

Opportunities and Challenges Facing the Third-party Payment under Strict Supervision

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Abstract. This paper adopts a descriptive research method to describe the current situation and problems of third-party payment, and enumerates a series of strictly supervised supporting policies and measures issued by the regulatory authorities in order to guide the healthy and sustainable development of the third-party payment industry which brings the opportunities and challenges to the third-party payment industry. This paper proposes the third-party payment industry to establish diversified financial services with financial technology as an engine, relying on payment data, and gradually shift the focus of business from the ending C to ending B, to serve more enterprises and vertical industries, to provide customers with one-stop accurate, refined and personalized solutions, build a "payment +" ecosystem of third-party payment, and build core competitiveness.

Keywords: Third-party payment; provisions; Cutting off the direct connection to the bank; 96 charge pricing reform [6]; Opportunities and challenges.

1. Current Situation and Problems

Third-party payment refers to the online payment mode in which both parties entrust independent third-party institutions, with certain strength and reputation guarantee, signing contracts with major banks in the host country and abroad to provide fund custody and credit guarantee during the online transaction [1].

1.1 Current Situation

1.1.1 Mainly based on Mobile Payments, Farewell to the Era of Large-scale Growth

According to iiMedia Research, the transaction scale of China's third-party mobile payment in the first quarter of 2019 was 55.4 trillion yuan, with a year-on-year growth rate of 24.7%, which was significantly lower than the 95.7% in the same period of 2018, marking the end of the era of large-scale growth. China's daily consumption payment can be divided into three groups. First quarter of 2019: Third-party payment accounts for 58%, mobile payment 47% and Internet payment 11%. Bank/credit card payment and cash payment account for 23%, 14% offline, 9% online; Cash payout ratio: 19%. Compared with the fourth quarter of 2018, it was up 4%, down 2% and down 2% respectively. Third-party payment still nibbles away the traditional payment market, but the growth rate is slow.

1.1.2 License is King, Hard to Find

Since May 18, 2011 to present, the People's Bank of China has signed and issued a total of 271 third-party payment licenses. Since August 2016, has temporarily suspended the issuance of new licenses, and canceled the payment licenses that have not been substantially carried out for a long time and payment license which are not compliant and qualified. By the end of August 2019, a total of 238 existing third-party payment licenses had been issued.

1.1.3 The Industry has Entered the Era of Strong Supervision and Regulation

Since April 2016, when China entered a period of severe Internet financial risks, the punishment of payment institutions has been strengthened year by year. In 2018, the People's Bank of China issued nearly 140 fines, with the total amount of penalty exceeding 200 million yuan, nearly seven times that of 2017. From January to August 2019, a total of 81 fines were issued, with the total

penalties exceeding 120 million yuan, fully reflecting the severity and determination of the regulatory authorities.

1.2 Problem

1.2.1 Directly Linked with Banks, Difficult to Monitor the Flow of Funds

The so-called provisions, also known as precipitation fund, refers to prepaid currency fund deposited in the third-party payment platform due to the time difference. Before the direct connection was broken, the third-party payment institutions opened accounts in several Banks to store the provisions separately, which made it more difficult for the central bank to monitor and calculate the use of the provisions. At present, the scale of provisions of many third-party payments has exceeded its registered capital and generated a huge amount of interest income in detention. Interest income is determined by retention time and interest. Li Xiao (2019) pointed out that, driven by profits, third-party payment has the motive of extending the retention period, some third-party payment illegally misappropriates the provisions, invest in high-yielding and high-risk products, and even participate in money laundering, tax evasion and other criminal activities [2].

1.2.2 Bargaining Power is Related to the Size of the Platform, Which is Unfair

Before 96 charge pricing reform, online transaction, the third payment shall negotiate with each cooperative bank and cooperative merchant according to the business scope of the license, and re-determine the benefit sharing proportion. The third-party payment institutions with big business have greater bargaining space, have the ability to reward larger discount to customer, and the third party payment institutions with small business, try to retain the market at the expense of the business bonus ratio, lower profits or even at a loss, which causes unfair competition and monopoly industries, and increases the risk of a business management.

1.2.3 There are Gray Areas in the Connection of Trade Settlement System

Before the establishment of NetsUnion Clearing Corporation, the bank directly connects to the third party to pay withholding fees. Li Xiao (2019) observed that third-party payment institutions and Banks' trading clearing system are independent, they can inquire their internal account details of the transaction records only, and targeted account name and account number only. In cross-platform transaction, fail to check payers and payees and account in cross-platform transaction. Therefore, capital purpose flow is beyond regulation, which provides criminals a crack to squeeze through fraud, money laundering and other criminal behaviors [2].

1.2.4 Use Industry Rate Difference Arbitrage

Fees for third-party payment are collected from merchants. Before the 96 fee was changed, the four types of merchants' rates for entertainment, general, people's livelihood, and public welfare were 1.25 %, 0.78 %, and 0.38 %. The public welfare category only collected service cost prices. Su Hongyu (2016) pointed out that a lot of third-party payment sailed close to the wind, exploited loopholes of policies, first, changing the nature of the merchants, They illegally used low zero discount to improve gray income, by managing to switch a high rate of POS terminal to lower rates of MCC code, or switch a POS machine with high rates to a lower one or caps [3]. Second, they use of credit card fee capped mechanism for a huge amount of cash advance, or credit card cash reward, false transactions for cash.

2. Opportunities and Challenges

In view of the above problems, China has taken root governance and introduced a series of policies, regulations and supporting reform measures.

2.1 Tighten Oversight of Reform Measures

2.1.1 96 Charge Pricing Reform

In March 2016, the National Development and Reform Commission and the People's Bank of China announced that from September 6, 2016: a. Uniformly changed a variety of rates before 96 charge pricing reform, to standard, preferential and exempted rates, the transition period is 2 years; b. Change from government pricing to market pricing in receipt acquiring, and end the online and offline dual-track system. The rate level of card issuing banks and UnionPay shall be guided by the government. c. Separation of debit and credit cards. The credit fee capping mechanism has been abolished.

2.1.2 Centralized Management of Provisions

In order to effectively prevent the transfer and misappropriation of large amount of provisions and facilitate the People's Bank of China to fully grasp the provisions at any time, the People's Bank of China, the State Council and other institutions stipulated that by January 14, 2019, the provision for payment will be 100% centralized and will not be paid interest.

2.1.3 Cutting off the Direct Connection to the Bank, Access NUCC

"Cutting off the direct connection to the bank" requires that, starting from June 30, 2018, the third-party payment institutions should cut off the direct connection to the bank, and all online payment services involving bank accounts accepted by the payment institutions shall be connected to the NUCC.

2.2 New Opportunities and Challenges

2.2.1 Fewer Violations, Thinner Profits, New Growth Point of Beneficiary Industry

96 charge pricing reform and cutting off the direct connection to the bank, cut off from the source opportunities to exploit a loophole of policy, to obtain gray income. First, after 96 charge pricing reform, all merchants have the same rate. The third payment does not need to use illegal means such as switching a high rate of POS terminal to lower rates of MCC code and switching a POS machine with high rates to a lower one to reduce the rate difference caused by the difference of merchant categories, which reduced their gray income[4]. Secondly, the overall rate of merchants is reduced, and the profit of the collecting organizations is about 50% thereof before fee reform. Next, credit card rate is higher than above debit card, so consumers are more inclined to use debit card. After that, the credit fee capping mechanism was abolished, and large amount of consumption by credit card increased handling fee cost of merchants, which effectively inhibited cash advance. Finally, the market pricing of the receipt receiving link will promote the competition and shuffle of the receipt receiving market of the third-party payment to be more intense.

After 96 charge pricing reform all kinds of businesses across the country have reduced the expenses of card handling fees by about 7.4 billion yuan a year. Among them, the business credit card issuance and network service fees of restaurant entertainment department store industry can be reduced by 53%~63% and 23%~39% respectively. The beneficiary industry of fee reform has undoubtedly become a new business growth point and breakthrough point of third-party payment.

2.2.2 Provisions Dividend is Absent, No Negotiation Advantage, Fair Play

First, after cutting off the direct connection to the bank, all third-party online payment business accessed to NUCC on the same channel rate by the same standard NUCC, which not only saves the third party payment channel cost to develop and maintain multiple banks, but also saves the commercial banks cost and expenses to bear with hundreds of paying institutions interface, input and equipment maintenance staff. Secondly, erase the scale advantage of heading third party payments from the system.

The provisions are deposited in 100% concentration without interest, which means that D0 and T0 pad costs increase, and the provisions are free of interest and financial investment dividends disappear. iResearch believes that small and medium-sized payment institutions have a higher dependence on

provisions, confronting a greater impact on profits. After the reform, the total revenue of the head collection institutions and small and medium-sized payment institutions has decreased by 3-7% and 30% respectively. After all the provisions are centrally stored and managed without interest, all payment institutions lose the bargaining power of channel cost and stand on the same starting line to compete fairly.

3. Conclusions and Recommendations

3.1 Diversification of Financial Business Layout

Cover Provisions dividend disappear, receipt acquiring margins shrink, institutions should return to payment intermediary business track, through diversified financial business layout, improve the innovation ability, expanding profit, to provide credit, finance, insurance, credit, marketing, supply chain finance, cross-border payments, credit and other integrated services, making business scale bigger and stronger, to get profit growth by scales.

3.2 Reasonable Charge

Enterprises with low rate, high subsidy and strategy of competing for users through price war may benefit less than their costs in the future, which is not conducive to the long-term healthy development of the industry. At the end of the two-year grace transition period of 96 charge pricing reform, a number of payment institutions have raised their rates and set reasonable prices, through improving the quality of service, digging deeply into user demand, enhancing user experience, optimizing the scene, to increase customer viscosity.

3.3 More Service Enterprises and Vertical Industries

As C terminals increasingly saturate, the third-party payment shall actively lay out B side, on the traditional payment services, provide more service to enterprises and vertical industry, around the industrial chain upstream and downstream, the elaborating management, actively provide enterprises with a one-stop solution and other value-added services, develop the third party payment "pay +" ecological system, and construct the core competitiveness of the third-party payment.

3.4 Financial Technology Layout based on Payment Data

The third-party payment has accumulated a large amount of high frequency and high content of real business data, which is the cornerstone of marketing and financial products. Payment technology should be combined with cloud computing, artificial intelligence, communication, biological engineering, information, blockchain and other technologies to cultivate financial technology, provide support for digital fine operation, and expand precision and personalized services for payment data [5].

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