DOI 10.3868/s060-010-020-0012-6

Fintech Leads the Development of Global Finance

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At present, a new round of technological and industrial revolution is rapidly reshaping the world. The accelerated transformation of old growth momentums into new ones makes fintech a heated topic across various sectors. This article will discuss the current status and future development of fintech.

Current status and development trend of fintech

Technology application is shifting from providing technological support to leading innovation

Deep integration of finance and technology is vital to innovating financial products and services, raising the quality and efficiency of financial services, and accelerating the digital and intelligent development in the financial sector. In recent years, key breakthroughs achieved in fintech applications promoted disruptive innovation and reshaped financial services. Big Data and artificial intelligence, which have been comprehensively applied to areas such as investment

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consulting, intelligent marketing, and risk prevention and control, sharply reduced the cost of serving long-tail clients and enhanced risk control and customer experience across institutions.

Recently, blockchain technology has gained widespread attention, while the research and application of digital currency in China is also increasing its pace. Now, financial institutions are making efforts to establish safe and controllable cloud service platforms that provide integrated cloud service solutions for medium-, small- and micro-sized enterprises. Overlay and combination of emerging technologies spawn new financial business modes, thus further promoting fintech development.

The various players are moving from competition and coopetition towards integration and win-win

At the early stage of fintech development, some technology companies relied on technology, platform, and traffic advantage to step into the online payment business and gradually penetrated financial fields such as online financing and asset management. Therefore, they rapidly accumulated a large customer base and shocked traditional financial institutions which responded slowly to this new revolution in financial technology despite all the reflection done by them.

Over the recent years, the financial industry moves towards foreground, integration, and win-win situations, aided by faster digital transformation across financial institutions and support provided by technology companies in innovation, technology, and data. Financial institutions are working to establish "open banks" by building a scenario ecology with partners and realizing multi-platform access and multi-scenario marketing, in an effort to expand new customer acquisition channels, look for new growth driver, and facilitate digital development in the real economy.

The regulators' attitudes are shifting from paying close attention to encouraging innovation

As fintech involves multiple industries, sectors, and regions, its rapid development would also cause risks, making regulatory technology an integral part of fintech. Overseas experience indicates that global regulators are balancing between encouraging innovation and preventing risks, with compliance as the bottom line.

Among them, the United States focuses on the protection of financial consumers under the principle of functional regulation; the European Union works to strengthen data protection while fully tapping the value of data; the United Kingdom, a pioneer in fintech regulation, is the first to propose sandbox and other regulatory measures; and Japan is the only country that clarifies the legal status of digital currencies through legislation during its active exploration of digital currency regulation.

Recently, China successively released several policy documents, such as the Outline of National Action for Facilitating Big Data Industry Development, the New Generation Artificial Intelligence Development Plan, and the FinTech Development Plan (2019–2021). The government also issued financial application specifications for areas such as cloud computing and voiceprint recognition, creating an enabling policy environment for fintech development and strengthening confidence in industry development.

Impacts of fintech on the financial industry

Amid the new technological revolution and industrial transformation, fintech boasts rapid growth in its scale of investment and financing worldwide. Among the various drivers for improving the global financial landscape, fintech has become a new variable of common concern, leading a new round of changes in the global financial industry.

Fintech promotes transformation and upgrading of financial institutions

Currently, digital transformation has become a trend that all financial institutions, especially the banking sector, embrace and promote. It brings disruptive changes in the traditional financial sector, including an extended boundary of financial services, higher efficiency, and a broader development space for financial institutions. Therefore, digital transformation becomes a key strategic choice for financial institutions.

Fintech can simplify the trading links connecting the supply and demand sides, reduce the marginal cost of financing, and explore new ways to reach clients. Financial institutions are therefore driven to innovate service models, rebuild business processes, and reform operational management, in order to continuously enhance core competitiveness and foster the financial sector's transformation and upgrading.

In personal finance, fast-developing mobile banking can provide individuals with quality financial products and online services. Currently, many financial institutions have begun to develop "enterprise version" mobile banking, which will enable more convenient online services for the corporate sector, especially for 27 million small- and medium-sized enterprises (SMEs) and start-ups.

Fintech is conducive to the development of inclusive finance

Wealth inequality exists everywhere. Large banks may not deem it their strength servicing SMEs, but the application of new technologies such as Big Data mining will assist in tackling the difficulty and expensiveness of SME financing in China. Thanks to modeling and biometric identification technology, combined with third-party data from customs, industry and commerce department, and taxation authorities, those large banks sharply raise efficiency and expand business coverage to more SMEs, turning inclusive finance into a reality.

Taking the Bank of China (BOC) as an example, the size of its inclusive finance business totaled between RMB50 billion and RMB60 billion in 2018. As of the end of September 2019, the figure exceeded RMB90 billion. Indeed, the models need further verification and exploration, but generally, fintech manages to clear the limitations on insufficient outlets and manpower, which provides an effective channel to boost inclusive finance.

Fintech is helpful in preventing and mitigating financial risk

Fintech is helpful in guarding against financial risks. In particular, with access to third-party data and through cross-validation, an early risk monitoring and alerting system could be put in place. Such system enhances the entire financial sector's capability of dynamic risk detection and risk control, where early risk identification, early warning, and early disposal play a critical role. The BOC is among the banks to accelerate its pace in promoting fintech, in an effort to turn fintech from the "greatest variable" to the "greatest contributing factor" of development of the financial sector.

Future development

In the future, more banks in China will embrace fintech through quick response and rapid iteration to grasp development opportunities in the new era, and efforts should be made in the following aspects.

First, it should adhere to digital transformation and improve development quality. Nowadays, digitization is so popular that it is no longer a mere tool or service channel, but is evolving into a new method, a new way of thinking, or even a new way of value creation. By mining data, digital transformation can help financial institutions profile customer consumption behavior and hence build models in advance, conduct product innovation to meet customer needs while ensuring that risks are controllable.

Second, financial security should be safeguarded. Fintech development brings with it a huge amount of system operations, which will in turn heighten IT risks—the larger the scale of the system, the greater the impact brought by its data storage and operating space. While utilizing such data and operation system, the risks that may arise in technology, reputation, and customer privacy protection must be monitored.

Third, integration of financial opening and fintech is highly significant. Openness is regarded as the most important characteristic of the information age. China's financial industry is constantly opening up, which is the only way to achieve win-win cooperation. President Xi Jinping's speech at the opening ceremony of the Second China International Import Expo in 2019 highlighted the significance of opening up and cooperation, and served as an essential guiding principle for financial innovation and fintech progress today. China's A shares have been included in Morgan Stanley Capital International and other mainstream international indexes, while foreign banks have set up in China more than 1,000 branches and subsidiaries, on which restrictions have gradually been lifted. The financial industry welcomes win-win cooperation and all available products and services that serves the clients. Integration of fintech with the trend of financial opening will raise productivity and provide quality services in the financial sector.

A new era requires new practice, which, in turn, calls for new theory. The development of a country or an industry needs the support of scientific research and collective wisdom of scientists. Against the backdrop of downward pressure on the global economy and the major changes facing the international landscape, both finance and technology need to play a bigger role in carrying out countercyclical adjustment and in sustaining steady growth of China's economy.

(This article is revised and translated based on the original version published in *International Finance* 国际金融, Issue 12, 2019)