

PAYMENT AND SETTLEMENT SYSTEMS

In 2015, the Bank continued to promote the safety, reliability and efficiency of the payment systems and instruments as part of its wider responsibilities of maintaining monetary and financial stability. The Bank's oversight activities continued to focus on the adequacy of risk management and business continuity arrangements in ensuring the resilience of the systemically important and system-wide important payment systems. These systems, namely the Real-time Electronic Transfer of Funds and Securities System (RENTAS) and the National Electronic Cheque Information Clearing System (eSPICK) operated smoothly without any major disruption throughout the year, clearing and settling payment transactions valued at 46.3 and 1.6 times of gross domestic product (GDP), respectively. Measures were also undertaken to strengthen the risk management and system capabilities of other retail payment systems particularly for credit transfers, to cater for the increasing transaction volume of these payment systems.

Accelerating the migration to electronic payments (e-payments) also remains an important priority for the Bank to enhance national productivity and competitiveness. Under the 10-year strategic roadmap to accelerate Malaysia's migration to e-payments as outlined in the Financial Sector Blueprint 2011-2020, the Bank continues to foster an enabling environment for greater adoption of e-payments. A key thrust of the strategy adopted by the Bank is to promote efficiency and competition in the retail payment market to provide more choices and spur the provision of better quality payment services to individuals and businesses. In the first five years (2011-2015), significant efforts were directed at strengthening regulatory frameworks, addressing market distortions and establishing incentive structures. Efforts were also made to enhance market infrastructure and promote greater awareness and confidence in the use of e-payments. In the second half of the roadmap (2016-2020), the Bank aims to strengthen coordination among stakeholders in the implementation of industry-wide initiatives to drive the achievement of the e-payments targets set out in the Financial Sector Blueprint 2011-2020. In addition, further enhancements to the key

payments infrastructure will remain important to keep pace with innovation and to meet anticipated future needs (Diagram 5.1).

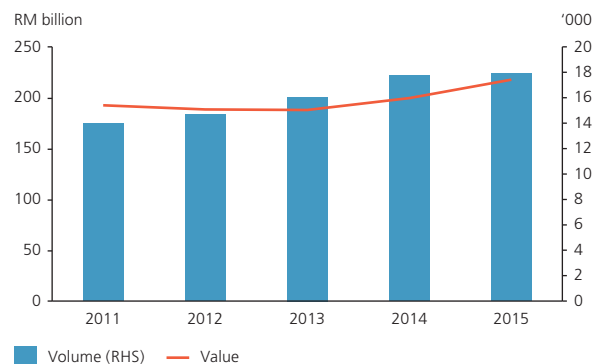
PROMOTING THE STABILITY OF PAYMENT AND SETTLEMENT SYSTEMS

Oversight of RENTAS

RENTAS facilitates the transfer and settlement of high-value interbank payments and securities transactions. The availability of the system remained high, achieving 100% uptime throughout the year and clearing transactions amounting to RM53.6 trillion. A daily average of 17,897 transactions valued at RM217.8 billion were settled via RENTAS, representing a growth of 0.8% and 9% by volume and value, respectively (Chart 5.1). Similar to previous years, money market and third-party funds transfers accounted for the bulk of RENTAS activity, amounting to 68% of the total value of RENTAS transactions in 2015. However, the growth in volume has slowed, owing primarily to a decline in third-party funds transfers which decreased by 2% compared to an average growth rate of 11.4% for the past three years. This decline, which comprised mainly RENTAS transactions below RM1 million, partly reflected the migration of lower value RENTAS transactions to other modes of credit transfer services such as the Interbank GIRO (IBG) that offers enhanced services including extended cut-off time for same day crediting of customers' accounts and lower fees.

Chart 5.1

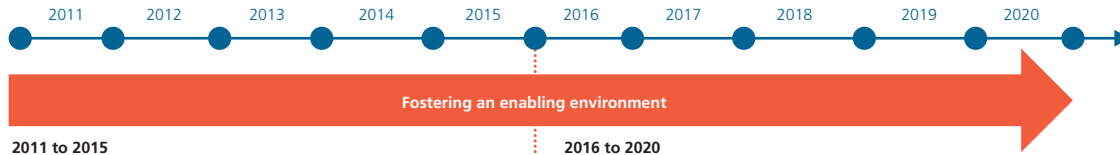
RENTAS: Daily Average by Volume and Value



Source: Bank Negara Malaysia

Diagram 5.1

Stages of Migration to E-payments (2011-2020)



- | | |
|--|---|
| <p>2011 to 2015</p> <ul style="list-style-type: none"> • Strengthening regulatory frameworks, addressing distortions and establishing incentive structures • Expanding and enhancing the market infrastructure • Promoting awareness and instilling confidence | <p>2016 to 2020</p> <ul style="list-style-type: none"> • Strengthening coordination and alignment to drive achievement of e-payment targets • Continuous infrastructure enhancement to keep pace with innovation and meet user needs |
|--|---|

Focus areas	Credit transfer to displace cheques	Debit card to displace cash
1. Price signal	<ul style="list-style-type: none"> • IBG (Maximum of 10 sen) • IBFT (Maximum of 50 sen) 	<ul style="list-style-type: none"> • Ceilings for interchange fee • Unbundling of MDR
2. Quality & value proposition	<ul style="list-style-type: none"> • Faster crediting time for IBG • Payment details in bank statement • Future-dated IBG 	<ul style="list-style-type: none"> • Contactless feature
3. Access points	<ul style="list-style-type: none"> • Credit transfer accessible via online banking and ATM 	<ul style="list-style-type: none"> • 800,000 terminals by 2020
4. Market incentive structure	<ul style="list-style-type: none"> • E-payment Incentive Fund 	<ul style="list-style-type: none"> • Market Development Fund
5. Awareness & confidence	<ul style="list-style-type: none"> • E-payment roadshows • Media engagements • Workshops • Strengthening security requirements 	<ul style="list-style-type: none"> • E-payment roadshows • Media engagements • Township campaigns • Strengthening security requirements

Source: Bank Negara Malaysia

The migration of lower value payments to retail payment systems also reduces the concentration risk in RENTAS, which continues to be utilised mainly for higher value interbank payment transactions.

The operator of RENTAS, Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear), conducted 11 disaster recovery live runs throughout the year, including one that was carried out without prior notification, to test the effectiveness of business continuity arrangements under simulated disruption events. Such scenarios included disruption of servers, failure of the authentication component and network connection outage at the primary data centre. The live runs affirmed the continued vigilance of MyClear and RENTAS participants and their preparedness for disruptions, with the system resuming service within the recovery time objective of one hour in every test. The Bank also undertook a review of selected major participants in 2015 and found that appropriate business continuity arrangements are in place.

Developments in RENTAS

With the implementation of the Automated Collateralised Overnight Funding Facility (ACOFF) in December 2014, RENTAS participants are now able to utilise collateral to obtain liquidity after the close of business hours up till 9.00 p.m. for their obligations during the IBG evening settlement windows. This provides an avenue for other retail payment systems to leverage on the evening settlement windows in RENTAS to manage interbank liquidity and reduce credit risks. In 2015, approximately 7.7% of the daily IBG evening settlements were settled using ACOFF. While Malaysia was assessed under the Financial Sector Assessment Program to have fully observed the Principles for Financial Market Infrastructures developed by the Bank for International Settlements and International Organisation of Securities Commissions, efforts to elevate the performance of RENTAS continue to be a key priority for the Bank. In this regard, enhancements have also been made to gradually transform RENTAS into a multi-currency system that adopts the Society for

Worldwide Interbank Financial Telecommunication (SWIFT) messaging standard, with multiple access channels and added functionalities for participants to further enhance their operational efficiency and reduce risks. These improvements are expected to be completed by end-2016 and will include a gridlock resolution mechanism and the automation of cross-currency intraday credit facilities. This will augment existing risk mitigation mechanisms such as the Payment versus Payment (PvP) functionalities for the renminbi, US dollar and ringgit. The adoption of the SWIFT standard, a multi-currency platform and enhanced risk mitigation measures will also facilitate efficiency and the integration of RENTAS with other regional financial market infrastructures for seamless, safe and efficient cross-border financial transactions.

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Oversight of retail payments *eSPICK and major retail payment systems*

Throughout the year, eSPICK functioned smoothly and achieved 99.9% system availability. Three minor incidents temporarily affected the connectivity of participants to the eSPICK host system, but these were swiftly resolved. In all three incidents, the timeliness of interbank cheque clearing and settlement was not severely impacted and banks were able to credit the beneficiaries' accounts within the maximum period of two business days (T+1). In November 2015, MyClear undertook a scheduled technology refresh exercise for eSPICK, which included upgrades to system software and hardware components to maintain optimal system performance for the next five years.

With the exception of eSPICK transactions which continued on a declining trend, total transaction volume processed through the various retail

payment systems continued to grow. The use of credit transfer services, comprising IBG and Interbank Fund Transfer (IBFT), continued to sustain double digit growth, reflecting the accelerated migration of cheque users to more efficient funds transfer services. MyClear and the Malaysian Electronic Payment System Sdn. Bhd. (MEPS) which operate the IBG and IBFT services respectively, have also initiated upgrades to the network infrastructure to ensure the reliability and resiliency of these systems in the face of anticipated growth in transaction volumes over the medium term. In 2015, the availability of these retail payment systems remained high at 99.8% uptime.

Payments fraud

With the migration to chip-based payment cards in 2005, fraud losses related to payment cards remained low at less than 0.04% of total transaction value over the period from 2006 to 2015 (Chart 5.2). Unauthorised online transactions remained the most common type of fraud, accounting for 60% of total reported payment card fraud in 2015. However, 97% of the losses were borne by financial institutions located abroad, which have yet to implement a strong authentication method. This is pursuant to the rules set by the international payment card schemes, which require fraud losses to be borne by the party with the weaker security measures. In this regard, Malaysia has implemented a strong authentication method for online transactions since 2012 which requires cardholders to enter a one-time password to authorise online transactions.

Chart 5.2

Payment Card¹ Fraud Value and Volume, % of Total Transaction Value and Volume



¹Payment card consists of credit card, debit card and charge card

Source: Bank Negara Malaysia

To further enhance protection against unauthorised transactions, the use of debit and prepaid cards for overseas transactions and card-not-present transactions (mail order, telephone order or online transactions which are not authenticated using a strong authentication method) will only be enabled upon the cardholder's request. At the same time, the banking industry is undertaking a migration exercise from signature to Personal Identification Number (PIN) verification for payment card transactions conducted at point-of-sale (POS) terminals, which is expected to be completed by 1 January 2017.

Since the introduction of stronger risk management measures in 2012, online banking fraud losses have remained negligible at less than 0.0002% of the total transaction value over the period from 2012 to 2015 (Chart 5.3). However, phishing, which includes the use of e-mails, short message services (SMS) or telephone calls purportedly from financial institutions to lure victims into disclosing their login credentials and passcodes, continued to be prevalent and accounted for 95.2% of total online banking fraud reported in 2015.

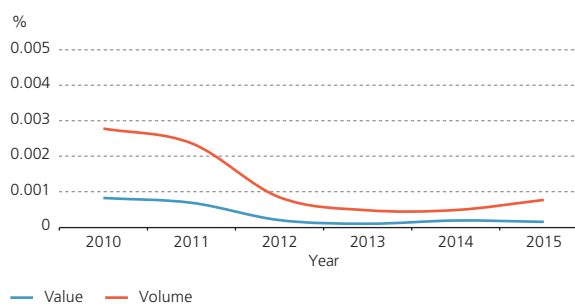
Fraud related to the use of payment cards and online banking remained low in 2015, at 0.04% of total payment card transaction value and 0.0002% of total online banking transaction value

During the year, financial institutions continued to strengthen risk management practices to address the evolving threat of online banking fraud. This included enhancements to fraud deterrent measures. In addition, financial institutions also continued to promote consumer awareness by publishing fraud alerts on online banking websites. These initiatives were in line with the requirements issued by the Bank in December 2014 which reinforced the obligations of financial institutions to ensure risk management and security measures remain robust, and undertake effective measures to educate customers on safe online banking practices.

As most of the fraud cases entail phishing, the Bank will intensify efforts to promote public awareness of this type of fraud and the preventive measures that can be undertaken by customers

Chart 5.3

Online Banking Fraud Value and Volume, % of Total Transaction Value and Volume



Source: Bank Negara Malaysia

when conducting online banking transactions. This will be complemented by heightened supervisory expectations on financial institutions to improve the effectiveness of their consumer education initiatives to mitigate fraud attempts that employ fraudulent means to manipulate victims into divulging sensitive or confidential information. In addition, the Bank will seek to elevate risk management practices of individual financial institutions where gaps remain. This includes requiring affected financial institutions to enhance their risk management such as to deploy automated fraud detection systems with behavioural analytics to identify suspicious activities, implement image or word verification to enable customers to ascertain the authenticity of a financial institution's Internet banking website and implement stronger two-factor authentication measures for high risk transactions.

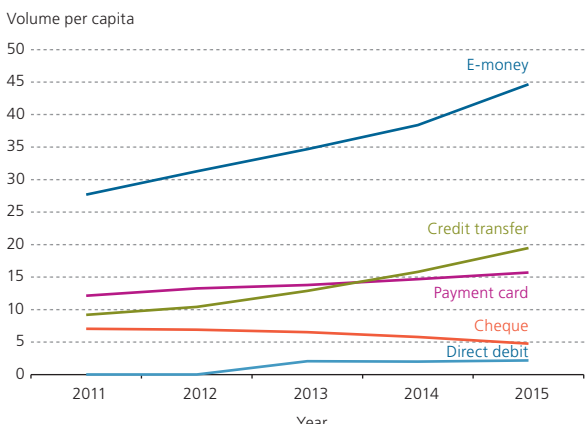
KEY TRENDS AND DEVELOPMENT IN RETAIL PAYMENT SYSTEMS

Non-cash retail payments

The use of non-cash retail payments continued to grow (Chart 5.4), with the average number of non-cash transactions per capita increasing to 87 in 2015, compared to 56 transactions in 2011. The most common non-cash payments were electronic money (e-money) transactions, mainly transit payments using prepaid cards. This was followed by credit transfers between bank accounts and payment card transactions at merchant outlets. In contrast, the use of cheques by consumers and businesses continued to decline, with the number of cheques issued per capita falling further from seven cheques in 2011 to five cheques in 2015, while direct debit transactions remained negligible.

Chart 5.4

Non-cash Transaction Volume per Capita



Source: Bank Negara Malaysia and Department of Statistics Malaysia

Strategy to accelerate migration to e-payments

Over the past five years, the decline in the use of cheques and adoption of e-payment services has been encouraging (Diagram 5.2). The total number of cheques issued per year has declined by 27.8% from 205 million in 2011 to 148 million in 2015, while e-payments per capita increased by 67.2% from 49 to 82 over the same period. The number of POS terminals and debit card transactions per capita are also expected to increase more rapidly with the implementation of the Payment Card Reform Framework (PCRF) in 2015, which is likely to reduce the cost of accepting debit cards and promote payment card acceptance at lower tier merchants. In parallel with the lowering of the cost

of accepting payment cards, industry initiatives are being undertaken to expand the network of POS terminals, introduce new card features that enhance both convenience and security, and promote the usage of debit cards.

The use of credit transfer services, debit cards and mobile payments will be accelerated to reduce the usage of cheques and cash

A key strategy to achieve the e-payment targets set out in the Financial Sector Blueprint 2011-2020 is to accelerate the use of credit transfer services (to displace cheques) and the use of debit cards and mobile payments (to displace cash), given their wide availability and potential as cost-effective alternatives. This will leverage on existing payment infrastructure to avoid duplicative resources and investments by the industry. In this regard, the Bank has worked with the industry to strengthen five key areas to make e-payments more affordable, accessible and convenient (Diagram 5.3). Central to such strategy are efforts to promote efficiency and competition in the payment landscape to spur the provision of better product offerings and greater choices to consumers and businesses. Given the high mobile penetration rate in Malaysia, efforts are also being made to foster innovation and confidence in the mobile channel as a convenient means to conduct banking and payment transactions.

Diagram 5.2

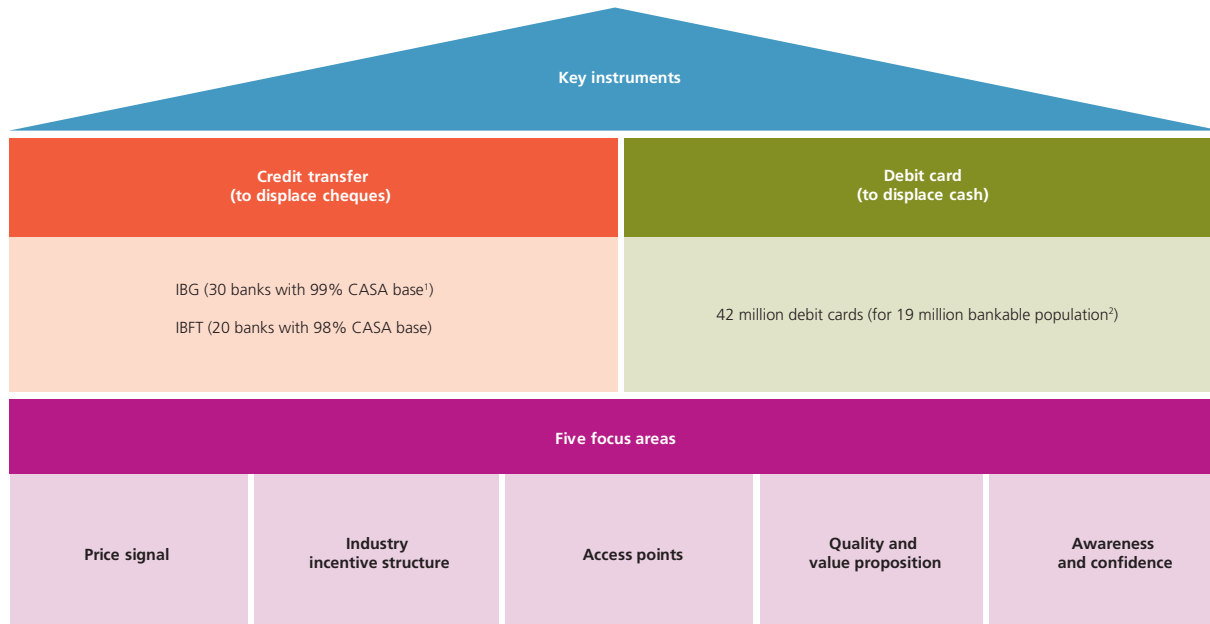
Progress Made in Achieving the Financial Sector Blueprint 2011-2020 Targets

Payment indicators	2011		2015		2020 target
E-payments per capita	49	→	82	→	200
Cheques cleared (million)	205	→	148	→	100
Payment card terminals (per 1,000 inhabitants)	7	→	9	→	25
Debit card transactions per capita	1	→	3	→	30

Source: Bank Negara Malaysia

Diagram 5.3

Key Instruments and Focus Areas to Accelerate Migration to E-payments



¹ Total number of current and savings accounts

² Estimated based on the findings of the Financial Inclusion Demand-Side Survey which show that 92% of individuals aged 15 and above have a deposit account

Source: Bank Negara Malaysia

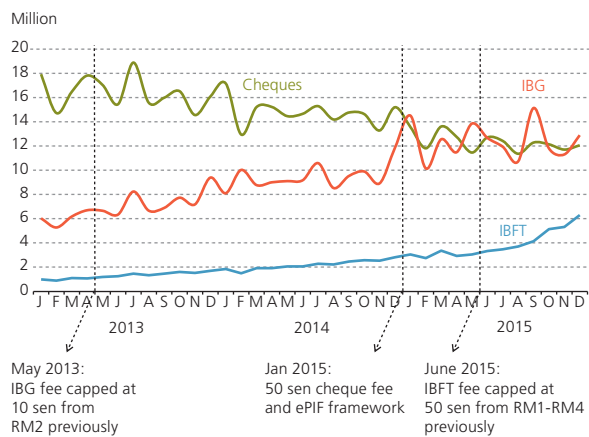
Adoption of retail credit transfers is gaining momentum

In 2015, the number of cheques issued declined at a faster pace of 16.5% compared to the previous years (2014: -10.1%; 2013: -3.3%). Transaction volume for retail credit transfer services comprising the IBG and IBFT on the other hand, continued to record double-digit growth rates of 31.2% (2014: 36.2%) and 76.7% (2014: 67.8%), respectively (Chart 5.5), driven among others by lower transaction fees, incentives offered by banks, wider availability, enhanced features as well as increased awareness and confidence in the use of these services.

IBFT transactions conducted via online banking grew at a faster average rate of 170.8% compared to 30.4% for IBFT transactions conducted via automated teller machines (ATMs) over the past two years. In 2015, IBFT transactions conducted online rose to 26.1 million, surpassing the number of IBFT transactions conducted via ATMs for the first time (Chart 5.6). This can be attributed to the increase in the number of banks offering the IBFT service via online banking, the reduction in online IBFT

Chart 5.5

Transaction Volume for Cheques, IBG and IBFT



Source: Bank Negara Malaysia

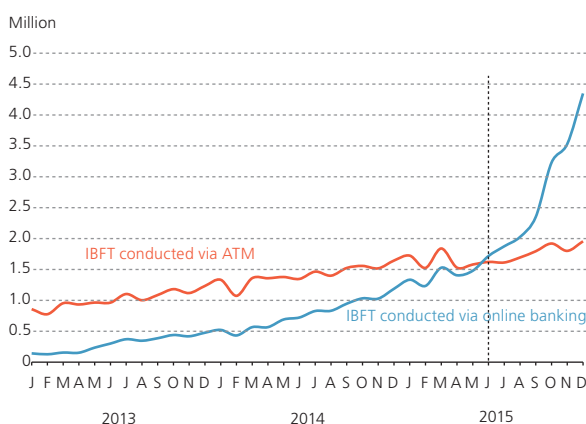
fees and the growing familiarity among users with the online IBFT service.

Cost-effective retail credit transfer services

The implementation of reforms to the payments pricing structure since 2013 (Table 5.1) has led to a gradual shift of customers' preferences

Chart 5.6

IBFT Transaction Volume via ATM and Online Banking



Source: Bank Negara Malaysia

from cheques to the more cost-effective credit transfer services. The pricing reform entailed, among others, a cap on the IBG fee at 10 sen per transaction and the imposition of a 50 sen cheque processing fee. This was complemented by the introduction of the e-Payment Incentive Fund (ePIF) framework in January 2015, which required financial institutions to channel cheque processing fees into providing incentives for customers to migrate to e-payments.

Measures were also taken by MEPS to promote e-payments in 2015. Effective from 1 June 2015, MEPS set a ceiling of 50 sen for IBFT services which used to cost users between RM1 and RM4 per transaction. In collaboration with financial institutions, a nationwide campaign was also launched by MEPS to waive the transaction fee for a period of three months from October 2015.

Multiple access points to retail credit transfer services

For the past three years, the number of active online banking subscribers who conduct online transactions at least once a quarter has been increasing at an average growth rate of 19%. In 2015, there was an average of 7.8 million active subscribers per month. However, this represented only 14.1% of the total current and savings accounts (CASA) in Malaysia. A key initiative to extend the availability of e-payment services to segments of the economy which have yet to adopt online banking is the provision of credit transfer services via ATMs. This would provide the public with an alternative channel to access credit transfer services. To date, 15 and 20 banks offer IBG and IBFT services respectively via their ATMs, giving access to such services for about 96.3% and 99.9% of total CASA (Table 5.2). During the year, the volume of IBG transactions initiated via ATMs more than doubled from 255,310 transactions in 2014 to 658,832 in 2015.

IBG and IBFT services are made more accessible via online banking and ATMs. The volume of IBG transactions initiated via ATMs more than doubled from 255,310 transactions in 2014 to 658,832 in 2015

High-quality and value-added retail credit transfer features

Another key driver of e-payment adoption is the speed of interbank funds transfer. The IBG service was enhanced in December 2014 to facilitate same-day crediting of funds for payment

Table 5.1

Fee Structure for Cheques, IBG and IBFT

	Previous Fee	Current Fee (Ceiling*)	
		Fee	Effective Date
IBG:			
Conducted via:			
- Online banking	RM2	10 sen*	2 May 2013
- ATM	RM2	30 sen*	1 October 2014
Cheques	NIL	50 sen	2 January 2015
IBFT	RM1 - RM4	50 sen*	1 June 2015

Table 5.2

Access to IBG and IBFT Services via ATM and Online Banking

	IBG	IBFT
Number of banks offering via online banking	30	17
Number of banks offering via ATM	15	20
- Number of ATMs	11,356	12,287

instructions made before 5.00 p.m., compared to the previous cut-off time of 12.30 p.m. The IBFT service on the other hand provides for crediting of customer accounts on a near real-time basis. The crediting time for the IBG and the IBFT services is significantly faster than for cheques, where customer accounts are only credited by the end of the next business day for cheques banked in before 4.00 p.m. (Table 5.3). To further enhance the value proposition of the IBG and the IBFT services, payment reference details, including the beneficiary's name and payer's name, are now recorded in the bank statements, thus facilitating reconciliation for both payers and beneficiaries, respectively.

The establishment of JomPAY, a national electronic bill payment platform, on 9 April 2015 is another initiative designed to enhance the efficiency and convenience of bill payments. JomPAY enables customers of a participating bank to make payments to the registered billers of all JomPAY participating banks. This open platform eliminates the need

for a biller to maintain banking relationships with multiple banks in order to accept payments from its customers. As at end-2015, JomPAY is offered by 29 banks via online banking and four banks via ATMs, with 472 registered billers accepting payments through the platform. In 2015, 302,595 transactions were made using JomPAY amounting to RM99 million. Plans are underway to expand the electronic bill payment market to include new merchant sectors, particularly small and medium enterprises (SMEs) and micro enterprises, with a target of 5,000 registered billers by the year 2020.

Promoting transparency and competition

To promote transparency and competition among banks in their product offerings, details of the e-payment services offered by banks are made available at all bank branches and on the websites of banking institutions, the Bank, The Association of Banks in Malaysia (ABM) and The Association of Islamic Banking Institutions Malaysia (AIBIM). The public would be able to select the services offered by banks that best serve their needs by comparing details such as the transaction fee, access channels, crediting time and transaction limit.

**Facilitating greater payment card usage
Transaction and market share trends for payment cards**

Payment card usage continued to increase, recording a growth of 8.4% and 9.9% in terms of transaction volume and value respectively, reaching 453.9 million transactions valued at RM141.5 billion in 2015 (2014: 418.8 million; RM128.8 billion) (Chart 5.7). Credit card remained the most widely

Table 5.3

Value-added Features for IBG and IBFT Services

	IBG	IBFT	Cheques
Crediting time	Same business day if payment is initiated before 5.00 p.m.	Almost instantly	Next business day if cheques are banked in before 4.00 p.m.
Number of banks providing payment reference for transactions made via online banking as at end-2015			
- Payer's details in beneficiary's statement	All 30 offering banks	16 out of 17 offering banks	Payment reference is not available
- Beneficiary's details in payer's statement	29 out of 30 offering banks	14 out of 17 offering banks	

used payment card but its proportion of the total payment cards transaction volume decreased to 79.2% in 2015 (2014: 82.5%). Debit card increased its share of the total payment card transactions to 19.8% (2014: 16.4%), representing a year-on-year growth rate of 31% with a total transaction volume of 90.1 million valued at RM20 billion (2014: 68.7 million; RM14.8 billion). The share of charge card transactions remained relatively low at 0.9% (2014: 1%).

Lower cost of accepting payment cards

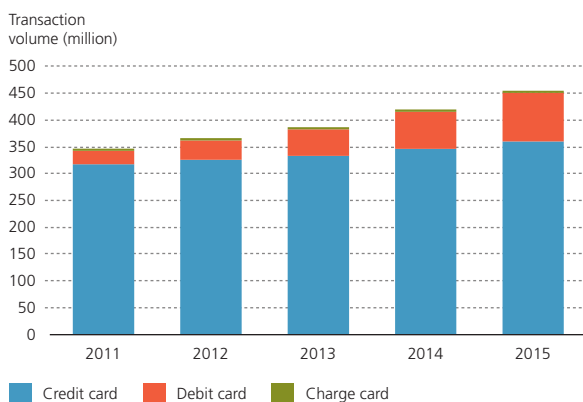
Significant progress has been made towards reducing the cost of accepting payment cards with the implementation of the PCRF, which came into effect on 1 July 2015. The PCRF addresses indiscriminate increases in interchange fees and other distortions in the payment card market which had previously led to unnecessarily higher costs in accepting payment cards. This was achieved through the imposition of interchange fee ceilings, supported by a series of measures to promote efficiency and competition in the payment card market to lower cost whilst providing merchants with greater choice and control over the cost of payment card acceptance (Table 5.4). These measures have already resulted in a slight moderation in the average merchant discount rate (MDR) charged by the acquirers, which will further encourage the wider acceptance of payment cards (Chart 5.8).

Greater accessibility through deployment of POS terminals

In 2015, the total number of POS terminals in the market increased by 18.1% to 280,704 (2014: 4.9%; 237,657). To encourage further

Chart 5.7

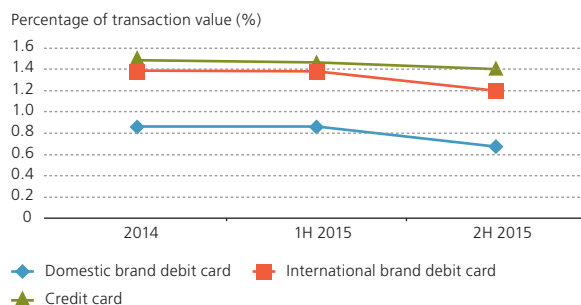
Payment Card Transaction Volume by Type of Cards



Source: Bank Negara Malaysia

Chart 5.8

Average MDR by Type of Payment Card Transactions*



*Based on the data submitted by 10 acquirers with 61% market share in the total number of POS terminals as at end-2015.

Source: Bank Negara Malaysia

Table 5.4

Measures to Provide Merchants with Better Control of the Cost of Payment Card Acceptance

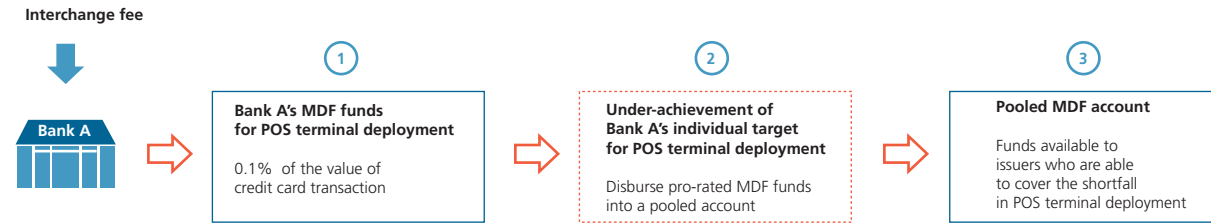
Measures	Rationale
1. Unbundling of MDR for payment cards	To ensure MDR reflects the cost structure of different payment cards
2. Disclosure of MDR and interchange fee rates in the merchant statements	To provide greater transparency to merchants on the cost of accepting different payment cards
3. Empowering merchants to steer their customers to use cost-effective payment cards	To facilitate merchants to minimise their cost of accepting payment cards by encouraging their customers to use the cost-effective payment cards
4. Empowering merchants to set priority network routing for co-badged debit cards ¹	To enable merchants to prioritise the acceptance of the lowest-cost debit card network in order to minimise the cost of accepting payment cards

¹ Co-badged debit cards have both the domestic brand debit application (i.e. MyDebit) and an international brand debit application (e.g. Visa or MasterCard) on the same card.

expansion of the POS terminal network, the PCRF provides payment card schemes with the option of establishing a Market Development Fund (MDF) to support the deployment of new POS terminals (Diagram 5.4). The MDF is to be funded by a portion of the interchange fee amounting to 0.1% of the value of any credit card transaction. Card issuers that receive MDF funds will be assigned individual targets for POS terminal deployment, and issuers that fail to achieve the targets would

Diagram 5.4

Mechanism of the MDF



Source: Bank Negara Malaysia

be required to return the MDF funds to a pooled account on a pro-rated basis, which will be made available to other issuers that are able to cover the shortfall in POS terminal deployment. Two major payment card schemes have since established an MDF for the benefit of their participants, which is expected to channel approximately RM455 million towards expanding the POS terminal network for the period between July 2015 and 2020.

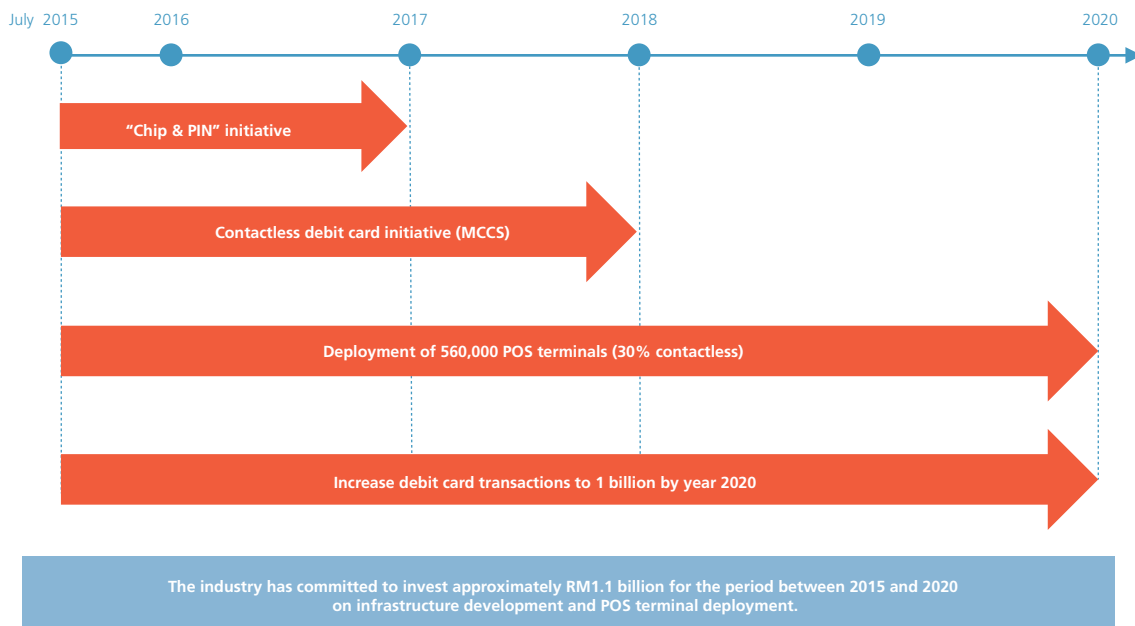
“Chip and PIN” and Malaysian Chip Card Specification initiatives

The enhancement of the payment card infrastructure is currently underway, with the expected migration from signature to PIN

verification for payment card transactions at POS terminals (“Chip and PIN”) and the roll out of Malaysian Chip Card Specification (MCCS)-compliant payment cards and terminals by 1 January 2017 and 1 January 2018, respectively (Diagram 5.5). To support such infrastructure enhancements and the expansion of the POS terminals, the industry has committed to invest approximately RM1.1 billion for the period between 2015 and 2020. The adoption of “Chip and PIN” verification will further improve the security of payment card transactions at POS terminals, while the adoption of the international Europay-MasterCard-Visa (EMV) standard and contactless functionality under the MCCS initiative will enhance the interoperability and efficiency of

Diagram 5.5

Industry-wide Initiatives to Enhance the Payment Card Landscape



Source: Bank Negara Malaysia

domestic debit cards. These enhanced card features will provide greater convenience and further improve consumer confidence in the use of payment cards.

Promoting adoption of mobile banking and payments

The Bank is also closely monitoring developments in mobile banking and payments. With a mobile penetration rate of about 1.5 mobile phones per capita, mobile phones have the potential to serve as a convenient channel for banking and payment transactions. Currently, mobile banking services are offered by 13 banks, which collectively cover 86.1% of total CASA. Subscription to mobile banking services has also been significant, with the number of mobile banking subscribers increasing by 29.1% to 7.3 million subscribers in 2015, of which about 1.6 million are active subscribers. This is also reflected by the growth of mobile banking financial transaction volume, which grew by 35.6% to 31.6 million transactions. Growth was also observed in mobile payment services offered by mobile network operators where mobile payment transactions increased by 15.9% to 0.3 million transactions in 2015. These trends are expected to continue amid further advancements in mobile technology, and greater consumer awareness and confidence. A key area of focus for the Bank is to foster innovation and confidence in mobile banking and payment services. While some security measures are already embedded as part of online banking security features such as Transaction Authorisation Code (TAC), efforts to further elevate security standards have nonetheless been observed, most notably with the introduction of biometric authentication by some banks.

Fostering awareness to boost e-payment adoption

In the past three years, the Bank has worked closely with the banking industry to initiate a series of outreach programmes aimed at fostering greater awareness and promoting the use of cost-effective payment instruments and services among consumers and businesses. This included the 'Experience IBG' roadshow, 'Open Day' event at bank branches and the annual Payment Systems Forum and Exhibition. This collaborative approach continued in 2015 with the National e-Payment Roadshow (Roadshow) which was held at six major towns in Pulau Pinang,

Johor, Kelantan, Sabah, Sarawak and Kuala Lumpur. The Roadshow focused on promoting the acceptance of payment cards, funds transfers via ATM, online banking services and safe practices in conducting online banking transactions. The Roadshow was attended mainly by SMEs and micro enterprises. In conjunction with the Roadshow, banks also launched campaigns in more than 40 selected towns to encourage businesses to accept payment cards, during which attractive incentives and promotional packages were offered. These included lower MDR fees and free rental for payment card terminals to businesses that signed up for card acceptance services.

REGIONAL CO-OPERATION IN PAYMENT SYSTEMS

The Bank continued during the year to advance regional financial co-operation through its participation in various regional groupings such as the Working Group on Payment Systems under the Executives' Meeting on East Asia-Pacific Central Banks (EMEAP), ASEAN+3 Cross-border Settlement Infrastructure Forum and ASEAN Working Committee on Payment and Settlement Systems (WCPSS). The Bank currently co-chairs the ASEAN WCPSS which seeks to facilitate greater interconnectedness within the ASEAN payment infrastructures. The initiatives being pursued include improving cross-border payment services and promoting greater convergence between domestic regulatory frameworks in areas such as consumer protection and risk management. These measures are envisaged to create an integrated ASEAN payment system that is safe, innovative, competitive, efficient and cost-effective. This, in turn, is expected to lead to wider consumer choice and greater access to e-payment channels, lower transaction costs and risk as well as faster settlements. In order to achieve the goal of payment integration within ASEAN, further efforts will be directed towards harmonising technical and operational standards in areas such as messaging format, settlement cycle, service availability, dispute resolution and liability management. These efforts must nonetheless be supported by cross-border collaboration and coordinated arrangements, including through capacity building and technical assistance, having regard for the diverse stages of economic development, institutional frameworks and domestic priorities across the ASEAN jurisdictions.

