China's 3rd Party Online Payment Industry - What's next

A look at the key trends driving the development of China's 3rd party online payment industry and what to expect in the future

A Report by Kapronasia
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Foreword

With online commerce booming in China, consumers are able to order just about anything online and have it delivered cheaply and efficiently. Traditionally these transactions were conducted as ‘cash on delivery’, but this is rapidly changing as online payment providers start to fill the gap.

Before 2011, like prepaid cards, online payment providers were largely unregulated and the market was booming. Recently however, regulations have changed, which is directly affecting the prospects of these companies.

This China Third-Party Online Payment Industry Report from Kapronasia explores some of the most important questions in China’s online payment market today including:

- How will the new regulations affect market players?
- What is the market size today and what will it be in the future?
- Where is the market going? How will 3rd party players act in the future?
- How can technology vendors take advantage of the market changes? Where are the potential opportunities?

Understanding what is happening and what will happen in this rapidly developing and complex market is essential for every player who wants to enter. This China online payment industry report looks at the dynamic market, including the market environment, market size, industry chain, and comprehensive analysis on the current issues and future trends from our primary and secondary research.

We hope you find this report as interesting to read as it was for us to research.

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Consultant
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kapronasia
Methodology

The 3rd Party Online Payment Market in China report focuses on the current situation and future trends affecting the Chinese online payments market.

The purpose of the research was to gather insight into:

- The key issues and trends that will shape the industry
- The role of regulators and government in the industry and how their actions will shape the future direction of the industry
- Vendor offerings that will change the way banks do business and leverage technology

The findings are based on a combination of secondary and primary research. Secondary research sources included Kapronasia’s internal knowledge database, external government reports and published reports from vendors and financial institutions (FIs) themselves. Primary research included interviews with FIs involved in the trading space, vendors and industry experts.
Key Findings

• New regulations are reshaping industry development; 3rd party online payment players start changing strategies

• China will become the biggest e-commerce market in the next 3 years – driving the growth of online payments

• Paying for online shopping is the largest part of total 3rd party online payment transactions

• Both domestic and overseas online shopping is becoming increasingly popular with Chinese customers

• China’s market is highly concentrated – the top 5 players occupy over 90% of total market share; small players are struggling to survive

• Innovative business models are appearing; 3rd party players need more sophisticated systems to remain innovative and competitive

• Business innovation and risk control systems are the main future IT trends for 3rd party players; foreign IT solution vendors have new opportunities
Market Environment

China's Growing Internet Market

The Largest Number of Internet Users in the World
According to CNNIC (China Internet Network Information Center), at the end of 2012, China had 513 million Internet users, further consolidating its status as the country of the largest population of Internet users. From 2006 to 2011, the population of Internet users in China grew rapidly, with an average of 78 million new users added annually.

![China's Internet Usage, 2006-2011](chart)

*Internet Penetration = Population of Internet users/total population in China
Source: CNNIC, 2012

Compared with 70% in U.S., Internet penetration in China is only 38%, so the market has tremendous growth potential assuming that penetration could eventually approach a similar level to that of the U.S..

Growing e-commerce
Driven by China’s enormous number of Internet users, the e-commerce market in China has developed rapidly and is expected to be the largest globally in the next three years.

This dynamic market has spawned local e-commerce giants, such as Alibaba (China’s biggest B2B company), 360 Buy (China’s “Amazon” and Taobao (China’s “eBay”), and has attracted foreign players, such as Amazon and Newegg; all of the main e-commerce companies have a national footprint.
Large Customer Base

As e-commerce continues to grow in China, so do online payments. 3rd party online payment systems enhance the online shopping and payment experience by offering a much more convenient method of payment. Users can easily complete payment in less than 2 minutes by using their 3rd party payment account or any bankcard, whereas using the typical online system provided by banks is time-consuming. In addition, the requirement of using a USB-key makes online banking payments more difficult.
In 2011, the number of total online shoppers in China reached 180 million and will exceed 300 million in 2013 - more than the total population of the U.S..

As more customers are becoming familiar with online shopping and using online payment systems, China's online shopping is expected to continue to grow from 4% of all total retail value today to over 8% in 2015.

Taobao, which belongs to the Alibaba group (also the owner of China's biggest 3rd party online payment company Alipay), accounts for almost 60% of total online shopping value in China followed by 360 Buy, which accounts for about 20% of the market.

The continued growth in internet usage and shopping has laid a solid foundation for the continued growth of the 3rd party online payment market.

Increasing Regulation

2011 was a significant year for China's third-party payment companies, in terms of industry regulations. In order to make sure that the rapidly growing third-party payment industry in China continues to grow in a sustainable manner, the PBOC decided to take measures to regulate the nascent industry. China's entire payment industry, including 3rd party online payment providers, entered into a new phase where growth was about to be affected much more by regulation than it ever had been in the past.

As several regulatory policies were successively issued by PBOC, such as how to manage reserve money, payment risk control and certifications on 3rd party companies, it became critical for every player in the industry value chain to find...
On one hand the regulations constrained the business model of many companies, on the other, it clarified how the key business models would develop in the future. Previously, because of environment uncertainties, 3rd party players were crossing the river by feeling the stones, with the regulations in place, the potential business models are much clearer.

One of the first regulations was to require businesses to obtain licenses in order to operate in the key payment sub-segments including the online, mobile, bank card acquisition, prepaid card, money exchange and fixed-line payment segments. In June 2012, the PBOC issued the fourth round of licenses. At that point, nearly 260 3rd party operators had submitted their application for licenses to the PBOC and 196 3rd party operators managed to obtain licenses from the PBOC. Foreign players are still not allowed to operate within the payments industry.

<table>
<thead>
<tr>
<th>License Type</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Payment</td>
<td>71</td>
</tr>
<tr>
<td>Mobile Payment</td>
<td>31</td>
</tr>
<tr>
<td>Fix-line Payment (Telephone/TV payment)</td>
<td>15</td>
</tr>
<tr>
<td>Prepaid Card Issuing</td>
<td>117</td>
</tr>
<tr>
<td>Money Exchange</td>
<td>5</td>
</tr>
<tr>
<td>Bankcard Acquiring</td>
<td>40</td>
</tr>
<tr>
<td><strong>Total (without repetition)</strong></td>
<td><strong>196</strong></td>
</tr>
</tbody>
</table>

Also, in order to further regulate the industry and prevent risk, the PBOC officially issued the “Opinions on Regulation of Online Payment” in 2011. According to the rules, 3rd party online payment companies are defined as “non-financial institutions conducing online payment business.” What this means is although 3rd parties have a somewhat similar business model to some commercial banks, they can never be a real financial institution and conduct “banking business”, such as overdraft accounts, financing, etc..

Some key points of the new regulations:

- 3rd party players who want to have an online payment business must have a safe and independent core system, and the system and its back-up system must be in China
- 3rd party players must identify a customer before the customer can use the online payment platform
- Reserve money from customers can not be appropriated by 3rd party players; the payments company must deposit the money in a commercial banks and may not invest the money in any other manner beyond simple deposits
- Customers cannot transfer their money between different 3rd party payment providers’ accounts. i.e. transfer money directly from Alipay to Tenpay
- Any new business focuses or models must be pre-approved by the PBOC
- 3rd parties have the obligation to monitor suspected merchants for the purpose of anti-money laundering
Although the new regulations somewhat limit the operations of payment companies, the stability that they will bring will help the market to continue to grow and innovate.

Advancement of Technology

Technology plays a pivotal role in China’s 3rd party online payment industry, making the payment swifter, more convenient and more secure.

In 2011, the PBOC launched a nationwide online payment system called “Super Online Banking” which is an advanced payment system that links all of the main bank’s online banking systems into one. The system also has connectivity that allows for 3rd party payment services to be connected into the platform thus opening the possibility of linking the interbank payment system and 3rd party payment provider’s systems providing what could be a seamless payment platform.

In 2011, ChinaPay, a 3rd party payment company belonging to China Union Pay (China’s bankcard association, CUP), launched its online payment product. In addition to the traditional online payment functionality, this product features “Quick Payment” which allows customers to quickly complete an online payment just by inputting a bankcard certification number rather than registering an online banking account first. Seeing the opportunity, Alipay, the largest 3rd party online payment provider, also launched a competing quick payment product.

The advancement of payment technology gives customers more choices for online payments and makes online payment easier and faster of course than traditional physical payments and even in many cases, faster than even payments made through online banking systems.
In 2011, China’s 3rd party online payment market maintained strong growth, nearly doubling transaction value to 2.2 trillion RMB. There were several reasons for this:

- Recognized as playing an important role in China’s future financial innovation, the 3rd party payment industry is strongly supported by the Chinese government. Payment companies help enterprises accelerate the velocity of payments so as to optimize resource distribution, which is aligned with the country’s pledge to transform its economic growth structure.

- Industry rules and business licenses issued by the PBOC make it safe for 3rd party players to conduct business. After acquiring the licenses, many 3rd party payment players have started to invest more money on business development with the goal of eventually becoming listed companies.

- 3rd party payment companies have expanded their businesses from the traditional payment business to more innovative cross-industry business models. For example, one 3rd party payments provider has setup an end-to-end industry solution includes payment services, finance services and even logistic services in the manufacturing sub-segment.

- B2C and B2B businesses are growing rapidly in China, further increasing the demand for 3rd party online payment services.
Market Segmentation

Business Type

China’s 3rd party online payment business models can be divided into 3 types – B2B, B2C and C2C.

<table>
<thead>
<tr>
<th>Business Type</th>
<th>Idea</th>
<th>Predominant Payment Size</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>B2C</td>
<td>Between enterprises and individuals</td>
<td>Small</td>
<td>360 Buy, Tmall, Amazon China, Online Gaming, Utilities</td>
</tr>
<tr>
<td>C2C</td>
<td>Between individuals</td>
<td></td>
<td>Taobao, Paipai</td>
</tr>
<tr>
<td>B2B</td>
<td>Between enterprises</td>
<td>Large, Bulk</td>
<td>Alibaba, Global Sources, Airline Companies with ticket agents</td>
</tr>
</tbody>
</table>

Although C2C still accounts for the majority of 3rd party online payment value, C2C in China will continue to steadily grow with the main players crowding out the smaller competition. Therefore, C2C’s transaction share of the total 3rd party online payment value will slowly decline. The B2B and B2C business models will likely draw more attention from e-commerce companies.

Types of Online Payment in China

Source: Kapronasia, 2012
China’s huge population of online shoppers and their distinct online shopping behavior make B2C the most promising e-commerce area in the future. Physical retail stores can simply no long accommodate all of the needs of shoppers from a geographic, product selection or cost perspective. In addition, the social nature of online shopping (reviews, comments, weibos, etc.) is more aligned with the younger generation of shoppers who account for an increasingly large percentage of domestic consumption.

### Online Payment Usage Types, 2008-2015e

<table>
<thead>
<tr>
<th>Year</th>
<th>Others</th>
<th>Public Utility</th>
<th>Online Game</th>
<th>Air Ticket</th>
<th>Online Shopping</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>43%</td>
<td>8%</td>
<td>16%</td>
<td>20%</td>
<td>37%</td>
</tr>
<tr>
<td>2009</td>
<td>47%</td>
<td>6%</td>
<td>15%</td>
<td>15%</td>
<td>30%</td>
</tr>
<tr>
<td>2010</td>
<td>48%</td>
<td>9%</td>
<td>13%</td>
<td>13%</td>
<td>25%</td>
</tr>
<tr>
<td>2011</td>
<td>46%</td>
<td>5%</td>
<td>12%</td>
<td>12%</td>
<td>30%</td>
</tr>
<tr>
<td>2012e</td>
<td>43%</td>
<td>4%</td>
<td>10%</td>
<td>10%</td>
<td>37%</td>
</tr>
<tr>
<td>2013e</td>
<td>41%</td>
<td>3%</td>
<td>9%</td>
<td>9%</td>
<td>41%</td>
</tr>
<tr>
<td>2014e</td>
<td>40%</td>
<td>2%</td>
<td>8%</td>
<td>8%</td>
<td>45%</td>
</tr>
<tr>
<td>2015e</td>
<td>39%</td>
<td>2%</td>
<td>8%</td>
<td>8%</td>
<td>47%</td>
</tr>
</tbody>
</table>

*Source: Kapronasia, 2012*

Online shopping is the biggest driver online payments and consequently, online payment providers typically focus on this segment. Airline ticket sales also represent a large part of total transaction value followed by public utility payments and online gaming. As 3rd party online payment providers diversify their business model, new online payment models are also emerging such purchasing mutual funds and insurance products payment online.

**Revenue Model**

There are several revenue sources for China’s 3rd party online payment providers:

- Merchant fees (fixed setup/maintenance fee + variable based on transaction value)
- Interest revenue from reserve money
- Value-added service fees.

Currently most of the revenue for online payment providers comes from merchant
fees so revenue is heavily dependent on total transaction value and the merchant fee rate itself. In China, different industries have different merchant fees:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Merchant fee - China</th>
<th>Merchant fee - US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Shopping</td>
<td>0.2%-0.4%</td>
<td></td>
</tr>
<tr>
<td>Air Ticket</td>
<td>1%-0.5%</td>
<td>3% - 4%</td>
</tr>
<tr>
<td>Online Game</td>
<td>0.1%-0.5%</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>0.1%-0.5%</td>
<td></td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>0.6%</td>
<td></td>
</tr>
</tbody>
</table>

As competition both between payment companies and between payment companies and banks is quite strong, the average merchant fee has been driven down especially as compared to the U.S. market.

**Industry Value Chain**

Although each industry value chain varies slightly, Alipay is a very typical example:

- 3rd party online payment providers need to cooperate with banks and link to each of the bank’s platforms. The 3rd party payment companies will try to link to as many commercial banks as possible, because more banks mean more potential customer and merchant resources they will have.
- Customers have two ways to complete payment: first is through the 3rd parties’ gateway which will directly link to customers’ online banking. The other is through the 3rd party account. In the latter case, customers must first create a 3rd party account, transfer money from their bank to this account, and then complete payment. In the former, the user still needs a 3rd party online payment account, but can directly pay money from their bank account so do not have to move money to their 3rd party account.
- Merchants who join 3rd parties’ network also need to have 3rd party accounts.
Competitive Analysis

Key Players and Market Share

In 2011, Alipay still topped China’s 3rd party online payment market, accounting for about 50% of the market. Tenpay was the 2nd largest with a 20% share, followed by ChinaPay, CUP’s subsidiary. Although those three providers control the majority of the market, other players have carved out market niches by focusing on specific vertical solutions.

![Third-party Online Payment Value Market Share, 2011](image)

Although the total market is increasing rapidly, nearly doubling each year for the past 5 years, the market share breakdown has remained largely the same.

<table>
<thead>
<tr>
<th>Third-party Online Payment Value Market Share</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alipay</td>
<td>50.70%</td>
<td>49.80%</td>
<td>50.02%</td>
<td>49.00%</td>
</tr>
<tr>
<td>TenPay</td>
<td>19.30%</td>
<td>20.60%</td>
<td>20.31%</td>
<td>20.40%</td>
</tr>
<tr>
<td>ChinaPay</td>
<td>16.30%</td>
<td>14.20%</td>
<td>7.82%</td>
<td>8.40%</td>
</tr>
<tr>
<td>99Bill</td>
<td>3.70%</td>
<td>4.10%</td>
<td>6.23%</td>
<td>7.50%</td>
</tr>
<tr>
<td>ChinaPnR</td>
<td>-</td>
<td>-</td>
<td>6.12%</td>
<td>7.40%</td>
</tr>
<tr>
<td>YeePay</td>
<td>2.10%</td>
<td>1.90%</td>
<td>3.89%</td>
<td>3.00%</td>
</tr>
<tr>
<td>IPS</td>
<td>3.10%</td>
<td>3.20%</td>
<td>3.55%</td>
<td>2.70%</td>
</tr>
</tbody>
</table>
Comparison of 3rd Party Players

As the market has matured, 3rd party payment companies have developed certain defining characteristics and can categorized into several types:

<table>
<thead>
<tr>
<th>Type</th>
<th>Key Players</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>All around</td>
<td>Alipay, Tenpay</td>
<td>• Enormous customer base</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Comprehensive cross-industry payment platform</td>
</tr>
<tr>
<td>SOE Supported</td>
<td>ChinaPay</td>
<td>• Strong relationship with banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strong momentum - SOE style</td>
</tr>
<tr>
<td>Innovative</td>
<td>99Bill, YeePay</td>
<td>• Energetic / new products</td>
</tr>
<tr>
<td>Industry-oriented</td>
<td>ChinaPnR, ShengPay</td>
<td>• Large market share in specific industry areas</td>
</tr>
<tr>
<td>Experienced</td>
<td>IPS, PayEase</td>
<td>• Older players, with stable customer base</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Slow to innovate and expand</td>
</tr>
<tr>
<td>Foreign</td>
<td>Paypal, PSI</td>
<td>• Strong barriers to entry and success</td>
</tr>
</tbody>
</table>

Challenges for 3rd parties

Business Innovation

Most 3rd party players are struggling with low profits under the current merchant fee-oriented revenue models as competition has forced merchant rates down. Because of this, business scale is no longer as important for 3rd party players and differentiation is becoming more of a key success factor.

3 main strategies on business innovation are adopted by 3rd party players:
Horizontal expansion – expansion into new business areas
To gain a competitive advantage, many players are moving from the highly competitive and more traditional business areas into new more innovative business areas.

Cross-border Shopping – 3rd party online payment's globalization
With online cross-border shopping becoming more and more popular in China, cross-border payment has become a new niche for 3rd party online payment companies. Through 3rd parties' services, consumers can easily do shopping on oversea websites and pay safely and fast without worrying about currency exchange, just the same as they do online shopping on local B2C websites.

![China's cross-border online shopping Value](chart)

Source: MasterCard

Recently, TenPay, a leading player in China, signed a strategic agreement with CyberSource and Asiapay, both of which are leading global payment solution providers. Through the cooperation, TenPay can benefit from their partners’ already established client base and cutting-edge payment technology to quickly expand to the global market.

In July, 2012, DataCash, a global payment provider, joined Alipay's online payment platform, enabling its merchants to accept payments from Alipay's users. So far, over 600 oversea merchants have joined Alipay's network.

99Bill offer remittance collection services for local B2B foreign trade companies by cooperating with Western Union, a leading money transfer service provider. Because 3rd party online payment providers can charge a higher merchant fee to foreign merchants than they can to local merchants, the profitability of these transactions is much higher.

So far the PBOC hasn't issued any specific rules regarding cross-border 3rd online payment.
Online Fund Distribution – 3rd party payment providers moving into the Financial Service Market

As the competition in the traditional online payment market has increased, many big players have moved into the financial services market and more specifically into mutual fund distribution payment. As of May 11th, 2012, 7 big 3rd party online payment companies obtained their business licenses from China Securities Regulatory Commission (CSRC) to provide payment services for mutual funds companies. In this model, retail investors can go online to purchase shares in mutual funds and are able to pay with their 3rd party online payment account.

According to CSRC, in China, online sales still accounts for a small part of overall mutual fund sales, less than 10% compared to 30%+ of the more developed U.S. market. Realizing the importance of e-commerce for the financial services market, the authorities have encouraged 3rd party payment companies to enter the market to help develop the market more in the future.

In China, banks are responsible for almost 60% of total online mutual funds sales. Typically, a mutual fund company must negotiate with different banks and connect to them in order to build sales distribution channels. Banks will then take a percentage of the transaction fee, management fee and other sales distribution fees. However, now as 3rd party payment companies join this market, they not only provide a more convenient and faster payment gateway but also lower costs, which is starting to hurt bank’s market share. For example, a common transaction fee for an individual who purchases a mutual fund through a banks is 1.5%, but if through 3rd party online gateway, the fee can be as low as 0.6%.

Although 3rd party online payment providers’ mutual funds business is still relatively nascent, considering the large scale of assets of mutual funds (2011 - 2.2 trillion RMB), this market will become one of the biggest areas for 3rd party online payment companies and we can expect to see additional value-add services in the future.

Although not as popular as mutual fund sales, other financial services areas such as insurance sales and supply chain finance services are also emerging as key
opportunities for 3rd party online payment providers in China.

**Vertical development – industry solution provider**

Although 3rd party online payment providers provide a convenient online payment gateway for customers, the real clients are merchants and more typically the Internet e-commerce companies from various different industries. In China, the homogeneity of online payment products has pushed companies to develop value-add products to enhance their competitiveness. Some companies have chosen to focus on one specific industry and provide an industry solution that meets the needs of that space. By focusing on one specific industry, the 3rd player become an industry expert who is familiar with the whole industry chain, the flow of money and how the client operate in the industry, so that it can offer an end-to-end solution, not just a payment gateway, and help the client enhance its efficiency of working capital.

For example, ChinaPnR’s chain retail industry product offers an end-to-end solution including:

- Payment channels
  - POS deployment
  - Online payment gateway
  - Fix-line payment products
  - Mobile payment products
- Account management
  - Transaction checking
  - Reporting system
- Treasury Service
  - Money transfer between branches and headquarters
- Risk control

**Continuous product innovation – not only PC online payment**

The rapid development of the online payment industry has accelerated payment technology innovation, in order to make payment more convenient and offer better payment experience, 3rd party payment providers are continuously looking at new payment business models.

Largely because of the fast development of the mobile Internet market and the increased sophistication of the typical mobile phone user, the phone has become a convenient and safe method of payment. For this reason, mobile phone online shopping transactions are expected to grow much faster than traditional online shopping, especially in China's rural areas. Rural users tend to be last in line for high-speed internet access via fixed lines because it is expensive to install the lines themselves. In contrast, mobile phone masts can cover a huge geographic
area comparatively cheaply, and although their connection speed will be lower than fixed lines, the setup cost and time required is much lower.

Therefore, mobile online payment is another big opportunity for 3rd party players, and some larger players have already launched their mobile online payment products.

Benefiting from their solid Internet payment experience, a large number of online shopping users and enormous online merchant resources, 3rd players now account for a high market share of China’s mobile online payment and will keep a dominant position in this growing market.

### Value of Mobile Online shopping, 2009-2015

![Graph showing Value of Mobile Online shopping, 2009-2015](image)

**Source: Kapronasia**

In addition to mobile payments, some 3rd party players also have products and services in prepaid card, fixed-line payment, and acquiring businesses. With multiple business products at their disposal, these larger payment companies can provide a comprehensive payment platform for customers.

For example, Alipay has pledged to invest 500 million to prompt its O2O (online to offline) service which means customers can shop offline and then pay online or vice versa. Alipay plans to distribute 60,000 POS terminals in the next 3 years so that its enormous customers can also take advantage of COD (cash on delivery) service after shopping online. In this model, a shopper can select the product online and then go to a payment terminal in convenience stores or other locations to pay for the purchase which is especially useful for those consumers who do not have a bank account or would rather not use it to pay for the good. Alipay has also issued an online prepaid card which enables the ‘cardholder’ to easily access all of its tremendous online merchant resources.

### Risk Management

China’s 3rd party payment market is still nascent and risk control is a growing concern both for participants and the regulators. There are several challenges on
risk control confronted by 3rd party online payment players:

- Network information security: information leakage
- Fund security: misappropriated reserve money
- Transaction risk: fraud; “phishing” websites
- System risk: faulty core systems
- Operational risk
- Money laundering

All these challenges on business innovation and risk management are increasing the need for 3rd parties’ stronger IT systems:

<table>
<thead>
<tr>
<th>IT Adoption</th>
<th>Current</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-house developed</td>
<td>Most widely adopted by bigger players; develop core systems and foster strong research teams</td>
<td>Continue to exist, but with innovation limited to existing knowledge</td>
</tr>
<tr>
<td>Cooperating with solution vendors</td>
<td>Fewer cases, if any, only for non-core systems</td>
<td>Adopted by large players who want to learn innovation and risk management best practices from foreign vendors</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>Preferred by smaller players</td>
<td>Rarely used - can not meet demands of sustained growth</td>
</tr>
</tbody>
</table>
Looking ahead and Recommendations

In such a unique market, it is essential to understand what is happening and what will happen in China. As China’s 3rd party online payment market enters into a new stage, there are several key trends which will shape the market:

- Continuous regulations: further regulations will be released by the PBOC to make sure the industry is able to maintain its strong but stable growth
- Industry shuffle: as fewer licenses will be issued in the future, M&A will consolidate the industry and larger players will look to list
- More innovative products
- Debate on market openness will continue:
  - Pressure from foreign payment companies
  - Industry is still in nascent; protection is priority for regulators
- Vendors will benefit from demand for innovation

Although foreign payment companies are not allowed to conduct payment and transaction businesses in China, it does not mean that these are no opportunities for foreign companies – actually, China’s prosperous electronic payment industry has many opportunities. Foreign vendors should however keep several ideas in mind when they are considering the China market:

1. Watch for new regulations
2. Partner with larger 3rd party companies on core payment system
3. Leverage innovation
4. Shift from on to offline – new POS deployment (mobile, NFC)
5. Value-add solutions: loyalty and couponing plans
6. Secure payment and anti-fraud
7. Cross border cooperation:
   1. Share merchant resources
   2. Cross border payment solutions
   3. Cooperation on anti-money laundering
About Kapronasia

Kapronasia is a leading provider of research-based advisory and consulting services focused on the Asian Financial technology industry. Through market-leading research and customized strategy, we partner with financial institutions and financial technology providers around the world to identify their highest-value opportunities in Asia and help them to achieve and sustain a competitive advantage in the market.

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