China's Online Fund Platforms A Key Distribution Channel

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"Even foreign players have opened accounts with online fund platforms for selling investment products direct to investors."

Fund companies in China that distribute products on online platform Caifuhao have collectively attracted 120 million followers, according to a statement from Ant Financial Financial Services Group.

Launched in 2017, Caifuhao, which sits on Ant Financial's Alipay platform, is a service that enables firms to create their own accounts and directly sell their funds to Alipay users. Caifuhao also gives firms access to artificial intelligence capabilities such as user profiling, operational optimisation and smart marketing.

Out of the 143 public mutual fund companies in China, 82 are on the Caifuhao platform, according to the statement.

FSA sought more information from Ant Group, but it was not able to provide historical figures on the number of followers Caifuhao has.

As of the end of June last year, there were 80 firms on the platform, with 15 asset managers each having at least one million followers, according to a statement at the time.

Covid-19 response

"We saw fund management companies continue to accelerate their digital transformation in response to the Covid-19 pandemic and [they] are increasingly using digital technology to offer contactless wealth management services for their users," Lv Chao, deputy general manager for financial institution partnership at Ant Group, said in the statement.

The firm also noted that in response to the pandemic, Caifuhao incorporated a live streaming feature to enable fund managers to engage with their customers real-time.

Echoing Lv, Ye Kangting, Singapore-based research analyst at Cerulli Associates, said that there had been an increase in online funds sales in China during the pandemic.

"During China's lockdown period due to Covid-19, online platforms saw increased inflows, and many fund houses also held live online workshops for investors to communicate with asset managers to allow better investor education and marketing," Ye told FSA.

Online popularity

The increased usage in online fund platforms in China is not surprising, given the market is known for leading online distribution in Asia.

“China has been leading digitalisation via direct online or third-party platform distribution in the Asia-Pacific (ex-Japan) region,” Ye said. According to her, online platforms account for 24.7% of the total AUM of mutual funds in China.

In addition, nearly 90% of individual mutual fund investors usually invest online, according to a separate Cerulli report.

With the opportunity being massive, even the largest players in the country are making use of online platforms to sell their funds. For example, China Asset Management (China AMC) is on Caifuhao with 3.64 million followers on the platform, according to a Beijing-based spokesman of the firm.

Excluding money-market funds, China AMC is the second-largest fund manager in China, with RMB 394bn ($55.71bn) in assets as of the end of March, according to data from Morningstar Direct.

The spokesman noted that not all online platforms in China target the same market segments. For example, Caifuhao and Tencent’s Licaitong address the mass retail market, while Fund.eastmoney.com targets professional investors.

While the firm makes use of third-party online platforms, including its own online portal, its largest distribution channel remains the bank and securities firms, he said, but did not provide exact figures.

Foreign players enter

Foreign players have also followed suit, with Vanguard, Schroders, Alliance Bernstein and Fidelity opening Caifuhao accounts, according to Cerulli’s Ye.

While they are not able to sell funds through the platform as they are not yet holders of a public mutual fund licence, Ye believes that being on the platform can help them with their branding initiatives.

“[They] offer market views or educate investors, building brand awareness and possibly facilitating future fund sales,” she said.

In April, China lifted overseas ownership limits in the mutual fund selector, allowing foreign asset managers to create wholly-owned public mutual funds and to take 100% ownership of their joint ventures with domestic firms. So far, Blackrock, Neuberger Berman and Fidelity have applied for wholly-owned mutual fund licences.

Meanwhile, other foreign firms are utilising messaging apps for their branding initiatives. For example, Blackrock, BNP Paribas Asset Management, Schroders, UBS Asset Management and Value Partners have set up Wechat accounts to provide online investor education in China.