

## **Peter Pang: Promoting the prudent development of m-payment in Hong Kong**

Speech by Mr Peter Pang, Deputy Chief Executive of the Hong Kong Monetary Authority, at the “Tapping the potential of mobile commerce with innovation” Conference, Hong Kong, 18 September 2014.

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Distinguished guests, ladies and gentlemen,

1. I would like to thank the South China Morning Post for inviting me to talk about the exciting topic of mobile commerce.

### **I. Prelude – a quick recap of the technology evolution**

#### **(a) *The past***

2. Mobile technology has come a long way over the past two decades. I recently came across an article that indicates that in an upcoming technology exhibition in London, a futuristic smartphone will be put on show. It offers a wide range of computing features, and has a stylish screen. If you carry it on the street today, I am quite sure it will have a “wow effect” no less than any other new model that is on offer right now.

3. Don’t get me wrong – I am not talking about any latest phone models. I am talking about the first “smart-phone” in the world, the IBM Simon, which went on sale in the summer of 1994, and would be put on display in London’s Science Museum in October this year.<sup>1</sup>

4. The model disappeared from the market around two years after its launch. With a limited battery life of an hour and weighing more than a pound, that might not be entirely surprising. But another key reason was probably this – there was no m-commerce at that time.

#### **(b) *The present – opportunities offered by m-commerce/m-payment***

5. Let’s fast-forward to 20 years later after the birth of the first smart-phone, and get back to the present. We are all witnessing the sea change in the landscape of e-commerce, and are enjoying its huge benefits.

6. Most smartphones are much lighter now and have much longer battery life. But more importantly, what was once known as “e-commerce” is expanded by what we now call “m-commerce”. It is the name of the game.

7. People are no longer satisfied with buying or selling things online using their desktop or notebook computers. They want to do these in both the virtual and the real world anywhere, anytime, using their mobile devices like smartphones or tablet computers.

8. Let’s face it: businesses can take place in the virtual marketplace, but people don’t *live* there. Books can be made digital, but coffee cannot. We still enjoy – and need – physical goods and services. That’s why “m-commerce” is becoming the “game changer”, as it fills the gaps of “e-commerce” by making it portable and connecting the virtual world with the real world.

9. Furthermore, the penetration power of m-commerce has been significantly boosted by new marketing tools made possible by combining mobile technology with Big Data analytics. Location-based “push” marketing and mobile coupons are helping companies to attract new

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<sup>1</sup> BBC: *World’s first “smartphone” turns 20*, Aug 15, 2014 (<http://www.bbc.com/news/technology-28802053>).

customers and encourage existing ones to spend more. And all sorts of creative “apps” are making the “matching” process between buyers and sellers much more fun and efficient. That is the beauty of the “online-to-offline”, or “O2O” value chain, an increasingly vital element of m-commerce.

## **II. The HKMA’s policy objectives towards electronic payments**

10. The benefits of m-commerce are not confined to individual companies. From a macro perspective, m-commerce and m-payment will, no doubt, help to enhance economic efficiency by cutting costs of businesses, make the payment process safer, facilitate price discovery of goods and services, and contribute directly to price stability and increased competition.

11. A study conducted by Moody’s Analytics last year estimated that the greater use of electronic payments added nearly US\$1 trillion in global economic growth over a five-year span between 2008 and 2012. That growth in GDP was equivalent to creating 1.9 million jobs.

12. In view of the importance of electronic payment, the HKMA has carefully considered the approach that it should adopt in view of its dual role both as a regulator and a facilitator to promote a healthy development of electronic payments.

13. In short, we are adopting a three-pronged approach.

- i) First, we have made it a priority to promote the further adoption of electronic payment means. This is achieved through projects such as the e-bill platform, which was launched last year, and the e-cheque initiative, which is scheduled to be launched next year;
- ii) Second, we will take proactive steps to facilitate the development of mobile payment services, and
- iii) Third, we will put in place a robust legal and regulatory framework to manage the risks that may arise from these new technologies.

Let me elaborate below on the second and third components of this strategy.

## **III. Embracing the m-commerce opportunities in HK**

14. Talking about m-commerce, I believe that, if there is an “app” that would guide market players to search for a place to launch their m-payment business with any of these key words – “market readiness”, “policy support”, or “sound regulatory framework”, the choices to pop up on your app screen would likely include Hong Kong. Let me explain.

### **(a) Market readiness**

15. In terms of market readiness, the relevant statistics clearly indicate that Hong Kong is ready and willing to embrace m-commerce. According to some research, the market size of Hong Kong’s mobile commerce exceeded HK\$6 billion in 2012, and is expected to reach near HK\$18 billion by 2015.<sup>2</sup>

16. These online shoppers are well-equipped for mobile payment. The mobile subscriber penetration rate in Hong Kong, which stood at 237% as of May 2014, is one of the highest in the world. Moreover, many of the new smartphones shipped to Hong Kong are NFC-enabled.

17. Thanks to the promotional efforts of various payment service providers, people in Hong Kong are very used to making contactless payment. Some statistics show that among non-

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<sup>2</sup> Sources: *PayPal Consumer Online and Mobile Shopping Insights 2012*.

cash transactions, the portion of contact-less transactions amounts to about 85%.<sup>3</sup> With such a technology-savvy population, there is a huge market that m-commerce merchants can tap into.

**(b) Policy support**

18. Now, let me turn to “policy support”. Development of the policy framework for mobile payment services started a few years back. In 2012, the HKMA commissioned a consultant to examine how our city should best embrace the m-payment technology, and promote creativity through competition, while ensuring sufficient protection of the users in terms of prepaid stored value and data security. The consultant made two recommendations.

**“Soft” infrastructure – best practices**

19. The first one focused on building the critical “soft” infrastructure. The consultant suggested that the HKMA should work with the industry to develop a set of standards to ensure inter-operability and system security. We agreed on this point, and worked proactively with the banking industry to produce the Best Practices for the NFC Mobile Payment, which was released in 2013.

20. This common set of technical standards has laid the foundation for achieving security and interoperability among different m-payment services. In concrete terms:

- i) Consumers can use a smartphone to download not just one payment service, but different payment services of their choice;
- ii) Consumers can switch to a new network or change to a new smartphone without disrupting the continuity of the existing m-payment services; and
- iii) All m-payment service providers are required to comply with common security and data protection measures that are in conformity with international standards.

**“Hard” infrastructure – market-driven approach**

21. The second recommendation of the consultant was about the “hard” infrastructure. The consultant recommended that the HKMA should, based on the agreed standards, encourage and facilitate the market to develop a robust infrastructure to drive its growth.

22. International experience indicates that the hard infrastructure to support NFC mobile payment can be achieved through a market-driven approach or a government-led approach. After careful consideration, we decided to adopt a market-driven approach, for several compelling reasons.

- i) First, emerging payment technologies are fast-evolving. Payment service providers are closer to the market and are therefore able to make fast business decisions to develop infrastructure and services that would respond to the market needs in a timely manner.
- ii) Second, the success of new retail payment products and services hinges on personal experience of the individual user. Here, again, market players, who know better than anyone else the tastes of their customers, are in a good position to develop payment products and services that truly fit their customers’ needs and therefore have better chance of success.
- iii) Third, a domestic card association had indicated early on that it would build a shared NFC platform for its member banks, which is able to support over 20 banks

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<sup>3</sup> Based on statistics from Octopus, HKICL, HKMA.

to provide NFC payment services. The project would to a large extent achieve the objective of having a piece of interoperable infrastructure.

23. So far, the market-driven approach has served us well. One stored value card company has launched such services, so have four other banks, in partnership with two major card associations. By the end of this year, the shared NFC payment platform I mentioned should be ready for operation.

#### **IV. Sound regulatory framework**

24. While Hong Kong is well-positioned to capture business opportunities brought by m-commerce, we need a legal and regulatory framework to address the related risks. With that in mind, the HKMA and the Financial Services and the Treasury Bureau are jointly proposing a regulatory regime for stored value facilities and retail payment systems in Hong Kong.

25. Under the new framework, multi-purpose stored value facilities would need to be licenced and observe a set of regulatory requirements. For instance, it must have a physical presence in Hong Kong and must be a body corporate under Hong Kong law. The issuer must meet a minimum ongoing capital requirement of HK\$25 million. There are also “fit and proper” requirements on management and ownership.

26. Of particular importance is the need for adequate consumer protection. To protect the money in the stored value facilities, we propose that such float must be kept separate from the licensee’s other funds, and the float must be adequately protected by safeguarding measures, such as a bank guarantee or a trust account.

27. The proposed legal framework will also empower the Monetary Authority to designate major retail payment systems, such as global credit card schemes, to be put under its supervision. The designated systems would be subject to requirements such as risk management and control procedures relating to their operations, and measures to ensure the safety and integrity of customer data held in the system.

28. We believe the proposed legal and regulatory regime will foster the healthy development of m-commerce in Hong Kong. Results of public consultation conducted last year indicate that there is general support of the proposed regime by the key stakeholders. We aim to introduce the relevant bill into the Legislative Council in the next legislative session.

#### **V. Conclusion**

29. As the theme of today’s event suggests, the potential of m-commerce is there for all to tap with innovation, and I am sure there is plenty to tap by users and service providers.

30. The HKMA will continue to monitor market developments and, when appropriate, facilitate the industry efforts in harmonising the technical and safety standards. We will also ensure that the regulatory framework is effective in protecting consumer interests and maintaining financial stability.

31. We believe that these efforts will help maintain and booster public confidence in m-commerce and provide a conducive environment to attract important industry players to extend their m-commerce services in Hong Kong.

32. It takes only 20 years to make the world’s first smart-phone look like something out of the Stone Age. So, I won’t be surprised if today’s latest models would also end up in some exhibition cases, to be surveyed with great amusement, in a not-so-distant future. In the history of the human race, mobile commerce will certainly form one of those exciting chapters which are about how we innovate to make our lives simpler yet merrier. With our concerted efforts, I believe that we will be able to contribute to this new chapter, and people who have read it will come to the conclusion that, for mobile payment in Hong Kong, innovation and safety always move one way – forward.

33. Thank you.