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CHINA CALLING



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Chinese mobile payment.

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CHINA CALLING

The mobile-payments giants Alipay and WeChat Pay are working hard to expand acceptance outside China, and the United States is a prime market.

Here's what that could mean for U.S. merchants—and for the comparatively less successful U.S. wallets.

BY JOHN STEWART



You will encounter a
Chinese mobile payment.

In the four years since its launch, Apple Inc.'s Apple Pay mobile-payment service has been adopted by 252 million users globally, or nearly one-third of the active base of iPhone users, according to estimates released last month by Loup Ventures.

Those look like impressive numbers—until you dig a little deeper. Just 38 million of those Apple Pay users are in the United States, where adoption has been slower than anyone, including tightlipped Apple, expected.

Now consider a couple of alternatives. Alipay, from Ant Financial Services Group, is a 14-year-old service that has been adopted by at least 600 million users. Its rival, Tencent Holdings Ltd.'s WeChat Pay, could be Venmo's big brother. Like PayPal Holdings Inc.'s peer-to-peer payment platform, WeChat Pay ties into a popular messaging app. In its seven-year history, WeChat Pay has scooped up users by the bushel, reaching a total of at least 800 million.

Now these two Chinese giants are on Apple Pay's home turf. Alipay has recruited 175,000 U.S. merchants that cater to Chinese travelers and has signed deals with First Data Corp. and Verifone Systems Inc. to expand their store footprint even more.

"With the Chinese middle class, the fastest-growing online consumer market in the world, slated to hit 600 million by 2022, now is the time for U.S. businesses to participate in this lucrative market," an Alipay spokesperson says.

For its part, WeChat Pay is gearing up to sign more U.S. merchants yet this year, again focusing on Chinese tourists, according to an interview a WeChat Pay

cross-border payment executive gave to CNBC in July. WeChat Pay did not make an executive available to *Digital Transactions*.

But why are these payment services so fixated on serving Chinese citizens as they travel, and—as some experts wonder—will it be long before they begin signing not just popular businesses but consumers as well?

That latter prospect has the attention of U.S. payments executives. "We get a lot of calls about the Chinese payment apps," says Sarah Grotta, director of the debit and alternative products advisory service at Mercator Advisory Group, Maynard, Mass. "The first question I always get asked is, Should financial-services providers in the United States be concerned. I get a lot of that."

'THE BALL IS YET TO DROP'

Ant Financial's abortive effort last year to acquire the well-known money-transfer company MoneyGram International Inc. may have sparked some of that concern. But the progress its mobile-payments service is making to serve Chinese visitors has also earned the close attention of payments observers.

"They're clearly selling to merchants now," says Steve Mott, a veteran payments consultant based in Stamford, Conn. "The ball is yet to drop on when they'll start marketing to [U.S.] consumers."

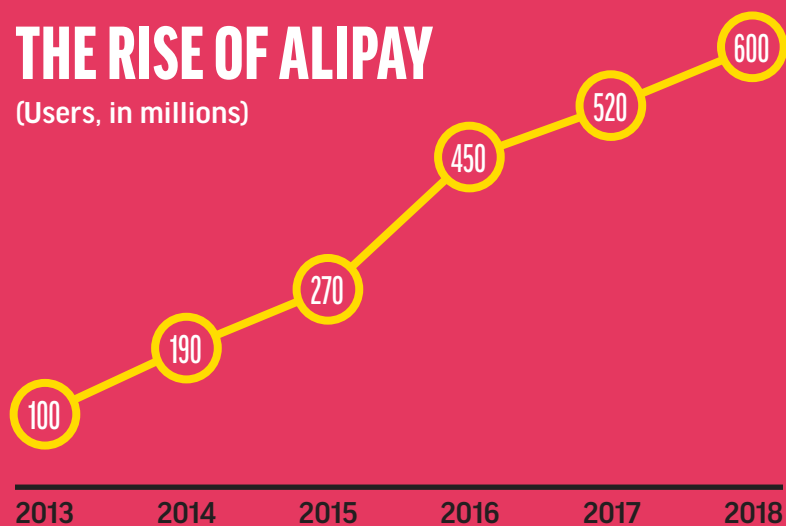
Working with the big merchant processor First Data Corp., Alipay has already recruited 175,000 U.S. merchant locations. And the business of wiring stores to take Alipay or WeChat Pay is attractive enough that it has drawn specialist players like Citcon USA LLC.

"I don't have any specifics, but we can't rule out the possibility to expand the consumer base beyond Chinese tourists," says Chuck Huang, a former Visa Inc. executive who is chief executive and founder of Citcon, a Santa Clara, Calif.-based company that helps merchants with the technology they need to process the quick-response (QR) codes both Alipay and WeChat Pay rely on.

UnionPay International, China's answer to Visa and Mastercard Inc., makes no bones about its ambitions to recruit U.S. cardholders, many if not most of them businesspeople who travel frequently to China. In April 2016,

THE RISE OF ALIPAY

(Users, in millions)



Source: Technasia; DMR; company reports

a UnionPay member bank began issuing the first credit cards to American citizens.

But whether these cards can be used to fund Alipay and WeChat Pay transactions is another story. Neither company will disclose how much of its volume stems from cards versus cash accounts, though the Alipay spokesperson says “a large portion” of transactions on its system are funded with bank or money-market accounts.

Both wallets disallowed foreign cards until early this year, when WeChat Pay made a tentative move in that direction by allowing expats living in China to link non-Chinese credit cards. To make that work, though, the app must be downloaded in mainland China, Hong Kong, Macau, or Taiwan.

‘LIMITED’ AMBITIONS

Still, some observers say either Alipay or WeChat Pay could work with local banks to distribute their apps in overseas markets. “It will probably require some partnerships but it’s certainly believable,” notes Richard Char, senior vice president of business development at Verifone, which also has an agreement to support Alipay’s overseas acceptance effort.

Through a connection to its China-based gateway, the San Jose, Calif.-based maker of point-of-sale devices connects Alipay directly to special-purpose terminals in stores in Europe and the United States to cater to Chinese travelers.

Right now, though, it’s these tourists only that use the service. “We’re not seeing use of Alipay or WeChat Pay by locals, not even Chinese locals,” says Char, who adds he tried to sign up for an Alipay wallet himself and immediately ran into obstacles. Among other things, “You have to be vouched for by other Alipay members, that was my experience,” he says.

For now, the tourist trade may be quite sizable enough for Alipay and WeChat Pay. In the U.S. market, some 2.97 million Chinese tourists visited popular destinations in 2016,

UNIONPAY EX-CHINA

(Cards issued outside Mainland China, in millions)

Late 2014	33
April 2016	54
October 2017	90

Source: News releases and reports

the latest year for which numbers are available from the Commerce Department. That represented a 15% increase from 2015. Those visitors spent \$33 billion, up 9%. This year, Alipay says projections indicate the Chinese tourist count will grow to 4 million.

In fact, China now sends more tourists to the United States than any other country except the United Kingdom and France. “My sense is that their ambitions have been quite limited to Chinese customers at San Francisco, New York, and other entry points for [overseas] travelers,” says Zilvinas Bareisis, a senior analyst at Boston-based financial-services technology advisory firm Celent.

GROWING THE PIE

It’s not hard to see why the mobile giants have been developing acceptance networks in foreign markets. Their dominance in China is such that, combined, they account for 92% of mobile-payments volume, with \$15.5 trillion of total volume in 2017, according to data compiled by New York City-based investment-information service CBInsights (chart, page 36).

That’s in a home market that has been, until very recently, closed to foreign competitors. Only in 2015, for example, did China allow Visa and Mastercard to seek clearing licenses for domestic payments.

Unless Alipay and WeChat Pay can grow the pie, and fast, they need either to mine more volume from bank transfers and straight-up card payments or follow Chinese citizens as they travel abroad.



Alipay in action: Cracking the code for mobile-payments success?

Photo: Verifone

The arrival of a Chinese payments service on U.S. shores is nothing new. In 2013, UnionPay had struck deals with Fidelity National Information Services Inc. and Bancorp Bank to issue prepaid cards in the United States, with Bancorp as the issuer and FIS as the program manager.

Three years later, as noted earlier, came UnionPay-branded credit cards, this time with Industrial and Commercial Bank of China, the country's biggest bank by assets, as the issuer. At the time, UnionPay had 54 million cards issued outside of China, a number that by last fall had swelled by 67% (chart, page 34).

But as big as ICBC is, few could imagine when they emerged the proportions the two nonbank mobile-payments players would assume. Alipay came first, in 2004, as a solution to a growing problem faced by Taobao, an online marketplace operated by Alibaba Group Holding Ltd., the progenitor of Ant Financial: how to make online payments possible for consumers who, for the most part, had no means of paying digitally.

With virtually no competition from credit cards, Alipay grew fast enough to be spun off in 2010 as a separate unit. Three years later came the idea of having users salt away idle escrow funds in an online money-market account that earns interest and charges no fees to move money in and out. By that time these escrow funds had already run up to billions of dollars.

In parallel with these developments, WeChat Pay emerged in 2011 as a service of WeChat, a huge messaging network created by Tencent as one of a number of Internet services, including cloud computing, social networks, digital content, and online advertising.

Seven years later, Tencent is still reporting rapid growth for its mobile-payments service, particularly in physical stores. In its earnings report for the June quarter, the company said its average daily transaction volume had risen more than 40% year-over-year. Its offline volume alone was up 280%. The report did not state the absolute figures.

'A FULL LIFESTYLE APP'

That diversity of services is a key factor in the rapid growth of both payments products. Alipay, for example, handles payment but also lets users manage mundane functions like hailing a cab and booking a hotel room. "It is a full lifestyle app," the spokesperson for the company says by email. "It is important to take all that information and services and put them under one identity, and we haven't seen anybody else do that yet."



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But there was another factor contributing to the rapid growth of both services: when they emerged, there was no substantial non-cash payment alternative. In the United States, the so-called Pays—Apple Pay, Google Pay, and Samsung Pay—have to compete with a solidly established base of plastic payment cards that do the job pretty efficiently. In fact, with contactless EMV cards, payment with plastic can be just as swift and effortless as with a mobile phone.

The Chinese technology companies, by contrast, introduced mobile-payment services that even the most rudimentary roadside stand could accept. All the merchant needed was a QR code that customers could scan with their phone. And that code could be printed on a sheet of paper and pinned to the front of the stall. The user simply scans the code and enters the transaction amount and a PIN.

The payment method caught on rapidly as the base of smart phones grew. But merchants were pleased, too. “QR was less investment for the merchant,” says Mohammad Khan, president and cofounder of Omnyway Inc., a San Francisco-based payments-technology company that builds QR-based mobile-payments apps for merchants like Kohls Corp.

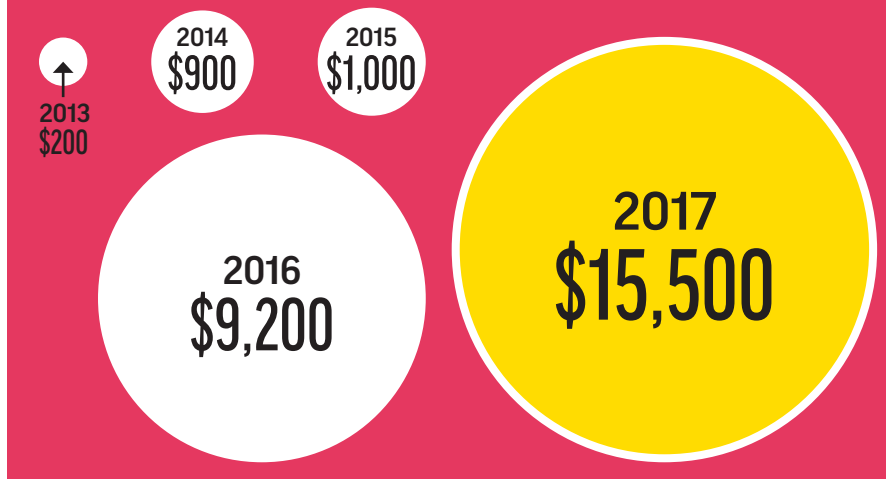
Watching the rapid growth of Alipay and WeChat Pay—as well as Paytm in India, in which Alibaba holds a 40% stake—is a bittersweet experience for Khan, formerly a top executive at ViVOtech, a now-defunct company that tried for years to sell near-field communication to banks and payment networks, with decidedly mixed results. “I worked so hard to make NFC go,” he says.

All three of the Pays rely on NFC, which is a sophisticated—and, some experts argue, superior—technology for payments.

But for China’s cash-based merchants, NFC could well have been overkill. And now, with both Alipay and WeChat Pay pushing to build out a U.S. merchant network, QR codes might offer the fastest route to acceptance.

ALIPAY + WECHAT PAY

(Total payment volume in China, in billions)



Source: CBInsights, compiled from various sources

“The U.S. doesn’t have a tradition of contactless payments,” notes Windsor Holden, who follows mobile payments worldwide at Juniper Research, a United Kingdom-based consulting firm. “Apple Pay is doing a reasonable job, but, that said, it’s a comparatively small market.”

‘THE LONG GAME’

Now the question is whether either Chinese wallet will make a play for U.S. consumers, and if so, how soon. Experts who see this coming say it’s likely to be years away, chiefly because the hard work of building out an acceptance base will take time. Mott calls it “the long game.”

Holden agrees. “I would say it’s going to be a lengthy process,” he says. “The first market will be Chinese tourists, the second market will be overseas workers and Chinese immigrants, then U.S. residents of Chinese extraction, then from that point you get to a wider demographic.”

What could be attractive to merchants if that “wider demographic” kicks in is that UnionPay card transactions reportedly carry an advantageous interchange rate. Omnyway’s Khan pegs it at roughly 70% of Visa or Mastercard rates.

That prospect—coupled with QR code technology in place of NFC—could resonate with U.S. merchant executives who view NFC and related routing issues as too much under the control of the card networks. “In the United States, merchants have strategic concerns about NFC,” says Mark Horwedel, chief executive of the Merchant Advisory Group, which advocates on behalf of large retail companies in payments matters.

He says most merchants would welcome Alipay and WeChat Pay, but not unconditionally. “Large merchants understand they’re paying the highest [transaction] costs in the world, and desire to encourage disruptors. But it depends on the investment and whether there’s a material number of users,” he says.

If that’s the rub, the Chinese wallets have passed the test in their home market. And if they truly are playing “the long game” in the United States, they may have plenty of time to figure out how to do it here. **DT**