Muhammad bin Ibrahim: Increasing payment efficiency to improve productivity

Keynote address by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the JomPAY's Official Launch Event, Kuala Lumpur, 9 April 2015.

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In today's challenging and rapidly evolving world, one must constantly find innovative and efficient ways to remain productive, or risk being left behind. As payments represent an indispensable activity for both individuals and businesses, increasing payment efficiency through the adoption of electronic payments (e-payments) will improve productivity and reduce the cost of transactions. At the macro level, the adoption of e-payments has the potential to enhance Malaysia's overall economic efficiency and competitiveness.

The benefits in terms of cost savings and efficiency gains from a successful migration to e-payments are substantial. The launch of JomPAY today is part of the journey towards realization of these objectives. JomPAY provides greater efficiency, convenience and accessibility for the public to make bill payments. It also represents a conscious strategy that will contribute towards making the way we conduct financial transactions more efficient.

My speech today focuses on 3 areas:

- Firstly, I will provide an update on the recent developments in Malaysia's payment ecosystem and the progress that we have made thus far in accelerating the country's migration to e-payments;
- Secondly, I will highlight how JomPAY helps to address the current limitations in online bill payments and how it complements the existing efforts to expand e-payment services; and
- Finally, I will elaborate on the importance of industry-wide collaborative efforts and the role that MyClear and the industry can play in bringing the online bill payments market to greater heights.

Recent developments in Malaysia's payment ecosystem

The use of cash and cheques remains prevalent in Malaysia. Malaysia's cash usage measured by currency-in-circulation (CIC) over GDP was about 6% in 2013, which is 100% higher than the average in advanced economies[1]. Likewise, Malaysia's cheque usage per capita was 6.6 in 2013, which is 33 times higher than that in advanced economies[2].

But the recent measures being instituted have shown tangible results. I am pleased to inform you that promising progress has been made since the introduction of the Pricing Reform Framework in May 2013 and the more concerted efforts taken to improve and promote the use of Interbank GIRO (IBG). In 2014, cheque usage declined at a faster rate of 10%, compared to only 3% in 2013. At the same time, the number of IBG transactions increased by 36% in 2014 compared to 19% in 2013. Consequently, Malaysia's cheque usage had fallen from 6.6 per capita in 2013 to 5.8 per capita in 2014. This is indeed an encouraging development.

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1 Australia, the United Kingdom, Sweden and Norway.

2 Norway, Sweden, Denmark and Finland.

To reduce the country's reliance on cash usage, the Bank has issued the Payment Card Reform Framework (Framework) which took effect in stages beginning 2 January 2015. The Framework aims to ensure that the cost of accepting payment cards is fair and reasonable, whilst creating an enabling environment for the wider acceptance of payment cards, especially by smaller merchants.

Over the next six years till 2020, together with the banking industry we plan to expand the payment card acceptance network from about 240,000 terminals to 800,000 terminals and further accelerate the use of debit cards. These measures, if implemented successfully, will lessen the need for cash payments. While this target seems ambitious, we can achieve this milestone with collective efforts by all.

Cash and cheques are still the main modes for bill payments in Malaysia

Whilst efforts are being made to facilitate the wider acceptance of payment cards, bill payments in Malaysia are still predominantly made with either cash or cheques. In Malaysia, bill payments made via electronic channels[3] are still relatively low at 2.4 transactions per capita[4] in 2014 compared to more than 10 transactions per capita[5] in countries with successful electronic bill payment platforms such as Australia.

Malaysia has an online bill payments model where merchants need to maintain multiple banking relationships in order to receive bill payments from customers who bank with different banks. Merchants, especially SMEs, find it difficult and costly to maintain multiple banking relationships. As a result, only about 1,000 merchants are currently registered to accept online bill payments via the individual banks' proprietary bill payments system. Therefore, there is still tremendous potential for greater efficiency and cost savings through the consolidation and expansion of the online bill payments market in Malaysia.

Enhancing the efficiency, accessibility and convenience of online bill payment via JomPAY

JomPAY addresses the limitations of the current bank-centric model by establishing an open electronic bill payments platform which leverages on the combined infrastructure and network of the entire banking industry. With JomPAY, merchants only need to maintain a banking relationship with one bank, in order to receive bill payments from customers of all other banks. Likewise, customers only need to maintain an account with one bank in order to make bill payments to the entire network of merchants registered with JomPAY. The JomPAY model thus reduces duplication and facilitates the pooling of resources from the entire banking industry. This in turn will enable us to build a wider and more efficient network for online bill payments.

Businesses should leverage on JomPAY to accept online bill payments from their customers. Handling cash and cheques is very costly. Businesses incur an estimated RM2.7 billion[6] annually for cash handling, in addition to bearing the risk of pilferage and theft. Businesses also incur an estimated RM113 million[7] annually for cheque handling. Migrating to electronic

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[3] Internet banking, mobile banking and ATM.

[4] BNM's Financial Stability and Payment Systems Report 2014.

[5] Calculated based on the average monthly transactions of B-PAY (Australia) and the population in Australia.

[6] Based on the European Central Bank's (ECB) study "The social and private costs of retail payment instruments" on 13 European countries, the social cost incurred by retailers for cash handling amounts to 0.269% of GDP.

[7] Based on the ECB study, the social cost incurred by businesses for cheque handling amounts to 0.012% of GDP.

bill payments would lower the cost of transactions and provide businesses with a faster, more secure and more efficient means of collecting payments. Businesses should leverage on JomPAY not only for bill payments, but also for invoice payments to facilitate a more efficient management of their receivables.

Consumers, on the other hand, should also take advantage of the increased convenience of making bill payments via this new channel. JomPAY provides a one-stop centre for consumers to make bill payments electronically anytime, anywhere and without any transaction fee.

By migrating to electronic bill payments, a lot of time and effort previously incurred by travelling and queuing to make over-the-counter payments can be saved and redirected to more productive use.

Importance of industry collaborative efforts

Now I will touch on the third and last point. The payments industry in Malaysia has a history of collaboration in industry-wide infrastructure developments. A notable example is the migration from magnetic stripe to chip-based cards. The migration exercise, which was completed in 2005, successfully eradicated cases of counterfeit fraud and contributed to greater confidence in the use of payment cards in Malaysia. As a result, the investment cost of about RM200 million was recovered in just two and a half years, most of it arising from cost savings from fraud avoidance. Tourist spending via credit cards had also doubled from RM4.3 billion in 2006 to RM8.7 billion in 2014, signifying greater confidence and the ease of use of payment cards in Malaysia. This is a very good illustration on how industry collaboration in the area of payment systems has contributed to the country’s economic growth.

A successful payment system is often dependent on the network of payment systems reaching an optimum size, thus enabling its participants to build critical mass and achieve economies of scale. However, building a payment system infrastructure and expanding the network can be costly to an individual market player. Hence, the industry should pool its resources to develop and share infrastructure costs.

As a principle, basic payment infrastructure should not be used as a competitive tool but rather as a means to reduce cost, promote inter-operability and support an enlarged network.

Such collaborative industry effort in infrastructure sharing would allow the industry to compete directly on product offerings and the quality of services provided, thus providing better value to both consumers and merchants.

In this regard, the recent industry-wide initiatives to enhance the payment card infrastructure and to modernise the online bill payments market via JomPAY are commendable and should be sustained. In this respect, I would also like to call upon MyClear and MEPS to jointly embark on payment infrastructure projects and initiatives that would benefit both the industry and the country.

Role of MyClear and the industry moving forward

Achieving the critical mass in terms of usage and acceptance remains a key priority. In this regard, banks in collaboration with MyClear should take concerted efforts to expand the number of businesses accepting JomPAY, especially among the underpenetrated sectors of SMEs and the federal and state government agencies. This can be done through coordinated media campaigns, workshops, roadshows and other outreach programs. MyClear and the participating banks should target to register 5,000 merchants onto JomPAY by 2020.

To educate the public, especially those who are not IT savvy to use JomPAY, MyClear and the banks should also come up with instructional videos and pamphlets to provide the necessary guidance and assistance. This should move in tandem with the industry's plans to promote the usage of electronic fund transfer services such as the Interbank GIRO (IBG) and the Instant Interbank Fund Transfer (IBFT) via different payment channels, and to drive more pervasive usage of debit cards.

To provide the public with an alternative channel to access JomPAY services, banks should also accelerate the offering of JomPAY via the network of about 12,000 ATMs and 2,700 self-service Internet kiosks (SSKs) nationwide. This would expand the accessibility of online bill payments to a greater segment of the society, including those that have limited access to the Internet. This is also one specific area where MyClear and MEPS should mobilise their resources for the collective good.

To drive the reduction in paper-based bill payments over-the-counter (OTC), the banking industry should also deploy more payment card terminals at merchant outlets, government counters and at the premises of collecting agents such as bank branches and post offices. With a high penetration of 45 million debit cards for a population of 30 million, Malaysians have the option of using their debit cards to pay bills over-the-counter, thus lessening the need to carry cash.

In addition, banks should continuously enhance the value proposition of JomPAY to bring greater convenience to consumers and efficiency to the business processes of corporate customers. Efforts should be directed towards creating an end-to-end solution by integrating electronic bill payment facilities with electronic presentment of bills and e-invoicing to minimize the cost of print-and-mail billing. Banks should also explore the offering of real-time payment facilities for bill payments where there is demand for such services.

Conclusion

Ladies and gentlemen, the introduction of JomPAY will complement the existing measures to accelerate the country's migration to e-payments. Moving forward, MyClear, MEPS and the banks should continuously collaborate to explore new and innovative ways to achieve greater payment efficiency. Both consumers and businesses should capitalize on the benefits and opportunities derived from the adoption of e-payments to enhance competitiveness in this rapidly evolving world.

Let me conclude by congratulating MyClear and the banks on the successful establishment of the national bill payment scheme, JomPAY. I hope such a collaborative spirit will be enhanced to drive the country towards a successful migration to e-payments.