

A hand holding a smartphone over a payment terminal with a cup of coffee in the background.

WINNING HONG KONG'S MERCHANT PAYMENT WAR

REVISITING THE BATTLE PLANS OF HONG KONG'S E-WALLET PROVIDERS

AUGUST 2023

QUINLAN
& ASSOCIATES

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EXECUTIVE SUMMARY (1/4)

HONG KONG MARKET LANDSCAPE

- Since their launch in 2016, there are 13 non-bank Stored Value Facilities (“SVFs”) licensees and 4 licensed banks that are also operating SVFs to date.
- Among the 17 SVFs that have been launched, six operate as full-service e-wallets that support peer-to-peer (“P2P”) and person-to-merchant (“P2M”) payments for both online and offline transactions, including: (1) Octopus, (2) Alipay HK, (3) WeChat Pay, (4) Tap & Go, (5) PayMe, and (6) BoC Pay.
- All six major e-wallets have established sizeable user bases in the millions, with Octopus leading the way with 6.2 million registered users.
- On the merchant front, leading players have amassed over 150,000 merchant outlets / acceptance points. Alipay HK reported that it has deployed its e-wallet solution in over 150,000 local retail outlets. Octopus announced that it is offered at over 170,000 acceptance points.
- E-wallets have helped democratise access to digital payments for underserved / unserved customer segments and offer digitally-savvy, mobile-enabled consumers a more convenient payment experience, especially for online transactions. They are also providing customers with unparalleled convenience, including flexible top-up options and enhanced digital connectivity, a function of their integrated social elements within their P2P transfer features.
- Functioning as a standalone app, most leading global e-wallets have evolved into holistic ecosystems, featuring lifestyle and VAS offerings that cater to the needs of both merchants and customers, setting them apart from other digital payment solutions.
- Driven by a change in consumption habits (i.e. a rise in e-commerce spending) prompted by COVID-19 and the distribution of consumption vouchers exclusively through e-wallets, e-wallet transaction values in Hong Kong surged by a compound annual growth rate (“CAGR”) of 14% from 2019-22 to reach HKD 249 billion, representing 19% of total retail gross merchandise value (“GMV”).
- E-wallet providers are vying to capture a greater share of the local merchant payment market by initiating numerous strategies across the end-to-end merchant value chain (i.e. from promoting awareness to driving long-term loyalty), designed to bolster their P2M business.

EXECUTIVE SUMMARY (2/4)

PAIN POINTS

- Notwithstanding their strong user and transaction growth trajectory, Hong Kong e-wallets are facing a number of key challenges related to merchant acquisition and monetisation:

MERCHANT ACQUISITION

- **Costly merchant awareness-building:**
 - E-wallets spend considerable sums on marketing, including digital marketing campaigns. However, merchant engagement (and conversion) rates remain low.
 - E-wallets often either (1) discount their transaction fees for large enterprises and merchant acquirers (reducing their top line revenues) or (2) pay commissions to external sales agents (increasing their merchant acquisition costs).
- **Limited USPs¹ for merchants:**
 - Price-sensitive merchants (e.g. SMEs²) may be deterred by the comparatively higher collective fees (i.e. transaction fees and settlement fees) charged by most e-wallets when compared to other digital payment solutions (e.g. FPS³ and credit cards).
 - E-wallets also face challenges in engaging higher-end merchants due to their top-up and balance limits, restricting their ability to support the purchase of big-ticket consumer items (e.g. luxury watches and jewellery).
 - Merchants also face difficulties in differentiating between different e-wallets due to their relatively basic and homogenous value-added services (“VAS”).
- **Merchant sign-up frictions:**
 - Despite touting a relatively simple and rapid onboarding process, we understand many smaller merchants are experiencing frustrations from prolonged onboarding times (up to 3.3x longer for processing than what is advertised for one e-wallet provider) and a lack of transparency during the sign-up process.
 - Coupled with limited sign-up guidance, these challenges contribute to sizeable drop-offs during registration, leading to low initial activation rates.

¹Unique selling points; ²Small and medium-sized enterprise; ³Faster Payment System.

EXECUTIVE SUMMARY (3/4)

PAIN POINTS (CONT'D)

MERCHANT MONETISATION

- **Inactive merchants:**
 - Many e-wallets' offline payment experiences, using a dynamic QR code, are inconvenient when compared to near-field communication ("NFC") payment solutions.
 - Netting off the impact of the consumption voucher scheme ("CVS"), e-wallet retail transaction volumes have grown by a relatively anaemic organic CAGR of 2.8% from 2019-22, suggesting broader challenges being faced by e-wallets in displacing alternative digital payment solutions, especially credit cards.
 - Compared with many credit cards, which offer extensive cashbacks, spending rewards, and miles, e-wallet rewards remain more limited in their scope and impact.
 - Current e-wallet monetisation models appear very limited relative to leading offshore players, with most local providers offering free VAS, and no / few e-wallets providing lifestyle and / or financial services offerings to their merchant and consumer users.
- **Low merchant loyalty:**
 - A large proportion of e-wallets' merchant base remains inactive, driven in part by an absence of merchant loyalty programmes and engagement initiatives.

EXECUTIVE SUMMARY (4/4)

THE WAY FORWARD

- To address these challenges and chart a path towards long-term profitability, we believe Hong Kong's e-wallet providers should carefully re-evaluate their merchant acquisition and monetisation strategies:
 - **MERCHANT ACQUISITION**
 - **Merchant Prioritisation:** identify and target merchant segments that offer the greatest potential return on investment ("ROI").
 - **Acquisition Model Considerations** (based on prioritised merchant segments):
 - Select the most suitable model(s) to acquire and maintain high priority merchant segments, striking a delicate balance between achieving scalability, managing costs, and maintaining quality control during the outreach and sign-up process.
 - Design targeted marketing strategies to boost direct sign-ups (and optimise ROI on marketing spend).
 - Establish attractive pricing propositions for different merchant groups, based on their specific needs and circumstances.
 - **MERCHANT MONETISATION**
 - **Extend Current Offerings:** explore additional / ancillary monetisation opportunities (e.g. FX¹, VAS charges) linked to core payment offerings and existing license.
 - **Develop New Offerings:** expand service offerings, either through acquiring new licenses and/or establishing relevant partnerships, to include both financial (e.g. lending) and lifestyle (e.g. e-commerce) services, creating a one-stop-shop super app catering to the various needs of merchants and customers.

SUCCESS CASES

- Looking at successful e-wallets operating in developed Asian markets, we observe some key features of their trajectory:
 - **Kakaopay (South Korea):** attracted customers and merchants by leveraging KakaoTalk's extensive user base, expanded to business-to-business ("B2B") services, and diversified its revenue streams by providing financial services and expanding into new markets.
 - **PayPay (Japan):** built a large customer base by offering rewards and coupons, initiated a 3-year penetration pricing strategy to secure new merchants, and supercharged merchant monetisation via a subscription-based fee system, ultimately evolving into a super app with a comprehensive suite of financial services offerings.



SECTION 1

HONG KONG MARKET LANDSCAPE

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INTRODUCTION TO SVFs

Key Takeaways

Since their introduction in Hong Kong in 2016, SVFs have primarily been designed as a means for customers to make payments for goods or services using the balance held in their accounts.

While SVFs do not allow interest to be earned on account balances, they do offer the convenience of digital transactions for end customers, essentially functioning as digital representations of physical wallets.

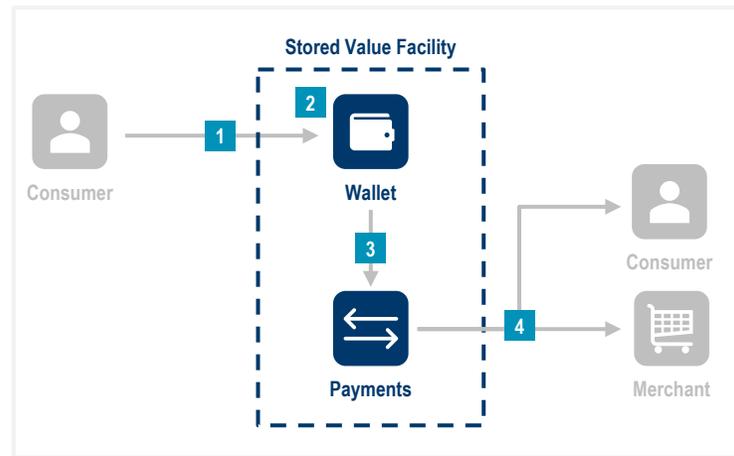
SVFs are regulated by the Hong Kong Monetary Authority (“HKMA”), with multi-purpose SVFs (i.e. e-wallets) requiring a license to operate.

Two distinguishing features of e-wallets include:

- 1. The ability to store value:** this sets them apart from payment facilitators, such as Apple Pay, Google Pay, and UnionPay Quickpass, who don’t hold stored balances
- 2. Supporting a wide range of payments:** they are unrestricted by a single purpose, such as gift vouchers, which can only be used at a specific retail chain

Stored Value Facilities (“SVFs”) are primarily designed to be used as a medium of payment for goods or services, such as an e-wallet that stores value to enable P2P and P2M transactions

Stored Value Facility (“SVF”) Model



- 1** Consumer transfers money to the SVF in exchange for monetary value stored in the SVF wallet
- 2** Monetary value is stored in the SVF wallet, with some SVFs providing the option to withdraw value to cash
- 3** When a consumer wishes to spend or make a transfer to another person, the monetary value is deducted from the SVF wallet
- 4** The SVF transfers money to the intended recipient (e.g. merchant / customer) to complete the transaction for the consumer

SVF License

Licensed Entities

✓ Yes ✗ No

	Description	Non-SVF	Single-Purpose SVF	Multi-Purpose SVF
Payment Function	Does the facility facilitate the payment of goods and services when instructed by the user?	✓	✓	✓
Stored Value Function	Does the payment facility have a stored value function (i.e. customers are required to deposit money in advance, to be used for future needs)?	✗	✓	✓
Other Payment Function	Can the facility be used for a variety of payment functions (e.g. pay at different merchants, P2P transfer, etc.), as opposed to a single use?	✗	✗	✓
	License Required	✗ No SVF License	✗ No SVF License	✓ SVF License Required
	Examples	Apple Pay Google Pay	Gift Vouchers and Coupons	E-wallets Prepaid Cards

HONG KONG SVF LANDSCAPE (1/2)

Key Takeaways

To-date, there are 13 non-bank Stored Value Facilities (“SVFs”) licensees and 4 licensed banks that are also operating SVFs.

Some SVF licensees (e.g. Unicard) offer prepaid physical cards in collaboration with credit card providers. Other e-wallets focus on specific merchant / customer segments, such as RD Technologies (which focuses on B2B payments only) and Autotoll (which focuses solely on toll operators), while Paypal only supports online transactions.

At present, six local SVFs currently operate as full-service e-wallets, facilitating both P2P and P2M – as well as online and offline – payments across a highly diversified merchant base.

Since 2016, there are 13 non-bank SVF licensees and 4 licensed banks that are also operating SVFs, with six full-service e-wallet players currently operating in the market (i.e. supporting P2P and P2M – and online and offline – payments to a wide merchant base)

SVF Landscape (Hong Kong)

HKMA Licensees

■ Independent SVFs
 ■ Bank-Affiliated SVFs
 Full-service e-wallets

SVF Licensees	Availability of In-house E-wallet	Direct Merchant Acquisition	Information Availability	B2C Payment Facilitation	Diversified Merchant Base	Diversified Customer Base	Offline Payment Facilitation	Online Payment Facilitation
1 八達通	✓	✓	✓	✓	✓	✓	✓	✓
2 Alipay HK	✓	✓	✓	✓	✓	✓	✓	✓
3 WeChat Pay	✓	✓	✓	✓	✓	✓	✓	✓
4 Tap & Go	✓	✓	✓	✓	✓	✓	✓	✓
5 PayMe Hiac	✓	✓	✓	✓	✓	✓	✓	✓
6 BoC Pay	✓	✓	✓	✓	✓	✓	✓	✓
7 PayPal	✓	✓	✓	✓	✓	✓	×	
8 TNG	✓	✓	✓	✓	✓	×		
9 Autotoll 聯樂通	✓	✓	✓	✓	×			
10 RD Technologies	✓	✓	✓	×				
11 33 FINANCIAL SERVICES	✓	✓	×					
12 5Dpay	✓	✓	×					
13 Global Cash	×	×						
14 TransForex	×	×						
15 UniCard	×	×						
16 交通銀行 BANK OF COMMUNICATIONS	×	×						
17 大新銀行 DAH SING BANK	×	×						

Scope of SVF Offerings

Unicard, Transforex, and ePayLinks (i.e. Global Cash) only offer prepaid physical credit cards, while the two banks also do not have e-wallet offerings

Unicard, Transforex, and Global Cash, along with the two banks, do not engage in direct merchant interactions concerning their SVF offerings

33 Financial and Yintran (i.e. 5D Pay) provide limited information about their e-wallet offerings, indicating they are not actively operating in HK

RD Wallet strictly facilitates B2B payments (i.e. it does not allow individuals to sign up and get onboarded to their e-wallets)

Autotoll solely concentrates on electronic toll payment and collection, catering to a restricted merchant base (i.e. toll operators)

TNG wallet primarily targets Filipino and Indonesian domestic workers, servicing a more limited end user base than leading e-wallets

Paypal only facilitates online transactions for merchants, excluding a significant portion of offline transactions in Hong Kong

6 SVF licensees in Hong Kong offer a full-service e-wallet, supporting both online and offline P2M and P2P transactions

HONG KONG SVF LANDSCAPE (2/2)

Key Takeaways

Six major e-wallet providers have established themselves as key players in the local market, including Octopus, Alipay HK, WeChat Pay, Tap & Go, PayMe, and BoC Pay.

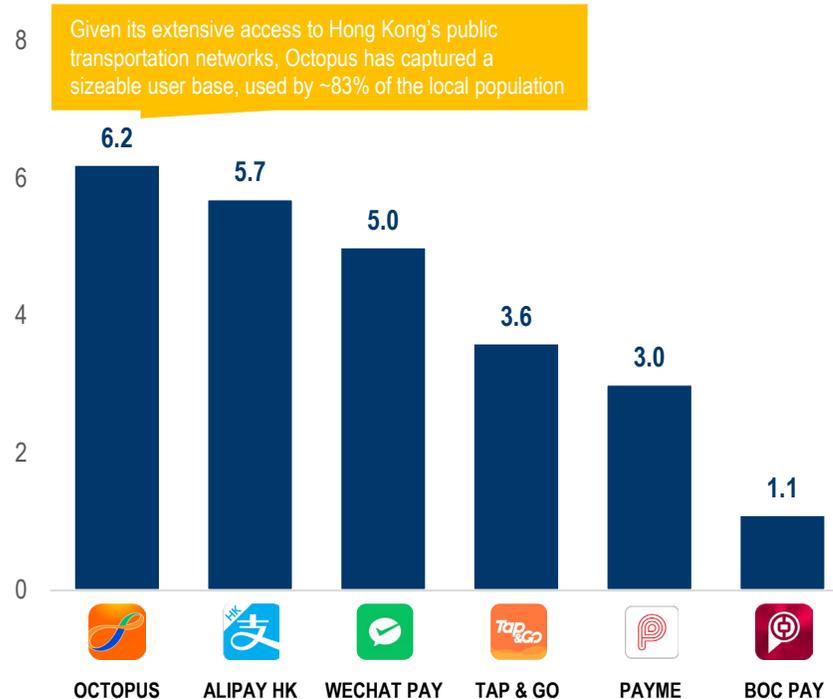
Octopus is the frontrunner in terms of user count, with an impressive 6.2 million users, a function of its early presence in the local market, especially the public transportation sector.

In terms of merchant coverage, leading players have amassed over 150,000 merchant outlets / acceptance points. Alipay HK reported that it has deployed its e-wallet solution in over 150,000 local retail outlets. Octopus announced that it is offered at over 170,000 acceptance points.

Among Hong Kong's major e-wallet players, Octopus and Alipay HK hold dominant positions in terms of user counts (with 6.2 million and 5.7 million users, respectively), with leading players amassing over 150,000 merchant outlets / acceptance points

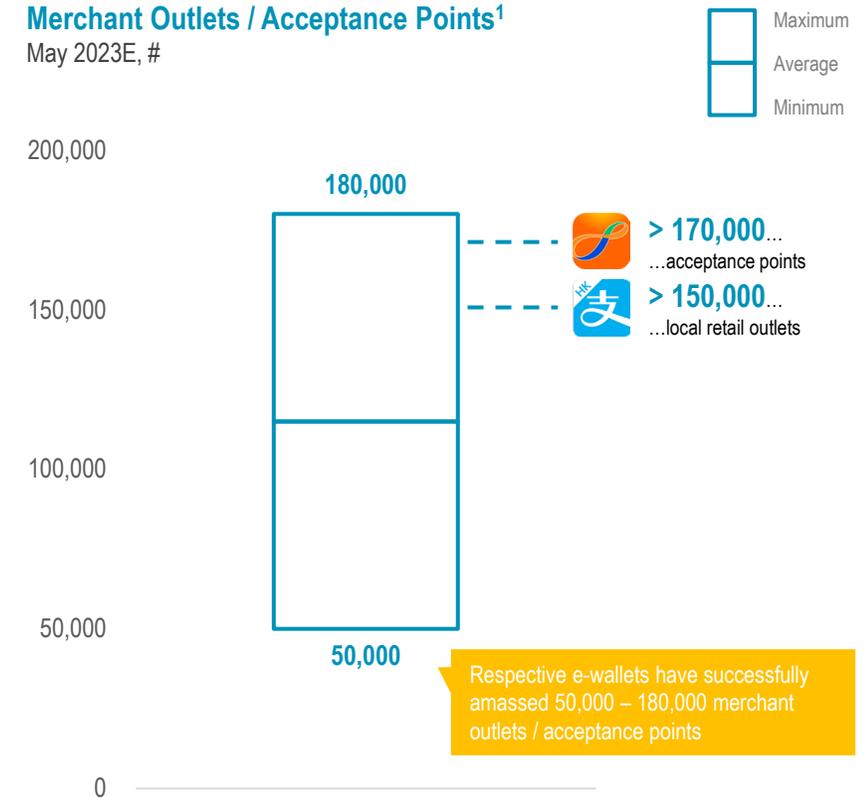
End User Count

May 2023E, Millions



Merchant Outlets / Acceptance Points¹

May 2023E, #



Shared Features

Selected E-wallet Contenders



¹Merchant outlet count represents the total number of merchant stores / locations where a payment method is accepted; acceptance point count represents the number of touchpoints where payments can be facilitated

Source: Ming Pao, Yahoo Finance, HK01, e-wallet websites and media announcements, Quinlan & Associates analysis

TRANSFORMING DIGITAL PAYMENTS

Key Takeaways

E-wallets have helped democratise access to digital payments for underserved / unserved customer segments and offer digitally-savvy, mobile-enabled consumers a more convenient payment experience, especially within the realm of online transactions.

The use of e-wallets is providing customers with unparalleled convenience, with flexible top-up options and enhanced digital connectivity, a function of their integrated social elements within their P2P transfer features.

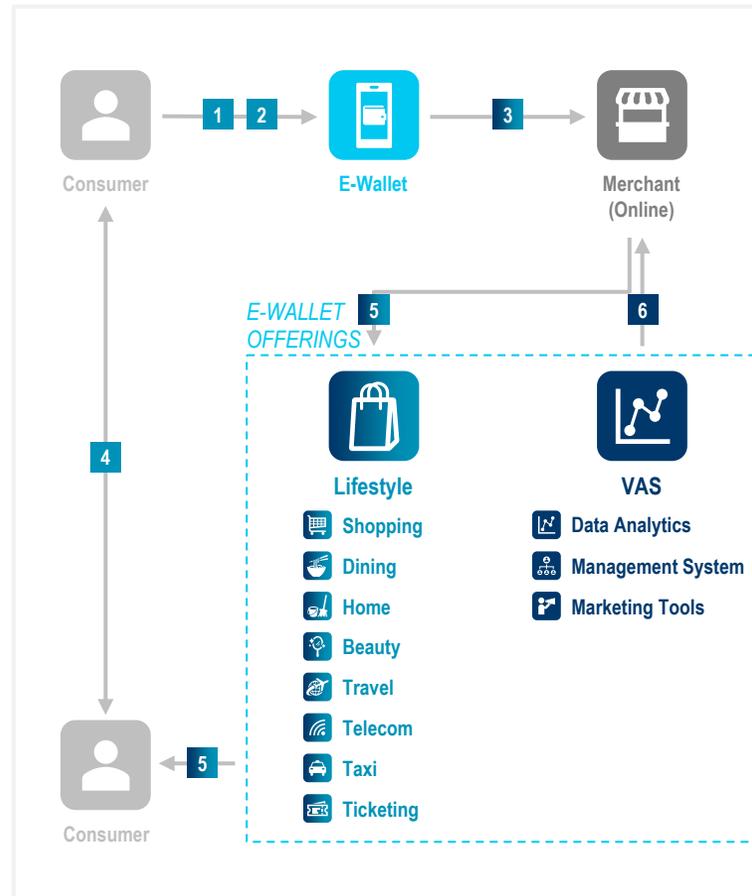
Functioning as a standalone app, most leading global e-wallets have evolved into holistic ecosystems, featuring lifestyle and VAS offerings that cater to the needs of both merchants and customers, setting them apart from other digital payment solutions.

The growth of e-wallets in an increasingly digital world has transformed the way that payments are being made, especially for online transactions, enhancing user convenience and fostering connectivity across various domains

Key Value Proposition

E-wallet

■ Consumer Benefits
 ■ Merchant Benefits
 ■ Consumer and Merchant Benefits



- 1 DEMOCRATISE FINANCIAL SERVICES**
 Users can access payment services and other bank-like services (e.g. FX) without the need to go through the more rigorous / time-consuming process of applying for a bank account
- 2 FLEXIBLE TOP-UP OPTIONS**
 Users have a range of choices when topping up their e-wallet balances, including by cash at selected merchants (e.g. convenience stores), by credit card, or bank account transfer
- 3 CONVENIENCE OF ONLINE PAYMENTS**
 Users enjoy a swift and simplified online payment experience, eliminating the need to manually input their card details, which typically takes 2x longer to complete than a dynamic QR code
- 4 ENHANCED SOCIAL INTERACTION**
 Users can perform P2P transfers with features such as issuing payment requests and displaying transactions in a feed for others to view, enhancing social engagement
- 5 INTEGRATION OF LIFESTYLE OFFERINGS**
 Users can conveniently book tickets and buy coupons on several e-wallet platforms, while merchants can tap into the extensive user base of e-wallets by promoting on the user app
- 6 VALUE-ADDED SERVICES**
 Merchants benefit from an array of value-added services offered by e-wallet providers, including a tool to create coupons and utilise data analytics to monitor customer demographics

E-WALLET RETAIL TRANSACTION VALUE

Key Takeaways

E-wallet retail transaction value grew by a CAGR of 14% from 2019-22 to reach HKD 249 billion, accounting for 19% of total retail GMV in 2022 (up from 13% in 2019).

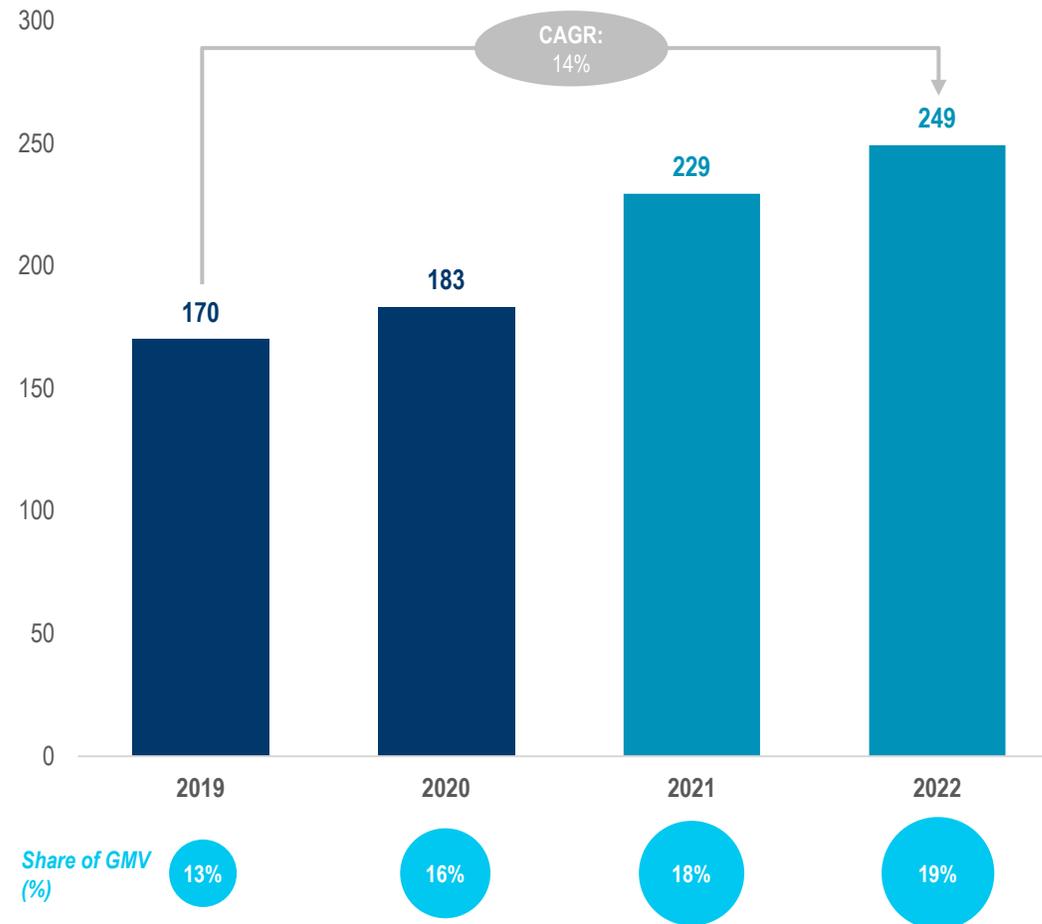
Much of this growth has been supported by two key tailwinds, namely:

- COVID-19:** due to social restrictions and limited store operating hours, many individuals turned to e-commerce platforms for their purchases, including groceries, with players such as HKTV Mall seeing a 165% y/y surge in the orders in 2020 vs. 2019; and
- CVS:** the distribution of consumption vouchers exclusively through e-wallet channels saw a cumulative 6.3 million recipients (i.e. existing and new users of the four e-wallets) in 2021.

E-wallet retail transaction values in Hong Kong surged by a CAGR of 14% from 2019-22 to HKD 249 billion, representing 19% of total retail GMV. Much of this growth was catalysed by the onset of COVID-19 and the launch of the CVS

Retail Transaction Value¹

2019-22E, HKD Billion



¹SVF P2M Payment Value

Source: HKMA, Visa, Worldpay, Quinlan & Associates analysis

COVID-19 EFFECTS



Rise of E-commerce Transactions

36%

...of people made online purchases at least once a week in 2020 (up 9% y/y)



Shifting Preference for In-store Payments

77%

...of people preferred non-cash payments for in-store purchases

CVS



Initial Disbursement (2021, 1st Phase)

6.3m

...new and current users of Octopus, Alipay HK, Wechat Pay, and Tap & Go apply for CVS



Expansion of CVS (2022, 2nd Phase)

300k

...eligible residents, qualified migrants, and international students added to the scheme

THE MERCHANT VALUE CHAIN

Key Takeaways

Leading e-wallets have introduced a host of initiatives to drive their P2M business, including:

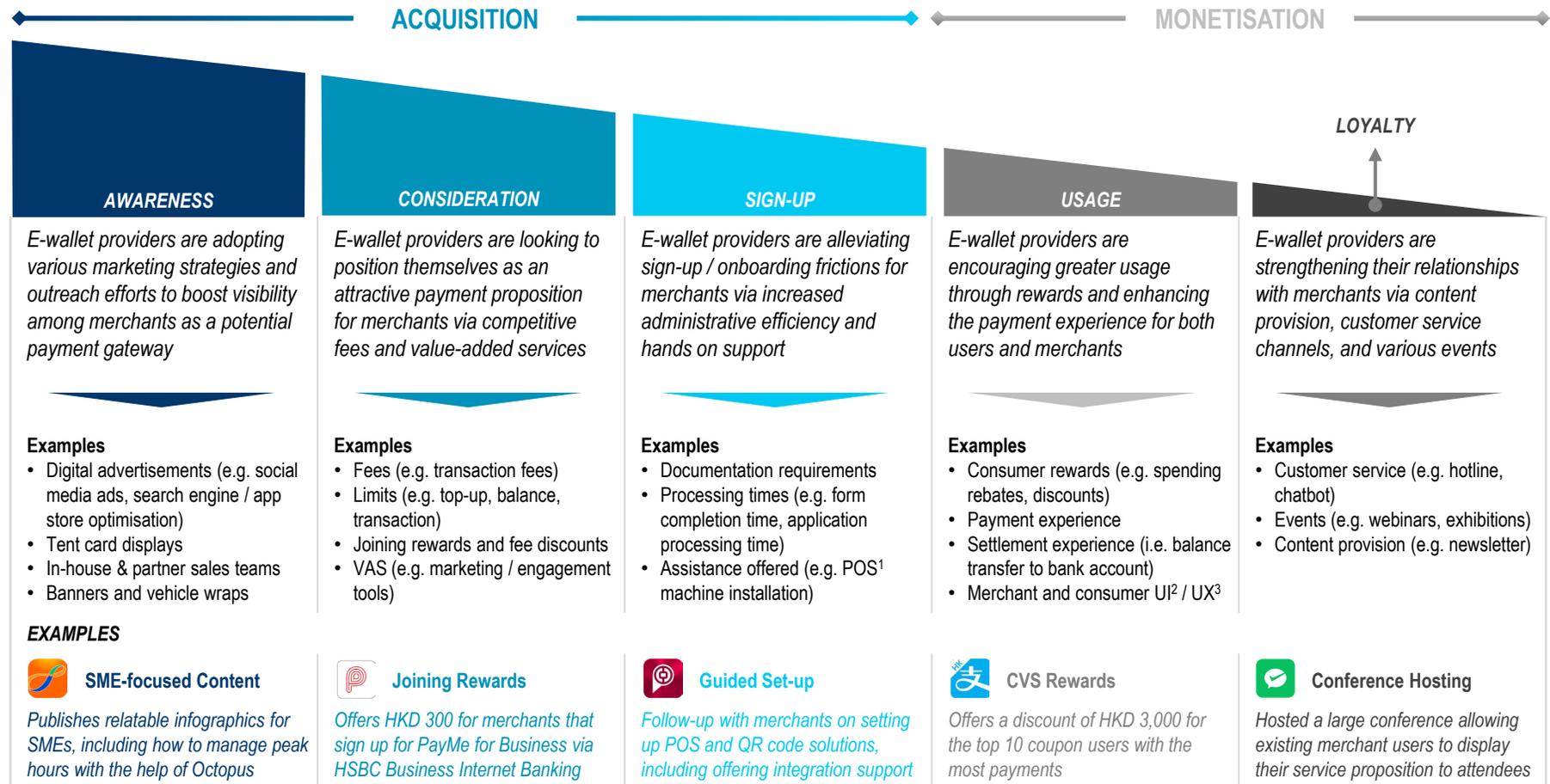
1. Raising awareness among target merchants about the benefits of their solutions;
2. Offering attractive propositions that align with merchant needs;
3. Streamlining the onboarding experience for merchants interested in signing up;
4. Optimising use of the e-wallet among both newly-acquired and existing merchants and end users; and
5. Cultivating loyalty to nurture long-term merchant partnerships.

Through implementing a host of initiatives across the merchant funnel, e-wallet providers are navigating the dynamic interplay between end users and merchants to establish a strong foothold in the local P2M payments landscape.

To rapidly acquire and monetise local merchants, Hong Kong's e-wallet providers have launched a variety of initiatives across the end-to-end merchant funnel; from driving awareness to cultivating long-term loyalty

Value Chain

E-wallet Providers



¹Point-of-Sale; ²User Interface; ³User Experience.

Source: Quinlan & Associates analysis



SECTION 2

PAIN POINTS

CHALLENGES ACROSS THE VALUE CHAIN

Key Takeaways

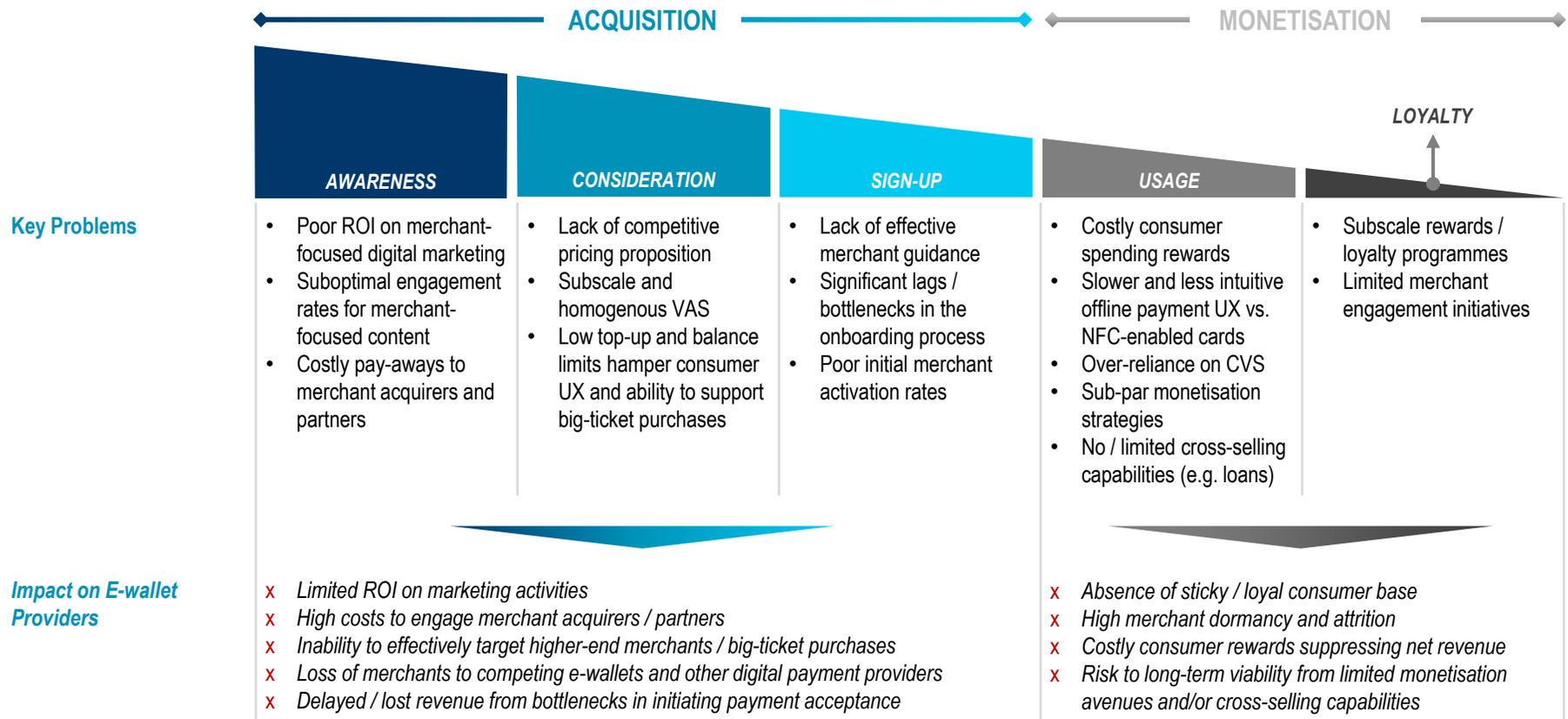
Despite the rapid growth in e-wallet adoption rates and transaction volumes, many providers face a series of challenges.

In a highly competitive environment, e-wallet providers are actively vying to expand their merchant base, incurring significant customer acquisition costs in the form of high marketing expenses and pay-aways to partners. Many are also missing out on the opportunity to attract a broader array of merchants.

On the monetisation front, merchant inactivity remains a problem for several players, a function of suboptimal payment experiences and loyalty programmes, with inactivity translating to reduced transaction volumes and values (i.e. the core revenue source for e-wallets). Current monetisation strategies are also limited, as are cross-selling capabilities.

Notwithstanding their strong growth trajectory, there are a number of headwinds being faced by Hong Kong's e-wallet providers across the merchant value chain that are impacting their path to profitability

Value Chain E-wallet Providers



1. AWARENESS CHALLENGES (1/2)

Key Takeaways

To raise their brand awareness among merchants, e-wallet providers are allocating ~5-20% of costs towards marketing expenses.

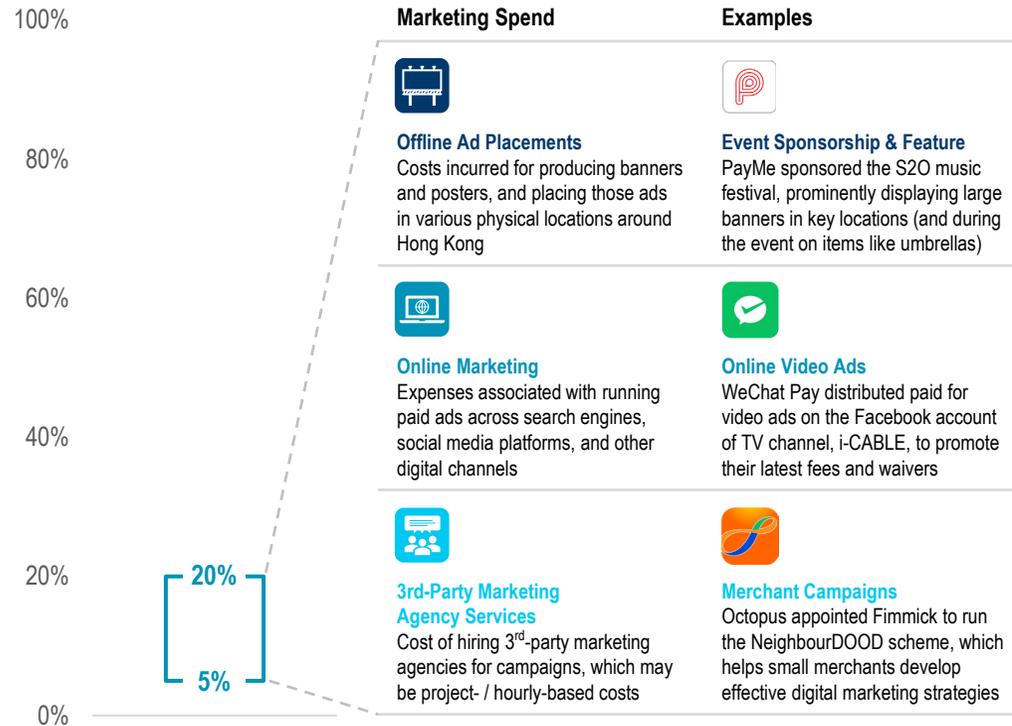
Despite heavy investments, e-wallets' merchant-focused native social media content has seen a lower average engagement rate than average B2B content across most platforms. For example, merchant-focused content published by local e-wallets on WeChat only displays an engagement rate of 0.69%, markedly lower than the industry average of 5.18%.

Ultimately, low engagement rates are reflected in poor conversion rates, with direct merchant sign-ups originating from social media accounts contributing to only 1-2% of most local e-wallets' total merchant base.

Despite investing heavily in marketing, most e-wallet providers continue to see sub-par engagement rates for their merchant-focused native social media content, resulting in low direct sign-ups and poor ROIs on digital marketing

Marketing Cost

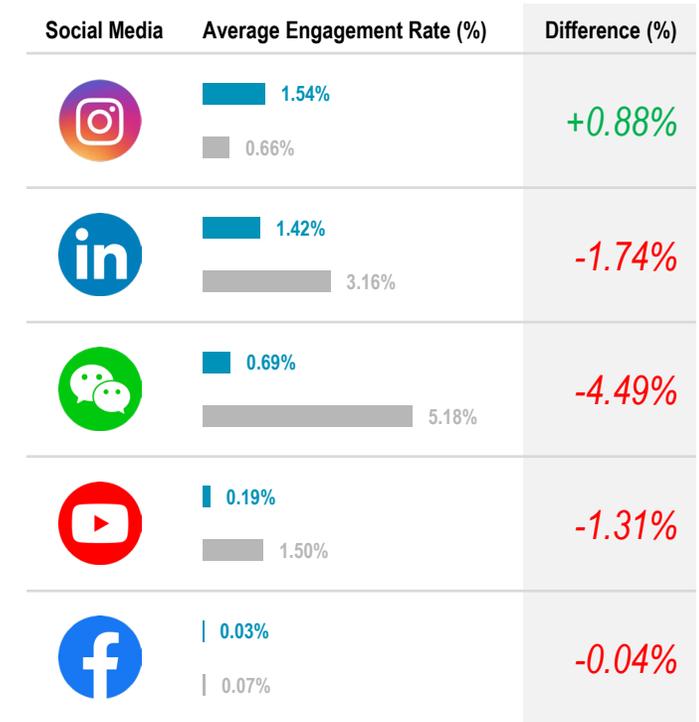
Estimated % of Total Cost



Marketing expenses account for a considerable portion of Hong Kong e-wallets' total costs, up to one-fifth of their overall expenses

Online Marketing (Native Social Media)

Merchant-focused Content, Average Engagement Rate (%)



Low engagement rates are reflected in poor direct sign-ups, which account for <2% of an e-wallet's total merchant base

■ E-wallet ■ Industry Standard

Note: The average engagement rate of WeChat is by the number of shares over the number of followers, and the remaining are by the number of likes over the number of followers
 Source: e-wallet websites, Oberlo, Keyhole, Social Insider, Quinlan & Associates analysis

1. AWARENESS CHALLENGES (2/2)

Key Takeaways

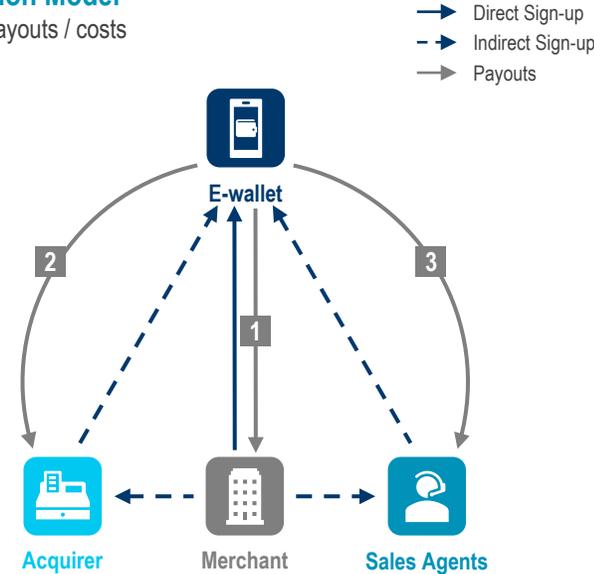
In addition to high marketing costs, merchant acquisition remains costly for many e-wallet providers due to:

- 1. Lower expected revenue:** many e-wallet providers slash their merchant discount rates (“MDRs”) by up to 25 - 30% to secure large merchants. If merchant acquirers are used, base transaction fees are reduced to allow acquirers to charge a mark up; and
- 2. Significant upfront cost:** if a merchant (typically SMEs) is acquired through external sales agents, substantial upfront costs are incurred (i.e. sales commissions).

Merchants can sign up to local e-wallets indirectly through merchant acquirers and / or third-party sales agents, or directly via dedicated relationship managers (“RMs”), all of which involve significant pay-aways and / or incur sizeable costs

Acquisition Model

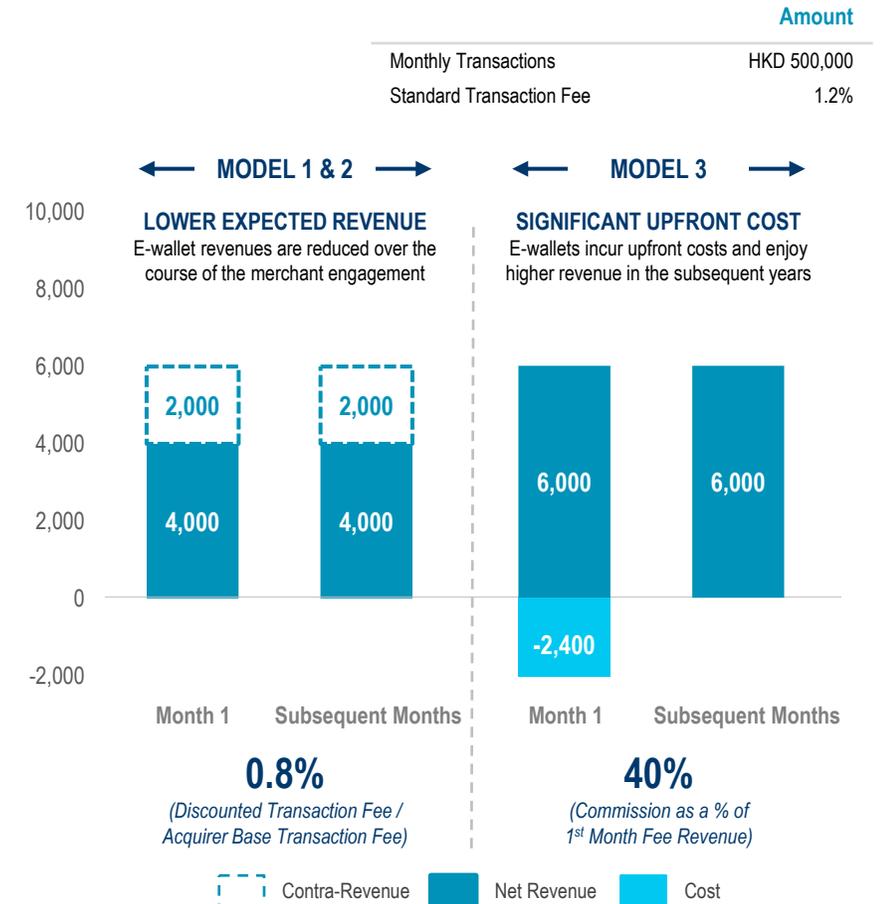
Incurring Payouts / costs



- 1 MDR Negotiation with Large Merchants**
Offer a discounted transaction fee to large enterprises with sizeable transaction volumes and/or transaction values
- 2 Acquirer Partners' Cut**
Charge a lower base transaction fee, allowing merchant acquirers to add their own mark-up to monetise their services
- 3 Commission Costs**
Provide commissions to external sales agents, typically to acquire small-to-medium-sized merchants, on behalf of the e-wallet

Payout Impact

Top-line Core Revenue and Cost, Illustrative



2. CONSIDERATION CHALLENGES

Key Takeaways

When taking into account the transaction and settlement fees charged by many e-wallets, they end up being more expensive than other digital payment solutions, including credit cards, discouraging their use by local merchants who remain very price-sensitive (e.g. SMEs).

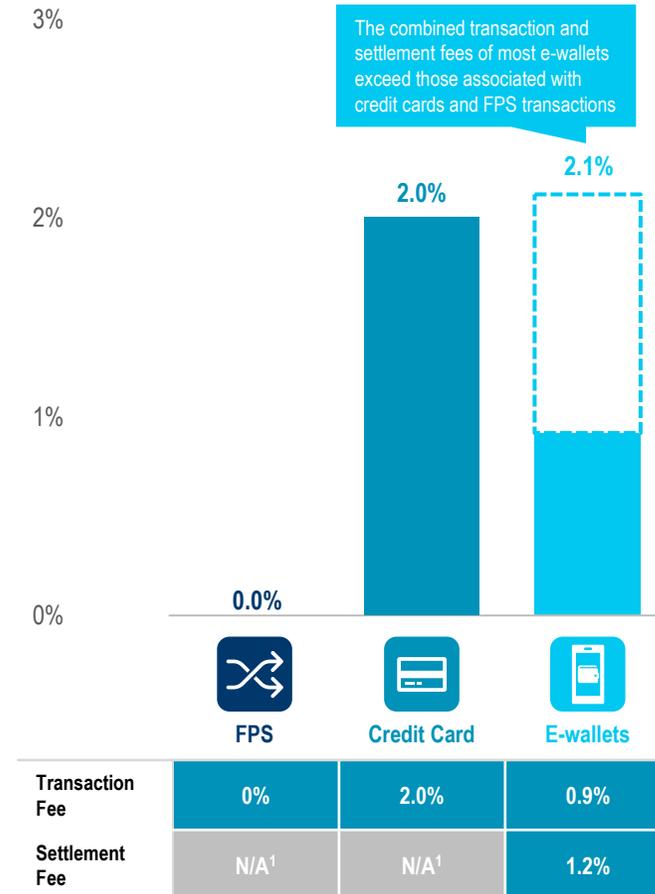
Moreover, due to the inconvenience faced by users from the imposition of limits (i.e. having to conduct multiple top-ups and transfers for payments), the use case for higher-end merchants remains far less compelling than alternative payment solutions.

The similarity in value-added service offerings being provided by different e-wallets also makes it challenging for merchants to identify the best-fit e-wallet for their needs.

On average, the combined transaction and settlement fees charged by e-wallets may be higher than alternative digital payment solutions. The imposition of limits also restricts the ability of e-wallets to target higher-end merchants, while VAS offerings remain homogenous

Pricing Proposition

Average Processing Fees ■ Transaction Fee - - - Settlement Fee



¹FPS and credit card automatically debit the payments collected to the merchants' bank account with no settlement fee charged; ²Mainland Chinese Visitors
Source: HKMA, Offshore Premium, e-wallet websites, Quinlan & Associates analysis

Imposition of Limits

Top-up and Balance

E-wallet Limits

Daily Top-up and Balance

HKD 3 - 10k
↓ Daily Top-up Limit

HKD 100 - 200k
☛ Balance Limit

Transaction Value	Merchant Segments
> HKD 100,000 Underserved	<ul style="list-style-type: none"> Jewellery & watches Auto dealers Etc.
HKD 5,000 – 100,000 Adequately Served	<ul style="list-style-type: none"> Air transport Department stores Etc.
< HKD 5,000 Largely Served	<ul style="list-style-type: none"> Small restaurants Bars and pubs Etc.

Value-added Services

E-wallet Providers



Level of Similarity



Description

Half of e-wallet providers offer standard reporting in tabular form, while the remaining provide more insightful, condensed reports



E-wallet providers offer tools for merchants to create and feature their coupons on the platform, with Alipay HK providing exposure to MCVs²



Most e-wallets provide a standard shop and staff management mode, setting permissions for certain activities (e.g. enabling refunds)

3. SIGN-UP CHALLENGES

Key Takeaways

Despite promoting a seamless sign-up process, we identified numerous pain points during the onboarding journey:

- Lack of effective guidance:** merchants must navigate excessive documentation requirements with minimal guidance / interactions with e-wallets
- Significant processing lags / bottlenecks:** account processing and approval took us up to three weeks, with discrepancies between reported and actual time of up to 7 days
- Poor initial activation rates:** most e-wallets require merchants to independently set up POS and QR solutions

Confronted with these challenges, e-wallet providers risk losing merchants who may be inclined to abandon the registration process.

Despite touting a seamless sign-up experience, we identified notable frictions throughout the onboarding journey, especially with respect to application processing and payment set-up / integration, with processing taking 3.3x longer than advertised for one e-wallet provider

Sign-up Process

E-wallet Providers

Applicability:



All E-wallets



Certain E-wallets

Low



High

	PAIN POINTS	MAXIMUM TIME TAKEN
 Information Submission	 Applicants must fill out relevant company information, such as company name and type of business, across multiple pages	30 Mins
 Checklist Sharing	 Applicants await communication from an account manager to inform them of next steps and provide a checklist of documents	10 Days
 Document Submission	 Applicants must fulfil extensive documentation requirements and even set-up a business bank account in some instances	20 Mins
 Account Processing & Approval	 Applicants may experience prolonged approval times, exceeding the estimated time provided by the account manager or website	3 Weeks
 Payment Activation	 Applicants may be left to set up POS and QR solutions by themselves, dissuading them from starting their payment journey	7 Days

High likelihood of drop off during the sign-up process, due to the lack of transparency and guidance being offered by many e-wallet providers

Processing Time

Selected E-wallet Providers

	E-wallet 1	E-wallet 2	E-wallet 3
 Reported Time	3 Days	3 Days	14 Days
 Actual Time	7 Days	10 Days	21 Days
 Observed Discrepancy	+4 Days (2.3x longer)	+7 Days (3.3x longer)	+7 Days (1.5x longer)

Although some e-wallets promote swift processing times, actual processing times are often much longer, leading to frustrations / discouragement

4. USAGE CHALLENGES (1/4) – SUBOPTIMAL PAYMENT EXPERIENCE

Key Takeaways

Numerous e-wallet providers face difficulties in promoting active usage among merchants and end users. Central to this challenges is the offline payment experience.

The dynamic QR code payment, a method widely embraced by e-wallets, is largely inconvenient when compared to NFC payment options (i.e. up to 30 seconds for QR code vs. 6 seconds for NFC). At present, only Octopus, and debit and credit cards, support NFC payments.

Due to the potential for payment delays and failures (e.g. slow app loading, incorrect password, facial recognition errors), both many customers tend to lean towards established NFC payment methods, especially for quick "in-and-out" experiences, such as purchasing items at a convenience store.

Many e-wallets have struggled drive active consumer engagement. Much of this can be attributed to a relatively cumbersome offline payment experience (using QR codes) vs. NFC solutions, especially in Hong Kong, where efficiency is paramount

Offline Payment Experience

Process Flow

Payment Option Adoption: Widely Moderate Limited

	DYNAMIC QR CODE PAYMENT	NFC PAYMENT
PRE-TRANSACTION	APP OPENING 5-10 Seconds A customer opens the e-wallet app on their phone while waiting in a queue / heading to the cashier	3 Seconds A customer either takes out their physical card or opens the app / Apple Pay / Google Pay
	APP NAVIGATION 3-5 Seconds Upon opening the e-wallet app, a customer accesses the feature to pay a merchant	N/A
TRANSACTION	PAYMENT SELECTION 4-5 Seconds The cashier scans the item and asks the customer how he / she would like to pay	3 Seconds The cashier scans the item and asks the customer how he / she would like to pay
	IDENTITY AUTHORISATION 3-5 Seconds The app initiates face scanning / password to authorise the payment, with the possible need to redo the face scan	N/A
	E-WALLET / CARD SCANNING 5 Seconds A paycode is automatically generated and the customer scans the paycode to make the payment and a receipt is generated	Instant The customer places the card / phone at the NFC detection area to make a payment
	20-30 Seconds	6 Seconds
E-wallet	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Debit / Credit Card	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>



Slow speed of app opening and login page loading



Need to input username and password for app login



Facial recognition / password input required for payment authorisation



Possible failure of paycode generation due to poor server connection

4. USAGE CHALLENGES (2/4) – OVER-RELIANCE ON CVS

Key Takeaways

While the drivers of e-wallet adoption in Hong Kong revolve around changing consumer preferences and the disbursement of consumption vouchers, it is likely that only one of these drivers will endure over time.

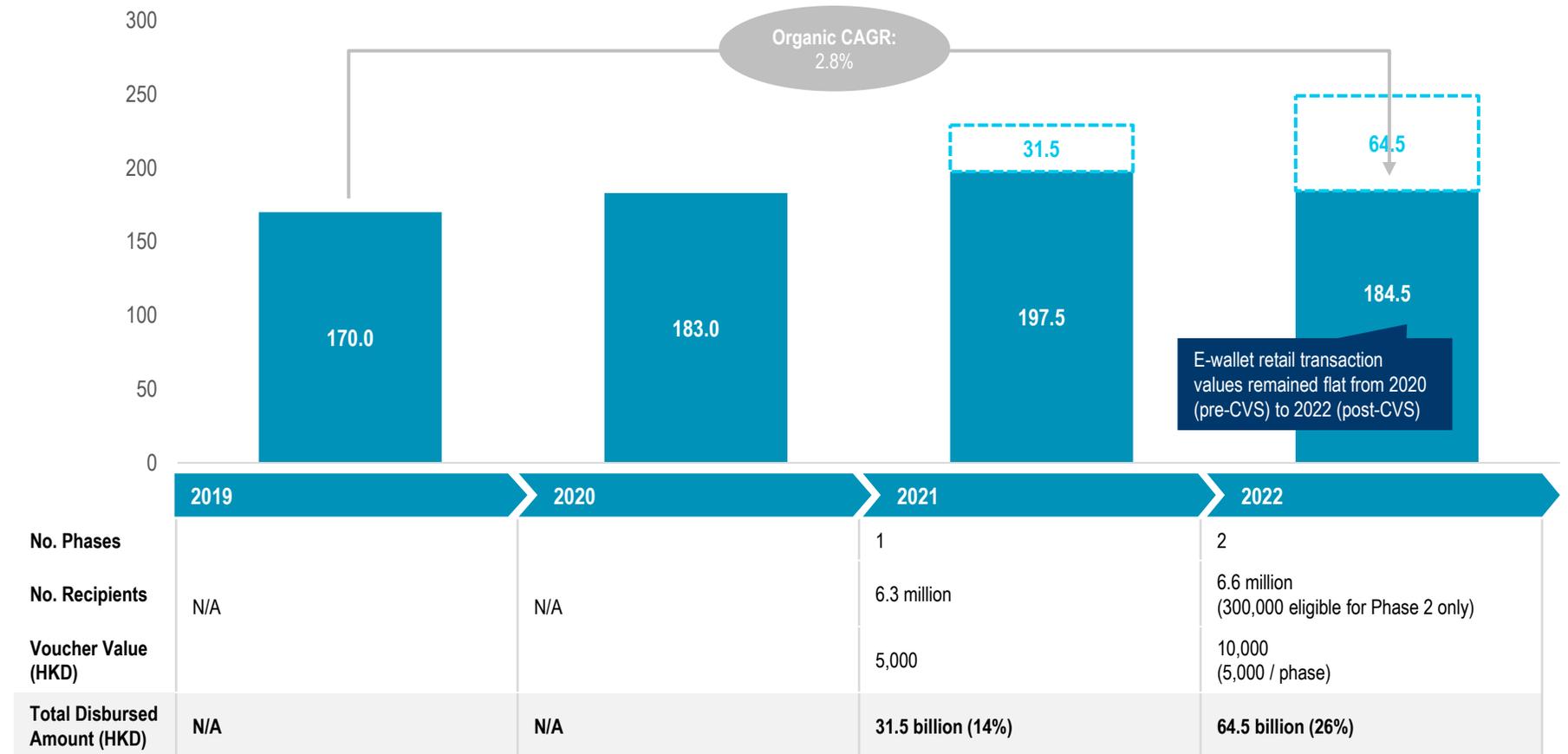
The convenience factor – and the digital purchasing proposition – introduced by e-commerce is likely to persist. And unlike offline payments, the online payment experience using e-wallet holds distinct advantage over other digital payment methods (e.g. credit cards), requiring a simple QR code scan as opposed to manually inputting details.

However, the CVS has contributed HKD 31.5 billion (2021) and 64.5 billion (2022) of e-wallet transaction value in the past 2 years alone. When stripping out the impact of the CVS, organic e-wallet usage has been much less impressive, with total spend growing by a CAGR of just 2.8% from 2019-22.

Stripping out the impact of the CVS, e-wallet retail transaction volumes grew by a modest CAGR of 2.8% from 2019-22, suggesting that their organic use by Hong Kong consumers still has a long way to go vs. other digital payment options

E-Wallet Retail Transaction Value

2019-22E, HKD Billion



4. USAGE CHALLENGES (3/4) – COSTLY CONSUMER SPENDING REWARDS

Key Takeaways

Credit cards dominate the local retail payments landscape, representing 46% of total retail GMV in 2022, underpinned by their attractive cashbacks, spending rewards, and miles offers.

Most e-wallets do not offer cashbacks, with WeChat Pay being the only exception (note: the programme only runs for 6 months and capped at HKD 100 per user). Moreover, spending rewards are mostly limited to shopping and dining coupons. Although some e-wallets have made strides to introduce miles through their loyalty programme, like PayMe’s collaboration with MoneyBack, conversion rates significantly lag those offered by leading credit cards.

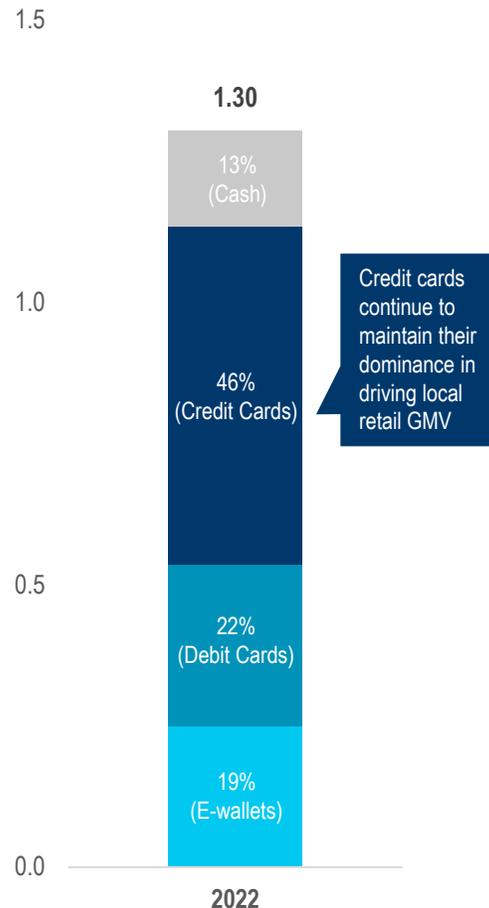
Given the importance that Hong Kong consumers attach to rewards, rebates, cashbacks, and miles, e-wallets have struggled to topple the dominance of credit cards.

Despite this, rewards, discounts, and rebates are still costing e-wallets 40-75% of their top-line revenue, impacting their profitability.

Credit cards remain the dominant retail payment solution in Hong Kong, accounting for 46% of retail GMV in 2022, with consumers drawn to their attractive cashbacks, spending rewards, and miles offers, which many e-wallets are failing to keep pace with

Retail Payment Breakdown

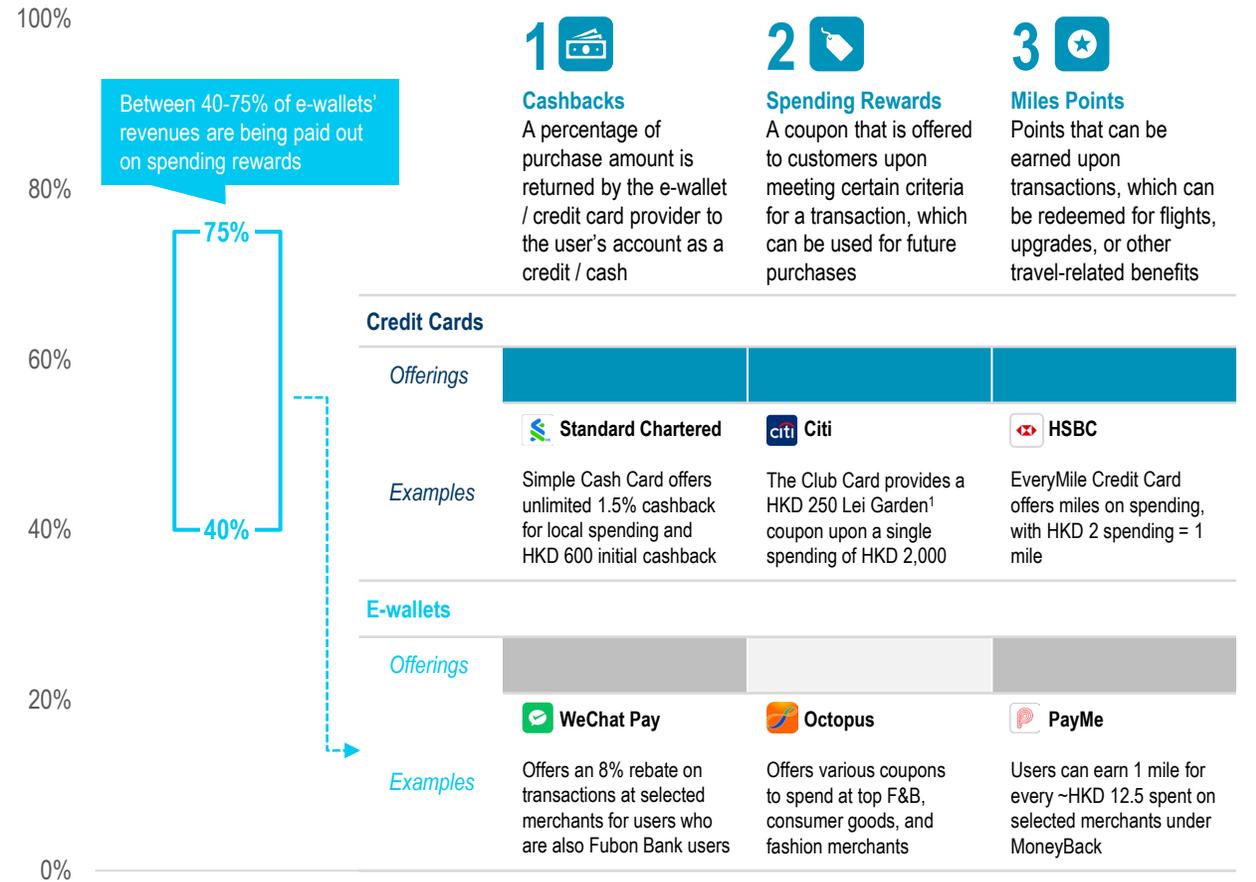
Total GMV, 2022, HKD Trillion



Sales-related Cost

Estimated % of Total Revenue, E-wallet Providers

Level of Attractiveness: High Moderate Low



¹A high-end Chinese restaurant in Hong Kong
Source: HKMA, Standard Chartered, Citi, HSBC, e-wallet websites, Quinlan & Associates analysis

4. USAGE CHALLENGES (4/4) – MONETISATION / CROSS-SELLING GAPS

Key Takeaways

The majority of local e-wallet providers remain focused on stimulating spending to boost their core transaction revenues.

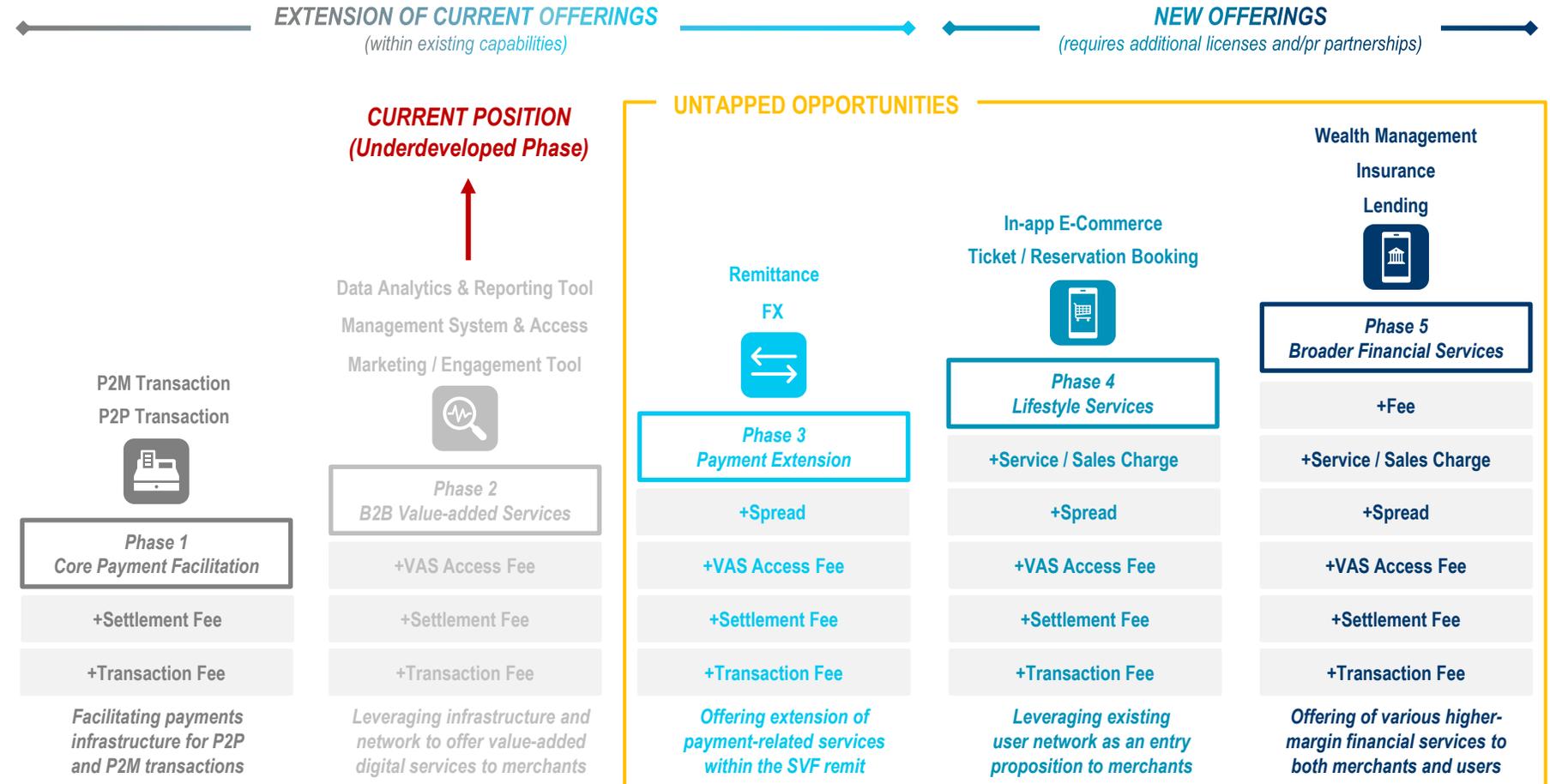
We see huge untapped potential for local players to further monetise their consumer and merchant base through implementing various ancillary fees and charging for select VAS. In addition, few local providers have explored additional monetisation avenues with their existing licenses, such as offering FX and remittance services.

Furthermore, the majority of e-wallet providers have not meaningfully ventured into lifestyle and/or financial services, which we believe offer considerable future monetisation potential.

Most local e-wallets are lagging with respect to their core monetisation strategies. In addition to providing free VAS to merchants, most players do not cross-sell lifestyle solutions (e.g. in-app e-commerce) or adjacent financial products (e.g. loans)

Monetisation Model & Trajectory

E-wallet Providers



5. LOYALTY CHALLENGES

Key Takeaways

Merchant dormancy remains a notable challenge for many local e-wallet providers.

While several e-wallets boast an impressive merchant count, in reality, a large portion of their merchants remain inactive, especially as there are no associated costs to the merchant for maintaining the account.

While e-wallet providers have introduced various loyalty programmes (both native and joint) to foster consumer loyalty, there appears to be an absence of similar initiatives to incentivise long-term usage among merchants.

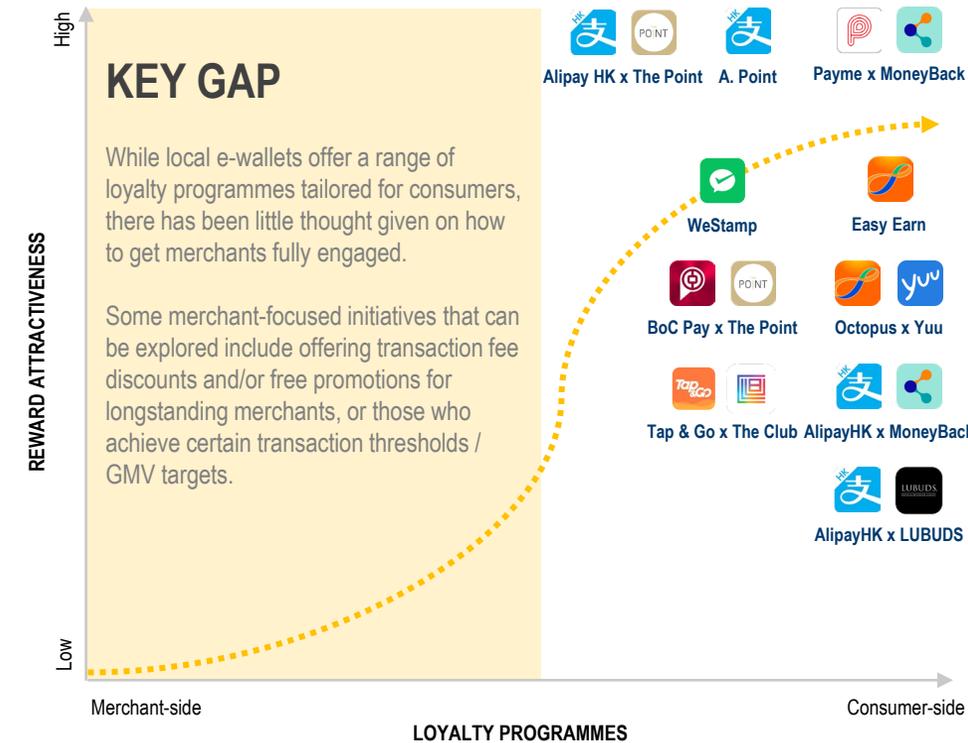
Beyond loyalty programmes, merchant engagement initiatives remain sparse, with only two offline events held in 2019 and a single webinar held in 2021.

We believe a lack of merchant engagement efforts by local e-wallet providers is a key reason behind their relatively high dormancy rates.

When it comes to merchant stickiness, there is notable lack of effort being made by local e-wallet providers to reward merchants for their loyalty, with very limited ongoing merchant engagement and support initiatives

Loyalty Programmes

E-wallet Providers

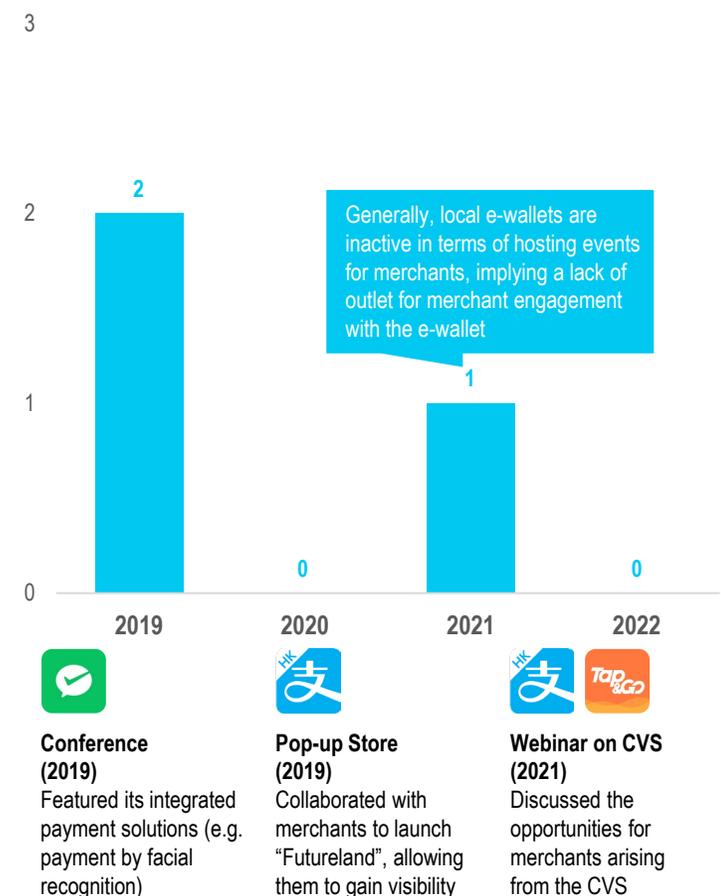


MODEL EXAMPLES:

- 173,000** ...eligible merchants under spending coverage
- 5:1** ...conversion of MoneyBack Points to Asia Miles

Merchant Engagement Initiatives

No. of Dedicated Merchant Events, 2019-22



Note: The reward attractiveness is assessed based on the spending coverage of merchants, conversation rate and redemption choices
 Source: e-wallet apps and websites, IndustryHK, PRNewsWire, Quinlan & Associates analysis



SECTION 3

THE WAY FORWARD

QUINLAN
& ASSOCIATES

OVERVIEW OF KEY CONSIDERATIONS

Key Takeaways

To address current acquisition and monetisation challenges, there are four key considerations that e-wallet providers should explore:

Acquisition

1. Prioritise and target merchant segments with the greatest likelihood to adopt e-wallets
2. Strike the right balance between different acquisition models and develop fit-for-purpose strategies (e.g. marketing, pricing)

Monetisation

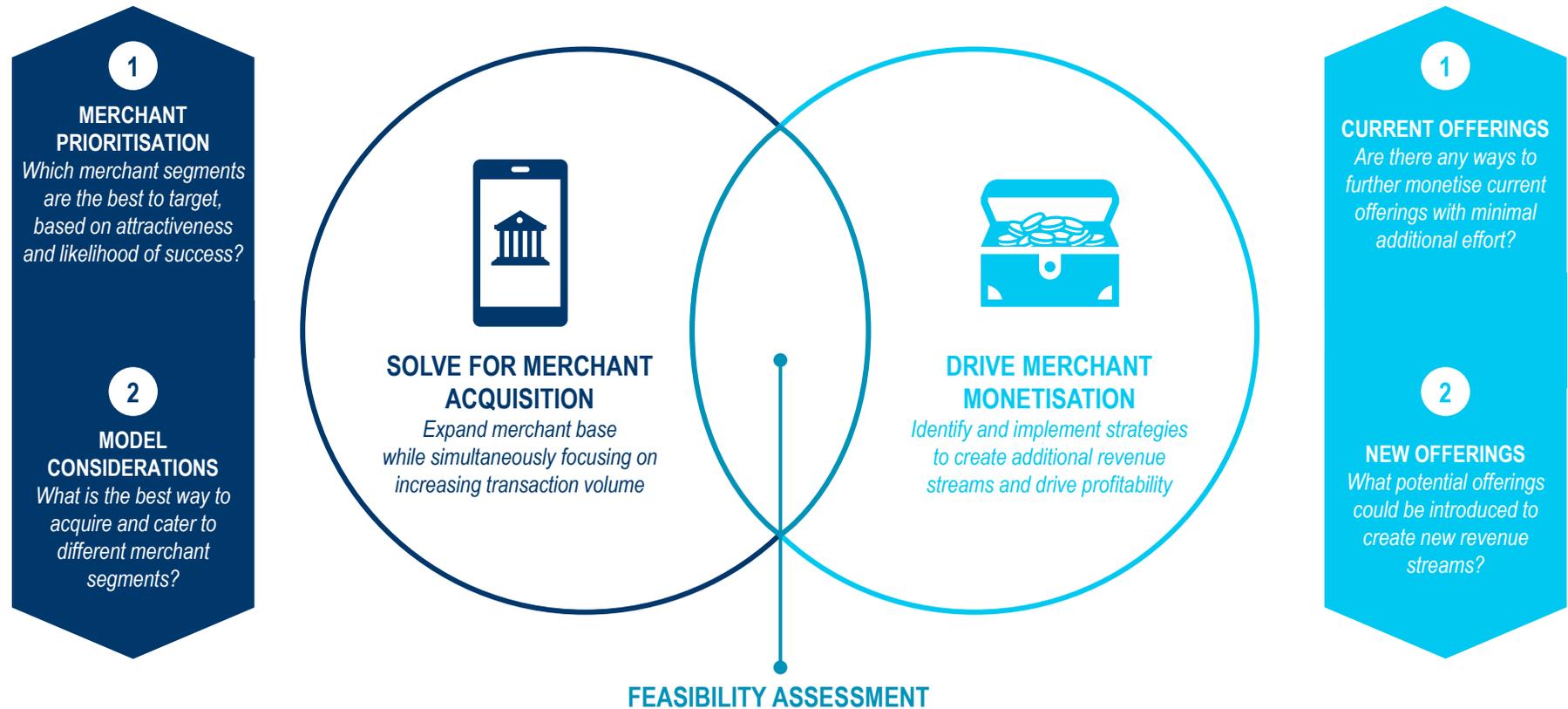
1. Explore innovative ways to monetise core / ancillary payment offerings
2. Consider launching new offerings to create additional revenue streams, while aligning them with customer needs and preferences

When developing new initiatives and offerings, conducting a feasibility assessment is essential, taking into account factors such as resource requirements and regulatory compliance.

To address key challenges around merchant acquisition and monetisation, there are several key questions that Hong Kong's e-wallets need to consider, which should be evaluated in terms of their feasibility and expected impact

Key Considerations

Addressing Pain Points



...of potential course of action, considering factors such as potential upside, resources required, and regulatory compliance

SOLVE FOR ACQUISITION (1/2) – MERCHANT PRIORITISATION

Key Takeaways

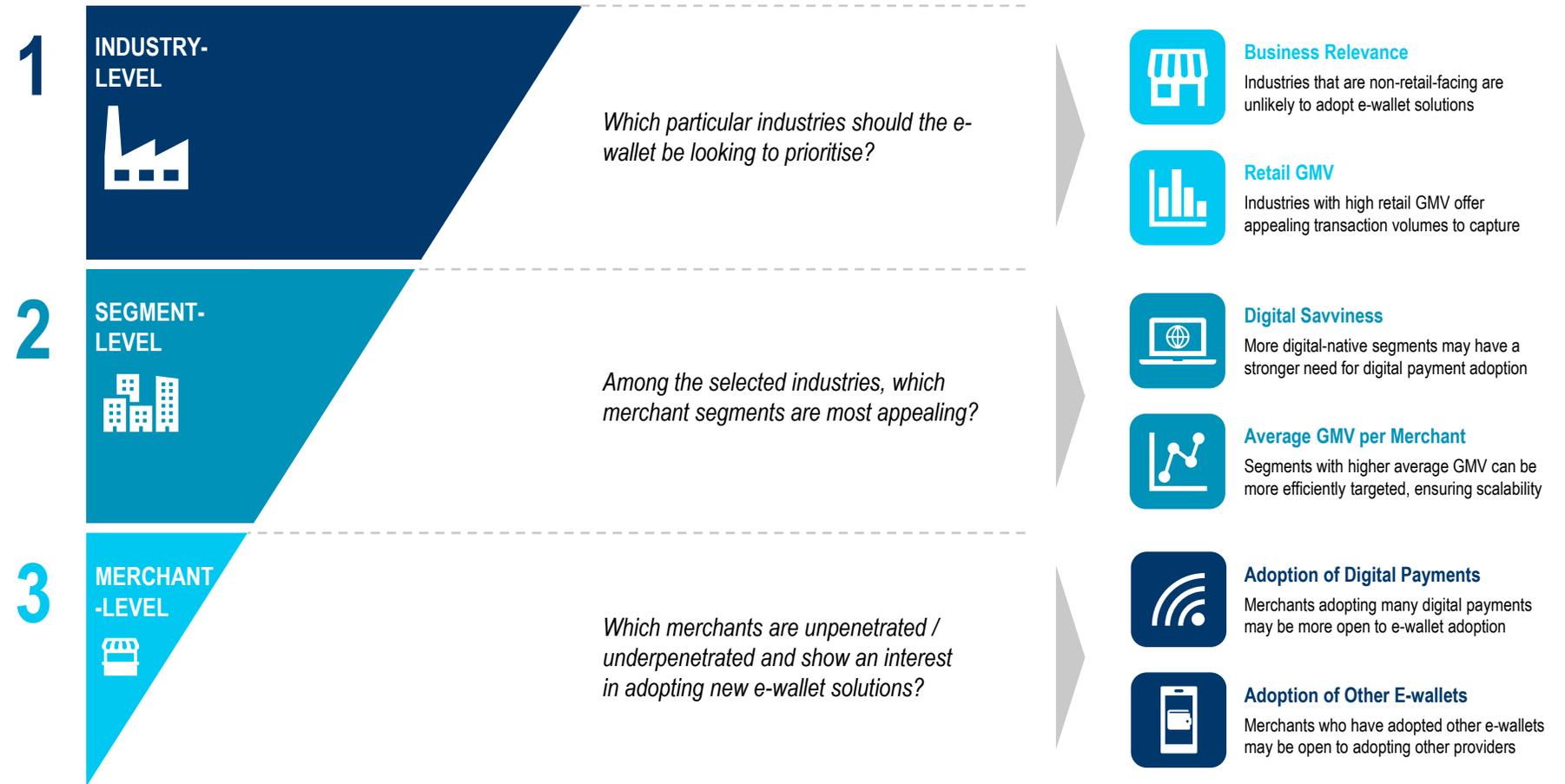
To drive their acquisition efforts, e-wallets should first carefully prioritise their target merchant segments.

As part of this exercise, prioritisation decisions should be made at the industry-, segment- and merchant-level, considering a variety of factors such as digital payment acceptance rates / competitive saturation, merchant needs and preferences, and average ticket sizes.

To prioritise relevant merchant segments, it is critical to take an outside-in perspective, looking carefully at industry-, segment-, and merchant-level considerations, such as overall GMV potential, merchant payment preferences, and existing competition levels

Merchant Prioritisation

Key Questions to Address



SOLVE FOR ACQUISITION (2/2) – MODEL CONSIDERATIONS (1/3)

Key Takeaways

E-wallet providers may look to adopt a mix of merchant acquisition models, each with their own set of trade-offs:

- 1. Direct Guided Model:** typically reserved for large enterprises with substantial transaction volumes that require dedicated resources to service and maintain the relationship;
- 2. Acquirer Model:** intermediary model often used for middle market enterprises (“MMEs”), where e-wallet providers are relatively hands-off, but the relationship element is still maintained by acquirers;
- 3. External Agent Model:** commission-based model involving external agents who focus on serving MMEs and SMEs; and
- 4. Independent Direct Model:** hands-off model mostly directed at SMEs, but missing the relationship element

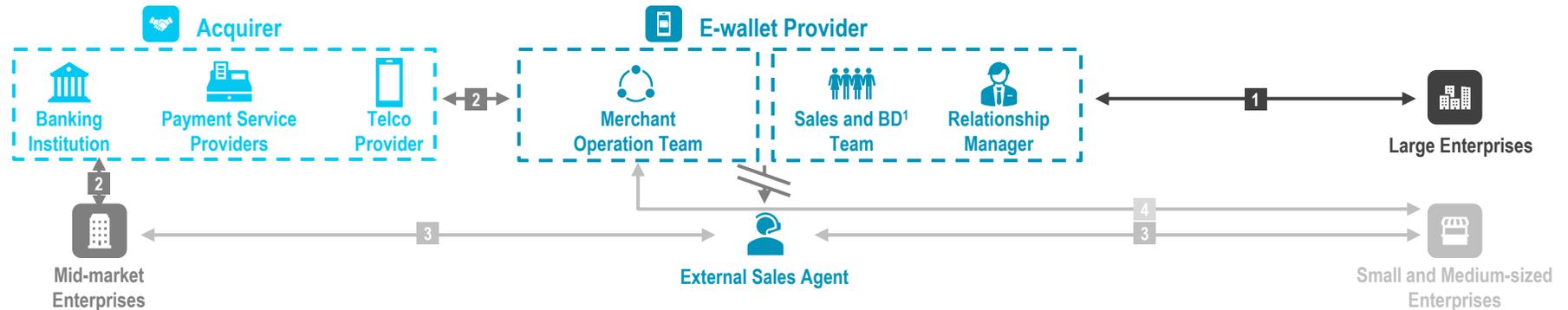
Selecting an appropriate model for each merchant segment is important to optimise reach (i.e. overall scalability), conversion, and the cost of merchant acquisition.

To effectively acquire new merchants (and maintain existing merchants), e-wallets can explore a range of merchant acquisition models, balancing resource requirements to drive rapid scale against the unique needs of each merchant segment

Acquisition and Maintenance Model

Types of Model

Favourability: High Moderate Low



	1 Direct Guided Model	2 Acquirer Model	3 External Agent Model	4 Independent Direct Model
	Large enterprises are directly onboarded typically by the RMs of e-wallet providers, which enables negotiations on fees and other terms to take place	Acquirers serve as intermediaries between the e-wallet provider and MMEs, facilitating the onboarding process and often providing operational support	Prospective MME and SMEs may be targeted by external sales agents hired by e-wallet providers (e.g. cold-calling), which operates on a commission basis	SMEs primarily sign up as a user directly on the e-wallet website / app, but this independent onboarding process often involves friction
Control over Relationship	✓ <i>Belongs to the e-wallet</i>	* <i>Belongs to the acquirer</i>	- <i>Initially with acquirer, then passed to the e-wallet</i>	✓ <i>Belongs to the e-wallet</i>
Quality of Relationship	✓ <i>Provides robust initial and ongoing support</i>	✓ <i>Provides robust initial and ongoing support</i>	- <i>Ongoing support may be limited / subpar</i>	* <i>Absence of relationship-building and support</i>
Costs and Resourcing	* <i>Significant resources are exhausted in having to hire teams to cater to each merchant</i>	- <i>Despite low resource requirements, e-wallets may have to charge lower base fees to acquirers</i>	- <i>Pay a one-off commission with the potential need to handle the relationship post-onboarding</i>	✓ <i>Limited resources are required, given that the approach is relatively hands-off</i>
	← Mostly Guided			Largely Independent →

¹Business development

Source: Quinlan & Associates analysis

SOLVE FOR ACQUISITION (2/2) – MODEL CONSIDERATIONS (2/3)

Key Takeaways

To tackle challenges around poor ROI in marketing initiatives, there is a need to craft a more tailored marketing strategy that takes into account four key areas of consideration:

- 1. Target audience:** determined during the merchant prioritisation exercise;
- 2. Marketing channel:** consideration of both online and offline channels;
- 3. Content:** to be tailored based on the relevance to the target audience; and
- 4. Form:** language, format and duration.

As an example, an e-wallet that intends to target SMEs may explore how such merchants interact with e-wallets. Upon discovering that SMEs often conduct their own research and are most focused on pricing, posting ads showcasing time-limited waivers on third-party websites are likely to capture their interest. To effectively engage this demographic, Cantonese short videos in a suitable format can be employed, aligning with local language preferences and shorter attention spans.

In crafting a fit-for-purpose marketing strategy, there are several considerations that e-wallet providers should explore, starting from the target audience and extending to the chosen form of campaign (including the right channels, content, and form)

Marketing Model / Strategy

Key Considerations

Status: ■ Considered ■ Pending Consideration



EXAMPLE:



SOLVE FOR ACQUISITION (2/2) – MODEL CONSIDERATIONS (3/3)

Key Takeaways

To address existing monetisation gaps and capture untapped revenue streams, e-wallet providers can look to revisit their pricing strategies. including:

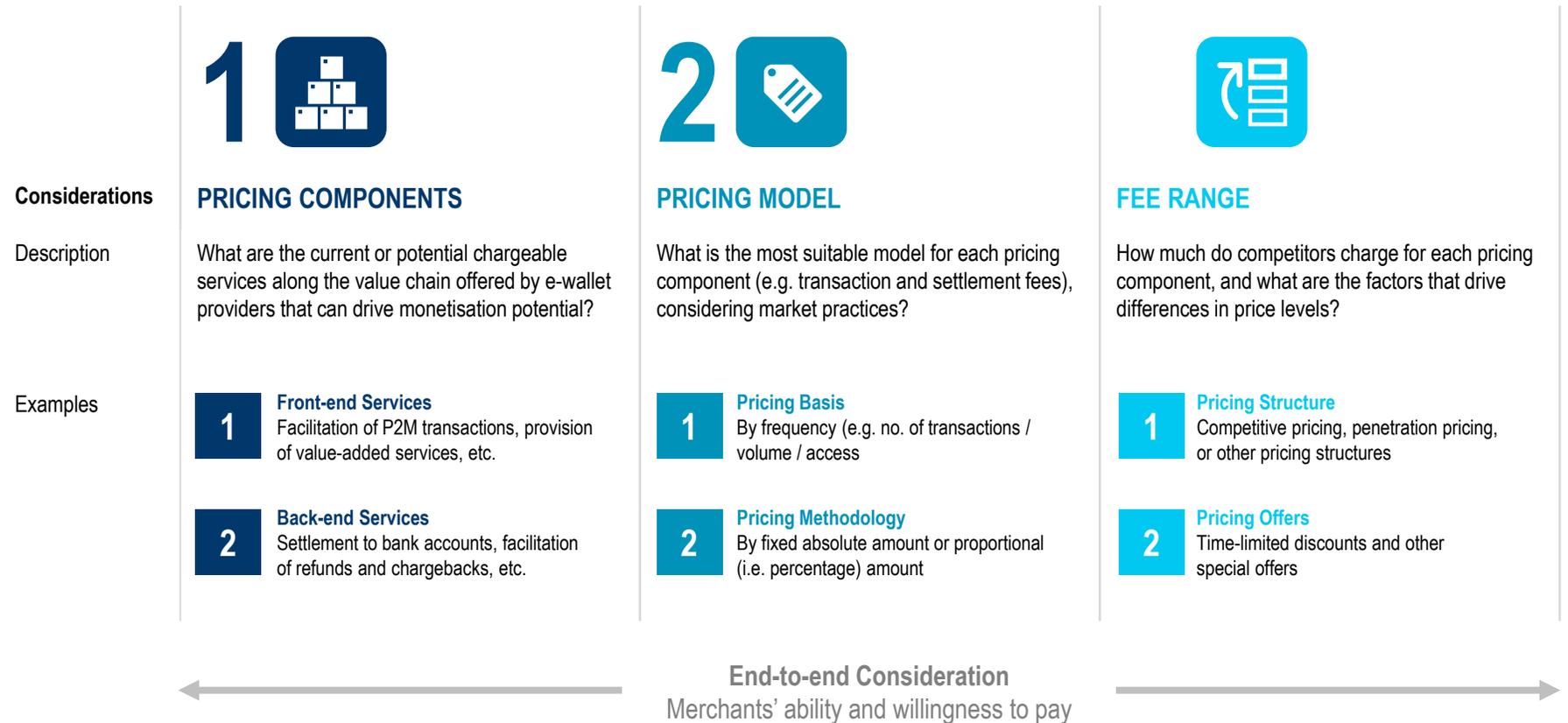
- 1. Pricing Components:** evaluate whether there is scope to charge for current services (e.g. refunds and chargebacks), as well as potential new offerings;
- 2. Pricing Model:** determine a suitable model for each pricing component, considering the basis and methodology for charging; and
- 3. Fee Range:** analyse the fees imposed by competitors for each pricing component to determine the amount to charge, including any potential offers / discounts.

Importantly, pricing strategies may not be one-size-fits-all, with a need for e-wallet providers to gauge the price sensitivity of each target merchant group – in short, their ability and willingness to pay.

As part of their acquisition model considerations, e-wallet providers can look to establish a more compelling pricing proposition compared to other digital payment methods to drive greater merchant interest, which may necessitate a revamp of current pricing strategies

Pricing Strategy

Key Considerations



SOLVE FOR MONETISATION (1/2) – CURRENT OFFERINGS

Key Takeaways

To address challenges related to monetisation, local e-wallet providers may explore several avenues:

1. **VAS subscription fees:** Japanese e-wallet provider, PayPay, levies a subscription fee for merchants to access a range of VAS;
2. **Marketing charges:** South Korea's Kakaopay charges merchants to advertise on their messaging platform;
3. **Top-up administration fee:** In Indonesia, ShopeePay imposes a fixed fee for every top-up made by customers from non-SeaBank accounts; and
4. **Chargeback processing fees:** Global online payment processor, PayPal, imposes a fee for handling chargeback requests.

On top of the above monetisation avenues, e-wallet providers can consider various other ancillary fees, allowing them to create a diversified and sustainable revenue model.

While transaction and settlement fees serve as the main source of revenue for Hong Kong's e-wallet providers, we believe there is considerably scope to explore additional monetisation opportunities within their core payment offerings

Potential Fees

Current Offerings



VAS USAGE

Merchants make use of various VAS provided, such as marketing / engagement tools, all offered for free



DIRECT PROMOTIONS

Merchants capitalise on the e-wallet provider's existing customer base to advertise on the platform at no cost



TOP-UP

Customers need to top-up its e-wallet balance by bank transfer, credit card, or cash at merchant stores to transact



CHARGEBACKS

E-wallet providers are required to investigate the case of disputed transactions filed by the customer



VAS Subscription Fee

Levies a subscription fee to access a range of VAS (e.g. customised coupons, point cards)



Marketing Charge

Charges merchants to advertise on their messaging platform, viewed by up to 22 million daily active users



Administration Fee

Applies a fixed fee of Rp. 1,000 for users and merchants who would like to top-up using bank accounts other than SeaBank



Processing Fee

Imposes a processing fee on merchants to cover the administrative costs associated with handling chargebacks

Other Ancillary Fees

There are a host of ancillary fees that can be levied to supplement revenue generation and reduce dormancy among its merchant base, such as charging a **priority support fee** for premium customer support to merchants or **premium account fees** for upgraded account tiers with higher transaction limits and additional features

SOLVE FOR MONETISATION (2/2) – NEW OFFERINGS

Key Takeaways

E-wallets possess considerable potential to expand their services into the realms of finance and lifestyle offerings by capitalising on their substantial user and merchant base.

The expansion to financial services can be initiated by extending payment functions, such as foreign exchange. Leveraging the symbiotic relationship between payment and consumption, lending services can also be extended to both merchants and users, based on their transaction history and credit records. Subsequently, the introduction of wealth management services can be explored, in which idle funds can be invested.

Furthermore, e-wallets platform can seamlessly integrate lifestyle services, encompassing features like restaurant table reservations and ride-hailing services, ultimately developing into a one-stop-shop super app.

Beyond their core payment offerings, e-wallet providers can leverage their sizeable user and merchant base to offer various financial and lifestyle services, creating a one-stop super app that caters to a range of merchant and user needs

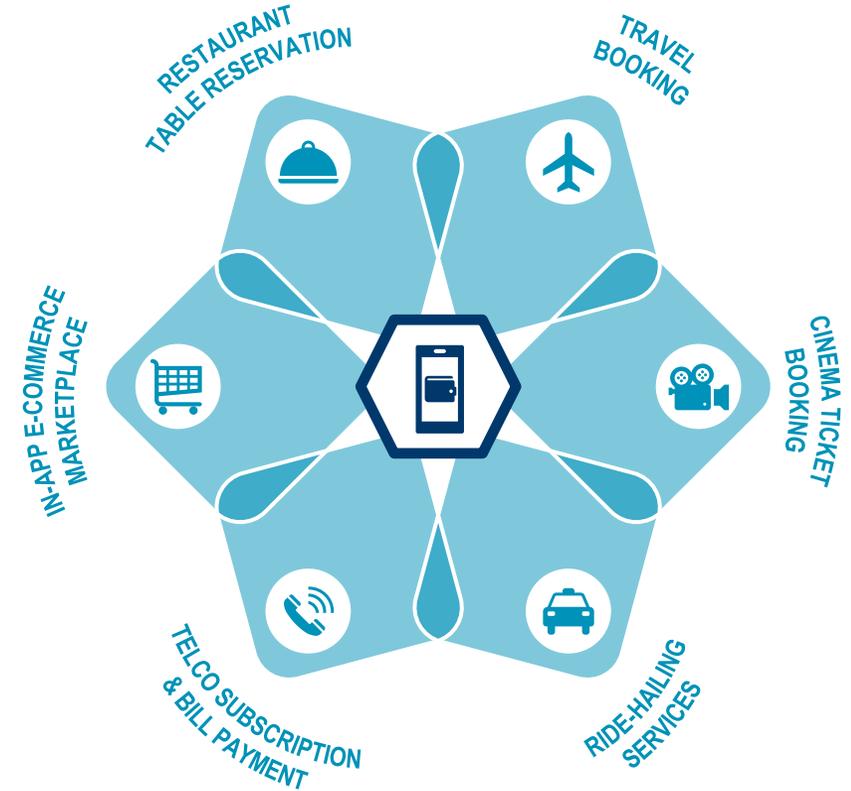
Potential Financial Service Offerings

From Payments to Wealth

Description	Examples of Offerings	Complexity
Stage 3: Wealth Develop a one-stop-shop financial app by moving into wealth management products	<ul style="list-style-type: none"> Robo-advisory / self-directed brokerage (e.g. mutual fund investments with idle cash) Insurance 	High
Stage 2: Lending Begin lending credit to users and / or merchant by leveraging potential partners' balance sheets	<ul style="list-style-type: none"> Buy Now Pay Later Personal Loans Commercial Loans 	
Stage 1: Payments Encourage recurring usage by providing remittance and foreign exchange services within the SVF remit	<ul style="list-style-type: none"> POS System Remittance FX 	Low

Potential Lifestyle Services

Examples



FEASIBILITY ASSESSMENT

Key Takeaways

Before launching any new initiative, e-wallet providers must conduct a thorough assessment of its feasibility, considering the: (1) level of control; (2) resources required; and (3) projected timeline.

For instance, if an e-wallet provider aims to launch an NFC payment feature in-house, several considerations arise:

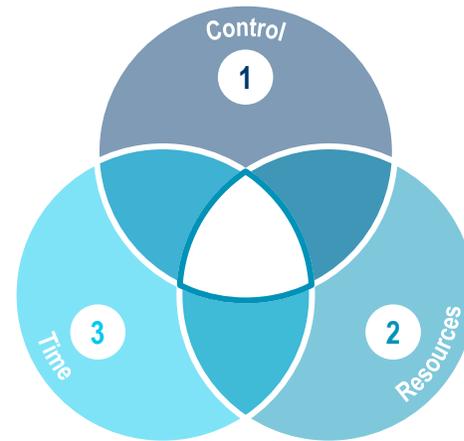
1. Considerable control may need to be exercised over the process, entailing the establishment of project goals and oversight;
2. A substantial allocation of resources, including initial capex and hiring a dedicated development team, is necessary; and
3. The entire journey, from planning to deployment, demands a significant amount of time.

Consequently, careful financial planning and thorough preparation are essential.

Before launching any new initiative, e-wallet providers need to thoroughly assess its feasibility, considering aspects such as the level of control, resources required, and projected time to market

Feasibility Assessment

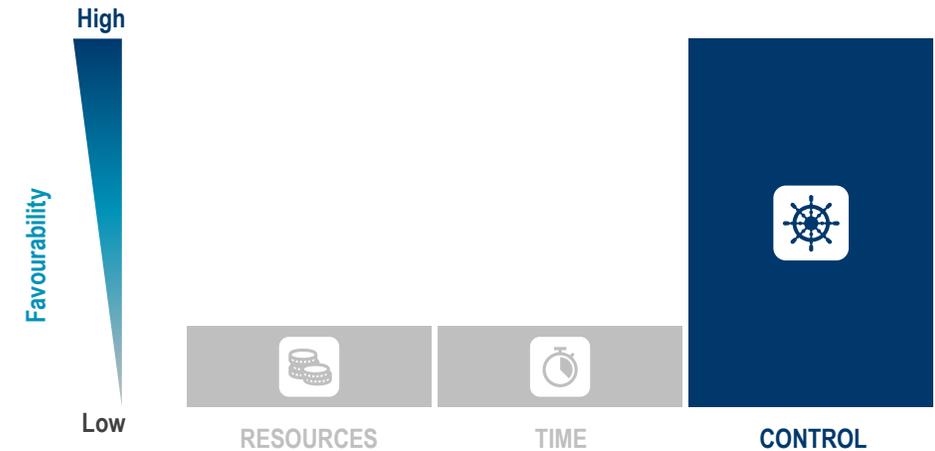
Factors



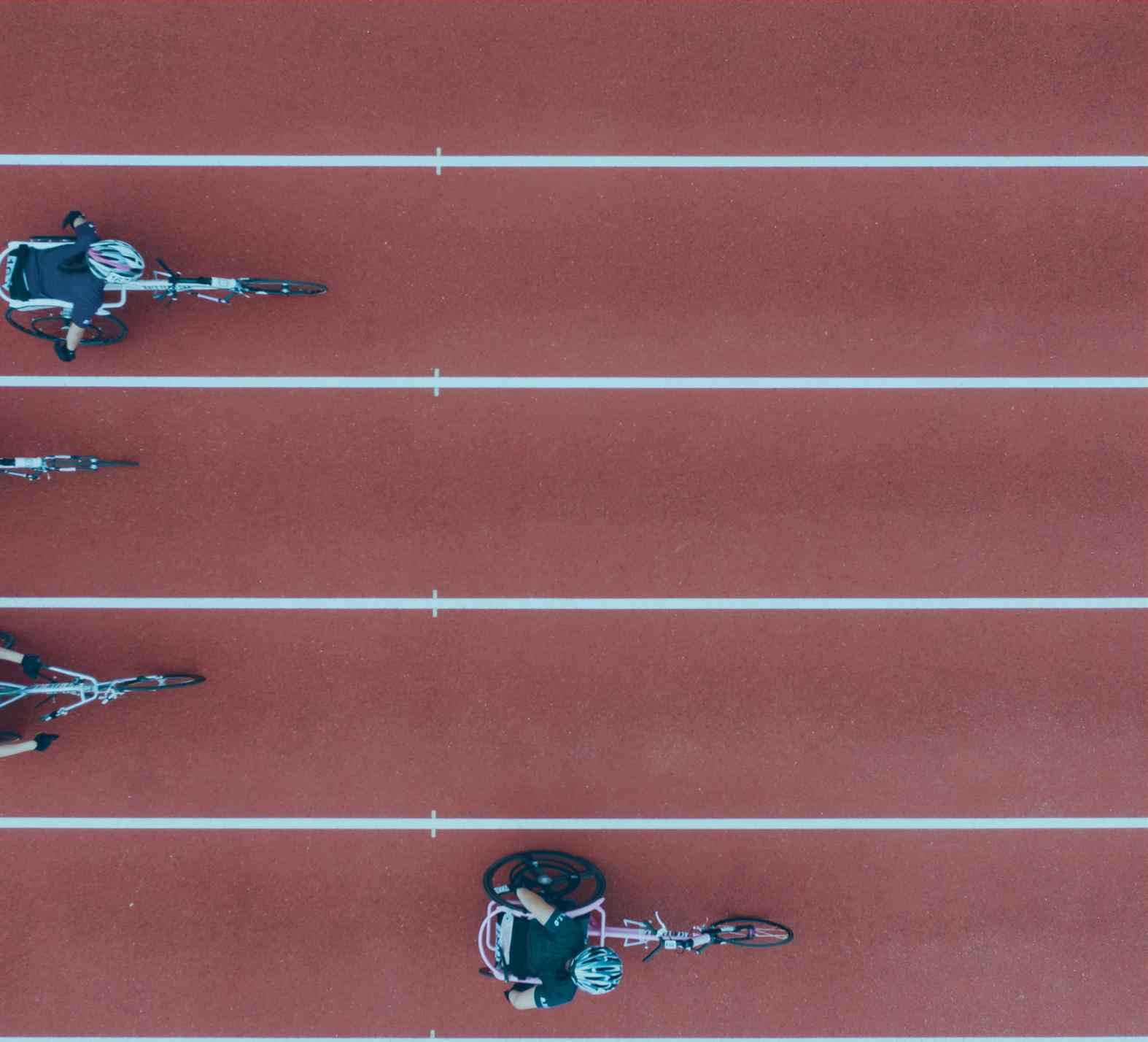
- 1 Control**
 The influence and authority an e-wallet provider has over the initiative's critical elements, including scope and features
- 2 Resources**
 The availability, adequacy, and allocation of both financial and human resources needed by the e-wallet provider to execute an initiative
- 3 Time**
 The evaluation of whether a proposed initiative can be completed within a reasonable and specified timeframe

Sample Initiative

In-house NFC Payment System Development



Initiative	An e-wallet provider wants to enhance the payment experience by developing the NFC payment feature, which enables contactless payments using smartphones or other compatible devices		
Description	<ul style="list-style-type: none"> Substantial initial investment and ongoing operational costs are required A dedicated development team and additional hires may be needed 	<ul style="list-style-type: none"> Developing an NFC payment capability is a strategic initiative, which may take significant time to plan, develop, test, integrate, and deploy in-house 	<ul style="list-style-type: none"> The management team of the e-wallet provider can easily oversee the entire development process



SECTION 4

APAC SUCCESS CASES

KAKAOPAY – OVERVIEW

Key Takeaways

Kakaopay, an integrated payment service within KakaoTalk, South Korea's leading messaging app, attained profitability in 2022.

Attracting initial customers and merchants was effortless for Kakaopay, thanks to its ability to leverage KakaoTalk's extensive user base. As the user base grew, Kakaopay expanded its offerings to include business-to-business services, such as hourly-charged advertising for merchants.

Kakaopay's journey has been marked by strategic diversification, significantly impacting its revenue streams as the company forayed into broader financial services offerings. Moreover, Kakaopay is actively exploring opportunities beyond the domestic market by enabling overseas payment services.

By capitalising on its customer base and leveraging data insights, Kakaopay showcases the potential to not only unlock new revenue streams but maximise the value of existing ones.

Kakaopay, a leading e-wallet based in South Korea, has achieved remarkable success, delivering a net profit of KRW 27.5 billion in 2022, mainly by extending B2B services and cross-selling higher-margin financial services

Case Study

Kakaopay

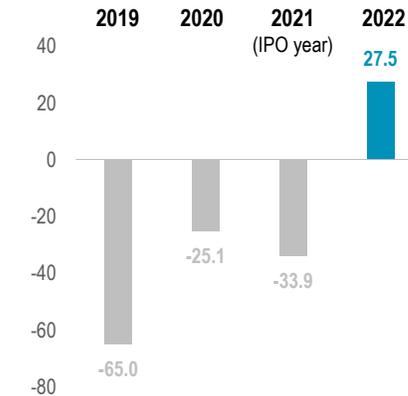


Established in South Korea in 2017, Kakaopay is a payment service integrated into the top messaging app, KakaoTalk, with over 39 million users and has achieved various accomplishments by completing its IPO in 2021 and recorded its first profit thereafter.

₩ 118 Trillion
Annual GMV (2022)

Net Profit

Billion Won, 2019-22



KEY STATISTICS

₩ 447,000

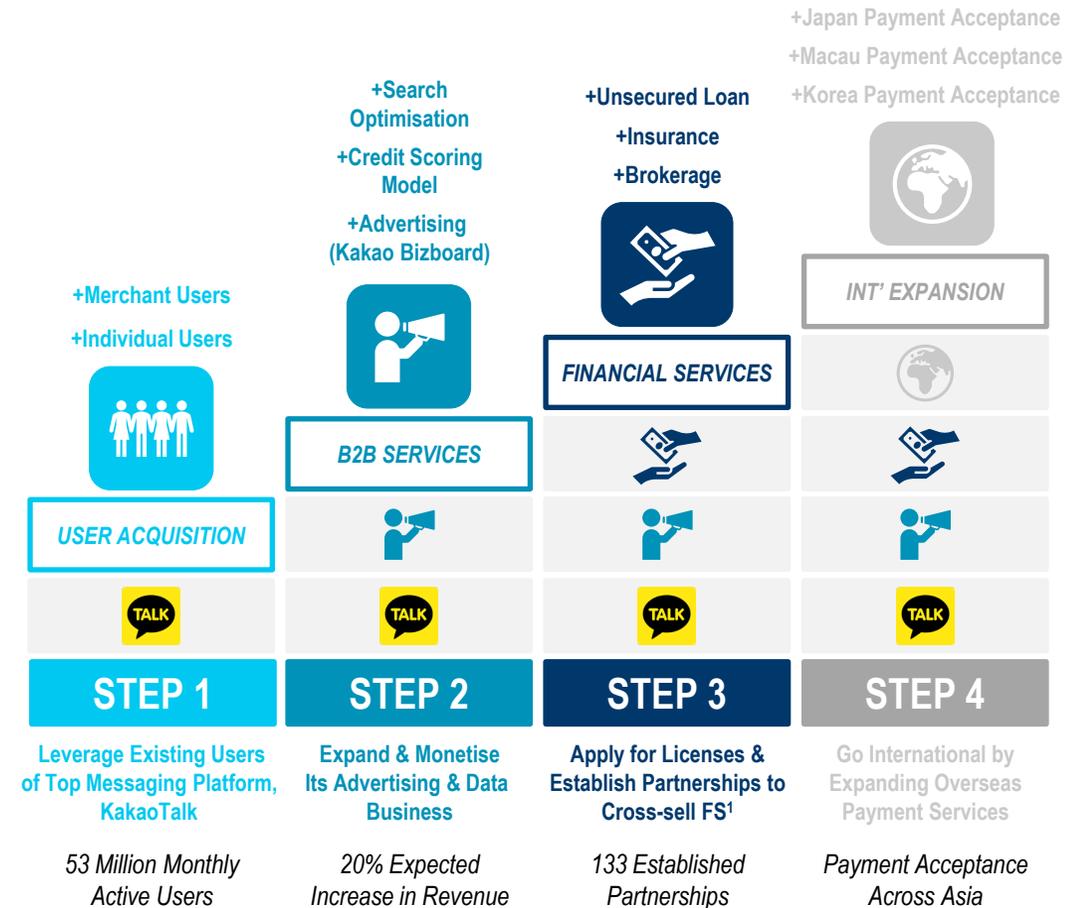
Monthly Transaction Per User in 2022, increasing by 9.5%

₩ 458 Bn

Operating income in 2021, ~1.6x the amount in 2020 (₩ 284 Bn)

Kakaopay's Growth Trajectory

Key Buildout Phases



¹Financial services

Source: South Korea's Financial Supervisory Service, Ked Global, S&P Global, Kakaopay, Quinlan & Associates analysis

PAYPAY (1/2) – OVERVIEW

Key Takeaways

PayPay, the leading e-wallet provider in Japan, boasts over 12 million users and has established a vast network of 4.1 million merchant outlets. Its merchant outlet count grew by a staggering 68% CAGR from 2018-22, capturing 66% of the market share by GMV.

PayPay's success can be attributed to the long-standing journey it underwent, beginning with extensive efforts to attract both end customers and merchants in its initial phases. Enticing rewards, coupon, and free services played a crucial role in capturing market share from established payment solution providers.

Having secured a significant user base, PayPay is now effectively monetising its services by implementing a subscription-based fee system for merchants to access various offerings. In addition, PayPay expanded beyond traditional e-wallet services, venturing into higher-margin financial services and evolving into a super app.

As the dominant e-wallet provider in Japan, PayPay has successfully captured and retained merchants and end customers by evolving into a super app that caters to various lifestyle and financial needs, going well beyond vanilla payment solutions

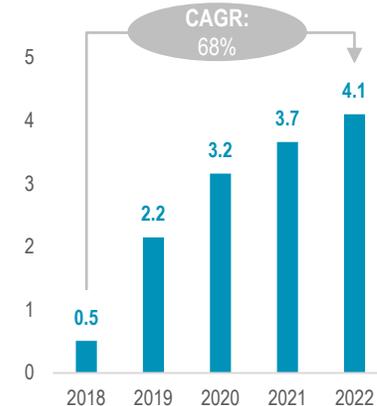
Case Study PayPay



Launched in Japan in 2018, PayPay has emerged as the leading e-wallet provider with 4.1 million merchant outlets and has unified the brand to provide value-added services as well as financial services to merchants in order to accelerate its monetisation efforts.

66%
Market Share by GMV (2023)

Merchant Outlet Count
Millions, 2018-22

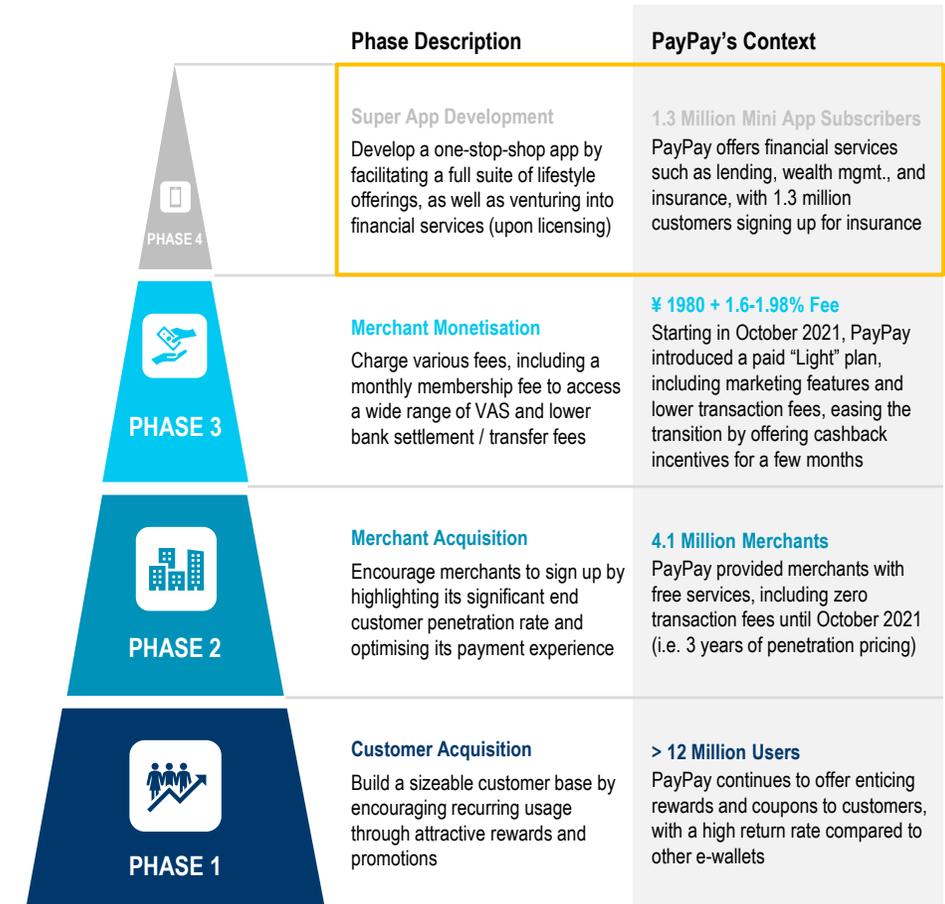


KEY STATISTICS

42%
Growth in the no. of transactions (2021-22)

¥ 5.7 trillion
GMV of mobile payment application as of Dec 2022

PayPay's Trajectory Phases



PAYPAY (2/2) – BUSINESS PERFORMANCE AND STRATEGY

Key Takeaways

In its formative years, PayPay demonstrated that establishing a strong presence in the market requires planning and preparation in the areas of acquisition and monetisation, which needed to be gradually rolled out.

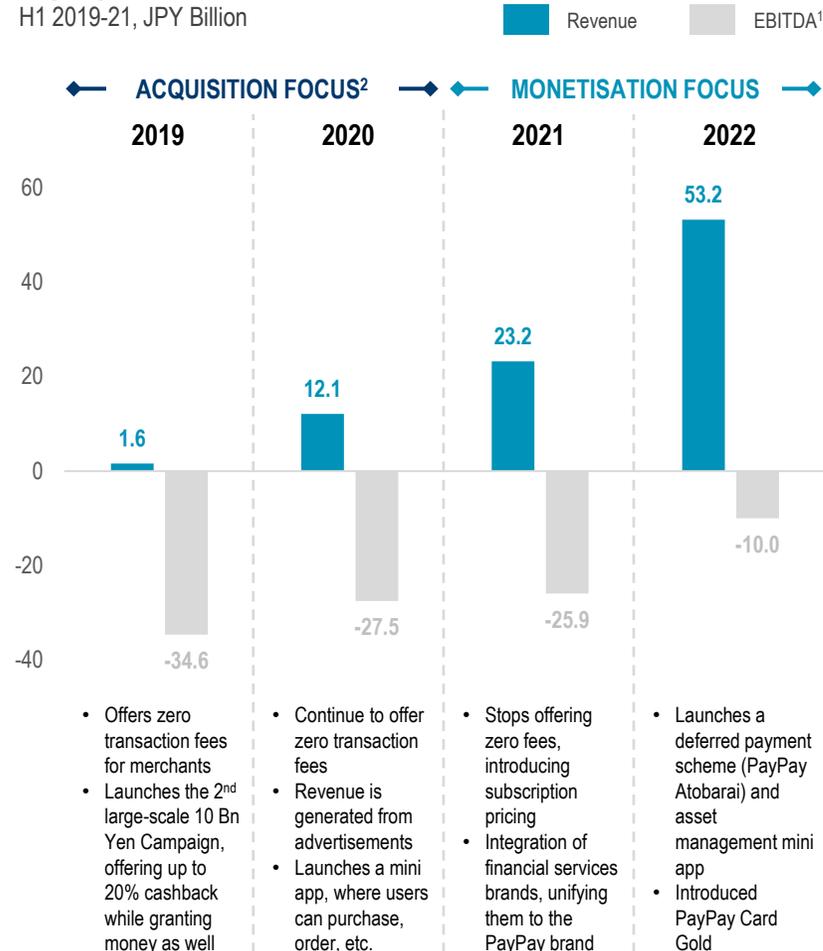
As it acquires merchants through penetration pricing and attract end users via large-scale campaigns, PayPay experienced four years of losses. However, this strategic approach set the foundation for longer-term monetisation, leading PayPay to achieve a remarkable 222% CAGR in revenue from its inception to 2022.

As it stands today, PayPay is actively diversifying its business into higher-margin banking services, encompassing personal loans, corporate loans, and FX to cater to the diverse needs of its users. This expansion aims to address the diverse needs of its users and merchants, further solidifying its position in the market and enhancing its value proposition. By cross-selling financial services, PayPay is on track to start generating profits in 2023.

In the first three years of operations, PayPay incurred large losses by strategically focusing on expanding its user base via a penetration pricing strategy and launching large-scale campaigns. It ramped up its monetisation efforts in 2021, primarily via cross-selling

PayPay's Performance

H1 2019-21, JPY Billion



PayPay's Strategic Plan

2022

ACQUISITION EFFORTS



DOMESTIC PAYMENT CONSOLIDATION
PayPay and LINE Pay undergo consolidation to make PayPay's QR code readable on LINE Pay, in order to expand its user base further

Tap into LINE's 93 million MAU³ (Current PayPay users = 51mn)



PAYPAY CARD INVESTMENT
PayPay is focusing on encouraging sign-ups for PayPay card, promoting its use at merchants that only accept credit cards and not PayPay

Expand its active cardholder base by offering it free of charge

MONETISATION EFFORTS



CARD FEATURES INTRODUCTION
A deferred payment mechanism and card gold are introduced, with an attractive 1.5% point system and charging an annual fee of 11,000 Yen

Increase ARPU⁴ by charging annual fees to card holders



SCENARIO INSURANCE PROVISION
PayPay offers insurance products for various everyday situations on the mini app for ease of purchase (e.g. 1-day insurance for golf / driving)

Offer a differentiated, low-cost insurance plans



INVESTMENT OFFERINGS EXPANSION
PayPay allows users to invest in Japan and US stocks, as well as mutual funds, using PayPay points, while also creating its own securities app

Redirect current PayPay users to PayPay securities



OTHER BANKING SERVICES OFFERINGS
PayPay endeavours to refine its banking products such as personal loans, corporate loans, and FX deposits to fulfil users' needs

Gather deposits and roll out loans to earn from interest

¹Earnings before interest, taxes, depreciation, and amortization; ²Beginning from when it first launched in October 2018, prioritising expansion of its service base, as well as users and merchants; ³Monthly active user; ⁴Average revenue per user

Source: SoftBank, Z Holdings, PayPay, Quinlan & Associates analysis



SECTION 4

HOW WE CAN HELP

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HOW WE CAN HELP

Key Takeaways

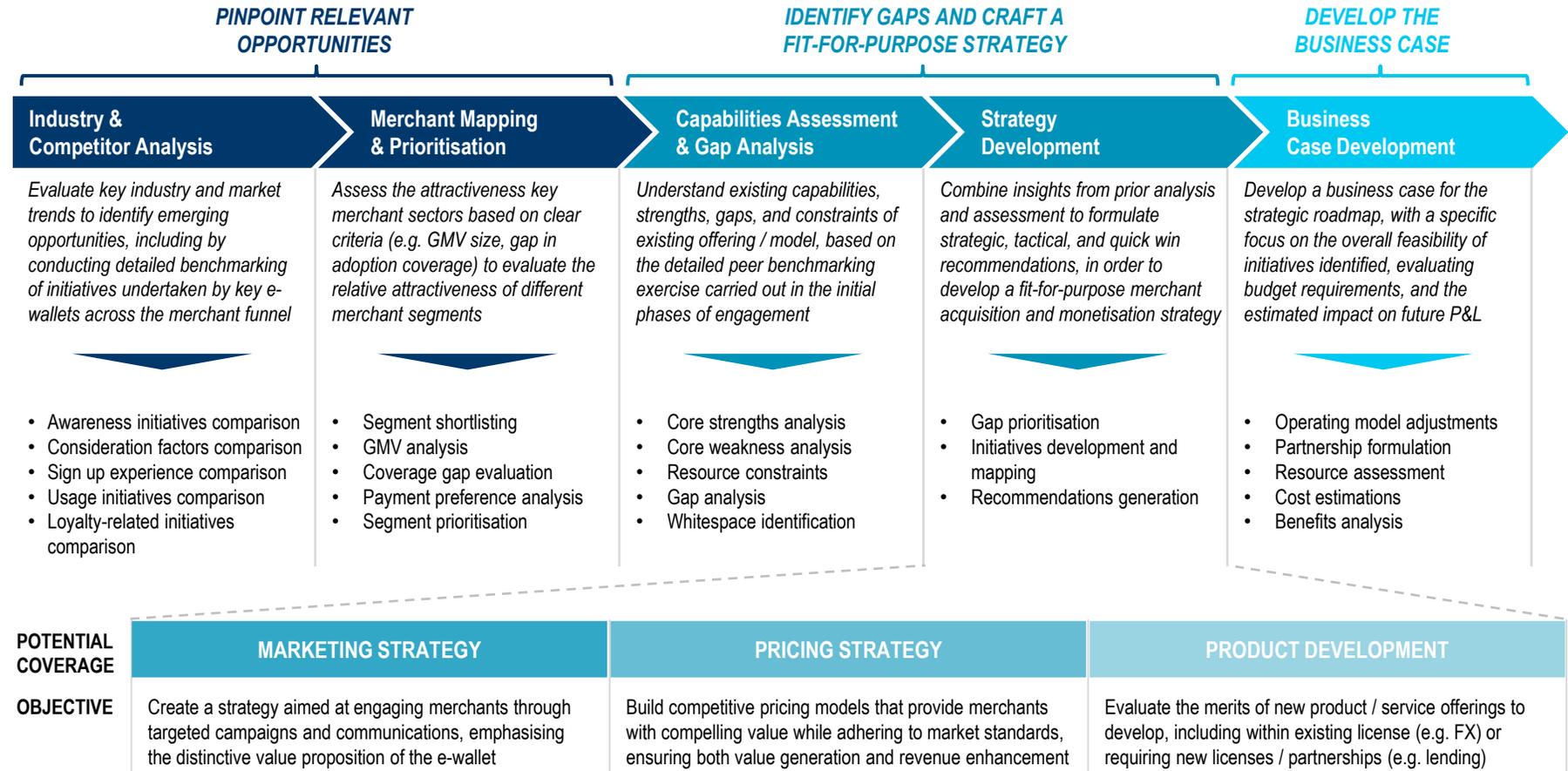
As e-wallet providers navigate this dynamic landscape, our team can provide support in developing an end-to-end merchant acquisition and monetisation strategy tailored to the unique needs and positioning of e-wallet providers, including:

1. Industry & Competitor Analysis
2. Merchant Mapping & Prioritisation
3. Capabilities Assessment & Gap Analysis
4. Strategy Development
5. Business Case Development

We can help e-wallet providers to develop robust merchant acquisition and monetisation strategies that address key gaps and/or competitive whitespaces along the merchant funnel, supporting their path to long-term profitability

How We Can Help

In-depth Strategy Formulation





STRATEGY WITH A DIFFERENCE

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