



# THE CHANGING FACE OF MOBILE PAYMENTS

- Mobile payment services are a new battleground for Tencent and Alibaba, the leading online companies in China.
- WeChat Wallet, owned by Tencent, and Alipay Wallet, owned by Alibaba, are the biggest players in the Chinese mobile payment market, but Alipay currently has the dominant share.
- WeChat's existing 600 million users and Tencent's growing ecosystem of business platforms should help WeChat Wallet narrow the market share gap with Alipay.
- Apple is also hoping to launch its mobile payment service, Apple Pay, in China, although the company has made no official announcement about a launch date.
- So, we see a future in which several major players carve up the Chinese mobile payment market between them.

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### Introducing WeChat Wallet

Instant-messaging service WeChat claims to be the world's fastest-growing social app, and it is now moving into mobile payments with its WeChat Wallet service. This venture is the latest market entry from WeChat's parent company, Tencent, which has expanded into sectors that range from finance to e-commerce.

WeChat was first released in 2011 as an easy-to-use social platform offering free chat, voice messages, photo sharing and gaming. Its core functions are similar to those of US-based chat app WhatsApp, but WeChat also offers a social-networking element. Tencent has since added options that allow customers to make mobile payments through the app.

Tenpay, launched by Tencent, is a PayPal-like, integrated B2B, B2C and C2C online payment platform. In 2014, Tenpay expanded from online payments to the mobile payment market by introducing WeChat Wallet, allowing users to link their bank accounts to make e-payments. Some of the first functions the platform offered were:

- Taxi ordering
- Booking cinema tickets using the user's location (the app would find the nearest cinema)
- Delivery of geo-targeted coupons
- Ability to make person-to-person transactions
- Ability to make utilities payments

Now, WeChat Wallet allows users to pay for items in stores via QR code/barcode scanning. The system works by generating a new QR code every 60 seconds (for security reasons), which the user then shows to a cashier, who scans the code to process the payment.

Users are currently able to use WeChat Wallet for in-store purchases from only a limited number of partner companies. 7-Eleven and Dairy Queen are among the names that have signed up to participate in the in-store payment system. However, Tencent is focusing on growing the number of partner companies that will accept its "Quick Pay" method.

WeChat Wallet can also be used to pay at thousands of vending machines. To make a vending machine purchase, users scan a unique QR code, just as they would to make an in-store purchase.

*WeChat's existing 600 million users base will help it to narrow the gap with Alipay.*

However, with vending machines, users first scan the code of the item they wish to purchase and then make the payment on WeChat Wallet before the vending machine pops out the product. Often, drinks in the machines are offered with a discount.



At first, only Chinese users were able to create a WeChat Wallet account. Later, international users were also allowed to register with the service, as long as they had a Chinese bank card.

WeChat Wallet seized the opportunity of 2015's Lunar New Year to launch a major promotional campaign. Its Red Envelope gift initiative involved sending roughly a billion virtual red envelopes to WeChat users. According to *Forbes*, Tencent and its partners offered US\$128 million in these envelopes over the festive season that users could win by using WeChat's "shake" function. Traditionally, red envelopes containing money are sent to family and friends to wish them good luck at Chinese New Year. The centuries-old tradition is still hugely popular, and with WeChat Wallet, users were also able to send red envelopes to other people who had a WeChat account. The campaign resulted in fully 200 million new users linking their bank accounts with WeChat Wallet.

### **WeChat Wallet Is a Part of Tencent's Ongoing Diversification**

Tencent is the largest Internet service portal in China, and the company's roots are in messaging, social media and online games. The company reports that, in the first half of 2015, 57.4% of its revenues came from online games, 23.5% came from social networks and 14.8% came from online advertising. A key focus for 2015 has been driving transaction volumes of the company's payment services as part of its diversification of interests.

In March 2014, Tencent announced a strategic partnership with JD.com, a leading online direct-sales company in China. The partnership allowed Tencent to access physical goods markets and JD.com to access the largest online community in China and increase its user traffic. Accordingly, WeChat Wallet now includes a direct link to JD.com.

Tencent is also moving further into the financial sector. The company took advantage of the Chinese government's recent financial reform that allows privately owned lenders to start operating. WeBank, a joint venture led by

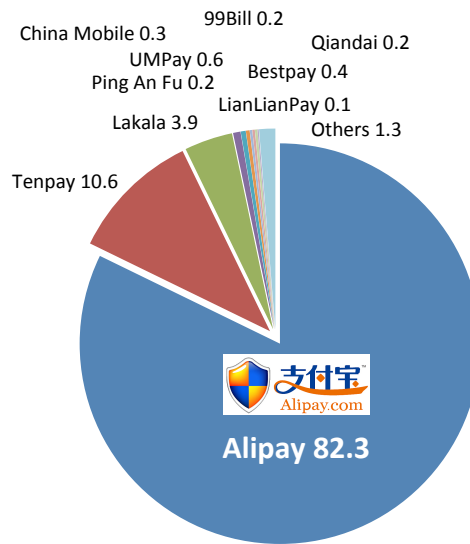
Tencent, was launched at the beginning of 2015 as the first online-only bank in China, according to the *Financial Times*.

**How Big Is the Opportunity?**

WeChat has a huge and fast-growing user base that it can convert to its payment option. The app’s monthly active user numbers reached 600 million in the first half of 2015, according to Tencent. The number of mobile payment users overall in China is also huge, and still growing. Some 580 million Chinese users took advantage of mobile payment options in 2014, according to iResearch, and that number is expected to increase to 660 million in 2015.

Tencent already has a foothold in payment platforms. However, there is still a significant gap between Tencent’s services and market leader Alipay. As shown below, in the third-party mobile payment market in China, Alipay is the clear market leader, with an 82.3% share, followed by Tenpay (including WeChat Wallet) with a 10.6% share. Alipay’s market leadership in mobile payments is disproportionate to its market leadership in online payments overall (see Figure 1, below).

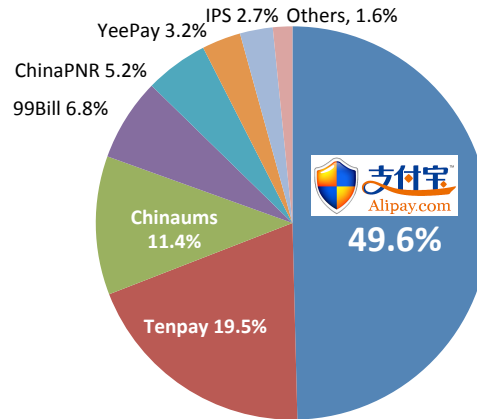
**Figure 1. Market Share of Third-Party Online Payment Providers in China, 2014 (Percent)**



Source: iResearch/Statista

In terms of third-party online payments—i.e., total payments made online, not only on mobile devices—Tenpay had a much larger market share in 2014, 19.5%. The company’s gap with market leader Alipay is not as big in these terms as it is in mobile payments, suggesting there is scope for Tenpay and other players to win share from Alipay in the mobile payment segment.

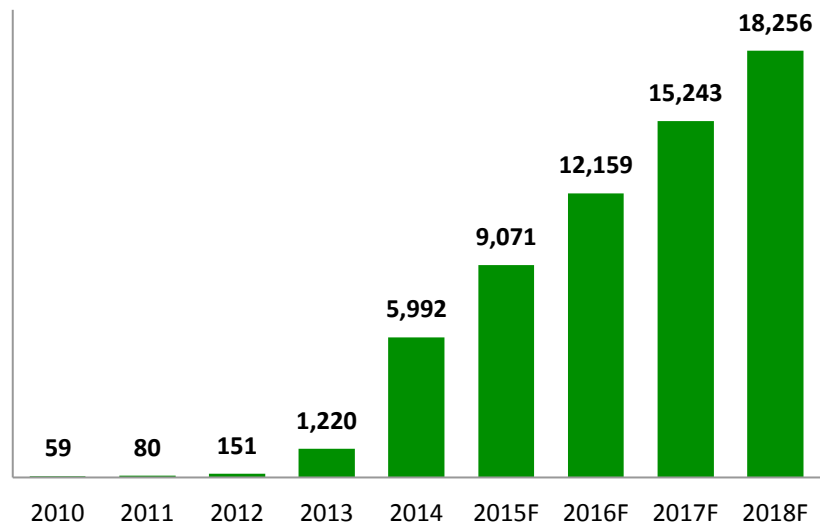
**Figure 2. Market Share of Third-Party Online Payment Providers in China, 2014 (%)**



Source: iResearch/Statista

So, Tenpay has a stronger foothold in the online payment market than it does in the mobile payment market. Combining the users or functions of Tenpay and WeChat Wallet has the potential to help Tencent gain share, and this would echo the way in which Alibaba has combined its different Alipay payment functions. Suggesting the scale of the opportunity, mobile payments are expected to grow by more than 200% between 2014 and 2018, in gross merchandise volume (GMV) terms.

**Figure 3. GMV of Mobile Payments in China, 2010–18F (RMB Bil.)**



Source: iResearch/Statista

**Figure 4. Comparison of WeChat Wallet and Alipay Wallet**

	<b>WeChat Wallet</b>	<b>Alipay Wallet</b>
<b>USPs</b>	Social-networking functions between WeChat users; access to the growing WeChat user base	Part of the Alibaba ecosystem of business platforms; integration with “the making-money wallet” Yu’E Bao, a money market fund
<b>Potential User Base</b>	WeChat has more than 600 million monthly active users	Alipay has more than 800 million registered accounts
<b>Social Payments</b>	Transactions between friends (WeChat contacts)	Transactions between Alipay users
<b>Strategic Partnerships</b>	JD.com, a move from online-only products to physical goods	Negotiations with Apple

Source: Company reports/FBIC Global Retail & Technology

### Alibaba

Alibaba has become the leading e-commerce platform in China through its suite of online marketplaces. But it is also a player in financial services. Alibaba’s businesses include:

- Taobao: The largest C2C online-shopping marketplace in China in terms of GMV.
- Tmall: China’s largest third-party B2C platform for Chinese and international brands and retailers.
- According to iResearch, Tmall enjoyed a 60.4% market share among the main B2C shopping websites in China in 2014, while runner-up JD.com had a 19.5% share.
- Ant Financial Services: Serves consumers and small and micro enterprises.

As technology has evolved over the years, the Alibaba has expanded into different sectors, including financial services that are rivals to Tenpay.

Alipay, operated by Ant Financial, was launched in 2004 as a third-party online payment solution. The service enables its users to make online payments, such as for purchases on Alibaba’s shopping platforms, and to transfer money. As we have already seen, Alipay has proved hugely popular. Like Tencent, Alibaba also entered the Chinese financial sector. MYbank, part of Ant Financial, was launched in June 2015. The online-only bank uses Big Data analysis to evaluate lending risks to individuals and small and medium-sized enterprises.



### Facing Competition from Alipay Wallet

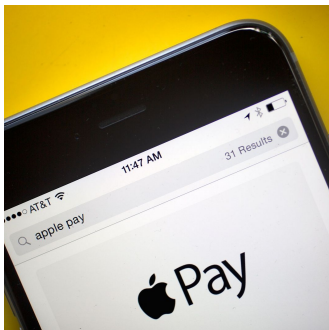
Launched by Alibaba Group, Alipay Wallet is the biggest rival to WeChat Wallet in the mobile payment market in China. Alipay enables its users to easily make online payments. Its Alipay Wallet product focuses on mobile payments, and its functions include:

- Easy shopping at Alibaba’s e-commerce retail platforms
- Bill payment
- In-store (offline) payments via QR code scanning

One of the innovative mobile payment technologies Alipay has been developing is a Smile To Pay function, commonly referred to as “pay with a selfie.” It relies on facial recognition to allow customers to pay for items by taking a picture of themselves.

Just as WeChat Wallet benefits from the huge user base of the social app WeChat, Alipay Wallet gains an advantage from the broad Alibaba ecosystem that allows easy-use access to the company’s numerous platforms. So, both firms are leveraging their scale in adjacent sectors to boost uptake of their financial services products.

### Globally, Apple Pay Is a Big-Name Rival to WeChat Wallet



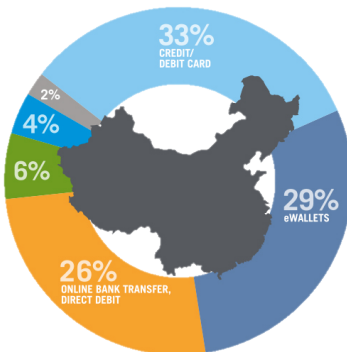
Apple Pay could be the next big competitor in the Chinese mobile payment market. Apple launched Apple Pay in the US and the UK in 2015, but the app is currently not available in China. The company’s CEO, Tim Cook, has openly expressed that Apple is interested in introducing Apple Pay there, according to Reuters. So far, there has been no official announcement, but Cook has confirmed that the company has been in talks with Alibaba about launching Apple Pay in China.

There are significant differences in the technology that the mobile payment apps employ. Apple Pay uses near field communication, whether the user pays in-store or elsewhere (for example, underground, for a subway or rail ticket). This is similar to contactless payment cards. Alipay Wallet and WeChat Wallet, on the other hand, rely on the in-store use of QR code/barcode scanning.

### Looking Ahead

WeChat Wallet has benefited from WeChat’s huge user base, and this is expected to drive further mobile payment market share gains for the company. Alipay’s disproportionately high share of mobile payments in China, relative to total online payments, suggests opportunities for rivals, including WeChat Wallet and Tenpay, to narrow the gap.

Given Tencent’s diversification in the financial and e-commerce markets, merging different platforms could help the company narrow the market share gap. But a threat on the horizon for WeChat Wallet and Tenpay is a partnership between domestic Alibaba and global giant Apple.



Source: Cybersource

Looking ahead, we think there are three possible future shapes for the mobile payment market in China:

1. Alipay maintains its dominance in mobile payments, becoming the default mobile payment option for Chinese consumers.
2. Mobile payment usage fragments into a growing and substantial body of providers.
3. Two or three big names emerge to dominate the market, with share split principally among them.

Given the growth of WeChat Wallet, and its opportunity to use WeChat's substantial consumer base as a springboard to market share gains, we see the third possibility as the most likely. This outcome would also mirror the current shape of the overall online payment market, where we see a couple of major rivals offering strong competition to market leader Alipay. So, we expect the mobile payment market to see competitive shifts as big players such as Alipay Wallet, WeChat Wallet and, possibly, Apple Pay, carve up this large and growing market between them.



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