

Beyond the cashless revolution of digital finance

From Alipay & Wechat to Yu'eobao

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Introduction of case

The form is a standard Chinese bank document for personal business. It includes fields for the customer's name, ID number, and contact information. There are also sections for account details and transaction types. The '备注' (Remarks) field at the bottom left is highlighted with a red box, and a red arrow points to it.

Filling out several forms and waiting days

Hinder the development of capital market AND retail market

Use phones to pay for dinner, order taxis
and buy everything from groceries to
insurance online

Paradigm shifts from being cash-reliant
to mobile digital oriented



Today

Differences between Wechat pay & Alipay

	Wechat Pay	Alipay
	Tencent	Alibaba
Origin	“instant message” payments	customers on the Alibaba website can have an easier time with their transactions
Function	partnership with banks; pay bills, buy groceries, and pretty much anything	a regular payment facility like Wechat pay

Differences between Wechat pay & Alipay

Marketing		follows the social nature of Wechat	follows the business-like nature of Alibaba
Others	Devices	only Smartphones	all smartphones and desktops
	Currencies	9 world currencies	18 world currencies
	Transaction fees	0.1% for withdrawals more than \$153	0.1% for withdrawals more than \$2,897



Digital red envelopes



Fintech in both inventions - Escrow agreement

- ❖ Fintech involves the use of algorithms to improve the delivery of financial services
- ❖ Before the rise of WeChat pay and Alipay, online retailers suffer low sales growth due to trust issue in e-commerce
- ❖ Effectively resolved by the introduction of **escrow agreement**
 - Connect consumer's accounts to their bank card for transfer payment, and hold the payment until transaction is completed
 - Provide the required level of trust in trading



Fintech in both inventions - Launch of quick response(QR) codes



- ❖ Secure, simple & low-cost, and previously known to customers
- ❖ Commonly seen in advertisements, stores and restaurants
 - Can also be used to quickly “befriend” with someone you are interested in!
- ❖ Different focus on usage
 - Wechat → Exchange of contact details and personal payments
 - Alipay → Larger and safer commercial transactions

QR-code payments VS NFC



- ❖ If you go to a Starbucks store in Beijing to buy your grande-size latte, the barista would ask “WeChat or Alipay”, instead of letting you tap-and-go with your NFC Apple pay
 - Only less than 10% of the Chinese contactless payment sector belongs to NFC payment
- ❖ Key advantage of QR code → Hardware-independent AND low cost
 - Does not require installation of costly NFC chips on every phone

Fintech in both inventions - AI face recognition



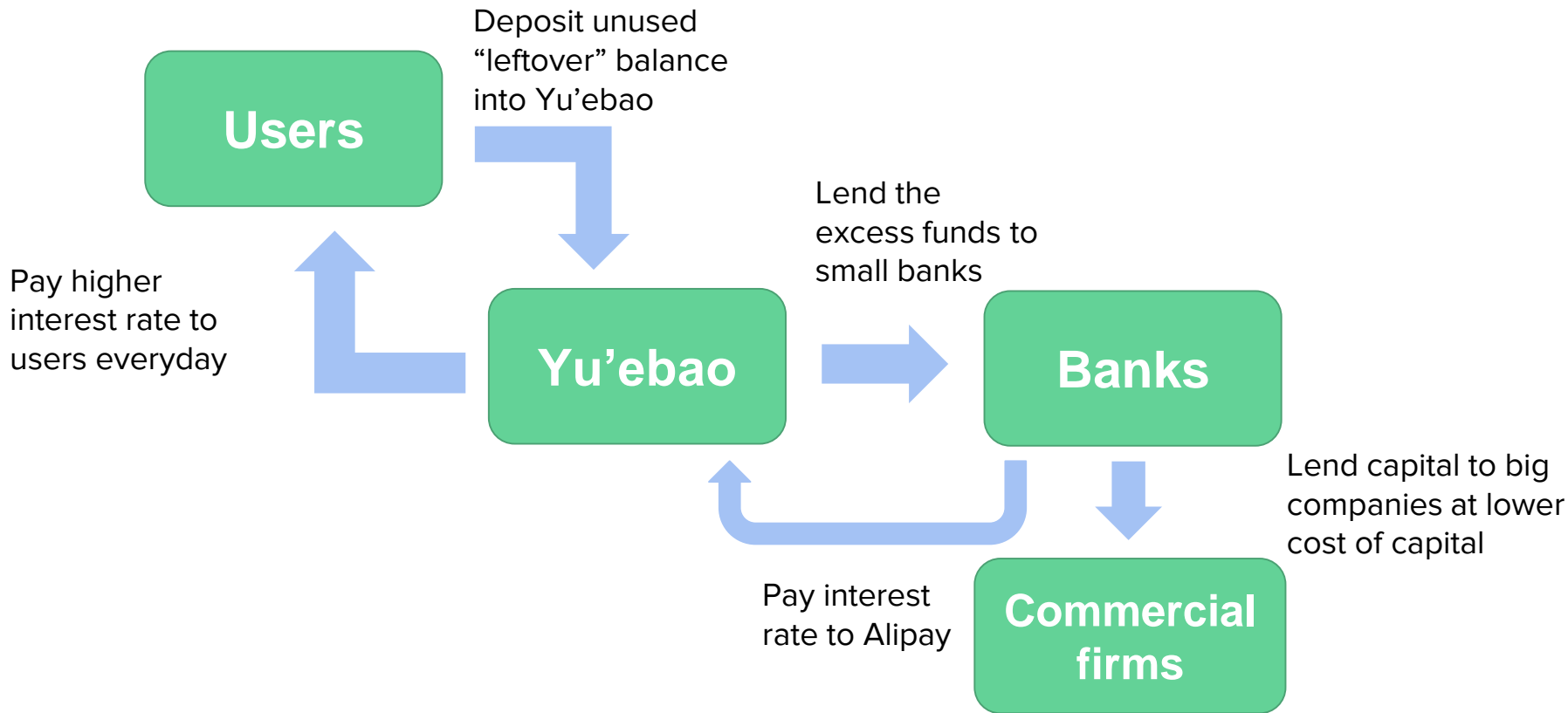
- ❖ In 2017, Alipay took the first move to launch its “Smile-to-pay” service
 - Bring transaction safety and user experience to a brand new level
 - Based on computer vision technology developed internally by Alibaba’s Ant Financial

From payment to finance - Alibaba's Yu'eobao



- ❖ In 2013, Alibaba introduces Yu'eobao (“Leftover treasure”)
 - Yu'eobao is essentially an investment management experience transposed onto an electronic commerce platform that offers slightly higher risk but also higher yield than bank deposit

Cash Flows within Yu'eobao - Money market funds



Success of Yu'eobao



- ❖ More than 81 million customers
 - 18 million more than the aggregation of retail investors on the Shanghai and Shenzhen stock exchanges
- ❖ Half a trillion yuan of deposits

The reasons for the success

❖ Financial inclusion

- Low threshold (just 1 yuan) VS higher threshold wealth management products in banks (50,000 yuan)
- Highly liquid → withdraw anytime

❖ Minimization of transaction costs

- E-commerce platform minimizes the cost of operation VS traditional bank

❖ Superior returns

- At the beginning → 6-8% annualized return, $10000 = 10002$ each day VS the big four Chinese commercial banks → 3.25% annualized return
- Now, lower and lower → 2.3% annualized return, $10000 = 10000.6$ each day VS interest rate for demand deposits in bank $10000 = 10000.1$

Democratising the wealth management industry



- ❖ Before 2013, People's Bank of China strictly controls both lending rate and deposit rate
 - Companies lend at high cost of capital, and savers invest at low return rate
- ❖ In June 2013, PBoC deregulates
 - Firm's demand for capital significantly increases
 - Many small banks have insufficient cash to meet the increasing demand
- ❖ Give rise to opportunity to utilise the excess funds in Alibaba's digital wallet

Yu'eobao's impact

- ❖ Broadens financial inclusion and maximizes the value of “leftover treasure”
 - Anyone can invest if you have more than 1 yuan
- ❖ Other imitator
 - Tencent and JD.com
 - Yu'eobao has the first-mover advantages
- ❖ Struck of traditional banks
 - Attempted some variant of Yuebao's model
 - Part of the value chain of investing in a bank's spectrum of investment vehicles

Conclusion

- ❖ As Alibaba and Tencent continue their international expansion, it is crucial to understand where they are going next
- ❖ One thing to note: these tech giants still face a crucial challenge -
Political risk
 - PBoC still tries to reach a balance between innovation & regulation
 - However, this does not change the fact that digital finance will seize the future financial landscape in not only China, but other countries around the world.

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