LI Qinghao: Opportunities in China’s WealthTech and FinTech Industries

Below transcript is based on Li Qinghao’s live lecture on Xiaoetong from 7:00 to 9:30pm (GMT+8)，October 30

Hi. Good evening. Thank you very much. It's honor to be here. And thanks Miss Yuanyuan Song. And actually Yuanyuan just introduce me about my company and me a little bit. And I think the most important introduction about me tonight is I graduated from Renmin University majoring in journalism. So this is my home school. And it's really honored to be here and give you some sharing what I've learned from this industry，and what is very important for you if you're interested in China's wealth management industry or China's WealthTech practices. There are three statements I must make.

My company is a very local company serving China's local financial institutions and wealth management firms. So I haven't used English as a working language for so long time. So I think I may make some grammar mistakes or even some word mistakes tonight. So if you find that, just remind me, I will try my best to talk it again and make you understand what I'm talking about.That's very important.

And secondly, you can see my major is journalism. So I have no background either in technology or finance. I've learned a lot of technology and finance after I graduated from school. But I think what I'm going to share tonight is very original. But it's not academic analysis, or theory stuff. So I can guarantee you that these are all original observation experience from working and from business. But it's no structure or disciplined knowledge, like what you would learn in the school. Today I'll give you some answers we find. But it may not be the right answers in future.

Let me go through the PPT and help you understand the structure of tonight. And you will have a a big picture about what I'm going to talk. First of all, the first part I will give you some brief introduction about general understanding of the wealth management industry in China. Like who are the players, what is the context environment of this business?And what is the structure of this business, the news, everything, observation data, and etc. This is first part. So in this part you will understand what is this industry like in China. If you're not from China, and you can check whether this industry in your country is similar to what is happening in China now, maybe it's much more advanced than China, but it's maybe the early stage which already happened in China.

And second part is about WealthTech. WealthTech is a new business. So I'll give you some introduction on the innovation part. What would be the WealthTech in China now and in future?

So give you some expressions from different perspectives, like from service process perspective, from wealth function perspective, from tech function perspective, and from a product architecture perspective, to make sure you understand the big picture of this industry. Then at third part which is last part of this today. I will give you some examples of the practices in China. Actually, I have no practice from other company. So I will just show you what is the things that my company is doing. I'll show you what is a small engine of Wealth Management business like marketing and SCRM, what is goals planning system and what is calculation and operation support? What is the next best action system and something like that? That's the topic today. Let me get back to the first page. Thanks. Okay. This is the introduction about my company I would not take to spend too much time on that. My company is a to B business. From the first day, we focus on the architecture and total technical solution for the financial institution and investment firms. And in the last four years, we raised at three rounds of money, investors include Metrics, Genesis Capital, Atlas Capital, MindWorks in Hong Kong and Ant Financial Fund. So Ant Financial is very famous now, right? So it's like around C round company, and we very much focus on wealth management firms and wealth management industry. So the only thing we do is deliver ,or say, offering wealth tech solution for wealth measurement firms and the financial institutions. So we do three things. First of all, we give them technical services. Secondly, we give them some middle platform, and thirdly will help them to build up their product lines, bridge the assets provider to the money. So that's introduction.

Part one is general understanding of our wealth management industry in China. I think the most important question you must answer when you want to start your own company is who are the players in this game? Basically, the wealth management industry is like a middle man between the money and the products. Let me explain to you from left to right, the left side is the money. So who have the money? The rich people and institutions. But when we say wealth management, sometimes we only focus on the retail or say, the household business. We will not say wealth management in terms of institutional or company business. So the money here I refer to is only the rich people in China. How many rich people in China? There are a lot of the statistics. Based on my understanding, we always say there are about 12 million to 15 million rich people.

So what is the level of the rich? Generally you can divide the rich people into three parts. First part is we-call mass affluent families. When we say this term, it refers to some family who has a deposit of the investable assets. What is investable assets? It's can expand into the cash and cash equivalent, which can be liquidated in shorter than six months or even three months. We call that cash or cash equivalent. So for a mass affluent family, normally it refers to families who has the cash and cash equivalents around half a million Chinese Yuan, or say, a hundred thousand US dollars. This kind of families we call it mass affluent families. The second part of the rich people is high net worth individuals or high net worth households. Normally, we will say they have about, let's say, $1 million, or higher than 6 million Chinese Yuan. From this 6 million Chinese Yuan to someone who has 30 million Chinese Yuan, we call them high net worth individuals or high net worth households. For those people who have cash and cash equivalent, higher than 30 million Chinese Yuan or $5 million. We can call them ultra high net worth individuals. This is standards in mainland China, not in Hong Kong or Singapore, Japan, or United States.

Usually when you move the standards outside China mainland to Hong Kong or Singapore or US to be higher than the same level are the same term in China mainland. So this reports mass affluent, high net worth individuals and ultra high net worth individuals. But let's sum all these people together, is about 12 to 15 million people. So how much population in China? I think you have the number, right? It's 1.4 billion people. So the rich people are only 1% of the total population of this country.

But do you know how much money these guys have? The first question we need the answer is how much money the whole population have in China. Let me give you a big number, is not that exactly accurate, but I can give you a big number. It's about 200 trillion Chinese Yuan. It is the whole wealth Chinese people whole population holding. And some people give a number like 150 trillion Chinese Yuan. How much wealth the whole US people holding? It's about $50 trillion. More than $50 trillion, some statistics say they have $70 trillion. So you can see the only compatible country which have a very big number in wealth in this world is US. US may be the only country whose whole population holding more wealth than China. In China, that means total population have 200 trillion Chinese Yuan as wealth.

But how much money these rich people holding? Many of you have no answer, right? Let me give you a number. Among the 200 trillion, the rich people have about 80 to 100 trillion Chinese Yuan. So that means 1% of population have 40% of the wealth. That's very normal. We have very fast growth of economy, and there are a lot of new business. And they're the growth rate GDP rates. And everything is going very quickly. So there are part of people who get rich first. Right? So that's normal. What I want to tell you is here a huge market for wealth management industry. So if you want to do something, no matter is technical side or is not technical side. no matter is you are startup or a big company or traditional company. You must have the first idea on how big the market could be, how many clients you have, and how many money you can have from this markets. So first of all, 12 to 15 million people holding 80 to 100 trillion Chinese Yuan.There's a huge market.

And what are those guys in this different categories on the rich people? Let me give you some example. First of all, for the business owners, they compose a large of part among the rich people. Secondly, it's golden collar, what we called golden collar, normally means very excellent professionals, like lawyers, consultants, financial advisors. And also the golden collar also refers to some people working for multinational companies as executives. They have very high salary and compensation , and the total compensation package is really attractive .

Third part is we called new rich. Like after 2000, there are a lot of young Chinese people are working internet company like Alibaba Ant Financial, Tencent, JD. Through IPO they got money and they became the new rich. The last part is we called old one. Actually, this country only has 70 years old anniversary. So basically, after 1980s, we start to make money.

Before 1980s, we are not very open country. So after 1980s, people start making money, doing business. The old money here is different from old money in Europe, or in United States, the old money people here are typically property owner. They have apartments. They have houses. So during the last 20 years or 30 years, when the price of property always is coming up. So they got a huge money, this is so called old money in China. So 12 to 15 million rich people composed by four parts: business owners, golden collars, tech or new riches and old money who has properties. So this money wanna buy something. And the products provider want to sell something. So that's the reason they need someone doing the connection things for both sides. Let me be clear. This is not academic definition. This is a business definition.

So on the right side, we call it products providers. How many products providers in China investing in this industry. Let me clarify to you, first of all, it's mutual and private funds. There are more than 10000 funds in China, but only around 200 are mutual funds. Mutual funds license is well limited and scarcely in China. It's not like in US.So around 10000 other funds are we called private funds. Private funds is typically divided into two categories, actually four categories. But the most popular ones are two kinds. First kind is private equity funds which invest in the primary markets. And the second kind we called private security funds, which invested in standard market or say capital markets. Around 10000 private funds and around 200 mutual funds are the first kind of people who provide products.

And second provider we called security brokers. They are more than 100, less than 130, a number like 118, 125 based on different statistics. But typically it's about 100. Security brokers is a very comprehensive license. They can sell a lot of things. Also they can produce a lot of things to sell. That kind of financial institutions deliver the products to the trust companies. The trust company in China is rather different from the trust company Hong Kong or England, or the United States, a trust company in Hong Kong or in Singapore, England, is actually a structure, is not financial institutions. It is a structure made for the rich people or the families to do their trust to structure. But back in China, the trust company is a typical financial institution. And normally its function works like bank. It can lend money to other companies. They also to asset management business.So it's also very comprehensive license. There are 68 trust company in China.

The 4th one is banks. You can have very ordinary conception. I think everyone knows that there are more than 3000 banks in China and big banks are around 20. And there are about more than 2000 rural banks and city banks around this country. Almost every city has a bank named of it. And a 5th one is insurance companies, about 236 insurance companies in China. They are always very big. The last one is agencies and brokers which allow you to sell the products from different financial institutions. Sometimes these license can even allow you to take part in the production side. So the agencies and broker's license can always be products provider. So there are 10000 funds, 118 security brokers, 68 trust, 3000 banks, and 236 insurance companies, and more than 1000 brokers and agencies. So these guys produce different kinds of products.

And between the money and products, they are wealth management firms.They are also divided into three layers. At the bottom layers are very small companies like financial advisers offices, family offices, insurance teams, independent financial advisers. Actually, there is no license called independent financial advisers in China. So now it's just a very new idea and have not been well regulated under recent circumstance.

That last one is new KOL (Key Opinion Leader). It's very interesting. Some people, their job is not selling products or give a financial advisory. But there are a lot of people believe in them, trust them. So they may be in a very famous broker ,or they are very famous economist. They will have been talking about how to make financial planning and how to buy insurance. And then there are a lot of people follow their suggestions to buy products. So that's a new phenomena.That's new KOL can be kind of entity who joins the wealth management business.

Let me give you a number on insurance teams. Do you know how many people are selling insurance in this country? This is a big country. And every industry could have a huge number of practitioners. Insurance teams are the largest number in this industry. In China, they are registered insurance agents or brokers. How many people are here? More than 9 million people are registered as insurance agents. And normally 100 to 200 people were drawn together as a team. So how many insurance teams here in China? Let me give a number. It's like 80000 teams in this country selling insurance. So this group of people are really a huge number. Family offices in China is not mature. So I cannot give you a very exact definition on that. Because normally in other areas like Europe and US the first generation of family offices should be single family office.That's very easy to understand because if you cannot manage your own family's money, how can you have the experience or ability to manage other people's money? But in China, that's very interesting. A lot of people start their own family offices and not manage their own money first, but most to make to manage other people's money. So it's not mature. We can explain this later if you are interested in this topic.

So how many small entities on the 3rd layer is? I think around 5000 small and middle sized enterprises composed by this guys, except for insurance team. I already said there are more than 80000 insurance teams. Besides insurance teams, there are about 5000 middle -sized and small- sized enterprises at the third layer.

At the second layer, some wealth management are scaled to six different categories. First one is regional companies. They usually give the services in a province or in a big city. They very focus on this province or this city. And they're very good connection with local rich people. The founder of this kind of companies could be executive in banks or private banks, or a trust company who after 20 or 30 years, working experience already accumulated a lot of resources and a lot of connections with financial institutions. So he can start his own regional wealth management firms serving his network.

A second kind is called public company sponsored investment firms. That's very interesting. There are a lot of public companies in Chinese markets, and they wanna diversify their business. Some public companies, their clients are rich people. So they think that not only the products and services already delivered to the rich people and also help them manage their money. So some public companies will also starts their own wealth management firms or businesses on their group.

The third kind is real estate company. I think this is the only phenomena in China. Because real estate company in United States will not run wealth management firms. But in China is very typical from Hengda(恒大) to Jiazhaoye(佳兆业) to Biguiyuan(碧桂园) to almost all the 50 top real estate companies in China. I know almost every of them have their own wealth management firms. Why? you can think in this way, real estate company in China, first of all, they have enough assets, right? They have houses, apartments. That's very valuable. So they have assets. At the same time, they have households. They have communities. And the 3rd thing is they have a brand. Chinese people think real estate company is a big company. And they are very trustful. So as the company has assets, has the client and has a brand and trust, they can do their own wealth management firms in China.

The fourth one is local exchange, it's very hard for you to understand what is local exchanges. It's not Shanghai exchange or Shenzhen exchange. It's local exchange regulated by local governments. And their responsibility is helping local companies and governments to raise money and also helps state owned companies to get funding from local markets. So this local exchange will also produce some kinds of assets and products. And they can have their own wealth management teams to sell their own products. There are about 80 local exchanges in China. So averagely every province has two or three local exchanges.

And the 5th one is called private equity, or private security fund sponsored wealth management firms. Like I just told you, more than 10000 private equity funds in China. So they can raise money from channels. They can also raise money from retail side. So some of them were start their own wealth management firms to sell their share of their funds. Last one is financial advisers or communities. It's also a new phenomena. Some financial advisers, they do not wanna work for a bank or a trust, because they want to move from the products or company perspective to customer perspective. So they found that the only way they can do that is not be hired by anyone, but organized as a community, share information. And sometimes they are a group together and beat for asset to our products and doing advisory work for their clients, and match the products and clients. So it's a new phenomena I will explain later on.

At the top of the three layers of wealth management players are financial institutions. I just explained to you on the right side, typically five financial institutions, other wealth management players, banks, trust, security brokers, insurance companies and mutual funds. They are very powerful, and licenses are valuable. So I can say that more than 85% of the wealth management market share are still dominated by financial situations. All the second layer players and third layer players maybe only occupy less than 10%, or at most 15% of the markets. In future, there are some idea that because financial institutions will be more and more open, so the second layer and the third layer players can partnership with the first layer to get the market share from them, depends on the regulation and technology, I think it is not the only answer. My understanding is in future, in next three to five years, Chinese financial institutions will still dominate the markets, maybe have higher market share than the last 10 years.

So after this graph, if you want to have been this here, you can make two judgments or say, two choices. First one is there are 12 to 15 million rich people. And you wanna start your own business. Or you want to work in this industry as your career. You can either start your own small middle size company or join the big financial institutions. This is to C business. But at the same time, if you found that there are more than 10000 players in this market and it's very diversified, segmented, maybe there is a way for you to just to deliver some to B business model, help institutions, the entities to do their business and money from them. This is a way of thinking.

So the second PPT I want to share is about the context of China's WM(wealth management) business. These are the structure of the players in this game. And this is a context of China's wealth management business, from this PPT I want to let you know that's the last 10 year is totally different from next 10 years. The WM business in China started from around 2000. Back to that time, the bank has a retail business. Brokers have retail business. They were even not calling this business as well as management. Because back to that time, they just sell product. And there was not even in more than three or five products, they can sale and the clients had no choice to buy. It's just deposit and get some interest.

But from 2000, there are a lot of innovation products, because there are different licenses. So different licenses would produce different products. So people found that when you found a more complex way to do this business, so we can give people a comprehensive solution. Not only just one product, maybe you can sell them two products, three products. And even give them some value added services. So this is the beginning of this idea, but last 10 year there is no regulation. And people can sell a lot of things, especially during the 2010 to 2015, there are a lot of P2P companies coming up in this markets and P2P company are selling some unstandardized individual debts to the clients. And interest rate is really high. Sometimes it's higher than 12% to 14%. So the whole market is crazy. They just sell some unstandardized debts. The barrier is lower than 10000 Chinese Yuan. So if you have 10000 Chinese Yuan, you can buy a product guaranteed principal interest rate 12% to 14%. So it's very easy to do. This can teach people understand you have a lot of ways to manage money, but at the same time it's accumulated a lot of risks. So in 2018, 2019, there's a word in Chinese called 暴雷 explosion, means the products you buy cannot pay back.

So in 2019, people start to think that is something change. But can we still do the same thing at last 10 years? What is the next trend? So this is a map I used to describe this change is a context of China's WM business, because of the change of the four factors, which I illustrated here, technology, economy, population and users and regulations. Because remarkable changes in these four factors, the whole industry must change along the four factors. So let me explain to you one by one.

First one is technology factor. There are at least fourth very important factors giving impacts on China's WM industry. First one is mobile. 10 years ago, 2010. Maybe just we had wechat. Do we have wechat 2010? Maybe not. In 2010, people still make money or make the financial planning on the laptop or PC. There's no mobile in 2010. But now mobile is the most important trend for everyone, right? People get used to mobile. And if something is only on PC, they will think it's very old.

And second is data and AI technology.This is very important. 10 years ago, there's no data technology of AI. And the third thing is live streaming. That's also very important on users interaction. Just like today I can useXiaoETong or Tencent meeting to talk to you directly, you will feel that's a real scenario. Right? You are not doubt that this is fake, that's real. So now more and more financial advisors. They can make deal without any face to face interview with clients. Live streaming is very important.

The 4th one is security. Now we see AI and identity technology. It's very easy to make sure the identity and transaction is in the safety. So it's very safe for you to transact online. So people trust technology and people trust to buy stocks or insurance, or even private equity funds online, that's very important. there are the four different factors, mobile, data AI, live streaming and security. These are 4 factors in technology side.

And second one is economy. Now it's new normal. That means everything will not grow as fast as before. Our GDP is lower than 6% about 10 years ago is double digits. Because of new normal, the return of assets is still lower the four or five years ago. I think return of a real estate investment or corporate bond can higher than 10%, 12%, or even 50%. But now you cannot imagine that way. A server stimulation 10 years ago or last time, the stimulation of the government is really aggressive. But now you can not see any aggressive stimulation in the markets. The 4th one is global environment. 10 years ago, or even five years ago before Donald trump, the earth is flat, right? International corporation and globalization is very popular. But now you can see after 2016, 17, 18, 19 today, 20 global economy environment make a big difference from 10 years ago.

The 3rd factor is population users. I don't know whether you guys have any idea on the structure of your population structure in your country. But in China is very interesting. First of all, old rich. In China, most rich people are around born in late 1950s to early 1960s. The biggest part of rich people are this generation. What is the topic for them now? They're already a lot of money. They're already accumulated enough wealth. The topic for them now is how to do legacy planning. They wanna transit the wealth to the next generation and make sure there's no tax losses, split of the wealth, and making even some conflicts between the family members. So legacy planning is most important topic for the old rich. A second is the 80s, people who are born in the 80s.

For the 80s, there are around 40 years old. So for them, this the first time they found that they cannot retire comfortably, only based on their social security, people like me, we know that our social security will not help us leave us what we have now. If you wanna have fund things like today, we need to make very good plan our retirement. So what we're looking for is very stable, trustful, transparent investment scheme, helping us make a good retirement plan.

For the nineties, young guy in the first their cities will not even find they are short of money. You may think I'm kidding. But actually it is. Why? Because their families, their father and mother, were born in 1950 or 60 or even early 70s. So they already have a house or apartment. They don't have to pay money for their mortgage or even for the right. So the money they earned is money they can spend. And for the eighties, when we were young, there is no Huabei(花呗) or Jiebei(借呗)，there's no online lending platform. But for the nineties, they have 芝麻评分(Ant Financial’s crediting system)，they can lend money very quickly and very easily. So the money they earned is the money they spend. But quite interesting thing is for the nineties, they have very good education on financial planning and at least financial background knowledge. So these guys know that if they, at the same time, they spend money having a very a good time in the living, but at the same time they know the way to how to manage money. So this guys want active investment. They don't believe a so called authority teaching them to do this or not. They believe they can learn by themselves how to invest. So they need some advisors or assistant help them outstanding the background knowledge, also financial planning. And they will make their own judgement, not just listen to banks or listen to trust.

And the difference from population users side is after Covid-19, people found that money is not everything. they may have some insurance to cover the risk. So after Covid-19, actually the insurance sales number increase remarkably in 2020.

The fourth thing is regulation. I think it's a huge different from China to United States or other country like your own country. So not actually too much here. Basically, the three things you need to consider, first is policy, which can be done, which cannot be done. And there are a lot of documents talking about policies. And second is restriction,which is very important. Like P2P players, already been wiped out from the market because the regulations think it's too risky. And all the P2P platform must be liquidated by the end of this year. Third one is direction. Direction means trend. What is the business or say, the industries direction the regulation or the authority administration want you to do? like today, regulation encourages you to invest in capital markets, encourage the director fund raising, not the indirect fund raising, encourage the equity markets, not debt markets. So if you wanna do business here, you need to understand what is the trend of the regulation directs.

So technology, economy, population users, and regulation are hugely different from last 10 years. So in future, the WM business in China will makes your own new version. So the insides of circling, it's just like you if you wanna run upon your own company, this is a circle you're going to make.

First of all, you have your vision. You believe something, you wanna make something happen. And then you gather the resources. And then you start test, make some mistakes, and find the right way to do. And then you will make the right ways again and again, so moving into operation stage, and once you make a very successful operation, you can earn money and make a very good position. As a positioning will give you some new understanding above industry and give you some new vision of that. But vision, resource, test and operation and positioning are small circle rounded by the big circle. When the big circle changes, your small circle must change along the big circle. Well, for example, you need something to not match to tech side, not match to regulation side. So in the core, why you do this thing and what is the vision in the core of the circle? Is the DNA of yourself and the value you believe. I think this is a very important thing. If you want to start on business or join a company, do you believe that you have the DNA to do that? You can start and learn something. But all the things cannot change your value. The value is something like belief, belief is hard to change. So this is a map used to describe the context of value industry. But here I use this map to describe the context of wealth management industry.

Then,we just explained players of this game, the contexts of all the environment of this game.What is the structure of this game? I call it PLC. P means what is the product you want to sell. L is logic or the process of business. that content is like the fuel or the gas of this business. What is the stuff you are going to consume to make the logic around and to sell the product from a to b. So let me give you some brief what is happening in China's PLC of WM industry.

First is products. Now in China we call it from unstandardized products to standardized products. It's a very strange definition. It's weird, because on Chinese there are no definitions like this, in English we call standard products net worth product(净值化产品). The characteristics of standardized products will be like transparent, issued by financial institutions, and value mark to market. And it's very easy access to buy, not very private approach. So on the contrary side, unstandardized products means it's not net worth. So you can not say how much value this product is before it ends. Secondly, it's not transparent. Sometimes you don't even know what is the underlying assets of this products.

And thirdly is, the entities who issues products also deliver these products, can be non financial situations like local exchanges, or some private funds. So now the products side is making a big difference from last 10 years, people are more and more likely to buy standardized products, or say, net worth products, transparent products. So these are some statistics I do not wanna spend a lot of time to explain to you, typically saying that in China, the unstandardized products is lower. The number of unstandardized products is lower and lower. And the standardized products is going up. Like insurance, the mutual funds and private security funds, the body of these three kinds are going up.

Here are interesting things. they are three search index. I think it's will be interesting for you. This search index means what are the interesting things people looking for the answers from all the search engines like baidu or sougo? The first one is 暴雷 (explosion). That means the products you buy cannot pay back. Before 2018，you can see here, not too many people search 暴雷 online, because the products they buy can pay back no matter how high the interest could be, no matter whether it is transparent one or not transparent one. Anyway, I buy a product. And they pay back not only the principal but also interest rate. But from 2018 you can see, when more people will search 暴雷. Why? Because the products they bought explode. So they want to know why. And they have no idea on why. So they search online. That's anxiety. More and more people found buying financial products is not guaranteed safe. You need to find a way to buy something you understand and something under your risk appetite.

The second search index is about 理财学习，we can call it financial planning study. before 2018, there are no people starting how to manage their money, because they rely only on institutions or so called financial advisers. They think it's easy, not necessary for them to learn their knowledge by themselves. They are busy. So they just keep money into the financial advisers or WM firms. They go playing. But now from after 2018, the number went taller because people found a lot of financial institutions or advisers or WM firms were not as reliable as they believed before. They need learn the knowledge by themselves.

And the third one is called financial consultancy. This number is before 2018. Here is from 2018 to 2019. Here is to 2020. What are this? This third in a search index is targeted at rich people. Before 2018, the rich people just look for products. They are not looking for consulting service, consultancy service, or the wealth service. But after 2018, they found that the best financial planning is not just buying products. They need asset allocation. They need financial planning proposal. So they are looking for someone who is not going to sell products to them, but give them some comprehensive analysis and give them a proposal how to do asset allocation. So these are three searching index from the clients. So you can see the change after 2018.

Here are some interesting survey by BCG and Construction Bank of China. The first one is how people choose private banks. In 2012, people thought the most important factors by which they choose appropriate bank is the team's capability and their relationships with client relation manager. And the 3rd one is privacy and security. And the 4th one is different kinds of products and return. And the fifth one is branding. And between the 10 Top factors, even this one is called the coverage of branches. Branches in the physical existence of the private banks. So people in 2012, they really emphasize on this how many branches you have. For example, does this branches close to me? And it's easy for me to get there. And they even have a very focus on how beautiful are the furniture of the private bank center. They thought this is very important for them to choose appropriate bank.

But in 2018, the first thing is branding. And the second thing is that their location capability, third thing is product diversity and the connection between clients and managers, and nobody know care about furniture, or whether or not the private bank center is beautiful. 4% of the clients emphasize the number of branches or the coverage. Also, people choose how relation with managers who provide communication skills, and liable. And 27% of people will ask for managers to recommend products from a customer perspective. Demand side to just buy it. Because you are guaranteed the principal you're guaranteed interest. So just buy it. Why this works. Because the economy is high speeds at double digits M2. So everything can grow up. So people believes that's okay. I buy this stuff. You give me the principal and give back interest. Secondly, they only buy high return, low risk, or Free risk products. And thirdly, there is an asset which is really highly profitable real estate investment.

I can say that in the last 20 years, you did a lot of investments in stocks, in mutual funds and private funds. But if you missed one category of the assets, you found your return is not satisfying. Which one? Houses or apartments. In the last 20 years in China, if you have only one choice to invest, and this only one choice can make your rich, is house, apartments it's land. Without that, I think all the other investments can only give you some moderate returns.

But in the future, can house or land property increase or grow up. Like before, nobody knows. But my belief is it cannot happen anymore, especially for the houses, apartments, or lands in second tier, or 3rd tier cities. There are some hotspot. But most of the properties will not increase their value as before. So in the last 10 years, it's really profitable if you invest in houses. So in last 10 years, there's no room for asset allocation of financial plan, no need. But now, because all the things have already be changed, from product selling to clients sent to the proposal, or asset allocation. The supply side will move from just sell it to property proposal consultancy, and demand side will change from just buy it to I need a proposal. Someone give me some advisory services.

So also in this industry, leaders start to offset a chance to make efforts by new approaches, like the bosses of banks or trust companies, security brokers. I talk to you more than maybe 500 bosses saying in this industry.

I found before 2016, when I founded this company 2016, most of them have no idea of what is digital, what is that equity, what is proposal driven, what is asset allocation? They don't care about it. They learned a lot of this knowledge in schools because they are educated. They got MBA, CFA, FRM. They have enough knowledge on this, but they don't care about it. Because before they don't need do this to get business running. But now they have to make change to get business running.

So there are three changes, at least. First of all, in any kinds of financial institutions, they start to make chance in organization development, they are going to build an open eco system rather than keep expanding physical existence, like branches. You can see a lot of bank start to cut off branches and relation managers team during last year. Not only the big banks, I can see some city banks or rural banks stop expanding their physical existences, and even lay off their sales teams. They build up an open eco system and make their capacity can be connected to other business or other entities. So they can get some clients online or by digital ways, rather than by physical ways.

And second change is Services Process. They were doing consulting from clients needs, rather than only selling from company needs. So if you cannot deliver this kind of consulting and a service to your clients, especially for the rich people, they will find other ones who can deliver the service to them. They have chance to cancel from your bank and turn to the ones who can help them make comprehensive proposal.

And 3rd one is from the operation, or the management site. It is very interesting, for a retail banking system, I think this happening in all cross world. The most important thing is to manage your sales team. It's very traditional team management. Like you recruit someone who has connection or resources. And then you give them very extensive training programs. Then you give them a lot of license certificates helping them build up their branding. And then give them SOP, a standard of operation, a standard of performance, and ask them to keep the KPI to you.

This is a very traditional control and management way in a retail banking system. Today, this still works, but not working smart, not as efficiently as before. So more and more banks and trust companies, security broker company spend a lot of money,and invest a lot of money with data, and AI technology tools. They can develop a lot of data and AI enhanced measurement tools, helping not only the managers, but also the relation managers to do better work. I can show you the tools later on.

But actually the three efforts are made by the new leaders of industry. They do a different way of organization development. They change service process from products centric to customer centric. And they use data AI enhanced management tools to empower their team, and they assess people. Now we're moving to the second part. Let me give you a general understanding about WealthTech innovation. Let me give you a full different expressions. Each expression were from different perspective. The first one is from service process perspective. Assume you're a financial adviser and you're facing your clients. Now you want to make a wealth manager service for him or her. And what of the process you're going to do?

First one is financial planning consulting and proposal generation. So the first one is 投资顾问服务(investment advisory service)，that means, when you meet up with the client, you will do some KYC (Know Your Customer) work on understanding of the clients and understand his needs, his scenario, and what is his life planning on everything like legacy or retirements, school education planning, a big consumption. How's the purchase of clients by KYC and understand your clients. And understand that his financial planning, what is financial goal, what is targets? And then you can give him or her proposal. This is the first step.

And second one is market scenarios generation or markets scenarios analysis called initially at MSG. Because you already understand your clients, and you give him some guideline and principle on the big category as allocation planning. But very important thing is, what is the markets now? What is the stage we are at, so you must help your clients understand the markets. That gives him understandable macro economy, a circle of different at the industries, and how to build up a model to understand markets and to do some quantitative planning or designation designing of his portfolio. This is second step.

The third step is called portfolio construction management. We should very detailed work based on the KYC and planning proposal and market scenario generation and analysis. You thought building up a portfolio for your clients. Now you need some finishing to engineering work you need have. If you do the risk management, you need better to take the examination like FRM （Financial Risk Manager） to make sure that our portfolio is real management.

At last step is that you have already made the portfolio, but at last step is you need add to the portfolio with particular products. So when you pick up the products and balance their portfolio, some products would perform as expected. Some doesn't perform as expected. You need to change different products to fulfill the goal of the portfolio. So you must have a tool or platform called QDD, quantitative due diligence, to make sure all the products and the fund managers are qualified for your portfolio. So this is an expression from service process perspective.

So what is this related to WealthTech, in each part, no matter is financial planning or MSG or portfolio construction management, or QDD, for each process, there could be a lot of companies doing work under this topic. You can even make a $1 billion unicorn company by only do one thing under one process. So each process means at least one products. If you wanna do business here, you can just make one products in this process, make it into better and better, and sell it to the financial advisers or to the financial institutions.

This is expression from business function perspective. This function is from a financial advisers perspective. When you deliver the service to the clients, you make four steps. But here is expression from a business leader. If you want to run business firms, this is a system, the functions you need to built under your organization. Then let me explain you one by one. There are typically 6 different buildings. This is not academic theory. This is actually experience all the ideas we learned from industry, and we make our own products under this function perspective, let me explain you one by one.

First one is most wealth management firmshave a digital production system, which means through this system you can make underlying assets into a product to sell. So this is composed by three parts. First one is asset management. By this system, you find the ascent, analyze the assets, value the assets,and making some portfolio or composition of these assets. So you find or search that, you identify fund, and analyze and evaluate. And then you make the composition of this assets. So this is called digital asset management system. The second system is called risk management system. In general, it means along the process here, you must have some risk measurement discipline and rules. And these disciplines and rules can be digitized. So this system can make the rules and different disciplines, along with the asset management system, opt the asset management system and risk management system, you are going to issue this product by different ways, because in China, there are different licenses. Different license have different ways to issue or launch products. Banks, interest companies, brokers, trust companies, or even loan exchange. They can produce their own products by differential approach. So you can have a system to make this product be issued to be ready to sell.

Then you will enter the second part and third part. The second building is called digital marketing system. This system is going to do one thing, making the visitors into leads. There are four ways to do this content marketing, activity marketing, channels marketing, and hiring.That's very interesting. How can you get potential clients, which we call leads? There are four ways to do that. Content means you share the contents and get their eye sights and get their attractions, and analyse attractions, and gets the potential clients. Activity means like live streaming, open house, investor education, forum, something like that. Channels means there are some scenarios or their business, not financial services. They may be golf membership, medical services, some property brokers. They have the same cost as you, but they were not to have any financial services. So you can give them a system and then get the potential clients needs from their ends. Hiring remains you hire people, you hire very good managers. And they will bring out their all client space to your platform. So digital marking system means how to get finance client.

And then digital sales system means you get the clients from all that in. At the same time, you need to sell your product service to the potential clients. So there are five different systems. You need to bring it up. First one is product marketing system, means your package products in attractive way. And sales kits, like what are the tools and knowledge documents. Regulations do in dorms about selling this products. GPS is a system I will explain you later on in detail, is called goals planning system. You'd analyze the goals of your clients and give them some planning or how to do as allocation and fulfill their goals in their life.

Learning system is very important, no matter its clients or your financial advisers, relationmanagers. If you wanna buy something or sell something, you need to learn this thing first. So every system will have a learning system under the sale system to make sure the things he or she is going to sell is well understood. And then experts pool, why you need this system. Because sometimes this production too complicated to sell by only one person. That means like if you wanna sell your family trust to your clients. Only relation manager cannot handle all the work. He or she were needs a lawyer, a content or sometimes a trust experts. So if you can give him a system and then he can get the experts online immediately, when his clients ask for something that will be very effective and efficient. This is called experts pool.

So digital sale system will be composed by five subsystems: product marketing, sales kits, goal planning system, learning center and experts pool. After this, you get the clients outside in. You push the products to the clients. Here we call CP match, clients-products match. And you finish the core process of this business.

And then you were going to the fourth stage is called digital transaction system, is very normal. Almost every one of the financial institutions or wealth management firms must have this system to make sure the transaction can be done. So orders, redemptions, exchanges, transaction accounts, post investment services, payment clearing, compliance, everything here is very common.

And the fifth system you can see here is the products. You make the products out and you input here and he get clients inside. You push products to the clients making client-product match, and you finish the transaction. Once you finish transaction, a client became your own client. Potential clients became your clients. So you do some client life value system to manage this clients value. So from very simple layer to very deeper layer, there are five different subsystems.

First one is AI clients services. And you can see once you buy some products from bank, if you wanna check your account, you can call them, right? They will say blah blah, push one, blah blah push two, blah blah push zero. And you can talk to a real man. That real person is a relation manager. So this is client service. And second is called smart recommendation. Nowadays, clients are different. So some services are all the same uniform services. Like they can check their counts. They can buy some stocks. They can buy insurance. This is all the same. But different clients have different needs. So the content and the article they are going to read should be different. For example, for the very rich people, the article they push him to read could be family trust for legacy plan. And for the middle class families, the articles or content they push that somebody to read could be insurance of the disease or something like how to invest in mutual found. So this is different. So the content is different and product match them is different. So you need push different or recommend different stock to different people. We call this system smart recommendation.

And third one is total/one account, means people can buy a lot of things from transaction account. He may have insurance account here, mutual fund account here, property security funds. And even he may buy some lifestyle products from you, like a baggage or cup. So he needs to have a total/one account to see or check every service or products. He has a connection with you. So this is the core of the system, total/one account.

And then the fourth one is membership. For rich clients, he or she is not only a person who buy financial products from you, he can have more things doing with you, like his health caring and his own studying or visit. So more and more private banks and wealth management firms will deliver services, not only the financial products, but also some lifestyle management services. He will have membership here.

And then it is their communities. That's very interesting. The value of a rich people is not only him or her, all their friends usually are also rich people. So the company wants to develop the value of their clients, and interest to their communities or their network. So you can give some system to your clients to use and gather his network under your system and see develop new people, we call the MGM, members get members system. This is called community system. So the 5th one is client life value system from very simple layer to very deep player. Basically it's only doing one thing is to develop the value of your clients. So you need acquiring clients, dealing with clients maturing. There are some attrition, but you need the anti-atttrition and then reactivating. So this is a process from business function perspective, you were pushing away if you are a leader of this enterprise.

So the six building is called operational management system, is some very fundamental function almost every company should have. For example, financial advisers management manage their targets, their process, the commissions, and their activities. OA system, office automation, EHR (Electronic Human Resource) system, process/operations/ complicated calculations to calculate the returns, some quote of the products interests, and different rules. And at same time what is very important is BI illustration. Because for the big boss or different layers of managers, they need have some understanding about what is happening in their business. So a BI system is usually necessary for any size of the company. This is expression from base function.

After this, we start to make technical products or say, technical solutions from marketing, just selling to developing the value. This is a customer lifetime value. I just mention before in last flash. So here we help them, first of all, to the touch points/total UI spots solution, help them build up official accounts, many programs app in the phone call system and live stream system. These are all the touch points. Enterprise or say institution can get contact or touch that with their clients. So you can do the technical services for your clients from your head. So by doing this total UI spots solution, you help your clients to get visitors and make the visitors changing to leads. Then you give them some selling process products, like product marketing, GPS system, sales kits system, learning center system, experts pool system from leads to deals. And then you help them build up a total account system to the contact recommendations, smart recommendation, membership management, and community, or the MGM system.

At the same time, when you push the process from marketing to selling to developing, you can also help you clients to build up a relationship manager or financial advisor work station. So this is very popular. Almost every financial institution is building of this platform for the relationship manager and financial advisor. Remember before I said it put a lot of money doing the tools and platforms for their financial advisors to empower them on the practices. So this middle desk(中台) can help the financial advisors do everything here, contact with people, develop the value of people and make a deal with the clients. So it's empowered the relationship manage in one-stop anytime anywhere to anyone. So if you want to make this work, you need four engines and three middle desks. Four engines is actually four systems. So SCRM (Social Customer Relationship Management), marketing system, UI system, next best action system. This is a name from the United States. Next best action is a smart operation system, to remind the clients and remind relationship management, what is the next best action. I give you some example when I talk about this system later on, GPS system and operation calculation system. So four systems, together with three middle desks, content desk input a lot for the diversified, a different kinds of content, and experts at high end services, these two combine together, put into the relationship managers working desk, and put into the whole process of customer lifetime value circle. This is from tech function perspective.

Here have already been very complicated. I don't wanna to spend too much time on that because you're not really doing development work. You just wanna get some practical understanding. What is the process and what we are doing in WealthTech.

So this is from a product architect perspective, is really too heavy for you to understand tonight. So I didn't even do some translation on this map. Actually, it's the same idea from last page. All the touch point here, there are a lot of systems or technical solutions you can do. And then in the relationship manager middle desk, every each block here can be a big system. You can see how many systems you can do it for your clients. And the fundamental layer normally would not be delivered or constructed by companies like my company because we are start up. So we don't have too much money input in the fundamental systems.

So the middle desk, data business middle desk, data middle desk, AI middle desk, and some cloud or regional architecture usually will be done by Ali or Tencent, or Pingan or Huawei. These are big firms, they were doing the fundamental platform supports for technical companies like us. And we are doing from here to here. So this is echo system. The big guys Ali Pingan and Tencent and Huawei, they will do the fundamental layers, the fundamental services like cloud. From here we do some business side applications and products from self service layer to clients service layer. Self service is the first layer. And secondly is platform as a service. And last layer is infrastructure service. So different layers are delivered by different size scale of companies.

Here is an expression from development perspective, as well as any wealth tech company. They understand the process first. And then they understand the business function designing. And then they know depending on the business functions, they will know what will be the products they can deliver to their clients. And they will make very detailed architecture of their clients. And then they will must know how to develop these products and deliver to their clients. So this the slide you get to understand who are big ones and whether small and middle sized companies, which other place you can earn money from products or from logical tech or from content? If you earn money from logic, that means you need develop a software or products of technical product solution for them. So the most important thing is methodology. You must make your clients believe in your methodology. And then you can sell your product to then. What else, You will be the only outsource provider and has no value in future. So the methodology comes from deep insight of the practical business. And it must be systematic, not just one piece or one angle, because the business system is very complicated. You must have a systematic analysis and picture of the business your clients going to do. Certainly the most visionary you have to ask your clients believe that the methodology not only match the recent situation, but also match the future situation, at least for three or five years. They were not all outdated.

The first one is easy to understand because like today I have already been trying my best to tell you what is WealthTech, what is this industry and what I'm going to do for my clients. But because of the language and also because of the topic, I think you can only get maybe 30%, 40% of what's the real thing is. But because the same thing is happening to your client, they are working in a particular scenario, in a particular organization, they have no idea about what is the whole picture and what is the future of this industry. But you must make them believe your methodology is the best practice and also can match the future. So it must be easy to understand, like sometimes you only have three to five pages of PPT to persuade your clients and commit you clients that your methodology and your approach is the best one. So it's really challenging.

After having methodology, you can use this methodology to instruct your technical team to make the projects for your class. This is from the develop side. And you will use the methodology to plan the future, tell your product team and your service team to design the prototype of new products in future. And then the methodology is also very important for you to communicate with your business development customer successful team. To make your business or people understand what is the whole picture of the products of your company and what is the value you want to deliver to your clients. So the sales team or the BD team will sale exactly the same thing that develop team is developing. Sometimes because you don't have a uniform or methodology. So the technical team is developing something which is hugely different from the BD team is selling. There will be increase a lot of conflicts during your business.

So the business team that we use this methodology to convince people to buy your stuff and generate the revenue. So this is the development perspective of your company. If you're doing the WealthTech company serving the financial institutions.

So at last I'll give you some examples of the WealthTech practices. This is a marketing or social CRM system. You have content, activity, channels, recruiting or hiring. And most important thing is, after all these, you can get traits. And you can analyze the portraits and know clients very accurately. Let me give you some example. Here are some functions in a system like you can share some post. This is an analysis of what is happening in the stock markets. This is called like the headline of every day's news. And this is morning brief for these different hot news of every day. So the relationship manager only needs sharing or posting this contents in his Wechat account. For example, he can post one of these contents in his moments. And then his clients and the people in his network will click the content and read it. So the computer will analyze all of the traits of the reader and then will make some portraits of the KYC profile of this clients. We can not only analyze his interest, but also anticipate what kind of contents these people is going to be interesting. And then we will tell the financial advisor that for your client, like he has 40% interest in seeing mutual fund, 30% interest in insurance, some interest in private equities, some interest in, for example, overseas investment.

And on your shelf they are three products. The computer thinks could be a good match for this client. The first one is blah, blah, second one is, blah, blah, third one is, blah, blah. And then you can push this button to directly talk to the clients with your system. So this is a very typical application of AI in marketing. The relationship manager only needs to do is sharing and posting. And the system will analyze all the traces track every each of the clients in his or her network. And then the system will remind him or her every day and every moment on what kind of profile and portraits of this targeted client and selling what to him or her, and push what kind of articles to him or her to make a decision on investments. So this is called a marketing the social CRM system.

And second one is the goals planning system, that's also called propose a generation system from discovery KYC to investment planning, fundamental production, education planning, retirement planning, legacy planning. And for the financial advisers, you also give them some Intelligence assistant, all the data numbers, intelligence marketing sites, everything. So this is his working desk, once he meets up with clients, he can stop with discovery and KYC and then ask clients that which plan you wanna do. It could be education, retirement, investment or a fundamental protection. So he can use this system to generate a proposal like 60 or 80 pages long within one minute. The only thing he needs to input is some very basic information of this client. And then system gather all the information and number from the whole CRM system and from social media system and give you financial advisor a very accurate analysis and then propose a generator proposal like 60 or 80 pages slope. So this is very efficient than before.

So this is the advantage of the GPS system. One goal is to facilitate professional customer centric wealth management service. And there are two principles of the designing of the system is simple and practical. It must be simple. Or else nobody can really understand how to use that. And it must be practical. The system is not used for academic research. It is only used in practice to help clients and help financial advisers to a better portfolio management and planning.

The third thing is three features scenario driven. Nobody really needs a mutual fund or private fund. They need to have a better life, a better retirement experience, or a better education planning. So it must be life scenario driven. Then professional while understandable. It must be professional but understandable by clients. And third feature is stimulating interaction. Last 10 years when a financial adviser met up with his clients, they can only talk about products and return risk. But today you can talk with the clients on their lives scenarios like retirements, their education plan. So it can stimulate better interaction between the financial advisor and their clients.

And four stages are discover, analyze, propose, and tracking. And five effects for the institute, better branding, deeper trust, higher performance, and stronger team and compliance. And this is smart operation calculation supports. Because inside the financial situation, especially on their wealth management business, there are a lot of calculation work. You can imagine this into a vertical software. You could only focus on wealth management firm and wealth management practice helping the operational people to do a calculation work. So it's a lot of models, a lot of rules box. You can use this system to calculate the return and yield a different products and do some subsidy interesting calculation, and help you to calculate SOP and KPI of your teams do some incentive commission calculation.

And last one is called next best action. This is more and more popular and more big companies start using this in their custom lives value management. Basically, it's like a reminding system. In security brokers, they call a moment of truth(关键时刻). That means each time you get a deep understanding of your clients, after the understanding you exactly know what is immediate action to do to facilitate the relationship between you and your clients. So it basically can be done only by people, not by AI or a computer, but it can also run by computer and AI totally, based on the construction level of your digital capability.

Sothere are three steps, first of all, is labeling and tracking. You will put a label on the attachment and put a label on clients, for example. And we're tracking the change of label. At the same time, when label one, label two, label three and different labels will generate different clustering and different segmentation of clients. And then different segmentation of clients, or say different groups of clients would be implied different tactics of operation. So you can use people to defy the label, use people to do the clustering, and people to do the tactics, and testify the tactics. At the same time, the computer can also that ultimately label the clients, ultimately grouping clustering the clients, and then ultimately generate tactics and testified the tactics and get the result is good or not. If it's good, let's do this once and once again. It's not, let's get rid of this tactic. So it will be very smart machine learning operation system in future, which means the system can help the relation manager to do the best action, to develop the value of the clients by next best action, it is originated from a wealth management system.

So this is last page of this lecture. If you have more question, or I think they may be a lot of places which is not very clear during a hundred minutes. So you can raise a question here. And I'll try for my best to answer the question. But before that, I have a conclusion here for your reference is that the first half of wealth management a business, was over its product centric and sell, this business was over. This is driven by professional people only has no empowerment from data technology. This just begins the second half of wealth management base will be client centric based on KYC and advisory driven by data technology empowered professionals, we still need people to do this business, to serve the people, to serve the clients. But data technology will be very key or critical tool for professionals to run this business in a better way. So there's all the stuff today.