

# FinTech

## Lecture 1. Reshaping the Banking and Payments Industry

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## Learning outcomes

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

# Overview

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

# Introduction

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

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## Payment revolution in China

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

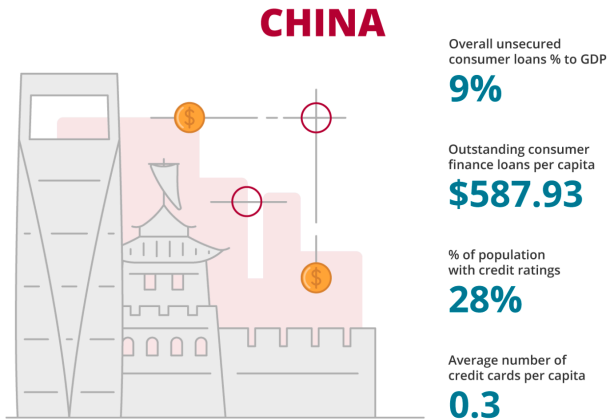


Fig. Financial market penetration - China (Zeng, 2018)

## Financial market penetration (USA vs. China)

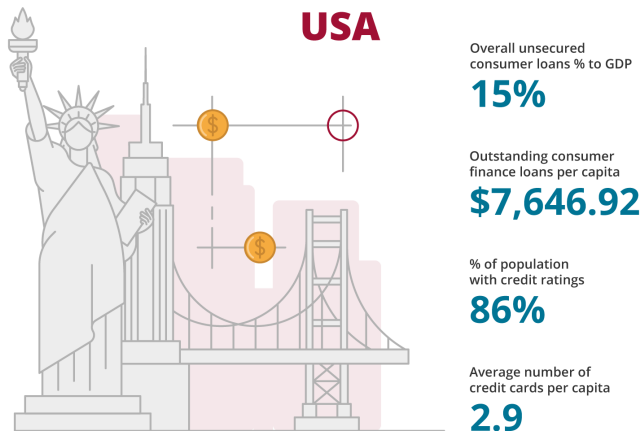


Fig. Financial market penetration - USA (Zeng, 2018)

## FinTech divisions in China

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

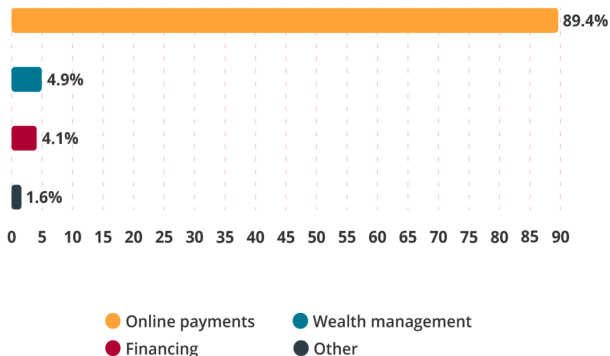


Fig. The divisions within China's FinTech sector (Ngai, Qu & Zhou, 2016)



## FinTech adoption rates among SMEs

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



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

## Opportunities for SMEs

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

## FinTech solutions and services used by SMEs

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

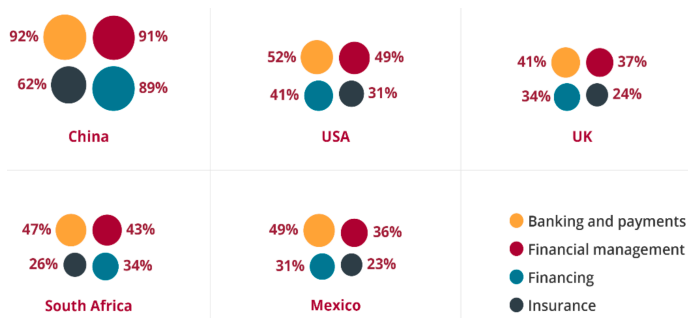


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## Online payment providers in China

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

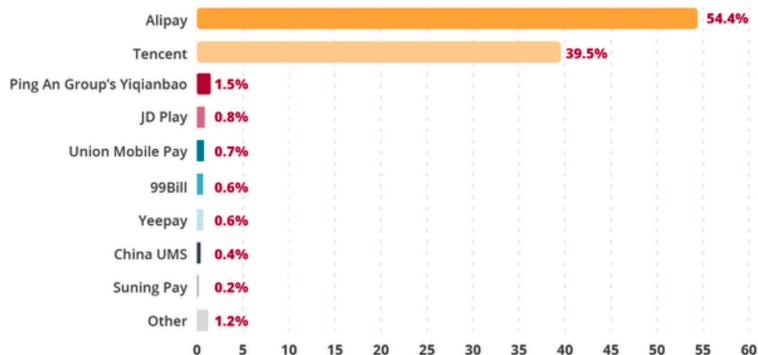


Fig. Market share of payment providers in China (China Banking News, 2019)

## Ant financial: revolutionizing payment processing

- ▶ Video 1-1

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

- ▶ Video 1-2

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

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

- ▶ (A) Financing small businesses
  - ▶ (B) Expansion into rural markets in China
  - ▶ (C) International expansion

## Future of FinTech in China

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

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## Credit card payment process

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

## Square: Reshape card payment system in the USA

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

## Square's product offering

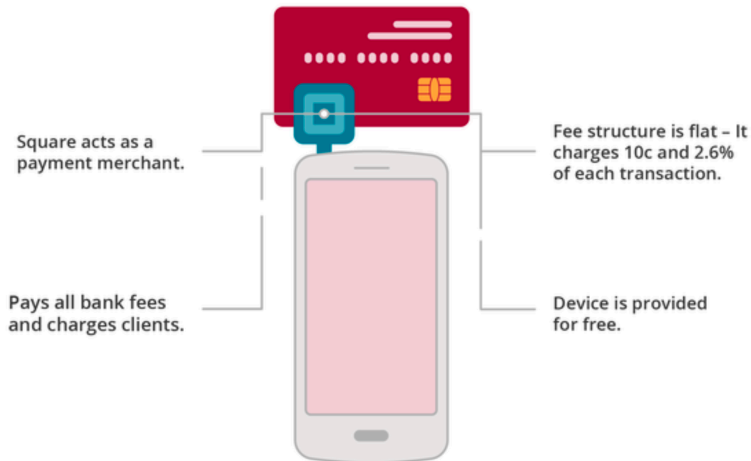


Fig. Square's product offering (Adapted from: Square, n.d.)

## Mobile apps vs Traditional payment methods

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

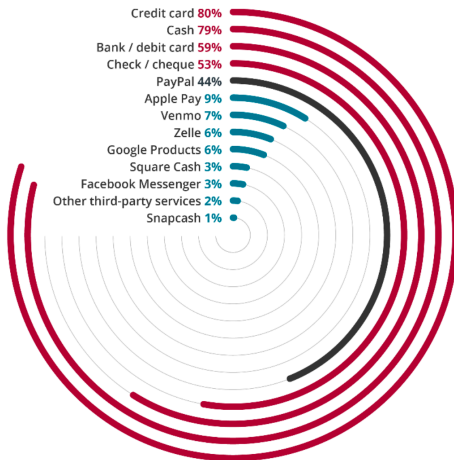


Fig. Rates of adoption of mobile apps vs traditional payment methods (CNBC, 2019)

## Square's pathways for growth

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

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## Conclusion

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

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## An interview with LexinFintech

- ▶ Video 1-3

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

## Review

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