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Office of the Vice Provost for Advances in Learning

MODULE 6 UNIT 1
Video 1 Transcript

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CHRISTOPHER MALLOY: Our next interview is with Greg Gibb, who's the CEO of Lufax. I met Greg when I was on sabbatical in 2017, when I move my family to Asia, and spent time writing cases and meeting all of the FinTech companies in Asia. And that's largely one of the reasons we designed this course, because we wrote a bunch of Harvard Business School cases, and Lufax was one such case.

Two interesting things about Lufax are, one, they spun out from a finance company, Ping An, and so, they are largely – came from an ecosystem of finance, versus some of their main competitors in this space, which they referred to as BAT: B, A, T – or, Baidu, Alibaba, and Tencent – which are primarily tech companies.

And so that interaction between the finance side and the tech side – which is what FinTech is all about – is particularly pronounced in the Lufax situation. And then, two, Greg will help us understand the interaction between a large FinTech company, like Lufax, and government regulation, and how Lufax is trying to manage and navigate that very challenging regulatory environment in mainland China.

How does Lufax stand out from its competitors in China?

GREG GIBB: What we feel is the most important part for Lufax, is what we call our financial DNA. We come at this market with a deep understanding of risk, and a deep understanding of product, and product structuring. And the customers that we target in China are what we call the middle class and the emerging affluent population. That's a population today in China – probably between 60 and 70 million people and growing at 15 to 20% a year – and our goal for these customers is really to be their first port of call for wealth management. So, we're serving a segment that's not at the top – and it's not private banking – but it's also not the mass market. The average investment on our platform is about six to seven thousand US dollars. Half of the money in our platform comes from people who invest more than 150,000 US dollars.

The average investment on a Tencent, or an Ant, is probably about 500 dollars. So, we're really kind of a purpose-driven platform. It is really about investment in wealth management for the middle class, as opposed to a side service on an e-commerce platform, or a search platform. So, I think our positioning is quite different.

If I'm truthful, I think that all of these tech platforms, at the end of the day, are probably taking market share from the banks. So, their growth is not going to hurt our growth, and our growth won't impede their growth. So, it is really about who can do the best combination of tech and financial services, and do it in a way that's more compelling, faster, cheaper than the average bank, where today in China still about 80 to 90% of all financial resources sit in the banks. And so, the end of the day that's the part of the pie that we all would like to move.

How could government regulation change the current structure of the FinTech industry in China?

With all the regulation that's been added, you're going to see a lot of consolidation in the market. What is happening as regulation changes the requirements to play, but it also changes what you have to be able to do to play and be profitable. Really, only those companies who have the brand, who have the data, who have sufficient scale, are going to make it across the finish line.

So, I think you're going to see a lot more consolidation in Chinese FinTech. I wouldn't argue that it's “winner take all” model. I don't think in financial services that is ever the outcome. But I think you will see that 80 to 90% of the market of FinTech in China – across a lot of different types of business models – will be concentrated in the hands of the top 50 and, at most, one hundred players.

What are some of the changes you foresee in the future of Chinese FinTech?

So, I think what's happening as Chinese financial services in general become a more significant part of the economy and are more mature as a whole – that regulations in China will look very much like regulations in the rest of the world. So, I'll give you an example, one of the most significant regulatory changes in the last year in China has actually been about what's called their asset management guidelines, which really dictates how wealth management is to be done. First of all, you know, you have to make it very clear on disclosure, what are the risks of the product, the people that the investor needs to be buyer beware. You cannot guarantee returns to the investor. You have to do suitable selling, right, different types of investors with different types of risk appetites have been presented with different types of products.

These are all very reasonable things that did not exist in China before these new regulations. So, I think as the market gets more mature here, and financial services becomes a bigger part of the economy, regulations and China will start to look much like they do in the US, or Singapore, or Hong Kong, or London.

They'll always be differences, but I think the general spirit of creating transparency, creating accountability, making sure that risks are clearly disclosed, that people understand what they're getting into, those broad principles are now becoming more evident in China. And in that sense China is getting more similar to the rest of the world.