

## **Muhammad bin Ibrahim: Developments in Malaysia's money services business**

Speech by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the Launch of the Malaysian Association of Money Services Business, Kuala Lumpur, 9 January 2014.

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Over the last two years, this industry has experienced significant change with the introduction of a new and strengthened legislative framework for the industry. We have been encouraged by the positive developments that have been achieved during this period. Many of you supported this change and are well on your way to build businesses that will succeed through time with higher standards of professional service and integrity. Through our interaction and engagement with members of the industry, we hope that by now, the industry is clear that the status quo cannot be an option. The industry must be able to operate with a high degree of transparency and in full compliance with applicable laws and regulations. This is important not only to build confidence in the services that the industry provides, but also to protect the integrity of the broader financial system. The sanctity of financial system is of utmost importance as it is the pillar for our economy.

### **Vision and regulatory expectation for the industry**

With the enactment of the Money Services Business Act 2011, the law provides the powers to create an enabling condition to deliver better consumer protection, improve business opportunities, and strengthen safeguards against the risk of money laundering and other illegal activities. Significant resources have been devoted by the Bank in the last two years to achieve these objectives. One of it was the relicensing process. We had reassessed a total of 839 money changing companies and remittance service providers and issued new licences to those that met the necessary requirements. We have also provided time for companies to improve their operations. These companies had demonstrated that they are able to comply with the required rules.

For those that qualify the licensing processes, improvements in their operations could be achieved within a reasonable timeframe. We have also made it clear to the industry that companies found to be carrying out unauthorised activities will be firmly dealt with through enforcement actions. Out of the 839 licenses issued earlier, the relicensing process had reduced a total of 365 licenses as a result of revocation, merger, voluntary surrender of license or industry players themselves decided to convert to become an agent of a larger entity.

We have significantly increased our interactions with the industry to help companies understand the regulatory requirements that must be observed. These engagements have also helped the Bank better understand the practical issues that are faced by the industry and we have responded accordingly to some of these issues. I can assure you that we will continue to work with the industry to find solutions to legitimate issues raised by the industry but the industry must act responsibly and with the public's interest in mind.

Enforcing compliance will continue to be an important focus of the Bank. This focus will increase as non-bank institutions such as those in this industry potentially become more vulnerable to financial abuses as a result of strict implementation of anti-money laundering and counter financing of terrorism (AML/CFT) measures imposed on the banking institutions. The enhanced focus is part of Malaysia's effort to counter money laundering and terrorism financing risks. Another potential risk is in the exploitation of new products and services made possible with the advancements in technology, where the money services business industry might become a target to channel proceeds from illegal activities.

Specific regulatory requirements have been introduced, in particular on maintaining proper records and source documents, and the essential requirements to conduct customer identifications and to verify sources and purpose of funds. These steps should reduce these risks. In addition, the Bank will continue to conduct on-site visits to your businesses to check compliance, and where necessary, we shall use the enforcement tools provided under the law to enforce compliance. The punitive measures would include the revocation of licences, monetary penalties for non-compliances and prosecution for the more serious offences.

We will also continue to act swiftly to stamp out illegal operators and those who assist them in facilitating unauthorised money services business activities. To date, actions have been and are being taken against more than 180 entities, which include the revocation of licence, removal of key responsible persons for serious failures to comply with regulatory requirements, and compounds for non-compliances with various regulatory and operational requirements. Several entities have been charged in court and some of these had been convicted.

While we will sustain these efforts to continue to raise standards of compliance in the industry, the primary responsibility for ensuring compliance rests with the industry itself. It starts with every company having clear processes, well-trained and informed staff, and effective systems and records that assist in complying with regulatory requirements.

The industry has made some progress, and we are encouraged by the efforts that are being made at individual companies and at the industry level. Some of you have made more progress than others. For those that continue to wait, time is running out and it is very important that plans be developed immediately and implemented aggressively to establish the necessary systems to improve compliance with the law. Overall, while the industry has done a commendable job, a lot more can be accomplished and it is in the industry's interest to show improvements, as we enter into the next round of compliance assessment of individual companies.

### **Expectations on MAMSB**

We have high hopes and expectations for the association. The establishment of this association is very timely for it to play a central role for the benefit of the industry. The Association should spearhead and drive capacity building efforts that will support the objectives of promoting modernisation and elevating the standards of compliance and professionalism in the industry.

Firstly, the association is expected to take on an important role in instilling professional conduct and good business practices amongst the industry players. In this respect, the Bank looks forward to a code of conduct for the industry to be established and implemented by the industry this year. The code of conduct should comprise a set of key principles and guidance for proper business practices that instil greater market discipline and confidence, and to create a culture of healthy competition within the industry. This should be complemented by a process that ensures that individuals responsible for managing money services business operations have the relevant knowledge and experience to meet the minimum professional standards set by the industry, and are able to offer quality services to the public.

In relation to this, the association should consider implementing a certification or qualification process, for example, by conducting entrance examinations for its members sometime in the future.

We also expect the association to play a proactive role to improve the image of the industry players and weed out the black sheep within the industry, through the effective implementation and enforcement of the code of conduct, and by working with the relevant authorities to help combat illicit transfers of funds and unauthorised activities.

Secondly, the association will also serve as the central platform to drive and implement development initiatives to enhance the capacity of the industry. The Bank has high

expectations for the association to play a key educational role to promote greater industry understanding on regulatory compliance and the latest industry trends, through holistic education and training program such as requirements under the relevant laws and best practices, risk management and consumer protection. Properly structured, the training and development program would result in higher professional standards of conduct and should strengthened safeguards against possible abuses and contravention of the law.

Thirdly, as the collective voice of the industry, the association will provide the bridge for constructive engagement between the Bank and the industry. Through regular engagement, the association can play an effective facilitative role in addressing issues concerning developments in the industry, by providing meaningful feedback and input to the Bank or other relevant authorities. We have found over the years that industry associations can add tremendous value in consolidating fragmented views of the industry on important issues and could assist in formulating public policy.

There are many benchmarks that the association can draw on, both in Malaysia and globally, in organising itself as an effective association. But of paramount, the players must be united in supporting the Association.

Last but not least, the association is expected to undertake an active role in educating consumers on the services that the industry provides and in addressing consumer issues and complaints. In relation to this, the association should leverage on its nationwide network to increase awareness among the public of their responsibility to deal only with authorised money services. Part of this should also include explaining the relevant regulatory requirements to the public, such as the need to produce identification documents for large transactions.

Over the last 4 months, I am encouraged by the numerous initiatives undertaken by the Association and the fruitful engagements and consultations with the Bank. I understand that the Association has embarked on a series of nationwide training to help its members implement effective corporate governance practices, develop internal policies and procedures and put in place AML/CFT compliance programmes. It has also helped to resolve a number of industry issues, including assisting members to obtain business insurance coverage at reasonable rates, and liaising with system vendors to ensure the provision of suitable and reliable management information systems.

These are admirable progress and demonstrate the tremendous value that the association can bring to its membership.

On this note, let me take the opportunity to congratulate the Council members and the industry on this official launch. Bank Negara Malaysia fully supports the Malaysian Association of Money Services Business in its important endeavour, and we are confident of the significant impact that this Association can make in taking the money services business industry to the next level of development.

It now gives me great pleasure to officiate the launch of the Malaysian Association of Money Services Business.