Part 1 - FinTech and Finance Transformation: The Rise of Ant Financial Services

Question A: *Describe Ant Financial's mission and vision. Why do you think Ant Financial has been so successful?*

Ant Financial has a broad mission that incorporates a variety of objectives from providing loans to small merchants to providing a transaction platform for everyday citizens while simultaneously investing their cash holdings. Furthermore, through its several different products, Ant Financial hopes to increase consumer trust in the financial services industry by taking a modern approach to personal finance and wealth management. Their initial goal was not to be a financial technology company. Rather, they wanted to fix the online payment system to improve Alibaba's customer e-commerce experience, which is where they were making money. This slowly expanded into other financial services. Ant Financial's success can be attributed to vertically integrating several different financial services into a few large and easily accessible platforms to create a user-friendly ecosystem. This strategy reduces Ant Financials operating expense, increases its addressable market by sharing customers between the various services offered (eg.Ant Financial benefits from the large customer base from e-commerce when launching the shipping insurance for returned purchase), and provides an easier, more comprehensive way for consumers to address their financial needs. The synergy effects make services more efficient and accurate. Through data collected by Alipay, Taobao and Tmall, Ant Financial is able to establish a credit-rating system utilized in Huabei. Customer-oriented is another big step Ant Financial takes as a business can only achieve success in the long term when it keeps customers involved and builds connection with them (620 million annual active users according to the case). Ant Financial is able to find the pinpoint and solve it: smoother electronic transactions, accessible investing and loans, more convenient way of saving and withdrawing money, etc.

It also formed a unique money circulation through expanding the application of Alipay wallet: Users increase their daily spending through Alipay-They need to put more money into Alipay accounts or Yu'e Bao (They are willing to keep unspent money in Yu'e Bao as it offers a high interest rate compared to the bank)-They start to rely on Alipay as a fast and convenient payment method when they get used to it.

In the big picture, Ant Financial takes advantage of the business ecosystem in China where traditional banks were mainly positioned to cater to large government-owned companies. This left small enterprises underserved and presented a market opportunity for Alipay.

Question B: *Do you think Ant Financial's success can be replicated outside of China? If so, how should Ant Financial expand its business overseas?*

Ant Financial's continuous success since its inception 2014 has served as a proof of concept for the centralized ecosystem business model. By taking advantage of cross-efficiencies through vertical integration, Ant Financial is able to offer a slew of different fintech products under a single company name. However, we believe that such success would be very difficult to replicate outside of China due to several legislative and societal disparities. In regard to legislation, the business climate in China differs drastically from the Western free-market economies. Not only is monopolistic competition more prevalent in China- it's encouraged and subsidized by the Chinese government. While the concept of symbiotic product ecosystems are not foreign to capitalistic markets (i.e. Apple), it would still be very difficult for a firm to replicate the overwhelming magnitude of Ant Financial's success in the United States. This is because an ecosystem like Ant Financial's would be met with fierce anti-monopoly legislation from the U.S. government.

Additionally, an attempt to replicate Ant's success outside of China would face significant pressure from consumers over privacy concerns. In China, due to the style of government and culture, the citizens seem to be less concerned with privacy than citizens of Western society, many of whom tend to be cynical when it comes to placing trust in large conglomerates or the government. As a result, it would be difficult to stimulate the adoption of a bundled product offering similar to that of Ant Technologies as such a model requires all of a customer's information, from food preferences to credit scores, to be kept together and secured by a single firm. While this may not be too much centralized power and data for the Chinese market, it certainly would in most European and North American nations.

Collectively, between the strict anti-monopolistic legislation in free-market economies and the privacy concerns of consumers in the West, it would be highly difficult to expand overseas. That being said, such a move may be possible if Ant Financial was willing to compartmentalize its overseas offerings to avoid legislative pressure and to quell the concerns of consumers who prioritize the privacy of their information. However, it could penetrate some markets in developing countries such as Thailand and Philippines where antitrust regulation is not rigorous.

Part 2 - Other Readings

Question A: *Describe the main areas in which FinTech companies operate; find examples of companies that you find interesting and describe what they offer and how they compete.*

There are eight main areas FinTech companies operate in: payment processors, digitizing banking services, alternative lending, wealth management, digital insurance, capital markets (eg. Could technology for asset management workflows emerge in early-stage funding rounds), SMB services (providing solutions to small and medium-sized businesses), and real estate (mortgage lending, transaction digitization, etc.). The COVID-19 pandemic has stimulated a wide adoption of digital payments, insurance and remote hiring (Remote, Deel, Remote team, etc.).

WeChat pay(Tencent) and Alipay(Ant Financial) are the dominant duopoly for electronic payments in China, together control more than 80% electronic transactions (Alipay 55.4%, Wechat Pay 38.8%). The two payment companies are all backed by ecosystems. Alipay is backed by Alibaba's giant ecosystems across eCommerce, retail and technologies. WeChat Pay is backed by social media, gaming (Riot games and technology ecosystems from Tencent.

Tencent is involved in a fierce competition with Alibaba. Tencent challenges Alibaba's eCommerce by creating "social commerce", Tencent offers official account which enables brands or businesses to reachout to consumers through Wechat by posting articles or advertisements with ease. Tencent also launched the "mini-app" which could be integrated into WeChat with less development effet and are user-friendly as nothing needs to be downloaded. WeChat added as many mini-apps in a year as Apple's online store added apps in its first four years. Tencent also invested in the biggest e-commerce competitor of Alibaba- JD.com and food-delivery service Meituan while Alibaba acquired Ele.me.

Wechat pay embeds its financial services inside the payment features of WeChat (WeChat Pay) and delivers services by the huge network effect from Wechat and QQ (the other Tecent's popular chat app).

Paypal entered China by finishing its acquisition of GoPay (a Chinese licensed payment company) in Dec, 2020. However, it is doubtful that Paypal could be successful in the market in China as it is hard for people to change their payment habits. However, the remaining opportunities could be enhancing account and data security(eg. emerging facial recognition) and offering foreign visitor consumers who are Paypal's existing customers a fast way to make payments on mobile app. The threat Paypal could face is the talent war between local companies as these companies have gained reputation and built a platform for talent employers. It is crucial for Paypal to find the niche for its financial services.

The competing strategy for most Fintechs is bundling. By launching new services, investing, starting partnerships (big retailers and e-commerce giants partner with financial services firms to enable installment lending) or acquiring other companies (vertical or horizontal integration, eg. Apple acquired mobile payment company Mobeewave), firms aim to hold existing customers and attract new users. From Alipay to launch a neobank in HongKong (Ant financial), from Challenger bank to Commission-free stock trading (Revolut), from third-party payroll software to added saving and spending product Gusto Wallet (Gusto), from challenger bank to open in-app trading (Xinja).

Question B: *What is the potential impact of FinTech on incumbent financial service providers? While there is much uncertainty, try to rely on as much expert opinion and data as you can.*

Traditional banks aren't going to disappear. Bitcoin won't be able to displace the U.S. dollar and Visa won't go broke (Simon 2016).

The financial sector is being transformed by technology, as is every other system that we interact with. Although our wallets are moving to our cell phones, there can only be so many financial products and services out there (Macheel 2018). We borrow, lend, and move money from one place to another. There is a limit to what can be "created" by the fintech space.

Rather, financial technology companies are improving existing processes by making them faster, cheaper, more secure, and more error-free. However, frictions like regulations, lack of trust, and costs slow down innovation. Instead of competing with traditional banks, companies that are innovating will likely sell or license to incumbents that have a relationship with customers and understanding of regulations. These innovations come in the form of operational efficiencies that incumbents do not take the risk to create.

There are some companies, however, that have managed to become widely adopted by consumers. These include Venmo, Robinhood, Digit, PayPal, and Zelle.

In Jamie Dimon's Letter to Shareholders in 2016, he says that most banking services are going mobile. The speed and affordability of these services allow more people, especially lower-income people, to have access to financial services (Dimon 2016). Traditional financial services are not separate from financial technology anymore. Long-standing incumbents recognize fintech's future and have made investments in it. FinTech firms may have an edge with less of a reputation to uphold, innovation-focused growth and development, and less aversion to risk..

Question C: *Where is capital being currently deployed in FinTech? Which product and geographic areas are, in your view, ripe with opportunity?*

Successful Fintech companies provide services such as payment processing (Simon 2016). Payments are a big investment in FinTech right now, and have been for a while. Investors understand that payment systems are antiquated. Improvements lead to higher transaction volumes, which are always great for the industry. Payments companies raised $4 billion in the third quarter of 2020 (CB Insights 2020). JPMorgan Chase has started three ventures that work together to improve payments. They now offer payment processing hardware to merchants, payment facilitation through authorization and data sharing, and consumer mobile payment (Dimon 2016).

Many apps like Digit and Venmo offer interesting and easy-to-use mobile apps, this can only take FinTech as an industry so far. “A new user interface is nice, but what desperately needs disruption in financial services is the plumbing... a pretty, smooth-running app doesn’t satisfy the customers; they’ll start to expect actual services, like moving money or approving a loan, to run faster” (Macheel 2018). This backend overhaul is being done by some firms, but banks are reliant on tech companies for this because their technological skills sometimes do not go that far.

The most prolific area for finch companies was in providing US, insecure consumer loans and that was a risk of poor lending decisions as offers of credit abound (Simon 2016). However, the accessible loans raises the concern of unhealthy spending habits and the possibility to have increased uncollected debts.

Big data also presents a lot of opportunity for incumbents. As they already have large customer bases, they are able to manage their relationships better now with the help of data. Banks are able to get better insights on potential commercial banking clients. They can also better assess credit-worthiness and detect fraud. Finally, big data and advanced analytics allow for minimized human error and better operational efficiency (Dimon 2016).

There are several markets that can be leveraged due to the increasing prevalence of mobile banking. One is the 60+ age group. With limited mobility (especially in a pandemic), seniors that have access to cell phones with assistive functions can pay bills more easily. Further, South America and Africa are seeing increases in VC funding for FinTech, partially due to cheap data and wide cell phone usage (CB Insights 2020). As these regions move away from cash, their phones will be much more useful to make payments. Moreover, among the world’s biggest economies, China is developing a Central Bank Digital Currency (CBDC) which allows the unbanked population into the economy and increases liquidity of Chinese dollar yuan.

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