



Chinese payments dragons sally forth into the world

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* Views expressed are strictly the author's.



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Dominant Chinese payment networks: Alipay, CUP & WeChat Pay

- General-purpose retail-payment systems are two-sided markets that must have or have a clear path to critical mass on both sides of the network to have relevance and deliver value to either. In China, Alipay, CUP & WeChat Pay decidedly have critical mass. Abroad a ways to go.
- China UnionPay, China's protected monopoly general-purpose card network
 - Established in 2002. 38 billion purchase transactions in 2016, 6.1 billion cards at yearend –a)
- Alipay has 520 million active users. –b)
- WeChat Pay has 600 million active users. –c) They sent 46 billion “red packets” from Jan. 27 through Feb. 1, 2017 –d)
- Both Alipay and WeChat Pay challenging CUP at the physical pos in China.
 - > 10 million brick-and-mortar merchants accept Alipay in China. –e)

(a- Nilson Report 1109, May, 2017

(b- 2017 Ant Financial Investor Day presentation, June 8-9, 2017

(c- Arjun Kharpal, “Chinese internet giant Tencent launches WeChat Pay in Europe to challenge Alibaba's Alipay,” CNBC, Jul 10, 2017

“China's WeChat Pay system to expand into the UK next month,” China Daily UK, April 6, 2017

(d- “WeChat users send 46 billion digital red packets over Lunar New Year,” Reuters, February 4, 2017

(e- “Alipay enters partnership with UTB to expand merchant network in Russia,” Finextra, August 4, 2017

China's mobile-payment colossi

- Alipay and WeChat Pay combined have ~ 90% of China's mobile-payments market.
- By some metrics China is already the world's largest electronic payments market.-a)
- Leveraging interaction frequency WeChat Pay's market share is surging.

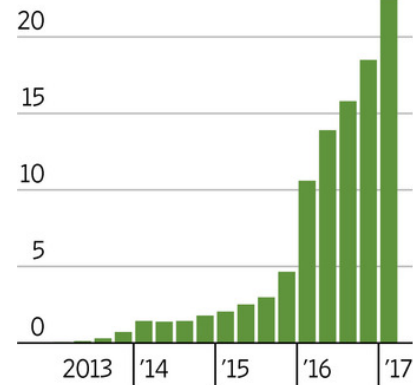
On the Go

China's mobile-payments market is growing fast. Major platforms Alipay and Tenpay are jousting for control.

Transaction volume

Quarterly data

25 trillion yuan

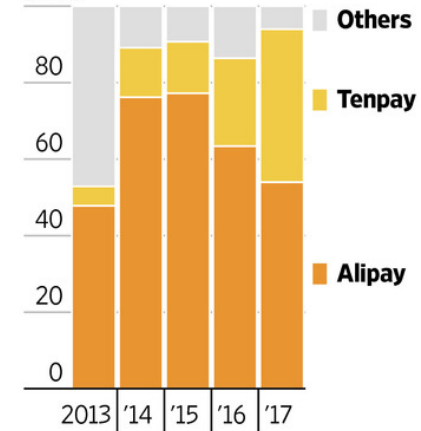


Note: 10 trillion yuan = \$1.5 trillion
Source: iResearch

Market share by volume

1Q for each year

100%



THE WALL STREET JOURNAL. -b)

(a- In its First Quarter, 2017 Corporate Overview Tencent reported > 600 million mobile payments per day by the end of December. On an annualized basis that's roughly as many payment transactions as MasterCard and Visa combined worldwide.

(b- Chuin-Wei Yap, "Alipay, WeChat Take Battle for Mobile-Payment Dominance Overseas," WSJ, August 19, 2017

China's mobile-payment colossi

- Alipay and WeChat Pay are different from CUP, MasterCard and Visa insofar as they operate within coherent ecosystems of services.
 - Ant Financial is an integrated financial-services giant
 - Payments critical mass achieved providing payments within Alibaba, the world's largest e-commerce platform
 - 330 million wealth management users –a)
 - 100 million active borrowers –a)
 - 392 million insurance policyholders –a)
 - 257 million activated users of credit reporting system –a)
 - Tencent – leading provider of online games, chat and news.
 - 938 million Weixin and WeChat users –b)
 - Tencent rolling out a credit-rating system to go toe-to-toe with Ant Financial's –c)
 - Webank platform enables customers to buy from multiple credit & asset management suppliers.

(a- Ant Financial 2017 Investor Day Presentation, June 8-9, 2017

b- As of March, 2017, Tencent First Quarter, 2017 Corporate Overview

(c- "Tencent rolling out a credit-rating system," China Daily, August 11, 2017

The global payments market

- CUP accepted in 162 countries. 60 million cards issued in 40 countries outside China. –a)
- Foreign transactions – principally cross-border, account for ~ 40% of CUP’s revenue. –b)
- Alipay and WeChat Pay too are turning their sights abroad.
- All are partnering with merchant acquirers and processors to build acceptance. It’ll take many years. They’ll get there, soonest in areas with significant Chinese business and tourist traffic.
 - In 2016 120 million Chinese tourists spent \$110 billion overseas –c)
- Alipay has moved faster and thus far more aggressively. Accepted in 28 countries. –d)
- WeChat Pay accepted in 15 countries –e)
 - First European acquiring partnership set to go live in November. –d)

(a- Daniel Ren, “UnionPay focused on building market presence overseas,” South China Morning Post, July 6, 2017

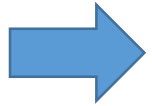
(b- Ibid

(c- Frank Lavin, “China’s Biggest Mobile Payment Solutions Are Taking Root in U.S. and Europe,” Forbes, August 15, 2017

(d- Chui-Wei Yap, “Alipay, WeChat Take Battle for Mobile-Payment Dominance Overseas,” WSJ, August 19, 2017

(e- Arjun Kharpal, “Chinese internet giant Tencent launches WeChat pay in Europe to challenge Alibaba’s Alipay,” CNBC, July 10, 2017

The global payments market



Issue is can any of the Chinese payments dragons win spend from consumers and businesses in major markets outside China.

- In 2018 Alipay will launch under new brand for Japan. As of August 30,000 Japanese stores accepted Alipay. Aiming for 50,000 by yearend. –a)
- WeChat Pay launched a wallet in South Africa –b)
- For CUP emerging markets are the most promising –c) excepting Hong Kong, Japan and South Korea, the same is true for Alipay and WeChat Pay.

(a- “Alibaba to enter Japan with mobile payment platform in 2018,” The Paypers, August 17, 2017

(b- <https://chinachannel.co/wechat-weixin-are-not-the-same/>

(c-Don Weinland and Gabriel Wildau, “China’s fight with Visa and MasterCard goes global,” Financial Times, April 23, 2017

Alipay has been on an acquisition and investment tear abroad, building a multinational portfolio of payments assets

- Ant Financial and Alibaba have put in ~\$1.5 billion in Paytm – Indian digital wallet and payment network with 210 million active users & 5 million merchants. The potentially gargantuan Indian payments market is up for grabs.
- In 2016 Ant Financial took a minority stake in Ascend which provides e-payments and micro-loans in Thailand, Indonesia, the Philippines, Vietnam, Myanmar, and Cambodia. –a)
- Invested \$200 million in Kakao Pay – a Korean firm with 14 million users providing mobile payments, bill payments and money transfer. –b)
- Took a 45% stake in Mynt – the payments subsidiary of Filipino MNO Globe Telecom.
- The payments arm of Southeast Asia e-commerce platform Lazada in which Alibaba owns a controlling stake, HelloPay, is being rebranded Alipay in Singapore, Malaysia, Indonesia and the Philippines. –c)

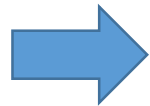
(a- Sahel Roy Choudhury, “Ant Financial invests in Thailand’s Ascend Money as part of global expansion play,” CNBC, November 1, 2016

(b- “Alibaba’s Ant Financial Will Invest \$200 million in This Korean Payment Firm,” Reuters, February 20, 2017

(c- Eva Xiao, “Jack Ma’s Ant Financial merges with Lazada’s HelloPay Group,” Tech in Asia, April 18, 2017

Alipay has been on an acquisition and investment tear abroad, building a multinational portfolio of payments assets

- Minority stake in jv with Malaysian Bank CIMB to bring mobile payments to card-based “Touch’n Go” users. –a)
- Acquiring MoneyGram
 - Global money-transfer network, > 2 billion accounts, 350,000 agents,
 - Opportunity to add payments in addition to prepaid cards to the network.



Assembling pieces to a genuinely multinational payments network

Tencent

- Invested \$13 million in Airwallex, an Australian cross-border commercial payments venture.

(a- “Ant Financial targets Malaysia through CIMB JV,” Finextra, July 26, 2017

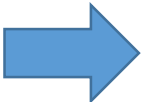
Global retail-payment network landscape

- Global retail-payment networks: MasterCard and Visa
 - MasterCard and Visa have genuinely global issuance and acceptance
 - They're the leading cross-border retail-payment networks in every country on the planet except Crimea ^(a), Iran, North Korea, Sudan, Syria, and, possibly, China.
- Tier-two and aspiring global retail payment networks: Alipay, American Express, China UnionPay, Discover, JCB, PayPal and WeChat Pay

(a- Annexed territory, not a country.

Impact on MasterCard and Visa

- Neither MasterCard nor Visa has a credible play in China for the foreseeable future. –a)
- July, 2017 Visa applied for license to support domestic transactions in China. –b) MasterCard still weighing options, possibly will attempt a jv.
- Much (most) of Alipay's, WeChat Pay's and CUP's spend domestically and virtually all their spend abroad is spend MasterCard and Visa would have enjoyed if they'd had unfettered access to China's domestic market in the early 2000s.

 Alipay, CUP & WeChat Pay may be able to compete successfully with MasterCard and Visa in emerging markets, particularly in East and Southeast Asia.

But the network Alipay and WeChat Pay will hurt the most in China and abroad is CUP, not MasterCard or Visa.

(a- Sumeet Chatterjee, "Exclusive: U.S. bank card companies to seek licenses to operate in China in months," Reuters, July 20, 2017. Preposterously reported "China first agreed in 2015 to open the card market to...foreign businesses." China first agreed in 2001 to open its card market to foreign businesses. It suggested licensing might take up to 2 years. Even if that comes to pass the competitive barriers MasterCard and Visa will face are formidable.

(b- Momoe Ban, "US card companies seek fortunes in China after deregulation," Nikkei Asian Review, August 3, 2017