

Jessica Chew Cheng Lian: Harnessing innovation for the sustainability of the MSB industry

Speech by Ms Jessica Chew Cheng Lian, Assistant Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Money Services Business Asia Pacific Conference 2017 "Harnessing Innovation for the Sustainability of the MSB Industry", Kuala Lumpur, 5 September 2017.

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It is my great pleasure to be here with you today at the Money Services Business Asia Pacific Conference 2017. I would like to congratulate the Malaysian Association of Money Services Business for organizing this event. Thank you for allowing me an opportunity to offer some remarks on this occasion.

Over the last decade, the global MSB industry has made significant strides. Worker remittances have more than doubled to USD420 billion between 2007 to June 2017, providing critical resources that have helped lift families and communities in developing countries out of poverty, and facilitating greater talent mobility. Meanwhile, the currency exchange business has followed the fortunes of global business travel expenditures that have surpassed USD1 trillion annually, as well as over a billion international tourists arrivals recorded annually for the last 7 years.

At the same time, the cost of money remittances has also fallen. The global average remittance cost has come down from above 10% a decade ago to 7% in 2016. Several countries have already met or surpassed the World Bank's target of reducing costs to 5%. In Malaysia, the average remittance cost has been brought below 3% in 2016, while MSB companies offer some of the most competitive rates for the exchange of currencies in this part of the world.

This has been achieved over a period that also saw significant reforms undertaken in the Malaysian MSB industry. A period in which regulatory, compliance and professional standards were substantially strengthened across the industry. And a period of structural change that also introduced greater competition in the industry. MSB companies have risen to these challenges with strategies that have embraced an increased use of technology, a focus on productivity, and in some cases, strategic changes in business models to deliver greater value for investment.

Going forward, the MSB industry will continue to be shaped by two important influences. The first is a strong political and economic focus on the role of the industry in advancing financial inclusion and development. The second is certainly going to be the changing nature of competition, powered by technology.

Achieving the goal of affordable and inclusive remittance services

Making remittance services more affordable and inclusive remains an unfinished agenda. In many countries, both developing and developed, informal remittances systems remain prevalent. There are legitimate reasons why such systems exist in some countries, for example countries that do not have fully developed formal financial systems.

At the same time, legitimate concerns exist over risks associated with such systems, especially in an environment where money laundering and terrorist financing concerns have heightened. Opportunities to increase the development impact of remittances have also focused attention on remittances that are now flowing through informal channels. In balancing these considerations, efforts are being made to bring these informal systems closer to formal financial systems – especially by increasing transparency – but without altering their inherent advantages.

We don't always get the balance right. De-risking by banks has been a clear case of market failure in which left to their own devices, different parties acted in their own legitimate interests –

but with adverse social and economic consequences, including for communities and countries that depend on remittance to raise resources for development.

We are seeing positive moves to redress this. In particular, it is critical that continued priority be given to providing clear guidance on risk-based approaches for implementing AML/CFT measures, improving the quality of supervision of remittance providers, and achieving more consistency in supervision across borders.

Confronting the changing nature of competition

The nature of competition has also changed profoundly. Competition used to be more predictable. You knew who your closest competitors were. And you probably also understood enough about their comparative advantages and constraints to be able to compete effectively.

This is no longer the case. Competition has become much more unpredictable, and can come from unlikely sources with the advent of peer-to-peer currency exchange platforms, e-commerce and blockchain solutions created by fintech companies. It is also not just about *who* your competitors are, or even *what* they offer. *Why* consumers prefer your competitors has also become an important factor.

It matters to more consumers today whether companies are conducting business with integrity and ethically. Ultimately, consumers will almost always prefer to deal with companies that they trust. However, what customers look for to identify with companies that they can trust is changing. Advertising campaigns of some of the largest companies that are household names today, centre on universal values of charity towards our fellow mankind, honesty, and respect for one another. These are some of the clearest signs of businesses that understand the shifting preference of a fast growing, new generation of consumers, and are seeking to connect with customers on a deeper level.

Innovation and its many faces

As we contemplate these developments, the power and potential of innovation quickly shifts into sharp focus. Nowadays, we often hear innovation *and disruption* mentioned in the same breath. The flipside to that is really innovation *and sustainability* which are the themes of this conference.

It used to be that if a business offered a decent product or service, and managed its costs reasonably well, prospects of survival were generally good. Today, survival – whether you are in the business of driving taxis, running a hotel, or offering a financial product or service – depends on the ability of companies to *continuously* harness and convert innovative ideas, however big or small, to serve customers better and multiply productivity gains.

This is the challenge before the MSB industry.

When we think of “*innovation and disruption*”, it usually brings up images of companies acting to ward off imminent threats from challengers to their business. “*Innovation and sustainability*” on the other hand, focuses on opportunities to do things better, increase long term value and strengthen a company’s agility to adapt and respond to changing conditions. Put another way, “*disruption*” often keeps an eye on your competitor, while “*sustainability*” focuses attention on the customer and understanding one’s own inherent strengths and weaknesses to build stronger, more responsive and more resilient companies.

It would be a mistake to associate innovation solely with technology, or assume that it can only be achieved with huge investments in research and development. When Apple came up with the Mac, IBM was spending at least 100 times more on R&D. Steve Jobs underlined the point that innovation is not about the money, but the people you have, how you’re led and how much

you get it.

Einstein famously said that “*we cannot solve problems with the same thinking we used when we created them*”. He reminds us that innovation is fundamentally concerned with solving problems, having an open mind to ideas and the ability to convert those ideas into an organized and disciplined process to create a positive and lasting impact.

Viewed in this perspective, the frontiers of innovation are almost boundless; limited only by our ability to define problems and our imagination.

Innovation is as much about creating new institutions and smart collaborations to advance common goals, as it is about inventing a new product. We see this in the notion of “co-opetition”, where competing firms have found benefits in coming together to build shared infrastructure, or to facilitate the exchange of information for the purpose of preventing criminal activity and guarding against cyber threats, all the while remaining fierce competitors in their product and service offerings.

Innovation is also about constantly finding better ways to do things within an organisation in order to deliver a better customer experience and to keep organisations interesting and fresh.

It is about changing mindsets and culture to ensure that institutions never become tired or irrelevant. It is about re-thinking our approach to developing the workforce so that we are at our most agile to deal with new challenges and risks.

These are all important aspects of innovation and I am reminded that in Malaysia’s own journey to transform the MSB industry, we benefitted from charting new and sometimes, untested paths to solve the problems that we faced.

For example, we learnt from and then re-defined the principal-agent model to meet the dual objectives of maintaining broad access to money services while raising compliance and operational standards.

We departed from conventional regulatory and supervisory approaches, on the conviction that we could not achieve our objectives through enforcement alone. We therefore designed and implemented a regulatory programme that combined rule-making and enforcement with active education and advisory support to help firms understand our expectations and meet them.

We also worked to build stronger cooperation arrangements with authorities in other countries with remittance links to MSBs in Malaysia. As a direct result of this programme, the share of MSB companies presenting higher risks continues to reduce dramatically.

Earlier this year, we completed a year-long project within Bank Negara to further strengthen the Bank’s surveillance of ML/TF risks in the MSB industry and improve our ability to identify illegal or unreported MSB activities, through the use of data analytics.

The industry itself, through the Malaysian Association of Money Services Business, has been instrumental in leading innovative approaches to public outreach and engagement aimed at capturing a larger share of informal remittances. In the coming quarter, the industry will introduce its own MSB App, providing consumers with convenient access to price comparisons, locations of service providers, customer reviews and the ability to lodge complaints and report illegal MSB activities.

Regulatory changes to facilitate innovation

It remains extremely important to the Bank that we continue to provide an environment that encourages innovation in the financial industry, including in the MSB sector. The Regulatory Sandbox which we introduced last year – itself an innovation in regulatory approaches – helps us

to achieve this in a way that contains the external risks that can come with innovation, while allowing the opportunity for great new ideas to unfold and take root. As regulators, we are also continuously learning ourselves about the best way to deal sensibly and proportionately with risks associated with innovation.

In this regard, I am pleased to announce that the Bank will shortly be issuing proposed regulatory parameters for the conduct of electronic Know-Your-Customer or e-KYC processes for remittance transactions. We expect to finalise the standards for e-KYC by October after receiving industry comments. Following this, the existing requirement for face-to-face verifications for onboarding new customers will be removed for companies that have received approval to conduct e-KYC.

It goes without saying that the Bank fully expects MSB companies licensed in Malaysia to ensure that innovation is not pursued at the expense of obligations to comply with applicable laws and regulations, and to safeguard legitimate interests of customers. Having worked hard to build confidence and trust in the industry and to avert the damaging effects of de-risking that continues to a key challenge in more than a few jurisdictions, actions by any firm to undermine the integrity of the financial system will be met with a strong regulatory response from the Bank.

That said, the Bank has been greatly encouraged by the progress of on-going efforts in the industry to ensure that all companies are fully competent through mandatory AML/CFT training programmes conducted by the Association. Steps being taken to require all compliance officers in the industry to be accredited or certified by recognised professional accreditation and certification bodies will mark another important milestone for the industry.

Conclusion

Innovation is ultimately a collaborative process whether it is between individuals within an organization coming together to develop new ideas to give the firm a competitive advantage; or between companies to share common utilities between policymakers to create conditions that encourage innovation or between industry, governments and multilateral institutions to deepen knowledge and advance policies that increase the impact of innovation on growth and development.

The best ideas, and more importantly the ability to put them into practice, will come from our ability to overcome natural instincts to erect protective barriers, and to open up individual companies, institutions and economies to new possibilities that can make us more successful, more competitive and more inclusive over the longer term. This conference is a valuable opportunity for the industry to exchange ideas and reflect on how innovation – not just technological but *all facets* of innovation – can create a game-changing impact in the industry.

On that note, I wish you highly productive and fruitful discussions over the next two days.