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1.  Ant Financial Case:(a.)  Describe Ant Financial’s mission and vision.  Why do you think Ant Financial has been so successful?

Ant Financial’s mission started by being the escrow account of the majority of online payments in China. Since then, the mission has evolved to include much more than being an escrow. This new mission is described as “bring about small but positive changes to the world.” This transformation has led to Ant’s mission to become the premier online financial service of China with services like escrow, money market funds, SME financing, and consumer credit. The vision was “to use technology to enable partners to bring equal financial services to the world.” We believe this vision has been to **use the trust** built from being an escrow into these other services that would soon encompass electronic business in China, making life easier for consumers while making Ant a phenomenally successful corporation. (source:<https://alibabagroup.com/assets2/pdf/Alibaba_Group_Corporate_Overview_Eng.pdf>)

By leveraging the power of big data, Ant Financial has been able to build a strong platform for financial institutions to serve SMEs and individual customers within an ecosystem designed to make the financial system more inclusive. Ant Financial has been so successful because it builds trust and solves customer problems almost every step of the e-commerce chain, from acting as an escrow when purchasing a product as a consumer, to giving SMEs financing. The obsession over “finlife” helped focus Ant’s priorities and made sure every feature was optimized to help customers. This approach allowed them to expand to nearly all areas of consumption from financial services to gaming and dining. In addition, they have effectively lowered the technical barrier to entry for smaller financial institutions by sharing their cloud services, thus allowing more opportunities for citizens in rural areas to access financing options.

(b.)  Do you think Ant Financial’s success can be replicated outside of China?  If so, how should Ant Financial expand its business overseas?

We believe Ant Financial’s success can be replicated outside of China. Ant should look for emerging countries with a growing middle class that has a large amount of competition in the fintech field, but no established players. Ant could use its existing platforms and strategic acquisitions to utilize network effects to make Ant the most convenient one stop shop for all its customer’s needs. For example, in a country like Bangladesh where microfinancing is already established due to Grameen Bank, Ant could look to partner with them and offer its service on its app rather than compete. This could allow Ant to use its resources more efficiently in areas with less established players like transportation.  We believe that this approach could be harder in developed nations like the United States because of the established players like Venmo already having a lock in with customers. Anti-monopoly laws and fear of Chinese companies due to security concerns are another factor to consider when thinking about Ant Financial expansion into developed countries.

2. Other readings:

(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.

The main areas in which FinTech companies operate and have seen the most growth include payments and transactions, banking, lending and credit, and wealth management. Paytm is an example of one of the largest digital payment companies in India. They offer a digital wallet that allows users to conduct transactions such as recharges for mobile phones and metro cards via their smartphones by depositing cash  from banks, debit or credit cards. This wallet also allows you to make purchases through the company’s own e-commerce platform. In addition, they have started expanding their offerings into savings accounts, investment products, and credit cards. Paytm competes by making the whole payment process more convenient through their digital wallets, especially for the segment of the population that remains unbanked. Trust also acts as a factor in their success. Following the prime minister’s declaration of all large bank notes invalid back in 2016, people were driven to digital payment platforms, including that of Paytm. Another company I found interesting is OakNorth which specializes in small-and-medium enterprise lending. By employing a strong machine learning enhanced platform, OakNorth AI, OakNorth is able to make informed lending decisions by automating the credit analysis process and actively monitoring loan data for all borrowers in a bank’s portfolio. They compete by making it more convenient for SMEs to obtain loans by cutting down the time to complete the loan application process and using their technology to assess the credit of potential clients. With almost half of their loans originating from existing clients, they have lower customer acquisition costs since they do not do much advertising. OakNorth is then able to loan out at more competitive rates and minimize defaults using their well built-out platform.

(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.

Fintech has been thriving in the previous decades and has achieved impressive results all over the world; especially in China (Ant Financial). This is understandable considering that they use easy and quick, as well as inexpensive ways of solving problems due to their efficient use of technology. Especially, as FinTech gains popularity due to their all-time and easy access anywhere in the world. The incumbent financial service providers have been at times very  stagnant innovation wise and traditional in their practices. This system in the end gave an opportunity to FinTech companies to create more convenient and extensive ways of delivering services to their customers. FinTech can offer a number of financial solutions that financial services provide, which is impacting the way incumbent financial service providers operate, their revenues (banks), and especially customers’ expectations for financial service providers. However, the potential impact of FinTech organizations on incumbent financial service providers is not necessarily bad. Banks can fund FinTech startups to create products that will be used to improve user experience and create better services. There is a very big potential in partnership of FinTech organizations and financial service providers. Banks can easily transfer money and increase their number of daily users. Banks will be able to handle their operations much faster and smoother both locally and overseas. Banks and other incumbent financial service providers will have a good impact on FinTech, since Fintechs recognize the status and stability of traditional financial service providers. On top of that, in the United States, the 1956 Bank Holding Company Act prevents banks from engaging in non-banking businesses. This act will help banks from being affected badly by the large or growing FinTech companies. As financial services will keep developing new services to their customers, there will always be the federal government to control different financial institutions by imposing new rules and regulations. Chase bank is one of the examples of banks that partnered with more than 100 FinTech companies in order to provide a better financial service. However, the bad impact from FinTech companies can only happen if incumbent financial service providers will try to stop their competitors from being more profitable and will be very skeptical of the customers' need in fast and efficient services. What might happen is the rise in the competition among the tech companies to provide a service or product that will make the most profit just for the sake of making that profit and not for the sake of users.

(c.) Where is capital being currently deployed in FinTech?  Which product and geographic areas are, in your view, ripe with opportunity?

According to the statista.com, in 2015 the capital being deployed in private FinTech companies mainly in personal and SME sections, 73%, with asset management and wealth as well as insurance having both 10%, and the rest 7% goes to investment banking, 4%, and large corporate segments, 3% (Source 1). According to Deloitte, the most funding in 2017 was going to real estate, having about 7 billion dollars, with leasing and P&S transactions having the highest amount, $6.73B (Source 2). The geographical growth patterns show that the two largest countries in terms of investments in FinTech companies are the United States and China (Source 2). The growth patterns vary among these countries with the U.S. having 264 fintechs in the payment category that have received a total of $7.71 billion in investments since 1998 (Source 2). And China has only 7 fintechs in the payment category that have received a total of $6.92 billion in investments (Source 2). Similar patterns can be seen in many other categories (Source 2). Top countries with fintech companies are the U.S., China, and UK, sometimes India (real estate), Bermuda (Insurance), and Netherlands (Insurance) score high for receiving a lot of investments (Source 2). According to toptal.com, top FinTech trends for 2020 were blockchain, open banking, AI and machine learning platforms, lending and crowdfunding, as well as payment technologies and security/identity (Source 3). In our opinion, the areas most ripe with opportunity are underdeveloped nations in places such as South Asia, Southeast Asia, and Africa. We believe these areas are ripe for opportunity as smartphones are commonly used, competition is not entrenched compared to developed nations, and regulations can be lax. Downside can be the small amount of monetary transaction value in such areas (standard of living and GDP is much lower compared to developed nations).  Products that we believe will succeed the most in these areas are escrow providers, low to no cost money transfer services, along with everyday life services like fintech involved in transportation and dining activities. However, the growing nature of these economies and their respective density and population size presents a valuable opportunity. Developed nations with sandboxing opportunities is another ripe area for fintech. We believe more complex products like personal financial risk analyzers, savings apps like Acorn, and mortgage apps can be very well positioned in these areas as the lessened regulatory burden is very attractive.

(source 1: https://www.statista.com/statistics/553145/capital-deployed-in-private-fintech-companies-by-segment/)

(source 2: https://www2.deloitte.com/content/dam/Deloitte/ru/Documents/financial-services/fintech-by-the-numbers.pdf)

(source 3: https://www.toptal.com/finance/market-research-analysts/fintech-landscape)