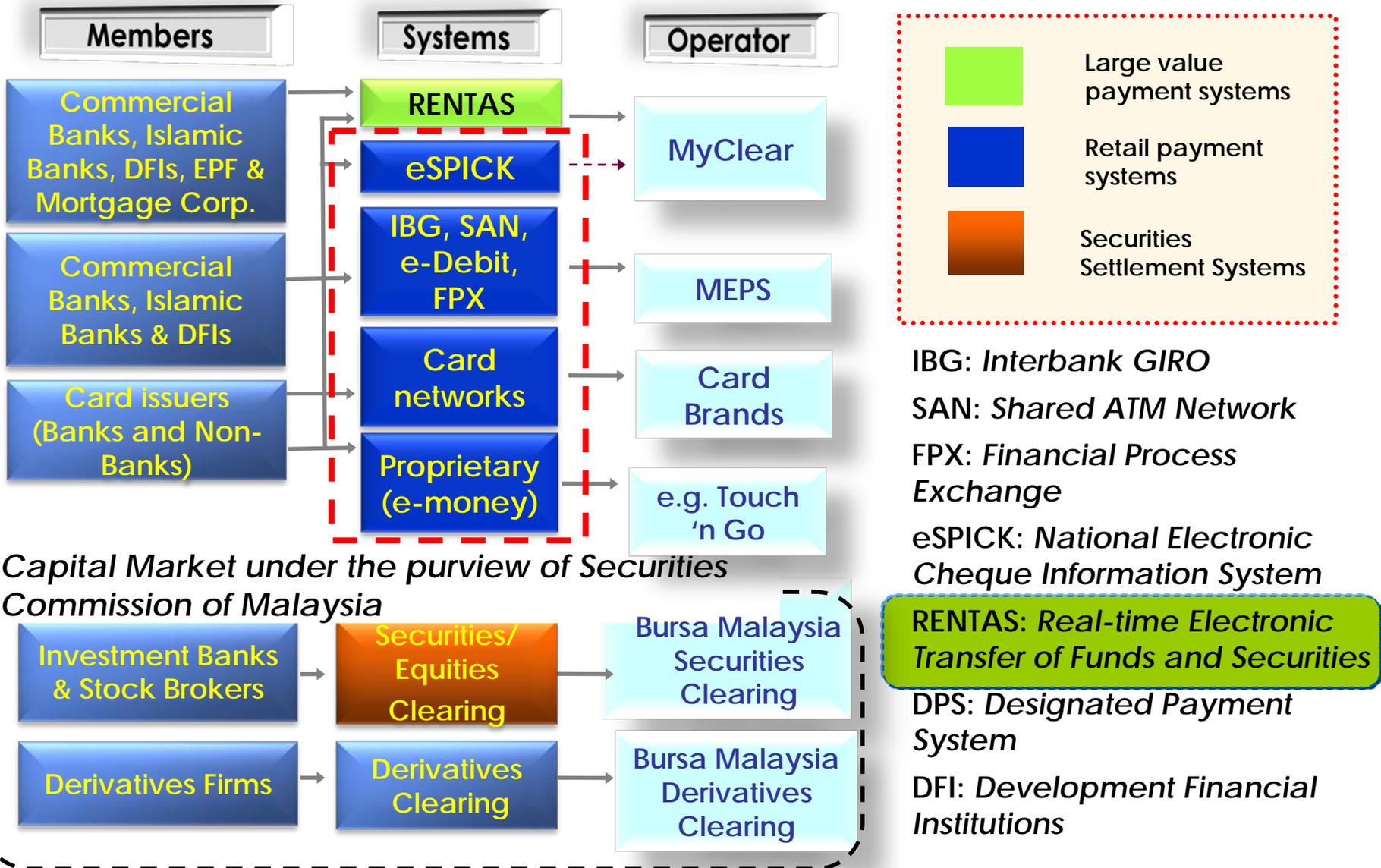

Experts Workshop Payment Systems and Capacity Building in OIC Member Countries

Payment Systems in Malaysia

Istanbul

26 Sept 2010

Payment and settlement systems in Malaysia



Malaysia large value payment systems offer a full range of funds and securities services

Securities services

- The world's largest sukuk depository with RM266.5 billion sukuk in custody
- Support issuances of conventional and all types of Islamic principles securities for MYR and US dollar
- Support corporate action of all types of bond structures (fixed, floating, primary/secondary notes, call and put options, stapled) in MYR and US dollar
- Settlement on delivery-versus-payment for securities transactions
- Competitive fee and charges for issuance, depository and settlement

Payment services

- Provide settlement for various types of transactions (money market, FX, securities and third parties payment)
- Cost effective intraday credit facility to eligible participants
- Payment-versus payment for settlement of MYR/US dollar FX trades

Size of payment and settlement systems in Malaysia for 2009

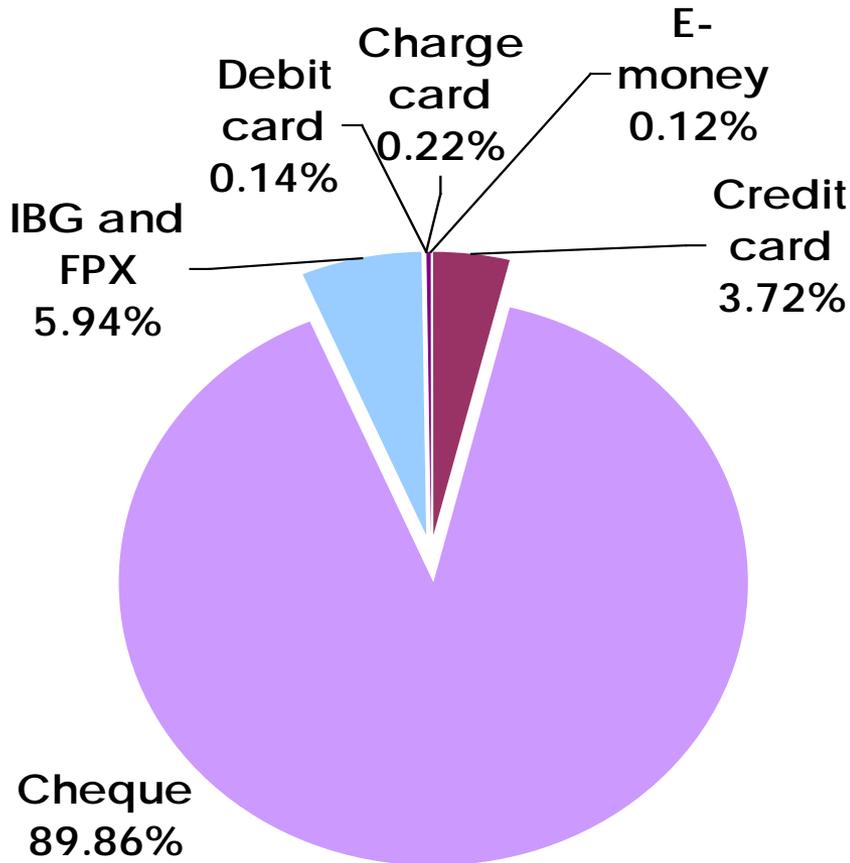
Payment Systems	Value of transactions (RM' billion)	No. of transactions (Million)
RENTAS	37,258.9	3.0
IBG	108.8	43.8
FPX	2.0	0.6

Payment instruments	Value of transactions		No. of transactions		Transactions per capita	
	RM billion	% annual change	Million	% annual change	Number	% annual change
Cheques	1,675.6	-4.9	204.8	-1.2	7.2	-4.0
Credit card	69.3	6.2	276.1	5.6	9.8	4.3
Charge card	4.1	35.4	5.2	-6.9	0.2	4.3
Debit card	2.8	41.5	11.3	5.0	0.4	-
E-money	2.2	6.3	717.2	6.3	25.3	2.0

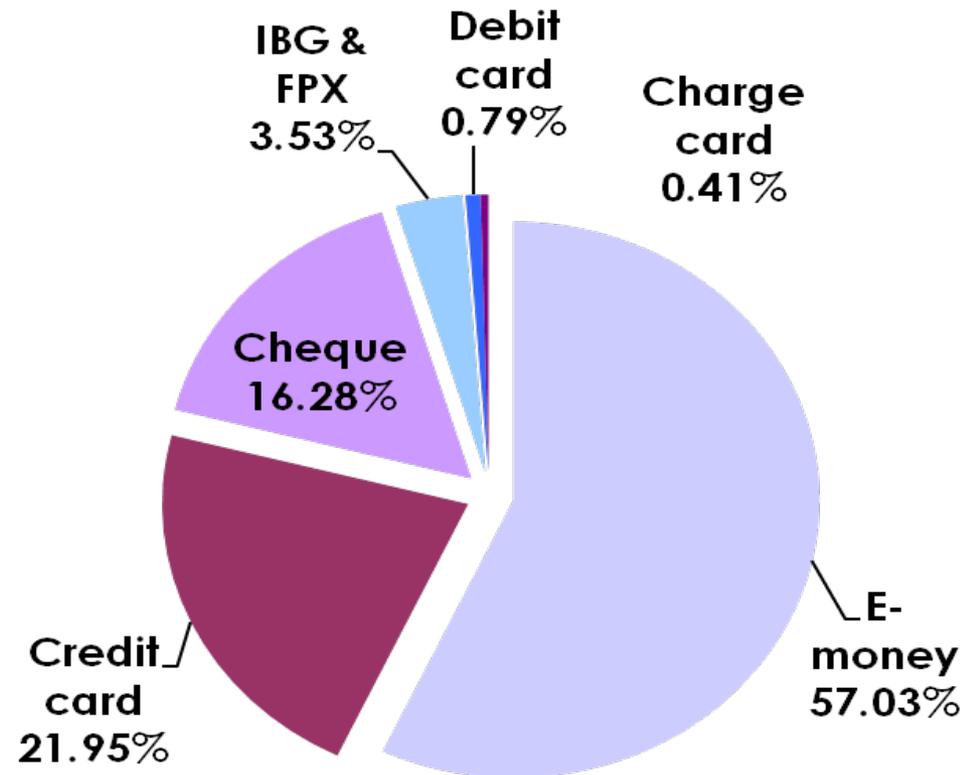
Cheques usage has been on a declining trend since 2007

Commonly used retail payments in Malaysia

VALUE 2009



VOLUME 2009



E-money and credit cards are the most frequently used non-cash payments but cheques accounted for 90% of non-cash payment value

Roles of non-banks in payment systems

Non-banks are participating actively in Malaysian payment systems, particularly in e-money business and in providing retail payment system infrastructure

Type of services	Non-banks players	Banks	Total
Credit card issuers	3	22	25
Charge card issuers	3	5	8
E-money issuers	15	6	21
Remittance service providers	42	40	82
<i>Payment system operators</i>	<i>17</i>		
<i>Card network operators</i>	<i>6</i>		
<i>International money transfer operators (IMTO)</i>	<i>11</i>		

Oversight of payment systems in Malaysia

Mandate of Central Bank of Malaysia Act 2009

To exercise oversight over payment systems

Payment Systems Act 2003

Provide statutory powers to BNM to carry out oversight over payment systems in Malaysia

Objectives of payment systems oversight

- Ensuring reliability of major payment and settlement systems and mitigating risk of major payment and settlement systems
- Sustaining public confidence in payment systems
- Improving the overall efficiency of payment systems

Approach in conducting oversight

BNM adopted MULTIPLE approaches in conducting oversight of payment systems in line with best practices

- Adoption of international standards
- Off-site monitoring
- On-site examination
- Review of audit report by internal and external auditors
- Regular meetings with the management of the payment systems operators and payment instruments issuers
- Co-operative oversight with other competent authorities
 - Hong Kong Monetary Authority
 - Securities Commission of Malaysia

BNM focuses in oversight function. The operator role is undertaken by its wholly-owned subsidiary.

Payment system and financial stability

Strong interdependence

Efficient payment system

Financial system stability

Effective functioning of payment system

Ensuring financial stability through payment systems

Promote efficiency

- Promote usage of more efficient retail payment systems
- Ensure large value payment system and cheque clearing system are operated efficiently

Risk reduction

- Provide collateralised intraday credit for large value payment system
- Lender of last resort
- Payment versus payment for MYR/USD trade
- Delivery versus payment for scriptless securities
- Business continuity management
- Market information dissemination
- Robust system design

Confidence building

- Consumer awareness program
- Prudential requirement
- Consumer protection
- Combat payment system fraud
 - Security guidelines
 - Chip migration for card payment instruments

What are the risks and how do we manage it?

Liquidity & Credit

- Risk of gridlock
- Liquidity cost
- Credit risk

- Collateralised intraday facility
- Hybrid settlement systems

Operational

- System failure
- Human
- Unexpected incidence/ disaster
- Concentration risk
- Failure of third party service providers

- Robust business continuity and disaster recovery plan
- Compliance with international standards
- Issuance of guidelines and rules

FX Settlement

- Different time zones for cross currency settlement

- Payment versus payment settlement mechanism

Reputation

- Public and international perception on BNM

- Robust oversight framework to ensure no major disruptions in operations

Malaysia has established several cross-border payment systems link

- MYR RTGS in Malaysia link with US dollar RTGS in Hong Kong to provide payment-versus-payment (PvP) settlement of MYR/US dollar trades and delivery-versus-payment (DvP) settlement for US dollar securities deposited in Malaysia. The link improved efficiency in managing FX settlement risk for MYR/US dollar.
- ATM network links between Malaysia with Indonesia, Thailand, Singapore and China to facilitate cross-border ATM withdrawals by the customers of the participating ATM networks
- Moving forward, cross-border funds transfer would be introduced

End of presentation