China: Fintech

This country-specific Q&A provides an overview of fintech laws and regulations applicable in China.

For a full list of jurisdictional Q&As visit [here](#).
1. **What are the sources of payments law in your jurisdiction?**

The Law of the People’s Republic of China on the People’s Bank of China, adopted by the National People’s Congress in 1995 and most recently revised in 2015, provides that the People’s Bank of China (PBOC) serves as the key regulatory body of payment activities in China. The PBOC has promulgated China’s main payment regulations, including the Measures for Payment and Settlement, in 1997, and the Administration Measures on Payment Services by Non-financial Institutions, in 2010. However, payment-related matters are not subject solely to the oversight of the PBOC and its regulations. For example, *the Law of the People’s Republic of China on Anti–Money Laundering* may be implicated by payment-related matters and, although the PBOC undertakes anti-money laundering activities, the Ministry of Finance and Commerce and Public Security Bureaus may also get involved. There are even inter-agency mechanisms through which information is exchanged, major issues and situations analysed and suggestions put forth for appropriate measures.

2. **Can payment services be provided by non-banks, and if so on what conditions?**

Yes. The third-party (i.e., non-bank) payment service market in China is in many ways a fully developed market. The PBOC serves as the key regulatory body of third-party payment activities in China, and it issues third-party payment licences (Payment Licences) which permit licence holders to offer online, mobile and offline payment services. To receive a Payment Licence, the applying entity must: have paid-in registered capital of at least RMB 100 million to apply for a nationwide Payment Licence, or paid-in registered capital of at least RMB 30 million to apply for a Payment Licence in a particular province; have at least five senior management personnel who are familiar with payment business; have established anti-money laundering systems that meet the applicable requirements; have payment service systems in place that meet the applicable requirements, including a business operation system and a disaster recovery system which can perform the intended payment business safely and independently; store, process and analyse all personal and financial information collected and generated in China within its territory; if it is necessary to transfer any data abroad for conducting cross-border payments, obtain consent from relevant data subjects and request that the overseas recipients of the data comply with confidentiality obligations; have a well-established organizational structure, internal control system and risk management measures; have business premises and security measures that meet the applicable requirements; and both the company and its senior management personnel must not have been subject to penalties in the last three years for committing any illegal activity or criminal offence using payment services or for providing payment services for any illegal activity or criminal offence. The PBOC previously restricted foreign-invested entities (FIEs) from obtaining Payment Licences. However, this was changed with the issuance of the Announcement Regarding Certain Issues on Foreign Investment in Payment Institutions (Announcement) by the PBOC in March 2018. According to the Announcement, an FIE can qualify for a Payment License if it is a PRC-registered limited liability company or a joint stock limited company and if it meets the qualifications listed above (the same qualifications that apply to domestic entities). Parties dealing with foreign currency or Chinese currency cross-border payments may need to obtain one or two additional licences: one, for cross-
border payments with onshore and offshore yuan, also from the PBOC, and another, for cross-border payments in foreign currency, from the State Administration of Foreign Exchange (SAFE). DaHui has been involved in several matters relating to the issuance of Payment Licences to FIEs. For example, one of our clients participated in a previous round of fundraising by Ant Financial, the parent company of Alipay, and part of the funds raised were contributed by foreign investors. Similarly, we have also previously represented World First, a UK-based global payment service provider in its submission of one of the first FIE Payment License applications to be officially accepted by the PBOC. In addition, PayPal recently completed its acquisition of a PRC Payment License in late 2019. It is foreseeable that regulators will gradually open up China’s third-party payment service market to foreign investors.

3. **What are the most popular payment methods and payment instruments in your jurisdiction?**

While bank transfers, promissory notes, etc. remain very common payment methods in some contexts, particularly in B2B transactions, there is no doubt that Alipay and WeChat Pay are the most popular general use payment methods in China. Alipay and WeChat Pay have become part of daily life. These services are accepted by a broad range of businesses, from high-end restaurants and designer boutiques to street vendors and taxi drivers, and everything in between. Customers can simply press the ‘pay’ button on their smartphone and a Quick Response (QR) code will appear for the vendor to scan using a point-of-sale (POS) device, and vendors who do not have POS devices often print and display QR codes that the customers can scan on their smartphone and then set the amount to be transferred to such vendor’s electronic wallets. Phone-scannable QR codes also mean that anyone can become a merchant. Transfers between individuals are also convenient, simple and free of charge. Since cash is no longer widely used, Chinese people rarely carry a wallet, cash or bank card at all. Alipay and WeChat Pay have changed Chinese people’s social habits and China is moving further towards a cashless society. China has already grown to be one of the largest contributors to the global payment services market, with giant domestic service providers like WeChat Wallet and Alipay having a dominant role in the industry, far beyond China’s shores.

4. **What is the status of open banking in your jurisdiction (i.e. access to banks’ transaction data and push-payment functionality by third party service providers)? Is it mandated by law, if so to which entities, and what is state of implementation in practice?**

Open banking is generally understood by the market as a system that provides software developers and related businesses with a network of financial institutions’ data through the use of application programming interfaces (APIs), which are established on the notion that individuals or entities might be willing to share their banking transaction details with third-party developers of APIs so that the individual end-user may enjoy more advanced and cheaper financial services. Although there are no specialized mandates or API standards for open banking in China, Chinese law guides the growth of open banking by imposing specific
restrictions on the sharing of bank customer data. Thus, China has not (yet) provided for
system-wide open banking or equivalent mechanisms like the U.K. may have done. However,
some major banks in China are beginning to develop some open banking services. For
example, Shanghai Pudong Development Bank (SPDB) has developed its API Bank, through
which SPDB embeds its banking services into Shanghai Port Service Office to process trade
companies’ international payments or purchase orders online through the Shanghai Port
Service Office platform in a matter of minutes. We believe China’s approach to regulating
open banking will be pragmatic and organic, allowing industries to develop through
experimentation and stepping in to tackle problems as they appear.

5. How does the regulation of data in your jurisdiction impact on the provision of
financial services to consumers and businesses?

The main data protection legislation in China is the PRC Cybersecurity Law and PRC Law on
the Protection of Consumer Rights and Interests, which set out the data protection
requirements for network operators, though some other, general legislation concerns data
protection as well. For example, illegally collecting, using, processing or transferring
personal data is not allowed under civil legislation, and criminal legislation also establishes
offences related to the infringement of citizens’ personal data and privacy, such as the
offense of sharing legally collected personal information of citizens without their consent, the
offense of refusing to fulfill information network security responsibilities and the offence of
stealing, purchasing or illegally disclosing other people’s credit card information. Sector-
specific legislation, including in banking, insurance, credit information and other sectors, also
sets out rules for protecting data. For example, the Law of the People’s Republic of China on
Commercial Banks, revised in 2015, stipulates principles of confidentiality for commercial
banks to follow in handling individual savings deposits while the Interim Measures for the
Administration of the Basic Data of Individual Credit Information, issued in 2005, require
commercial banks and credit information service centres to establish strict internal control
and operational procedures to ensure the security of personal credit information, the scope
and method of collecting personal credit information in personal credit databases, the ways
for individuals to obtain their credit report, etc. Such legislation and other relevant
supporting regulations, including but not limited to the Measures for Administration of
Classified Protection of Information Security and Measures for the Security Review of
Network Products and Services (Trial), set out rules for providing financial services to
consumers and businesses. For example, (i) network operators must publish the rules for
collecting and using personal data, and expressly notify users of the purpose, methods and
scope of such collection and use; and (ii) the collecting and using of personal data should
abide by the principle of ‘legitimacy, rightfulness and necessity’, which means only collecting
personal data relevant and necessary for the provision of services, and only processing the
minimum type and amount of personal data necessary to fulfill the purpose that the data
subject has given consent for, and processing of personal data should be within a proper and
necessary scope. The Chinese government is treading carefully, anxious not to slow down
innovation, but to instead establish frameworks and promulgate regulations that support
economic growth while at the same time offering greater protection to consumers. China’s
cybersecurity laws and regulations have led fintech firms to strengthen their investments in
privacy protection and cybersecurity in order to promote compliance and internal control, so that consumers will be protected while they are enjoying more convenient and cheaper financial payment services brought by fintech innovation.

Additionally, the Personal Financial Information Protection Technical Specification promulgated by the PBOC came into effect in February 2020, which sets out specific requirements in relation to the collection, transmission, storage, use, and destruction of personal financial information. Similarly, the Information security technology — Personal information security specification (GB/T 35273-2020), a PRC National Standard that will enter into force in October 2020, also lays down more general standards, such as clarifications regarding the meaning of “consent” in respect of the handling of personal data. Although not a mandatory national standard, this specification will help establish relevant market standards.

6. What are regulators in your jurisdiction doing to encourage innovation in the financial sector? Are there any initiatives such as sandboxes, or special regulatory conditions for fintechs?

Chinese regulators generally encourage innovation in the financial sector. Take blockchain as an example: it was identified as one of the core aims in the PRC government’s 13th Five-Year Plan in 2016, and since then, 12 authorities (including the Ministry of Commerce) have published guiding opinions on the promotion and development of blockchain for use in commodity trading markets. In addition, with the growth of mobile payments and online banking, the PBOC has developed a new consumer credit rating system that monitors an individual’s wealth and debt, including household borrowing and utility bills, to give banks or third parties a more comprehensive picture of the individual’s financial position and their credit risk so that systemic risks can be better controlled. Furthermore, Alipay and WeChat Pay also launched their own credit-scoring system within their respective mobile apps so that individuals with high scores can enjoy special privileges, such as cash loans, consumer credit and even deposit-free bicycle renting. The 2019 annual ‘Two Sessions’ also sent strong signals of support for Chinese fintech development, as the representatives of the PBOC referred to trials of a regulatory sandbox mechanism for the fintech sector as an effective mechanism for accelerating the development of financial innovations and reducing compliance costs.

It is worth noting that in late 2019, the PBOC announced its Fintech Development Plan 2019 to 2021, which also emphasizes, amongst other things, the need to adhere to innovation-driven development and to accelerate China’s strategic deployment and secure application of fintech. This signals a firm commitment by the PRC to encourage innovation in the financial sector.

In addition, the PBOC has announced a series of pilot schemes similar to the so-called “regulatory sandboxes” in other jurisdictions. In December 2019, the PBOC announced the Beijing Fintech Innovation Regulatory Trial, which allows financial institutions holding
appropriate financial licenses to launch trial fintech programs in real-world markets under close regulatory supervision. In April 2020, it was further announced that the scheme would be expanded to six other cities including Shanghai, Shenzhen, and Chongqing. In addition, in the same month, the PBOC, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued their Opinions on Financial Support for the Construction of the Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area), which proposed a mechanism for a cross-border financial innovation regulatory sandbox in that area.

Finally, the PBOC has started trial utilization of its Central Bank Digital Currency (CBDC) in the Greater Bay Area, the Beijing-Tianjin-Hebei region, and the Yangtze River Delta region, covering some of the most economically dynamic cities in China, as of April 2020.

Overall, we expect to see even more changes in China’s regulatory framework and practices concerning open bank and other aspects of fintech going forward.

7. Do you foresee any imminent risks to the growth of the fintech market in your jurisdiction?

With the growth of the fintech market, risks are constantly emerging, such as the possibility that fintech platforms may be used for fraud, money laundering or terrorist financing. There are also issues surrounding cybersecurity, data privacy and credit risks. Fintech businesses face not only these inherent risks but also risks of tightening regulation. For example, fraud risks in the credit market have caused Chinese authorities to impose stricter regulations and establish a national credit reporting system. Recent fraud-related scandals of peer-to-peer online lending platforms (P2P Platforms) have served as a reminder of the risks of using fintech when appropriate regulation and compliance processes are not in place. Fintech is also facing cybersecurity challenges, with the rise of cyber-financial crimes in which hackers backed by criminal organizations establish offshore servers to hack into systems to steal money or to destroy the reliability and credibility of such systems. Although it has added another layer of complexity, it is important for fintech firms to take a preventive approach towards cybersecurity. For example, new generation ATMs have a much higher level of connectivity with mobile integration and face recognition, which makes them more vulnerable to software-based attacks and theft of customer card data. As such, the growing cybersecurity framework (intended to combat such issues) can be viewed as a potential curb on the growth of fintech businesses, via compliance requirements, or as an aid to their safe, stable and ultimately greater growth. For example, on 1 June 2017, the PRC Cybersecurity Law came into effect and became the first national-level law to address cybersecurity and data privacy protection issues. However, there remains considerable uncertainty as to how the PRC Cybersecurity Law will be applied and what practical steps need to be taken to achieve compliance while the regulatory environment continues to evolve rapidly.

In July 2020, the China Banking and Insurance Regulatory Commission (CBIRC) promulgated the Interim Measures for the Administration of Internet Loans of Commercial Banks, which
sets forth a number of restrictions on pure online lending by commercial banks (e.g., the maximum amount of unsecured personal loans for consumption purposes available to a single borrower is capped at RMB 200,000, and the term is also capped at 1 year if the loan is scheduled to be repaid in a lump sum).

On 2 November 2020, the People’s Bank of China and the CBIRC jointly issued the Interim Administrative Measures on Online Microloan Operations (draft for public opinion), which aims to further restrict online microloan business such as that operated by Ant Financial, and essentially regulates online microloan lending companies as quasi banks. For example, these draft Measures propose to limit the operations of online microloan lenders to the province of their locality of registration, except with prior approval from the State Council. The total aggregate online microloan balance for natural persons in China is limited to RMB 300,000 or one third of the average annual income of such persons for the past three years, whichever is lower; and the total aggregate online microloan balance for legal persons or other institutions is limited to RMB 1,000,000. Most importantly, an online microloan company is now restricted to borrowing no more than 1x its net assets via shareholder loans or other “non-standard forms of financing, and 4x its net assets via bonds, asset securitisation products and other “standardised” debt assets. It cannot sell any credit assets (i.e., debt owed by borrowers) other than its own non-performing loans.

All of these developments reflect the PRC’s prudent attitude toward the full-fledged application of fintech in the market, beyond trial stages.

8. What tax incentives exist in your jurisdiction to encourage fintech investment?

Although China does not have tax incentives specifically for fintech, China has adopted tax incentives, subsidies, incubation funds, tax refunds and other preferential government policies for high-tech companies and certain FIEs. A ‘high-tech company’ recognized by the government is entitled to a variety of preferential policies, including (i) a reduced enterprise income tax (EIT) rate of 15% (compared to the normal rate of 25%), (ii) an exemption of income tax on assignments of non-exclusive licences with a term of five years or more for the first RMB 5 million received from the licence, and a 50% reduction in the income tax to be paid on the amount received from the licence in excess of RMB 5 million; (iii) the allowance of accelerated depreciation of certain fixed assets; and (iv) government subsidies paid to the company and employees hired by the company. In addition, the government provides a temporary waiver EIT(usually at 10%, unless a preferential tax rate applies under a double tax treaty or arrangement) for non-tax-resident enterprises (i.e., foreign investors) that make direct investments in projects and fields for which foreign investments are not banned, with profits distributed by a tax-resident enterprise in the PRC (Tax Deferral), if certain conditions are met.

It is also worth noting that the Fintech Development Plan mentioned that the relevant authorities should explore ways of granting financial support for the development of fintech, including the revision of tax policies, which remains a subject of continued observation.
9. **Which areas of fintech are attracting investment in your jurisdiction, and at what level (Series A, Series B etc)?**

The rapid development of technology, including Artificial Intelligence, Blockchain, Cloud Computing and Big Data, has brought tremendous changes in the financial services model. Based on our observations, the following areas are the main fintech areas that are attracting investment in China: payments and e-wallets, supply chain and consumer finance, online insurance, and personal finance management. We see fintech entrepreneurial projects from early stage to pre-IPO stage in roughly equal numbers, as well as some fintech IPOs.

10. **If a fintech entrepreneur was looking for a jurisdiction in which to begin operations, why would it choose yours?**

In addition to the high levels of internet and mobile penetration, years of sustained economic growth and huge financial needs of the country, China’s fintech sector benefits from strong fintech ecosystems and key inputs, including a highly educated workforce, the availability of investment capital, friendly government policy and large demand. There are also numerous specific key pull factors of this jurisdiction for beginning operations. For example, China’s fintech market is supported by a large amount of fintech talent, including experts on both the finance and technology sides of the industry, and many professionals with top international educations and work experience. Further, the high availability of capital in the Chinese market, largely from domestic investors, provides investment for fintech firms of all kinds, especially early-stage companies. Moreover, the Chinese government has been very active in promoting innovative initiatives to support the growth of fintech companies, by offering tax incentives as discussed above and by launching its own venture capital funds to invest in the industry. Lastly, China’s fintech sector is based on the world’s largest consumer base.

11. **Access to talent is often cited as a key issue for fintechs - are there any immigration rules in your jurisdiction which would help or hinder that access, whether in force now or imminently? For instance, are quotas systems/immigration caps in place in your jurisdiction and how are they determined?**

While the PRC Labour Law, PRC Contract Law and other well-formulated legislation set out relatively comprehensive rules concerning the relationship between talent and employers, immigration rules make up a less developed framework. The result, however, is a general hospitality to foreign talent, with multiple types of work visas/permits, some not subject to quotas and others with quotas that are very loose. While the process may involve several, typically time-consuming steps (work permit, work visa and residence permit), there is even a fast-track process for certain categories of foreign workers (e.g., leading scientific talent and international entrepreneurs).

12. **If there are gaps in access to talent, are regulators looking to fill these and if so how? How much impact does the fintech industry have on influencing immigration policy in your jurisdiction?**
It does not appear that specific gaps have been identified, but China is still ramping up its intake of foreign talent. Further to the fast-track process for special categories of talent, on 1 August 2019, China’s National Immigration Administration (NIA) adopted 12 new and convenient immigration policies in relation to entry and exit matters for foreigners and their accompanying family members, which will further streamline the process for foreign workers, including those in fintech, to come to China. The policies also offer substantial benefits beyond the process itself, e.g.: certain high-level and skilled foreign workers (such as scientific talent who may be involved in fintech) may obtain 5-year residence permits while certain others (such as those who have made significant contributions to China) may obtain 10-year residence permits. Accompanying spouses and children (under the age of 18) of qualifying foreigners are also eligible for such residence permits.

13. **What protections can a fintech use in your jurisdiction to protect its intellectual property?**

China is creating an increasingly favourable IP environment, in not only administrative examination but also judicial protection. There are various protections from myriad intellectual property laws and regulations in the PRC, such as the PRC Patent Law, PRC Copyright Law and PRC Anti-Unfair Competition Law (which covers trade secrets, including know-how and source codes). Furthermore, applicants are able to obtain IP rights ever more quickly and at comparably low prices. China has also established specialist intellectual property courts in Shanghai, Beijing and Guangzhou where most intellectual property cases are now tried, and an intellectual property tribunal was formed as a new subdivision in the Supreme People’s Courts on 1 January 2019. Fintech may be able to obtain protection on some of their inventions and creations as well as branding. Source codes, databases and relevant data therein, for example, may be deemed trade secrets that can be protected under the PRC Anti-Unfair Competition Law. And fintech firms now have specialist courts in which to seek protection and redress, including recourse to China’s highest court. Finally, as programmatic documents specifically for IP reform, such as the Opinions on Several Issues Concerning Strengthening Reform and Innovation in Intellectual Property Trials, are issued by major government players (in the aforementioned case, by the ‘Two Offices’ at China’s highest levels of government), it may not be long until fintech IP is specifically addressed in a similar way.

14. **How are cryptocurrencies treated under the regulatory framework in your jurisdiction?**

Cryptocurrencies, such as Bitcoin and Ethercoin, are expressly prohibited as fiat currency. The PBOC pays close attention to cryptocurrencies and it remains unclear if or how cryptocurrencies will be regulated in China in the future. After the launch of the pilot trial of CDBC, the PBOC seems to have shown a strengthened determination to regulate and supervise any activities related to cryptocurrencies in the PRC market.

15. **How are initial coin offerings treated in your jurisdiction? Do you foresee any**
change in this over the next 12-24 months?

Initial Coin Offerings (ICOs) are officially banned in China. They have been deemed illegal financing activities as per a PBOC circular issued in 2017, under which all organizations and individuals are prohibited from engaging in fundraising activities involving ICOs; banks and other financial institutions are also prohibited from involvement in transactions relating in any way to ICOs.

16. Are you aware of any live blockchain projects (beyond proof of concept) in your jurisdiction and if so in what areas?

The use of blockchain technology beyond its cryptocurrency applications has been welcomed and even encouraged by regulators. On 10 January 2019, the Cyberspace Administration of China (CAC) released the Provisions on the Administration of Blockchain-based Information Services (Blockchain Provisions), which are the first official rules to regulate the blockchain industry in China and impose clear procedural guidelines for providing non-cryptocurrency, blockchain-based information services within China. Some key points are noteworthy: blockchain information services in China are defined as information services delivered to the public by way of the internet or application programs or otherwise and based on blockchain technology or systems. Central and local CAC are responsible for administration and law enforcement of blockchain information services within their respective administrative regions. The Blockchain Provisions encourage self-regulation in the blockchain industry to promote the growth and proper development of the blockchain industry. The Blockchain Provisions set out certain requirements for blockchain service providers to ensure compliance with cybersecurity law. For example, blockchain service providers must certify the real identity of blockchain service users by checking relevant organization codes, identity card numbers and mobile phone numbers and keeping the login records of users for at least 6 months. When a blockchain service provider intends to launch any new products, application programs or functions, it is now required to report to the CAC and undergo a security assessment. While the Blockchain Provisions do not require operating permits for blockchain services, they do have a filing requirement in relation to blockchain service providers. On 30 March 2019, CAC publicly released a list of 197 registered blockchain information services projects. Those registered projects cover areas including supply chain financing, open platforms, anti-counterfeiting and source tracking. Featured on the list are well-known Chinese internet giants like Baidu (whose products are Baidu Blockchain Engine, Superchain and Tuteng), Ant Financial (whose products feature Cloud Blockchain-as-a-Service), Tencent blockchain and Tencent Cloud’s Blockchain-as-a-Service blockchain services platform and JD.com (whose product is Cloud Blockchain Data Services). Ping An Insurance has also filed its online data pre-payment card service under its Yiqianbao entity. Further, Aiqiyi has filed its blockchain work information certification and WeBank has filed its Blockchain-as-a-Service platform, brand tracing project and Titanium Platform. The PRC’s new “regulatory sandbox” regime mentioned above also features a number of trial applications concerning blockchain technologies in the fintech sector.
To what extent are you aware of artificial intelligence already being used in the financial sector in your jurisdiction, and do you think regulation will impede or encourage its further use?

The artificial intelligence (AI) market in China is seeing strong growth, particularly in the following areas within the fintech sector: (i) speech recognition and natural language processing applications, such as smart customer service, deep-dive behaviour analysis and voice data mining; and (ii) machine learning, neural network applications and knowledge maps, each for applications such as wealth management, fraud detection, intelligent risk control and robo-advising. Chinese regulators are neither encouraging nor impeding AI technology, though the onerous licencing and other requirements for financial advisory services related to publicly traded funds and securities necessarily entail considerable regulations of AI. Certain ‘intelligent advisers’ in the private investment sector (e.g., asset managers exclusively providing services to qualified investors) are subject to a different set of regulatory requirements regarding the use of AI, which have been comparatively lax but have recently been subject to increased regulations that will impact China’s fintech sector throughout 2019. As the latest general guideline for the asset management industry, the Guiding Opinions for Regulating Asset Management Business of Financial Institutions, jointly promulgated by the PBOC, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange on 27 April 2018 further reiterate that any institution which wishes to use AI technology to engage in investment advisory services must obtain an investment advisor licence. Non-financial institutions are prohibited from engaging in asset management activities under the alternative name of ‘intelligent investment advisers’ if their registered business scope does not include ‘asset management’. Because China has increasingly been opening up its asset management market (including its market of securities investment fund managers) and has allowed seasoned foreign investment management firms such as JP Morgan, BlackRock and Fidelity to set up wholly foreign-owned private fund management services onshore, it is foreseeable that these foreign giants would be able to further tap into the Chinese private intelligent advisory services market by targeting qualified investors in China.

The Fintech Development Plan expressly calls for the optimization of AI, data resources, algorithm models, hashing power support, and other core artificial intelligence assets, and the deep integration of AI technology with financial business in the PRC. In addition, although not expressly prohibited by the PRC Securities Law, after a series of PRC stock market crises in 2015, quantitative algorithmized trading, or so-called “high frequency trading” using a direct connection to the stock exchanges’ systems, have been effectively banned in the PRC, given that such practices are blamed for causing (at least partially) market meltdowns. However, since late 2019, there appears to be public discussions calling to lift these bans.
18. **Insurtech is generally thought to be developing but some way behind other areas of fintech such as payments. Is there much insurtech business in your jurisdiction and if so what form does it generally take?**

The insurance industry has undergone tremendous changes as a result of the development of technological innovations in the industry. Beyond traditional insurance moving online from offline, insurtech has triggered innovations throughout the insurance industry and has forged a brand-new ecological model in the industry. Take Ant Financial’s Mutual Aid (Mutual Aid) for example. Fundamentally, Mutual Aid is a health insurance product for lower-income families, similar to conventional health insurance products. Members of Mutual Aid would receive health care coverage for free if they share medical expenses when other members become ill. The Mutual Aid plan is cheaper and more affordable than traditional health insurance: the amount each member pays is determined based in part on the ratio of members to those that fall ill. This amount is regularly adjusted to match the realities of the membership: recently, for example, it was RMB 15.7 per member per month. However, Ant Financial does cover some of the excess of expenses resulting from more members falling ill than figured in the membership fee calculation. Mutual Aid can potentially benefit lower-income families and individuals who do not have full access to medical coverage from public programs or other traditional insurance programs. However, such mutual aid business models have come under scrutiny from insurance authorities for promoting products as insurance when, according to the authorities, the products differ in significant respects, e.g., not affording the same degree of guarantee of coverage as (traditional) insurance.

19. **Are there any areas of fintech that are particularly strong in your jurisdiction?**

Mobile payments, dominated by two apps, WeChat Pay and Alipay, have become so common in China that paying with cash is practically unheard-of, even with street vendors and taxi drivers. Competition for a larger market share has propelled innovations such as Alipay’s ‘Smile to Pay’ facial recognition system through which customers can authenticate their payments by having their faces scanned. Such rapid development in mobile payments is partially due to China’s unique fintech ecosystem: a tech-savvy population, an underdeveloped banking industry and a permissive regulatory environment. Tencent’s WeBank was China’s first digital bank, established at the end of 2014, upon receiving its banking licence, and it was closely followed by Alibaba-affiliated MyBank, as well as Baidu and China CITIC Bank’s aiBank. Such digital banks provide financial services to people who do not have access to traditional financial services. For example, WeBank’s most popular service is Weilidai Consumer Loans, available through Tencent’s WeChat app, which provides unsecured personal loans in a range of RMB 500 (USD 73) to RMB 200,000 (USD 29,269). Weilidai Consumer Loans give borrowers a 24/7 digital banking experience with the flexibility to borrow and return at any time.

20. **What is the status of collaboration vs disruption in your jurisdiction as between fintechs and incumbent financial institutions?**

There has been more competition/disruption than collaboration in China between fintech
companies and incumbent financial institutions. In particular, WeChat and Alipay have taken huge market shares in the payments space, with it now being estimated that 47 percent of daily expenses go through mobile payments. However, banks themselves have been innovating to try and regain market share in the payments space. For example, UnionPay has connected nearly all mainland banks within one mobile app to expand mobile payment services; and China’s dominant bank card clearing service has launched a nationwide campaign with aggressive discounts on transaction fees on the vendors’ side to attract users of Alipay and WeChat Pay, and has also successfully pushed Alipay and WeChat Pay to charge customers for fund transfers from Alipay or WeChat Pay to bank accounts. However, there have also been some instances of collaboration. For example, fintech companies have established collaborative relationships with commercial banks, such as the one between Ant Financial and the SPDB, whose digital transformation Ant Financial supports with its technological capabilities, and another between WeBank and the Agricultural Bank of China in the field of mobile payment smart accounts, cross-border payments, credit card business, etc.

21. **To what extent are the banks and other incumbent financial institutions in your jurisdiction carrying out their own fintech development / innovation programmes?**

Banks in China have been investing more in technologies such as AI, biometric identification, big data and blockchain. Recently, China Construction Bank, one of the largest state-owned banks, released an app to connect real-estate developers, purchasers, owners and renters in the Greater Bay Area (which covers Hong Kong, Macau and 9 cities in Guangdong province). Among other features, renters can apply for loans for long-term commercial leases through the app. Another bank, the Industrial and Commercial Bank of China, also one of the largest state-owned banks, has launched facial scanning technology at ATMs, which permits customers to access their financial services simply by entering their personal codes following the facial scan.

22. **Are there any strong examples of disruption through fintech in your jurisdiction?**

There have been several strong examples of disruption by fintech companies in China. The largest disruption has been in the payment space, but there have been others as well.

One of the most recent examples is the last-minute suspension of the Shanghai–Hong Kong dual IPO of Ant Financial, previously scheduled for 5 November 2020, which is considered by the market as a first wave shock caused by the draft Interim Administrative Measures on Online Microloan Operations (draft for public opinion) released on 2 November.

As another example, there has been a sharp rise in online lending/deferred payments provided by fintech giants such as Alibaba and JD, which provide loans to shoppers on Taobao or JD (both similar to Amazon/eBay), who can choose to make instalment payments when purchasing products. This move by e-commerce companies into consumer credit pits them against China’s largest credit card issuer, UnionPay, and banks. Deposit-like vehicles are also...
challenging banks’ funding models.

In 2013, Alibaba launched an app called Yuebao that allowed users to seamlessly invest in money market funds, with no minimum amount and the option to withdraw funds at any time. These funds offered higher rates than those associated with bank accounts.

In addition, the initial absence of regulations sparked the boom of the online lending market, but also gave rise to many scams and high-risk financial models. The most headline-grabbing case was Ezubao, in 2016, which was an online peer-to-peer lending platform that promised double-digit annual returns to investors. However, the platform turned out to be a Ponzi scheme. After the Ezubao scandal, P2P Platforms braced the first wave of regulation intended to standardise the industry, which placed caps on loan sizes and forced lenders to use custodian banks to hold their deposits. To date, the market has not seen a single P2P platform completing any official registration for such platforms, which is considered de facto governmental approval for the business. The total number of P2P Platforms still in operation plunged to 15 by the end of August 2020, a 99% decline from early 2019, according to statistics revealed by the China Banking and Insurance Regulatory Commission at a recent news release.

We believe that the tighter regulatory environment will lead smaller players either to fold or to collaborate, and that several stable companies will eventually emerge and operate under heightened regulatory scrutiny.