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Q4 2024 Exploring APAC's Fintech Pathways: Part IV: Greater China

A deep dive into Greater China's fintech developments by navigating regional market nuances

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

This report series includes additional analyses of the fintech sectors in Japan, Southeast Asia, India, and Australia & New Zealand.

Key takeaways

Overview

- APAC has many strong fintech ecosystems, driven by macro trends like fast-growing economies, rising middle classes, and large underbanked populations seeking access to financial services.

- The region now has many homegrown fintech companies capitalizing on large market opportunities in banking, payments, credit, and wealthtech. Local giants, like Ant Group, Airwallex, and Grab, hold significant share in their markets and are expanding globally. However, scaling across the fragmented APAC region remains a challenge due to regulatory differences and market diversity.

- Similar to the broader fintech market, the APAC fintech market has had a normalization in deal activity following 2021's high of $16.1 billion in VC deal value. In H1 2024, APAC fintech companies secured $2.3 billion in venture capital, down 34.1% from $3.4 billion in the prior-year period. We recorded 186 VC deals in H1 2024, compared with 238 in H1 2023.

- Between 2018 and H1 2024, the majority of fintech VC in APAC was captured by China, Southeast Asia, and India. China secured the largest share with $31.2 billion, accounting for 33.2% of the total APAC fintech VC deal value. Southeast Asia closely followed with $26.7 billion and 28.4% of all APAC fintech VC deal value, while India attracted $25.1 billion, representing 26.6% of the region's deal value.

- Venture-growth fintech deals in APAC have steadily increased since 2018, growing from 3% to 11.3% of all VC deals by H1 2024. However, early-stage deal activity has declined sharply, with pre-seed/seed deals making up just 19.9% of total deals, likely due to dried liquidity.

- Geopolitical tensions, particularly US-China conflicts, are challenging fintech expansion in APAC. Capital is being reallocated from China to other regional markets due to uncertainty about Beijing's support for foreign investment. Additionally, restrictions like India's ban on Chinese apps complicate cross-border efforts for Chinese fintech companies, emphasizing the need for startups to remain politically neutral and navigate these regional sensitivities to scale effectively across diverse APAC markets.

Greater China

- The Greater China region, which includes China, Hong Kong, Taiwan, and Macao, is seen as a leading region in fintech innovation. The region's high mobile penetration, advanced digital adoption, and supportive regulatory initiatives have cultivated a dynamic fintech ecosystem, with dominant players like Ant Group, Tencent, and WeBank leading the charge.

- In H1 2024, the Greater China region recorded $0.4 billion in VC fintech deal value, accounting for 18.9% of total APAC fintech VC activity. This marks a continued decline from the 2018 peak of $21.3 billion. Recent years have shown similar softness, with $0.7 billion in VC deal value in 2023 and $0.9 billion in 2022.

- Greater China's median deal size for H1 2024 was $6.9 million, denoting a 49.6% decrease from 2023's median of $13.7 million and a 56.2% decrease from 2022's median of $15.8 million. While our dataset for deal sizes in 2024 is sparse, the median deal size remains largely in line with those of other APAC regions for the first half of 2024.

- In contrast to Western markets, digital wallets are the preferred method of transacting in China, with super apps Ant Group's Alipay and Tencent's WeChat Pay operating a duopoly. While the dominance of key players has made it difficult for new fintech companies to compete and earn domestic market share, opportunities remain in financially underserved populations and in expanding overseas.

- Cross-border growth has become a crucial strategy for Chinese fintech companies, which operate in a saturated market dominated by major players like Ant Group, Tencent, and JD Digits. Some Chinese fintech firms have been motivated to explore overseas opportunities due to ongoing domestic regulatory pressures and the potential for product diversification, driven by lack of profitability in sectors such as payments.

- Despite China's status as a global economic powerhouse with a developed financial system, a large portion of its population and SMBs remains underserved by traditional banks. China's lack of a centralized credit scoring system makes it challenging to assess a customer's creditworthiness without access to extensive datasets. This void creates a significant advantage for leaders like Tencent-backed WeBank, and Ant Group, which can leverage their vast databases of social network and payment information to serve consumers and businesses without traditional credit histories.

- China is rapidly emerging as a leader in the GenAI space, supported by strong government initiatives and significant investments by tech giants like Alibaba, Tencent, and Baidu. AI adoption rates in China have been high, with over 80% of Chinese businesses using GenAI in their operations, compared with 65% in the US. Fintech companies have been utilizing GenAI for improving operational excellence, personalizing product offerings, and enhancing user experiences. However, China's R&D in the space may be hindered by factors such as capital constraints, dependence on chip imports in a limited semiconductor environment, and strict regulations.

APAC overview

Methodology

This report examines the fintech landscape across the Asia-Pacific (APAC) region, which we categorize into five key areas: Greater China, Japan, Southeast Asia, India, and Australia & New Zealand. In this five-part report series, we explore the VC deal environment, key opportunities, market dynamics, and associated risks and challenges for each region. To ensure our analysis is comprehensive, impartial, and accurate, we interviewed more than 20 fintech founders and VC investors in the region, asking for their thoughts on key opportunities and challenges across different markets of the region.

While we cover significant topics within each region, this report series does not delve into every fintech opportunity for each country. Our definition of fintech includes the following sectors: alternative lending, capital markets, payments, credit & banking, CFO stack, commercial finance, regulatory technology (regtech), and wealthtech. Sectors outside of our fintech definition include crypto, digital assets, insurance technology (insurtech), and property technology (proptech). The numbers discussed in this report exclude these latter fintech segments.

APAC is ripe for fintech disruption

APAC is a dynamic region, where the continued evolution of many emerging markets is propelled by a host of macroeconomic tailwinds, such as fast-growing economies, rising middle classes, large underbanked and unbanked populations, and large talent pools and labor supplies. The fintech sector is particularly well positioned for fast growth. In key markets, several subsectors, such as banking, payments, lending, and capital markets, are poised for innovation and disruption. These opportunities are driven by large unbanked and underbanked populations seeking financial access, substantial need for debt financing and credit, and growing middle classes searching for better and more customized ways to preserve and invest their wealth. In the past decade, APAC fintech markets experienced fast growth, driven by rapid mobile and internet adoption, regulators pushing for financial inclusion, and central banks promoting new real-time payment schemes.

Unlike the US, where the financial service industry is highly fragmented with more than 10,000 banks and credit unions competing for deposits and customer loyalty, most markets in APAC have a financial services sector where just several large incumbents hold a dominating position. Many of these incumbents are also embracing fintech innovation to maintain their market share. Nonetheless, fintech startups have found ways to bring about innovation and disruption, either by offering products and services that complement those of established players or by targeting areas that have traditionally been deprioritized by incumbents. From an infrastructure perspective, startups have tackled legacy issues by providing more efficient tech solutions that can be directly integrated into an institution's infrastructure.

Fintech companies are finding significant opportunities in areas where the market has yet to see meaningful breakthroughs and in sectors where large corporations have historically struggled to innovate. Take Korea as an example. Duckhee Han, founder and CEO of Quantit, an AI platform offering data and analytics services for investment, along with tools and investment models for automated asset management, shared with us that in Korea's fintech landscape, "Money transfers, payments, and banking services are among areas of strength. However, the market lags when it comes to investment-related services, such as stock trading and wealth management. While Korean fintech companies excel in creating high-quality user experiences and cutting-edge technology, the investment sector, which requires long-term market development, has yet to mature fully."[1]

Fintech startups tap in to those opportunities and leverage their strengths of being nimble, innovative, and fast-moving to innovate and gain market share, sometimes by collaborating with large incumbents. In Quantit's case, Han told us that the startup has many chances to explore partnerships because incumbent financial institutions, including banks, securities brokers, and asset managers, have historically struggled to gather and process large datasets and develop analytical investment models based on those data. Managing such a process in-house requires deep engineering expertise and financial knowledge. Meanwhile, the legacy culture at large financial institutions has made it difficult to attract talent. Han added that improvements in relevant regulatory frameworks are also essential to foster innovation and facilitate smoother adoption of advanced fintech solutions in Korea.[2]

Tailwinds and challenges for creating large fintech winners

APAC used to be a generation behind the US in terms of fintech innovation. Exemplifying the "Time Machine Model" coined by SoftBank founder Masayoshi Son, innovations from developed markets arrived later in Asia than in the US. Consequently, many Asian fintech companies adopted business models similar to their US and European counterparts. For example, in infrastructure, as card networks such as Visa, Mastercard, and American Express emerged and cemented their market positions in the US, Asia lacked a regional competitor through the late 1960s. Over time, models from developed markets such as digital wallets (PayPal), CFO stack (Concur), and buy now, pay later (Klarna) were introduced to Asia.

However, APAC has rapidly caught up, with homegrown fintech companies now leading the region's innovation push. Over the past decade, the region has stepped on the gas pedal toward innovative technologies in payments and digital currencies. Super apps such as WeChat in China and GrabPay in Southeast Asia became leading

1: Duckhee Han, founder and CEO of Quantit, phone interview by Rudy Yang and Kaidi Gao, August 22, 2024.
2: Ibid.

regional players with dominant market share. There has also been cross-border success. Airwallex went global from Australia, and Jakarta-born Xendit expanded to the Philippines. Going forward, we expect to see more APAC-headquartered companies become global players, where overseas expansion is a common strategy.

However, we expect the number of APAC-born global fintech players will likely grow incrementally versus exponentially. We are cautiously optimistic because market fragmentation—a pronounced characteristic of the region—presents a major hurdle for producing outsized fintech outcomes. We interviewed an experienced industry professional specializing in partnerships with fintech startups who referred to Asia as "markets of a market," where "any market that you try to go after looks sizable in terms of numbers, but when you start adding up the volume, it does not add up."[3] Challenges in creating a regional fintech champion arise from regulatory differences, diverse consumer needs, and varying levels of digitalization across ecosystems. Each market within APAC is at a different stage of its digital transformation journey, making it difficult for any single player to dominate the entire region.

Not only does each country or region have its own language, culture, and customs, but various economies also tend to have vastly different needs when it comes to financial services in spaces such as banking, credit, payments, capital markets, and wealth management. These inherent variations add to challenges for cross-border expansion. Gakim Solomons, member of the investment team at SC Ventures, Standard Chartered's innovation, fintech investment, and ventures arm, told us: "Quite often what happens is venture investors look at Asia in the same way, where they try to overlay trends in Europe and the US. Businesses in Asia typically take a bit longer to build, by virtue of the fragmented geographic markets, local dynamics, depth of capital markets, local players in the VC space, and regulation. As a result, gestation periods are longer, and fund DPIs may be a bit lower."[4] On top of market nuances, fintech companies in APAC also need to navigate differences in financial regulatory landscapes, which add to challenges for cross-border expansion. For example, stringent regulatory requirements that vary based on jurisdiction and additional costs associated with acquiring certain licenses slow or even hinder the prospect for a fintech business to gain a foothold in a new market.

Another key factor of cross-border expansion lies in geopolitics. As discussed in the 2024 Greater China Private Capital Breakdown, elevated US-China tensions and uncertainties around whether the Beijing government is committed to supporting foreign investors have led to a reallocation of capital away from China to the rest of APAC. According to Solomons, "Geopolitical sensitivities are particularly pronounced in this region. As an example, a shift in focus between India and China recently, by virtue of global tensions."[5]

Putting external forces aside, within the region, heightened geopolitical tensions mean startups need to navigate market nuances such as data and security concerns, or sanctions. For example, India has banned TikTok and several other Chinese apps in the name of national security, making it difficult for China-born entities to

3: Phone interview by Rudy Yang and Kaidi Gao, October 2, 2024.
4: Gakim Solomons, member of the investment team at SC Ventures, phone interview by Rudy Yang and Kaidi Gao, August 26, 2024.
5: Ibid.

expand into the market in India. Those dynamics emphasize the importance of being politically neutral for startups to scale operations across borders.

In addition, the speed and scale of fintech innovation is unevenly distributed across the region. While most major regional markets have an innovation agenda, at least from a government perspective, the degree of advancement and pace of progress toward digitalization varies significantly between countries and institutions. A bifurcation in the ability to execute and deliver will significantly impact fintech outcomes in the long run. We believe many incumbent financial institutions recognize this and have been making efforts to innovate and partner with fintech companies as a result. For example, the "Big Four" banks in Australia have partnered with fintech companies, such as Banked, Paypa Plane, and Smartgroup, to enhance product offerings in areas like payments, lending, and wealth management.

Like APAC-headquartered fintech companies with go-global ambition, leading global businesses have also made inroads to the region. Take JPMorgan Chase as an example. The large incumbent set up three regional offices focused on wealth management services in Hong Kong, Singapore, and Australia. To further capture market share in APAC, JPMorgan Chase has also made strategic minority investments to regional fintech startups such as Global PayEX, a Mumbai-born electronic invoice platform, and helped regional companies such as Nium, a Singapore-headquartered payments startup, expand outside of Asia and partner with local players to provide services outside of their home market. While the trend of large global incumbents setting their footprint into APAC adds to the regional competitive mix, it may also create win-win situations wherein incumbents expand to APAC to unlock revenue growth and APAC's regional businesses leverage a large platform to go global.

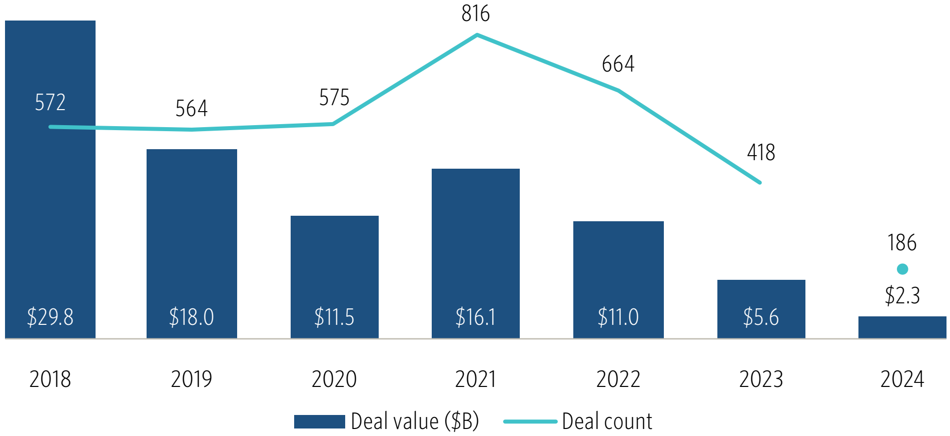
Apart from the largest global players, fintech companies from outside the region with a borderless business model have also turned their eyes toward Asia. Ron Savino, founder and managing partner of AFG Partners, a fintech VC fund investing in B2B fintech companies and enabling tech companies born in Asia or looking to expand there, shared the observation that there has been more interest from the UK and Europe in expanding to the region, possibly due to the time zone dynamics making communications easier than with the US. Savino pointed out that there is still resistance and bias for global businesses to come to Asia because of the general desire is to prioritize US revenues. "We are seeing more companies initially target places like Singapore, Hong Kong, or Australia, where the ecosystems are very mature, more familiar, and have less competition than in the US," said Savino. "From there, companies can then have an entryway to other Asian markets over time."[6]

6: Ron Savino, founder and managing partner at AFG Partners, phone interview by Rudy Yang and Kaidi Gao, September 26, 2024.

APAC deal activity overview

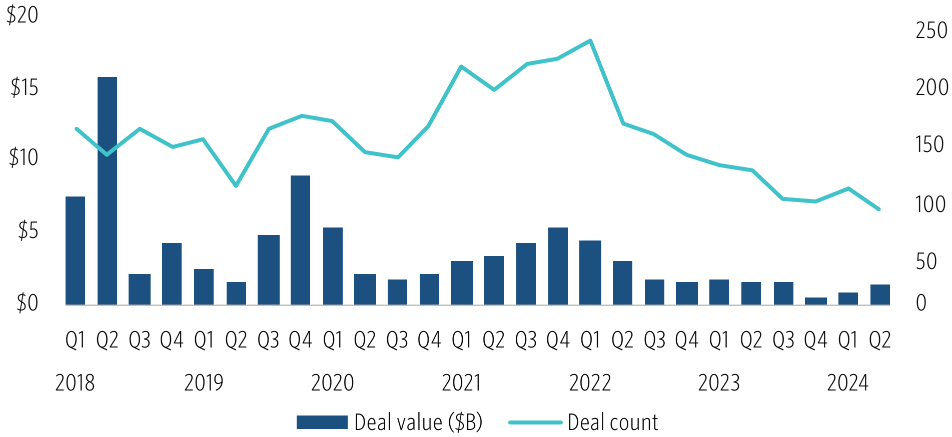
VC deal value and count: Since early 2022, the global venture market has experienced a pronounced slowdown. Fintech activity in APAC was not immune to global macroeconomic headwinds. From 2022 to 2023, deal value dropped by 48.8%, while deal count slipped by 37%, reflecting a decline in outsized deals. The sluggish pace of fintech dealmaking carried through the first half of 2024, when $2.3 billion was invested across 185 VC deals, representing declines of 34.1% and 21.8%, respectively, compared with the prior-year period. Should the current pace of dealmaking continue, annualized deal value and count for 2024 is on track to land at the lowest level in our dataset, which spans from 2018 to 2024.

Fintech VC deal activity



Source: PitchBook • Geography: APAC • As of June 30, 2024

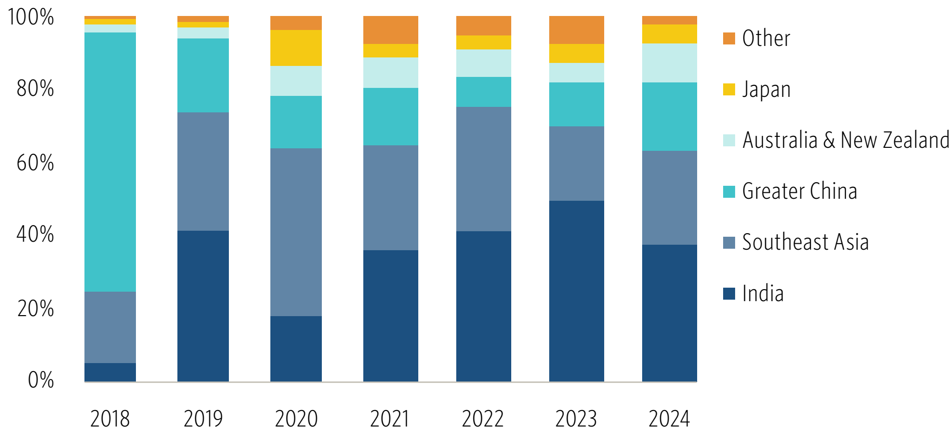
Fintech VC deal activity by quarter



Source: PitchBook • Geography: APAC • As of June 30, 2024

VC deals by region: From 2021 onward, India has captured the greatest share of fintech VC in APAC by both deal count and value. Between 2018 and H1 2024, India's $25.1 billion of VC deal value constituted north of 26.6% of APAC's fintech VC deal value, attesting to strong growth momentum and investor traction. However, during this same period, China and Southeast Asia separately captured a higher percentage of APAC VC deal value, due primarily to the high level of VC deployed in their regions in 2018. From 2018 to H1 2024, China captured 33.2% of total APAC fintech VC deal value, with $31.2 billion, while Southeast Asia made up 28.4%, with $26.7 billion.

Share of fintech VC deal value by region



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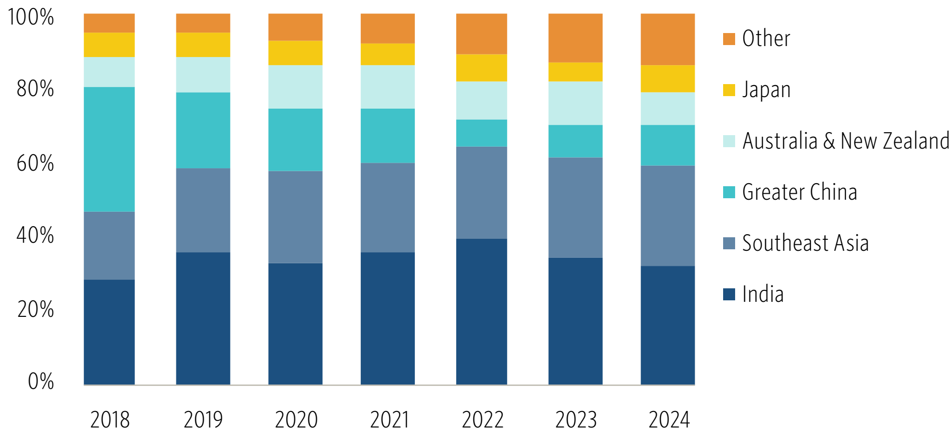
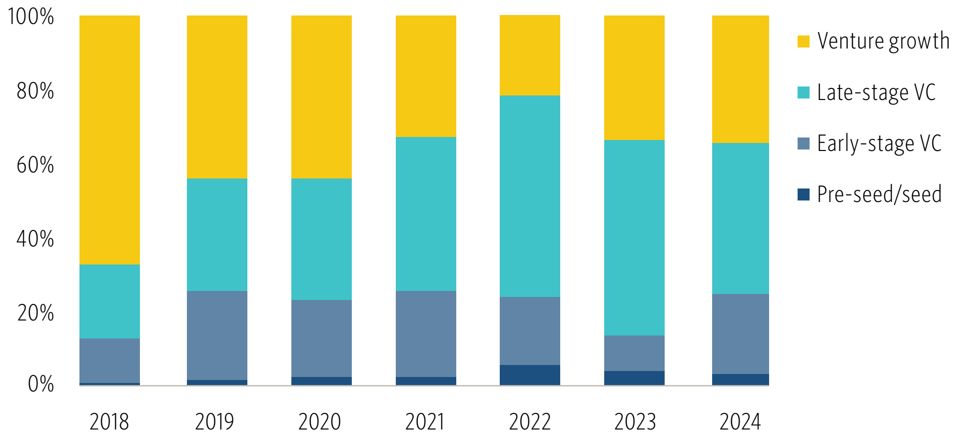
Share of fintech VC deal count by region



Source: PitchBook • Geography: APAC • As of June 30, 2024

VC deals by stage: The number of venture-growth deals as a proportion of all fintech VC deals in the region has consistently expanded YoY since 2018, ascending from 3% to 11.3% in H1 2024. The trend reflects both a gradual maturation of the regional fintech ecosystem and investor bullishness, as mature startups typically need large swaths of capital infusion. On a slightly more pessimistic note, however, pre-seed/seed deal count as a percentage of total fintech deals declined sharply between 2023 and H1 2024, landing at 19.9%, the lowest in our dataset. Possible contributing factors to the drop include dried liquidity, which has weighed on founder sentiment on launching new businesses.

Share of fintech VC deal value by stage



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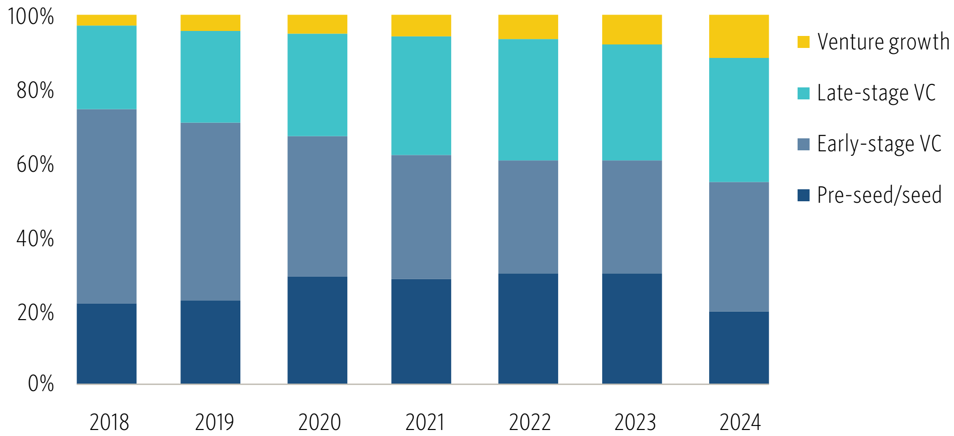
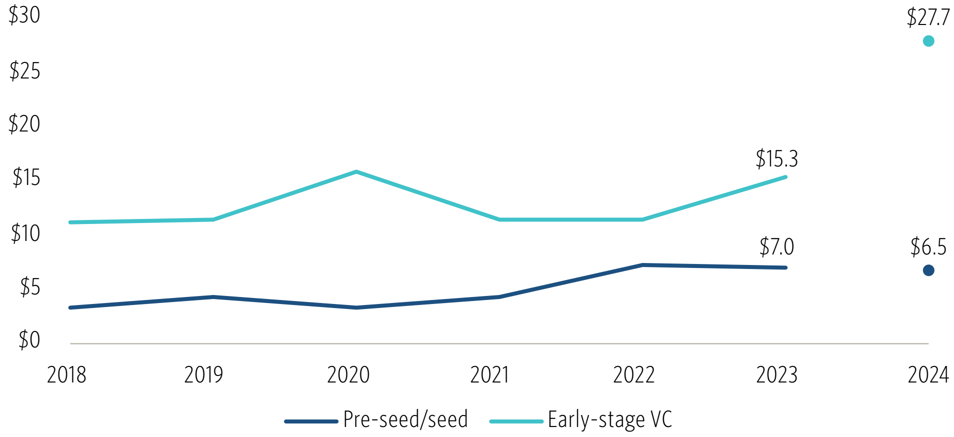
Share of fintech VC deal count by stage



Source: PitchBook • Geography: APAC • As of June 30, 2024

Median pre-money valuations: While pre-seed/seed deal counts have been in decline, the median pre-money valuation for deals at these stages remains elevated. In H1 2024, the median pre-money valuation for pre-seed/seed deals was $6.5 million, down 6.9% from 2023's median of $7 million but up 51.8% from 2021's median of $4.3 million. Median pre-money valuations have also trended upward across all other stages compared with 2023 medians, with the early stage increasing 81.5% to $27.7 million, the late stage increasing 41.8% to $60.6 million, and venture growth increasing 33% to $505 million. However, these increases may be inflated due to the lack of down-round disclosures.

Median fintech pre-seed/seed and early-stage VC pre-money valuations ($M)



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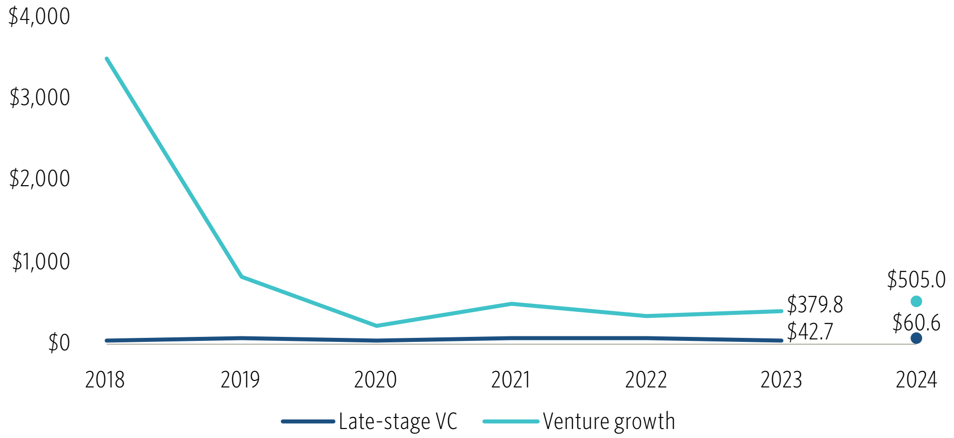
Median fintech late-stage VC and venture-growth pre-money valuations ($M)



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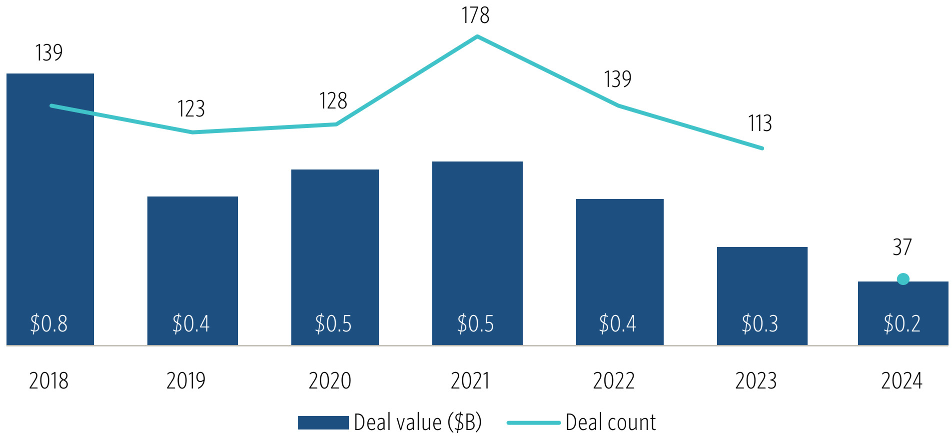
First financing: During the first half of 2024, $0.2 billion was deployed across 37 deals that were the first raises by fintech startups in APAC. Should this pace of dealmaking continue, annualized 2024 deal value is projected to exceed 2023 levels, whereas annualized deal count is on track to settle at the lowest level in our dataset. These seemingly conflicting trends can be explained by a natural lag in deal data collection, wherein larger deals that constitute a meaningful share of total deal value tend to be announced faster than smaller ones.

Fintech first-time financing VC deal activity



Source: PitchBook • Geography: APAC • As of June 30, 2024

Top 10 fintech VC deals by deal value (2018-2024)

Company	Close date	Segment	Deal value ($M)	Post-money valuation ($M)
Ant Group	June 7, 2018	Consumer payments	$14,000.0	$150,000.0
Grab	October 9, 2019	Consumer payments	$4,800.0	$14,934.7
Gojek	March 17, 2020	Consumer payments	$3,000.0	$11,580.0
Grab	March 15, 2018	Consumer payments	$2,500.0	$6,000.0
JD Digits	December 12, 2018	Financial services infrastructure	$1,877.2	$19,204.8
Paytm	November 24, 2019	Consumer payments	$1,660.0	$16,000.0
Orange Retail Finance	August 14, 2019	Alternative lending	$1,545.5	$2,173.3
Gojek	February 26, 2018	Consumer payments	$1,500.0	$5,000.0
Suning Finance	September 25, 2019	Credit & banking	$1,404.3	$7,863.9
Tokopedia	November 21, 2018	Consumer payments	$1,100.0	$7,000.0

Source: PitchBook • Geography: APAC • As of June 30, 2024

Top 10 fintech VC exits by exit value (2018-2024)

Company	Close date	Segment	Exit value ($M)	Post-money valuation ($M)
Grab	December 1, 2021	Consumer payments	$32,871.0	$37,411.0
Tokopedia	May 17, 2021	Consumer payments	$18,000.0	$18,000.0
Paytm	November 18, 2021	Consumer payments	$17,565.9	$18,678.2
PolicyBazaar	November 15, 2021	Wealthtech	$5,395.7	$5,897.8
Linklogis	April 9, 2021	Alternative lending	$4,260.2	$5,325.7
Oneconnect	December 13, 2019	Financial services infrastructure	$3,345.7	$3,657.7
Paidy	October 1, 2021	Credit & banking	$2,700.0	$2,700.0
360 DigiTech	December 14, 2018	Financial services infrastructure	$2,322.0	$2,373.1
Lakala Payment	April 25, 2019	Payments	$1,783.9	$1,982.1
9F Group	August 15, 2019	Credit & banking	$1,777.5	$1,841.6

Source: PitchBook • Geography: APAC • As of June 30, 2024

Greater China

Region overview

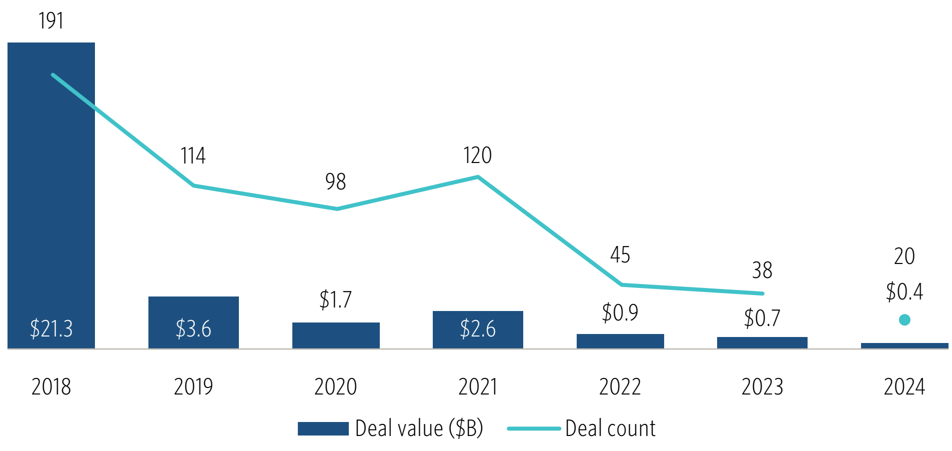
The Greater China region, which includes the People's Republic of China and Hong Kong, is recognized as a global leader in fintech innovation. Significant mobile penetration, digital adoption, and regulatory initiatives have fostered a robust fintech ecosystem dominated by key players like Ant Group, Tencent, and WeBank. Unlike Western markets, digital wallets and super apps are the preferred methods of transacting in the Greater China region, with Ant Group's Alipay and Tencent's WeChat Pay operating a duopoly. While the dominance of key players in the region has made it difficult for new fintech companies to compete and earn market share, opportunities remain in financially underserved populations and in expanding overseas.

In addition, China is a recognized leader in the generative AI (GenAI) race, with major players developing advanced large language models (LLMs). Still, these opportunities may be overshadowed by the strict regulatory scrutiny China employs over its fintech sector. Regulations aimed at protecting consumers and ensuring a sustainable ecosystem have created operational difficulties for many fintech companies. This was exemplified in 2020 when Ant Group's record-setting IPO was postponed due to regulatory clashes. Nonetheless, China still sees a growing fintech landscape that may garner newfound interest from investors due to its continued innovations in fintech and AI.

Region deal activity

VC deal value and count: In H1 2024, the Greater China region saw $0.4 billion in VC fintech deal value, accounting for 18.9% of total APAC fintech VC activity. This marks a continued decline from the 2018 peak of $21.3 billion. Recent years have shown similar softness, with $0.7 billion in VC deal value in 2023 and $0.9 billion in 2022. In the first half of 2024, 20 VC deals were recorded, 13 of which disclosed deal sizes, putting the region on track to match 2023's deal count of 38 and 2022's 45.

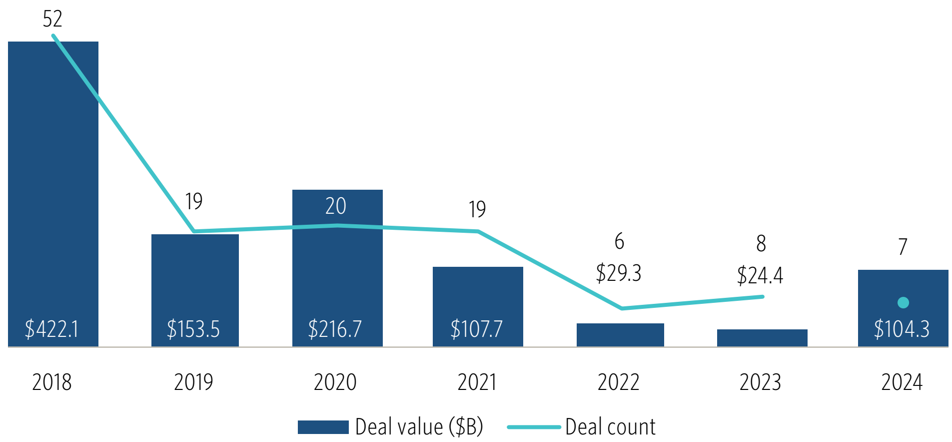
Fintech VC deal activity



Source: PitchBook • Geography: Greater China • As of June 30, 2024

First financing: In H1 2024, Greater China recorded $104.3 million in first-time financings across seven deals, surpassing the totals for both 2023 ($24.4 million) and 2022 ($29.3 million). The region is also on track to exceed 2021's level of $107.7 million. This growth in first-time financings signals renewed interest in China's fintech sector, following the significant drop-off after 2020, which was driven by unfavorable macroeconomic conditions and concerns over regulatory crackdowns.

Fintech first-time financing VC deal activity



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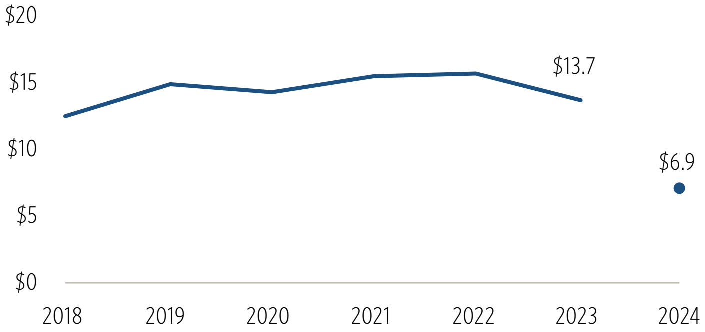
Deal medians: Greater China's median deal size for H1 2024 was $6.9 million, denoting a 49.6% decrease from 2023's median of $13.7 million and a 56.2% decrease from 2022's median of $15.8 million. While our dataset for deal sizes in 2024 is sparse with only 13 recorded deals, the median deal size remains relatively in line with those of other APAC regions for the first half of 2024.

The region's median pre-money valuation is currently $492.8 million, an 81.6% increase from 2023's median of $271.4 million but a 39.5% decrease from 2022's $814.3 million. However, the number of disclosed pre-money valuations used in our dataset for the Greater China region has been limited. Just two deals with disclosed pre-money valuations were used in 2022 and only six in 2023. In 2024, we saw just two disclosed deals—MioTech's $150 million Series C, which valued the company at a pre-money valuation of $850 million, and Guosheng Inclusive Finance's $90.5 million early-stage deal, which valued the company at a pre-money valuation of $135.7 million.

Median fintech VC deal value ($M)



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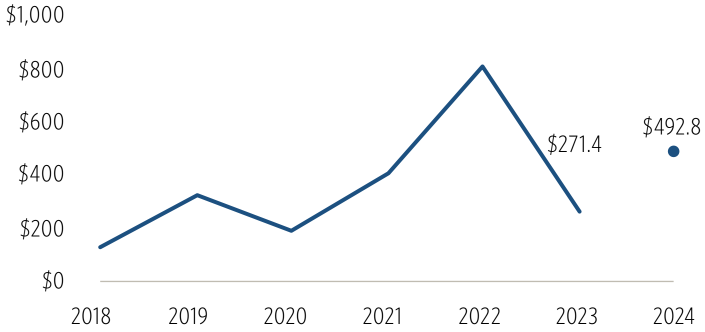
Median fintech VC pre-money valuation ($M)



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Suning Finance	September 25, 2019	Credit & banking	$1,404.3	$7,863.9
Oneconnect	January 16, 2018	Financial services infrastructure	$650.0	$8,000.0
Micro Connect	August 2, 2023	Capital markets	$458.0	$1,700.0
LianLian Digitech	March 19, 2018	Payments	$375.1	$631.3
CaoGenTouZi	June 4, 2018	Wealthtech	$360.5	N/A
AI Bank	March 28, 2018	Credit & banking	$316.1	N/A
Ouyeel	June 27, 2019	Capital markets	$292.7	$1,452.2
Dianrong	January 23, 2018	Alternative lending	$290.0	N/A

Source: PitchBook • Geography: Greater China • As of June 30, 2024

Top 10 fintech VC exits by exit value (2018-2024)

Company	Close date	Segment	Exit value ($M)	Post-money valuation ($M)
Linklogis	April 9, 2021	Alternative lending	$4,260.2	$5,325.7
Oneconnect	December 13, 2019	Financial services infrastructure	$3,345.7	$3,657.7
360 DigiTech	December 14, 2018	Financial services infrastructure	$2,322.0	$2,373.1
Lakala Payment	April 25, 2019	Payments	$1,783.9	$1,982.1
9F Group	August 15, 2019	Credit & banking	$1,777.5	$1,841.6
Bairong	March 31, 2021	Regtech	$1,521.4	$2,028.5
X Financial	September 19, 2018	Alternative lending	$1,330.4	$1,434.9
LianLian Digitech	March 28, 2024	Payments	$1,325.6	$1,409.6
Futu Securities	March 8, 2019	Wealthtech	$1,242.5	$1,332.5
51credit	July 13, 2018	Wealthtech	$1,157.1	$1,285.6

Source: PitchBook • Geography: Greater China • As of June 30, 2024

Market nuances and opportunities

Renewed strategies through overseas expansion efforts

China's fintech sector is experiencing notable overseas expansion, offering domestic players new avenues for scaling and unlocking innovative business models. Cross-border growth has become a crucial strategy for Chinese fintech companies, which operate in a saturated market dominated by major players like Ant Group, Tencent, and JD Digits. These expansion efforts align with broader trends among Chinese firms seeking to access a larger total addressable market and strengthen their global economic influence, driven by the need to offset diminishing cost advantages and slowing economic growth in the domestic market.

Some Chinese fintech firms have been motivated to explore overseas opportunities due to ongoing domestic regulatory pressures and the potential for product diversification. A prominent example is Ant Group, which operates Alipay, one of the world's largest digital payment platforms. Ant Group has faced significant regulatory fines and challenges in China, most notably its failed IPO in 2020, which was halted due to heightened regulatory scrutiny. Leading up to its blocked IPO, the company also saw a diversification away from a payments-heavy business model, where digital payments made up 35.9% of revenues in H1 2020, compared with 43.7% in the prior-year period.[7]

One reason for Ant Group's reduced focus on payments is due to China's regulatory changes. After 2006, payments became a lucrative business as companies could invest the float from transactions into short-term, high-yield instruments, fueled by ample currency supply. However, regulators later deemed this practice a systemic risk and prohibited it, thereby significantly reducing the viability of payments business models. Additionally, China's interchange fees are lower than those in markets like the US,[8] where interchange-focused business models have already struggled to be profitable. As a result, payment-centric business models in China have become unsustainable and less attractive for private firms, leading some companies to explore overseas opportunities.

In recent years, players like Ant Group and Tencent have pursued more cross-border strategies. Ant Group has a history of expanding its fintech business overseas via acquisitions, as evidenced by the purchases of Singapore-based HelloPay in 2016, UK-based WorldFirst in 2019, and Singapore-based 2C2P in 2022. Notably, the company also attempted to acquire US remittance company MoneyGram in 2018, though the acquisition was blocked by US regulators. Ant Group's latest fintech acquisition occurred in July 2024, when the firm acquired Dutch payments company MultiSafepay for $200 million.

Tencent, which operates payments platform giant WeChat Pay, has similarly made strategic investments in international markets to expand its digital payment ecosystem. In April 2024, the company announced its partnership with Malaysia's PayNet payments network to facilitate cross-border QR payment interoperability,

7: "Ant Group H Share IPO," Ant Group, 2020.
8: "Interchange Fees by Country," Clearly Payments, Kalle Radage, October 25, 2022.

allowing digital wallet users in PayNet's ecosystem, such as GrabPay, to pay via WeChat Pay QR codes. Tencent's cross-border payments division, Tenpay Global, also expanded its partnership with global remittance company Western Union in June 2024, allowing users to transfer up to $5,000 per transaction to a WeChat Pay account.[9] In the future, Tencent could continue to explore further integration with Southeast Asia's payment networks, given the company's interest in the region's increasingly interoperable payment networks.

Increasing international expansion by these companies provides avenues for reducing exposure to domestic challenges and opportunities to serve new markets. While it will be difficult for Chinese fintech companies to immediately penetrate Western markets like the US, where payment preferences are sticky and less dominated by digital wallets, one of Ant Group's greatest opportunities is the potential to create a global payments network. This is critical for both the consumer and business markets, which still encounter difficulties with cross-border transactions. Fintech companies that have established payment networks and compliance expertise in specific markets could also see growing opportunities to partner with Chinese payments companies as they look to establish a more global footprint.

Expanding credit access

Despite China's status as a global economic powerhouse with a developed financial system, a large portion of its population and SMBs remains underserved by traditional banks. The rise of digital payment platforms like Alipay and WeChat Pay has already laid the foundation for expanding credit access by leveraging vast proprietary datasets and the ability to reach users through smartphones. While fintech giants are poised to capture a significant share of the credit-underserved market, even a small percentage of China's 225 million underserved adults and 86% of SMBs presents a substantial opportunity.[10] Consequently, fintech companies are also developing niche solutions aimed at expanding credit access to these overlooked segments.

Sean Yu, vice president of merchant success, APAC, and former head of China at EBANX, a global payments company serving global merchants in 29 countries across Latin America, Africa, and in India, explains, "While the Chinese government is working hard to promote financial inclusion and development in rural and inland regions, there are still many areas where people lack access to full financial services. [...] The approach many successful Chinese companies take to address this challenge is by digging deeper into the needs of underserved consumers, especially in rural areas or smaller cities."[11]

China's lack of a centralized credit scoring system makes it challenging to assess a customer's creditworthiness without access to extensive datasets. This void creates a significant advantage for leaders like Tencent-backed WeBank, and Ant Group, which operates Alipay and the private credit scoring system Sesame Credit.

9: "Western Union Expands Collaboration With Tencent Financial Technology," Western Union, June 5, 2024.
10: "Cultivating China's Fintech Ecosystem: The Visible Hand of the State," Taylor & Francis, Vladimír Pažitka, Dariusz Wójcik, and Wei Wu, November 6, 2023.
11: Sean Yu, vice president of merchant success, APAC, and former head of China at EBANX, phone interview by Rudy Yang and Kaidi Gao, September 25, 2024.

These companies can leverage their vast databases of social network and payment information to develop more accurate underwriting models, allowing them to serve consumers and businesses without traditional credit histories. Lending also provides an additional revenue stream for large payment companies to diversify into. For instance, in H1 2020, Ant Group processed $295 billion (2.1 trillion yuan) in loans, with its credit segment accounting for 39.5% of its revenues—surpassing digital payments, at 35.9%, and reflecting an increase from 34.1% in the previous year.[12]

Some of China's recent venture deals have been in credit and lending companies. Guosheng Inclusive Finance, an online microlender that leverages Big Data and AI to issue microloans to consumers and accounts receivable financing to businesses, raised $90.5 million in an early-stage venture round in February 2024 from state-owned investment companies Shandong Finance Group and Shandong New Growth Drivers Fund. Another example is Enjoy Before Pay, a provider of buy now, pay later (BNPL) solutions, which raised a $6.9 million early-stage round in April 2024. OH Credit, a China-based multinational provider of BNPL solutions, similarly raised $45 million in an early-stage round from DMS Bank in Indonesia in May 2023. In January 2024, e-commerce lender Mybooster raise an undisclosed amount of early-stage funding from QF Capital and Futian Capital Holdings.

A leading contender in the GenAI race

China is emerging as a leader in AI innovation across the Asia-Pacific region, particularly in the fintech sector where GenAI is being rapidly adopted. This momentum is driven by robust government support and substantial investments from major tech companies. In 2017, China was one of the first countries to introduce a national AI strategy through its New Generation Artificial Intelligence Development Plan, positioning AI as a strategic priority. This proactive approach has allowed China to take a competitive edge in AI development alongside key markets such as the US, Canada, and Europe. As a result, the country has made significant strides in developing LLMs and is seeing significant adoption of GenAI.

Tech giants, such as Alibaba, Baidu, and Tencent, have been notable leaders at the forefront of China's GenAI movement, allocating massive resources to integrate AI technologies such as machine learning and natural language processing into financial services. These companies see a critical opportunity at a time when Western LLMs such as Meta's Llama-3 and OpenAI's GPT-4 are gaining significant traction. Alibaba's multilingual LLM Qwen1.5 offers models ranging from 0.5 billion to 72 billion parameters and has shown impressive capabilities across multiple languages and tasks.[13] Baidu's ERNIE models have shown competitive performance in Chinese language tasks and earned more than 200 million users for the company's chatbot, Ernie Bot.[14] Tencent's Hunyuan AI model, which employs over 100 billion parameters,[15] has been integrated into more than 180 services across the company's ecosystem.[16]

12: "Ant Group H Share IPO," Ant Group, 2020.
13: "Alibaba Cloud's Qwen2 With Enhanced Capabilities Tops LLM Leaderboard," Alibaba Cloud, June 11, 2024.
14: "Baidu Says AI Chatbot 'Ernie Bot' Has Attracted 200 Million Users," Reuters, Josh Ye, April 15, 2024.
15: "Tencent Unveils Hunyuan, Its Proprietary Large Foundation Model on Tencent Cloud," Tencent, September 7, 2023.
16: "Tencent Using Hunyuan AI Model in 180 Services Amid Competition With Local Rivals Baidu and Alibaba," Yahoo! Finance, South China Morning Post, October 27, 2023.

AI adoption rates in China have been high, with over 80% of Chinese businesses using GenAI in their operations, compared with 65% in the US.[17] In the context of financial services, fintech companies have been utilizing GenAI for improving operational excellence, personalizing product offerings, and enhancing user experiences. Leaders such as Ant Group are exploring LLM applications for market analysis and investment optimization. In September 2024, the company unveiled its AI financial manager, Maxiaocai, an investment assistant integrated into the Alipay and Ant Fortune apps. During the same month, Ant Group also launched its standalone chatbot app, Zhixiaobao, which helps users with general tasks used in super apps such as hailing taxis or ordering meals. Another example is Ping An, which currently holds over 1,500 GenAI patents and utilizes AI to enhance risk assessment for insurance claims and create tailored product recommendations.[18]

WeBank as a global front-runner in embedded finance

Super apps like Alipay and WeChat not only provide a comprehensive suite of services, ranging from messaging and video chatting to payments and video games, but are also embedded in modern-day Chinese consumers' daily lives. Leveraging Tencent's massive user base and app functionalities, WeBank is considered the earliest and most prominent success story in embedded finance. Established in 2014 as a joint venture between Tencent, Shenzhen Baiyeyuan Investment, and Shenzhen Liye Group, WeBank became the first private digital bank in China.[19] Within one year of being founded, WeBank launched its first auto finance option as well as online personal consumer microloan products.[20] By 2018, the bank's customer base had reached 100 million.[21] Those milestones attest to the growth achieved by a digital bank that is deeply embedded in multiple ecosystems in China.

Kelvin Tan, CEO of audax, shared with us his thoughts on how banking as a service (BaaS) is executed differently across the globe, as well as why he thinks the Asian model is superior. audax is a Singapore-headquartered plug-and-play digital banking technology platform that enables banks and financial institutions to modernize and pursue scalable digital banking business models.

Tan categorizes BaaS executions into three broad buckets: American-, European-, and Asian-centric. A US model has "a tech intermediary between the bank and the front-end user platform," explained Kelvin. An example would be a community bank like Evolve Bank & Trust as the bank, Amazon as the user platform, and the third piece is a tech intermediary like Synapse that oversees coordination and compliance requirements. "This model introduces a significant amount of burden and risk on the intermediary fintech company that may not have the capacity to deal with regulatory requirements. That's why we see issues happening like with Evolve and Synapse," commented Tan. A European model has the same set of three players, but the difference is that the tech intermediary is regulated and needs to hold a license, which points to additional compliance requirements.[22]

17: "Over 80% of China's Businesses Already Use Generative AI," Fortune, Nicholas Gordon, July 9, 2024.
18: "China Leads the Patents Race for Generative AI, With Tencent and Baidu Topping the List," CNBC, Sheila Chiang, July 4, 2024.
19: "About Us," WeBank, n.d., accessed October 15, 2024.
20: Ibid.
21: Ibid.
22: Kelvin Tan, CEO of audax, phone interview by Rudy Yang and Kaidi Gao, August 26, 2024.

In the Asian-centric BaaS execution model, there is no intermediary tech layer. Instead, "a bank on the back end has the tech developed and deployed, and allows for platform companies on the front end to consume services directly from the bank that takes care of compliance, regulation, reconciliation, reporting, and scalability," according to Tan.[23] This structure is not only more efficient than the other two models, but when the platform company taps in to a broader ecosystem, it gains the ability to scale with low cost. WeBank is a prime example of being embedded in an array of lending facilities. With the ability to leverage a massive user base, super apps in China have a unique advantage to scale and innovate by offering a variety of products.

Challenges and headwinds

Stringent fintech regulations

China's fintech regulations have become more stringent over time, leading to greater scrutiny on consumer protections, financial stability, and data security. The country's current regulatory requirements contrast with its previously loosely regulated industry, which encouraged rapid fintech innovation and adoption. Much of these changes stem from the high number of scams, primarily in the peer-to-peer (P2P) lending sector. For example, widespread P2P lending failures from platforms such as Ezubao, which defrauded over 900,000 investors in a $7.6 billion Ponzi scheme,[24, 25] prompted significant regulatory overhauls.

In response to rising risks within the fintech sector, highlighted by the postponed Ant Group IPO in 2020, the Chinese government has tightened its regulatory framework. This includes stricter lending caps, licensing requirements for financial platforms, and more stringent data-sharing regulations. In 2023, the establishment of the National Financial Regulatory Administration further centralized oversight, aiming to bring greater uniformity to the sector. While these reforms promote greater consumer safety and long-term sustainability in the fintech ecosystem, they also create significant barriers to entry, making compliance more challenging for many fintech companies.

A retraction from Hong Kong and capital outflow to elsewhere

In our 2024 Greater China Private Capital Breakdown, we discussed the industry consensus that Hong Kong is increasingly perceived as a part of mainland China, as opposed to being an independently run city with its own legal and financial systems. Over the past few years, we saw a retraction from Hong Kong by nondomestic investors, due primarily to crackdowns on the tech sector, COVID-19 lockdowns, and China's challenged economy. The pullback has directly impacted Hong Kong because the financial services sector is one of the largest and most important economic pillars of the city. Meanwhile, Singapore stands to benefit from capital inflow from nondomestic investors and high-net-worth individuals from China. This results from a combination of Singapore's tax incentive and stability as well as the retraction from Hong Kong.

23: Kelvin Tan, CEO of audax, phone interview by Rudy Yang and Kaidi Gao, August 26, 2024.
24: "Investors in Ezubao Ponzi Scheme Finally Get 35% of Their Money Back," KrASIA, Song Jingli, January 17, 2020.
25: "Online Lender Ezubao Took $7.6 Billion in Ponzi Scheme, China Says," The New York Times, Neil Gough, February 1, 2016.

The same industry professional specializing in fintech partnerships commented that the capital reallocation was both cultural and geopolitical because "Hong Kong used to be the APAC hub plus entry into China." The workforce composition shifted from being predominantly English-speaking to having more mandarin speakers. In addition, with the macroeconomic challenges that China has grappled with, it has been difficult to make money in the financial sector in China for the past few years. From a banking perspective, according to the same interviewee, "If you want to bank in China, then why not be in Shanghai? Why not be in Beijing? Why do you need to be in Hong Kong?" For global financial institutions that are interested in gaining market share in China, it would be more economical to do so by having a team in mainland China. In addition, given the resource-constrained nature of fintech startups, if a project in a particular market is unlikely to unlock returns in a multiyear span, such initiatives will likely get dropped or deprioritized. The implications point to the question of whether China will see a healthy rebound in its economic growth.[26]

Hurdles in GenAI development

While China is recognized as a leader in GenAI innovation, its research & development in the space may be hindered by several factors. One key issue is capital constraints, which stem from the large number of participants in a resource-limited environment. Unlike in the US, where a few well-capitalized companies like Meta, Google, OpenAI, and Anthropic dominate, China has launched over 80 LLMs.[27] This abundance of players must compete for limited funding, particularly as these nascent technologies are still demonstrating their returns on investment to investors.

In addition, Chinese tech companies may encounter challenges with computing resources due to its dependence on chip imports in a limited semiconductor environment. This has been evidenced by companies such as Kuaishou and Moonshot, which have been challenged with limited computing power.[28] The issue has further been exacerbated by the United States' export controls on the sale of chips from companies like NVIDIA and Qualcomm to China.

China's strict regulations surrounding data and cybersecurity may also hinder LLM developments. Data privacy laws, such as the Personal Information Protection Law and Data Security Law, restrict how data can be collected, processed, and shared. This regulatory environment, while designed to ensure responsible AI development frameworks, may complicate collaborations with international partners and hinder the usage of overseas data for training robust AI models.

26: Phone interview by Rudy Yang and Kaidi Gao, October 2, 2024.
27: "China and the Race To Launch GenAI Models To Rival ChatGPT," Business Chief, Kate Birch, August 29, 2023.
28: "China's AI Sector Faces Fallout From U.S. Chip Curbs," The Information, Qianer Liu and Juro Osawa, June 27, 2024.