

Key Points of Supervision of Third-Party Payment Business: A Comparative Analysis of Mainland China and Macao

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Abstract: Mainland China has witnessed remarkable achievements in payment innovations based on internet and financial technologies in recent years, whereas Macao has made little progress in financial technologies, especially in payment technologies. Based on the concept and types of third-party payment business in mainland China and Macao, as well as to investigate the causes for Macao's lack of innovation in third-party payment, this study compares their differences from two aspects: business licensing authorities and key points of supervision. By comparison, although the classification and methods of third-party payment businesses are different between mainland China and Macao, they are all managed and licensed by a unified supervision department. Moreover, the key points of supervision in both places are similar, but unlike mainland China, which takes financial risk prevention as the principle and financial technology as the means to encourage innovation, Macao showed obvious deficiencies. In order to further deepen the connection between the financial markets of mainland China and Macao as well as boost financial technologies in Macao, this study aims to provide some suggestions and references for the development of cross-border payment systems.

Keywords: Third-party payment; Authority; Key points of supervision; Comparative analysis

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1. Introduction

The third-party payment revolution has been fueled by the use of the internet and financial technology in payment services, with products such as PayPal (USA), Alipay (mainland China), and WeChat Pay (mainland China) emerging. Since the establishment of the payment business license system in mainland China in 2010, the third-party payment industry has begun to expand in a standardized manner. With financial technologies, the payment service has been extensively used in domestic business innovation and people's life and has been made available for consumers around the world under the "Go Out" policy. Macao has been promoting the development of electronic payment in recent years. However, due to the small-sized market, single industrial structure, the non-key status of the financial industry, and insufficient professional and technical talents, Macao's payment industry faces limitations in its development. After combing the concepts and types of third-party payments in mainland China and Macao, this study compares and analyzes the differences between the two in terms of business licensing authorities and key points of supervision, so as to determine the reasons for the lack of innovation of third-party payment businesses in Macao. Hence, to further deepen the connection between the financial markets of mainland China and Macao as well as boost financial technologies in Macao, this study aims to provide some suggestions and

references for the development of cross-border payment systems.

2. Literature review

Domestic studies on third-party payment services usually focus on the following aspects: (1) comparative studies on the legal system of third-party payment financial supervision between China and the United States, European Union, and other countries or regions, as exemplified by Junping Li ^[1], Wenjia Tang ^[2], and Lin Li ^[3]; (2) studies on objectives and systems of regulatory authorities for third-party payment, as exemplified by Yahong Tao ^[4], Xianling Jiang and Xiaolan Xu ^[5], Lihong Bao and Sixian Feng ^[6], as well as Wenlong Mao ^[7]; (3) studies on the domestic legal system as exemplified by Yongbao Ma ^[8]; (4) studies on issues in the supervision of third-party payment in China, as exemplified by Cong Yin and Yujing Zhou ^[9], as well as Lin Su and other researchers ^[10].

Mercado-Kierkegaard provided a detailed introduction of the new EU's Payment Service Decree ^[11]; in 2019, the Financial Action Task Force (FATF) released China's Mutual Evaluation Report of Anti-Money Laundering and Counter-Terrorism Financing Measures and pointed out that China's financial institutions and non-bank payment institutions should have a full understanding of anti-money laundering obligations ^[12]; based on the international experience in the modernization of the legal and regulatory framework of payment services, Tanai Khiaonarong and another researcher proposed that amid ever-changing payment activities and increasing potential systemic risks, it is necessary to comply with international standards and additional regulatory requirements ^[13].

In short, no comparative study in and out of China has been carried out on the authorities and key points of supervision of third-party payment businesses in mainland China, Hong Kong, and Macao. Hence, this study intends to fill in the research gap.

3. Concept and types of third-party payment

The concept of "third-party payment" varies in different titles and business scopes in mainland China and Macao. For the sake of comparison, this study is based on the connotation of third-party payment in mainland China while also considering the businesses in Macao that satisfy this concept, so as to provide a comprehensive and comparable study.

3.1. Concept and types of third-party payment in mainland China

Following the Non-Financial Institution Payment Service Management Measures of mainland China, third-party payment can be divided into online payment, the issuance and acceptance of prepaid cards, as well as the acquisition of bankcard payments ^[14].

3.1.1. Online payment

Online payment refers to a means of processing transactions electronically, with the use of public or private network to facilitate a direct database connection between the party who is selling the product and the party who is buying it. It includes currency exchange, internet payment, mobile phone payment, fixed phone payment, digital TV payment, and other means.

3.1.2. Prepaid cards

A prepaid card is a type of payment card that can be loaded with money in advance in the form of cards or passwords and then used to purchase goods or services through magnetic stripe, chips, or other technologies without incurring debt from the issuer.

3.1.3. Bankcard acquisition

Bankcard acquisition refers to receiving monetary funds for special merchants of bank cards through point-of-sale (POS) terminals and other means.

3.2. Concept and types of third-party payment in Macao

Third-party payment in Macao can be divided into money changer, exchange service, and cash remittance [15].

3.2.1. Money changer

In accordance with the License Application Guide of Opening Money Changers released by the Monetary and Foreign Exchange Authority of Macao (hereinafter, referred to as “AMCM”), there are two kinds of money changers: (1) non-bank financial institutions that manage or utilize customers’ retained funds in proposed branches (including funds due to be paid in account); (2) other financial institutions that do not involve the management and utilization of customers’ retained funds in proposed branches (including funds due to be paid in account).

3.2.2. Exchange service

Regulated by “the general terms of the exchange rate regime in the territory of Macao and the trade of foreign exchange in the same territory” of Decree-Law No. 80/89/M, foreign exchange transactions are all acts involving local currency transactions with residents and the purchase and sale of foreign currency within the territory, either against local currency or against another external currency, as well as transactions involving the use of foreign currency within the territory.

3.2.3. Cash remittance

Regulated by “the incorporation and activity of companies of express delivery of cash (SEV)” of Decree-Law No. 15/97/M, SEV are commercial companies that have an objective to promote the express delivery of cash in the territory of Macao or abroad by order of third parties after receiving from the latter the respective equivalent amount. Besides the operations that are included in the companies’ objectives, SEV are only allowed to execute the foreign exchange operations that are strictly needed for the same objectives. **Table 1** lists the current licensed payment service institutions of Macao [16].

4. Comparative analysis of business licensing authorities and key points of supervision

4.1. Business licensing authorities

4.1.1. Authorities in mainland China

According to Article 7 in Non-financial Institution Payment Service Management Measures of mainland China, the People’s Bank of China (PBC) is responsible for issuing and managing the payment business license; anyone who applies for the payment business license shall be examined by the local branch of PBC and then submitted to the PBC for approval; payment institutions will be supervised and managed by the PBC according to law, in which without the approval of PBC, no non-financial institution or individual can, directly or in disguise, engage in payment business.

4.1.2. Authorities in Macao

Based on the License Application Guide of Opening Money Changers and the Financial System Act of Decree-Law No. 32/93/M in Macao, payment activities by internet or any mobile devices in the territory of Macao require prior authorization from the Governor on advice from AMCM. The application documents and data shall be submitted to AMCM.

Table 1. Licensed payment service institutions of Macao

| Type of payment business | List of licensed companies |
|--|---|
| Exchange service institutions* | Global Payments Asia-Pacific Macau Limited |
| | UePay Macao Limited |
| Money changers* | Soi Cheong Money Changer Limited |
| | Tong Lei Money Changer Limited |
| | Lisboa Money Exchange Limited |
| | International Express (Exchanger) Limited |
| | P & W, Money Changer Limited |
| | Asia Exchange Shop Limited |
| | Sun Fu Lon Money Exchange Limited |
| | Chong Wa (Macao) Money Exchange Limited |
| | First International Resources (Macao) Money Changer Limited |
| | World Round Money Exchange Limited |
| Wa Iong Money Exchange Company Limited | |
| Cash remittance companies | BDO Remit (Macao) Limited |
| | Pacific Ace (Macao) Remittance Limited |
| | Global Remittances Company Limited |

*Last revision of payment service institutions: January 15, 2021; last revision of money changers: November 24, 2021; last revision of cash remittance companies: June 2, 2021

4.2. Key points of supervision

4.2.1. Key points of supervision in mainland China

When accepting the application for payment business license, the PBC will take into account the development status and trend of the payment industry as well as the guidance of national policies. The major factors to be considered include the following:

- (1) A limited liability company or a joint-stock company limited set up within the territory of the People's Republic of China according to the provisions of this law, and is a non-financial institution legal person;
- (2) Meet the minimum registered capital as stipulated in Non-Financial Institution Payment Service Management Measures;
- (3) Have investors who meet the provisions of Non-Financial Institution Payment Service Management Measures;
- (4) Have more than five senior managers familiar with the payment business;
- (5) Have internal control measures in compliance with relevant requirements;
- (6) Have payment business facilities in compliance with relevant requirements;
- (7) Have sound organizational structure, internal control system, and risk management measures;
- (8) Have business premises and safety guarantee measures in compliance with relevant requirements;
- (9) The applicant and related senior managers must not have committed certain violations by using payment business or be punished for handling payment business for illegal and criminal purposes in the past three years.

4.2.2. Key points of supervision in Macao

The main factors to be considered by AMCM during the evaluation include the following:

- (1) Whether the objectives of the institution satisfy economic and financial policies implemented by the Macao Special Administrative Region (MSAR) Government;
- (2) Appropriateness of major direct and indirect shareholders and management personnel;
- (3) Robustness and feasibility of business plan;
- (4) Resource allocation, including adequate human, financial, and technical resources;
- (5) Adequacy of risk management measures, internal control system, corporate governance structure, customer data protection arrangement, and business continuity planning;
- (6) Secure, stable, and uninterrupted operations (including system processing capacity, operation monitoring, and system recovery) and information system, data authenticity (to ensure the correctness, reliability, and integrity of processing, storage, and transmission data), as well as security, preservation of audit trail, and others;
- (7) The structure and characteristics of the group to which the institution belongs;
- (8) Whether the application is in the best interests of Macao’s financial system or involves any other regulatory concerns.

5. Conclusion

As can be seen from **Table 2**, third-party payment business in mainland China can be divided into three types: online payment, issuance and acceptance of prepaid cards, as well as bankcard acquisition. However, they are all be managed and licensed by the PBC. As for Macao, their third-party payment business can also be divided into three categories, among which, money changers include non-bank financial institutions and other financial institutions, exchange service offers the exchange of currency, and cash remittance is related to money transfer. Similarly, those categories are all managed and licensed by the AMCM. Therefore, although the classification and methods of third-party payment businesses are different between mainland China and Macao, they are all managed and licensed by a unified financial supervision department.

Table 2. Comparison of business licensing authorities

| Area | Mainland China | Macao | | |
|-------------------------|---|---|-------------------|--------------------|
| Name of license | Third-party payment | Money changer* | Exchange service | Cash remittance |
| Type of business | Online payment Issuance and acceptance of prepaid card Bankcard acquisition | Non-bank financial institutions Other financial institutions | Currency exchange | Remittance service |
| Supervision authorities | The People’s Bank of China | Monetary and Foreign Exchange Authority of Macau | | |

*AMCM has not made further explanations on the specific business content

As shown in **Table 3**, the key points of supervision of third-party payment businesses are similar in mainland China and Macao but with different supervision standards. For instance, in terms of “application object,” Macao allows any natural person to apply for the license, but a natural person’s financial, material, and human resources may barely meet the corresponding supervision requirements to be a payment service provider. Therefore, the probability of natural persons obtaining payment business licenses is very low, which eventually makes Macao’s supervision requirements for “application object” to be consistent with that of mainland China. When it comes to “crime factor,” it refers to crimes related to payment businesses; an applicant shall be subjected to an investigation cycle of nearly three years in mainland China; on the other hand, Macao does not distinguish between specific types and the date of crimes. To conclude, Macao

has more stringent restrictions on this article.

Table 3. Comparison of key points of supervision

| Factors to be considered | Mainland China | Macao |
|---------------------------------|---|---|
| Application object | Legal entity only | Company or natural person |
| Qualification | Investors and related senior managers need to be qualified | Appropriate direct and indirect shareholders and management personnel |
| Capital condition | Minimum registered capital allowed | No specific requirements |
| Management condition | Organizational structure, internal control system, and risk management measures | Risk management measures, internal control system, corporate governance structure, customer data protection arrangement, business continuity planning, and others |
| Business facilities | Payment business facilities (including information system) | Human, financial, and technical resources, and others |
| Operating facilities | Business premises and safety guarantee measures | Operation and information system, data, audit trail, and others |
| Crime factor | The applicant and related senior management should have made no crime related to payment business | The directors, supervisors, and natural persons of the company have no criminal records |

Based on the above, as Macao has neglected encouraging the development and innovation of third-party payment, inclusive financial services based on third-party payment in Macao are far from satisfactory. As for mainland China, it owes to a relatively comprehensive supervision system that focuses on financial risks prevention and financial technologies employment to encourage industrial innovation while protecting consumers' rights and interests. On the basis of financial technology innovation, the third-party payment in mainland China not only covers small retail customers and long-tail customers (small and medium-sized enterprises) that are not covered by traditional banks, so as to achieve inclusive finance, but also the "Go Out" policy has been implemented to offer payment services for customers worldwide.

6. Suggestions

6.1. Develop characteristic financing in Macao

Develop characteristic financing in Macao and direct Macao's economy toward moderate diversification. The Macao Special Administrative Region (MSAR) Government launched the "Simple Pay" integrated payment system, which is not only an inclusive financial service, but also an accelerator to bring electronic payment to a new stage. In the meantime, as Macao acts as a business service platform for China and Portuguese-speaking countries, third-party payment services can be used as the starting point to expand the cross-border use of RMB in various countries and regions, thus better integrating into the "external circulation."

6.2. Build a coordinated and innovative mechanism for financial supervision and accelerate the construction of a cross-border payment system

On April 14, 2021, the PBC held a video conference on payment and settlement as well as asserted the acceleration in the establishment of cross-border payment systems. By constructing a cross-border payment system between mainland China and Macao, cross-border payment will be more convenient. There will also be a crackdown on underground banks, and cross-border financial crimes can be prevented. Based on

this, mainland China and Macao can introduce the “supervision sandbox” mechanism and the coordination and innovation mechanism of financial supervision. With the assistance of financial technologies, it is possible to strengthen the construction of “RegTech” (regulatory technology) and improve the capability to monitor and analyze cross-border financial violations and financial crimes, so as to form competent financial supervision and technology innovation on both sides.

6.3. Promote the international development of third-party payment and establish technical standards and industry norms

With the modern payment system of the PBC as the backbone, China has formed a framework with interbank payment system, bankcard payment system, bill payment system, online payment and clearing system, as well as cross-border RMB payment system as crucial components. Faced with strategic opportunities of global opening, China’s third-party payment should serve customers in and out of China, as well as establish and improve technical standards and industry norms of third-party payment services in terms of technical standards, product innovation, and financial supervision.

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