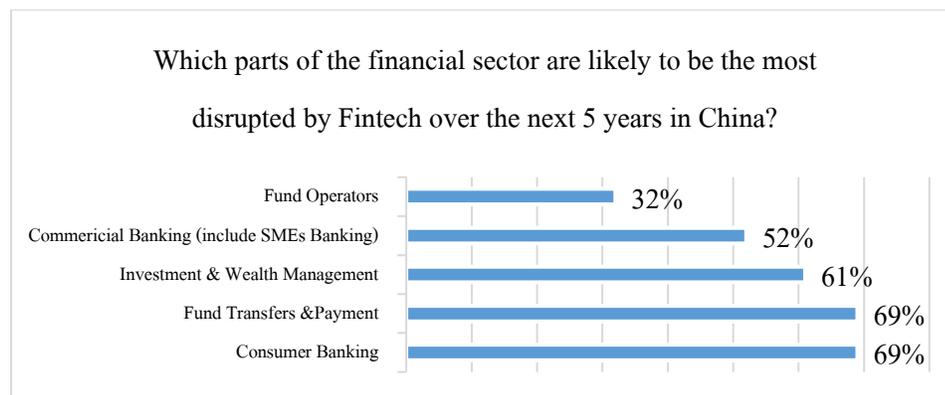


Chapter 4 Facts and Findings

4.1 Financial Sectors are Likely Disrupted by Fintech

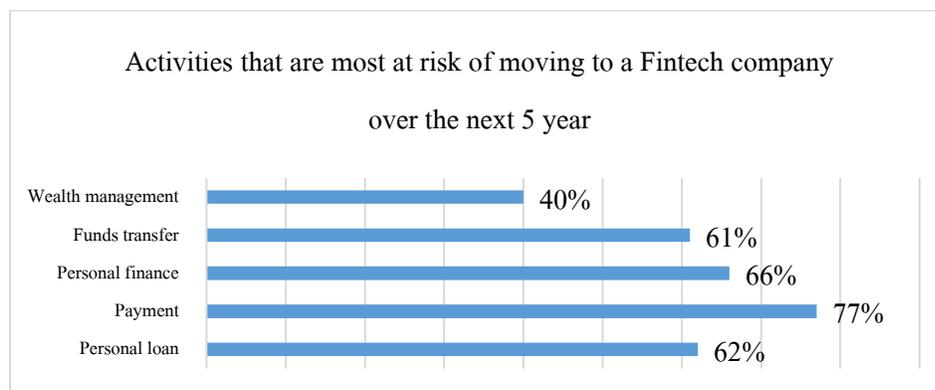
The survey results show on the Chart 17 indicate that the more than 50% respondents ranked the top 3 areas where financial industry may be disrupted by Fintech were: consumer banking, fund transfer & payment, and investment & wealth management, following by commercial banking (include SMEs banking).

Chart 17



Source: author's questionnaire survey data

Chart 18



Source: author's questionnaire survey data

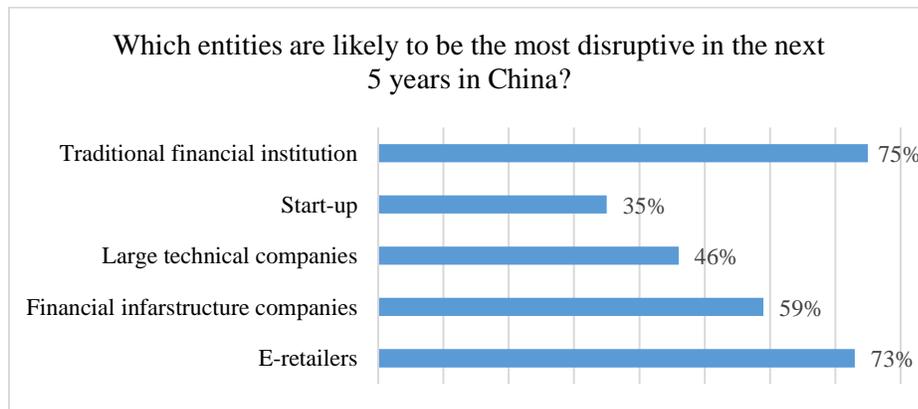
Results show on Chart 18 indicate that more 60% of respondents also believed that some existing businesses will also move to independent Fintech companies, such as payment, personal loan, personal finance and funds transfer over the next 5 years.

In the next five years, these areas will undergo great changes under the impacts brought by of Fintech. These areas may continue to be controlled by financial institutions and may also move to independent financial technology companies. For financial companies, whether it is to catch up with the development of Fintech, or whether it stop, both will affect the survival of these areas.

The main reasons for the above phenomenon is that many independent Fintech companies are not only equipped with advanced technologies, but also have considerable strength in the process of commercial expansion. For example, Alibaba and Tencent, in the process of market expansion, they not only play the role of genetic companies, but also actively expand business scope and areas by relying on their own technological capabilities.

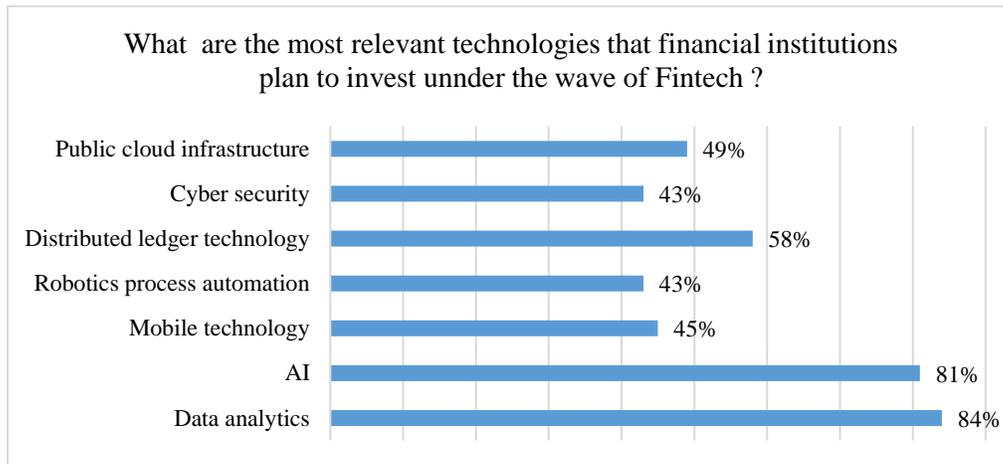
4.2 Traditional Financial Institutions are to be the Most Disruptive in Future

Chart 19



Source: author's questionnaire survey data

Chart 20



Source: author's questionnaire survey data

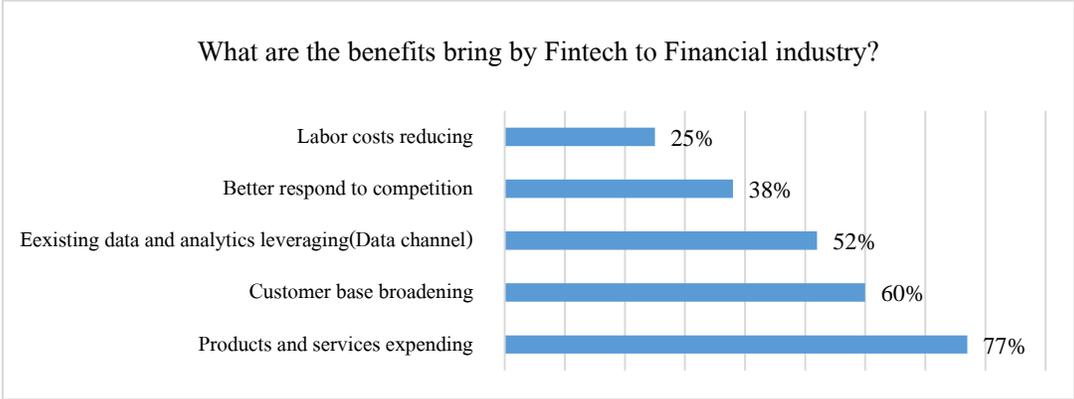
The survey results show on Chart 19 indicate that China's traditional financial institutions (financial institutions) are regarded as the most subversive force. The demand for self-transformation of Chinese financial institutions is urgent and the speed of transformation is unprecedented, which is driven by the trend of the Fintech development. The above results are due to the fact that with the transformation of Chinese financial institutions, in the future, they will focus on the application of emerging technologies such as big data analysis, artificial intelligence, blockchain, and robotic process automation show on Chart 20 in the business. The need for self-transformation of Chinese financial institutions is more urgent than that of all countries and regions, and the speed of transformation is also unprecedented due to the driven by Fintech development.

4.3 Benefits Brought by Fintech to Financial Industry

On the chart 21, the results show that Chinese respondents believed that “expanding the scope of products and services” and “broadening the customer base” are two major opportunities faced by financial institutions under the trend of financial technology, following by leveraging existing data and analytics. Regarding the benefits brought by Fintech to the financial industry, the

reasons analysis will be conducted through three dimensions: customer, product and services, and channel.

Chart 21



Source: author's questionnaire survey data

4.3.1 Customers: Severing Population Under-served

Payments, personal loans, and fund transfers are the top three main areas where Chinese consumers are adopting Fintech services in China. Annual report 2016 for China online P2P industry pointed out that P2P lending amounted to RMB 2.06 trillion in 2016, representing over 16% of total RMB new loans and almost double the level in 2015. Third-party online payment volume also grew at an astonishing pace, with market share in total non-cash payment transactions almost doubling from 1.4% in 2015 to 2.7% in 2016¹. The low cost and more effective reach of Fintech will enable service providers to expand their user base to those who have not previously received financial services coverage; from large-scale enterprises, urban residents and the wealthy to SMEs, individual businesses and rural consumers.

¹ PBOC's quarterly Payment Statistics Bulletin.

4.3.2 Product and Service: Experience First

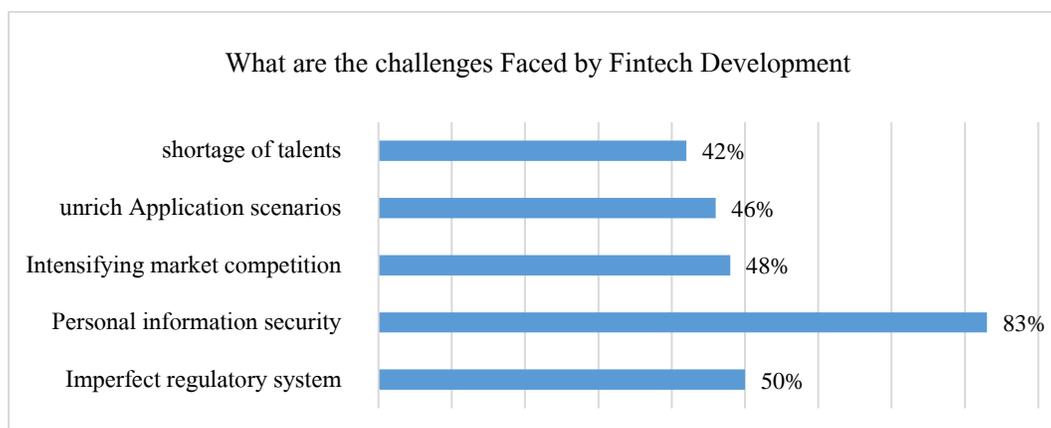
In the competitive environment of Fintech, the most important factors for retaining customers include accessibility, ease of use with intuitive product design and faster service. The expectations of Chinese consumers have evolved from product-base to the experience-driven (PwC, 2017). Financial institutions and Fintech companies are therefore shifting away from an unsophisticated, standardized approach to a tailored and contextualized offering-enabled by technology. Driven by emerging technologies, Fintech companies have enabled financial services to achieve leapfrog development. For example, innovative mobile payment and fund transfer solutions have made cash and debit cards becoming less necessary media for daily transactions.

4.3.3 Channel: Mobile is King

The very first and so far the biggest disruption that Fintech has had in China's financial services is in channel. While branch networks still dominate, they will diminish over the next five years, with e-channels, in particular, mobile App, moving to center stage (PwC, 2017). Consumers have already realized the amazing growth of mobile payments and online loans. In the future, other types of financial services will also catch up with the momentum of "mobilization". Financial institutions need to be prepared.

4.4 Challenges Faced by China's Fintech Development

Chart 22



Source: author's questionnaire survey data

4.4.1 Personal Information Security Issues

Based on the result of Chart 22, 83% respondents indicate that the biggest challenge brought by Fintech is personal information security. There are three main reasons for this problem. First, Fintech has brought the whole process of financial business into a digitized form, in particular, a large number of non-traditional financial companies have become the main players of the financial services market. The expansion of personal financial information and has increased of channels have increased the risk of information leakage objectively. The second is that Fintech application derives a large number of innovative financial service models, often owing to the lagging of supervision, which makes it easier for some illegal organizations to use regulatory loopholes to obtain or use personal financial information. Third, a large number of Fintech applications are currently focused on gaining benefits and increasing value. Technologies that can directly generate revenue are often adopted and developed on a large scale, while security protection is a cost-based investment, and it is difficult to bring significant economic benefits, resulting in a remarkable

imbalance between the current Fintech business development capabilities, security prevention and control capabilities.

4.4.2 New Challenges to Supervision

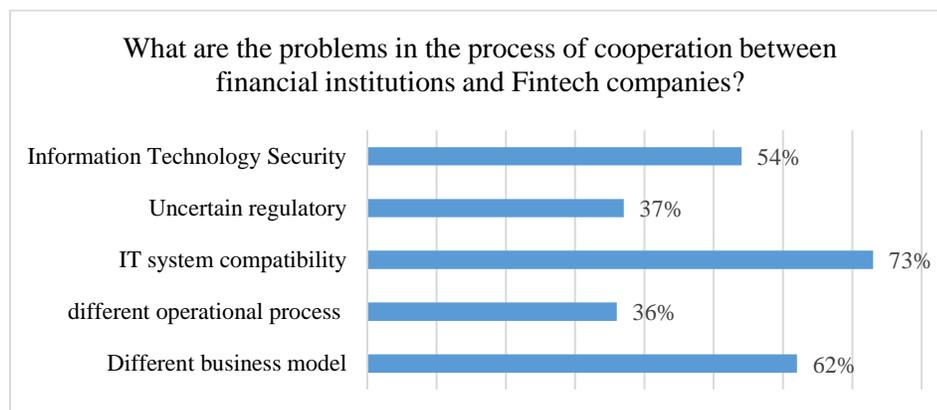
The results show on Chart 25 indicate that 50% of respondents said the second challenge faced by Fintech development was inadequate regulation. Fintech brings about a series of financial service innovation model, also brings about new challenges to the supervision of the financial industry.

Fintech possesses characteristics of cross-market and cross-industry, coupled with the increasing diversification of financial service supplied, it may difficult to use such a simple way isolated guard against risks. Second, because of the decentralized development trend of Fintech, financial risk also shows decentralization and honeycomb distribution features. The current top-down regulatory approach to existing financial institutions also faces unprecedented challenges. Third, the development of Fintech has led to a geometric growth in the scale and frequency of financial transaction, and data scale, business complexity, and diversity of risks faced by financial supervision have continued to rise. In the face of increasingly complex financial transaction behaviors, financial regulatory capabilities confronted with enormous challenges.

Regulations are doubled-edged swords, as they can either be catalyst to ensure a healthy market environment and encourage good behaviors, or barrier to constrain industry development. It is clear that Fintech regulations need to keep up with the market development. The key is to balance risk and innovation, Chinese regulators recognized the importance of well-balanced regulation.

4.5 Issues Faced by the Collaboration of Fintech Firms and Financial Institutions

Chart 23



Source: author's questionnaire survey data

The collaboration between Fintech companies and financial companies is inevitable, however, some problems still existing in the cooperation process between the two parties. The results show on Chart 23 indicate that the top three issues were: IT system compatibility (73%), different business model (62%) between two parties and information technology security (54%). Since both two parties focus on different business areas in which they are located, there will be inevitable differences in business models. In the beginning, Fintech companies were mainly engaged in the development of science and technology or other fields. In contrast, finance was committed to traditional financial services. The IT systems of the two parties are not the same, therefore, IT system compatibility issues existing in the cooperation process cannot be avoided. In addition, the two parties must involve data exchange in the process of cooperation, and the possibility of information leakage in the process of data exchange will exist.