



China's Non-Cash Payment Platform Is Taking the Industry by Storm

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B2C online shopping first came into being in China in 2003. At that time, payment was a problematic issue. Customers would have to deposit money into the vendor's account to complete their transaction.

Fast forward to 2016. Last year Chinese buyers spent US\$5.5 trillion through mobile payment platforms, roughly 50 times the size of the US\$112 billion U.S. market, according to consulting firm iResearch. The introduction of Alibaba T-Mall's e-commerce platform in conjunction with mobile payment technology by Alipay and WeChat Pay has revolutionized the payment industry. China leapfrogged credit card technology and is moving fast to a cashless economy.

The Non-Cash Phenomenon

Today, people can take care of most daily expenses using mobile payment: from taking a taxi or a Didi-Chuxing shared car to riding a shared bike, shopping in a supermarket, buying from a street vendor, paying tuition or utilities, and even giving to a beggar on the street. People can complete payment by merely scanning a QR¹ code.

The sheer volume of transactions conducted on mobile devices and via mobile payment is staggering. On November 11, 2017, the one-day online shopping Singles' Day in China largely powered by Alibaba's T-Mall e-commerce platform, the company processed 1.48 billion transactions, generating sales at staggering US\$25.3 billion within 24 hours.² Not far behind, up and-coming JD.com amassed transaction value of US\$19.8 billion on the same day.

During last year's Singles' Day, the previous record was Alibaba's own US\$17.8 billion in sales. To put these numbers in perspective, in 2016 U.S. retailers booked US\$3.45 billion on Cyber Monday and US\$3 billion on Black Friday, which makes Alibaba's sales all the more stunning. Importantly, Alipay and WeChat Pay have cornered China's third-party mobile and online payment space. According to market research firm Analysis, during Q1 2017, Alipay took approximately 54% share of mobile transaction value, WeChat Pay 40%, with Apple Pay struggling as a distant tenth. The reason for Apple Pay's limited traction is that it works only with Apple hardware, automatically excluding the majority of the Chinese market which uses Android phones.

Going Overseas

This non-cash phenomenon is growing in China and expanding overseas. Tech In Asia reporter Eva Xiao points out that "For Chinese tech companies, these globe-trotting consumers serve as an entry point into overseas markets."³ According to the World Tourism Organization, in 2016, China led the world in

¹ Quick Response

² <https://www.highsnobiety.com/2017/11/11/alibaba-singles-day-2017-sales>

³ <https://www.techinasia.com/chinese-tourists-wechat-alipay-global-expansion>

outbound tourism for the fifth year in a row, hitting a record of 135 million travelers that spent US\$261 billion. This boom is driving the overseas expansion of the Chinese non-cash payment systems.

Alipay and WeChat Pay started to expand their payment platforms overseas in 2015. As a first step, they began partnering with international brands, retailers, and airports eager to capitalize on Chinese tourists. But for Alipay and WeChat Pay to fully exploit this opportunity, they need to forge partnerships across various industries overseas and offer consumers payment capability above and beyond in-store payments at retail stores. They need to get to payment systems.

In 2016, Ant Financial, the Alibaba spinoff that operates Alipay, entered into partnerships with European banks, including Barclays, BNP Paribas, and UniCredit, and six payment services, which will allow 930,000 merchants to start accepting Alipay.⁴

In May 2017, “Ant Financial reached a deal that will let its users shop at 4 million U.S. merchants served by payments processor First Data Corp.” reports Bloomberg.⁵

Currently, Ant Financial Services Group is looking to buy U.S. money-transfer service MoneyGram International for US\$1.2 billion. The acquisition is now under review by the U.S. Congress. If approved, it would mark Ant’s second U.S. deal and connect MoneyGram’s global network of 2.4 billion bank and mobile accounts in over 200 countries and territories.⁶

WeChat Pay is playing catch-up and pursuing a similar strategy. In August 2016, it backed Hike Messenger, an Indian platform.⁷ The two signed partnerships with merchants in Southeast Asia and are looking to invest in payment systems in other countries. In 2017, parent company Tencent launched its WeChat Pay payments service in Europe. The company partnered with German payments firm Wirecard, paving the way for European retailers to accept WeChat pay as a payment option.⁸

At present, Tencent is taking WeChat Pay service to the U.S. through a partnership with Silicon Valley-based mobile payment startup CITCON.⁹ This move enables Chinese tourists to use smartphones to pay for their purchases at U.S. retailers with the WeChat Pay service.

The Outlook

On a broader note, the global mobile payment industry is projected to grow to US\$3,388 billion by 2022, growing at a CAGR of 33.4% from 2016-2022.¹⁰ With diverse players like tech firms, including Apple Pay, Samsung Pay, Android Pay, Google Hands Free and PayPal, telcos like Orange and Vodafone,

⁴ <https://www.cnbc.com/2016/12/06/alipay-strikes-deal-with-banks-to-expand-into-europe-hints-at-apple-pay-rival.html>

⁵ <https://www.bloomberg.com/news/articles/2017-05-08/china-s-alipay-grabs-slice-of-u-s-market-with-first-data-deal>

⁶ <http://www.businessinsider.com/alipay-strikes-more-overseas-partnerships-2017-96>

⁷ www.zdnet.com/article/why-the-chinese-have-transformed-indias-hike-messenger-into-a-unicorn-and-what-whatsapp-can-learn

⁸ <https://www.cnbc.com/2017/07/10/wechat-pay-europe-launch-tencent-to-challenge-alipay.html>

⁹ <http://www.scmp.com/tech/china-tech/article/2093433/tencent-extends-wechat-pay-us-focus-chinese-tourists>

¹⁰ <https://www.prnewswire.com/news-releases/mobile-payments-market-to-reach-3388-billion-globally-by-2022---allied-market-research-610395985.html>

retailers like Walmart and Amazon, credit card companies like Visa and MasterCard, banks like UBS and Wells Fargo, and more than 1,800 FinTech firms competing in the market

- Will a global standard emerge regarding payments?
- What will be the winning business model?
- Will Alipay and WeChat Pay maintain their dominance?