

Research Report of Chinese Bank IC Card Industry, 2009

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Abstracts

The application of IC cards in the bankcard field is generally regarded as the inner requirements for enhancing the safety standards and service abilities of Chinese bankcards and the necessary measures to cast to the international bankcard EMV movement (from magnetic cards to smart cards). In America, the EMV movement has been realized, the bank IC cards having substituted the magnetic cards.

With the advancement of international EMV movement, the regions without IC movement will become the major targets of the counterfeit cards. Apart from the prevention of fraud risks with the counterfeit cards, the standard IC cards will support the bankcards used in the small payment areas and the fast payment areas, such as in the public transportation, convenient supermarkets and fast food industry, making the bankcards get out of the appearance limitation and realize the convenient functions like mobile phone payments.

EMV is the unite technology standard of the bank chip cards for debit and credit , cooperatively made by three international credit card organizations including Europay, MasterCard and VISA. The EMV movement refers to the bankcards transformation from the magnetic cards to the integrated circuit (short for IC) cards by adopting safer and more functional smart IC cards to substitute the magnetic cards.

Because the bank magnetic cards are easy to copy, swindle and steal, many countries introduce the EMV movement. At present, the EMV movement has been finished in more than 30 countries. By 2007, 67% cards (about 200 million pieces) in Europe to pay the international organizations were transferred to the smart cards suitable to the EMV standard and 67% acquirer systems had been finished the EMV standard reform. The bank associations and the credit card organizations in Middle East requested the IC

cards issued after 2007 be suitable to the EMV standard. In the Asia Pacific regions, Japan and Malaysia had requested the credit cards issued after 2007 be suitable to the EMV standard. Meanwhile, the international organizations had taken different encouragement and punishment measures to propel the member banks to move towards the IC cards and the EMV direction. European MasterCard International decided that it would no longer take loss responsibilities caused by using the magnetic cards or the counterfeit cards from 2007 in Europe, which means the overall magnetic bankcards used in Europe would be replaced by the smart cards since 2007.

With the acceleration of international economic communications, China is speeding up to enter international economic systems. It is the inevitable trend for Chinese bankcard industry to integrate with the international bankcard standards. By the end of 2008, China accumulatively issued 1.8-billion-piece bankcards, up by 16.7% compared with 2007, including 1.66-billion debit cards and 142-million credit cards. The growth speed of the credit cards was sharp, up by 57.7% YOY. In 2008, the bankcard businesses totaled 16.6702303 billion in China with the total amounts of 127.157376 trillion Yuan (18.17 trillion USD), up by 22.5% and 14.1% YOY respectively. It is of crucial importance to guarantee the safety of the giant amount bankcard trade. With the gradual mature of the IC card technologies, the bank IC cards have been had the basis to develop comprehensively in China.

Because the smart IC cards adopt the CPU chips, which have operation, encryption and decryption and memory abilities, its safety is higher than other cards. Also, it is difficult to copy the chip cards, making the steal of the credit cards more difficult. For the application, the smart IC cards can exchange the data with the card readers by the means of encryption data communications and have strong safety authentication systems, which can cut down the possibilities of the counterfeit card crimes.

EMV movement is a huge investment mainly concluding the following four parts: the costs for chip upgrade, costs for the terminal reform, costs for the mainframe system reform and spread in the issuing banks, acquirers and clearing centers and the costs for business training. At present, the manufacturing costs of each magnetic bankcard in China is about 1 Yuan (0.15 USD), but the international financial IC card costs 1 to 3 USD per piece. According to the reasonable estimation, the manufacturing costs of the domestic financial IC card is about 10 Yuan (1.46 USD) per piece. Estimated by the EMV movement of 1.8-billion bankcards on stock, the movement costs for substituting the bankcards on stock will reach to 18 billion Yuan (2.63 billion USD). The costs for single POS and ATM reform are about 2,500 Yuan (365 USD) and 8,000 Yuan (1,168 USD) respectively. The upgrade reform of these two terminals will cost 6 billion Yuan

(876 million USD). According to the estimation by MasterCard International, 80% costs of the EMV movement will be applied to the upgrade and reform of the backstage and users' training, the reform of the cards and POS terminals only accounting for 20% costs. It is predicted that the whole costs for the EMV movement in China will probably reach to 120 billion Yuan (17.5 billion USD).

In consideration of the leading position of the debit cards in Chinese bankcards, comparatively low venture and the giant costs for the EMV movement, the People's Bank of China (Chinese central banks) puts forward the gradual movement strategies of standardization first, experiments second; Foreign cards first, domestic cards second; credit first and debit second. For the standard, China Unionpay issued its own chip card standards in 2005, namely, Chinese Financial Integrated Circuit Card Regulations (PBOC2.0). For the issuance of the foreign cards, Industrial and Commercial Bank of China issued the first international credit card suitable to the EMV standard on 16th December, 2005. For the experiment places, China is now propelling the EMV movement in Shanghai and Guangzhou etc.

By the end of 2008, the retain number of the credit cards in China were 142 million pieces, YOY up by 57.7%. In 2008, China new added 52-million credit cards, showing explosive growth. It is predicted that it will be the prime time in the next several years for issuing the credit cards in China (the average cards on hand per capita now is 0.1 pieces). To predict conservatively, the annual new added issuance volumes of the credit cards will be 50 million pieces. If issuing the smart cards wholly at the price of 10 Yuan (1.46 USD) per piece, the annual market capacity for the credit IC cards in China will be 500 million Yuan (73 million USD). If in accordance with the 20% issuance cards are the smart IC cards, the market capacity will be 100 million Yuan (14.6 million USD). If realizing the EMV movement in the debit cards in the future, the annual market capacity will reach to 1.5 to 3 billion Yuan (219 to 438 million USD) according to the 5 to 10 renew periods in the magnetic debit cards at present.

From the time order, it is considered that the POS and ATM manufacturers will be first benefited, but it is late for the bankcard manufacturers. From the benefit level, it is considered that the bankcard manufacturers will gain more profits, because of the higher costs for the bankcard transformation. From short run, it is considered that the development of the domestic credit IC cards will be not very fast but in the trial production phase. With the completion of the acquirers with 2 years, it is imperative to spread the financial IC cards in China.

More following information can be obtained in this report:

- Present Situation of Chinese Financial Card Market
- Policy Environments for the Development of Chinese Financial IC Cards
- Compositions of Chinese Financial IC Card Industry Chains
- Social and Cultural Environments for the Development of Chinese Financial IC Cards
- Movement Routes of Chinese Financial EMV
- Prediction on the Scale of Chinese Financial IC Card Market
- Influences of International Financial Crisis on Chinese Financial IC Cards
- Investment Opportunities of Chinese Financial IC Card Industry

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