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The e-money revolution

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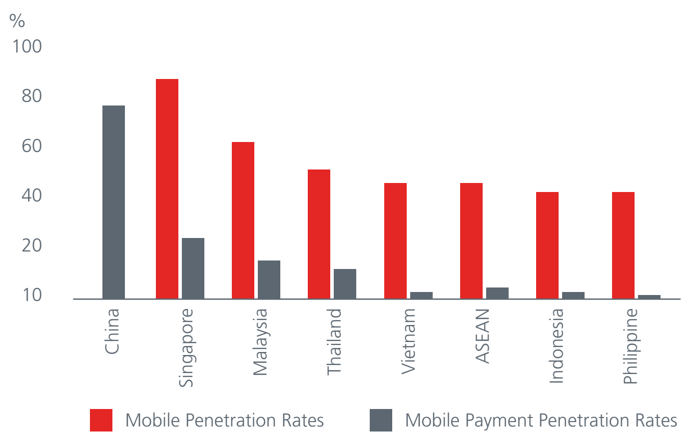
China's success in electronic payment wallets is encouraging other countries to move towards a cashless society. High smartphone penetration rates act as enablers for countries like Malaysia to follow in China's footsteps.

Bank Negara Malaysia (BNM), the Malaysian central bank, issued 10 new electronic money (e-money) licences to non-banks in 2018, bringing the total to 47 issuers for a population of approximately 32 million. Strong support from the regulator and the abundance of capital being invested in the mobile payment space by the likes of Alibaba and Tencent attest to the growing popularity of digital money.

Although Malaysia's mobile payment landscape continues to be dominated by banks – which accounted for 98.4 percent and 99.4 percent of the mobile payment transaction volume and value respectively in 2017 (primarily through online banking applications) – e-money mobile payment services offered by non-banks are beginning to gain traction.

Fig. 1. Smartphone statistics[1]



The number of subscribers to mobile payment services offered by non-banks had more than quadrupled to 3.4 million subscribers as at end-June 2018 from 0.8 million subscribers in 2017. In the first half of 2018 alone, mobile payment transactions processed by non-bank e-money issuers stood at 7.2 million transactions (valued at MYR404.7 million), which is more than seven times higher than the 1.0 million transactions in 2017 (valued at MYR240.3 million)[2].

ATTRACTIVE BUSINESS MODEL

Just as how Uber and Grab disrupted the ride hailing industry, it would be imprudent to not consider the threat of e-money issuers to incumbent players such as banks. For a start, unlike banks which charge fees from payments, e-money players do not charge transaction or payment service fees. Most Malaysian banks in this regard have lowered payment charges in recent years, such as the intrabank fund transfer and interbank GIRO rates to mitigate this threat.

E-money operators also offer a myriad of other services in its platform. For instance, Grab Pay was launched following the success of Grab's e-hailing service which secured a captive user base within its ecosystem. Using Grab Pay, users were introduced to various other services, such as fund transfer and paying for other Grab services which include bills, food delivery and rides. Most e-money operators in Malaysia today are competing for user acquisitions by offering multiple incentives such as shopping cash backs or discounted services (transportation, bill payment, e-Commerce) using their respective electronic wallets.

In addition, e-money has no "shelf life", unlike bank-issued credit cards. Shoppers these days prefer hassle-free mobile payments via e-wallet for online and offline retail purchases which offer rewards with cashback for buying from a variety of great deals, discounted products, vouchers and services.

Forecasts suggest mobile commerce will account for 70 percent of digital commerce sales globally by 2022.[3] Digital payments will double in volume over the next five years to represent approximately 29 percent of consumer Point of Sale (POS) payments, with in-app payments exceeding browser-based e-commerce by 2021 (with POS "tap and pay" a distant third)[4]. This suggests that the use of bank-issued credit cards will likely reduce following the rise of digital payments.

BARRIERS TO FASTER ADOPTION

Despite the rising popularity of e-money, there are a number of challenges. First and foremost is the purse size for e-money operators. In Malaysia, there are only 2 schemes e-money operators can offer i.e. the maximum purse size of MYR1,500 and a small scheme which limits the purse size to MYR200. In contrast, banks offer much higher limits on the credit cards. E-money users therefore cannot make large transactions on the platform.

In addition, e-money operators need to attract e-wallet users by expanding the reach via compatibility with different devices whilst providing improved security and greater merchant penetration. With plenty of options to choose from, many e-money operators have offered incentives such as cash back and rebates to draw users to the platform. This strategy over the long run will see e-money operators burning cash to sustain the e-wallet business[5], which will possibly trigger an industry consolidation.

Interestingly, traditional bank platforms continue to dominate the payment landscape in

Fig. 2. BNM's payment systems' reform measures[6]

	1st Wave	2nd Wave	3rd Wave
	2013	2015	2018
Focus Areas	Electronic fund transfers to displace cheques	Debit cards to displace cash	Mobile payment to displace cash and cheques
Challenges	Price distortion between cheques and credit transfer	• High Merchant Discount Rate • Moderation in POS terminal growth	Estimated 12 mil adults without online banking services

Malaysia. A 2018 customer survey conducted by PwC Malaysia showed that only 22 percent of the respondents have used an e-wallet before. The survey also found that the top 3 reasons for adoption were promotions, convenience and digital receipts while concerns mainly revolved around low merchant adoption, security risks and poor user interface.

THE VALUE PROPOSITION

With improvements to mobile technology, e-money operators can add value to these areas:

- Utilise customer data to offer personalised product and services such as automatic bill payments, goods ordering, delivery services and various services customisation. In addition, they can also incorporate loyalty rewards and help customers track their spending patterns;

- Offer a one-stop digital ecosystem platform which provides financial services, insurance, healthcare or travel services, and

- Create new jobs and enable the monetization of payments services at reduced cost compared to the traditional banks.

Nonetheless, the rise of non-bank e-money operators does not spell gloom and doom for banks. Many banks have responded with their own e-money offerings. For instance, Malaysia's largest bank by asset size, Maybank Berhad, launched its own e-money wallet MAE while also offering its mobile payment solution Maybank QR Pay for its customers. Another major bank, CIMB Bank is vying its spot in the e-money space via its subsidiary Touch 'n Go's joint venture with Alibaba Group's Ant Financial to tap the market, which currently dominates as the sole electronic payment system for expressways and highways in Malaysia.

E-money could help also banks with cost savings. We see the potential for banks to lower distribution costs, such as branches, ATM networks and Point of sale terminals as consumers familiarise themselves with e-money payments and demand less physical touch points for banking and payment services.

In short, e-money is one form of digitalization and like its many other forms, existing businesses will need to adapt, or risk being left behind. In fact, there are growth opportunities for those who embrace such digital disruptions. The winners be it non-bank or bank operators will likely be ones that provide the best user experience, command trust and offer the best benefits.

Sources: [1]Nomura, ASEAN internet: opening up the mobile wallet [2]BNM Quarterly Bulletin, Second Quarter 2018: Transforming Mobile Phones into E-wallets in Malaysia [3,4]McKinsey & Company, Global payments 2018, A dynamic industry continues to break new ground [5]The Edge Markets https://www.theedgemarkets.com/article/special-report-driving-cashless-payments-cashdominated-nation [6]http://www.bnm.gov.my/files/publication/qb/2018/Q2/p7.pdf

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