Enhancing the Malaysian Payments System

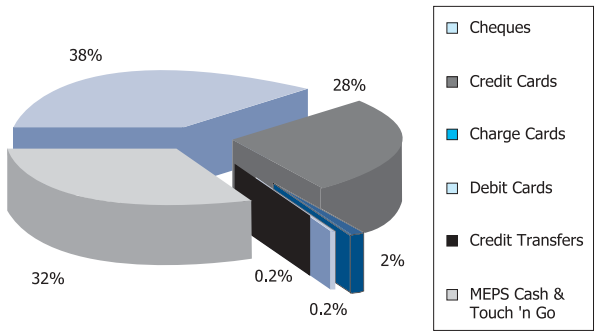
Importance of a smooth functioning payments system

The smooth and efficient operation of the payments system is a critical factor in a country's economic growth process. It is also important to have a safe and efficient payments system to maintain financial stability. In addition, a safe and efficient functioning payments system enables the Central Bank to implement its monetary policy effectively. In modernising the payments system in line with new technology and current needs of the users of payment systems, efforts have been directed at facilitating more efficient means of making online payments. This includes the development of the Financial Process Exchange that provides a multi-bank Internet payment platform to businesses and consumers. The Bank has therefore, given priority to ensuring the safety and efficiency of the payments system. In the recent period, efforts have been focused on reviewing the legal framework on payments system, and monitoring the industry's efforts in enhancing the safety and efficiency of payment instruments as well as collaborating with the police in combating payments fraud.

Greater use of electronic payment methods can create cost savings to the economy

There is a broad choice in payment methods in the country, the common ones being cash, cheques, debit cards, credit cards, charge cards, electronic purse and credit transfers. While the use of most electronic payment methods using payment cards, and interbank payment system has been on an increasing trend, the use of cash and cheques continue to remain high in Malaysia. The use of cash is indicated by the value of notes and coins in circulation, which had doubled as at end-December 2002, as compared to end-December 1992, and the notes and coins in circulation per capita had increased from RM652 to RM974 during the same period. The cheque is also an important mode of payment compared with other cashless payment instruments as shown in the chart below.

Composition of Number of Cashless Payments in 2Q 2003



While cash payments and withdrawal are generally free (unless withdrawal is made at another bank's automatic teller machines or exceeding a specific number of transactions), and the issuance of cheque cost very low to the issuer, the related costs on cash and cheques are highly significant. The Bank incurs high cost on printing, minting, distribution, control and destruction of notes and coins, while the banking industry and retail sector, in handling cash and cheques, incur costs related to transportation, security, insurance, fraud and robberies apart from staff and administration costs.

"By increasing the efficiency and velocity of payments in electronic payment networks, there is a potential to create cost savings of at least 1 percent of GDP annually over paper-based systems in any given economy"

Source: A white paper by Global Insight, which was presented at the ministerial-level session of the United Nations Economic and Social Council in Geneva in June 2003

While the provision of electronic payment systems involves substantial investment by the banking industry, the cost incurred by a bank to process an electronic payment transaction is less than the cost of processing a paper-based payment if a critical mass for the electronic payment method is achieved. A sufficiently high number of transactions will enable the positive network externalities and economies of scale for the electronic payment method to be reaped. The bank's transaction cost in processing electronic payments reduces as the number of transaction increases. In countries that have migrated to electronic payments, the electronic payment systems generally cost in the range of one-half of a paper-based system.

Maximising the benefits from electronic payment systems and instruments require wider public acceptance and further infrastructure building

Creating wider public acceptance of electronic payment systems and instruments requires the public confidence that the systems and instruments are secure and convenient. This includes the strengthening of the legal and regulatory framework governing the payments system, inculcating sound credit risk management practices in credit card operations and enhancing safety of automatic teller machines (ATM) transactions. In addition, efforts are underway to promote MEPS Cash as the national electronic purse scheme with the extensive deployment of the supporting infrastructure including ATM and the card acceptance devices. The increase in the payment card acceptance terminals will enable the consumers to use the electronic payment instruments conveniently. MEPS Cash, created in line with the Multipurpose Smart Card flagship application under the Multimedia Super Corridor project, is the national electronic purse scheme that is to be accepted as a means of payment by all merchants. The supporting infrastructure is also being further improved. The Government's plans over the next few years in meeting the targeted number of personal computers, Internet and broadband users in Malaysia augurs well for this migration to happen. The wider use and acceptance of payment channels and instruments is also encouraged through extensive consumer education and promotional programmes.

Summary

Electronic payments in Malaysia is at a critical threshold of growth. Malaysia has the opportunity to bring the development of its

payments system to an advanced level. In this regard, the strategy going forward to enhance the payments system would be to:

- make available more cost effective and efficient payment methods;

- expedite the development of the necessary payments and supporting infrastructure;

- encourage wider use and acceptance of payment channels and instruments through consumer education and promotional programmes; and

- ensure the regulatory framework is effective and proactive in fostering financial innovation while ensuring the safety of the payments system.

The development of more efficient payment instruments and systems would benefit the country as a whole and enable Malaysia to maximise efficiency and financial gains from its payments system.