

Payments Transformation

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3rd Party Payment Licensing – What You Need to Know

With the increasing number of licenses being issued, the question is how both domestic and international players in the third party payment market can obtain approval to deliver services within the six major categories of service.

Who Can Apply for Licenses?

All payment licenses to date have been issued to domestic companies – this is the current intention of the Chinese government. The companies that have applied to date have been operating in the Internet business, mobile application, telecommunications, technology solutions and travel & tourism area.

An analysis of the companies with licenses reveals that the top 4 categories are Prepaid card issuance and management (60%), Internet payments (37%), bank card acquisition (24%) and mobile payments (17%). Geographically, 22 of the 196 licensees have nation-wide coverage with 83 being tied to a specific

region. Tier 1 cities have the most licensees with Beijing leading with 41 followed by Shanghai with 34 and Guangzhou with 20 licensees.

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Licenses for Internet payments and mobile payments are all based on nationwide permits where prepaid card licenses are limited to autonomous regions or municipals, a possible reason for the difference in license volumes. 90% of companies that applied for bank card acquisition capability are also technology companies showing a possible diversion for these organisations.

What is the Application Criteria?

To obtain a license, PBOC require applicants to meet a number of stringent criteria. These are designed to encourage a healthy and sustainable payments environment. Specifically the following criteria must be met:

1. Be established by law as a non-financial Institution China limited liability company or limited company;
2. Have registered and paid up capital of:
 - at least RMB100 million for a nation-wide license
 - at least RMB30 million for a autonomous region or municipal license

3. Have relevant & strong business credentials within their key investors (above 10%);
4. Provide proof of Anti-Money Laundering understanding and measures implemented,
5. Perform security testing and certification of payment facilities; and
6. Have good financial credit and character standing of the key share holders and key executives.

KPMG - Supporting the Change

As part of our commitment to the development of the Payments industry, we will be providing the 'Payments Transformation Quarterly Business Update'. If you would like to continue receive these updates or have any questions regarding the information provided, please contact:

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What is the Outlook for Foreign Investors?

The guidelines for foreign or foreign joint venture companies has not been resolved and therefore the market is yet to be opened to them. Many of the companies that have foreign investors and foreign players such as Paypal, AMEX, VISA, Mastercard, etc. are still waiting for permission to participate in obtaining licenses.

Many global players have taken alternative routes to participate in the growing market by establishing partnerships with existing local companies through licensing products & establishing service agreements. Existing Variable Interest Entity (VIE) structures are likely to continue to provide their services through these existing structures.

What is the Future of Payments in China?

The China online market is still very active with 2012 first quarter online payment market volumes achieving RMB776 billion, representing more than double the previous year. Licensing regulations for non-bank payment service providers seems to have helped to provide a healthy environment to spur growth by addressing consumer protection and payment security issues.

With 196 licensed companies, competition is tough as the payments market is still largely dominated by the big four players namely Alipay, Tenpay, ChinaPay and 99Bill. Fledgling companies must now find their core competencies and start fighting to secure their futures.

As the acceptance of the third party payment market grows, many of these providers are venturing beyond their traditional online gaming and internet business to offer convenient payment

services for corporate clients in areas including logistics, insurance and transportation. These areas are commonly where traditional banks are failing to provide adequate solutions to date.

Although third-party payment services are developing rapidly, China UnionPay is an entity that many of the companies continue to work with as it is the only bank card organisation in China that operates an interbank transaction system that functions across regions and borders.

This said, it is anticipated that the Chinese government and PBOC will slowly open the payments market to foreign and global players within the next two years and this will then allow and encourage increased competition and improved development of services for the China market and its consumers.