



Keeping watch on smartphone app payments in China

Compliance Alert

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February 5 is the beginning of the Chinese New Year and kicks off the Year of the Pig. In China, employees begin a mass migration out of the large cities and back to their hometowns to visit family, relatives and long-time friends.

As has been customary for thousands of years in China, friends and relatives often exchange "red envelopes" filled with cash, as a gesture of good luck, fortune and health in the New Year. And, in today's smartphone era, these red envelopes are now electronic, often given via apps such as Wechat Pay or Alipay. Check with any of your Chinese colleagues or friends and chances are they have given "red envelopes" via their smartphone numerous times during the Chinese holidays.

For compliance leaders of multinational corporations, however, Chinese New Year poses potential bribery and corruption risks. Some of these "red envelopes" could be given to government officials, vendors, suppliers, and customers in order to obtain or retain business (or otherwise build "guanxi"). And while anti-bribery and anti-corruption programs in China have improved over the years, the way payments are made has also continued to evolve. To address new risks, therefore, a compliance program's visibility into relevant business activities should evolve as well.

While the Year of the Pig celebrations are still top of mind, now could be a good time to think about the level of transparency your company may have in connection with smartphone app payments by your employees to any related third parties, such as customers, vendors or suppliers. Many of these smartphone app accounts reside on an employee's personal cell phone, and the accounts are registered under an employee's personal name. As a result, the payment activities could take place outside the scope of a standard information technology acceptable use policy.

However, more importantly, employees may also believe that this sort of payment is not within the scope of the company's review. It may be a good time to learn more about these potential payments from your colleagues or get some degree of comfort in writing. And this would be an ideal time to do so, immediately after the holidays, when everyone is back in the office and in a good mood.

Happy Year of the Pig!

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