

Reality and Trend of China's Regulation on Payment Service by Non-Financial Institutions 2016

Vincent Wang

Davis Wright Tremaine LLP Shanghai Office

Tel: 8621-6170-9500 Fax: 8621-6170-9599 Email: vincentwang@dwt.com
www.dwt.com

Anchorage
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This Presentation Will Discuss:

- I. Regulatory Overview
- II. Regulation on Payments through Network
- III. Regulation on Prepaid Cards
- IV. Regulation on Cross Border Payments
- V. Some Words about Internet Financial Service
- VI. Regulatory Trend



I. Regulatory Overview

- Payment Service Subject to Regulation
 - Payment Service through network
 - Payment Service by prepaid cards
 - Payment Service from POS
 - Other Payment Services: a catch-all clause to expand the payment service that will be subject to the regulation in the future



I. Regulatory Overview

- One License: Payment Business License
 - Issued by the People's Bank of China
 - With two levels: nationwide license and provincewide license
 - A service provider is offering the service in multi provinces if either it opens branches in other provinces to offer the service, or its customers can use the service to conduct payment transactions in more than province
 - Have a term of 5 years
- Banking based service
 - Payment service providers must engage bank's service for fund management and transfer to other payment service providers
 - Payment service providers cannot offer services to banks and other financial institutions



I. Regulatory Overview

- Subject to the anti-money laundry and anti-terrorism funding requirements
- Payment service providers are not allowed to outsource its payment business
- are not allowed to lease, lend and assign its payment business license
- Payment Processing System and its backups must be in China
- Foreign invested payment service provider
 - no legal basis to grant license yet



II. Regulation on Payments through Network

- The service of funds transfer service through Internet, mobile devices, landline telephone and digital TV
- A value added telecom business license is additionally required
- Customers Management
 - Real name system for electronic accounts
 - Customer contracts: clear, easy to understand, obvious reminder/alerts to material interests of the customers
 - Special Statement: The balance recorded in the electronic payment account is different from the deposit amount in the bank account and is not subject to the protection under the Deposit Insurance Regulation. The true nature of such balance is the prepaid value which belongs to the customer and is entrusted in the custody of payment processor for the benefits of the customers. The corresponding funds of the prepaid value although belonging to the customer is not deposited in the bank in the name of the customer but in the name of the payment processor subject to transfer in the direction of the payment process.
 - Only Internet payment processor can open electronic accounts for customers
 - Not allowed to open electronic accounts for financial institutions and other institutions that engages in loans, financing, wealth management, bonding, trust and currency exchange businesses (“Other Financial Business”)



II. Regulation on Payments through Network

➤ Business Management

- Not directly and indirectly engage in Other Financial Businesses
- Dual verification for funds transfer instruction
- Balance control on individual electronic accounts on consolidated basis (RMB1000, RMB100K per annum, and RMB200K per annum), subject to verification of the account owners
- Funds transferred from prepaid cards are managed separately and for purchase payment only
- Keep true and complete records for transactions for 5 years from the date of instruction completion
- Not store any magnet strip or chip information, the CVV2, and the password of the customer's bank cards. However, the expiration information can be stored with the prior consents from both the customers and their card issuance banks



II. Regulation on Payments through Network

➤ Security

- Three security methods are allowed to verify the customer's instruction: the password; the digital certificate/electronic signature, or the one-time password transmitted in a secured channel; and the bio-characteristics (such as fingerprint)
- Chinese security and electronic authentication standards must be used for digital certificate/electronic signatures

➤ Deposit Handling

- One payment service provider must put deposit from customers into special purpose accounts opened by the payment service provider with one commercial bank
- One payment service provider can only open one special purpose account at one branch of the commercial bank
- Adjustment of depository funds in different special purpose accounts must be verified by the headquarter of the commercial bank
- 90 days average amount of the total deposit of a payment service provider should not be 10 times larger than the paid-in cash capital



III. Regulation on Payment Service: Prepaid Cards

- Prepaid Cards Business Subject to Payment Service Regulation
 - Prepaid cards are cards that are issued for profits and in the form of passwords or physical cards with magnetic strips or electronic chips, and designated with prepaid value that can be used to purchase goods or services from third parties other than its issuers
 - Can only be issued by payment business license holders and is regulated by the PBOC
 - Issuance:
 - Issuers must request and record person identifiable information, as well as the prepaid card numbers, if any individual or entity purchase prepaid cards with a value more than RMB 10K in one time purchase
 - In certain circumstances, issuers can only accept bank wiring, and no cash or credit cards are allowed in such circumstances
 - Issuers must sell prepaid cards in physical stores, and are not allowed to use agents to sell prepaid cards with par value more than RMB 200 each prepaid card



III. Regulation on Payment Service: Prepaid Cards

- Prepaid Cards Business Subject to Payment Service Regulation
 - Processing System
 - Core business processing system must be maintained within the territory of China, and the prepaid cards core business processing system includes card issuing system, accounting and business servers, cards management system and customer information system.
 - Outsourcing the prepaid cards core business processing system is not allowed
 - Channel
 - It is prohibited that issuers issue or sell as agent prepaid cards bearing bank card organization codes or logos, issuers issue co-branded prepaid cards with other payment service providers, or different issuers issue prepaid cards with the same logos
 - Issuers can use processors to facilitate the prepaid cards acceptance and uses, but issuers shall not allow processors to participate fund settlement to the merchants and customer



III. Regulation on Payment Service: Prepaid Cards

- Prepaid Cards Business Subject to Payment Service Regulation
 - In processing return and refund, Issuers must refund the amount to the original prepaid cards which are used for the purchase
 - Use:
 - Prohibited to cash-out the prepaid cards
 - Prohibited to use one prepaid card to purchase or charge another prepaid cards issued by other issuers
 - Prohibited to wire fund from prepaid cards to bank accounts or electronic accounts maintained by other payment service providers
 - Prohibited to pay online with very narrow exceptions
 - Charging:
 - Prepaid cards can be charged with cash (up to RMB 5K), bank wirings or electronic accounts (only if the issuers has the proper license to do Internet payment business). Prepaid cards charging can be done at the physical store of the issuers, but automated charging terminal and charging agents can be used when the charging amount to one prepaid card is RMB 200 or lower



III. Regulation on Payment Service: Prepaid Cards

- Prepaid Cards Business Subject to Payment Service Regulation
 - Redemption
 - Person identifiable cards can be redeemed within 3 months of purchase with personal ID
 - Non-person identifiable cards can only be redeemed when the card issuers stops the prepaid cards business if there is remaining amount in the card and if the prepaid cards has not expired
 - Redeemed funds shall be wired to the bank accounts originally used to purchase the cards; when such bank accounts are not available, to bank accounts owned by card purchasers
 - Cash can only be used if the redeemed amount is RMB 100 or less



III. Regulation on Payment Service: Prepaid Cards

- Closeloop Prepaid Cards Business Not Subject to Payment Service Regulation
 - Prepaid card definition
 - Prepaid cards in the same or similar physical or virtual forms used in the retail, hospitality, dining and service areas and can only be accepted by the issuer, the company group which the issuer belongs to and the branded chainstore or franchising operation
 - Regulated by the Ministry of Commerce of the People's Republic of China
 - Subject to an after-the-fact filing regulation, filed within 30 days after the prepaid cards are issued
 - A new draft for closeloop prepaid cards is released, new regulation is anticipated



IV. Regulation on Crossborder Payment

- SAFE's permit is required in addition to PBOC payment business license
- A service which accepts RMB payments from domestic entity and converts such payments into foreign currency to pay foreign sellers
- Supported limited transactions approved by SAFE: physical goods transaction, foreign education, foreign dining, foreign hotel accommodation, foreign airline tickets
- Ceiling for one transaction: US\$50K
- Foreign currency exchange rates are those issued by banks in China because the conversation occurs in China



V. Some Words about Internet Financial Service

- Officially confirm that Internet financial services are new and encouraged financial service
 - Encourage internet financial service platform, products and service innovation for traditional financial service providers to go online
 - Encourage collaboration among traditional and Internet financial service providers
 - Encourage Internet based investment funds
 - Promote credit system construction, and leverage big data for better Internet security

- New Businesses Defined and Regulated
 - Internet Payment by PBOC
 - Internet Lending (including P2P lending and small amount lending) by BRSC
 - Crowdfunding by SRSC
 - Internet Investment Funds Sales by SRSC
 - Internet Insurance by IRSC
 - Internet Trust and Retail Financing by BRSC



VI. Regulatory Trend

- More regulations to be released in 2016
- Regulatory focus:
 - Funds security and management by third party banks by PBOC
 - Sufficient information disclosure and risk alerts by SAIC and BSRC
 - Financial service consumer protection by PBOC, BRSC, SRSC, IRSC and SAIC
 - Network and information security by PBOC, BRSC, SRSC, IRSC, MIIT, Police and NIIO
 - Anti-money laundry and white collar crimes by PBOC and Police
 - Self-discipline by CIFA
- Market Access by Card Organizer into China



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