

# **Accelerating the Migration to Electronic Payments:**

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**Key e-Payment Instruments, Supporting Infrastructure, and Reform Measures**

**Payment System Forum and Exhibition 2014**

**27 November 2014**



# Presentation Objective

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To provide the audience with :

1. An overview of the strategy adopted to accelerate the country's migration to e-payments; and
2. Highlights of the Payment Card Reform measures and developments in the retail payment infrastructure that will shape Malaysia's payment card landscape.



# Key instruments to displace cheques and cash



# Leveraging on existing infrastructure to accelerate the migration to e-payments

Migration to e-payments to achieve efficiency gains and cost savings to enhance the country's competitiveness

## Strategy

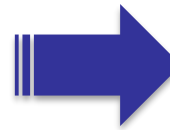
### Key instruments to achieve FSB targets

#### **IBG to displace cheques**

*29 offering banks accounting for 99% of total current and saving accounts*

#### **Debit card to displace cash**

*45 million cards for a population of 30 million*



### 5 focus areas

- Pricing
- Industry incentive structure
- Accessibility
- Quality/value proposition
- Awareness and Confidence

# **IBG to displace cheques**

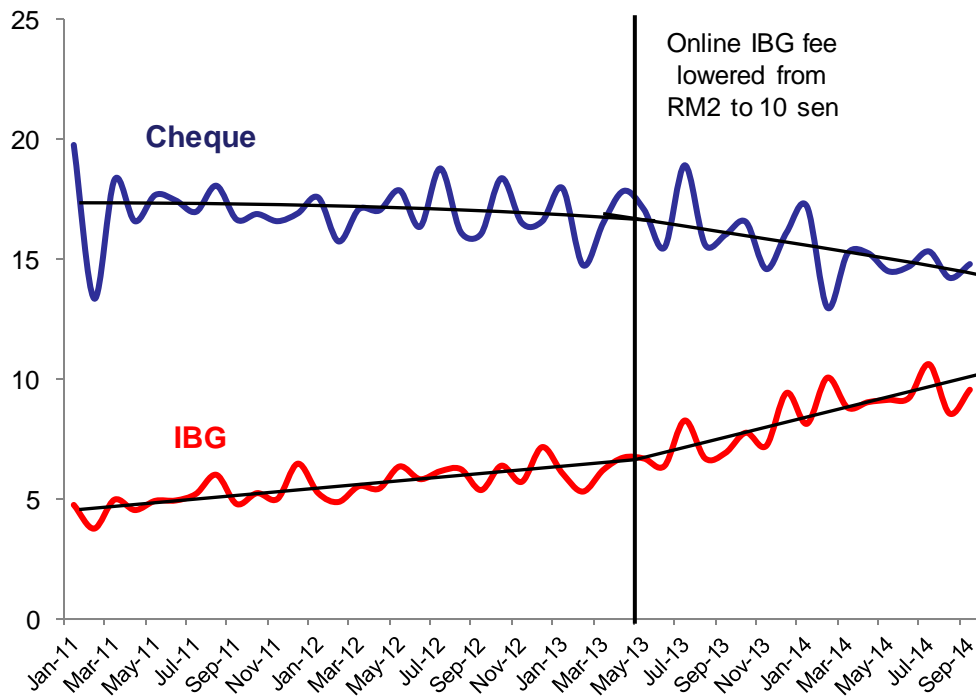


# Measures undertaken to promote adoption of IBG

## Pricing

- **Pricing Reform Framework**  
(Online IBG at 10 sen w.e.f May 2013, cheques at 50 sen w.e.f Jan 2015)
- **Tiered Pricing Structure** w.e.f. Oct 2014  
(10 sen via online banking, 30 sen via ATM and RM2 over the counter)

Transaction Volume (million)



- Significant growth in IBG transactions:  
Jan-Sept 2013: 16%  
Jan-Sept 2014: 40%
- Cheque declined at a faster rate:  
Jan-Sept 2013: -2%  
Jan-Sept 2014: -11%

**Public have benefited from a cost savings of RM162 million since May 2013 till Sept 2014 from the reduction of the IBG fee from RM2 to 10 sen**



# Measures undertaken to promote adoption of IBG

Industry  
incentive  
structure

## e-Payment Incentive Fund (ePIF) framework:

A market driven framework to sustain the improvements in the e-payment infrastructure and services

1. Banks to fulfil a set of e-payment pre-requisites

Pre-requisites  
NOT fully met

100% of cheque fee collected

Pre-requisites  
fully met

50% of cheque fee collected

ePIF account

2. Banks to utilise ePIF funds to incentivise e-payment adoption

ePIF account

Eligible incentives

Individual banks' customers

Funds collected will be used to provide the following incentives:

- ✓ Waiver of security token and monthly maintenance fees
- ✓ Waiver/discounts on e-payment transaction fee
- ✓ Incentives for government payments using debit card
- ✓ SMS charges for notifications to customers
- ✓ Other eligible expenses

Cheque fee is channelled back to consumers in terms of incentives to adopt e-payments



# Measures undertaken to promote adoption of IBG

## Accessibility

- 29 banks offering IBG via internet banking (99% of total current and savings accounts).
  - 17 million internet banking subscribers (16% growth per year in the last 3 years).
- **Complemented by IBG offered via:**
  - 10,706 ATMs by end-2014; and
  - 2,475 SSI kiosks at 2,347 bank branches.

## Quality/value proposition

- Account number validation against I.C. and company registration number.
- Transaction authorisation code (TAC) and transaction alert via SMS.
- Payment reference to facilitate reconciliation.
- Faster crediting time.
- Future-dated IBG services.



# Measures undertaken to promote adoption of IBG

## Awareness & Confidence

- Nationwide IBG roadshows, workshops and media advert.
- Banking Institutions continuously enhance their security measures.
- Disclosure of e-payments services and fees w.e.f Oct 2014.

## Simple DOs and DON'Ts for safe online banking

### DOs

- Keep your security device secure at all times, and report any breach or loss of security device to your banks immediately
- Review transaction records and report any unauthorized transaction immediately
- Protect your computer and smart phones with antivirus software
- Be alert of the details of the transaction authorisation code (TAC) received via SMS

### DON'Ts

- Do not access your bank's website via a hyperlink from an e-mail/SMSes/pop-ups
- Do not conduct online transactions in public areas
- Do not disclose your ID and pass code, including via emails or on any websites other than the official website of your banks
- Do not entertain telephone calls that require you to divulge your financial information or transfer funds into any accounts

**Banks and Bank Negara Malaysia will never ask you to disclose your confidential information via SMS, emails or over the phone.**



# Debit card to displace cash

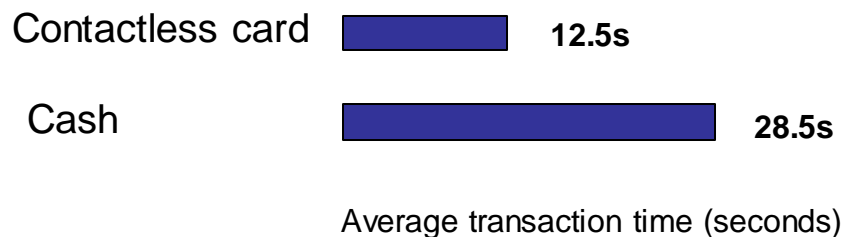


# Benefits of debit card over cash

Debit card is a more secure, convenient and cost-effective payment instrument.

Benefits	Consumers	Merchants
Secure	<ul style="list-style-type: none"> <li>Less need to carry cash</li> </ul>	<ul style="list-style-type: none"> <li>Minimise risk of theft and pilferage.</li> </ul>
Convenient	<ul style="list-style-type: none"> <li>Keep track of spending</li> </ul>	<ul style="list-style-type: none"> <li>Simplify end-of-day reconciliation</li> </ul>
Cost-effective	<ul style="list-style-type: none"> <li>Save time and cost from having to withdraw cash</li> </ul>	<ul style="list-style-type: none"> <li>Reduce security cost and manpower</li> <li>Faster checkout time at counter</li> </ul>

## Contactless cards reduces transaction time



**Contactless card is 16 seconds faster than cash.**

*(Source: Nick Holland, "Contactless Payments and NFC in the United States: Beyond Science Fiction", Aite Group LLC, 2008)*

# Potential and challenges for debit card to displace cash in Malaysia

## Potential

- 1. High penetration of debit cards**
  - 45 mil cards for 30 mil Malaysians
- 2. Security of payment cards**
  - Chip-based cards (2005)
  - 3D secure for online transactions (2012)
  - SMS alerts (2012)
  - Chip and PIN for ATM (1/1/15) and point-of-sale (POS) (1/1/17)
- 3. Enhancements to the domestic debit card (by 1/1/18)**
  - Migration to EMV standard
  - Contactless technology

## Challenges

- 1. Low number of POS terminals**
  - 8 POS per 1,000 inhabitants (22 to 35 in advanced countries)
  - Slow down in POS growth since 2011.
- 2. Relatively high MDR level**
  - Average MDR of 1.5% to 2.5% (some as high as 3.5%)
  - Same MDR for debit and credit cards despite differing cost.
- 3. Industry Incentive structure:**
  - Higher cost cards promoted at the expense of cost-effective cards

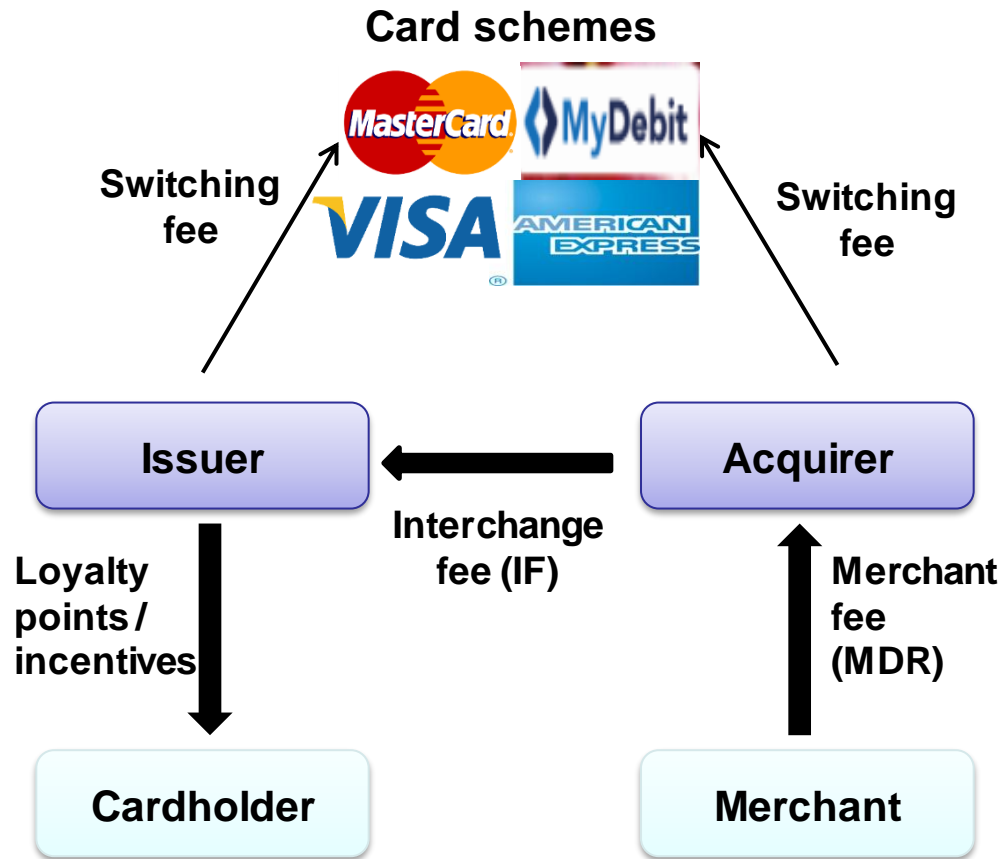
**Reform measures are needed to facilitate an enabling environment for pervasive use of cost effective payment cards**



# Payment Card Reform Framework (PCRF)



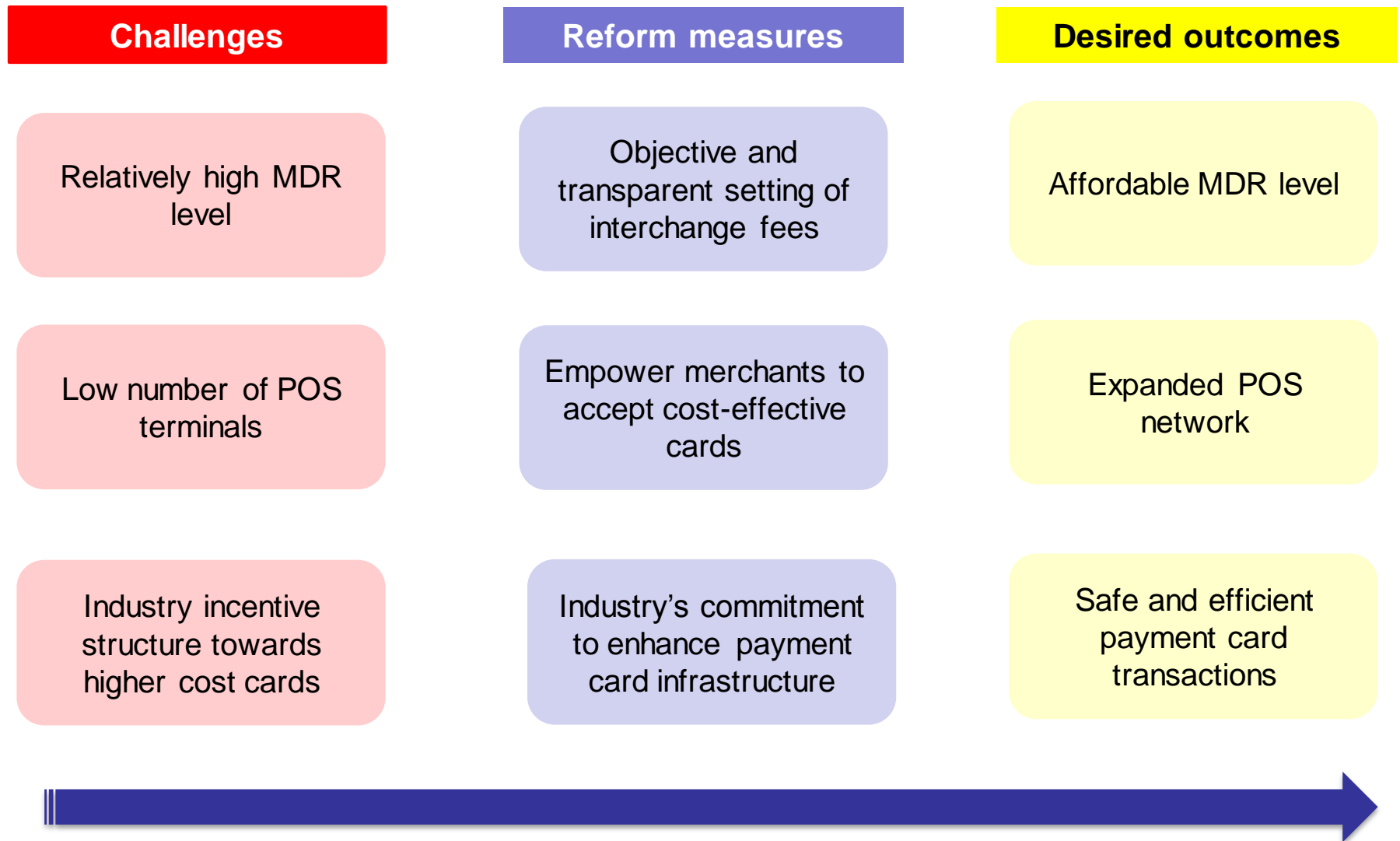
# Interchange fee in payment card schemes



- Interchange fee (IF) is a significant component of MDR.
- When IF increases, MDR increases.
  - Merchants are pressured to recover the higher cost by raising prices or surcharging their customers.

**High MDR is one of the key hindrances to wider acceptance of payment cards among small merchants.**

# Payment Card Reform Framework



# Objective and transparent setting of interchange fees

Payment card transaction	Prevailing IF	IF ceiling
Domestic debit card	0.40%	<ul style="list-style-type: none"> <li>• <b>'0.15%' or '50 sen + 0.01%'</b> (whichever is lower)</li> <li>• <b>0%</b> (for payments to Government)<sup>1</sup></li> </ul>
International debit/prepaid card	0.99% - 1.20%	<ul style="list-style-type: none"> <li>• <b>'0.21%' or '70 sen + 0.01%'</b> (whichever is lower)</li> <li>• <b>0%</b> (for payments to Government)</li> </ul>
Credit card	1.32% - 1.80%	<ul style="list-style-type: none"> <li>• <b>1.10%</b><sup>2</sup> (from 2015 to 2020)</li> <li>• <b>0.48%</b> (from 2021 onwards)</li> </ul>

<sup>1</sup>Zero IF for payment to the Government or its agencies for 6 years (2015 to 2020).

<sup>2</sup> Ceiling of 1.1% if a Market Development Fund is established, otherwise the ceiling is set at 1.0%.

## Benefits

### Merchants

- Lower MDR for debit or prepaid cards
- No risk of escalation in the MDR for credit cards

### Consumers

- Less risk of paying higher retail prices due to increases in interchange fees
- Ability to use payment cards widely as more merchants accept cards



# Empower merchants to accept cost-effective cards

## Improved price signals

Separate MDR for debit, prepaid and credit card transactions

“Debit” / “Prepaid” on the face of debit/prepaid cards

Improved transparency of IF and MDR in the merchant statement

## Ability to accept cost-effective cards/network

Ability to steer customers to use cost-effective card/network

Ability to choose which debit application to accept in co-badged debit cards

## Benefits

### Merchants

- Able to manage MDR cost

### Consumers

- Less risk of paying higher retail prices due to high MDR cost
- Ability to use payment cards widely as more merchants accept cards

# Industry's commitment to develop the payment card market

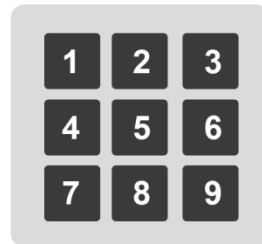
Industry has committed RM1.1 billion over the next 6 years to undertake infrastructure development and upgrades.



Deployment of additional  
570,000 POS terminals



+



Adoption of Chip & PIN  
verification method

EMV

+



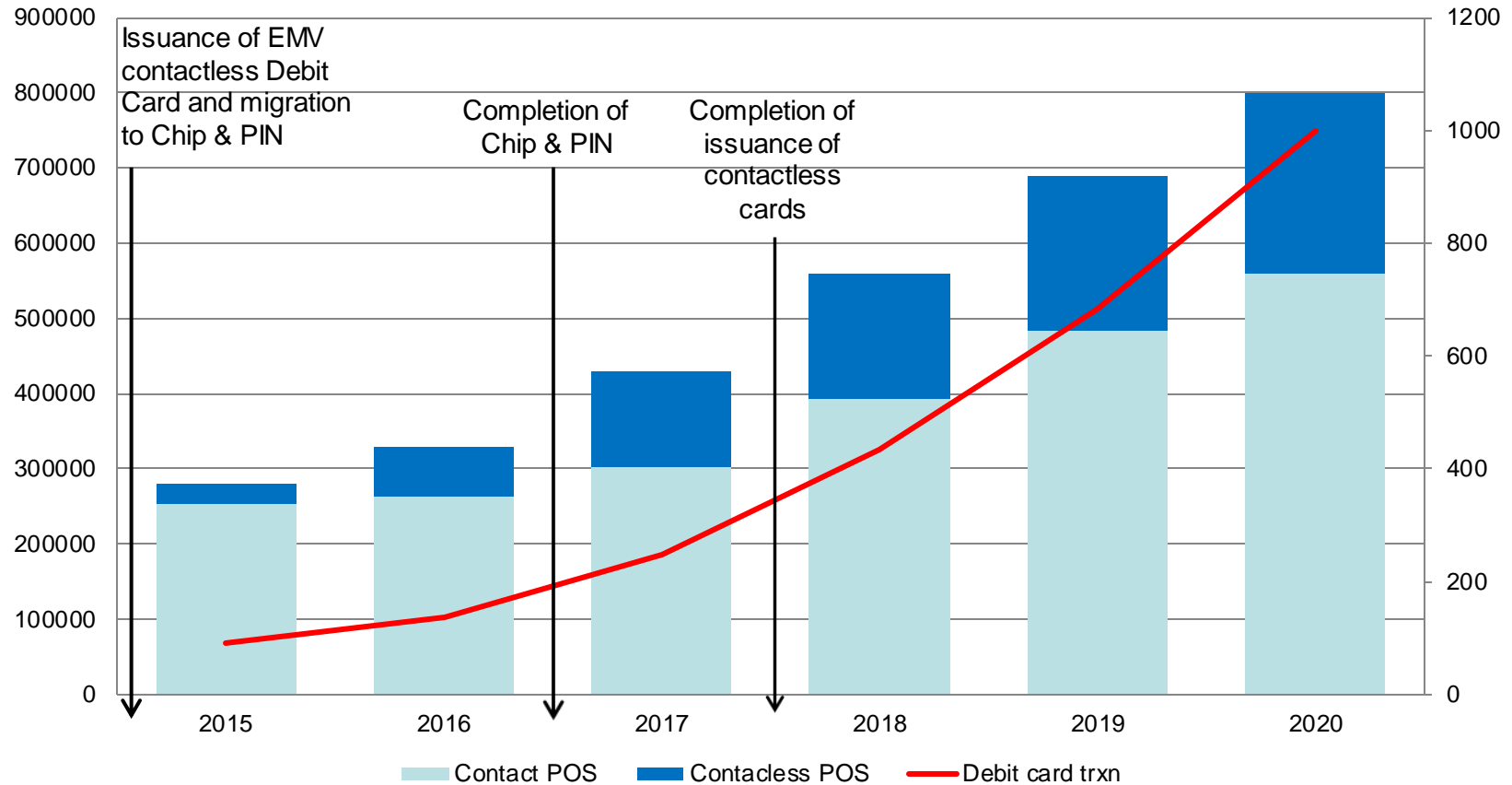
Migration of domestic debit card to  
EMV standard with contactless feature

# Future State of the Malaysia's Payment Card Landscape



# Future state of Malaysia's Payment Card Landscape

Projected Growth 2015 - 2020



**The industry has committed to invest approximately RM1.1 billion over the next 6 years on infrastructure development and POS deployment.**



**Thank you**

