

How China's Mobile Payment Ecosystems Are Making Banks Obsolete

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Giant Chinese tech companies have bypassed credit cards and banks to create their own low-cost digital payment systems.

The US credit card system siphons off excessive amounts of money from merchants, who must raise their prices to cover this charge. In a typical \$100 credit card purchase, only \$97.25 goes to the seller. The rest goes to banks and processors. But who can compete with Visa and MasterCard?

It seems China's new mobile payment ecosystems can. According to a May 2018 article in [Bloomberg](#) titled "[Why China's Payment Apps Give U.S. Bankers Nightmares](#)":

The future of consumer payments may not be designed in New York or London but in China. There, money flows mainly through a pair of digital ecosystems that blend social media, commerce and banking—all run by two of the world's most valuable companies. That contrasts with the U.S., where numerous firms feast on fees from handling and processing payments. Western bankers and credit-card executives who travel to China keep returning with the same anxiety: Payments can happen cheaply and easily without them.

The nightmare for the US financial industry is that a major technology company – whether one from China or a US giant such as Amazon or Facebook – might replicate the success of the Chinese mobile payment systems, cutting banks out.

According to [John Engen, writing in American Banker in May 2018](#), China processed a whopping *\$12.8 trillion* in mobile payments in the first ten months of 2017. Today even China's street merchants don't want cash. Payment for everything is with a phone and a QR code (a type of barcode). More than 90 percent of Chinese mobile payments are run through Alipay and WeChat Pay, rival platforms backed by the country's two largest internet conglomerates, Alibaba and Tencent Holdings. Alibaba is the Amazon of China, while Tencent Holdings is the owner of WeChat, a messaging and social-media app with more than a billion users.

Alibaba created Alipay in 2004 to let millions of potential customers who lacked credit and debit cards shop on its giant online marketplace. Alipay is [free for smaller users](#) of its platform. As total monthly transactions rise, so does the charge; but even at its maximum, it's less than half what PayPal charges — around 1.2 percent. Tencent Holdings similarly introduced its payments function in 2005 in order to keep users inside its messaging system

longer. The American equivalent would be Amazon and Facebook serving as the major conduits for US payments.

WeChat and Alibaba have grown into full-blown digital ecosystems – around-the-clock hubs for managing the details of daily life. WeChat users can schedule doctor appointments, order food, hail rides and much more through “mini-apps” on the core app. Alipay calls itself a “global lifestyle super-app” and has similar functions. Both have flourished by making mobile payments cheap and easy to use. Consumers can pay for everything with their mobile apps and can make person-to-person payments. Everyone has a unique QR code, and transfers are free. Users don’t need to sign into a bank or payments app when transacting. They simply press the “pay” button on the ecosystem’s main app and their unique QR code appears for the merchant to scan. Engen writes:

A growing number of retailers, including McDonald’s and Starbucks, have self-scanning devices near the cash register to read QR codes. The process takes seconds, moving customers along so quickly that anyone using cash gets eye-rolls for slowing things down.

Merchants that lack a point-of-sale device can simply post a piece of paper with their QR code near the register for customers to point their phones’ cameras at and execute payments in reverse.

A system built on QR codes might not be as secure as the near-field communication technology used by ApplePay and other apps in the U.S. market. But it’s cheaper for merchants, who don’t have to buy a piece of technology to accept a payment.

The mobile payment systems are a boon to merchants and their customers, but local bankers complain that they are slowly being driven out of business. Alipay and WeChat have become a duopoly that is impossible to fight. Engen writes that banks are often reduced to “dumb pipes” – silent funders whose accounts are used to top up customers’ digital wallets. The bank bears the compliance and other account-related expenses, and it does not get the fees and branding opportunities typical of cards and other bank-run options. The bank is seen as a place to deposit money and link it to WeChat or Alipay. Bankers are being “disintermediated” – cut out of the loop as middlemen.

If Amazon, Facebook or one of their Chinese counterparts duplicated the success of China’s mobile ecosystems in the US, they could take \$43 billion in merchant fees from credit card companies, processors and banks, along with about \$3 billion in bank fees for checking accounts. In addition, there is the potential loss of money market deposits, which are also migrating to the mobile ecosystem duopoly in China. In 2017, Alipay’s affiliate Yu’e Bao surpassed JPMorgan Chase’s government market fund as the world’s largest money market fund, with more than \$200 billion in assets. Engen quotes one financial services leader who observes,

“The speed of migration to their wealth-management and money-market funds has been tremendous. That’s bad news for traditional banks, where deposits are the foundation of the business.”

An Amazon-style mobile ecosystem could challenge not only the payments system but the lending business of banks. Amazon is already making small-business loans, finding ways to

cut into banks' swipe-fee revenue and competing against prepaid card issuers; and [it evidently has broader ambitions](#). Checking accounts, small business credit cards and even mortgages appear to be in the company's sites.

In an October 2017 article titled "[The Future of Banks Is Probably Not Banks](#)," tech innovator Andy O'Sullivan observed that Amazon has a relatively new service called "Amazon Cash," where consumers can use a barcode to load cash into their Amazon accounts through physical retailers. The service is intended for consumers who don't have bankcards, but O'Sullivan notes that it raises some interesting possibilities. Amazon could do a deal with retailers to allow consumers to use their Amazon accounts in stores, or it could offer credit to buy particular items. No bank would be involved, just a tech giant that already has a relationship with the consumer offering him additional services. Phone payment systems are already training customers not to need bankcards, which means not to need banks.

Taking those concepts even further, Amazon (or eBay or Craigslist) could set up a digital credit system that bypassed bank-created money altogether. Users could sell goods and services online for credits, which they could then spend online for other goods and services. The credits of this online ecosystem would constitute its own user-generated currency. Credits could trade in a digital credit clearing system similar to the digital community currencies used worldwide, systems in which "money" is effectively generated by users themselves.

Like community currencies, an Amazon-style credit clearing system would be independent of both banks and government; but Amazon itself is a private for-profit megalithic system. Like its Wall Street counterparts, [it has a shady reputation](#), having been variously charged with worker exploitation, unfair trade practices, environmental degradation, and extracting outsized profits from trades. However, [both President Trump](#) on the right and [Senator Elizabeth Warren](#) on the left are now threatening to turn Amazon, Facebook and other tech giants into public utilities. This opens some interesting theoretical possibilities. We could one day have a national non-profit digital ecosystem operated as a cooperative, a public utility in which profits returned to the users in the form of reduced prices. Users could create their own money by "monetizing" their own credit, in a community currency system in which the "community" is the nation or even the world.

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This article was first posted on [TruthDig.com](#).

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