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Online threat to China's UnionPay outweighs foreign card rivals

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By Engen Tham

SHANGHAI, Nov 13 (Reuters) - Chinese bank card operator UnionPay, which may soon have to defend its near monopoly against Visa and MasterCard, faces a much bigger threat from online payment providers such as Alipay, and is upgrading its systems to meet the danger.

Shored up by a raft of protectionist measures, the state-backed company has grown in just over a decade from an unknown name to a true heavyweight, commanding 50.6 percent of all the global cards in circulation in 2013, according to the Nilson Report statistics newsletter.

China said last month it would open its credit card market to foreign players following a World Trade Organization ruling in 2012 that it discriminated against U.S. card firms.

The prize for the foreign companies would be access to what is projected to become the biggest card market in the world by 2020. Transactions were already around 32 trillion yuan (\$5.22 trillion) in China in 2013, according to

data from the People's Bank of China.

But analysts say the obstacles to a successful foreign invasion of UnionPay's dominant card position are considerable, as UnionPay charges merchants much lower rates than the Western card companies - as low as 0.04 percent, compared with MasterCard's 0.60-1.85 percent in Britain for certain cards.

"The low rates in China will make entry by foreign players extremely difficult as business

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cases will not stack up, based on the lower rates," said James McKeogh, a partner in consulting at KPMG China.

A more immediate and perilous threat comes from online payment firms like Alipay, a unit of giant e-commerce company Alibaba, which already dominates a parallel and growing payment universe that rivals the traditional card set-up.

ALIPAY CHALLENGE

In less than three years, Alipay has grown to control nearly half of China's online third-party payment market, tapping the hundreds of millions of Chinese still without a credit card. That market commanded gross merchandise volume of 17.2 trillion yuan (\$2.8 trillion) in 2013, according to estimates from iResearch.

UnionPay, on the other hand, commands a mere 11.9 percent of that market and faces competition from over 250 new online providers that have been awarded licences from Beijing as it aims to stimulate consumer demand.

Alibaba told Bloomberg on Wednesday it was open to working with eBay Inc's PayPal to expand its payment options, a plan that could magnify Alipay's reach and put further pressure on UnionPay.

With the opening of the market, Li Ye, an analyst at Analysys International, believes that with government support, Alipay could even challenge UnionPay's offline payment dominance.

"Alipay is well placed to become the next UnionPay," said Li.

UnionPay is nevertheless putting up a fight. Last month it started working with airlines Lufthansa, Emirates, Etihad and Air Holland to provide payment services for online airline tickets through its cards for the first time.

In September, it teamed up with Samsung in near-field-communication payment (NFC), which lets users pay by tapping their phones on a device available at local shops.

UnionPay's company spokesman said it plans to "deepen its transformation into a market-orientated firm. And embrace market competition."

But Alipay is also trying to clinch a deal with Apple on its own NFC payment system, a senior executive from Alibaba told the Wall Street Journal on Tuesday.

Alipay also has the advantage of being at the heart of the freewheeling, profitable and fast-growing Alibaba empire, which just eight weeks ago pulled off the world's biggest-ever IPO in New York.

UnionPay comes from a much more restrictive lineage, a product of government policy, so there are a lot of zero commission transactions that keep a lid on profit. (\$1 dollar = 6.1257 Chinese yuan) (Additional reporting by Denny Thomas in Hong Kong and Shanghai Newsroom; Editing by Lisa Jucca, Kazunori Takada and Will Waterman)

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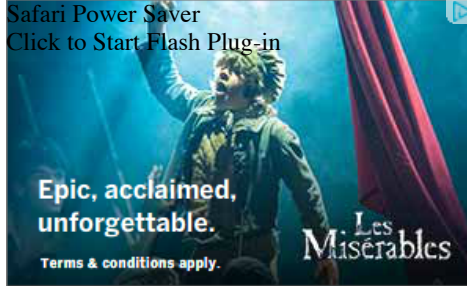
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