



Connecting China's Opportunities to the World

An Interview with Liu Tinghuan,
Chairman, China UnionPay, Shanghai



Liu Tinghuan

EDITORS' NOTE A graduate of Liaoning Institute of Finance and Economics, Liu Tinghuan began his career with the People's Bank of China in 1966 as a credit officer, rising through the ranks to serve as deputy manager, senior manager, and director general of the Dalian branch in 1981. In 1985, Liu was named executive director and vice president of the Industrial and Commercial Bank of China, and later served, from 1996 to 1999, as that institution's chairman and president. He returned to the People's Bank of China in 2000, taking up his current post.

COMPANY BRIEF Based in Shanghai and licensed by the People's Bank of China, China UnionPay (CUP) is a shareholding financial-services institution established through capital contributions by more than 80 domestic financial institutions, with registered capital of RMB1.65 billion. Incorporated on March 26, 2002, CUP (www.chinaunionpay.com) aims to establish and operate a national bankcard network, to realize the interoperation of bankcards nationwide, and further the development of China's bankcard industry.

How was CUP formed, and how did it prosper in the market, as China's economy rapidly developed?

A brief review of the development of China's bankcard industry is unavoidable when we talk about the formation of CUP. Since the mid '80s, the bankcard industry in China has experienced three phases of development. From 1985 to 1993, Chinese banks issued their own individual bankcards. From 1994 to 2001, they established their bankcard information-switch centers in big cities, gradually enabled inter-bank transactions in some cities, and moved toward inter-bank transactions between different cities. From 2002 to the present, Chinese bankcards gradually realized nationwide interoperation.

Due to the dramatic increase in the number of bankcards and transactions, the switch centers sponsored by different banks in different cities were unable to meet cardholders' needs in terms of their transaction-success rate, processing efficiency, new business development, etc. Thus, with the support of the People's Bank of China, CUP was formed through capital contributions by more than 80 domestic financial institutions, and now it has taken in more than 160 member banks. After its establishment, CUP actively promoted the unification of bankcard operating regulations, the standardization of the terminals, and also inter-bank bankcard transactions. In 2003, we basically achieved our objective of most Chinese terminals, regardless of location or financial institution, being able to accept domestic bankcards. In the three years following CUP's formation, China issued more than 800 million bankcards – 400 million of which carry the CUP logo – with an increase of more than 100 million per year. The bankcard transaction amount also increased from RMB4.5 trillion in 2000 to RMB26.5 trillion in 2004, and the percentage of total domestic retail sales of consumer goods paid for via bankcards grew from 2.1 percent in 2000 to 6 percent in 2004.

CUP's ability to develop so speedily is firmly rooted in the needs of the country and its consumers. Its steady growth is based on the support and cooperation of the government and financial institutions, and its development could not have been achieved without the consumers' and merchants' recognition and acceptance.

The development of the bankcard industry is a social project that brings benefits to Chinese citizens and the country as a whole. It concerns the core competitiveness of China's banking industry, China's financial security, and its financial development strategy. In addition, it also has a great influence on the improvement of Chinese consumers' quality of life.

Up to now, how has the bankcard market been characterized?

First, China is one of the countries issuing the most bankcards, at 827 million as of March 2005, and 96 percent of them – 794 million – are debit cards. Meanwhile, deposits via debit cards have reached RMB1.7 trillion, taking 37.5 percent of Chinese residents' current deposits. Second, market acceptance has developed rapidly, with new payment channels forming continuously. Payments made by cellular phones, the Internet, and fixed-line telephones, as well as inter-bank ATM fund transfers etc., are becoming more and more popular among Chinese cardholders. In 2004, RMB180 million in payments were made by cellular phone in China, and by the end of 2004, the number of merchants accepting bankcard payments in China had exceeded 300,000, and there were nearly 450,000 point-of-sale terminals and 70,000 ATM devices across the country. Third, due to the influence of an increasingly globalized economy, CUP is speeding up the exploration of international markets. CUP has initiated card services in Hong Kong, Macao, the Republic of Korea, Thailand, and Singapore. Fourth, the development framework of the industry and a relatively complete bankcard payment chain have taken shape, which covers card issuing, acquiring, information switch, specialized services, and devices manufacturing.

As the biggest inter-bank bankcard information-switch network operator, what are the main responsibilities of CUP?

CUP has more than 2,000 employees now, and its branches are found all over China. CUP is trying to develop its presence in overseas markets. In 2004, CUP had completed 1.8 billion inter-bank

bankcard transactions, totaling RMB685.8 billion. CUP's main responsibilities are to establish and operate the inter-bank bankcard information-switch networks, promote market acceptance, enable bankcard interoperability, formulate operating regulations and technical standards for inter-bank bankcard transactions, mediate and arbitrate inter-bank transaction disputes, operate and manage the CUP brand, create value for member banks, provide facilities for cardholders, and impel the development of China's bankcard industry.

What does brand building mean to CUP?

The brand is undoubtedly an important factor in growing a more competitive enterprise. For an enterprise, the presence of a brand and standards determines whether it can formulate industrial regulations and influence industrial development. The establishment of the CUP brand, as well as our own standards with independent intellectual-property rights, will help us narrow the gap between ourselves and other renowned international bankcard service providers. Building the brand seems to be an especially urgent task, vis-à-vis the globalization of the economy. In addition, our brand can upgrade CUP's image. The success of a bankcard brand lies mostly in the service it can provide to banks and also to cardholders. Thus, CUP should work hard to provide faster, safer, and more convenient bankcard payment services, in order to build its brand.

Certainly, the building of an independent brand also benefits the development of the Chinese economy. Premier Wen Jiabao said that renowned brands symbolize not only the economic strength and market reputation of an enterprise, but also the economic power of a country. Currently, the global bankcard market is dominated by several big brands. Most of the 827 million bankcards issued in China adopt their standards and carry their logos. Without our own bankcard brand, China's bankcard industry would fall to the bottom of the world bankcard industrial system and lose its independence and initiative for development.

What efforts has CUP made in building its brand?

In its first year of operation, CUP issued CUP-logo cards and set up inter-bank operation networks in more than 300 cities. In addition, CUP enabled intra-city inter-bank transactions in more than 100 cities, and inter-city inter-bank transactions among over 40 cities. These accomplishments provided a better customer experience and earned CUP a good reputation, laying foundations for CUP brand building. In 2003, CUP focused on improving bankcard acceptance in order to upgrade the quality of inter-bank transactions, to facilitate card usage, and also to improve CUP's social image. In terms of brand building, 2004 was a crucial year for CUP, as we made – with the support of various par-

ties – huge progress in exploring the CUP card's acceptance in the international market. Additionally, the new, advanced information-switch system started operation at the end of 2004, forming a solid technical foundation for CUP brand building.

What are CUP's international strategies?

We are confident about the development of the CUP brand. Over the past 20 years, a firm foundation has formed for China's bankcard industry. We have not only realized the nationwide interoperability of bankcards, but have also created a marketized and specialized mechanism for industry development, which is more and more mature. In addition, we established an integrated payment chain and a bankcard industrial system.

Also, in view of the rapid development of the Chinese economy, the increase in Chinese citizens' income, and the growing number of cardholders, the bankcard industry of the country is expected to boom. Meanwhile, the acceleration of China's opening process would lead to the increase in people's needs for cross-border bankcard transactions, underpinning the internationalization of this Chinese bankcard brand.

Finally, opening up, cooperation, and win-win partnerships are the major trends for the development of the international bankcard industry. The bankcard, as a tool for economic exchanges, will play an important role in economic internationalization. China is opening to the world, and the world is also opening to China's bankcard market. Although some big international bankcard brands have established their presence in the global market, the cooperation within the industry will still be strengthened in the future.

What are CUP's plans for future development?

The next few years are quite important for CUP. We aim to make CUP one of the major bankcard brands in the world by 2010 and to grow into an internationally competitive inter-bank e-payment company. In this regard, CUP will focus on the following areas. First, we will consolidate CUP bankcard services. Based on extending acceptance areas for CUP cards, improving transaction quality, and promoting customer satisfaction, we will expedite the innovation of services and products, and provide our cardholders with special and more convenient payment services.

Second, we will accelerate the internationalization process. CUP will cooperate with foreign institutions so that CUP cards will be accepted in the key markets of Asia Pacific, America, and Europe. In the coming two years, we will strive to have CUP cards accepted in the countries and regions where Chinese citizens travel most frequently. Third, we will promote CUP-standard cards, which comply with international specifications and with our own independent intellectual-property

rights. We believe this is crucial for building the CUP brand. To date, 145 members have applied for a CUP bank identification number. More than 80 banks have already issued CUP-standard cards, including China Construction Bank, Bank of Communications, and China Merchants Bank. Additionally, more than 10 issuers in Hong Kong and Macao have begun to issue CUP-standard cards, with more to follow in the Republic of Korea, Thailand, and Singapore. This is definitely a great boost to the promotion of the CUP brand.

When China fully opens its financial market at the end of 2006, CUP will face heated competition with foreign brands. How will CUP cope with the challenge?

In a unified global economy, competition is unavoidable. China, as an equal participant in the global market, is ready for the competition. CUP sees the pending competition as a development opportunity and will use it to create more win-win partnerships. We aim to internationalize our operations, rules, services, and employees. We will complete CUP's internationalization process by bringing China's opportunities to the world.

How will you bring "China's opportunities to the world"?

CUP will accelerate its overseas-expansion process so that Chinese people can tour the world with a single CUP card. Twenty million Chinese people tour abroad every year, spending about \$1,200 per person. That would generate \$24 billion in bankcard transactions. The acceptance of CUP cards in international markets would stimulate effectively CUP cardholders' overseas spending, propel the economies in those countries, and enable their merchants to benefit from China's economic development. CUP is striving to complete its overseas bankcard-acceptance network within two years. We anticipate that CUP cards will be accepted in 10 countries in Asia Pacific, Europe, and America by then.

CUP will also continually promote its national market to provide a convenient settlement network for customers. As one of the biggest tourist and investment markets in the world, China is attracting more and more international institutions. CUP will actively promote the issuance of CUP cards in overseas markets to form an interactive environment for card issuance and acceptance, which would accelerate the brand-building process and establishment of CUP standards in the global market.

In the era of economic integration, CUP's strategy will always follow the win-win principle of "common cause, mutual development." CUP's internationalization strategy aims for the global market, while also providing a chance for international players to enter the Chinese market. China's opportunities belong to the world, and so does CUP. 