Muhammad bin Ibrahim: Developing Malaysia's payment system landscape

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 2015 "Moving Forward with e-Payments", Kuala Lumpur, 3 November 2015.

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Welcome to the 2015 Payment System Forum and Exhibition 2015, with the theme "Moving Forward with e-Payments". This year is another important step in our effort to develop our country's payment system landscape. It marks the mid-way point of our journey to transform our country's payments infrastructure into one that is highly efficient, secure and competitive as outlined in the 10-year Financial Sector Blueprint from 2011 to 2020.

I will focus on 3 areas in my remarks today.

- First, I will provide you with an update of where we are in our migration path five years since we launched the Financial Sector Blueprint, and what we have done and achieved so far.
- Second, I will share with you some thoughts on how collaborative efforts among various stakeholders in the payment value chain can leverage and thrive on e-payments as a strategic tool in today's increasingly dynamic and competitive environment, and
- Third, I will outline the opportunities that can be realised in relation to the Financial Sector Blueprint targets with specific emphasis on key priorities for 2016.

Migration path, five years after

In 2011 Bank Negara Malaysia had developed a comprehensive roadmap in its Financial Sector Blueprint to drive the migration to e-payments with measurable targets to be achieved by 2020. Over the last 5 years, Bank Negara has worked with the payments industry to put in place conducive regulatory frameworks, agree on market incentive structures and build enhancements to e-payment infrastructure and services. Our aim is to provide an enabling environment for individuals and businesses to migrate away from paper based payment methods and adopt e-payments instruments.

The results have been encouraging. Since the implementation of the Pricing Reform Framework in May 2013 and the e-Payment Incentive Fund (ePIF) Framework in January 2015, cheques which had only declined at a marginal rate of 2% on average from 2011 to 2013, had declined at a higher rate of 10% in 2014. The decline in cheque usage had accelerated to 16% for the first 9 months of this year. Consequently, the number of cheques cleared is projected to fall from about 207 million in 2010 to 149 million by the end of 2015. If such decline rate is sustained, the target of reducing cheques to 100 million per year by 2020 would be achieved. The reduction of about 100 million cheques above saves a minimum of RM300m not taking into account other savings in terms of efficiency and security.

Similar trend was observed in the number of electronic fund transfer transactions. Interbank GIRO (IBG) grew at a higher rate of 36% in 2014 and this strong growth rate was sustained at 36% in the first 9 months of this year compared to an average rate of 19% between 2011 and 2013. Instant Transfer (IBFT), the real-time fund transfer service on the other hand, has consistently maintained its high growth rate of over 60% since 2011. This contributed to an increase in Malaysia's e-payments per capita which is projected to increase from 43 per capita in 2010 to an estimated 80 per capita in 2015.

To reduce the country's dependency on cash usage, Bank Negara Malaysia has implemented the Payment Card Reform Framework this year with the objective to create an enabling environment for the expansion of payment card terminals and higher usage of debit cards at affordable and reduced costs.

In this regard, encouraging progress is seen in the area of deployment of payment card terminals. Payment card terminal growth which had slowed from 14.6% in 2011 to 4.5% in 2014, is likely to rebound to an estimated growth rate of 12.0% for 2015. This would increase the number of payment card terminals from 8 per 1,000 inhabitants in 2014 to 9 per 1,000 inhabitants in 2015. We envisage that with the implementation of a Market Development Fund by the payment card industry, about RM455 million funds would be used to deploy additional terminals and spur the expansion of the terminal network. This strategy would enable the target of 25 terminals per 1,000 inhabitants by 2020 to be achieved.

Debit card transactions on the other hand, are likely to maintain its double digit growth rate of about 40% in 2015 (39% in 2014). Despite the encouraging progress, we are still a long way from achieving our target of 30 debit card transactions per capita by 2020. Moving forward, we need to drive the use of debit card by capitalizing on the enabling environment created by the Payment Card Reform Framework. We need to put in more efforts in this area.

Of collaborative efforts and strategic tool

Banking industry

It is estimated that the cost of handling cash and cheques to the banking industry is about RM2.4 billion annually. This is sheer wastage when a cheaper alternative is readily available.

There is substantial room for our banks to strengthen their operational efficiency through rationalization of business model and internal processes by emphasizing the use of e-payments, instead of the more manually-intensive paper-based payment methods. This would enable banks to achieve a lower cost-income ratio, thus enhancing productivity and competitiveness. For this to happen, it is critical that, banks should upgrade their management information system (MIS) to fully capture the cost of different payment methods and identify areas with potential for greater operational efficiency. In addition, banks should foster better coordination between their respective revenue and cost centres to achieve optimal financial performance. This should be complemented with an incentive structure within each bank that not only rewards revenue generation but also cost reduction.

Payment system infrastructure providers

Basic payment infrastructure should be viewed as a form of 'utility services' such as electricity, telephone and broadband lines, where it is regarded as a key enabler for innovation. Hence, access to payment infrastructure should be made as open and as affordable as possible. The bigger the network of a payment infrastructure, the more value it can bring to its participants in terms of economies of scale and multiplier network effects. Payment system infrastructure development should be shared and not be regarded as a competitive tool as investments in this space is expensive and continuous.

Therefore, payment system infrastructure providers such as MEPS and MyClear should collaborate more effectively to avoid duplication and wastage. In addition, MEPS and MyClear should also collaborate and put in place common payment system infrastructure that would benefit all stakeholders. The recent collaboration between MEPS and MyClear under the Malaysian Chip Card Specification (MCCS) initiative to migrate the domestic debit card to the Europay-MasterCard-Visa (EMV) standard and contactless feature is a step in the right direction.

Moving forward, MEPS and MyClear should jointly identify areas for strategic cooperation, with a clear line of sight to the future, to ensure that payment system infrastructure in Malaysia continue to keep pace with innovation and meet user needs.

Merchants and consumers

With increased transparency in payment services brought about by the various regulatory and industry measures, merchants and consumers alike should leverage on expanded information disclosure to get the best deals that suit their requirements. A smart consumer will drive competition and reduce costs over the long run

Processing payments and account reconciliation manually is a tedious affair and a source of much inefficiency. Merchants in particular should leverage on e-payments as a means to rationalize their business processes to be more efficient, so that more resources can be directed towards growing their business. Merchants should also leverage on the latest payments technology such as the mobile point-of-sale (mPOS) which allows them to leverage on smart devices to accept payment cards on-the-go. Consumers on the other hand, should also embrace e-payments to be more efficient and safe by taking advantage of the various incentives provided by the banking industry.

Opportunities and key priorities for 2016

We have now reached a critical juncture in our migration to e-payments. With the enabling environment in place and the encouraging progress recorded for the past five years, emphasis should now be devoted towards implementation and facilitating behavioural change among individuals and businesses. We must use as beacon the targets set out in the Financial Sector Blueprint. The achievement of such targets would put us on par with other advanced countries and become as competitive as we transition into a high value added and high income economy. The support from all relevant stakeholders is needed to ensure that such objective becomes a reality.

As the catalyst for e-payment growth, the banking and payments industry should explore the possibility of forming strategic alliances with non-traditional partners. The recent partnerships between banks and telcos in the roll-out of mPOS are a good example of such new partnership.

Let me outline the key priorities for the banking and payments industry in the upcoming year of 2016. I would like to raise 6 points.

i. First, as a group, we need to ensure there is no delay in the key payment card infrastructure projects such as migration to cardholder verification by PIN and the migration to contactless debit cards under the Chip and PIN and the MCCS initiatives. Coordinated constant and effective communication strategies must be undertaken to ensure an effective and seamless migration;

ii. Second, the payments industry must collaborate towards the achievement of an additional 50,000 payment card terminals and 137 million debit card transactions under the Payment Card Reform Framework. In this regard, the industry should devise creative measures to facilitate behavioural change. This may include offering incentives and educating merchants and cashiers to motivate customers to use debit cards instead of cash;

iii. Third, MyClear together with the banking industry should expand the biller base for JomPAY, a payment system launched in April 2015, to further enhance the efficiency and convenience of making and accepting online bill payments;

iv. Fourth, the banking industry should undertake effective measures to reduce the number of cash and cheques used for credit card and loan repayments which totalled 101 million transactions in 2014. This would bring about operational efficiency and reduce costs in the banks' operations. The industry should strive to achieve an annual decline rate of 15% per year similar to that of cheques;

v. Fifth, payment system infrastructure providers such as MEPS and MyClear should enhance their Memorandum of Understanding (MoU) to ensure any payment infrastructure development initiatives would not result in duplication of efforts by the banking system. In addition, both MEPS and MyClear should develop medium term roadmap to enhance payment system infrastructure to keep pace with innovation and meet user needs. This must be supported by consultation with relevant stakeholders and robust market assessment and cost-benefit analysis; and

vi. Last but not least, it is critical for the banking and payments industry to maintain confidence in the use of e-payments, Hence, the industry should continuously enhance their risk management measures and security features, and review the effectiveness of their customer education and awareness programs.

On this note, I wish all of you an engaging and productive forum. Please take the opportunity to visit the exhibition booths to find out more on how you can benefit from the various business and payment solutions.