Asian Financial Forum 2017

Concurrent Workshop: Future of Fintech: Crossover, Convergence, Remoulding

Synopsis

The global economy underwent substantial changes in 2016, and the Chinese economy entered the “new normal” after rapid growth in the past three decades. Financial technology, or Fintech, represented by block chain technology, has become the new spotlight and attracted widespread attention. The Yicai Hong Kong Financial Forum will engage government officials, research institutes, financial institutions and Internet companies in discussions about the roots and future development of the Fintech market.

As the nucleus of economic development, finance is at the core of modern economies and plays an important role in the implementation of innovation-driven development strategies. With its innovative nature, Internet finance brings about new operating models and theories. Furthermore, inclusive online financial services function as supplementary within the Chinese financial system. However, the occurrence of risk events has exposed the mounting risks behind the Fintech boom. How to protect the innovative nature of Internet finance businesses, and keep risks in check at the same time? What should we do to reach a balance between Fintech innovations and risk prevention? What is the approach to Fintech regulation adopted by Chinese regulators? What is their stance on Fintech regulation?

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Welcome Remarks and Moderator

- **Mr Zhou Jiangong**
  CEO, Yicai Media Group

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- **Ms Hang Yu**
  Senior Correspondent, International Department, Yicai Media Group

Keynote Address

- **Professor Ba Shusong**
  Chief China Economist, Hong Kong Exchanges and Clearing Limited (HKEX)

Speakers

- **Mr James Chang**
  China Financial Services Consulting Leader, PwC
- **Mr Liu Bo**
  Founder and CEO, Dashu Finance
- **Mr Ni Rongqing**
  Vice President and Chief Product Officer, Ping An Puhui
- **Dr Yang Tao**

Assistant to the Director of the Institute of Finance; Director of the Research Base for Industrial Finance; Director of the Research Centre for Payments and Settlements under the Chinese Academy of Social Sciences

The session, sponsored by the Yicai Media Group and moderated by Zhou Jiangong, Yicai's Chief Executive, heard that Fintech, or financial technology, had revolutionised many aspects of the financial services industry. Advancements had enabled consumers to access services online, make and receive payments, and led to the creation of new businesses. However, in a third stage of development that is emerging there would be widespread commercialisation of technologies linked to Fintech and a wave of change that has never before been seen.

That was the view of Ba Shusong, the Chief China Economist at Hong Kong Exchanges and Clearing Limited. This third stage of Fintech technologies would revolve around artificial intelligence, leading to technology that would solve issues of identification at banks, or remove the burden of knowledge from consumers making financial investments in pensions, for example. The third stage of Fintech development would see the importance of big data come to the fore, Professor Ba said. “There are huge expectations over this [the third stage],” he said. “One of these is artificial intelligence. This is the quick abstraction of information and to change knowledge by analysis.”

Broader use of technology would help lower the risk in investing, for example, by examining the truthfulness of every situation, effectively weighing up options and removing some of the emotional aspect to investing. While these benefits applied at the individual level, the technology would also help rationalise decision-making and lower the cost of operations for government. The analysis of vast data sets to extract patterns and trends – a definition of Big Data – would also help safeguard decision-making by testing potential courses of action by what had happened previously. This would lead to exceptionally cost-effective decisions and administration.

Another significant, looming, change would see vast amounts of data collected and stored. A proportion of this data would be used to solve issues around identification and verification. Data stored in a blockchain, an easily accessible database of information that is currently considered tamperproof, could store permanent registers of transactions, including land. With a degree of automation configured to the blockchain, contracts could be registered, share and land trades recorded, and dividends be automatically distributed. Automation might also include management of credit records, eliminating uncertainty and the middleman in a series of transactions that are currently complex and involve risk. “Through the blockchain we will be able to automate the entire process,” he said.

Professor Ba, who spoke for more than half-an-hour at the AFF session, explained that although the blockchain remains a nascent technology there would be widespread use of the technology by financial markets. The Chinese mainland was an example of a market that had very advanced financial technologies. “Internet payment in China is already a very major, the most mature part of Fintech. Payment in China is the most mature part of Fintech,” he said.

The growth in payments had been driven by the tradition of swapping Red Packets or token amounts of money offered during times of celebration. The case of the Alibaba Group shows how a company can move from payments and trading to springboard into banking and insurance. Alibaba had used its Big Data capabilities and media capabilities to move on to the next part of the supply chain, he said.

From a regulatory standpoint, the mainland initially displayed a “rather lax” approach as companies came into the market to provide services to underserved consumers – to improve financial inclusiveness. The government had also adopted a hands-off approach because no one quite understood where the market was heading. As singular innovations had grown to become an industry of their own, the government stepped in to regulate Internet finance companies. There, the government’s focus had been on traditional funding and lending and the regulations were made to fit existing financial structures. In the United States and Britain, the regulations around Internet finance permit innovations partly because they incorporate grey areas in the legislation.

James Chang, China Financial Services Consulting Leader at PwC, continued along the theme of development of Fintech in the Chinese mainland and the US. Although global legislative regimes had permitted a greater level of innovation, he was confident the adaptation of new technology by mainland businesses would be rapid. “The legislation in China is rather open, and rather inclusive, and the government uses its policy for financial inclusiveness,” he said.

Ni Rongqing, Vice President and Chief Product Officer, Ping An Puhui, a unit of the Ping An Insurance Group, said the general trend towards more services online had changed finance. He said the infrastructure supporting the financial market in the United States, such as credit histories, had helped extend the reach of the existing banking and finance infrastructure. “Banks or other institutions have a good grasp of consumer behaviour, whereas this doesn’t exist in the Chinese mainland and so microfinance has grown in China,” he said. While legislation in China had slowed technical advances, Mr Ni said a lot of innovation could still be achieved from the margins.

The final panel speaker, the founder and Chief Executive of Dashu Finance, Mr Liu Bo, continued on the regulation theme. He argued that the industry’s major players had to collaborate to share the data that would fuel widespread growth of the industry. If regulators better understood the market, and the industry better communicated to the regulators, the industry and consumer would benefit.

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