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How Alibaba is changing Chinese banking

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As excitement builds around Alibaba's NYSE listing – mainly among bankers awaiting a big pay day – there is speculation the company's value could top $US150 billion. **Photo: Reuters**

Angus Grigg

As Alibaba prepares for the largest public float this generation, the Chinese e-commerce giant notched up another impressive milestone last week.

Just six months after moving into financial services, its Yu'ebao fund became the country's largest, with Yuan 250 billion ($47 billion) under management.

As of January 15, it had 49 million customers and was adding them at a rate of 400,000 a day.

Even by the big numbers on offer in China this is staggering growth and will only enhance Alibaba's prospects ahead of a New York Stock Exchange listing later this year. As excitement builds – mainly among bankers awaiting a big pay day – there is speculation the company's value could top $US150 billion ($170 billion).

This is sure to create scores of new millionaires and the odd billionaire around the eastern city of Hangzhou, where Alibaba has its Australian-designed headquarters.

But the company's success, particularly in financial services, will have far larger implications for the Chinese economy.

If Yu'ebao continues at its current trajectory it will change banking in China just as dramatically as its Taobao site has changed shopping over the past decade.

It is financial deregulation by stealth and a direct challenge to China's giant state-owned banks.

And it has happened with the blessing of China's central government, even though it is the majority owner of those banks which have the most to lose from an aggressive new entrant.

This demonstrates yet again that Alibaba founder Jack Ma is not just a wily businessman and technology entrepreneur, but a canny politician.

In gaining central government approval for Yu'ebao, Ma has effectively been allowed to use his giant customer base, brand and technology to force change upon the big state-owned banks.

In return, Beijing hopes to end decades of financial repression, which has lumbered Chinese savers with negative real interest rates and contributed to low levels of consumption across the country.

As is typical in China, the government didn't announce the banking system was effectively being thrown open to competition, preferring to see how the experiment worked first. Early indications suggest it couldn't have been more successful and the banks are now beginning to notice.

"Our biggest threat is not the other banks, but Jack Ma," said Ma Weihua, the former president of China Merchants Bank.

The next step is for banks to change their behaviour and match what is being offered.

If they don't, Yu'ebao will continue eroding their deposit base by offering higher interest rates and a better quality of service.

And the rates are not just a little bit higher.

For funds which can be obtained within a day, Yu'ebao is offering depositors 4.87 per cent – 14 times better than the banks.

"This has played an important role in deregulating the market," said Lin Caiyi, the chief economist at Guotaijunan Securities in Shanghai.

It has also proven highly lucrative for Alibaba and its partner Tianhong Asset Management.

Lin said Alibaba invested 85 per cent of the money in 12-month deposits, which pay a virtually risk-free 6 per cent, while the remainder is kept on call.

"The government likes this new force," Lin said.

"But there is lots of resentment from the industry."

Bankers, used to fat margins and limited competition, complain that Yu'ebao operates just like a bank but has none of the restrictions of its traditional rivals.

They argue it is not forced to keep
a portion of its assets with the central bank or adhere to strict capital adequacy ratios.

Alibaba is not the only e-commerce business moving into banking.

Its tech rival Tencent, which owns the popular WeChat app is developing a banking product, while search firm Baidu filled its Yuan 1 billion quota for deposits within five hours of launching on October 28 last year.

"The larger these funds get, the harder it will be for the government to stop them," says Lin.

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