

THE DIGITAL

TRANSFORMATION

LANDSCAPE

IN HONG KONG

2019



CONTENTS

2

FOREWORD

3

WIRECARD VIEWPOINT

4

RESEARCH SCOPE

5

HIGHLIGHTS:
THE HONG KONG CONSUMER

6

THE HONG KONG PAYMENTS MARKET

13

CONSUMER ATTITUDES TOWARDS DIGITAL PAYMENTS

18

BARRIERS IMPACTING DIGITAL WALLET USAGE

24

THE FUTURE OF PAYMENTS IN HONG KONG



FOREWORD



PHILIP WIGGENRAAD
HEAD OF RESEARCH
TOFUGEAR

"Hong Kong is lagging behind other markets when it comes to the adoption of new payment methods such as digital wallets." This has been one of the common themes we heard while speaking to payment vendors and retailers during the course of the research for this report.

It is true: digital wallet payments do not dominate the payments market like they do in Mainland China – although that is of course a consequence of the low penetration rate of credit cards in that market.

Yet, having moved from the UK to Hong Kong just last year, I personally

"Retailers need to embrace the diversity of payment preferences in Hong Kong"

have been impressed by the variety of payment methods that are used here.

In the UK, there is no equivalent to the convenience that the Octopus card offers, and PayPal is the main digital wallet that is used (a legacy of when that was the only way to pay for purchases on eBay). Contrast this to Hong Kong, where there are currently ten digital wallets that are accepted – to varying degrees – in the retail sector.

Furthermore, this research has uncovered that nearly nine in ten consumers have used a digital wallet in the past year. This underlines that there is a genuine willingness to engage with these new payment methods, which have appeared on the market since the Hong Kong Monetary Authority issued its first 'stored value facilities' (SVF) licenses in 2016.

If there is a lesson to be learnt from this report, it is that payment preferences in Hong Kong are varied and retailers need to embrace this diversity in their payment strategies. For instance, retailers targeting

younger consumers should consider offering a cash on delivery option due to low credit card ownership, while accepting digital wallet payments is a must for businesses operating in the food retail sector.

Retailers should also keep in mind that the need for convenience is a major driver of purchasing behaviour. The patience of Hong Kongers with long queues is wearing thin, and speeding up the checkout process is exactly why some shoppers are opting for digital wallet payments. At the same time, consumers want to engage with self-checkout technologies, or skip the queue altogether through mobile tills.

I would like to extend a thank you to Wirecard for partnering with us on this study as well as our research partner Rakuten Insight. Last but not least, a special thanks to all those individuals we interviewed at Google Pay, Octopus Cards, TNG FinTech Group, BBPOS Merchant Services, Zalora and SKYMART. Without your help, this report would not be possible.

WIRECARD VIEWPOINT



DAVID LAU
GENERAL MANAGER
WIRECARD

Driven by increased smartphone penetration and internet usage, Asia is seeing a rise in digital payments adoption and is in the running to be a leader globally. Traditionally a 'cash is king' society, Hong Kong has been making a push towards digital and mobile payments, with the Hong Kong Monetary Authority issuing stored value facilities licenses in 2016 and virtual banking licenses in March 2019.

However, Hong Kong consumers are not the most advanced in comparison to other Asian shoppers in using smart payment systems, which at the same time brings plenty of opportunities and challenges to regulators, retailers as well as solution providers.

Wirecard and Tofugear embarked on this collaborative partnership to answer some burning questions on the digital payments landscape that Hong Kong retailers, financial institutions and solutions providers may have. This report offers insights to the usage and adoption of digital payment methods by Hong Kong consumers, as well as how retailers and payment vendors are responding to these trends.

Wirecard is widely known as an independent provider of outsourcing

"There is an ongoing shift in shopping and payment behaviour amongst consumers"

and white label solutions for electronic payment transactions, a global multichannel platform that bundles international payment acceptances and methods, supplemented by fraud prevention solutions. With our experience in providing omnichannel solutions to retailers, we see great potential in enhancing the customer experience and engagement with a new generation of payment users.

The findings of this report reflect an ongoing shift in shopping and payment behaviour amongst Hong Kong consumers. We believe that there is a huge opportunity for retailers to bridge the gap and build meaningful relationships with their customers by adopting not just an omnichannel approach, but also a digital one.

RESEARCH SCOPE

Tofugear, in partnership with Wirecard, has conducted a study on the adoption and habits of Hong Kong consumers utilising digital payments during online and offline shopping. The study looks into popular payment methods used in Hong Kong, as well as the motivations and barriers towards using digital wallets.

CONSUMER

The consumer survey was carried out in Hong Kong in March and April 2019, with the total number of respondents standing at 1,000. Among those, 97% were native Hong Kongers, with the remainder being expats from Mainland China and elsewhere. Following Tofugear's previous Digital Consumer in Asia report, the research has continued to focus on three generations, defined as Gen Z (born 1997-2012), millennials (1981-1996) and Gen X (1965-1980).

As this was a study into consumer purchasing behaviour, only Gen Z consumers that are at least 15 years of age in 2019 were asked to take part. Gen Z consumers younger than that typically have less financial capabilities.

RETAILER

Aside from consumers' payment preferences, Tofugear also did a qualitative survey among 25 Hong Kong retailers operating across a vast range of sectors. This focused on which payment methods they offer in their physical and online operations, the motivations for incorporating digital wallet solutions as well as their future investment priorities in terms of payment technologies.

VENDOR

To complete this digital payments research study, selected local payment vendors were approached through a qualitative interview, to gain insight into the current landscape and to address the possibility of a future cashless society in Hong Kong. Interviewees were managerial delegates from Google Pay, O! ePay and TNG.

DEFINITION OF DIGITAL PAYMENTS

The term 'digital payments' includes a broad range of non-traditional payment methods including digital wallets, in-app payments, inter-bank transfers, stored value facilities (notably Octopus in the Hong Kong market) and others.

The Hong Kong Monetary Authority (HKMA) defines stored value facilities (SVFs) as a monetary value that is stored in a facility or paid into from time to time (eg through top-up). In addition, payments to another person (such as peer-to-peer payments) are also within the definition of a SVF. The term covers those that are device-based (stored physically) and non-device based (stored on a network).

In Hong Kong, the HKMA has granted 16 organisations with SVF licenses as of March 2019. At the time of writing this report, the following digital wallets are in use: AlipayHK, Apple Pay, Google Pay, O! ePay, PayMe, PayPal, Samsung Pay, Tap&Go, TNG and WeChat Pay.

HIGHLIGHTS: THE HONG KONG CONSUMER

Most popular digital wallets:

AlipayHK

WeChat
Pay

PayPal

9/10

SHOPPERS HAVE
USED DIGITAL
WALLETS IN THE
PAST YEAR

1

2

3

Top three payment methods
in-store:



88%
Cash



85%
Octopus



81%
Credit Cards



Top three payment methods
online:



82%
Credit Cards

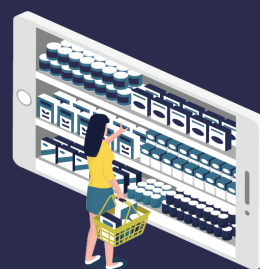


55%
Digital Wallets



24%
Cash on Delivery

A typical Hong Konger uses a
digital wallet **2-3** times a week



They are most likely
to use mobile payments in
**supermarkets or
convenience stores**

Two-thirds use digital
wallets for fast checkout



THE HONG KONG PAYMENTS MARKET

KEY FINDINGS

- Cash is still the main payment method in stores, but Hong Kong consumers also widely use Octopus, credit card and digital wallet payments
- Millennials are more likely to use digital wallets, but higher adoption rates are also linked to higher education and income levels
- Credit cards are the main payment method for online transactions, but cash on delivery resonates most with Gen Z shoppers
- Hong Kong retailers offer a wide range of payment options in store, but have yet to extend this to their ecommerce sites



With the launch of the Octopus stored value card in 1997, Hong Kong was considered a front runner when it came to payments. This contactless card was originally meant for MTR payments, but was soon adopted by retailers – in fact the value of retail payments now exceeds that of transport.

Octopus cards are currently used by 99% of Hong Kongers aged 15 to 64, with over 35 million cards in circulation in 2019. However, the immense popularity of Octopus might also have been Hong Kong's downfall in terms of payments innovation, with many shoppers seeing little need to adopt new payment methods beyond cash and Octopus payments.

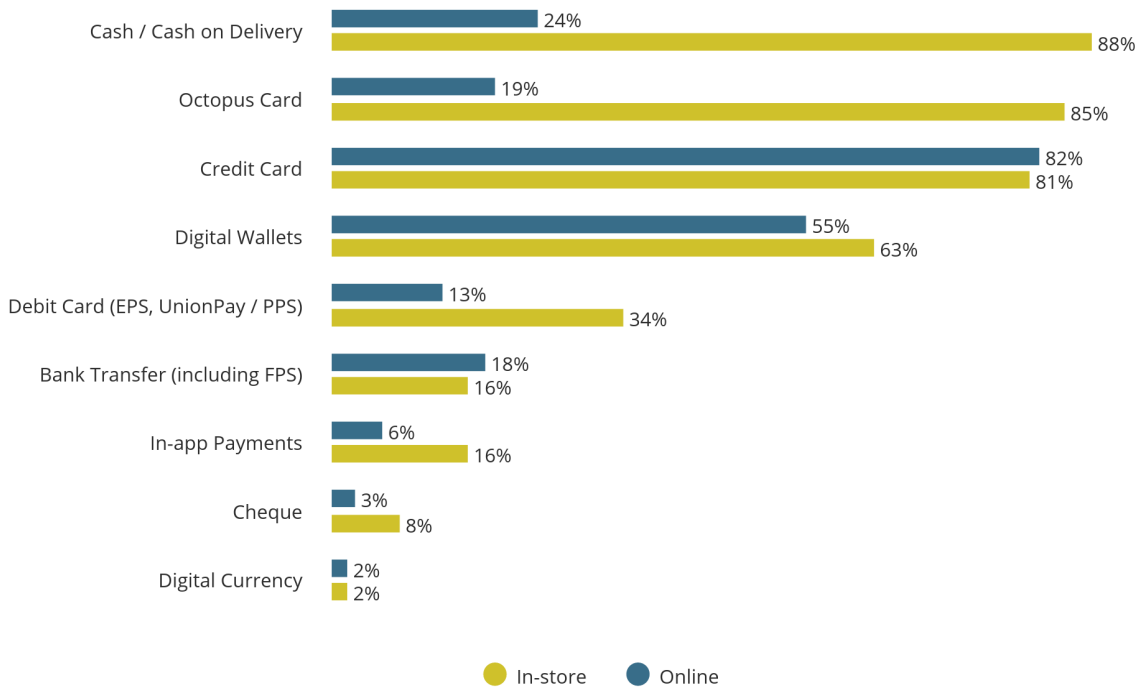
Rita Li, sales and marketing director at Octopus Cards, says: "Because consumers are satisfied with the convenience and the ease of use of Octopus cards, there are perhaps fewer driving forces for them to switch to another payment method."

GOVERNMENT SUPPORT

The experience of Hong Kong stands in stark contrast to Mainland China, where many consumers did not have access to traditional payment cards and widely adopted mobile payment methods, predominately from technology giants Alibaba (Alipay) and Tencent (WeChat Pay).

That said, the Hong Kong government has sought to reassert itself as a digital payments leader in recent years, with the Hong Kong Monetary Authority awarding its first 'stored-value facilities' (SVF) licenses in 2016. In April 2019, 13 companies hold SVF licenses, while three banks have also been awarded licenses. As noted in this report's research scope, there are currently ten digital wallet providers active in the Hong Kong market.

PAYMENT METHODS USED IN-STORE AND ONLINE



CASH IS STILL KING IN STORES

When it comes to shopping in stores, cash is widely used in Hong Kong, with 88% saying that they use this payment method when shopping in stores. This is closely followed by Octopus (85%) and credit card (81%) payments.

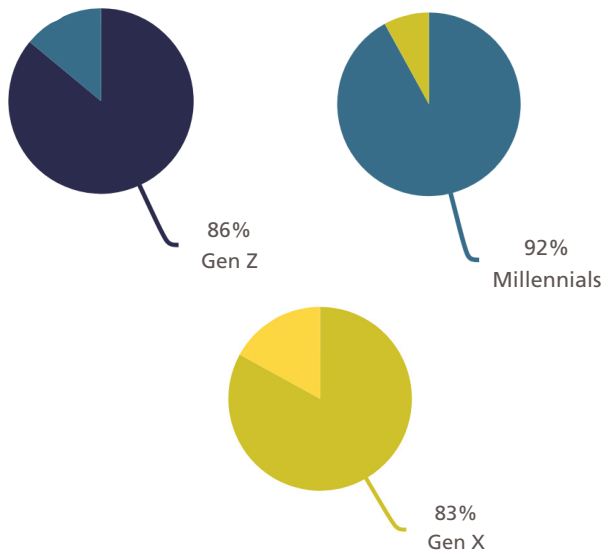
There is a generational divide though: usage rates of credit cards are significantly lower for the youngest Gen Z consumers. This is understandable: to qualify for a credit card, one must be at least 18 years of age along with salary requirements.

This trend is also visible when it comes to ecommerce payments. While credit cards are used for online transactions by just under 90% of millennial and Gen X consumers, that percentage falls to 63% for Gen Z.

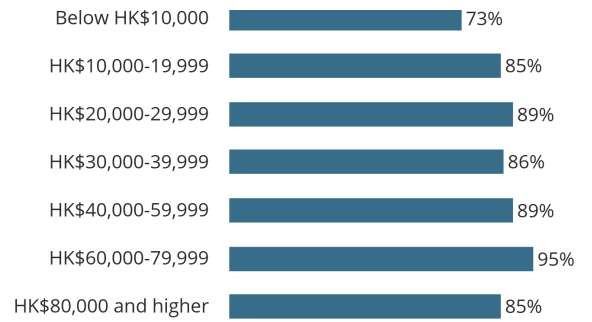
At the same time, cash on delivery and digital wallets are a much more popular payment method for this youngest demographic. This is also tied into the popularity of using 'personal sellers' on social media by Gen Z consumers, with such transactions often paid for via cash on delivery or P2P transfers.

PERCENTAGE OF DIGITAL WALLET USERS AMONG SELECTED DEMOGRAPHIC GROUPS

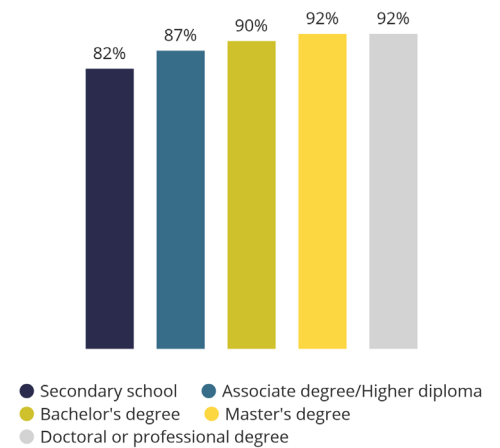
GENERATION



MONTHLY HOUSEHOLD INCOME



EDUCATION LEVEL



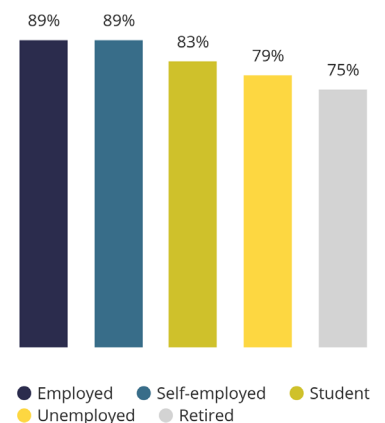
...BUT VAST MAJORITY ALSO USE DIGITAL WALLETS

Hong Kongers have not been afraid to try new payment methods, with nearly nine in ten consumers having used a digital wallet such as AlipayHK or PayMe over the past year. However, that does not necessarily mean that these wallets get used regularly, as only 63% of respondents said that they use digital wallets for in-store transactions, while 55% do so for online payments.

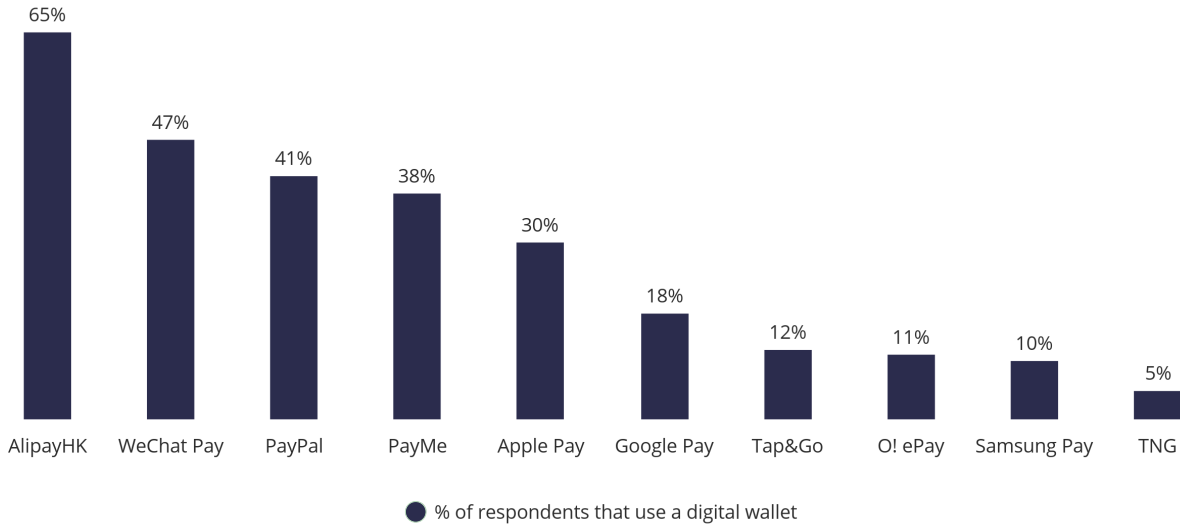
When looking at the demographics of those consumers who say they have used digital wallets over the past year, the following conclusions can be drawn:

- Millennials are most likely to use digital wallets, but adoption among Gen Z and Gen X consumers are also high
- Higher levels of household income are generally linked to higher usage rates, with the exception of the very highest income group (monthly income of over HK\$80,000)
- Those with higher education levels are more likely to have used digital wallets over the past 12 months
- Usage among employed and self-employed stands at similar levels, ahead of students and the unemployed

EMPLOYMENT STATUS



DIGITAL WALLET USAGE RATES



ALIPAYHK IS THE MOST POPULAR DIGITAL WALLET, AHEAD OF WECHAT PAY AND PAYPAL

AlipayHK is the clear market leader in Hong Kong, with two in three consumers using this digital wallet when shopping – either in-store or online. AlipayHK is followed by some distance by WeChat Pay (47%) and PayPal (41%). It could be argued that WeChat Pay has been less aggressive in targeting new users through promotional activity than AlipayHK and this has perhaps impacted its user numbers. There are actually not many retailers that accept PayPal in physical stores, so this payment method will be primarily used for online transactions.

The P2P wallet PayMe is used by 38% of all Hong Kongers. It is currently also not accepted by many retailers

and mainly used by Hong Kongers to make payments to individuals, for instance, when splitting the bill when eating out or paying a personal seller on social media. However, HSBC launched PayMe for Business in early 2019, allowing small businesses to officially start accepting digital payments using only their mobile phones. Limits on the amounts of transactions have also been raised, so this type of payment is likely to gain traction over the coming year.

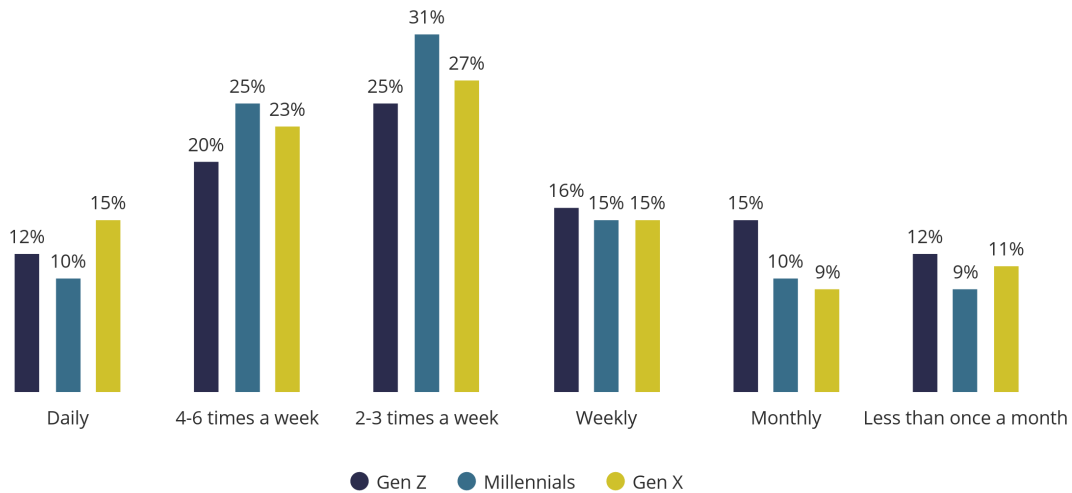
Narrowing in on the device wallets in particular, Apple Pay is the most popular service and is used by 30% of all consumers ahead of Google Pay (18%) and Samsung Pay (10%). Google Pay has of course an advantage over Samsung Pay in that it can serve all Android phones, whereas Samsung is restricted to its own devices. It should be noted that both Apple Pay and Google Pay can

also be used in certain web browsers on computers or Macs.

While Hong Kong-based TNG comes in last place, it should be noted that they target the unbanked populations around the world, and in Hong Kong is primarily used by foreign domestic helpers for remittances.

Alex Kong, founder and CEO of TNG FinTech Group, says: "We are not targeting the mass market, but rather domestic helpers and foreign workers who are unable to open bank accounts or have problems sending money home."

FREQUENCY OF USING DIGITAL WALLETS BY GENERATION



CORE OF HEAVY DIGITAL WALLET USERS

A typical Hong Konger will use a digital wallet two to three times a week. However, around one in three consumers can be classified as heavy users, using them at least four to six times a week.

This group of frequent users is split approximately evenly between Gen Z, millennials and Gen X – perhaps slightly surprising as one would expect higher usage levels among the more digitally-savvy Gen Z and millennial segments. This underlines that the convenience provided by digital wallets appeals to consumers regardless of age.

INNOVATION IN BANKING – FPS

Hong Kong's banking system – which at times may seem archaic when compared to the more seamless and customer-oriented services offered in other countries – has been shaken up by the launch of the Faster Payment System (FPS) in September 2018.

FPS allows customers to make and receive real-time payments by connecting banks and stored value facility (SVF) operators onto the same platform. Prior to its launch, a bank transfer between individuals using different financial institutions could take days and could have incurred charges.

The implications of this payment system will go beyond just transfers between individuals. Some businesses in Hong Kong have started to accept FPS as a payment method. At the same time, it has become possible to top up some digital wallets such as AlipayHK with FPS – an interesting option for younger consumers that lack a credit card and might otherwise have to venture to a 7-Eleven to top up their wallets.



HOW ARE RETAILERS ADAPTING TO CONSUMER TRENDS?

For this report, Tofugear and Wirecard surveyed retailers in Hong Kong to find out more about their payment strategies. For those retailers that operate physical stores, it appears that they are responding to the need for flexible payment options, although focusing on five methods: cash, credit cards, debit cards, Octopus card and digital wallets.

Only around a quarter of respondents stated that they accepted Octopus cards in their stores, but many respondents to the survey were active in sectors such as fashion and jewellery where acceptance of Octopus payments is not as widespread.

When it comes to online payments, the number of options offered is significantly less with most retailers focusing on credit card payments. This is striking given the popularity of payment methods such as digital wallets and cash on delivery.

Only one in 20 retailers offered a cash on delivery option, however, some retailers may outsource this element

ZALORA'S EXPERIENCE WITH CASH ON DELIVERY

Fashion retailer Zalora, which is active across eight markets in Southeast Asia, has offered a cash on delivery option in Hong Kong since its launch in 2012. Giovanni Musillo, general manager of Zalora in Hong Kong, says: "Given the geography of our business, we had to adapt and offer relevant payment methods for each market."

The reasons for offering cash on delivery in Hong Kong were two-fold. Musillo comments: "Cash on delivery helps to instill a sense of security in a customer that is new to ecommerce or to our company. There are some customers that prefer to pay only upon receiving the goods, and cash on delivery for sure provides that sense of security."

Another major factor behind this payment method was to target younger customers that may not have a credit card. While Zalora's core segment is consumers aged between 25 to 35 years old, its customer base spans a wide spectrum and it is important to cater to all.

As uncovered in this report, 35% of consumers aged 15 to 22 use cash on delivery when they shop online. This compares to only 15% for older Gen X shoppers.

to their fulfilment partners such as SF Express. Retailers should take note of the consumer preferences uncovered in this report as this is an area that could have real impact on conversion rates of their ecommerce operations.



CONSUMER ATTITUDES TOWARDS DIGITAL WALLETS

KEY FINDINGS

- Food retail and restaurants are the most popular places where digital wallets are used
- Four in five consumers restrict the use of mobile payments to transactions below HK\$500
- Impatient and incentive-driven Hong Kongers primarily turn to digital wallets for speed of transaction and discounts
- Nine in ten retailers offer mobile payments due to consumer demand, while catering to Mainland Chinese consumers is also an important consideration

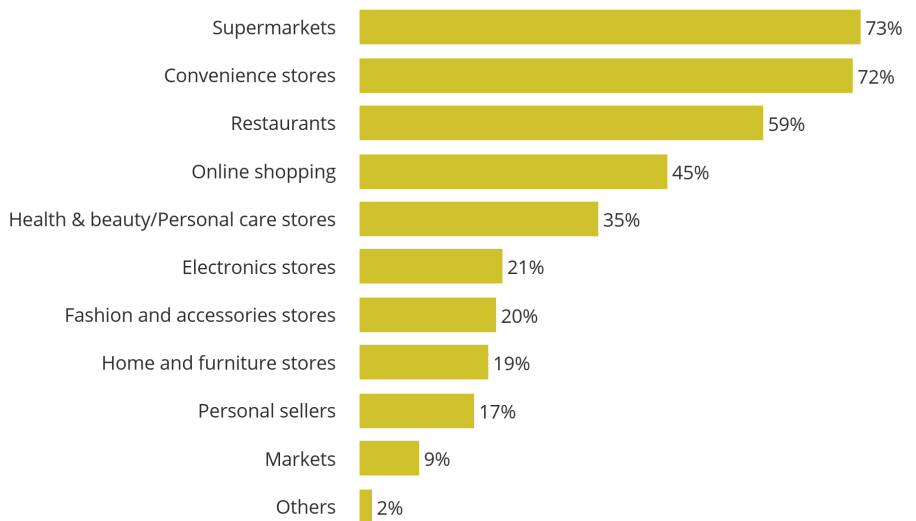


Digital wallets are used out of convenience as the consumer grows increasingly reliant on their smartphones, conducting almost, if not all, tasks natively through mobile. However, Hong Kongers are more likely to use digital wallets in some establishments than others.

The main places where consumers pay through digital wallets are supermarkets (73%) and convenience stores (72%), while restaurants come in third place. Perhaps not coincidentally, these are also the types of places that consumers will visit most frequently on a day-to-day basis.

As one of the world's culinary capitals, Hong Kong is home to over 14,000 licensed restaurants according to the Census and Statistics Department. Sales generated in 2018 from restaurants were valued at HK\$120 billion, with an increase of 6% in value over the year, highlighting Hong Kong's never-ending appetite for dining out.

SHOPPING JOURNEYS WHERE CONSUMERS USE A DIGITAL WALLET



This is in addition to the widespread practice of making daily trips to buy groceries, as opposed to the West where a weekly shop still remains relatively popular. This type of behaviour – as well as the average transaction values in such establishments – will naturally drive up the usage of digital wallets.

CASH RULES AT LOCAL MARKETS

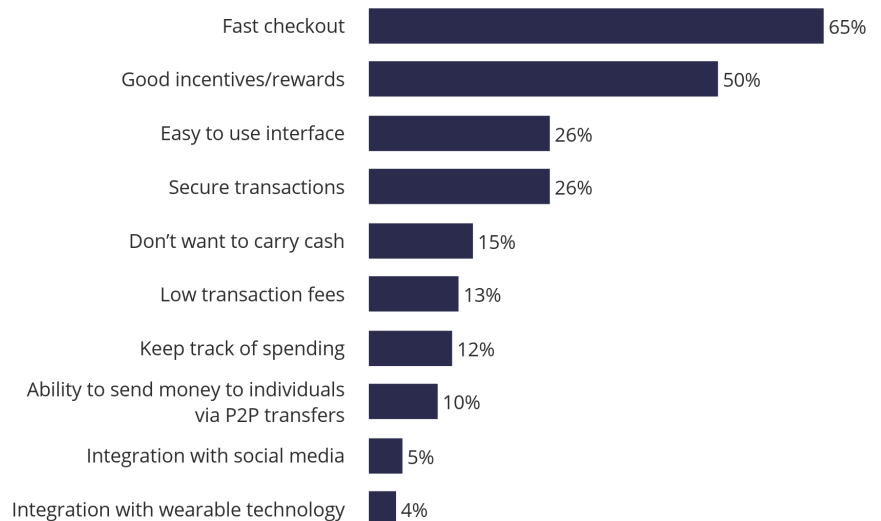
Yet, when it comes to local markets, cash is still very much king, with only one in ten consumers using digital wallets at such locations. The root cause of this will be that small merchants do not have suitable infrastructure set up to receive digital payments. They will also have resistance to paying transaction fees, which will cut their tight margins further.

However, in refurbished and more modern local wet markets, merchants have become more open to accepting digital payments, supported by digital wallet vendors such as AlipayHK.

DEMAND FOR CONVENIENCE IN RETAIL

Tofugear research conducted in 2018 found that over half of all Hong Kong consumers are frustrated by long checkout queues in-store – no doubt driven by their impatient nature, certainly when compared to the average Asian consumer. In fact, two in five Hong Kongers would abandon their shopping in-store and purchase online instead due to the long checkout queues.

REASONS FOR USING DIGITAL WALLETS OVER OTHER PAYMENT METHODS

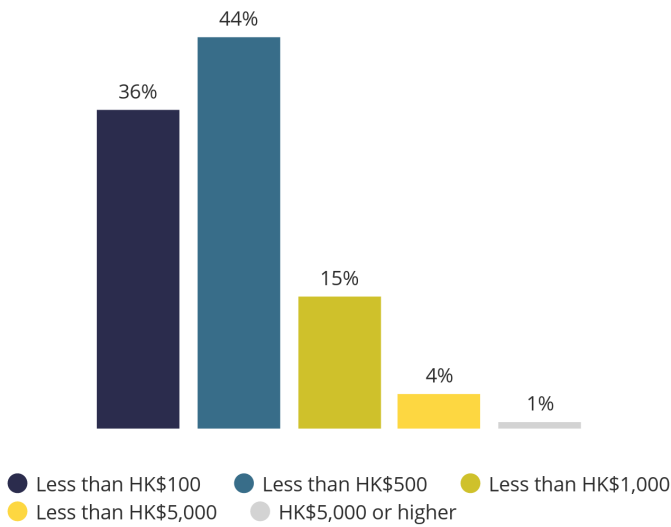


Thus, it is unsurprising that the top reason for using digital wallets is due to their ability to speed up the checkout process. Two-thirds of consumers attributed their use to this reason – but Gen Z consumers in particular (77%) favour digital wallets for this factor.

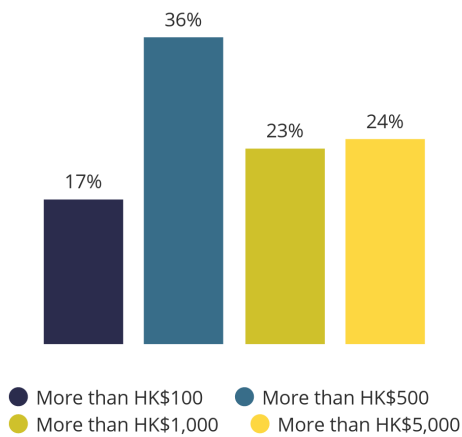
Meanwhile, half of all consumers are lured by incentives and

rewards. AlipayHK in particular has widely used this method to drive up usage, for instance by offering discounts for making payments at convenience stores or at McDonald's. Interestingly, Gen X are most motivated by such incentives, perhaps because they are more cautious with their spending having lived through tougher economic times.

TRANSACTION LEVELS AT WHICH DIGITAL WALLETS ARE MOST FREQUENTLY USED



TRANSACTION LEVELS AT WHICH CONSUMERS WILL STOP USING DIGITAL WALLETS

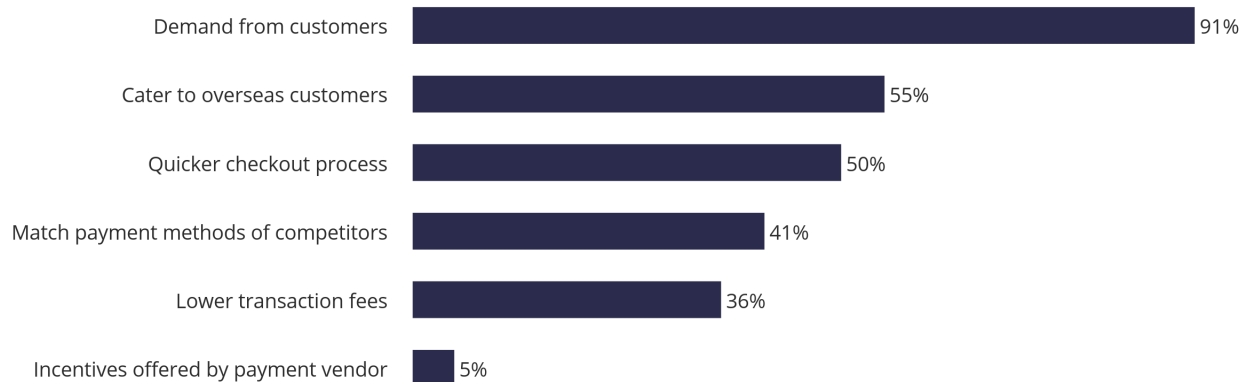


DISRUPTIVE CONSUMER BEHAVIOUR COMES AT A PRICE

Certain transaction levels are more suited to digital wallet payments than others. The most popular price point are transactions of less than HK\$500, with four in five consumers regularly using mobile payments at these levels. This can be attributed to convenience and speed being arguably more important at lower price points than for big ticket purchases, as well as the incentives provided by digital wallet vendors.

However, there are also psychological barriers to how much a consumer is willing to spend through a digital wallet. For example, 36% of consumers will refrain from using a digital wallet at purchases of over HK\$500, while a quarter will stop when the receipt reaches over HK\$1,000 and HK\$5,000 respectively. This can also be attributed to Hong Kongers preference for using credit cards for their incentives, most popularly airline mileage-based ones.

MOTIVATIONS FOR RETAILERS TO START ACCEPTING NEW DIGITAL WALLETS



TOP REASONS WHY RETAILERS ARE CATERING TO DIGITAL WALLETS

Tofugear and Wirecard have also surveyed Hong Kong retailers, to find out more about their payment strategies. In line with the rising popularity of mobile payments, 90% of retailers pointed out that the top reason for adding new vendors is indeed due to the demand from consumers. One in two retailers have also implemented digital wallets as a way to improve efficiency at the tills and eradicate customer pain points.

Meanwhile, over half of all retailers have also added new digital wallets to cater to the needs of overseas customers, primarily Mainland China tourists. Others were compelled to

extend their payment offering in response to their competitors, on top of the low transaction fees and incentives offered by the vendors themselves.

Interestingly, O! ePay, a digital wallet launched by Octopus, does the opposite of this and has avoided getting involved in a price war with other payment vendors as incentives are seen as being ineffective at creating sustained customer usage.

Rita Li, sales and marketing director at Octopus Card, clarifies: "We want to invest our money into developing products and services that are really relevant to our customers. We think that our brand and the user experience are more sustainable ways to do this rather than incentives."

O! ePay does this through the value added services it offers. For instance, users that have an NFC-enabled phone are able to top up their Octopus cards, while O! ePay has also started offering a virtual Mastercard that can be used to make online purchases for those customers that do not have a regular credit card.

Alex Kong, founder and CEO of TNG FinTech Group, reiterates that incentives do not create loyal customers. He says: "I believe the moment the rebates stop, people stop using a digital wallet. They will go back to using Visa or Mastercard because they can earn loyalty points and they have 45 days insurance cover."

BARRIERS IMPACTING DIGITAL WALLET USAGE

KEY FINDINGS

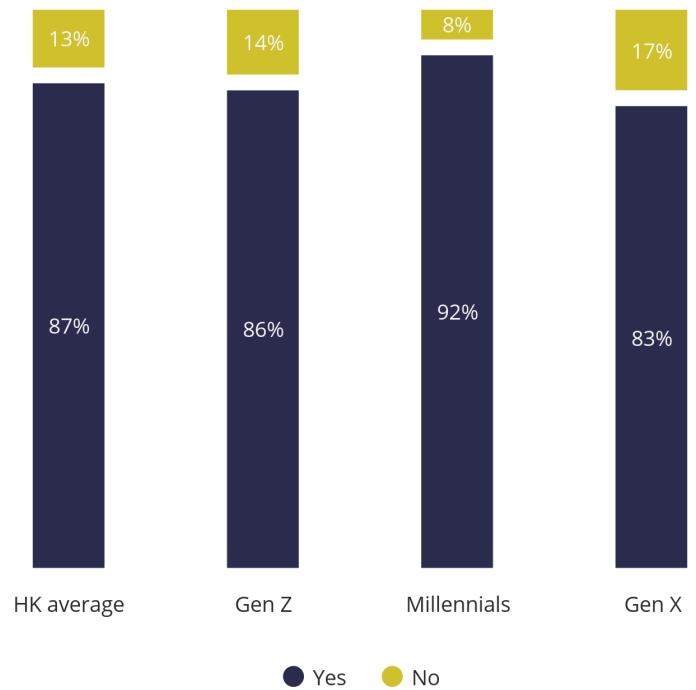
- Millennials have least concerns about using digital wallets
- Top barriers to making more mobile payments are security and privacy issues, driven by well-informed Gen Z and cautious Gen X consumers
- One in two non-digital wallet users say they are already content with current payment methods
- Lack of credit card ownership by Gen Z holds back digital wallet usage



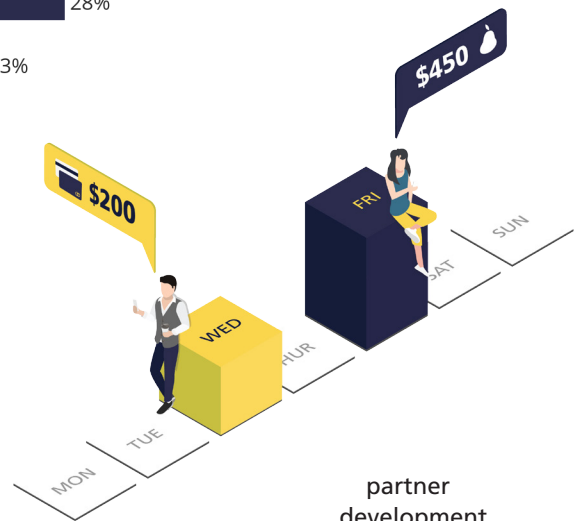
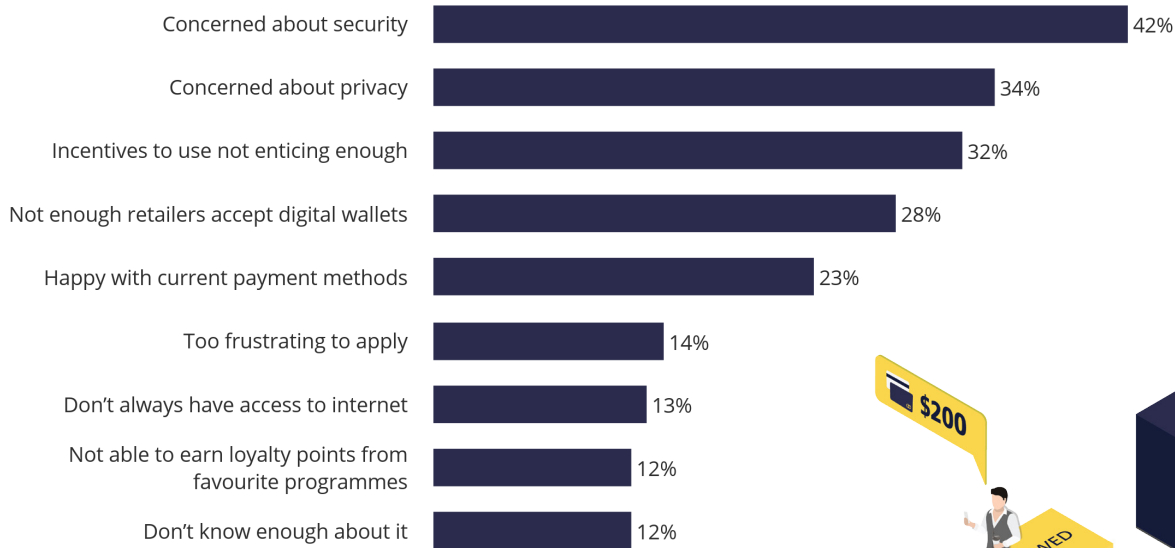
Despite the popularity of digital wallets in Hong Kong, it is important to note that there is a subset of consumers that have not adopted this payment method over the past year. Around one in ten millennial consumers (8%) refrain from paying with digital wallets, but this percentage is higher for Gen Z (14%) and Gen X (17%) consumers.

The main reason for not adopting digital wallets is security concerns (57%). But other factors are at play too: a quarter of Gen Z consumers attribute their non-usage to a lack of credit card ownership – thus the inability to create digital wallet accounts. Others say they do not know enough about digital wallets to proceed.

HAVE USED DIGITAL WALLETS IN THE PAST YEAR



REASONS THAT PREVENT INCREASED USAGE OF DIGITAL WALLETS



WHAT HOLDS BACK MOBILE PAYMENTS?

Among the respondents that have used digital wallets, there are also barriers that prevent them from using this payment method more. Previously in this report, it was found that a third of consumers will choose an alternative payment method for purchases of over HK\$500, as smaller transactions are perceived to be less risky. In addition, around a third may switch to other payment methods because of monetary incentives (eg mileage or reward points) – Gen X-ers being more influenced by this factor than others.

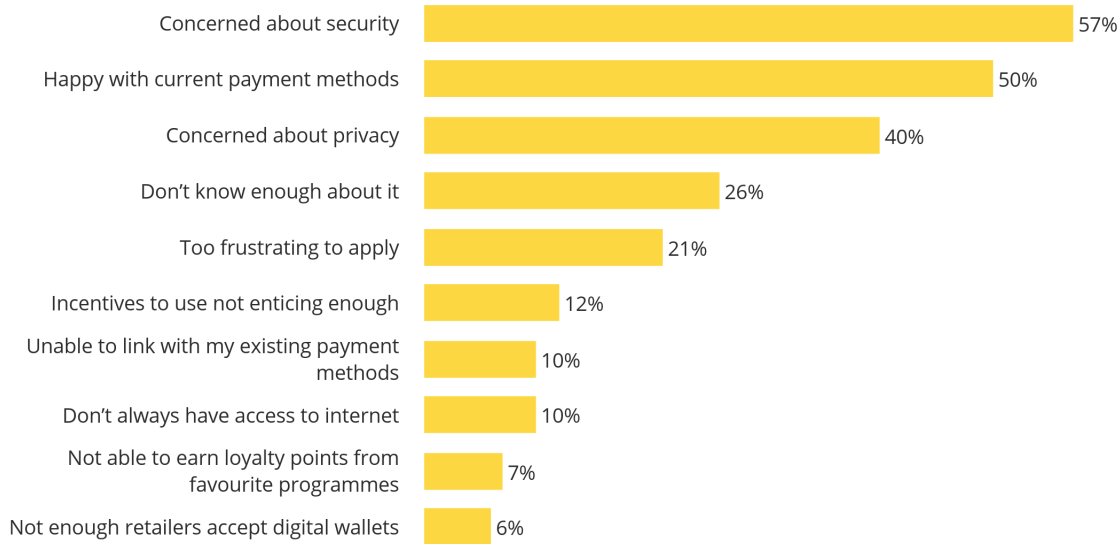
Aside from this, 42% of respondents stated that they have concerns about security and 34% are worried about privacy. Amber Zhong, strategic

partner development manager of Google

Pay confirms this. She says: "Security concerns are the top barrier for consumers – they are worried about losing their money if they lose their phone. That is why most people in Hong Kong prefer cash."

Security concerns have risen to prominence in Hong Kong since the launch of digital wallets and subsequently FPS payments, after several fraudulent cases with unauthorised fund transfers and stolen personal data were exposed. The most high profile case was HSBC's PayMe, where accounts were compromised because of ineffective security measures – thus hindering continued usage and support locally.

REASONS FOR NOT ADOPTING DIGITAL WALLETS

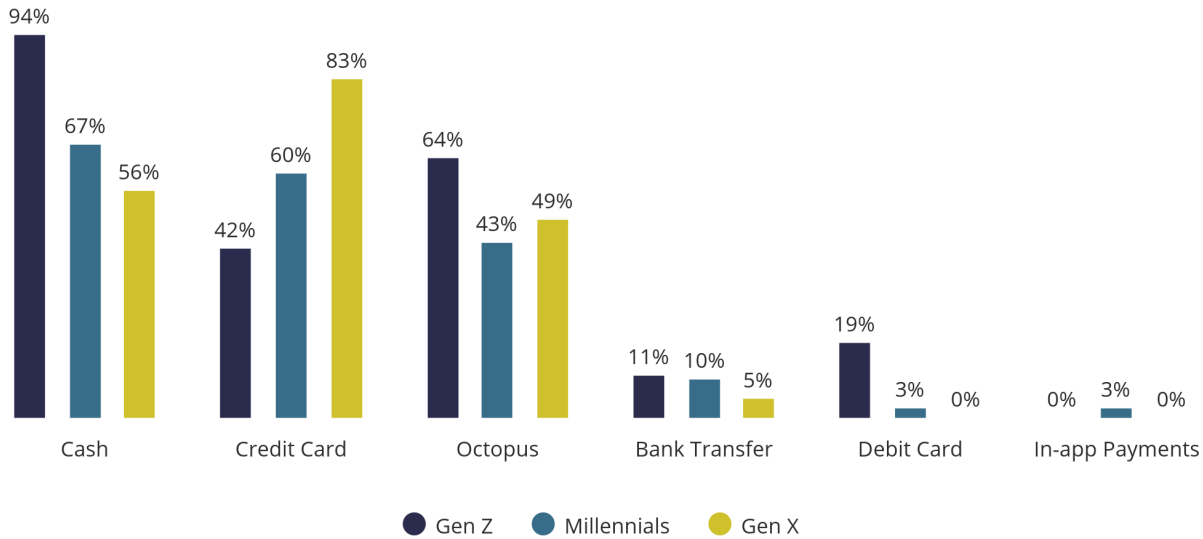


CONVERTING THE NON-BELIEVERS

What about those that have yet to use digital wallets? Cash, credit card and Octopus payments are unsurprisingly the top choice for this group, with half stating that they are already happy with the current payment methods that they are using. Zhong confirms that it is difficult to get consumers to switch to new methods. She says: "People don't switch, but it's all about addressing pain points for consumers in order for them to change their purchasing behaviour."

The reality is that Hong Kong is being compelled to advance itself into a smart city and shed its archaic payment preferences. The government and the HKMA continue to aggressively promote the use of digital banking and digital wallets, joining forces with vendors to incentivise consumers in order to meet their demands and provide solutions to the current traditional system. The recent launch of the Greater Bay megalopolis not only pushes forward the need to cater to increasing numbers of Mainland Chinese visitors and migrants, it also brings about many opportunities for Hong Kong to advance its payment infrastructure and bring in on the same playing field as its counterpart across the border.

PREFERRED PAYMENT METHODS WHEN SHOPPING BY NON-DIGITAL WALLET USERS



TACKLING THE UNBANKED POPULATION

Gen Z consumers prolifically pay with cash and Octopus card more than other non-digital wallet users clearly due to a lack of credit card ownership. To address this, digital wallet vendors O! ePay and TNG have launched virtual prepaid credit cards in partnership with Mastercard that can be used to make online purchases.

Since these are prepaid cards, application requirements are more lenient (eg minimum age requirement is 11 years old). Traditional credit cards typically require users to be over 18 and provide proof of employment.

Rita Li, sales and marketing director of Octopus comments: "Our partnership with Mastercard is a very important step because that will help us to facilitate global online shopping. That is exactly why we are targeting young consumers."

According to previous research by Tofugear, one in four Hong Kongers frequently purchase from personal sellers online – small merchants from Facebook, Instagram etc. – which raises the question of how transactions are processed without proper infrastructure. From the days of Yahoo! Auction and exchanging for cash in MTR stations, online shopping with direct sellers in Hong Kong has shifted to either P2P payments facilitated by instant messaging or a more mature ecommerce model through a proper website.

WHY RETAILERS STRUGGLE TO OFFER MORE PAYMENT OPTIONS

Through Tofugear and Wirecard's survey of Hong Kong retailers it was found that the vast majority of retailers (86%) accept digital wallets in-store, but only a quarter of retailers will do so online. Small merchants and personal sellers have also expressed that digital wallet payments incur high transaction fees in comparison to cash payments and P2P payments, which are free.

Another barrier for retailers to cater to consumer demand for digital wallet payments is the need for additional organisational resources. When asking fashion retailer Zalora about this matter, Giovanni Musillo, general manager of Zalora in Hong Kong, states that it is not only a case of getting a payment gateway to agree to add new vendors.

He says: "We're working with a payment gateway that offers flexibility. However, that's not all. You also need to study the benefits and of course, the bandwidth of manpower that you would need in order to implement a new payment method."



CLASSIC COMMERCE: PAYMENT BY BANK TRANSFER

Rick Lam and Irene Yeung are 25-year-old shop owners of SKYMART, which operates on Instagram with 124,000 followers and average monthly sales of HK\$0.9 million. Known for its well-curated Korean-esque athleisure merchandise, nine out of ten shoppers are young female consumers.

What started off as a daigou business on Instagram during their third year of university, has blossomed into a fully-fledged omnichannel retail model in the span of four years, complete with an ecommerce channel and a brick-and-mortar store nestled in Kwun Tong.

Four years ago, when ecommerce was still in its early days in Hong Kong, Instagram became one of the easiest channels to sell products directly, with cash and bank transfers the main payment methods. Meet-ups at MTR stations was the primary delivery method. However, with SKYMART's expansion online and offline, it has begun to broaden its payment methods as well as extend its logistics solutions – responding to the demands for convenience from its growing customer base.

Gen Z and late millennials are its core target market, with an average transaction value of HK\$300-400 per sale. These customers prefer to place orders through more personal channels such as WhatsApp or Instagram Direct Message, followed by collection in-store because it is free and they can pick up a few extra pieces during their visit as well.

Credit card penetration with this demographic is low and as a result bank transfer and P2P payments are the most popular payment methods. This has been made much easier since the launch of FPS and HSBC's PayMe. However, Lam and Yeung both highly favour bank transfers and other digital wallets because there are limited or no transaction fees and incentivised discounts, as opposed to PayMe, which froze SKYMART's accounts for receiving too many transactions.

THE FUTURE OF PAYMENTS IN HONG KONG

KEY FINDINGS

- Shoppers who are not yet using digital wallets are unlikely to do so over the next six months
- The ideal online payment experience should be secure and offer low or no transaction fees
- Payment technologies that consumers want to engage with most are self-checkout technology and mobile POS
- Hong Kong is moving towards a future with multiple payment options rather than a fully cashless society



No one will deny that the payments landscape in Hong Kong has undergone an enormous amount of change over the past few years. Major developments have included the emergence of digital wallets and the launch of the Faster Payments System (FPS), offering much more convenience to consumers as they go about their daily lives.

While Hong Kong is arguably still lagging behind markets such as Singapore and Australia when it comes to the adoption of new smart payment technology, the consumer research that was conducted for this report points to a consumer that is willing to adopt new technologies.



FUTURE PAYMENT INTENTIONS

Hong Kong consumers that use digital wallets are convinced of their benefits and in many cases have already found the applications where they find it most useful. As a result, nearly two-thirds of all respondents that use digital wallets indicated that their usage levels will remain unchanged over the coming six months, while just 6% said they will decrease their usage.

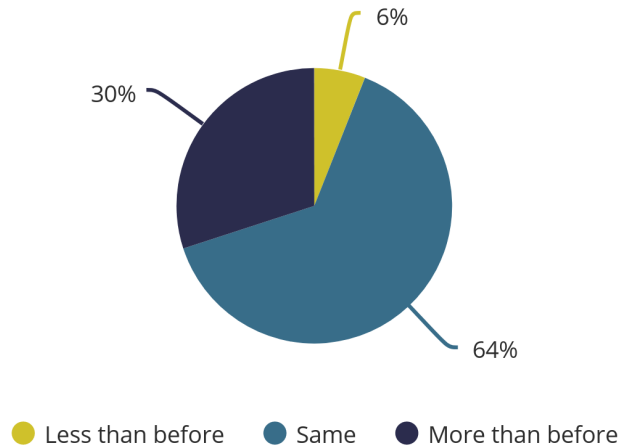
Meanwhile, 30% expect to increase their usage – perhaps as they expect more retailers to accept their preferred digital wallets, or because they anticipate further incentives from payment vendors to encourage usage. As noted elsewhere in this report, incentives and rewards are one of the most important motivations for consumers to opt for certain digital wallets.

However, it remains the question whether incentives really help to create loyal customers. Rita Li, sales and marketing director at Octopus Cards, says: "We see that monetary incentives [by payment vendors] can be short-lived and they are not sustainable. By burning cash, you will not be able to build customer loyalty and create 'stickiness'."

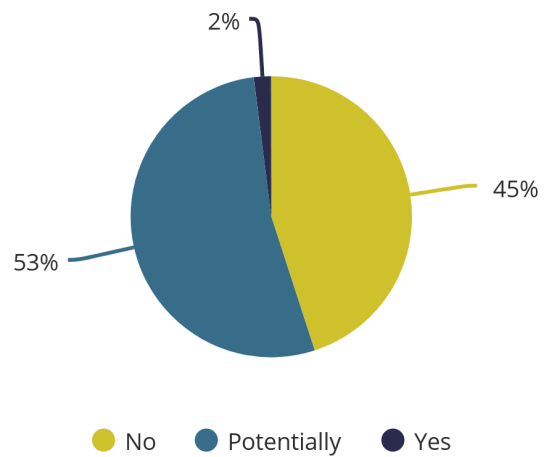
More needs to be done to convince shoppers who are not yet using digital wallets. Only 2% of this segment say they plan to use digital wallets in the next half year, while nearly half are ruling it out altogether.

Initiatives should come from both the payment vendors as well as the government. For instance, security concerns are a major barrier to adoption and this is an area where the HKMA could step in to allay consumer concerns. Payment vendors could also do more to explain the benefits of their payment methods, for instance the ability to keep track of spending or added services such as P2P payments.

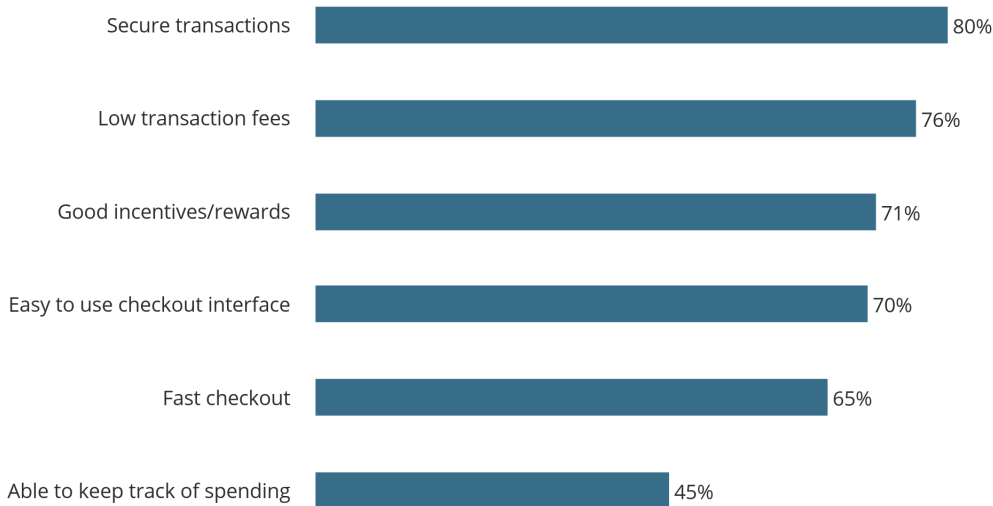
PLANNED DIGITAL WALLET USAGE IN NEXT SIX MONTHS BY CURRENT USERS



PLANNED DIGITAL WALLET USAGE IN NEXT SIX MONTHS BY NON-USERS



WHAT MAKES A GOOD ONLINE PAYMENT EXPERIENCE



PERFECTING THE ONLINE PAYMENT PROCESS

Consumer expectations have risen dramatically in recent years and this extends to their online shopping preferences. Respondents to the consumer survey were asked what they considered to be the most important factors to a good online payment experience. As seen elsewhere in this report, security is of paramount importance and was mentioned by four out of five respondents.

But consumers are also motivated by monetary considerations and cite low transaction fees or good incentives or rewards for valuing an online payment experience. Some ecommerce sites may charge extra for certain payment methods such as American Express and this is something that Hong Kong consumers are keen to avoid. Similarly, they value ecommerce sites with an easy to use checkout interface.

IN-STORE PAYMENT TECHNOLOGIES

The payment experience in stores can also be a pain point for shoppers. In fact, research conducted by Tofugear in late 2018 revealed that around half of all consumers in Hong Kong find long checkout queues to be one of the main frustrations of shopping in physical stores.

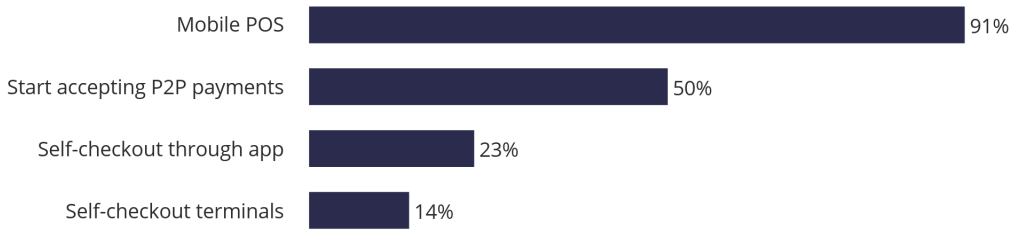
Retailers in Hong Kong are evidently aware of how this can sour the customer experience as a survey held by Tofugear and Wirecard found that mobile POS is the number one investment priority for Hong Kong retailers over the next two years. This is exactly the type of technology that could alleviate the problem of long queues as transactions can be made anywhere in the store.

Self-checkout technologies such as terminals or scan-and-go apps also proved to be popular investment areas, but the second biggest priority was in fact to start accepting P2P payments such as PayMe and potentially even Faster Payment System (FPS) transactions.

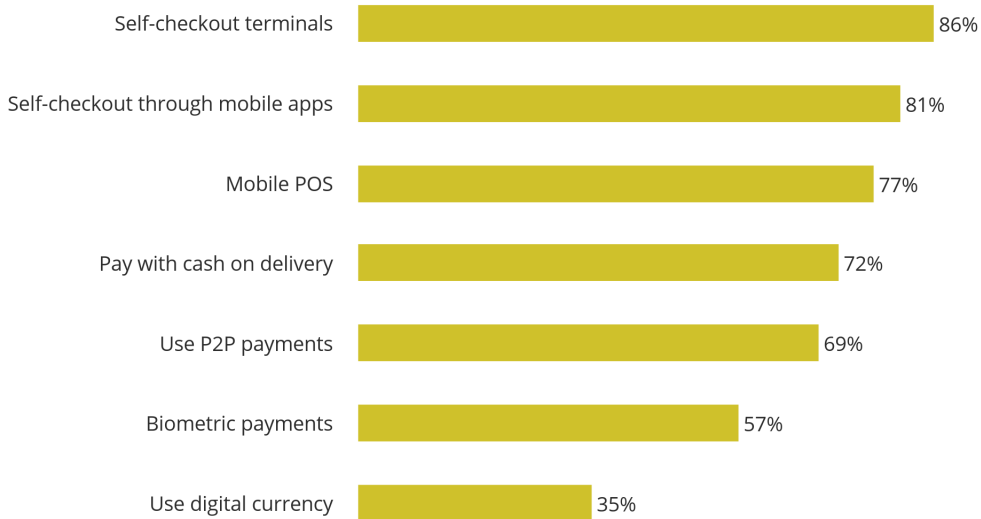
On the consumer side, payment technologies that consumers most want to engage with are self-checkout technology (either through terminals or a mobile app), followed by mobile tills.



TOP INVESTMENT PRIORITIES FOR RETAILERS OVER NEXT TWO YEARS



WHICH IN-STORE TECHNOLOGIES WOULD YOU USE





TASTE OF HONG KONG – A CASHLESS VISION OF THE FUTURE?

The Taste of Hong Kong festival – where visitors come to sample dishes from the city's best restaurants – offers an interesting glimpse of what a cashless future in Hong Kong could look like.

Over the last three years, the festival has been run on a cashless basis, with stands only accepting electronic payments. That said, cash can still be exchanged for digital tokens at a kiosk – so not all choices are eliminated.

Alex Choi, chief executive officer at BBPOS Merchant Services Limited – the business which provides the payment technology platform behind the event – says the benefits of this digital approach for both merchants and consumers are clear.

He says: "When you go cashless, you become queueless. However, the first year we started doing it the food serving queues were unable to keep up. We've since enhanced the system, so that the food is made fast enough for the payment system."

Merchants and organisers are also able to benefit from detailed data virtually as soon as the event is finished. Reports provided by MSL give detailed insight into transactions – how many, how much, which kind of payment methods – but also highlight the most popular stands and individual dishes.

While Taste of Hong Kong remains the only cashless festival in Hong Kong, Choi sees a definite trend away from cash. He says: "In other events we've worked at, the amount of cash received continues to go down on a year-by-year basis. Once consumers understand the simplicity of using digital payments, they will not go back to cash."

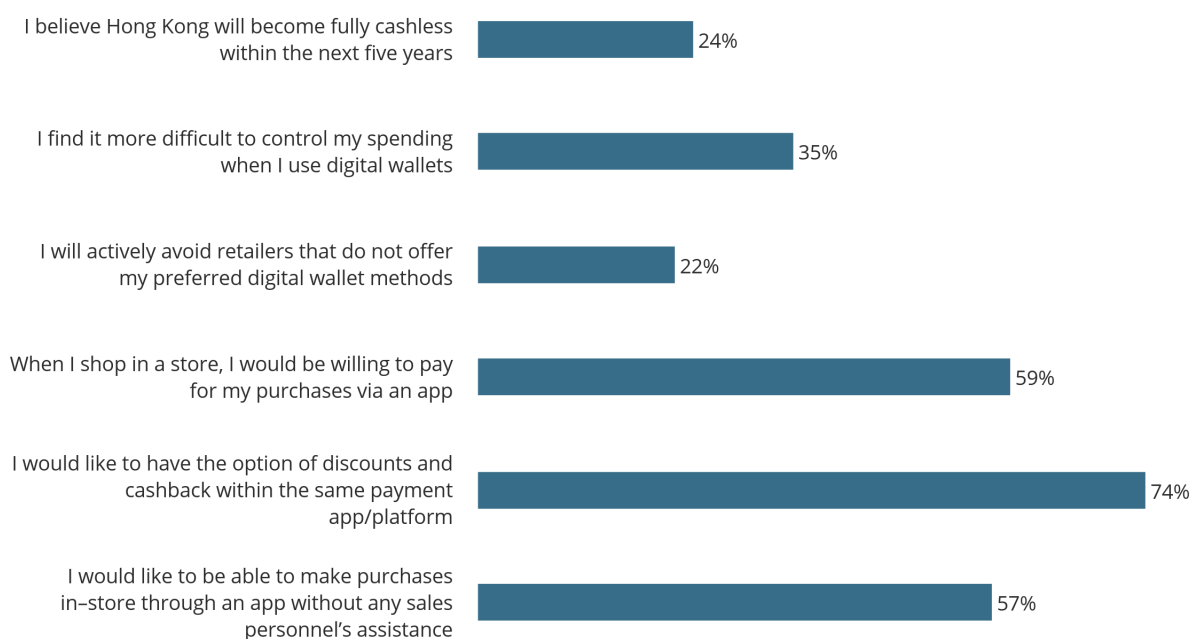
IS HONG KONG MOVING TOWARDS A CASHLESS SOCIETY?

With competition in the digital wallet market heating up, there has been much debate whether Hong Kong is finally starting to move towards a cashless society.

While a fully cashless society is still some way off, payment vendors do perceive that Hong Kong is moving in the right direction. Alex Choi, CEO at BBPOS Merchant Services Limited, says: "Hong Kong is moving towards a cashless society. In terms of progress, it is probably lagging a bit behind places like Australia or Singapore, but it is catching up fast."

Alex Kong, founder and CEO of TNG FinTech Group, suggests that if consumers in Hong Kong did want to become cashless, they could do that easily. He comments: "In Hong Kong, you can already be really cashless because you can survive with just an Octopus Card and Visa or Mastercard. You can go around anywhere with just card-based payments. That in itself is a digital payment."

CONSUMER ATTITUDES TOWARDS PAYMENTS



However, Rita Li, sales and marketing director at Octopus Cards warns that cash will still be around for some time to come. She says: "In the foreseeable future, cash is not something that you can totally displace. For certain consumers, cash is still very tangible and they are also quite sceptical in terms of adopting a new digital payment methods."

Consumers are also not convinced that Hong Kong will be fully cashless any time soon, with only one in four respondents stating that they believe this will happen within the next five years.

Indeed, Amber Zhong, strategic partner development manager at Google Pay, believes that Hong Kong still has a long path ahead to

transition from cash to mobile payments. For digital payment vendors, it will be critical to demonstrate the value that they can offer to their users. She comments: "We need to create deeper engagement with both merchants and consumers to provide a safer, richer, and faster payment experience."

The takeaway for retailers is that today's consumers in Hong Kong are using a wide range of payment methods to suit different purposes and shopping journeys. It is up to the retail industry to ensure that they offer enough options to provide the highest level of convenience to their customers.

ABOUT TOFUGEAR

Tofugear innovates continuously to bring value-added, customer-centric solutions to retailers and our partners. Our company aims to empower retailers to achieve more with less – together we strive to foster the transformation and growth of the retail ecosystem and provide the best value for customers.

Our Omnitech platform provides a cloud-based, globally scalable unified commerce system. This simple to start, ready to scale solution connects each customer touchpoint, streamlines every customer journey, aids decision making across the entire operation through a continuous feed of consumer data and insights, and ultimately helps retailers build stronger relationships with their customers.

Our team of retail experts and insight specialists provide our clients with a data-driven approach to help identify new opportunities, tackle emerging challenges and most importantly, achieve better outcomes with less resources and investment.

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ABOUT WIRECARD

Wirecard (GER:WDI) is one of the world's fastest growing digital platforms in the area of financial commerce. We provide both business customers and consumers with a constantly expanding ecosystem of real-time value-added services built around innovative digital payments by using an integrated B2B2C approach. This ecosystem concentrates on the areas payment & risk, retail & transaction banking, loyalty & couponing, data analytics & conversion rate enhancement in all sales channels (online, mobile, ePOS). Wirecard operates regulated financial institutions in several key markets, holds issuing and acquiring licenses from all major payment and card networks. Wirecard AG is listed on the Frankfurt Stock Exchange (DAX and TecDAX, ISIN DE0007472060).

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ABOUT RAKUTEN INSIGHT

Rakuten Insight is at the forefront of consumer market research data collection in Asia. Our online panels have been developed throughout 12 major Asian countries and regions, managed by dedicated local support teams and meet the highest standard of the industry. The team at Rakuten Insight offers 24-hour coverage from 10 worldwide locations, providing exceptional service for our over 400 clients across the globe. Rakuten Insight is tasked with leveraging the group membership assets of Rakuten for market research purposes. This gives us access to over 1 billion members of the Rakuten ecosystem. Access to a diverse and unique group of research participants sets us apart as a reliable one-stop solution for market research.

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