their global strategy. Fortunately, these attitudes are changing as multinationals increasingly appreciate – and seek to take advantage of – the Middle East's potential for growth.

2 Buying/selling behaviour

By taking a short-term approach, corporates often make decisions on cost alone, which means they don't get the best solutions, or indeed the best service,

* Qatar National Bank Group



It is mutually beneficial for banks and corporates to work together as partners, and an increasing number of corporates are sharing information, such as financial results, fostering more open relationships

from their partners. There is a cultural reluctance to spend large sums of money up front, but this is changing as corporates look to grow and get new ideas on how to increase revenues and the bottom line. Banks and technology suppliers must also work in a more consultative way with their clients by explaining product benefits rather than selling on price.

3 Regulation

The regulatory environment of the GCC is very attractive to corporates and conducive to them following a progressive approach to cash management. Taking the UAE as an example, besides the free zones, there is no corporate tax, no income tax and no VAT. There is also a commitment to the continual upgrading of the banking infrastructure and improvement of regulation.

4 Collaboration

The GCC is an economy founded on trading and so business is about people. That's why collaboration is key. It is mutually beneficial for banks and corporates to work together as partners, and an increasing number of corporates are sharing information, such as financial results, fostering more open relationships. GCC companies that want to expand internationally also need global partners to help them. But collaboration extends beyond corporates' relationships with their banks. Corporates also need to make sure that their people are collaborating with peers in other organisations and sharing know-how and best practice at conferences and networking events. In the GCC, we have extensive treasury experience at our disposal. We must harness that to progress in the right way.

What next?

Looking to the future, the GCC is well placed to become a leading region for cash management for several reasons. Firstly, it enjoys a strategic location, sharing opening hours with the US, Europe and Asia, and is ideally suited to being a treasury centre for fast-growing Africa. Secondly, it attracts top-quality people who see it as an attractive place to live and work because of the lifestyle, tax advantages and ability to travel quickly and cheaply to other parts of the world. Thirdly, it is politically and economically stable and has grown more than major Western economies this year. Finally, there is strong banking and technical infrastructure, including 4G networks and fibre-optic cables.

There is no doubt that the wheels of change are turning here in the Middle East and we will see business and banking continue to evolve over the coming years. The region is an exciting place to live and work right now, and there are boundless opportunities for the future.

CHEQUE MATE?

Although their use has dwindled in some other parts of the world, cheques remain a very popular payment method in the Middle East. According to the *World Bank Global Payment Systems Survey 2010*, cheques are the principal payment instrument for large-value payments in one out of three countries in the Middle East and North Africa. There are two reasons for their popularity. One is legal – if you bounce a cheque, you could face criminal charges. The other is cultural – they are perceived to be cheaper and more secure. Although the legal reason is valid, the perception of cheques offering greater security is misplaced. In the UK and the rest of Europe, cheques have almost been eradicated precisely because of their lack of security. Cheques also have an end-to-end processing cost of approximately $11, which is mostly borne by banks, but there is still an operational cost of using them for companies. It can be very time-consuming trying to pin down key signatories, such as the CEO and CFO, who are often travelling. This, in turn, can lead to delays and problems with suppliers.

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