



Corporate Credit Cards in China

Growing Opportunities



Emerging Asia

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Corporate Credit Cards in China: Growing Opportunities

The corporate card market in China is still in the process of maturing and is fairly small in comparison to the US. Corporate card use is likely to continue to be dominated by travel and entertainment expense related use. The convenience, reporting efficiencies, and potential savings gained by using corporate credit cards is driving adoption and prompting Chinese card issuing banks to improve their corporate card offerings.

Background

Corporate credit cards are issued to employees for business-related expenses, or to make purchases on behalf of the company. Traditionally, corporate cards have been issued primarily for employees' travel and entertainment expenses (T&E) such as purchasing airline tickets, paying for hotel rooms, meals, and rental cars. An emerging category of cards now caters to the needs of the corporate procurement department. Known as P-cards (purchase, or procurement cards), these cards are designed to simplify business-to-business transactions, particularly those of a recurring nature, such as monthly ordering of office supplies from the same vendors, or IT equipment purchases. A third and more recently created category, 'multi-cards' combine the features and benefits of T&E cards and P-cards. Multi-cards reduce employees' need to carry two cards for different types of expenditure.

Corporate credit cards enable companies to cut admin overheads and track and report expenses. With this information they are able to increase compliance with company T&E and purchasing policies and negotiate discounts with major suppliers.

While corporate cards are commonly used in the US, Western Europe and other developed nations, they are relatively rare in most emerging markets. By the end of 2007, there were 90 million credit cards in circulation in China, of those an estimated 500,000 were corporate cards. Emerging Asia research indicates that total 2006 corporate card spending in China totaled about \$600 million. In comparison, the US corporate card industry is worth approximately \$500 billion.

Corporate Card Market in China

The corporate card industry is in its early stages of development in China, yet it has already shown excellent growth from around 20,000 corporate cards in the end of 2005 to an estimated 500,000 corporate cards in the Mainland by the end of 2007. However, only a very small percentage of multinational companies and even fewer local companies use corporate cards. Boosted by the Central Government's direction of encouraging the use of corporate cards within government, strong growth and fierce competition is predicted for the next few years.

VISA, MasterCard and American Express are three biggest credit card organizations in the world. VISA and MasterCard partner with other banks to issue credit cards. These two



organizations are leaders in personal credit cards and together account for around 90% of the credit card market worldwide and 95% of the Chinese credit card market. Both VISA and MasterCard have begun to issue corporate cards by cooperating with the major Chinese banks.

China's only domestic credit card organization, UnionPay is by far the most widely accepted credit card within China, ahead of VISA, MasterCard and American Express. Due to government regulations, all Chinese issued RMB currency credit cards must carry the UnionPay brand, however almost all UnionPay credit cards are also affiliated with either MasterCard or VISA, and can be used abroad as a regular MasterCard or VISA.

Currently, UnionPay exclusively manages all RMB transactions in China, while VISA, MasterCard, and American Express and other foreign brands are responsible for the foreign currency transactions within and outside China. To date, all Chinese issued credit and debit cards (whether carrying the UnionPay logo only, or in combination with VISA, MasterCard or American Express) have been issued by Chinese banks, not by foreign banks operating in China.



Customer Use Trends

Although presently most of the corporate cards in China are multi-cards, customers primarily use these cards for T&E purposes. The cards' convenience and familiarity is especially popular with foreign employees of companies operating in China.

Purchasing cards however, only have a limited penetration within China. This is due to concerns about controlling the risk involved in purchasing and a fear of employee misuse.

The Chinese Government is currently piloting the use of corporate cards in central and provincial level governments in more than 15 provinces, and if successful, it will promote the card in other government departments nationally. Emerging Asia research indicates that around 400,000 corporate cards were issued to government employees in 2007 and the government customers will grow very quickly in the near future. Based on this, it is estimated that governments of all levels will adopt corporate cards by 2010.

Acceptance of purchasing cards within China lags significantly behind that of travel and entertainment corporate cards, although some sectors including Government are beginning trial use of corporate cards for purchasing purposes.

Due to the government's uptake of corporate credit cards, it is estimated that 80% of corporate card customers are domestic organizations with 20% international companies. Emerging Asia expects that acceptance from domestic companies will continue to grow in a conservative manner. For international companies, corporate cards are mainly used by senior management and foreign staff. In order to minimize potential risk, corporate cards are not accessible to most staff, and on average, Chinese companies will only have 3 or 4 cards.

As an alternative, many large domestic companies use personal credit cards administrated by their financial departments. These cards are registered in the employee's name with charges reimbursed by the company, while the employee and not the company is liable for

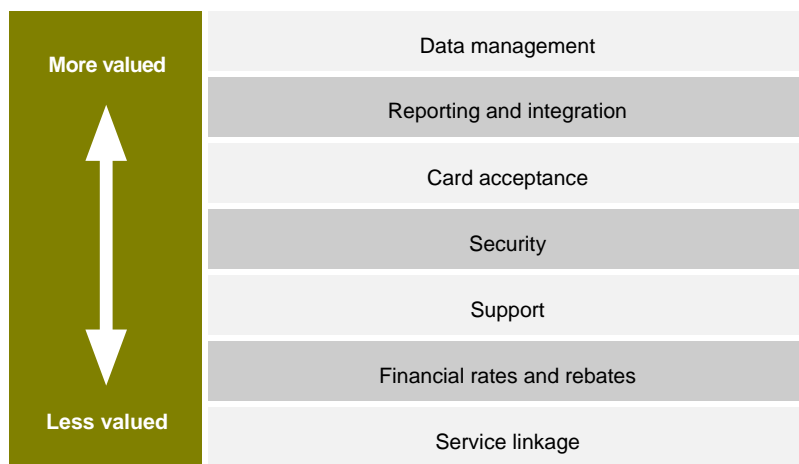


any incurred expenses deemed not appropriate. This system thus prevents employees from misusing company funds.

Preferences for Corporate Card Brands

When selecting corporate cards, most companies firstly select the issuing bank. The card's brand (e.g., VISA or MC) is less important to customers than convenient service and easy communication – for which they will be interfacing with the bank. Emerging Asia research has revealed that most customers in China do not think there is much difference among the major card brands - VISA, MasterCard, American Express. Only a small percentage of international companies consider the card brand important, and where this is the case, it is due to headquarters policies and not due to a significant perceived difference amongst brands.

Research also indicates a disconnect between factors important to business customers, and factors perceived to be important by banks. Banks believe that a low APR and high rebate will attract more customers, whereas most customers consider these factors as low in importance and large companies feel it is negligible. Customers typically pay more attention to the card's integration with the company's financial management process and the card brand's acceptance within China. In order of importance, business customers value the following features:



Conclusions

T&E cards, or multi-cards used for T&E purposes dominate the market and are expected to maintain their lead in the near term. Growth in the procurement card market is expected to be slow, but expected positive reviews in the government pilot tests will increase the share of such cards.

Recommendations for Banks

Emerging Asia believes there is great potential in this area for expansion from both local and foreign banks, particularly as the banking sector is liberalized to meet





WTO obligations. As of 2007, five foreign banks had gained the (theoretical) approval to compete with PRC banks on an equal footing to issue credit cards, and another 11 foreign banks had received full regulatory approval, and will be gradually allowed to begin issuing RMB cards. However, Emerging Asia's research reveals that these banks will not begin issuing cards until late 2008 due to the time needed to meet the Central Government's requirement of moving associated data centers to China.

Within the consumer credit card industry in China there are still a large number of 'sleeping cards' – credit cards owned but rarely or never used. This trend of low use and the industry's high marketing costs have negatively impacted the credit card industry in China, and led some analysts to predict the industry will not become profitable for another 5 years.

For these reasons, Emerging Asia believes the corporate credit card offers financial institutions greater near term growth prospects. However, banks' ability to customize financial data integration and reporting features will be critical to attracting business customers.

Recommendations for Corporate Card Customers

Companies wishing to adopt corporate credit cards should likewise consider the bank's financial integration capabilities. As this market expands, Emerging Asia believes there will be intense competition from banks, which will much choice for customers.



Research Methodology for this Study

Emerging Asia's consultants conducted over forty in-depth interviews as original, primary research across China. Interviewees included executives in the finance departments of major Chinese and multinational corporations; sales, marketing and operations employees at major Chinese banks and at the Chinese branches of international credit card companies; government officials, independent industry observers, and analysts. This was in addition to leveraging any existing on-line secondary research, government reports, journals, etc.

About Emerging Asia

Emerging Asia is a specialist provider of professional consulting services related to Asian emerging markets. Emerging Asia provides commercial due diligence services, market strategy advisory, and political risk analysis services. Clients include corporations, private equity investors, and U.S., Japan and Europe based consulting firms that require a reliable Asian counterpart for global research and analyses. Emerging Asia's principals have a number of years' experience in conducting and managing market analysis and strategy development exercises such as the one from which this white paper is derived. For more information about the firm, please visit: www.emerging-asia.com

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