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Banking Automation BULLETIN

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China UnionPay expected to face international competition

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Winners and losers from China UnionPay and Visa spat

On February 11th the USA announced a formal appeal to the WTO to resolve a dispute with China about access to the local cards market. The USA argues that when China joined the WTO in 2001 it committed to opening up *"all payment and money transmission services, including credit, charge and debit cards"* by 2006, but that this has not happened.

Critics of the current situation, in which China UnionPay (CUP) has a monopoly over local acquiring and processing, argue that the lack of competition increases costs for banks, retailers and consumers. Furthermore they are concerned that the country is critically dependent on a single payments network – and vulnerable when that network goes down.

In contrast, the *China Daily* newspaper reported CUP's chairman, Su Ning, as saying that China does not need another interbank network and that *"more interbank networks will raise the cost for commercial banks and lower their profits"*.

RBR research has found that most Chinese banks believe that China will nevertheless lose the case, and the People's Bank of China (which owns CUP) has advised banks to prepare for increased competition.

This is only half the story however.

Nine months ago, Visa told banks they must stop using CUP's payment system to process international transactions for co-branded Visa and CUP credit cards, and went on to warn that if banks did not comply it would start charging penalties. Visa argued that it was simply enforcing its existing operating regulations that require international transactions be processed through the VisaNet system, but many industry observers believe this was a response to concerns that CUP was expanding rapidly overseas, while foreign schemes are unable to compete in China. This was a risky strategy, as Visa has not been able to develop any new business in China since the spat began.

Other schemes have been notable for their lack of comment – presumably because they do not wish to risk the ire of the Chinese authorities. In fact, Visa's main rival, MasterCard, issued a memorandum of understanding to *"explore business cooperation"* with CUP less than 24 hours before the US Trade Representative first launched the WTO case last September (MasterCard says the timing was coincidental).

This story is far from over, and even if China loses the WTO case, change will take time. Visa has almost certainly done global payments organisations a huge favour, by accelerating the opening up of the local Chinese market. By doing so however, has it irretrievably damaged its own chances of taking advantage?

Dominic

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