

## **Muhammad bin Ibrahim: The money services business industry in Malaysia**

Keynote address by Mr Muhammad bin Ibrahim, Deputy Governor of the Central Bank of Malaysia (Bank Negara Malaysia), at the Malaysian Association of Money Services Business (MSB) Annual Dinner 2015, Kuala Lumpur, 25 April 2015.

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Terima kasih kerana menjemput saya pada malam ini untuk bersama meraikan majlis makan malam Persatuan Perniagaan Perkhidmatan Wang Malaysia yang diadakan buat julung kalinya. Saya amat berbesar hati dengan kehadiran tuan-tuan dan puan-puan sekalian yang mewakili hampir keseluruhan penggiat industri pada malam yang bermakna ini. Ia jelas menunjukkan sokongan padu dan komitmen daripada saudara dan saudari untuk terus merealisasikan aspirasi untuk membina sebuah industri yang moden, progresif dan berdaya saing.

I feel only a short time ago that I had officiated the official launch of the Association. Since then the industry has made significant progress on many fronts. Standards have been raised, business conduct modernised and the structure of the industry has changed significantly. In many ways the achievements by the industry had exceeded our expectations.

I would like to believe that the regulatory reform instituted over the last few years was the catalyst that had transformed the money services business industry. We have seen very encouraging results. But these transformations would not be possible without the vision and shared commitments provided by the Association and the industry players.

As a collective effort, the regulator and the industry had instituted various measures to establish new norms and values that were designed to enhance the integrity and professionalism of the industry. The measures that were prescribed made good business sense. An industry that inspires confidence, trusts and exudes high degree of professionalism would instil credence among the general public, a prized virtue that would expand business opportunities. From the regulator perspectives, a highly organised and disciplined money services business industry will easily withstand the higher level of scrutiny of regulatory requirements by both domestic and international bodies.

I would like to commend the Association in the strong leadership it has demonstrated in leading a number of key initiatives to further elevate the status of the industry. The Association has adopted a Code of Conduct for its members which set high professional and ethical standards of business. We are very encouraged by the careful thoughts and active engagement by the Association. Indeed, the Code of Conduct is a centrepiece that reflects the ambitions and aspirations of what this industry stands for.

The Association has also collaborated closely with Bank Negara Malaysia to conduct a series of practical training programs to expand capacity and knowhow to instil greater professionalism and strengthening safeguards to protect the industry from being used for illicit and illegal purposes.

The positive changes in the industry have not gone unnoticed. The Bank continues to observe sustained improvements in the operations of licensees. And customers are now more appreciative of the improved quality of product and services offered by the industry players. Customers can now conduct their transactions with proper documentation and in more secure premises. The public image of the industry has certainly improved.

What we have achieved so far proved that with collaborative effort, we can achieve significant milestones. Our transformation journey is not over. It is long. It is fraught with challenges and we will encounter much passive resistance along the way. But it is a journey that is abound with opportunities.

Expectations and scrutiny of the industry will continue to increase, particularly with the growing concerns over risks posed by money laundering and terrorism financing activities. But we shall practise proportionate regulation. The Bank will assess risks and compliance based on the individual company's business profile. We are confident that all licensees will be able to comply with the minimum standards set by the Bank. Where necessary, additional investment in resources should be made including, recruiting suitable talent and acquisition of new systems.

## **Immediate priorities for the industry**

### ***Vision for the Future***

The world we are living today has changed significantly. The old rules do not work anymore. New rules are continuously being formed and constantly evolving. The advent of information technology has changed the way we live and the way we do business. We are more integrated with the outside world. The world is increasingly more interdependent. In ASEAN, we are expected to be more integrated as a region arising from economic and financial integration process. It is from this perspective that I would like to expound some ideas on what ought to be the immediate priorities for the industry and the Association.

### ***Creation of domestically strong businesses***

With the foundation laid solidly for the conduct of professional and efficient money services business in the industry, the aspiration is for the creation of a pool of domestically strong and vibrant businesses that are able to compete with the best and expand beyond the Malaysian shores. Such businesses would be characterised by the ability to deliver a strong value proposition; and are committed to offer excellent service to their customers.

To achieve this goal, I would like to focus on 3 immediate priorities for the industry:

- Firstly, continuing to nurture a mindset change within individual companies to spur and sustain the progress of the industry;
- Secondly, putting in place a comprehensive human capital development plan to support strategies for the further advancement; and
- Thirdly, creating the right incentives and a strong reputation for the constant delivery of high quality and innovative money services.

### ***Mindset change***

We are seeing many positive changes now taking place in the industry. Sustaining this transformation will call for businesses to have a long-term strategic view, the perseverance, willingness and be agile enough to adjust to changes in the operating environment. Companies should think carefully where they wish to position themselves in the long term and have a clear plan on how to get there.

There might be companies that may aspire to grow and be major providers in their own lines of business. There might also be companies that want to position themselves as a complete solution providers or becoming principals with large agent networks. And then, there are companies that have been very successful as agents, building strong partnerships with their principals while keeping operating costs low. In fact, our engagements with the industry reveal that many agents are doing better than before in terms of business flows and profits.

The regulatory framework in Malaysia is specifically tailored to accommodate all these options, supported by operating guidelines that is efficient and proportionate to risk. A company that takes on more risk and business responsibility must be prepared to meet the higher requirements that reflect the scope and levels of complexity of the business, including

the kind of management team that needs to be in place, the board's profile and level of engagement and their ability to provide strategic leadership to the company.

Companies also need to consider changes to processes as well, as investments in critical systems is important to support operations over the long term. Most importantly, there must be a clear strategy of execution and an honest assessment of the company's ability to implement such a plan. It would be a strategic error to defer these deliberations and plans because the costs to be paid would be higher if companies fail to comply with regulatory requirements.

With time, competition within the industry will also increase. For companies that invest the time and energy to thinking about shaping their future, the rewards can be substantial. One needs to explore new frontiers in doing money services business, including forming strategic partnerships with new and bigger investors with the expertise and network to take the company to the next level, being listed, and expanding abroad, regionally or internationally.

### ***Human capital development***

Human capital is a key enabler in the transformation process. Operating in an environment of heightened expectations and competition, calls for companies to have the foresight to develop strong teams that have the knowledge, skills sets and competencies. Companies ought to consider a long term human capital development.

Based on our data, business performance in terms of growth and profitability of the industry has expanded and has created new employment opportunities for Malaysians. The industry should be able to attract young local talent and assume key roles in the company as it grows and expands. They should be offered attractive remuneration packages commensurate with their responsibility. They should also be provided with opportunities for training and development and encouraged to contribute new ideas and offer fresh perspectives.

I urge the industry to look at this matter seriously, and formulate strategies to attract, develop and retain local talent. The industry needs to reduce the level of foreign employment which remains relatively high at present at more than 10% of the industry total workforce. We will therefore be engaging with companies to reduce the level of foreign employment to no more than 5% by the end of this year and to less than 3% by the end of 2016.

### ***Accreditation for compliance officers***

In the area of talent development, the industry should take the next step of introducing professional certification and accreditation programmes for relevant key personnel. This initiative will signal the strong commitment by the industry players to uphold their professional standards consistent with the Code of Conduct, and sends a clear message that this industry takes, professionalism seriously.

The global scrutiny on measures aimed at countering money laundering and terrorism financing risks has heightened. The importance of having in place strong AML/CFT (anti-money laundering and counter terrorism financing), to safeguards against such risks is given. Immediate attention to developing and providing an accreditation programme for the compliance officers becomes critical. I am optimistic that an accreditation programme for compliance officers can be introduced by the industry by the end of the year.

An accreditation program will also tie in well with plans being considered by the Bank to introduce an approval framework for compliance officers for the industry. This program should enable companies to appoint compliance officers who have the necessary skills and knowledge of regulatory requirements to perform their role effectively.

### ***Expectation on the Association***

I have attempted to describe the industry's operating landscape sometime in the near future. This is the future full of opportunities and can be realised through collective efforts of the

industry players, with the effective leadership of the Association. The industry, together with the Association, should set its sights beyond the domestic agenda. The Association should continue to drive efforts to further elevate the reputation of the industry as a regional benchmark for best practices in money services business. The successful organisation of the regional conference on money services business by the Association last year effectively showcased the remarkable progress that has been achieved in the industry and generated a lot of interest in Malaysia's experience.

Building on this interest, the Association can take a lead in the establishment of a regional network of money services business Associations among ASEAN countries to forge cooperation among industry players in the region. This would contribute towards raising standards more broadly across the region and unlocking the business potential in the money services sector within the region. The Bank stands solidly behind the Association to achieve this operation.

## **Conclusion**

In closing, let me congratulate the Council of the Association on the significant achievements over the past year which would not have been possible without your commitment in time and resources, and the strength of your conviction to overcome obstacles along the way. The Association has built a strong foundation for its important role in bringing the industry to new heights with the full support of the industry players to realise the shared vision under the industry's five-year Strategic Blueprint. We have made tremendous strides in setting a clear path for the future. I am confident that the best for this industry is yet to come.

Well done to the Association on a great first year.