

PAYMENT CARD REFORM FRAMEWORK

EFFECTIVE 1 JULY 2015

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PAYMENT SYSTEMS POLICY DEPARTMENT
BANK NEGARA MALAYSIA



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CENTRAL BANK OF MALAYSIA

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Payment System Landscape





Context Setting



2 debit cards
per adult



7 terminals per 1,000
inhabitants

Highly bankable population

45.5 million debit cards for an adult
population of 24 million

IBG and Instant Transfer accessible to
99.9% of CASA holders

2011 – 2013 (Pre-intervention)

POS terminals had remained constant at
7 terminals per thousand inhabitants

Cheques declined only at 1.6% p.a.

The **Financial Sector Blueprint** (2011 -2020) incorporated specific e-payment targets





Migration to e-payment hindered by market distortions

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 instead of POS terminal expansion
- High MDR priced out small merchants

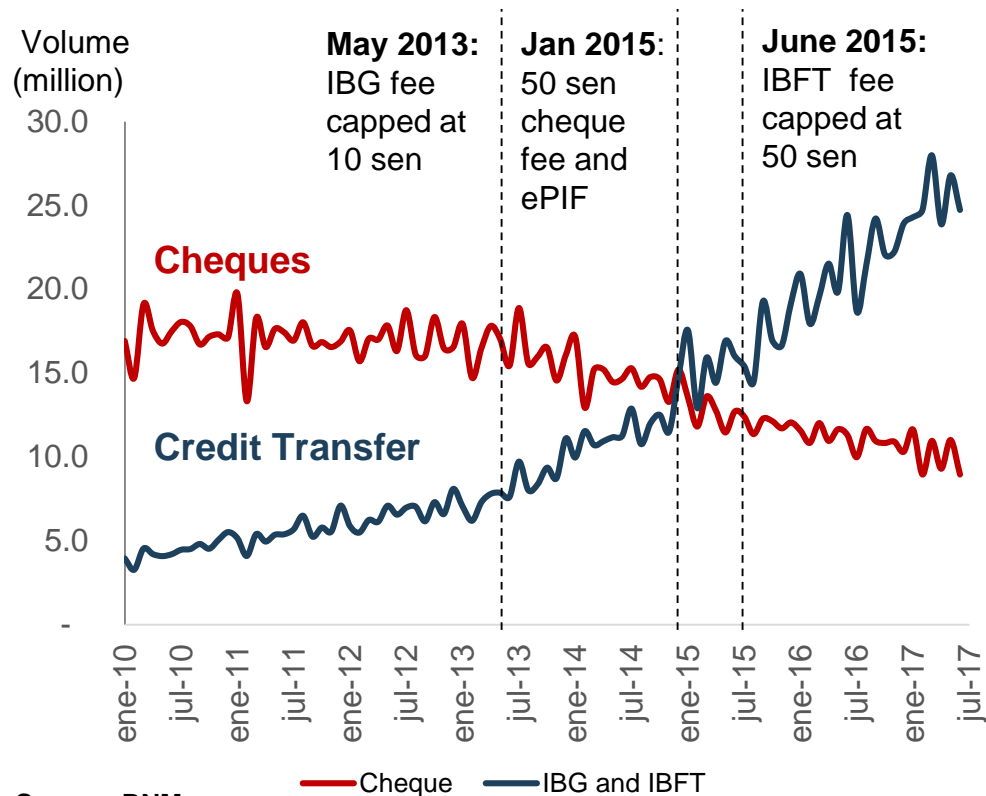
Lack of transparency, and anti-competitive practices

- Limited MIS among banks
- Bundled MDR
- Restrictive rules imposed by card schemes





Tipping point reached in 2015 (Credit transfers surpassed cheques)



Source: BNM



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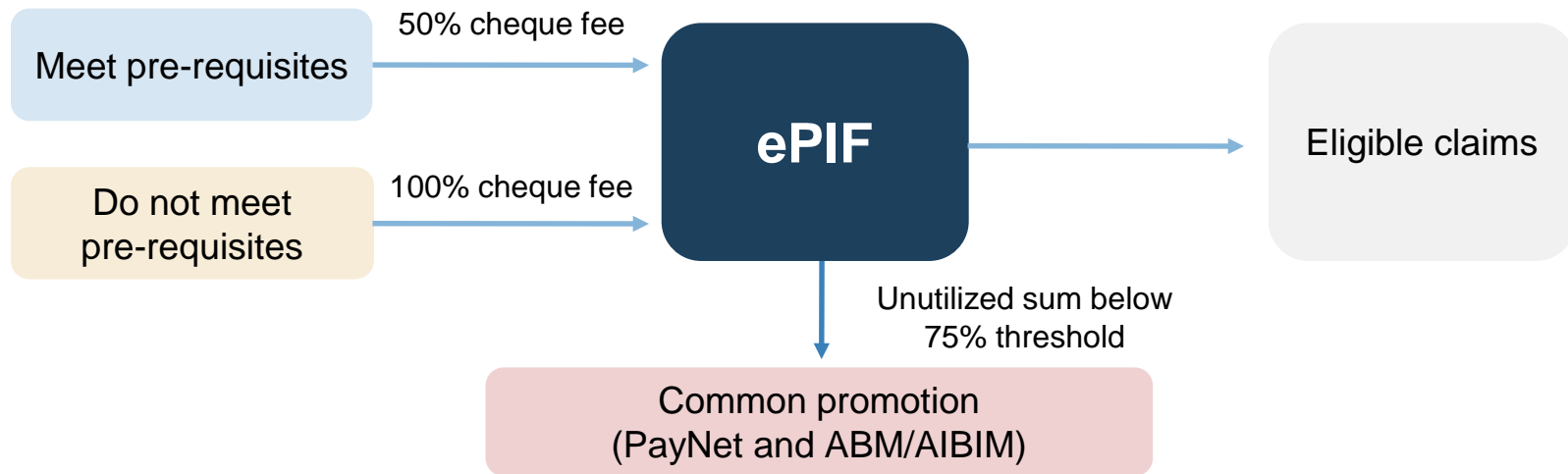
Strategy

Leverage on existing infrastructure and focus on the following areas:

- Correcting price signals
- Establishing market incentive structures
- Expanding access points
- Enhancing quality and value proposition
- Instilling awareness and confidence



E-Payment Incentive Fund Framework (Self-managed fund)



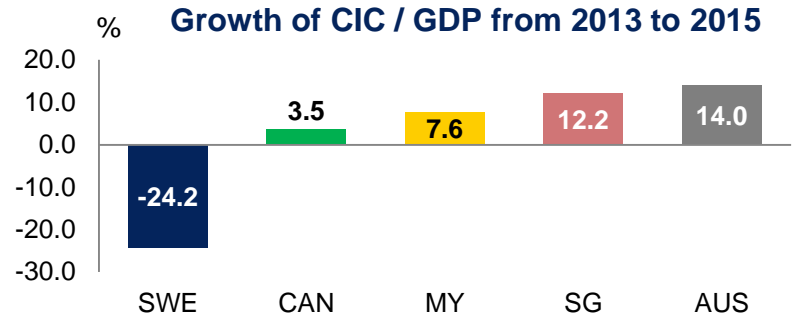
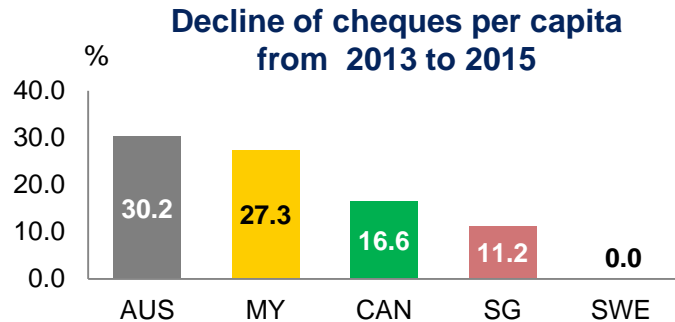
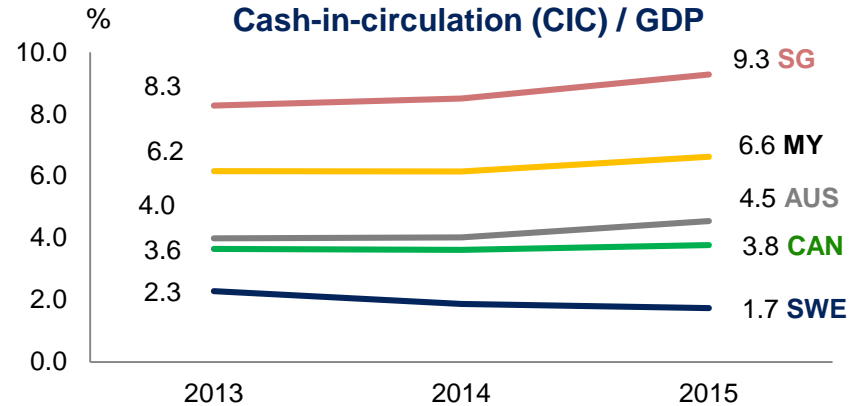
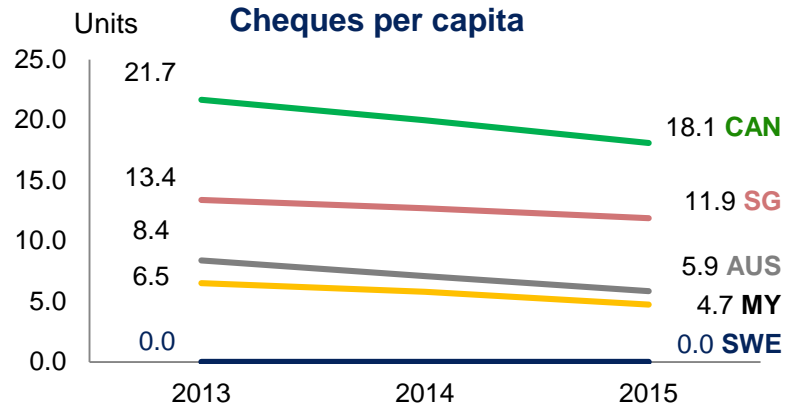
Between 2015 and 2016, about RM140 mil had been contributed into the ePIF, of which 90% were utilised by the banking industry to fund various initiatives including:

- Waiver of Internet banking (IB) subscription fee, security token fee, transaction and notification charges
- Expenses to conduct e-payment workshops
- Incentives to customers / staff for cheque reduction and adoption of e-payments





Speed of Change – Cheques & Cash



Source: BIS and BNM

Speed of change: In Malaysia, cheques per capita have declined by 27.3% from 2013 to 2015 but cash usage remains prevalent

KUALA LUMPUR, May 22 — Malaysia's Interbank GIRO (IBG) and Instant Transfer (IBFT) grew almost four-fold to 257 million transactions in 2016 from 66 million in 2011.

Money

Malaysia e-fund transfers almost quadrupled from 2011 to 2016

MAY 22

Business News

Home > Business > Business News

Wednesday, 4 November 2015

Cheque usage declines, electronic fund transfers grow



Community

Home > Metro > Community

Wednesday, 27 May 2015

Bank Negara holding roadshows to promote online banking

"We have initiated a Pricing Reform Framework in May 2013, where the Interbank GIRO (IBG) service was reduced from RM2 to 10sen. Since then the number of IBG transactions have increased by 36% from 83 million transactions in 2013 to 114 million last year.

4 | September 2015 | Banking Automation BULLETIN

MALAYSIAN PAYMENT CARDS

BNM's card framework aims to revolutionise debit usage

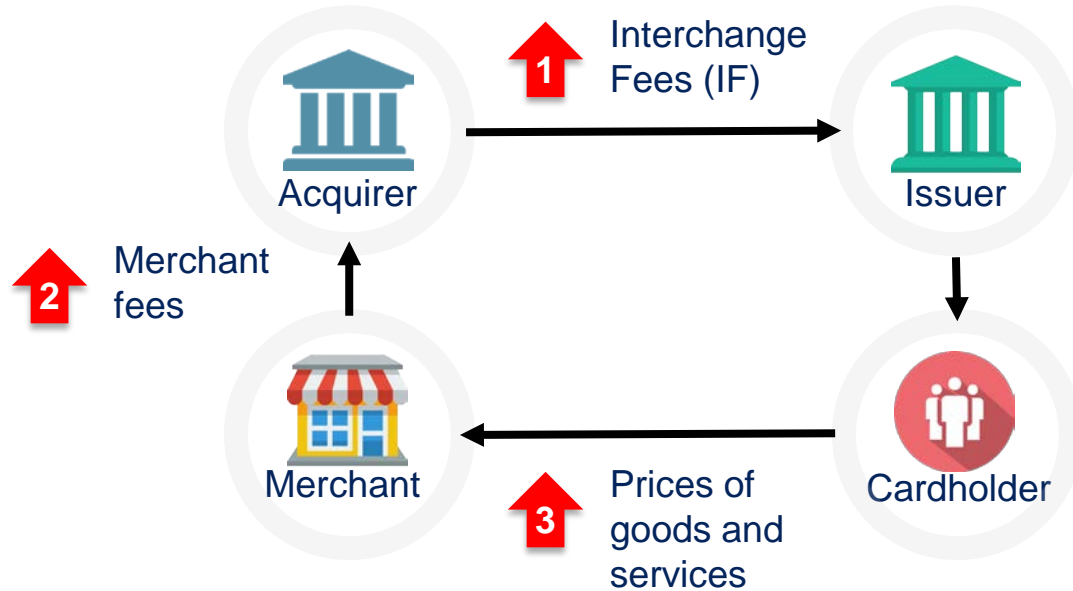
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Payment Card Reform Framework





Competition among networks led to inflationary pressure



Malaysia's Experience

- 3 IF hikes in 14 months
- Lowering of minimum requirement for premium cards
- Introduction of premium debit cards with high IF (higher than Platinum credit cards)
- 46,300 merchants impacted by higher MDR within 2 months



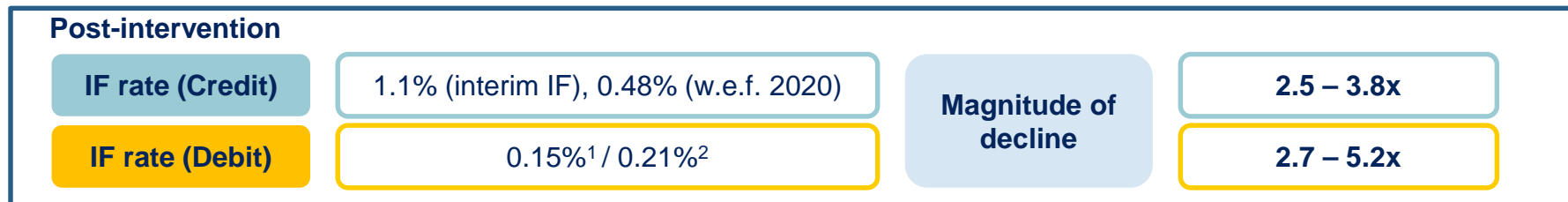


Intervention by BNM

- May 2013 – First IF hike in Malaysian history
- Within a period of 14 months (May 2013 to June 2014), a series of 3 hikes took place

Type of Card	Operator A			Operator B	
	Before May 2013	Effective 1 May 2013	Effective 14 Jun 2014	Before 1 Mar 2014	Effective 1 Mar 2014
Credit Card	1.1%	1.32% - 1.80%	1.32% - 1.85%*	1.2%	1.2% - 1.8%
Debit Card	1.1%	1.1%	0.99% - 1.45%*	1.15%	0.9% - 1.1%

*(Upon BNM's engagement, Operator A had unwound its plans)



Source: BNM

¹ Domestic brand debit scheme

² International debit brand scheme

Competition between schemes has the potential to cause inflationary pressure



Payment Card Reform Framework: A unique framework to suit Malaysia's circumstances

Debit card IF ceiling at eligible cost level

- Addressing price signal:
 - Unbundle MDR
 - Debit card IF to reflect its cost structure

Interim credit card IF ceiling at pre-May 2013 level

- Interim IF subject to annual targets¹
- Market Development Fund
- Post-2020 IF to reflect eligible cost

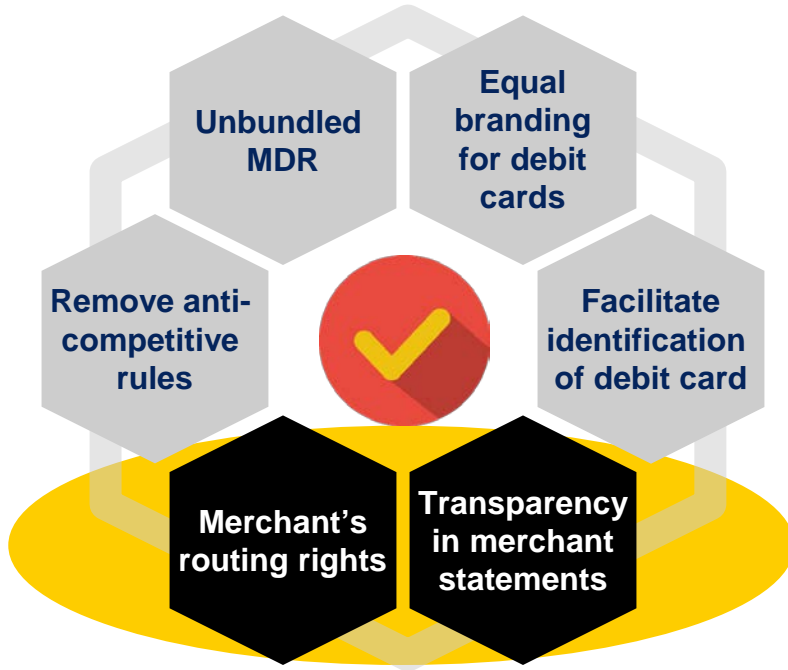
RM1.1 billion investment to enhance card infrastructure

- Migration to PIN (2017)
- Migration to EMV contactless debit card (2017)
- 800k POS terminals (by 2020)





Enhancing transparency and strengthening competition



Dual network PIN-based Debit Cards with contactless functionality

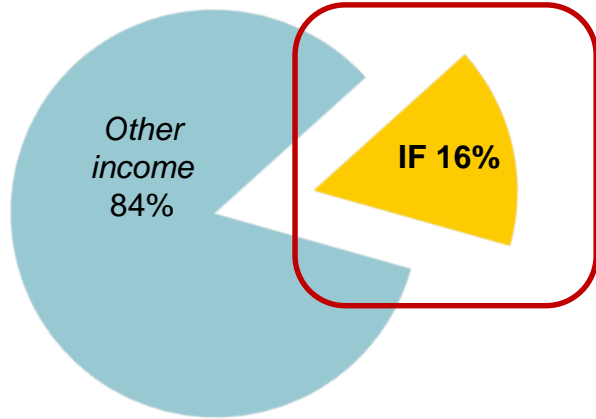
Competition has shifted from **Issuing to Acquiring** leading to a lowering of cost and expansion of the terminal network





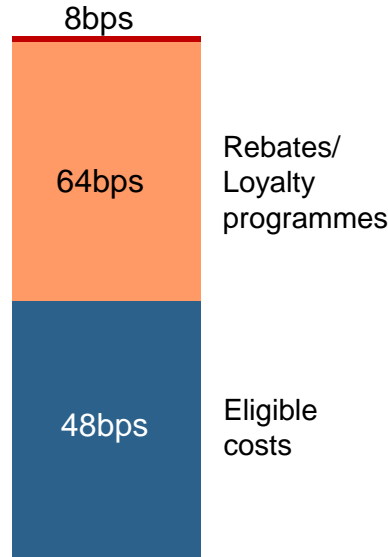
Excess IF revenue channeled towards infrastructure development

Income from credit card business

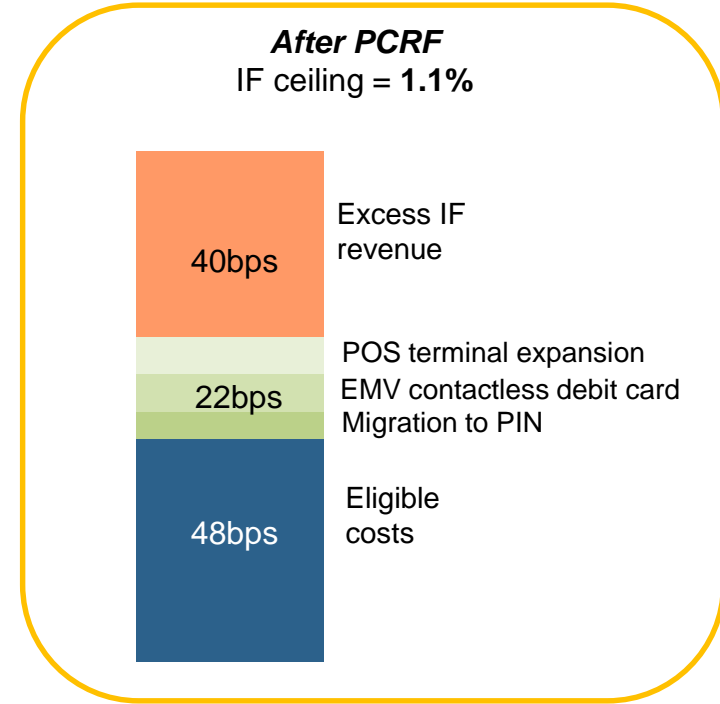


IF revenue applied to expenditure

Before PCRFB
Effective IF = 1.2%



After PCRFB
IF ceiling = 1.1%



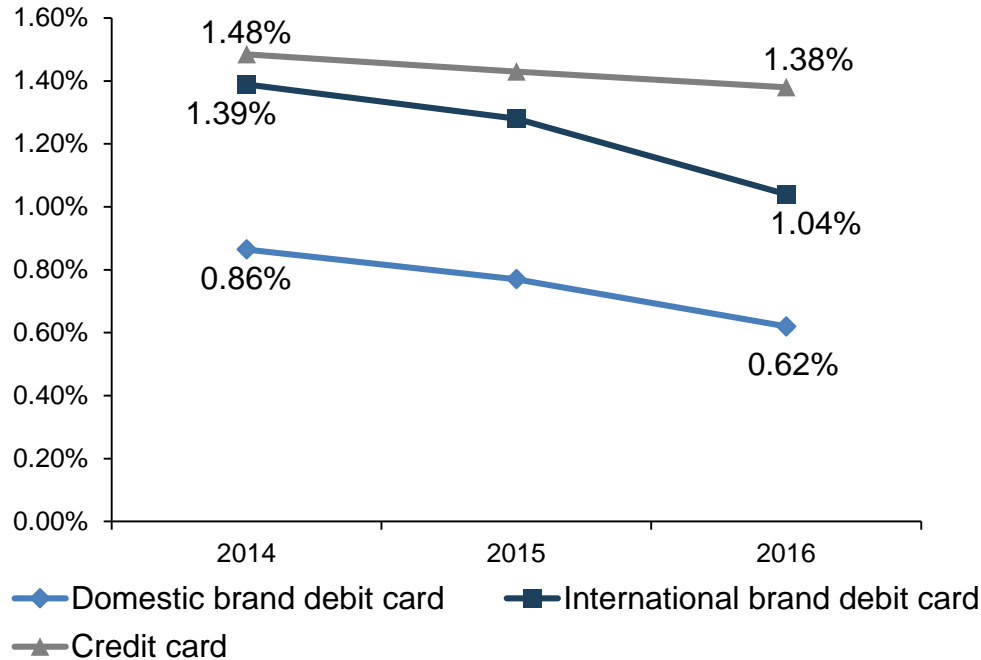
Source: BNM

Before PCRFB, 89% of the excess IF revenue was used for rebates and loyalty programmes



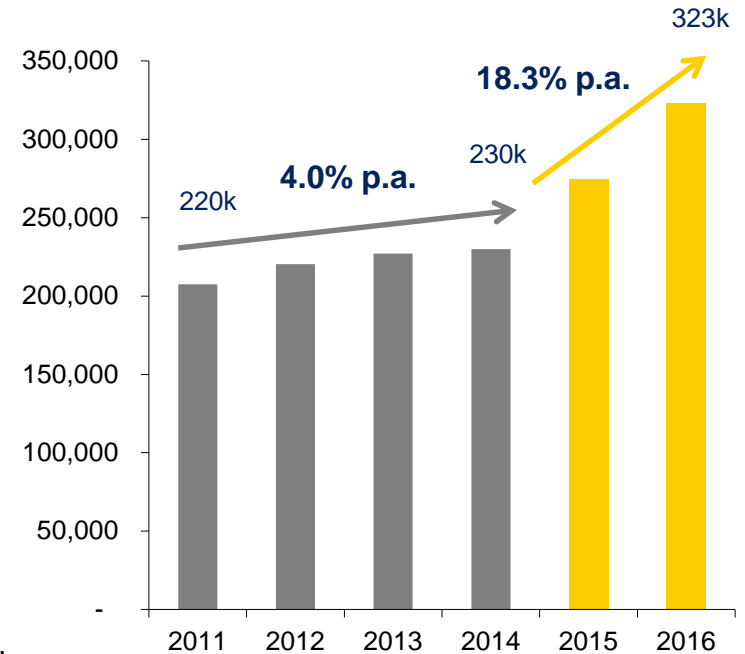
Post-intervention – Lower costs and higher growth in POS terminals

Average MDR by Card Types (%)



Source: BNM

POS Terminals

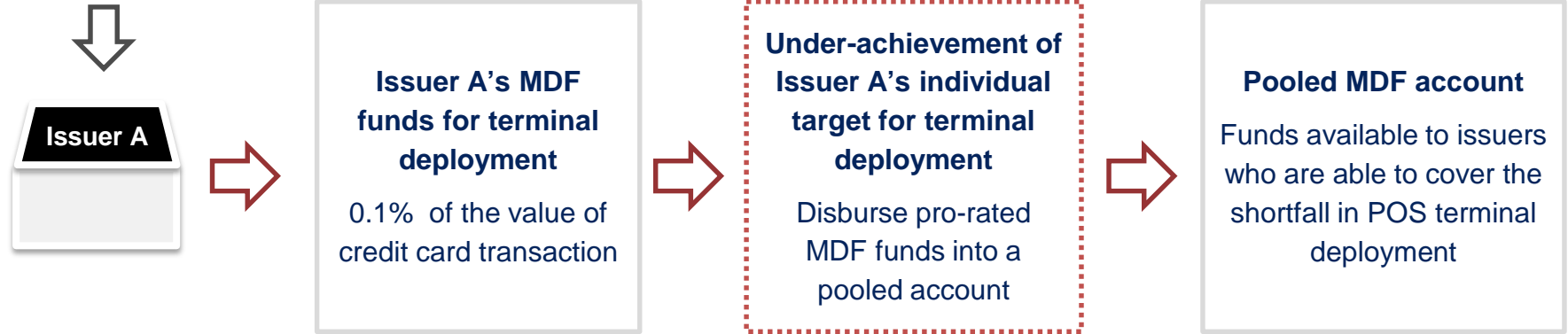


Source: BNM



Market Development Fund to spur POS terminal expansion

Interchange fees



- PCRF provides payment card schemes with the option of establishing a MDF to support the deployment of new card terminals.
- Two major payment card schemes have established the MDF, which is expected to channel approximately **RM 455 million** towards expanding the card network until 2020.



Sunday, 2 July 2017

Smooth switch to PIN cards

Friday, 23 June 2017 | MYT 4:30 PM

All payment terminals in Malaysia support PIN payments

PETALING JAYA: Industry players reported no hiccups in the migration to personal identification number (PIN) enabled cards.

"We were given ample time by Bank Negara. The trial run for the past few months was very helpful. All of us were prepared for it," said Malaysian Association of Hotels (MAH) president Sam Cheah Swee Hee.

They attributed the smooth transition to the six-month grace period for parties to get accustomed to the new practice.

Malaysia Retail Chain Association president Datuk Garry Chua said its members have all migrated to PIN-enabled point-of-sale (POS) terminals and none of them reported any issues yesterday.

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Next Steps





Transformation journey thus far



- 10-year e-payment roadmap (2011)
- Pricing Reform Framework (2013)
- Payment Card Reform Framework (2015)
- E-Payment Incentive Fund Framework (2015)
- Market Development Fund (2015)
- Merger of MEPS and MyClear (1 August 2017)
- Fair and open access to shared infrastructure (ongoing)
- Transformation of National Payments Council (NPAC)¹(2016)
- Regulatory Sandbox (2016)



Lessons learnt and next steps

Top-down approach was instrumental at the start to:

- Address market distortions
- Level the playing field
- Align industry efforts

Market Incentive Structures are critical to:

- Shift the market orientation; and
- Sustain momentum in adopting cost effective e-payments

Outreach programmes are essential to:

- Foster confidence; and
- Address concerns of certain market segments

Measures Undertaken

Foster an enabling environment for the adoption of cost effective payment services

Next Step

Focus on an inclusive payment ecosystem to spur innovation and competition



THANK YOU

