

China Cards Profits to Soar as UnionPay Monopoly Set to End

Lafferty Group, a global financial industry research company has announced that: Strong and credible rumours are circulating in China that China UnionPay, the state-owned payments company, will lose its nationwide cards network monopoly in two years. This follows a recent complaint by Visa, the largest of the two global cards networks, to the World Trade Organisation (WTO). Such a move is likely to lead to substantial increases in merchant fees for cards transactions in China, leading in turn to substantial increases in income for cards issuers. Currently, average merchant fees in China are 0.57 percent, compared with 2.37 percent in the US and 1.29 percent in Western Europe.

“People’s Bank of China (the central bank, which owns CUP) told UnionPay that the present position was a cut-and-dried case of unfair competition that could not be defended and said it has two years to prepare for competition from Visa and MasterCard”, a Chinese cards executive told Lafferty Cards Insights. Visa and MasterCard had not returned calls by the time this story went public.

China’s credit cards industry recorded a small pre-tax profit in 2010 for the first time in its history, according to Lafferty Group’s World Cards Intelligence research service. The industry’s \$251m overall profit represents a demarcation line for China’s cards business as issuers finally begin to see a return on the enormous investment pumped into the market over the last 10 years. Lafferty Group forecasts that pre-tax profits will continue to expand, reaching \$2.4 billion by the end of 2015.

China’s credit card industry represents one of the fastest growing markets in the world and has the potential to become one of the most lucrative. Between 2002 and 2010, the total number of credit cards in China grew almost six-fold to 230 million, while billed volume increased from \$4.8 billion to \$748 billion in the same period. By 2015, Lafferty Group forecasts China will be the largest market in the world in terms of the number of credit cards in issue.

Despite rapid growth, profit per card of just \$1 is a long way behind most other credit card markets. A traditional savings culture in China has discouraged borrowing and consequently net interest income, a key revenue driver for credit cards around the world, is still loss-making. With more than four-fifths of customers paying off their entire bill each month, encouraging consumers to rollover their balances will be an important requirement in driving China into the world’s top tier in terms of credit card profits. The other alternative for issuers is to increase merchant service fees. Several continental European countries with low revolve rates nevertheless have very profitable cards businesses thanks to strong merchant fee income.

Michael Lafferty, Chairman of Lafferty Group, comments “This is great news for China’s credit card industry, which has historically been plagued by over-expansion in its early development. In particular, the drive to grow market share has seen banks go on an issuing frenzy, often giving cards to customers who did not request one or who were unaware of how to use it. Consequently, profits have been held back by high costs. As the ratio of operating costs to revenue continues to decline in China, the outlook for the industry is very positive.”