

Muhammad bin Ibrahim: Scaling up excellence – creating opportunities while mitigating risks

Keynote address by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia, at the Regional Conference on Money Services Business “Scaling up excellence – creating opportunities while mitigating risks”, Kuala Lumpur, 19 May 2014.

* * *

I'm glad to be here with you today to join Mr Mathew A. Verghis in welcoming you to this regional conference on money services business. On behalf of Bank Negara Malaysia, I would like to thank the World Bank, the Malaysian Association of Money Services Business, and the International Association of Money Transfer Networks who partnered with us in organising this event. This conference aims to bring together regulators and industry players to review developments in the money services business industry at a time when there are significant changes occurring in the financial industry. In many countries, money services business plays an important role in complementing banking institutions to provide financial services to the community, in particular, the unbanked and small business communities. Given the forces of change that are reshaping the financial industry, it is timely to consider how these forces impacted the expectations, opportunities and challenges for money services businesses.

The money services business industry contribute to an important purpose in our communities. They provide financial services to segments of society in both the developing and developed world that do not have access to basic banking facilities and services. Increasingly, money services business provides and support tourism, business travel and cross-border trade activities in a more globalised world economy. According to a World Bank report, it is estimated that nearly 1 out of 7 persons is a migrant, reflecting the large and diverse diaspora community in the world today.

Worker remittances to developing countries were in excess of USD400 billion last year and represent a key source of external resource flows. These flows support economic growth in developing countries, far exceeding official development assistance. More than USD 1 trillion was spent on global business travel expenditure in 2013 and more than 1 billion in international tourist arrivals are recorded each year. In 2013, business activities supported world trade volume of over USD 23 trillion. All of these developments have created new and greater demand for remittance, currency exchange and other financial services that can be offered by money services businesses.

The industry itself has also become more diverse. Advancements in technology have enabled new business models, offering new product and service, innovations and forming of new alliances. These enhancements have the potential to further lower cost and increase convenience to consumers. Global money services companies exist alongside niche and smaller companies that focus on serving local communities. This has fostered competition and helped to fill market gaps. Today, money services are provided through a network of branches and agents of money services entities, retail outlets, post offices, banks and mobile channels.

Operational standards are also diverse across entities. Operational systems and controls, including mechanism to protect consumers' interest and prevent criminal activity, can vary considerably between entities and jurisdictions. With typically hundreds or more money services entities in most countries, such diversity presents a unique set of challenges for money services businesses and regulators seeking to put in place the necessary frameworks to manage and mitigate risks associated with the business.

In the more recent period, money services businesses have been confronted with increased challenges from heightened global concerns with crimes committed cross-border and

transnational money laundering. The cash-based nature of MSB transactions, global reach of remittance networks, and customer verification processes, if not properly managed would render MSBs susceptible to money laundering threats. Heightened regulatory scrutiny over money laundering controls and heavy penalties meted out by regulators might prompt banks to review their relationships with MSB companies. Some banks have withdrawn banking facilities provided to MSB companies, creating significant difficulties for large numbers of MSB companies that are doing legitimate business. On the other hand, as the bar is raised for MSBs to strengthen AML procedures, there is a concern over the unintended consequences that this might exclude certain segments of society from access to the formal financial system. Worse, it pushes more transactions to the informal or illegal channels. I raise these observations to highlight two points which I thought are relevant to this Conference.

First, MSB has an important role in supporting an inclusive financial system and facilitating economic transactions that add to growth and prosperity. However, this role has not been fully exploited. For example, there are still significant number of businesses and migrant workers who still prefer informal remittance channels as their choice. It is timely for MSB providers to reassess their products and services in terms of cost, speed, convenience and trusts so that we can draw this group of users away from the informal channels.

I believe innovation is key to achieve this and it has to be facilitated by a regulatory framework that is facilitative.

Second, global and national efforts to address risks associated with the financial proceeds from criminal activity have turned the spotlight on the MSB industry. The industry's long term prospects and its contribution to socio-economic development could be undermined if these risks are not properly understood and sensibly managed. The industry may choose to ignore such risks; regulators are inclined to exaggerate them; customers complain about the inconveniences caused by risks mitigants; and criminals exploit them. The regulatory community and the industry present here today have a responsibility to bridge these gaps in a way that protects the industry from abuse for criminal purposes and the integrity of the financial system and undermine the legitimate expectations by users of financial services.

There are 3 areas which we should focus collectively and try to find suitable solutions.

First, both regulators and MSB players need a strong knowledge base to enable us to respond effectively to risks inherent in the money services business. The implementation of a risk-based approach to counter money laundering requires a solid understanding of the sources and nature of risks that can arise in the business, and how these risks are changing over time as new products, business models and delivery channels are introduced into the market.

The better we understand the risks, the more likely we will be able to respond to the risks in an intelligent and proportionate manner, that balances risks with the objective of preserving inclusive access to money services. In all these efforts the key is collaboration.

As expectations continue to increase for MSBs to meet higher standards of compliance and risk management, the industry has much to gain by coming together to build expertise and capacity through training, sharing of best practices, and a deeper level of engagement with the regulators. The industry also need to collectively weed out the bad apples among their midst. Similarly, the cross-border dimensions of money services business also underscore the benefits of greater cooperation and collaboration among regulatory authorities to share knowledge, intelligence and experiences that can contribute towards strengthening the effectiveness of regulatory regimes governing the MSB industry.

Secondly, we need to have an effective system of incentives working together to encourage the desired behaviours. Ultimately, this will come down to clear and sensible rules, and credible enforcement. A well-designed and balanced regulatory framework that commensurate and proportionate with the risks, structure and characteristics of the industry

is important to create an enabling market for MSB services. For example, in the case of Malaysia, an important strategy for keeping regulatory cost low is the introduction of the principal-agent arrangement. Under this arrangement, the principal provides support to the agent in the form of infrastructure, systems and control frameworks as well as ensuring compliance. This has preserved access and minimized dislocations for smaller players that were not able to meet higher regulatory expectations.

Another important area is the need to have a strong and effective enforcement. Where an entity has failed to meet regulatory requirements, the consequences of regulatory sanctions must be clear and credibly enforced to deter abuses and instil a strong compliance culture. A strong incentive structure must be in place in which those who do not follow the rules are held accountable, and those that follow the rules are treated fairly, given the opportunities to further expand their scope of business and are not competitively disadvantaged.

It should come as no surprise therefore that regulatory authorities are taking stronger enforcement actions – some of the strongest we have seen to date – against multi-national financial institutions for failures to implement effective AML/CFT controls. This reflects the desire of regulators to ensure that appropriate incentives are in fact in place to check abuse and safeguard financial channels from being used to advance criminal activity.

The last area that I would like to mention is a focus on promoting and expanding the professionalism of the money services business, lifting the negative perceptions associated with the industry. MSB players should constantly strive to be a responsible corporate citizen by providing quality services with the highest level of integrity. This would mean being honest, ethical and have good compliance culture. This foundation can provide important context and confidence to build and maintain a good reputation of the industry, which ultimately will generate public confidence in the industry and to protect the integrity of the broader financial system.

The key priorities should include strengthening the competencies of individuals working in the industry, setting industry standards for the professional conduct of business and putting in place programs that help companies making the transition to better managed businesses that meet professional and compliance standards. We have seen that in some countries, as part of strengthening industry arrangements. The industry associations have become effective partners to the regulators to raise the standards of professionalism of the industry.

During the course of this Conference, regulators and practitioners will have the opportunity to share how we have approached these priorities. In Malaysia, we have given significant focus to these priorities and have set in motion an ambitious program to achieve this transformation.

Important progress has been achieved and we are committed to maintaining this momentum. At the end of the day, the vision is an industry that is trusted by those who use its services, untainted by crime and abuse, and exemplary of honest, responsible and upstanding corporate citizens. Experience and history have shown us that, these preconditions made business sense and over the long run ensure the sustainability of the industry.

The theme of this Conference, “Scaling Up Excellence – Creating Opportunities while Mitigating Risks” appropriately sums up the challenges we face today in the MSB industry. Rapid change is the new normal in today’s dynamic world. The global interconnectivity, the impact of regulatory changes and new technologies are all combining to transform the landscape of the MSB industry, not just within the region, but also internationally. Success for money services businesses in today’s challenging environment will hinge on the ability to adapt to new demands, while making the most of new growth opportunities that come with change.

I take recognisance that among the countries represented here today, we all face somewhat different challenges and we are likely at different stages of action. I know with certainty, however that we all agree inaction is not an option as the world changes around us. I hope

that this Conference will encourage us to move forward with greater confidence and determination, equipped with deeper knowledge and a better appreciation of the priorities that we need to manage and the paths that we can take to achieve our shared objectives for the industry.

On that note, it gives me great pleasure to open the “Regional Conference on Money Services Business”. I wish you productive discussions over the next 2 and the half days. To our overseas guests, let me welcome you once again to Kuala Lumpur and I hope you will bring home pleasant memories of your brief stay here.