

FINTECH AND FINANCE TRANSFORMATION: THE RISE OF ANT FINANCIAL SERVICES

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My vision is that we want to serve two billion people in the next 10 years by using technology, by working together with partners, to expand globally, and to serve the underserved.¹

Eric Jing, CEO of Ant Financial

On the night when Ant Financial Services Group (蚂蚁金融服务, hereinafter to be referred to as “Ant Financial”) announced a record US\$4.5 billion financing round in April 2016, Eric Jing, Ant Financial’s new CEO, sent out an email to the unit’s 7000 employees to pump up the army that is reshaping the country’s financial industry: “We must remind ourselves that we need to work harder more than any other time. The deeper we moved into the financial world, we realised that there is more we need to learn....We must remember that the biggest enemy we face is nobody but ourselves.”² Eric achieved a record-breaking funding round at a valuation of US\$60 billion, and the team was to gear up for an IPO and the listing was thought to be imminent.³ Ant Financial was one of the most highly valued private companies in the world. Formerly known as Alipay (支付宝), it began as a financial affiliate of Chinese e-commerce giant Alibaba in 2004 and was later spun off as a separate entity in 2011.

¹ Kharpal, A. (2017, January 19), Alibaba payments arm aims for 2 billion users in 10 years, says blockchain coming to Alipay. *CNBC*. Retrieved from <https://www.cnbc.com/2017/01/19/alibaba-affiliate-ant-financial-says-blockchain-coming-to-alipay-aims-10-billion-users-10-years.html>

² Xiang, N. (2016, August 26). *Everything you need to know about the man in charge of Ant Financial: Eric Jing*. Retrieved from <https://www.chinamoneynetwork.com/2016/08/26/everything-you-need-to-know-about-the-man-in-charge-of-ant-financial-eric-jing>

³ Kharpal, A. (2016, April 26). Alibaba payment arm raises \$4B, valued at near \$60B. *CNBC*. <https://www.cnbc.com/2016/04/20/alibabas-ant-financial-valued-at-60-billion-after-4-billion-funding.html>

Research Fellow Rainny Shuyan Xie, Associate Professor Sia Siew Kien, and Professor Boon-Siong Neo prepared this case based on interviews with Ant Financial. This case is intended for class discussion and learning, and not intended as source of research material or as illustration of effective or ineffective management. We would like to acknowledge a research funding from the Institute on Asian Consumer Insights for this project.

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Eric Jing was a named Alibaba board member in 2007 and a former chief financial officer of Guangzhou Pepsi Cola Beverage Co. He moved to Alipay in 2009 to drive the key financial products and to oversee the company's business development. Since the early foray into Internet finance, growth had been spectacular. Alipay (支付宝), the core business of Ant Financial, handled an estimated 54.1% of all online payments in China.⁴ Its money market fund, Yu'e Bao (余额宝), since its launch in 2013, became the world's largest money market fund with RMB578.93 billion (around US\$93.25 billion) in assets by the end of 2014.⁵ In 2017, Ant Financial had a full spectrum of financial products from payment to loans, wealth management, credit-scoring, and insurance services. Within three years since its incorporation, it became the world's largest Fintech company with more than 520 million annual active users of its services.⁶

However, as Ant Financial continued its relentless growth, it had to cope with more demanding challenges as the regulatory environment in China tightened and the competition in the Fintech landscape intensified. Eric was task to steer its next phase of growth. A veteran of corporate finance with extensive experience working in MNCs, Eric drove key product innovation including Yu'e Bao, and oversaw the development of Ant Financial's microloan and credit rating businesses. While the growth in the last few years had been nothing but spectacular, Eric wondered if he could lead Ant Financial to sustain the momentum to achieve new heights, new surprises? How could it stay innovative amidst the rapid rise of other Internet finance players? How should Ant Financial position itself strategically as it moved forth to play a bigger role in China's or the global financial ecosystem? How to secure regulatory approval for its IPO and to focus on building the business in a year of political uncertainty and manoeuvring?

ALIBABA'S INITIAL FORAY INTO INTERNET FINANCE

We never meant to be a player in the financial industry, but because the underserved customers in the financial industry and how it hampered the growth of e-commerce business, we gradually established the Internet finance products for the consumers.... All our products are created based on the customers' needs. We really think of what's the pain point of customers, who are our customers and what the pain points of them are, how can we help to solve their problem and solve the pain points for them.⁷

Eric Jing, CEO of Ant Financial

Eric was a veteran Alibaba executive and had been leading its online payment unit, Alipay, since 2009. He witnessed and supported the Groups' financial arm from the early days. Pioneering the growth of e-commerce, Alibaba has launched a series of B2B (business to business) and C2C (consumer to consumer) e-commerce outfits (e.g., Taobao [淘宝], Alibaba.com, Tmall [天猫]) since 2003. However, as Alibaba delved deeper into these e-marketplaces, it quickly realised that trust was a limiting factor to its ability in expanding its online marketplaces. In particular, in the C2C e-marketplace, there was a lack of trust between the merchants and customers to facilitate the transactional exchange. Alipay was, thus conceived to address the trust issue. It functioned as an Escrow account. Buyers sent money to the Escrow accounts. Once Alipay received the money, it would notify the merchants who then made the deliveries. When the customers received the products, Alipay would then release the money to the merchants.

⁴ Yu, S. (2017, April 7). Alipay leads China's third-party mobile payment market in Q4 2016. *TechNode*. Retrieved from <http://technode.com/2017/04/07/alipay-leads-chinas-third-party-mobile-payment-market-in-q4-2016>

⁵ Shaffer, L. (2015, July 16). How China's stock rout disrupted online funds, in a good way. *CNBC*. Retrieved from <http://www.cnbc.com/2015/07/16/how-chinas-rout-disrupted-online-funds-like-alibabas-yue-bao-in-a-good-way.html>

⁶ *Financial Times*. (2016, March 8). Ant Financial's latest fundraising lifts valuation up to \$60bn. Retrieved from <https://www.ft.com/content/d1c6cd5a-e509-11e5-bc31-138df2ae9ee6>

⁷ Personal communications with Eric Jing on May 2017.

E-commerce and e-payment go hand-in-hand. Alipay was created to build a new trust system without Alipay, there is not much online shopping to talk about....our financial story inspires the future business finance systems.⁸

Eric Jing, CEO of Ant Financial

Jack Ma's view was that "Alipay was not created for Alibaba only, but [also] should serve the overall e-commerce for the whole society."⁹ From a small department within Alibaba, Alipay was established as an independent company to provide payment services. Over time, the payment service was extended to other online and offline retailers and service providers.

A slew of innovations followed to address customers' payment-related problems. One example was to address the high failure rate of payment processing, as customers sometimes did not maintain sufficient balance in their Alipay accounts. The innovation was an express payment method, a one-step verification process that would transfer money to the Alipay accounts from different designated funding sources of customers (e.g., credit cards, bank accounts).

With the greater payment reliability, Alipay unleashed the growth of e-commerce (e.g., the jump in retail e-commerce from RMB1 billion in 2003 to RMB4.8 trillion in 2016). Very quickly, Alipay became a powerhouse in China's online payments market, securing a significant share of the Chinese consumers, with 454 million customers in 2017.¹⁰ As noted by Eric, "It is really not about the payment system. The key thing is about trust."

The rapid expansion of mobile-commerce (e.g., partly fueled by QR Quick Response Code, mobile-commerce sales increased from US\$700 million in 2011 to nearly US\$150 billion in 2015)¹¹ led Alibaba to develop Alipay on the popular and affordable smartphones. The Alipay Wallet (支付宝钱包) app was launched to enable payments including offline services, such as taxi ride, shopping, money transfer and utility. Alipay and Alipay Wallet not only enabled Alibaba to expand its e-commerce and mobile-commerce, but also provided the foundation for new financial service innovation. For example, the idea of individual consumers parking their small sums of money on a short-term basis in their Alipay accounts for various transactions, led to the launch of Yu'e Bao, a money market fund investment product. The fund was run by Tianhong Asset Management (天弘基金), which Ant Financial had a controlling stake. Rather than leaving money idling in their Alipay accounts without interest, Alipay users could put their money into Yu'e Bao and earn interest, with just a few clicks. There was no minimum investment threshold and customers could withdraw their money anytime. Up till then, individuals had limited alternatives of investing their savings. Wealth management services for average individuals in China were underdeveloped. Although the saving rate per capita in China was twice or three times of that in the US, the deposit rates in banks were generally unattractive and deliberately fixed and controlled by the state. The development of Yu'e Bao¹² was an important milestone, making people realise that Alipay was not just about online payments but also a way to manage your wealth, which was emphasised by Chen Long, Chief Strategy Officer, who was side by side with Eric contemplating the various opportunities and challenges.

⁸ Personal communications with Eric Jing on May 2017.

⁹ CNBC. (2016, September 2). CNBC Transcript: Jack Ma, Executive Chairman and Founder of Alibaba Group. Retrieved from <https://www.cnbc.com/2016/09/02/cnbc-transcript-jack-ma-executive-chairman-and-founder-of-alibaba-group.html>

¹⁰ Statista. (2017). Number of active consumers across Alibaba's online shopping properties from 2nd quarter 2012 to 2nd quarter 2017 (in millions). *Statista website*. Retrieved from <http://www.statista.com/statistics/226927/alibaba-cumulative-active-online-buyers-taobao-tmall>

¹¹ The World Bank. (2016). Expanding opportunities. In *World development report 2016: Digital dividends* (pp.100–145). Washington, DC.

¹² The money market fund was managed by a fund company Tian Hong for which Ant Financial had some influence in with a 51% controlling interest. Zhang, M. (2014, November 3). Alibaba's online money market fund Yu'e Bao: 8 things you need to know. *International Business Times*. Retrieved from <http://www.ibtimes.com/alibabas-online-money-market-fund-yue-bao-8-things-you-need-know-1560601>

The beautiful part about Yu'eBao is not about making money market fund available online. It is actually in combining two positions together, one is consumer, and one is investor, i.e., I call them the "invesumers". They are not the typical investor. They are consumers with pocket money. They would like to use it whenever they want. But if they don't need to use it, the money can grow. The concept of an ordinary money market fund, now combined with payment under cash management, works wonders for the customer experience. Actually, Yu'eBao doesn't provide very high return. But consumers like it as it is really like pocket money, very convenient. Moreover, money market fund is very safe as it is required by law to invest in the safest and most liquid assets. Unlike typical investors, these consumers are also not very speculative, hence, less sensitive (to crisis).¹³

Chen Long, Chief Strategy Officer of Ant Financial

Yu'e Bao grew to become the world's largest money market fund, with a staggering balance of US\$165 billion as at 1st quarter 2016.¹⁴ With its 300 million user base and the financial muscle of Alipay behind it, Yu'e Bao could thrust China into a new age of retail investment. Ant Financial was mobilising for expansion in other emerging markets under Eric. After Yue'Bao, a web-based sales platform for third-party investment products, Zhao Cai Bao (招财宝), was subsequently launched in 2014. Investment offerings included fixed-term deposit products from other financial institutions.

To encourage customers to pay with Alipay, Huabei (or Ant Check Later [花呗]) was also launched as a form of consumer credit. The function of Huabei was similar to the credit card offered by traditional banks, the difference being that the personal lines of credit were based on the credit scores calculated from users' historical activities and reputation scores on Alipay, Taobao and Tmall. Based on their given credit amounts, users could purchase products on Taobao, Tmall or third-party businesses using Huabei. They could return the money within an interest free period or pay some interests beyond this free period. Such consumer financing facilities were not common in China before Huabei was launched as there was a lack of individual credit records for banks to assess individuals' credit worthiness. As of 2014, the People's Bank of China (PBOC) maintained credit histories for around 350 million citizens – less than one-third of the adult population. In America, 90% of adults had credit scores. Without a credit history, individual consumers struggled to obtain financing.¹⁵

At the same time, constrained by their limited financial resources, online merchants could offer a limited range of products and services to their consumers. As Alibaba worked with the traditional banks to make financing easier for these merchants, it became increasingly aware of the deficiencies of the financial systems for the small and medium enterprises (SMEs). The financial industry in China was monopolised by big banks, which typically served the state-owned enterprises and large enterprises. The financing needs for SMEs were high, yet it was difficult for them to access such services.

We gave [the banks] 100 customers but they picked the top two and turned them into their banks' customers and returned the rest to us. For the banks, the loan amounts were too small. It was risky, there's no collateral. But for those SMEs, they didn't have very good credit history nor did they have good collaterals. Then we started to work backward to have this microloan license, so we could do so ourselves.¹⁶

Chen Long, Chief Strategy Officer of Ant Financial

To financially support the small and individual merchants, AliLoan (阿里微贷) was established in 2010 to offer unsecured micro-loans for SMEs.

¹³ Personal communications with Chen Long on May 2017.

¹⁴ Flood, C. (2016, January 31). China tightens money market regulation. *Financial Times*. Retrieved from <http://www.ft.com/cms/s/0/66f85d72-b949-11e5-bf7e-8a339b6f2164.html#axzz4lmCkv3ND>

¹⁵ Hou, L. (2017, January 17). Wealth management products prove popular among Chinese, report says. *ChinaDaily*. Retrieved from http://www.chinadaily.com.cn/china/2017-01/17/content_27981171.htm

¹⁶ Personal communications with Chen Long on May 2017.

*We provide unsecured, un-collateralised loans to them by using big data. The scheme is progressive [for us]. When we have more data and business behaviours, we can give more, so we adjust the credit line accordingly. It is kind of more data, more behaviours, more understanding about the merchants. We really started with small amount at a time.*¹⁷

Eric Jing, CEO of Ant Financial

The Internet finance offerings of Alibaba thus expanded significantly. The tight integration between the various Alibaba's e-marketplaces (e.g., Taobao) and Alipay was highly synergistic, a strategic combination that enabled the collection of large amount of real-time data and online browsing of sales, payments and collections. Yet, Alibaba's foray into Internet finance was almost accidental. Indeed, Alipay obtained the license to operate payment business from PBOC in 2011, only after more than six years' unofficial operations.

*We are interested in more than just disrupting the finance sector. Instead, we sought to work side-by-side with traditional institutions and use internet thinking...to upgrade the entire banking system.*¹⁸

Eric Jing, CEO of Ant Financial

RESTRUCTURING ALIBABA'S FINANCIAL SERVICES TO ANT FINANCIAL

In 2011, Alipay was restructured out of Alibaba due to regulatory requirements for third party payment license. In 2014, prior to Alibaba's IPO, five of Alibaba's business units and Alipay were later brought together to form Ant Financial, officially known as Zhejiang Ant Small & Micro Financial Services Group. Jack Ma, owned 76% of the stake in Ant Financial.¹⁹

*From the Alibaba ecosystem perspective, we are part of the ecosystem. We are so deeply connected. Our blood, the same blood, same colour. From legal perspective, we are two independent businesses with separate shareholders. They are in the marketplace business, we are in the financial services. Our relationship is mutually beneficial and complementary. In terms of payment, they are not giving the facility to us. It is just their preferred payment, so they can definitely choose. The only way we become preferred is because we try to provide the best service to them and the commercial conditions are very competitive. They have independent directors who review all these every year to see if it is economically rational and financially competitive. It is arm's length, it is transparent.*²⁰

Eric Jing, CEO of Ant Financial

Starting a new chapter, Ant Financial's newly articulated mission was to bring about small but positive changes to the world,²¹ focusing on the individuals (i.e., the "little guys") and the small merchants (see **Exhibit 1**). Eric carried Lucy Peng's, the former CEO, slogan forward: The word "ant" embodied the strength of "small" when all work towards a common goal, and the hope that Ant Financial would bring a new future through small and beautiful changes to everybody.²² Its vision was to achieve this from a

¹⁷ Personal communications with Eric Jing on May 2017.

¹⁸ *ibid.*

¹⁹ Osawa, J. (2014, December 7). Alibaba: Alipay processing more transactions through mobile devices: Mobile payments account for 54 out of every 100 payments. *The Wall Street Journal*. Retrieved from <http://www.wsj.com/articles/alibaba-alipay-processing-more-transactions-through-mobile-devices-1418000582>

²⁰ Personal communications with Eric Jing on May 2017.

²¹ Ant Financial Services Group. (2017). Our culture, About us. *Ant Financial Services Group website*. Retrieved from <https://www.antfin.com/culture.htm>

²² Millward, S. (2015, June 25). Alibaba launches online bank: "It's for the little guys, not the rich". *TechinAsia*. Retrieved from <https://www.techinasia.com/alibaba-launches-online-bank-mybank>

specific vantage point, which was “to use technology to enable partners to bring equal financial services to the world.”²³

So technology is the power, enabling is the approach, and equal financial services is the direction.... And “equal” means, it is inclusive. It is available to everyone. It should be accessible to everyone. It should also be affordable, offering a rich set of choices, not just payments, and it is commercially sustainable. These principles sound very simple, but actually in human history, they almost never happen (simultaneously).²⁴

Chen Long, Chief Strategy Officer of Ant Financial

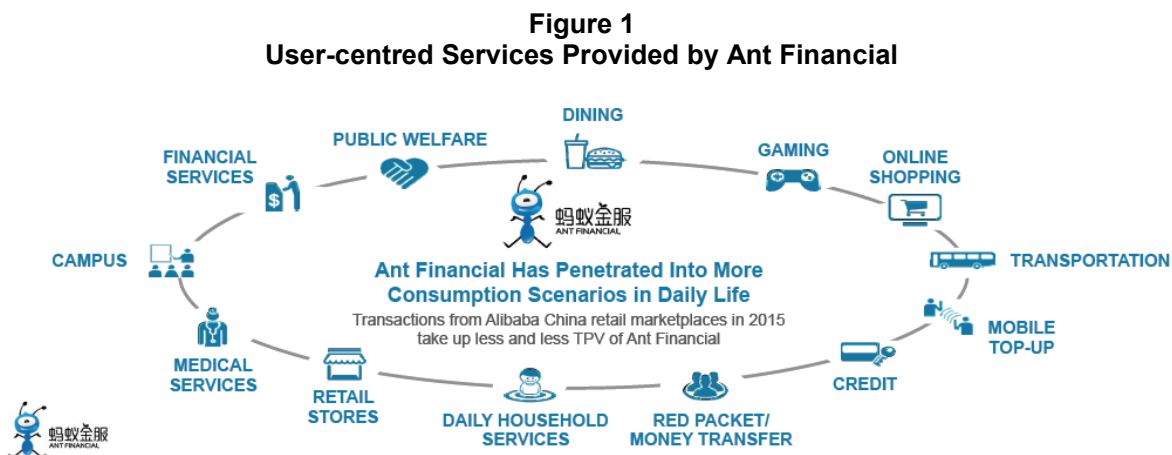
Eric said that finance was the core of risk management. The company utilised technology and data capacity to promote financial innovation, serve consumers and merchants, and enhanced the risk management ability. Towards achieving this vision, Eric and his team made every effort to enable its customers and its merchants by meeting their needs in real life.

To Be the Finlife Enabler for Customers

All our innovation started with one key point – to be customer-centric and how to solve the problems for the customers.²⁵

Eric Jing, CEO of Ant Financial

With its intense focus on customers, Ant Financial wanted to enable the financial life (Finlife) of its customers by embedding finance seamlessly with their daily transactions. Alipay Wallet (see **Exhibit 2**), for example, demonstrated its deep infiltration into the everyday life of its consumers. It extended the reach of Ant Financial’s online apps to offline merchants, which offered a wide range of user-centric services in places, such as shopping malls, convenience stores, taxis, cinema, restaurants, hospitals and government agencies. **Figure 1** illustrated how Ant Financial enabled the various consumption scenarios in the daily life of its consumers. Its intention was to progressively increase the number of active scenarios that it could penetrate through its financial offerings.



Source: Ant Financial Services Group

²³ Anadolu Ajansi. (2014, October 16). Official launch of Ant Financial Services Group brings new financial ecosystem to China. *Anadolu Ajansi website*. Retrieved from <http://aa.com.tr/en/archive/official-launch-of-ant-financial-services-group-brings-new-financial-ecosystem-to-china/110249?amp=1>

²⁴ Personal communications with Chen Long on May 2017.

²⁵ Personal communications with Eric Jing on May 2017.

*Finlife is not about Fintech. It is the combination of finance and real life, powered by technology. It is not about technology, it is about how to use technology to apply to finance to make it useful to consumers in the real world. It is a more mature stage of Fintech..... In the past, finance and various consumption, business and social scenarios are often separated. In the future, the two are becoming one. Finance should be seamlessly embedded within these scenarios, not separated.*²⁶

Chen Long, Chief Strategy Officer of Ant Financial

Ant Financial actively partnered with market leaders in various consumption industries. For food and dining, Ant Financial invested in Koubei.com (口碑), a lifestyle search engine that provided real-time consumption information, especially restaurants' information, and related discounts and coupons. Other domestic investments by Ant Financial included Chinese food-delivery app Ele.me (饿了么) and the taxi firm Didi Chuxing (滴滴出行). As users put in more money into their Alipay accounts to facilitate their daily consumptions, it also increased the likelihood that these users would continue to use its other financial services, such as Yu'e Bao.

Ant Fortune (蚂蚁聚财) was another example. Launched in 2015, Ant Fortune aimed to be a comprehensive wealth management platform that catered to individual consumers with little financial management expertise. It integrated Ant Financial's popular money market fund, Yu'e Bao, with thousands of third-party financial products available through Zhao Cai Bao.²⁷

*Some 70% of Chinese citizens do not buy financial products because most financial products in the market are designed for high-networth investors and portfolio management requires both time and expertise. Ant Fortune aims to provide investment options for those who are left out by the current wealth management products by lowering the entry threshold, and for those who have little time or know-how to grow wealth. We do not charge commission for the fund products as we launch Ant Fortune, simply to make sure that those who lack money to build a large portfolio have equal and fair access to manage their wealth.*²⁸

Leiming Yuan, General Manager of Ant Financial's Wealth Management Unit

In addition, Ant Financial also expanded to offer online insurance services to its consumers. In November 2013, Alibaba partnered with Tencent and Ping An Insurance to establish China's first and only company with an Internet insurance license, Zhong An Online P&C Insurance Co. (众安保险). Zhong An had underwritten over 630 million insurance policies and serviced 150 million clients in its first year of operation. Beyond just selling insurance online, it aimed to reshape traditional insurance by applying big data pricing and scenario-based innovation across the insurance value chain from product design to claims servicing. Zhong An's online operating model was attractive, with lower operating and distribution costs. Data analysis tools ensured accurate product pricing and adequate risk control. For example, its popular shipping insurance for returned purchases was priced at around RMB0.5 per policy. Ant Financial also opened up the online insurance platform to other insurance companies. By the end of 2015, there were 76 insurance players participating on Ant Financial's insurance platform with more than three million users. Ant Financial also invested US\$188 million to buy a 60% controlling stake in Cathay Insurance in 2015.²⁹ The investment helped Alibaba to broaden the available product range on Leyebao (乐业保), its online insurance sales platform, while creating insurance products to suit the needs of SMEs operating on Taobao.

In March 2017, Ant Financial announced its "next generation" wealth management platform, Caifu Hao (财富号), a new marketplace where third-party financial institutions could open their own shops and sell

²⁶ Personal communications with Chen Long on May 2017.

²⁷ Erikson, J. (2015, August 18). Ant financial app aims at simplifying investing for China's masses. *Alizila*. Retrieved from <http://www.alizila.com/ant-financial-app-aims-at-simplifying-investing-for-chinas-masses-2>

²⁸ Personal communications with Leiming Yuan on May 2017.

²⁹ *Asia Assets Management*. (2015, September 14). Ant Financial takes 60% stake in Cathay Insurance Retrieved from http://www.asiaasset.com/news/cathayAnt_da1806.aspx

their wealth management products, like a Tmall, to the financial market. It was accessible via Ant Fortune, which had already partnered with 100 funds. Caifu Hao would help financial institutions better target their customers and offer financial institutions more control over their products and content such as publishing their own investment analysis reports. In turn, individual customers benefitted from the improved user experience and more targeted product recommendations.³⁰

The successive series of Internet finance innovations were all aiming to address customers' financial needs or pain points (e.g., payment, insurance, financing and investment).

Technology fundamentally changes how finance reach your customers, serve your customers. Finance is with you anywhere anytime. We call this 無微不至 [literal translation: no detailed need that cannot be reached]. It is available, wherever you need it. Good finance is like tap water. You just open the tap and water flows out. Finance is like that. Wherever you need it – supply chain, sales, consumptions, you open the tap, and finance will just come for you.³¹

Chen Long, Chief Strategy Officer of Ant Financial

The success of Ant Financial was evident as measured by speed of customer acquisition: the period for a financial product to reach 100 million users was reduced from 31 months through insurance companies, down to 20 months through Yu'e Bao and then 11 months through Zhima Credit (芝麻信用).

To Be the CFOs (Chief Financial Officers) for the Merchants

When Eric was appointed to be the CFO at Ant Financial, he was missioned to innovate to address each new customer problem that emerged, Ant Financial also sought to enable its merchants, which were typically SMEs that seldom had the CFO expertise in obtaining bank financing. Providing small loans to these merchants was among the first enabling steps.

In June 2015, Eric took on his role as Chairman of Ant Financial's bank MYbank (网商银行) – the first Internet bank in the country. Mybank was established through a 30% stake in a joint venture comprising a group of private firms, including the China's largest privately owned diversified conglomerate.³² Eric pushed the "Internet accelerator" project that aimed to partner with 1,000 traditional financial institutions to transit to the Internet age. MYbank, a pure Internet bank, was one of the products that established relationships with hundreds of entities. The low operating cost allowed it to offer more attractive interest rates than traditional banks. MYbank was also Ant Financial's extension into the rural areas to tap the growing financing demands of underserved farmers and to support agricultural developments.³³ It aligned well with the Chinese government's plan to liberalise the banking and finance sector so as to make the economy more inclusive and to promote greater commercial opportunities in rural China.³⁴ To date, Ant Financial had provided micro-loan services to more than five million SMEs, with the total loan amount exceeding RMB900 billion. The average loan amount was lower than RMB30,000, and the average non-performing loan (NPL) rate was around 2 – 4%.

³⁰ Xiao, E. (2017, March 29). Jack Ma's Ant Financial to build an open marketplace for finance products. *TechinAsia*. Retrieved from <https://www.techinasia.com/ant-financial-to-launch-caifu-hao>

³¹ Personal communications with Chen Long on May 2017.

³² Tham, E., & Carsten, P. (2015, June 25). Alibaba affiliate launches Internet bank for SMEs, "little guys". Retrieved from <http://www.reuters.com/article/us-alibaba-banking-idUSKBN0P50WF20150625>

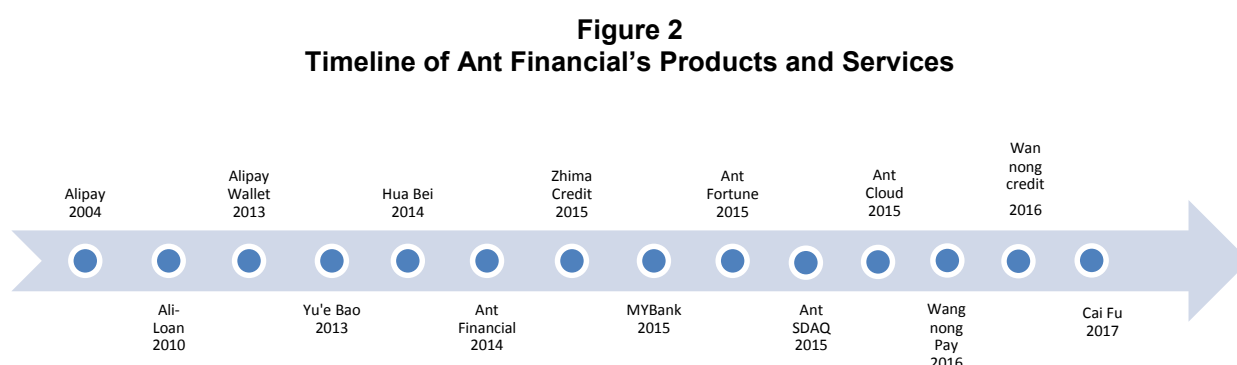
³³ Liu, S. (2016, May 24). Will Ant Financial become wildly successful like Taobao? *CKGSB Knowledge*. Retrieved from <http://knowledge.ckgsb.edu.cn/2016/05/24/internet-finance/will-ant-financial-become-wildly-successful-like-taobao>

³⁴ Wang, S. (2015, March 17). Ant Financial brings biz loans, investment products to rural China. *Alizila*. Retrieved from <http://www.alizila.com/ant-financial-brings-biz-loans-investment-products-to-rural-china-2>

In 2015, Ant Financial launched crowd-funding³⁵ site Antsdaq (蚂蚁达克), after it managed to get the country's first equity-based crowd-funding license. The intention was to open a new financing channel for SMEs. By utilising its huge customer base, Ant Financial had already gathered considerable personal information of potential investors, allowing it to seek large buyers and venture deeper into equity crowdfunding.³⁶

To expand the business growth, Ant Financial continued to leverage its relationship with Alibaba to bring more merchants on-board. Alibaba's efforts towards online-to-offline (O2O) commerce were a big boost. One example was Alibaba's \$4.6 billion tie-up with brick-and-mortar electronics chain Suning Commerce (苏宁云商), one of China's largest consumer electronics retail chains. Such partnership brought new customer access from the heavy offline retail traffic, as each offline business that Alibaba partnered with would require the payment services of Ant Financial by default. As Alibaba's strengthened its O2O commerce with offline merchants and government agencies, Ant Financial also entrenched itself as the financial payment medium for these transactions.³⁷ In the same way, Koubei, the joint venture set up by Alibaba and Ant Financial to connect local offline food merchants to consumers,³⁸ was also a notable initiative in growing O2O commerce. "Harnessing the power of mobile commerce and data, Koubei will build synergies between offline consumption and Internet-based offerings that will transform China's local services market," said Samuel Fan, the CEO of Koubei.³⁹

Figure 2 showed the timeline and the major financial products and services launched by Ant Financial over the years. By 2017, Ant Financial had more than 520 million annual active users.



Source: Ant Financial Services Group

STRATEGIC LEVERAGE THROUGH DATA ANALYTICS

Supporting the slate of financial innovations were the vast data resources from various e-commerce databases (e.g., B2B platform, Taobao platform, Alipay platform and external data). Data analytics were applied extensively in marketing, credit policy and risk management. **Figure 3** showed an overview of how Ant Financial leveraged data as a strategic resource.

³⁵ The majority of crowdfunding platforms involved selling ownership, known as equity-based crowdfunding. Some operated a rewards-based scheme, where in exchange for a contribution, they gave the investors the finished product.

³⁶ *JPMNews*. (2016, April 21). Equity crowdfunding experience wild growth: Catering may become a hit. Retrieved from <http://www.jpm.us/crowdfunding/article-218-1.html>

³⁷ Erickson, J. (2016, June 23). Alibaba and Ant Financial to invest nearly \$1 billion in local services JV. *Alizila*. Retrieved from <http://www.alizila.com/alibaba-ant-financial-invest-nearly-1-billion-local-services-jv-2>

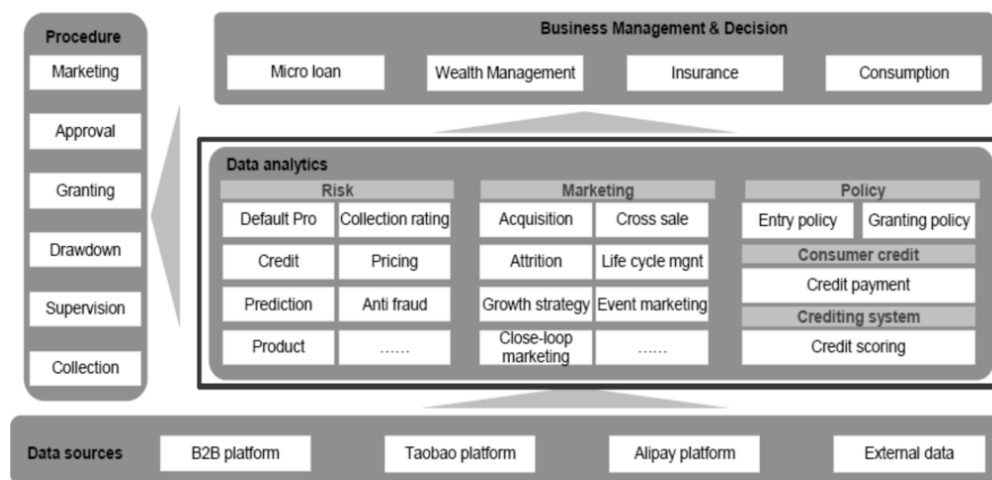
³⁸ Koubei served as a channel through which consumers could gain access via Ant Financial's Alipay Wallet app and Alibaba's Mobile Taobao app.

³⁹ Erickson, J. (2016, June 23). Alibaba and Ant Financial to invest nearly \$1 billion in local services JV. *Alizila*. Retrieved from <http://www.alizila.com/alibaba-ant-financial-invest-nearly-1-billion-local-services-jv-2>

Analytics were applied heavily to understand customer behaviours and preferences, as Ant Financial devised customised marketing and customer acquisition strategies. For example, “we discovered that [China’s] post-80s, and especially its post-90s generation, increasingly want more personalised and segmented financial products,” stated Zu Guoming, President of Ant Fortune. Caifu Hao, the next generation wealth management platform, was another example. Caifu Hao would offer third-party financial institutions more data to improve their customers’ user experience and for more targeted investment recommendations.

Analytics were also heavily deployed in credit assessment. In many ways, the success of Ant Financial was attributed to its sophisticated analytics-based credit assessment capability through Zhima Credit, a comprehensive credit scoring system that leveraged its vast online transaction data sources (e.g., shopping and payment data on e-commerce platform) in combination with other offline data. This credit scoring system was different from the traditional banks’ credit scoring system, which relied on the individual demographic and wealth related information, such as income level, residential address, and tax assessment.

Figure 3
Leveraging Data Analytics as a Strategic Resource



Source: Ant Financial Services Group

It is a credit system. Credit is not about lending per se, it is about how trustworthy you are. In China, it is still very underdeveloped. China Central Bank Credit Centre claims that it covers about 300 million people but it is only a small portion of the adults. Still, about 2/3 of people in China lack credit record. But credit system is the basis of finance because it gives a lot of information to do risk assessment, to provide financial services. So, this is the building block we are hoping to develop, a credit system for everyone. For this segment of people, we can use their footprint on the Internet to turn into credit (record). You can imagine if every farmer, villager has a credit scoring system, an honest credit system, then they can get more finance. Then the right financial service becomes possible.⁴⁰

Chen Long, Chief Strategy Officer of Ant Financial

Driven by Eric, such credit scoring services were also increasingly provided by Zhima Credit to other organisations, such as lending and e-commerce sites (for fraud and credit management), online dating sites (to facilitate customer identification) and travel sites (for premium services to high-value clients based on credit rating). Customers with higher credit scores had special privileges, such as renting

⁴⁰ Personal communications with Chen Long on May 2017.

vehicles or apartments without an initial deposit, more expedient hotel checkouts and even fast-tracked visa application for international travel.

Credit is a different type of capital. It is not the money capital. Credit is a capital for trust, and this capital for trust can be used in many areas beyond finance. Traditionally, we think of credit as lending in the narrow finance side, bank loans. But it is not only loans. In many other areas, trust is needed. In a real world, whenever you see a service that requires you to pay deposits, that means there is a lack of trust. So if you have a Zhima score over some number, let's say 600 or 650, you don't need to pay deposit. It is good for customers, it is also good for startups or businesses (e.g., bike rental, car hire, hotel, library) as they don't have to worry about the safety of keeping such deposits. This is the trust economy, where trust is the new production input. ...With this trust capital, you can allocate resources according to the degree of trust. Trust is needed in many other commercial and social aspects. It is really much more beyond just finance.⁴¹

Chen Long, Chief Strategy Officer of Ant Financial

Finally, a large focus in analytics was targeted at fraud detection and risk management. Ant Financial realised that jumping into Internet finance with insufficient risk identification and management could bring major losses to businesses and individuals, and even severe financial crisis. This was particularly pertinent as China's regulators (e.g., PBOC, the China Banking Regulatory Commission, the China Securities Regulatory Commission and the Insurance Regulatory Commission) began to tighten the supervision of Internet finance services (e.g., online payment, Internet banking, wealth management, P2P [peer to peer] lending) and imposed more stringent rules and guidelines to reduce financial risks (see **Exhibit 3** for an overview of recent rules and guidelines). To safeguard against these risks, Ant Financial systematically leveraged data analytics to institute various risk control and regulatory compliance practices. It used customers' real-name registration and prudent KYC (know your customer) policy, practised compliance, checked investor suitability and proper custody of client funds, managed merchant accounts daily, and monitored anti-money laundering (AML) and possible terrorist financing. For example, big data analysis of indicators such as future redemption ratio to predict fund flows helped to ensure the liquidity and safety of Yu'e Bao.

We keep stressing risk management. How can you strike a balance between compliance and innovation? That's really, really important. We are using technology to reshape, to reengineer financial services, so we really need to have deep understanding of the related risks. How can we build that risk management system to prevent those risks? It is not just about growing fast but also about growing sustainably. If you walk with firm steps, you walk longer [Chinese proverb]!⁴²

Eric Jing, CEO of Ant Financial

Customer profiles and their transactional data from various sources were analysed to classify their risk profiles and to conduct pre-issue prevention, live issue monitoring and post-issue audits. Roughly 80% of risk-related issues could be resolved in the intelligent risk management process, based on real data from different transaction scenarios over time.

Finance should be [anchored] in the real life. When finance is tightly linked to [real use], risk management is much easier. You cannot talk finance per se because finance should serve a real-life purpose. Otherwise, it is empty and it is risky.⁴³

Chen Long, Chief Strategy Officer of Ant Financial

⁴¹ Personal communications with Chen Long on May 2017.

⁴² Personal communications with Eric Jing on May 2017.

⁴³ Personal communications with Chen Long on May 2017.

Under the leadership of Eric, the company would leverage their advanced data analytics to enhance the risk management ability of financial institutions and help financial institutions upgrade comprehensively. The sophisticated use of data analytics had proven to be effective. A comparative analysis, for example, showed that the fraud loss rates in leading traditional US payment companies (e.g., credit card companies) and US new payment companies (e.g., online payment companies) were one out of 100 and one out of 1000 transactions, respectively. The fraud loss rate for Alipay transactions, however, was less than one out of 100,000.

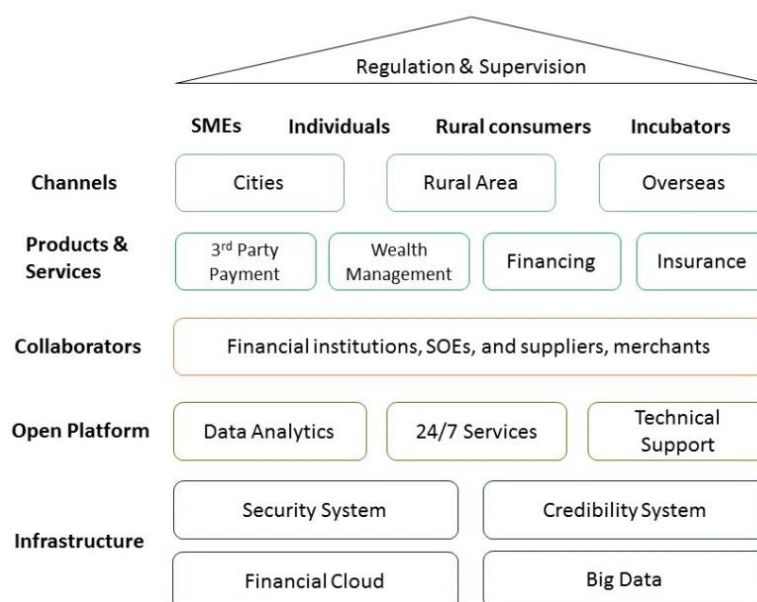
SECURED, RELIABLE AND SCALABLE TECHNOLOGY INFRASTRUCTURE

People think Alibaba is an e-commerce company. They think Alipay is a financial service company. Because we are so successful in e-commerce and financial service, so people forget that we are really powered by tech.⁴⁴

Chen Long, Chief Strategy Officer of Ant Financial

Underlying the application and data layers was a set of secured, reliable and scalable technology infrastructure that Ant Financial had built over the years (see **Figure 4**).

Figure 4
Ant Financial's Secured, Reliable and Scalable Technology Infrastructure



Source: Created by authors.

For the middle layer – the platform on which you can easily deploy, launch new apps, new application space, we are the pioneer in this sector, in terms of scale, in terms of depth. No one has the capability to do that so we have to build ourselves. We are definitely the leading players in this sector not only in China but also in the world.⁴⁵

Eric Jing, CEO of Ant Financial

⁴⁴ Personal communications with Chen Long on May 2017.

⁴⁵ Personal communications with Eric Jing on May 2017.

Cloud computing was deployed to ensure cost efficiency and system stability of the Ant Financial platforms. For example, the per transaction cost for the Alipay platform was below RMB0.02. As a result, Alipay could afford to charge only 0.6% of the processing charge to merchants versus the 3% charge by typical credit card companies. Advanced security technologies were also applied to ensure careful risk control for confidentiality, integrity and availability. The strong technology capabilities of Ant Financial were partly attributed to Alibaba, which had been an early adopter of cloud computing infrastructure and became a major player in offering cloud services with the third largest cloud capacity in the world. The technological prowess of Ant Financial was clearly evident in its smooth handling of the humongous transaction volume on Single's Day on 11 November (i.e., deemed as the world's biggest online shopping day):

On November 11 last year [Single's Day], 120.7 billion RMB were sold online on that day. 82% was done by mobile Internet. In order to support the volume of transactions, in the first hour, our peak processing speed reached 120,000 transactions per second. What's the comparison? Visa is the largest payment platform and its peak speed as publicly announced is 14,000 per second. At 120,000 per second, we are almost 10 times higher. On the same day, Alipay received more than eight million calls and requests for information. If we had to feed actual customer service people to handle that load, it would be crazy. The fact is that 97.5% of that was handled by artificial intelligence. And on that day, more than 600 million insurance policies were sold to the goods delivered. If there is any claim to be processed, 90% will be processed automatically without physical human interference. That's why every year, the pressure of that day [Single's Day] for processing is skyrocketing.⁴⁶

Chen Long, Chief Strategy Officer of Ant Financial

Ant Financial announced the start of its financial cloud services in 2015. It wanted to grow its business in building cloud-based IT systems for financial institutions. Similar to Alibaba's cloud computing service provider Aliyun, Ant Financial Cloud (蚂蚁金融云) could connect more than 5,000 devices to one cluster base on its cloud server. Smaller financial institutions could purchase services according to their own needs using Ant Financial Cloud, saving all the trouble of setting up a system by themselves. Since its establishment, Ant Finance Cloud had gained significant traction with an estimated 40+ banks subscribing to its financial platform.

EXPANDING THE DIGITAL ECOSYSTEM FOR INCLUSIVE FINANCE

"We have an ambition to be a global company," said Eric. In line with the government's commitment to improve financial inclusion, Ant Financial also actively collaborated with the banks and other big players to make finance more accessible. It deepened its cooperation with the Postal Savings Bank of China, China's largest lender by branch network with 40,000 branches, to improve the speed and convenience of its account opening process. Ant Financial had attracted significant strategic funding from established state-supported institutions and enterprises, such as National Council for Social Security Fund (NSSF), China Development Bank and Postal Savings Bank of China.⁴⁷

You have to think about the future of rural business, this is the blue ocean and this is an area that a lot of inclusive financial services can be done. In the past five years, more than 20 million people become urbanised every year. One-third of our customers were actually from the rural countryside. According to a report by China's Payment and Settlement Association, the percentage of mobile payment penetration is already higher in the county level than the province capital level. The whole supply chain of the rural business is going through a fundamental change. The way you sell stuff changes. A lot of sales go through Taobao, Tmall platforms for agricultural products. Taobao is the largest platform in China for agricultural

⁴⁶ Personal communications with Chen Long on May 2017.

⁴⁷ *Sohu News*. (2015, February 14). 谁主蚂蚁金服:即便6成股权融资 阿里仍有绝对话语权. Retrieved from <http://business.sohu.com/20150214/n409016686.shtml>

*materials, fertilisers and all that. The way you buy stuff changes. It is powered by technology now.*⁴⁸

Chen Long, Chief Strategy Officer of Ant Financial

Going rural was also a strategic thrust of Alibaba, with its plan to cover more than 1,000 counties and more than 100,000 villages within the next several years. In these villages, there would be service spots that villagers could go to and do the buying and selling through digital devices. Starting by offering its Alipay payment services, Wangnong Pay (旺农付), an online payment Internet recharge and fund transfer services for rural users, Ant Financial also offered Wangnong Credit (旺农贷) as credit solutions to supply funds earmarked for the procurement of agricultural equipment more financial services to help these villagers in due course. For example, one rural reform initiative was to facilitate and link up the information flow between the agricultural supply chain and finance (i.e., loans from financial institutions are not directly disbursed to villagers but to firms that supply agricultural or farming products).

Jack Ma was even more ambitious in championing his idea of enabling SMEs and their related financing needs, not just in China, but also globally.

*Jack Ma spoke about this concept of e-WTO [World Trade Organization]. An e-WTO is very much like Alibaba. He wants to promote international trade for SMEs and customers. If you have that [an e-WTO like Alibaba], from our past experience, he knows that we need to have the financial support for the SMEs across the world. It is natural to that that we probably will also need a private version of the World Bank to address the development issues. For us, we could be like a private enterprise version of the World Bank to serve the SMEs across the world.*⁴⁹

Chen Long, Chief Strategy Officer of Ant Financial

While it might seem like a distant and far-fetched dream, it was an ideal that many senior executives in Ant Financial were firmly committed to.

*I have been in finance for a long time and I have met finance professors and many finance practitioners, I almost never heard anybody talk about the dream of finance. In finance world, we are so used to the language of Wall Street. Where is the next profit opportunity? It is very function-driven, product-driven. [But] if you look at any successful technology company, when they talk about the future, they don't talk about how much money can be made, but more about how to solve problems for society, where is the pain points of the customers. The purpose of finance is to help society achieve its goals so it actually has its dreams. But in finance, we almost never talk about it....*⁵⁰

Chen Long, Chief Strategy Officer of Ant Financial

LOOKING AHEAD – CHALLENGES AND OPPORTUNITIES FOR ANT FINANCIAL

The growth of Ant Financial was nothing but spectacular. Its flagship product Alipay handled the bulk of the online payments in the country.⁵¹ In 2016, the average daily transaction on Alipay was about 10 times that of Paypal. Ant Financial's money market fund, Yu'e Bao, since its launch in 2013, had grown to become the world's largest money market fund with RMB578.93 billion (around US\$93.25 billion) in

⁴⁸ Personal communications with Chen Long on May 2017.

⁴⁹ *ibid.*

⁵⁰ *ibid.*

⁵¹ Wu, K. (2016, April 26). China's Ant Financial, now valued at \$60 billion, draws mighty allies. *Wall Street Journal*. Retrieved from <https://www.wsj.com/articles/alibaba-affiliate-gains-clout-in-chinas-financial-system-1461671985>

assets at the end of 2014.⁵² To date, Ant Financial had developed a full spectrum of financial products from payment to wealth management, to loans and banking, and even to crowdfunding and insurance services. Within three years since its incorporation, it had become the world's largest Fintech company with more than 450 million annual active users of its services. Even in developing digital inclusive finance, its social and economic impacts were noteworthy. More than 150 million active Alipay users and more than 40 million wealth management clients of Ant Financial were in the rural areas. In addition, Ant Financial also served about 180,000 rural SMEs with cumulative micro-loans of more than RMB130 billion. With innovative products such as "wind index" insurance (to alleviate agricultural loss due to weather), it had also gained significant ground with more than 130 million insurance clients. At the same time, Ant Financial was helping to enhance the capability of financial institutions in rural areas, with the provision of cloud services to about 100 such financial institutions.

Wary incumbent banks and financial institutions had responded with various initiatives to meet the rising competitive threats posed by Ant Financial. For example, the rapid rise of Yu'e Bao's popularity led to many traditional asset managers launching new online funds, such as China Asset Management's Cash Income Money Market Fund with Baidu. Although still in its early days, ICBC's quick payment tool ICBC e-Payment already had 60 million customers in September 2015. Ant Financial, however, argued that it was positioned differently and was committed to collaborate with the incumbent financial institutions to create an open financial ecosystem.

*The relationship between traditional finance and Fintech is one that is complementary and mutually stimulating. This is not a zero sum game. We complement the gaps left by the banks. Take the example of micro-loans. We focus on the capillaries, the micro-loans, while traditional banks do the bigger loans. We are collaborating with many financial institutions.*⁵³

Chen Long, Chief Strategy Officer of Ant Financial

Ant Financial adopted an open collaboration approach in working with the traditional financial institutions. Indeed, it already had more than 400 financial partners and worked with more than 200 banks, 100 firms and about 80 insurance companies. Even the acquisition of a banking license by Ant Financial through MYBank was intended for its learning and experimentation. The objective was to develop proof of concept to serve as pioneering examples in driving new Fintech innovation.

Already, the success of Ant Financial has led to talks about it going for IPO in Hong Kong in 2017 (probably worth US\$75 billion),⁵⁴ though the company insisted it doesn't have a timeline for IPO. A projection by Bloomberg based on Alibaba's filing estimated that Ant Financial pre-tax profit jumped 86% to \$5.56 billion yuan (US\$814 million) in the year ended March 2017.⁵⁵ Yet, there are uncertainties in the journey ahead for Ant Financial. There were challenges to be tackled and opportunities to be seized.

⁵² Shaffer, L. (2015, July 16). How China's stock rout disrupted online funds, in a good way. *CNBC*. Retrieved from <http://www.cnbc.com/2015/07/16/how-chinas-rout-disrupted-online-funds-like-alibabas-yue-bao-in-a-good-way.html>

⁵³ Personal communications with Chen Long on May 2017.

⁵⁴ *Fintechnews Singapore*. (2016, September 21). Ant financial worth US\$75B, considers IPO in HK next year, all facts you have to know about Alipay. Retrieved from <http://fintechnews.sg/5558/fintech-ipo/ant-financial-worth-us75b-considers-ipo-in-hk-next-year-all-facts-you-have-to-know-about-alipay>

⁵⁵ Chen, L. Y. (2017, Jun 22). Jack Ma's Ant Financial nearly doubles profits amid deal push. *liveMint*. Retrieved from <http://www.livemint.com/Industry/brqCHHuYL19ODFVJEaiWMN/Jack-Mas-Ant-Financial-nearly-doubles-profits-amid-deal-pus.html>

THE INTENSELY COMPETITIVE FINTECH LANDSCAPE

A key challenge was to continuously innovate in the intensely competitive Internet finance landscape. With the rising interest on Fintech,⁵⁶ the other Internet giants also entered into Internet financing through their various vantage points (e.g., e-commerce, messaging, and search), aggressively creating their own financial platforms and investing heavily in emerging technologies for next generation financial services.

Tencent (腾讯) – with its over 650 million active users, was the biggest competitor for Ant Financial. Tencent's Tenpay (which include WeChat Pay 微信支付) was a special mobile payment tool that was linked to a social platform – WeChat (微信) – which was one of most popular instant messaging applications in the world. Although Alipay was the largest online payment gateway in China, accounting for half of Chinese third-party online payments and 68.4% of the mobile payment market, Tencent's Tenpay had been steadily gaining market share. One recent survey showed that Tenpay accounted for 37% in China's online payment market in 2016 (compared to Alipay's 54.7%), given its deep social media penetration through WeChat and QQ.⁵⁷ Tencent also adopted a platform strategy in broadening its Internet finance offerings. In 2014, Tencent introduced a “wealth” function into WeChat allowing users to store savings in the investment fund without minimal deposit requirements and to earn an annual interest rate. In 2015, Tencent launched WeBank to serve borrowers in a small scale. In 2016, Tencent rolled out to its hundreds of millions of users the application for micro-loan directly from Weilidai (operated by WeBank), a loan feature accessible through WeChat. The biggest handicap for Alipay in competing against Tencent was that they did not have a social media platform as popular as WeChat. For example, WeChat's red envelopes (微信红包) which capitalised on China's tradition of cash gifting during the festive seasons was instrumental in its rapid expansion of its user base. Tencent's WeChat sent 32 billion digital red envelopes over the 6-day Chinese New Year holiday in 2016, logging in those few days more than six times the 4.9 billion mobile and online transactions PayPal did for the entire 2015. Jack Ma called it a “Pearl Harbor Attack” on Alipay. In just the past two years, WeChat's share of mobile payment market more than quadrupled to 37%, while that of Alipay tumbled to 54%, down from 79% in 2014.⁵⁸

JD Finance (京东金融) – China's second-largest e-commerce firm JD.com Inc. had also entered the Internet finance business through JD Finance. The business scope of JD Finance covered supply chain finance, consumer finance, wealth management, crowd funding, insurance and security.⁵⁹ To compete with Alibaba, Tencent and JD.com established a strategic partnership in 2014 by embedding a “buying platform” to shopping on JD.com. The two companies integrated the WeChat's user data with its JD.com's customer purchasing data to serve its suppliers through this “buying platform”.⁶⁰ Like Ant Financial, JD.com also started to offer supply chain financing to its suppliers, and consumer financial products to its customers since 2016. It also bolstered its O2O offerings by investing in Chinese supermarket chain Yonghui.

Baidu (百度) – China's largest searching engine company was another strong player. In October 2013, Baidu launched a wealth management product called “Baifa” with an annual interest rate of 8%. This was in collaboration with Huaxia Fund. In addition, Baidu has its own personal loan platform called Baidu Finance, which allowed customers to borrow up to 10 times their monthly income with a flexible repayment term up to three years. In 2015, Baidu partnered with China Citic Bank to establish a direct

⁵⁶ A survey from *The Economist* had shown that about 57% bankers thought that Fintech would at least equally share the financial market with incumbents in the future, and 5% of bankers thought that Fintech would dominate the future financial market. The Economist Intelligence Unit. (2015). *The disruption of banking*. London, UK: Author. Retrieved from https://www.eiuperspectives.economist.com/sites/default/files/EIU-The%20disruption%20of%20banking_PDF_0.pdf

⁵⁷ More details of Tencent products and services were available at <https://www.tencent.com/en-us/system.html>

⁵⁸ Osawa, J., & Sullivan, M. (2017, April 18). In China, Tencent's WeChat threatens Alibaba's Alipay. Retrieved from <https://www.theinformation.com/in-china-tencents-wechat-threatens-alibabas-alipay?shared=f0ddfa>

⁵⁹ *ibid.*

⁶⁰ Yao. (2017, January 31). JD.com: A Winner as E-Commerce Grows in China. *Harvard Business School website*. Retrieved from <https://digit.hbs.org/submission/jd-com-a-winner-as-e-commerce-grows-in-china>

bank.⁶¹ In 2016, Baidu launched another online investment fund called “Baifa Youxi” or “Baifa Me” which “lets users crowd-invest in upcoming movies and television shows” and offered a high interest rate.

Other new entrants into Internet finance include hardware seller Mi and LeTV 乐视 (penetrated into the mobile operating system sector and operated Internet financial products and services related to daily scenes), taxi booking app DiDi (penetrated into the vehicle insurance and loan market sectors), and Renrentou.com which had 165 equity crowdfunding projects.

Facing intense competitions on various fronts, Ant Financial needed to establish their niche and be continuously innovative. Eric, however, felt that its biggest competitor was itself.

*The real competitor is really ourselves. It's ourselves. We shouldn't lose faith in the mission and vision and lose sight of our customers. For our place in the market, you have to keep your ears open, eyes open, looking at what market intelligence. Keep watching but your eyes should not be focusing on that, [but] keep focusing on the mission and the customers. Once you get into the competition, you always keep looking at the ball. But it is not about the ball. It is about how well we have the ball.*⁶²

Eric Jing, CEO of Ant Financial

Deep down, Eric also recognized that the competition was not just on continuous product innovation, but a competition in attracting and managing talents. He shared his biggest concern for Ant Financial:

*[My biggest worry] is do we have enough talents in the company? We are a tech company, and new technology keeps coming out. Can we master those new technologies and use that to shape our business, to bring our business to the next level? So you have to have good people. When we go abroad [for talents], we have different people speaking different language in different countries. How can we work as a team? How can we trust each other? How can we make sure the culture is not diluted? How can keep our people thinking that we are still startup? It is important to make sure that everyone believes in the mission, everyone believes in the dream!*⁶³

Eric Jing, CEO of Ant Financial

EXPANDING ANT FINANCIAL'S FINTECH MODEL OVERSEAS

Moreover, there were significant opportunities for Ant Financial to expand beyond China. Already, Alipay had expanded its payment services overseas, with the launch of “Local Services Platform”, an Alipay platform on which overseas merchants could be connected with over 200 million Chinese tourists as they travelled overseas. Popular overseas merchants included Uber, Airbnb, Macy's, AXA and Ingenico, Europe's largest payment gateway.⁶⁴ Alipay also launched a transnational collaboration initiative called “Project Alipay+” to garner offline retailers to make it more convenient for Chinese tourists to pay.⁶⁵ Currently, Alipay already had a network of close to 100,000 retailers in 70 countries. With the recent acquisition of Lazada by Alibaba to expand into the Southeast Asia e-commerce market, Ant Financial also reaped the benefits of payment integration with Lazada customers being able to pay through Alipay.

⁶¹ *The Paper News*. (2015, November 18). BAT 金融战可以开打了：百度与中信银行合伙开“百信银行”。 Retrieved from http://www.thepaper.cn/www/v3/jsp/newsDetail_forward_1397861

⁶² Personal communications with Eric Jing on May 2017.

⁶³ *ibid.*

⁶⁴ Ant Financial. (2016, July 07). Alipay launches global partnership project to expand overseas services. *Ant Financial website*. Retrieved from <http://www.antgroup.com/newsDetail.html?id=57b2c334bd46051b718c4024>

⁶⁵ *ibid.*

More importantly, Ant Financial was hoping to bring its success of Internet finance to the underserved in many emerging countries. "Our mission is that we want to serve two billion people in the next decade!" noted, Eric.

Because we have seen how powerful technology is in China, how we are using technology to change the lives of very ordinary people, those underserved people, really making a huge difference in their lives. We are so inspired that we want to replicate into every part of the world, to democratise financial services, especially to the unbanked and underserved in the emerging markets. We are using technology to let them have access to financial services.⁶⁶

Eric Jing, CEO of Ant Financial

In 2015, Ant Financial ventured into India by purchasing about 40% of Paytm (India's largest e-commerce platform with 122 million users and 23 million mobile wallet users) for US\$680 million and another US\$100 million for the online marketplace Snapdeal, which gave it an immediate payment foothold in India. In addition, Ant Financial also bought a 20% stake in Ascend Money on 1 November 2016, an online payment provider based in Thailand. More recently, Ant Financial also raised its bid for MoneyGram in the US (with its presence in 350,000 locations across 200 countries) to build up its cross-border remittance capability. **Exhibit 4** presents Ant Financial's global expansion footage.

Our philosophy is that we do not do it on our own. We find a partner that share a common vision there to make a difference. The partner we have knows the [local] regulation, and we try to use technology to enable them. We not only give the money. The most important thing to them is the core technology and know-how. We inspire them to share our history, share how we keep innovating, how we look at product development.... So we choose a partner, help them succeed, help them build local systems, and we want to make that a new global alliance.⁶⁷

Eric Jing, CEO of Ant Financial

For us, globalisation means localisation. When we globalise, we do not open another branch in another country. It is not our way. But we find a local partner. It is localisation, because finance is very local. Different countries have different customs and cultures, so you need people to be very local.⁶⁸

Eric Jing, CEO of Ant Financial

A global alliance was Ant Financial's attempt to create a financial inclusion ecosystem that gave better access to all people to financial services.

Providing inclusive financial services as a platform – this is what we see as a new version of the financial system in the future. It is good supplement to the current financial system. We are doing this because we are reaching out to a lot of people that were originally underbanked, underserved, and we see that this system can be replicated in many countries. Paytm in India is one example. Two years ago, when we started to work with them, they had 20 million customers. Now they have 200 million. So, you can see that this model can be replicated in many countries, especially countries with huge population but very underserved financial service. The example show globalisation has a huge future and we have different rules. That's how we go global.⁶⁹

Chen Long, Chief Strategy Officer of Ant Financial

⁶⁶ Personal communications with Eric Jing on May 2017.

⁶⁷ *ibid.*

⁶⁸ *ibid.*

⁶⁹ Personal communications with Chen Long on May 2017.

Was the achievement of Ant Financial in China and its venture in India's Paytm a statement that its success formula was readily replicable overseas? What would it take to build comparable platform and ecosystem outside of China? How should Ant Financial formulate its globalisation strategies going forward? This was particularly pertinent given the need to balance the trade-offs between sustaining its rapid domestic growth and pursuing international expansion opportunities.

WE ARE A TECHFIN, NOT A FINTECH COMPANY

Despite the chaotic competitive landscape and the dynamic uncertainties ahead, one thing that was clear, however, was how Ant Financial saw its differentiated position as a Techfin rather than a Fintech company. It emphasised its technology as its unique edge. While Techfin also recognised that technology could reduce cost and increase the effectiveness of traditional finance (like Fintech), it was more than that. Techfin also emphasised the radical reimagining of customer's financial experience through technology.

But Techfin is far beyond this. Technology must recreate the financial experience. It is a new experience. For example, mobile payment is a new experience. It is a lifestyle in China but you don't see (such pervasiveness) in most of the other countries. Our 310 experience in micro-loan – three minutes to apply, one second to get money, zero personnel involved, that kind of experience has never been experienced in history. We don't change the nature of finance, but we change the experience. If you look at Yu'e Bao, it reduced the threshold of wealth management to just one yuan. We know that if you want to make any progress, it has to be something new that [radically] addresses the pain points in real life, not just a repetition of the current status quo.⁷⁰

Chen Long, Chief Strategy Officer of Ant Financial

Seeing itself as Techfin also ensured Ant Financial kept the mindset that it was inherently a tech company and was "to do more tech and let the financial institutions do more fin".

As Techfin, we are from a tech position, a tech company. We are using tech to enable things. We are an enabler. To enable I mean we have different platforms. We are part of every financial institution to help them innovate, to reach out to the people that they cannot serve well previously, to help them to use tech to create a risk management system. So we are enabler. We are enabling our consumers through our business platforms. Look at our investment platforms. Look at all these platforms. We enable different service vendors to create and provide functions to serve consumers and merchants. We enable merchants to help merchants serve consumers. Then we go abroad, again as enabler. We find a [local] partner and help them succeed. We enable Paytm. Platform is the essence, the core essence of that is enabler. We enable everyone in the ecosystem. The very, very core philosophy for us is to be an enabler. That's why I say we are Techfin [not Fintech], using tech to enable things!⁷¹

Eric Jing, CEO of Ant Financial

How would this clarify of its strategic edge shape Ant Financial's directions going forward? Where should it place its investment bets? With its deep focus on technology, how could Ant Financial help to reimagine the new financial experience for customers? What new and exciting ideas could it experiment with? How could it help to dream a bigger dream for a Finance of the Future?

⁷⁰ Personal communications with Chen Long on May 2017.

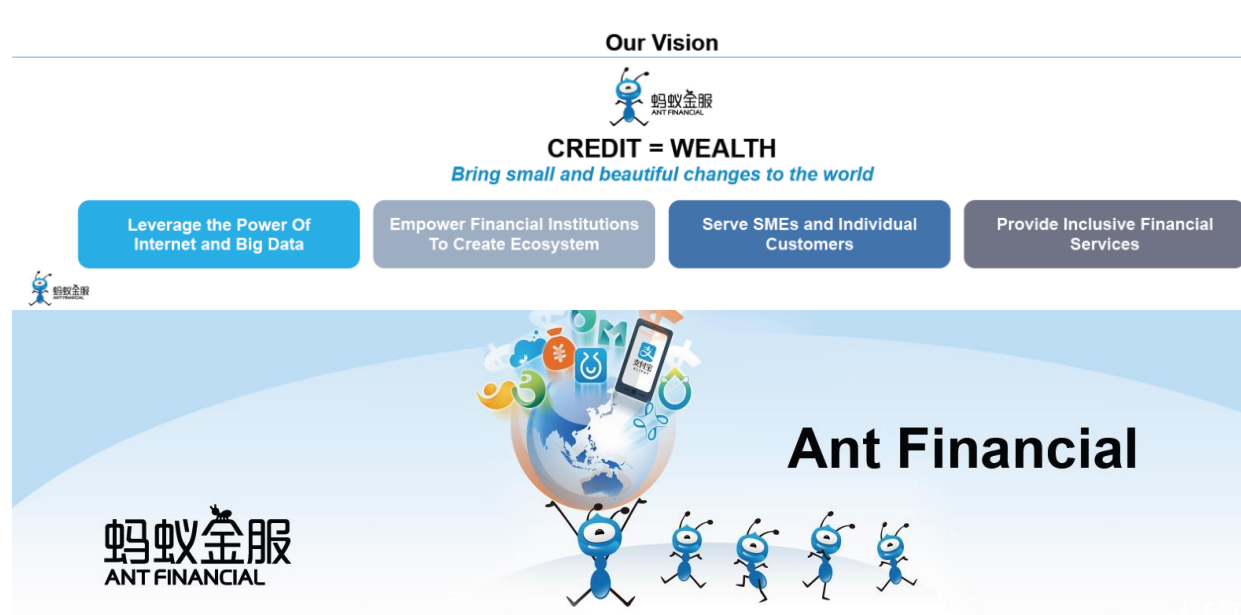
⁷¹ Personal communications with Eric Jing on May 2017.

Holding firmly to the dream of “bringing small and beautiful changes to the world”, Eric was determined in the pursuit of its growth strategy, i.e., to go rural, to go global, and to continuously generate and feed its business ecosystem with more data. Using technology to drive financial inclusion, its stretched target was to serve two billion customers globally by 2025 (in 10 years). Was the stretch target overly ambitious? Would the current growth strategies be sufficient to deliver the growth? Now, the hotly anticipated IPO had yet again deployed its plan for another year, Eric, sank back into his sleek black office chair, ready to articulate his thoughts in an email to his management team. What more needs to be done to push the company forward to in its path of growth and success? What should be the strategic next steps for Ant Financial?

A hard-working executive, whose drive was apparent, his internal email had the following line as its signature: Life wants one thing from us, our best. If we give life our best, it will give us its best.

EXHIBIT 1

ANT FINANCIAL'S VISION STATEMENT



Source: Ant Financial Services Group

EXHIBIT 2

SNAPSHOTS ON THE KEY FEATURES OF ANT FINANCIAL APP



Source: Screenshot of Alipay iPhone application.

EXHIBIT 3

GENERAL GUIDELINES AND REGULATIONS ON INTERNET FINANCE

Regulation on P2P

In the P2P sector, nearly one-third of all online financing platforms in China ran into financial difficulties by end of 2015, and almost 1,600 P2P lenders (around 40%) exited the market by April 2016. The crisis had led to People's Bank of China (PBOC) to introduce a series of rules and regulations which included licensing requirements with a local financial authority. Among others, these rules imposed credit limits, and prohibited pooling and lending of funds by P2P platforms. They also required a principal guarantee by the platform, and debt securitisation to mitigate lenders' credit risks. However, there was no minimum capital requirement. High profile scandals, such as Ezubao's Ponzi scheme disguised as a P2P platform, also prompted the government to establish a taskforce to crackdown on fraudulent P2P lenders. The National Internet Finance Association, ran by the central bank and with 400 member traditional financial and Internet finance companies, was established to regulate Chinese Fintech firms and control risks in the sector.⁷²

Rules on Mobile Payments and Transfers

PBOC set limits on the amount that Chinese could spend using smartphone payment services.⁷³ State banks set caps on the amounts depositors could transfer into online products.⁷⁴ All banks must be prepared to implement transaction limits and also to establish a means of verifying consumers' identities when they linked third-party payment platforms to their bank accounts. Banks must also analyse clients' ability to sustain risk before letting them make payments through third parties, and conduct real-time supervision of clients' third-party payment activities.⁷⁵

Account Opening Restrictions

According to Chinese regulators, bank accounts could only be opened in person and opening an account remotely as not allowed.⁷⁶ As a result, every Internet-only bank in the country must seek to work closely with traditional banks by linking accounts. Only traditional banks had branch offices that could offer face-to-face verification for new account applicants.

Deposit Insurance

There was a potential for default risk for Ant Financial as the funds that Alibaba had raised were close to its market value (US\$81 billion versus estimated market valuation of about US\$128 billion) and it was likely that if they had to pay out, they would not be able to. Liquidity risk may arise if there as falling interbank rates and/or large number of depositors withdrawing all their money simultaneously. One of the key financial reforms the government aimed to achieve was the introduction of deposit insurance. This would allow them to differentiate among the financial institutions and those that were not insured would not be perceived as risk-free. Thus, investors would know which wealth management products had guaranteed returns.⁷⁷

⁷² National Internet Finance Association of China. (2015). *Homepage*. Retrieved from <http://www.nifa.org.cn/nifaen>

⁷³ Mozur, P., & Zhu, G. (2014, March 24). China set to cap transfers using mobile-payment services. *The Wall Street Journal*. Retrieved <http://www.wsj.com/articles/SB10001424052702303949704579458533987293234>

⁷⁴ *ibid*.

⁷⁵ Jianxin, L., & Wildau, G. (2014, April 18). China issues banking rules to strengthen online payment security. *Reuters*. Retrieved from <http://www.reuters.com/article/china-banking-internet-idUSL3N0NA06W20140418>

⁷⁶ Salvacion, M. (2015, June 15). Alibaba affiliate's online bank launch postponed due to constraints posed by its new technology. *Yibada*. Retrieved from <http://en.yibada.com/articles/38625/20150615/alibaba-affiliate-online-bank-new-technology.htm>

⁷⁷ Green, D. (2014, March 24). Internet finance in China: Risk-free returns? *CKGSB Knowledge*. Retrieved on <http://knowledge.ckgsb.edu.cn/2014/03/24/finance-and-investment/internet-finance-in-china-risk-free-returns>

Regulating Data Privacy

A more substantive data protection framework was being implemented in Chinese legislature, driven by concerns over highly publicised data security breaches. The new framework included PBOC's additional requirements for non-bank payment institutions around effective protective measures, risk control systems and storage of sensitive information.⁷⁸

Source: Created by authors.

EXHIBIT 4

ANT'S FINANCIAL'S GLOBAL EXPANSION

MoneyGram

At the beginning of 2017, Ant Financial finally won its battle with Euronet to acquire MoneyGram, the US-based cross-border payments service, after it increased its bid to US\$1.2 billion. MoneyGram would let the company offer more money transfers in U.S., China, India, Mexico and the Philippines.

EyeVerify

In September 2016, Ant Financial acquired EyeVerify in order to expand services using the U.S. startup's biometric authentication technology for securing consumers' online data and transactions. Ant Financial's immediate priority in the US was to win acceptance from American merchants so that Chinese consumers could use Alipay wherever they travelled.

As for short-term plans, Ant Financial was going to enter a joint venture with media company Elang Mahkota Teknologi (Emtek) to launch a new mobile payment platform in Indonesia.

PayTM

In 2015, Ant Financial ventured into India by purchasing about 40% of Paytm (India's largest e-commerce platform with 122 million users and 23 million mobile wallet users) for US\$680 million and another US\$100 million for the online marketplace Snapdeal, which gave it an immediate payment foothold in India.

Ascend

In November 2016, Ant Financial also bought a 20% stake in Ascend Money, an online payment provider based in Thailand.

helloPay

In April 2007, Ant Financial acquired Singapore-based payment service helloPay Group in order to boost its Alipay brand and presence in the region. helloPay (a payment subsidiary of Lazada, which was acquired by Alibaba for \$1 billion last year) would be re-branded as Alipay in relevant markets, including Singapore, Malaysia, Indonesia and the Philippines.

⁷⁸ Covington & Burling. (2016). *Data privacy in China 2015 year in review*. Retrieved on from https://www.cov.com/-/media/files/corporate/publications/2016/01/data_privacy_in_china_2015_year_in_review.pdf

Investment and Shareholding

Date	Invested in	Round
April, 2017	Ofo (the Chinese bike sharing company)	undisclosed amount / Undisclosed (Lead)
March, 2017	Youon Bike (the Chinese bike sharing company)	undisclosed amount / Series A (Lead)
February, 2017	Kakao Pay (the Korean payment system)	\$200 million / Private Equity (Lead)
February, 2017	Mynt (a digital payments and lending platform operated by Globe Telecom in the Philippines)	undisclosed amount / Undisclosed (Lead)
November, 2016	Ascend Money (Thailand-based e-payments provider)	undisclosed amount / Undisclosed (Lead)
November, 2016	Souche (Hangzhou car transaction service firm)	\$100 million / Series C (Lead)
September, 2016	Yum! China (the Chinese leading restaurant company)	\$460 million / Private Equity
June, 2016	Didi Chuxing (the Chinese ride-sharing services firm)	\$4.5 billion / Undisclosed
June, 2016	Shanghai Suntime Information Technology (a financial data provider)	\$35 million / Venture (Lead)
May, 2016	Taobao Movie (an online ticketing platform)	¥1.7 billion / Series A (Lead)
April, 2016	Ele.me (one of China's leading food delivery startups)	\$1.25 billion / Undisclosed
October, 2015	36Kr (a technology media platform and startup services provider)	undisclosed amount / Series D (Lead)
September, 2015	One97 Communications (an Indian leading mobile-Internet company)	\$680 million / Undisclosed
August, 2015	Qudian (the Chinese electronics retailer)	\$200 million / Series E (Lead)
June, 2015	Koubei (the Chinese services startup focusing at first on food delivery)	\$966 million / Undisclosed (Lead)
February, 2015	One97 Communications (an Indian leading mobile-Internet company)	\$200 million / Undisclosed (Lead)
November, 2014	V-Key (a software-based digital security solutions provider headquartered in Singapore)	\$12 million / Series B

Source: Millward, S., (2017, February 23). Inside Jack Ma's playbook for Ant Financial's global expansion. TechinAsia. Retrieved from <https://www.techinasia.com/ant-financial-playbook-global-expansion>; TechINAsia Skinner, C. (2017, July 14). The first global platform play from Ant Financial. *The Finanser*. Retrieved from <https://thefinanser.com/2017/07/first-global-platform-play-ant-financial.html>

EXHIBIT 5

ANT FINANCIAL'S DIGITAL DASHBOARD



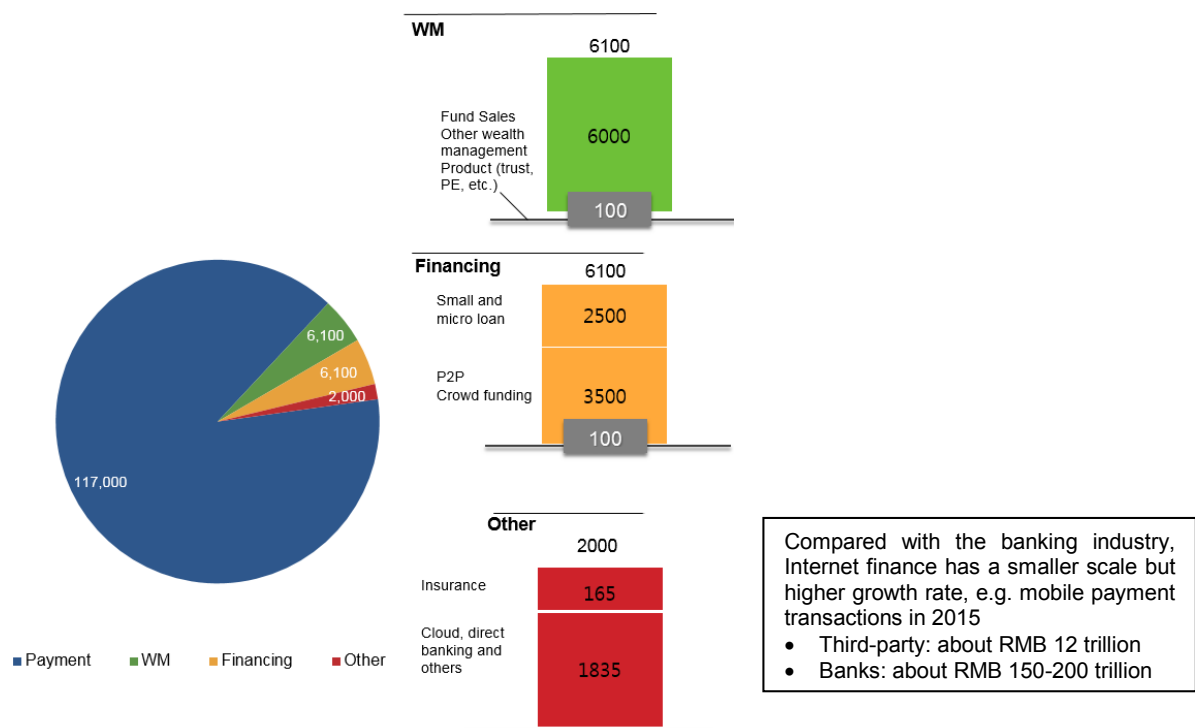
Source: Ant Financial Services Group

EXHIBIT 6

OVERVIEW OF FINTECH DEVELOPMENT IN CHINA

Leapfrogging traditional global financial centres, China had become the undoubted centre of global Fintech innovation and adoption. For the period July 2015 to June 2016, Chinese Fintech investments surged to US\$8.8 billion, commanding the largest share of global Fintech investments. Eight out of the 27 Fintech unicorns were in China. Its dominance in Fintech innovation was a confluence of multiple factors: huge unmet financial needs, explosive e-commerce growth, supportive regulatory facilitation, and thriving innovation ecosystems driven by its domestic Internet giants. The overall size of its Internet finance market has exceeded RMB12 trillion, with third-party payment taking the largest share.

The Overall Scale of China's Internet Finance Market has Exceeded RMB 12 Trillion



Source: McKinsey Greater China FIG Practice. (2016). *Disruption and connection: Cracking the myths of China internet finance innovation*.

EXHIBIT 7

INTERNET FINANCIAL SERVICES MARKET SHARE IN SOUTHEAST ASIA

The adoption of Fintech services by the Chinese consumers was striking. For example, 40% of Chinese consumers were using new payment methods compared to 4% in Singapore and 35% were using Fintech to buy insurance compared to 1 – 2% in many Southeast Asian countries. Below showed a comparative analysis of the Fintech adoption between China and other countries.

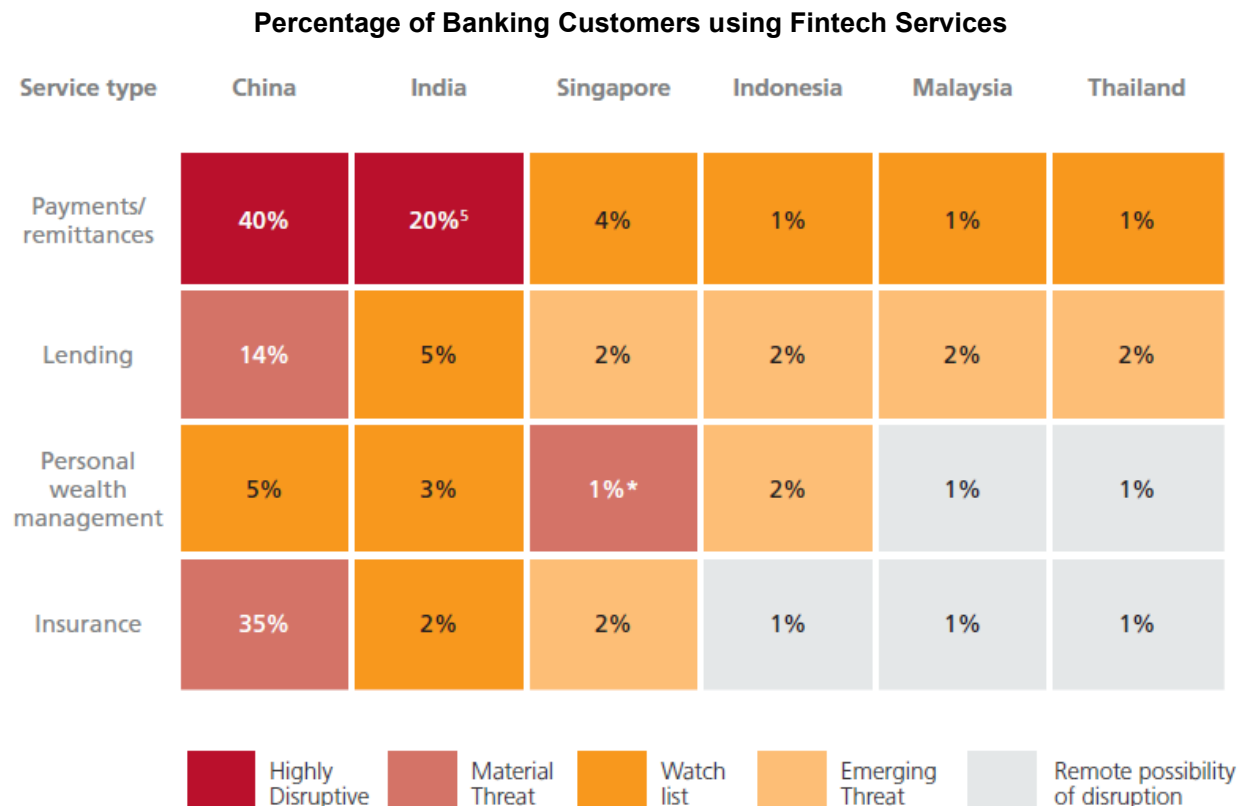


EXHIBIT 8

FINANCIAL DATA OF ANT FINANCIAL GROUP

Charts, Financials and Statistics

Income Statement	2015	2014	2013	2012
Revenues	¥17.85 BN [CNY]	¥10.20 BN [CNY]	¥3.90 BN [CNY]	¥2.35BN [CNY]
Profitable?	Yes	Yes	Yes	Yes
Net Income (Loss)	¥4.55 BN [CNY]	¥2.60 BN [CNY]		
Net Income Margin	25.49%	25.49%		

Employee Figures	2015	2014	2013	2012
Total Employees	4,266	3,975	3,250	2,500
Productivity (Revenue/Employee)	¥4.18 MM [CNY]	¥2.57 MM [CNY]	¥1.20 MM [CNY]	¥940,000 [CNY]

	2016
Active Users	400,000,000

Source: PrivCo. (n.d.) Ant Financial Services Group. *PrivCo website*. Retrieved from <http://www.privco.com/company/zhejiang-ant-small-and-micro-financial-services-group-co-ltd>