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# China's FinTech: the End of the Wild West


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*There is no desire more natural than the desire for knowledge*

# ABOUT THE AUTHOR

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# INTRODUCTION

*"To build the national competitive strengths, China will establish and improve the platform economy governance system, giving equal importance to development and regulation, amid efforts to boost fair competition, fight monopoly and prevent the disorderly expansion of capital."* – Xi Jinping's remarks at the ninth meeting of the Central Committee for Financial and Economic Affairs, March 15, 2021.[1]

In the news recently, the situation of Jack Ma, founder and co-owner of Alibaba and its financial subsidiary Ant Group, has suddenly shown a tension between China's FinTech expansion, fair competition and the regulatory environment. A halt, perhaps temporary, has been enacted over the case of Ant Group. Pan Gongsheng, deputy governor of the People's Bank of China, urged Ant Group to **align with the priorities of the State** during a press meeting in December 2020, **inviting the FinTech giant to "return to its origins in payment services".**[2]

Pan Gonsheng's statement came just after the dramatic suspension of Ant Group's USD 37 billion listing in Shanghai and Hongkong in November 2020, set to be the world's largest initial public offering (IPO). While the suspension two days before the listing came as a surprise, the issues surrounding Ant Group and other Chinese FinTech companies had been on the radar screen of regulators for a while. Ant Group became a financial-services giant through the use of consumer data it collected and customer loyalties it has developed over the years. However, Ant Group's rise to the status of key player in offering financial products was facilitated by the fact that the company was not subjected to the financial regulations and restrictions that apply to commercial banks. And with the funding for the loans coming mostly from state-owned banks, **Ant Group made a profit by putting little of its own capital at risk.** Ant Group's business model is now seen as a source of risk to the Chinese financial system. On April 12, Pan Gonsheng confirmed during a press meeting that Ant Group will be restructured into a financial holding company overseen by China's central bank.[3] (For a more detailed account of the Ant Group story, see the box on page 25).

1 "Xi stresses healthy growth of platform economy, efforts for carbon peak and neutrality", *Xinhua*, March 16, 2021, http://www.xinhuanet.com/english/2021-03/16/c_139812578.htm
2 "PBC Deputy Governor Pan Gongsheng Answers Press Questions on Regulatory Talks with Ant Group", *The People's Bank of China*, December 26, 2020, http://www.pbc.gov.cn/en/3688110/3688172/4048269/4156979/index.html
3 "Pan Gongsheng, Vice-Governor of the People's Bank of China, answers reporters' questions on the financial authorities' talk to Ant Group (中国人民银行副行长潘功胜就金融管理部门再次约谈蚂蚁集团情况答记者问)", *The People's Bank of China*, April 12, 2021 http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4229432/index.html

Ant Group is part of a Chinese FinTech landscape and has to be put into context: how the FinTech industry in China was born and developed, and where it stands now. The industry has been characterized by rapid growth thanks to years of lax regulation and government support. China's giant platforms have extended their services into the financial sector, leading to the creation of cross-sector big techs that encompass financial and technology activities under one roof. But the period of free-riding has come to an end as China's financial regulators ramp up their efforts to tighten control over the sector, increasing oversights of FinTech practices. The cancellation of the IPO of Ant Group last November was a clear sign of this change of direction. **What was once considered engines of growth, is now seen as potential agents of chaos.**

This study provides an overview of the development of FinTech in China, and how the **Chinese government is seeking to strike a new balance between innovation and regulation.** The general analysis of the sector is complemented by a dive into the country's "big five" – the five largest FinTech players, namely, Ant Group, Tencent, Ping An, JD Technology, and Du Xiaoman Financial - including their international expansion. Finally, the paper raises a number of important questions from the angle of European data management issues, to anticipate a possible expansion of Chinese FinTech platforms in Europe.







# FINTECH, AN UMBRELLA TERM

"FinTech", or "financial technology", is used to describe technologies and innovations that **transform the provision of financial services and compete with the traditional financial establishments.**[4] Therefore, "FinTech" is an umbrella term that encompasses a set of innovative technology-enabled financial services, such as mobile payment, digital banking, insurance, wealth management, as well as cryptocurrency and cross-border payment. Although the FinTech industry has come under the spotlight in recent years, it is not a "brand new" industry. Coca-Cola launched the first "digital wallet" in 1997, enabling customers in Finland to pay at a vending machine through a text message on their phone,[5] while the first patent defined as "mobile payment system" was registered in 2000.[6] Money transfer and payment services are the most widely adopted FinTech segments among consumers, while the insurance segment stands out as the fastest-growing one.[7]

The global FinTech market was valued at about USD 111 billion in 2019, and is expected to grow to USD 158 billion by 2023.[8] The fall-out from the Covid pandemic is likely to accelerate this growth even further. The FinTech industry is dynamic, diverse and fast-growing. While forecasts vary, they all point to positive growth - to the extent that the most optimistic source bets on a global market value of USD 500 billion in 2030.[9] **The Covid-19 crisis has boosted the use of FinTech and the adoption of new technologies in delivering financial services, while also accelerating the action taken by states on the regulatory front.** A 2020 report from the World Bank and the Cambridge Centre for Alternative Finance underlines how Covid-19 has

4 World Bank and CCAF (2020), *The Global COVID-19 FinTech Regulatory Rapid Assessment Report*, World Bank Group and the University of Cambridge, October 2020, https://www.jbs.cam.ac.uk/wp-content/uploads/2020/10/2020-ccaf-report-fintech-regulatory-rapid-assessment.pdf
5 Alex Philips, "Coca Cola Launched The First Digital Wallet In 1997", *Twin Rock Partners*, October 30, 2019, https://www.twinrockpartners.com/coca-cola-launched-the-first-digital-wallet-in-1997/
6 Hui et al., "United States Patent Application Publication: 'Mobile Payment System' ", June 13, 2002, https://patentimages.storage.googleapis.com/97/a7/1a/16e48f1cd942e9/US20020073027A1.pdf
7 "Total value of investments into fintech companies worldwide from 2010 to 2020", *Statista*, March 30, 2021, https://www.statista.com/statistics/719385/investments-into-fintech-companies-globally/
8 The Business Research Company, *Fintech Global Market Opportunities And Strategies*, July 2020, https://www.thebusinessresearchcompany.com/report/FinTech-market
9 Omar Faridi, "Global FinTech Market Is Projected to Reach $300 Billion Market Cap by 2025 Due to Large Investments in New Tech and Infrastructure: Report", *Crowdfund Insider*, June 21, 2020, https://www.crowdfundinsider.com/2020/06/162997-global-FinTech-market-is-projected-to-reach-300-billion-market-cap-by-2025-due-to-large-investments-in-new-tech-and-infrastructure-report/

pushed the digitalization of finance.[10] The FinTech industry has proved to be resilient and adaptable during the Covid-19 crisis, with an overall growth in operations. With the ever-evolving FinTech industry, financial institutions that fail to digitalize will struggle to survive in the competitive climate.

## 1. The FinTech Ecosystem

In the FinTech ecosystem, there is **a combination of players coming from financial or technological backgrounds.** In general, they can be identified as following:[11]

- large, **well-established financial institutions** (traditional banks);
- **big tech companies** that are actively, but not exclusively, involved in the financial sector (e.g. Facebook, Apple, Alibaba, Baidu);
- **established finance companies** that provide infrastructure or technology to facilitate financial services transactions (e.g. Mastercard and UnionPay);
- **disruptive tech companies,** often start-ups, that develop innovative technology or process in a specific niche or segment, to improve mobile payments, automated investing, retail banking, peer-to-peer lending and insurance.

But these are not "fixed" categories. As **each player is stepping up its push for higher market share and breaking into new areas,** these categories often overlap. In many cases, banks prefer to set up FinTech subsidiaries instead of keeping the FinTech segment as an integrated part of the bank, in order to provide their FinTech business more operational liberty. At the same time, "disruptive tech companies" often face the fate of being acquired or merged by established players such as banks or big tech companies.

This is particularly true in the case of China, where traditional banks and tech giants cooperate to provide services, and where tech companies often establish a financial service subsidiary (FinTech) and absorb the start-ups through mergers and acquisitions (M&A) to provide innovative services. This of course also creates problems, such as unfair competition and monopoly. **When Chinese tech giants establish their financial subsidiary, the parent and subsidiary companies often remain highly interlinked, making it hard for start-ups in the traditional sense to compete**

10 World Bank and CCAF (2020), *The Global COVID-19 FinTech Regulatory Rapid Assessment Report*, World Bank Group and the University of Cambridge, October 2020, https://www.jbs.cam.ac.uk/wp-content/uploads/2020/10/2020-ccaf-report-fintech-regulatory-rapid-assessment.pdf
11 "What is FinTech?", *PWC's Financial Services Institute*, April 2016, https://www.pwc.com/us/en/financial-services/publications/viewpoints/assets/pwc-fsi-what-is-fintech.pdf






**with the financial subsidiary company.** For instance, JD.com, the second most used e-commerce platform in China, has a data and traffic cooperation agreement with its financial arm JD Technology, under which they agree to share the relevant data and information owned by them to each other free of charge, and to be the traffic sources of each other.[12] The same applies to other Chinese Tech giants and their respective financial arms. Synergy with Alibaba and unparalleled customer insights are what Ant Group perceives as its core strengths.

## 2. Overview of Technologies and their Applications for FinTech

Emerging technologies are dominating the ways businesses are operating. The FinTech industry relies on the development and use of **large datasets, artificial intelligence (AI), cloud computing and blockchain.** These four components are interdependent. Depending on their characteristics, they serve different purposes and are applied to different financial services.

In China, tech giants Alibaba and Tencent are in the leading position in applying technologies for the FinTech sector. One of the most common products of such applications is **credit scoring,** which lies behind most of the services provided by FinTech companies. For instance, by leveraging large datasets collected from their existing platforms, and with the adoption of cloud computing and AI, they can quickly make informed decisions on loan applications. **The output is faster and more accurate** compared to conventional models of calculation. The long-tail feature of these big technology platforms implies that **the marginal cost of servicing additional users is close to zero.**

### • Large datasets

The financial industry is able to collect very large datasets from multiple sources, including internal users, customers, financial institutions or risk analysis companies. These can help financial institutions provide differentiated services, achieve accurate customers' risk assessment and marketing, enhance customer loyalty and strengthen risk control.

12 "Prospectus for Initial Public Offering of Shares And Listing on STAR Market (首次公开发行股票并在科创板上市招股说明书)", *Jingdong Digits Technology Holding Co.*, October 2020, http://www.chuangze.cn/third_down.asp?txtid=2606

**• Cloud computing**

Cloud computing allows financial companies and institutions to run a series of data-related services at minimal operating costs securely, such as storing and efficiently processing data.

**• Artificial intelligence**

Artificial intelligence (AI) runs predictive algorithms on data sets and enables a machine to simulate human behavior to solve complex problems. It involves **machine learning (ML)**, a subset of AI which allows the computer system to learn from large amounts of historical data to give accurate output. AI can be used to improve user experience and enhance decision-making.

**• Blockchain**

Blockchain can be understood as a digital infrastructure, which allows decentralized model reconfiguration, transaction traceability and therefore improves transaction processing efficiency and enhances security.





II

# THE HISTORY OF FINTECH IN CHINA

Innovation and regulation are the two main forces that have determined the growth of FinTech in China. The years 2020 and 2021 mark a critical turning point in the history of the sector. **The drama around Ant Group and Jack Ma is only the tip of the iceberg.** The issuing of a new set of regulations shows that after a long period of hands-off approach, **China is now tipping the scale towards regulation.** However, this shift did not happen overnight. There has been a series of events that brought the FinTech sector where it is, step by step.

## 1. The Beginning of FinTech in China

Looking back at the origins, the rapid development of China's FinTech has been conditioned by the conjunction of **a lack of proper financial services** in the early 2000s and **the development of non-bank payment systems.**[13] Back in the 1990s, credit cards were virtually "non-existent" in the country, online banking was rare and even debit cards could not be used in every part of the country. To support its domestic players, **the Chinese government strategically delayed opening its financial sector to foreign companies.** Mastercard was only granted access to the Chinese market in late 2019 after years of delayed authorization. As a result of this protective environment, UnionPay, a bankcard association established in 2002, had already established a dominant position as a debit and credit card provider in China by the time of the opening of the sector.

Benefiting from the lack of proper financial services, non-bank payment systems took off. **This led to the emergence of two mobile payment systems, now known as Tencent's WeChat Pay and Ant Group's Alipay.** The two companies entered the payments space from different angles. In 2002, Tencent launched a virtual currency (QQ Coin) to be used in its (online web) games or in chat rooms to buy various characters' outfits and other kits. Alipay, launched in 2004 for online shopping on

13 Martin Chorzempa, "How China Leapfrogged Ahead of the United-States in the FinTech Race", *Peterson Institute for International Economics*, April 26, 2018, https://www.piie.com/blogs/china-economic-watch/how-china-leapfrogged-ahead-united-states-fintech-race

Taobao, acted as a third-party escrow service between the seller and buyer to secure the online purchase process. As the guarantor, Alipay would hold the funds paid by the buyer until the product is received and matches the description.

Regulations regarding online payment systems were only issued by the Central Bank in 2010, and the first batch of licenses for third-party payment services was released to 27 operators the year after.[14] A lack of regulations around non-bank mobile payment systems **enabled companies to grow free of compliance costs in what has been described as the "Wild West".[15]** It also gave a long period of time for the companies **to reach a critical size to withstand competition.** The government support, or rather policy to have the sector dominated by domestic players, is reflected in the 2010 online payment system regulation. It made a distinction between Chinese and foreign-funded third-party payment operators. Foreign-funded third-party operators were subject to special rules and State Council approval. To facilitate regulatory approval for the license, Alipay was restructured to become a domestic company, resulting in a dispute with Alibaba's foreign stakeholders Yahoo and Softbank which were not informed about the ownership transfer.[16]

The second turning point coincides with the **democratization of smartphones, mobile internet access** and the growing importance of **e-commerce in retail** (in 2017, already 17% of total retail sales in China) around the 2010s which formed a favorable terrain for mobile payment platforms to become more popular. In 2010, China passed the bar of 450 million people connected to the internet, among which 66% used mobile devices.[17] In 2015, 90% of Chinese internet users connected through mobile phones.[18] In 2015, 50% of the population used smartphones.[19] The adoption of the QR code by individual vendors, for example food stalls in the street, also contributed to the pervasiveness of these third-party payment systems and the development of FinTech.[20] Alipay released its first QR code system in 2011, allowing offline merchants to use the app.[21] From then on, **the surge in usage has been tremendous, with the online payment system's total transaction volume outpacing card payment in 2015.[22]**

The participation of non-traditional financial players has brought challenges and changes to the financial industry. As Jack Ma said back in 2013, **"the financial industry needs disruptors,** and even more so, those lay people come in to make changes (金融行业也需要搅局者,更需要那些外行的人进来进行变革)". He also added that "finance is meant to serve the layman, not to solely entertain and make money for a coterie (金融是为外行人服务的,不是自己圈里自娱自乐、自己赚钱的)."[23]

14 Wang Shanshan, "Alipay Awarded Third-Party Payment License", *Caixin*, May 27, 2011, https://www.caixinglobal.com/2011-05-27/alipay-awarded-third-party-payment-license-101016942.html
15 Elliot Wilson, "China Takes a Swipe at the FinTech Sector", *EuroMoney*, July 2, 2018, https://www.euromoney.com/article/b18ws9x3trz4gz/china-takes-a-swipe-at-the-FinTech-sector?copyrightInfo=true
16 Hu Shuli, "How Jack Ma's Mistake Damaged China's Market", *Caixin*, June 14, 2011, https://www.caixinglobal.com/2011-06-14/how-jack-mas-mistake-damaged-chinas-market-101010661.html
17 Wright Bryan, "Chinese Internet Use Surges Past 450 Million People in 2010", *NPR*, January 19, 2011, https://www.npr.org/sections/thetwo-way/2011/01/19/133048144/chinese-internet-adoption-surges-past-450-million-users-in-2010?t=1594305055156
18 "Penetration rate of mobile internet users in China from 2008 to December 2020", *Statista*, February 2021, https://www.statista.com/statistics/255552/penetration-rate-of-mobile-internet-users-in-china/
19 Dylan Cheang, "Investment Theme II: China Technology", DBS Chief Investment Office, *CIO Insights*, 4Q18, 2018, https://www.dbs.com/iwov-resources/pdf/cio/CIOInsights4Q18_ChinaTechnology.pdf?linkId=100000004309233
20 Martin Chorzempa, "How China Leapfrogged Ahead of the United-States in the FinTech Race", *Peterson Institute for International Economics*, April 26, 2018, https://www.piie.com/blogs/china-economic-watch/how-china-leapfrogged-ahead-united-states-fintech-race







## 2. From the Wild West to the "Party Leads Everything"

**The evolution of China's FinTech regulatory environment over the past 20 years can be roughly broken down into three phases:**

- for the first ten years, from 2000 to 2010, the sector went largely unchecked;
- between 2010 and 2015, attempts were made at introducing regulations;
- and since 2015, there has clearly been a ramping-up of efforts, with 2020 & 2021 reaching the peak.

21 "A Hangzhou Story: The Development of China's Mobile Payment Revolution", Lee Kuan Yew School of Public Policy, *National University of Singapore*, 2018, https://lkyspp.nus.edu.sg/docs/default-source/case-studies/a-hangzhou-story.pdf?sfvrsn=2bb6690a_2
22 Martin Chorzempa, "How China Leapfrogged Ahead of the United-States in the FinTech Race", *Peterson Institute for International Economics*, April 26, 2018, https://www.piie.com/blogs/china-economic-watch/how-china-leapfrogged-ahead-united-states-fintech-race
23 "Jack Ma: the Financial Industry needs a disruptor" (马云:金融行业需要搅局者)", *cpcnews.cn*, June 21, 2013, http://cpc.people.com.cn/n/2013/0621/c78779-21920452.html

## Regulatory Environment - a Timeline

| Issuing Date | Regulation | Issuing Entity |
|---|---|---|
| December 6, 2006 | Guidelines of Financial Innovation of Commercial Banks 商业银行金融创新指引 | China Banking Regulatory Commission (CBRC) |
| June 14, 2010 | Administrative Measures for the Payment Services Provided by Non-Financial Institutions 非金融机构支付服务管理办法 | People's Bank of China (PBoC) |
| August 23, 2011 | Circular on Risks Associated with Peer-to-Peer Lending 关于人人贷有关风险提示的通知 | CBRC |
| July 18, 2015 | Guiding Opinion on Promoting the Healthy Development of Internet Finance 关于促进互联网金融健康发展的指导意见 | PBoC, CBRC, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the Ministry of Finance |
| December 28, 2015 | Interim Measures on Administration of the Business Activities of Peer-to-Peer Lending Information Intermediaries (Draft for comments) 网络借贷信息中介机构业务活动管理暂行办法（征求意见稿） | CBRC |
| April 13, 2016 | Implementation Plan for Special Rectification of P2P online Lending Risks P2P网络借贷风险专项整治工作实施方案 | CBRC |
| June 14, 2016 | Guidelines on Information Technology Risk Management for Non-bank Payment Institutions 非银行支付机构信息科技风险管理指引 & Standard System for Non-Bank Payment Institutions 非银行支付机构标准体系 | Working Committee on Technical Standards of the Payment & Clearing Association of China |
| February 22, 2017 | Guidelines on the Depository and Management of Online Lending Funds 网络借贷资金存管业务指引 | CBRC |
| August 17, 2016 | Interim Measures on Administration of the Business Activities of Peer-to-Peer Lending Information Intermediaries 网络借贷信息中介机构业务活动管理暂行办法 | China Banking Regulatory Commission, the Ministry of Industry and Information Technology, the Ministry of Public Security and the State Internet Information Office |
| March 31, 2017 | China's central bank established a centralized clearinghouse for all third-party payments, enabling regulatory oversight on fund flows. | CBRC |
| May 15, 2017 | The Central bank set up a FinTech committee to act as the overall coordinator of all FinTech efforts and policies. | CBRC |
| August 4, 2017 | Notice on Non-bank Payment Organization Network Payment Operations Shifting from the Direct Model to China NetsUnion Platform Handling 关于将非银行支付机构网络支付业务由直连模式迁移至网联平台处理的通知 | PBoC |
| August 23, 2019 | Fintech Development Plan (2019 – 2021) 金融科机发展规划（2019-2021年） | PBoC |
| November 15, 2019 | Guidelines on the transformation of Peer-to-Peer Lending Information Intermediaries into pilot microfinance companies 关于网络借贷信息中介机构转型为小额贷款公司试点的指导意见 | China's Internet Financial Risk Special Rectification Work Leadership Team Office |
| November 2019 | Regulatory 'sandbox' program announced | PBoC |
| September 11, 2020 | Trial Measures for the Supervision and Administration of Financial Holding Companies 金融控股公司监督管理试行办法 | PBoC |
| November 10, 2020 | Antitrust Guidelines for the Platform Economy (Draft for comments) 关于平台经济领域的反垄断指南（征求意见稿） | The State Administration for Market Regulation (SAMR) |
| December 25, 2020 | Measures for the Administration of the Sales of Wealth Management Products and Subsidiaries of Commercial Banks (Draft for comments) 商业银行理财子公司理财产品销售管理暂行办法（征求意见稿） | The China Banking and Insurance Regulatory Commission (CBIRC) |
| January 21, 2021 | Regulations on Non-bank Payment Institutions (Draft for Comments) 非银行支付机构条例(征求意见稿) | PBoC |
| February 19, 2021 | Further Regulation Notice on Commercial Bank Internet Loan Business 关于进一步规范商业银行互联网贷款业务的通知 | CBIRC |
| February 7, 2021 | The Anti-Monopoly Guidelines on the Platform Economy 关于平台经济领域的反垄断指南 | The Anti-Monopoly Commission of the State Council |
| April 2, 2021 | Interim Measures on the Administration of Appointments of Directors, Supervisors and Senior Management of Financial Holding Companies 金融控股公司董事、监事、高级管理人员任职备案管理暂行规定 | PBoC |







In the FinTech sector, China has long placed **development before regulation (先发展后监管)** to provide sufficient space and freedom for the industry's growth.[24] This has been the feature of the first phase of FinTech development between 2000 and 2010. According to a paper published by the Peterson Institute for International Economics (PIIE), "China left the online payments market virtually unregulated for years, and the Central Bank governor explicitly stated that he would allow unregulated tech firms to enter spaces that were previously off-limits to anyone without a financial license, giving those companies freedom to grow before any rules would be imposed".[25] Ba Shusong, Managing Director and Chief China Economist of Hong Kong Exchanges and Clearing Limited (HKEX), notes that **the regulatory environment for Internet finance activities in China was relatively accommodating when it was in its initial stages.** This gave Chinese Internet finance entities a relatively lenient environment to explore and experiment.

24 TF Securities report, "Fintech remodels finance, three types of subject are taking the lead - first episode of a series on financial technologies (FinTech 重塑金融，三类主体站上风口 金融科技系列之一)", May 9, 2019, https://mp.weixin.qq.com/s?__biz=MzAwMzIzNzcwMg==&mid=2648993995&idx=2&sn=d3373519a-592da85c75c62a1e306e415&chksm=832ee2e2b4596bf4eb2693deae6bebfc617f26f9ade4b75239c9d08e9ff68-50796c2067ade27&scene=0&xtrack=1

25 Martin Chorzempa, "How China Got a Head Start in FinTech and Why the West Won't Catch Up", *MIT Technology Review*, December 19, 2018, https://www.technologyreview.com/2018/12/19/138354/how-china-got-a-head-start-in-FinTech-and-why-the-west-wont-catch-up/

Chinese authorities have also voiced their support for the contributions made by FinTech to both society and the economy, in particular to inclusive finance.[26] **Providing banking and financing solutions to low-income segments of the population that are often excluded from the traditional banking system,** including China's many rural poor, has been a key objective of the CCP's policies since 2005. Thanks to the increasing pervasiveness of mobile technology, FinTech players have been able to extend financial services to a large portion of China's population that does not have traditional credit history and still lives in rural areas. Last year, the Governor of the People's Bank of China (PBOC) highlighted how the FinTech industry's contribution to financial inclusion helped reduce the economic impact of Covid-19 in China and suggested that traditional banks learn from FinTech players in terms of service offering, customer knowledge and control of non-performing loans.[27] **As the pandemic has led to even better usage of financial technology tools, and forced people to go online, the digital adoption/penetration has been further accelerated.** But with emerging risks, the FinTech industry has entered an adjustment period.[28]

The second phase, which covers 2010-2015, sees the beginning of some regulatory efforts. Separate texts were issued for specific areas, such as the 2010 "Rules on the Administration of Payment Services Provided by Non-Financial Institutions" which provides a "basic framework for the regulation of third-party payment services provided by non-financial institutions" or the 2011 "Circular on Risks Associated with Peer-to-Peer Lending".[29] Overall, between 2010 and 2015, the sector remained extremely unregulated. In particular, **this period was also marked by the flourishing of the peer-to-peer (P2P) lending industry, without a solid regulatory framework,** which resulted in severe problems. The P2P lending industry is often referred to as an example of China's FinTech failure due to lack of regulations. Investors were attracted to P2P lending because of the quick return these platforms promised, while customers sought quicker and easier access to credit. By the end of 2015, almost one-third of P2P companies (approximately 1,000 out of 3,612) were experiencing problems such as repayment ceasing and had ceased to reply to investors.[30]

26 Weihuan Zhou, Douglas W. Arner, Ross P. Buckley, "Regulation of Digital Financial Services in China: Last Mover or First Mover", *Tsinghua China Law Review*, September 1, 2015, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2660050
27 Timmy Shen, "China's Recovery From Coronavirus Epidemic Better Than Expected, PBOC Chief Says", *Caixin*, May 2, 2020, https://www.caixinglobal.com/2020-05-02/chinas-recovery-from-coronavirus-epidemic-better-than-expected-pboc-chief-says-101549408.html
28 "Current Status and Trend of Chinese Fintech Development (中国金融科技发展的现状与趋势)", *GlobalTimes*, January 20, 2021, https://finance.huanqiu.com/article/9CaKrnJZTUe
29 Weihuan Zhou, Douglas W. Arner, Ross P. Buckley, "Regulation of Digital Financial Services in China: Last Mover or First Mover", *Tsinghua China Law Review*, September 1, 2015, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2660050
30 "China tightens regulation over P2P lending", *Xinhua*, December 28, 2015, https://www.globaltimes.cn/content/960956.shtml







The most headline-grabbing case was **Ezubao (E租宝), once China's biggest peer-to-peer lending platform. In 2016, the platform was proved to be a USD 9.14 billion (CNY 59.8 billion) Ponzi Scheme cheating more than 900,000 investors.[31]** It promised unrealistically high guaranteed returns on its investment products (9% to 14.6% annualized yields), fabricated projects to raise money and used the money of new investors to pay back older investors. After these incidents, the government became wary of the importance of these platforms, especially because of the risk of fraud or Ponzi schemes, and issued draft measures to regulate the (P2P) lending market. The final version was published in August 2016.

This background, combined with other factors such as China's 2015 stock market crash, helped catalyze the change of mind of China's financial regulators and top leaders. The 2015 stock market crash was perceived as politically embarrassing, showing the weakness of China's financial system and the failure of the government to prevent it. It also raised the alarm on the risk of capital outflow. Since then, Chinese authorities have clearly expressed their will to regulate the FinTech sector. The year also marked **a shift from tackling individual aspects of FinTech to trying to come up with a comprehensive set of standards for the industry.** In 2015, ten high-level Chinese state regulatory agencies jointly issued the "Guiding Opinions on Promoting the Healthy Development of Internet Finance 2015 (关于促进互联网金融健康发展的指导意见)", setting legal parameters for Internet finance. In order to keep the balance between innovation and regulation, the document offered general guidance. In its own words: **"as Internet finance is a new thing and an emerging industry, it is necessary to formulate moderately loose regulatory policies to leave room and space for Internet finance innovation."[32]** However, with the deep application of new technologies in the financial sector, there have been some risky incidents that seriously harm the rights and interests of consumers and affect financial stability.[33]

In August 2017, China's Central Bank issued a notice requiring any **third-party online payment operation invoking bank accounts to be centralized and processed by NetsUnion Clearing Corporation (NUCC),** starting from June 2018.[34]

31 "Leader of China's $9 billion Ezubao online scam gets life; 26 jailed", *Reuters*, September 12, 2017, https://www.reuters.com/article/us-china-fraud-idUSKCN1BN0J6
32 "Guiding Opinions on Promoting the Healthy Development of Internet Finance 2015" (关于促进互联网金融健康发展的指导意见)", People's Bank of China, July 18, 2015, http://www.gov.cn/xinwen/2015-07/18/content_2899360.htm
33 Shen Yan, "The FinTech regulatory sandbox: a new approach to balance risk prevention and encourage innovation (金融科技监管沙盒:平衡防范风险与鼓励创新的新举措)", *China Think Tanks*, February 8, 2020, https://www.chinathinktanks.org.cn/content/detail/id/c3upa582
34 "Central Bank: Online Payment Services Will All Go Through the Network in the Future (央行, 网络支付业务未来将全部通过网联)", *Xinhua*, August 7, 2017, http://www.xinhuanet.com//money/2017-08/07/c_1121440263.htm

NUCC is a platform established in March 2017 by the Payment & Clearing Association of China, an affiliate to the PBOC. Prior to that, third-party payment institutions were directly connected with banks for the clearing, bypassing the central bank's clearing system and making it impossible for the central bank to grasp specific transaction information and the exact flow of funds. In December 2017, China's Central Bank and banking regulatory commission jointly ordered that all organizations and individuals must obtain a license and operate in accordance with strict requirements. Fan Yifei, deputy governor of the People's Bank of China (PBOC), said at the working conference of the National Financial Standardization Technical Committee in 2019 that "high-quality financial development requires high-quality financial standards."[35] The PBOC has also recognized in recent years that the "FinTech industry either lacks standards or needs to update existing standards",[36] the aim being to protect consumers and their personal data, avoid illegal activities, etc, and to ensure that the development of the FinTech industry is sustainable. However, **the government's efforts had yet to translate into a definitive set of industry rules and standards. This echoes the government effort on protecting personal data from commercial entities.** The 2017 cybersecurity law and the 2018 Personal Information Security Specification reflect such intention of protecting consumers against predatory commercial interests, but the regulation also reflects a compromise between regulatory experts and company representatives.[37]

Chinese FinTech companies adjusted to this changing environment. **Both Ant Group and JD Technology changed their name to distance themself from "Fin" and to stress their "Tech" nature.** In 2018, JD.com renamed its financial services subsidiary JD Finance into JD Digits. The finance arm was further restructured in January 2021, when JD.com established JDTechnology, combining JD Digits with its cloud and artificial intelligence business. In late June 2020, Ant Financial changed its name, from "Zhejiang Ant Small Financial Service Group Ltd" to "Ant Technology Group Ltd". Jack Ma, in an attempt to reshape the company's figure towards "tech", used the term "TechFin" in 2016 while defining the mission of Alipay.[38] According to him, "FinTech takes the original financial system and improves its technology, TechFin is to rebuild the system with technology. What we want to do is to solve the problem of a lack of

35 "China to Step Up FinTech Regulation", *Finews Asia*, November 21, 2019, https://www.finews.asia/finance/30283-pboc-china-to-regulate-17-FinTech-areas-blockchain
36 "Status check: China's Regulatory Landscape", *Finextra*, January 24, 2020, https://www.finextra.com/blogposting/18368/status-check-chinas-regulatory-landscape
37 François Godement, "Digital Privacy: How Can We Win the Battle ?", Institut Montaigne, November 2019, https://www.institutmontaigne.org/en/publications/digital-privacy-how-can-we-win-battle
38 Zen Soo, "TechFin: Jack Ma coins term to set Alipay's goal to give emerging markets access to capital", *South China Morning Post*, December 2, 2016, https://www.scmp.com/tech/article/2051249/techfin-jack-ma-coins-term-set-alipays-goal-give-emerging-markets-access







inclusiveness". Later in June 2018, Chen Liang, former PR and currently Vice President of Ant Group, said that the original registered trademark "Zhejiang Ant Small Financial Service Group Ltd", was meant to place a focus on "service" rather than "finance", but the market has clearly paid more attention to "finance". His regret of having used "finance" in the name is often interpreted as a consequence of regulatory constraints the company has been facing as a financial institution.[39] As later cases show, despite the change of name and the attempt to project themselves as benevolent technology providers, these companies have remained under the purview of financial regulators: especially Ant Group, financial regulators have not turned down the heat towards it.

China faces vast challenges in its attempts to regulate the FinTech industry, with the need to achieve a delicate balancing between setting out rules for FinTech and encouraging innovation. The goal is to break the dilemma of "if you regulate it, it dies. If you let it go, it causes disorder (破解"一管就死、一放就乱"困局)".[40]

The PBOC's three-year "Fintech Development Plan (2019 – 2021)" issued in August 2019 is an attempt to address this key challenge. One of the six key missions of the plan is to "strengthen FinTech regulation, establish and improve a basic rules system for regulation (...) and explore FinTech innovation regulatory mechanisms".[41] This approach, called **the "regulatory sandbox", allows entities to test their products, services or solutions within a well-defined space and duration agreed with the regulators".[42]** The first regulatory sandbox was created in the UK in 2015, and since then, many other countries have followed suit.[43] China's sandbox was launched in Beijing in 2019, and extended to six other cities (Shanghai, Chongqing, Shenzhen, Hangzhou, Suzhou and the Xiong'an New Area) in 2020.[44] From the 6 projects originally included in December 2019, the Beijing sandbox had grown to include 11 new projects in June 2020.[45] At the same time, China also created 17 standards for FinTech categories,

39 Huang Min, "Ant Financial Services change name to 'finance' specialist: positioning finance does not favour high valuation, (蚂蚁金服更名剥离"金融" 专家：定位金融不利于高估值)", *eastmoney.com* (东方财富网), June 24, 2020, http://finance.eastmoney.com/a/202006241532024996.html
40 "Fan Yifei talks about financial technology supervision: development cannot follow the old path of Internet finance, (范一飞谈金融科技监管:发展不能走互联网金融的老路)", *Sina*, April 14, 2019, https://finance.sina.cn/bank/yhpl/2020-04-14/detail-iirczymi6276288.d.html
41 "Chinese Central Bank Releases FinTech Development Plan for 2019-2021", *China Banking News*, August 23, 2019, http://www.chinabankingnews.com/2019/08/23/chinese-central-bank-releases-FinTech-development-plan-for-2019-2021/
42 "International Guide to Regulatory FinTech Sandboxes", *Baker McKenzie*, 2018 https://www.bakermckenzie.com/en/-/media/files/insight/publications/2018/12/guide_intlguideregulatorysandboxes_dec2018.pdf
43 Chen Jia, "Regulators Act to Avoid Risk from Digitalized Products", *China Daily*, August 1, 2020, https://www.chinadaily.com.cn/a/202001/08/WS5e150bc7a310cf3e35583112.html
44 "China Expands 'Regulatory Sandbox' to Shanghai, Shenzhen", *Caixin*, April 28, 2020, https://www.caixinglobal.com/2020-04-28/china-expands-fintech-regulatory-sandbox-to-shanghai-shenzhen-101548194.html
45 "China to Trial 11 New Projects in 'Regulatory Sandbox'", Caixin, June 3, 2020, https://www.caixinglobal.com/2020-06-03/china-to-trial-11-new-fintech-projects-in-regulatory-sandbox-101562708.html

including blockchain, artificial intelligence and cloud services.[46] The standards, which aim to "better regulate new technologies" apply across the financial industry, will focus in particular on data security.[47] Soon after, in October 2020, a national FinTech certification center was established in Chongqing municipality, marking a significant step in the implementation of the FinTech Development Plan (2019-2021).

The regulatory authorities are set to bring all financial activities under regulatory coverage, requiring licenses for all financial businesses following the so-called **"zero-tolerance (零容忍)"** policy in the future for all types of illegal or irregular conduct.[48] The case of P2P provides a reference for the development direction of financial regulation. At its peak in 2017, there were 5,970 P2P lenders.[49] **By mid-November 2020, P2P lenders had completely vanished from China's financial space.** The case confirms that FinTech, which tends to thrive in a more open environment like all other technologies, has entered an adjustment period.

This shift of focus from laissez-faire to regulatory efforts can be seen in the light of the recent developments with Ant Group. Ant Group has appeared as a target, but the China Banking and Insurance Regulatory Commission (CBIRC) has **invited all other internet platform companies to study the regulations and adjust accordingly,** as regulatory institutions have inspection plans lined up. The IPO of JD Digits (now rebranded as JD Technology) on Shanghai's Nasdaq-style STAR Market was withdrawn by the company on March 30, 2021, after its September 2020 application. Even though it has received less attention compared to Ant Group, JD.com restructured the entity into JD Technology in January 2021, combining JD Digits with its cloud and artificial intelligence business. **The move is seen as a way to dilute the share of the financial business in the company in order to bypass tougher rules.**[50]

Among the recent regulations, three should be particularly highlighted.

- The "Trial Measures for the Supervision and Administration of Financial Holding Companies" that entered into force on November 1, 2020, **require qualifying nonfinancial companies that control two or more different types of financial institutions to create a financial holding company.**[51] The measures place non-financial companies that previously enjoyed a free ride outside the scope of the supervision of financial regulations under the same roof of commercial banks.
- The second is the Anti-Monopoly Guidelines on the Platform Economy issued on February 7, 2021, (关于平台经济领域的反垄断指南).[52] The unprecedented speed of formalization shows the urgency of the change in the mind of policy-makers, who **could no longer tolerate the industry being concentrated in the hands of a few giants.** It aims to curb monopolistic practices across its internet landscape, targeting behavior such as exclusive dealing, big data discrimination, use of subsidies to crowd out competition, and hub and spoke agreements.
- The third is the rule over online lending platforms also issued in February, which is set to be effective next year. Under the rule, **FinTech companies would be forced to have a much greater stake in the outcome of the lending.** It requires online lending platforms to contribute to 30% of the loans they offer in partnership with banks. The rule also sets a limit on how the capital commercial banks commit to online lending while cooperating with tech platforms. This is to avoid having FinTech companies enjoying exorbitant profit by putting traditional financial institutions at risk. FinTech companies have to commit more of their own funds. In the words of Guo Shuqing, Chairman of China Banking and Insurance Regulatory Commission, **"you need capital to do business, even more so to do finance".**[53]

Guo Shuqing, chairman of the China Banking Regulatory Commission, explains that **"FinTech is a winner-take-all industry,"** and **"with advantage of data monopoly, big tech firms tend to hinder fair competition and seek excessive profits."**[54] He argues that China's new approach towards the rapid growth of the sector is "positive and prudent." Following the same line, Pan Gongsheng, deputy governor of the People's Bank of China, writes in an article for the *Financial Times* that **"we are refocusing non-bank payment institutions on payments** by separating out the clearing function into a newly established financial infrastructure." and

46 "China is on a Mission to Regulate FinTech", *International FinTech*, November 22, 2019, https://internationalFinTech.com/china-is-on-a-mission-to-regulate-FinTech/
47 "China to Step Up FinTech Regulation", *Finews Asia*, November 21, 2019, https://www.finews.asia/finance/30283-pboc-china-to-regulate-17-FinTech-areas-blockchain
48 "PBC Deputy Governor Pan Gongsheng Answers Press Questions on Regulatory Talks with Ant Group", *People's Bank of China*, December 26, 2020, http://www.pbc.gov.cn/en/3688110/3688172/4048269/4156979/index.html
49 Nadeem Xu, "China shut down all P2P platforms mid Nov", *Asia Times*, November 30, 2020, https://asiatimes.com/2020/11/china-shut-down-all-p2p-platforms-by-mid-nov/
50 Tang Ziyi, "What You Need to Know About Ant Group's Suspended IPO and the Future of chinese Fintech", *Caixin*, January 12, 2021, https://www.caixinglobal.com/2021-01-15/what-you-need-to-know-about-ant-groups-suspended-ipo-and-the-future-of-chinese-fintech-101651386.html
51 "People's Bank of China Order (2020), n°4, (中国人民银行令(2020)第4号)", *People's Bank of China*, September 11, 2020, http://www.gov.cn/zhengce/zhengceku/2020-09/13/content_5543147.htm
52 "State Council's Anti-monopoly Committee Guidelines for the Platform Economy Sector (国务院反垄断委员会关于平台经济领域的反垄断指南)", *State Council's Anti-monopoly Committee*, February 7, 2021, http://gkml.samr.gov.cn/nsjg/fldj/202102/t20210207_325967.html
53 "Guo Shuqing spoke before the two sessions to warn real estate speculators and responded to the pressure on banks' bad disposal, loan interest rates, financial technology supervision, the aging population… (郭树清两会前发声, 警示炒房者, 回应银行不良处置压力、贷款利率、金融科技监管、老龄化应对…)", *China Finance 40 Forum*, March 2, 2021, https://mp.weixin.qq.com/s/Q-9o2kynhs-FSJp6fxY7FA
54 "China to adopt 'positive and prudent' approach towards FinTech sector, regulator says", *Reuters*, December 8, 2020, https://www.reuters.com/article/china-tech-regulation/update-1-china-to-adopt-positive-and-prudent-approach-towards-FinTech-sector-regulator-says-idUSL1N2IO08I

also **"striving to provide a level playing field for all companies,** foreign-owned and private alike, by opening up the sector".[55]

The Chinese FinTech companies appear to have disappointed the policy-makers and regulators.[56] Summering up the dilemma, the State voiced some concerns in the past few years that resulted in the end of China's hands-off approach in the FinTech sector. These concerns are:

- Big FinTech companies have **outgrown state-owned banks.**
- Big FinTech companies have **accumulated too much strength,** including political power.
- **Jack Ma provoked policy-makers and regulators** by criticizing China's financial regulation at the Bund Summit in October 2020.
- FinTech companies have contributed to **the promotion of irrational spending** through overlending.

Interestingly, while Chinese regulators make reference to tougher FinTech regulations in major economies to justify the increasingly regulated domestic market,[57] its counterparts use the Chinese model to require a looser regulatory environment. **Mark Zuckerberg,** chief executive of Facebook, **defended the company's Libra project during his Congressional hearing in October 2020 by citing the "risk of not innovating" and the need to compete with China.[58]**

55 Pan Gongsheng, "How China is tackling fintech risk and regulation", *Financial Times*, January 27, 2021, https://www.ft.com/content/5209685c-aa8e-4f33-92d0-81f9c7a29b3c
56 Philippe Aguignier, "Le panda et la fourmi, ou la fourmi qui voulait se faire aussi grosse que le panda", *Asia Centre*, January 6, 2021, https://centreasia.eu/le-panda-et-la-fourmi-ou-la-fourmi-qui-voulait-se-faire-aussi-grosse-que-le-panda/
57 Pan Gongsheng, "How China is tackling fintech risk and regulation", *Financial Times*, January 27, 2021, https://www.ft.com/content/5209685c-aa8e-4f33-92d0-81f9c7a29b3c
58 "Mark Zuckeberg's Opening Statement to the House Financial Services Committee on Project Libra", *American Rhetoric*, October 23, 2019, https://www.americanrhetoric.com/speeches/markzuckberglibraprojectcongress.htm







## Ant Group: Landing in Hot Water

**Ant Group "should return to its origins in payment services, improve trading transparency, and refrain from unfair competition"**, commented Pan Gongsheng, deputy governor of the People's Bank of China, when asked about regulatory talks with Ant Group in December 2020.[59] The statement came after a series of events that has put in question the future of Ant Group and the future direction of China's financial regulatory policy.

On October 24, Jack Ma gave a provocative speech criticizing China's financial regulation at the Bund Summit in Shanghai.[60] He argued that **good innovation is being held back by too many outdated regulations,** adding that reducing risk to zero is the biggest risk of all since it kills innovation. Going further, he **criticized traditional banks' "pawn shop" mentality** and urged the pursuit of a financial ecosystem that accommodates development. His speech came right after the video message of Wang Qishan, China's Vice President, warning that the widespread application of new financial technologies and the emergence of new business models in recent years had brought convenience and increased efficiency, but also amplified financial risks. The sequence suggested a confrontation between Jack Ma and Wang Qishan.[61] **The confrontation allegedly cost Jack Ma the Ant Group dual listing in Shanghai and Hong Kong, which was meant to be the biggest IPO ever with its USD 37 billion listing.** It was suddenly canceled just two days before the listing. Jack Ma had been out of public view since early November, leading to speculation over his whereabouts. He only resurfaced on January 20 during an online conference with rural educators, stating that his colleagues and himself "have been learning and thinking," and "have become more determined to devote ourselves to education and public welfare". The latest addition to the twist, is that Jack Ma, China's best-known businessman, has not been included in the list of Chinese entrepreneurial leaders published on February 2 by Shanghai Securities News, a State media.[62]

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59 "PBC Deputy Governor Pan Gongsheng Answers Press Questions on Regulatory Talks with Ant Group", *People's Bank of China*, December 26, 2020, http://www.pbc.gov.cn/en/3688110/3688172/4048269/4156979/index.html
60 "Jack Ma's Bund Financial Summit full speech: China's financial industry is still premature (马云外 滩金融峰会演讲全文:中国金融业还是青少年)", Sina Finance, October 242,020, https://finance.sina.com.cn/money/bank/bank_hydt/2020-10-24/doc-iiznezxr7822563.shtml
61 Xiao Shan,"Did China's 4 Finance Regulators suddenly interviewed Jack Ma and others because of Big Brother Ant Financial's Market Shock or Because of the hard-line attack on Wang Qishan? (中国 金融4管突然约谈马云等蚂蚁大佬引发市场震惊或因硬杠王岐山?)", *Radio France International*, November 2, 2020, http://rfi.my/6m4F
62 "Chinese state newspapers omits Jack Ma from list of entrepreneurial leaders", *Reuters*, February 2, 2021, https://www.reuters.com/article/us-china-alibaba-jack-ma-idUSKBN2A20E1

Jack Ma's October speech triggered a series of reactions from the Chinese officials that call for stricter regulation of the FinTech sector. The Wall Street Journal reported that Xi Jinping was furious about the speech and ordered the investigation of Ant's IPO.[63] Although many details remain unknown, this suggests a strong political impetus behind the moves of China's financial regulators. During the Financial Stability and Development Committee meeting on October 31, China's Vice Premier Liu stressed the need for FinTech activities to be regulated.[64] Sun Haibo, Dean of the Financial Regulation Research Institute, the Financial Stability and Development Committee wanted to "wake Jack Ma up (给马云醒醒脑)".[65] Soon after, several articles were published on China's state-affiliated media highlighting the need for FinTech regulation. According to an article published by Financial News, a financial newspaper under the People's Bank of China, **"If large Internet companies carry out a large number of financial services, but claim to be technology companies, they are not only avoiding regulation, but are also more likely to expand out of control, creating risks that are against fair competition and consumer protection."[66]** Another article warns the risk of being misled by Big Tech companies, which want to expand their footprint in the financial services industry but do not want to be regulated.[67]

On November 2, China's Central Bank and financial regulators summoned Ma, Ant Group chairman Jing Xiandong and its president Hu Xiaoming for regulatory talks, and on the same day, it released draft rules for the online personal loan sector limiting lending amounts and restricting operation location, unless approved.[68] One day later, due to inconsistencies with new draft regulations, Ant Group announced the suspension of its IPO in both Shanghai and Hongkong.

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63 Jing Yang, Lingling Wei, "China's President Xi Jinping Personally Scuttled Jack Ma's Ant IPO", *The Wall Street Journal*, November 12, 2020, https://www.wsj.com/articles/china-president-xi-jinping-halted-jack-ma-ant-ipo-11605203556
64 "Liu He chaired a special meeting of the State Council's Financial Stability Development Committee, (刘鹤主持召开国务院金融稳定发展委员会专题会议)", Government of China, October 31, 2020, http://www.gov.cn/guowuyuan/2020-10/31/content_5556394.htm
65 "The Financial Committee's statement on Jack Ma's speech: Complete regulation of finance ! (金融 委对马云演讲的表态:全面金融监管!)", *weixin.qq.com* (金融監管研究院), November 2, 2020, https://mp.weixin.qq.com/s?__biz=MzA3MjkyODI1Nw==&mid=2654098347&idx=1&sn=985401f0f6831929d72ab107f1f47f46&chksm=84d02ec5b3a7a7d36b51ff4f0457181e42427bdaee2052b801f991aad27f467b98351f6d9d99&scene=21#wechat_redirect
66 "Potential risks and regulations for large Internet companies entering the financial sector, (大型互联 网企业进入金融领域的潜在风险与监管)", Finance Sina, November 2, 2020, https://finance.sina.com.cn/tech/2020-11-02/doc-iiznezxr9529120.shtml
67 "A few points about financial innovations and regulations, (关于金融创新与监管的几点认识)", *China Daily*, November 2, 2020, http://cn.chinadaily.com.cn/a/202011/02/WS5f9f7e43a3101e7ce972ca3d.html







**As regulators investigate the details of Ant Group's prospectus, the complex ownership structure of Ant Group also set off alarm bells.** Not only the decision making process and operations of Ant and Alibaba are highly intertwined, but *The Wall Street Journal* also reported that the investigation revealed a few Chinese power players with political connections, which were obscured by methods of investment.[69] For instance, among them, regulators found Jiang Zhicheng, the grandson of former President Jiang Zemin, and Jia Qinglin, a former member of the Politburo Standing Committee. Adding to the list of problems, there are: Ant's inadequate corporate governance mechanism; lack of legal awareness, flouting regulatory compliance requirements, and illegal regulatory arbitrage; using the dominant market position to exclude fellow operators; damaging the legitimate rights and interests of consumers and triggering consumer complaints, etc.[70]

This was not the first time Jack Ma challenged the traditional financial sector and asked for a more relaxed regulatory environment. In 2008, criticizing the bank's lending system for SMEs, he concluded: **"If the banks don't change, we will change the banks".[71]** In 2013, Jack Ma again stressed the importance of innovation brought by disruptive actors outside the traditional financial circles and criticized the Chinese financial industry for being over-regulated. For years, Jack Ma brought the kind of innovation into the Chinese economy that was in line with the State's goal of establishing China as a tech powerhouse. But as Ant Group grew into a financial-services giant and appeared to focus on its own profits, pulling the alarm bell, the State's green light turned to red. It made profit by putting little of its own capital at risk, as state-owned banks were supplying the majority of the funding. This time, Ma had to face strong backlash. **Ant Group, the disruptor of the financial industry, finally "disrupted" excessively and crossed the red line.**

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68 "Announcemnt of the China Banking and Insurance Regulatory Commission and People's Republic of China Public on the 'Interim measures for the Administration of Online Small Loan Business' (Draft for Comment) (中国银保监会 中国人民银行关于《网络小额贷款业务管理暂行办法(征求意稿见)》公开征求意见的公告)", Government of China, November 3, 2020, http://www.gov.cn/xinwen/2020-11/03/content_5556884.htm
69 Lingling Wei, "China Blocked Jack Ma's Ant IPO After Investigation Revealed Likely Beneficiaries", *The Wall Street Journal*, February 16, 2021, https://www.wsj.com/articles/china-blocked-jack-mas-ant-ipo-after-an-investigation-revealed-who-stood-to-gain-11613491292
70 "Pan Gongshi, Deputy Governor of the People's Bank of China, answeres journalists' questions about Financial management Department's discussion with Ant Group (中国人民银行副行长潘功胜就 金融管理部门约谈蚂蚁集团有关情况答记者问)", *People's Bank of China*, December27, 2020, http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4153479/index.html
71 "Jack Ma: If the bank does not change, We will change the bank, (马云:如果银行不改变 我们就改变银行)", *Finance Sina*, December 7, 2008, http://finance.sina.com.cn/hy/20081207/18215601586.shtml

**On March 12, 2021, Ant Group published a self-discipline rule,** requiring among others its financial platforms to combat induced marketing; its small and micro loan platform to guide its users to rational spending; and consumer credit platforms to not lend to minors, and to not issue credit to young or people with low repayment ability beyond their basic need.[72] The Chief Legal Officer of Ant Group explained that the company aimed to take up more ethical and social responsibility. On the same day, its CEO Hu Xiaoming resigned. One month after, on April 12, Pan Gonsheng confirmed during a press meeting that Ant Group will be restructured into a financial holding company overseen by China's central bank, and it is required to break the "inappropriate links" between Alipay and it other financial products.[73]

72 "Ant announces self-disciplines guidelines for digital platforms, (蚂蚁公布数字金融平台自律准则)", *Zaobao*, March 12, 2021, https://ww w.zaobao.com.sg/realtime/china/story20210312-1130792
73 "Pan Gongsheng, Vice-Governor of the People's Bank of China, answers reporters' questions on the financial authorities' talk to Ant Group (中国人民银行副行长潘功胜就金融管理部门再次约谈蚂蚁集团情况答记者问)", *The People's Bank of China*, April 12, 2021. http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4229432/index.html





III

# CHINA'S FINTECH CONGLOMERATES: THE "BIG FIVE"

China has one of the most dynamic FinTech markets in the world. According to EY's 2019 Fintech Adoption Index, **87% of China's digitally active population uses two or more categories of Fintech services.[74]** In 2018, China's FinTech investments reached USD 25.5 billion, ranking first in the world and amounting to about half of the global total of FinTech investments that year.[75] Notably, two companies contributed to the high number: Ant Financial (renamed Ant Group in June 2020)'s record fundraising of more than USD 14 billion and followed by Du Xiaoman Financial, Baidu's financial arm, which raised USD 4.3 billion in two different transactions.[76] However, the sector experienced a dramatic 83% YoY drop in 2019, with a recorded investment of only USD 1.9 billion.

The market is still very dynamic thanks to the fierce competition between established players as well as smaller start-ups. Partnerships with institutional players (State-Owned Banks, financial institutions) have also been a key feature of China's FinTech industry. KPMG's annual reports, *China Leading Fintech 50*, give an idea of the diversity of China's FinTech market, as well as the sector shift of leading FinTech companies.

To provide an overall analysis of the Chinese FinTech market, **the study has chosen the five most prominent and financially potent companies in the sector,** which we refer to as the "Big Five": Ant Group, Tencent, JD Technology, Ping An and Du Xiaoman Financial (see "Appendix: Case studies" on Page 40 for more details of each company). These five companies can be classified as **"integrated financial services",** or **FinTech conglomerates,** as they offer a full range of services from mobile payment system to wealth management and credit scoring services. What

74 "Global FinTech Adoption Index 2019", *EY*, June 2019, https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/banking-and-capital-markets/ey-global-fintech-adoption-index.pdf
75 Chad Bray, "Global fintech deals declined 4 per cent in 2019 as China investments fell sharply, report says", *SCMP*, February 20, 2020, https://www.scmp.com/business/china-business/article/3051519/global-fintech-deals-declined-4-cent-2019-china-investments
76 "FinTech in China: What Lies Ahead", Knowledge@Wharton, *Wharton University of Pennsylvania*, July 12, 2019, https://knowledge.wharton.upenn.edu/article/FinTech-china-lies-ahead/

differentiates them is the detail of their offers and the sector which they prioritize among their services, which reflects their background. They also have the most important international reach with a global portfolio of investment. The following table outlines the range of services provided by each company.

## 1. The "Big Five" in the Domestic Market

Ant Group (蚂蚁集团) and Tencent (腾讯) are the two leaders of the domestic FinTech market. Their strengths come from their background, and their early entry into the market. Tencent's WeChat Pay is tightly integrated into WeChat, China's most popular messaging app and a platform for over a million "mini-programs" that is also owned by Tencent. Ant Group's Alipay, its rival in the market, is integrated into all Alibaba's e-commerce marketplaces. Alipay and WeChat Pay maintain a duopoly over China's mobile payment system. According to Caixin, **Alipay occupied 54.2% of the mobile payment market** in the second quarter of 2019, while **WeChat Pay held 39.5%.**[77] It can be argued that the two giants developed China's third-party payment market.[78] They are also competing fiercely with each other. Tencent has been trying to increase its market share through partnering with Alibaba's e-commerce competitors (including JD.com), which ties WeChat Pay to these e-commerce companies. In 2014, JD.com and Tencent formed a strategic partnership. Tencent acquired a 15% stake in JD.com and handled over its e-commerce businesses. Among the BATJ (Baidu, Alibaba, Tencent and JD.com), Tencent is the only giant that has not yet spun off its FinTech business.

**"Latecomer" companies,** such as Ping An (平安), Du Xiaoman Financial (度小满金融) and JD Technology (京东科技), **have a strong emphasis on providing tech solutions rather than competing for financial services with other FinTech companies and financial institutions head-on, even if they do offer such services to consumers.**

Ping An Group (平安) is the only "major" FinTech that does not come from the Internet and /or e-commerce sector. Ping An **started as an insurance company,** but heavily invested into in-house tech innovation. Indeed, Ping An's internally developed

77 Anniek Bao et al, "Four Things to Know About Ant Group, Caixin Global", *Caixin*, July 21, 2020 https://www.caixinglobal.com/2020-07-21/four-things-to-know-about-ant-group-101582756.html
78 Tingyi Chen, "The cross-border payment war of WeChat Pay and Alipay", *WalkTheChat*, February 25, 2019, https://walkthechat.com/the-cross-border-payment-war-of-wechat-pay-and-alipay/





technologies are used across the company, but also sold to its competitors, forming a significant part of the banking infrastructure in China. **The cloud-computing tech of Ping An serves 630 banks and 100 insurers across China** as of late 2020.[79] Ping An offers a complete technological solution ranging from retail banking, car insurance to risk management.

Du Xiaoman Financial (度小满金融) offers similar solutions, albeit without insurance and asset management, and focuses more on fraud detection and prevention. As financial fraud is a persistent problem in China, technological solutions range from automated data surveillance (that is, a client or suspect transactions, its digital footprint, etc).[80]

JD Technology (京东科技) has also positioned itself as a technology provider. The company's products and services involve data mining and management, machine learning, blockchain technology, robotics, and a series of other cutting-edge technologies. It has three core businesses: providing digital solutions for financial institutions, for merchants and enterprises, and for government and other customers.[81] As of the end of June 2020, **the company has provided digital solutions for over 600 financial institutions, and has served over 40 cities with its Smart City Operating System.**[82]

As a broader trend, FinTech companies seem to be moving away from the "fin" aspect and emphasizing the "tech" aspect of their services in an attempt to adjust to the increasingly harsh regulatory environment. Indeed, many actors, including Tencent and Ant Group, are ramping up their effort to become technology providers. JD Technology was rebranded twice, from the initial JD Finance to JD Digits in 2018, and again to JD Technology in January 2021. According to a Bloomberg analysis, there has been a visible increase in new-generation technology investment for FinTech applications in 2018.[83] Before that, most of the investment transactions were related to retail financial products. From 2018 onwards, more than 50% of the transactions are related to technologies themselves.

79 "How Ping An, an insurer, became a fintech super-app", *The Economist*, December 3, 2020, https://www.economist.com/finance-and-economics/2020/12/03/how-ping-an-an-insurer-became-a-fintech-super-app
80 The Official Website of Du Xiaoman: https://fintech.duxiaoman.com/fintech/product/multiple
81 Presentation page of JD Technology on its official website: https://www.jddglobal.com/aboutUs
82 "Prospectus for Initial Public Offering of Shares And Listing on STAR Market (首次公开发行股票开在科创板上市招股说明书)", *Jingdong Digits Technology Holding Co.*,October 2020, http://www.chuangze.cn/third_down.asp?txtid=2606
83 "Alibaba, Tencent, to set pace as emerging IT powers hitech shift", *Bloomberg*, August 14, 2019, https://www.bloomberg.com/professional/blog/alibaba-tencent-set-pace-emerging-powers-fintech-shift/

## 2. International Expansion of Chinese FinTechs

**On the international market, the most prominent players are Ant Group, Tencent, and Ping An.** It should be noted that Ant Group's parent company Alibaba, Tencent and JD.com, have a foundation in e-commerce (albeit indirectly for Tencent). E-commerce is often a way to go for international development, but since this report is focused on FinTech, we shall not cover these operations.

**Ant Group** and **Tencent** have the most developed presence in the international FinTech market. Their direct international expansion focuses on developing the international compatibility of their respective e-wallets. However, direct expansion has its limits, especially in developed countries that already have a well-established FinTech industry. Therefore, **Ant Group and Tencent's direct international expansion mainly aims to enable the use of their payment system by Chinese tourists whilst abroad,** as consumers in these countries are unlikely to replace their usual e-wallet with Alipay or WeChat Pay.

What constitutes the indirect international expansion, is the **expansion through acquisitions and investments to nurture and develop affiliated e-wallets.** This model allows the two Chinese FinTech giants **to take advantage of the reputation and customer footprints of the local brand.** This is particularly visible in **South East Asia,** which is in the early stage of e-wallet development and more open to foreign investments in the sector. According to Nikkei Asia, Ant's parent company Alibaba and Tencent back at least 11 digital payment brands or e-wallet in Southeast Asia, and these backed e-wallets are often leading brands in their respective markets.[84] However, this model is not exclusively adopted for Southeast Asian countries, and has been replicated in the other parts of the world, including Europe. The difference lies in the type of companies they invest in. **In Southeast Asia, investments are offered to start-ups in their early stage, while in Europe, the focus is more on companies at a more developed stage.**

84 Valerie Law, Quynh Nguyen, "Alibaba and Tencent cash in on Southeast Asia epayments boom", *Nikkei Asia*, June 26, 2020, https://asia.nikkei.com/Spotlight/DealStreetAsia/Alibaba-and-Tencent-cash-in-on-Southeast-Asia-e-payments-boom





Overall, international expansion is not a current priority of these Chinese FinTech companies. Ant Group is the most ambitious one among them, as it proceeds by integrating all the companies it invests in into its own ecosystem. In 2016, then chief executive Eric Jing of Ant Financial, as the group was then called, made going global a core mission.[85] Hoping to replicate its success in the domestic market, he set the goal of building a worldwide customer base of 2 billion users within ten years, of which 60% is supposed to be from outside of China. As of June 30, 2020, **Ant Group has a presence in more than 200 countries and regions in the online transactions sector through Alipay.** However, overseas operations remain as a small portion of Ant Group's revenues. According to Ant's listing prospectus, **in the first half of 2020, revenues generated outside of mainland China only account for 4.4% of its total revenue and were primarily from cross-border payment services.** In addition, in the twelve months ended June 30, 2020, total payments volume (TPV) transacted on Ant Group's platform in mainland China reached USD 18 trillion (CNY 118 trillion), while international TPV transacted accounted for USD 95 billion (CNY 622 billion).[86] Although the Covid-19 crisis and the travel restrictions have contributed to the slowing of overseas increase which heavily relies on the use of payment services of Chinese tourists, data of previous years shows that the growth was also not visible at that time. From 2017 to 2019, revenues generated outside of mainland China accounted only for 5.2%, 5% and 5.5% respectively of its total revenue.

Reuters reports that the strategic shift to pivot away from global expansion happened in late 2019.[87] As the domestic regulatory environment became increasingly challenging, Ant decided to refocus on the domestic market and to reinforce its position in the domestic market, which is the main source of its revenue. **The ambition to create a global QR code payment system by connecting all the e-wallet it has invested in have been quietly halted in 2020,** a plan that began with its investment in India's Paytm in 2015. The IPO suspension is also a contributing factor, but not a deciding one. Even with a successful IPO, Ant Group would have only allocated 10% of the net proceeds for its international expansion, giving a sense of its actual importance in the overall strategy of the company.

85 Meng Jing, "Ant Financial targets global customers", *China Daily*, September 4, 2016, https://www.chinadaily.com.cn/china/2016-09/04/content_26691707.htm
86 "IPO prospectus", *Ant Group Ltd.*, October 27, 2020, https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1026/2020102600165.pdf
87 Fanny Potkin, "Ant Group curbs support for overseas partners in strategy rethink ahead of listing", *Reuters*, October 29, 2020, https://www.reuters.com/article/ant-group-ipo-strategy-insight-idUSKBN27E07E

**Tencent,** on the other hand, acts less aggressively and strategically.[88] **Its international investments are more "conservative" and act more like a pure investor.** It carefully examines business opportunities and demand, and relies more on local partners. It adopts a hands-off attitude towards the foreign companies it invested in and prioritizes returns over other aspects. Therefore, its international journey is more of a source of revenue and a way to learn for its development at home.

Overall, Ant's parent company Alibaba and Tencent, have built a domestic empire through organic growth. As the two established players entered the market at an early stage, and under the specific Chinese domestic environment, they were able to successfully expand in the domestic market. In addition, given their size and market status, they have absorbed start-ups through mergers and acquisitions (M&A), and kept their monopolistic position. However, this model of success cannot be replicated for their international expansion. **Alipay and WeChat Pay do not enjoy a duopoly outside of China, and face other well-established players in foreign markets.** Their global reach and influence remain constrained, especially in developed economies.

**Ping An,** by the means of its investment fund (Global Voyager Fund) and its subsidiary OneConnect, is also active on the international market, albeit in a less prominent way compared to Alipay & Tencent. Its strategy abroad mirrors its domestic model, **focusing on helping the transformation and upgrading foreign banking sectors, starting from Southeast Asia and moving towards Europe.**[89] For instance, OneConnect partnered with the FinTech subsidiary of Union Bank of the Philippines to build the country's first blockchain-enabled platform to offer financial services to micro, small and medium enterprises (MSMEs) in 2019. Like Ant Group and Tencent, the targets of Ping An's expansion, are the economies not well served by the existing banking system. It plays a complementary role with its offers in the invested companies.

88 Rita Liao, "Tencent investment stays on game in 2020", *TechCrunch*, January 8, 2021, https://techcrunch.com/2021/01/07/tencent-investment-2020/?guccounter=1
Yusuf Yu, "Tencent's global investment empire", The Low Down - Momentum Works Asia, July 10, 2020, https://thelowdown.momentum.asia/tencents-global-investment-empire/
89 Zhou Mo, Pei Pei, "Pin An fintech arm to expand in BRI nations", *China Daily*, February 12, 2020, https://www.chinadaily.com.cn/a/202002/12/WS5e43622ba310128217276eb9.html





# CONCLUSION

The hands-off approach, in contrast to a statist banking sector, that helped nurture FinTech giants in China seems to have reached its end. Policy-makers initially turned a blind eye to the development of the FinTech industry, enabling its unregulated and high growth. Xi Jinping himself, due to his experience in Zhejiang, seemed to favor market dynamics and lower barriers for entrepreneurs in wealth creation.[90] For a long time, China's state bank actors complained of what they saw as unfair competition. The incident around Jack Ma may have been a spark, but the issues were already there. With internet giants becoming bigger and more influential, regulation became necessary in order to avoid a "too big to fail (大到不能倒)" situation, and to prevent systemic risks.[91] The coming giant Ant IPO may have been the last opportunity to avoid the internationalization of these risks. Regulation of the sector has made rapid progress and the efforts to close the loopholes are now tangible. During the 2017 National Financial Work Conference (NFWC), **Xi Jinping had urged financial regulators to "dare to" master their supervisory role (敢于监管),** and highlighted the need to build "a serious regulatory atmosphere where failure to discover risks in a timely manner is a negligence, and failure to promptly address risks is a dereliction of duty (有风险没有及时发现就是失职、发现风险没有及时提示和处置就是渎职的严肃监管氛围)".[92]

The general policy direction for the FinTech industry has therefore been set. In the eyes of regulators, **this new direction is also about providing a fair chance to other players in the market, and protecting traditional financial institutions that struggle to compete with the "Big Five" or with new start-ups,** due to the differential regulatory treatment. "We do not think there are any restrictions, or any financial business that they (FinTech companies) are not allowed to develop. However, any financial business must be subject to the same rules of the industry," said Guo Shuqing, Chairman of China Banking and Insurance Regulatory Commission.[93] But in reality, placing them under the same umbrella as other traditional players in the industry is a large constraint on the business model of these FinTech companies. As a result, Chinese FinTech companies are losing the comparative advantages that they had enjoyed for almost two decades.

90 Lingling Wei, "China's Xi Approaches a New Term With a Souring Taste for Markets", *The Wall Street Journal*, October 16, 2017, https://www.wsj.com/articles/chinas-xi-approaches-a-new-term-with-a-souring-taste-for-markets-1508173889?mod=article_inline
91 "China to adopt 'positive and prudent' approach towards FinTech sector, regulator says", *Reuters*, December 8, 2020, https://www.reuters.com/article/china-tech-regulation/update-1-china-to-adopt-positive-and-prudent-approach-towards-FinTech-sector-regulator-says-idUSL1N2IO08I
92 "National Financial Work Conference held in Beijing (全国金融工作会议在京召开)", *Government of China*, July 15, 2017, http://www.gov.cn/xinwen/2017-07/15/content_5210774.htm
93 "Guo Shuqing issued a warning to real estate speculators, and responded to banks' poor handling of pressure (郭树清发声警示炒房者, 回应银行不良处置压力)", *The Paper*, March 3, 2021. https://www.thepaper.cn/newsDetail_forward_11526172

Chinese FinTech companies have ambitions to "go global", despite being at the early stages of the international expansion of their business activities. **This inevitably creates some worries in Europe regarding China's growing appetite for the global financial world.** However, currently, international expansion does not seem to be in Chinese FinTech companies' priorities and their global footprint remains very limited. A few years ago, having gained confidence through their domestic success, they drew an international blueprint that aimed to replicate their domestic success abroad, counting on their breadth to challenge existing overseas FinTech competitors and to occupy space where there is no competition yet. There have been some results: Ant Group and Tencent have provided convenience abroad to their Chinese e-wallet users rather than serve locals directly. Ping An sells its financial services as "products" to foreign micro, small and medium enterprises (MSMEs). **At home, they could grow with only limited outside competition, but this is not the case in the global market.** Their actual presence in Europe remains minimal, especially compared to the relatively well-established American tech giants.

**The most important policy question for Europeans to anticipate relates to the possible implications of the expansion of Chinese FinTech giants for cross-border data transfers.** The question pertains to the collection, use, storage, processing, and sharing of data of European data subjects, i.e., European citizens and residents.

Europe's regulatory efforts to safeguard personal data are distinctive. The **General Data Protection Regulation (GDPR)** entered into force in May 2018, protecting the personal data of EU citizens and residents from processing by businesses (which target them to market goods and services) regardless of the place of registration for the companies conducting these data processing activities. There are also a number of mechanisms governing – and facilitating – cross-border transfer of personal data. For instance, the EU recognizes non-EU countries' with a suitable level of data protection through adequacy agreements, which enable data flows from the EU to that third country. So far, the EU has signed such agreements with 12 countries.[94] Where an adequacy agreement is not achievable, there are other mechanisms, as listed in Article 46 of the GDPR. This article subjects the data to "adequate safeguards", including legal agreements, binding corporate rules, and standard contractual clauses. Notably, the EU and the US have had such an agreement, the "EU-US Privacy Shield," in place since August 2016, enabling free transfer of EU data to companies in the United States that

94 "Adequacy decisions: How the EU determines if a non-EU country has an adequate level of data protection.", *European Commission*, https://ec.europa.eu/info/law/law-topic/data-protection/international-dimension-data-protection/adequacy-decisions_en







are certified under the framework. However, the Court of Justice of the European Union (CJEU) invalidated the framework in June 2020, "on account of invasive US surveillance programs".[95] Currently, talks for an "enhanced" Privacy Shield are ongoing.

As for online platform regulations, on 15 December 2020, the European Commission published two proposals as part of its European digital strategy. The two proposals, **the Digital Services Act (DSA) and Digital Markets Act (DMA),** "set a high global benchmark for regulating digital services with clear obligations tailored to the importance of the online platforms".[96] The DSA proposes rules that create greater transparency obligations for online platforms (regardless of where they are established), including granting data access to researchers in order to scrutinize how these platforms work, and revealing the algorithms used for recommendation to users. The DMA outlines a set of "do's" and "don'ts" for the daily operations of large online platforms, known as "gatekeepers", to ensure a fairer business environment.[97]

Looking into the operations of the main Chinese FinTech companies, as well as their parent Tech companies, it is apparent that their business models are even more data-driven than those of their global competitors. This almost leads to a self-reinforcing cycle: using customer insights gained through their extensive range of services to better sell their products and services, collecting further data that ramp up the accuracy of their analysis, and providing even more targeted products and services. **They penetrate into their customers' life, which covers almost all aspects, gathering real-time data. This is an advantage that non-Chinese companies find hard to compete with.[98]** It has to be noted that in the area of data protection, Chinese policy-makers and regulators are also issuing new regulations to safeguard customer data against misusage. Some of the most recent developments on this front, include the release of a draft of Personal Information Protection Law (PIPL) for public comment on October 21, 2020, and a draft of Data Security Law (DSL) for public comment on July 3, 2020.

95 "The CJEU judgment in the Schrems II case", *European Parliament*, July 2020, https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/652073/EPRS_ATA(2020)652073_EN.pdf
96 "Europe fit for the Digital Age: new online rules for platforms", *European Commission*, https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/digital-services-act-ensuring-safe-and-accountable-online-environment/europe-fit-digital-age-new-online-rules-platforms_en
For more in depth analysis of the two proposals, see "Dossier : Digital Services Act", *Institut Montaigne*, September 2020, https://www.institutmontaigne.org/en/series/digital-services-act
"Dossier : Digital Markets Act", *Institut Montaigne*, Ferbuary-March, 2021, https://www.institutmontaigne.org/dossiers/digital-markets-act
97 "The Digital Markets Act: ensuring fair and open digital markets", *European Commission*, https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/digital-markets-act-ensuring-fair-and-open-digital-markets_en#what-are-the-benefits-of-the-digital-markets-act
98 For a clear account of this: François Godement, "Digital Privacy: How Can We Win the Battle?", *Institut Montaigne*, November 2019, https://www.institutmontaigne.org/en/publications/digital-privacy-how-can-we-win-battle

Could this business model, which ensured its success in the Chinese domestic market, also provide a foundation for Chinese FinTech expansion in Europe? The arrival of Chinese FinTech companies, which built their empires based on an incomparable size and scale of data usage, raises various concerns. **These concern data privacy of users as well as the asymmetries of economic models being leveraged by Chinese companies to gain market shares.** The EU does not have an adequacy agreement with China. Chinese companies that collect and process data of EU citizens and residents are therefore subject to GDPR due to its extraterritorial effect. **The EU's own legal protection against data misuse creates a barrier for data-driven Chinese FinTech companies with an ambition to enter the European market.** The new AI regulation proposed by the European Commission on April 21 specifically lists "credit scoring denying opportunity to obtain a loan" as a form of "high-risk" AI, that is subject to strict obligations. Given that credit scoring is a key feature of Chinese FinTech platforms, the EU regulation de facto creates another layer of protection of the European markets from their expansion[99]. These Chinese companies are also likely going to be subject to the proposed EU Digital Services Act (DSA) and the Digital Markets Act (DMA).

Bearing in mind DMA's definition of "gatekeeper", the five FinTech giants examined in this study are likely to fall under these two new proposals should they wish to ramp up their European expansion. Once adopted, they would be required to meet tailored asymmetric obligations if they want to offer their services in the EU, including algorithmic transparency pertaining to the recommendations provided and allowing users to access data generated during their use of the platform. They would be also restricted from engaging in a set of anti-competitive behaviors, such as self-preferencing. **In short, these regulatory proposals might prevent Chinese FinTech companies from becoming dominant players in the EU internal market.** However, the two proposals still have to be adopted. An investigation will then have to take place in order to determine whether a company qualifies as a "gatekeeper". These two hurdles – adoption and implementation –, still leave companies with time and room for maneuver.

It has to be noted that China's PIPL and DSL also have an extraterritorial reach. The PIPL covers activities outside China that harm the rights and interests of Chinese data subjects, while the DSL addresses China's national security and public interest outside its borders. **Both the EU and China develop their own regulatory toolboxes around data protection, albeit with vastly different views and practices (particularly of what constitutes national security).** Where will they draw the line between a lucrative market and the protection of values, between business and security? Should we anticipate a decoupling of digital ecosystems as a result of different data protection regimes?

Despite these limitations, the Chinese platforms still possess important assets for an international expansion in the FinTech sector. These include their **long experience in the field and the quality of the technologies built on access to limitless amounts of domestic data.** Although international expansion is not Chinese FinTech giants' top priority at the moment - as it is being hindered by both external and internal factors –, **European banking and finance would do well to prepare for this competition in the near future.**

99 "Europe fit for the Digital Age: Commission proposes new rules and actions for excellence and trust in Artificial Intelligence", *European Commission*, https://ec.europa.eu/commission/presscorner/detail/en/ip_21_1682

# APPENDIX:

## CASE STUDIES

## Ant Group (蚂蚁集团)

### Overview

Ant Group (蚂蚁集团) is the financial services arm of Alibaba Group (阿里巴巴集团), the company founded by Jack Ma. It is considered as the most valuable Chinese FinTech and the leader of China's domestic FinTech market with Tencent, especially in the subfield of third-party payment platforms. **In 2019, its total revenue reached USD 18.5 billion (CNY 120.6 billion), and USD 11.1 billion (CNY 72.5 billion)** in the first half of 2020. Ant Group's digital wallet served 1.2 billion customers in 2019, a 20% increase from the previous year.[100] Its advantage comes from its early development into third-party payment systems, and the e-commerce dominance of its parent company Alibaba Group, which served as an incentive for users to use Alipay e-wallet. It is also the most "advanced" and ambitious in terms of international expansion although Tencent is closing the gap.

Ant Group grew out of **Alipay**, China's most successful third-party payment system, which was launched as a third-party escrow service for Taobao (淘宝) under Alibaba Group in 2004. Jack Ma spun off Alipay from Alibaba in 2011. The affiliate, Alipay financial services affiliate, was transformed into a domestic company in order to obtain the payment business license in China, causing controversies due to the ownership transfer.

The company changed its name twice since then. In 2014, Alipay was rebranded **Ant Financial Services Group** (referred as Ant Financial) to reflect its push into the financial services industry. In late June 2020, Ant Financial became **Ant Group**, known in Chinese as "Ant Technology Group (蚂蚁科技集团)", to stress its "tech" identity as domestic regulatory environment had become more hostile towards FinTech companies due to their involvement in financial industry. However, the name change is rather cosmetic. The company's claim to its tech nature based on the fact that more than

100 "Alipay mobile wallet growth up 20% in first-half of 2019", *Payments Dive*, September 24, 2019 https://www.mobilepaymentstoday.com/news/alipay-mobile-wallet-growth-up-20-in-first-half-of-2019/





half of its revenues came from technology (56.2% in 2019 and 63.4 % in the first half of 2021) does not stand. Not only because these technologies are digital finance technologies, but also because revenues from the digital payment segment occupy more than one-third of the total.

On July 20, 2020, Ant announced it was aiming for an IPO in both Hong Kong Stock exchange and China's NASDAQ-equivalent "STAR" Market in Shanghai. However, the **USD 37 billion dual listing**, which was meant to be the biggest IPO ever, was suddenly cancelled just two days before the listing in November 2020. (See Page 25 for more details about the IPO story).

### Main Services

#### Mobile Payments

Ant Group has its root in **Alipay** (支付宝), the third-party mobile and online payment platform that started the company. Over time, it became a **one-stop-shop for all personal financial needs** and an app through which the users can access a range of services, not only from Alibaba Group and Ant Group, but also from third-party services.

The Alipay app also provides features such as credit card bills payment, bank account management, P2P transfer, prepaid mobile phone top-up, bus and train ticket purchase, food order, ride hailing, insurance selection and digital identification document storage.[101] During the Covid-19, Alipay also hosted Ant Group's health code.[102] In the second quarter of 2019, Alipay occupied 54.2% of the domestic market, followed by WeChat Pay (39.5%).

#### Wealth Management

In 2015, Ant Group launched it wealth management platform, **Ant Jubao** (蚂蚁聚宝), selling selected financial products. Two years later, in 2017, the platform was upgraded to **Ant Fortune** (蚂蚁财富) and launched a **Fortune Account** (财富号) service platform that enables sellings of financial products of third-party financial institutions.

101 Zen Soo, "Alipay adds digital storage feature for identification documents", *South China Morning Post*, March 7, 2017, https://www.scmp.com/tech/china-tech/article/2076792/alipay-adds-digital-storage-feature-identification-documents
102 "People in China need a green light from Alipay app to move around", *JapanTimes*, March 24, 2020, https://www.japantimes.co.jp/news/2020/03/24/asia-pacific/china-green-light-alipay-app/

Featured products on Ant Fortune includes Ant Group's own financial products, the most well-known are:

- **Yu'e Bao (余额宝, "leftover balance"):** a customized fund product that mainly invests in the interbank market and gives access to the stock market. It offers low interest but it has a low investment threshold - USD 0.15 (CNY 1) -, and offers an instant redemption feature, meaning that the money is available for withdrawal at any time.

- **Yuli Bao (余利宝):** a product similar to Yu'e Bao, which targets business customers.

- **Zhaocai Bao (招财宝, "attracting fortune"):** initially a P2P lending platform when launched in 2014, but later turned into a B2C platform that sells fixed-term financial products.

- **Cunjin Bao (存金宝, "saving gold"):** a low-threshold gold investment product with a minimum buy-in amount of USD 0.15 (CNY 1). The product value is consistent with the fluctuation of gold price, making it easy for users to understand and accept.



Also in 2015, the first licensed equity crowdfunding platform in China, **Antsdaq** (蚂蚁达客) was established. The platform uses an internal system to assess potential investors based on their financial assets and income, and allows individual users to invest in selected start up companies.

**Lending**

Ant Group's **consumer lending business** is probably the most problematic one in the eyes of regulators. It has made the process extremely simple and the funds easily accessible, which *in fine* helps to boost sales across its platforms but also leads to increased irrational spending. It is made up of two products, each of them operated by a subsidiary of Ant Group, both located in Chongqing's Liangjiang New Area, a Pilot Free Trade Zone.

- **Ant Huabei (蚂蚁花呗, "just spend") or Ant Credit Pay:** a consumer credit scheme that functions as a virtual credit card, offering an interest-free period of up to 41 days. Users of Alipay can set Huabei as their payment option, and make online and offline purchases via Alipay. The credit limit increases with the time based on the repayment record of users.





- **Ant Jiebei (蚂蚁借呗, "just borrow") or Ant Cash Now:** a consumer loan service with a loan duration of up to 12 months. The loan applications are made on Alipay, and once approved, the funds are transferred to the borrower's Alipay account. The interest rates' offers depend on the Sesame Credit score of the applicant.

The banking arm of Ant Group, **MYBank** (网商银行), focuses on serving small and micro-enterprises and farmers. It is an online bank that operates completely on the cloud and uses Big Data to determine loan amounts and terms for borrowers who often do not have much credit history. As of June 2020, MYBank has served a total of 29 million small and micro enterprises, among which 80% have never received a bank business loan before.[103] One of the distinctive features of MYBank is its ability to assess and provide loans to farmers in the rural areas. To do so, MYBank uses satellites to assess farmer's crops in remote rural regions to issue loans and monitor crop growth in real time to control risk.[104]

**Insurance**

Ant Group offers two main insurance products, as part of its goal to help the adoption of health insurance and life insurance products at large scale:



- **Haoyi Bao (好医保, "good health insurance"):** a health insurance product, which provides a range of services such as long-term healthcare, lifetime cancer medical care, etc.

- **Quanmin Bao (全民保, "universal insurance"):** a life insurance (pension) product with premiums as low as USD 0.15 (CNY 1). It allows a flexible investment schedule and presents the expected cash payout in real-time.

What also falls under this category is Ant Group's healthcare product called **Xianghu Bao (相互宝, "mutual protection")**. However, Ant Group presents it as a mutual aid program rather than an insurance product. The product allows people to pay a small monthly fee that is pooled to help cover treatment costs for members against over 100 types of critical illnesses.

Ant's insurance platform also sells insurance premiums from third-party companies.

103 "The new five-year goals start to be implemented at Hu Xiaoming: Internet Commercial Banks should turn more into Tech Companies (新五年目标首次亮相胡晓明:网商银行更应是科技公司)", China Banking Association, July 1, 2020, https://www.china-cba.net/Index/showw/catid/201/id/35693
104 Duan Siyu, "Ant's MYBank Uses Satellites to Assess Rural Assets to Help Farmers Get Loans", Yicai, September 25, 2020, https://www.yicaiglobal.com/news/ant-mybank-uses-satellites-to-assess-rural-assets-to-help-farmers-get-loans

**Credit Scoring**

**Sesame Credit (芝麻信用)** is a personal credit scoring application which can assess both personal and corporate creditworthiness. Embedded in Alipay, it scores user behavior on a scale going up to 950. The average user starts at 550. It supports services provided by Ant Group, based on the data collected horizontally and vertically from its other services, including social interactions and purchases on Alibaba Group websites, and payment histories using Alipay.

The more a user performs on their obligations (the timely reimbursement of Huabei or Jiebei, taking care of floating bikes services or portable charging batteries that can be rented in malls), the more their score increases. The higher the score, the higher the rewards. Hence, Sesame Credit functions similarly to a loyalty scheme. Rewards include higher loan limits, preferential treatments for credits, and, through cooperations with various entities (hospitals, companies), users can also get benefits outside the scope of Alipay's services.

## International Expansion



Ant Group, along with Tencent, have the most developed presence in the international FinTech market. Its international expansion focuses on developing international compatibility of its e-wallet Alipay, enabling the usage of Alipay Chinese tourists whilst abroad. In 2016, then chief executive Eric Jing of Ant Financial – as the group was then called – made 'going global' a core mission.[105] Hoping to replicate its success in the domestic market, he set the goal to build a **worldwide customer base of 2 billion users within ten years**, of which 60% is supposed to be from outside of China. As of June 30, 2020, Ant Group has presence in more than **200 countries and regions** in the online transactions sector through Alipay.

Ant Group's international expansion started with its investment in **India's Paytm in 2015,** when Ant Group and Alibaba acquired a stake in Paytm parent company One97 Communications. From 2015 onwards, the firm strategically invested or partnered with e-wallets and/or payment systems companies in South East Asia to develop its activities there. South East Asia has remained at the core of Ant Group's "going abroad" strategy. In December 2019, the company announced the plan to raise a USD 1 billion fund (Ant Unicorn Fund) to expand its strategic investment in emerging markets.[106] On another front, in 2018, Ant Group's proposition of USD 1.2 billion for the acquisition of MoneyGram International was rejected by the U.S. government's Committee on Foreign Investment over data security concerns. The two companies then decided to cooperate through commercial agreements to work together in remittance and digital payments in China, India, the Philippines and other Asian markets, as well as in the United States.[107] Ant Group has presence in mobile payment sectors through investment and partnership in **Philippines, Indonesia, Singapore, Vietnam, Malaysia, Thailand, etc.**

In Europe, Ant Group opened offices in London and Milan in 2015, partnered with Wirecard, which enabled retailers to accept Alipay's payment system.[108] In 2016 it signed partnership deals with Barclays in the UK, BNP Paribas in France, UniCredit in Italy and SIX Group in Switzerland.[109] These partnerships enable Alipay's users to use their wallets in stores using the banks' terminals. In August 2018, it established a payment clearing center for Alipay in Luxembourg.[110] In March 2019, Barclays Cards announced that its merchants would be able to receive Alipay payments.[111]

In June 2019, Ant Group entered into a partnership with six digital wallets allowing users to pay with merchants using one of the five wallets by using a QR code provided by Alipay, while Alipay users can pay merchants using these systems. The e-wallet are ePassi & Pivo (Finland); Vipps (Norway); MOMO (Spain); Pagaqui (Portugal); Bluecode (Austria).[112]



However, **the ambition to create a global QR code payment system by connecting all the e-wallet it has invested in, has been quietly halted in 2020**, a plan which began with its investment in India's Paytm in 2015. The IPO suspension is also a contributing factor, but not a deciding one. Even with a successful IPO, Ant Group would have **only allocated 10% of the net proceeds for its international expansion,** giving a sense of its importance in the overall strategy of the company.

105 M Meng Jing, "Ant Financial targets global customers", *China Daily*, September 4, 2016, https://www.chinadaily.com.cn/china/2016-09/04/content_26691707.htm

106 Eudora Wang, "Ant Financial plans $1bn unicorn fund for India and Southeast Asia", *Nikkei Asia*, November 28, 2019, https://asia.nikkei.com/Business/Startups/Ant-Financial-plans-1bn-unicorn-fund-for-India-and-Southeast-Asia

107 Greg Roumeliotis, "U.S. blocks MoneyGram sale to China's Ant Financial on national security concerns", *Reuters*, January 2, 2018, https://www.reuters.com/article/us-moneygram-intl-m-a-ant-financial-idUSKBN1ER1R7

108 "Wirecard to process Alipay payments for Chinese tourists in Europe", *Fashion Network*, December 11, 2015, https://uk.fashionnetwork.com/news/Wirecard-to-process-alipay-payments-for-chinese-tourists-in-europe,606662.html

109 Angus McNeice, "Ant Financial acquires UK payments firm", China Daily, February 15, 2015, http://www.chinadaily.com.cn/a/201902/15/WS5c65bd62a3106c65c34e9695.html – note that it mayshare its office with Alibaba Group. Alipay Europe is registered in Luxembourg. https://intl.alipay.com/docs/ac/platform/qd977g

110 Alipay and China UMS to set up EU hub in Luxembourg", Luxembourg for Finance, September 17, 2018, https://www.luxembourgforfinance.com/news/alipay-and-china-ums-to-set-up-eu-hub-in-luxembourg/

111 "Barclaycard opens up to Alipay" , *Finextra*, March 14, 2019, https://www.finextra.com/newsarticle/33534/barclaycard-opens-up-to-alipay

112 Nicole Jao, "Alipay grows Europe partnership to 6 digital wallet apps with 5 million users", *Technode*, June 10, 2019, https://technode.com/2019/06/10/alipay-grows-europe-partnership-to-6-digital-wallet-apps-with-5-million-users/



www.institutmontaigne.org/en

Overseas operations remain as a small portion of Ant Group's revenues. According to Ant's listing prospectus, in the first half of 2020, revenues generated outside of mainland China only accounts **for 4.4% of its total revenue** and were primarily from cross-border payment services. In addition, in the twelve months ended June 30, 2020, total payments volume (TPV) transacted on Ant Group's platform in mainland China reached USD 18 trillion (CNY 118 trillion), while international TPV transacted accounted for USD 95 billion (CNY 622 billion).[113] Although the Covid-19 crisis and the travel restrictions have contributed to the slow overseas increase which heavily relies on the use of payment services of Chinese tourists, data of previous years show that the growth in the previous years were also not visible. From 2017 to 2019, revenues generated outside of mainland China accounts only for 5.2%, 5% and 5.5% respectively of its total revenue.

113 "IPO prospectus", *Ant Group Ltd.*, October 27, 2020, https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1026/2020102600165.pdf







# Tencent (腾讯)

## Overview

Tencent is arguably on par with Ant Group in the domestic FinTech market. While Ant Group has an advantage thanks to Alibaba's well-structured e-commerce ecosystem, Tencent compensates with the predominance of WeChat, its messaging and social media app. Tencent has not established a separate company for its financial services business like other FinTech giants. According to the company's 2020 interim report, **in the first half of 2020, its revenue reached USD 34.2 billion (CNY 223 billion), its FinTech and business services line accounted for 25% of the total with USD 8.6 billion (CNY 56.3 billion).[114]** Among the BATJ (Baidu, Alibaba, Tencent and JD.com), Tencent is the only giant that has not yet spun off its FinTech business.

Tencent was established in 1998. Its first product was an online messaging board, now known as **QQ.** During the 2000s, Tencent's main revenues came from advertising and premium QQ users. Tencent launched QQ Coins (Q币) in 2002, a virtual currency for its users to purchase virtual products on its platform.[115] In 2011, Tencent's now-iconic **WeChat** was launched. It quickly became China's main messaging app, the combined monthly active users (MAU) of Weixin and WeChat accounted for 1.2 billion as of 30 June 2020. Tencent has a prolific investment policy and the company owns shares in a myriad of sectors ranging from video games and entertainment to the automotive industry. It is the world's largest games company in terms of revenue. In the past few years, Tencent has been trying to increase its market share through partnering with Alibaba's e-commerce competitors (including JD.com). In 2014, JD.com and Tencent formed a strategic partnership. Tencent acquired a 15% stake in JD.com, and handled over its e-commerce businesses. It should therefore be noted that the company profile below of Tencent focuses on Tencent's FinTech business activities, not on the full range of the company's business activities.

114 "Interim Report 2020", *Tencent*, 2020, https://cdc-tencent-com-1258344706.image.myqcloud.com/uploads/2020/08/26/c798476aba9e18d44d9179e103a2e07f.pdf
115 "QCoin's 17-year history of ups and downs", *Hulianmaibo*, July 4, 2019, https://www.hulianmaibo.com/posts/info/17221

## Main Services

### Mobile Payments

Tencent owns two mobile payment platforms, both powered by **Tenpay (财付通):**

- **WeChat Pay (微信支付):** the main competitor of Ant Group's Alipay in the domestic mobile payment market. It is incorporated into WeChat, China's most popular messaging app and a platform for over a million "mini-programs" that is also owned by Tencent. In the second quarter of 2019, WeChat Pay occupied 39.5% of the market, compared to 54.2% of Alipay.[116] However, WeChat Pay has more active users than Alipay.

- **QQ Wallet (QQ钱包):** a mobile payment service integrated into the other messaging platform of Tencent, Tencent QQ (腾讯QQ). It was established one year after WeChat Pay and targets users in tier-3 and tier-4 cities. In 2020, a mini-program enabling money transfer from WeChat to QQ account was launched to facilitate the use of QQ Wallet.

### Wealth Management

**Licai Tong (理财通)** is Tencent's wealth management platform which is accessible via Tencent's mobile payment system (WeChat Pay and QQ Wallet) . It sells mutual-fund and fixed-term wealth management products. Among the featured products, there are:

- **Lingqian Tong (零钱通, "balances made smart"):** a flexible money-market mutual fund similar to Ant Group's Yu'e Bao. It allows users to earn interest from their WeChat balances. According to Licaitong's website, the platform has accumulated over 200 million registered users.

- **"Salary Wealth Management Plan" (工资理财计划):** a monthly saving product. It automatically transfers money into the account on a preset date and applies the compound interest formula (interest on interest).

116 Anniek Bao et al, "Four Things to Know About Ant Group, Caixin Global", *Caixin*, July 21, 2020 https://www.caixinglobal.com/2020-07-21/four-things-to-know-about-ant-group-101582756.html





### Lending

In the lending sector, Tencent serves both individuals and SMEs through its banking arm **WeBank (微众银行).** It is China's first privately-owned bank, approved in December 2014, which has no physical branches or outlets.

- **Weili Dai (微粒贷 "a tiny bit of loan"):** an online consumer microloan product accessible through WeChat and QQ's wallets. The product is currently "by-invitation" only, applicants do not have to provide any guarantee and documents. The application result can be obtained in under 5 seconds, and funds are unlocked in under a minute.

- **Weiye Dai (微业贷 "small-business loan'"):** an online micro-loan product serving SMEs.

- **Xiao'e Huaqian (小鹅花钱):** a virtual credit card for WeChat Pay users co-developed with a few consumer finance companies. It is currently "by-invitation" only and available to a limited number of Tencent Video users, providing a credit limit of up to USD 7663 (CNY 50,000).

- **Weiche Dai (微车贷),** an auto loan product, was launched in 2015 on used car sales platforms.

### Insurance

Like Ant Group, Tencent offered a range of life and health insurance through its online insurance subsidiary **WeSure (微保).** Its products not only cover **health (微医保) and travel (微出行),** but in 2020, amid Covid-19, Tencent also introduced specific insurance products for micro-enterprises.

### Credit Scoring

In June 2020, **Tencent credit (腾讯信用分)** became available after a complicated gestation period. The principle is the same as in Alipay: develop a history of user credibility, materialized by a score up to 850 (or maybe higher, but Tencent hasn't communicated on it). For now, the best way to earn points is to borrow portable batteries and put them back in their place (a sign that you respect the equipment you borrowed – a service also available for air purifiers, for example). Currently, the system is in beta testing.[117]

117 "Passe Muraille n°66", *EastIsRed*, June 14, 2020, https://eastisred.fr/passe-muraille-n66-semaine-du-8-juin/

## International Expansion

On the international scene, Tencent acts less aggressively and strategically compared to Ant Group.[118] Like Ant Group, it is proactive in terms of investments and participation in foreign companies or start-ups. However, in most of the cases, its international investments are more "conservative" and reflect more the considerations of **a pure investor** than a strategy of business expansion. It carefully examines business opportunities and demand, and relies more on local partners. It adopts a hands-off attitude towards the foreign companies it invested in and prioritizes returns over other aspects. Therefore, **its international journey is more about increasing revenues and earning more experience for its further development at home.**

In January 2020, Tencent planned to invest more than USD 10 billion in Europe, with a special focus on Germany.[119] The investment plan is not centered on FinTech, and the current status remains unclear. Tencent has partnered with SafeCharge and Wirecard in 2017 to facilitate the use of WeChat Pay by European retailers. It also has a partnership with BNP Paribas and Natixis. In 2020, it invested in French FinTech Qonto[120] and Lydia.[121]

For the same reason as Ant Group, Tencent's presence in South East Asia is much more significant than in Europe. It has entered the mobile payment sectors of the **Philippines, Indonesia, Singapore, Thailand, Malaysia, Vietnam, etc. through investment and partnerships.**

118 Rita Liao, "Tencent investment stays in game in 2020", *TechCrunch*, January 8, 2021, https://techcrunch.com/2021/01/07/tencent-investment-2020/?guccounter=1
Yusuf Yu, "Tencent's global investment empire", The Low Down - Momentum Works Asia, July 10, 2020, https://thelowdown.momentum.asia/tencents-global-investment-empire/
119 "Tencent Plans to Invest USD$10 Billion in Europe in 2020", *ChinaBankingNews*, December 24, 2020, http://www.chinabankingnews.com/2019/12/24/tencent-plans-to-invest-usd10-billion-in-europe-in-2020/
120 Charlie Perreau, "Qonto lève 104 millions d'euros pour devenir une banque", *Journaldunet*, January 21, 2020, https://www.journaldunet.com/economie/finance/1488219-qonto-leve-104-millions-d-euros-pour-devenir-une-banque/
121 Romain Dillet, "Mobile payment app Lydia raises $45 million round led by Tencent", *TechCrunch*, January 15, 2020, https://techcrunch.com/2020/01/15/mobile-payment-app-lydia-raises-45-million-round-led-by-tencent/







# JD Technology (京东科技)

## Overview

**JD Technology** is the financial technology arm of **JD.com,** the second most used e-commerce in China (after Taobao). As of the end of June 2020, JD Digits (as the company was known before January 2021) has provided digital solutions for over 600 financial institutions, and has served over 40 cities with its Smart City Operating System.[122] **In the first half of 2020, its total revenue reached USD 1.6 billion (CNY 10.3 billion).**

Although it is the financial arm of JD.com, the company has been distancing itself from the term "finance". JD Technology was firstly established by JD.com as **JD Finance** (京东金融) in 2013. In 2018, JD Finance decided to reflect a new focus as a broader "tech" platform, altering its name to **JD Digits** (京东数字科技), which regroups both its financial services and technology solutions (smart city, AI solutions, JD animal husbandry, marketing and media, etc).[123] According to its own statement and interview with its personnel, the move aims at making JD Digits a "true" technology provider, which goes beyond FinTech and leverages its technology in other industries (such as the smart citybusiness).[124] Such choice is rooted in Jingdong's e-commerce strategy, which relies on "heavy assets" (logistics, warehousing, etc). Such heavy investment in infrastructure allows Jingdong to gain real expertise when it comes to selling its technologies and processes to others.

**In the financial market, the company provides support to financial institutions in the design of various types of asset management products,** including exchange-traded funds (ETFs) and fund of funds (FOFs), and provides data query and credit rating services to over 1,000 institutional users. It has also helped to improve the customer acquisition ability of financial institutions. By the end of June 2020, the company had recommended to financial institutions over 2 million deposit customers and over 22 million loan customers. In addition, it has recommended more than 67 million wealth management products customers to fund companies and securities companies, and more than 45 million insurance customers to insurance companies.

122 "Prospectus for Initial Public Offering of Shares and Listing on STAR Market (首次公开发行股票并在科创板上市招股说明书)", *Jindong Technology Digits Holding Co.*, October 2020, http://www.chuangze.cn/third_down.asp?txtid=2606
123 Baidu Qiye Fact Sheet (京东数字科技控股股份有限公司): https://xin.baidu.com/company_detail_99492051961156?tab=companyDevelop
124 JD Digits' Shen: "It's an expensive model because it better assures quality", *Radio Finance*, April 15, 2020, http://www.radio.finance/episodes/jd-digits-shen:-its-an-expensive-model-because-it-better-assures-quality

Further restructuring took place in January 2021. The entity was restructured into JD Technology (京东科技), combining JD Digits with its cloud and artificial intelligence business. The move is seen as a way to dilute the share of the financial business in the company in order to bypass tougher rules.[125]

In July 2020, JD Digits, as it was called back then, announced it was planning for an IPO at the Shanghai Star Market and submitted the application in September 2020. However, the IPO was withdrawn by the company on March 30, 2020. **The IPO would have valued JD Digits at USD 28.3 billion (CNY 200 billion).[126]**

## Main Services

### Mobile Payments

**JD Pay (**京东支付**)** was established in 2014 and serves as Jingdong's third-party payment service as well as an e-wallet. Its market share is really limited despite ranking fourth in the domestic market, accounting for only 1% in the first quarter of 2020.[127]

### Wealth Management

- **Jingdong Xiao Jinku (**京东小金库**, "little coffers"):** JD's version of Yu'e bao, offering low interest rate and instant redemption feature.
- **Xiaobai Wealth Management (**小白理财**, "newbie wealth management"):** a platform offering fix-term wealth management products.
- **Dongjia Caifu (**东家财富**):** a wealth management platform targeting high-end customers in China.

### Lending

- **Jindong Baitiao (**京东白条**):** China's first internet consumer credit product, launched in February 2014.

125 Tang Ziyi, "What You Need to Know About Ant Group's Suspended IPO and the Future of Chinese Fintech", *Caixin*, January 12, 2021, https://www.caixinglobal.com/2021-01-15/what-you-need-to-know-about-ant-groups-suspended-ipo-and-the-future-of-chinese-fintech-101651386.html
126 Isabelle Li, Yuan Ruiyang, "JD.com FinTech Affiliate Plans STAR Market IPO", *Caixin*, July 3, 2020, https://www.caixinglobal.com/2020-07-03/jdcom-fintech-affiliate-plans-star-market-ipo-101575413.html
127 "China's Third Party Payment Market Data Release Report", *The Paper*, July 8, 2020, https://www.thepaper.cn/newsDetail_forward_8172917







- **Jing Baobei (**京保贝**):** a financing service for JD.com's suppliers. It uses Jingdong's own funds, and examines applications based on financial data such as purchases and sales of the suppliers.
- **Jing Xiaodai (**京小贷**):** a loan service for JD.com's suppliers. The maximum "loans" amount is around USD 770 thousand (CNY 5 million), and the funds will be transferred to Jingdong Wallet and cash will be withdrawn to the business-to-business account.

### Credit Scoring

**Xiaobai Credit (**小白信用**):** a credit system akin to Ant Group's "Sesame Credit" or Tencent Credit.

### International Expansion

JD Technology's international footprint is limited. In 2017, it established a joint venture, Central JD Fintech, with Thai retail giant Central Group. Two years later, the joint venture launched a financial services app, Dolfin, to promote e-wallet services in Thailand.[128] The wallet offers five services: "smart transaction, digital lending, digital insurance, digital wealth management and Digital Marketing."[129]

128 "JD Digits sets up overseas presence with e-wallet app in Thailand", *China Daily*, September 15, 2019, https://www.chinadaily.com.cn/a/201909/15/WS5d7dce7aa310cf3e3556b78a.html
129 "Railsbank news round-up: modernising financial services in Europe", *Railsbank*, September, 2019, https://www.railsbank.com/single-post/2019/09/24/Railsbank-news-round-up-modernising-financial-services-in-Europe

# Du Xiaoman Financial (度小满金融)

## Overview

**Du Xiaoman Financial** is the FinTech arm of **Baidu,** the leading Chinese language Internet search provider. It was previously known as Baidu **Financial Services Group** (Baidu FSG), founded in 2015. In 2018, it was separated from Baidu and became Du Xiaoman Financial. Baidu only owns a minority stake (42%) in the company after a 2018 sale of its majority stake to American investment funds. The move, which raised USD 1.9 billion, helped Du Xiaoman raise funds to take on its rival.[130] However, it is important to note that since the split is relatively recent compared to Ant Group and JD Technology, some of the FinTech related services, such as the crowdfunding platform Baidu Baizhong (百度百众) and the insurance platform Baidu Bai An Insurance (百度百安), remained as part of Baidu.

Du Xiaoman Financial is one of the lesser known players in the FinTech market. Its strength is not in its wallet or payment systems, where it clearly lags behind its competitors, It could not rely on an active e-commerce platform and user base, and it has a weaker financial service foundation compared to others.



As a latecomer to the FinTech industry, it positioned itself as a **technology provider,** relying on Baidu's leading AI technology and talent advantages. The company mainly offers third-party payment, big data analytics and other technologies to established financial institutions. It focuses on establishing partnerships with institutional financial institutions and acts as a technology provider, selling its data analysis capacities and computing power and expertise. The company claims to be "consumer finance" oriented and aims to provide the aforementioned clients and partners technological expertise for their financial activities.[131] These corporations help offset the low user base and promote services like loans. The Baidu user base comes through search engines, which attracts regional banks without a national network.

130 Rushil Dutta, "China's Baidu to sell majority of financial services unit for $1.9 billion", *Reuters*, April 30, 2018, https://www.reuters.com/article/us-baidu-fundraising-tpg/chinas-baidu-to-sell-majority-of-financial-services-unit-for-19-billion-idUSKBN1I1048
131 Adrian Ip, "Exclusive FinTech in China – Interview with Du Xiaoman (Baidu Finance)", *WCCFtech*, December 23, 2019, https://wccftech.com/exclusive-FinTech-in-china-interview-with-du-xiaoman-baidu-finance/





## Main Services

According to Du Xiaoman Financial's website, it mainly has five services under its portfolio:

- **Du Xiaoman Umoney (**度小满有钱花**),** formerly known as **Baidu Umoney (**百度有钱花**),** is Baidu's internet credit service brand. It provides **personal consumer credit services** using Baidu's artificial intelligence and big data. It provides a range of products, covering daily consumption, education, rental, housing credit, etc.

- **Du Xiaoman Wallet (**度小满钱包**),** formerly known as Baidu Wallet (百度钱包), is Du Xiaoman's e-wallet and third-party payment platform. Compared to Alipay or Tenpay, its e-wallet market share is quasi nonexistent. In 2018, it only had 0.27% market share.[132]

- **Du Xiaoman Wealth Management (**度小满理财**),** formerly known as **Baidu Wealth Management,** is the Du Xiaoman's wealth management platform which provides a diversified range of financial products.

- **Xiaoman Help Plan (**小满助力计划**),** is a poverty alleviation project announced in 2019 aiming to explore a new model of financial poverty alleviation. It offers interest-free loans to poor rural areas.

- **Du Xiaoman Panshi (**度小满磐石**)** is an open financial technology platform built on the basis of artificial intelligence, big data, and cloud computing. It aims to provide multi-level risk control services for banks, Internet financial institutions, etc. As part of the Panshi family, there is also Du Xiaoman's personal credit rating product **Panshi Xiaomanfen (**磐石小满分**).**



## International Expansion

Du Xiaoman Financial almost completely focuses on the domestic market. The company's main international collaboration seems to be with Western Union, in a bid for the American company to expand on the Chinese market.[133]

132 Op, Cit, n°119 - Equal Ocean.
133 "Western Union expands bank account payout in China via Du Xiaoman Financial", *Finextra*, January 10, 2020, https://www.finextra.com/

# Ping An Group (平安集团)

## Overview

Contrary to Ant Group, Tencent, JD Financial and Du Xiaoman Financial, Ping An started as an insurance company, later expanding in other financial services.[134] Ping An Group is not entirely a FinTech company nor a tech company. Ping An offers a complete technological solution ranging from retail banking, car insurance to risk management. **In 2019, the Ping An Group's revenue amounted to USD 179 billion (CNY 1169 billion), a 19.7% YoY increase.[135]**

The group, founded in 1988 and headquartered in Shenzhen, is amongst China's biggest insurers. The group's success is partly due to its investments in financial technologies and a successful diversification in banking, brokering and private equity investing. Ping An's internally developed technologies are used across the company, but also sold to its competitors, forming a significant part of the banking infrastructure in China. The cloud-computing tech of Ping An serves 630 banks and 100 insurers across China as of late 2020.[136] Ping An's lending algorithms facilitated USD 7.3 billion (CNY 47.4 billion) in loans at its rival banks in the first half of 2020. Ping An invests a significant amount on R&D and technology, in particular, through its subsidiaries **One-Connect (金融壹账通)** and **Ping An Global Voyager Fund (平安全球领航基金).**

- **Ping An Global Voyager Fund:** an investor in growth-stage FinTech and healthtech companies.

- **OneConnect (金融壹账通):** a technology-as-a-service (TaaS) platform. It is a cloud-based FinTech platform that provides specialized financial software solutions to financial institutions in China and abroad. One of its main products is a blockchain technology platform which aims to provide clients with a secure transaction system, reduce due diligence costs for SMEs and help them access trade and supply chain finance. OneConnect received a virtual banking license for its **Ping An OneConnect Bank** in Hong Kong in 2019, and is currently expanding its diversified business, including personal banking and SME banking.

134 Allen T. Cheng, "Inside Ping An's Massive Expansion", *Institutional Investor*, June 28, 2017, https://www.institutionalinvestor.com/article/b1505qrd4nmvpx/inside-ping-ans-massive-expansion
135 "Ping An Reports Steady YoY Growth of 18.1% in Operating Profit Attributable to Shareholders of the Parent Company in 2019", *PRNewswire*, February 20, 2020, https://www.prnewswire.com/news-releases/ping-an-reports-steady-yoy-growth-of-18-1-in-operating-profit-attributable-to-shareholders-of-the-parent-company-in-2019–301008431.html
136 "How Ping An, an insurer, became a fintech super-app", *The Economist*, December 3, 2020, https://www.economist.com/finance-and-economics/2020/12/03/how-ping-an-an-insurer-became-a-fintech-super-app







In 2020, in the context of Covid-19, Ping An launched its **"Cross-border Merchant Guardian Program (跨境商家守护计划)"** under **"One Wallet International (壹钱包国际)".** One Wallet International provides cross-border merchants with one-stop services such as credit and loans, cash collection and withdrawal, VAT, and foreign exchange management.

The "cross-border merchant guardian program" is specially designed to meet the practical needs of cross-border merchants in the epidemic environment and to reduce their operational burden. Its services include covering merchant cash collection and withdrawal benefits, special financing loans, and security guards.

## Main Services

### Mobile Payments

**Ping An One Wallet (平安壹钱包)** ranks third in the Chinese domestic market, with a share of about 1.5%.[137] It provides all-in-one wallet services to C-end users and digital solutions to B-end. By 30 June 2020, One Wallet had served a total of 280 million users and 2.1 million indwustry customers, including retail, business travel, entertainment, finance and other industries.

### Insurance

Insurance business is Ping An group's historical activity. Life and health insurance accounted for 67% of the net profit of the first three quarters of 2020.[138]

### Wealth Management

**Lufax (陆金)** is an Internet-based lending and wealth management platform and a subsidiary of Ping An. It was founded in September 2011 as a P2P lending service platform, but it has become a much broader platform over the time. After the crackdown on P2P lending, exited the P2P market in 2019 and issued no further P2P loan in 2020.

### Lending

**Ping An Consumer Finance (平安消费金融公司)** is a new unit of Ping An that

137 "China's Third Party Payment Market Data Release Report", *The Paper*, July 8, 2020, https://www.thepaper.cn/newsDetail_forward_8172917
138 How Ping An, an insurer, became a fintech super-app, *The Economist*, December 3, 2020, https://www.economist.com/finance-and-economics/2020/12/03/how-ping-an-an-insurer-became-a-fintech-super-app

received regulatory approval in April 2020. Ping An holds the largest stake (30%), and other three affiliates of Lufax hold 70% in total.[139] Its goal is to provide a full range of consumer financial services to China's resident individuals/young consumers. It launched its first product **Ping An Xiao ChengHua (平安小橙花)** in June 2020, a personal credit loan product that offers a daily interest rate of 0.039%-0.066%

## International Expansion

Ping An, by the means of its FinTech and healthtech investment arm (Global Voyager Fund) and its subsidiary OneConnect, is also active on the international market, albeit in a less prominent way compared to Alipay & Tencent. Its strategy abroad mirrors its domestic model, focusing on **helping the transformation and upgrade of foreign banking sectors,** starting from Southeast Asia and moving towards Europe.[140] For instance, OneConnect partnered with the FinTech subsidiary of Union Bank of the Philippines to build the country's first blockchain-enabled platform to offer financial services to micro, small and medium enterprises (MSMEs) in 2019.[141] In 2020, Swiss Reinsurance, the world's largest reinsurer, and OneConnect announced a partnership to bring a digital end-to-end solution (Swiss Re Smart Claims) designed to simplify and speed up motor accident claims.[142]



Ping An Global Voyager Fund was launched in May 2017 with an initial size of USD 1 billion, with a mission to invest in world-class FinTech and digital health capabilities. It made its debut in European market in 2018 by investing in Finleap, Europe's leading FinTech ecosystem, headquartered in Berlin. **In May 2020, Ping An announced that its Global Voyager Fund has invested approximately USD 300 million across Europe, Asia and North America.[143]**

Like Ant Group and Tencent, the targets of Ping An's expansion are economies not well served by their existing banking system.

139 "Ping An's Consumer Finance Arm Gets Nod to Open; Lufax Owns 70% Indirectly", *YiCai*, April 9, 2020, https://www.yicaiglobal.com/news/ping-an-consumer-finance-arm-gets-nod-to-open-lufax-owns-70-indirectly

140 Zhou Mo, Pei Pei, "Pin An fintech arm to expand in BRI nations", *China Daily*, February 12, 2020, https://www.chinadaily.com.cn/a/202002/12/WS5e43622ba310128217276eb9.html

141 "OneConnect partners with UnionBank's fintech subsidiary UBX to co-create Philippines' first blockchain-enabled platform for MSMEs", *PR Newswire*, July 22, 2019,https://www.prnewswire.com/news-releases/oneconnect-partners-with-unionbanks-fintech-subsidiary-ubx-to-co-create-philippines-first-blockchain-enabled-platform-for-msmes-300888462.html

142 "Swiss Re and Ping An's OneConnect partner to offer AI and cloud-based solutions for European Motor Claims", *Swiss Re*, August 5, 2020, https://www.swissre.com/reinsurance/market-announcement-swiss-re-ping-an-oneconnect-partner-offer-ai-cloud-solutions-european-motor-claims.html

143 "Ping An Voyager Fund Leads Investment in PlusDental to Enhance Modern Dentistry in Europe", *PR Newswire*, May 28, 2020, https://www.prnewswire.com/news-releases/ping-an-voyager-fund-leads-investment-in-plusdental-to-enhance-modern-dentistry-in-europe-301067498.html



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THERE IS NO DESIRE MORE NATURAL THAN THE DESIRE FOR KNOWLEDGE

# China's FinTech: the End of the Wild West

*"FinTech is a winner-take-all industry. […] Big tech firms tend to hinder fair competition and seek excessive profits."* The FinTech sector has increasingly raised concerns among China's financial regulators and top leaders in the past few years. The drama around Ant Group and its founder Jack Ma is a showcase of the tension between China's FinTech expansion, fair competition and the regulatory environment. The reasons behind this shift? The idea that Chinese fintechs have outgrown state-owned banks, accumulated too much strength and political power and contributed to the promotion of irrational spending, had become a source of concern for the State.

This study provides an overview of the development of FinTech in China, looks back at the country's initial hands-off approach that helped nurture its FinTech giants, and shows how the Chinese government has navigated between the needs of innovation and regulation. To complement the analysis, the study also dives into the country's "big five" – Ant Group, Tencent, Ping An, JD Technology and Du Xiaoman Financial -, their domestic success and their ambitions to "go global".

Bearing in mind that Chinese fintechs built their empires based on an incomparable scale of data usage, penetrating into their customers' life and gathering real-time data, the author calls upon Europeans to anticipate the possible further expansion of Chinese FinTechs in Europe in the foreseeable future, and the possible implications of such an expansion for cross-border data transfers.



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