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Navigating the E-Money Landscape

A fortnight ago, Bank Negara Malaysia (**BNM**) proposed, in the form of an “exposure draft” (**Exposure Draft**), requirements and guidance for issuers of electronic money (**EMI**) approved pursuant to s 11 of the Financial Services Act 2013 or the Islamic Financial Services Act 2013. The Exposure Draft invites written feedback and proposals from the relevant stakeholders.

E-money is a payment instrument that stores monetary value prepaid by the user to the EMI.¹ Usage of e-money has surged tremendously over the past five years,² representing 33% of total electronic payments in Malaysia for the year 2020 alone.³ This is unsurprising, given the flexibility of e-money, which can be used to make payments to merchants who accept e-money, or even to send and receive funds.⁴

The Exposure Draft sets out BNM’s proposed key requirements and standards, divided into five sections:

Part A – Overview

Part A sets out an outline of the current e-money landscape in Malaysia.⁵

Under the Exposure Draft, EMIs are categorised into four categories – standard, eligible, non-bank and limited purpose. Eligible EMIs are EMIs that fulfil certain criteria as listed in the Exposure Draft and will be subject to additional requirements.

Part B – Governance

This section sets out BNM’s expectations on the governance arrangement of EMIs to ensure the continual integrity in their operations.⁶ These governance arrangements include:⁷

- (a) Appointment of members with calibre into the board of directors and senior management.
- (b) Proper segregation of duties and internal control arrangements.
- (c) Clearly defined and documented organizational arrangements.

Additional requirements are also proposed for eligible EMIs.⁸

1 Paragraph 1.1 of Exposure Draft
2 Paragraph 1.3
3 Paragraph 1.3
4 Paragraph 1.1
5 Paragraph 1
6 Paragraph 8
7 Paragraph 8.1
8 Paragraphs 9.12 and 9.18

Part C – Operational and Risk Management

EMIs are required to maintain minimum capital funds according to their categorization:⁹

- (a) Standard EMI : Minimum capital funds of RM1 million or 8% of the EMI's outstanding e-money liabilities (whichever is higher).
- (b) Eligible EMI : Minimum capital funds of RM5 million or 8% of the EMI's outstanding e-money liabilities (whichever is higher).

Part D – IT Requirements

EMIs are required to have in place a robust Technology Risk Management Framework (**TRMF**) to safeguard their information infrastructure, systems and data.

Part E – Regulatory Process

There are continuous obligations on EMIs which include notifying BNM of any proposed changes to its business model, relocation of offices, appointment of an auditor, chairman, director or chief executive officer.¹⁰

Conclusion

Given the significant growth on the usage of e-money over the past decade, enhancements to the e-money regulatory framework are necessary to ensure e-money continues to be a safe and dependable payment instrument.¹¹ Therefore, the relevant stakeholders are urged to provide their written feedback and proposals to BNM's Exposure Draft by 31 July 2021.

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⁹ Paragraphs 15.1 and 15.3
¹⁰ Paragraph 32
¹¹ Paragraph 1.3