

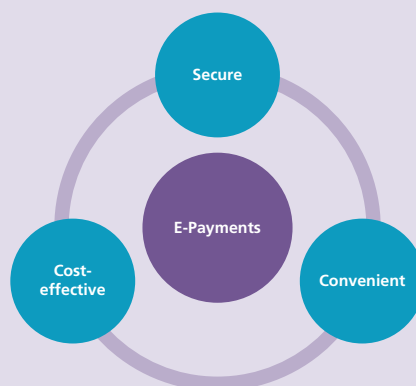
Accelerating the Migration to Electronic Payments

In the Bank's Financial Sector Blueprint 2011 - 2020, the Bank identified the migration to e-payments as a key enabler for greater economic efficiency, by transforming the payment landscape in Malaysia into one that is cost-effective, safe, fast and easy to use. To accelerate the migration to e-payments, the Bank has adopted a three-pronged approach:

- (i) Implementing a conducive pricing structure to incentivise the use of e-payments;
- (ii) Enhancing the e-payments infrastructure to widen accessibility, enhance convenience, and strengthen security; and
- (iii) Promoting greater awareness in the benefits of using e-payments.

Diagram 1

Key Features of E-Payments



Pricing Reform

In March 2013, the Bank introduced a Pricing Reform Framework aimed at aligning the price of payment instruments with the actual costs of production and processing. The objective is to incentivise the adoption of e-payments over paper-based payment instruments. The Pricing Reform Framework has three phases as depicted in Diagram 2.

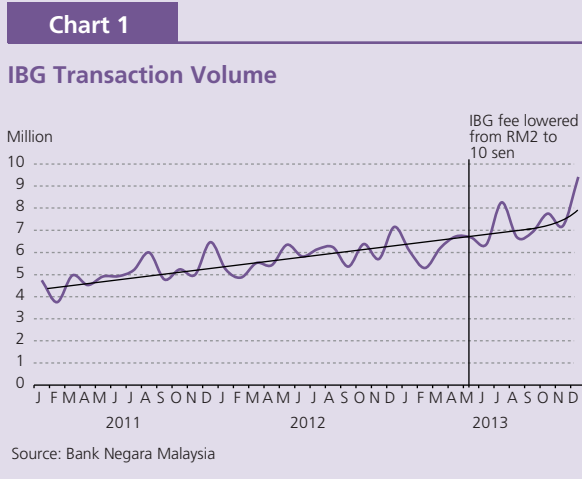
Diagram 2

Timeline of the Pricing Reform Framework



In the first phase, selected e-payment services will be deliberately priced below cost to encourage wider adoption by the public. Wider adoption would enable economies of scale while further drive unit costs down. At the same time, charges will be imposed for the use of paper-based payment instruments to reflect its higher cost. Consistent with this strategy, the fee for IBG services conducted via Internet and mobile banking was capped at 10 sen per transaction

beginning 2 May 2013, while a processing fee of 50 sen per cheque will be introduced from 1 April 2014 onwards. The response to these initiatives has been encouraging, with the average rate of growth of monthly IBG transaction volumes tripling to 6% from May to December 2013, compared to only 2% in the preceding 8 months, as illustrated in Chart 1.



The next initiative under phase one will be the introduction of a tiered pricing structure in 2014, to further differentiate the prices of payment services according to the relative costs. Transactions via online channels such as the Internet will attract the lowest fees, followed by transactions using ATMs. Based on this principle, the over-the-counter (OTC) services at bank branches will attract the highest fees for the same payment service.

It was observed that in many banking institutions, the revenue-generating business units (such as e-business and payment cards) and the cost centres (such as cash and cheque processing centres) are often in conflict over strategies for migrating to e-payments, due in large part to the misalignment of key performance indicators which fails to reflect an organisational perspective of performance. For instance, an initial decline in income due to the reduced fees for e-payment services may be desirable if it is more than offset by cost savings from fewer cheque and cash transactions. To better manage such trade-offs, banking institutions need to clearly define an organisation-wide strategy for migrating to e-payments and improve internal arrangements for coordinating the implementation of business plans that are in line with that strategy.

In the second phase of the Pricing Reform Framework, further measures will be undertaken to gradually increase the prices of cheques to better reflect the true underlying cost associated with processing cheque payments services, while in the final phase the prices of payment services should reflect the actual costs of providing the services.

Enhancing the E-Payments Infrastructure

Equally important is the existence of a robust e-payments infrastructure that meets the payment needs of the public. To this end, measures have been focused on widening accessibility and acceptability of e-payment services, enhancing user convenience, and improving public confidence in e-payments by strengthening transaction security.

Widening accessibility and acceptability

To date, almost all current and savings account holders have access to IBG services via the Internet channel or OTC services provided by the branch networks of 29 banking institutions across the country. To extend accessibility to customers with limited access to the Internet, banking institutions have committed to deploy at least one self-service Internet kiosk at each of their branches, and to enable IBG payments over the

ATMs by the end of 2014. Details of the e-payment options available in each banking institution will be published on the Bankinginfo website, as well as the websites of the Association of Banks in Malaysia (ABM) and the Association of Islamic Banking Institutions Malaysia (AIBIM).

Over the past few years, online bill payments have grown steadily from 34 million transactions in 2009 to 62.3 million transactions in 2013, reflecting the strong demand from consumers for convenient bill payment services and from corporations for efficient collection services. However, at present, customers could only use the online channel of a bank to make payments to corporations or merchants who maintain banking relationships with the same bank. To achieve the full potential of online facilities for bill payments, MyClear initiated the development of the NBPS which will provide a common and open platform for bank customers to make online bill payments from any bank to any corporation or merchant registered with NBPS. The NBPS system will be implemented in 2014 with banks joining the platform in phases from October 2014 until mid-2015.

Increasing the number of payment card acceptance points is a key strategy to further reduce the usage of cash. Efforts are being pursued by the Bank to accelerate the deployment of POS terminals, particularly among smaller businesses. An encouraging development has been the increased use of mobile POS terminals operated over wireless networks by small businesses that did not previously accept payment cards. There is also an ongoing industry initiative to migrate the ATM card or the domestic debit card from the existing proprietary standard to the EMV standard, which will facilitate interoperability and widen the acceptance of the ATM or domestic debit card for retail payments. These cards will also be equipped with a contactless functionality which significantly reduces transaction time for small value purchases. This will enhance convenience and increase payment efficiency for both customers and merchants, leading to a further shift away from the use of cash for such purchases.

Enhancing user convenience

To further improve the IBG service, the end-to-end IBG infrastructure is being enhanced in 2014. Currently, practices among banking institutions vary with respect to the time taken for funds to be credited into beneficiary's account. In 2014, the crediting times will be standardised across the banking institutions and published to provide more transparency and certainty to bank customers. The number of clearing windows will also be increased from 1 to 4 to enable payments to be credited faster into beneficiary's account.

Based on surveys of payment preferences conducted in the past, existing limitations surrounding the amount and type of information that can be captured with e-payment transactions were often identified as one of the main obstacles to greater adoption of e-payments by businesses. The description of funds received typically only indicated the type of payment, such as 'Electronic Funds Transfer' or 'IBG', and did not provide information about the sender or the purpose of the payment. To address this limitation, a payment reference standard was established in 2013 by MyClear in collaboration with ABM and the banking institutions. Senders of funds transfers will now be required to include a short description of the payment transaction when initiating a funds transfer. This description, together with the sender's name, will appear in the beneficiary's bank account statement, making it easier for the beneficiary to identify the source and purpose of the payment received, and facilitating payment reconciliations by businesses.

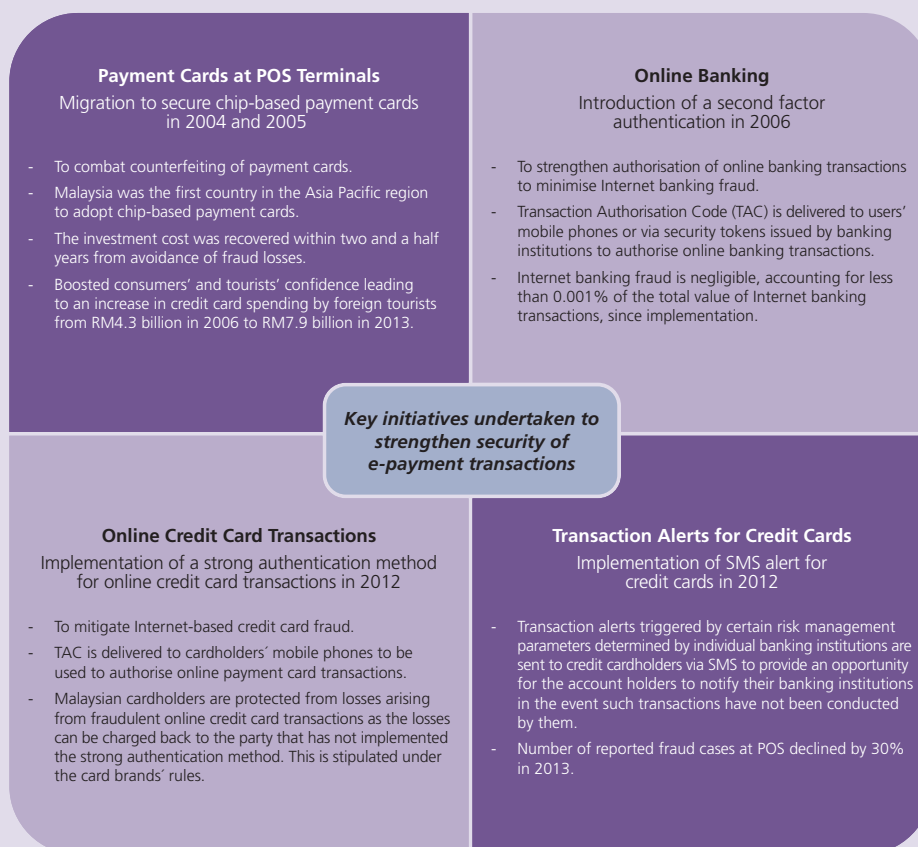
Strengthening security

Over the past decade, fraud losses on e-payment transactions have remained low as banks are required to comply with regulatory requirements which specify minimum security measures and standards for the protection of consumers. Various specific measures have also been taken to combat e-payment fraud, as depicted in Diagram 3.

Going forward, measures will continue to be taken to further enhance the security of e-payment transactions and educate customers on safe e-payment practices. This includes the implementation of chip and PIN-based card transactions in 2017.

Diagram 3

Key Initiatives Undertaken to Strengthen Security of E-Payment Transactions

**Building Awareness**

Efforts have also been directed at promoting greater awareness and educating businesses and the public on the benefits of e-payments. In December 2013, a Payment System Forum and Exhibition was organised by the Bank, ABM and AIBIM, to provide information to the public on the wide range of e-payment solutions available in the market and to facilitate the sharing of experience by businesses that have successfully migrated to e-payments. The forum attracted over 400 participants from the small and medium enterprises, chambers of business, corporates and government agencies.

To maintain the momentum of the awareness campaign, the Bank, in collaboration with ABM, AIBIM and the banking institutions, has also embarked on a series of 'Experience IBG' roadshows in 12 major towns nationwide. The roadshows, which commenced in October 2013 for a period of six months, focused on enhancing familiarity with the IBG service by providing detailed guidance on its usage with hands-on experience. To complement the roadshows and extend the outreach to smaller towns, banking institutions also organised a one-week 'Open Day' at bank branches in 16 other towns to promote online banking services. Separately, banking institutions are also engaging directly with customers that issue large numbers of cheques to offer assistance in migrating to e-payments.