

**Annex A****Review of Retail Payment Services in Hong Kong**

The Hong Kong Monetary Authority (HKMA) completed a comprehensive review of retail payment services in Hong Kong ("the Review") in October 2001. The Review examined issues such as efficiency, pricing and costs, degree of market access, level of competition and risks associated with the various means of retail payment. It also considered the appropriate regulatory approach for oversight of retail payment services in Hong Kong.

2. The Review has concluded that the retail payment systems in Hong Kong generally function well. They are considered to be efficient and effective, and there exists a wide range of payment instruments such as cash, cheques, credit cards, stored value cards, debit cards and electronic non point-of-sale debit instructions. The payment system providers are generally innovative. With Hong Kong's open regime for the operation of and participation in the retail payment systems, market forces have functioned well to meet the market needs. The Review also regards that there are no major shortcomings in the Hong Kong's retail payment systems that will pose risks to the systemic stability of the local financial system or to public confidence.

3. As regards the Easy Pay System (EPS), the Review notes that it represents only a very small proportion of the overall retail payment system. Payments handled by EPS only account for about 2% of the total private consumption expenditure. As one of the retail payment instruments, EPS has provided convenience to both consumers and retailers. In view of the keen competition and the wide range of alternative retail payment instruments available to consumers and retailers, a particular sector cannot monopolize the retail payment market.

4. To reinforce the efficiency and effectiveness of the existing retail payment systems, the Review has made a number of sectoral recommendations with respect to the different retail payment channels as well as the appropriate regulatory approach for oversight of retail payment services in Hong Kong. The Review notes that there are three key policy objectives to be achieved in oversight of the retail payment systems in Hong Kong: promoting transparency of the operation of the payment systems and services, monitoring the determination of fees and charges, and promoting market access, competition and efficiency. These issues are essential to the overall stability, efficiency and competitiveness of the

payment systems in Hong Kong. The Review therefore suggests a progressive approach to improve the regulatory oversight in Hong Kong to achieve the above three objectives. The Review recommends specifically to introduce a self-regulatory approach, under which the industry would draw up codes of practice itself and also monitor compliance with such codes by the trade, while the HKMA would oversee the overall implementation of such approach.

5. The self-regulatory approach put forth by the Review is also applicable to the debit card sector that covers EPS. The HKMA is setting up a number of working groups to develop codes of practice for the various payment systems. Retail payment system operators and the banking sector are represented at the working groups.

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