

## Su Ning: Development of the bankcard industry in China

Speech by Mr Su Ning, Deputy Governor of the People's Bank of China, at the National Bankcard Work Conference, Beijing, 25 April 2006.

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Ladies and Gentlemen:

In February 2001, PBC hosted the first national bankcard work conference. At that conference, a series of work priorities were identified, which greatly promoted the development of the bankcard industry. The priorities include setting up a uniform business and technical standard, accelerating the development of national bankcard network, promoting a uniform CUP brand, and reforming bankcard management system. Today, the national bankcard work conference is held again jointly by the PBC and other ministries. The objective of this conference is to, under the guidance of Deng Xiaoping Theory and the important thoughts of "Three Represents", summarize past successful experiences, analyze current challenges, implement policies and measures set forth by the *Several Opinions Regarding the Development of the Bankcard Industry* formulated by nine ministries, outline work plan for future development, and promote rapid and healthy development of the bankcard business by adopting a scientific development concept to build a harmonious society. Mr. Jiang Dingzhi, Vice Chairman of the CBRC, Mr. Lou Qinjian, Vice Minister of Commerce, Mr. Xu Shanda, Deputy Administrator of the State Taxation Administration, Mr. Zheng Shaodong, Assistant Minister of the Ministry of Public Security, Mr. Zhang Hongli, Assistant Minister of the Ministry of Commerce, and Mr. Li Dongrong, Deputy Administrator of SAFE attended this conference and delivered speeches. Now, on behalf of the PBC, I'd like to say a few words:

### First, achievements of bankcard industry

The CPC Central Committee and the State Council have always attached great importance to the development of the bankcard industry. In December 2001, Comrade Wen Jiabao clarified the "three-one-four" objective for the building of a national bankcard network and the bankcard acceptance market in the tenth "five-year" plan period. As for other important issues such as the legal framework, the prevention of bankcard risk and the security of financial information, Comrade Wen Jiabao and Comrade Huang Ju also made important instructions, clarifying the direction for future development. Especially recently, Comrade Wen Jiabao made important instructions on extending bankcard coverage and further improving Beijing's bankcard environment as an Olympic host city. So under the leadership of the CPC Central Committee, with the support of relevant departments and government at various levels, China's bankcard industry has made great achievements through joint efforts of the commercial banks, users and China Union Pay (CUP).

First, bankcard has been used more frequently and extensively

By the end of 2005, there are 175 issuers of bankcards with the total issuance of 960 million. In 2005, the total bankcard transaction volume amounted to 4700 billion yuan, including 960 billion yuan of consumption transaction, which is 10.4 times and 8.5 times as much as that of 2000. The number of merchants accepting bankcards, POS machines and ATMs is 390,000, 610,000 and 80,000 respectively, which is 3.5 times, 3.9 times and 2.1 times as much as that of five years ago. More and more people have got used to the use of bankcards, and excluding the wholesale and real estate transactions, the proportion of consumption related bankcard transactions out of the total retail sales of consumer goods increased from 2.1% five years ago to nearly 10%. In some economically developed cities, such as Beijing, Shanghai, Guangzhou and Shenzhen, the proportion is more than 30%, which is near the level of 30%-50% of developed countries. As commercial banks constantly innovate bankcard products and services, its functions, transaction channels as well the coverage have been improved. For instance, the function has been enriched from cash deposit & withdrawal and consumption to investment and financing. The transaction channels have been extended from traditional platforms such as POS machines and ATMs to new payment channels like on-line banking, and telephone banking. And the coverage has also been enlarged from consumption area such as restaurants, hotels and retail shops to public services and wholesales such as hospitals and schools. The constant innovation of bankcard product, a wider coverage and diversified payment channels all

meet the payment demand of card holders and promote the use of bankcard. Currently, bankcard is the most frequently used non-cash payment instrument by individuals.

Second, a national bankcard network has been basically set up

To accelerate the build-up of a national bankcard network, as approved by the State Council, China Union Pay (CUP) is set up by the People's Bank of China. CUP specializes in the construction and operation of a national integrated system of information exchange of bankcard and networking the national bankcard as a whole. Commercial banks greatly support this system, and they have standardized and updated their own system and terminals, which is crucial to the emergence of a national bankcard network, the improvement of the acceptance environment and the overall sector development. With the joint efforts of PBC, commercial banks, CUP and relevant departments, the "three-one-four" objective for building a national bankcard network was achieved. In 2003, the network covering prefecture-level (or higher) cities has been basically set up, and in 2004 the network gradually covered some economically developed counties. So a nationwide bankcard network has been basically formed. A uniform business and technical standard has also been formulated. The promulgation and implementation of *Business Standard for Bankcard Network*, *Technical Standard for Bankcard Network*, *the Information Format and Usage Standard for Bankcard Magnetic Stripe information*, *the Standard for Financial IC Card (2.0)* provides the basis for the national integrated network. The upgrade and consolidation of bankcard system by commercial banks improved their card acceptance and risk-prevention capability, and the internationally advanced inter-bank transaction network set up by CUP provided technical support for both centralized processing of domestic inter-bank transactions and cross-border transactions. In November 2004, the inter-bank transaction system was successfully connected with the PBC large-value payment system, which means the inter-bank real time payment and settlement can be conducted through bankcards. In the past few years, the quality of the nationwide system has greatly enhanced, the efficiency of error correction has improved, and the success rate for local and trans-regional transaction has increased from 83.1% and 61.7% to 96.8% and 95.3% at the end of 2005.

Third, bankcard business chain has preliminarily emerged

With the advance of information technology and clearer division of labor, bankcard service sector is becoming more and more professional. The payment business chain covering card issuance, processing, information exchange and machine production has emerged, which is positive for the integration of resource, the exertion of comparative advantage, the realization of economic scale and the optimization of bankcard development mode. Some banks have established credit card center, specializing in credit card business. The design, marketing and risk management of credit card has improved. CUP also provides inter-bank information exchange service, and the inter-bank use of bankcard as well as the share of market resource and equipment lower operation cost. In terms of specific service agencies for the design of issuance system, bankcard production, bankcard marking, equipment production, equipment installment and acceptance environment, these agencies have greatly increased efficiency, lowered cost, improved service and bettered the bankcard environment. The contribution of bankcard industry to other industries such as financial industry, commercial industry, tourist industry, bankcard and equipment manufacture industry, telecom industry, software industry and e-commerce has materialized.

Fourth, further improvement of relevant measures and policy environment

When accelerating the legislative procedures of *the Bankcard Regulation*, with the aim to promote sustainable development of bankcard industry, in April 2005, *Several Opinions Regarding the Promotion of Bankcard Industry* issued by the People's Bank of China (PBC), the National Development and Reform Commission, the Ministry of Public Security, the Ministry of Finance, the Ministry of Information Industry, the Ministry of Commerce, the State Taxation Administration, China Banking Regulatory Commission (CBRC), and the State Administration of Foreign Exchange (SAFE) clarified some important issues such as guidelines, principle, direction, target and priorities, which fully exhibit the importance relevant departments attach to the bankcard industry.

Relevant ministries of the State Council also promulgated and implemented a series of feasible measures and policies. As the supervisor, administrator and organizer of the payment system, PBC has made great efforts in formulating rules and regulations, standardizing the acceptance market, safeguarding bankcard security, promoting international use, improving technical standard, and disseminating bankcard knowledge. *Proposals on Promoting Development of the Bankcard Acceptance Market* was issued in July 2005, and it clarified some important policy issues. As the supervisor of banking institutions, CBRC also did lots of work in improving bankcard issuance and

internal control. Targeting some serious credit card fraud cases such as illegal encashment, *the Notice on the Prevention of Credit Card Risk* was jointly issued by the PBC and CBRC to prevent risk and guarantee asset security. Together with other government departments, the Ministry of Public Security organized nationwide campaigns against bankcard crimes. The Ministry of Public Security also set up the bankcard risk prevention working mechanism with commercial banks and CUP to safeguard bankcard security and to maintain financial order. The documents issued by SAFE such as the *Notice on the Standardization of the Administration of Foreign Currency Bankcard*, and *the Notice on the Prevention of Credit Card Risk* met overseas card use demand and improved standardized management. *The Law of Electronic Signature*, drafted by the Legal Office of the State Council, the Ministry of Information Industry, and the Information Office of the State Council, has already been passed by the Standing Committee of the National People's Congress. It provided legal guarantee for bankcard online payment with instruments such as computer network and mobile phones. The National Development and Reform Commission was busily engaged in pricing policies. The Ministry of Commerce revised *The Administrative Measures for the Write-off of NPL in Financial Companies*, which standardized the procedure for the write-off of bankcard's NPLs. The Ministry of Commerce encouraged marketing and distribution companies to accept bankcards. The State Taxation Administration, the Ministry of Finance and the Ministry of Information Industry also organized pilot projects to popularize the use of tax control POS machines. All these efforts provide a sound external environment for bankcard's development.

#### Fifth, overseas acceptance of RMB bankcard

To accommodate the national strategy of stimulating outbound business activities, and to satisfy overseas travel and consumption need, China's bankcard payment system becomes more and more integrated with international payment system. Since 2004, with the support of relevant departments and issuers, CUP actively explored overseas market. By now, nearly 20 countries and regions have accepted CUP cards. By the end of 2005, 29,4000 overseas shops and merchants accept CUP cards, totaling 45,300 POS machines and 62,300 ATM machines. And the value of annual overseas transaction reached about 13 billion Yuan. The overseas acceptance of CUP RMB card signaled China's national bankcard branding has delivered expected results.

All these achievements can not be separated from the guide of CPC Central Committee and the State Council, the attention and support provided by relevant departments, the innovation, coordination and great efforts of commercial banks, shops and merchants, and China Union Pay, as well as the involvement and support of general public especially the consumers. So here I'd like to express my sincere thanks to commercial banks, shops and merchants, CUP and all friends who have contributed to and supported the development of bankcard industry.

### **Second, the significance and challenge of bankcard industry**

The development of bankcard industry is beneficial both to the country and to the people. It bears great significance to stimulate consumption, reduce cash circulation, lower transaction cost, enhance anti-money laundering, broaden tax base, improve international image and promote the development of relevant industry. Its contribution is reflected in the following aspects: First, promote economic development. Cash replacement function and consumption credit function of bankcard can turn potential and random consumption into real expenditure, which in turn boost domestic demand and promote the development of tertiary industry, such as trade and commerce, tourism, hotel and e-commerce. The improvement of bankcard transaction environment will promote the development of relevant sectors such as telecom, equipment production and software design. According to the research on 50 countries whose bankcard industries are more developed, when the proportion of bankcard payment among aggregate consumption payment is increased by 10%, GDP is to be expanded by 0.5%. Second, lower social transaction cost. More frequent use of bankcard can reduce expenditure in the production, transportation and reserve of cash, and therefore improve economic efficiency. Third, standardize market order. Bankcard payment can automatically form payment record. The enhanced payment transparency can improve tax administration, increase tax revenue, control illegal income, prevent and curb corruption. Fourth, improve social courtesy. Bankcard is convenient, safe and clean, and it's good to foster good payment habit and improve city image. The cyclical credit consumption function of credit cards can nurture honest habit, and promote social credit culture.

Currently, bankcard industry is confronted with good opportunities. China is trying to build a well-off society and has entered the stage of building a socialist harmonious society. The national strategy to boost domestic demand and stimulate consumption provides favorable condition for the development

and innovation of bankcards. The set-up and improvement of the national credit database for individuals provides good credit environment, and we also accumulate lots of experiences. More importantly, the 11<sup>th</sup> “five-year” program proposes that we should actively develop financial service industry and raise the proportion and improve the performance of service industry, grasp core and crucial technology, to prompt its development and innovation. This will present new opportunities, and the bankcard industry will enter the consolidation and innovation stage.

There are still some problems and challenges. First, the development of the acceptance market has become the bottleneck restricting bankcard sector. Compared with overseas mature bankcard market, some indicators such as the consumption ratio for cardholders, the frequency of card use, and the number of merchants accepting bankcards all left far behind. Currently, the accepting environment doesn't reach the financial service level as an Olympic host country. Bankcards are mainly used to deposit and withdraw cash, which means the payment function doesn't exert fully, and cash transaction remains a large proportion in retail payment. The acceptance market doesn't develop in a balanced way, and in rural areas as well as in the medium and small-sized cities, the acceptance environment is weak, and the ratio for medium and small-sized merchants accepting bankcard is low. Second, the competition of the bankcard market still stands at the low level, and branding, service, as well as innovation awareness is weak. Third, bankcard risk is a prominent problem, and risk management needs to be improved. Fourth, legal framework is not compatible with sector development, and policy support is not enough. Fifth, as China opens wider to the outside world, foreign-funded financial institutions will bring lots of competition pressure. Especially with the end of China's post-WTO transitional period at the end of this year, domestic institutions have to face more severe competition.

Faced with all these opportunities and challenges, especially all these problems, we should make unremitting efforts to promote further development of the bankcard sector.

### **Third, the outlook of bankcard industry**

The major task for next stage is to adopt effective measures to implement *The Several Opinions Regarding Promoting Development of the Bankcard Industry*, stick to market-oriented direction, center on the improvement of acceptance market, enrich bankcard type and function, promote bankcard innovation and improve risk management. On this basis, we should further improve legal system, give more industrial support, encourage innovation, enhance technological standard, standardize market order, lower risk, and provide safe, quick and good bankcard service. The working priorities should go to following aspect.

First, improve bankcard acceptance.

Acceptance market is the basis, and the improvement of accepting mechanism and environment as well as a wider coverage is the current priority. By 2008, China expects bankcard will be accepted by 60%, the merchants with the annual turnover above 1million and 25% of merchants with the annual turnover less than 1million respectively.

To achieve the above goals, the coverage of bankcards should be extended, new channels for the cooperation between banks and merchants should be explored and the use of bankcards in business distribution should be promoted. Besides, designated merchants in medium and small-sized cities as well as in counties with brisk economic activities will be nurtured to promote the use of bankcards, and in this way an unbalanced acceptance market development will be improved. Bankcard should be encouraged in the payment of tax, public service and other services such as public health and transportation.

The national bankcard network should be furthered improved. CUP will enforce a uniform standard in business operation and technology in prefecture-level cities (or above) and economically advanced counties. On the condition that acquirers can choose network interface by their own, they are encouraged to link with CUP network directly, while the CUP supports versatile direct or indirect links. A uniform standard for inter-bank bankcard transaction will be enforced, and both business and technical standard will be standardized. The level of acceptance in hotel and hotel-like business should be further improved, and no subjective obstacles are allowed to violate the uniform standard. Special support goes to the acceptance of the pre-authorization of bankcards by medium and small-sized banks. The PBC will organize relevant departments to upgrade system and terminals and work on the monitoring, inspecting, punishing and rewarding mechanisms on standard enforcement. In this

way, the business and technical standard will be implemented strictly and the success rate of inter-bank bankcard transaction is to be increased to be above 96% in 2008.

Bankcard environment in Olympic game cities should be bettered. In line with the important instruction by Premier Wen Jiabao to extend the coverage of bankcard for a better environment for the 2008 Olympic Games, six Olympic game cities such as Beijing, Shanghai, Tianjin, Shenyang, Qin Huangdao, and Qingdao, will actively take measures to improve both acceptance environment and accommodating financial service facilities, so as to promote the use of bankcard in the whole country. Olympic game cities should figure out their own bankcard development plan to clarify overall objectives, major tasks and implementation measures. The scheme to improve the acceptance of foreign currency denominated bankcard should be drawn up as soon as possible, and merchants are to be well prepared for the acceptance of international IC card. Newly installed bankcard machine should be compatible with both magnetic card and IC card. Inspection and monitoring of the technical conditions should be improved to ensure inter-bank acceptance, which means both inter-bank information transfer system and intra-bank system should operate in a safe and steadily way. Risk management should also be improved, and commercial banks should draft technical security plan. Fiscal and taxation policies will be formulated to support the use of Olympic bankcard. The tax control POS machines will be popularized and medium and small-sized merchants will be encouraged to accept bankcard. Centering on the Olympic theme, bankcard knowledge will be disseminated in various ways to create a better media environment.

In terms of improving financial services for the development of rural area, the agricultural industry and the farmers, bankcard industry should play a bigger role. The experience accumulated from pilot program in Guizhou for migrant workers should be popularized. More banks are encouraged to offer this kind of service, and its cover age should be extended to other migrant worker outflow provinces other than Guizhou. Rural Credit Cooperatives in migrant worker export area should offer good cash withdrawal service at counters, standardize business operation, and improve security control. As for migrant worker inflow area, migrant workers should become more aware of bankcard use, and issuers should also provide better service. The PBC will continue to coordinate, mobilize and guide relevant parties to place more attention to providing specific bankcard service for migrant workers.

The management over card acceptance market should be standardized. The requirement set forth by *Several Opinions Regarding Promoting Development of Bankcard Industry* on the set-up and improvement of pricing mechanism should be implemented seriously, and acquiring agencies and merchants should negotiate pricing issues on market basis. Acquirors should sign contract with merchants in line with legal requirements and market-oriented principles, fulfill their payment obligations, gain relevant profits and undertake correspondent risk. Qualified institutions and organizations should try to create a fair playing ground, and strengthen risk control. The rights and obligations between acquiring institutions, shops and third-party service provider should be clarified. The set-up of acceptance market in areas where CUP doesn't have a branch should be accelerated, so the national inter-bank bankcard market could develop in a coordinated way.

Second, issuing service will be improved to satisfy the need of customers

Bankcard business is an important component of intermediary business and personal financial business. Bankcards issuing institutions such as commercial banks should stick to the principle of "service is the priority", and constantly improve their management by providing qualified, safe and efficient service with cards of different types and functions.

Increasing types and functions of bankcard and improving business profit. Issuers such as commercial banks should rely on the set-up of their own bankcard brand to enhance core competitiveness. Being active, innovative and initiative and catering to the needs of market, the management level should be enhanced to improve business profit. Research on customer needs should be deepened, and bankcard products to satisfy the daily payment should be developed. Efforts should also be made to expand the value-added service function of bankcard. Commercial banks are encouraged to full play their advantage, segmentize customer market, and increase cardholders by providing tailor-made and differentiated service. Service awareness should also be enhanced, and good service will lead to wider bankcard coverage. Special attention should go to vulnerable group in the society, which will contribute to the good image of banking service. Internal management should also be improved, including the set-up of the cost accounting system(that records the cost and profit of all bankcards), the adoption of centralized, professional and scale management, and the activation of domain cards.

On the condition of risk prevention, credit card industry should develop steadily. Credit card development can expand consumption credit, which is positive to boost domestic demand. Because

Credit cards are riskier than debit cards, and the overdraft awareness of Chinese citizens are quite different from foreigners, commercial banks' risk control and management capability should be improved. Currently, credit card only accounts for 4% of the total bankcards, and only 1% of credit cards with rolling credit limits. So Credit card has great potential for development, and we should steadily promote its development on the basis of effective risk prevention. Issuers such as commercial banks should analyze the business mode with respect to financial management, risk control and stimulation mechanism, and actively explore management system and development mode with Chinese characteristics.

The development of public service card should be actively promoted. Management measures for public service card of central budget institutions should be formulated as soon as possible, and bankcard should be widely used in central budget institutions where state treasury management reform is conducted. Daily business expenditure such as business expense and conference fees as well as some purchase cost should be paid via bankcards. The experience accumulated from such pilot project should be summarized, and public service card should be popularized in big and medium-sized cities. Pilot program can be carried out in possible cities, and experience accumulated from such program should be digested. Issuers such as commercial banks and CUP should work closely with fiscal departments for the conduct of pilot program and popularization of credit service card.

Multi-function IC card should be applied in a rational way. On the basis of stable development and operation of magnetic card, issuers such as commercial banks are encouraged to issue electronic wallet-like IC card for small-value payment. Domestic issuance of IC card should be subject to both *The Standard (2.0) of China's Financial IC Card* and the uniform business and technical standard, so technical advance, compatibility, and application can be guaranteed. Second, pilot program for IC card should be conducted in various sectors. The PBC will strengthen its cooperation with competent departments in other sectors, set up management coordination mechanism, draw up blueprint for cross use of bankcard and sector card, actively guide the integration of different sector card standard with that of financial IC card, promote financial IC card to become the major IC card standard, and achieve coordinated development. Third, commercial banks are encouraged to enter other sectors through the issuance of joint-branding card, which is basis for the final integration. Commercial banks should also pay close attention to the operation, financial situation and fund use of their card co-issuing partners, so possible risks can be prevented. Fourth, the scope of use as well as the credit limit should be clarified to prevent fund risk. Duplicated investment and waste of resources should be avoided, because they could lead to disorderly competition.

Stick to innovation and more efforts go to the set-up of bankcard with Chinese IPR.

In line with the guide and requirement of the 11<sup>th</sup> "five-year" program, unremitting efforts should go to the improvement of self-innovation capability of bankcard issuers. Bankcard standard and branding with Chinese IPR should be built up, because our international competitiveness can be enhanced only through our own efforts.

Providing a favorable policy environment to improve the innovative capability of bankcard market players. Support should go to hi-tech industries, which has a close connection with the development of bankcard sector, such as telecom, integrated circuit production, software design and operation service. Designated companies can enjoy preferential policies to translate hi-tech achievement to real production. Domestic technology and equipment are encouraged to be used in the bankcard industry, and patent protection for relevant technological and business innovation is to be strengthened. The whole system for the analysis, formulation, checking, verification, and maintenance of domestic bankcard's standard should be set up, and the build-up of the verification system for related product should also be accelerated. The dissemination and training for bankcard standard should be strengthened, and the management for information security should also be improved.

Accelerating the formulation and implementation of industrial code for RMB-denominated card. The BIN standard is in compliance with the international standard, and has been applied by CUP to ISO. This technical standard not only provides internationally accepted technical basis, but also stands as the key to build up China's own bankcard brand. This standard should also become the only core technical standard for our bankcard innovation, and the basis for RMB card standard with our own IPR. The PBC plans to upgrade CUP BIN standard as the RMB card standard in the first half of this year, and initiates the project of upgrading this standard as the national standard. The newly issued bankcard with RMB account should adopt this technical standard, and change non-standard bankcards into standard ones as soon as possible.

The issuance and acceptance of RMB bankcard should be standardized. First, the newly issued bankcards should comply with the standard of the national bankcard network, and have CUP identifier. Any RMB card in no compliance with the standard of international bankcard network is not allowed to be issued. Second, domestic inter-bank RMB transaction should be connected with CUP network, and no domestic RMB transactions are to be processed through foreign institutions. Third, strictly classifying foreign currency account and RMB account when international dual-currency debit cards are used abroad.

Centering on the set-up of international brand, service should be better provided. CUP should build up all-around, high-level service system covering member institutions, designated merchants, and cardholders. Overseas market, which has already accepted CUP bankcard, should be further exploited, and the acceptance quality should be improved. Strictly complying with host country's laws and regulations, cooperation with overseas bankcard institutions should be enhanced in a mutually beneficial way.

#### **Fourth, setting up risk management system to guarantee the security of bankcard information and usage.**

Risk management is significant both for a safe, efficient, and harmonious user's environment and the long-term healthy development of the bankcard industry. In recent years, with the rapid development of the bankcard industry, risky cases increase every year. Relevant departments should efficiently conduct risk management, strengthen risk prevention system, improve risk prevention level, set up bankcard risk prevention and resolve working mechanism, and guarantee the security of bankcard information and use.

The security of financial information should be greatly emphasized. Bankcard payment system is an important part of the national payment system. The analysis and process of transaction data and customer information can reveal some information of the economic activity of cardholders, companies and public service entities. To safeguard the security of financial information, domestic institutions are encouraged to play a bigger role in the bankcard payment system. Issuers should build up domestic data process and storage system. As for the domestic and overseas transaction of RMB cards and the domestic transaction of foreign currency cards issued by domestic institutions, the process of transaction date and fund settlement should be carried out and finished domestically. The provision of foreign financial institutions' bankcard data service domestically should be strictly managed.

Improving risk management system of bankcard business. Some fresh payment channels, such as online and mobile payment via bankcard, should be standardized, and access management over important business is also necessary. Internal control, such as the balance between business development and risk prevention as well as the risk control should be well handled. Bankcard risk prevention and the crackdown of illegal cases are to be the routine. Risk prevention at issuing, acceptance and fund clearing stage is to be well managed. Concerning applicant information, issuers should establish the verification system and relevant procedures, and bank account must be opened in real name. Credit card issuers should strictly verify applicant's identification and credit, and verification standard should be subject to authorized credit volume. At the accepting stage, acquirers should strengthen the verification of designated merchants' identification and qualification, improve the management of designated merchants and POS machines, set up daily monitoring and inspecting system, and enhance security training of cashier. CUP should improve security check and risk management of inter-bank transaction network, build up security risk evaluation and management mechanism for member institutions, and prevent settlement risk. The management over third party outsource service provider should be strengthened, and their responsibility to keep customer information and transaction information confidential should be clearly defined. Risk evaluation on outsource business and outsource service provider should be conducted regularly, and cardholders are educated to use bankcards in a safe way. Anti-money laundering law and regulations should be enforced strictly, and money laundering and illegal cross-border fund transfer via bankcard should be avoided.

Improving technical method to prevent bankcard risk. Processing system and network related to bankcard information security should be subject to technical approval, and coding technology should be applied to protect bankcard network. Early warning and monitoring of technical risks should be enhanced, and current bankcard operation system will be upgraded to possess better risk prevention capability. Appropriate technology and methods will be applied to guarantee payment information is transmitted in a confidential, complete and timely way, and the ID verification system operates reliably.

Following up latest technical development, and increase technology content of new service product. Bankcard EMV transfer is to be carried out prudently. In compliance with their own business development strategy, issuers could timely issue IC card on the basis of EMV transfer, and IC card issuance, acceptance, information transfer as well as product verification should all be subject to both *The Standard for Financial IC Card (2.0)* and relevant laws and regulations. Domestic operation as well as risk and responsibility classification for overseas use of domestic cards should comply with domestic laws.

Ensuring safe and stable operation of bankcard transaction system. Bankcard transaction system, especially the CUP inter-bank transaction system and transaction systems of commercial banks are the core systems to guarantee the normal operation of bankcards, and their safe and steady performance must be guaranteed. Daily maintenance mechanism must be set up, and responsibility system should be built up to ensure timely and effective handling of emergencies. Emergency management and disaster back-up system should be improved, and emergency rehearsal should be practiced, i.e. business, technical and operation departments are organized to participate in the full-scale rehearsal for operation system, and set down a standardized emergency management mechanism. The monitoring and reporting mechanism for risk early-warning should be further improved, and relevant handling process should be initiated on the basis of different early-warning indicators.

Risk prevention working mechanism should be strengthened. Relevant departments should exchange experience and cooperate on risk management, set up risk prevention and early-warning mechanism, improve monitoring and information exchange, and jointly avoid bankcard risk. Commercial banks should strengthen their cooperation with CUP, open up channels to be connected with legislative and judicial departments, establish reporting and inquiring mechanism for bankcard related crimes, and pool more efforts to crack down fraud cases. Risky cases, which are typical and contagious, should become publicly known to avoid its spread. Equal emphasis should be placed on fraud cases prevention and cracking down, regulation and governance, so as to prevent crimes at root.

#### **Fifth, improving bankcard legal system and providing system guarantee for the development of bankcard industry.**

- A. Improving the revision, promulgation and implementation of *The Regulation of Bankcard*. Relevant departments should formulate regulations within their own competence, and PBC will improve the management of bankcard clearing agencies and acquirers.
- B. Conducting research on the write-off of credit card NPLs. There are a lot of problems in current policies, such as the difficulty in NPL classification, the complicated write-off procedures, the disconnection between NPL provision and write-off, and the inadequate risk provision. We can refer to the legislative experience of advanced countries, give full consideration of the features of credit card lending such as small volume and large lending numbers, and actively improve credit card NPLs write-off policies.
- C. Favorable policies are formulated to guide commercial banks to set up more independent credit card profit mode. Commercial banks are encouraged to set up credit card centers enjoying independent management and accounting
- D. Actively explore and set up pricing and interest sharing mechanism by adopting market-oriented measures. The interest of different parties should be balanced, and their enthusiasm and devotion should be mobilized.
- E. Considering some dishonest merchants use credit cards to get cash and related punishment is lack of legal support, relevant legal system should be improved. Judicial departments should possess legal enforcement support to effectively crack down such illegal behavior.

As China's bankcard industry become more and more market-oriented, bank card self-regulatory organization has become an effective market monitoring mechanism and should play a bigger role in safeguarding the fair and orderly competition. Commercial banks and relevant departments should have further negotiation, and allow bankcard self-regulatory organization to play the coordination and monitoring role. Some nonstandard relentless measures should be correct for the virtuous market development.

### **Sixth, guiding and promoting the development of bankcard industry**

The development of bankcard industry not only boosts consumption and domestic demand, but also reduces cash use, improve management over budgetary fund, increase tax revenue, prevent corruption, and cultivate social credit. It's beneficial both to the country and to the people. Although China's bankcard industry has developed greatly, there is still a long way to become abreast with the need of building a socialist market economy. It's no easy job to change the traditional habit of using cash. Relevant government should spare no efforts to jointly create a favorable social environment.

Relevant ministries should make combined efforts to formulate a favorable policy environment. In line with the national policy to encourage the use of tax control POS machines, preferential taxation measures will be formulated to support their purchase. By listing the purchase expenditure and pre-deducting income tax, merchants are encouraged to buy tax control POS machine and POS machines. Tax incentive measures should be adopted to encourage more and more medium and small-sized merchants to accept bankcards. Telecom companies should be guided to apply preferential policies for the collection of fees through bankcards. As for merchants with large annual turnover that refuse to accept bankcards, tax inspection should be strengthened to prompt them voluntarily accept bankcards, and reduce cash circulation.

### **Seventh, disseminate bankcard knowledge and guiding people to have a good understanding**

Since February 2005, the PBC organized commercial banks and the CUP to hold the large-scale bankcard knowledge dissemination and education program named "The Spring of Bankcard---The History and Outlook of China's Bankcard Industry". Commercial banks also launched similar programs at different places. A lot of people participated in these programs, and the number and extent people involved is unprecedented. All the above efforts have helped spread bankcard knowledge, cultivate the awareness of using card in the safe way, improve users' environment, and create a good external environment. Meanwhile, more work needs to be done, and various media such as network, TV, broadcast, and newspaper can be employed to make the bankcard knowledge more publicly available. We should also try to win social understanding and support, improve the acceptance of bankcard, mobilize different parties to be involved in bankcard's development, and so promote the rapid development of the bankcard industry.

Comrades, China's bankcard industry has achieved a lot in a short period of time, and this market, with the most potential, has witnessed the **fasteor** growth in the world. Generally speaking, China's bankcard sector is still at the initial development stage, and it's an arduous job to implement the instruction of CPC Central Committee and the State Council, and to fulfill the task and priorities set fourth by *Several Opinions Regarding Promoting Development of the Bankcard Industry*. This conference is a good opportunity for us to reach consensus and to move forward in an organized and coordinated way. I believe that China's bankcard industry will move to a new stage with our combined efforts, and the bankcard industry will achieve comprehensive, rapid, healthy and coordinated development.