

Jessica Chew Cheng Lian: Malaysian banking industry challenges and developments

Speech by Ms Jessica Chew Cheng Lian, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Malaysian Association of Money Services Business Annual Dinner 2017, Kuala Lumpur, 29 April 2017.

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It is my great pleasure to be here with you this evening at the annual dinner of the Malaysian Association of Money Services Business. I remember a time six or seven years ago when the Bank gathered the industry together at the auditorium in the headquarters of Bank Negara Malaysia to explain the new legislation that was being introduced for the industry. The industry then, and the industry today, is almost unrecognisable. You would have heard this said a few times now, and I think it keeps getting mentioned because the change has been so striking.

Tonight, the industry will recognise companies that are leading the way in terms of exemplary customer service to the public, as judged independently by a global consulting firm. This is yet another reminder of how far the industry has come.

In the last six years, the industry has almost doubled the value of money services transactions conducted through licensed MSB companies. We estimate that this included about 43% of worker remittances previously conducted through informal or illegal channels, that are now captured within the formal system. On average, MSB companies have increased their turnovers by more than 16%. More than half of the industry today is made up of MSB companies with annual turnovers of at least RM50 million, compared to only a third of the industry operating at this level 6 years ago. The public can conduct money changing and remittance transactions at over 2,500 locations nationwide, more than double the number of access points in 2011. An increasing number of companies are also offering online options for customers to conduct remittance and money changing transactions.

The Bank is also happy to note that the industry received a positive assessment under the most recent mutual evaluation exercise conducted on Malaysia by the Asia Pacific Group (APG) on Money Laundering. As you know, the APG is an international organisation committed to the implementation and enforcement of international standards against money laundering and the financing of terrorism, working closely with organisations like the Financial Action Task Force, the International Monetary Fund and the World Bank. The assessment is a rigorous process, so a positive assessment is something that the industry can take great pride in.

In its most recent 2015 report, the APG specifically noted that mitigation of money laundering and terrorist financing risks in the MSB sector has improved significantly in recent years, while acknowledging that there are challenges among smaller companies that we are collaborating together with the industry to address. One of the key steps that we are taking is to provide compliance officers with appropriate training, and then supporting them to be professionally accredited.

The MSB industry in Malaysia is also highly competitive, with among the lowest remittance costs in comparison with other markets. I know that this has been an issue of some concern among some players in the industry as margins have continued to narrow. As in any other industry, an environment of healthy competition that delivers more choice, provides better service and encourages innovation, generally benefits society. Tonight's awards are a good example of MSB companies that have stepped up to deliver an outstanding customer experience in order to attract and retain customers.

Many strategic partnerships between companies in the industry have also been formed over the

years in response to greater competition. This has unlocked value for the companies by opening up new business opportunities and increasing cost efficiencies. Throughout history, whether in an organisation, an industry or a nation, progress and development have always been achieved through a process of creative destruction, adjustment and evolution.

The industry will continue to transform and evolve, and in the process, it become more efficient and advanced in delivering superior products and services to the public. Bank Negara Malaysia remains committed to ensuring that the market for money services continues to function efficiently and sustainably in the best interests of consumers, and a competitive market is an important part of this process.

The industry's remarkable development has not gone unnoticed. More than a few countries have been interested to study and learn from Malaysia's experience. This prompted Bank Negara Malaysia to document the industry's transformation in a box article that we published in our latest edition of the Financial Stability and Payment Systems Report. Today, the industry stands among the more developed money services markets in the world and our MSB companies have a good reputation that will open doors for growth opportunities both within and outside Malaysia. The industry's credibility has also avoided the negative impact from de-risking strategies by banks that have been experienced in other countries.

We should not forget however that good reputations are hard to earn, and easily lost. So while we have come a long way, a number of priorities must continue to stay in clear focus for the industry to progress further.

Let me just mention three of these priorities.

First, we must continue to work at reducing transactions that are conducted through informal channels – in particular, through education and enforcement activities. Since 2012, the Bank has taken enforcement actions against 140 illegal MSB operators. This included criminal and civil actions pursued against over 70 companies. We will continue to intensify our efforts on this front.

Second, we must continue to raise compliance and professional standards across the industry, regardless of size. Every company that holds a licence must be able to meet the expectations that have been set to protect the integrity of the financial system and provide a high standard of service to the public. Over the years, more companies have been given licences for longer periods. This means that we have seen good improvements in the quality of compliance and operations. Companies that continue to receive shorter-term licences need to take stronger measures to address the issues that we have raised.

Third, we should expect that financial markets will continue to remain volatile in the period ahead. It is therefore important for the industry to improve market arrangements to ensure that MSB companies will be able to respond efficiently to changes in demand for currencies by consumers and businesses. Such arrangements have to include better planning and management of currency stocks as well as sourcing strategies to ensure the ready supply of currencies at efficient market rates.

Tonight's MSB customer experience awards reflects an industry that aspires to place the customer first. A price advantage can be lost easily to your competitors, but a strong customer service culture is much harder to copy. Those of you that voluntarily took part in this process are sending a clear signal that your company and this industry takes customer service excellence seriously. The idea of customer service excellence is not only about the quality of service; it is also about the industry conducting itself in a way that builds trust in the industry.

The Association therefore is to be commended for undertaking this initiative, as should all MSB companies that have supported it.

I am also very happy to note the Association's launch of the MSB App this evening — which will provide consumers with convenient access to price comparisons, locations of MSB companies, customer reviews, and avenues to lodge complaints and report illegal MSB activities.

This App reflects an increasingly digitalised society and business environment where demands for greater transparency, convenience and consumer engagement have become the norm.

The MSB App is a great example of how financial technology, or fintech, is changing how customers experience financial services. The possibilities are almost boundless as we are discovering through Bank Negara Malaysia's recently launched "fintech hacks". This is a project where we are inviting the public to submit ideas to improve financial services.

Let me mention some of the suggestions we have received in the area of money services.

- ♦ Allow tourists to exchange their unused foreign currencies for e-money that can be used to make purchases at any airport merchant worldwide.
- ♦ Develop a peer-to-peer currency exchange app that will allow travellers to meet up and exchange currencies.
- ♦ Provide an app that will allow individuals to book and pay for foreign currencies using their mobile phones, and have the currencies delivered directly to them.
- ♦ And enable e-KYC for remittances.

These represent opportunities for MSB companies to innovate and continuously improve on products and services that are meeting the needs of today's consumer. Companies can also come forward and test their ideas in Bank Negara's Regulatory Sandbox, and we will facilitate a safe environment for companies to develop viable solutions to identified problems.

This is the time for MSB companies to be forward-looking, not hold on to the past; to be agile and responsive to change, not slow to evolve; to be bold and ambitious, not reactive; and to be secure in strong professional and ethical standards for conducting business, and not exposed to practices that can harm the industry's image and reputation.

The Bank has every confidence in the industry's ability to grow and develop further from strength to strength, well supported by a dynamic Association that has had a key role in driving many of the accomplishments that have brought the industry to this point.

On that note, thank you for having me here this evening. Congratulations to all the recipients of the customer service excellence awards, and all MSB companies that are present here for supporting the important work of the Association. On the part of the Bank, we look forward to the implementation of the industry's five-year strategic blueprint up to 2020. Bank Negara Malaysia will continue to engage constructively with the Association and industry on these initiatives to develop a modern, dynamic and progressive industry.