

# China's payment giants will struggle to reach international markets

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The Chinese payments titans Alipay, China UnionPay (CUP) and WeChat Pay are sallying abroad, leveraging enormous scale in their home market and taking advantage of unfettered access to European, Japanese, North American and emerging markets.

Few initially national payment networks have attempted, much less succeeded in becoming genuinely global. Underscoring the point, Interac, Cartes Bancaires and BankAxept are the leading retail-payment networks in Canada, France and Norway, respectively. None has ambition or the ability to become multinational. American Express, Discover/Diners Club, JCB and PayPal are tier-two or aspiring global networks. Can any of the Chinese payments giants be more successful?

CUP's a traditional card network cut from similar cloth to Mastercard and Visa. Since its 2002 inception it's enjoyed a protected domestic card-network monopoly. Alipay and WeChat Pay while also full-spectrum retail-payment systems, are of a different stripe. They launched as e-commerce and mobile-commerce systems on dominant tech platforms.

Alipay achieved critical mass providing payments on Alibaba, the world's largest e-commerce marketplace, similarly to how PayPal amassed users on eBay. WeChat Pay use exploded within China's largest chat network. In

contrast, American tech titans such as Google, Apple, Facebook and Amazon use payments to enhance their multinational platforms and increase consumer engagement, but work with established payment networks.

Chinese banks and CUP embraced Apple Pay, attempting to forestall Alipay and WeChat Pay. It's not working. Apple's share of the Chinese smartphone market is slipping and Apple Pay's payments share in China is minimal.

Alipay and WeChat Pay have more than 90% of the mobile commerce market and are challenging CUP at the physical point of sale.

General-purpose retail-payment systems are two-sided markets that must have or have a clear path to critical mass on both sides of the network to be relevant and deliver value to either. Alipay, CUP and WeChat Pay decidedly have critical mass in China.

Alipay has 520 million active users. CUP did 38 billion payments in 2016 and at yearend had 6.1 billion cards. WeChat Pay has 600 million active users. Over Chinese New Year they sent a mind boggling 46 billion "red packets", small payments on the order of \$1 to wish recipients well.

Abroad, however, they have a long way to go.

Unlike CUP, Mastercard and Visa, Alipay and WeChat Pay exist within powerful ecosystems , at least in China, boosting their centrality in users' lives and helping them win share from the card monopoly. Alipay's critical

to Alibaba. Alipay's parent Ant Financial has 330 million wealth management customers, 100 million borrowers, 392 million insurance policyholders and 257 million credit-bureau reports. WeChat Pay's parent Tencent is the leading online games supplier. WeChat has 938 million users. Through Webank it offers credit and asset management products. It's also developing credit-rating to go toe-to-toe with Ant Financial.

The Chinese payments giants' proposition for acquirers and merchants abroad in the right markets is compelling. To build acceptance Alipay, CUP and WeChat Pay leverage merchant acquirers and processors, targeting areas frequented by Chinese tourists and business travelers, and online retailers selling goods relevant for Chinese consumers. Last year, 120 million Chinese tourists spent \$110 billion overseas.

Outside the Inner Kingdom, CUP, Alipay and WeChat Pay are accepted in 162, 30 and 15 countries respectively. Alipay and WeChat Pay will close the gap. Acceptance is one thing. Issuing payment products abroad, however, will be difficult, particularly in well-served developed markets. For example, in the U.S. only one bank issues CUP, a prepaid card.

Alipay likely will be the first Chinese payments titan to establish a meaningful issuance beachhead(s) overseas. It's been assembling a portfolio of assets abroad with which it can deliver payments and a broader suite of financial services.

Ant Financial and Alibaba have put about \$1.5 billion into Paytm, an Indian digital wallet and payment network with 210 million active users and 5 million merchants. Notwithstanding Prime Minister Modi's ballyhooed

invalidation of the 500- and 1,000-rupee notes last year, India remains an overwhelmingly cash-payments market. Annual card payments are roughly 3.6 per capita.

Mastercard, Visa and the National Payments Corporation of India introduced a standardized mobile-payments QR code, in part, in response to Paytm. Unlike the U.S., India is up for grabs.

In 2016 Ant Financial took a minority stake in Ascend, a provider of e-payments and micro-loans in Thailand, Indonesia, the Philippines, Vietnam, Myanmar and Cambodia. It invested \$200 million in Kakao Pay, which provides mobile payments, bill payments and money transfer in Korea. It took a minority stake in the Malaysian bank CIMB's card-based mobile-payments venture. And Ant took a 45% stake the Filipino MNO Globe Telecom's payment subsidiary Mynt.

Alibaba owns a controlling stake in the Southeast Asian e-commerce platform Lazada. Tellingly, its payments arm HelloPay is being rebranded Alipay.

And, Ant Financial looks set to pick up MoneyGram for a song. With more than 2 billion accounts, 350,000 agents and compliance in virtually every money-transfer corridor worldwide, it will facilitate Alipay providing P-to-P and more payments globally.

Alipay and WeChat Pay are distinctive networks sure to be used by hundreds of millions of Chinese abroad online and at the physical point of sale. In emerging markets, they may be able build payments critical mass,

replicate the ecosystems they've built in China, and thereby, challenge Mastercard's and Visa's network primacy. India, Indonesia and the Philippines are battlegrounds worth watching.

Mastercard and Visa, however, are the only truly global networks, having issuance and acceptance worldwide, and dominating cross-border retail payment networks in every country on the planet save Iran, North Korea, Sudan, Syria, China, and Crimea.

Alipay and WeChat Pay will force traditional payment networks to up their game, particularly in in-play emerging markets. Whether they can become relevant at scale for consumers outside China remains to be seen.

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