A wide-angle photograph of the Shanghai skyline across the water. The Oriental Pearl Tower is the central focus, with its three spheres and spire. To its right, the Shanghai Tower stands tall. Other skyscrapers like the Jin Mao Tower and the Shanghai World Financial Center are visible. The sky is blue with scattered white clouds. In the foreground, the water is calm with a few small boats.

China Finance Disrupted

Zennon Kapron, Kapronasia

June 1st, 2017

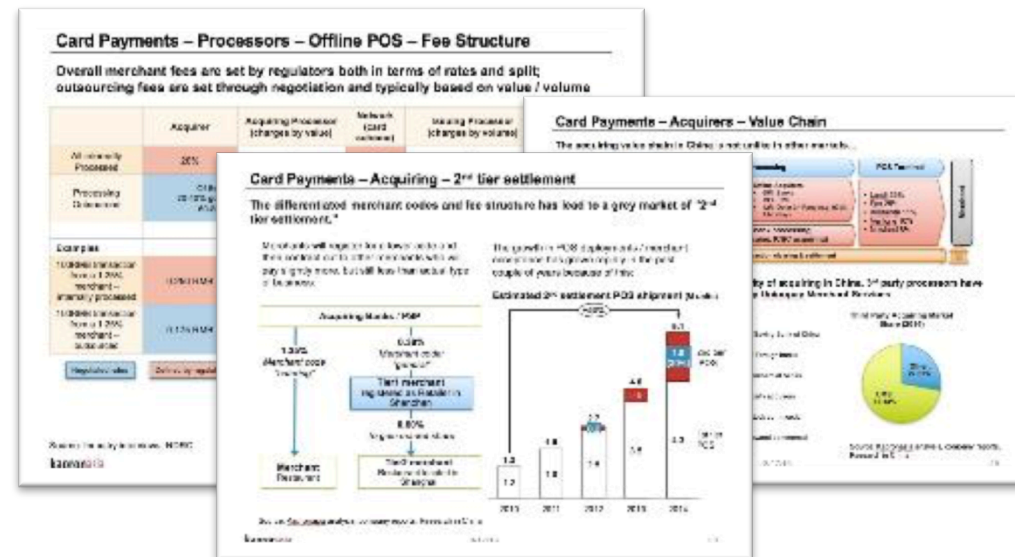
Kapronasia

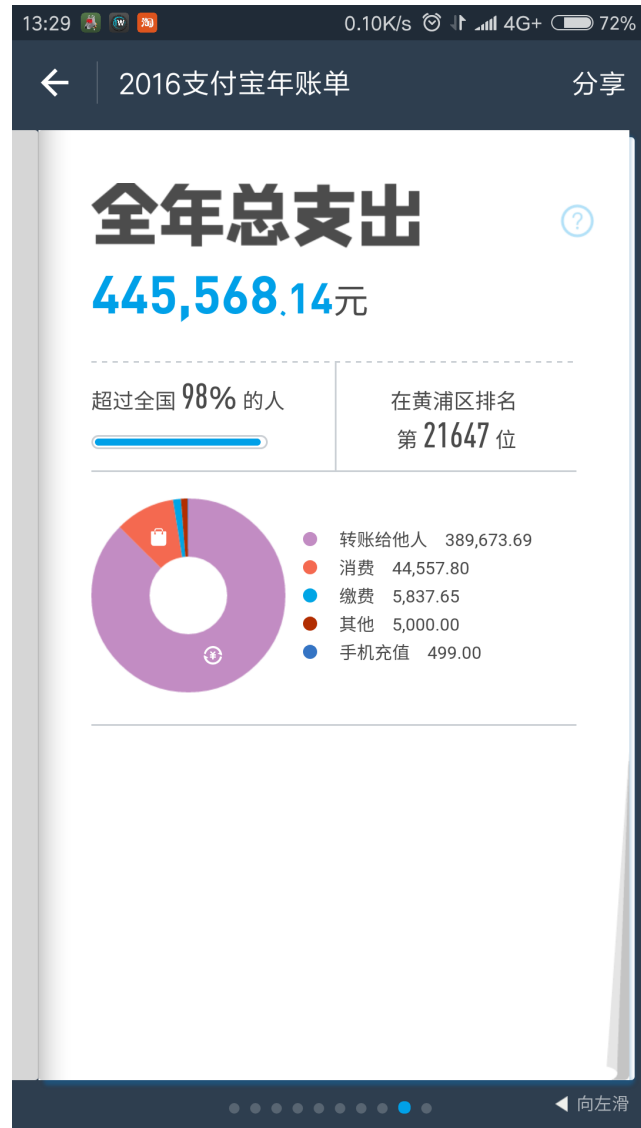
- A leading provider of market research covering banking, payments, capital markets, and cryptocurrency.
- Offices: Shanghai, Hong Kong, New Delhi, and Singapore
- Provide clients across the region the insight they need to understand and take advantage of their highest-value opportunities in Asia and help them to achieve and sustain a competitive advantage in the market.

Independent Research

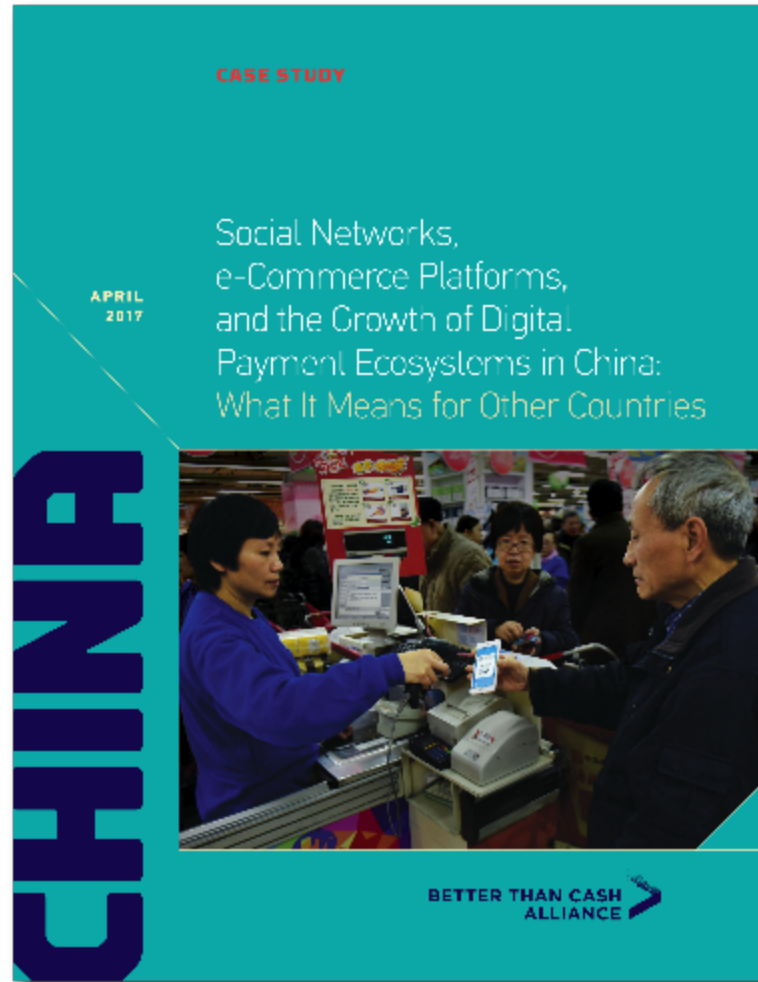


Consulting





UN Report on Social Networks & Digital Payment Ecosystems in China

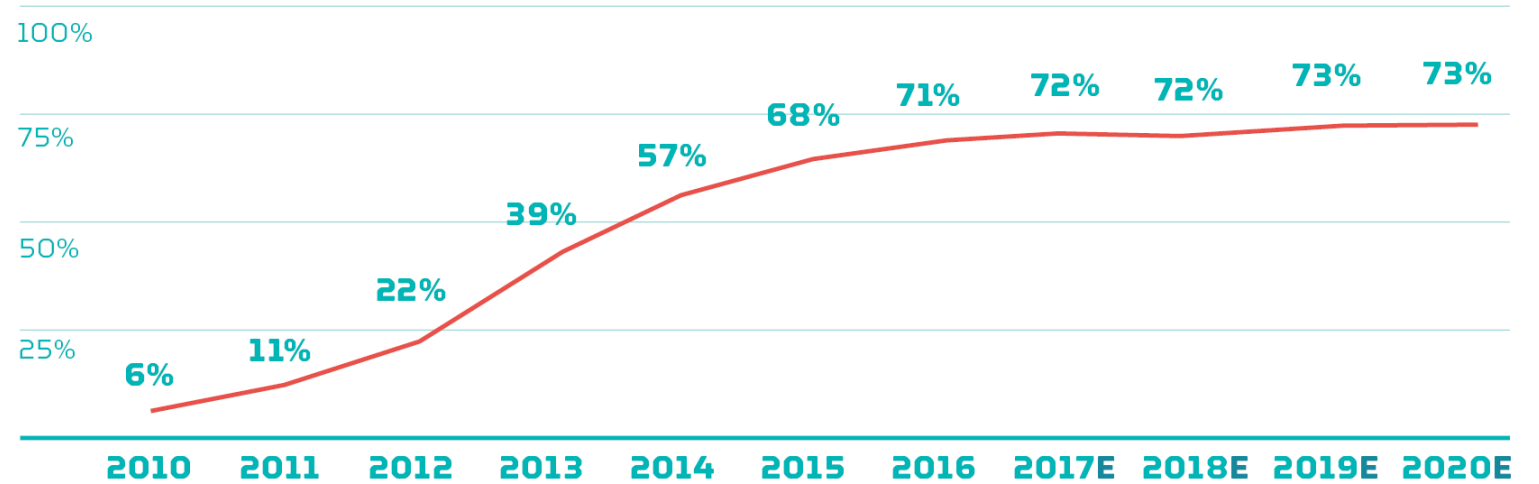


China's consumers are getting smarter

China's shift to smartphones happened in the last five years

Smartphone as % of all phones in China

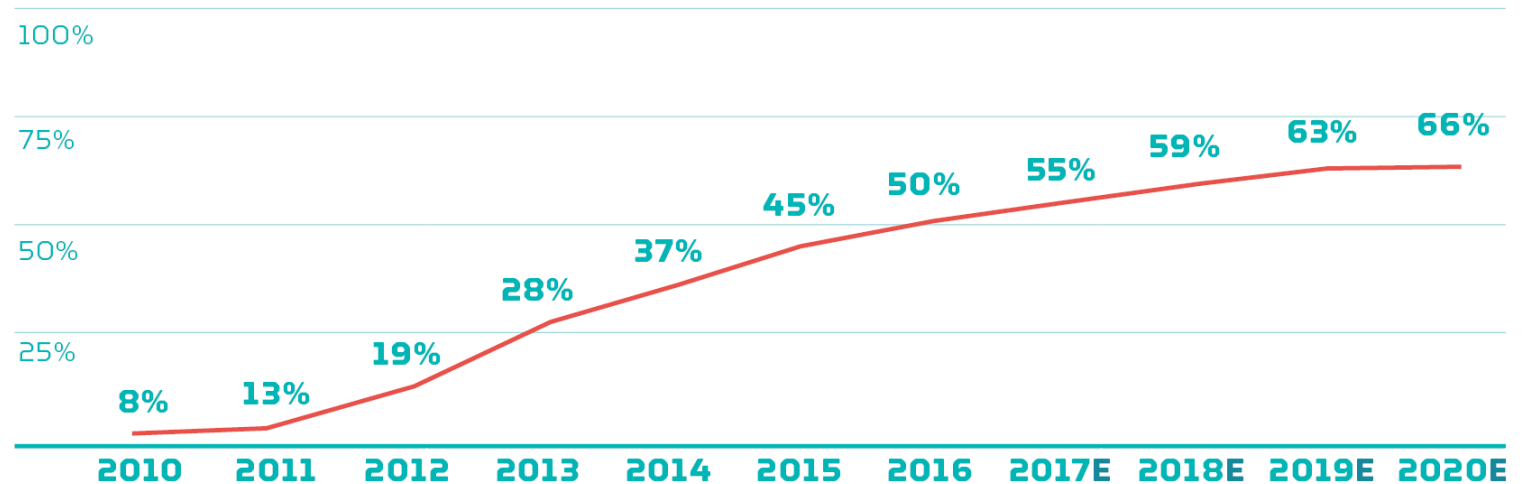
Source: GSMA



Global smartphone penetration lags China

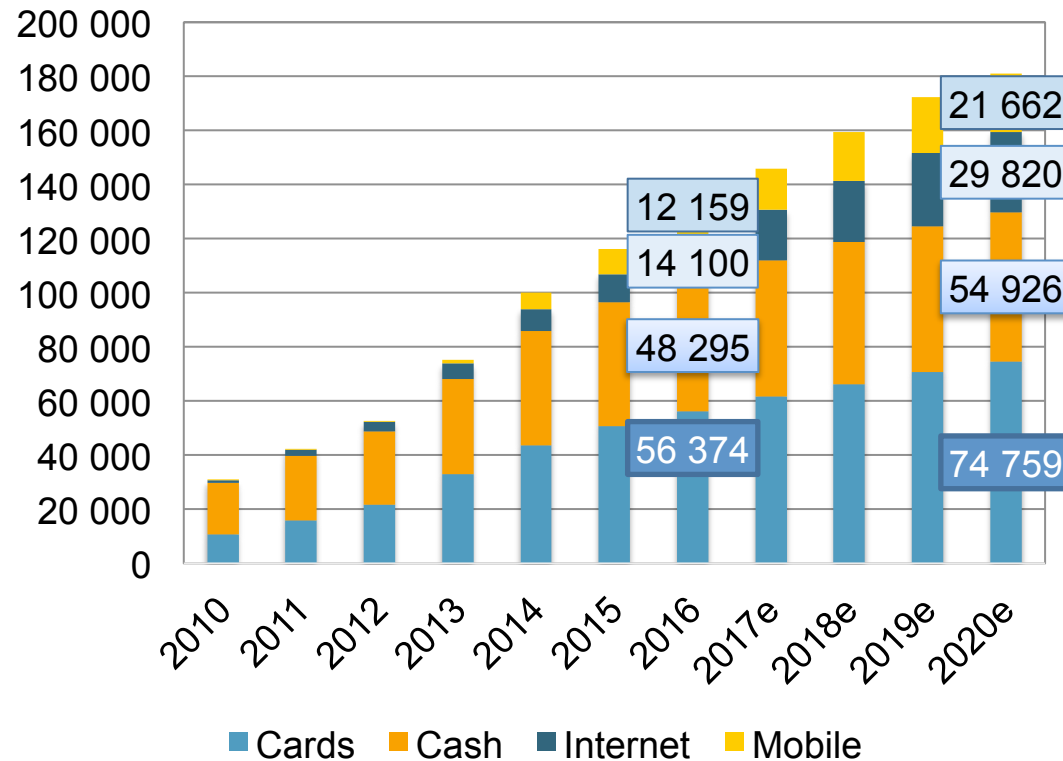
Smartphone as % of all phones globally

Source: GSMA

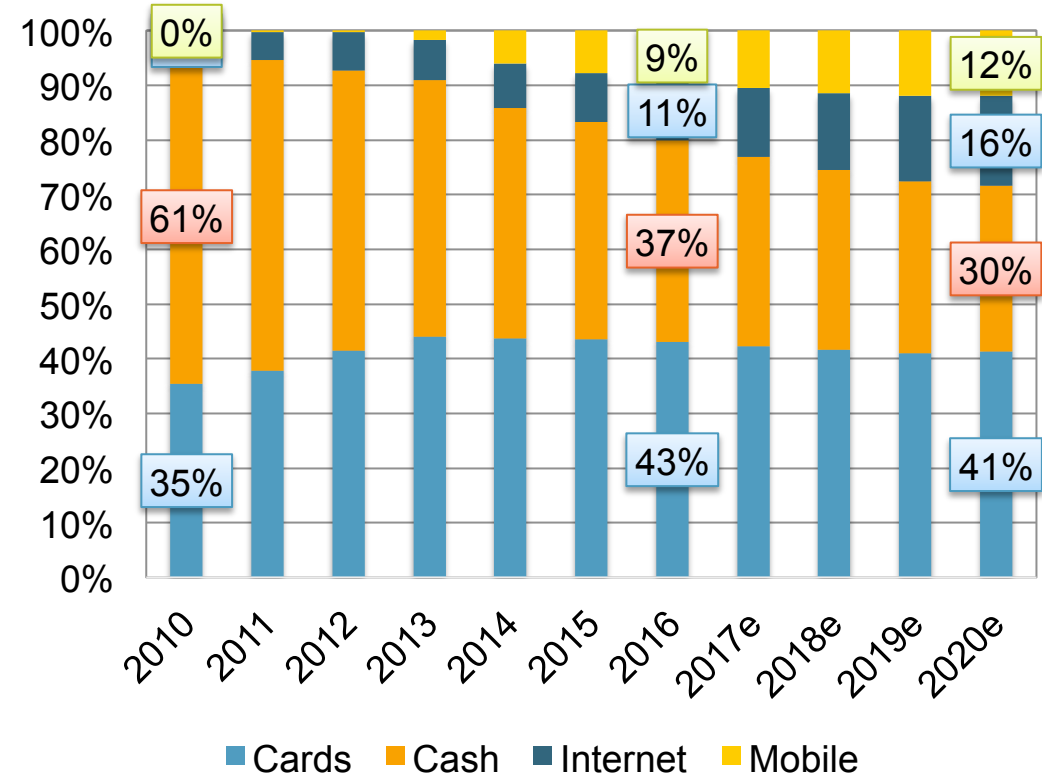


Digital Payments are changing the way people shop and spend as they move away from cash which will decline by half 2010-2020

China Retail Consumption Value by Payment Type
RMB billion



China Retail Consumption by Payment type
(% of total payments)



Sources: Kapronasia Analysis, Euromonitor, iResearch

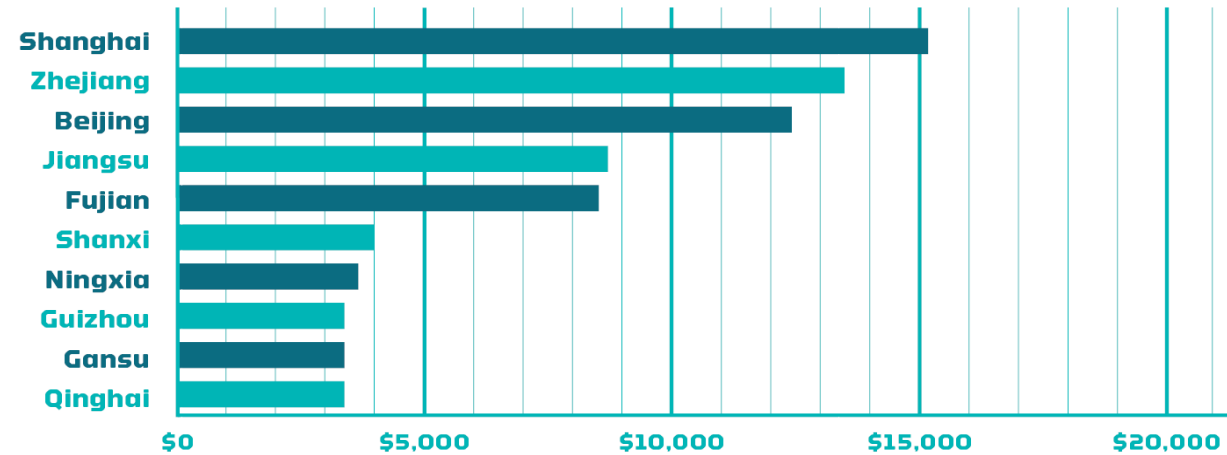
Digitization

China's digitization is actually more pronounced in 3rd and 4th tier cities / provinces, which is helping financial inclusion

Expectedly, Alipay users from provinces with larger incomes spend more with the wallet

Top and bottom 5 provinces by average spend with Alipay, USD, 2015

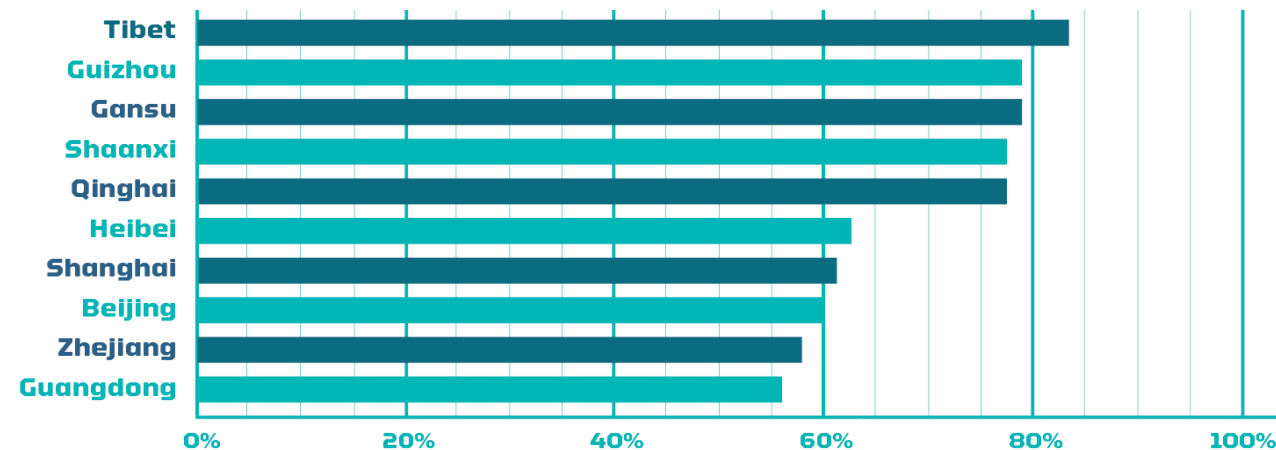
Source: Ant Financial, Tencent, iResearch, Kapronasia Analysis



Mobile phones play a larger role in payments in provinces with lower incomes

Top and bottom 5 provinces by phone usage as % of all Alipay payments, 2015

Source: Ant Financial, Tencent, iResearch, Kapronasia Analysis



Banks are only involved if a user needs to fill their wallet

1. User selects pay on online platform, picks mobile wallet

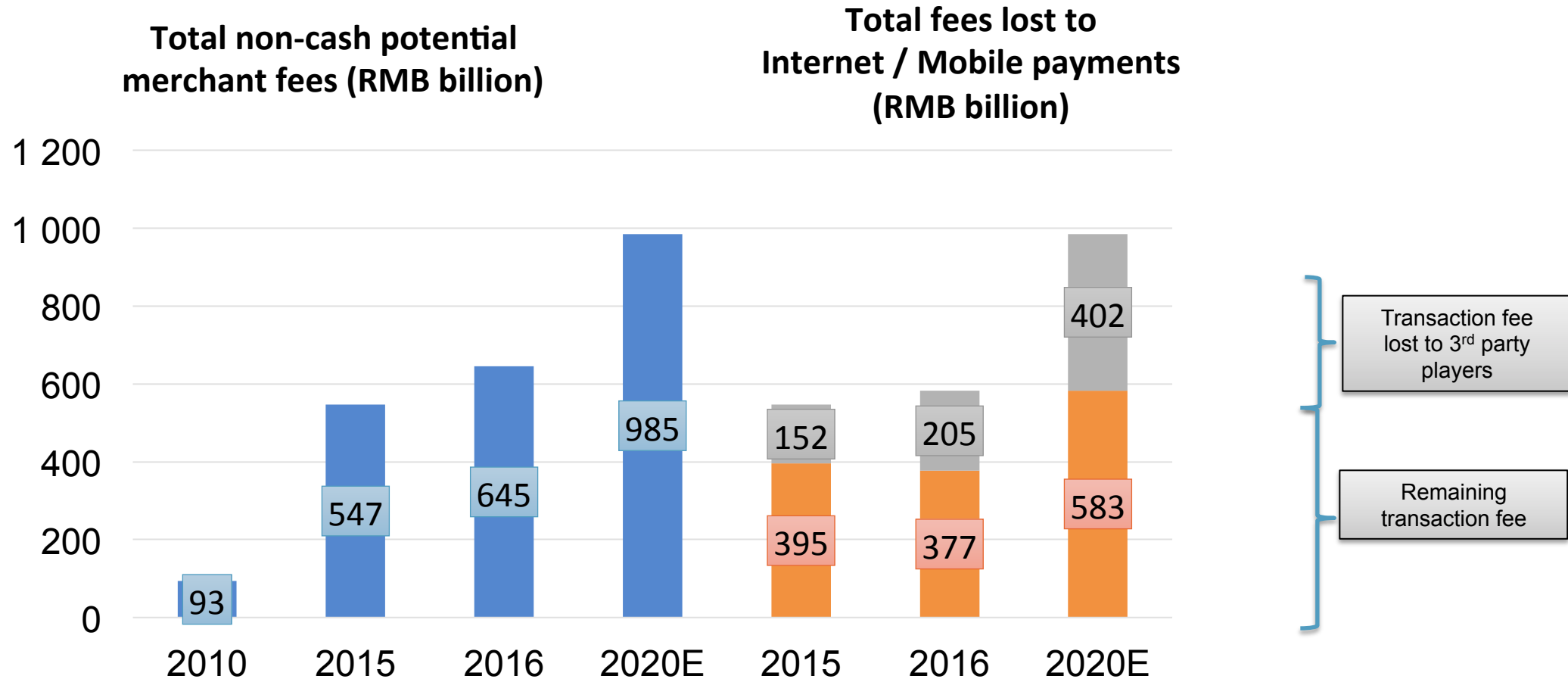
2. User can choose to debit their bank account directly or use wallet funds

3. If money is debited from bank account, debit shows immediately.

4. Money moves to merchant's WeChat Pay account and can be moved to Merchant bank account



Result #1: China's banks lost RMB 205 billion (US\$30 billion) in card fees in 2016



Result #2: Also a tremendous loss of transaction data...

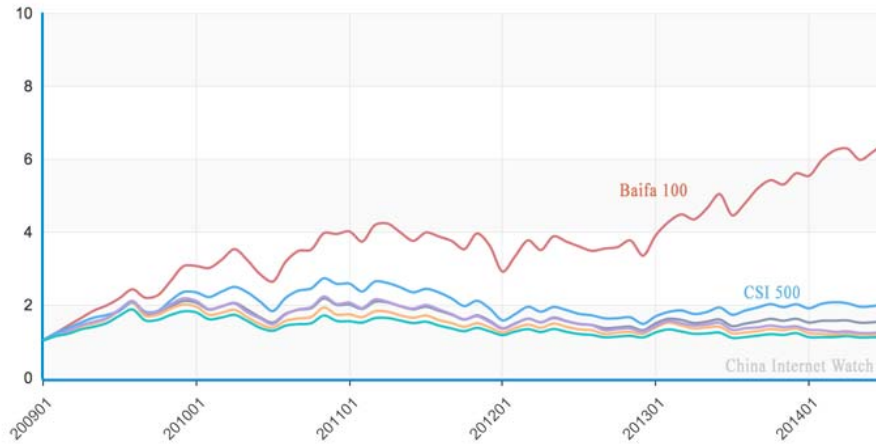
Example of 'visible' WeChat/ Alipay Data

Transaction Date	Settlement Date	Currency	Merchant Code		Merchant Name		Value
15/02/2016	16/02/2016	人民币元	3847	消费	深圳市财付通科技有限公司/CHN	Tenpay	人民币元99.85
15/02/2016	16/02/2016	人民币元	3847	消费	深圳市财付通科技有限公司/CHN	Tenpay	人民币元90.00
15/02/2016	16/02/2016	人民币元	8609	消费	支付宝快捷支付/CHN	Alipay	人民币元61.74

Example of 'visible' Apple Pay Data

21/02/2016	22/02/2016	人民币元	5476	消费	华联罗森有限公司/CHN	Lawsons	人民币元99.85
22/02/2016	23/02/2016	人民币元	5476	消费	顶全便利店有限公司/CHN	Family Mart	人民币元90.00
23/02/2016	24/02/2016	人民币元	5476	消费	上海福满家便利有限公司 /CHN	Shanghai Family Mart	人民币元11.80

Especially painful when Big Data is the key for the future of finance in China



Baidu Baifa 100 Index Fund

- Baifa Index using Baidu financial search and user behavior
- Data mined and analyzed
- Uses a quantitative model along with CSI index info to create a financial product that has (until recently) handily beaten the market

Alibaba / Ant Financial

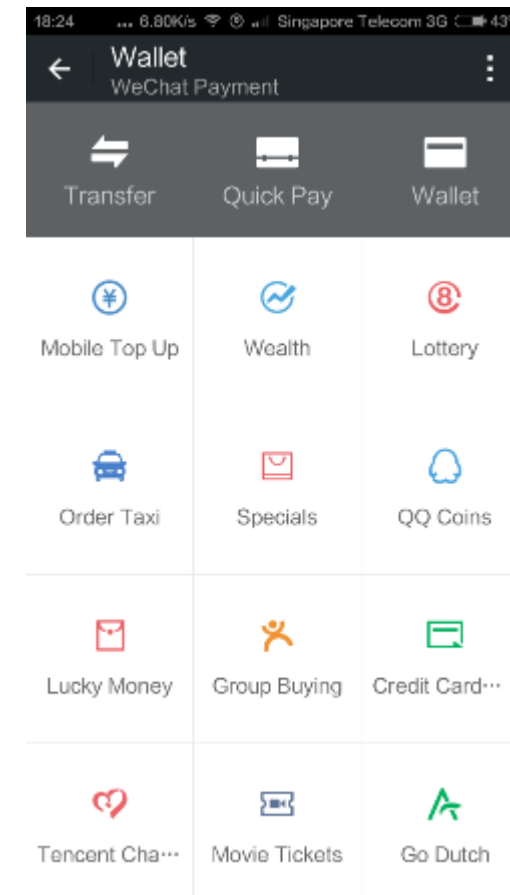
- China's has no comprehensive national personal credit database => engaged tech companies to create one
- Alibaba already has micro-loan and credit rating experience from Taobao, now launched sesame credit

Source: Kapronasia



Big data + Platforms = Success

- Although 1.4 B people using We Chat is a lot, it is only 1.4 B
- Imagine if you can get those 1.4 B to start booking taxis too => 2.8 B customers
- Functionality: Book taxis, Pay friends, Buy movie / show tickets, Pay bills, Mobile top-up
- Platforms are underlying innovation in China
- Leveraging technology to provide a product or service more effectively to a customer



Source: Kapronasia

China Mobile Functionality

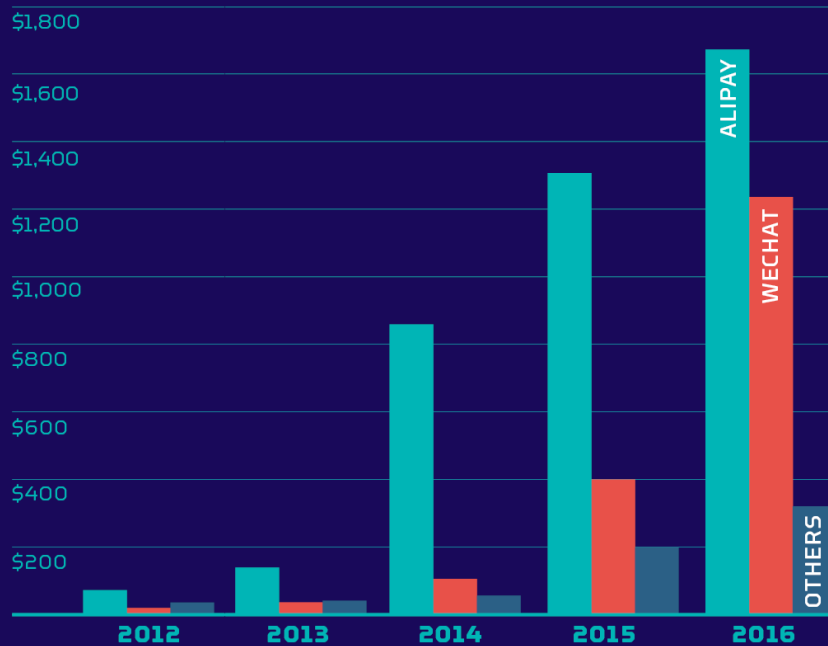
Comparison of Key Mobile Functionalities

	LAUNCHED	VOICE CALLS	VIDEO CALLS	PAYMENTS	MONTHLY ACTIVE USERS (MILLIONS 2015)	MOBILE PAYMENTS PROCESSED (USD BILLIONS 2015)
WeChat	January 2011	July 2012	July 2012	August 2013	697	396
PayPal	1998	None	None	1998	179	50 (est.)
Alipay	2004	None	None	2004	450	1,316
WhatsApp	2009	April 2015	November 2016	None	1,000	Not Applicable
Facebook Messenger	August 2011	April 2013	April 2015	March 2015	1,000	Not Available

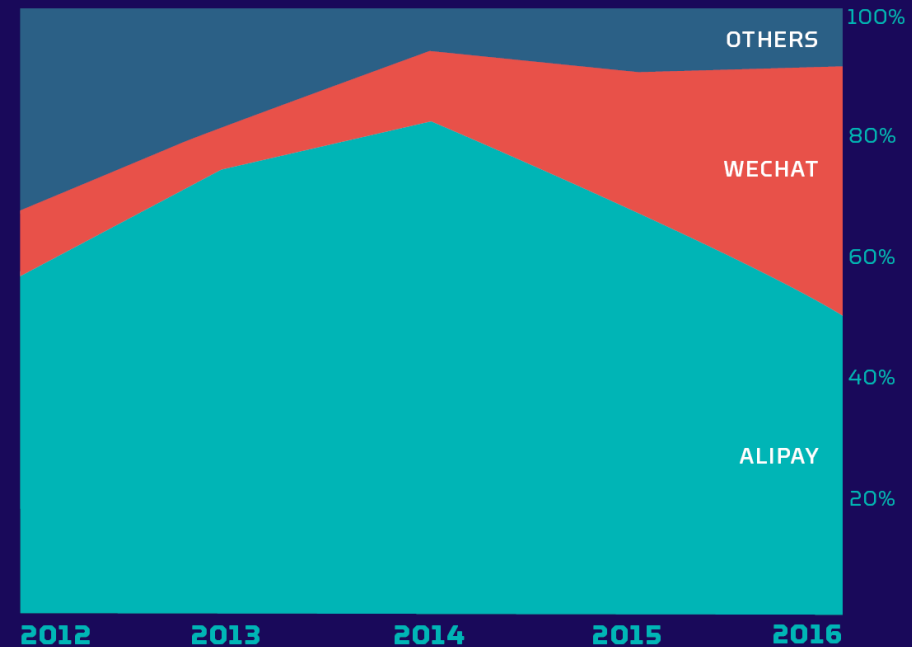
WeChat's Red Envelope Campaign was a game changer

Mobile Payments by Value

Yearly Total Mobile Payments, Billion USD



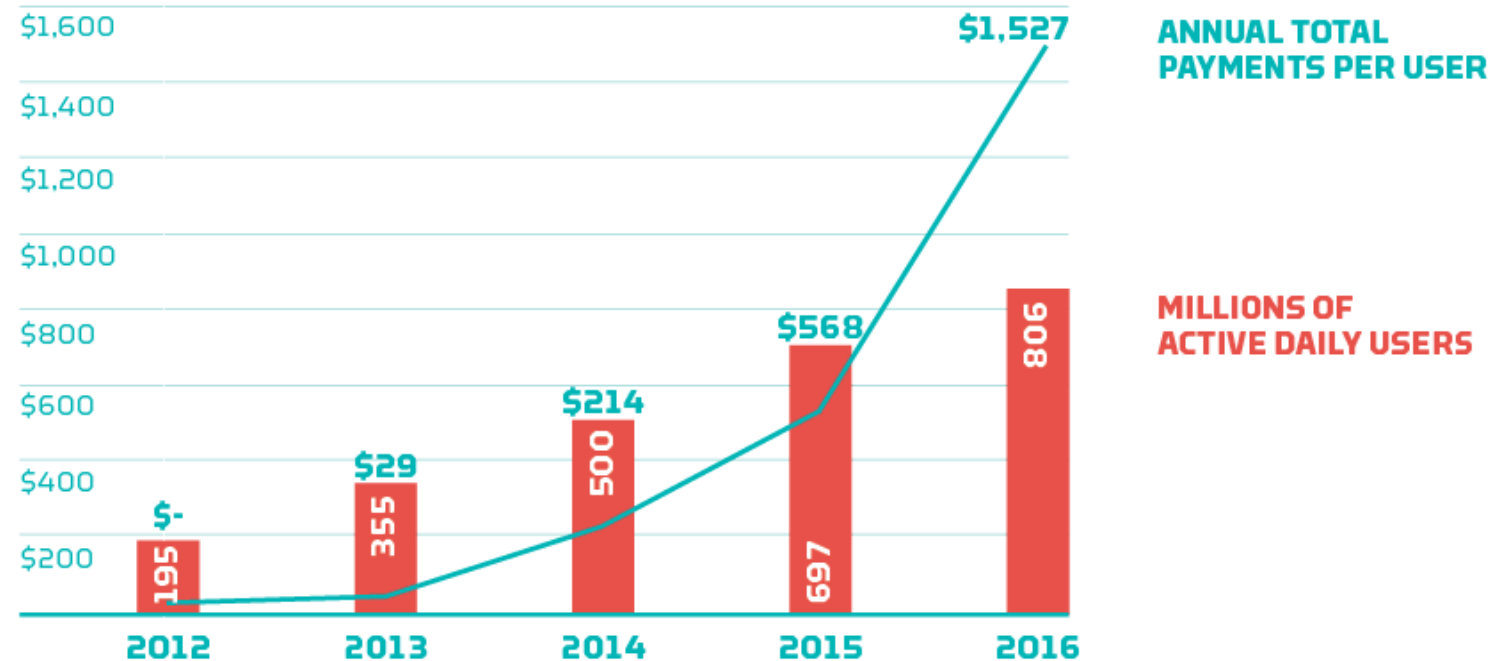
Integration of payments into WeChat
has helped Tencent capture mobile payment
market share from the market leader Alipay
PSP market share: mobile payments



WeChat Ascended

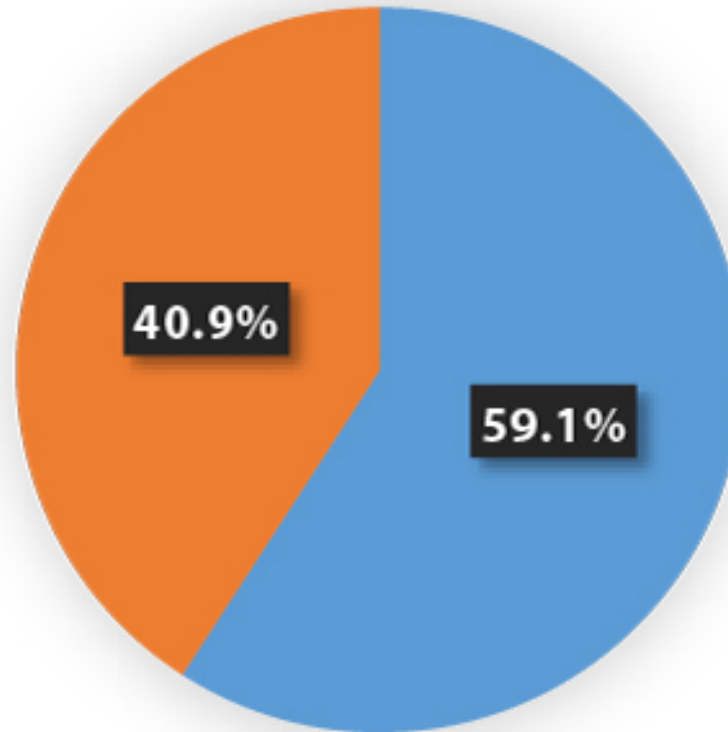
Although we should see WeChat numbers top out in 2018, the integration of payments and social has helped WeChat capture significant market share

Use of WeChat for payments has grown faster than the usage of the platform itself
US\$ and millions of active daily users



What do the millennials think?

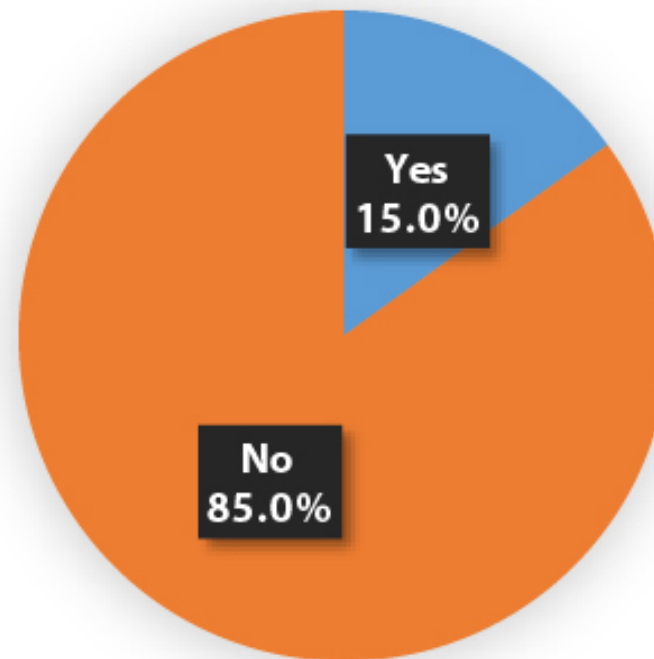
Which of the following describes your feelings about your bank?



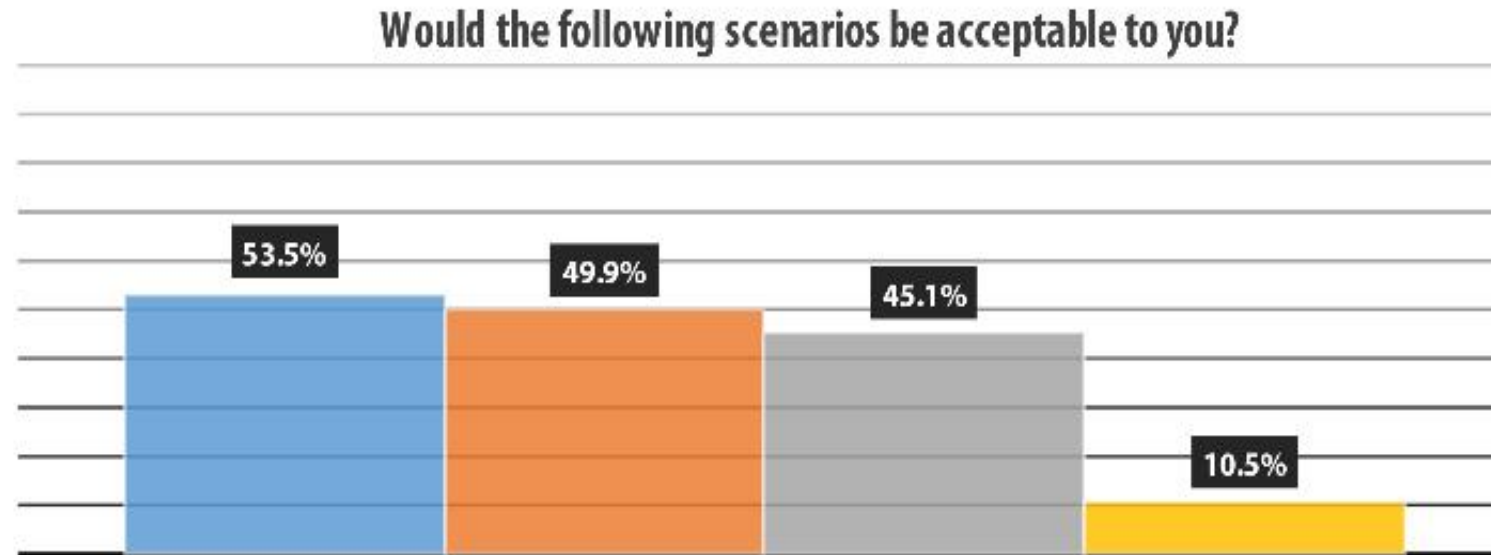
■ I enjoy banking with them ■ I do not enjoy banking with them

Do not see any differentiation

Do you think your bank offers anything different than any other bank?



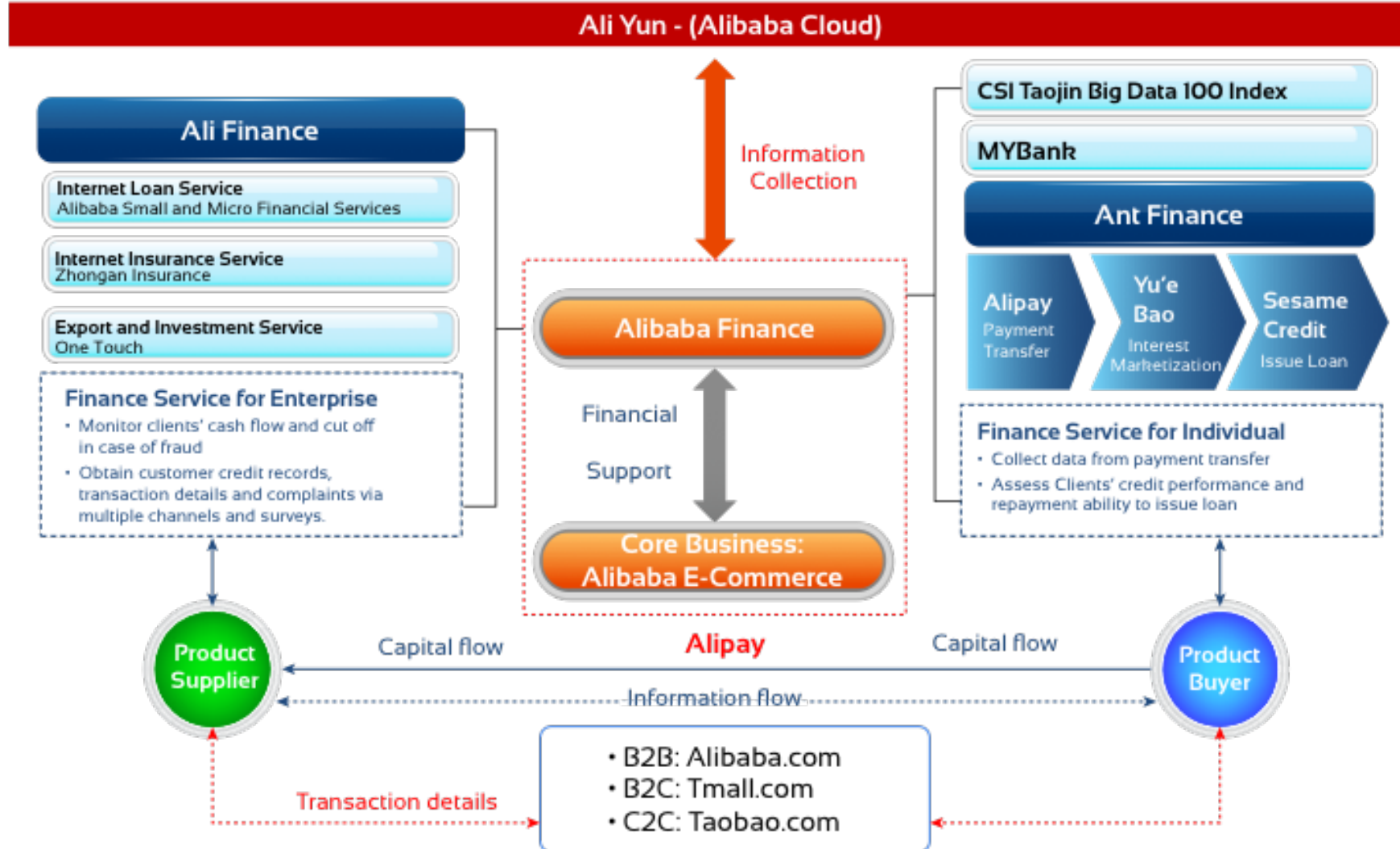
And privacy doesn't seem to be an issue



- Your bank suggesting a wealth management product based on your salary and spending habits
- Dianping looking at your personal calendar to suggest a new restaurant on your birthday.
- Baidu using your everyday baidu.com search habits to create a better financial product for you.
- None of the above

Source: Kapronasia

Payments were only the start



Source: Kapronasia

Nearly every platform has a fintech play

FUNCTIONAL COMPARISON

Overview of the key functionality of various Chinese Digital Finance Platforms

FUNCTIONALITY	PARTICIPANTS					
	ALIBABA	TENCENT	BAIDU	PINGAN	JD.COM	XIAOMI
PAYMENT	Alipay	Tenpay, WeChat Pay	Baidu Wallet	1qianbao	JD Payment	Xiaomi Pay
LENDING	Ant Micro Loan, Huabei	Weilidai, Renrendai	Baiduxiaodai	Chengyi, Puhui	JD IOU	
BANK	MyBank	WeBank	Baixin Bank	PingAn Bank		
INSURANCE	ZhongAn Insurance, Cathay Insurance	ZhongAn Insurance	BaiAn Insurance	PingAn Insurance, ZhongAn Insurance	JD Insurance	
SECURITIES	Tebon Securities	Futu, Huatai		PingAn Securities		Tiger Securities
WEALTH MANAGEMENT AND DISTRIBUTION	Tianhong, Yu'E Bao, Ant Jubao, Shumi, Taojin 100 Index	Howbuy.com, Licitong	Baifa, Baizhuan	Lufax	JD Xiaojinku	Jijinbao, Huoqibao
CREDIT SCORE	Sesame Credit	Tencent Credit		Qianhai Credit		
CROWDFUNDING	Taobao Crowdfunding, Antsdaq	Tencent Lejuan		PingAn Haofang	JD Crowdfunding	Duocaito

Digital Platform Profitability

Although many of the platforms may have struggled to achieve profitability earlier, Ant & Tencent are making significant digital revenue.

Comparison of 2015 Digital Finance Revenue

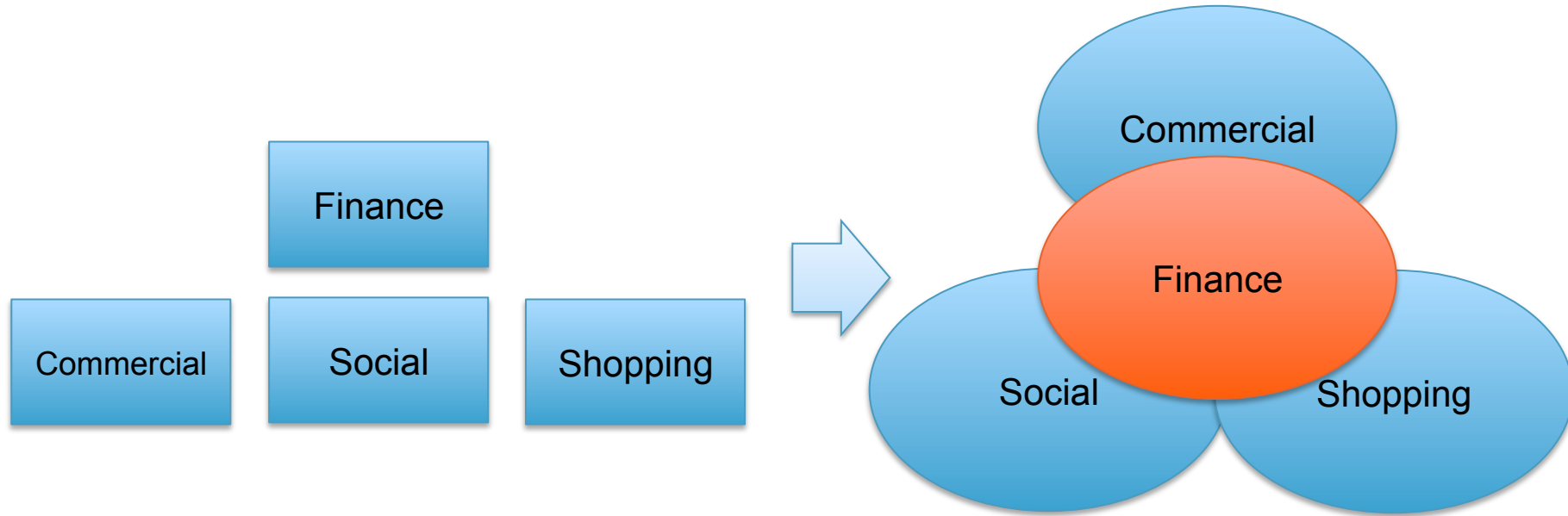
[US\$ million, estimated]

	PAYMENT FEES FROM TOTAL PAYMENTS PROCESSED	FEES FROM TOTAL FINANCIAL PRODUCTS DISTRIBUTED	FEES FROM SMALL AND MICRO LOANS DISBURSED	TOTAL DIGITAL FINANCE REVENUE
Tencent	\$2,503	\$16	\$1,101	\$3,620
Alipay	\$7,450	\$221	\$2,058	\$9,730

Sources: Kapronasia Analysis, Credit Suisse, iResearch

* Baidu's market share in both payments and lending is negligible

Situational Finance is the future...



...being able to offer the right financial service at the right time.

So why should you care?

What China Fintech is doing to banks in China is classic disruption and could happen anywhere

- Light regulation around fintech has helped the industry to develop in China, but current regulations wouldn't have hindered the development
- China Fintech is expanding internationally rapidly.

Understanding customer demands and needs is key

- You may not understand SnapChat, but you better *understand* SnapChat
- For many years the customer experience in China was awful – this changed

The answer may not be the obvious one

- Payments were loss-making for both Alipay and Tenpay initially – used big data and platforms to build out the offering
- Balance of what the customers know they want vs. what we can tell them they want. No one knew that we needed iPhones or QR codes.

Summary

- The business model of fintech is changing: fees => services as fintechs are leveraging payments traffic and mining data to create value
- The current uptick in digital payments has left the banks behind: they are losing payment fees, but more importantly, data
- China has bet big on blockchain, but unclear implications for the financial services industry
- More regulation to come



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