

Chinese Credit Card Market Overview

The Chinese economy, the 6th largest in the world, is undergoing massive transformation. The country has consistently posted impressive growth rates close to 8% for more than a decade, and is driving exponential growth in demand for credit cards, automobile loans, mortgages and other wealth management products. The Chinese credit-card market holds vast potential, for both local and foreign financial institutions.

Current Market Conditions

- Latest official data from the People's Bank of China showed as of June 2004, there were 110 card-issuing institutions on the mainland. Card circulation was estimated at more than 714 million, a 25% increase from a year ago. Over 95% of the bank cards are ATM or debit cards with no revolve functionality or unsecured credit line. (Source: *People's Bank of China*).
- Of the 714 million cards issued, only 2.74 million were international credit cards used primarily by Chinese traveling overseas (Source: *Dow Jones*, September 3, 2004).
- With more than 45,000 banks, the credit card market in China is complex and highly fragmented, with little inter-regional connectivity and disparate standards. As yet, no national standards exist for magnetic stripes, account numbering or point-of-sale (POS) terminals.
- Cash is still the predominant form of payment. Spending on plastic accounts for approximately 3% of consumer spending in China, in comparison to more than a quarter in Hong Kong. Though recent years have seen a rapid increase in the presence of plastic, these cards tend to be used primarily for ATM cash withdrawals.
- As of 2002, only 2.7% of merchants in the mainland accept card payment. On average, there is only 0.49 card per person in China. (Source: *China Union Pay*)

Poised for Growth

- Many analysts predict credit card usage to grow 75-100% per annum for the next 2-3 years.
- The foreign currency credit card market is poised for spectacular growth in coming years, especially in view of robust consumer spending, impending competition from international banks, and increases in foreign trade and travel.
- China's outbound travelers reached 16 million in the first seven months of 2004, a 64% increase from the same period. In 2003, the amount of Chinese overseas travelers surpassed Japan, making it the largest in Asia. (Source: *Business Daily Update*, September 17, 2004)
- According to the World Tourism Organization, China is among the top 10 nations in terms of outbound tourism. From 1994 to 2003, outbound tourism has been growing at an annual rate of 14% and outbound travelers reached nearly 100 million. (Source: *Business Daily Update*, September 17, 2004)
- There is an emergence of a "middle class" that has the financial ability to buy more sophisticated consumer goods and seek out new lifestyle experiences. The value of retail sales almost doubled between 1993 and 2003. Annual disposable incomes per head grew rapidly in urban cities (e.g. 75% rise in Shanghai in 1997-2000).
- Major cities already are showing signs of an appetite for credit cards, and the urban acceptance and penetration rates of credit cards in the mainland are likely to grow comparably to Taiwan and Hong Kong.
- As the infrastructure of the credit card market is developed and merchant coverage improves, consumers will become increasingly familiar with the ease and convenience of spending on plastic.
- Much of the impetus for increased investment in the banking system comes from the impending market entry by foreign players, which has been facilitated through China's recent accession to the WTO.
- The government has set up a nationwide clearing system known as China Union Pay, which is co-owned by all of the major card issuers. China Union Pay aims to link up all payment card systems in China's fragmented banking industry and bring a much greater degree of consistency to the market. China Union Pay is also seeking to create a single acceptance and settlement platform for all credit and debit cards in China.

