Promoting Migration to e-Payments
Malaysia’s Perspective

Global Payments Week
3 December 2018
## Challenges in migration to e-payments

### Highly bankable population
- 45.5 mil debit cards for an adult population of 24 million
- IBG and Instant Transfer accessible to 99.9% of CASA\(^1\) holders

### 2011-2013 (Pre-intervention)
- POS terminals had remained constant at 7 terminals per 1,000 inhabitants
- Cheques declined only at 1.6% p.a.

## Price Distortion
- Indirect pricing
- Interchange fees not reflective of payment cards’ cost structure

## Focus on short-term ROI
- High e-payment charges
- Resources focused on promoting credit card issuance instead of terminal expansion
- High MDR\(^3\) priced out small merchants

## Lack of transparency, and anti-competitive practices
- Limited MIS\(^2\) among banks
- Bundled MDR\(^3\)
- Restrictive rules imposed by card schemes

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\(^1\) Current and savings account  
\(^2\) Management information system  
\(^3\) Merchant discount rates paid by merchants for acceptance of card payments
## Three waves of e-payment transformation in Malaysia

<table>
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<tr>
<th>Enablers</th>
<th>2013</th>
<th>2015</th>
<th>2018</th>
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<tbody>
<tr>
<td>First Wave</td>
<td>Credit transfers accessible to 99.9% of current and savings accounts</td>
<td>40.1 mil debit cards for a 30.7 mil population (end-2014)</td>
<td>42.8 mil mobile phone subscriptions (70% smartphones) and 44.1 mil debit cards for a 32.1 mil population (end-2017)</td>
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<td>Second Wave</td>
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<td>Third Wave</td>
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### Challenges

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<th>2013</th>
<th>2015</th>
<th>2018</th>
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<tbody>
<tr>
<td>Price distortion between cheques and credit transfers</td>
<td>• High MDR(^1)</td>
<td>Estimated 12 mil adults without online banking services</td>
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<td>• Moderation in POS terminal growth</td>
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### Initiatives

<table>
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<tr>
<th>Pricing Reform Framework and ePIF(^1)</th>
<th>PCRF(^1)</th>
<th>ICTF(^1)</th>
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<tr>
<td>• IBG (max. fee: 10 sen)</td>
<td>• Ceilings for interchange fees</td>
<td>• Open and fair access to shared payment infrastructure for banks and eligible non-banks</td>
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<td>• Instant Transfer (max. fee: 50 sen)</td>
<td>• Establishment of MDF(^1)</td>
<td>• Account reachability through common identifiers</td>
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<tr>
<td>• Introduction of cheque fees and ePIF(^1)</td>
<td>• Implementation of Chip and PIN</td>
<td>• Interoperable QR scheme and common QR code</td>
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\(^1\) Refers to e-Payment Incentive Fund (ePIF), Merchant Discount Rate (MDR), Payment Card Reform Framework (PCRF), Market Development Fund (MDF) and Interoperable Credit Transfer Framework (ICTF)
Tipping point achieved where credit transfers surpassed cheques for the first time in 2015

- In 2017, the volume of credit transfers surpassed cheques by 2.8 times.
- Costs of cheque processing continue to rise
  - Actual unit cost of cheque processing is RM4 in 2016, which is an increase from RM3 in 2011
  - In 2020, the unit cost is expected to increase to RM6.

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1 E-Payment Incentive Fund Framework
PCRF has contributed to higher growth in POS terminals and debit card transactions

Average annual POS terminal growth tripled from 6.8% (2011-2014) to 20.4% (2015-2017)

At AAGR of 20.4%, the target of 800k terminals is expected to be achieved in 2021 compared to 2033 (AAGR of 6.8%)

Debit card transactions grew at a higher rate of 51% in 2017 (2011-2016(4): 35% p.a.)

Share of debit card transactions increased to 28% of total payment card transactions in 2017 (2014: 16%)
Key initiatives to transform mobile phones into e-wallets in Malaysia

Interoperable Credit Transfer Framework (ICTF)

1. Fair and open access to shared payment infrastructure
2. Interoperability of electronic fund transfer services, including mobile payments
3. Market conduct requirements and safeguards to protect customers and merchants

Proportional regulation and simplified KYC

Real-time Retail Payment Platform (RPP)

National Addressing Database (NAD)

- Mobile phone numbers
- Business registration numbers
- National Registration Identity Card (NRIC)
- Common QR code

ICTF promotes “co-opetition” i.e. collaboration at the infrastructure level to expand network reach and competition at the product level to enhance service levels