

26 November 2007

Panel on Financial Affairs of the Legislative Council

Octopus EPS Add-value Incident Update

Objective

This paper serves to give the Panel an update of what Octopus Cards Limited (OCL) has done since the Panel's hearing on 2 March 2007 in regard to failed Octopus EPS add-value transactions (the Octopus EPS add-value incident), covering:

- Customer refund arrangements
- A review of the Octopus EPS add-value service
- Enhancing consumer protection

Background

- PricewaterhouseCoopers (PWC), the independent consultant appointed to review the root causes of the failed Octopus EPS add-value transactions, has completed its review. A copy of the report findings and recommendations was sent to OCL on 27 July 2007. OCL announced the key report findings and recommendations to the public through a press conference that same day.
- With the help of EPSCO and relevant banks, OCL started immediately to make refunds to customers affected by 15,270 failed Octopus EPS add-value transactions identified between January 2000 and December 2006 with a total value of approximately HK\$3.7 million.
- A copy of the report was also submitted to the Hong Kong Monetary Authority and Professor Andrew Chan, Independent Advisor to OCL. The same report was also submitted to the Panel on Financial Affairs.
- OCL set up in August 2007 a Task Force comprised of OCL's technology team and representatives of all relevant third parties (EPSCO, EFT module manufacturers, MTR, KCR and the network provider) to address the issues identified in the PwC report as relating to the causes of the failed Octopus EPS add-value transactions.
- In September 2007, an action plan in response to the PwC Report was sent to the Hong Kong Monetary Authority and Professor Chan. This action plan was also submitted to the Panel on Financial Affairs.

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A. Customer Refund

- With the help of EPSCO and relevant banks, over 98% of the unclaimed funds have been returned to affected customers. There were 284 cases, with refund amounts totaling around HK\$66,900 that could not be returned to customers largely due to bank account closures and the banks not having the former customer's current contact information. OCL is exploring other means to return these unclaimed funds to affected customers.

B. Octopus EPS Add-value Service Review

- Since August 2007, several meetings have been held by the Task Force to address the identified root causes of the failed Octopus EPS add-value transactions. All parties have devoted considerable time and resources to study the issues raised by the PwC Report. Estimates related to resources and timescales needed to implement specific solutions have been prepared.
- Despite the complexity of the system and the number of parties involved, Octopus, in its oversight role, has set a benchmark of ensuring that similar incidents cannot occur again as a pre-condition to resuming the Octopus EPS add-value service.
- OCL is evaluating each task to be carried out against this benchmark and a decision is expected to be made by the end of November 2007.
- As pointed out in the PwC report, no evidence was found to suggest that Octopus add-value channels other than EPS were affected.

C. Consumer Protection

- OCL has recognised the importance of stepping up our customer communications program to better enhance the protection of customers' interests.
- As a consequence of that, in August, OCL launched a new initiative, the "Friends of Octopus", which is a dedicated customer-engagement program designed to strengthen OCL's two-way communication with customers with a view to giving customers more input in the development of OCL's products and services. Over 33,000 members have been recruited since

its launch in August and a dedicated email account (friends@octopus.com.hk) has been created for direct customers' feedback. About 100 valuable suggestions have been received through this account on OCL's products and services, including product and card design as well as proposed new service providers to better support customer needs.

- OCL has also launched a Personalised Card Instant Issuance Program to encourage, and make it easier for, customers to apply for Personalised Cards. Personalised Cards allow OCL to proactively communicate with customers should the need arise. A series of roadshows, starting in September, have been running weekly to promote P-card applications. OCL also waived the HK\$20 handling fee on Personalised Card applications (except student and corporate staff cards) from 1 August 2007 to 31 July 2008.
- OCL has also promoted its Automatic Add-Value Service whereby money is added to the Octopus cards before it is deducted from the credit card accounts. This service also allows Octopus to proactively contact customers should there be any need.
- In addition, we are collaborating with a leading telecommunications company to provide a broadband phone-based enquiry of a customer's card's 10 most recent Octopus transactions at home. A pilot program will be launched in early 2008.
- OCL is developing an Internet platform to enable customers to make a personal computer-based enquiry of their cards' 10 most-recent transactions from home or office. We expect to launch this service in 2008.
- Other actions we have taken to strengthen our customer services include:
 - Since May 2007, we have been promoting transaction and balance enquiries at transaction-enquiry machines at MTR/KCR stations to enable customers to have as much information as possible about their Octopus card usage.
 - In an effort to assist customers in managing their Octopus account, OCL has also included enhanced consumer tips on our website as well as enhanced user guides for cardholders. These services were launched in May and September 2007, respectively.
 - OCL reduced the cost to customers of obtaining printouts for the last 40 transactions from HK\$200 to HK\$100, effective 1 June 2007.

- Provision of the printout of the 10 most recent transactions at MTR/KCR customer service counters has been made available to all cardholders (previously only available for Personalised cardholders). This service came into effect on 1 June 2007.
- In April 2007 OCL extended its hotline service hours from 9 am to 9 pm, six days a week, and added additional hotline customer service staff.

Ongoing Commitment to Customer Service

OCL will continue to enhance its services, especially in providing information to customers and ensuring that they have more channels to review their transaction history. Octopus is committed to ensuring that customers who use its services each and every day continue to do so with the confidence and trust that have made us an integral part of daily life in Hong Kong.
