



# LEND ACADEMY

## **PODCAST TRANSCRIPTION SESSION NO. 114-GREG GIBB**

Welcome to the Lend Academy podcast, Episode No. 114. This is your host, Peter Renton, Co-Founder of LendIt and Founder of Lend Academy.

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**Peter Renton:** We have a special guest on today's show, I'm delighted to welcome Greg Gibb, he is the CEO and Co-Chairman of Lufax. Now if you haven't heard of Lufax, you're not paying attention to the Chinese market because they are one of the real leaders in China, in fact, I would argue they're one of the fintech leaders globally. They only began in 2012 but already in their last funding round, they had a valuation of \$18 billion so obviously that's a greater valuation, I think, than any Western fintech company from anywhere in the world and they've done this under the leadership of Greg Gibb. So I wanted to get Greg on the show, talk about how he's done it, how they were able to launch Lufax, how they were able to grow the business from initially just a peer to peer lending platform into a leading wealth management platform that operates not just in China today, but also in Singapore and is a truly global company. It was a fascinating interview, I hope you enjoy the show!

Welcome to the podcast, Greg.

**Greg Gibb:** Thank you.

**Peter:** So I want to get started by giving the listeners a little bit of background about yourself. You are running a Chinese company and you have an American accent and I know that a lot of people would be interested to hear how you sort of came to be in China and how you came to be running Lufax.

**Greg:** Sure, it's really a long path, my plan was actually to start work in China back in 1989, but it never happened because I ran into...June 4th as a recent college graduate, ended up being redirected to Hong Kong where I started work there. That took me to Taipei, several times in Singapore and Hong Kong in-between again, but basically, in 2011, I was done with work in Taipei and decided it was time to try and give China another shot. A friend of mine introduced me to Ping An, the Chairman of Ping An, and that conversation led to joining Ping An as the Chief Innovation Officer and within months of taking that role we had setup Lufax and eventually, about the end of 2011, I jumped into Lufax full time.



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**Peter:** Okay, so what was it that...you know, you came on as the Chief Innovation Officer obviously, I imagine, looking at all kinds of things, what made you kind of settle on Lufax and what were you really trying to...what did you see as the opportunity?

**Greg:** I guess it was a little bit broader in that sense, I joined Ping An in 2011 because it was clear to me that Ping An had a huge platform and was unique in China as a large financial institution that was privately held and run in a very entrepreneurial way with a focus on innovation. So I felt, you know, as a foreigner coming into China that Ping An was the right platform and once I joined Ping An one of the first things we did was a strategic review of what areas or businesses could Ping An enter that it wasn't already in or what capabilities from a technology perspective could we add that would help Ping An deepen its interaction with its already large customer base.

As we went through that process...at that point Taobao was already growing very quickly in e-commerce. We saw that consumer needs in China hadn't been met by traditional banks. The Chairman of Ping An had a vision that said if you look at the US, you know, most savings weren't staying in deposits and most corporate borrowings weren't coming from banks, they were coming from capital markets.

So as we went through a review of the market here in China, we said could we use technology, could we use an online platform to build a bridge between those who needed funds and those who had funds or could we build a bridge between financial institutions who had assets and people that were looking for investment opportunities because the market back in 2011, and it's still true today, was really starved for a broader range of good investment tools for consumers in the market.

**Peter:** And we should say too that Ping An is an insurance company, but I know it obviously has many different divisions so this was sort of done in the context, right, of an insurance company looking for new business lines.

**Greg:** It was done in the context of an insurance company that had grown into Ping An Holdings and had bank licenses, leasing businesses, securities, trusts and all 26 different financial licenses and the idea was, at the time, instead of trying to build another business where you own the end-to-end...i.e, you create the product, you own the distribution and everything is in-house, if you will, could we use an online platform to solve the problem as I mentioned before, but then also create an open architecture that said look, at the end of the day, what we really care most about is about being able to serve more clients and to increase the frequency of interaction with those clients, who provides the product, you know, is open. The best products probably come from the market as a whole rather than something you would create so that was the vision...is to create something new, take advantage of market trends, deepen the interaction with the customer base, but do it with an open platform/architecture. In other words, to create some form of marketplace that would allow us to do that.



**Peter:** Right, right. And we should also point out to the listeners who are wondering how you're pulling this off. You actually do speak fluent Mandarin, right? I've actually seen you present in English and in Mandarin and it's always a big crowd pleaser for the Chinese when you do that. So how long have you been able to speak Mandarin?

**Greg:** As part of my studies, I went to Middlebury which has a language program and so I studied Chinese in college, spent my junior year in Taiwan and Beijing so I've had that as a basis now for about 30 years that's been quite helpful for my career in Asia.

**Peter:** Yeah, I'm sure. On that, just as an aside, are most of your conversations you have with your management and the Ping An people, are they done in English or is it done in Mandarin?

**Greg:** My day is about 90/95% in Mandarin, after 6:00 pm when my brain starts to wind down, I try to find and interact with people who have better English capabilities. (Peter laughs)

**Peter:** Right, so you launched your peer to peer lending product. Basically, your first product was this peer to peer lending product so explain how that works, sort of the market you are going after and how you were able to get that up and running.

**Greg:** Well when we first started the idea was that we would create some form of broader fixed income market, almost an asset securitization marketplace. Back in 2011 in China, there was really no legal framework that would allow us to do that and so we literally spent months sorting through different ideas, working with lawyers to figure out what we could do that would be legal. As we drilled down we found that in China there was this concept of, the courts would honor a contract between two private individuals if one was making a loan to another so we said, okay, here is a place, it's smaller than we thought where we wanted to go, but at least it is a place where we could start.

Ping An having a lot of consumer data, having operated in consumer finance, having a bank that issued a lot of credit cards, having a large auto business that had a lot of data from that, auto insurance business, a lot of data from that, we knew that we could build a consumer finance risk model on that data that would allow us to collect potential borrowers. We knew that Ping An had a consumer finance business which could also be a source of borrowers and from there we just said, okay, let's use this legal framework and connect the investor and borrower online.

So when we started doing it, I guess we launched in the first quarter of 2012, we didn't actually know that what we were doing was called peer to peer. (Peter laughs) After doing it for about six months and then having had some time to breath, we started to look around the rest of the world and found a company called Lending Club and a company called Prosper that had been doing it since 2006 and we were like wow, that's great, you know, what we are doing is not totally crazy, other people have done it, but we didn't know what we were doing in the beginning in the sense of what to call it.



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**Peter:** So even in the Chinese market you didn't come across CreditEase or Hongling or any of the other platforms?

**Greg:** Well we knew that CreditEase existed, but at the time those platforms were really doing an entirely offline model.

**Peter:** Right.

**Greg:** And so we didn't really look at them per se because we knew...one of the rules that we followed from day one till today is that in terms of investors, we never want to touch the ground, we want always to be online, and we want all account opening, on-boarding, everything to be online because we believe that the opportunity is through an online platform, you can lower cost a lot and you are then able to pass more return on to the investors which then gives you a competitive advantage on creating an investment platform concept.

**Peter:** Sure, sure. So on the borrower side, my understanding is you have a large offline network that you use to find borrowers. Can you just talk a little bit about that side?

**Greg:** Sure, one of the things that gave us confidence getting into this space and we could start to do something is that Ping An had been running a consumer finance business offline for probably about four or five years at that time. Ping An being quite different had actually hired a team from Citibank out of Korea to build that business so they already had been building up...they probably had about a couple of hundred stores offline at that point, they were probably processing a couple of hundred thousand borrowers per year.

One of the things we did when we kicked off the business was to cooperate with them because their borrowers were basically people they had found in the market that they had screened with some credit data and they had added a credit insurance through Ping An where the loan ultimately came from a bank and then Ping An Insurance would make the bank good if the borrower didn't repay. They already had that network which we then helped move online from the process of matching the borrowers to investors.

**Peter:** Okay, so these are unsecured consumer loans?

**Greg:** These are unsecured consumer loans in the beginning. The average size back then was probably about \$5,000 maximum per borrower and then after doing unsecured for about two years, we did move on to looking at secured, started serving small businesses where the small business owner as an individual owned several homes because a lot of small businesses in China didn't have a lot of good investment opportunities so their value was being stored in property and started offering secured loans probably about two years after we did unsecured.

**Peter:** Right, and just one more quick question on that before we move on, how did you find the underwriting process when...obviously China doesn't have, you know, a large credit bureau covering the vast majority of the population like we have in the US, so how are you underwriting these borrowers?



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**Greg:** We use multiple sources of data. The credit bureau in China itself is better than people think, it covers close to 400 million people with reasonably good data today. You know, obviously the population is 1.3 so the coverage is low compared to the US, but for those borrowers in primary/secondary cities there's reasonably good coverage.

But we also, over time, have been experimenting with a lot of third party data, so called big data, we obviously look at application data quite closely and we have a bit of an advantage in that since Ping An, the entity today is called Pu Hui which has the network of stores to source borrowers has been doing this for ten years and we merged them in about a year and a half ago. You know, they've got ten years of behavioral data now that is probably the most powerful part of our credit model which is as soon as we get a new applicant we're able to take their application data, the third party data and compare which is always the most powerful thing and that's probably our biggest advantage when we do underwriting today.

**Peter:** Right.

**Greg:** But underwriting today is now augmented with all kinds of other stuff like we do screen borrowers through an online interview really over the mobile where if we regard them as being a little bit higher risk or if there's some data that is not as clear, we'll take them through an online interview. That interview will then be recorded and using big data and facial scanning, we'll actually try and detect potential fraud, lying and the rest of it, which is becoming a more powerful tool.

**Peter:** Okay, okay, cool. I want to move on now to the other parts of your business because I know that you have expanded significantly from those early days with really that one business so can you just take us through the different business lines that Lufax has today?

**Greg:** Today we have about three main lines so peer to peer itself, then we have an entire fixed income wealth management business which is working with up to about 300 institutions where we work on effectively securitizing assets from them, we screen the assets, we rate the assets, we put them on the platform, those are then bought in a primary market and can also be traded in the secondary market, that's a very big part of our business today.

The third line is that over time our approach has become to try and serve all parts of the customer investment wallet so we also have more than 3,000 mutual funds on the platform. We have all different forms of insurance products on the platform and as an extension of that recently we opened up Singapore, which allows global products to be provided there. So we now have virtually all forms of investment products covering all classes of investment from fixed income right on through to equities, money market funds, insurance products and the like.

**Peter:** This is all focused on the individual investor?

**Greg:** Yeah, I mean, we do have on the platform capabilities and services for institutional traders, but what I just described is very consumer focused.



**Peter:** Right, okay so you basically, you started off in peer to peer and you got a whole bunch of investors I know through that, is that still sort of lead gen for your other products or are you now really going out there and sourcing investors with these other products as a primary offering?

**Greg:** The fixed income wealth management has proven to be very strong in also sourcing new customers in part because of its volume and its speed. One of the problems with peer to peer is even though it's a great business and offers a very attractive investment for investors, the scale of it is just smaller. So today peer to peer as a source of new trading volume on the platform, represents about 10% so we have found that other products including money market and depending on where the stock market is, mutual funds are also a source of bringing in new customers.

**Peter:** Okay, okay. So then you said...we sat down a week ago now, or a bit over a week ago in Shanghai and you talked with my partner, Jason, and you mentioned that wealth management is your core and you're really focusing on creating a better investment experience for your investors. So, how are you trying to do that?

**Greg:** Well we think that in China, but I guess it's true globally, that what investors really want is to see a set of products that is in line with their investment goals, their risk appetite and if you can do that in an online environment where you've got all of your product ratings done reasonably well, where you've got a good KYC foundation to do a good recommendation and potential product matching with customer need, that in an online environment is very easy, you can make it very transparent, you can make it very fast and if you're doing it in a lower cost way, hopefully, in the past through from product provider on through to investor, you are able to give the investor a better return.

One of the things in China that's been very important is that there's a lack of liquidity in virtually all investment products outside of mutual funds so for the wealth management fixed income offering people may buy a product that has an initial duration of anywhere from six months to three years, but if they want to trade that on a platform, you know, because they have better investment opportunities or whatever, they can go back and trade. So for us better investing is better selection, better transparency, recommendation tools to get to the right product and then liquidity if they need it.

**Peter:** Right, and so what about education because I've read lots of different articles about the average Chinese investor isn't that sophisticated, not, mind you, the average US investor isn't either, but I'm just curious about what role that plays because you're offering...I mean, even mutual funds, fixed income products, these need a little bit of an explanation so what are you doing around education?

**Greg:** So we do three things, one is just at the disclosure level. For each product there's a rating that goes with it, there's an introduction to the asset, there's a highlight of the risks, but I



think what's important is we have boiled that down to a 5-star rating system so that people know broadly what sort of risk category or what sort of risk level they're getting into.

The second is we spend a lot of time developing our KYC where we really advise on two dimensions to assess customer investment need and risk tolerance. One is their level of income and two is their risk appetite and we use our product rating and the combination of our KYC tools that actually suggest to customers what their range of investment should be. We rate our investors on one to five, five being most aggressive, we also rate the products in terms of risk one to five. A very conservative customer on our platform, let's say he is a one, can only buy a risk rating one or two amongst the safest categories on the platform. If he tries to buy something that is beyond his KYC rating, we just basically block it, it cannot be done.

**Peter:** Interesting. Okay, so I want to talk a little bit now about the scale you're at, what can you share as far as number of customers, you're AUM, where are you at as far as the size of your business?

**Greg:** Sure, at the end of last year which are the numbers we've reported publicly, we were at a registered number of 30 million investors with just north of 7 million active which had invested through the platform about, just north of \$60 billion in client assets.

**Peter:** Okay, that is a fair size and I'm sure you've grown since then, but I realize you can't share more than that, but how are you being impacted by the new peer to peer regulations that came on board and sort of the regulatory environment in general in China? Has that been a good thing for your business?

**Greg:** I think like all regulation when you're the market leader, you've got to make adjustments to your business. A lot of the industry...but long term regulation ends up creating probably a higher bar and certainly a healthier industry which is good for us. The regulation that's gone on in China up to now has really been in a couple parts.

One part has been on peer to peer itself which really hasn't had that much impact on our business. One of the key parts of the peer to peer regulation is that the total amount of loans that one borrower can take per platform was capped at 200,000 RMB or about \$25,000. We had about 7% of our business which was north of that cap and 93% was within so we just made some adjustments a couple of months ago to fix that. So for the peer to peer side, it has been reasonably aligned with what we've been building over the last number of years so not that much impact.

The second area has really been all the requirements around being a distributor for fund products and for insurance products and there you have to have, now in China very clearly, a distribution license either from the insurance regulator or the securities regulator and we applied and obtained those licenses over the last year or two so that's been fine for us but it really has started to push out a number of purely tech platforms that were distributing financial products and that will continue to be I think quite stringent.



The third area around regulation is all of the wealth management, all of the fixed income and here the issue is around the definition of qualified investor and the minimum size of ticket that you have to sell to a qualified investor and that regulation is still shaping. It will probably go up and down a bit in terms of what the requirements are over the next six to 12 months. What we've got in China right now overall is a desire by the top regulators to really drive stability, and reduce the amount of leverage in the system.

So there's going to be I think some impact from that side, but again, I think once all of these things get worked out you have the construct for a much clearer industry, a much healthier one, obviously we've had a lot of problems in China and I think what you'll see is consolidation as a result of that. It's not going to be consolidation in terms of companies merging, but probably, if you will, a lot of weeding out of smaller platforms that really haven't built the risk management capabilities, really haven't built the KYC capabilities.

**Peter:** Right, right, so your investors...you obviously have the concept of accredited investors here in the US and there are many investments that are not available if you are not an accredited investor. So in China, the 7 million investors that are active on your platform, is there any kind of asset limit or any kind of limit as far as who can invest?

**Greg:** Yeah, there is actually a number of different hurdles that we have put in place for investors so one is depending on the outcome of their KYC in terms of risk appetite and risk absorption capability. Only those customers who have gone through the KYC and have been rated to a certain level can buy certain products and then there is in the industry today regulations around total net assets that you have to have to buy certain non-standard types of investments, minimum requirements on annual income at an individual or family level and we've been gathering that data over the years.

So we think we're pretty well positioned to verify who's an accredited investor when those requirements come into place. What is going on in China at the same time is active management as a theme, you know there are asset management products created today under insurers, securities companies, banks and so forth and the standards are not the same because the regulators are different. And probably what we'll see in China over the next year or two is those standards will be unified under the direction of the Central Bank and that will create a much more clear playing field for wealth management as a whole in China.

**Peter:** Okay, so I do want to talk a little bit...you mentioned earlier that you had launched in Singapore recently. Obviously that's going to be for people who are outside China, but are you targeting Chinese who are offshore or are you targeting anybody like native Singaporeans, or other people, who are you targeting with that office?

**Greg:** I mean this office is really, if you will, if I had to put a target on it is middle class investors from Asia. Really taking the experience we had in China in terms of building up the entire infrastructure online so that you can, in a regulated environment like Singapore, open customer accounts, do all the on-boarding, all of the anti-money laundering and all of the customer



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management online and we think we can do this now at quite a low cost. We see that a lot of cross border investing in Asia that may be true around the world has really only been possible for private banking customers, it's traditionally been a face-to-face model which is quite costly and therefore has only been available to the upper end.

So our objective in Singapore is actually not to serve Singaporeans per se because the market size is smaller, but if you look out over the next five to ten years, you know, some research has been done that says roughly half to two-thirds of all new wealth in the world that's going to be created is going to be created from Asia and about half of that new wealth is actually coming from the rising middle class. So that's our target group.

It's those people who have overseas accounts already, who have US dollar accounts, who are looking to get better returns, who are looking to diversify, who are looking to support interest around kids' education overseas or maybe buying a house overseas as well. So that will include Chinese investors who have accounts overseas, but also a number of Southeast Asian markets as the platform gets built up.

**Peter:** Right, so you're really focused on Asia, any long term plans for elsewhere like for instance the US or other places like that?

**Greg:** So I think we'll keep our focus on Asia for the immediate future. I think that the US market, some of the European markets will be a very interesting source of products for us. One of the things in launching Singapore is we're looking forward to working with a lot of the fintech players around the world who've built some very interesting products who may not have the scale yet to come to Asia themselves and we'd like to be kind of a platform of platforms in the sense that if we can get these companies whether it's been in the area of robo, it's in the area of peer to peer or other forms of investment capability, allowing them come on to the platform so our customers can have access to that.

**Peter:** Okay, that's interesting. So that's a way for your customers to really to get geographic diversity and obviously asset class diversity. So you're open for potential international platforms to come talk to Lufax and get access to Chinese investors really through you?

**Greg:** Yeah, absolutely. We think that really not just the Chinese investors, but all of the middle class and we've done market research around the other Asian markets. A lot of people are holding US dollars who...you know, they have these investment needs overseas, but they're not familiar with the international markets, they're not ready to go to stock picking and you know, they're getting less than 50 basis points return and if there's a way for them to get access to safe, transparent investments that can improve that in a reasonably easy way we think there's going to be a large demand.

**Peter:** Yeah, not surprising. We're almost out of time, but I have to ask you this question. There has been a lot of talk about the Lufax IPO, I mean, your last funding round had your valuation over \$18 billion, so do you have a time table and a location in mind for your IPO?



**Greg:** Well we've done a lot of work, the situation is we're basically prepared to go when we think the market opportunity is right and while we haven't set the final location, we haven't done the filing yet. Certainly a lot of our work has been done around Hong Kong and that's probably the likely outcome, but is not finalized yet. You know, we're ready to go when the timing is right and for now that timing is really seeing through the regulatory process here in China. We think that when international investors look at China and they look at fintech there's been so much noise with some of the fraud and stuff, we really want to go to market when the regulatory framework is pretty laid down and the story is clear without too much distraction.

**Peter:** Right, that makes sense. Okay, last question then, what are you working on today that personally gets you excited?

**Greg:** Well, you know, one the feelings I have after six years of doing this here in China is that fintech in many ways is just getting going. I think what's happened over the last six years is the nature of access being transformed by mobile and the availability of increasing amounts of data has allowed us to set the foundations for providing services at a relatively low cost and covering a broad number of products reasonably quickly.

But I think if you look at what's happening increasingly with data, with AI, I think we're going to be in a world, over the next five years, where technology and data actually starts to change some of the nature of finance. I mean, risk is still going to be the key, but how this gets done, how products get selected, how matching gets done, how wealth management gets done, is going to be transformed.

I don't know exactly what the answer is, but I think if you look at just the capacity and capability that's being created now, being a fintech player in a market like China has so much potential that it's worth...I think the hardest part of our jobs now is to make the right choices so as not to get overstretched, but I think the amount of what can be done is going to be huge.

**Peter:** Yeah, indeed. Well on that note, we'll have to leave it there. I really appreciate you coming on the show today, Greg.

**Greg:** Thanks very much, Peter.

**Peter:** See you.

**Greg:** Bye.

**Peter:** Just picking up on Greg's last point there, I get very excited when I start to think about all the advancements that's been made in AI and analysis of data. We have such masses of data today and we need advanced systems to be able to make sense of it but as companies begin to really develop these systems and implement them, I feel like we are just scratching the surface of what we'll be able to do. And we're talking about not just being able to underwrite in a far superior way, in a quicker way, instantly, but talking about providing a whole range of financial services to the consumer that is tailored just for their needs. I think it's going to be exciting to



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see how this unfolds and China is going to be leading the way here and Lufax is really going to be leading the way in China.

Anyway on that note, I will sign off. I very much appreciate you listening and I will catch you next time. Bye.

This episode was sponsored by LendIt Europe 2017, Europe's largest international lending and fintech event. It will be held in London on October 9th and 10th of this year. To find out more and to register, just go to [lendit.com](http://lendit.com).

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