

## Zeti Akhtar Aziz: Migration to E-payments

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Payment Systems Forum and Exhibition 2005, Kuala Lumpur, 28 November 2005.

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Bismillahirrahmanirrahim  
Distinguished guests,  
Ladies and gentlemen,

It is my pleasure to welcome all of you to the Payment Systems Forum and Exhibition 2005. The theme of this inaugural forum is the "Migration to E-Payments" with a focus on the issues and challenges in the transition from paper-based payments to electronic payments in Malaysia. The issues that need to be addressed for a nation to effectively migrate from paper-based payment instruments to electronic means of payments are multi-faceted. This will require changes in the infrastructure and business processes, developing and sustaining users' confidence and inculcating a change among all the relevant stakeholders, including the service providers and the customers.

Our objective is to transform the payments system into one that is competitively leveraged on a modern market-based system. Indeed, this will need to be achieved by the cumulative efforts of all parties involved, including the industry and the authorities. This forum and exhibition has, therefore been organised to provide a platform to discuss the range of significant issues and challenges in achieving the common vision of migrating to e-payments in Malaysia and to increase public awareness of the various payment channels available in the market today, as well as to discuss views on the development of services and infrastructure for the next generation of systems. The forum is designed to encourage active dialogue and deliberations from the different perspectives, notably between the service providers and the users. The dialogue will also serve as a platform to discuss how the industry may effectively operate in the context of the prevailing regulatory environment, policies and practices. From the regulators' perspective, the aim is to develop an enabling environment to facilitate and foster greater use of more efficient payment mechanisms in Malaysia.

Ladies and Gentlemen

An efficient, reliable and secure electronic payment system is critical to the soundness of the financial system, the efficiency of the financial markets and the economic growth and development process. With the rapid technological advancements and increasing consumer demands for more efficient delivery services, the Malaysian financial landscape has continued to transition towards the increased significance of an electronic payment systems and channels. Despite the progress that has been achieved, Malaysians however, remain high users of currency notes and coins, with the currency-in-circulation amounting to about 6.4% of GDP. In contrast, the average ratio for high users of electronic payments such as in the Scandinavian economies is only 2.9%. The use of cheques is also dominant in our financial system, accounting for 96% of the total value of non-cash payment instruments. These indicators suggest that measures to encourage more active use of e-payments would need to go beyond building the electronic payment infrastructure. It needs to address the broader issues revolving around building public awareness and confidence, promoting greater convenience; reviewing business and operating practices and finally, addressing the commercial interfaces between the customers and the service providers. Allow me to take this opportunity to elaborate on these issues.

Ladies and Gentlemen,

E-payment increases operational efficiency and improves productivity levels through expedient payments and receipts of funds as well as through the reduction or redeployment of resources used for handling cash and cheques. Whilst the migration to e-payment may require considerable investment and effort to provide the enabling infrastructure, the use of e-payments provide consumers with greater convenience and security that would result in cost savings in the long run. In this regard, it is important for the financial institutions and payment service providers to provide more widespread access points for electronic payment services via multiple channels, including the automated teller machines, the point-of-sale terminals, the gated toll and parking gantries and through the network channels and devices, such as the Internet and the mobile phones. Needless to say, the payment products and services need to be continuously enhanced to meet the changing needs of the consumers.

In addition, the efforts to increase the use of e-payments will not only hinge on the capacity of the service providers to ensure that e-payment services are convenient, but also secure. In the area of fraud prevention, the industry would need to be constantly vigilant to maintain consumers' confidence. Robust technology and strong internal controls must be in place to protect and preserve the integrity of the financial system.

In line with this objective, our banking institutions have successfully replaced the magnetic stripe ATM and credit cards with chip-based cards to ensure a more secure environment for payment cards. This move has effectively eliminated counterfeiting and fraud involving ATM and credit cards in Malaysia. This has provided Malaysia with the platform to further enhance payment card services by maximising the chip infrastructure. The conclusion of this year will see the completion of the industry-wide migration to Europay-MasterCard-Visa (EMV) standards with all of the point-of-sales terminals being fully EMV-compliant. With this, Malaysia will become the first country in the Asia-Pacific region to successfully migrate on a national scale from the magnetic stripe environment to the EMV chip-based credit card infrastructure.

Ladies and Gentlemen,

For Malaysia to fully adopt e-payments, the task ahead requires great determination and commitment from all sectors. From the Central Bank's perspective, a strong motivation for promoting e-payments is in the eventual savings from the reduction of paper processing and printing, and the more efficient distribution of money in electronic form in the financial system that generates immediate economic value. Research studies have shown that shifting from an all paper-based to an electronic-based payment system will generate annual savings of about 1% of the GDP. All stakeholders, including the financial institutions, payment system providers, the authorities, the corporate sector, and the consumers, have their respective roles to play to support this national agenda to reduce the use of paper-based payment instruments, particularly cheques, in Malaysia.

In this regard, the Government had recently announced in the 2006 Budget its intent to increase the acceptance of electronic means of payment with the Government and to promote the use of e-payments nationwide. This should provide a catalyst for the adoption of e-payments on a national scale, as most individuals and businesses have payment transactions with the Government. Key to making this a success is the need to review the business and operating practices and address any impediments that may hinder the use of e-payments. These practices range from the inability to store and collect bank account numbers, acknowledging electronic payment and receipt notices, instructing payments electronically, and many more that may be identified during the discussions at this forum. All corporations and institutions that are present at this forum should consider undertaking a business process reengineering in your own organisation to fully use the e-payment channels that are being offered by the service providers and the financial institutions. As a national agenda, I would like to propose that this forum debates and considers the feasibility of setting a realistic target date, perhaps by the year 2010, for a full implementation of a national e-payment roadmap that specifically outlines the strategies and realignments of the business processes and operating practices, for the nation to be fully engaged in making the migration a success.

Ladies and Gentlemen,

Let me now move on to the third key point mentioned earlier on the commercial interfaces, whereby the underlying business models and pricing mechanisms for electronic payments, should take into account the need for an incentive structure that promotes the increased use of e-payments. In recent years, several notable developments in e-payments in Malaysia have taken place. Following its introduction in 2000, the Inter-Bank GIRO system, an electronic credit transfer system, had recorded an annual average increase in transactions of 160% in terms of volume and nearly 200% in terms of value between 2003 and 2004. The credit card is also becoming a popular means of payment card, with the total value and volume of increasing annually by 15 and 20 percent respectively. The growing acceptance of Internet banking as a convenient delivery channel for accessing banking services has translated into a significant growth of Internet banking subscribers, which today comprise two thirds of the total internet subscribers. The latest mode of electronic payments channel is the mobile banking services that provide convenience to consumers to access a range of payment services such as funds transfers, bill payments and credit card services through mobile phones. In addition, the establishment of an Internet-based multi-bank payment system in Malaysia, the Financial Process Exchange in October 2004, would facilitate online payments for a variety of payments by providing convenience and an efficient channel for businesses and consumers to undertake their payment transactions through the internet.

While these positive developments will support the attainment of the objective of migration to e-payments, the commercial issues between the consumers and the service providers have often times inhibited growth in the volume of the e-payments. The business and pricing models have at times inadvertently promoted a less efficient system, such as in the case of the low price that customers pay for using cheques compared to the Inter-Bank GIRO payments, and the popularity of the credit card against debit card, which is a more efficient system that carries less risk. In addition, service providers have also had difficulties in agreeing on a common business platform, due to their own competitive positioning strategies. Such differences have contributed to containing the increased acceptance of e-payments, which is further reinforced by the consumers' need to see a wide spread acceptance by merchants before deciding to use the e-payment mode, while the merchant needs to see a critical mass of consumers before putting in place the required infrastructure. In this regard, a comprehensive review of the industry-wide related issues involving payment instruments and systems needs to be undertaken to make Malaysia more competitive, with a view to promoting the more efficient payment systems and addressing the commercial hurdles. In order to further improve the growth and promote the e-payments, the payments industry may wish to consider establishing a Payment System Association to deal with the industry-wide issues involving electronic payments. A Payment System Association would be able to address the lack of common technology standards between service providers to promote interoperability, and the lack of a collective forum to identify, understand and manage the spectrum of stakeholders' interests and expectations. I should add that this idea is not new, as payment associations are already in existence in several other countries.

Ladies and Gentlemen

The future landscape of the payment industry is one that will continuously evolve with market innovations, resulting in enhanced services that offer improvement in efficiency and cost savings compared to traditional payment methods. Bank Negara Malaysia will continue to play the role of a facilitator to spearhead the development and improvement of the payments system infrastructure and to promote a conducive enabling environment for such developments to take place. In this respect, Bank Negara Malaysia has taken several initiatives to promote greater use of electronic payments by the public sector and in bringing about a mindset change amongst the users. Several taskforces have been established, involving users and service providers to promote the sharing of information and cooperation amongst the players, to develop industry-wide best practices and security standards, and to collaborate with relevant agencies to promptly deal with security infringement issues. Bank Negara Malaysia is also currently undertaking a series of measures to increase the efficiency and reduce risks in the payment systems, and facilitate a progressive transformation and migration of the payment systems infrastructure. In this regard, a cross-border link between the Ringgit and the USD settlement systems in Hong Kong, that is the RENTAS and USD CHATS in Hong Kong, will be established to reduce foreign exchange settlement risk via a simultaneous payment versus payment mechanism between Ringgit and USD in the same time zone. A cheque truncation system is also being developed to improve operational efficiencies through the elimination of the physical movement of cheques with the use of electronic images and data.

Bank Negara Malaysia also aims to provide a conducive regulatory framework that is supportive of market-based innovation and ensuring transparency for the benefit of consumers. In this regard, I certainly hope that the results of your deliberations in this Payment Systems Forum and Exhibition 2005 will provide valuable input for the formulation of strategies and modalities for both the industry and authorities to accelerate the migration to e-payments in Malaysia. It is also hoped that the exhibition will heighten public awareness of the various payments products and services available in Malaysia, as well as globally.

On this note, Ladies and Gentlemen, I have great pleasure in declaring open the Payment Systems Forum and Exhibition 2005.

Thank you.