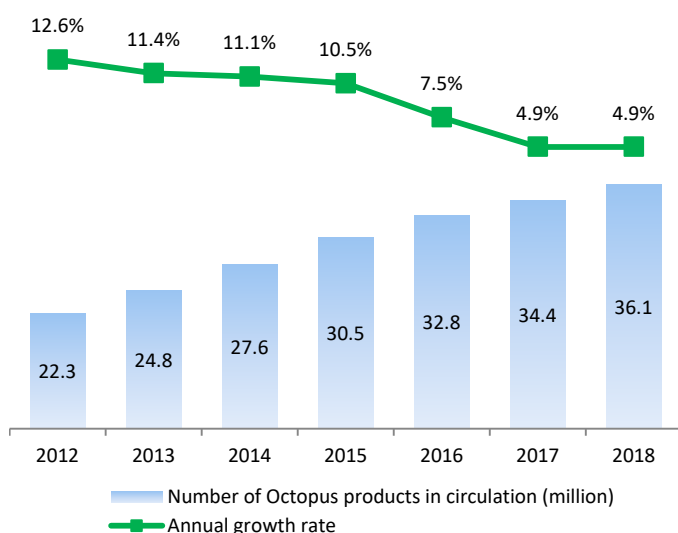




Emergence of new electronic payment services

Figure 1 – Number of Octopus products in circulation⁽¹⁾, 2012-2018



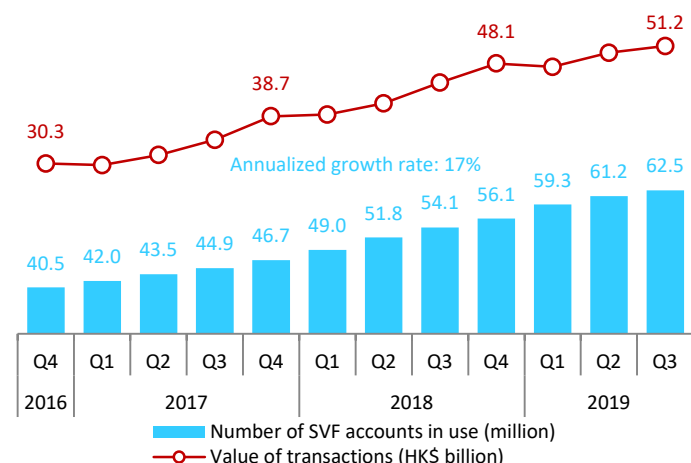
Note: (1) It refers to the net number of products which excludes those being inactive (i.e. have not added value for a continuous period of 1 000 days).

Figure 2 – Number of SVF licensees operating SVFs as at December 2019

	Number
Non-bank SVF licensees	15
Licensed banks which are currently issuing or facilitating the issue of SVFs ⁽¹⁾	3
Total number of licensees operating SVFs	18

Note: (1) Under PSSVFO, licensed banks are regarded as SVF licensees with the eligibility to operate SVFs. As at December 2019, there were 161 banks (i.e. eligible SVF licensees) not currently issuing and facilitating the issue of SVFs.

Figure 3 – Number of SVF accounts in use and value of transaction

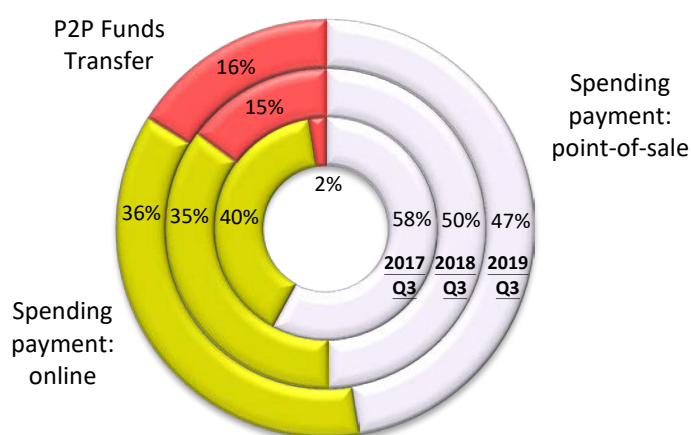


Highlights

- Electronic payment has been popular in Hong Kong with different kinds of payment options available in the market. Among them, device-based multi-purpose stored value facilities ("SVFs") are commonly used as a means of payment for goods or services provided by the issuer or third-party participating merchants at designated locations and points. Typical examples of these SVFs are Octopus products (including cards and other products such as watches).
- As the dominant player in the market, Octopus is used widely with 36.1 million products in circulation as at end-2018 (**Figure 1**). Nevertheless, amid the emergence of non-device-based SVFs (normally have their value stored on a network-based account or a mobile network-based account) in recent years, the growth rate of Octopus has persistently declined to about 5% annually.
- Device-based SVFs were previously regulated under the Banking Ordinance while non-device-based SVFs were not subject to regulation. In 2015, the Government revamped the regulatory regime to regulate both device-based and non-device-based SVFs under one single piece of legislation, namely the Payment Systems and Stored Value Facilities Ordinance ("PSSVFO"). Since August 2016, the Hong Kong Monetary Authority ("HKMA") has been granting SVF licences to non-bank issuers while licensed banks are regarded as being granted a licence under PSSVFO. Currently, there are a total of 18 licensees (including three licensed banks) operating SVFs (**Figure 2**).
- The adoption of SVFs in Hong Kong has become more prevalent since the introduction of the new regime. As at end-September 2019, there were 62.5 million device-based and non-device-based SVF accounts in use, representing an annualized growth rate of 17% (**Figure 3**). At the same time, the value of SVF transactions has grown to HK\$51.2 billion in the third quarter of 2019, 69% higher than the transaction value recorded in the last quarter of 2016.

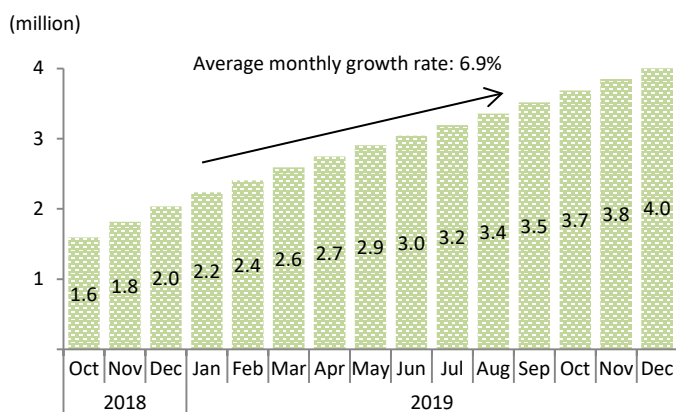
Emergence of new electronic payment services (cont'd)

Figure 4 – Value of SVF transactions by type⁽¹⁾



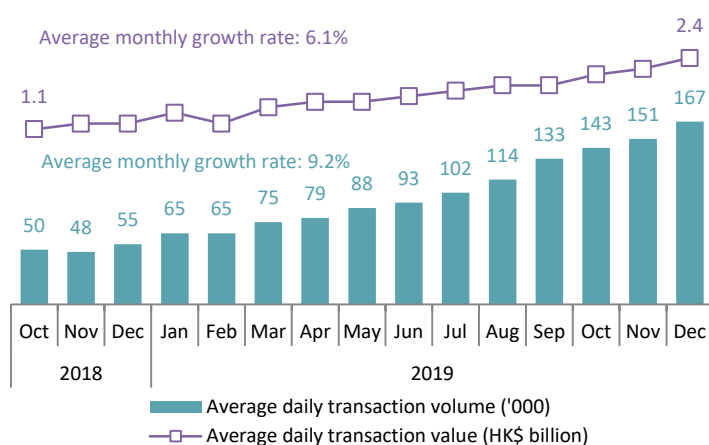
Note: (1) Figures may not add up to 100% due to rounding.

Figure 5 – Cumulative number of FPS registrations⁽¹⁾



Note: (1) A user may have more than one registration with the FPS.

Figure 6 – Average daily turnover of HKD real-time payments of FPS



Highlights

- Looking into the value of SVF transactions by type, the proportion of point-of-sale spending payment decreased noticeably from 58% in the third quarter of 2017 to 47% in the third quarter of 2019 (Figure 4). Online spending payment also exhibited a declining share but the magnitude was smaller. In contrast, the proportion of peer-to-peer ("P2P") funds transfer increased markedly from just 2% to 16% over the same period.
- Increased P2P funds transfer activities might also be partly explained by the introduction of Faster Payment System ("FPS") in September 2018 which enables customers of different banks and SVF operators in Hong Kong to make cross-bank/SVF payments conveniently. In about a year since its launch, FPS has already received over 4 million registrations as at end-December 2019 (Figure 5). According to HKMA, the penetration rate is likely among the highest in the world with a population of some seven million in the city.
- Growing use of FPS is also reflected in the persistent increases in the daily turnover of HKD real-time payments of FPS across months. In particular, FPS processed about 167 000 transactions per day (or HK\$2.4 billion per day) in December 2019, increasing at an average monthly rate of 9.2% (or 6.1% in terms of transaction value) from a year earlier when the service was first launched (Figure 6). While FPS brings convenience to the public, there were several reports of fraud cases involving the use of stolen information to set up direct debit authorization under FPS at the beginning. In this connection, HKMA has requested SVF operators to strengthen the verification requirement (e.g. introducing two-factor authentication) to ensure that the SVF user is the same as the bank account owner.

Data sources: Latest figures from Hong Kong Interbank Clearing Limited, Hong Kong Monetary Authority and Octopus Cards Limited.

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