

Chapter 10

FinTech Adoption in China: Challenges, Regulations, and Opportunities

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ABSTRACT

Almost all financial services (especially digital payments) in China are affected by new innovations and technologies. New technologies such as blockchain, artificial intelligence, machine learning, deep learning, and data analytics have immensely influenced all most all aspects of financial services such as deposits, transactions, billings, remittances, credits (B2B and P2P), underwriting, insurance, and so on. Fintech companies are enabling larger financial inclusion, changing in lifestyle and expenditure behavior, better and fast financial services, and lots more. This chapter covers the development, opportunities, and challenges of financial sectors because of new technologies in China. This chapter throws the light on opportunities that emerged because of the large population of 1.4 billion people, high penetration, and access to the latest and affordable technology, affordable cost of smartphones, and government policies and regulations. Lastly, this chapter portrays the untapped potentials of Fintech in China.

INTRODUCTION

This chapter will cover the developments that had happened in financial institutions and in their products and services because of Fintech (Financial Technology) and How Fintech has been evolved in fast ever-changing environment in China over last decade? It will also cover trends and impact of Fintech on financial institutions and other stakeholders (particularly customers) of China in the future. Fintech looks like a promising solution to help the emerging economies such as China to try and reduce the gap between developed & developing countries to some extent. The principal tenacity of Fintech is not only to advance the quality of financial services, but to modify the way finance products and services serve the life of the people. In last decade, Ant Financial's Alipay, and Tencent's Wechat have revolutionize the way people of China spend on different services. These innovations in financial domain have be-

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come ONESTOP solution from making payments to investments, loans, insurance, travel, remittance, communication and many more.

China has recently experienced a drastic growth in Fintech as compared to other parts of the world such as the U.S, Asia, and Europe. The value of fintech deals in China in 2018 was \$25.5 billion which is far ahead of deals in other parts of the world. More than half of China's fintech investment came from a single deal. In May 2018, Hangzhou-based Ant Financial (spun off from the Alibaba Group), best known for its mobile payments service Alipay, raised \$14 billion. This was also the largest fintech deal globally at that time. The second-largest capital raise by Du Xiaoman Financial, a spinoff of Chinese search engine giant Baidu, raised \$4.3 billion in two separate transactions. Another large transaction of \$1.3 billion was by wealth management platform Lufax. (Knowledge@Wharton, 2019, July 12). The reason behind China's success lies in the development and innovation of FinTech that has not only been obtained from the advantage of the technology revolution but the assimilation of its financial processes and the real-life prerequisites.

BACKGROUND

Upon the inception of the Alipay in 2003, China ventured into a regime of exceptional execution of technology in the broad financial segments (Chen, 2016). Because of the burgeoning development of e-commerce, rising demands for the financial services and surge in disposable income (over last two to three decades), China created a sound basis for the initiation of the fintech industry. In the 1990s, China escalated its investment and venture of the technology sector, commercial segment and public finances (Chen, 2016). Among the big Chinese companies such as Baidu, Tencent, Alibaba, and JD have been categorized to be the leading internet companies in the globe. Overall, the increasing growth in the fintech sector in China is due to the current government's supportive policies and the favorable regulatory environment. Recently, central bank of China brought 3 years development plan (2019-2021) for Fintech sector and addressing attached risks (Fintech Futures, 2019, August 23). Financial services industry in China has experienced fast growth over the past 5 years. According to the J P Morgan research, China's FinTech industry has seen an annual growth of 44% immediately after 2017. This has led to a projection of a whopping growth of \$ 715 billion as gross yearly returns by 2020.

THE INFRASTRUCTURE OF FINANCIAL SERVICES

Before 2000s, China was operating on a cash basis until when it adopted digitization in handling financial products and services. This was after a massive manifestation of the internet, the evolution of the e-commerce, reasonable mobile data cost and availability of smartphones. As a result, the Chinese adopted the digital money transfer and payment programs and abolished cash payments. Further, it created solid platforms for e-commerce, alternative banking, banking the unbanked population (financial inclusion) and many more financial services. As of now, Chinese fintech are largely focused on the domestic payments space, mostly in retail. This is a space that many Chinese banks have ceded to the technology firms. In a very short span of time, these companies have built new ecosystem models around the smartphone and delivered this to consumers through super-apps that deliver a customer experience marked by usability, simplicity, and convenience.

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