

## **Muhammad bin Ibrahim: Accelerating the migration to electronic payments in Malaysia**

Remarks by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the inaugural Malaysian E-Payments Excellence Awards (MEEA), Kuala Lumpur, 4 April 2016.

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It is my pleasure to be at this inaugural Malaysian E-Payments Excellence Awards (MEEA) organised by MyClear.

This event is important as it recognises the contribution made by the financial services industry and the business community in accelerating the country's migration to electronic payments (e-payments).

Safe and efficient payment systems are one of the key building blocks of a productive, competitive and successful nation. They provide the foundation for monetary and financial stability as well as facilitate the overall economic development of the country. In this regard, the continuous development to enhance the payment systems throughout the years for this purpose has provided Malaysia's businesses and individuals with reliable, secure and efficient payment infrastructure to serve as a productive and efficient means for businesses to conduct their day to day economic activities.

Premised on these efforts is the close collaboration among all stakeholders in the payment system value chain, including the regulators, financial institutions, businesses and consumers. A conducive payment ecosystem would not only enhance the nation's efficiency and productivity, but also create new opportunities and new sources of growth to position the economy as an attractive destination for global investors.

My remarks this evening will focus on four broad areas:

- i. First, I will outline BNM's role in fostering an enabling environment for network expansion as well as in promoting competition, innovation and choice in the payment landscape;
- ii. Second, I will highlight the key priority areas for stakeholders that could accelerate the displacement of cheques and cash with cost-effective e-payments;
- iii. Third, I will outline the importance of a synergistic collaboration between MyClear and the financial institutions to deliver innovative payment solutions and meet user needs; and
- iv. Fourth, I will highlight the need for the financial institutions to provide end-to-end and value-adding financial solutions to their customers.

### **1. Fostering an enabling environment for network expansion whilst promoting competition, innovation and choice**

An efficient and well-functioning payment system must not only have the economies of scale to enable lowering of costs, but also the quality of services to serve the needs of an increasingly demanding and sophisticated users. We designed our developmental efforts into two-fold:

- i. Foster an enabling environment for infrastructure building and network expansion to achieve the economies of scale; and
- ii. Promote effective competition among the industry players to spur the development of innovative solutions, provide greater choices and value proposition to the public and in the process, lower costs.

Over the past few years, BNM has played the role of a catalyst by instituting reform measures and introducing market incentive mechanisms to enhance the accessibility and the quality, affordability and security of the e-payment services to the general public.

In this regard, we had introduced the Pricing Reform Framework as well as the Payment Card Reform Framework.

### ***Correcting price distortions***

In May 2013, BNM had introduced the Pricing Reform Framework to correct the price distortions between paper-based payments and e-payments. By differentiating the prices of payment services according to their relative costs, the public are thus incentivised to use the more efficient and cost-effective e-payment services.

In this respect, we need to explore new incentives that can accelerate the migration to e-payments.

### ***Strengthening competition and lowering cost***

To curb the rising cost of payment card acceptance that had impeded the expansion of payment card terminals among merchants, BNM had implemented the Payment Card Reform Framework in July 2015. The Reform Framework had removed market distortions and imbued competition and transparency in the payment card market. This has resulted in the offer of higher quality and lower cost solutions, especially to the lower tier merchants.

### ***Driving infrastructure building and network expansion***

To facilitate infrastructure building and enhancements to payment services, BNM had also established market incentive structures such as the e-Payment Incentive Fund (ePIF) Framework. Under the ePIF Framework, banks are incentivised through a set of pre-requisites to invest in e-payment services, and to channel the cheque fee collected as incentives to encourage their customers to migrate to e-payments. The industry players had also established a Market Development Fund (MDF), which would channel approximately RM455 million to expand the network of payment card terminals from 240,000 in 2014 to 800,000 by 2020.

### ***Building awareness and confidence***

To enhance awareness and confidence in the use of e-payments, BNM will continue to work with the financial services industry to strengthen security measures, thus ensuring that e-payment transactions remain safe and secure. Significant resources are devoted to educate and guide the public in adopting e-payments through nationwide roadshows, media engagements, township campaigns and outreach programmes.

The initiatives that I just outlined provide the foundation for e-payments to be less costly and to offer to the public a cheaper alternative to paper-based payment methods. The market incentive structures on the other hand, will foster effective competition and sustain the industry efforts in providing value-added and efficient payment offerings to their customers. It is in the interest of all for the financial services industry, especially the payment infrastructure providers and the financial institutions, to work cohesively to enhance the payment services where gaps remain.

This should be complemented with shared investment in infrastructure building and network expansion to achieve economies of scale.

## **2. Key priority areas to accelerate the displacement of cash and cheques**

### ***Progress in the displacement of cheques should be sustained***

Promising progress has been made in the reduction of cheque usage through the use of electronic funds transfer services such as the Interbank GIRO (IBG) and the Instant Interbank Funds Transfer (IBFT). This is mostly attributable to the lower transaction fees and the efforts by the financial institutions in offering incentives and guiding their customers to adopt e-payments. Between 2011 and 2015, the number of cheques issued had reduced by 27%, from 205 million cheques in 2011 to 148 million cheques in 2015. At the same, the number of IBG transactions had increased by 147% from 60 million transactions in 2011 to 149 million transactions in 2015. This is a key milestone as the number of IBG transactions surpassed the number of cheques cleared for the first time. The IBFT transactions had also increased significantly by almost eight-fold from 5.8 million transactions in 2011 to 47 million transactions in 2015.

This signifies greater public confidence in the use of e-payments. Such achievement is also indicative of how effective collaboration and coordinated efforts by the various stakeholders in the payment value chain could produce the intended outcomes. We should put in more effort to sustain the cheque reduction whilst promoting greater adoption of e-payments in areas where the usage of cheques is still relatively high. These areas include interbank card and loan repayment, over-the-counter cheque payments to government agencies and cheques usage in the takaful and insurance industry.

### ***Intensified efforts needed in the displacement of cash***

Our progress in promoting the use of debit cards as an alternative to cash however, has been modest. For the period between 2011 and 2015, there was only a marginal increase from 1 to 3 debit card transactions per capita and from 7 to 9 payment card terminals per 1,000 inhabitants. With the coming into force of the Payment Card Reform Framework on 1 July 2015, the cost of accepting debit cards has been made more affordable through a five-fold reduction in the interchange fees from about 1.00% to 0.21%. Concurrently, the industry has also committed to invest about RM1.1 billion to enhance the payment card infrastructure over the next five years. This would comprise efforts to expand the number of payment card terminals, adopt PIN-based verification for enhanced security and roll out contactless debit cards for greater transaction efficiency.

The industry should capitalise on the lower interchange fees and the Market Development Fund created under the Payment Card Reform Framework to expand the number of payment card terminals among lower tier merchants. Additionally, the industry should leverage on the roll-out of contactless debit cards to promote the use of debit cards to displace cash. In this regard, an industry-wide promotional campaign should be launched in a coordinated manner focusing on educating and incentivising cardholders to use their ATM cards as debit cards to make purchases instead of making ATM cash withdrawals. Financial institutions should also review the effectiveness of the promotional campaigns from time to time and make the necessary adjustments to ensure the intended outcomes are attained.

## **3. Fostering synergistic collaboration between MyClear and financial institutions**

Synergistic collaboration between MyClear and financial institutions is critical as investments in technology are expensive. The constant need to invest in key payment infrastructures in this country is in line with technological advancements and the changing needs of consumers and businesses. In this regard, MyClear should be responsible to facilitate the pooling of resources and adoption of new technology to expand the network reach and resilience of its payment infrastructures. Financial institutions on the other hand, should leverage on the common platform to compete by providing innovative and value-adding products to their customers. Such synergistic collaboration will prevent unnecessary duplication and wastage

of resources in the payment landscape. It shall reduce the cost of transactions over the long run.

### ***Modernising payment and settlement infrastructure***

MyClear is embarking on a multi-year programme to modernise Malaysia's payment infrastructure. In the area of retail payments, a new real-time Retail Payments Platform will be developed to serve both as a catalyst and enabler for innovative payments in Malaysia.

As for large value payments, the Real-Time Gross Settlement System or RENTAS is currently being enhanced to adopt a multi-currency system that leverages on the SWIFT messaging standard.

The enhanced RENTAS would cater for multiple messaging formats including the internationally-recognised ISO 20022 which supports the transmission of richer remittance data and facilitates interconnectedness with other economies within the region.

### ***Enhancing capital market infrastructures***

With respect to the capital market, Malaysia's debt securities market is the largest in Southeast Asia. Malaysia also remains the leading global sukuk issuer, accounting for over 53% of new global issuance worth USD34.8 billion in 2015. Over the past decade, BNM and MyClear had invested significantly to build the capital market infrastructures to facilitate multi-currency securities issuance, depository and settlement via the Fully Automated System for Issuing/Tendering (FAST) and RENTAS, respectively. There are immense opportunities to add to the breadth and depth of the Malaysian debt securities market, especially in the diversity of its currency and investor base. Hence, the financial services industry has the opportunity to leverage on Malaysia's capital market infrastructures by incorporating FAST and RENTAS in the securities offering documents as an additional option for foreign currency securities issuance, depository and settlement.

To facilitate the synergistic collaboration that I had highlighted earlier, MyClear would share its infrastructure development roadmap with the industry. This would assist both the financial and business communities to align their resources for infrastructure development as well as to identify opportunities for the offering of innovative solutions to their customers. MyClear and BNM would coordinate the industry awareness and educational programmes to promote the new payment services for mass adoption by businesses and consumers.

## **4. Providing end-to-end financial solutions to customers**

### ***Holistic financial solutions as a competitive edge***

Financial institutions are no longer differentiated by payment infrastructure that is proprietary and duplicative in nature.

Through the centralised payment systems offered by MyClear, the Malaysian Electronic Payment System Sdn. Bhd. (MEPS) and other payment network operators, each financial institution can now access and leverage on the entire banking infrastructure to achieve economies of scale. In order to remain competitive, financial institutions should strive to provide value added services and good user experience to their customers.

It is important to bear in mind that ultimately customers would need more than just a payment solution. In this regard, the ability to offer holistic, end-to-end financial solutions that meet the customers' personal and business needs would be the key differentiator.

### ***FinTech and its potential***

The proliferation of Internet and mobile technology and the rise of disruptive technology in the financial sector, also known as FinTech, has also fuelled new business models and

created opportunities for new sources of growth. The offering of convenient, affordable and innovative financial solutions particularly by 'agile' non-bank service providers challenges the traditional business models and necessitates a re-evaluation of business strategies by financial institutions. Hence, it is timely for financial institutions to invest in financial innovation and explore the formation of strategic alliances with other innovative financial service providers to capitalise on such emerging trend. It is in the interest of the financial services industry to adopt technological advancement in their business model. It is better to embrace it now rather than to be embarrassed by it later.

## **Conclusion**

Each participant in the domestic payment market has a critical role to play in advancing the country's migration to e-payments. BNM will continue to work with the industry and act as a catalyst to foster a conducive payment ecosystem. MyClear as the operator of the nation's key financial market infrastructures would coordinate the industry efforts in infrastructure enhancements. Financial institutions should continue to intensify their efforts in providing innovative and value-adding financial solutions that meet the needs of their individual and corporate customers. Businesses and consumers, on the other hand, should embrace and integrate e-payments and other digital financial services into their daily activities to benefit from enhanced efficiency and productivity.

The symbiotic relationship among all the stakeholders will drive the transformation and modernisation of Malaysia's payment ecosystem. A safe, reliable and efficient payment ecosystem will support the country's economic growth, competitiveness and productivity.

Let me conclude by congratulating MyClear and the winners of today's awards ceremony from both the financial and business communities. I hope today's event is the stepping stone and would inspire bigger achievement in our endeavour to accelerate the migration to e-payments.

Thank you.