

China ATM (Automatic Teller Machine) Market Report, 2008

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1.1 Overview of China ATM Industry

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Through analyzing ATM industry's development history in developed countries, China's ATM industry has experienced three phases since Zhuhai Branch of Bank of China installed the first ATM machine in Mainland China in 1987: Phase I - initial phase (from 1987 to 1992): ATM machines were firstly introduced into China's bank outlets, but most of them belonged to single ATM machine network, with characteristics of small quantity, simple function and independent network. Phase II- development phase (from 1993 to 2001): Golden Card Project in 1993 accelerated the development of bank card and related supporting ATM, and the number of bank cards and ATM witnessed a continuously rapid growth. During this period, China's major banks started to install off-premise ATM, but the retained number of ATM machines was still limited. In addition, the inter-bank ATM network has not been connected yet.

Phase III-popularization phase (from 2002 to present): Along with the establishment of China UnionPay in 2002, ATM networking among different banks was achieved, making inter-bank or cross-regional cash withdrawal by ATM more convenient. Additionally, thanks to the fast development of credit card market starting from 2003, China's total retained number of ATM machines reached 123,000 units in 2007. China's ATM industry is in a period of high-speed development.

By the end of 2006, the retained number of ATM machines per one million people in China was 96 units, and the average number of ATM per one million people in the world was about 230 units. In breakdowns, the retained number of ATM machines per one million people in South Korea was 1,722 units, ranking the first place, while Canada with 1,544 units ranked the second place, followed by Spain, Japan and the United States of America, where the retained number of ATM machines per one million people was above 1,300 units respectively. Therefore, China ATM penetration is still low; there is a huge space for development.

Figure: Retained number and Growth Rate of China's Networked ATM, 1997-2007 (units)

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Source: China UnionPay; ResearchInChina

Figure: Number of ATM per One Million People by Country in 2007 (units)

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Source: Annual report; ResearchInChina

1.1.2. Characteristics of ATM Industry

Firstly, in terms of connecting mode, all ATM machines are indirectly connected with China UnionPay Network, namely, ATM is firstly connected with ATM-supplying bank's network, and the ATM-supplying bank will have ATM connected with China UnionPay network.

Secondly, China ATM industry features high concentration. China's top six banks, namely Industrial and Commercial Bank of China (ICBC), Agricultural Bank of China (ABC), Bank of China (BOC), China Construction Bank (CCB), Bank of Communications (BOCOM) and Postal Savings Bank of China (PSBC), take up about 85% share of China ATM market, thanks to a large number of bank outlets, a great number of customers and ample funds. It is revealed by China UnionPay data that ICBC has the most ATM machines, amounting to about 24% of the total, followed by CCB, ABC, BOC, PSBC and BOCOM. In 2007, ABC bought the largest number of ATM machines, exceeding 8,000 units, followed by CCB with about 7,000 units, ICBC with about 5,000 units and BOC with 4,000 units respectively.

Thirdly, from the angle of market capacity, China lags far behind Germany, the U.S. and South Korea in terms of number of ATM machines possessed by per one million people, and even obviously below the world's average level. So China market has huge growth space. In terms of regional distribution, China's ATM distribution is extremely uneven, mainly concentrated in 18 municipalities and provinces, including Guangdong province (except Shenzhen), Shanghai, Beijing, Zhejiang province, Jiangsu province, Shenzhen and Tianjin, etc, which have a total number of 612,000 units. Of which, municipalities and provinces each having a total number of over 5,000 ATM machines are Guangdong Province (excluding Shenzhen), Jiangsu province, Zhejiang province and Shanghai. However, most of other cities are seriously short of ATM machines.

Fourthly, foreign ATM machines still take up the majority of the Chinese market. From the perspective of ATM supplier distribution, China ATM market is divided into imported brands and domestic brands. Imported ATM suppliers include NCR (U.S.A.), Diebold (U.S.A.), Wincor Nixdorf (Germany), Hitachi (Japan), Fujitsu (Japan) and Hyosung (South Korea), of which, the top 3 suppliers (NCR, Diebold and Wincor Nixdorf) not only occupy a large share in China ATM market, but also take up the biggest share in the global ATM market.

China domestic ATM suppliers mainly consist of GRG Banking, East Communication, Guangzhou KingTeller, Shenzhen Xindatong, Digital China and Automated Touchstone Machines Ltd, etc. Of them, GRG Banking takes up the largest market share among domestic ATM manufacturers, Guangzhou KingTeller, mainly engaged in ATM operation, occupies a large share in ATM operation market. Both GRG Banking and KingTeller went public in Shenzhen Stock Exchange in 2007. East Communication mainly serves as OEM of Wincor Nixdorf ATM, and its own brand only takes up a small market share. Other domestic ATM manufacturers occupy small shares in the market.

Figure: Market Shares of Key ATM Producers in China, 2007

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Source: ResearchInChina

2.1.2 Current Status and Development Trend of Global ATM Market

In 1967, the world first ATM was put into use in Britain, and some countries like Sweden, Germany, Canada, USA and Japan had successively installed and used ATM by 1969. From 1970s to early 1980s, the total retained number of ATM machines witnessed stable growth after being promoted by USA, Japan and Western Europe. In middle 1980s, ATM market started to speed up its development in Asia-pacific Region, and ATM equipment started to be installed and used in some countries in Latin America. In early 1990s, ATM machines were installed in some Central and Eastern European Countries. By 1989, the total retained number of ATM machines in the world reached 250,000 units thanks to 22 years of development. The total retained number of global ATM increased sharply in 1990s, and such figure increased to 500,000 units in 1994 after 5 years of development. In the following 4 years, the global ATM number increased 250,000 units to reach 750,000 units in 1998. In 2000, the total number of ATM machines in the world exceeded 1 million units.

By the end of 2003, the total retained number of ATM machines in the world was 1.35 million units, and such figure increased to 1.43 million units in 2004. In 2005, ATM were installed and used in more than 180 countries and regions all over the world, the total retained number of ATM machines in the world amounted to 1.54 million units. In the forthcoming 5 years, the total retained number of ATM machines in the world will increase at 4.5% of average growth rate per year. It is predicted that the total ATM retained number will reach 1.85 million units in the world at the end of 2009.

Countries like China, Russia, Brazil, India, Ukraine and Thailand will be the main force for the development of ATM market. It was predicted that such six countries will newly add 197,000 units from 2006 to 2011, accounting for 45% of global increment. Of which, China will newly add 65,000 units, accounting for 15% of global increment, and ranking the first place.

Figure: Forecast for the Total Retained number of Global ATM and the Growth Rate from 2003 to 2009

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Source: NBR and ATMIA; ResearchInChina

Figure: Retained Number of Top Four ATM Countries (including Europe) in 2007

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Source: Tremont Capital Group and NBR; ResearchInChina

3.1.2 Development Trend of China ATM Market

I. Cash Recycling ATM (deposit and withdrawal integrated machine, also called CRS for short in China banks)
In China, ATM market is composed of ATM, cash recycling ATM, and other self-service equipment. Prior to 2007, ATM took most shares in the Chinese ATM market, while cash recycling ATM only took small ratio. Along with economic development and rise in cash usage, people hope that they will not only withdraw cash by ATM, but also deposit cash by ATM. In particular, credit card has become more and more popular over past years, a great number of cardholders hope that they can repay loan by ATM, which has brought more demand for cash recycling ATM. In 2007, ATM took up 63.10% of total 33,800 ATM equipment purchased, down 24.9% year on year. In comparison, cash recycling ATM's market shares rose to 35.90% in 2007 from 10% in 2006.

Figure: Total Retained Number & Increment of Cash Recycling ATM in China Market, 2005 to 2007

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Source: Bank Announcements, China Banking Association

II. High Market Concentration Degree

III. ATM market is still controlled by foreign enterprises, and the market focus is inclining towards domestic brands

In 2007, cash recycling ATM witnessed the most prominent growth, and foreign companies mainly dominated the market. Hitachi-Omron, the advocator of cash recycling ATM, enjoyed the best performance in the Chinese market, and its main customers cover China Merchants Bank, China Construction Bank, and Bank of Communications. Agricultural Bank of China's main cash recycling ATM provider is OKI, also, NCR and Diebold have a close cooperation with large banks in China. In addition, domestic ATM manufacturers like GRG Banking and Guangzhou KingTeller are capable of producing cash recycling ATM as well. However, their core component (cash-in module) fully depends on import, which is mainly imported from Fujitsu and OKI. Guangzhou KingTeller's annual output is small, below 1,000 units, but GRG Banking has signed cash recycling ATM order (worth more than CNY90 million) with Bank of China at the end of 2007.

In 2006, the market shares of homemade ATM approached 20%, indicating that the market focus is being transferred to domestic brands. Against the backdrop that Chinese government greatly supports independent innovation by encouraging banks to purchase homemade products and equipment with independent intellectual property, improving relevant financial policies, and helping different financial institutions support independent innovation and industrialization, domestic ATM brands are expected to have a great development space. Meanwhile, thanks to advantage in localization, domestic ATM manufacturers will develop faster than foreign manufacturers in the near future.

Table: Market Shares of Main Domestic Cash Recycling ATM Producers, 2005 to 2007

Ranking	2005		2006		2007	
	Company name	Market shares	Company name	Market shares	Company name	Market shares
1						
2						
3						
4						
Others			Others		Others	

Note: the above market shares refer to shares of the newly-increased products at that year.

Source: Company Announcements, ResearchInChina

IV. ATM market in 2008 will be further segmented and ATM functions will be further expanded

According to the development in ATM industry, ATM market in 2008 will be further segmented, and ATM functions will be further expanded as well. Apart from traditional functions like cash withdrawal and deposit, inquiry, transfer, etc, ATM can provide more services like bill payment service, invoice printing, and charging. In addition, ATM is able to play pre-embedded bank or company promotion video and other kinds of introduction videos. It is noteworthy that new value-added services in China's ATM industry are emerging, and a great many non-finance fields like convenient store, telecommunication, petroleum, aviation will make use of ATM's these functions to bring convenience for customers and help increase the enterprises' profit. Today, overseas banks have assigned the professional third-party financial service companies to contract their ATM services, and banks focus more on the development of their core services. Along with the development of self-service industry, ATM functions will become more diversified, and ATM will be no longer the platform depending only on service commission.

3.3. Competition Pattern of China ATM Market

Table: Market Shares of Key ATM Producers in China from 2006 to 2007

Ranking 2006	in	Company Name	Market shares	Ranking 2007	in	Company Name	Market shares
1				1			
2				2			
3				3			
4				4			
5				5			
6				6			
Others				Others			

Source: Company Announcements, ResearchInChina

3.4. Analysis of China ATM Operation

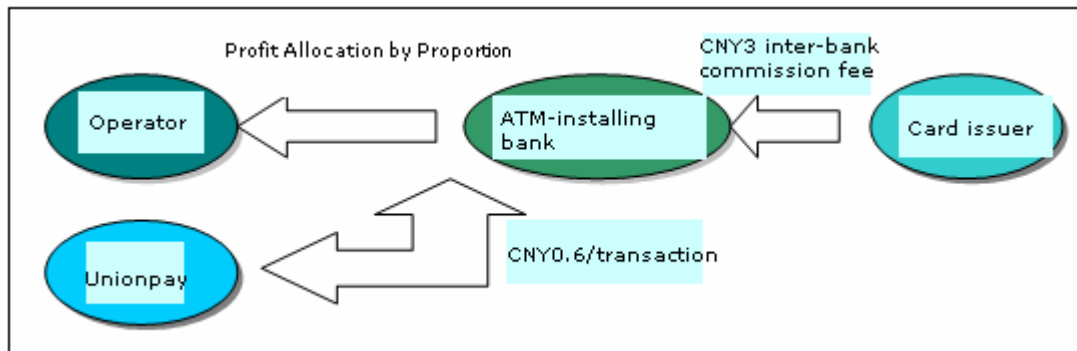
ATM operation means that the ATM producers join hands with financial institutions in banking industry in construction of ATM terminal, namely, the producer is in charge of providing ATM equipment, selecting locations, providing maintenance, and offering technical support, while the financial institution in banking industry is in charge of reporting locations of ATM to China Banking Regulatory Commission or its authorized institution, and providing services like cash replenishing and settlement. After collection of service charges for inter-bank transactions, the financial institution will pay service charges to the producer based on the agreement.

There are a great number of ISOs in overseas mature market. The ISOs not only possess their own off-premise ATM terminal, but also lease and sell ATM themselves. Their basic service is to manage their own or entrusted ATM, some concurrently deal in payment treatment service. In comparison, only banks have the rights to install ATM in China, and services like ATM outlet reporting, cash replenishing, and settlement are done by banks as well.

To cater for the market development and improve the distribution system of institutions participating in bank card services, China UnionPay and member banks under the guidance of the central bank issued the rules on income distribution of inter-bank transactions of bank card in March 2004 based on full discussion and analysis. As the internal stipulation of China UnionPay, the rules firstly altered original charging method's administrative interference, and it prescribes that card issuer shall pay CNY3 per transaction to the correspondent bank when the cardholder is withdrawing cash at ATM of other banks, in addition to paying CNY0.6 per transaction to UnionPay for network service fee. ATM operating service providers' service income in cooperative operating mainly arises from the aforesaid agency commission fees. Besides, the policy on cardholders' payment for inter-bank ATM fee has changed substantially. According to Regulations of the PRC on Price Control implemented since October 1, 2003, the inter-bank ATM fee has been classified into service price adjusted by market. Whether to charge and how much to charge shall be set and adjusted by the commercial bank headquarters after taking full consideration of the customers' affording ability. At present, domestic financial institutions in banking industry charge CNY0-4 of inter-bank ATM fee from customers according to different operating strategies.

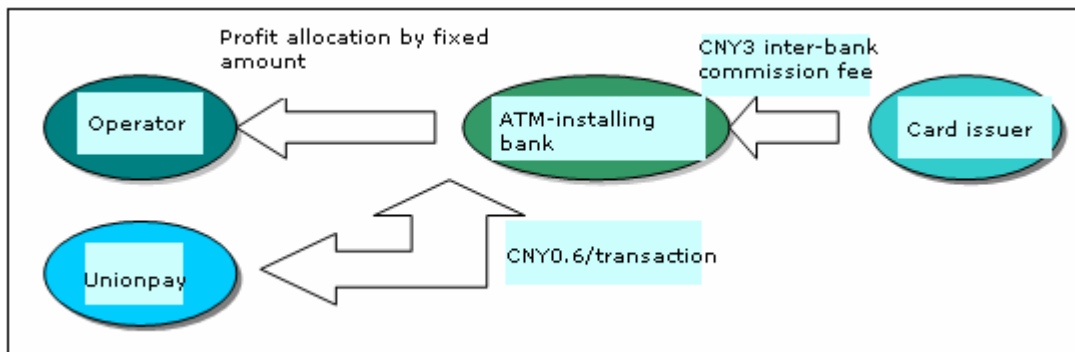
At present, Chinese ATM operators' main income comes from sharing of inter-bank ATM fee. In the event that cardholder withdraws the cash, the card issuer shall pay CNY3 of agency fee to the bank installing ATM, and such fee is not relevant with inter-bank ATM fee paid by cardholder to card issuer. The later mainly depends on the card issuer, with charged fees ranging between zero and four yuan. The two figures below are the current profit-making modes:

Figure: Profit-making Mode of ATM Cooperative Operation



Source: ResearchInChina

Figure: Profit-making Mode of ATM Financial Leasing



Source: ResearchInChina

ATM operation service is closely relevant with state policies and card using environment, and it features large investment, long payback period, and complicated operation and management, so there are some uncertainties and risks. At present, domestic ATM operation market is staying at the initial stage, and it requires large investment, with profit-making mode indefinite and development prospect uncertain. In this case, only few operators compete in certain field and certain bank market, and there is no advantageous operator by far; likewise, no operator wins the competitive advantage nationwide and no one monopolizes the market.

As to ATM operation service, bank stays at a favorable place, and it adopts the tendering mode similar with ATM procurement to select cooperative operators. In some cases, some operators are eager to obtain the qualification for market access, and they usually overestimate operating benefit and underestimate the cost; therefore, they surrender part of the profit to the bank, which inflicts their passive status at the very beginning of the cooperation. As a result, they invested much but won limited profit, and some even fell into difficulties due to poor cash flow.

Today, domestic ATM operators fall into two categories:

1) Equipment manufacturers like Guangzhou KingTeller, Shenzhen Yintong, Hunan Computer, and Shenzhen Chentong Co, Ltd. These enterprises directly participate into operation by their own ATM, in order to establish their own service system and spare parts supply system, and build up special operation & management team. These enterprises are capable of assuring the product supply and offering maintenance and technical support for equipment running etc.

2)The third party operators like Digital China Management Systems Limited, FinTronics Holdings Co. Ltd. and Hi Sun Technology Holding Limited. These enterprises boast of sufficient capitals, customer resources, or regional service system; however, it is difficult for them to simultaneously obtain hard & software and related technical support for ATM operation. In addition, such kind of enterprises has remarkable advantages and disadvantages, as well as a great many uncertain factors in expanding ATM operation service.

Table: Domestic ATM Operators

Company Name	ATM Equipment Brand	Company Background
Guangzhou KingTeller Technology Co., Ltd	Kingteller (self-owned brand)	Manufacturer
Shenzhen GRG Yintong Financial Electronic Technology Co., Ltd	GRGBanking (self-owned brand)	Manufacturer
Beijing Xiaoxing Computer Technology Co, Ltd.	Xiaoxing (self-owned brand)	Manufacturer
FinTronics Holdings Co. Ltd	Xiaoxing, Wincor Nixdorf etc.	The third party operator
Mercuries System Equipment (Nanjing) Ltd.	Xiaoxing, Mercuries (self-owned or purchase)	The third party operator
China UnionPay Co., Ltd.	Xiaoxing, NCR (purchase)	The third party operator, network service provider

Source: ResearchInChina

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- **China Financial POS Machine Market Report, 2008**
<http://www.researchinchina.com/htmls/Report/2008/5610.html>
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Address: 1102-1105, Tower B, Cai zhi International Building,
Zhongguancun East Road No.18, Haidian District, Beijing,
Post:100083

Tel: 0086-10-82600828, 82600893

Fax: 0086-10-82600829

Mail: report@researchinchina.com
