

Zeti Akhtar Aziz: The Financial Process Exchange (FPX)

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the official launch of The Financial Process Exchange (FPX), Kuala Lumpur, 28 October 2004.

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Yang Berbahagia Dato' Amirsham bin A. Aziz
Chairman of MEPS (Malaysian Electronic Payment System (1997) Sdn. Bhd),
Distinguished Guests,
Ladies and Gentlemen,

It is my pleasure to be here this morning on the occasion of the launching of the Financial Process Exchange or the FPX. Today's launch of the multi-bank Internet payment platform marks another step forward in enhancing the financial infrastructure of the Malaysian financial system.

In this more integrated and dynamic environment, the retail banking frontier of the future is defined by the range of services that are accessible to the consumer. Increasingly, technology is no longer an inhibiting factor in the payment services offered by banks. Indeed, expedient fund transfers and account access flexibilities are now apparent elements that differentiate banks to the discerning customers.

Of importance is that investment in technology is vital in meeting the changing consumer requirements and the need for banking institutions to continue to invest in information technology in this more competitive environment. IT applications in financial services, especially in the payments industry, are complex and scale-dependent. It is, therefore, imperative that the financial industry is collectively engaged in designing and participating in industry-wide payment system platforms. The interdependencies and synergies arising from a collective approach will generate mutual benefits and cost savings. Benefits range from a consistent and standardised application of rules and processes, to seamlessly harnessing the individual institution's respective infrastructure and promotional activities to realise cost savings arising from the sharing of scarce capital.

In the quest for efficiency in the payment systems of the nation, an essential task for the banking industry is thus to strengthen the focus on meeting the specific demands of the consumers, and at the same time, forging alliances in common infrastructure building. The FPX is a right step forward in this direction. The efficiency of the financial system will be further enhanced with the FPX that reduces transaction costs and contributes to the overall functioning of the economy. This advancement forward can only be successfully achieved when there is active participation by the banking institutions, individuals as well as businesses, in utilising and promoting the system nation-wide. Bank Negara Malaysia strongly encourages all banking institutions and users to participate in the FPX to exploit its full potential, a process that would contribute towards the competitive positioning of the Malaysian economy.

Ladies and Gentlemen,

Economic expansion hinges on the effective intermediation function of the financial system, and the efficiency of funds flow is integral to the overall functioning of the system. To gain significance as a trading nation, the strengthening of commercial facilities, including e-commerce, is pivotal to the process. While the reality of the Internet boom in the nineties brought many e-commerce proponents to revalidate their expectations, the Internet provides us with an outreach, other than wireless technology, that surpasses any other known media. As a result e-commerce through the Internet has been gaining significance and its potential should not be discounted.

In meeting this trend, the FPX is indeed a welcome development as a payment system that leverages on banking institutions' Internet banking services to provide on-line assurance of payments, enables payment references to accompany payments to facilitate reconciliation of transactions, and provides an efficient and cost-effective settlement mechanism. The system is intended to support the various initiatives of the private sector and the government in e-commerce, through the use of an industry-wide payment platform that would have a more comprehensive out-reach to users, compared to the existing bank-centric models. It is our hope that the FPX would facilitate e-commerce transactions and encourage businesses to undertake process re-engineering to reach out to wider markets, facilitate end-to-end e-commerce transaction flows and reduce operating costs through the use of modern day technology.

Ladies and Gentlemen,

The payment system landscape is continuing to evolve - shaped for the most part by the availability of various electronic payment infrastructures and the consumers' adoption pattern. It is noted, however, that while a vast array of electronic payment systems and instruments have been introduced against a background of more flexible regulatory policies and advancements in technology, the use of cheques remains pervasive in Malaysia. More than 90% of the non-cash retail payments in Malaysia are made by way of issuing cheques, albeit at a slower average annual growth rate of 2% in the recent two years, compared to the use of the Inter-Bank Giro which has increased at the rate of 197%. In most developed countries, the use of cheques has declined to negligible levels compared to electronic payments. These trends underpin the need for the banking institutions to further intensify efforts to encourage consumers and businesses to use the electronic payments systems. Promotional programmes and greater consumer education activities also have to be escalated to promote confidence in Internet transactions and the use of electronic means of payments.

The need to build up consumer awareness is essential in an environment that is becoming increasingly challenging and complex. Consumers need to be informed and convinced that the payment infrastructure is safe, efficient and reliable, and that there is an adequate consumer protection mechanism for consumers to be able to confidently use and enjoy the advantages of a low cost and effective payment system. One of the main challenges is to combat fraud. The rising incidences of Internet-based identity theft and phishing scams globally require the banks to remain vigilant about the possible security risks and employ effective security measures and internal procedures to protect their customers. Banks should remain one step ahead in this endeavour. In this regard, I wish to congratulate the banking institutions for completing the chip-based ATM cards migration, and introducing EMV-compliant credit cards and terminals to combat fraud, a technology leap that was indeed a challenging task. While the conversion of the credit card infrastructure to be EMV-compliant is an ongoing effort, I wish to commend the industry players, the issuers, acquirers and the affected merchants, particularly the petrol industry, for their positive response towards meeting the migration deadline.

Ladies and Gentlemen,

The desired migration to an electronic payments environment will not only be engineered through secured system architecture and active promotional programmes, but also induced by greater transparency. Banks need to be more transparent in the delivery and pricing of financial services, and highlight the underlying motivation and activities that banks undertake in prescribing financial services. Pricing will affect consumers' preference and behaviour. In this regard, banks need to understand their own cost structure and price the payment services accordingly, to provide the incentive for the shift to electronic payments to take place. To foster greater efficiency in the payments system, its charges relative to other means of payments need to be structured accordingly to encourage greater use of the electronic channels as the preferred mode. These moves also need to be complemented with ample provision of electronic payment methods that are comparable to the other means of payments in terms of its reach and convenience.

Ladies and Gentlemen,

Bank Negara Malaysia attaches great importance to payment system efficiency and will also continue to promote its security, reliability and efficiency, together with the industry and payment service providers, to foster an innovative payments industry. The FPX platform is an excellent example of this collaborative effort, and I wish to commend MEPS, and the pilot group of banks and corporations for their tremendous effort and commitment in developing the FPX solution. The launching of the FPX marks an important milestone in the development of Malaysia's payments system.

Thank you.