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), 2nd 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 a 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

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<tr>
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<th>U.S.</th>
<th>China</th>
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<tbody>
<tr>
<td>User Centric</td>
<td>Bank Centric</td>
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<tr>
<td>Credit Card</td>
<td>Debit Card</td>
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<td>Trust Level High</td>
<td>Trust Level Low</td>
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<td>Value Chain Mature</td>
<td>Value Chain Very Early Stage</td>
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<tr>
<td>Geographical Difference Minor</td>
<td>Geographical Difference Major</td>
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<td>Market Oriented Regulations</td>
<td>Policy Driven Regulations</td>
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<td>Value Driven Competition</td>
<td>Price War/Lack of Innovation</td>
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Payment Classification

- Access Channel: Internet, mobile, telephone
- Fund Source: debit card, credit card, non-bank card (prepaid card)
- 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

**Fund Sources**

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

**Sources**

- Bank Account
- Debit Card
- Credit Card
- Prepaid Card
- Reward Points

**Merchant acquisition**

- New Revenue Stream
- More applications

**Channels**

- WEB
- IVR
- SMS
- WAP

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

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<th>Market &amp; Problem</th>
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<tr>
<td>Widely available distribution network for China Mobile Prepaid Cards</td>
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<td>Users uncomfortable with using bank cards for online payment</td>
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<td>Digital content providers in need for payments, high costs of mobile billing</td>
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<th>Solution</th>
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<tr>
<td>Payment gateway supports non-bank card payments using China Mobile Prepaid Cards</td>
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<tr>
<td>Users buy prepaid cards with cash, enter PIN numbers to pay online, gateway resells PINs to online top-up users</td>
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<th>Benefits</th>
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<tr>
<td>Ease of use, eliminate concerns over security/fraud of bank cards</td>
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<tr>
<td>Attract mobile users to online payment, become distribution channel for merchants</td>
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<td>No dependency on mobile operators, lower costs for merchants</td>
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<td>Significantly higher margin for payment provider</td>
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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.