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‘Tech’ Beats ‘Fin’ in Next Wave of China’s Fintech Growth

Oliver Wyman report reveals new sources of value driving China’s Fintech sector in era of tightening regulation

Hong Kong, August 2, 2017 — The explosive growth of China’s Fintech scene faces fresh challenges as government regulation begins to increase, threatening the end of an era that has seen companies double or even triple every year since the boom began in 2013. According to a report released by Oliver Wyman, a global consulting firm, China’s Fintech sector has attracted US\$6.4 billion in investment in 2016 alone, making it the global leader in fintech venture capital activities representing 47 percent of global fintech investments (up from only 7 percent in 2013).

The report, *‘Fintech in China – Hitting the Moving Target,’* highlights that while value was previously mostly driven by the ‘fin’ component, with fintech players riding the wave of the reform of China’s financial system, the importance of the “tech” component will come to the fore in the future. Fintech leaders will have to reshape their business by taking advantage of leading-edge technology, combined with strong financial services acumen.

“Despite impressive growth, not all players who emerged in this wave of transformation are truly ‘fintech’ in nature. Some of their business models merely represented a shift of channels from offline to online without true technology innovation,” says Cliff Sheng, Oliver Wyman partner and author of the report. “By using the ‘fintech’ label, these entities have been less regulated and grown rapidly by leveraging such arbitrage to offer products that were stringently regulated in the traditional financial services system. Tightening regulations are now curtailing this approach.”

Big-data analytics, the Internet of things (IoT), and blockchain are the three technologies that hold the greatest potential for new avenues for growth, owing to their groundbreaking capabilities to acquire, assemble, analyse, and apply information. Data treatment and information processing are at the heart of decision making for financial services, especially in China where data are often incomplete, untransparent and sometimes questionable.

The application of these technologies will create significant disruption along value chains and bring about distinctive opportunities for the four major areas of financial services:

1. **Financing:** With the availability of non-financial data and improved knowledge of how to use it, Chinese fintech companies could expand the ‘lendable population’ from around 200 million credit-card-carrying prime borrowers to around 800 million, creating value for – and from – otherwise neglected subprime segments.
2. **Investing:** With stronger computing capabilities, online wealth management platforms can conduct detailed analysis by pulling together various types of data

about the market, individual securities, and investors. This enables offering low-cost, bespoke investment solutions that are free of subjective and behavioural biases. Assuming these solutions attract 2.5 percent of invested assets by China's historically self-directed investors by 2020, these would represent assets under management worth a whopping RMB 5 trillion¹.

3. **Insurance:** Connected ecosystems, along with the increased adoption of technology gadgets, provide not only gateways to innovative insurance products but also alternative data sources for tailored products and pricing. Such technology upgrades and ecosystem embedding could present insurers with premium revenues amounting to RMB 400 billion by 2020.
4. **Transaction:** Although still nascent, blockchain and its applications could potentially be used to provide low-cost, reliable transaction solutions across different areas of financial services. These could potentially promote mutual growth with budding fintech business models that are only economically possible with support from such solutions.

With this major potential for a new wave of technology-driven growth, there is no one-size-fits-all approach that will suit all market players. However, five key success factors will determine the leaders of the future: data abundance and application, a large customer base, availability of proprietary and comprehensive products, strong knowledge of financial services and risk management and a 'Fin plus tech' organisation and culture that enables innovation. Together these elements will enable companies to capitalize on the full potential of these new technologies.

"The emerging theme of technology-enabled disruption has distinct implications for the strategic focus of each type of player in the fintech space. The future winners will be those that find the right strategy and overcome the key challenges during execution," added Sheng.

About the paper

The report titled, "*Fintech in China – Hitting the Moving Target*", explores the underlying sources of value driving the fintech industry in China, and discusses how these drivers will change and how fintech companies, incumbents and non-financial services players should respond to these trends.

About Oliver Wyman

Oliver Wyman is a global leader in management consulting. With offices in 50+ cities across nearly 30 countries, Oliver Wyman combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation. The firm has more than 4,500 professionals around the world who help clients optimize their business, improve their operations and risk profile, and accelerate their organizational performance to seize the most attractive opportunities. Oliver Wyman is a wholly owned subsidiary of Marsh & McLennan Companies [NYSE: MMC]. For more information, visit www.oliverwyman.com. Follow Oliver Wyman on Twitter @OliverWyman.

¹ Total investable assets by individuals estimated to be at RMB 200TN by 2020, Source: Oliver Wyman proprietary analysis.