

Webinar: A look at the Top-10 China Financial Industry Trends for 2015

January 21st, 2015 - 17:00 – 17:45 Beijing Standard Time

The webinar will start in a few minutes.

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Top-10 Financial Industry Trends for 2015

- Top 10 China Banking Trends
- Top 10 China Capital Market Trends
- Top 10 Asia Digital Currency Trends

Moderated by Paul Robinson
Presented by Zennon Kapron
January 21st, 2015

Top-10 China Banking Trends for 2015

1. Private banks will continue to grow
2. **UnionPay continues abroad**
3. **The future of China's mobile payments will be decided in 2015**
4. China shifts to IC cards
5. VTM's
6. Banking profitability will fall
7. Community banking and SMB branches growing
8. Rural bonds
9. Wealth management will continue to be a key product area
10. Chinese financial institutions move away from foreign vendors



Top-10 China Banking Trends for 2015

Trend Two: UnionPay Continues Abroad

Trend Three: The Future of Mobile Payments

Banking – UnionPay continues abroad

- China Unionpay is facing an increasingly competitive situation domestically in China
 - Regulators have recently announced that foreign card processors might be allowed in
 - Alipay and Tenpay are rapidly taking market share, even at POS
- To expand:
 - Move into mobile payments
 - Enter other markets
 - Acceptance
 - AND issuance

Banking – UnionPay continues abroad

Global Acceptance

- Statistics show where Chinese tourists go => CUP has followed the tourists; Asian markets have nearly 100% POS and ATM CUP acceptance

Region	Country	Country HQ Location	ATM Acceptance	POS Acceptance	Issued Cards (million)	Business Lines
SE Asia	Singapore	Singapore (Regional HQ)	100%	70%	0.11	
	Malaysia	Kuala Lumpur	90%	✓	✓	Processing, issuing, online payments
	Vietnam	Hanoi	80%	90%	✓	
Asia (ex Southeast Asia) + Middle East	Hong Kong	Hong Kong	100%	90%	11	Processing, issuing, online and mobile payments, remittance
	Japan	Tokyo	✓	✓	✓	
	South Korea	Seoul	50%	100%	8	
	UAE Dubai	Dubai	50%	100%	✓	
Oceania	New Zealand	Auckland	30%	✓	✓	Processing, issuing, online payments

✓ present, numbers not available

- not present

Banking – UnionPay continues abroad

- Acceptance in Western Europe => surprisingly low
- Latin America, Eastern Europe and Africa Still untapped

Region	Country	Country HQ Location	ATM Acceptance	POS Acceptance	Issued Cards (million)	Business Lines
Americas	US	Jersey City (Regional HQ)	90%	80%	✓	Processing, issuing, online payments
	Canada	Toronto	85%	✓	✓	
Europe	France	Paris (Regional HQ)	50%	✓	-	Processing, issuing, online payments
	UK	London	100%	✓	✓	
	Spain	Madrid	60%	✓	-	
Africa	South Africa	Johannesburg (Regional HQ)	50%	✓	-	Processing, issuing
	Tanzania	-	50%	30%	-	

Banking – UnionPay continues abroad

International Online Payment for Cross-border Shopping

- New partnerships in 2014 – Global Collect, Lufthansa/Amadeus, Apple App Store, e-commerce payment gateways in South Korea
- Domestic consumers increasingly shop online in foreign shops
- Study abroad online tuition payment in RMB also in high demand

Foreign Market Card Issuance

- More challenging as competition is strong
- Approximately 33 million cards issued globally by December 2014, up 11 million from a year ago
- Could reach 50 million in 2015



Top-10 China Banking Trends for 2015

Trend Two: UnionPay Continues Abroad

Trend Three: The Future of Mobile Payments

Banking – The Future of Mobile Payments

- Alipay – 190 Million users, dominant in remote mobile; weak in proximity
- Apple Pay global roll-out; rumors on cooperation with China Unionpay
- UnionPay's Android payment solution in development to control Secure Element in addition to TSM, will back manufacturers
- Market ready for NFC, just need the push:

Mobile Payment Preferences	
% of users that planned on buying a smartphone for their next phone:	98.8%
% of users that had heard of NFC payments:	84.8%
Most common reason to use mobile payments - Mobile Shopping:	54.8%
% of users who have made an NFC payment:	22.9%

Source: Kapronasia primary research, Q3-2014

Banking – The Future of Mobile Payments

- Potentially massive growth after years of standards definition and preparation
- Apple Pay in China in 1H2015, results in a big push for the industry towards NFC
- UnionPay rolls out Android Pay, later than Apple, but the groundwork probably laid

Top-10 China Capital Markets Trends for 2015

1. Chinese FIs abroad
2. New RQFII quotas reach more destinations
- 3. Special financial zones in focus**
4. Chinese institutional traders venturing onto global venues
- 5. HK-Shanghai Connect will continue to grow in importance; not a failure**
6. QDII quota slashed
7. Offshore RMB bonds on the rise
8. New derivative products
9. Online distribution
10. T+0 trade settlement

Top-10 China Capital Markets Trends for 2015

Trend Three: Special financial zones in focus

Trend Five: HK-Shanghai Connect will continue to grow in importance; too early to judge success

Capital Markets – Special financial zones in focus

Shanghai FTZ

- Major brokerages, including GTJA Securities, Haitong, Shenyin Wanguo, established their branches in FTZ
- Investment and asset management companies registered one year after start: 2179
- Shanghai FTZ will be enlarged to include Lujiazui financial district, (Shanghai Stock Exchange), increasing from 28 km² to 120 km²
- Shanghai Gold Exchange International Board – first time that foreign investors can trade gold in China

Exchange Name	Scope
Shanghai Gold Exchange International Board	precious metals
International Energy Exchange	energy commodities: coal, oil, petrochemicals
Baltic Exchange	maritime cargo
Shanghai Equity Asset Exchange	non-standard assets

Capital Markets – Special financial zones in focus

Qianhai Special Economic Zone

- Qianhai Financial Reform Guidance published in October 2014 – encourages Hong Kong FIs to establish brokerages in fund management companies in the district
- CSRC, CBRC, CIRC, SAFE and Shenzhen government are working on policies for Qianhai
- Regulators consider Shenzhen Stock Connect
- Approximately ten enterprises register in Qianhai every day, small and large firms alike, such as HSBC and UBS

Top-10 China Capital Markets Trends for 2015

Trend Three: Special financial zones in focus

Trend Five: HK-Shanghai Connect will continue to grow in importance; too early to judge success

Capital Markets – HK Shanghai Connect

- The HK-Shanghai connect was first discussed in April 2014
- Preparatory work by regulators, FIs and tech vendors ensued
 - Complaints about talent flowing to HK / China from as far away as Australia

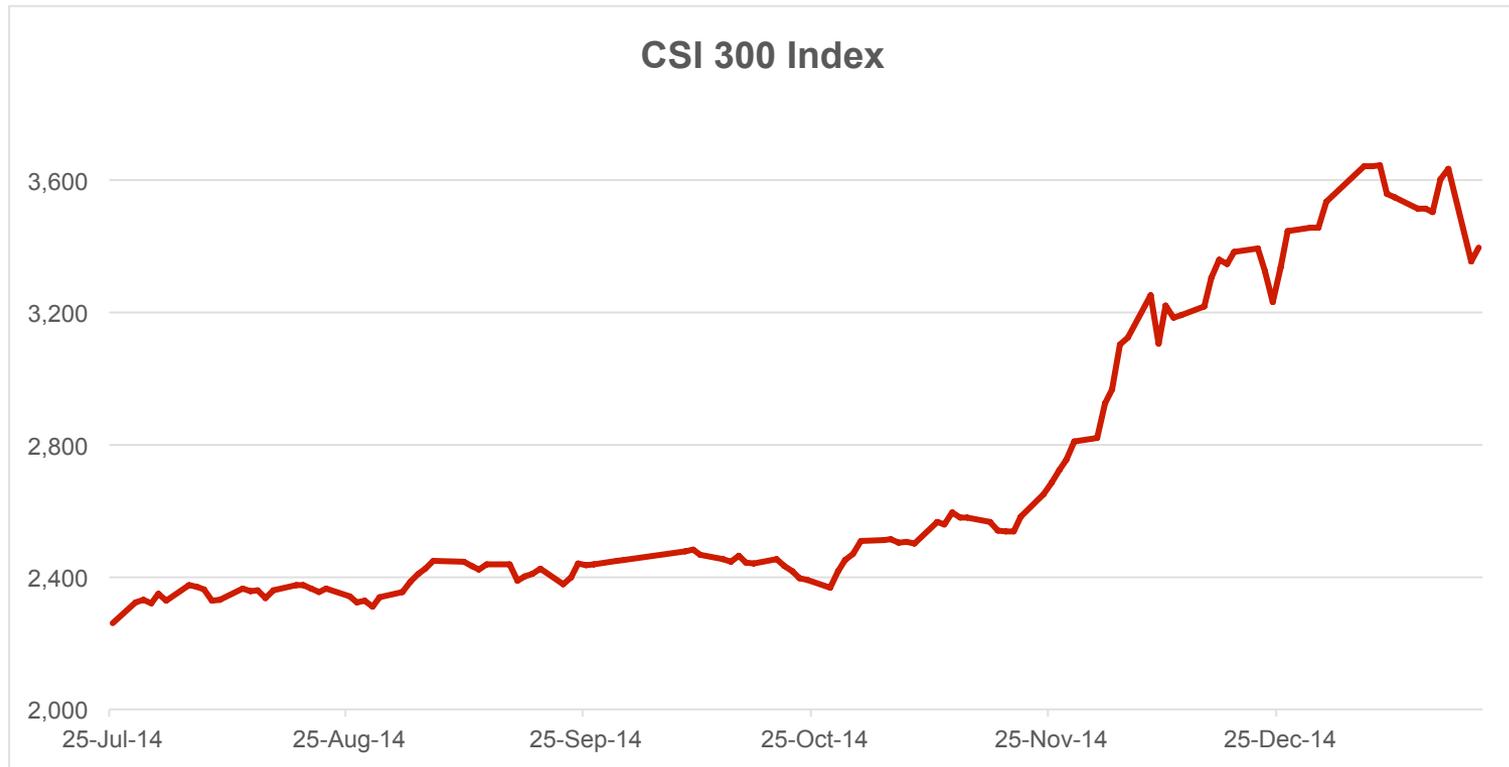
Successful Launch on November 17

- Media hype helped to drive the demand, though some issues remained unclarified – e.g. pre-trade delivery
- Investors exhausted daily Northbound cap on the first day (RMB 13 billion)
- Only 17% of Southbound (RMB 10.5 billion)
- Some point to imbalance as an issue

Capital Markets – HK Shanghai Connect

Results

- Inconsistent demand since launch
- A-shares 44% rally



- Yet, too soon to declare victory...or defeat

Capital Markets – HK Shanghai Connect

- At least part of the stockmarket run-up due to HK Shanghai Connect speculation - Did the link meet the expectation? Will A-Share investment behavior continue?
- MSCI and S&P declared A-shares too hard to access to include in global indices, unlikely to be included in 2015

Positive Outlook

- Issues are being clarified
- Beneficial ownership rights – investors are the owners, Hong Kong Securities Clearing Company is an intermediary
- Technical issues to be solved: difference in trade processing times, differences in report formats

Fundamentals stay the same

- Political will to make the high-profile project a success
- Chinese capital markets attractive for diversification and growth potential
- Institutional investors are slow but bring considerable volume
- Trading volume will grow gradually

Top-10 Asia Digital Currency Trends for 2015

1. Digital currency prices will remain volatile
2. Remittance will be the key killer app
- 3. Virtual currency will struggle at check-out**
4. A major Asian bank will go public about a crypto -tech integration
5. Investment into digital currency firms will decrease in frequency, increase in size
- 6. Overall regulation in Asia will not be positive**
7. Singapore will be key payment / exchange hub
8. Digital currency remittances will be driven from HK
9. Bitcoin will remain the main digital currency by a significant margin, but will not hit mass adoption
10. Blockchain tech will still be talked about, but none will reach scale.

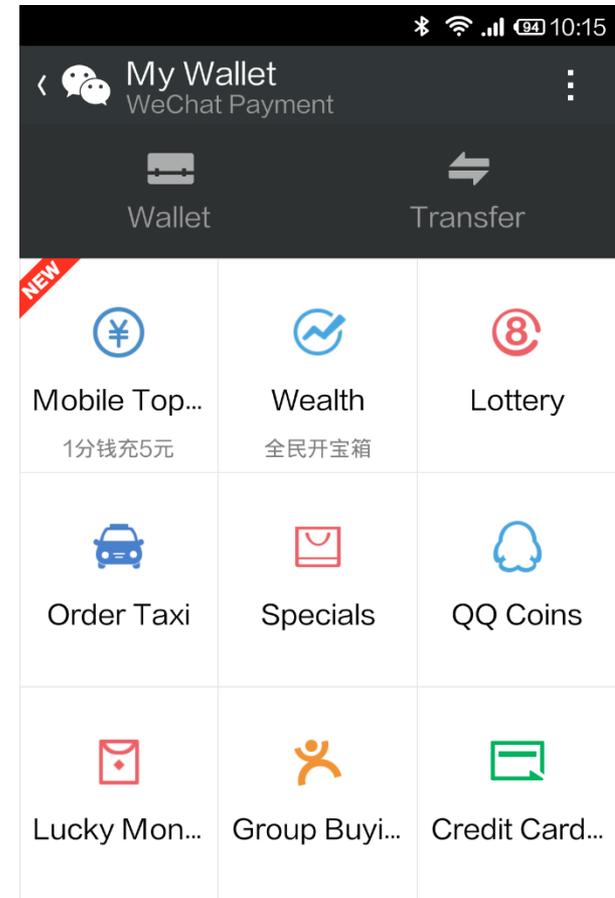
Top-10 Asia Digital Currency Trends for 2015

Trend Three: Virtual currency will struggle at check-out

Trend Six: Overall regulation in Asia will not be positive

Digital Currency will Struggle at Check-out

- The competition at check-out: social 'hubs' with integrated payment functions
- Wechat, an online chat app from Tencent, has become incredibly popular in China.
- Functionality
 - Book taxis
 - Pay friends
 - Buy movie / show tickets
 - Pay bills
 - Mobile top-up
- Increasingly, the more successful payment models are the ones that adapt to China users needs.



Digital Currency will Struggle at Check-out

- Bitcoin and other digital currencies are searching for a killer-app
- Apple created a phone that we never knew we needed
- Do we need to change what already happens at check-out?
- Current Bitcoin business models don't fix much in China:
 - Merchant fees are low with CUP cards
 - Security / privacy no longer seems to be a concern for users
 - Real time domestic payments through banks or 3rd party platforms
 - Exists on its own – not tied into social
- Fails the 'mother test'

Top-10 Asia Digital Currency Trends for 2015

Trend Three: Virtual currency will struggle at check-out

Trend Six: Overall regulation in Asia will not be positive

Digital Currency Regulation will not be positive

- Digital currency by its very nature is 'un-regulated'
- Any regulation could be seen as 'bad'
- Yet, as much as humans seem to dislike the idea of regulation, they like the comfort that it brings
 - E.g. Bank failures in 2006-2008, we still use banks.
- Feeling is that if something is regulated, it will be legitimized
- Bitcoin will need to be regulated

Digital Currency Regulation will not be positive

- Regulation across Asia varied in 2013-2014
 - China – not illegal, but banks can't be involved
 - HK / Singapore – Essentially regulated as a commodity
 - South / South East Asia – 'Shoot from hip' responses
- Most jurisdictions seem satisfied with current level of regulation
- Changes in 2015 will likely follow that of the US
- While not necessarily bad for Bitcoin, it will further limit its usage

Top-10 Trend Summary

- Trite, but '2015 will be a year of great change'
- Crossing the river by feeling the stones => path to reform
- Banking in China will be nearly unrecognizable
- Mobile payments in China will drive NFC adoption
- Capital markets in/out of China will continue to expand
- Digital currency development will continue, adoption will struggle

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