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WEEK 50 2017



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Hammerensgade 1, 2nd Floor, DK – 1267 Copenhagen K, Denmark – Phone +45 70 26 88 55 – www.lundgreencapital.com

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CHINA'S FINTECH SECTOR IS WORLDWIDE NUMBER 1

China's fintech sector has taken the global lead, though with corrections - but the next trends in China are the most exciting.

In mid-November, one of the largest annual reports about the global fintech industry was released. By coincidence, it happened while I met with different people from the fintech sector in Beijing. This year, the report finally declared China's fintech sector as the leading in the world, which of course was noticed by the persons I met. In my optic, the leadership position must be corrected- though just five years ago China was well down the list. Despite a possible correction in the leader position, it once more shows how explosive developments in China are.

The annual report about the global fintech companies is published jointly by H2 Ventures and KPMG. It deals with 100 companies each year and a top-50 list shows companies selected based on a set criterion, which the report considers to be the 50 largest in the world. Some of the criteria would include how much capital the company has raised and how diversified the company is, both geographically and in terms of products. The remaining 50 companies in the annual report are forthcoming stars where some additional factors are used for the selection. Looking at the two graphics, one should immediately think that the United States is the world's leader in fintech, which many in Silicon Valley understandably would argue for. Graphic one is the top-5 list of countries based on the number companies on the combined list of all 100 fintech companies. The United States obviously has the most companies on the list as a whole, and some may be surprised to find Australia in second place. The total number of fintech companies for the European Union, excluding UK, is 19- like in the United States.

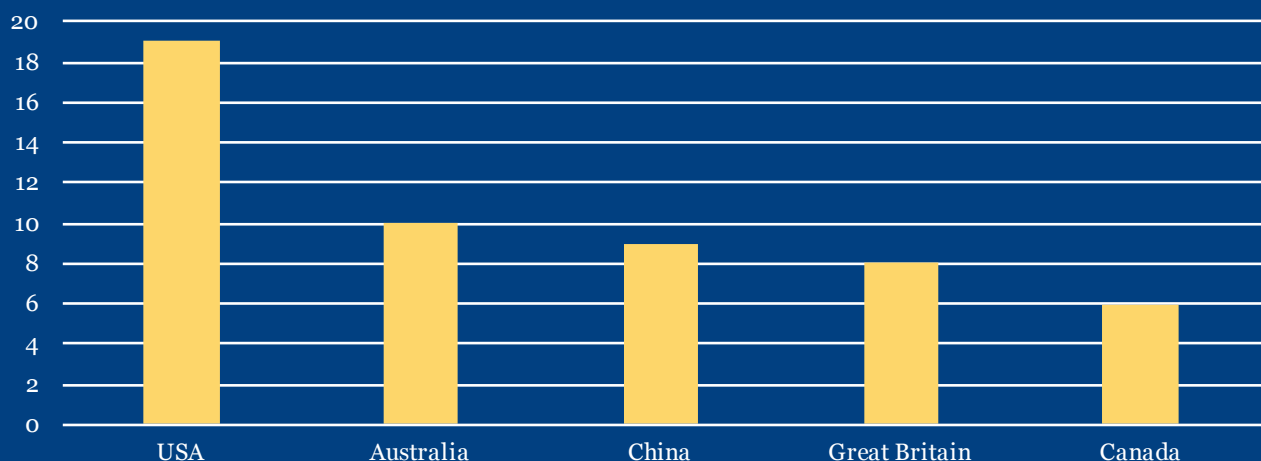
The challenge is, however, that some fintech companies are subject to some national restrictions or limitations- an example is third party payment systems. This among other things is a reason why the fintech sector in the EU is fragmented compared to China and the United States. Furthermore, China and USA each have their fintech / tech power centres, unlike Europe. Graphic two shows the investment inflows in the fintech sector during the third quarter. Since it is a quarterly statement, the numbers may fluctuate, but the United States is also here in front - so why is China becoming the world's number one?

This is due to the top end positions among the largest 50 companies in the report. The three largest companies are Chinese and out of the top ten are five companies domiciled in China. The three largest are Ant Financial, ZhongAn and Qudian. Last year Ant Financial also was ranked number one based on the core business called Alipay which delivers third party payments and is linked to Alibaba. The core business has been expanded over the years so Ant Financial now also offers asset management, credit rating and consumer financing.

Some areas of the fintech sector in China possess huge concentrations where a few companies each have big market shares. This is why I argue that China's global dominance must be somewhat relativised. Consumers in China have moved a significant proportion of their private consumption to electronic platforms. On the platforms, payments are

Graphic 1:

TOP-5 COUNTRIES FROM THE FINTECH 100 LIST



Source: H2 Ventures og KPMG

made via a third party payment module. 90 pct. of the market for third party payments is shared between Alipay (Alibaba Group) and WePay / TenPay (belonging to Tencent). This market concentration is partly the reason why Ant Financia takes the global first place. There is nothing wrong with the ranking, but I argue that special internal market conditions in China contribute to the global leadership that the report gives China. Though there is no doubt about China's move up in the global leadership and the developments in China are moving rapidly.

Globally 21 pct. of all companies in the report are active in payment services and 32 pct. deals with lending. These two business areas represent the services where the fintech storm started, hence the most mature business areas in fintech. This also applies to China, where as mentioned, the third-party payment business is split among two players. For natural reasons there is less movement among the large investors in these two companies. But within lending portals / consumer lending in China, I have the impression that early entry investors are now looking to reduce their investments. This does not mean that the outlook for the business is downbeat, but there is a new profile of investors that would create a better fit now. Typically, these investors wish to participate in a growing business model though with stable profits, however, the return is also lower. The original investors, and more risky investors, are now looking for new upcoming opportunities in the Chinese fintech world.

In my opinion robotic advisory in the financial sector based on artificial intelligence is the hottest among investors right now in China. The number of wealthy Chinese people with a need for private economic advice is growing so fast that there are simply not staff enough to serve these clients. This is a major reason why robotic advisory will be introduced over the next six months among several major Chinese banks.

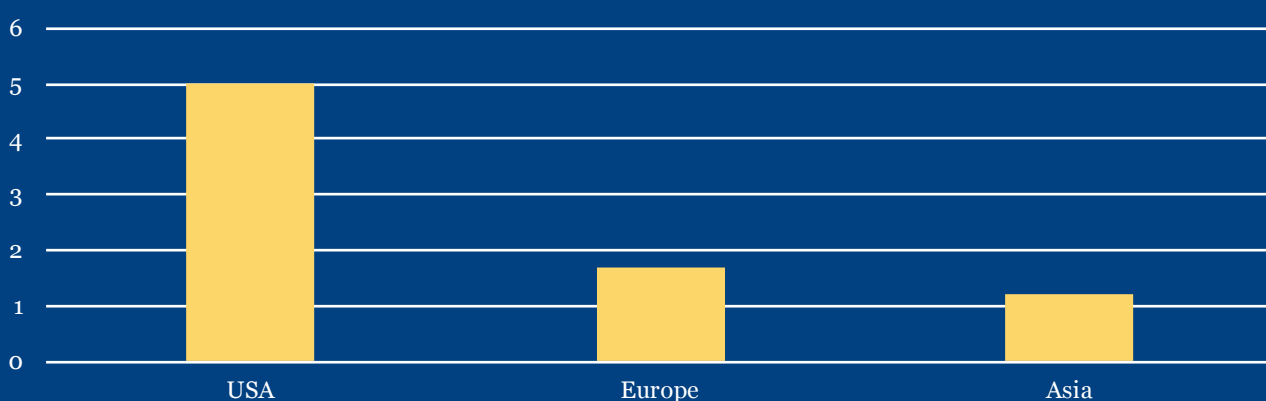
After the robotic advisory rush, my assessment is that investors in the Chinese fintech industry are moving into two new areas within the next couple of years. One area covers solutions based on the block-chain technology like converting documents that are physical today to become just an electronic blip in the future. This will result in a significant cost reduction in administrative burdens and also increase the speed in handling the documents.

Another technology, which in principle already is in place, is the chatbot- but it doesn't seem that the demand is there yet, at least not within the Chinese financial sector. When will the demand emerge is a good question, but it is my impression that the development points in this direction, and then a new growth explosion will happen in the Chinese fintech sector.

Note: In the text, the company Qudian is mentioned. According to our „Code of Conduct“ concerning our columns and publications, we are obliged to mention that Lundgreen's China Fund has recently purchased shares in Qudian. The acquisition has taken place after this column was written and has no influence on the article's conclusions. Since long, Lundgreen's China Fund holds positions in Alibaba and Tencent.

Graphic 2 :

INVESTMENT INFLOWS IN FINTECH IN 3RD QUARTER, 17 (BIO. USD)



Source: H2 Ventures og KPMG

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