

Chinese FinTech and Financial System

BKM

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Chines FinTech- globally leading in size

- By the end of 2015, the overall market size of China Internet finance has reached 12 to 15 trillion RMB (nearly 20% of GDP), and user numbers, at ~500 million, have reached number one in the world.
- The P2P lending transaction volume, at more than 500 billion RMB, is the largest globally; third party payment transaction volume, at over >10 trillion RMB, easily overshadows US and EU leaders such as Paypal.
- In wealth management, Alibaba's Yu'e Bao reached 700 billion RMB AuM within just 2 years, to become the second largest money market fund globally.

THE
VOYAGES
AND
ADVENTURES,
OF

Ferdinand Mendez Pinto,

A Portugal: During his

TRAVELS

for the space of one and twenty years in

The Kingdoms of Ethiopia, China, Tartaria, Cauchinchina, Calaminham, Siam, Pegu, Japan, and a great part of the East-Indies.

With a *Relation and Description* of most of the Places thereof; their Religion, Laws, Riches, Customs, and Government in the time of Peace and War.

Where he five times suffered Shipwrack, was sixteen times sold, and thirteentimes made a Slave.

Written Originally by himself in the Portugal Tongue, and Dedicated to the

Majesty of Philip King of Spain.

Done into English by H. C. Gent.

L O N D O N,

Printed by J. Macock, and are to be sold by Henry Herringman, at the Sign of the Blew-Anchor in the lower-walk of the New-Exchange, 1663.

Trade Fairs on Floating Cities on Yangtze Kiang (Batampina) River in the 16th Century

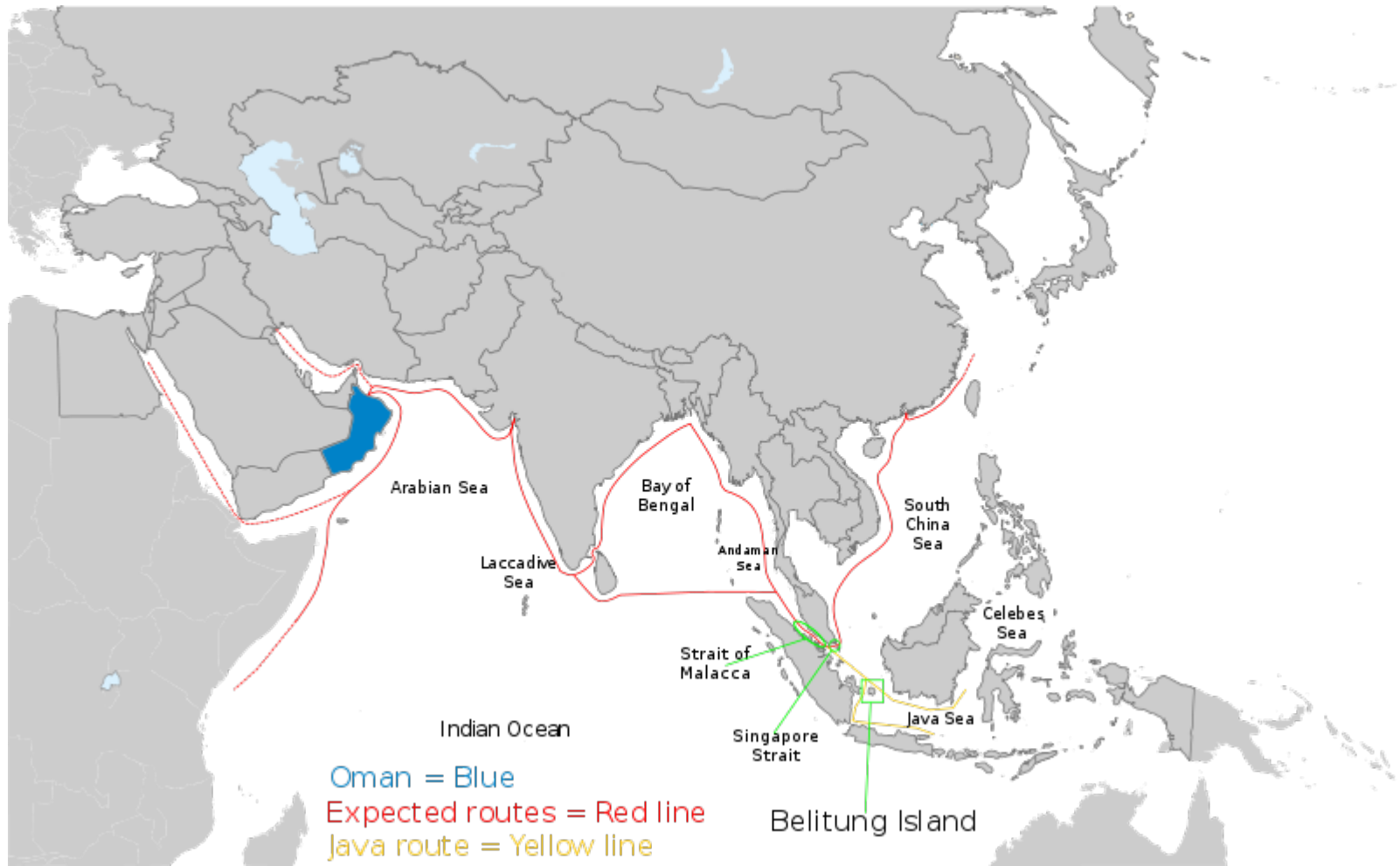
“Trade fairs last for fifteen days ..., and it is more exciting to see the organization, operation and grandeur of one of these floating cities than any number of fine cities built on the land.”

“Twenty thousand boats excluding small crafts like gigs, canoes and dingies.”

“On other boats you can buy bills of exchange to transfer money from this world to the next.”

“Then there are men who keep a great store of books that tell you everything you could want to know about the creation of the world and the history, geography, laws and customs of every nation and kingdom on earth.”





**Octagonal footed gold cup from the Belitung shipwreck
ca. 825-850, manufactured in China (probably Yangzhou, Jiangsu)**



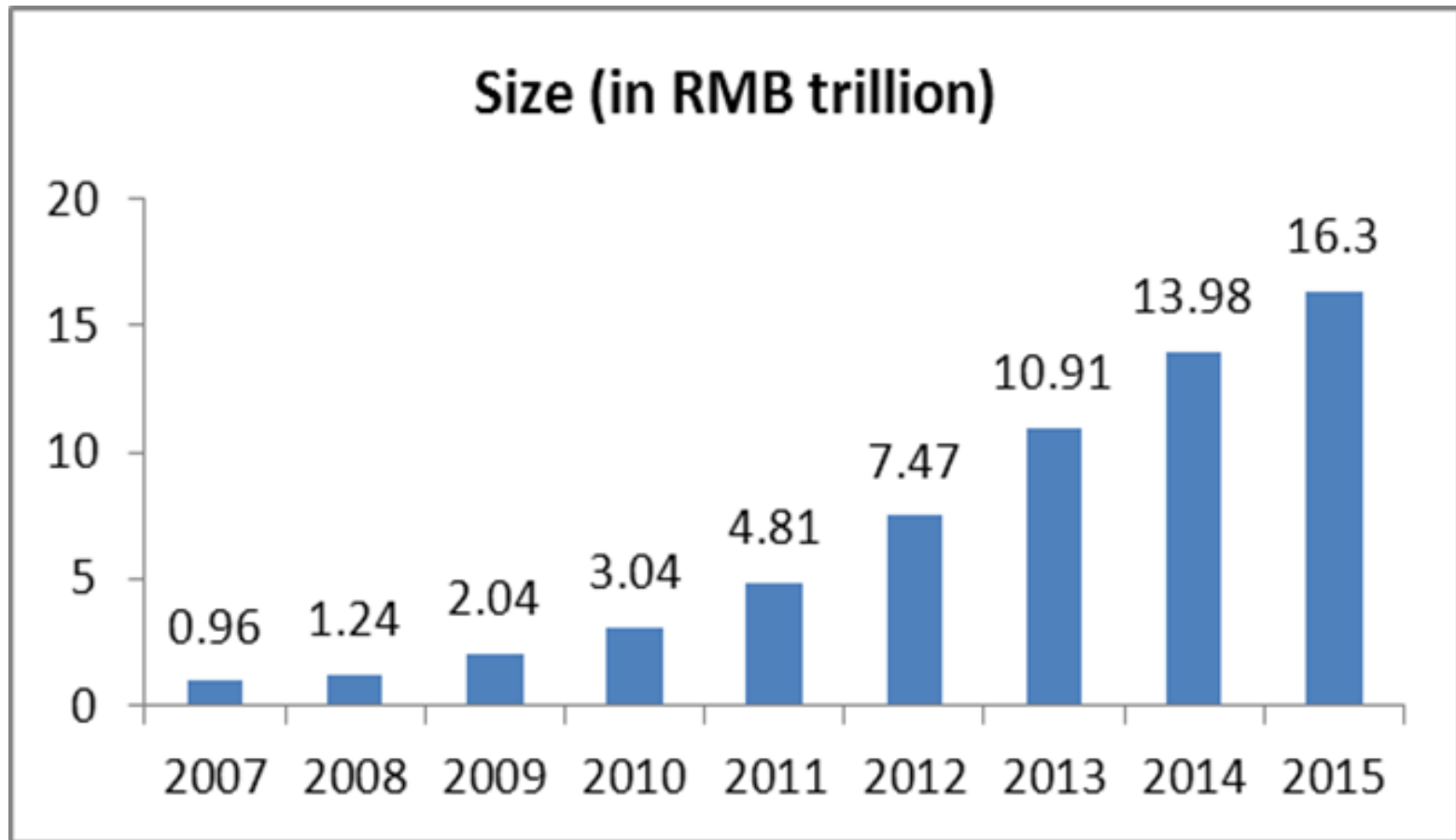
Path dependency in Finance and Chinese Financial System

- FinTech companies (especially giants like AntFinancial, WeChat, Baidu, etc.) fill the gap that big Chinese commercial banks cannot
 - Consumer (retail) banking (loans, investments, online/mobile payments)
 - SME finance and payments
 - And then some unpredicted paths- AI and economy and finance
- Financial regulation with Chinese characteristics
 - Creative destruction through market regulator not markets
- Political economy of finance and banking in China
 - Finance serves real economy- i.e. controlled financialisation

Household assets structure in China, 2004-2013

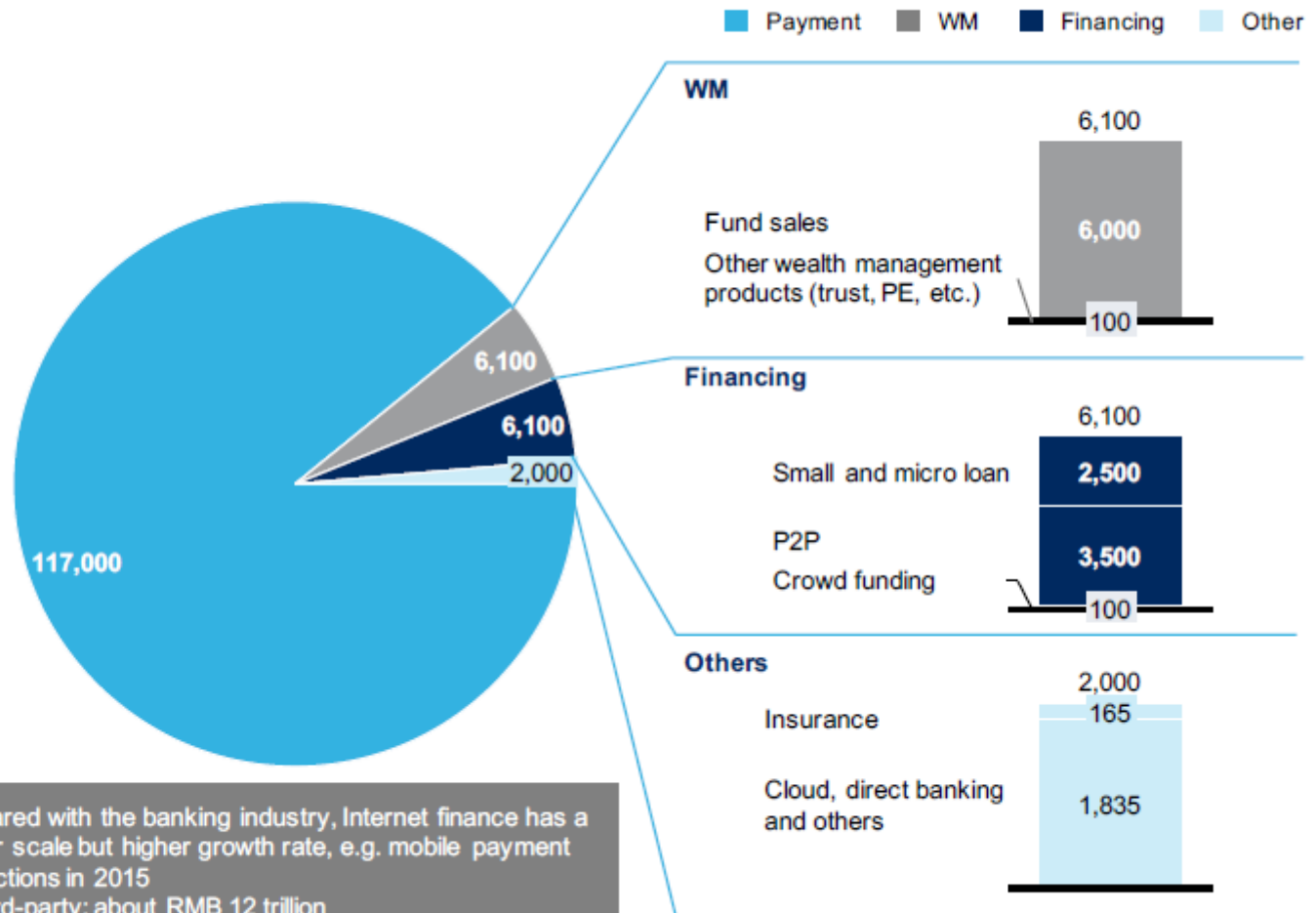
Items	2004	2005	2006	2007	2008	2009	2010	2011	2013
Non-financial assets (in trillion RMB)	35.2	43.2	48.3	60.6	62.2	79.2	87.2	104.4	142.5
Real estate (in trillion RMB)	32.7	40.3	44.9	56.7	57.8	73.9	80.9	96.3	131.1
Real estate (%)	93.0	93.3	93.1	93.6	92.9	93.4	92.8	92.2	92.0
In cities	79.4	79.6	79.8	81.9	80.7	82.9	82.5	77.3	76.7
In rural areas	13.6	13.7	13.4	11.7	12.2	10.5	10.3	14.9	15.3
Auto (%)	3.9	3.7	4.0	3.9	4.5	4.4	5.1	5.2	5.6
Others (%)	3.1	3.0	2.9	2.5	2.6	2.2	2.1	2.6	2.5
Financial assets (in trillion RMB)	18.0	20.9	25.2	33.6	34.3	41.1	49.5	57.8	80.6
Cash or equivalent (%)	9.9	9.5	8.9	7.5	8.3	7.8	7.6	7.4	6.7
Deposits (%)	71.8	72.0	68.3	54.2	66.6	65.4	63.8	62.9	55.3
Bonds (%)	3.5	3.1	2.8	2.0	1.5	0.6	0.5	0.3	0.3
Stocks (%)	4.9	3.8	6.8	15.4	5.9	11.5	11.4	10.3	11.8
Fund (%)	1.1	1.2	2.2	8.9	5.0	2.0	1.5	1.4	1.5
Insurance (%)	7.8	8.8	9.0	8.1	11.0	11.3	10.6	10.2	10.9
Others (%)	1.0	1.6	2.0	4.0	1.7	1.4	4.5	7.5	13.5
Financial assets/non-fin. assets	51.1%	48.4%	52.2%	55.4%	55.1%	51.9%	56.8%	55.4%	56.6%

The size of assets under management of the trust industry in China (2007-2015)



The overall scale of China's Internet finance market has exceeded RMB 12 trillion, with third-party payment taking the largest share

RMB 100 million

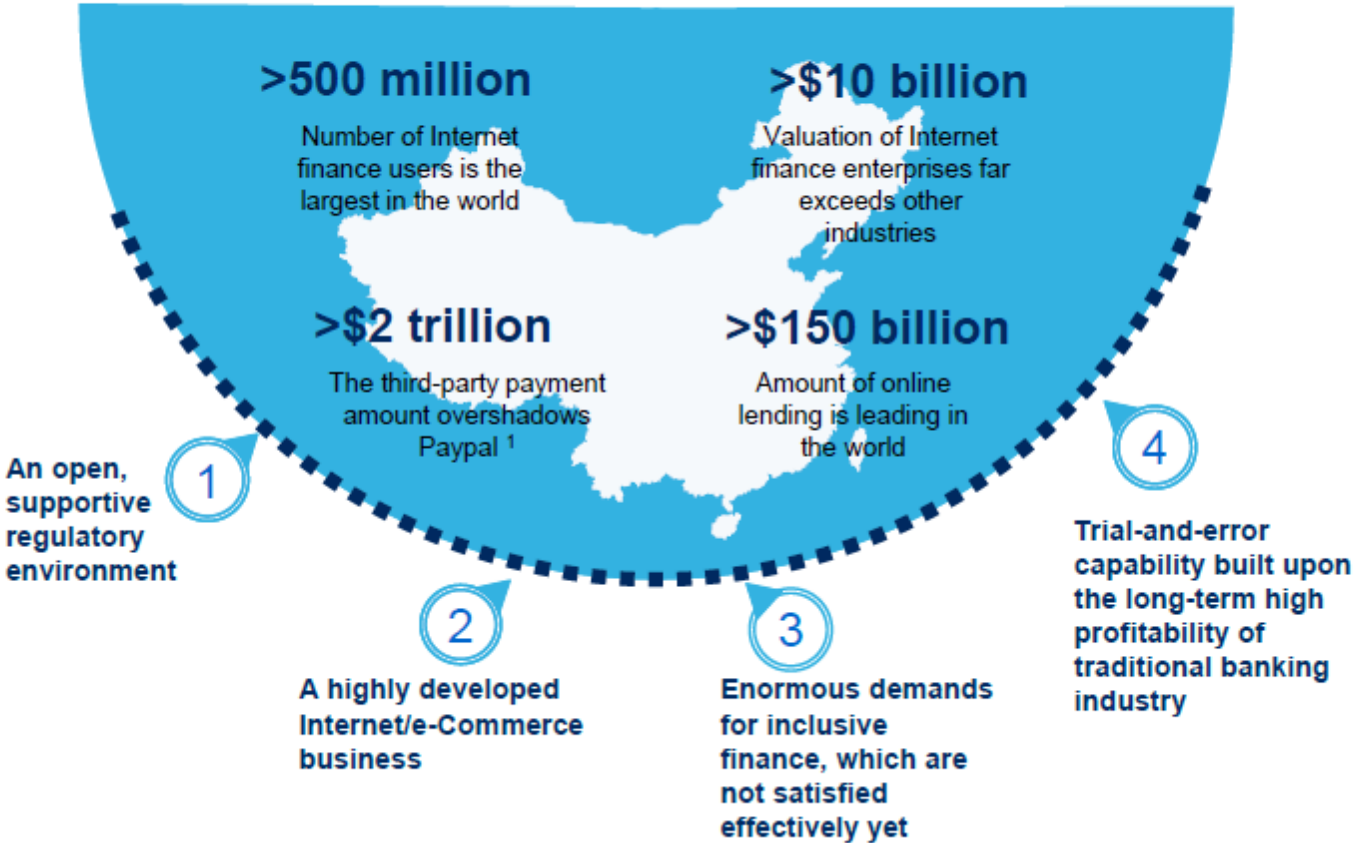


Compared with the banking industry, Internet finance has a smaller scale but higher growth rate, e.g. mobile payment transactions in 2015

- Third-party: about RMB 12 trillion
- Banks: about RMB 150-200 trillion

Sociology of China and FinTech need to be considered together

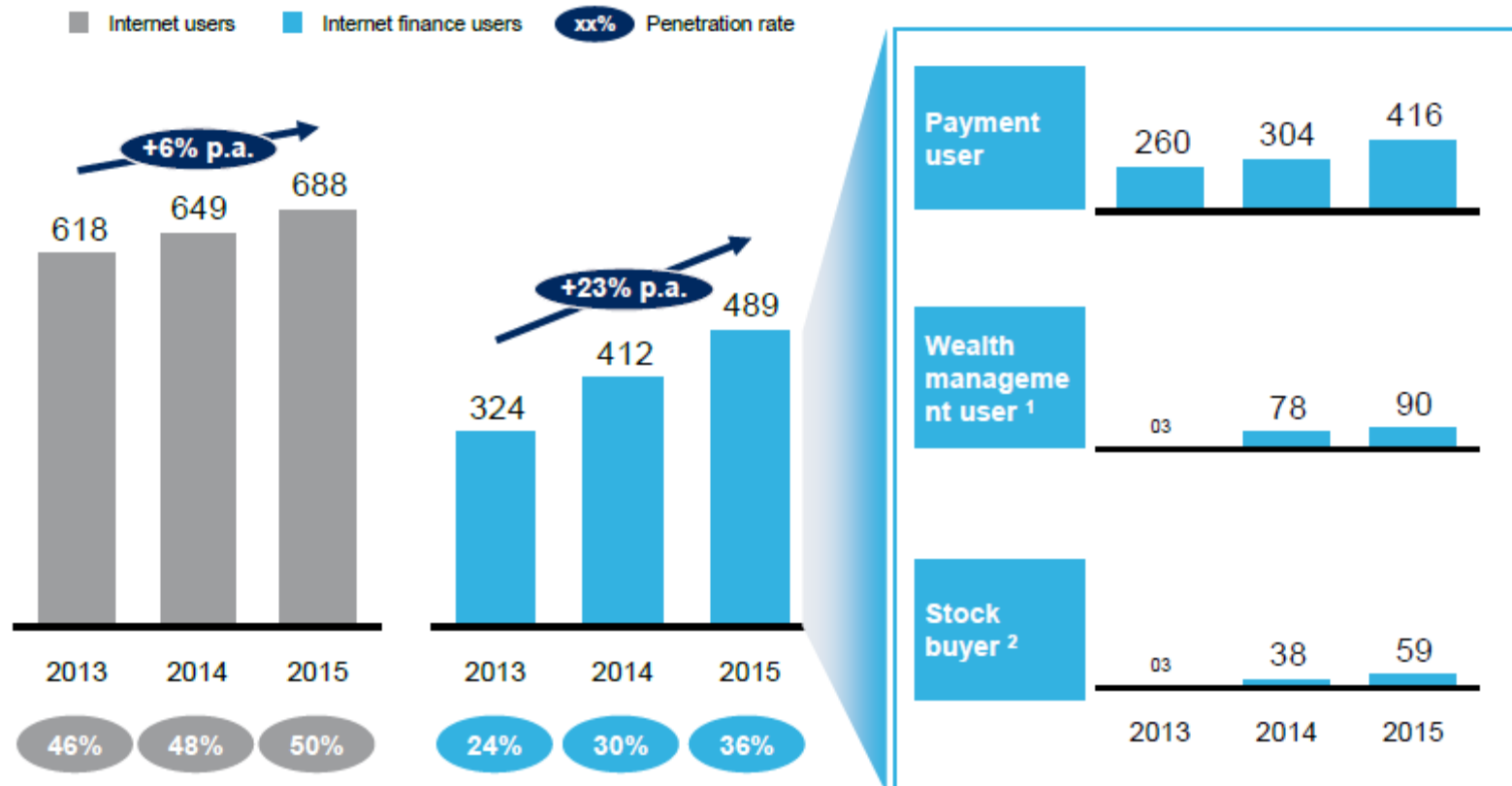
Four favorable factors benefit the rise of China's Internet finance market and facilitate its leading position in the world



Source: McKinsey 2016

Thriving Internet/e-Commerce business is changing consumers' lifestyle; Internet finance users' growth far outpaces that of other Internet users

Million users



1 Including money market funds

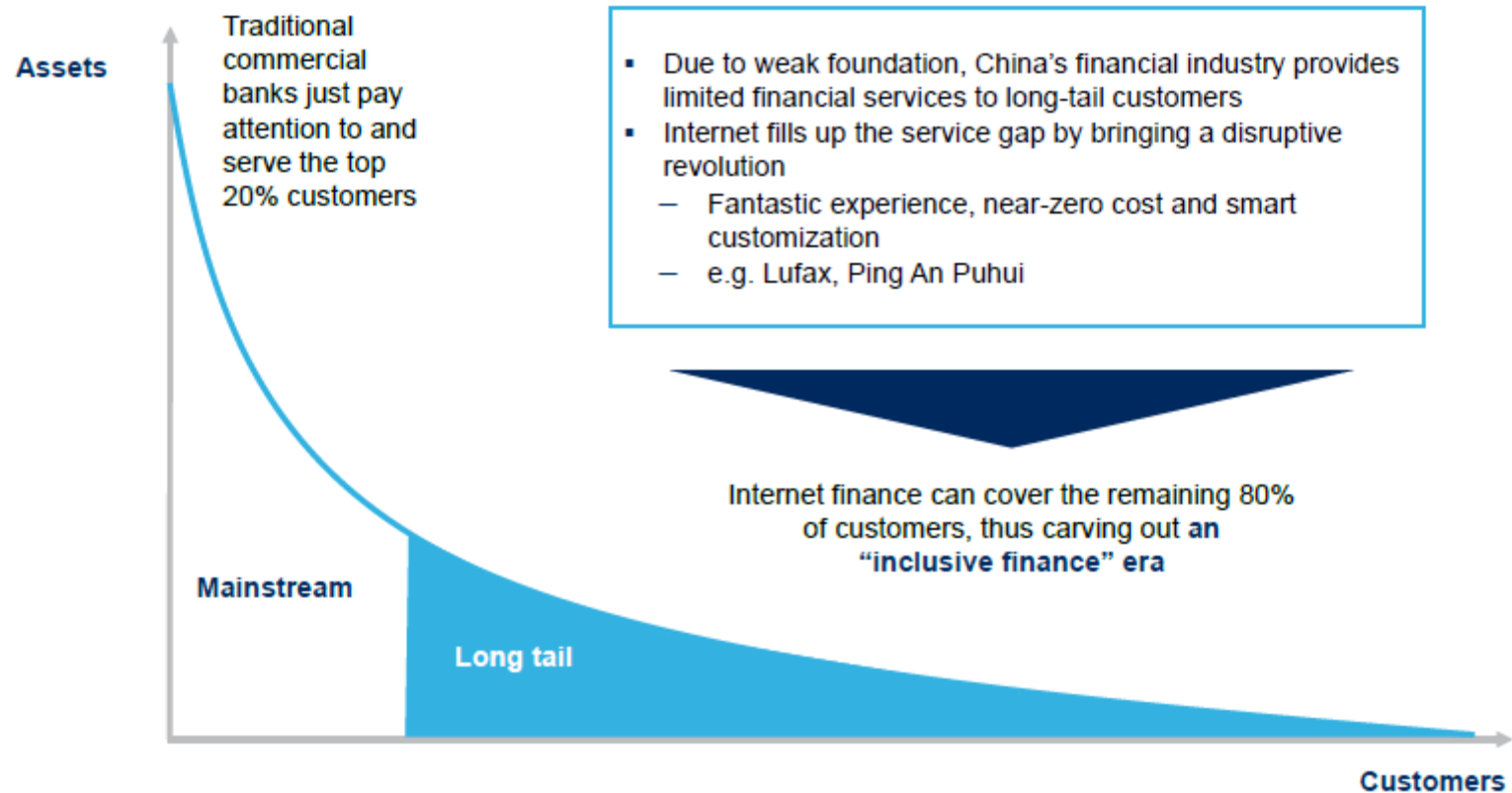
2 Including mutual funds

FinTech- concentrated but competitive market in China

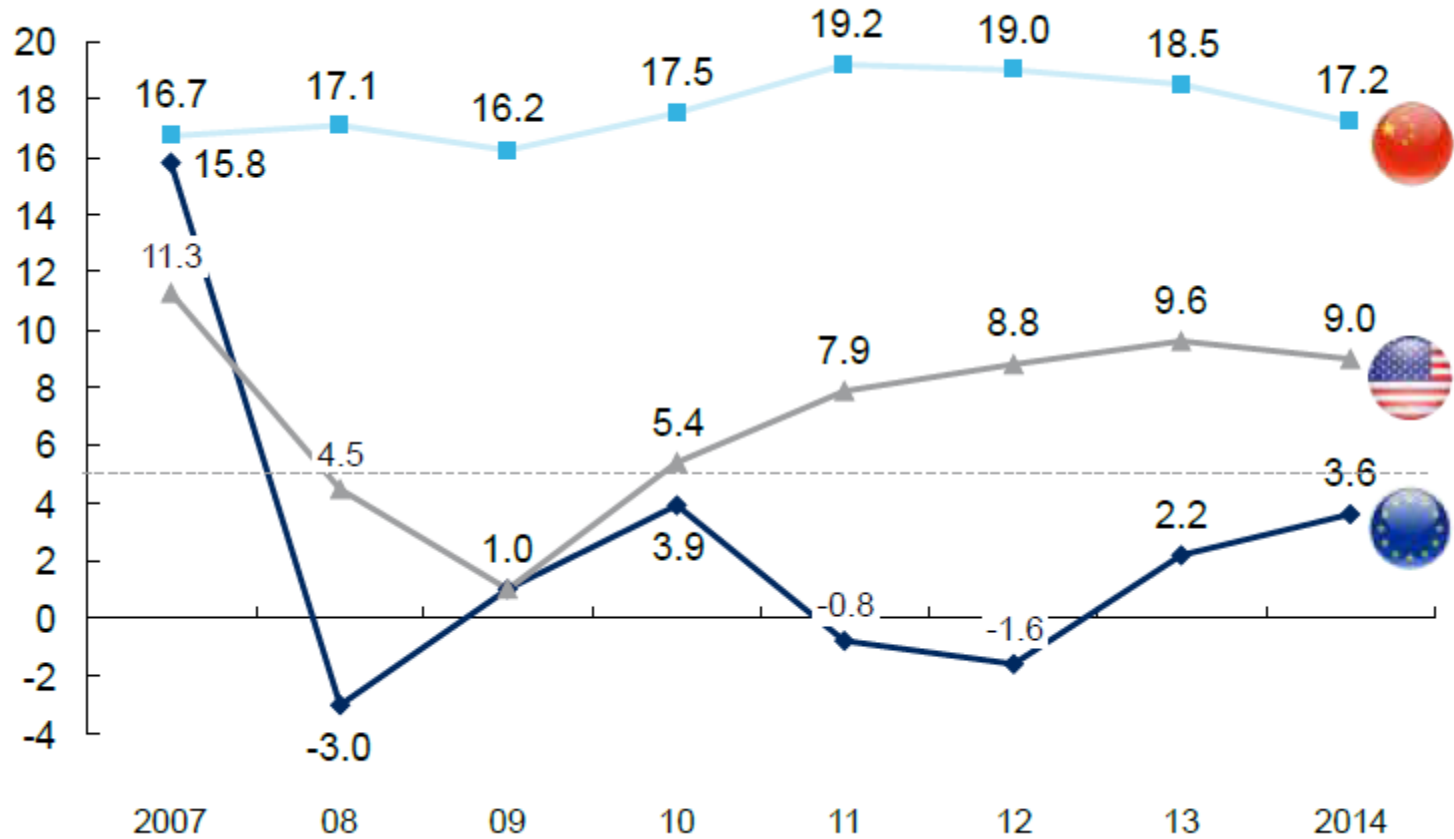
- 3rd-party payment is the earliest, largest and most developed segment in China's Internet finance market. This segment is also the foundation on which many other financial applications build, with players fighting to win customers' affinity on their payment tools. Large companies and first movers dominate; Alibaba's Alipay takes about half the market, and Tencent's Caifutong takes nearly a fifth. Other forerunners include Yinshang and 99Bill.
- Wealth management is the second largest, where the sales of money market funds contributes a majority share. Other products (such as trusts, PE, mutual funds, etc.) have been introduced but are still a very small share. Similar to payment, wealth management has a very high penetration among all Internet and mobile users. Compared to wealth management products traditional banks offer, their Internet counterparts have higher returns, almost no entry barrier, and T+0 liquidity. Ali's Yu'e Bao and Tencent's Licitong are leading players, as are specialized wealth management firms such as Noah and Hang Tang.
- Financing is the field where most innovations have flourished.
 - supply chain financing,
 - consumer financing,
 - P2P lending, and
 - crowd-funding.

Of these, supply chain financing and consumer financing are currently the most explored by e-Commerce/retail giants, such as JD and Gome. China's Internet P2P lending started in 2007 with the launch of first P2P platform PPdai, and began to explode in 2013. However, the quality is quite a mix – risk control has long been a concern for P2P

Limited financial services available for long-tail “grass-roots” customers have created a considerably under-served market segment and an eager appetite for financial inclusion



Comparison of Return on Equity (ROE) among Chinese, American and European Banks



Bank-FinTech collaborations

- China CITIC Bank has recently released an MOU with Baidu to build a full-coverage strategic partnership, including a co-branded credit card, e-Commerce, big data, cloud computing, payment, CRM, APP development, and location-based services.
- They together founded a direct bank – Baixin Bank (“Bai” from Baidu, and “xin” from CITIC’s Chinese name) to provide Internet financial services.
- Similarly, Bank of Beijing has joined forces with Tencent, and Shanghai Pudong Development Bank (SPDB) with China Mobile

Chinese Financial System and Chinese Political Economy

- Instability concerns for global economy
 - Shadow banking, corporate debt, non-performing loans, internationalisation of RMB
- Chinese economic strategies
 - OBOR, internationalisation of Chinese banks and companies
 - Share of service sector in GDP
 - Higher value-added industries –robotics, AI as well as biotechnology, etc.
- Soft issues
 - Managing international HR
 - Financialisation and narratives and valuation
 - Amazon vs AliBaba, Google vs Baidu, WeChat vs Facebook, etc.