Muhammad bin Ibrahim: Payment card acceptance

Keynote address by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Payment System Forum and Exhibition 2014, Kuala Lumpur, 27 November 2014.

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I am glad to be here today in welcoming you to the Payment System Forum and Exhibition 2014, organised by Bank Negara Malaysia in collaboration with the National Cards Group (or NCG in short). This year's forum and exhibition will centre on 'Payment Card Acceptance', an area in which Malaysia needs to make significant improvement, to reduce our dependency on cash and cheque usage and accelerate the country's adoption of electronic payments (or e-payments).

My remarks today will focus on 3 broad areas:

- Firstly, I will provide the context of where our position is in comparison with advanced economies in the use of debit cards, and the potential benefits that we could gain in migrating from cash to debit cards;
- Secondly, I will highlight the reform measures that we are taking, which include enhancement to the existing infrastructure to facilitate greater adoption of e-payments; and
- Lastly, I will address the key priorities in the area of security and risk management with the aim, to further strengthen consumer confidence in the use of online banking and e-payments.

Malaysia should keep pace with the global shift in the adoption of debit cards

Malaysia's cash usage remains high. In 2013, our cash-in-circulation over GDP is 6% compared to only 2% to 4% in advanced countries. In terms of payment card usage, our payment card transaction per capita is relatively low, at only 13 transactions per capita in 2013. This is far below the level of payment card usage in the advanced countries with an average of more than 200 transactions per capita.

It is also important to note that Malaysia has a higher proportion of credit card usage compared to debit card usage, with a ratio of 7 credit card transactions for every debit card transaction. In contrast, debit card usage is more prevalent in the advanced economies, at an average of 6 debit card transactions for every credit card transaction.

The debit card is a more cost-effective payment instrument compared to the credit card. Greater use of debit cards would minimise the country's retail payment cost and contribute to greater savings and efficiency. In this respect, the banking industry can play the important role of taking more proactive measures to widen the payment card acceptance infrastructure, and promote actively the usage of debit cards to the general public. It is a mutually beneficial relationship. Consumers can conduct their financial transactions in a safe, convenient and efficient manner while the banking industry can benefit through reduction in the cost of handling and managing cash.

High potential for debit cards to displace cash in Malaysia

Cash is an expensive payment instrument which imposes an unnecessary cost to the economy. Bank Negara Malaysia spends about RM359 million a year on the printing and distribution of banknotes and coins.

The banking industry on the other hand, incurs an estimated cost of about RM1.8 billion a year in cash handling and the provision of cash services to the public. As for businesses, an estimated cost of about RM2.7 billion is incurred annually for cash handling, in addition to bearing the risk of pilferage and theft. In total, the cost incurred by the banking industry, the business community and Bank Negara Malaysia in cash handling and management is estimated to be around RM4.8 billion a year. The cost to the economy would be even higher if we factor in the cost incurred by the households.

With 45 million debit cards for a population of 30 million, Malaysia is well-positioned to migrate from a high dependency on cash usage to the use of cost-effective debit cards. Payment cards issued in Malaysia are already on chip-based technology since 2005. Malaysia was the first country in the Asia Pacific region to implement an industry-wide migration out of the less secure magnetic stripe cards, which are prone to skimming and counterfeit fraud. The adoption of chip-based technology gives us an enormous opportunity to leverage on our large base of secure debit cards and expand the acceptance points (or Point-Of-Sale terminals). We need to capitalise on this potential synergy.

Strategy to accelerate migration towards e-payments

a. Payment card reform framework

Over the past few years, Bank Negara Malaysia has undertaken various measures to encourage the use of e-payments as a means to enhance Malaysia's economic efficiency, productivity and competitiveness.

In 2015, we will be taking a significant step forward in this agenda with the implementation of the Payment Card Reform Framework. The Framework will provide a much more conducive environment for merchants to accept card payments through the wider deployment of terminals and lower cost structures.

The Point-Of-Sale terminals have not been growing at the desired pace despite the high penetration of debit cards. There are only 8 terminals per 1,000 inhabitants in Malaysia compared to more than 20 terminals per 1,000 inhabitants in advanced countries. The growth rate of the Point-Of-Sale terminals in Malaysia have slowed down considerably from 14.6% in 2011 to 6.1% in 2012 and 3.2% in 2013, indicating a potential saturation of Point-Of-Sale terminals among the higher tier merchants who can afford the current level of merchant fees charged by the financial institutions.

The recent hikes in interchange fee, which is the fee payable between financial institutions in a payment card transaction, are likely to make payment card acceptance even more costly for merchants. Interchange fee forms a significant part of the fees paid by merchants for accepting payment cards. The continued indiscriminate increases in interchange fee would hinder the expansion of Point-Of-Sale terminals, especially among small merchants. To prevent a system-wide increase in merchant fees, the Payment Card Reform Framework would moderate the increases in payment card acceptance cost. This would be achieved by subjecting interchange fees to ceilings which are set based on objective and transparent criteria. In addition, the framework also seeks to address distortions in the payment card market in order to foster an efficient, transparent and competitive payment card industry in Malaysia.

b. Enhancing the payment card infrastructure

To complement the Payment Card Reform Framework, the banking industry has committed to invest approximately RM1.1 billion over the next 6 years for industry-wide infrastructure development to further enhance the payment card security and expand the Point-Of-Sale terminal network. This would make Malaysia's payment card landscape more competitive. The infrastructure development that would be undertaken by the industry includes, among others:

- the expansion of the Point-Of-Sale network by an additional 570,000 Point-Of-Sale terminals, especially among the lower tier merchants;
- the adoption of Chip and PIN, which is a more secure cardholder verification method for purchase transactions, by 1 January 2017; and
- the migration of the domestic debit card from its proprietary standard to the internationally-recognised EMV standard equipped with contactless functionality by 1 January 2018.

These developments are exciting changes in store for the payments sector. With it, comes an enormous opportunity to expand business and enhance value to consumers.

c. Highlights of development in delivery channels and payment system infrastructure

As banks serve various segments of the economy, it is important to widen the accessibility of e-payment services through various channels to cater to the needs of different consumer groups. The industry should continuously identify and address any gaps in the current e-payment infrastructure and services by improving their product offerings. For instance, building on the wider penetration of online banking services which now have a total of 17 million subscribers (of whom 7.5 million are active users), banks have also provided alternatives to consumers to conduct electronic funds transfers using either the Interbank GIRO (IBG) or the Instant Interbank Fund Transfer (IBFT) via 9,410 ATMs and 2,475 self-service Internet kiosks nationwide. While the fees imposed for IBG and IBFT are differentiated, consumers are given choices that suit their preference.

To promote infrastructure sharing and reduce cost and enhance online bill payment facilities in Malaysia, there is currently an ongoing industry initiative led by the Malaysian Electronic Clearing Corporation Sdn. Bhd. (or MyClear in short) to develop a national bill payment scheme known as JomPAY. JomPAY leverages on shared infrastructure to significantly expand the scope and utility of bill payment facilities.

At present, customers can only use the online channel of a bank to make bill payments to merchants who maintain banking relationships with the same bank. This is set to change with the implementation of JomPAY, which is a common and open platform that allows customers of any bank to make online bill payments to any merchant registered with JomPAY. In other words, a merchant will be able to receive payments from customers across all participating banks. This would not only reduce duplication of investment costs by the banks, but also bring about greater convenience, cost savings and efficiency gains to both consumers and merchants. JomPAY is targeted to be rolled-out in phases starting from next month.

(In the next presentation, the Director of Payment Systems Policy Department will provide you with further details of the supporting e-payment infrastructure and the strategies undertaken by Bank Negara Malaysia to accelerate the country's migration to e-payments.)

d. Safeguarding the security of transactions

Ladies and gentlemen, let me now move on to the issue of security and consumer confidence in the use of online banking and e-payments.

Considerable efforts have also been taken by the industry to improve user confidence in the use of payment cards. As I mentioned earlier, the banking industry had migrated our payment cards to the more secure chip-based cards in 2005. The investment cost of RM200 million was subsequently recovered through the projected fraud savings in just two and a half years.

This served not only to foster consumer confidence in payment cards but also boosted credit card spending by foreign tourists which increased from RM4.3 billion in 2006 to RM7.9 billion in 2013, an increase of 83% over 7 years. In 2013, fraud losses had remained low at less than 0.03% of the total value of debit and credit card transactions.

Due to the liability shift in the rules of the international payment card network operators, about 89% of these losses are borne by foreign financial institutions who have yet to implement the higher security requirements. Consequently, our fraud losses amounted to only 0.01% of the total payment card transaction value, which is quite low by international standards. One lesson learnt was that if we invest intelligently in infrastructure, we would certainly reap the benefits faster than expected.

Nevertheless, there have been recent reports on concerns over emerging fraud threats in online banking and online payment card transactions. In this regard, I would like to stress that individuals do not and should not bear any loss arising from any unauthorised transaction not caused by them. Bank Negara Malaysia will not tolerate any cases where financial institutions have acted unfairly by passing the liability of fraud losses to their customers. Bank Negara Malaysia holds the board of directors of financial institutions responsible to ensure that effective safeguards are in place to counter both present and emerging fraud threats. In addition, financial institutions must also ensure that consumers regularly receive sufficient information on ways to protect themselves against possible fraud.

Fraud threats continue to evolve and financial institutions should anticipate such new threats and act ahead of the curve. While the number of new and emerging fraud threats is small relative to the total number of transactions and the fraud losses are negligible compared to the investment cost for security upgrades, financial institutions should not underestimate the potential for such threats to increase in frequency and impact. Aside from financial losses, the reputational damage to financial institutions arising from service disruptions can be severe.

This is especially so in today's environment, where adverse publicity can spread exponentially through the social media.

Financial institutions must therefore keep abreast with the latest fraud schemes in and outside the country, and continuously invest in fraud prevention technology to keep fraud incidences at a minimum. Security investment decisions must carefully weigh the likely growth of new fraud threats and the implications for financial institutions if such threats are not averted. The ramifications of failing to do so could be catastrophic.

e. Importance of consumer education and awareness

Consumers also have an important role to play to avoid becoming victims of fraud. As consumers, we should learn about the simple yet important steps that we can take to conduct safe payment transactions.

There have been cases where the public have been deceived to transfer their funds into another account, only to be siphoned off by a fraudster. This is done through psychological manipulation where the fraudster impersonates a bank officer or an officer of Bank Negara Malaysia, to deceive the victim. Such fraud cases can easily be avoided if consumers are made aware of such methods and informed of the precautions that they should take to avoid being fraud victims.

As consumers, we should pay particular attention to the fraud alerts provided by our banks and the police and take the necessary precautions. Consumers should know as a basic fact that for instance, their banks or Bank Negara Malaysia will never ask them to disclose or validate personal details such as login ID, passcode and mobile phone numbers through SMS or emails.

f. Measures to be undertaken in 2015

We have set out an ambitious roadmap for Malaysia's migration to e-payments. Moving forward, a strong focus on six strategic priorities is required to accelerate the pace of our country's migration to e-payments. For 2015, I would like to suggest 6 key measures.

i. Firstly, we need to deploy an additional 50,000 Point-Of-Sale terminals in 2015, targeting in particular lower-tier merchants. The idea is to widen the acceptance of debit cards. To promote wide usage among consumers, we need to intensify efforts to conduct promotional activities to drive the usage of debit cards to reach 89 million transactions in 2015, compared to about 65 million transactions this year.

ii. Secondly, we need to double our efforts to raise the level of awareness on the basic safety steps to deter payment fraud. The recent 2-month long "Think Online Safety, Think C.A.R.D." campaign, jointly organised by the Association of Banks in Malaysia (ABM) and the NCG, to promote safe online payment practices, is a step in the right direction. The final session of the campaign will be held in Sasana Kijang today. Similar campaigns should be organised and expanded to reach a wider segment of the Malaysian population.

iii. Thirdly, the industry should ensure the timely implementation of JomPAY. This would enable both consumers and businesses across the country to benefit from the strong value proposition that JomPay will create in increasing the efficiency and convenience of online bill payments.

iv. Fourthly, banking institutions should conduct regular reviews on the adequacy and robustness of payment system risk management measures and the effectiveness of consumer protection measures. Where the review discloses gaps and inadequacies, banks must take immediate steps to rectify the weaknesses to preserve public confidence. Adequate resources must be allocated to this effort.

v. Fifthly, as part of the overall improvement in customer service, the banking industry should keep customers adequately informed of the dispute resolution procedures, in the event of fraud. Any disputes should be resolved in a timely manner. To minimise hardship on affected customers, I suggest that banks should adopt the good practice of provisionally refunding the disputed amount into their customers' account if they are not able to complete their investigations speedily.

vi. Lastly, to maintain public confidence and trust, we need to step up efforts to reduce cases of ATM robberies, which has spiked up from a total of 5 cases in 2011 to an average of 50 cases in the last 2 years. As at end October 2014, there have been 41 cases of ATM robberies which caused the banking industry to incur a total loss of RM4.4 million. Fortunately, no customer has lost any money. To prevent ATM robberies, the banking industry should quickly adopt the ink-staining technology for new ATMs, which would deter future cases of ATM robberies as the stolen notes will be rendered worthless through the staining technology.

In addition, I would like to add that an e-Payment Incentive Fund (ePIF) framework would be implemented on 2 January 2015. This would coincide with the implementation date of the new cheque processing fee of 50 sen which is introduced to reflect its higher processing cost. Under the ePIF framework, banks would channel the cheque processing fee collected from their customers into a fund to be used for infrastructure development and to provide incentives to their customers to adopt e-payments. In other words, the cheque processing fee goes back to consumers for their benefit.

Payment system forum programme

Today's forum aims to promote awareness and build confidence among merchants to accept payment cards. Among the various topics that will be discussed today are:

- Payment card acceptance infrastructure and cost;
- Success stories on payment card acceptance;
- Card fraud and security management; and
- Innovation in payment cards.

These are all relevant issues for businesses to consider in accepting payment cards and in making choices that would be in their best interest.

There is also an exhibition held in Conference Hall 1, where banking institutions and payment card companies will showcase their latest product offering on payment cards and other e-payment services.

Businesses have an opportunity to learn more about payment card acceptance and sign up for the attractive packages being offered.

Conclusion

Our country is at a critical juncture in its migration to e-payments. The various reform measures and the substantial infrastructure investments have created an enabling environment to transform Malaysia's payment landscape into one that is highly efficient, reliable and competitive. To ensure a successful transformation, the support from all stakeholders for a bold reform is needed. An efficient and competitive payment system is an important strategic advantage in today's highly challenging and rapidly evolving world. Consumers and businesses alike should re-invent themselves and take full advantage of innovations in payment systems in order to capitalise on the benefits and opportunities that it brings.