

# Ten Major Events in the Payment Industry of China

It's really a colourful year for China's Payment Industry in Year 2014. No matter for mobile payment or third-party payment, all payment service companies had tried their best to grab user as much as possible. Here we try to list out the top 10 events for your reference.

The Year 2014 is eventful for China's Payment Industry. Kick-starting the year was WeChat's "Red-packet Grabbing Game" which attracted the participation of millions of users. While Alipay was busy responding to the prohibitive acts of four major banks of China, Alibaba and Tencent were burning billions of yuan subsidising passengers using their taxi-hailing apps, called Kuaidi and Didi. It goes without saying that third-party payment is the core segment in the financial chain, and for this reason, People's Bank of China has been taking various steps to rectify the chaotic situation in the payment market.

China's third-party payment market is fuelled with intense competition in 2014. Big names were busy expanding their territories whereas new comers were trying to get a share. All movements, whether it was the fad created by "Red-packet Grabbing Game", the push of mobile payment through Kuaidi and Didi Taxi, or the show-off of 10-year statement among Alipay users and the prohibition of state-owned banks against Alipay, are sending the same message – that the payment market in China though booming is very competitive, especially with the uncertainty created by the invisible hand. Looking forward, competition in the payment market in China will continue to be severe, and new structure and order is expected in the coming five years.

## 1 WeChat Sending Red Packets in the Chinese New Year

In the Chinese New Year of 2014, WeChat Red Packets were sent out rapidly. Many netizens who have not used WeChat

before were prompted to join the Red Packet camp. WeChat Red Packet is indeed an app under Tencent released on 27th Jan, 2014. It is easy to play and carries functions like sending red packets, checking record of delivery and receipt as well as cash withdrawal.

Information shows that during the Spring Festival of 2014, the number of Red Packets sent via AliPay was well over 1.64 million whereas those through TenPay was around 200,000. The roll out of WeChat Red Packet even drove up the stock price of Tencent drastically, making it experience a huge boost of its aggregate market value to around HKD64 billion in a day.

The frenzy created by WeChat Red Packet is more than just a successful case of a social media product. It also represents the emergence of WeChat Payment Platform. In a few days' time, Tencent succeeded in connecting to millions of bank accounts while at the same time, dispelled users' concern on WeChat Payment. When TenPay was behind AliPay at that time, Tencent's mobile payment service might be able to overtake AliPay with such a push.

## 2 Burning Money to Secure Mobile Payment Market Share

The price war between KuaiDi and DiDi taxi-hailing apps, spanning from 2013 to 2014, is actually a competition on mobile payment platform between Alibaba and Tencent.

Since January 2014, KuaiDi and DiDi has gradually reduced their subsidies from RMB10 to RMB3~5 a trip. After that,



subsidies for both passengers and drivers in using the taxi-hailing platform were cancelled.

According to Analysys International, KuaiDi secured the top rank in the national taxi-hailing app market as of June 2014, commanding 53.57% market share, and DiDi followed suit in the second position.

To fight for a significant share in the mobile payment market, KuaiDi and DiDi Taxi have already burnt around RMB 2-3 billion. As DiDi Taxi was pumped an extra US\$700 million in financial support, the next round of price war in mobile payment is eminent.

### 3 QR Pay Suspended by an Invisible Hand

On 13th March, 2014, The People's Bank of China issued an urgent document demanding the suspension of virtual credit card products offered by AliPay and Tencent, as well as QR Pay, a service where payment is done through scanning a QR code with mobile devices. Both AliPay and TenPay were also required to submit their product details, management system and operation flow etc. for review.



Behind the innovation of QR Pay, there actually exists plenty of risk. If mobile payment products cannot guarantee the safety of funds, they will remain useless even with good customer experience and market response. A point worth noting, however, is

that the People's Bank of China only demanded "a suspension" rather than "a halt", and that explains why companies like AliPay and WeChat continue to offer QR Pay against the intention of the document.

### 4 Transaction Limit on Quick AliPay Imposed by Four State-owned Banks

Following Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC) and Bank of China (BOC), China Construction Bank (CCB) was the next bank putting a cap on AliPay's Quick Payment Service. The new credit limit set by CCB was reduced from RMB 50,000 to RMB 5,000 per transaction, with total transaction not exceeding RMB 50,000 a month. ICBC implemented the same credit limit reduction, but with total monthly transaction lowered from RMB 200,000 to RMB 50,000. As for ABC and BOC, credit limit was reduced from RMB 50,000 to RMB 10,000 per transaction.

The credit limit reduction imposed on AliPay's Quick Payment Service has caused much inconvenience for shoppers shopping in YuEbao, Tmall, and Taobao online stores. The main reason behind the joint action of the four big banks to shut out AliPay lies in that most funds going to AliPay are mostly coming from their banks' demand deposit whereas funds invested by YuEbao are largely negotiated deposits. In other words, not only did YuEbao eat away banks' deposits, but also turn demand deposits into higher cost negotiated deposits, which require banks to offer more and better terms to users.

### 5 Third-party Payment Companies Penalised

In March 2014, People's Bank of China issued letters to 10 third-party payment companies, targeting their acquiring business. Eight of them, including companies like Huifu Tianxia, YeePay, VBill, Fuiou, were demanded to put a stop in acquiring new merchants. The remaining two, namely ChinaUMS and JLPay, were asked to undergo self-audit. Up until now, bans are still in force for some of them. This round of ban initiated by UnionPay was mainly focused on the "incorrect reporting of merchant category" done by third-party payment companies.

On 10th Sept., People's Bank of China even passed on another comments targeting Huifu Tianxia, YeePay, VBill and Fuiou,

requesting them to withdraw their acquirer business from some provinces. In December, RuiYinXin's business in the Beijing area was demanded to cease operation completely.

### 6 Payment Companies Punched Heavily by Invisible Hands

In April 2014, China Banking Regulatory Commission (CBRC) released a notice in relation to People's Bank of China enhancing the management of business cooperation between commercial banks and third party payment companies. [Document: CBRC [2014] No. 10] The notice refined and specified in more details about customer identity authentication, transaction limit, payment liability etc. which had to be followed.

In the document, banks were required to establish secure internet channel and formulate security boundaries to prevent cross-boundary access by third-party payment companies. It also required customers to authenticate their identities with banks, even though they had already done so with third-party payment companies. This implies that banks would be given the opportunity to obtain the same customer information as that of the third-party payment companies. The document further stipulated that banks had the authority to exercise further limits on the use and launch of Quick Payment Service provided by third-party payment companies.

CBRC's crackdown on third-party payment companies was mainly caused by the chaotic situation in the payment market, with common malpractices including applying wrong merchant category code, collusion between third-party payment companies and commercial banks by setting up private connections etc. Heightening conflicts of interest between third-party payment companies and banks in their co-operation was another contributing factor. All these threatened UnionPay's absolute position as a clearing house of the industry, and put it in an embarrassing situation.

### 7 AliPay Leveraging Cross-border Payment and Consumption

On 14th July 2014, AliPay announced its cooperation with the world's largest tax free shopping service provider, Global Blue, to offer refund service via AliPay Wallet in Korea, UK, France, Germany and Italy. It plans to extend the service to cover



merchants from Switzerland, the Netherlands and Spain in the near future. In as fast as 10 working days, the refund can be credited to designated AliPay account.

Although some banks also offer overseas tax refund services, the absence of advance payment to customers makes the bank's business cycle longer than expected. In the case of AliPay, if they succeed in securing more users to use this service, the amount of advance payment they need to cover will be growing bigger and bigger. Given their trust on customers, bad debts will inevitably be created. When this happens, the question will come as to whether AliPay can sustain or how long it can sustain in the market.

Overseas consumption involves the question of foreign exchange. As money is a highly sensitive matter, relevant regulatory bodies, whether domestic or overseas, are very cautious in handling it. At the moment, AliPay is still facing a lot of difficulties in setting up its overseas tax refund service, and its business may suffer from monetary loss. But once it succeeds in opening this market, it will help the business to break free from the inherent development bottleneck in internet finance. Expanding into the international acquirer business and cross-border payment business is also made highly possible.

### 8 Third Party Payment Licence Issued to 19 Companies

On 15th July, 2014, People's Bank of China issued third party payment licences to 19 companies, which is the fifth batch of

its kind. Among them, 13 licences went to internet payment companies, six to phone payment companies, another six to bank acquirers and the remaining three went to prepaid card issuers and dealers.

Information shows that People's Bank of China has issued a total of 269 third party payment licences in five batches so far. The first batch issued on 18th May 2011 was composed of 27 licences, followed by the second batch with 13 licences issued on 29th August 2011. On 27th June 2012, 95 licences were issued in the third batch, and the fourth batch with 19 licences was issued on 15th July 2014.

Taobao has been relying on AliPay's guaranteed transaction to secure the trust of users and merchants. To a certain extent, payment licence plays the same kind of role in increasing mutual trust between internet users. Having a payment licence not only implies that a company can earn more commission, but also obtain more payment data so that consumer behaviour can be analysed for grafting consumption patterns.

### 9 Apply Yet to Launch NFC Payment Platform, ApplePay, in iPhone6

Though iPhone6 was launched on 17th October, 2014 in the China market, Apple Pay service, which CEO Tim Cook claimed would "revolutionise our mode of payment", was not introduced to the market at the same time. Actually, Apple Pay function is regarded as an attempt of Apple to enter the banking business. It is also due to this reason that makes its development in China so difficult. It is said that Apple has already been in frequent negotiation with China's UnionPay on introducing this payment function to China.

Information shows that many smartphone brands such as



Google, Samsung, Huawei, Sony, LG, ZTE, Coolpad and Lenovo are built in with NFC mobile payment functions.

In fact, NFC payment market has become a crucial area many companies are aiming to scramble for. For merchants, mobile payment is a very important tool to increase consumption expenses. Unfortunately, the hardware devices required for NFC payment are yet to become popular, making it difficult to promote in broader areas.

UnionPay, operators and third-party payment players have been working hard for a share in the NFC payment market, but progress has been stagnated by problems like the lack of applicable settings, low user uptake and poor profit distribution in the industrial chain. With the roll out of Apple Pay, NFC payment market is expected to experience a boost.

### 10 AliPay's 10-Year Statement Show its Dominance

On 8th Dec, 2014, AliPay released their 10-year statement which was composed of sections like expense, transfer, repayment, payment and profit.

The ten-year expense figures shows the top five provinces namely Guangdong, Zhejiang, Shanghai, Beijing and Jiangsu, representing 15.5%, 12.5%, 9.3%, 9% and 8.8% of the nation's total. In terms of the number of transaction, it reaches a total of 42.3 billion since the launch of AliPay on 8th December 2004, covering areas like consumption expenses, public utility payment, transfer, financial management, credit card payment and international remittance. Among them, the four types of convenient payment items, including daily life payment, credit card payment, mobile phone top up service and money transfer, amounted to six billion transactions.

AliPay's statement not only highlights a "Small City" phenomenon and the several major cities using mobile payment, it also helps maintain AliPay's interaction with users and activate dormant accounts. While demonstrating the important role it plays in internet consumption, AliPay also establishes its dominance in the third party payment market. With big data flow and impressive channels, AliPay is definitely in an advantage in attracting more partners. IDM

Source: Shanghai Securities News