

# Payments Transformation

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**CONSULTING**

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## *Consumer Payments Improvements*

*With the global economic crisis creating a 'new norm' for businesses, China is looking to its domestic market in order to stabilise its own economy. The payments transformation in China is a key factor in supporting this approach. One of the components of this strategy is to improve the processing of retail payments, which*

*offer consumers more convenience and cost-effective ways to pay. This approach is seeing an increase across the country in initiatives and investment in the principles and technologies that will promote consumer spending and maintain retail liquidity.*

## *Developing Hong Kong's Payments Market*

In June 2011, the Hong Kong Monetary Authority (HKMA) issued a circular requiring local banks to improve security on ATM withdrawals to better protect consumers. This move has seen the introduction of Chip and Pin technology into the Hong Kong payments ecosystem. However, this technology is not new; the UK, for example, introduced the technology in 2004.

One of the effects of Chip and Pin is to improve consumer and merchant confidence in the payments ecosystem, an initial step in the adoption of further payment mechanisms. For Hong Kong, AIs are required to have implemented Chip and Pin capability in their ATM network from February 2013; they should enable the function for Chip based cards by March 2013.

As well as looking at the point of consumer interaction, banks are required to assist in improving the payments efficiencies within the clearing

process. More recently, the HKMA has made three further announcements all designed to improve the consumer's interaction with the payments environment:

- Improved clearing for RTGS – now three times a day – which will assist consumers in transferring funds more quickly between banks
- Improved cross-border clearing of RMB through the eBilling solution – increasing the convenience for Chinese consumers to buy and sell goods across the border
- Guidance and direction on forming a legislative framework for retail payments – providing consumers with greater protection when performing payments in the SAR.

# China's Mainland Payment Changes

In China, there has also been a number of recent changes in the approach to providing consumers with improved efficiencies and quality in the consumer payments space:

- The China International Payment System (CIPS), which was announced earlier this year, is designed to promote and enable the RMB as an international currency with easier cross-border settlement for consumers and businesses alike. Its development is of great interest to both Chinese domestic and international ecosystem participants alike, and we will continue to monitor how the government will design the solution and ultimately rollout the service.

*The development of clearing systems across China, including Hong Kong, is accelerating as a direct consequence of the payments transformation.*

- In the last year, the PBOC has been preparing for the roll-out of their China National Advanced Payment System (CNAPS) i.e. the large-scale delivery of CNAPS2 into production. This will significantly improve the consumer experience as faster interbank transfers become available on the platform – a core competency for any effective clearing solution.

The development of clearing systems across China, including Hong Kong, is accelerating as a direct consequence of the payments transformation, which is occurring globally. The need for the clearing systems to be efficient and cost-effective is to support the anticipated explosion in electronic payments that is predicted for the market. The level of investment being made and rapid timelines involved could indicate that there is a concern amongst financial institutions on their ability to cope with the potential surge.

## 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:

**Mary Chong**

Partner  
Consulting

mary.chong@kpmg.com  
+86 (21) 2212 3280

**James McKeogh**

Director  
Consulting

james.g.mckeogh@kpmg.com  
+852 2847 5018

# The Future of Payments

Improving existing payments processing will certainly assist in promoting swifter payments to be performed, but initiatives are also underway to deliver new ways for the consumer to transact.

Both domestic and international ecosystem participants are looking at the Hong Kong and China markets as 'test beds' for new ways to pay for future expansion. Paypal is currently rolling out their solution for accepting credit cards that utilises the capability of mobile to deliver truly flexible merchant payment services in Hong Kong. 'Paypal Here' is a credit transacting solution akin to the Square solution that uses Paypal's infrastructure to perform payments.

For China, mobile based payments are definitely seen as a key platform and a means to providing flexibility and convenience to consumers.

A key differentiator for mobile payments is how the technology opens up the payments process to value added features such as discount schemes, targeted marketing initiatives and loyalty approaches. While mobile payments can take many forms, Near Field Communications (NFC) is viewed as a key enabler for providing convenience to consumers.

Earlier this year, the HKMA initiated an investigation into NFC operating models and the anticipated results will provide the government with a view on how these services can be delivered and operated.

In China, UnionPay has defined a standard for NFC interoperability that is aligned to the global standard. This highlights China's desire to integrate with the global payments market, which has the support of the PBOC.

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From a payments perspective, we live in interesting times and over the next two to three years, we will continue to see developments and improvements in the payment space such as the eventual move away from cash based transactions for consumer spending. While this will not be a quick transition, the process of change has already begun and for existing players in the payments ecosystem who are not yet embracing new technologies, whether they are consumers, merchants, banks or payments processors – the message is simply 'be aware'.

It is important to remember that NFC is not just a payment solution; it provides a channel on the mobile platform for secure information interchange that can be expanded to multiple industries. However, from a consumer awareness perspective, payments is likely to be the initial adopter.