

Payment System in Malaysia

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Indicators of flow of funds

Indicator	Year	Year	Year
	2000	2007	2008
M2/GDP (%)	105%	124%	NA
M2/Cash	13.29	18.89	18.90
Market capitalization (RM billion) (USD billion)	444.35 116.93	1,106.15 334.53	664 275.86
(% of GDP) - equity market	131%	172%	NA
Outstanding bonds (% of GDP) - bonds market	78%	87%	NA
Total trade (exports + imports)(% of GDP)	202%	173%	NA
Capital flows (Inflows + Outflows)/GDP (%)	NA	NA	NA
Remittances (RM million) (USD million)	NA	11,227 3,395	NA
Transactions in foreign exchange market (average daily, RM million) (average daily, USD million)	1,098.28 298.02	4,137.31 1,251.26	5,687.69 2,362.97

Source: Bank Negara Malaysia's Monthly Statistical Bulletins

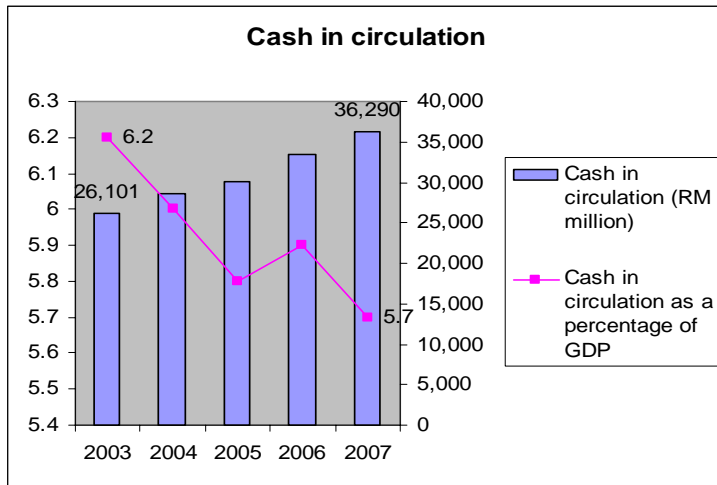
Evolution of payment system in Malaysia

Stylized pattern of payment system development in Malaysia

- From 1950s to late 1990s, payment modes were mostly paper-based
- In the late 1990s and early 2000s - modern payment services based on networks and internet started to be actively introduced
- After 2004
 - Increased in the number of retail payment service providers and payment channel varieties*
 - The government started to provide e-payment and services

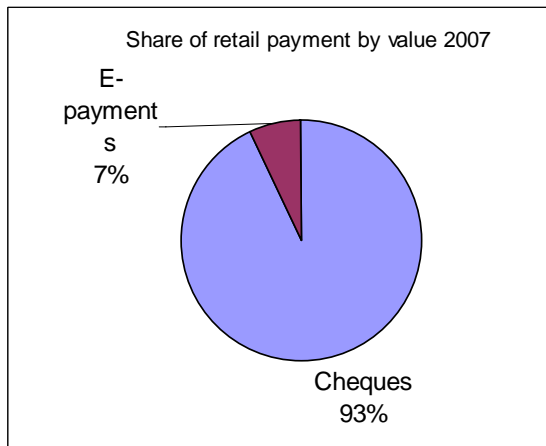
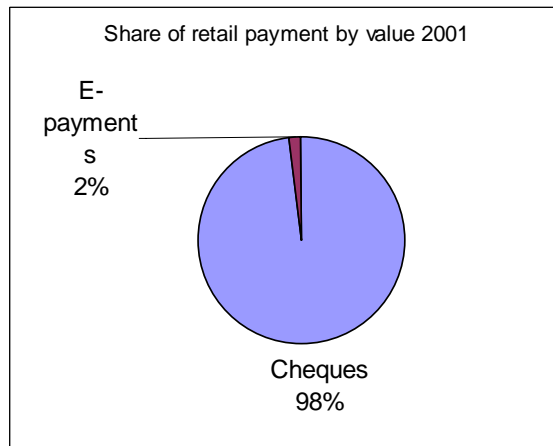
* Due to the adoption of liberalization policy in order to increase competition among payment service providers (in accordance with the Financial Sector Master Plan 2001)

Evolution of payment system in Malaysia



- Although cash in circulation as percentage of GDP has declined, cash remained an important mode of payment in Malaysia

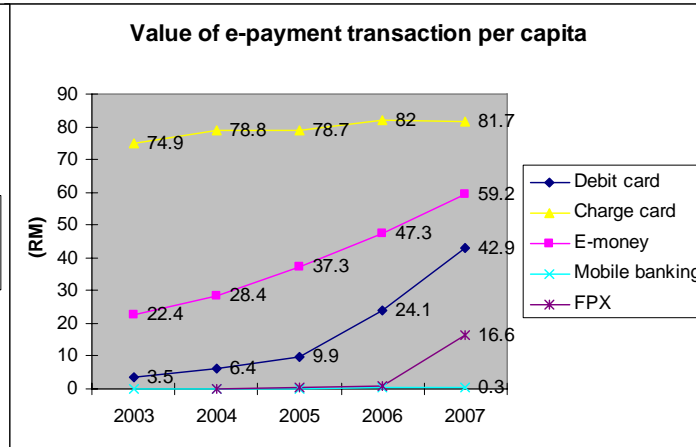
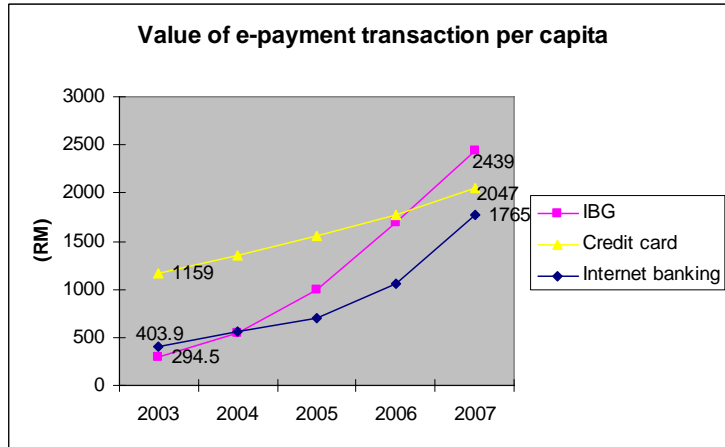
Source: Payment System Policy Department, Bank Negara Malaysia



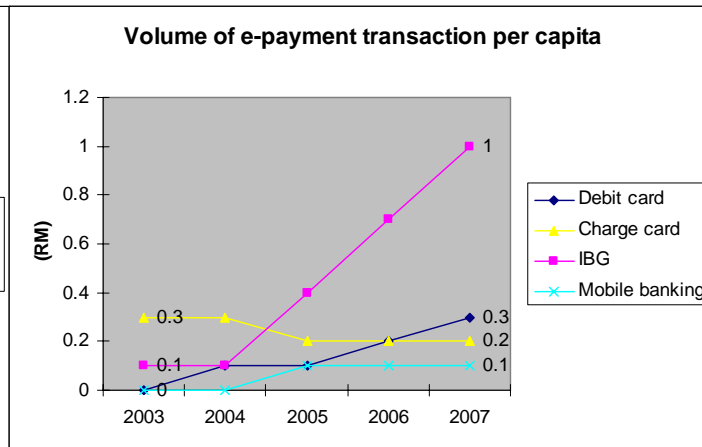
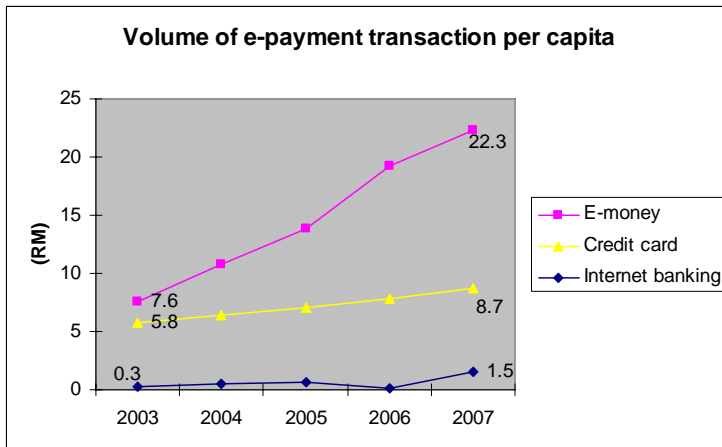
- Despite the promotion of e-payments, in terms of transaction value, cheques still account for a significant portion of non-cash retail transactions (at 93% in 2007)

Source: Payment System Policy Department, Bank Negara Malaysia

Evolution of payment system in Malaysia



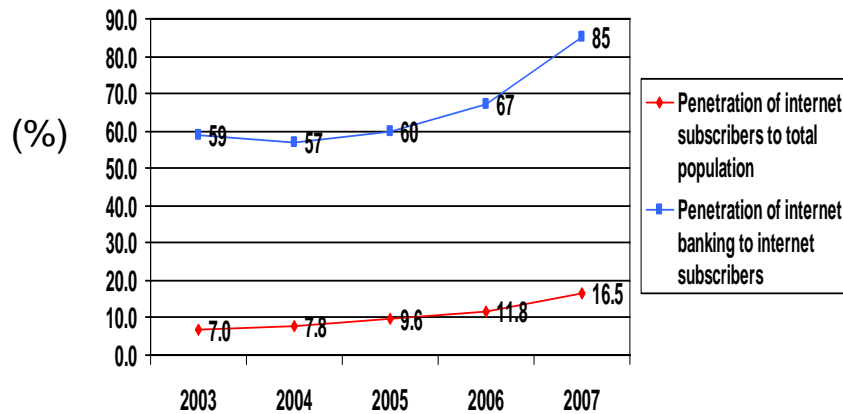
- IBG, credit card and internet banking are the major e-payment instruments in terms of value
- Mobile banking and FPX usage is still very low



- E-money, credit card and internet banking are the major e-payment instruments in terms of volume
- Mobile banking, debit card and charge card usage is still very low

Evolution of payment system in Malaysia

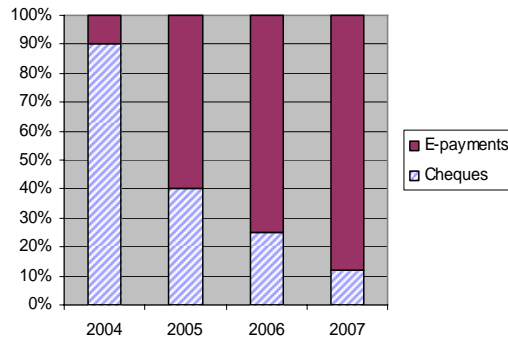
Internet banking growth



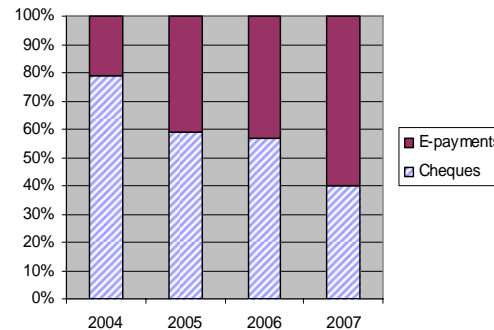
Internet banking registered a strong growth in Malaysia

Source: Central Bank of Malaysia's Annual Report 2007

Trend of Government Payment by Volume



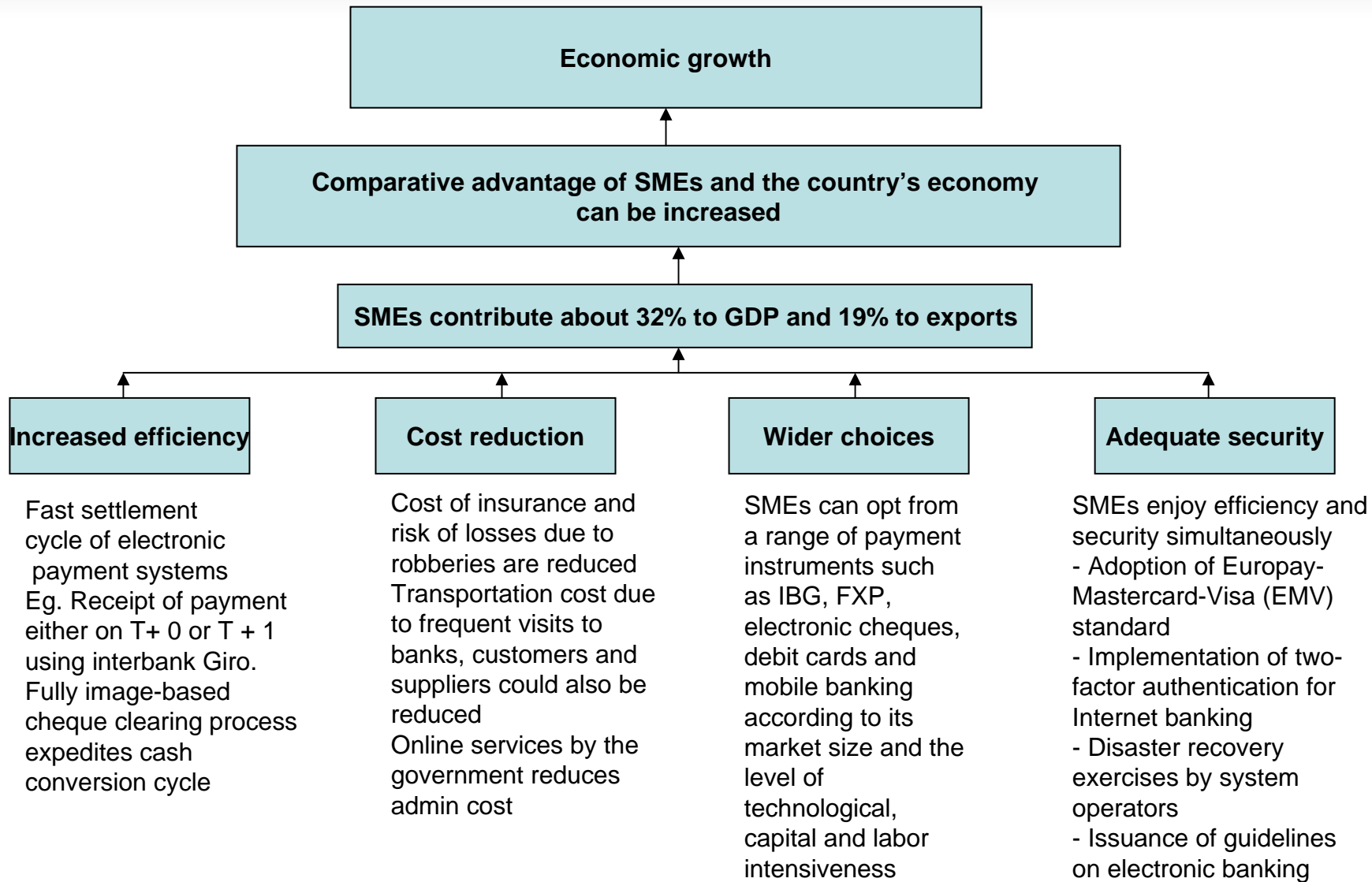
Trend of Government Payment by Value



The government's usage of e-payment scheme has increased

Source: Bank Negara Malaysia's Annual Report 2007

Benefits to SMEs provided by latest innovations in payment system

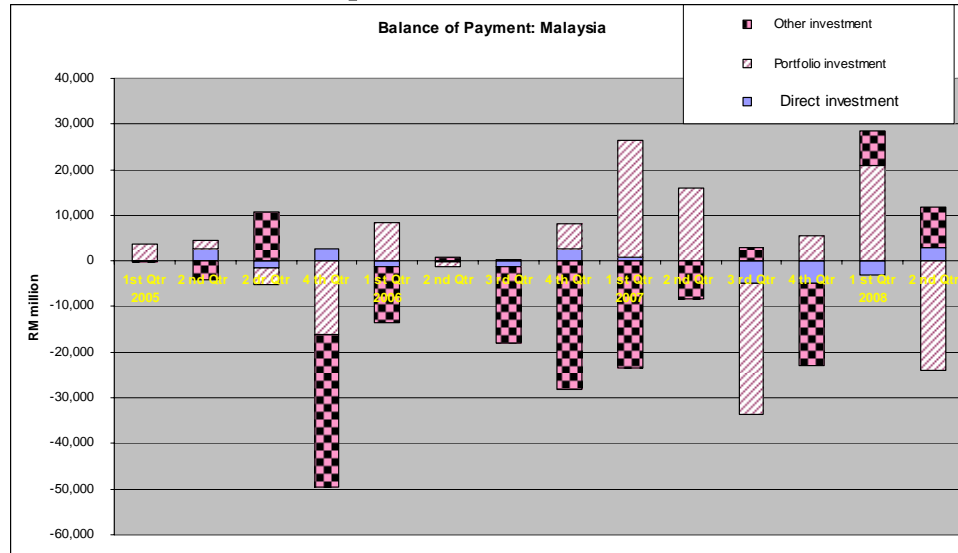


- Lack of quantitative empirical studies on the economic benefits of e-payment scheme in Malaysia

The global financial crisis and impact on capital flows and payment systems

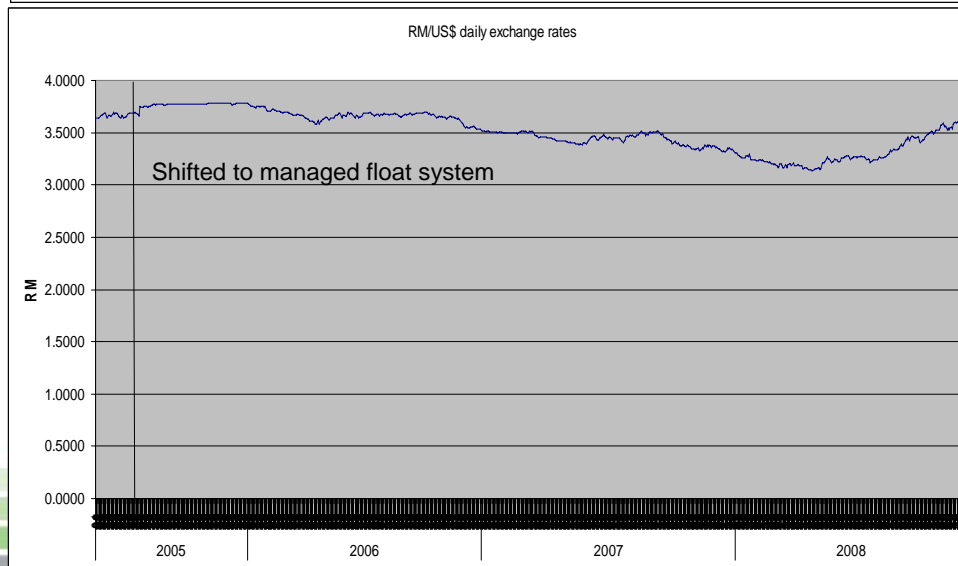
- Malaysia has a high degree of economic openness and financial openness has increased in recent years
- A nation's payment and settlement system will become more interconnected with the global payment infrastructure as the nation's financial sector's openness increases
- The tighter interconnection has increased the potential for disruptions to spread quickly and widely across multiple systems and markets
- In Malaysia, foreign capital flows and exchange rate have shown sign of higher volatility during the global financial crisis

The global financial crisis and impact on capital flows and payment systems



- Capital flows have been more volatile

Source: Bank Negara Malaysia's Monthly Statistical Bulletin, Various Issues

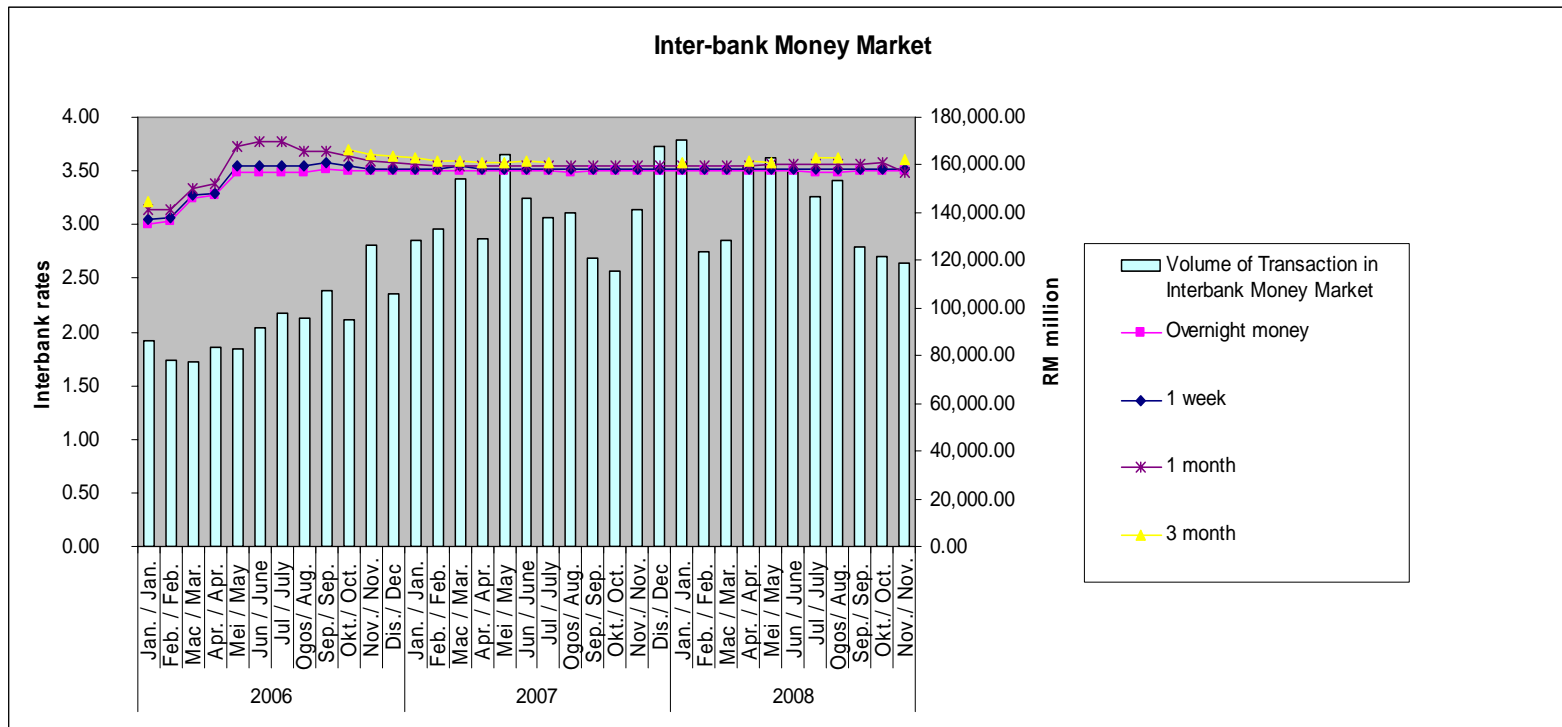


- Volatility of exchange rates have increased

Source: Bank Negara Malaysia's Monthly Statistical Bulletin, Various Issues

The global financial crisis and impact on capital flows and payment systems

- Higher volatility of foreign capital flows did not have major effect on inter-bank money market



Source: Bank Negara Malaysia's Monthly Statistical Bulletin, Nov 2008

The global financial crisis and impact on capital flows and payment systems

- It is important that institutions and service providers at the centre of key interdependencies have especially strong risk management controls and local authorities to establish close cooperation with cross border regulatory authorities
- In Malaysia, among the controls to mitigate systemic risks are
 - Limitation of membership in large value payment system to principal dealers
 - Issuance of guidelines on liquidity and supervisory actions
 - Payment versus Payment (PvP) infrastructure
 - Cooperative oversight arrangement with foreign regulator
 - Adopting best practices issued by international standard setting bodies such as the Bank for International Settlement (BIS)
- Future enhancements to payment system should consider increasing the transparency in Over-The-Counter market

Thank you