

RESEARCH & ANALYSIS

Bank disruptors doubling down on mobile payments in China

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Market Intelligence

A pair of big technology firms has further consolidated its position in China's mobile payments market as the ongoing pandemic accelerates the consumer shift toward digital platforms.

Ant Group Co. Ltd., which plans to go public, and Tencent Holdings Ltd. continue to hold the lion's share of the mobile payments market in China, based on the 2020 edition of the Asia Consumer Insights survey from Kagan, which is part of S&P Global Market Intelligence. Each of their payment apps saw a 95% adoption rate among respondents. Besides having a customer base that frequently uses their apps for everyday transactions, the two wallets have become the payment rails supporting many e-commerce, ride-hailing and food-delivery platforms.

China UnionPay Co. Ltd., a banking association that runs the country's largest card scheme, had a lackluster performance in the 2020 survey. UnionPay's adoption rate dropped to 38% this year from 45% in 2019. Still, UnionPay's QuickPass app may yet be the strongest contender representing the banking industry. We added two more payment platforms to our survey this year: QQ Wallet (19%) and Du Xiaoman Pay, formerly known as Baidu Wallet (10%).

This article is part of Ant Group's IPO series.

China Ant Group's lack of strong messaging app concerns investors as IPO looms

China's Ant Group may seek clear blue

skies in Southeast Asia to grow via M&A

Mobile Payment Usage, China
Percent of all surveyed adult internet users



Question: Which of the following digital payment applications (digital wallets) do you use?
Base: 1,000.
Source: Kagan 2020 Asia Consumer Insights survey
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Banks' efforts to snag more wallet share

Unlike nonbank payment providers, UnionPay does not offer value storage and instead provides a digital representation of cards. Funds lying in Alipay and WeChat Pay payment accounts represent depository leakage risk for financial institutions. Transactions occurring through closed-loop payment platforms owned by nonbanks bypass card rails and keep banks out of the loop. It is through UnionPay that banks have the best shot at mitigating the disintermediation risk arising from Alipay and WeChat Pay, and deepening the engagement of bank cards.

Like nonbank apps, UnionPay's app leverages the popularity of QR codes, which allows users to pay by scanning codes on a printed sheet or payment terminal screen. It also supports payments through near-field communication applications such as Apple Pay and Huawei Pay. NFC payments require merchants to install expensive point-of-sale terminals, however, and tend to be less popular than QR codes among merchants.

Overview of popular payments apps in China

	Payment features/apps	Alipay	WeChat Pay	UnionPay's Quickpass
Payment methods	E-wallet account balance	●	●	
	Money market fund balance	●	●	
	Unsecured credit	●	●	
	Linked debit/credit card	●	●	●
Payment scenarios	Supports in-store payments via QR codes	●	●	●
	Supports in-store payments via NFC ²			●
	Supports payments on e-commerce websites/app	●	●	●
In-app payment use cases	Person-to-person transactions	●	●	●
	Ride-hailing	●	●	
	Order groceries	●	●	
	Bill payments, mobile top-up	●	●	●
In-app financial services	Wealth management	●	●	●
	Loans	●	●	●
	Insurance	●	●	
Other in-app features	Check bank account/credit card balance			●
	Mini programs (access third-party apps) ³	●	●	
Domestic network	Users (million) ⁴	711	800	300
	Merchants (million) ⁴	80	50	29
	Financial institution partners ^{5,6}	2,000	NA	1,500
International network	In-store payment in countries outside Mainland China	50	64	61
	Currencies supported	27	24	NA
	Financial institution/payment solution partners	250	NA	NA

Data compiled Aug. 27, 2020.

NA = not available

¹ WeChat Pay represents the digital wallet embedded in Tencent's WeChat app, the local version of which operates as Weixin in mainland China.

² UnionPay supports contactless payments via mobile devices from Huawei, Xiaomi, OPPO, vivo, Apple, Samsung and Meizu at UnionPay-accepted merchant stores.

³ Mini programs are lightweight apps of third-party companies that function within WeChat and Alipay apps, covering hundreds of services for app users.

⁴ WeChat Pay had more than 800 million monthly active accounts and 50 million active merchant accounts at the end of 2019. Alipay had 711 million monthly active users and 80 million merchants as of June 2020. UnionPay's registered users reached 300 million in August 2020.

⁵ Alipay works with more than 2,000 financial institutions, including banks, insurance companies, asset managers and licensed payments providers.

⁶ UnionPay has ties with more than 1,500 financial institutions to support mobile payments in China and overseas.

Sources: Company websites and disclosures

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While banks offer their own mobile apps, only 19% of respondents revealed usage of credit card apps or bank apps. Neither UnionPay nor any of the country's four largest banks by assets match the popularity of Alipay and WeChat Pay. UnionPay's QuickPass app had registered users of over 300 million in August. Agricultural Bank of China Ltd. had 310 million users at the end of 2019, of which only 72 million were active monthly. In comparison, WeChat Pay had more than 800 million monthly active accounts at the end of 2019 and Alipay had 711 million monthly active users as of June 2020.

WeChat catching up with Alipay

Alipay, launched in 2004, has in the past held the upper hand over WeChat Pay. For instance, 94% of respondents polled in our 2019 survey revealed Alipay usage, whereas WeChat Pay's adoption came in slightly lower at 90%. The Tencent-owned wallet, however, has closed the gap in our latest survey. Further, Tencent may have already surpassed Ant Financial in terms of number of users if we take into account the user base of both QQ Wallet and WeChat Pay, the embedded payments features in Tencent's QQ and WeChat messaging apps, respectively. This comparison between Alipay and the Tencent payment platforms, however, is fraught with a few problems.

Due to its historical ties with popular e-commerce and retail merchant ecosystems, Alipay has always had a relatively greater focus on consumer-to-merchant payments. WeChat Pay, on the other hand, started primarily offering person-to-person payments, with its "Red Packet" service, launched in 2014, quickly becoming a popular way of gifting money around the Chinese New Year. Tencent managed to grow the share of commercial payments to more than 50% of its payments volume over time by building ties with online and offline retailers.

Still, industry estimates put Alipay ahead of the combined Tencent platforms in terms of payments usage. For example, iResearch Consulting Group pegs Alipay's share of third-party mobile payments processed by nonbank payment institutions at 55.4% in the first quarter based on the transaction value. WeChat Pay and QQ Wallet together accounted for 38.8% of the transaction value, according to iResearch.

Both are increasingly tethered to China's growing digital ecosystems. Several ride-hailing, food-delivery and e-commerce services often provide Alipay or WeChat Pay as payment methods on the checkout pages of their websites or in apps.

Select large digital platforms relying on Alipay, WeChat Pay for processing payments				Third-party payment partners ³		
Digital platform details			Transaction value (billion yuan) ¹	Proprietary payment system ²	Alipay	WeChat Pay
Company	Platforms					
Alibaba Group Holding Ltd. (NYSE:BABA) ⁴	T-mall, Taobao, 1688.com, Xianyu (Idle Fish), Kaola	7,053		●		
JD.com Inc. (NASDAQ:JD)	Jingdong Mall	2,085	●		●	
Pinduoduo Inc. (NASDAQ:PDD)	Pinduoduo	1,007	Plans to launch ⁶	●	●	
Meituan Dianping (SEHK:3690)	Meituan Dianping	682	●		●	
Suning.Com Co. Ltd. (SZSE:002024) ⁵	Suning	379	●	●	●	
Vipshop Holdings Ltd. (NYSE:VIPS)	VIP	148	●		●	
Didi Chuxing Technology Co. Ltd.	Didi	NA	●	●	●	

Data compiled Aug. 27, 2020.
NA = not available
¹ Transaction value refers to the value of confirmed orders of products and services on marketplaces in 2019. For Alibaba, the figure refers to the March 31, 2020, ended financial year.
² Some e-commerce, on-demand services hold payments licenses and offer their own stored-value wallets.
³ Popularity of Alipay and WeChat compels digital platforms to provide them as payment methods at the time of purchase. Other payment methods include debit and credit cards.
⁴ Alipay, whose parent Ant Financial is an affiliate of Alibaba Group, is the preferred payment system on Alibaba's e-commerce marketplaces.
⁵ WeChat users can pay with WeChat Pay for purchases made through Suning's mini program app within WeChat.
⁶ Pinduoduo's co-founder, Chen Lei, acquired a 50.01% stake in digital payment firm Fufeitong, which may support a new payment method on the e-commerce platform.
Sources: Company websites and disclosures
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About 70% of 6,589 billion yuan in gross merchandise value generated through Alibaba Group Holding Ltd.'s retail marketplaces, including T-mall and Taobao, in China was settled through Alipay's escrow and payment processing services, in the financial year ended March 31, 2020. Ant Financial, in which Alibaba holds a 33% stake, co-invests with its erstwhile parent in digital companies in China and around the world, often extending Alipay's payment processing capabilities to investees.

Several consumer-facing digital platforms in China have launched their digital wallets to gain control over payment processing costs after securing third-party payment licenses or acquiring companies with such licenses. But the popularity of Alipay and WeChat Pay has compelled them to rely on the two third-party platforms for payment processing.

Tencent's appeal as an investor partly lies in the popularity of mini-programs within WeChat, which allow users to access lightweight apps of digital services without having to install them on their phone devices. WeChat Pay becomes the preferred payment method for users making purchases through mini-program apps. Tencent holds equity stakes in JD.com Inc., Meituan Dianping and Pinduoduo Inc., among others, many of which leverage WeChat as a distribution and payments partner.

Payments powering super apps

Both Alipay and WeChat Pay generate growth by attracting new users as well as cultivating frequent transactional habits among their existing ones. Their success in building high-frequency platforms has spawned a host of "super app" aspirants within China and outside.

Most of the payment platforms we surveyed in China reside within super apps of companies whose business interests range from e-commerce to food-delivery services. While there is no consensus on what super apps are, we define them as all-in-one apps that offer a variety of services through mini-programs or mini-apps.

Digital payments are integral to the success of super apps because they facilitate the introduction of services while ensuring that users stay within the super app ecosystem. It is no surprise then that mobile payments emerged as the top activity for super apps in our survey (87%).

Payment activities in super apps, China
Percent of each digital payment platform users

	All digital payment users	WeChat Pay	Alipay	China UnionPay	QQ Wallet	Credit card/ bank app	Du Xiaoman Pay	Other
Mobile payments	87	90	89	91	87	91	80	84
Mobile money transfer	58	61	60	71	71	82	63	74
Online shopping	50	52	52	60	67	68	67	53
Hail a taxi or ride share	46	48	47	55	63	59	54	74
Food delivery	30	31	31	38	44	48	43	42
Purchase an insurance product	11	12	12	18	23	23	26	32
Apply for a loan	4	4	4	6	9	10	10	16

Question: Which of the following activities have you done within a super app (including mini-programs) in the last 30 days?
Base: All digital payment users - 995, WeChat Pay - 947, Alipay - 951, China UnionPay - 379, QQ Wallet - 190, Du Xiaoman Pay - 96, Credit card/ bank app - 188, Other - 19.
Source: Kagan 2020 Asia Consumer Insights survey
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Users of most payment platforms reported high engagement for mobile payments (around 90% considering the margin of error), with Du Xiaoman Pay users being a notable exception (80%). Credit card app or bank app users reported the highest engagements for mobile money transfer (82%), online shopping (68%) and even food delivery (48%) in super apps.

Both Ant Financial and Tencent have been offering adjacent financial services like micro-credit and insurance through their popular apps.

Our survey results show that insurance was on the minds of super app users in the wake of the pandemic. More than 11% of digital payment users disclosed the purchase of an insurance product through a super app in the 30 days prior to taking the survey.

WeChat Pay rolled out COVID-19 related coverage plans for customers and merchants in partnership with WeSure. Tencent's insurance platform, which works with AXA SA, had added 25 million active users during the pandemic as of March 13.

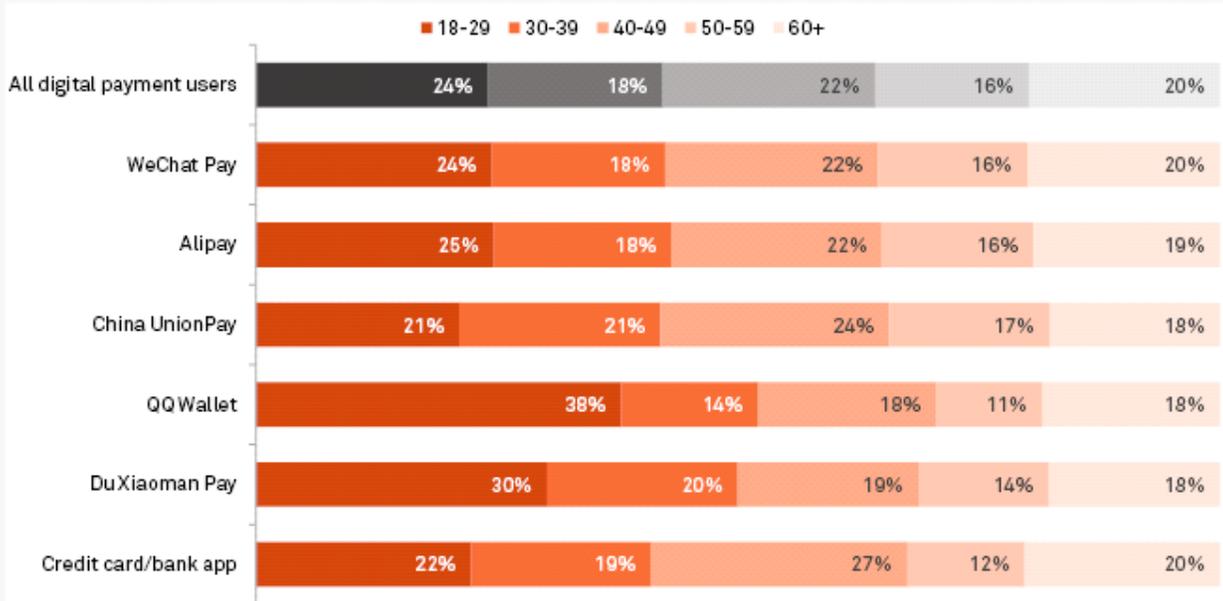
Alipay provides a health plan covering multiple illnesses through a mutual aid program, known as Xianghubao, where participants share the risk and bear the related medical expenses collectively. More than 570 million Alipay users purchased insurance or participated in Xianghubao mutual aid program in the 12 months ended June 30, Ant Financial disclosed in its initial public offering prospectus.

Profile of payment users

In our survey, WeChat Pay users appeared to be evenly distributed across all ages, but QQ Wallet users skewed younger. About 38% of QQ Wallet users were aged 18 to 29 years, whereas only 24% of WeChat Pay users fell into this bracket. QQ Wallet also appeared to have a larger share of affluent users, beating WeChat Pay, especially among people who reportedly earn more than 50,000 Chinese yuan per month.

Age distribution of mobile payment users, China

Percent of each digital payment platform users



Question: What is your age?

Base: All digital payment users - 995, WeChat Pay - 947, Alipay - 951, China UnionPay - 379, QQ Wallet - 190, Du Xiaoman Pay - 96, Credit card/bank app - 188.

Source: Kagan 2020 Asia Consumer Insights survey

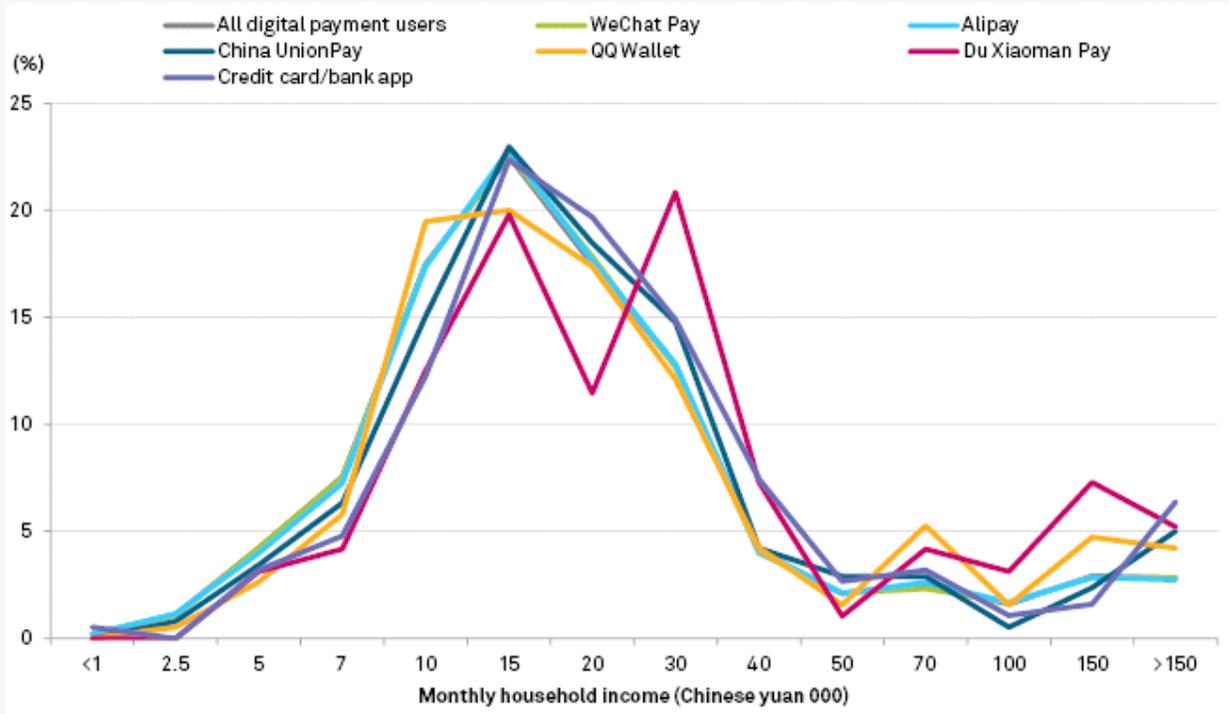
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Du Xiaoman Pay users also had a higher share of young adult users (30%) and higher-income users. While the income of users of other payment platforms peaked at around 15,000 Chinese yuan per month, the income of Du Xiaoman Pay users peaked at 30,000 Chinese yuan per month.

Du Xiaoman Pay has higher share of affluent users than WeChat, Alipay

Percent of each digital payment platform users



Question: What is your total monthly household income?
 Base: All digital payment users - 995, WeChat Pay - 947, Alipay - 951, China UnionPay - 379, QQ Wallet - 190, Du Xiaoman Pay - 96, Credit card/bank app - 188.
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Both QQ Wallet and Du Xiaoman Pay capture specific segments of the Chinese market, which might explain their limited reach. On the contrary, WeChat Pay and Alipay are general-market brands that appeal to essentially everyone. Because of their high adoption rates, there is a significant usage overlap between the two and their user bases are almost indistinguishable. About 92% of our survey respondents reported using both platforms.

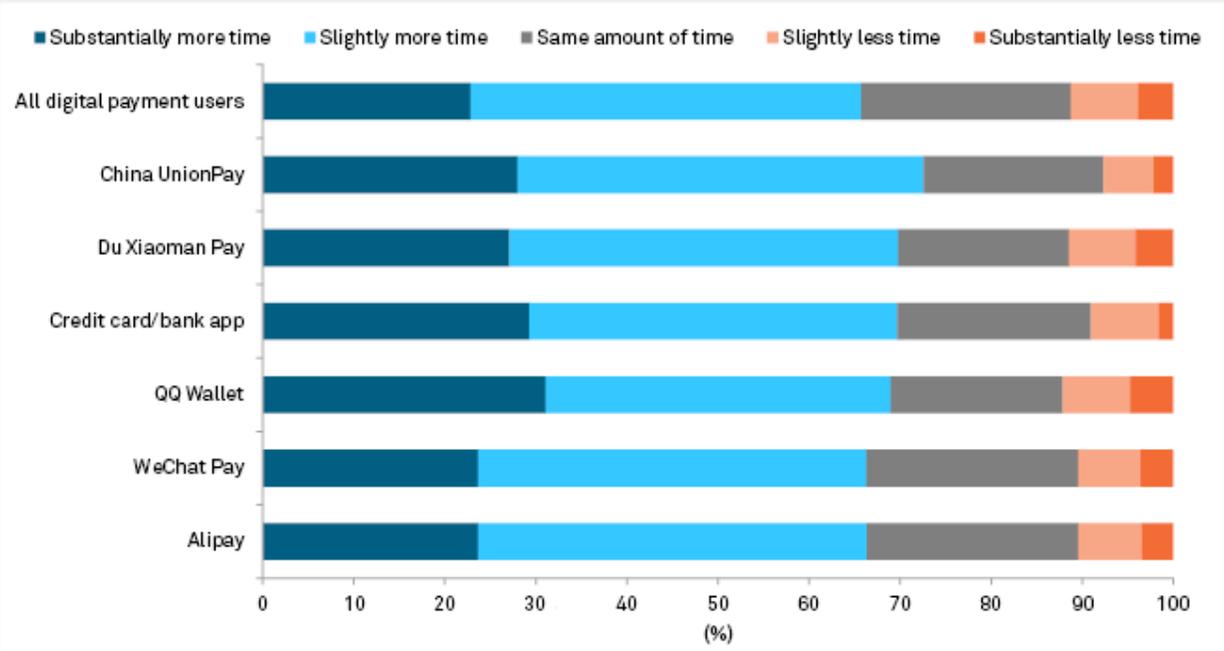
Online shopping

Our survey also showed that online shopping got a boost during the COVID-19 pandemic.

About 66% of our respondents said that they spent more time shopping online because of the pandemic. We tried to dig deeper into this by asking people what e-commerce platforms they visited. Taobao, Tmall, Jingdong Mall and Pinduoduo were the only e-commerce platforms that got usage rates of more than 50% in our survey.

Are digital payments users in China spending more time shopping online due to COVID-19?

Percent of each mobile payment platform users



Question: Please indicate if you spent more, less or the same time on the following activities during the coronavirus health crisis compared to your normal use. (Shopping online)
 Base: All digital payment users - 995, WeChat Pay - 947, Alipay - 951, China UnionPay - 379, QQ Wallet - 190, Du Xiaoman Pay - 96, Credit card/bank app - 188, Other - 19.
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Alibaba's Taobao started in 2003 as a consumer-to-consumer, or C2C, online retail website. Tmall was spun off later in 2008 and focuses on business-to-consumer, or B2C, online retail. JD.com's Jingdong Mall started in 2004 as a B2C site and is a direct competitor of Tmall. Pinduoduo, which was founded only in 2015, rose to prominence in recent times, pioneering concepts such as social e-commerce and the consumer-to-manufacturer, or C2M, model.

Users of credit card apps or bank apps reported the highest engagement for Taobao (94%), Tmall (88%) and Jingdong Mall (82%), while Du Xiaoman Pay users stole the top spot for Pinduoduo (75%).

Most popular e-commerce platforms, China

Percent of each digital payment platform users

	All digital payment users	WeChat Pay	Alipay	China UnionPay	QQ Wallet	Credit card/ bank app	Du Xiaoman Pay	Other
Taobao	89	91	91	93	88	94	88	95
Tmall	75	77	78	87	83	88	86	95
Jingdong Mall	68	70	70	77	74	82	72	84
Pinduoduo	57	59	58	65	72	66	75	74
1688	30	31	31	41	51	48	50	58
Suning	30	30	30	46	44	50	47	42
Xianyu	29	30	30	38	52	46	43	63
VIP	27	28	27	38	41	41	47	53
Kaola	12	12	12	18	20	24	31	42
Yihaodian	9	9	9	15	17	14	24	42
yMatou	3	3	3	5	8	6	10	32
Mia	3	2	3	4	8	4	14	16

Question: Which of the following e-commerce platforms do you use?

Base: All digital payment users - 995, WeChat Pay - 947, Alipay - 951, China UnionPay - 379, QQ Wallet - 190, Du Xiaoman Pay - 96, Credit card/ bank app - 188, Other - 19.

Source: Kagan 2020 Asia Consumer Insights survey

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Interestingly, users of smaller payment platforms appear to be more active in smaller e-commerce platforms than users of WeChat Pay and Alipay. For instance, only 2% of WeChat Pay users reported using Mia, an e-commerce platform that focuses on infant and children products, but the usage rate climbed to 14% for Du Xiaoman Pay users.

Data presented in this article was collected from the Kagan 2020 Consumer Insights survey in China. The online survey consisted of 1,000 adult internet users and was completed during second quarter 2020. Data from the survey has a margin of error of +/- 3% at the 95% confidence level. Percentages are rounded up to the nearest whole number.

To submit direct feedback/suggestions on the questions presented here, please use the "feedback" button located above, directly under the title of this article. Note that while all submissions will be reviewed and every attempt will be made to provide pertinent data, Kagan is unable to guarantee inclusion of specific questions in future surveys.

For more information about the terms of access to the raw data underlying this survey, please contact support.mi@spglobal.com.

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