

Comment on “Are International Banks Different?” by Asli Demirgüç-Kunt

Bengt Holmstrom
BIS Annual meeting 2018

Introduction

- Will look at a very different side of international banking - grass root banking models
- Handicaps as a spring board for innovation
 - Low income
 - No collateral for vast parts of population
 - No fixed internet connections
- Focus on bottom of the pyramid
 - Leapfrogging into mobile banking (Kenya's M-Pesa, China's Ant Financial)
 - Dynamic new business models, going well beyond traditional banking

Top 20 technology companies

Rank 2018	Company	Region	Market Value (\$B)	
			5/29/13	5/29/18
1)	Apple	USA	\$418	\$924
2)	Amazon	USA	121	783
3)	Microsoft	USA	291	753
4)	Google / Alphabet	USA	288	739
5)	Facebook	USA	56	538
6)	Alibaba	China	--	509
7)	Tencent	China	71	483
8)	Netflix	USA	13	152
9)	Ant Financial	China	--	150
10)	eBay + PayPal*	USA	71	133
11)	Booking Holdings	USA	41	100
12)	Salesforce.com	USA	25	94
13)	Baidu	China	34	84
14)	Xiaomi	China	--	75
15)	Uber	USA	--	72
16)	Didi Chuxing	China	--	56
17)	JD.com	China	--	52
18)	Airbnb	USA	--	31
19)	Meituan-Dianping	China	--	30
20)	Toutiao	China	--	30
		Total	\$1,429	\$5,788

Source: Mary Meeker's 2018 Internet Trends report

Ant Financial – selected facts

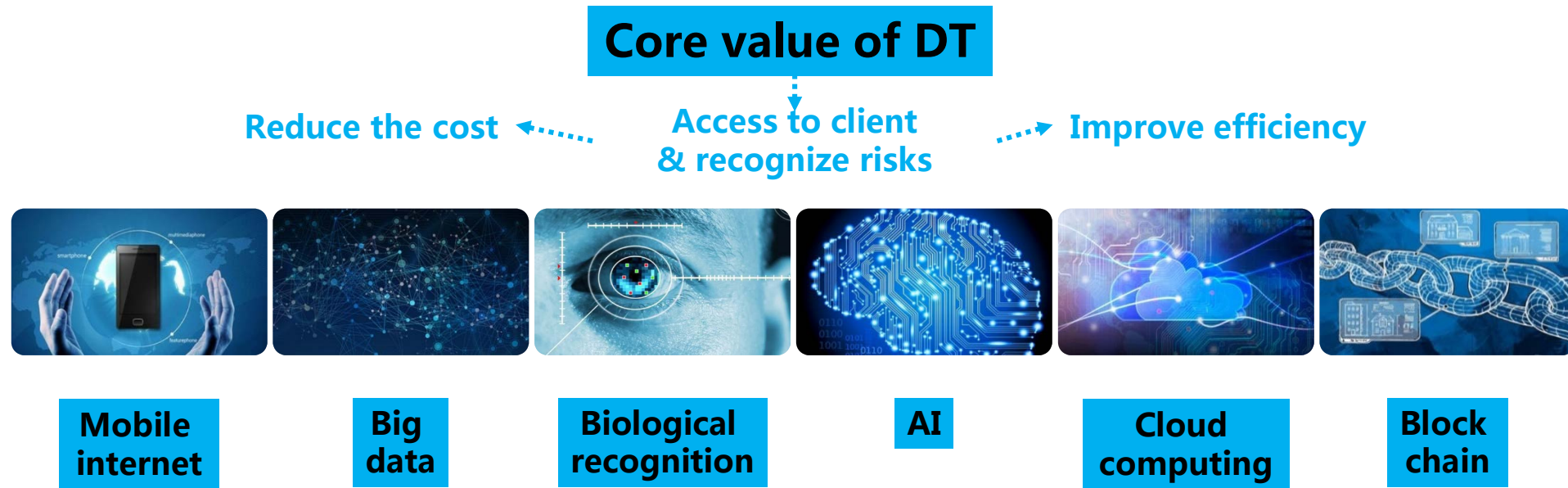
- Spinoff of Alibaba in 2014
- Ant Financial world's largest Fintech company in 3 years (on back of Alipay); Mkt cap today 150 Billion
- Alipay handles 54% of all non-bank retail transactions (5% of value)
- On “Singles Day” 11/11/2016
 - 1.1 Billion financial transactions (value \$ 17.5 Billion)
 - Peak capacity 120,000 transactions/second
 - 1.3 Million loans in one day; value \$ 7.2 Billion
- Continuously expanding ecosystem of financial services
 - Enabler, not competitor; TechFin not FinTech

Driven by solutions to problems of the masses

- Taobao online C2C platform
- **Alipay introduced to solve trust problem – escrow**
- **Zhima credit scoring** – microcredit to SME merchants (max \$ 4000)
- Ant Credit Pay – short term credit for customers
- Mybank – internet banking service
- Ant Fortune – personal wealth management

- Continuously expanding ecosystem of financial services

Digital technology pillars of Ant Financial strategy



Ant Financial's vision



To Be the Finlife Enabler for Customers

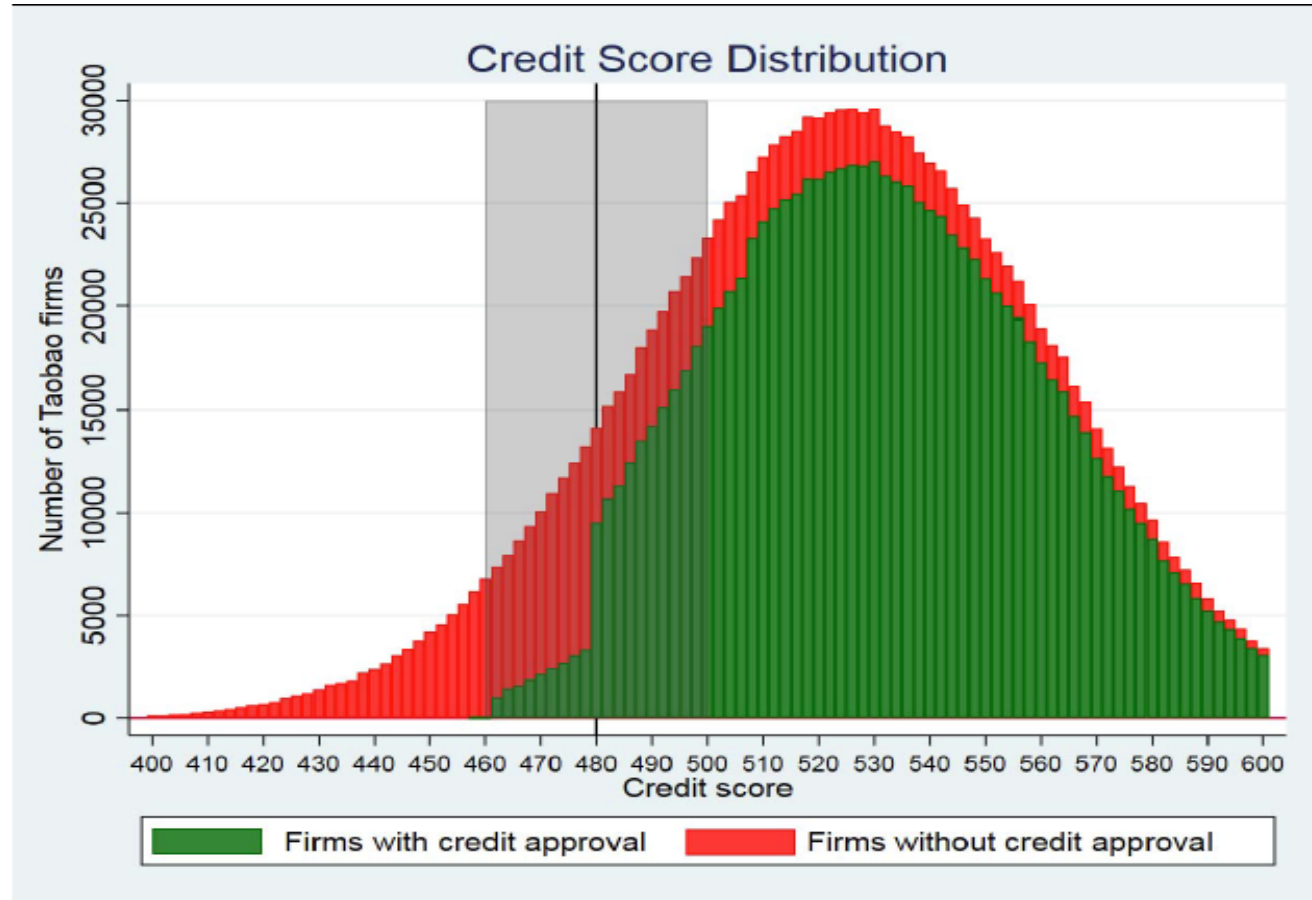
All our innovation started with one key point – to be customer-centric and how to solve the problems for the customers.

Eric Jing, CEO of Ant Financial

Credit scoring substitutes for collateral - “we know you but do not know who you are”



Automated Credit Approval Process

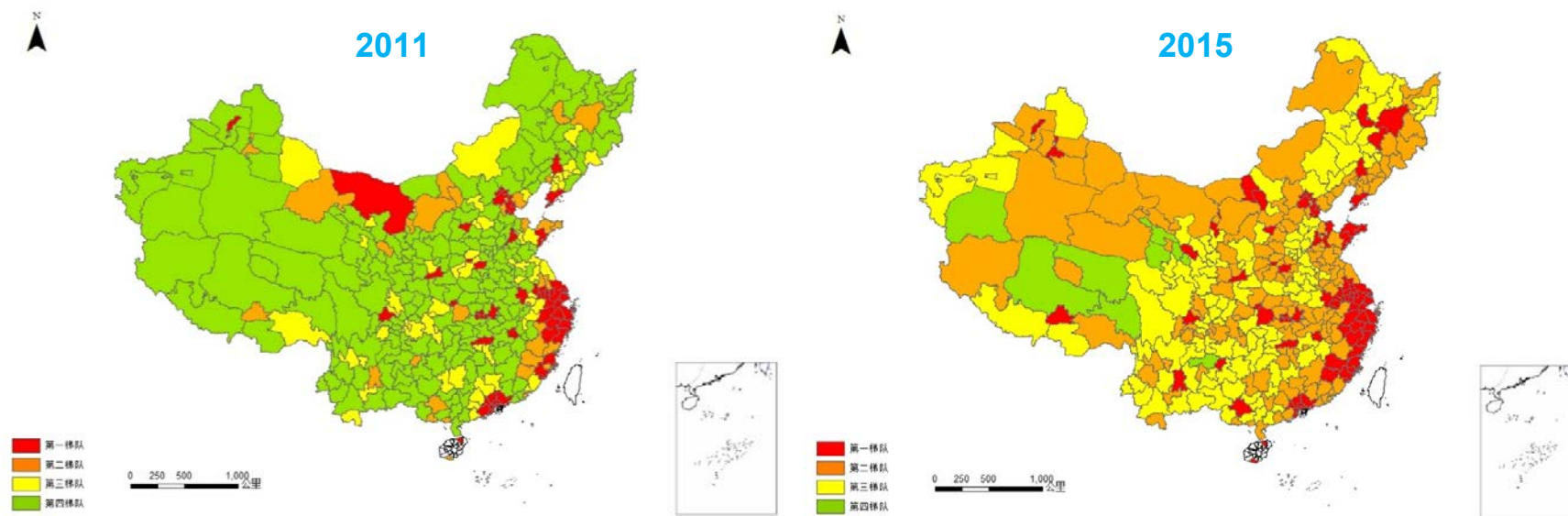


Distribution of credit scores for 1.37 million Taobao firms.

Credit scoring and broad ecosystem allow

- Dramatically lower costs (.06 % per transaction vs 3%), interest rates (6-20% vs 20-40%), default rates 1% vs > 2 %
- 3-1-0 application process
- Inclusiveness through geographical reach and higher SME productivity
- Substitutes information for collateral, enforcement by exclusion

Inclusiveness - extending geographic reach



Inclusive Finance Index sorted by provinces

Data source: "Peking University Digital Inclusive Finance Index (2011-2015)"

From FinTech to FinLife



Ant Financial owns no assets; designs platforms to enable level playing field for service providers

Does Ant Financial threaten banking?

- Focuses on different segment (small payments and credit)
- Credit scoring and enforcement by way of exclusion from ecosystem
- Alipay a form of private money; can be used for purchases, which makes it “legal tender” within system
- Traditional banks collaborating with Ant Financial (especially Alipay)
- Biggest threat (?) – MMF and wealth management products for small investors could drain deposits of traditional banks

Opportunities and threats

- Big trend in transaction platforms: B2C growing at the expense of C2C, creating “virtual shopping malls”
 - Tmall (platform for branded products)
- Ant Financial increasingly focused on governance and security issues
 - Setting rules and regulations (sub-economy)
- Competing systems
 - Tencent, JD Finance, Baidu creating similar ecosystems
- Ant Financial’s efforts to expand abroad
- MMF risk