

FEATURE

Alipay and WeChat Prove That China's Future Is Cashless

Accessible, intuitive mobile platforms have made China an unlikely frontrunner in the race toward becoming a cash-free society.



By Chen Ronggang

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<http://www.sixthtone.com/news/1000731/alipay-and-wechat-prove-that-chinas-future-is-cashless#>

Not long after Alipay, China's most widely used mobile payment platform, announced that it would hold a promotional event called "Cashless City Week" from Aug. 1 to Aug. 8, its main rival, WeChat, announced its own "Cashless Day" event, beginning Aug. 8 and running for the rest of the month. During these periods, businesses can send out coupons over social media, while customers can earn platform-issued rewards, digital "red envelopes" filled with digital money, and other prizes.

Aside from their obvious promotional function, campaigns like these help convince consumers to give up cash, use their smartphones to pay for goods and services, and bring about the gradual demonetization of Chinese society.

If 2014 was the dawn of China's mobile payment era, then the past two years have doubtless been its golden age. According to a report from the scholarly journal Big Data Research, in 2016 mobile payments totaled 38.6 trillion yuan (about \$5.75 trillion), an increase of more than 200 percent over the previous year.

Adam Minter, a columnist for Bloomberg View, called that year "China's Cashless Revolution."

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-Chen Ronggang, writer

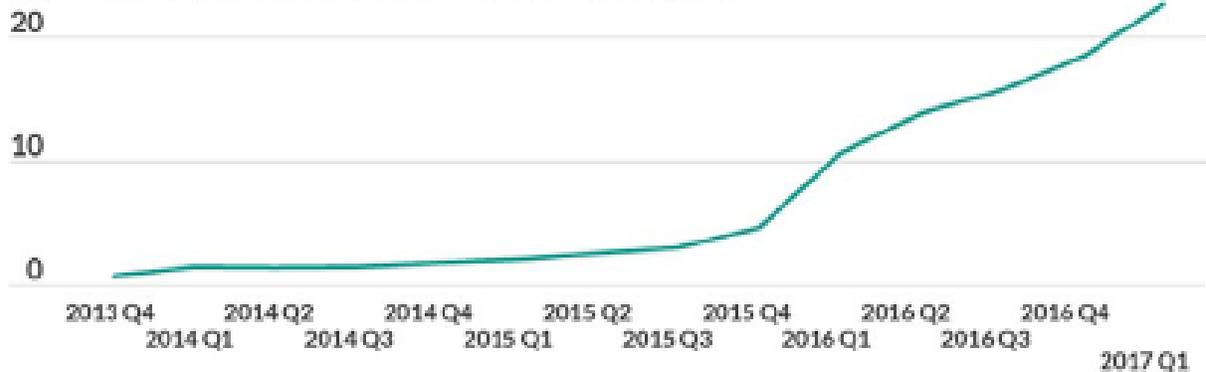
In 2015, British newspaper The Independent predicted that Denmark would become the world's first cashless nation. They never guessed that two years later, the country most often brought up in conversations about cashless societies would be still-developing China. In reality, economic development levels do not have a significant influence on the adoption of payment methods. Instead, there are two key conditions that must be met for consumers to abandon cash and turn to mobile payments: low barriers to adoption and ease of use.

Unlike Apple Pay and other overseas payment platforms that can only be used by linking a bank card, Alipay, WeChat Wallet, and other Chinese third party payment platforms use financial incentives to encourage users to take money out of their bank accounts and temporarily store it on the platform itself.

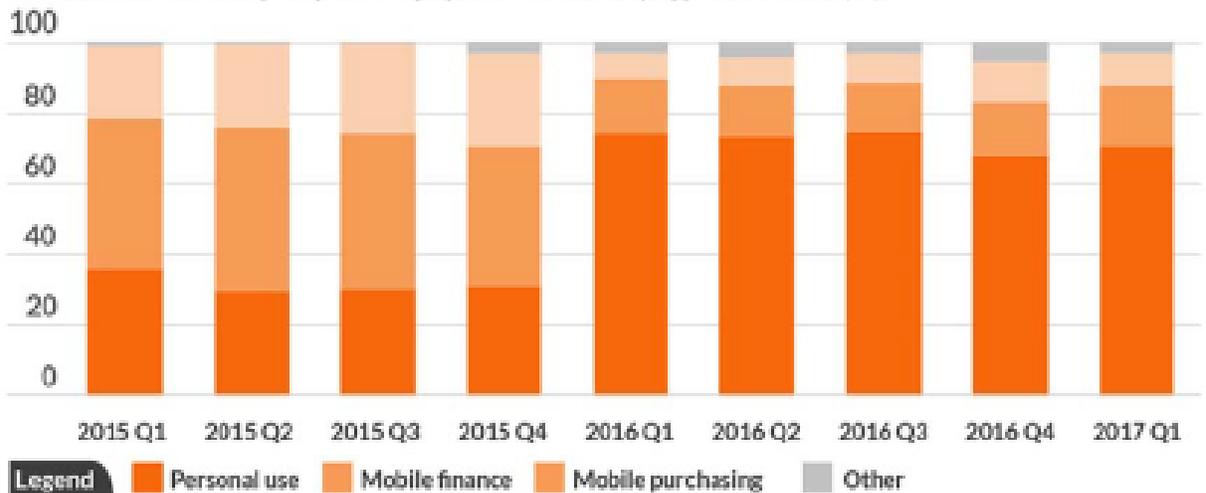
This not only lets users make payments directly through the app, but also earns them money. The rapid rise of mobile payment platforms in China is linked to the differentiated services they offer, which are designed to help them stand out from traditional banks. These services have had the dual effect of attracting

China's Third-Party Payment Market Continues to Expand

Size of third-party online payment market (trillions of yuan)



Breakdown of third-party online payment market by type of service (%)



Note Data was collected from three iResearch studies whose scopes and analysis models differ slightly.

Source: iResearch.

SIXTH TONE
Liu Chang

new users while also strengthening the retention of existing users.

When Alipay first launched its Yu'e Bao account, it offered higher interest rates than traditional banks. Yu'e Bao is in essence a currency fund: Users receive daily interest returns based on the amount of money they have stored in their account. Although these rates are no longer as lucrative as they once were, they remain

higher than those offered for savings accounts at traditional banks. Following Alipay's lead, WeChat Wallet then introduced a similar service. Daily interest returns thus quickly became yet another area of competition between the two platforms.

Additionally, both platforms allow money to be transferred relatively freely. Users can send money to any account on the same

platform relatively quickly and without having to pay service charges. Alipay users can also send money to their own bank accounts for no charge if the transfer comes to less than 20,000 yuan.

According to a quarterly report released by Tianhong Asset Management in June, Yu'e Bao de-posits have already reached 1.43 trillion yuan — an increase of 80 percent from six months ago, and more than the combined current and fixed-term deposits held at the end of 2016 by China Merchants Bank, one of China's major private banking institutions. If the maximum amount each user could store in their Yu'e Bao account hadn't been lowered from 1 million yuan to 250,000 yuan (it has since been lowered further, to 100,000 yuan), then that figure would likely be much higher.

The rate of return offered by Yu'e Bao and WeChat Wallet is obviously not the only factor in their ability to hold on to mobile payment users. Only in societies where internet ecosystems have developed to the point that mobile payments can be used in urban daily life — for example, to make face to face payments, to pay utility bills, to buy tickets for travel, to book hotels, to order takeout, or to rent bicycles — can the likes of Yu'e Bao and WeChat Wallet be allowed to capture and retain large numbers of users.

Currently, the idea of the cashless society is inseparable from the QR code, which acts as the payment intermediary. In cities all across the country — and, to be honest, even in many rural areas — users can simply scan a QR code to quickly and easily pay for what-ever they need. Even owners of roadside fruit carts and late-night noodle stands often display two QR codes: one for Alipay and one for WeChat Wallet.

QR code technology, which was first implemented in the 1980s, has played a vital role in the development of China's internet finance industry. Unlike credit cards, payment systems

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based on QR codes don't require sellers to invest in point of sale (POS) terminals such as credit card machines. In this way, they also cut down on the fees that sellers must pay to banks — fees that had traditionally been passed on to consumers. Even compared to platforms such as Apple Pay that rely on near field communication (NFC) technology — wirelessly sensing when a payment console is nearby — to process payments, QR code-based platforms have a distinct edge in the Chinese market, as cellphones capable of scanning QR codes are ubiquitous, while those that offer NFC support are not.

According to statistics released by Alipay for the Chinese market, since 2012 the Tibet Autonomous Region has had the highest proportion of mobile transactions, exceeding the country's more economically developed coastal provinces. Mobile payment platforms are open to all smartphone users with a bank card, not just those who have credit cards, meaning barriers to their use — such as needing a high credit rating or having to understand a complex set of policies — are much lower.

This low threshold is crucial. Reducing the “learning cost” for customers — how long they take to master the platform — is one of the main achievements of Chinese mobile payment systems, as their simplicity means that a lack of education is no barrier to use. If we compare China's situation with that of India, another large developing nation, the differences are clear. Indian Prime Minister Narendra Modi recently attempted to implement a top-down cash-less initiative, but the project achieved only limited gains. Rural India is home to millions of people — most of them women — who lack extensive formal education. Their unfamiliarity with the technology left them unable to figure out how to use credit cards to buy basic food items.

Additionally, statistics on the average users of Chinese mobile payment platforms

reveal how those most attracted to mobile payments tend to be young people. According to the 2016 Mobile Payment User Survey Report released by the think tank China e-Business Research Center, users under the age of 30 comprise more than three-quarters of total users, greatly out-numbering those from better-off older generations.

In an ideal cashless society, people could use digital payment methods to complete any transaction. The elimination of cash would bring about numerous positive effects, not least a reduction in theft. However, although mobile payments have many benefits, their rapid spread has caused some to express concerns about the safety of their financial and personal information. Hidden security risks still exist in the areas of data transmission and storage, as well as in user identity verification.

So far, although third-party mobile payment platforms have led to changes in consumer habits, they have not fundamentally altered consumption patterns. For the time being, at least, they are unable to completely eliminate cash. With older demographics still reliant on paper money, we must ensure that traditional payment methods can still be used in daily life. From a long-term perspective, however, China's transition to a cashless society is all but inevitable.

Clarification: This article's headline has been updated to better reflect the author's argument. A previous version was titled: "Alipay and Wechat Prove That Payment Revolution Will Not Be Monetized."

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