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Interview with Chen Yu from YeePay



Adrian Bye: Today I am talking with Chen Yu who is co-founder of YeePay, we're in Beijing. YeePay is a payments company based in Beijing, China. Chen, take it away. Tell us about yourself and where you come from.

Chen Yu: I was born and raised in China, but I lived in the States for about 10 years, 3 years in Chicago and 7 years in the Bay Area, in Silicon Valley. My background is mostly technical. I actually went to college in China, in Beijing, here, and believe it or not, after the Tiananmen Square crackdown, I spend a year in the Chinese military as well. Then I went to graduate school in the States, and I worked in the States mostly in IT industry for about 8 years before I moved back to China and founded this company. We started the company in August 2003. So, we've been running this company for almost 6 years and we officially announced the service in early 2005, so, our service has been up and running for more than 2 years.

So, right now we are one of the leading payment service providers here in China. We worked with many merchants across all different industries. From e-commerce to digital entertainment, like online gaming websites, as well as major airlines and travel agents. We provide a variety of payment service products that merchants can actually use to collect payments from their consumers.

Adrian Bye: So let's take a step back. You were in military after Tiananmen Square. Can you tell me about that?

Chen Yu: It was actually mandatory after the Tiananmen Square crackdown because I went to Beida that was like the center of the student movement. So, basically the authority felt we were the troublemakers and so they sent all of us to the military academy for one year of military training.

Adrian Bye: How old were you then?

Chen Yu: I just entered college so I was 18 back then. It was a very unique experience, at the time we hated it. But looking back we learned a lot from that one year of experience; because I never really went to a big school, so for me that's really a big school. Because I learned a lot from how to work with other people, how to deal with all different kinds of situations.

Adrian Bye: Where you actually there at Tiananmen Square?

Chen Yu: I wasn't in Tiananmen Square when it happened, but I lived in Beijing, so a lot of things actually happened in the streets leading to Tiananmen Square, so we definitely witnessed a lot of things.

Adrian Bye: Okay. We'll change the subject because that is a very sensitive area to talk about in China. On an unrelated point to what you're doing, but Max Levchin who is at Paypal, do you know him?

Chen Yu: No, I don't, but I know the name but I don't know the person personally.

Adrian Bye: If you're a tech guy in a financial company here in China, are you an equivalent of him in China?

Chen Yu: Not really. My role here at YeePay is mostly sales and marketing. My background when I was back in school was in the technical area, but once I started working in the Bay Area, I actually moved more to the business side. Before I founded this company, I was actually working at Oracle, the database company.



Adrian Bye: Where at Oracle?

Chen Yu: In Redwood Shores, their headquarters.

Adrian Bye: Which division?

Chen Yu: I was actually in the product management for oracle application server.

Adrian Bye: I was the product manager in the database division. I was there 1998, 1999, 2000.

Chen Yu: Okay. That's great to know because we must have some overlapping.

Adrian Bye: I worked for Thomas Kurian, do you know who he is?

Chen Yu: I worked for Thomas Kurian, as well.

Adrian Bye: So, I was with him in the database division before he moved to the applications server. So we had the same boss. There you go.

Chen Yu: We had the same boss. Small world. Interesting.

Adrian Bye: That was a long time ago.

Chen Yu: That was very interesting because I worked under Thomas Kurian from 2001 to 2004. Before that I was in the Global Alliances.

Adrian Bye: Under Polly Sumner?

Chen Yu: No. It was Jay Perez.

Adrian Bye: Cool. So, talking about YeePay today, can you give us an idea about the size of your pay load. What kind of volume of processing are you doing right now?

Chen Yu: We process about over 3 billion RMB per month.

Adrian Bye: What's that in dollars?

Chen Yu: So, that's roughly about \$400 million USD.

Adrian Bye: So, you're processing \$400 million USD per month.

Chen Yu: \$400-500 USD million per month.

Adrian Bye: So, \$6 billion USD dollars a year.

Chen Yu: Pretty much, but we're growing. Like last year we actually grew about 5 times compared to 2007. So, this is a very fast growing market, because the starting point in China is really low. If you compare the payment segment to a lot of the other internet segments. Payment is one of the areas that we are so behind.

Adrian Bye: So, you're really big.

Chen Yu: We're not the biggest one. There are bigger ones in China, but the interesting thing about China is that the market is very fragmented. So, every player in this market is trying to attack the market from a different angle. So I don't think it is going to be a winner-takes-all situation. So, as long as we find our position, we can definitely keep our own business.

Adrian Bye: So, do you want to tell me about the angles that you are using to attack the market.

Chen Yu: Well I think the biggest difference between us and a lot of our competitors is that we try to focus mostly in three areas. The first area is that we try to provide a total solution because in addition to online payment, we also process telephone payment and mobile payment. In addition to supporting bank cards, like credit cards and debit cards, we also support universal prepaid card payments. Meaning that, any user can just go to a convenience store and buy it.

Adrian Bye: Actually, why don't we take a step back, because we are coming at this from a perspective where we don't know much about payments at all in China. So, maybe before we go into that sort of detail could you just tell us, as I understand it right now, there is no payment solution in China, particularly, the people generally don't have credit cards? I guess people in the wealthy 5% of the country have credit cards, could that be correct.

Chen Yu: Well, it's changing. It's changing very rapidly. You could be right like 5 years ago, but now a lot of people.

Adrian Bye: What percentage of China has credit cards today?

Chen Yu: Well, China has more than a hundred million credit cards issued today compared to ...

Adrian Bye: So, how many people have credit cards?

Chen Yu: We have 1.3 billion people, right, and of course a lot of these credit card holders actually own one card. The market penetration is taking off very rapidly. The other thing is...

Adrian Bye: Do you know how many people have credit cards today?

Chen Yu: I don't have the exact percentage number, but it's taking off very rapidly.

Adrian Bye: But there is a 100 million credit cards so that could mean 20 million people have credit cards today?

Chen Yu: I think it should be more than that. The other thing is that in China not only we use credit cards, most people actually use debit cards for online payment, and there are over one billion debit cards issued by various banks.

Adrian Bye: Debit cards are they all standard like Visa, MasterCard debit cards or are they bank debit cards.

Chen Yu: Their bank debit cards and also in China we have the standard called China UnionPay. It is equivalent to Visa or MasterCard; it is just like JCB, which is the standard in Japan. So, in China every debit card is a China UnionPay card. You can use the card through the China UnionPay network. It's just like you're using a Visa card through the Visa network in the States.

Adrian Bye: Okay. I'm taking from my experience in the Dominican Republic. It actually is a small country. It's an island and a third-world country. The majority of the country don't have credit cards. A lot of people do have some sort of debit card but there is a very large percent of the country; I would say 60% of the population that would not be able to pay things easily online. They wouldn't have a debit card; they probably don't have a bank account. They don't have that sort of stuff. Is that the case here in China or is it different?

Chen Yu: Well, I believe the penetration is probably higher. I think it's definitely higher in China. In terms of percentage there are definitely more people actually have either a credit card or debit card. The problem is that a lot of people do not know how to use these debit cards or credit cards for online payments. So, many of them do have a debit card or credit card, but they can't really use them for online payments.

Adrian Bye: When you say many can you be more specific?

Chen Yu: Well, in China as of last year the number of online payment users were around 50 - 60 million. So, compared to the overall market it still is just a small percentage.

Adrian Bye: 50 - 60 million.

Chen Yu: 50 - 60 million online payment users.

Adrian Bye: So, these billion dollar companies, these billion dollar internet companies that are being built in China are being built on a base of users that are fifty to sixty million people?

Chen Yu: Well, not necessarily, I mean not all these internet companies necessarily have to collect payments from their users. They have different business models. Many of them basically relied on advertising. In that case you don't need to have a payment mechanism to collect money from your users.

Adrian Bye: But the big ones are basically gaming, right?

Chen Yu: Even for gaming guys they don't necessarily rely on e-payment.

Adrian Bye: They use bank transfers and other stuff.



Chen Yu: No, not even that. They have basically what we call the prepaid card system. They have a distribution network. They can sell physical prepaid cards issued by the vendors. So people can just go to any of the newsstands or convenience stores to buy a game card. Basically a prepaid card and use that as a payment method.

Adrian Bye: I know that's outside what you guys do, but maybe can

you talk a little more about that. Is that like a mobile phone card?

Chen Yu: Similar to mobile phone prepaid card. Except these cards are issued by the vendors and online games operators. As a matter of fact, we support universal prepaid card payment as well. What that means is that, although we don't issue our own prepaid cards, we can actually leverage the existing distribution networks of other vendor's prepaid cards. So it's pretty much the case that any user can go to any convenience store and buy a vendor-specific gaming card and use that as a generic payment tool on our system. So, you can actually buy a China mobile prepaid card and use that as a form of cash to pay for other games.

Adrian Bye: So, I can go to China mobile and buy a 20 card from the cell phone company I can buy a 20 card and I can use that to buy things on YeePay.

Chen Yu: Exactly. Instead of using that to recharge your phone bill, you can use that \$20 card to pay for online games for example, and that's what we call a universal prepaid card.

Adrian Bye: And so the gaming companies, they're using prepaid cards like World of Wonder can I buy Worlds of Wonder prepaid cards at kiosks around the country or corner stalls or wherever.

Chen Yu: I'm sorry.

Adrian Bye: Can I buy prepaid cards for Worlds of Wonder all around the country?

Chen Yu: Yes. You mean World of Warcraft, right?

Adrian Bye: Sorry. World of Warcraft. Yes.

Chen Yu: World of Warcraft, yes. World of Warcraft was operated by The9, which is one of the biggest online game operators here in China. They do have their own distribution network to sell prepaid cards so you can buy any of their prepaid cards and use that to pay for online games.

Adrian Bye: So, I have to buy it from The9...

Chen Yu: From their distribution network, not necessarily the company...

Adrian Bye: What are there cards branded as?

Chen Yu: It's branded from The9.

Adrian Bye: From The9, and where would I typically buy one of those cards?

Chen Yu: Well, like 7-11, just like any department stores, they have a section that sells prepaid cards. Like China mobile cards and game cards and all sorts of prepaid cards.

Adrian Bye: If you go to a 7-11, how much of a selection would they typically be of prepaid cards?

Chen Yu: Well, they have a variety of prepaid cards. Just like I said you can buy a prepaid card to pay for your phone bills from China mobile.

Adrian Bye: So how many different companies could I typically buy prepaid cards from? Are there going to be twenty different types of prepaid cards in there?

Chen Yu: Probably around that range. A dozen prepaid cards issued by different vendors.

Adrian Bye: And what would be the most important one that would always be sold?

Chen Yu: I think the most universal prepaid cards you can expect is definitely China Mobile. Because the mobile market is definitely the biggest, it has definitely the biggest user base.

Adrian Bye: And what else could be the big ones?

Chen Yu: China Telecoms, mostly telecom cards.

Adrian Bye: So that would be 80%?

Chen Yu: I don't know the exact percentage of the market share.

Adrian Bye: Then what would be the other, say, the remaining 20%?

Chen Yu: Like vendor specific card, you should buy The9, by Shanda, which is another online game operator in China.

Adrian Bye: So, we're talking around 80% would be mobile phone and the remaining 20% would be gaming companies. Would that be accurate? Are there other major industries that are using these prepaid cards?

Chen Yu: Well, sometimes you can buy gift cards as well. Just like you could go to Macy's where they have their own gift cards. There are a lot of vendor-specific cards issued by different vendors. But telecom and gaming, I think these are the two biggest prepaid cards issuers.

Adrian Bye: Let's say I go to a 7-11 and let's say they don't have the The9, so I can't get the World of Warcraft game card, where does one go to buy one of those cards when they're not...

Chen Yu: Well, they can probably go to a newsstand or department stores or supermarkets. A lot of these places actually sell these prepaid cards.

Adrian Bye: Then what's the model like, actually, what are the typical sizes of these prepaid cards. From what dollar value.

Chen Yu: You mean denominations?

Adrian Bye: Yes.

Chen Yu: Usually, in dollars, let me try. Probably \$10, \$20, they have different denominations.

Adrian Bye: So, typically the highest is around \$20.

Chen Yu: Well, in some cases you could go as high as \$50 probably.

Adrian Bye: So these cards then, when you talk about universal cards, a lot of these cards can then be taken and put into your system.

Chen Yu: That's right.

Adrian Bye: Let's say the dozen that I see at 7-11, how many of those dozen do you guys support?

Chen Yu: We have about a half dozen cards. But those half dozen cards actually cover most of the user base. Because as long as you cover China mobile prepaid card, you pretty much cover all the users. Because they can always buy China mobile prepaid cards from any convenience store.

Adrian Bye: Okay. So, on to other major forms of payments. So, we have talked about prepaid cards. Can you just talk about credit cards and debit cards?

Chen Yu: I think we got into these prepaid card discussion first, but actually that was only a part of our business.

Adrian Bye: We are here to talk about the overall payments in China. So we'll definitely cover your business, I need to understand like the foundation of how that works to be able to understand your business.

Chen Yu: Absolutely. I think the bulk of our transactions are still based on the bank cards, the credit cards or debit cards. It depends on which bank we are talking about. Some of the banks the credit card percentage is higher. For most of the banks, actually most of the users use debit cards. Because in China the credit card penetration is still relatively low.

Adrian Bye: So, what percentage of your business is prepaid cards?

Chen Yu: Well, in terms of the transaction volume, it's relatively small. It's less than 10%. But in terms of revenue, it's actually significantly higher, because the transaction fee is, in terms of percentage, is much higher compared to bank cards.

Adrian Bye: Actually that's what I wanted to ask you. Just one last question on the prepaid cards. 7-11 or department stores takes them, let's say they're selling a \$10 card. What percentage does the department store or 7-11 get?

Chen Yu: That's a good question. I don't know. Because I think it also depends on the different types of cards. I think for China mobile prepaid cards, usually the reseller, the last line of reseller takes less than 1%, maybe 2%. So, because you have different levels of distribution network, everyone has to take a cut.

In our case, if a merchant wants to collect payment

through a prepaid card like China mobile card, we usually charge the merchant around fifteen to twenty percent of the transaction. That may seem very high.

Adrian Bye: You charge the merchant or the user?

Chen Yu: We charge the merchant.

Adrian Bye: So, if I want to use a \$10 China mobile card to buy things on World of Warcraft, you're going to charge World of Warcraft or The9, which has been the operating company, you're going to charge them 15%.

Chen Yu: We're going to charge them 15% or it depends on the transaction volume but the default range is around 15%. That may seem very high compared to credit card processing. The comparison actually really



comes from the SP mobile phone billing model. Because previously a lot of these content providers actually relied on mobile billing to collect their payments. So, if they work with the carriers, the carriers usually take more than 15-30% of the transaction.

Adrian Bye: Is your 15% high just because the market will support that or is that because of the costs somehow high?

Chen Yu: Well, because the market will support that, that's one thing. That's mostly because people use this kind of payment method mostly for digital content. So, the cost is relatively low for the content providers. So, they can afford to pay a higher fee for payment. The other thing is that, like I said the comparison really came from the previous mobile billing model where the content providers relied on mobile carriers to charge for them. In that case, the fees could be even higher.

Adrian Bye: Okay. So we've talked about the size of this market. Can you maybe talk with just more generally not talking about your company? Generally talking about the debit cards and credit cards and how they work in China.

Chen Yu: Like I said, overall the debit card and credit card penetration in China is still relatively low, but it's taking off very rapidly. As I mentioned earlier, there are already over one billion debit cards issued by various banks in China.

Adrian Bye: Do you know what percentage of people in China would have a debit card?

Chen Yu: The overall population is 1.3, if you assume that one person has two or three cards that would translate into 20-30% of the people actually have bank cards. So it's changing. It's taking off very rapidly. The other thing is that the payment infrastructure in China was lagging behind. So, people still heavily rely on legacy payment system, for example, cash on delivery, like postal wires and bank wires. So, ePayment is just taking off here in this market, because there is a very practical need. Across the industry almost every second requires some form of ePayment because the whole infrastructure was missing before.

Adrian Bye: On the debit cards, how many major types of debit cards are out there? Is there one standard for debit cards? Or are there lots of segments to this also.

Chen Yu: If we are talking about one, there is only one standard, then it's China UnionPay. It's the equivalent to Visa or MasterCard here in China. All the banks are required to connect into China UnionPay network. Every bank issues their own debit cards or credit cards, but ultimately they have to brand this card as China UnionPay cards. They're all connected and supported by the China UnionPay network. Many of these cards are also Visa and Mastercards. But other than carrying the logo they don't really go through the network.

Adrian Bye: Do consumers feel comfortable about buying things online with their debit cards?

Chen Yu: Again, it's quickly changing. On one hand, you could say a lot of people still do not feel comfortable buying things online and probably because it's a cultural thing, because Chinese people or Asian people, in general, believe in tangible things. So, in a way trust is much bigger issue than payment and the technology itself. Because people usually do not trust each other even when they're doing business face to face, let alone, when they're doing business over the internet. But on the other hand it's also quickly changing, especially the younger generation. They're quicker when it comes to adopting new technology and new ways of payment.

Adrian Bye: Okay. Generally, this is really interesting, I wasn't expecting this. Generally, a third of the country has access to debit cards and they are starting to become more comfortable about buying things online.

Chen Yu: Yes, that's exactly right. If you look at the figures for last year, 2008 compared to 2007, the average market grew by a 180%. That's almost three times the size of 2007. So, it's a very fast growing market in terms of the payment transaction volume. It's still relatively small compared to US or some other major markets, but if you compare it to the history here in China, it's a very fast growing market.

Adrian Bye: I've heard in Germany, there is no such thing as a charge back. You charge something on your account there is no right to turn it back. How does charge backs and refunds working in China?

Chen Yu: That's pretty much the case in China. There's no credit card charge back. In most cases, if you pay with your credit cards or debit cards, as a consumer you don't have the right to take it back. Refunds work in a different way, because refunds are actually initiated by the merchants. So, if a merchant agrees to pay you back, to refund you, you can get your money back. But again that's initiated by the merchants, not by the consumer. As a consumer, you can't say I don't want to pay this. This was not a transaction made by me. You don't really have the right to say that. Because it's very limited protection for the end users here in China. It's both good and bad. The bad thing is that it probably slows the adoption of credit cards. But a good thing at least for the banks and for payment operators like us is that there is less risks.

Adrian Bye: What about fraud then? Because if there is no charge backs and there is no refunds.

Chen Yu: There is still fraud. As long as you are dealing with money you can expect there is a certain level of fraud because people might be using stolen cards to pay for online transactions. Sometimes, if they can prove that, those cards were indeed stolen by someone else and made the payment, the bank have to refund them and we have to refund them back as well, the merchants. The other thing is that some of the merchants might not be legitimate. There might be some on the merchant's side as well; they might be involved in fraudulent transactions. As a payment company, you need to be able to detect those fraud transactions and you also need to have a very sophisticated risk management system to constantly monitor all the transactions.

Adrian Bye: And your role as a technology guy, I imagine that's where you spend a lot of your time, is it not?

Chen Yu: That's definitely the core competency of any payment company. But that's not my major responsibility at this company. We have a dedicated risk management team who actually plays this role.

Adrian Bye: Fraud was one of the areas that almost killed Paypal.

Chen Yu: That's true. But again in China like I said it's both good and bad. Where it comes from is the fact that there is very little protection for the end users. So in a way it's bad because it slows down the overall adoption.

Adrian Bye: When you say very little protection for the end user what do you mean?

Chen Yu: If you lose your card, you lose your money. The bank in most cases, if you can not prove that your card is stolen or anything then you don't get your money back. Because the end users have to bear the ultimate responsibility for their own card.

Adrian Bye: So, what if you get kidnapped and someone forces you to withdraw money from your bank account, which happens.

Chen Yu: It happens. It happens.

Adrian Bye: You have no recourse.

Chen Yu: It depends. The example you gave is probably you have to go through a case by case situation.

Adrian Bye: In the US, you could generally get that worked out.

Chen Yu: In the US, you can generally get that worked out.

Adrian Bye: Here, generally, you can't get that worked out?

Chen Yu: It takes a lot of effort to work it out here in China. Because by default there is no general protection for the end users.

Adrian Bye: That will really slow down the adoption.



Chen Yu: The other thing is that, I think the other more fundamental difference is that in China most people use debit cards for online payment. Even when you are using credit cards. Like for China Merchants Bank which has the highest credit card penetration rate. Even for China Merchants Bank users when you're using credit card for online payment we treat it as if it's a debit card payment, because

all the payment transactions have to be authorized with a password. You see what I'm saying? There is more protection for the transaction intrinsically. It is not like in the US, you simply go to the merchants website and you put in your credit card number and expiration data and you can authorize payment. Here in China, it's a very complicated process. User experience is not as friendly as what you see in many other countries. You have to enter your card number, your password, and then there is also a check code to make sure you are a human being instead of a robot.

Adrian Bye: And so how do I get my password the first time I'm using your system?

Chen Yu: You don't get the password from my system. You get the password from your bank. From the card issuing bank.

Adrian Bye: Is that like the PIN code?

Chen Yu: It's like a PIN code to authorize the payment. So, theoretically speaking it's definitely much safer because all transactions are protected by a password. You can't just authorize transaction by giving out your credit card number and expiration date.

Adrian Bye: For your company in general, how big a problem as fraud? Because one of the things we see, China or a lot of the world's internet fraud comes from China, and you're a payment company in China, which payment companies, as what we know historically from the US, fraud is a big issue. You're doing \$6 billion a year. How much of an issue do you have with fraud?

Chen Yu: For us, it's definitely not a big problem. It's definitely not a problem as big as what Paypal faced before. Because for the very same reason that I mentioned like all the debit cards and credit card transactions here are protected by passwords. So, it's relatively safe. Fraud does happen but it's relatively a small issue in terms of the percentage of transaction volume.

Adrian Bye: So fraud is not, you wouldn't consider a major issue for it.

Chen Yu: It is always a major issue for any payment company. It is constantly on our minds in terms of how to improve our risk management and fraud protection mechanisms. But in terms of the actual amount, dollar amount related to fraud, it's relatively a very small percentage compared to what Paypal had faced before. It's kind of ironic and hard to believe because although there are a lot of frauds originating from China, but those frauds mostly happen at sites outside of China. Because within China that's how it works. Because all the transactions are considered debit card transactions protected by a password.

Adrian Bye: So, your suggestion to the US would be to protect their transactions by a password too.

Chen Yu: Not necessarily. Because I think it's a different philosophy, because in China, the fraud management, if you look at the principles behind the fraud management, it's always about shifting the responsibility to the end users. I don't think it's a good strategy in the long term and it's not something that we can do by ourselves. The banks have to change their principles and their philosophies to really shift...

Adrian Bye: Which banks, the Chinese or US?

Chen Yu: The Chinese banks. To shift all the complexity about risk management from the front end to the back end. So, they can really improve the user experience.

Adrian Bye: Okay so what you're saying is right now it's still really difficult for users. It's basically a big hassle and the risk is on the users.

Chen Yu: Essentially, they put the hassle on the end users. If you want to use online payment, you have to go to your bank. The first time when you open the account you have to tell the bank I want to have online payment. Then you can choose the password and in some cases you need to, if you want to pay large amounts for online transaction, you have to use a USB key. You actually have to use a physical device to authorize the payment. So, there are many different levels of protection on the surface, all these protection

mechanisms look much safer compared to what you have in the US. But on the other hand it makes the payment user experience much more difficult.

Adrian Bye: One of the other things that Paypal did that helped to get going was working with the adult industry. It was working with Casino. One of the reason why they ended up getting acquired by eBay as I understand it was because those industries was going away which is kind of dramatically decreased their profits. Is there no adult in China? There is no adult industry? There is no casino industry? Are there high risk industries that payment processes work with that make up a lot of profits?

Chen Yu: I don't think there is an equivalent; I mean legally, there is no equivalent of adult industries and gambling institutions in other parts of the world. But in China, in some cases you can work with the lottery websites, and I don't know if you can consider that high risk, because all the lottery websites theoretically should be authorized by the government. Relatively the profits might be higher. And the other industry that we work with is online gaming industry, not a gambling industry but online gaming, digital entertainment, because relatively the profits are much higher compared to other more traditional industries.

Adrian Bye: What would you mean by more traditional industries?

Chen Yu: Like ecommerce, online shopping, air ticketing and telecom.

Adrian Bye: Chen, you raised an interesting point. Air ticketing. Let's say if I'm in China and I want to buy a thousand dollar air fare to go to the US. How am I going to pay for that? I can't pay for that with twenty dollar prepaid cards.

Chen Yu: No, you can't. In most cases you pay with your credit card or debit card. And we do work with many of the merchants in the airline industry. A lot of the major airlines are our customers like Shenzhen Airlines and China Southern Airlines. We also work with a lot of the major travel agents. So the way it works is that you can either pay for online payment using your debit card or credit cards or you can go to one of the call centers in these airlines and make a payment through the phone. Because we also support telephone-based credit card processing. The way it works is very similar to what we have in the US. You just give the operator your credit card number and they can actually process the payment.

Adrian Bye: And some people feel that's more secure than doing it online?

Chen Yu: Yes, ironically a lot of people feel that's more secure than doing it online. And that's not even protected by a password; because for telephone-based processing you simply give out payment processing you simply give out your credit card number to the operator. But on the other hand, this kind of payment can only be used by certain industry like the air travel. Because this is what we call traceable transactions because you have to use an ID to board a plane. Relatively the risks are manageable.

Adrian Bye: So if I buy tickets such as a thousand dollars, five hundred dollars, two hundred dollars is really not a problem and that would tend to be done by a credit or a debit card?

Chen Yu: That's right.

Adrian Bye: What you're saying is one third of China has the ability to pay a two hundred dollar price for something through their debit card?

Chen Yu: If you're talking about ePayment I don't think the percentage is that high. I don't think one third of the people can do that. Maybe one third of people have a bank card at one point in their life, but not all of them actually know how to pay through the internet or through a call center. Potentially they have the ability to pay.

Adrian Bye: So, that's one of the things that's slowing down the adoption for you.

Chen Yu: Right.

Adrian Bye: Another model that is used a lot in the US is recurring billing. You sign up for something and then you are billed ten dollars a month or twenty dollars a month. Do you have the ability to do that?

Chen Yu: We have a product called ePass. So essentially it's a service that allows you to set up your own YeePay account and link that with a bank card. And then we can do this recurrent billing. But again in China, the idea of recurrent billing haven't really taken off yet. So we still have very limited adoption.

Adrian Bye: So if I want to come to you and pay for something and be charged ten dollars a month.

Chen Yu: You set up an ePass account.

Adrian Bye: Why do I have to set up a separate account? Why that can't be just charged to my debit or credit card every month.

Chen Yu: Because again, it is by default, the banks would not allow you to charge something automatically without issuing a password. Like I said by default all the transactions are actually protected by a password. The way it works

Adrian Bye: The consumer can't authorize it if that's recurring every month the password can only be used at the time each transaction is made, unless they sign up with that system and they explicitly give it to you.

Chen Yu: Exactly.

Adrian Bye: So, does that mean you don't end up having much recurrent billing?

Chen Yu: Yes. We have very limited adoption, but we do see that as a trend probably in the future.

Adrian Bye: What percentage of the country would be using recurrent billing right now?

Chen Yu: I think it's very small. It's pretty much not even on the radar screen. Because a lot of banks for example also have services that allow people to recurrent billing for their utility payments. So, for that type of service as far as I know, only a very small percent of people are using that.

Adrian Bye: And so for your business it's a very small part of your business right?

Chen Yu: Yes, I think it comes down to the trust issue. Because it's probably a cultural factor. Because the Chinese people tend to trust in more tangible things, so recurring billing is something far in the future. It's something relatively more unpredictable. So, they probably do not want to use that directly.

Adrian Bye: What are the other forms of payment? You mentioned payment by phone. Is there payment by mail as well? What else are people using a lot particularly related online?

Chen Yu: For online payment you can use debit cards and credit cards. You can also use what we call the universal prepaid cards. Buying the prepaid card from different vendor and use that as a form of cash to make online payments. In addition to online payment like I said we also support telephone payment. You can process debit card or credit card through the telephone. We also support mobile payment. Mobile payment also has different forms.

Adrian Bye: Tell us about mobile payment. How does that work?

Chen Yu: It's interesting because mobile payment is a very generic term. People could mean very different things. In Japan or Korea when you are talking about mobile payment, you're mostly talking about and FC payment. Essentially you are using your phone as a credit card and you wave it through a mobile phone payment point of sales. But in China, when we talk about mobile payment we are mostly referring to remote transactions. Not in the retail situations. You are using your mobile phone to pay some remote transactions that happen on the internet or mobile network. In that case, we also have different methods for mobile payment. One form that you can imagine is really to use a mobile bank card payment gateway, which allows you to use your debit cards or credit cards on the mobile phone by putting in your card number and password to authorize the payment. Just as you're doing online. The adoption of that kind of payment is still relatively small so alternatively what we have today is still the universal prepaid card payment on mobile phone. That's the most popular form of mobile payment.

Adrian Bye: What does that actually mean, is that SMS?

Chen Yu: It's the same as the universal prepaid card that I've talked about online. People can actually just go to a convenience store and buy any prepaid card and use the PIN number as a form of cash to pay on mobile phone.

Adrian Bye: Okay so we talked about prepaid cards. Are there methods like I can pay by dialling a number, which is equivalent to 900 numbers on my phone? Can I send an SMS message and get billed that way?

Chen Yu: You can send an SMS but in most cases we actually have an interface that allows the merchant, the content provider to build our payment interface into their applications. So, all you do is just submit a form. It could be on WAP or it could be a part of the application.

Adrian Bye: On my phone through the web browser, I submit a form, and how does that bill me?

Chen Yu: It doesn't bill you directly, because when you buy the prepaid card you already paid. So, what we do is that we actually accept that prepaid card. You buy a prepaid card in the convenience store and in most cases it's a scratch card. You scratch the card and you get the PIN number. Then you enter the PIN number on your mobile phone either through a WAP interface or directly an application.

Adrian Bye: So you don't take the PIN code directly?

Chen Yu: We do. We take the PIN code directly.

Adrian Bye: I don't understand how this ties into the web browser on my phone.

Chen Yu: As a user you submit a PIN number to YeePay...

Adrian Bye: Oh, I just type it into my phone, that's what you're saying. So that's the main way of using prepaid cards. You're not billing the phone through the phone company.

Chen Yu: We don't bill through the phone directly. That's the point, because it's actually a lot easier than mobile billing. Mobile billing is another form of mobile payment. A mobile payment actually a lot of the content providers used to use. But the problem with that is that you have to work with the carriers, and the fees could be much higher. Sometimes you only get \$50 back out of every \$100 of transactions you make, and the settlement cycle could be very long. The carriers might not give you money after a month or two. In our case, you can use universal prepaid cards, it's all real time. In terms of clearing, it's all real time. In terms of the settlement cycle, we're very fast compared to the carriers, and the fees also are significantly lower.

Adrian Bye: So, you stopped billing to mobile phone numbers?

Chen Yu: No, we don't bill to mobile phone numbers. We just ask users to use the prepaid cards.

Adrian Bye: I understand that. You never accepted billing on mobile phone numbers?

Chen Yu: Not directly. But we do have a service that's actually offered to our merchants through some of our partners.

Adrian Bye: And do other companies bill to mobile phones in China?

Chen Yu: Yes they do. That was actually the most popular form of mobile-related payments a couple of years back. Because the major carriers all had new policies, tightening up this market, so a lot of the content providers actually lost the ability to bill through the mobile phone.

Adrian Bye: Is it still a popular way of billing today?

Chen Yu: It is still. It is still a popular way to bill through the mobile phone but then again that kind of service is only provided by certain operators.

Adrian Bye: So, I'm playing World of Warcraft and I want to put twenty dollars in by calling a special number from my mobile phone and that will charge to my account?

Chen Yu: You'll send an SMS. I don't know if you can do that for the World of Warcraft, but for a lot of other contents you can do that. But again there is limit on how much you can send.

Adrian Bye: Is it typically more like \$5 rather than 20?

Chen Yu: Pretty much in that range. So, if you want to pay that's worth a hundred dollars you can not do that through mobile billing.

Adrian Bye: I've been doing small like micro payments like I want to read some sort of article or download something or is it intended to be just gaming?

Chen Yu: Are you asking about mobile billing? Well mobile billing is mostly used for micro payments. Like I said because there is actually a maximum amount you can pay per transaction.

Adrian Bye: So what type of industries use this?

Chen Yu: Mostly digital contents like gaming or other types for example like fortune telling services.

Adrian Bye: Really?

Chen Yu: Mostly digital contents.

Adrian Bye: So, if I want to get my astrology for the day...

Chen Yu: Astrology, yes. Maybe weather forecast or all kinds of digital content services that you can buy from your mobile phone, a lot of people still use mobile billing for that kind of things.

Adrian Bye: What about billing from home phone is that possible?

Chen Yu: It is possible, like the fixed line provider can also bill directly from their phone. And some people use that as well.

Adrian Bye: Is that something you guys support?

Chen Yu: Again, we don't support that directly but we support that through partners.

Adrian Bye: What typical billing amounts can get charged to home phones?

Chen Yu: About the same as the mobile phones.

Adrian Bye: So, looking today at what people are using, and I'm not talking about your company I'm talking about the market in general. What is the typical sizes that people are billing in the market and what methods are they using the bill to?

Chen Yu: Are you talking about the average transaction size?

Adrian Bye: Average transaction size and then across the entire market what channels are they using?

Chen Yu: First of all, I think the average transaction size, the concept itself, might be misleading. Because taking our company as an example, we actually service transactions ranging from very small amount of payment to very large amounts of transactions. And if you're paying online games it might be \$20 or even \$10. If you're paying for airline ticket could be more than RMB 2,000. So we really cover a very broad range of transactions in terms of size. But the average size is about RMB 800. So, that translates to about a \$120 per transaction.

Adrian Bye: That's interesting. That's a pretty big size as an average. But that's mainly because of the air travel.

Chen Yu: Yes. Because the air travel, it is weighted because of air travel.

Adrian Bye: If you remove the air travel what's the average size?

Chen Yu: Well, if you're talking about gaming, it's definitely much smaller. I think I don't have the exact number but it should be less than a hundred. In a range of hundred.

Adrian Bye: In dollars?

Chen Yu: \$10.

Adrian Bye: Average \$10. If we take air travel out, it's about \$10 average overall?

Chen Yu: For digital content. If you're talking about ...

Adrian Bye: I'm talking about everything without air travel.

Chen Yu: \$20 maybe. Because for online shopping the other size tends to be bigger. People are buying books.

Adrian Bye: So, \$10 dollars for content mainly gaming. \$20 when it's just everything less air travel. And not in your company, just in general across the market, what is the form that people use to pay the most?

Chen Yu: In terms of the shared transaction size, transaction volume, I think bank card payments are still the biggest.

Adrian Bye: What percentage would that be?

Chen Yu: We don't really have statistics on that. Because when analysts talk about online games they exclusively refer to online payments traded by bank cards, debit cards or credit cards. If we're talking about prepaid cards, the range could vary a lot because sometimes people mix that up with mobile billing as well because it's something that has to be relied on carriers ultimately.

Adrian Bye: So, can you give me some ballpark numbers?

Chen Yu: The market size, the overall transaction volume last year is around RMB 300 billion for the entire 2008.

Adrian Bye: So, what would that be in dollars?

Chen Yu: I'm sorry. That's about \$40-50 billion in terms of transaction volume driven by debit cards and credit cards.

Adrian Bye: Just for comparison. Do you have any idea what the dollar size would be in the States?

Chen Yu: I don't, but it's supposed to be much bigger. A couple of years ago, I did look at the number. It's much bigger than what we have in China.

Adrian Bye: That would be interesting, because China has the people but don't have the money yet but that transaction size is going to keep increasing, increasing, increasing.

Chen Yu: Right. It was. Look at the growth rate. It's actually pretty impressive. Like I said last year, 2008 compared to 2007, it's three times more in terms of transaction volume. So, if we keep this kind of rate of growth in a number of years, I think it's going to be one of the biggest market.

Adrian Bye: So, the payment that you said, the payment cards for the biggest volume.

Chen Yu: Bank cards, debit cards and the credit cards.

Adrian Bye: So, that means debit cards and credit cards and so if we separate those out, the majority would be debit cards.

Chen Yu: The majority would be debit cards.

Adrian Bye: And this is online I'm talking about.

Chen Yu: This is online. And again, even if you're using credit cards for online payment, we treat it pretty much as if you're using debit cards. Because they have to be authorized through a password.

Adrian Bye: Actually, a space we haven't talked about but we actually should is TV. When people buy things on TV, I know direct response TV is quite big here in China. Is that right?

Chen Yu: Yes. It's a growing market as well.

Adrian Bye: How do people pay that sort of stuff?

Chen Yu: It depends. Cash on delivery, that's definitely one method of paying. Sometimes the delivery guy will use mobile cost. So, you can actually swipe your card upon arrival of the goods. In some cases they can use credit cards and debit cards through the telephone payment that I just talked about.

Adrian Bye: The second one, the person who delivers the package comes with something you can swipe the card through?

Chen Yu: Yes. So, you can pay either when you order the goods or you can pay upon the arrival of the goods. In the former case, you can use debit card or credit card through the telephone to make a transaction, to pay for the transaction. And in the later case when you pay upon the arrival of the good, you can pay in cash, which is cash on delivery or you can pay through a mobile terminal.

Adrian Bye: So the delivery guy has a thing you can swipe your card through?

Chen Yu: Yes.

Adrian Bye: That's a very common form of payment, is it?

Chen Yu: It's taken off and supported by more and more vendors.

Adrian Bye: So those would be the main ways. So, phone based to credit card ordering, cash on delivery through either just straight cash or through swiping a card on delivery.

Chen Yu: On mobile terminal, yes.

Adrian Bye: Are there any others that are being used for TV?

Chen Yu: I think this is pretty much it.

Adrian Bye: Do you work with any of the TV guys?

Chen Yu: We do. We do work with some of the TV guys. We support them to process the credit card payment over the telephone.

Adrian Bye: So you support telephone based credit card ordering as well.

Chen Yu: Yes.

Adrian Bye: I've asked everything I can think of. Is there anything that you want to talk about that we haven't covered?

Chen Yu: I think we pretty much talked about everything, but one thing that I can touch upon is that if you ask, because we are not the only player here in the Chinese payment market, so if you ask us what are the major differentiators that we have compared to some of our competitors. I think we differentiate in mostly three areas. The first thing is we provide total solutions. As I mentioned before not only do we do online payment, we also support telephone payment as well as mobile payment. Not only do we support bank card payment we also support universal prepaid card payments. So our philosophy is really to give the maximum options to the end users and also to the merchants. The second thing is that we are industry-focused. We are trying to provide custom-made solutions for different verticals. Because for example the requirement of the airline industry could be very different from the requirements of the online gaming industry. What we can do is really to provide a tailor-made solution for that specific industry. The third area that we can really distinguish ourselves from a lot of our competitors is that in addition to the core payment service we also provide a lot of the value added services. For example, we actually have online platform that help our online game operators to promote their contents and products. We also have a credit lending service that will allow a lot of travel agents to buy airline tickets from the airlines. In addition to the core payment service, we can actually provide a lot of value added services to payment itself.

Adrian Bye: So, you help finance tickets for travel agents buying from airline companies?

Chen Yu: Well, it's not finance finance because at the end of the day we also help them collect payments and so the risk can be totally managed. We actually have this enclosed circle in terms of the money management. We can lend them money so they can buy tickets from the airline, but at the same time we also help them collect the money. So, actually their money has to go through our system first. So, the risks are totally manageable.

Adrian Bye: The other one that you mentioned that's interesting is in the gaming platforms. How are you helping upsell in the gaming platform?

Chen Yu: The reason we can do that is that we have a lot of different merchants in our network. So, say we may have a merchant who is a TV sharing site, just like YouTube. They might have a lot of traffic but they

don't necessarily have the model to collect money from their users. Because everyone thinks that watching videos should be free. What we can do is that we can actually link these video sharing sites with content providers, with gaming operators who actually has the content but does not have a way to find more traffic. Then we can do revenue sharing between all these different vendors and websites.

Adrian Bye: You mean, you are like running ad campaigns inside a game?

Chen Yu: Not inside the game. We can actually allow the gaming operators to find more users through video sharing sites for example. Because both are our customers

Adrian Bye: So, let's say we are talking about Tudou.

Chen Yu: We can do a lot of cross selling.

Adrian Bye: So, let's say we are talking about Tudou. How are you cross selling Tudou into the World of Warcraft.

Chen Yu: Tudou and World of Warcraft are probably not great examples because they're both very big. An example, I can give you is that we have a customer called Cusip, they are one of the largest video sharing site in China as well. They have a lot of traffic. Other than advertising, they don't really have any other significant revenue source, so what we can do is that we can actually introduce other gaming operators to Cusip, so when people go to Cusip and watch videos they can actually play games through Cusip's site. When we collect payments for those gaming operators through Cusip we can actually do revenue sharing between us, as well as Cusip and the game providers. It's a formal process because we have this merchant network.

Adrian Bye: Okay. Thank you very much.

Chen Yu: Thank you.