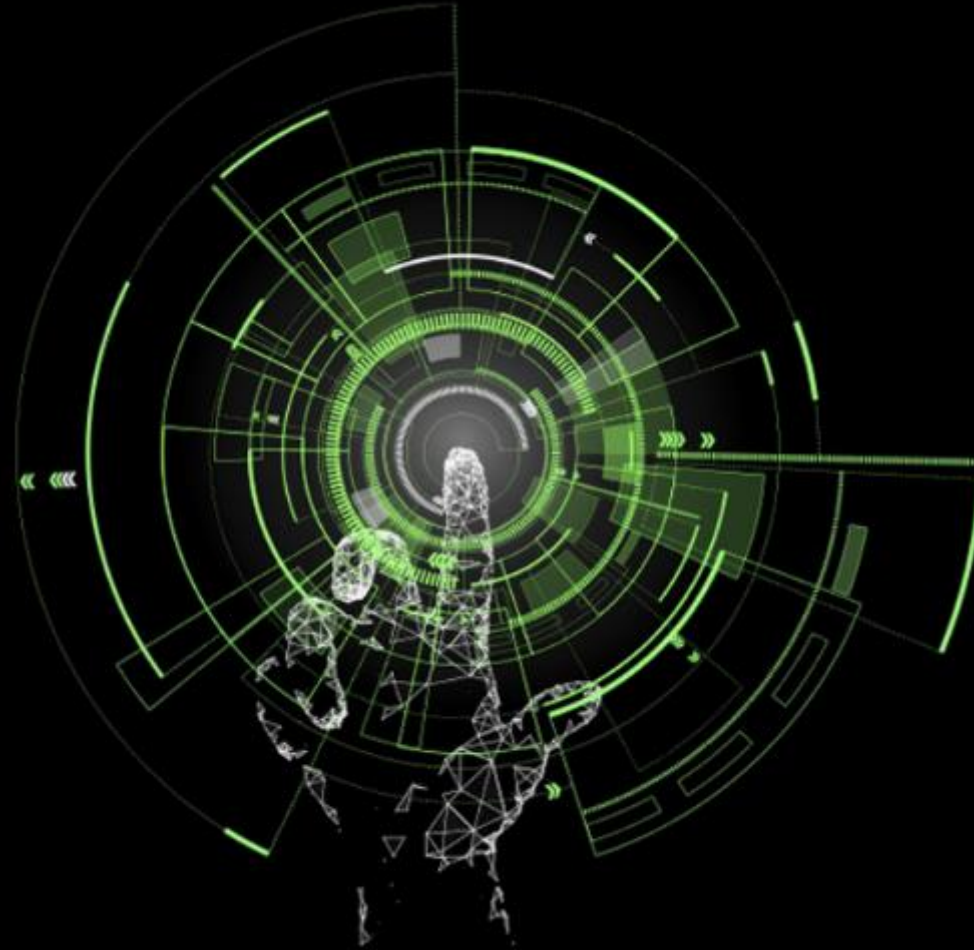


Deloitte.



Digital Cost Optimization

Deloitte Middle East



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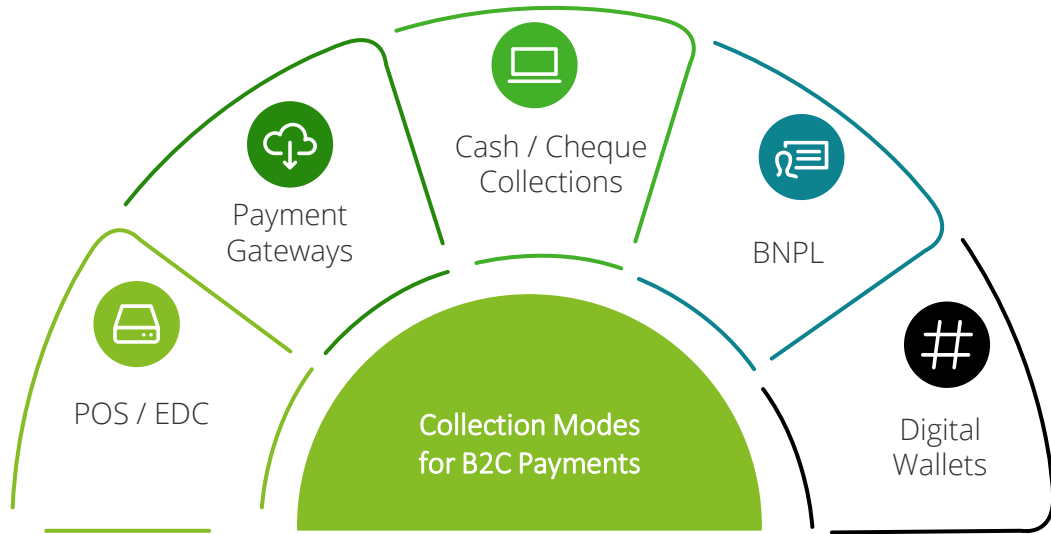
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Digital Collections Landscape

Overview of the payments landscape in the Middle East

COLLECTION MECHANISMS – CONSUMER COLLECTIONS (B2C)



FORECASTED E-COMMERCE GROWTH IN GULF COOPERATION COUNCIL (GCC)*



Forecasted e-commerce market size in the GCC region from 2020 to 2025

MARKET PARTICIPANTS IN MIDDLE EAST



Overview of Digital Payments Challenges & Cost Drivers

There has been a huge shift in payment demographics, with hundreds of issuing banks, card types and acquiring partner which makes the overall relationship matrix complex

DIGITAL COLLECTIONS – AN OVERVIEW

Hundreds of significant players in the market facilitate the collection of digital payments from consumers (such as through POS, Payment Gateways, Digital Wallets, QR Codes, etc.). The fees and costs incurred by all parties in the digital payment's transaction flow and process flow are impacted by certain considerations. It is important that companies optimize digital payments and collections through increased costs visibility, reconciliation, monitoring, identification of any leakages, and analysis of the actual charges incurred. The e-commerce market in the Gulf Cooperation Council (GCC) currently stands at approximately USD 30 billion and is forecasted to grow extensively in the coming years.

KEY CHALLENGES



Lack of Visibility – Lack of visibility into the share of wallet, payments demographics, collection metrics and breakdown of cost elements and benchmarking.



Large Data Volumes – Acquiring partners and intermediaries often share MPR (Merchant Processing Report) which are very voluminous and finding insights from them is difficult.



Complex Rate Card Matrix – With hundreds of card grades, multiple networks and card types, the rate card structure becomes complex to optimize.



Lack of Reconciliation Processes – Although companies try to reconcile the revenue, transaction level reconciliation of cost elements are often overlooked leading to cost leakages.

KEY COST DRIVERS



Mode of Payment: Cost metrics vary with the mode of payment used (e.g. POS, Payment Gateways, Wallets, QR, etc.)



Card Type: Cost structures vary for each card type, (e.g., Credit Cards, Debit Cards, Prepaid Cards, etc.)



Card Network: Every Network provider defines the Interchange applicable for various industries which varies depending on the MCC*

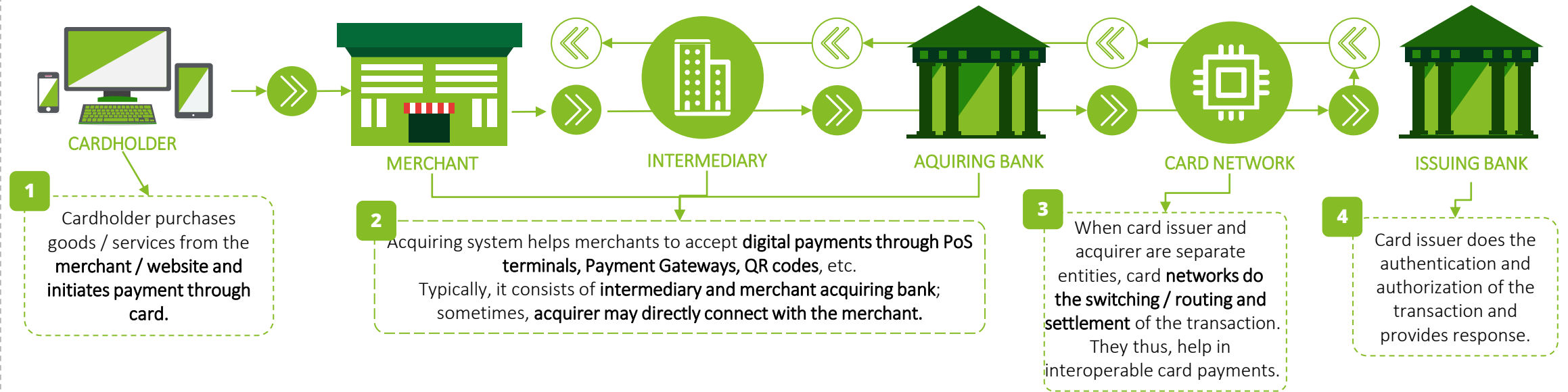


Card Grade: There are hundreds of card grades / types, which have related cost implications (e.g., Corporate Cards, Premium Cards, Basic Cards etc.)

Payments Transaction Flow

Understanding the payments transactions flow is key to identifying key levers of optimization

PAYMENTS PROCESS FLOW



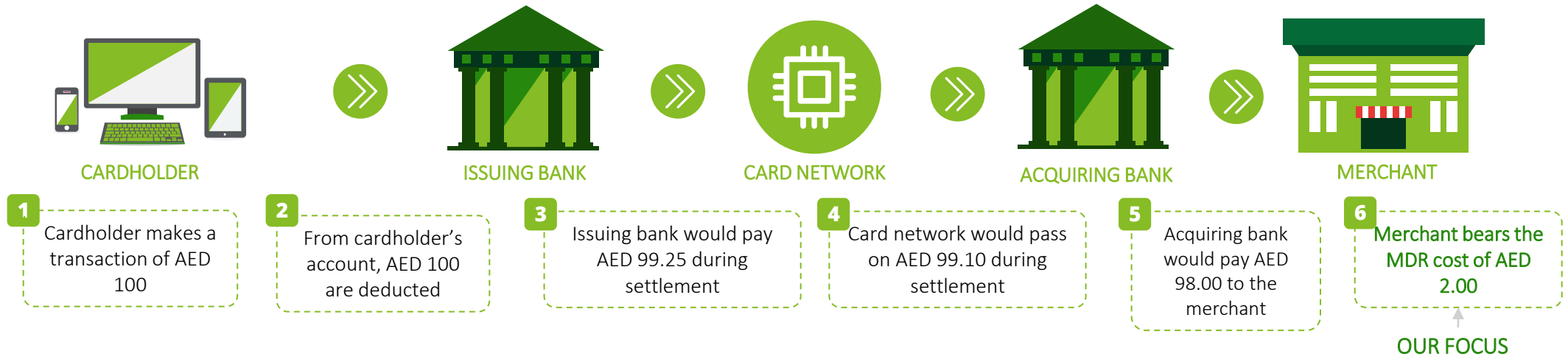
KEY CONSIDERATIONS

- From a merchant's standpoint, transaction flows to the card issuer for authentication (validation through OTP/PIN) and authorization (debiting the amount). In between are the acquiring banks, card networks and intermediaries. The response generated at issuer's end flows back to merchant through intermediaries and acquiring bank.
- Incidentally, there is also a scenario when **issuing bank and acquiring bank are the same**. In such scenarios, the interchange fee (fee paid by the acquirer to the issuer is lower, since there is no need for switching / routing the transaction). *Hence*;
 - If Cardholder's bank (Issuing Bank) = Merchant's bank (acquiring bank), **It is called an Onus transaction.**
 - If Cardholder's bank (Issuing Bank) \neq Merchant's bank (acquiring bank), **it is called an Offus transaction.**

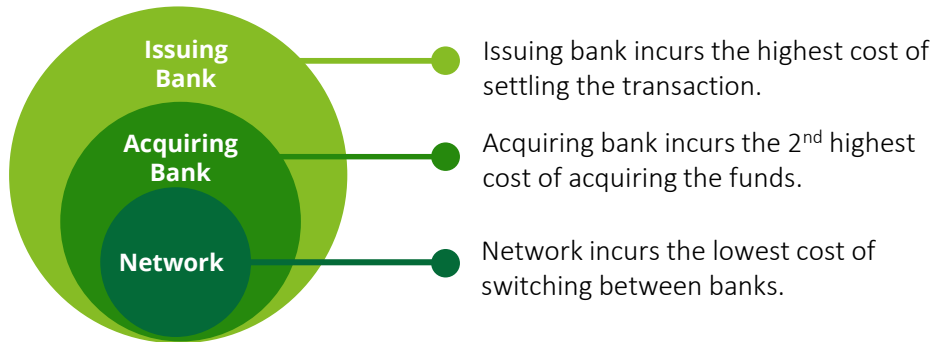
Collections Cost Delayered

Understanding the wallet share of each party in terms of cost incursion

SETTLEMENT OF CARD TRANSACTIONS AND DISTRIBUTION OF ASSOCIATED SPEND / MDR (MERCHANT DISCOUNT RATE)



SPLIT OF MDR BETWEEN PARTIES IN THE PAYMENT ECOSYSTEM*



OTHER ELEMENTS AND COST IMPLICATIONS

- **Mode of payment:** For card present transactions (PoS payments), the cost is generally lower when compared with card not-present transactions (Payment Gateway) due to fraud risk.
- **Card type:** For credit cards, the cost is generally higher since there is an element of credit risk associated. For debit cards, the cost is generally lower and compensates the issuer for its operational costs.
- **Card network:** For networks like Amex and Diners, the costs are relatively higher as compared to Visa / Mastercard.
- **Card grade:** There are hundreds of card grades / types, which have related cost implications (e.g., Premium cards have higher MDR as compared to basic cards).

*Note: Costs mentioned above reflect approximate share of MDR, which might vary for different card types, card schemes, networks and card grades.

Key Optimization Levers in Digital Cost





We are confident that optimizing these levers can result in significant and tangible reduction in collections related spend across the payment modes.

KEY BENEFITS OF OPTIMISING DIGITAL COST

Adopting a digital cost optimization framework with price benchmarking, assurance, routing optimization, and consumer behavior insights allows companies to enhance cost visibility and control over the digital spend. This leads to efficient reconciliation, leakage identification, and informed decision-making, reducing unnecessary expenses and strengthening market competitiveness.

KEY LEVERS OF OPTIMIZATION

The key levers we use to provide significant, tangible and quantifiable benefits include:

-  **Price Benchmarking** - Deloitte has a repository of Global Pricing Benchmarks across market landscape
-  **Cost Assurance** – Our analytics enabled cost assurance engine can help plug in leakages across millions of transactions
-  **Routing Optimization** – Routing the transactions cost optimally while taking into consideration the success rates
-  **Consumer Behavior** – We have experience in shifting consumer behavior through promotional marketing campaigns to move from high-cost to low-cost partners

TANGIBLE & QUANTIFIED BENEFITS

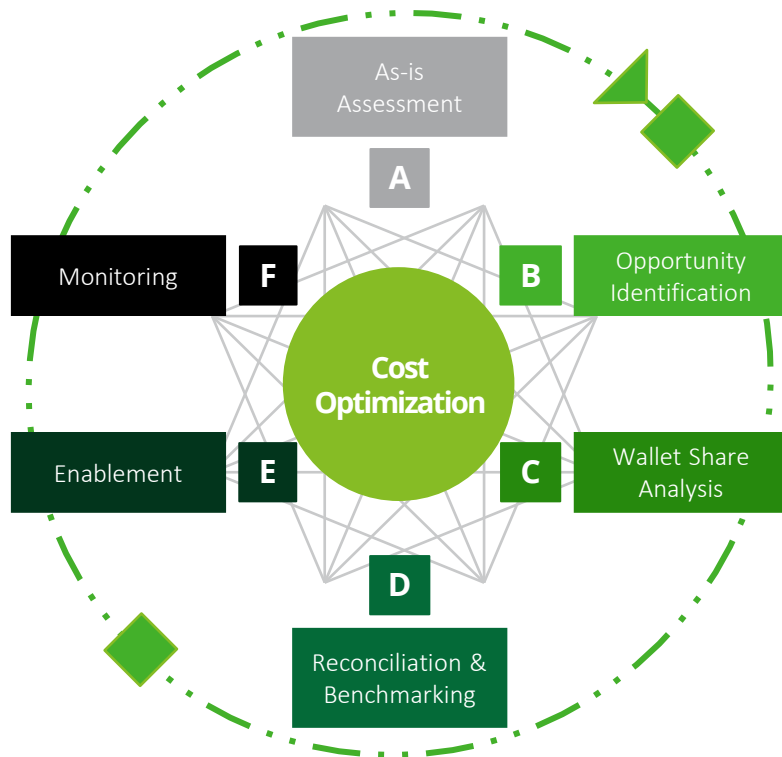
Based on our experience in this domain, we have quantified the high level optimization potential below for each region which can lead to significant savings through a few basis point differences in the pricing.

Region	Savings Potential by Region *
KSA / UAE	5% - 15%
Europe	10% - 15%
Other Middle East	5% - 10%
Asia, Africa, & Rest of the World	10% - 15%
Reduction Potential	10% - 15%

Our approach

There are significant and quantifiable benefits hidden in the hundreds of millions of e-commerce transactions

OUR APPROACH



KEY ACTIVITIES

- A** • **Review agreements, SLAs**, assess the current landscape across geographies and consolidate collections data across merchant service providers
- **Quantifying the fees** paid for each product category and for each bank or merchant acquirer.
- B** • **Assessment of agreed charges vis-à-vis actual charges** levied on 100% of transactions
- **Highlight discrepancies and identify leakages** for different pay modes (Cards, Payment Gateways, Wallets, Internet Banking, Cash, etc.) through **BIN level reconciliation**
- C** • **Leverage BI tools to consolidate collections** data across all aggregators / banks and perform wallet share analysis to assess share of business and related costs
- **Evaluate possible opportunities of wallet share consolidation** with costs and instrument mix shift to optimize costs
- D** • **Reconcile collections and related charges** with SLAs (settlement time, refunds, chargebacks etc.)
- **Benchmark charges for each type of pay-mode** using external benchmarks and leading practice based on peers and non-peers
- E** • **Assist in strategizing negotiation** and renegotiations with aggregators and banks
- **Draft claim letters** for any refunds on account of non-agreed / inadvertent charges on account of incorrect card classification
- F** • **Build a sustainable** solution for on-going monitoring of collections demographics, assurance and price benchmarks
- **Deploy the solution in the client IT environment** and provide knowledge transfer and training to end users

Our Contacts

In case you would like to talk to us about any of the aspects covered in this document or would like to understand how our service offerings can benefit your organization, please feel free to contact us



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