Insight

Ant Financial: The game changer in China's financial industry

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Introduction

Ant Financial Services Group (Ant) is one of the largest and most significant fintech companies in the world. Spanning its tentacles throughout the Chinese economy, it is the highest-valued unicorn to date, with a predicted worth of $150 billion. This is more than twice that of any other start-up, including Uber[1].

Last year, Ant handled more transactions worldwide than Mastercard, more than $8 trillion[2] whilst serving roughly 870 million users worldwide[3]. Furthering this, it recently outstripped US firm JPMorgan as the world's largest money market and has a projected worth of nearly twice the value of Goldman Sachs[4].

The great success of Ant has resulted in Chinese state-owned banks becoming wary about business disruption, as consumers migrate their money from traditional banking services to innovative fintech companies. Experts have also warned of the risks associated with Ant's tremendous growth and size.

Shaking up the financial industry in China

"Ant has disrupted low-level banking and payments in China and is now trying to go global."

- Chris Wright, Australian Financial Review, 3 June 2015[5]

In what was perceivably a controversial separation from Alibaba around 2014, Ant's ties to the multinational conglomerate remain. Whilst Alibaba has a 33% stake[6], Ant is also the parent company of Alibaba's subsidiary Alipay and handles nearly all the transactions that are processed through Alibaba's various marketplaces and streams.

Much like its rival Tencent, part of Ant's success is in its capitalisation of China's rapid adoption of smart phone technologies. As the world's second-largest economy, China has embraced the shift towards a cashless society more than Europe or the US, creating a favourable environment for fintech companies to expand. Cashless payments in China have reached a level of ubiquity unparalleled by any other country. Chinese youth seldom use cash to pay for daily expenditures such as coffee or groceries; instead, embracing Ant's Alipay or Tencent's WeChat Pay.

Alipay is the most widely used payment platform in China. Even street-side vendors display QR codes that can be scanned via the Alipay app to process a payment.

Given this pervasiveness, traditional banks are increasingly mindful of money being siphoned from deposits and savings accounts into Ant's various payment platforms. On the other hand, Chinese authorities are increasingly concerned about their size and rapid growth. Authorities intend to impose bank-like restrictions on the company, which could consequently affect profits. Yet whilst many of its functions mimic that of a bank, Ant has different regulations to traditional banks. It is in fact, steering away from typical offerings.

"China is an example of what happens when banks don't respond quickly enough to the growing threat of firms with a coherent digital offering such as Ant Financial."

- Finews, 30 June 2017[7]

Another contributor to Ant's success is its accessibility. For example, Ant controlled one of the largest credit ratings systems in the world, called Sesame Credit, where roughly 520 million users[8] hold credit ratings on the platform. Introduced on 28 January 2015, it attracts millions of Chinese who lack established, traditional credit histories. The platform taps into the data of its registered users, as well as the 37-million-odd small business[9] that trade goods on Alibaba's e-commerce websites and assigns credit scores ranging from 350 to 950 points. As a result, it comprises a user's credit history, online shopping preferences, repayment ability, personal information and online social networking activity.

Furthering this, Ant engages in supply-chain finance and its investment platform only requires as little as 1 yuan. The platform unlocks the potential to engage with aspiring investors such as less affluent, young Chinese citizens who are often overlooked by state-controlled banks.

The road to IPO

Ant recently raised $14 billion of private funding[10] and seeks an IPO in the next few years. It has just completed its Series C funding for a possible initial public offering.

Whilst there is concern around the impact of foreign investment and its control over Chinese credit ratings if Ant were to seek a foreign IPO like Alibaba did in New York, experts predict that it will complete its IPO in both Hong Kong and mainland China. Ant is tipped to come close to Alibaba's $168 billion market capitalisation (source) during its IPO in New York[11].

Fundraising has placed the valuation of the company at $150 billion[12]. With this listing, it would be the 86th biggest company in the world, beating the likes of McDonald's and IBM, and just behind the likes of the Walt Disney Brand etc. Concerns over overvaluation of the company were highlighted by Xiaomi's weak IPO (a $48 million opening as opposed to the expected $100 million).

Partnerships with traditional Chinese banks

Nowadays, China state banks concede that Ant could be beneficiary to their own financial operations. State-owned, mid-size China Everbright Bank recently partnered with Ant to facilitate its digital transformation and development of scalable open financial architecture[13].

Ant has also established partnerships with other mid-sized national lenders such as Hua Xia Bank, China CITC and Shanghai Pudong Development Bank to provide them with 'technology-driven solutions' and improve the delivery of their services and operations through technological transformation[14]. This signifies a shift in the relationship between Ant and the state-controlled banks, from competitive positionings to more cooperative and mutually-beneficial alliances.

Overseas expansion

Ant has maintained a keen interest in international expansion. In 2014, a well-publicised attempt was made in the acquisition of Dallas-based payments group MoneyGram. But the deal collapsed in January of this year when its $1.2 billion bid was blocked by US regulators, specifically the Committee on Foreign Investment in the United States (CFIUS)[15].

MoneyGram's buyout could have cemented Ant's position as an important player in the US financial industry. Yet escalating fears over a Chinese company controlling the personal financial data of US clients ultimately terminated the agreement.

Despite this, Ant and MoneyGram are now working together to explore initiatives in remittance and digital payments in China, India, the Philippines and other Asian markets, as non-transactional agreements between the two companies would not be subject to CFIUS scrutiny.

Independently, Ant recently invested $177 million in a controlling stake in Paytm[16], an Indian digital payments company, and has been buying stakes in other fintech firms in Thailand, Singapore, Indonesia and South Korea.

With its vision of international expansion, Ant may have to grapple with hostile governments who do not necessarily want a Chinese firm to have control over their national financial data infrastructures.

The transition to technology-focused services

Ant's technology-centric alliance with Everbright Bank highlights how the firm is transitioning away from conventional financial services to technology-oriented, customer-centric services. Revenue from financial services is anticipated to reduce by 6%, with technology services projected to constitute 65% of Ant's business in the next five years. This differs from the 35% it constituted for technology services in 2017[17]. The strategic shift away from financial aspects of business marks a compromise with the Chinese government, as well as a play to their strengths; they can help further develop the technology industry in China alongside the big conventional banks. Innovations could involve helping banks and other financial institutions with services such as online risk management and fraud prevention. An example of this is a partnership with Gcash[18], real-time remittance allowing instant transfers between Hong Kong and the Philippines.

The future for Ant is promising. With technology becoming ever more ubiquitous in business and daily life, Ant is cementing its place as an innovative, adaptable fintech heavyweight and is significantly poised to take on global markets.

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