
What Apple Pay Means for China



By Zennon Kapron , Director, Kapronasia

The launch of Apple Pay is tipped to make a profound impact on the payments industry in the United States and potentially Europe, but can it compete in China?

A big bite or a small one?

After Apple Pay's launch in early September, speculation was rife as to what the business model would look like and how Apple and other players in the value chain would monetise the new smartphone payment option.

Apple, it seems, will get a share of fees from financial institutions when an iPhone is used to make a payment, and overall discount fees could be lower for merchants. Visa and MasterCard have already launched tokenisation platforms which will open the way for Apple Pay users to link their payment cards for proximity and remote payments. This structure may not mean much revenue for Apple in the short-term, but it does open up many possibilities in the long-run.

The U.S. tech company is launching a similar business model in China, taking advantage of an agreement between Apple and China's main domestic switch operator China UnionPay Co. Ltd, a state-backed bank-card

association. The deal makes sense for Apple since China UnionPay is a dominant market player, but it is still unclear which segment of payments will be addressed by the partnership - it may not even be Near Field Communication (NFC)/proximity.

Eating a Chinese Apple

For Western markets like the U.S., Apple Pay is likely to be tremendously successful, both for Apple and for driving the mobile payments industry forward. Although companies like Paypal have had both remote and NFC payment systems in place for years, mobile payments have failed to gain traction. Although it may seem silly to think that a company can approach the same market with a similar strategy and make it grow, it looks like Apple might be poised to do just that.

China, however, could be a different story. With over 1 billion consumers, mobile payments for Chinese vendors are a huge opportunity. Although not all consumers have a mobile, penetration of mobile phones is over 100 percent, and smartphones are readily catching up. But if Apple does choose to proceed in China and obtains all licenses required, it could be too late to bring any innovation to the mobile internet payments industry. Local players like Alibaba's Alipay and Tencent's Tenpay have infiltrated the mobile payments market offering extremely convenient money transfer; utilities payments; booking; and even fund investment technology. While mobile payments are huge here, NFC is not. In fact, Xiaomi, known as being the little Apple of China, didn't even include NFC in its flagship M4 smartphone launched earlier this summer.

Estimates are that it will be another few months before the iPhone 6 launches in China and it could be a few more after that before we have Apple Pay. Users will definitely wait around (and line up) for the iPhone, but will they wait for Apple Pay? They are more likely to install familiar and widely-accepted Chinese payment apps to their new iPhones, although if users are forced into Apple Pay, like they are into the free U2 album, we could see a shift.

Stick to your knitting, just knit better socks

While the Apple Pay announcement failed to impress the Chinese mobile

internet payments market, it may still help push NFC adoption in the country. Although China was one of the first countries to set NFC standards after years of testing and pilots, contactless proximity payments are still struggling to gain momentum. Now the market is ripe for growth. China UnionPay has deployed more than three million new NFC-enabled POSs in the country. China Telecom, China Unicom and China Mobile, the three national mobile network operators (MNOs), are all currently pushing SIM-NFC products to their massive customer bases. More and more smartphones with NFC antennae are being sold by producers like Samsung.

The rest of the ecosystem hasn't been standing still either. Alipay is nearly ubiquitous and although the IPO which is coming in a few days will be massive (and judged by some to just be window dressing), the company will be back to business as usual soon after and we should expect to see further innovation going forward. In addition, once we start to see a bit more collaboration, all those NFC-enabled POS terminals might actually come into use later this year. Everything else is there, just not the users.

Is there any pie left for Apple?

Apple will have its work cut out for it when the iPhone finally passes the government tests and hits stores in China. Chinese mobile phone users are latching on to mobile platforms like WeChat that are embedded with all sorts of functionality from payments to booking movie tickets, and payment platforms like Alipay that are tied into massive e-commerce platforms. Apple is coming to the table with Apple Pay and little else in terms of an integrated platform. Is it enough to entice users away from their comfort zone?

Zennon Kapron is the founder and managing director of Kapronasia, a Shanghai-based financial industry research and advisory company launched in 2007. He is the author of ***Chomping at the Bitcoin: The History and Future of Bitcoin in China***. You can follow him on [twitter](#).

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About the author(s)

Zennon Kapron Zennon is the founder and director of Kapronasia, a Shanghai-based financial industry research firm, and has been involved in the financial technology industry for over 15 years.