

Zeti Akhtar Aziz: Improving and expanding Malaysia's cross-border financial flows and capital market transactions

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Official Launch of the Expansion of SWIFT Office in Kuala Lumpur, Kuala Lumpur, 24 November 2014.

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It is my pleasure to be here today on the occasion of the opening of this expanded SWIFT Kuala Lumpur Corporate Services Centre. We are most honoured with the presence of Her Royal Highness Princess Astrid of Belgium. Allow me to, first of all, welcome Her Royal Highness Princess Astrid of Belgium. It is also my pleasure to welcome His Excellency Didier Reynders, Federal Deputy Prime Minister and Minister of Foreign Affairs and European Affairs of Belgium, and His Excellency Pieter De Crem, Federal Secretary of State for Foreign Trade of Belgium to Kuala Lumpur. It is my honour to address such a distinguished gathering including the practitioners from the financial fraternity.

We are pleased to welcome the expansion of the SWIFT office in Kuala Lumpur. Malaysia has aspired to be an important destination for international corporations and organisations to operate in. Malaysia has well-developed infrastructure, a dynamic workforce and cost-competitive environment to provide an enabling environment for mutually reinforcing benefits. Malaysia is now home to more than 5,000 foreign companies from more than 40 countries. Additionally, it also includes global and regional shared services hubs that serve world-leading financial services providers and international corporations. Malaysia is also the host to a number of the international institutions in the area of finance that include the Islamic Financial Services Board, and more recently, the Alliance for Financial Inclusion. We are very pleased that SWIFT, an important market infrastructure service provider to the global financial community, has selected Kuala Lumpur as its Corporate Services Centre.

Malaysia's financial sector has in this recent decade made significant strides in facilitating the country's cross-border economic linkages with other economies. Malaysia is part of a vibrant region, comprising ASEAN and of the greater Asia. The region has prevailing strong foundations and significant growth prospects with strong inter regional connectivity. Malaysia's volume of cross-border trade and foreign exchange settlements with ASEAN economies alone has grown at an average rate of 10% in the recent four years, reflecting Malaysia's increasing integration with the regional markets. A vibrant foreign exchange market has supported this growth, where the overall Malaysian foreign exchange market volume has increased by more than five-fold in a period of 8 years to USD11.1 billion per day, at a ratio of about 6 times of total trade. Like most regional blocs, the integration process for ASEAN seeks to promote greater regional connectivity which will in turn expand and reinforce the region's growth potential. The aim of reinforcing the regional linkages in the payment and settlement systems is to enable the establishment of risk mitigation mechanisms such as Payment versus Payment (PvP) and Delivery versus Payment (DvP) to reduce the foreign exchange and securities settlement risk. Since the ASEAN region is largely within the same time zone, the ultimate aim is to achieve same day settlement and funds availability.

In this regard, the ASEAN Working Committees have been working to create an enabling environment to promote efficient and effective linkages for intermediation of cross-border financial flows and capital market transactions. A crucial pre-requisite to this is the adoption of common messaging standards and platform such as that provided by the SWIFT global messaging standard to facilitate interoperability and efficient processing of transactions. Market infrastructure service providers, and operators of payment systems, and the banking industry, have a significant role in supporting this financial integration process, while ensuring safety, reliability and security. I understand SWIFT and the Association of Islamic Banking

Institutions Malaysia and other stakeholders in the Malaysian Islamic financial community are also collaborating on the development of a new rulebook for the usage of SWIFT messages for Islamic financial transactions. This will provide an efficient platform for the exchange of messages for Islamic finance transactions based on such standardised formats and bring us a step further at the frontier of Islamic finance.

Let me now turn to the developments in Malaysia's payment system. The Malaysian payment system is undergoing a major transformation. Like other successful financial market infrastructure globally, concerted efforts are being made to enhance the reliability, security, efficiency and inter-connectedness of the Malaysian payment system for the benefit of all stakeholders in the payment value chain.

For large value payment system, RENTAS, the systemically important payment system for transfer and settlement of high value interbank funds and scripless securities transactions, is continuously being enhanced to support cross-border payments and settlements. In this regard, a Payment versus Payment infrastructure for interbank settlement of USD/RM trade transactions was implemented in 2006 in collaboration with Hong Kong Monetary Authority and a cross-border link with Euroclear was established in 2012. In addition, RENTAS has also been equipped with the capability to support Renminbi denominated funds and securities transactions.

On the retail payment front, measures are also geared towards enhancing the efficiency, accessibility and quality of retail payment infrastructure and services. To this end, Bank Negara Malaysia has focused on creating the enabling environment to accelerate the country's migration to electronic payments (e-payments), to enhance economic efficiency and increase our competitiveness. This has been done by establishing a conducive pricing and incentive structure, enhancing the e-payment infrastructure and promoting awareness and confidence in the use of e-payments. These initiatives to modernise our financial system has already begun to yield results bringing about the desired cost savings.

In concluding my remarks, let me congratulate SWIFT on this occasion of the expansion of their operations here. I also wish the management and staff of the Kuala Lumpur Corporate Services Centre every success in your endeavours and look forward to its contribution to our economy as we advance forward in this significantly challenging and rapidly evolving economic environment.