

FinTech

Lecture 1. Reshaping the Banking and Payments Industry

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September 16, 2022

Learning outcomes

- ▶ Explain how FinTech startups are **revolutionizing** payment methods and undermining traditional mechanisms for the individual and companies
- ▶ Determine how FinTech corporations can extract people from the traditional currency regime

Overview

1. **Introduction**
2. The payment revolution in China
3. Ant Financial's role in revolutionizing payment processing
4. Square's disruption of the card payment system
5. Conclusion
6. Afterword: An interview with LexinFintech

Introduction

- ▶ Technological innovations
 - ▶ Rise of the internet
 - ▶ Ubiquity of smartphones
 - ▶ Improvement in computing capacity to collect and process data
- ▶ Revolution in payment processes
 - ▶ Melding of technology and finance
 - ▶ Disrupted the financial services industry

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Payment revolution in China

- ▶ China: Leader on FinTech revolution
 - ▶ Rapid growth in **economy**
 - ▶ Large and underserved **population**

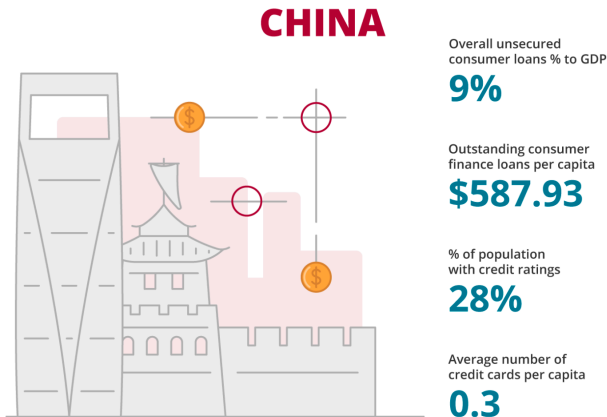


Fig. Financial market penetration - China (Zeng, 2018)

Financial market penetration (USA vs. China)

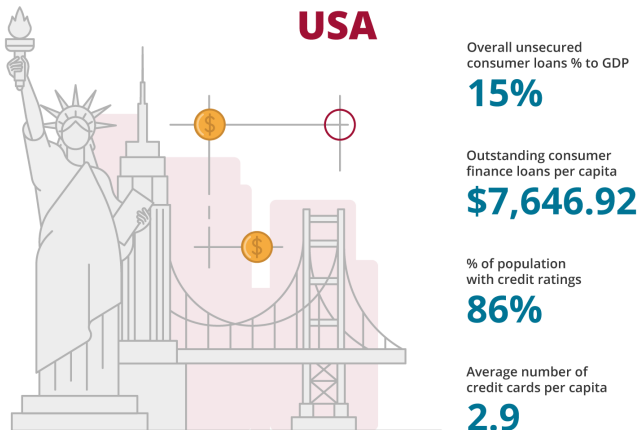


Fig. Financial market penetration - USA (Zeng, 2018)

FinTech divisions in China

- ▶ China's FinTech companies
 - ▶ Use technological advantages to create **high-functioning** and **easy-to-access** financial services
 - ▶ Bypass some traditional financial institutions

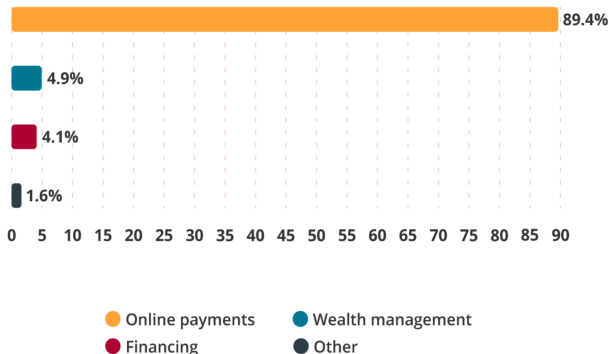


Fig. The divisions within China's FinTech sector (Ngai, Qu & Zhou, 2016)

FinTech adoption rates among SMEs

- ▶ FinTech adoption rates are moving beyond consumers to include SMEs
 - ▶ SMEs: Small to medium sized enterprises
 - ▶ China: Highest rates of FinTech adoption among SMEs



Fig. SMEs FinTech adoption rates (Global FinTech adoption Index, 2019)

Opportunities for SMEs

- ▶ Historically, SMEs **lacked access** to financial services
 - ▶ Many banks offering services to more established businesses
 - ▶ Products and services provided by traditional financial institutions:
 - ▶ Poor product fit
 - ▶ Complex customer journeys
 - ▶ Minimal access to funding
 - ▶ Complex and lengthy processes
- ▶ FinTech: **Alternative** banking solutions and financial management

FinTech solutions and services used by SMEs

- ▶ The potential for disruption in emerging markets is much higher
 - ▶ No **incumbent** (in many cases) to compete for financial services

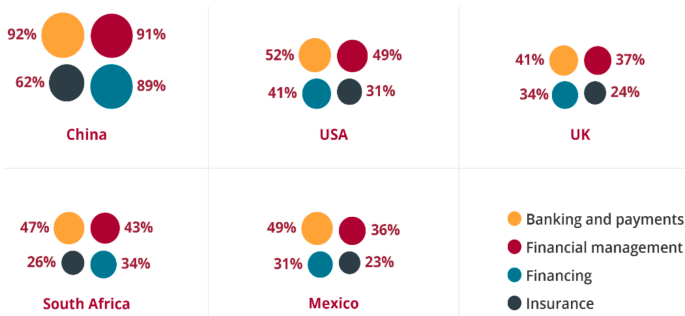


Fig. FinTech solutions and services used by SMEs (Global FinTech adoption Index, 2019)

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Online payment providers in China

- ▶ Two giants: **Alipay** and **WeChat Pay**
 - ▶ Provide a **variety of services** to their customers
 - ▶ Financial services: money transfers, wealth management, micro loans
 - ▶ Add-on services: fitness tracking, healthcare tracking

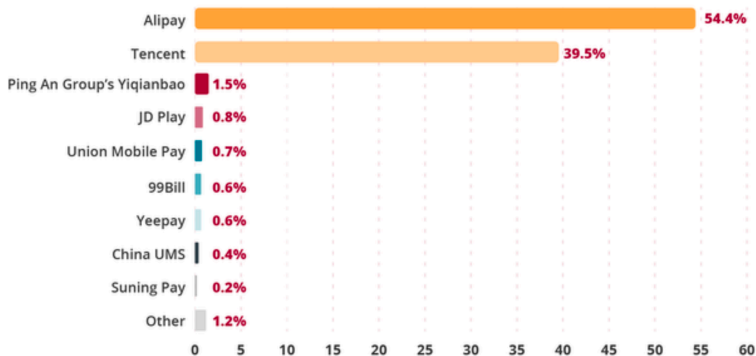


Fig. Market share of payment providers in China (China Banking News, 2019)

Ant financial: revolutionizing payment processing

- ▶ Video 1-1

- ▶ How Ant Financial has contributed to the payment processing revolution

- ▶ Video 1-2

- ▶ Ant Financial's strategy for growth, and its business prospects

- ▶ Question: which strategy do you think Ant Financial should follow to ensure their growth?

- ▶ (A) Expansion into rural markets in China
 - ▶ (B) International expansion

Future of FinTech in China

- ▶ **Regulate** FinTech: Adoption and implementation of national standards
 - ▶ PBOC three-year plan (2019)
 - ▶ Aims to strengthen FinTech regulation and compliance
 - ▶ Aims to expand these regulations to six new cities as part of a FinTech "regulatory sandbox"
 - ▶ Regulatory sandbox: 北京、上海、重庆、深圳、雄安、杭州、苏州
 - ▶ Hubs of innovation and financial regulation
 - ▶ Safely test new and innovative technologies, products and services
 - ▶ **Minimize the risk** and strengthen consumer protection

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Credit card payment process

- ▶ Interactive Infographic [[link](#)]
 - ▶ The interactive infographic illustrates:
 - ▶ The payment processing system
 - ▶ The **costs** incurred by merchants when accepting card payments
 - ▶ Credit card payment: reducing the profit margins of merchant
 - ▶ Particularly expensive for small business owners
- ▶ FinTech: **revolutionize** how good and services are purchased

Square: Reshape card payment system in the USA

- ▶ Square [[link](#)]
 - ▶ Square was founded as a **payment aggregator**
 - ▶ **Reduce costs** and allow small merchants access to card payment facilities
 - ▶ Allow merchants to accept card payments without setting up a merchant account with a bank.
 - ▶ A device that plugged into the top of a smartphone.

Square's product offering

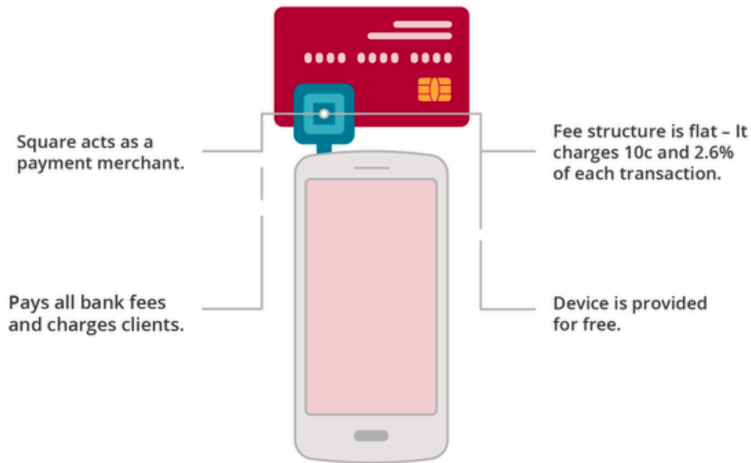


Fig. Square's product offering (Adapted from: Square, n.d.)

Mobile apps vs Traditional payment methods

- ▶ Despite having developed a unique product, Square still faced **low rates of adoption** of their product in the US.

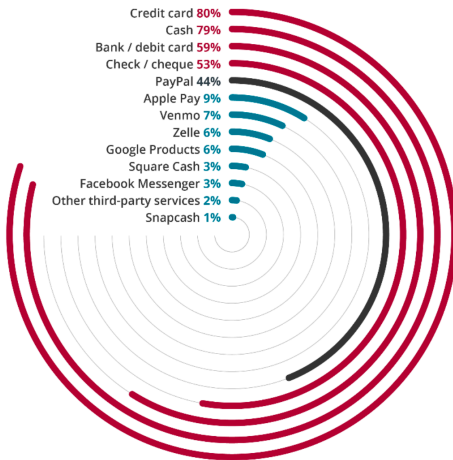


Fig. Rates of adoption of mobile apps vs traditional payment methods (CNBC, 2019)

Square's pathways for growth

- ▶ Square faced a number of challenges to grow the company
 - ▶ Expansion into domestic markets in the USA
 - ▶ 25 million small businesses that do not process payments by card
 - ▶ Focus on its possible international expansion
 - ▶ Research on new product offerings
- ▶ What do you think is the biggest challenge to Square's growth strategy?
 - ▶ (A) Low adoption in the US market
 - ▶ (B) Slow revenue growth due to aggregation for payments
 - ▶ (C) Established competitors
 - ▶ (D) Fast follower competition

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Conclusion

- ▶ FinTech **reshape** financial services industry
 - ▶ Companies like Ant Financial and Square identified gaps in the market
 - ▶ Using technological advances to ease the **payment process** and make it cheaper for consumers and companies
 - ▶ Through this process, they have had some success in challenging incumbent financial institutions
- ▶ These FinTech companies have faced barriers to **growth**
 - ▶ Why the adoption of these products has been so rapid in China?
 - ▶ Whether this experience is replicable in other countries?
 - ▶ What is your expectation on the future of payment systems?

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An interview with LexinFintech

▶ Video 1-3

- ▶ Evolution of the payment industry
- ▶ Leading role of Chinese companies:
 - ▶ develop FinTech payment applications
 - ▶ develop the online loans industry
- ▶ Challenges faced by FinTech companies
- ▶ Opportunities that these companies have for growth

Review

- ▶ How far can the online payment revolution go?
 - ▶ Revolution in payment system disrupt traditional financial institutions
 - ▶ Companies like Ant Financial have been at the forefront of these changes
 - ▶ These changes have big impact on the daily lives of millions of people
- ▶ Question:
 - ▶ How have companies like Ant Financial and Square altered payment methods through FinTech innovations?
 - ▶ Why has the adoption of these new methods of payment been so rapid in China? Is this experience replicable in other countries?