

Country Payments Guide

China



Global



Omni-channel



Technology



中国支付概况

It's easy to get carried away with big statistics when discussing China, but one story illustrates just how quickly the Chinese e-commerce market is sweeping all before it.

The biggest 24-hour period for e-commerce shopping in the US – Cyber Monday – generated impressive sales of \$2.29 billion in 2013. But by just 1:04 pm on Single's Day, 2013, a Chinese celebration for bachelors and bachelorettes, Chinese shoppers had already sprinted past this figure, breaking the previous year's record and spending \$3.1 billion. But the party was just getting started – after the day was over, Chinese shoppers had spent \$5.7 billion (RMB 35 billion) – making Cyber Monday's \$2.29 billion record pale in comparison.

Single's Day is a good illustration of just how rapidly the Chinese e-commerce juggernaut is rising. By 2020 the market is estimated to be worth more than the US, UK, Japan, Germany, and France combined.

However, for all the dizzying growth, there are a number of challenges that international merchants should keep in mind as they enter this unique market. This report will walk you through some of the key challenges, examine the market's major payment methods, and offer practical advice based on extensive, on-the-ground experience.

A snapshot of the Chinese shopper

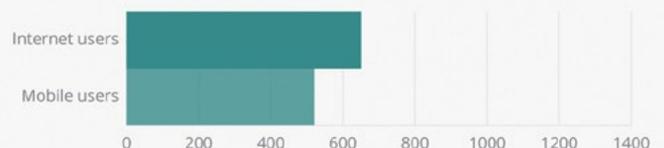
The Chinese market today can best be described in four words: young, mobile, urban, and growing.

To expand on these points a little, half of all e-shoppers are between the ages of 24 and 30, and the majority are located in one of the major economic centers, including the Tier 1 cities of Beijing and Shanghai,

and highly-populated provinces of Guangdong, Zhejiang, and Jiangsu (although it should also be noted there is currently stronger growth in the less affluent areas of central and western China).

These young, relatively affluent shoppers are powering a massive uptake in smartphone adoption. Of approximately 650 million people online in China, a whopping 80% access the Internet through their mobile device. And in terms of growth in online shopping, the e-shopper population reached over 300 million by the start of 2014, up 60 million from last year. However, with a population of 1.4 billion, the online shopping demographic still represents only 25% of the total population, meaning plenty of potential growth ahead.

Internet users in millions



E-shoppers in millions





UnionPay, Alipay, and Tenpay account for approximately 80% of the payments market.

The m-commerce landscape

The impressive mobile usage rates are reflected in m-commerce growth – in 2013 China's mobile payment market increased by more than 700 percent, to 1.22 trillion RMB (\$199 billion), and around 70% of Chinese consumers have purchased a product or service through their smartphone, compared to only 46% of US consumers.

Another interesting point to note about m-commerce is that 80% of mobile shoppers made fewer than four purchases in 2013. This suggests that while most Chinese e-shoppers are happy to make the occasional purchase at present, as user experience and choice continue to improve, there may be a much greater average volume of transactions from individual shoppers in the near to mid-term future. For merchants, it is crucial to consider how to optimize the m-commerce experience in order to reach a critical mass of Chinese shoppers.

Cross-border e-commerce

China's young, urban, upwardly mobile shoppers are driving a groundswell in cross-border e-commerce growth. In 2010, Chinese shoppers spent \$1.95 billion (RMB 12 billion) on cross-border transactions. By 2013, this had mushroomed to over \$11 billion (RMB 70 billion). For international merchants eyeing the Chinese market, this is good news as it underscores the fact that significant traction can be made with a cross-border approach to the market.

Legal and political considerations

In spite of the huge upside potential, China's opaque regulatory environment can be a challenge – even for domestic companies. For example, in early 2014, local heavyweights Tencent and Alibaba introduced a new form of payment leveraging QR code technology. Just months later, China's central bank, citing security concerns, suddenly declared the method unacceptable, sending stock prices into a spin. And in mid-2013, China blocked MasterCard from processing credit card transactions in RMB.

Furthermore, no Chinese payment institution is allowed to co-operate with foreign card companies in developing cross-border payment businesses involving RMB bank accounts or RMB payment accounts.

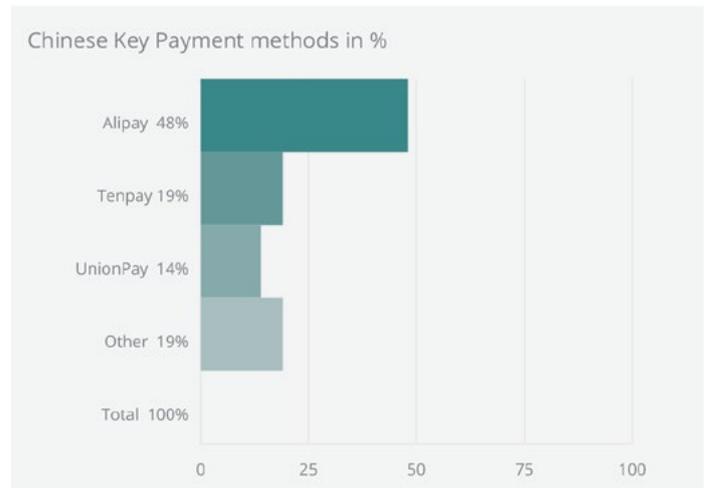
Combine this regulatory environment with the "Great Firewall", which restricts access to politically sensitive and purportedly harmful websites,

and the effect is a long list of global businesses that have tried and failed to make serious inroads into the market, including Google, Facebook, and eBay, among others.

Key payment methods

Three main players – UnionPay, Alipay, and Tenpay, together account for approximately 80% of the market and dominate the current online payments landscape. Alipay controls just under half of the online payment market, Tenpay just under 20 percent, and China UnionPay just under 15%.

Let's take a look at these key players one by one.





UnionPay is the only interbank network in the market.

China UnionPay 中国银联



While China UnionPay has the smallest market share of the three big players, we mention it first because it is the only interbank network in the market (excluding Hong Kong and Macau), linking the ATMs of fourteen major banks and many smaller banks throughout Mainland China. Owned by the central bank, it has a monopoly on processing RMB-denominated transactions using debit and credit cards in China. At this point, it is the largest card scheme in the world (by number of cards issued), and is rapidly extending its issuing footprint overseas. Moreover, it has recently embarked on a campaign to translate its dominance in offline payments into the online world.

Merchant services

UnionPay facilitates both domestic and cross-border transactions for any card it issues. It offers two key integrations for merchants, SecurePay (more commonly known as UPOP or UnionPay Online Payments), and the newer ExpressPay.

SecurePay/UPOP is a fully authenticated redirect that grants users the ability to pay by any of several underlying payment methods, the most important of which is UnionPay-issued debit cards. Because it is a fully secure online payment method, with it there is no possibility of chargebacks. However, it cannot be used for recurring payments.

ExpressPay is suited to recurring payments. For merchants that operate on a recurring payment model, it is worth noting that recurring transactions are an important feature in China compared to other Asian markets – on a similar level to the US and European Union.

Key stats

- 3.5 billion cards in circulation
- \$5.25 trillion in transactions in 2013 (second only to Visa)

What Adyen offers

UnionPay offers integrations for both SecurePay and ExpressPay. With SecurePay, Adyen gives users the ability to pay by one of several underlying payment methods, including UnionPay-issued debit cards. With ExpressPay, Adyen offers a solution that enables frictionless recurring payments.

Below are the detailed features offered by the Adyen integrations:

SecurePay

-  Debit, credit, and prepaid cards, and e-bank supported
-  Page redirect
-  Fraud liability shift
-  15 processing currencies
-  10 settlement currencies, including RMB
-  Refunds/Partial refunds

ExpressPay

-  UnionPay credit cards
-  Shopper remains on merchant page
-  One-click/Recurring payments
-  15 processing currencies
-  10 settlement currencies, including RMB
-  Refunds/Partial refunds



Alipay provides payment services for major Alibaba e-commerce platforms such as Taobao and Tmall.

Alipay 支付宝



Alipay.com is a third-party online payment platform that provides an escrow payment service to reduce transaction risk for shoppers, and partners with more than 65 financial institutions, including Visa and MasterCard. As it is owned by e-commerce conglomerate Alibaba, Alipay provides payment services for major Alibaba e-commerce platforms such as Taobao and Tmall. Because its primary product is an eWallet, users typically have a broad range of payment options when paying via Alipay.

Merchant services

Alipay Cross-Border E-Payment Service allows buyers to pay for goods sold on international partner merchant websites using RMB. Alipay remits the sum in one of 12 foreign currencies to the international merchant in settlement. To do this, there is no need to set up a local entity or bank account, and the service provides international merchants with access to the Chinese market at a low cost.

Key uses

- Transfer money to bank and other Alipay accounts
- Pay credit card and utility bills
- Use at online checkout on many websites (for lots of websites, it's the only payment option)
- Use to checkout on shopping apps Tmall.com and Taobao.com (these are escrow services)

Key stats

- 300 million users
- 900 billion RMB in mobile payment transactions from more than 100 million users in 2013 (more than PayPal and Square combined)
- Connects more than 460,000 Chinese businesses

What Adyen offers

Adyen enables two key checkout processes with Alipay. The first is a redirect to the Alipay payment page, and includes both desktop and mobile-optimized versions. The second allows users to go through the payment process directly inside a merchant's online or in-app environment, and gives the merchant substantially more control over the shopper experience. Adyen is one of the first payment service providers to have developed this direct connectivity with Alipay.

Below are the detailed functionalities offered by the Adyen Alipay integration:

Alipay	
	Page redirect to Alipay for desktop
	Or Page redirect to Alipay for mobile
	Or Shopper remains on merchant page
	One-click/recurring payments
	Refunds/Partial refunds
	7 processing currencies
	Settlement in EUR, USD



Tenpay supports the payment needs of QQ, a mobile social platform with 800 million monthly active users.

Tenpay 财付通



Tenpay is a payment method that was launched by online giant Tencent in 2005 to support the payment needs of QQ users, a mobile social platform that includes shopping, gaming, and microblogging functions and which claims to have 800 million monthly active users. While Tenpay is less popular than Alipay, its integration with QQ gives it a significant reach nonetheless.

Merchant services

Similar to Alipay, Tenpay has a cross-border e-payment service that allows shoppers to pay for goods sold on international partner merchant websites using RMB.

Tencent also offers a shared QQ/Tenpay login button for merchants, which helps shoppers to quickly log in to merchant's websites with a Tenpay account.

Key uses

- Pay credit card bills and withdraw money to bank accounts.
- Top up mobile credit
- A QQ shared login enables Tenpay users to swiftly log on to merchants' websites.

Key stats

- Over 200 million registered user accounts
- Tenpay has over 80 financial institutions with over 300 access points.
- A million merchants across 20 industries.

What Adyen offers

Below are the detailed functionalities offered by the Adyen Tenpay integration:

Tenpay	
	Debit cards
	Page redirect
	RMB processing
	Offshore RMB Settlement
	Refunds/Partial Refunds

A method to watch: WeChat Payments 微信支付

WeChat is a Tencent-owned mobile social network and messaging service with 438 million monthly active users (and growing), that enables brands to sell to followers with its own WeChat Payment functionality, which is actually the same backend payment channel/technology as Tenpay. (Note: some sources refer to this as Weixin Payment, since Weixin is WeChat's Chinese name).

While WeChat Payment is not currently a major payments player, in August 2014 Tencent announced a partnership with Baidu (China's dominant search engine), and Dalian Wanda Group (a conglomerate that owns department stores, movie theaters, and hotels, among others) to bring mobile payments to the point-of-sale in Wanda's retail outlets. This means that in the near future, in one integrated process shoppers will be able to search for a service, find a place that offers it, and pay for it with WeChat Payment/Tenpay.

WeChat's growth and the fact that this initiative is backed some of the most successful Chinese companies of the Internet era means that this is definitely a development to watch, particularly with regards to payments.



Credit cards and other payment options

Traditionally, Chinese consumers have a conservative attitude to saving and prefer not to use credit if it can be avoided. Despite this, China is among the world's fastest-growing credit card markets, with 46 million cards issued in 2012, all of which are UnionPay cards (the vast majority being single-branded as UnionPay, with a minority co-branded with UnionPay and another scheme). MasterCard has predicted that China will overtake the US as the largest market for cards by 2020, by which time it is expected to have 900 million cards.

Outside of UnionPay, Alipay, and Tenpay, there are a number of smaller payments players which together account for the remaining market share. These include 99Bill, China PnR, Yeepay, and HuanXun IPS. Due to their relatively small reach, they are not recommended for any but the largest players in the market.

Advised payment strategy

Although there are three major players in China's payment landscape, international e-commerce businesses can currently reach the majority of Chinese customers with just two – Alipay and UnionPay. This is due to the following reasons:

- a) Alipay is the largest single payment platform in the market, with around 48% share and a bigger slice of the fast growing mobile pie.
- b) As the largest issuer in the world, UnionPay is unquestionably a vital part of the payments mix, and particularly important to reach shoppers who do not have an Alipay or Tenpay account.
- c) Although Tenpay has 20% of the market, many Tenpay users are already Alipay users.

Note: This strategy is advised for the market situation as it now stands. However, merchants should keep an eye on developments regarding the partnership between Tencent, Baidu, and Dalian Wanda Group, as this initiative may give a boost to WeChat Payment/Tenpay.

Merchants should also note that due to the growing number of cross-border enabled UnionPay credit cards, and cross-border payment options for Alipay and Tenpay, it is quite possible to achieve a good volume of transactions simply by offering cross-border payment options.

Key Takeaways

For international merchants in the Chinese market it is advised to keep the following points in mind:

- International merchants without a local entity or joint venture can reach a significant percentage of online Chinese shoppers due to cross-border payment options offered by key players such as UnionPay, Alipay, and Tenpay.
- Merchants should offer a combination at least of UnionPay and Alipay payment methods in order to reach as many shoppers as possible and to optimize costs.
- Recurring transactions in China are more popular than many Asian markets. Therefore, merchants that operate on a recurring payment model should partner with a payment service provider that enables recurring transactions for key payment methods.
- Because a significant percentage of Chinese shoppers access the Internet only or primarily through a mobile device, putting a mobile-optimized experience at the heart of an e-commerce strategy is strongly advised.

Why Adyen?

Adyen continues to build on its long term collaborative partnerships with key players including UnionPay, Alipay, and Tenpay, and provides a dedicated, flexible team, based in Singapore to support merchants in the Chinese market. In addition to offering the key local payment methods of China UnionPay, Alipay, and Tenpay, the Adyen platform has the following capabilities:

- One integration that connects online, mobile, and point-of-sale, making the Adyen platform a true omni-channel solution.
- An unrivaled ability to process over 250 local payment methods and 187 transaction currencies used on six continents, making it the ideal partner for international expansion.
- Real-time conversion analytics, displaying the success rate of the various connections, and giving the ability to make changes to routing set up in real-time.
- Support of the full payment chain. This includes gateway, processor, risk management and its own global acquiring, meaning the Adyen platform covers everything from enabling payment pages to preventing fraud and connecting directly with the payment method, without the need of a third party.
- Fully customizable risk settings that monitor the complete transaction flow while making an automated assessment of the trustworthiness of shoppers and transactions

To find out more, visit www.adyen.com.