

Third-party Payment Platform Xiaomi Instalment Development and Countermeasures

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Abstract: With the development of third-party payment platforms and the implementation of new financial services, an increasing number of people are realising the advantages of third-party payment platforms and the major changes that they bring about. In this environment, the instalment model of third-party payment platforms is gradually being accepted by consumers. This paper introduces Xiaomi Instalment and explains the process of using the platform. This chapter analyses problems with the Xiaomi Instalment in a third-party payment environment and offers corresponding countermeasures against these problems.

1. Introduction

The total transaction volume of Tmall 11 November Shopping Festival in 2016 exceeded 120.7 billion yuan, of which wireless transactions accounted for 81.87%. Driven by existing online and financial technology, the capital flow of large transactions amounts is conducted with third-party platforms, and installment payments have become an essential payment method for consumers' online consumption. China's third-party payment market is developing rapidly and has a number of prospects for development. However, the industry is still in its infancy. This paper takes Xiaomi Instalment to explore the issue of instalment payment businesses of third-party payment platforms, which is of great significance for the stable development of the third-party payment market in the future. The main contents of this study are the following three points:

1. Overview of the Xiaomi Instalment;
2. The process of using Xiaomi Instalment; and
3. Problems with Xiaomi Instalment and solutions.

2. Research methods

The main methods used in this study are the case study investigate the problems of installment payments involved in Xiaomi Instalment and a literature review to sort through studies relevant to the third-party payment platform instalment, find common problems, and offer new fields of research.

3. Xiaomi Instalment Business Introduction

3.1. The background of Xiaomi Instalment

Since the Xiaomi Financial app was released to the entire network in November 2015, all mobile phone users can download and use it for free. The software provides financial management, loans, and other services for Xiaomi users. Among these services, Xiaomi's wealth management business provides three products, namely current loans, fund and term loan. The main business of the loan business is Xiaomi instalment. At present, Xiaomi provides "instalment shopping" products and services to users who apply for cash credit. Users can choose the number of instalments conditions to ease the financial pressure when using Xiaomi Mall. Xiaomi Loan is a key step towards personal

consumer finance and marks the beginning of the creation of new credit model from behavior to finance. The new credit model is called "from behavior to finance" because it accumulates online behavior of authorized users and evaluates their creditworthiness and repayment ability based on this data to provide financial loans, etc. Business provides data support. For example, if a user frequently makes purchases online, the user is likely to have relatively strong spending power, and the loan amount available to the user will be relatively high. It is assumed that similar and continuous daily data is not easily falsified.

3.2. Introduction to Xiaomi Instalment

Xiaomi Instalment is a service launched by Xiaomi Finance, a subsidiary of Xiaomi Company, to allow consumers to enjoy product first and then pay in installments. Users who meet the requirements of instalment can choose "Xiaomi Instalment" in "Xiaomi Wallet" when purchasing goods in Xiaomi Mall. The features of Xiaomi Instalment include support for 3, 6, and 12 installments, no additional fees, SMS reminders on repayment days, and automatic payment deductions.

3.3. Xiaomi Instalment Service Content

Since April 28 2016, Xiaomi has provided "0 down payment, installment purchase" credit in installments. This service is largely intended for Xiaomi Mall customers. By completing the real-name authentication of Xiaomi Wallet Quick Payment, and if the qualification meets the system assessment, the user may receive 2000 yuan the above loan amount. The products purchased must be Xiaomi Mall products, and the order amount must be greater than 300 yuan before Xiaomi installments can be used. The handling fee for Xiaomi Instalment is shown in Table 1.

Table 1. Xiaomi Instalment fees

Instalment period (month)	Commission rate	Total fee
Period 3	0.74%/period	2.22%
Period 6	0.65%/period	3.9%
Period 12	0.60%/period	7.2%

Note: Data source form Xiaomi Shopping Mall app

For repayment instructions, customers will receive an SMS notification in advance of the repayment day. Customers must actively repay by logging onto the Xiaomi Financial APP or Xiaomi Financial website. If the customer forgets to repay, the bank card bound by the customer will be automatically charged. To avoid overdue, customers should deposit the amount to be repaid in advance to the bank card. If the customer's consumer loan is overdue, the customer will pay a penalty of 0.05% of the outstanding amount every day. This system means that customers complete their repayments in a timely manner and maintain a good credit history.

4. The Process of Using Xiaomi Instalment

The process of using Xiaomi Instalment is as follows. Firstly, Xiaomi Instalment is opened for online authentication. Xiaomi Instalment is selected for consumption to support the purchase of Xiaomi Mall products in instalments. The goods are then received and payment will be made the following month. Customers will receive an SMS on repayment day and log into Xiaomi Finance APP or Xiaomi Finance website to manage the loan amount.

Using purchase of a Xiaomi water purifier (kitchen model) on Xiaomi Mall in October 2016 as an example, the normal sales price of the water purifier is 1299 yuan with free shipping, and the following three installments methods can be used, as shown in Table 2.

Table 2. Summary of Xiaomi instalment payments

Instalment period (month)	Amount paid per period (yuan)	Total payment (yuan)	Handling fee (yuan / period)
Period 3	442.61	1327.83	9.61
Period 6	224.94	1349.64	8.44
Period 12	116.04	1392.48	7.79

Data source: Xiaomi Shopping Mall

The author chose a payment method in six installments across January, February, March, April, May, and June 2017. The handling rate is approximately 3.9% (monthly interest rate), and the overdue interest is 0.05% (daily interest rate). On the second day of online shopping, the author received a Xiaomi water purifier and a paper invoice for 1299 yuan.

4.1. Use of Xiaomi Instalment to Purchase Goods

The author signed a Xiaomi instalment service contract using Xiaomi Instalment as a payment method to purchase goods.

4.2. Buyer Confirms Receipt and Seller Receives Payment

The author received the Xiaomi water purifier. At this time, Xiaomi Instalment is officially established, and the handling fee is calculated at the beginning of the period and distributed to each month. The payment is collected the following month.

The total handling fee is $1299 \times 3.9\% \approx 50.64$ (yuan), and the handling fee receivable per period is $50.64 \div 6 = 8.44$ (yuan). Based on these figures, the handling fee in the first month of repayment is 8.44 yuan. In the future, the fee will be 8.44 yuan per month. At the same time, the principal to be repaid monthly will be $1299 \div 6 = 216.5$ yuan.

5. Problems in Xiaomi Instalment Payment Platform

5.1. Short Establishment Time and Lack of Financial Service Advantages

Xiaomi is different from Ali, Tencent, and JD, which all based on services, whereas Xiaomi is based on hardware. Among internet financial services, Xiaomi is an "outsider" and has no first-mover advantage. Short set-up time and insufficient accumulation are Xiaomi's shortcomings in the financial field.

5.2. Lack of Payment System Support

The rise of Yu'E Bao relied on the existence of a large system of Alipay that year, which created the *Huabei*. Xiaomi does not have the support of such a large system. In the field of Internet finance, in addition to Yu'E Bao, there are also Tencent's *Tenpay* and JD's *JD Finance*. With these competitors, it is difficult for Xiaomi to challenge its predecessors with "Xiaomi Instalment" and limited innovation. Although Xiaomi does want to build a solid internet financial platform, its current strength is not sufficient to match Ali and Tencent. Xiaomi's current revenue mainly comes from Xiaomi mobile phones and MIUI, which do not have cross-platform features. These platforms mainly rely on self-production and sales and cannot use their advantages to form cohesion.

5.3. The Quota Cannot Meet the Demand, and Defaults are Difficult to Control.

Xiaomi Finance plays an intelligent platform role. At present, the average instalment amount of Xiaomi instalment is approximately 2,000 yuan, though consumers may face difficulties in meeting this amount. Their demand has led to more consumers choosing to pay in full or to choose *Huabei*. On the other hand, the default of pure credit and unsecured loans based on user behavior is difficult to effectively control, meaning that companies directly involved in credit evaluation need to

accumulate for extended periods. Xiaomi's policy in the credit field that does not require collateral is a test of the Xiaomi credit system. This system is not as robust as services based on user transactions, such as JD *Baitiao* and *Huabei*.

6. Countermeasures to Address Issues with Xiaomi Instalment

6.1. Taking Advantage of Xiaomi Innovative Instalment Payments

Xiaomi should not only make layouts in the field of Internet finance such as payments, funds, crowdfunding, etc., but also actively prepare for the construction of a new credit system and complete the construction of the Xiaomi financial ecosystem. Xiaomi should provide financial services based on the needs of consumers. It is necessary to manage and control risks steadily and firmly and set the goal of "becoming the main platform of China's Internet finance in the next 3-5 years" by focusing on the two aspects of content consumption and user experience. The key driving force is to move along the road of "products are king, word of mouth, focus on and quick response".

6.2. Deepened Financial Service Cooperation

From the perspective of product layout, Xiaomi Finance should build a sophisticated, unified smart financial platform. Xiaomi should select and provide several types of products in the same category to customers through the screening and analysis of partners. Moreover, wealth management products must change with the demands of Xiaomi users at different times. Xiaomi must strive for in-depth cooperation with banks, securities, insurance, and other institutions to build an enhanced user experience and accelerate the pace of financial wealth management business growth.

6.3. Relaxation of Limits And Means of Preventing and Control Risks

Xiaomi should use multiple methods to control risks. First, based on the behavioral data of the customer base, Xiaomi should analyze multidimensional data to determine customers' credit level. Secondly, in terms of loan collection, Xiaomi must rely on system, SMS, and phone reminders to make that loan customers are aware of repayment dates. Finally, for malicious breach of contract, in addition to initiating judicial proceedings, Xiaomi should also conduct business docking with formal national debt collection companies.

Conclusion

Development of third-party payments is the inevitable result of a socio-economic environment change, which has largely activated China's market economy and has had a significant impact on and posed challenges to the development of third-party payments. A lack of financial service advantages, the absence of payment system support, difficulty in meeting loan requirements, and issues with controlling defaults are three problems with the current Xiaomi instalment payment platform. Based on the internal construction of enterprises, industry development models, and government laws and regulations, this paper proposes solutions to take advantage of Xiaomi instalment innovation advantages, deepen financial service cooperation, and perform multi-method risk prevention and control. Because there are still a number of institutional and regulatory gaps in third-party payments, the joint efforts of scholars and legal experts are required to fill the research gap.

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