

## **Zeti Akhtar Aziz: Electronic payments in Malaysia**

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Promotion of Electronic Banking and Payments Launching Ceremony, Electronic Banking: The Way Forward, Kuala Lumpur, 8 May 2003.

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Bismillahirrahmanirahim

Dr. Rozali bin Mohamed Ali

Chairman of the Association of Banks in Malaysia (ABM)

Ladies and gentlemen

Good morning,

It gives me great pleasure to launch the ABM programme to promote electronic payments in Malaysia. This programme is to raise the awareness on the changes in technology and how they are affecting banking and payments in Malaysia.

There is enormous potential that technological developments can bring to transform the financial industry in a manner that will bring significant gains to businesses and consumers. The rapid pace of advancement in information technology and communication networking has offered a wide range of delivering channels in retail banking. Banking institutions need to exploit the opportunities that arise from these developments and changes to remain competitive. The successful financial institutions in the future will be those that are able to leverage most from the information and communications technology revolution. Increasingly, consumers are also demanding more efficient banking services and are becoming more discerning of the power that the technology brings. The winners will be those financial institutions that are able to harness on the capability of ICT in making strategic decisions in terms of enabling better alignment of business, enhancing organisational capacity and capability, risk management and building better customer relationship. Attention at the highest management level is therefore vital to ensure the formulation of the most appropriate ICT strategies for banks to remain competitive.

The new banking environment is about differentiating banking products and services that provide increased choices, control, security and accessibility. The ability of financial institutions to deliver products and services in the most efficient and effective manner will be key to determining performance and relevance.

In this area, financial institutions in Malaysia have not been behind in embracing the rapidly evolving technologies and in taking initiatives to enhance the delivery channels. There are 12 banks offering Internet banking facilities while five have introduced mobile banking. The adoption of chip technology now also offers new forms of payment choices and higher security to the public. The introduction of the Bankcard to replace the magnetic stripe ATM cards and efforts towards migrating to EMV compliant credit cards before end-2004 is indeed an important step forward. A further development has been the introduction of the MEPS Cash, the national e-purse scheme as an alternative electronic payment mode to using cash for making retail payments. The ATM machines of the participating banks and terminals at retail outlets are being upgraded to facilitate MEPS Cash transactions. With these developments, specific programmes need to be implemented to promote the usage of MEPS Cash among the public and business entities. Indeed, this e-payment program is a good start to promote a wider use and acceptance of this means of payment.

Ladies and gentlemen,

While the efficiency of electronic means of doing banking is valued, the basic tenet of banking services that is providing security and safety still remains. The potential benefits from electronic delivery channels need to be exploited without undermining the security and confidence of the banking public. The challenge to providing multi channel services in today's banking is the ability to integrate and interface the different delivery channels. Multi channelling strategies therefore needs to be approached holistically.

Technological development is not only about creating alternative delivery channels, but it is also redefining the financial landscape. Indeed, as a result of significant innovations in technology, the payments industry landscape will be redefined with the entry of non-banks into payment services once thought to be the domain of banks. Banks need to be more proactive in their role in the payments mechanism. This includes continually finding new effective ways to provide the payment services in a cost-effective, and efficient manner by taking advantage of technological advances and meeting the changing demands of businesses and consumers. Banking institutions need to innovate to reach potentially new markets and consumers. It is not just about web enabling existing products and services but also being able to provide the complete financial services required by consumers and businesses. It is also not just about implementing technology solutions but being able to customise the product offerings to our local requirements and preferences.

Ladies and gentlemen,

The growing evolution and demand for online financial services will lead to greater digitisation of banking services. While the use of cash and cheques will continue to be important, more consumers are realising the convenience and flexibility of electronic banking in meeting their daily payment needs.

The change in consumer behaviour is reflected in the increasing use of electronic payment systems in the country. The volume of cheques processed through the cheque clearing centres has shown a declining trend in terms of both volume and value. This has been reinforced by the introduction of the interbank Giro and Internet banking three years ago. The number of interbank Giro payments has more than quadrupled in 2002, while electronic funds transfer and bill payments conducted through Internet banking has been on an increasing trend. More customers are likely to be drawn to Internet banking, which is gaining acceptance in Malaysia with now over 1 million subscribers. Increases have also been recorded in the number and value of ATM transactions and card payments.

Ladies and gentlemen,

While the pace of the transition from paper-based payment instruments and systems to electronic instruments is increasing, the adoption of electronic payment solutions needs to be accelerated. Consumers and businesses have to become familiar with using the new payment methods and their advantages. The SMEs, in particular, should take advantage of electronic delivery systems to improve their access to banking services and finance. This would be an initial step toward venturing into e-commerce as a means to penetrate new markets. In this respect, I note that the banking industry has drawn up a communication strategy to raise consumers awareness of its convenience, speed and efficiency and to encourage its use.

A smooth functioning payment system is critical to the effective functioning of the economy. As the payment systems continue to evolve, Bank Negara Malaysia, will continue to facilitate and foster the safety and efficiency of the payment systems to safeguard public interest. To enhance the efficiency of the payment systems, Bank Negara Malaysia has recently reviewed the legal and regulatory framework of the payments system. A comprehensive legislation on the payment systems is being put in place to provide the mandate for Bank Negara Malaysia to effectively oversee and facilitate greater development of the payment systems. The legislation would also promote a conducive and liberalised environment for the modernisation of the payment systems in Malaysia.

Several policy decisions have also been made. Access to the payments system has been broadened with the relaxation of the policy on the offering of payment gateway services and issuance of credit cards. Banks are allowed to operate their own payment gateways and non-banks are permitted to issue credit cards if they have established line of credit mechanism from the banks, or have set up a joint venture company with the banking institutions. The relaxation on the policy on payment gateway would promote greater competition in the payments system while the flexibility accorded on the issuance of credit cards would enable the partnering of licensed institutions with non-banking institutions in offering greater choices to consumers.

Ladies and Gentlemen,

In conclusion, I would like to re-emphasise that banks should continuously seek to educate and familiarise consumers in the use of electronic and other technology based banking applications which are more efficient and cost effective. The occasion today is an important step towards maximising banking convenience that technology can offer to the consumers. I am delighted to take part in today's

launch and would urge the participation of all financial institutions in this effort to promote the use of electronic payments in the country.

Thank you.