Muhammad bin Ibrahim: The dawn of a new era in Malaysia's payment systems

Keynote address by Mr Muhammad bin Ibrahim, Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Malaysian E-Payments Excellence Awards, Kuala Lumpur, 22 May 2017.

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I am glad to be with you at this 2nd Malaysian E-Payments Excellence Awards organised by MyClear.

This evening, we are recognising the contributions of the financial industry, businesses and government agencies to the country’s e-payment agenda. The achievements showcased by the award winners today reflect the broader innovations and involvement that we continue to witness in the payment space to make e-payments more convenient, cost-efficient and safe for users.

I am encouraged that contactless payments, for example, are gaining greater appeal for smaller value payments. Equally important have been the collective efforts made to educate and inform users. This helps to drive changes in payment habits away from cash and cheques to e-payments.

Malaysians are increasingly embracing e-payments

Malaysia has long recognised the importance of e-payments as a key enabler to drive national efficiency and competitiveness, and as a catalyst to facilitate the creation of new sources of growth. Promising progress has been made in achieving the country’s e-payment targets.

In a period of 6 years between 2011 and 2016, the number of e-payments per capita has almost doubled from 49 to 97 transactions per capita. This largely reflects the accelerated adoption of electronic fund transfers to displace cheques. Cheque usage declined by 35% from over 200 million cheques in 2011 to 133 million in 2016. Over the same period, Interbank GIRO (IBG) and Instant Transfers (IBFT) grew almost four fold from 66 million transactions in 2011 to 257 million transactions in 2016.

Encouraging progress has also been achieved in efforts to displace cash. Reform measures implemented since 2015 have made the acceptance of payment cards more affordable to merchants. We estimate the annual cost savings to merchants to be about RM168 million in 2016.

This in turn has encouraged an increase in the number of payment card acceptance devices (or POS terminals) which expanded by 40% to 323k terminals in 2016. We expect these developments to further expand the usage of debit cards to displace cash together with the enhancements to the payment card infrastructure to support PIN and contactless technology.

A new era in payments

For many years, Bank Negara Malaysia has taken the leading role in shaping the development of the country’s payment systems, in line with its statutory mandate to promote safe, efficient and reliable payment systems.

We have taken important steps to correct price signals associated with the use of different payment instruments, and created market mechanisms to better align incentives at the institution level. Along the way there was resistance, but we had experienced that left to its own devices, the market is not capable of making strategic changes necessary to drive payment efficiency, financial inclusion and competitiveness. But, cooperation is key.

Indeed, the various measures that were implemented have been instrumental in accelerating the e-payment agenda forward, only because of the cooperation of the industry, sometimes with a bit of nudging. But truth be told, we have been able to achieve so much.

Today, the payments industry is no longer the exclusive domain of banks. The advent of FinTech driven by the increasingly inexpensive and pervasive internet and mobile technology has encouraged the entry of more agile non-bank players as potential disruptors or collaborators of the incumbent players.

This has set the stage for an exciting new era in payments, an era in which the industry is expected to take on a larger role in delivering a more robust and efficient payments system for Malaysia.

The Bank will facilitate this in three key ways:

i. First, through policy initiatives to encourage collaborative competition or 'co-opetition';
ii. Second, by further strengthening industry alignment; and
iii. Third, by supporting more inclusive governance arrangements for the development of the payment system.

Policies to promote co-opetition as a key enabler for greater efficiency, competition and innovation

Network effects are critical to an efficient payment system. The larger the network of a payment system, the more valuable it is to users of the payment system.

Instead of duplicating resources to build costly and overlapping payment infrastructures, the industry should collaborate at the infrastructure level to improve the network architecture and achieve this more quickly, thus benefitting from economies of scale and new opportunities to serve customers better.

Competition should continue to exist at the product level, where industry players compete to deliver a positive user experience through value-added product offerings. This would not only avoid market fragmentation, but also allow a more optimal use of scarce industry resources.

Such 'co-opetition' is not new in Malaysia. We used to have three ATM networks in the country. In 1997, the three ATM networks were consolidated into MEPS, immediately allowing the public to withdraw funds from a larger network of ATMs nationwide. In 2005, the financial industry collaborated to adopt the EMV Chip technology to enhance the security and interoperability of domestic payment cards.

This eradicated counterfeit card fraud and boosted public confidence in the use of payment cards. As a result, payment card spending increased by almost threefold from RM47.5 billion in 2006 to RM141.6 billion in 2016. More recently, such collaboration can be observed in the industry-wide migration to adopt PIN and EMV contactless technology to further enhance the security and convenience of domestic payment cards.

Throughout these developments, appropriate policy interventions played an important role to encourage 'co-opetition' in the payment market – in particular, to overcome the natural resistance of banks to collaborate due to a perceived loss of competitive advantage if they do so.

Fostering 'co-opetition' will therefore continue to be a key policy thrust of the Bank.

In the near term, the Bank will be issuing a framework on interoperable mobile payments to foster 'co-opetition' in the mobile payment landscape. The framework will promote open and fair access to shared payment infrastructures for both banks and eligible non-bank entities.

This will be supported by interoperability standards and proportionate risk management controls that aim to encourage competition while facilitating collaboration at the infrastructure level. Banks and operators of shared payment infrastructures such as MyClear and MEPS are encouraged to publish open Application Programming Interfaces (or APIs) to drive continuous innovation in value-added payment services by both banks and non-bank fintech players.

Merger of MyClear and MEPS to strengthen industry alignment and spearhead the transformation of the payment landscape

Today, I am also pleased to announce an agreement has been reached between Bank Negara Malaysia and the industry to merge MyClear and MEPS which operate Malaysia's shared payment infrastructures for wholesale and retail payment transactions. The merged entity will be called 'Payments Network Malaysia', or 'PayNet' in short.

PayNet will be jointly owned by Bank Negara Malaysia and the financial services industry. It will embark on modernising our payment infrastructure. It will assume a key role in ensuring that Malaysia's payment systems are future-proofed and always at the cutting edge of payment efficiency, innovation and competition. Importantly, the merger will further strengthen the alignment of strategies and priorities for the development of Malaysia's payment systems. It is also expected to significantly reduce the time to market for delivering improvements.

As a shared utility, PayNet will operate with a public interest objective to support and develop safe, reliable and efficient payment systems in Malaysia. PayNet will provide the necessary common infrastructure, and the banks will compete on providing financial products and services. In the long run, we should expect that the merged entity should venture abroad and strike foreign alliances to further expand network and reach.

Over the next 12 months, PayNet will move forward with plans to develop and implement a Real-time Retail Payments Platform (RPP) that will facilitate interoperable mobile payments.

A central feature of the RPP is the national addressing database that will allow payments to be made conveniently through the use of mobile phone numbers and National Registration Identity Card (NRIC) numbers, instead of referencing bank account numbers.

In line with principles of fair and open access, the RPP will be open to both banks and eligible non-bank payment service providers. Besides making the technology roadmap for the RPP publicly available, PayNet will actively engage with the banking industry, FinTech community and other relevant stakeholders in the development of the RPP.

PayNet will also direct its focus to promoting MyDebit, which is the domestic debit card network, as a low-cost alternative to displace the use of cash. Significant efforts will be devoted towards increasing the acceptance of MyDebit, particularly among lower-tier merchants to lessen the use of cash to lower the operational costs for businesses.

Some of the initiatives that will be undertaken by PayNet include enabling MyDebit to be used on mobile phones and operating a 'shared token service' for the local payment industry. In addition, PayNet will also expand the use of MyDebit to pay for transit services, including buses and trains, within the coming year.

Supporting more inclusive governance arrangements through the transformation of NPAC

While we can look forward to developments that will further transform our payment systems, the process also matters.

Since the establishment of the National Payments Advisory Council (NPAC) in 2001 to advise on and steer payment system development in Malaysia, we have worked to put in place a more inclusive process for setting the payment agenda. This aims to reflect the changing make-up of the payment industry and better anticipate the changing demands of users.

We cannot hope to future proof the system without a good pulse on the expectations, constraints and incentives that drive payment behaviours and decisions to invest in innovation. It also often determines how quickly or slowly we can roll out planned initiatives, or even stay the course on these plans.

This led to changes that were introduced last year to broaden the representation of the NPAC to include stakeholders on both the demand and supply sides of the payment market. This includes wider representation from non-bank payment service providers and user groups such as consumers, merchants and government agencies.

The NPAC now comprises a Steering Committee, a User Consultative Group and a Service Provider Consultative Group. The consultative groups serve to promote dialogue, encourage alignment and canvass new ideas to improve payment solutions. This provides important inputs to focus on the strategic and tactical priorities for the development of the payment systems in Malaysia.

Continued support from all stakeholders necessary to ensure the successful migration to PIN verification

Before I end my speech, allow me to take this opportunity to commend the industry on its efforts to achieve a smooth transition from signature to PIN verification of payment card transactions.

Collectively, we shall achieve our targets to migrate users to PIN verification by 1 July 2017. We have seen tremendous commitment and intensified efforts by banks to meet these targets and I am pleased to note that we are near completing the replacement of all active payment cards and POS terminals with PIN functionalities.

We have been clear that there will be no extension to the deadline of 1 July 2017 for turning off signature verification.

By that date, only PIN will be accepted for domestic payment card transactions, so it is important that in the next 40 days, we should not be complacent and no effort is spared to encourage the migration to PIN. From the latest data we have, the PIN bypass rate has now been reduced to 10% in April. At the current rate of migration, we expect to see that rate to come down much further before the end of June.

Closing remarks

Driving and sustaining an inclusive transformation of Malaysia's payment ecosystem is a collective effort.

Bank Negara Malaysia will continue to foster a conducive payment ecosystem, with the National Payments Advisory Council (NPAC) playing a more active role in shaping priorities to enhance and future-proof the country's payment systems.

PayNet will serve as the key vehicle for collaboration at the infrastructure level, encouraging more open competition and greater innovation in payment solutions by both banks and non-banks in serving the public and economy.

The remaining piece is the continuous education of businesses and consumers to encourage the desired change in payment behaviour that will deliver important efficiency and productivity gains for our economy.

Let me conclude by congratulating MyClear and the winners of today's awards ceremony. I hope that today's event will inspire greater achievements in accelerating Malaysia's migration to e-payments.