E-money: Toward promoting greater economic efficiency

MALAYSIA

By Siew Suet Ming

In an effort to provide a robust financial system infrastructure, Bank Negara Malaysia (BNM) has established reliable, efficient and secure payment systems. Specifically, under the retail payment system, there are four designated payment instruments: (i) debit cards, (ii) credit cards, (iii) charge cards and (iv) e-money.

The role of e-money in gearing the national agenda toward a cashless society is rapidly gaining importance to promote greater economic efficiency. BNM's Financial Sector Blueprint 2010–2020 envisioned an increase in e-payment transactions per capita from 44 transactions in 2010 to 200 in 2020.

Although Malaysia missed the target, e-payment transactions have grown significantly in terms of transaction volume per capita, rising nearly fourfold from 42.9 in 2010 to 169.9 in 2020.

E-money transactions, which doubled from 24.5 in 2010 to 56.1 in 2020, represented 33% of total e-payments in 2020. The total e-money transaction value reached RM29.6 billion (US$7.06 billion) in 2020, growing 63% year-on-year (y-o-y) (2019: RM18.2 billion (US$4.34 billion)) (Chart 1).

The upsurge follows the proliferation of mobile technology such as quick response codes, mobile applications, digitalization of financial services and shifts in customer behavior, which the COVID-19 pandemic no doubt helped accelerate.

As of mid-September 2021, the system had 53 e-money issuers, of which six were banks (two with e-wallets) and 47 non-banks (38 provided e-wallets), licensed by BNM. E-wallets are also offered by non-e-money issuers such as Fave, SamsungPay and Starbucks eWallet.

E-money and e-wallet adoption spiked during the pandemic with the various iterations of mobility restrictions. Unsurprisingly, the number of subscribers to mobile banking services and e-payment users jumped as more physical transactions went online.

According to the MasterCard Impact Study 2020, Malaysia leads in e-wallet usage in Southeast Asia with a 40% take-up, compared with the Philippines (36%), Thailand (27%) and Singapore (26%). The e-wallet transaction volume amounted to RM600 million (US$143.18 million) in 2020 (2019: RM300 million (US$71.59 million)).

E-wallet usage has extended beyond e-commerce transactions to include digital investments and insurance/Takaful solutions. This is evident in the recent launch of the GO+ Fund by Touch 'n Go (TnG) e-Wallet in partnership with Principal Asset Management, and AIA insurance and Takaful products offered via the TnG e-Wallet platform early this year.

With so many digital wallets in the market, players would need to respond to and meet users' demand for more products and services, including the call for Shariah compliant products. BNM's Shariah Advisory Council had earlier issued a resolution in January 2020 permitting e-money usage.

While many digital lenders offer Islamic financing, TnG Group's underlying fund, Principal e-Cash Fund, became Malaysia's first Shariah compliant e-wallet product in August 2021.

Zapp Islamic, in contrast, was the first e-wallet provider to say it offered users a Shariah compliant way of spending.

These rapid developments prompted the release of BNM's E-Money Exposure Draft in June 2021, which would supersede the 2008 Guidelines. The revised guideline invites feedback on its proposals, aiming to ensure the safety and reliability of e-money and foster public confidence in its use.

With strong support from the regulator and the increasing pace of digitalization, it is inevitable that e-money and e-wallet services will become a key cog in promoting economic growth and financial inclusion and boosting the overall development of the Islamic finance industry.

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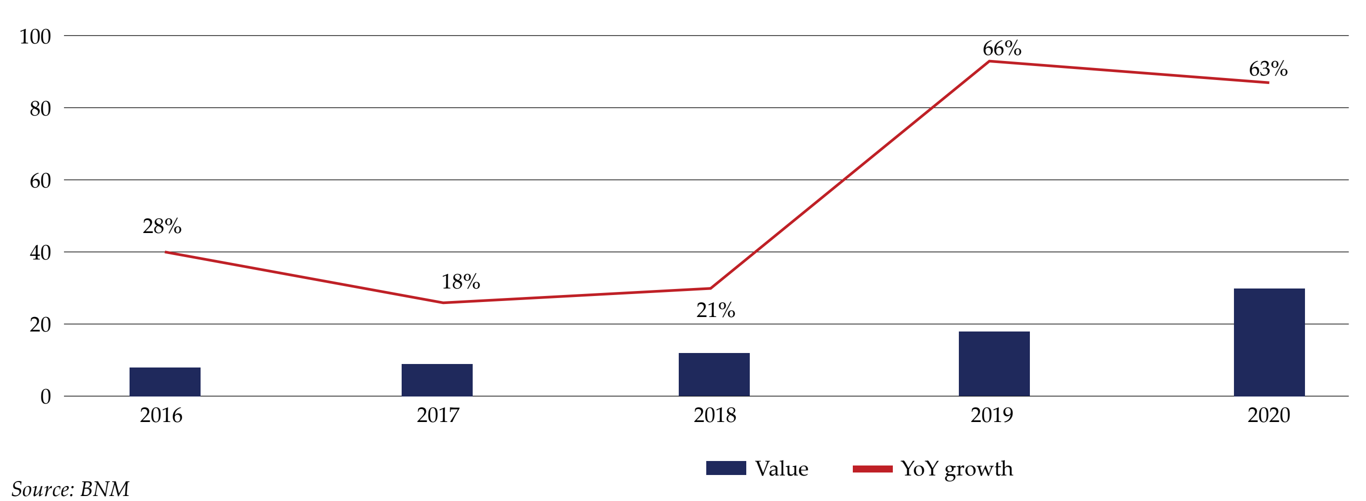
Chart 1: E-money transaction value and y-o-y growth (2016–20)



Source: BNM