# How and why China leads the world in data-driven finance

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**China**

Identity is generally a sovereign function. Yet in a profoundly ironical development – the foundational digital identity in China is provided not by the state, but by the two major payments platforms: WeChatPay and AliPay.

The speed and scope of their penetration has been breathtaking – almost impossible to catch a cab today in China using a credit card or cash – one needs WeChatPay on a phone.

Couple this to a high degree of financial repression (low bank interest rates) and clunky inefficient traditional banks, and the ground was ripe for TechFins to flourish.

## **China** – cont’d

3 years ago every time Ant Financial made a consumer loan it claimed to do so on the basis of over 20,000 data points – on every Chinese person!

Imagine how this can revolutionise two traditionally poorly served sectors of any financial system – consumer & SME lending.

In 2014 – Alipay noticed there were unused balances sitting in people’s accounts.

It established Yu’e Bao (“leftover treasure”).

In 9 months it was the fourth largest money market fund in the world!

Of a scale with US funds 50 years old!

The PBoC said ‘Holy Shit’ in Chinese. And put the brakes on.

But within a year of the brakes being released, Yu’e Bao was the world’s largest money market fund!

# The TechFin Story

Organising idea – The entity that knows the most about you is best placed to price credit or insurance for you. Traditionally that has been your bank. It did that by being embedded in the community.

Increasingly banks have become data-driven businesses. So it has been decades since mortgage decisions were made locally.

But now other companies know more about you – principally the big data and platform companies – Google, Amazon, Facebook, Apple, etc.

Banks need to become far more nimble with data, or face being replaced by these TechFins.

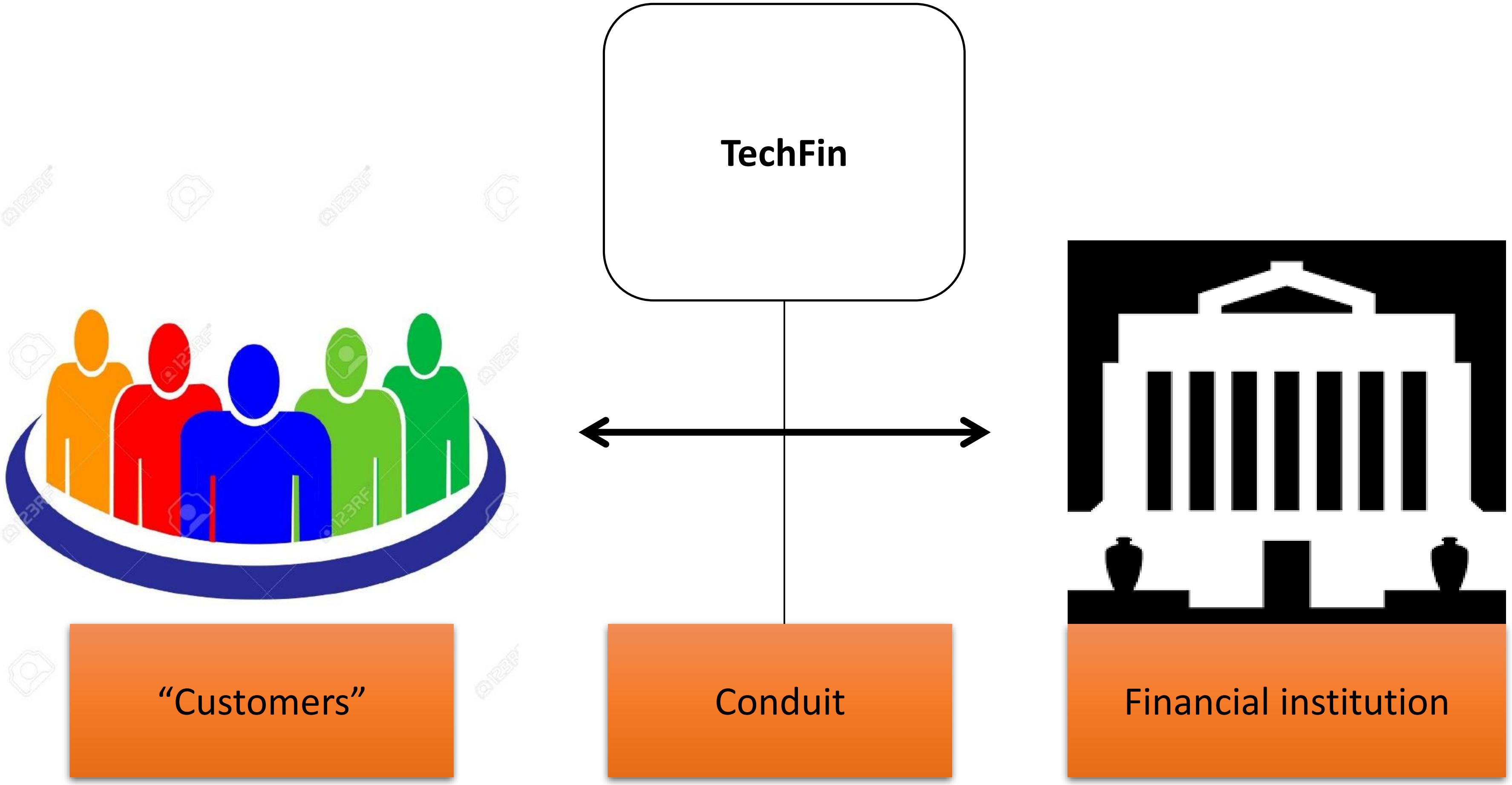
In this sense mandating open banking (over their objections) may save the banks lives.


Big Data
(Tech)
Microsoft
Wallet
M-PESA
Client
Relationship
(Fin)
WeBank
Financial
Services
蚂蚁金服
ANT FINANCIAL
支付宝
ALIPAY
amazon.com
Pay

# TechFin – Stage One

- TechFins provide much of the data – either raw or analysed – that banks and insurers use.

# TechFin Stage Two



## Knowing your preferences from multiple sources…

- Website / data: google (interest preferences), facebook (social media preferences) etc
- Shopping: amazon, woolworths/coles frequent shopper (shopping preferences)
- Phone: m-pesa (communication preferences)
- Payment: alipay, visa/mastercard (shopping, travel preferences)

- **Allows Algorithms to know so much about you.**
- Data analytics rules!
- Walmart – choker chain for dog, or stopper for a door.  Multiply these correlations by tens of thousands!

**The monetization of Data – The clear global trend, following China's lead.**

Money has been Digitized and Now Data is Monetized

| FinTech Today | TechFin Tomorrow |
|---|---|

# TechFin – Stage Three

- **Stage Three,** obviously, is TechFins providing financial services themselves, as is happening today on a major scale in China with Ant Financial.

# TechFin Benefits

- **Reduction of transaction costs & enhanced market efficiency**
- **Enhanced business decisions, risk management**
- **Business decisions based on more comprehensive data set**

**Existing financial systems serve the credit needs of SMEs poorly**

**So better SME & consumer credit**

# TechFin Risks

- TechFins have better data than traditional banks: more comprehensive front-end data, more data points, more reliable, cross-checked data
- But: no level playing field with existing institutions, and a risk the triggers for existing regulation won't be activated in time
- Correlation vs Causation: False Predictions -- unkown effects of Artifical Intelligence / Data Analytics
- Protected Factors at Risk? Upholding Civil Society Values (for instance, enforcing anti-racism, anti-gender discrimination etc)
- Monopoly risks
- Data protection risks – as we are seeing globaly
- **In countering these risks RegTech has a major role!**

# Theses

1) TechFins have their origin in BigData ("Tech") rather than customer relationship ("Fin").
2) For TechFins, formal financial regulation may be triggered too late. Triggers linked to taking deposits, soliciting customers or handling client funds are likely to not be triggered. Regulators may therefore be unable to a) enforce customer protection measures and b) monitor and mitigate systemic risk.
3) TechFins may compete unfairly therefore since they a) are unrestricted by risk & compliance considerations in their build-up phase, b) do not bear compliance and capital costs.
4) TechFins' data analytics will require regulation at some stage. Perhaps "follow the data" will have to replace financial law's "follow the money".
5) Regulation of TechFin for now should focus on: a) information gathering, b) review of algorithms for false predictions and protected factors, and c) systemic risk prevention.

**THE FUTURE OF DATA-DRIVEN FINANCE AND REGTECH:**
**LESSONS FROM EU BIG BANG II**

*Dirk A. Zetzsche, Douglas W. Arner, Ross P. Buckley and Rolf H. Weber*

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3359399