

# China Opens Market Access to U.S. Credit-Card Networks

By AnnaMaria Andriotis | Published May 12, 2017 | [Features](#) | Dow Jones Newswires

Markets reacted coolly to what could be great news for card networks Visa and Mastercard given the U.S.-China access agreement announced late Thursday.

While China opening market access to these firms and others could be a significant victory for the companies, investors have seen this play out before only to find many restrictions for the U.S. card networks to expand there.

Analysts caution China might not necessarily adhere to this provision -- the agreement doesn't explain what would happen if China doesn't create an even playing field for the networks -- and said in the best-case scenario, it would still take a long time for Visa and Mastercard to gain significant market share there.

Among the obstacles: working through Chinese government red tape and gaining more bank and merchant acceptance.

"This is one small step forward in a very long journey, and it's been a step that's been going on for a long time," said Chris Donat, a managing director who covers credit card companies at Sandler O'Neill + Partners LP.

Visa was up 0.56% and Mastercard rose 0.45% in Friday trading.

China announced two years ago it would open the domestic processing market to outside companies prompting excitement among shareholders and analysts. But China then implemented a series of infrastructure challenges that made it very difficult for Visa and Mastercard to gain share there. At a meeting last year, the People's Bank of China and the

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country's payments clearing association told Chinese banks to stop issuing cards with foreign networks.

Chinese banks have since been issuing single-network cards that work within China, mostly via its dominant domestic network China UnionPay, which is owned by Chinese banks. UnionPay has more than a 90% share of card payments in China, according to trade newsletter the Nilson Report.

Some banks have also been issuing separate cards that run over Mastercard's network that can be used when Chinese consumers travel abroad. But analysts say the need for foreign-network cards has been declining in recent years as China's UnionPay has been gaining more acceptance in international markets.

Visa and Mastercard have been preparing applications for a domestic license in China and both companies' chief executives have detailed the complications ahead.

"Even if at this moment we had our ducks completely in a row and knew exactly how we wanted to proceed in terms of filing for domestic licenses...it's a very complicated review process," said Visa Chief Executive Al Kelly during the company's earnings call in April.

Restrictions in China's market have begun to affect Visa. Despite a strong quarter, Mr. Kelly said the phasing out of dual-branded cards in China began to affect Visa "in terms of payment volume and revenue, and we expect to feel this impact a bit more as we look ahead."

Going forward, the best-case scenario would involve Visa and Mastercard gaining more access to the domestic Chinese market.

"If this actually translates to practical changes on the ground where China's requirements become softer and Visa and Mastercard have opportunity to make progress...this could be a material opportunity for the networks," said Darrin Peller, U.S. payments analyst at Barclays.

But a lot of heavy lifting still needs to be done for significant market share to actually materialize.

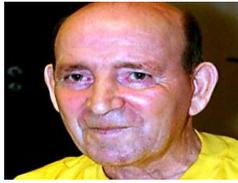
"There still needs to be an infrastructural build out at the point of sale to have wide enough adoption of Visa and Mastercard brands," Mr. Peller said. "But Visa and Mastercard aren't going to do that until the government makes this an even playing field."

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