

Modernisation of the Money Changing and Remittance Industry

Aided by rapid technological advancements, the money changing and remittance industry globally has seen significant growth over the last decade in terms of size, sophistication and number of players with global linkages and advanced operations. Domestically, the volume of money changing and remittance transactions has similarly increased significantly in tandem with the expansion in economic activity. This in turn has driven demand for and access to money changing and remittance services while increasing the need for operators to ensure safety, security and integrity of these activities.

In line with these developments, Bank Negara Malaysia has initiated a comprehensive review of the legal and regulatory framework for the money changing and remittance services business in Malaysia, with the view to modernising and elevating the current status of the industry. The review is also aimed at ensuring that the necessary safeguards are in place and operating effectively to protect the integrity of the industry from the risk of money laundering, terrorist financing and illegal activities.

As an outcome of the review, a new industry landscape is envisaged to promote the orderly and professional development of the money changing and remittance industry in Malaysia under a more cohesive framework, while rationalising the regulatory regime applicable to the money changing, remittance and foreign currency wholesale businesses which is currently provided in three separate legislations, namely the Money Changing Act 1998, the Payment Systems Act 2003 and the Exchange Control Act 1953. This will pave the way for a more dynamic and effective industry to evolve with the following features:

- Greater business flexibilities for qualified players in the industry, including the ability to carry on multiple business activities within a single entity, thus promoting greater synergies between these activities and economies of scale;
- Differentiated regulatory requirements according to the nature, scale and complexity of an entity's business; and
- Strengthened safeguards to promote the professional and sound management of the industry.

Greater business flexibility

In line with the objective of fostering greater effectiveness and efficiency in the money changing and remittance business as well as to facilitate their orderly expansion, qualified players will be given greater flexibility to provide both money changing and remittance services within a single entity. This recognises the synergies between the money changing and remittance businesses and is expected to not only broaden the revenue base of operators, but also to encourage the use of formal channels for remittances by allowing existing money changers to also provide remittance services. Consideration is also being given to allow qualified wholesalers to conduct retail operations, thus enabling them to derive greater synergies from upstream and downstream activities. The existing foreign currency holding limit and remittance limits imposed on money changers and remitters respectively are also being reviewed to allow well-managed players to achieve greater scale and expand their product offerings. Such added flexibility to be accorded to eligible players that fulfill preconditions, will enhance the capacity of the industry to complement the banking sector in providing a broad range of comprehensive services to customers in the long run.

Differentiated regulatory requirements

The proposed new framework will provide flexibility under a more proportionate and differentiated regulatory and supervisory regime which provides for compliance with regulatory requirements according to the nature, scale and complexity of an entity's business. Consistent

with such a regime, wider enforcement powers are envisaged for the Bank to promote sound and responsible practices by players in the industry and to support early actions against non-compliances or breaches of regulatory requirements that may undermine the integrity and confidence in the industry.

Strengthened safeguards to promote sound and professional management

Central to an effective and dynamic industry will be enhanced oversight arrangements that are underpinned by effective governance, operational and control requirements for the sound conduct of the business. This is essential to provide a strong foundation for the modernised and more vibrant landscape for the money changing and remittance businesses. Consistent with other regulated industries within the financial sector, rigorous fit and proper requirements and assessments will be introduced for shareholders, directors and managers, to ensure that only people of high integrity, competency and experience are allowed to operate in the industry. A key focus will be on establishing the financial capacity and capability of players in the industry to put in place and effectively implement sound governance and operational arrangements, as well as internal control mechanisms, in particular for compliance with AML/CFT.

Conclusion

The new landscape for the money changing and remittance industry will provide a stronger foundation for the orderly growth and further development of the industry. Importantly, this will be supported by a more robust and responsive regulatory and supervisory framework that will safeguard the integrity of Malaysia's financial system from money laundering and terrorist financing threats, while improving the efficiency and quality of services provided to the public at large. The enabling legislation which will pave the way for these changes is expected to be put in place in 2011.