

## **Zeti Akhtar Aziz: Towards a more efficient payment system – electronic payments**

Keynote address by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Mobile Digital Signature Symposium 2008 – "Towards a More Efficient Payment System: Electronic Payments", Cyberjaya, 3 June 2008.

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It is my honour and pleasure to be here today at this Mobile Digital Signature Symposium 2008 to deliver an address at this important forum. This forum takes place at a time when developments taking place in the global economy are resulting in fundamental changes to our lives. While the global economy has benefited from an extended period of high performance and strong growth, it now requires greater agility to adapt to the rapid changes that has occurred. A major emerging international phenomenon is the rising inflationary pressures.

We are now living in an environment characterised by rising prices, with energy and commodity prices prevailing at record highs. Energy and commodity prices which have risen steeply have been driven by demand and supply factors and reinforced by market conditions. Clearly, the global factors that have influenced these international prices are beyond our control. Individually and collectively, we therefore need to adjust and adapt to these new conditions. Increasing efficiency and adopting new business processes needs to be explored to reduce costs.

An area in which the quantum leap forward can be made, particularly by emerging economies, that will substantially increase the level of efficiency and thus reduce costs, is through the adoption of a more expedient and efficient means of payment. This will be the subject of my remarks today. While the Central Bank supplies currency notes and coins, we are also concerned with payments in its broader context. An important function and responsibility of the Central Bank is to promote the development of safe and efficient payment systems. Any inability to make payments in an economy would have a far reaching and widespread impact on society. Our task is therefore to ensure that the public and businesses can make payments in a safe and efficient manner.

The task also involves taking advantage of the technology and innovation wave and to move towards more efficient payment modes. The economic benefits from this can be immense. Studies have shown that shifting from paper based to a more electronic based payment systems can generate an annual savings up to 1% of GDP. Further research has also shown that it becomes a catalyst that promotes increased consumption spending. Moreover, it can also enhance financial inclusion by extending financial services to the unbanked communities. In so doing, such communities would be brought into the formal financial system and into the economic mainstream. This would not only promote the opening of banking accounts amongst this target group but would also enable them to enjoy lower cost of financial services and better means of savings, thus benefiting the economy as a whole. As the electronic payment channels become more easily accessible, user-friendly and offered at a low cost, it would thus provide the opportunity to shift the remittance flows from the informal to formal channels.

Indeed, electronic payments can be one of the strategic tools to meet these objectives and achieve higher economic growth. Electronic payment increases operational efficiency and improves productivity levels through expedient payments and receipts of funds. Electronic payments would also provide the speed and convenience of making payments from any place or time. It also reduces costs through the reduction of redeployment of resources used for handling cash and cheques. Accelerating the country's migration to electronic payments has therefore become a part of Malaysia's larger national agenda to increase the efficiency of

the nation's payment systems which would ultimately improve the competitiveness of our economy.

Cash payments in Malaysia still account for a large portion of the number of transactions in the economy. Going forward it is expected that its use will level off and stabilise with the increased use of electronic means of payments. Credit cards, ATM cards, debit cards including the e-purse application embedded in the MyKad are among the card payments possibilities in Malaysia. The increased use of cards is an international trend and is expected to gain significance in Malaysia. Giro transfers, other credit transfers and direct debit are also gaining significance by both individuals and businesses. Finally, Internet banking has also begun to experience stronger growth.

While we have made considerable progress in promoting the adoption of electronic payment with notable growth registered across all electronic payment methods, paper-based payments still remains the more popular form of payment. Cheques continue to account for a high percentage of the total non-cash retail payments while currency-in-circulation (CIC) as a percentage of GDP remains relatively high at 5.7%. In 2006, Malaysian consumers on average, made only 0.7 transaction via direct debit and credit transfer and 0.2 transaction via debit card transaction as compared to 84.7 and 109.5 transactions, respectively, in Sweden. Hence, more needs to be done to raise the level of adoption of electronic payments.

In this regard, the Bank has formulated an Electronic Payments Roadmap aimed at bringing together relevant stakeholders to address the barriers that have impeded the increased adoption of electronic payment in a comprehensive and strategic manner. The Roadmap identifies the priority areas that require attention and collaboration to promote an environment that is conducive for greater use of electronic payment in financial transactions.

Firstly, is the need to put in place the payment infrastructure. The infrastructure for making payments would need to be widened and enhanced to provide the convenient access to electronic payments. In addition, solutions need to be developed to enable users to integrate easily with the payment offerings. Secondly, the product range, the range of services would need to be expanded to cater for the different payment needs of consumers and business sectors. Thirdly, the pricing framework, the formulation of a transparent and cost-effective pricing framework is important to provide the incentive structure that would spur the adoption of electronic means of payments. Fourth, is the consumer awareness. Programmes need to be implemented to inculcate the behavioral change among consumers. There needs to be trust and confidence in the electronic payment systems. The fifth area relates to the standards, the setting of common standards to address the interoperability of systems including standardising the payment messaging format is vital to the wider acceptance of electronic payment. Finally, is the need to ensure the security and integrity of the payment system which thus requires the supporting regulatory and legal framework to be in place.

Among the series of initiatives that have been implemented to promote the greater use of electronic payment relates to the leadership role of the Government in the migration to electronic means of payment. As most individuals and businesses have payment transactions with the Government, the role of the Government in accepting electronic payments has provided an important catalyst for the adoption of electronic payment on a national scale. In this regard, Bank Negara Malaysia has been in active partnership with the Government to drive the electronic payment agenda. This has also served to reinforce the Government's objective to enhance the efficiency of the public delivery system. This collaboration has resulted in the acceptance of the use of cards including the ATM card, which also functions as a debit card, for over the counter services and the offering of payment services via Internet banking and the Internet-based Financial Process Exchange (FPX) payment system.

Another initiative undertaken has been the review of the remittance and e-money regulatory framework to encourage the introduction of payment products that would cater for the unbanked and underserved communities such as migrant workers and consumers with low

income and low financial literacy and who may have no alternative but to rely on informal payment service providers. There are now more than 20 new remittance and mobile payment products that have been launched.

The Bank has already engaged the relevant stakeholders on the priority areas identified and welcomes any further industry efforts to address these issues. Given the significant pay-offs from the low cost technologies in accelerating the adoption of electronic payment, the mobile phone is identified as one of the delivery channels that should be leveraged on.

### **Potential of mobile phones to make the transformation**

Bank Negara Malaysia sees tremendous promise in mobile telecommunication networks as an electronic payment channel since mobile phones are already in the hands of most Malaysians, with 88% of the Malaysian population subscribing to mobile phone services.

The high penetration rate affirms mobile phone networks as an increasingly popular channel for Malaysians to perform a plethora of activities beyond voice communication, encompassing all forms of digital communication, commerce, banking and payments. Indeed, payments via text messaging has the potential to grow in importance.

With 25 million mobile phone subscribers in Malaysia, there are immense opportunities to leverage on mobile phones to accelerate the migration to electronic payments, to widen the reach and appeal of electronic payment services, to deliver innovative mobile payment products that offer speed, simplicity and convenience at minimal cost for the public, as well as to provide an efficient and cost-effective method of delivering financial services even in the remote areas. Also of significance is the high level of financial inclusion in Malaysia. With a population of 27 million, the banking system in Malaysia has 55 million deposit accounts indicating that a high percentage of the population have deposit accounts with the banking system. This is confirmed by a survey of a sample of 5,000 in 2003 that indicated 97% of those surveyed have a bank account. The financialisation of savings is also confirmed by the high percentage of deposits to GDP at 152%.

The high percentage of mobile phone subscriber and the high rate of participation of the population in the banking system are important pre-conditions for the significant use of the mobile phone as an ideal platform for personal payments. Indeed, the large mobile subscriber base and the positive transformational effects of mobile banking and payments offer a unique opportunity to open up the financial system to more customers and communities, in order to achieve financial inclusion for all segments of our society.

With the favourable market conditions, various mobile banking and payment initiatives have been launched in recent years. This however, has yet to achieve widespread acceptance. To date, there are only 460,000 subscribers for mobile banking and payment services. This represents only 1.8% of the 25 million mobile phone subscribers in the country. There is, therefore, a significant untapped, and potentially lucrative market for mobile payment and banking services.

### **Pushing mobile channel beyond the tipping point of development**

There are fundamental issues that need to be addressed if we are to realise the opportunities and allow Malaysia to take full advantage of new mobile technologies. To achieve their full potential, it is important to identify the gaps in the service offerings, and plan the way ahead for Malaysia to make the quantum leap in e-payment adoption. Market participants need to address the mismatch between what consumers expect and what is being offered. Openness and inter-connectivity are also critical in the mobile banking and payment initiatives. Exclusive and proprietary services where the target market is limited to the customer base of individual mobile operators or individual banks will not allow for the potential to be realised.

Any lack of interoperability across mobile operators and across banks will not achieve the required critical mass and will also result in high transaction cost for consumers.

It is hoped that market participants will be able to offer new and innovative mobile payment products and services that opens up new markets for mobile service providers and payment operators, offer the convenience at reasonable costs and thus deliver the cost savings and efficiency gains that consumers and businesses seek, and thus allow for the economic benefits to be realised.

Industry players also need to work together. An area that needs critical attention is for the industry players to focus on the bigger picture and regard the mobile phone as a mechanism towards achieving a common goal. To promote the significant use of the mobile phone for financial services, the industry has to respond rapidly to address the need for interoperability and collaborate in areas such as developing a common infrastructure, common payment messaging format, as well as common security and authentication standards. Common standards and infrastructure will create an accessible, open and vibrant payment eco-system that will attract a wider consumer base allowing all market participants to reap the benefits of a larger customer base. A shared integrated network with common security standards and common messaging standards will make it easier, more cost-effective, and more convenient for consumers, merchants and service providers to execute and receive payments, thereby increasing the attractiveness of the mobile network as a payment channel. Such collaboration will also lead to greater innovation and increased productivity that will contribute to the overall effectiveness and performance of the mobile payment system.

In delivering products that the market demands, substantial investments would be required of participants in the mobile eco-system: the mobile operators, banking institutions, mobile device manufacturers, and payment service providers. Equally important therefore, is the need for all the stakeholders to ensure that investments are channeled judiciously into the areas of greatest impact. Strengthened collaboration in the key areas will minimise duplication and achieve greater resource efficiency. In this regard, there is a need to fully understand customer payment preferences. Product offerings need to meet the expectations of increasingly discerning and sophisticated consumers of payment services. Collaboration is also required in the area of education and outreach programmes to increase consumer awareness and public confidence in mobile payments.

Thirdly, regulators and market players must also share a common vision on the future mobile payment landscape in order to align strategies and interests to achieve holistic mobile payment solutions that will widen access to the retail payment system and thus achieve a critical mass of consumers. The network externalities and the social benefits of the wide adoption of the mobile banking and payment system provides justification for Governmental intervention. The Bank together with Malaysian Communications and Multimedia Commission will work towards providing the appropriate environment for economic development and to catalyse the transformation of the mobile initiatives. This will also include engagement with the market participants, payment service providers and industry players to collaborate in these important areas.

Finally, for mobile payment products to succeed and achieve widespread acceptance, we need to strengthen consumer confidence in the safety, security and reliability of mobile networks as a means for consumers to access financial services. Indeed, mobile digital signature, which ensures the confidentiality, authenticity and integrity of payments initiated from mobile phones, is one of the ways forward towards building a secure mobile infrastructure that is conducive for the delivery of financial services.

## **Conclusion**

We are now operating in an environment where we have to do more with less. The point I would like to stress this morning is that in the pursuit of this cause, we have to learn to work

together. We need to come together to decide how this cooperation can be shaped. I believe this symposium will contribute towards achieving this objective. In this regard, I hope that the results of your deliberations in this symposium will provide valuable input for the formulation of strategies and modalities for both the industry and authorities. On that note, I would like to thank Malaysian Communications and Multimedia Commission for this opportunity to share my thoughts on electronic payments. I wish you a stimulating and productive discussion in this symposium.