

## **Muhammad bin Ibrahim: Development and deployment of Malaysia's ATM network**

Speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the launch of MEPS (Malaysian Electronic Payment System) ATM Initiative, Kuala Lumpur, 21 October 2013.

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### **Pooling of resources through MEPS**

The launching of MEPS' ATMs marks an important milestone as this will be the first time that MEPS, a non-bank entity owned by the banking industry, is deploying ATMs, instead of by individual banks. This initiative is indeed a welcomed move as it facilitates the pooling of resources by the banking industry for a common objective of developing and deploying industry-wide banking infrastructure. It promotes efficiency and cost effectiveness. Widening the ATM network through shared resources will also benefit the public by having more convenient points of access to banking products and services.

MEPS had in the past a history of coordinating industry-wide infrastructure development efforts. An outstanding achievement was made when it coordinated the industry-wide migration of the ATM cards from magnetic stripe to chip-based technology in 2001 to eradicate the numerous fraud involving magnetic stripe technology. This move was a significant strategy for the country, as Malaysia was amongst the first, to adopt a chip-based technology to reduce fraud and boost public confidence in the use of the ATM and payment cards. MEPS should continue to perform this role, as builder of payment infrastructure for the banking industry.

As an industry, banking institutions should continue to share infrastructure cost and compete on providing quality products and services. Basic payment infrastructure should not be a tool for competitive edge but rather as a means to reduce cost and adopting common standards.

### **Migration to E-Payments to achieve cost savings**

Accelerating the migration to e-payments is one of the key strategies in the Financial Sector Blueprint. On numerous occasions we had highlighted that a successful migration has the potential to drive further efficiency gains and cost savings. It will improve the country's competitive position. Research has suggested that successful migration to e-payments can save the country in terms of costs (of about 1% of GDP annually).

Today, cheques and cash remain prevalent in Malaysia. Based on the last 3 years data, an average of 205 million cheques totalling to about RM2 trillion were issued on an annual basis. Our preliminary estimates showed that at RM2.70 cost per unit, the banking industry spends at least RM544 million annually on extending cheques issuing services. This is an expensive way of doing business.

In terms of cash, over the last 3 years, an average of 547 million cash withdrawals at ATMs were made amounting to RM276 billion per annum. This represents 93% of the total financial transactions conducted at the ATMs, while only 7% of the ATM transactions were for non-cash withdrawal. These included funds transfer, bill payment, card and loan repayment, purchase of share application and reload of mobile prepaid applications, which was valued at RM37 billion on average per year. So the usage of ATM for e-payment purposes was underutilised and the industry should do more to improve this situation.

## **ATMs to cater to those that have not adopted online banking**

92% (or 18.4 million) of the total adult population in Malaysia has banking accounts and of these, the internet banking population accounts for about 74% (13.7 million) of bank account holders. Whilst 74% of the bank account holders have internet banking access but only 43% (5.9 million) of the internet banking subscribers are active users in conducting financial transactions. Still a long way to go to encourage users to adopt electronic means in conducting their banking transactions. In this regard, we have to do more to reach critical mass where the public are familiar with or comfortable in using internet banking to conduct their financial transactions.

To achieve this aim, banks should continuously increase their efforts to educate their customers and businesses on the safety of online banking practices and provide incentives to them to migrate away from cheques and cash. MEPS' initiative on widening the ATM network would also provide convenient access points across the country to enable those who have not yet adopt online banking to migrate to cashless banking services. In particular, the target groups are the SMEs and microenterprises. Banks should extend all necessary assistance to help these groups to migrate to the e-payment platform.

To realise the full potential of the payment network, banks that offer cheque issuing and ATM cash withdrawal facilities should provide the full suite of funds transfer and electronic payment functionalities over the ATMs. Of the 20 banking institutions that offer ATM services, 17 of them today provide the IBFT service, a real time interbank funds transfer service that enable customers to transfer funds via the ATM in a safe and secure manner. Banking institutions are strongly encouraged to also offer the Interbank GIRO (IBG) via their ATMs as a lower cost option to the IBFT.

With over 1,400 new ATMs deployment by MEPS over the next 5 years, in addition to the current 12,000 installed nationwide, there is a significant potential for the ATMs to be used as convenient access points to the public to conduct electronic payment and funds transfer transactions. The widespread availability and reach of the ATMs network should serve the needs of the public not just in the urban areas but also in the rural towns.

## **ATM cards to be used for purchases at Point-Of-Sale terminals**

Whilst Malaysia has a population of about 29 million, we have a high penetration of 39 million ATM cards. The ATM cards issued by banks that are used for cash withdrawals also have the domestic debit card application which can be used at merchants' Point-Of-Sale terminals to make purchases. In this regard, the public can use their ATM cards at participating merchants to make purchases. This would lessen the need for the public to carry cash in their wallets, as well as, reduce the number of cash withdrawals from ATMs.

As ATM card is a safe payment card, users ought to use PIN for the authorisation of purchase transaction, similar to ATMs withdrawals. In the event a user lose their cards, fraudster would not be able to illegally transact banking services without the PIN. MEPS and the banking industry should also promote the use of the ATM cards at the Point-Of-Sale terminals. Industry effort should be made to increase the number of Point-Of-Sale terminals to provide the public with the convenience of using their ATM cards for purchases of goods and services and to reduce the need for cash usage.

## **Banks need to address ATM robberies**

Over the last 24 months, there was a rise in the number of ATM robbery cases. There were only 5 cases in 2010 and in 2011. These numbers had increased to 63 cases between January – September 2013 (51 cases in 2012). This is a serious trend. If the banking industry does not tackle this issue quickly, it could dent public's confidence in the safety of the ATMs services. Banking institutions ought to take this matter seriously and take remedial measures immediately.

The banking industry should step up its effort to counter these incidences, including the use of ink staining technology that renders the cash stolen to be worthless. This technology has been implemented successfully in countries such as the Netherlands, South Africa and Belgium with good results. Attempted robberies would cause the notes in the ATMs to be stained, rendering it valueless. Stained banknotes should not be accepted by retailers for payments and by the banks as deposits. This will serve as deterrent, sending a strong message to would be robbers.

We had recently issued a guideline on the use of Ink Staining Technology for the industry. With this issuance, the banking industry should be ready to implement this initiative.

### **Conclusion**

Let me conclude my speech by congratulating MEPS for the successful launch of this new initiative.

MEPS' can play an important role as the catalyst for the development and deployment of the ATM network. We hope that MEPS will also continue to collaborate and coordinate the pooling of resources for the banking industry. The banking institutions should give MEPS their full support as well.

It now gives me great pleasure in officiating the launch of MEPS ATM initiative.