



# Innovations in China's e-Payment Market

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# Opportunities

- | Rise of the middle-class and consumer economy
- | WTO entry, banking reforms, opening up of financial industry
- | Largest mobile & telephone market (900M), 2<sup>nd</sup> largest internet user base (210M)
- | Largest bank card infrastructure (1.4B bank cards, 50M credit cards)
- | Internet transforming from a content platform to a transaction platform (payment to transaction is like what search is to information)
- | Huge potential markets for remote transactions (e-ticket est. \$20B by end of 2008; mobile top-up \$20B, 20% y/y growth)
- | High demands for new payment channels

# Challenges

*Payment is the single biggest unmet demand in China:*

- | Lack of trusted and secure payment mechanism, low credit card penetration, no personal checks
- | Inefficient legacy payment systems (COD, Bank/Postal wires)
- | Bank centric, debit card driven payment environment with little trust, virtually no protection for the consumers
- | A mix of online and offline markets: payment is not only a bottleneck to ecommerce, but also the missing link in traditional businesses.

# Impact of e-Payment

- | Solves not only the bottleneck of eCommerce, but also the missing link in many traditional businesses
- | Helps transform Internet from an content/information medium to a transaction/commerce platform
- | The “Last Mile Effect”: payment is the critical link to close the transaction loop. Consumer analytics and database marketing.
- | Helps build consumer credits and trust



## Payment Environment: U.S. vs China

U.S.	China
User Centric	Bank Centric
Credit Card	Debit Card
Trust Level High	Trust Level Low
Value Chain Mature	Value Chain Very Early Stage
P2P Payment Opportunities	B2B, B2C, C2C wide open
Geographical Difference Minor	Geographical Difference Major
Market Oriented Regulations	Policy Driven Regulations
Value Driven Competition	Price War/Lack of Innovation

# Payment Classification

- | Access Channel: Internet, mobile, telephone
- | Fund Source: debit card, credit card, non-bank card (prepaid card)
- | Transaction Model: B2C, B2B, C2C
- | Payment Method: Gateway, Account-based
- | Merchant Association: Dependent, Independent
- | Payment Cycle: Per Transaction, Subscription
- | Money flow: funds-in, funds-out



# Emerging Payment Models in China

## Payment Gateway

- | Banks are targeting the same customers
- | Low entry barrier, thin value proposition → “price war”
- | Provide value add such as antifraud: CyberSource model?

## Mobile Payment

- | Usability and Security
- | Transaction or SP model?

## PayPal Copycat

- | Needs Killer App(s)
- | Trust & Marketing
- | Regulations

## Dependent-Embedded Payment

- | Impartiality & Neutrality
- | Regulations



# Payment Ecosystem

Bank Account

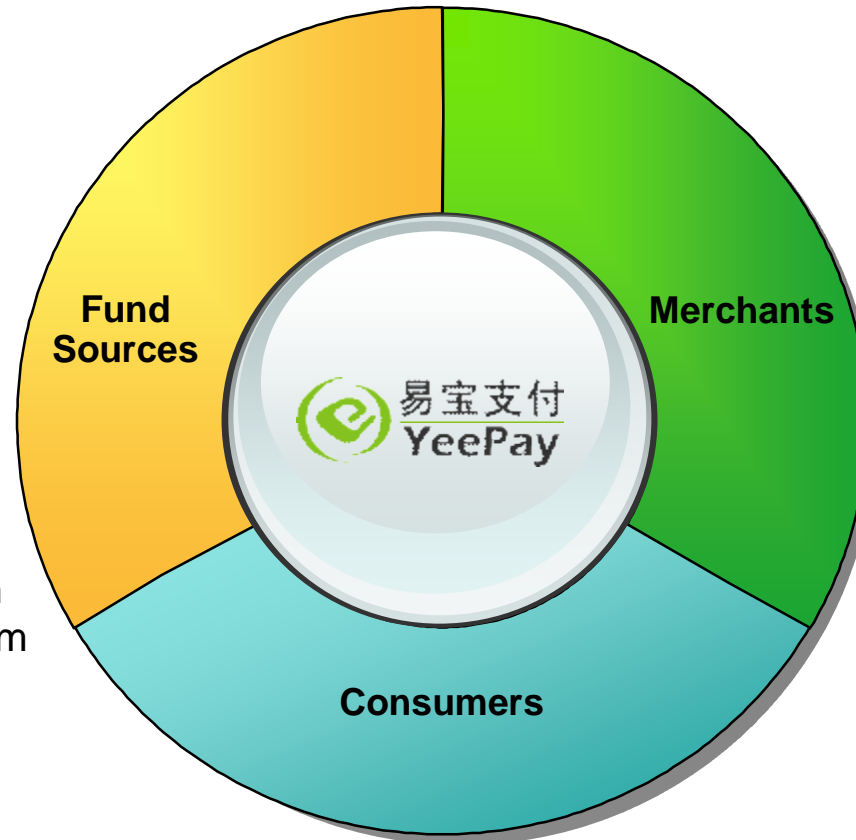
Debit Card

Credit Card

Prepaid Card

Reward Points

- Merchant acquisition
- New Revenue Stream
- More applications



Digital Contents

Travel & Air

Telecom

Online Gaming

Online Retail

- Consolidated Settlement
- Cost/risk reduction
- New user channel & value added services

WEB

IVR

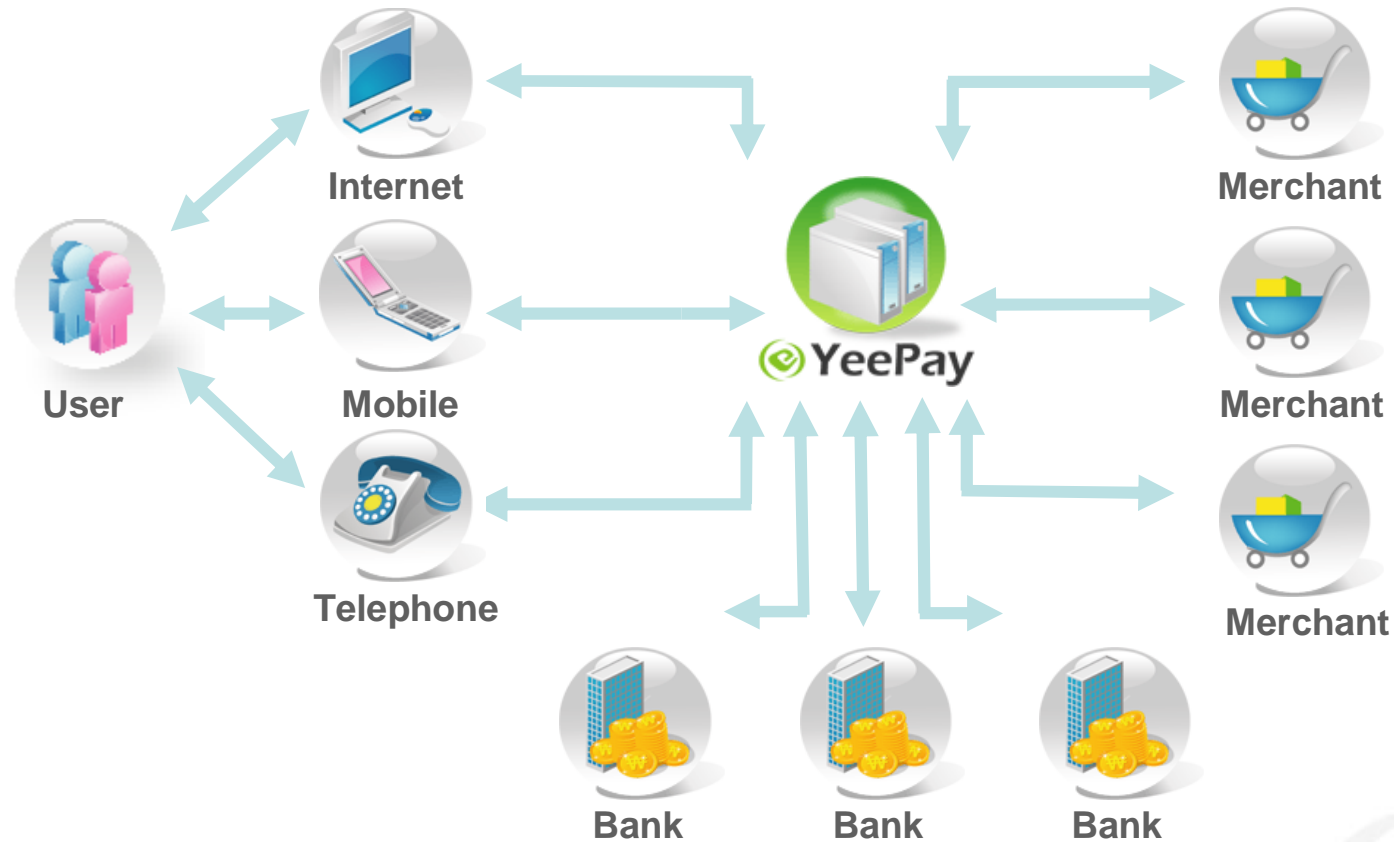
SMS

WAP

- Universal access & maximum outreach
- Convenience & Security
- Value added services

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# Payment Architecture



- | Front End: access through the Internet, mobile or telephone
- | Back End: connect to commercial banks for clearing and settlement

# Case Study: Telephone Payment

## I Market & Problem

- Fast growing offline market: Travel, TV Shopping, Catalog Shopping, etc
- Inefficient legacy payments for phone orders: COD, postal wire etc.
- Debit cards not accepted over phone
- 98% traditional businesses have no online presence

## I Solution

- Payment service fully integrated with bank's existing IVR system
- Users dial into telephone banking to authorize payments
- Extended to support credit cards processing

## I Benefits

- No need to modify client/terminal (IVR is the common denominator)
- Turn every phone into a virtual POS (900M), address much broader user base and offline merchant base
- Drive future growth for online payment when telephone payment merchants move online



# Case Study: Mobile Prepaid Card Payment

## I Market & Problem

- Widely available distribution network for China Mobile Prepaid Cards
- Users uncomfortable with using bank cards for online payment
- Digital content providers in need for payments, high costs of mobile billing

## I Solution

- Payment gateway supports non-bank card payments using China Mobile Prepaid Cards
- Users buy prepaid cards with cash, enter PIN numbers to pay online, gateway resells PINs to online top-up users

## I Benefits

- Ease of use, eliminate concerns over security/fraud of bank cards
- Attract mobile users to online payment, become distribution channel for merchants
- No dependency on mobile operators, lower costs for merchants
- Significantly higher margin for payment provider



# *Lessons on Innovation*

- | Innovations need to be “indigenous” and fitting the local market dynamics. The “Click and Brick” model in China.
- | Innovations do not have to be only technological ones.
- | Innovations can even look like setbacks: e.g. from Internet to telephone, from bank card to cash-based prepaid card...
- | Innovations facilitate value-driven competition, break the price war, differentiate in a highly competitive, fragmented, non-linear, emerging market in China.



# How to Differentiate

- | Provide a Total Solution: online & offline (internet, mobile, telephone). B2C, B2B, C2C; Bank Cards and Non-Bank Cards; Funds-in & Funds-out
- | Improve Quality of Service: risk management, security, scalability, reliability
- | Partner with banks: seamless integration through proprietary interfaces (high-limit transactions, joint-accounts)
- | Maintain independence: not involved in sales of goods, maintaining neutrality and impartiality
- | Focus on vertical markets: domain expertise (online retail, digital entertainment, air & travel, telecom), “On-Demand” custom made solutions
- | Provide value added services: integrated online/offline marketing through merchant network and consumer base.

# YeePay: Revolutionizing Payment in China

- | Mission: Enable consumers and merchants in China to send and receive payments anytime, anywhere securely, easily and cost-effectively
- | Founded in August 2003. 170 employees.
- | Investors: DFJ, Intel Capital, W.R. Hambrecht
- | Headquarters: Beijing, China; Branch offices: Shanghai, Guangzhou, Shenzhen and Chengdu.
- | Traction: Commercial launch in April 2005. 6000+ merchants in Online Retail, Digital Contents, Gaming, e-Ticketing, Travel, Insurance, Financial Services, Education, Telecom etc. 10M registered users.
- | Recognitions: Industry awards including the “Best Payment Platform for China”, “Top Innovator” and “China Internet 100”
- | First to receive National Information Security Certification and AAA Enterprise Credit Certification



# YeePay Customers



# Summary

- | Payment is one of the biggest unmet demands and presents great opportunities in China.
- | There are several emerging payment models in the market. The successful model needs to address the unique issues of the Chinese market.
- | Innovations need to be “indigenous”, not necessarily technological advancements.
- | Innovations can bring values and competitive advantages in an emerging market like China.