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## Ant Financial (C)

Almost half a year had elapsed since the 2016 11.11 Global Shopping Festival, and Ant Financial's growth had shown no signs of abating. The balance sheet of Yu'e Bao reached RMB 1.43 trillion (USD 211 billion) by the end of June 2017, almost matching the RMB 1.63 trillion (USD 241 billion) average individual bank deposit balance at the Bank of China in 2016.<sup>1</sup> Ant Financial lowered the maximum limit for the individual balance on Yu'e Bao from RMB 1 million (USD 150,000) to RMB 250,000 (USD 37,000) on May 27, 2017,<sup>2</sup> and subsequently reduced it further to RMB 100,000 (USD 15,000) on August 14, 2017 in an effort to reinforce its focus on "inclusive finance" and adequately manage the risks of asset concentration.<sup>3</sup> As the scale of Yu'e Bao dwindled, its returns had been declining as well. As of August 15, 2017, Yu'e Bao's 7-day annualized yield dropped to 3.89%.<sup>4</sup> According to data from Wind Terminal, the aggregate assets of all the money market funds in China currently totaled RMB 5.36 trillion, and Yu'e Bao was the world's largest money market fund.<sup>5</sup> Ant Financial had raised USD 3.5 billion with debt,<sup>6</sup> as it sought to venture into overseas turfs.

## Overseas Acquisition Spree

Primarily based on the "ecosystem-oriented vision," Ant Financial's internationalization efforts had been scaling rapidly. (See **Exhibit 1** for Ant Financial's global footprint.)<sup>7</sup> Working with foreign partners often called for the establishment of offshore entities to comply with regulations that varied from country to country, which often stymied the pace of Ant Financial's global expansion.<sup>8</sup> Except for the MoneyGram acquisition, instead of seeking controlling stakes in overseas investments, Ant Financial tended to become one of the larger non-controlling shareholders, maximizing its influence on the board whenever possible. In February 2017, Ant Financial extended its global reach to the Philippines with a stake in Mynt, a subsidiary of Global Telecom, the largest telecommunications operator in the country dominating the market with 52% share and 66.6 million subscribers.<sup>9</sup> Mynt provided Filipinos with personal and business loans using a combination of mobile technology and data analytics.<sup>10</sup> Utilizing technology to provide financial services to the unbanked, the company was becoming a one-stop shop for fintech services for consumers, merchants, and organizations through

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GCash<sup>a</sup> and Fuse Lending.<sup>b</sup> With the largest mobile money base of over 3 million users in the country, Mynt had a transaction volume of about PHP 1 billion (USD 20 million) each week.<sup>11</sup>

In April 2017, Ant Financial established a joint venture in Japan,<sup>12</sup> and had been negotiating with several major local enterprises to scale the adoption of Alipay. With Japanese companies supplying half of the required funding, Ant Financial intended to penetrate the payment market in Japan by collaborating with local merchants. With the joint venture in place, Chinese tourists could now use Alipay as one of the payment methods, with the number of merchants accepting Alipay expected to increase two-fold in 2017 and reach a total of 45,000.<sup>13</sup>

Meanwhile, WeChat Pay launched its payment transfer services in South Africa in November 2015 as it made its first step to “Go Global,”<sup>14</sup> while WeChat’s parent Tencent had extended its services to overseas merchants to enable them to receive payments from Chinese tourists, covering 20 countries and regions, including Hong Kong, Macao, Taiwan, Western Asia, Southeast Asia, Australia, Europe, and the United States.<sup>15</sup> UnionPay, China’s largest traditional payment platform, had been rolling out its cloud payment services to Hong Kong and Singapore, with plans to enter into the markets of Thailand, Indonesia, and Australia as well.<sup>16</sup>

## Competitive Landscape

Tencent’s WeChat Pay was closing the gap with Alipay in terms of market share, with the former growing from 37.0% (Q4 2016) to 39.5% (Q1 2017), and the latter declining from 54.1% to 53.7%.<sup>17</sup> Competition was intensifying in the sector also in the form of partnerships with traditional financial institutions. For instance, JD was partnering with Industrial and Commercial Bank of China (ICBC),<sup>18</sup> while Baidu was teaming up with the Agricultural Bank of China (ABC).<sup>19</sup> Large commercial banks were also trying to catch up. On May 3, 2017, China’s Premier Li Keqiang convened a China State Council Executive Meeting, in which large commercial banks were told to establish an inclusive finance division within the year of 2017.<sup>20</sup> “Financial institutions should not merely focus on large corporations and ignore smaller ones,” China’s Premier Li Keqiang stated in the executive meeting. “Through the development of inclusive finance to enhance the coverage and availability of financial services, we would provide the essential support needed in the real economy.”<sup>21</sup> By the end of June 2017, five state-owned banks – namely Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, and Bank of Communications – had put forward proposals for their inclusive finance initiatives.

## Regulatory Developments and Pitfalls

While Ant Financial had made huge strides in the use of technology and overseas expansion, the company had encountered certain pitfalls in the process, such as a RMB 312 million (USD 48 million) corporate debt default at the end of 2016. The bonds of COSUN,<sup>c</sup> a China mobile phone manufacturer, was listed on the Guangdong Financial High Tech Zone Equity Trading Center (also known as the

<sup>a</sup> Transforming the mobile phone into a virtual wallet, GCash was a cashless micropayment service which could be used to pay bills, send money, make donations, and shop online.

<sup>b</sup> Fuse Lending offered personal and business loans, from PHP 2,500 (USD 50) to PHP 300,000 (USD 6,000), to unbanked and underserved Filipinos through the applications of mobile technology, data analytics, and credit scoring models.

<sup>c</sup> Founded in 1992, COSUN engaged in the development of large-scale communication terminals for other telecommunication enterprises with 4,000 sales outlets in China and products for over 20 countries and regions around the world.

Guangdong Stock Exchange), and were sold to retail investors via Ant Financial's platform.<sup>22</sup> COSUN defaulted on the debt, leaving 13,000 investors stranded without repayment. The company claimed that a liquidity crisis triggered the default, with Ant Fortune reporting that COSUN was experiencing financial difficulties and was unable to repay its loan on time. While Ant Financial claimed that it should not be responsible for compensating investors for the default (as it was only a platform and the financial products originated from a third party), the fintech Unicorn was urging various parties to repay the investors, and promised to provide legal services to defend the rights of investors through litigation. At the same time, the remaining bonds of COSUN that had yet to reach maturity were also facing the risk of default. Those investors with bonds maturing by the end of 2016 and early 2017 also found that they were adversely affected by the incident, as requests for early redemption of the bonds went unanswered.<sup>23</sup>

Alipay launched the "Cashless Society" initiative in February 2017, which sought to transform China into a cashless society in five years.<sup>24</sup> However, the initiative was facing some headwinds from the regulators and the government. The authorities specifically pinpointed three measures to be followed.<sup>25</sup> Firstly, the word "cashless" should be removed from activities during the "Cashless City Week." Secondly, the central bank had prohibited the use of the same word in any company or activity slogans. Thirdly, Ant Financial had to make it explicit to participating merchants that they should still honor cash (RMB), and that they should respect the preferences of customers in terms of payment methods. According to the Renminbi (RMB) Regulatory Provisions of the People's Republic of China, RMB was the official currency of the nation, and "all public and private debts within China should be paid in RMB, and no entity or individual could refuse such a method of payment."<sup>26</sup>

## From Fintech to Techfin

Going beyond the original notion of "fintech," Ant Financial decided to reposition itself as a "techfin" company, a term coined by Jack Ma referring to technology firms entering the financial field.<sup>27</sup> While "fintech [took] the original financial system and [improved] its technology," said Ma during the China Conference hosted by the South China Morning Post in Hong Kong, "techfin [was] to rebuild the [financial] system with technology."<sup>28</sup> With "techfin" capabilities, Ant Financial enabled its partners (e.g., financial institutions) to improve the financial service offerings to consumers and small businesses.<sup>29</sup> For instance, with a strategic partnership formed with China Construction Bank (CCB), Ant Financial was able to offer CCB's wealth management solutions and products via Alipay and Ant Fortune.<sup>30</sup> On September 1, 2017, Ant Financial deployed its facial recognition capabilities in Hangzhou, China.<sup>31</sup> Patrons of KPro (a subsidiary of KFC in China) could place orders at terminals that performed facial scans. Once the scanning results matched those of the respective photo IDs, customers could pay by entering their phone number at the kiosks.

The company's renewed focus on technology as a core of its business came with an announcement on June 14, 2017 that its wealth management platform "Ant Fortune" would be upgraded to "Ant Wealth,"<sup>32</sup> with a customer base of 180 million and active users totaling 35 million.<sup>33</sup> The company launched "Fortune Account" as well, which was open to security firms, banks, and other financial institutions, and was granting financial institutions access to its artificial intelligence (AI) capabilities for the first time. The company stated that it would *not* develop its own financial products, and would open its platform to financial institutions instead.<sup>34</sup> The company would consolidate the knowledge it gained over the years and seek to open up the capabilities it had managed to develop in cloud computing, micro-payment, risk management, and artificial intelligence, as well as the credit-profiling

system, to its partners.<sup>35</sup> Seven banks<sup>d</sup> were already a part of the platform, along with seven fund management companies.<sup>e</sup>

“Utilizing Ant Fortune’s platform to develop a bank’s financial services would generate synergies for everyone. The result was a ‘win-win’ situation. And banks could dedicate more resources on refining their products and services,” according to Yu Wang, Industrial Bank’s General Manager of Card and Channel Division.<sup>36</sup>

Leveraging the massive customer base of Alipay, Fortune Account would assist banks to service clients directly and enhance customer stickiness. With advanced customer profiles and marketing tools (offering precision marketing capabilities), Fortune Account offered financial institutions a unified management system to improve operational efficiency and marketing effectiveness. One of the key capabilities of artificial intelligence was the matching of financial products with users with complex algorithms applied on product features and investor profiles. By optimizing with artificial intelligence algorithms, Ant Financial managed to increase customer conversion rate by 99%.<sup>37</sup>

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<sup>d</sup> The seven banks were Pudong Development Bank, CITIC Bank, Industrial Bank, Huaxia Bank, Minsheng Bank, Ping An Bank, and China Everbright Bank.

<sup>e</sup> The seven fund management companies included Tianhong Asset Management, Bosera Asset Management, Aegon-Industrial Fund Management, Guotai Asset Management, China Southern Fund Management, CCB Principal Asset Management, and Minsheng Jiayin Fund.

**Exhibit 1** Ant Financial's Global Footprint

<b>Region</b>	<b>Country</b>	<b>Ant Financial Partnerships and Investments</b>
<b>Asia</b>	South Korea	Bankware Global, Kakao Pay
	Japan	<b>Orix</b>
	India	Paytm
	Philippines	Global Telecom, Mynt, Alpha Payments Cloud, Grab, Resorts World Sentosa
<b>Americas</b>	United States	<b>Delta Airlines, EyeVerify, First Data, Marriott International, MoneyGram International, Stripe, Uber, United Airlines, V-Key, VeriFone Systems</b>
<b>Europe</b>	United Kingdom	<b>Barclays, InterContinental Hotels Group</b>
	Ireland	<b>Premier Tax Free</b>
	France	<b>BNP Paribas, Ingenico Group, PrestaShop, Worldline</b>
	Germany	<b>Concardis, Wirecard</b>
	Italy	<b>UniCredit</b>
	Switzerland	<b>SIX Payment Services</b>

Source: Na Chang, "China Ventures Net: Graph Insight: Ant Financial's International Expansion has been Unveiled by its Partnerships & Investments," <https://www.linkedin.com/pulse/graph-insight-ant-financials-international-expansion-has-na-chang/>, accessed September 2017.

Note: Companies that were bolded referred to those that Ant Finance held an investment stake in, while those that were not bolded were the ones that Ant Financial was in partnerships with.

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