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# CASE STUDY

# 007FENQI

## CHAIR OF NETWORKED BUSINESS MODELS

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**Economics  
of Mutuality**

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# 007FENQI MICRO-LENDING ECOSYSTEM



## SUMMARY

007fenqi was created to provide microloans to Chinese college students and educate them on the importance of financial responsibility (Leong, Tan, Xiao, Tan, & Sun, 2017). While FinTech (financial services using disruptive technologies) represents a market opportunity in China, the credit profile of college students represents relatively high risks for traditional lenders. Many do not own assets that can be used as collateral nor have formal employment records demonstrating their ability to repay; most study in distant locations from their parents and have relatively low financial literacy. Founders of 007fenqi believed digital technologies

combined with an 'ecosystemic' approach offer the company a market niche in the financial sector. Drawing on the assets, data and experience of other involved stakeholders, 007fenqi offers a unique ecosystem proposition: microloans and instalment payment plans to pay for items they purchase on 007fenqi's self-owned and managed e-commerce site, with the proposition to find part-time positions to pay off the loans and the ability to invest in borrowing by other students. Working with ecosystem partners, 007fenqi's emphasis on careful credit assessment over short-term profits demonstrates its long-term commitment to enhancing the financial literacy of Chinese college students.

## BUSINESS ECOSYSTEM STRATEGY

FinTech in China represents a real opportunity in China because of the relatively underdeveloped consumer banking system and accommodating regulations that currently exist. At the same time, the need to serve the enormous number of college students is strong. Demands of Chinese students for microloans is significant, as many of them view laptops and mobile phones as necessities (Leong et al., 2017). The start of the cash-free university at Tianjin has only added to the buzz (Lant, 2017). Yet many students come from rural areas and have limited means.

Currently China has the largest student population, numbering 37 million (Xinying, 2016), many of whom are unbanked (they do not use mainstream, insured financial institutions). One recent report notes China has a huge unbanked population (approximately 12% of the global unbanked adults are in China), a low rate of credit card usage, and a lack of credit rating systems. Yet through companies like 007fenqi, China is increasingly skipping from cash straight to digital options through mobile phones (Lant, 2017). This presents unrivalled opportunities.

## CONTEXT

The 007fenqi founders are a group of young entrepreneurs from Zhejiang, China who offer students a one-stop-shop for financial needs. The founders identified college students as their targeted customers because they are excluded from most financial services. Yet they are a relatively low risk category for microloans, as many receive an allowance or stipend from family or colleges (Leong et al., 2017). The founders created a purpose that would leverage FinTech capabilities to enable students to take out loans, earn, invest and spend on its app resulting in financial inclusion (clarity on the purpose). Yet rather than starting out with all four simultaneously, regulatory uncertainty drove the founders to start operations with a self-owned e-commerce site and expand into microlending and other services in time. Engaging staff members with relevant expertise (banking, credit card) followed the timing.

Initially, 007fenqi offered students the most basic of the interesting items on its e-commerce site. They began with electronics and soon expanded to offer electronic repair services, apparel, training courses and face and body care. By 2016, 007fenqi saw they couldn't offer all products by themselves that students demanded and negotiated an arrangement with Wal-Mart to sell another 1000 products directly from the 007fenqi site. This move to supply e-commerce first had three major advantages. It meant: i) 007fenqi got to know its customers well through their spending and payment history (getting to know stakeholders and using that data to build ecosystem initiatives); ii) the e-commerce business brought in revenue to support the development of the other services; and iii) the hybrid offering buffers the risk of FinTech regulatory uncertainties in China. To further differentiate itself from competitors, including e-commerce giant JD.com, 007fenqi began to offer instalment payment options for items purchased from its fully-owned e-commerce portal. This payment method refers to the company name as "fenqi" in Chinese means payment through installments.

By the time 007fenqi entered the microloan market later in 2015, it was one of several players in China offering small loans to college students. Banks wouldn't lend to college students without a credit score, leaving this population without access to credit and struggling to meet certain needs. Contrary to banks, the start-up provides uncollateralized loans for students, who are not likely to own assets that can be used in the event of default. Moreover, most study far from their parents and have relatively low financial literacy. To address this challenge, 007fenqi partnered with six big data companies to formulate an alternative credit score for each potential customer based on non-financial data (i.e. utilities and telecommunications bill payment histories, behavioral patterns, identity and social network). This data is then later augmented by spending and payment history from the 007fenqi e-commerce system.

Incidentally, months after the inception of 007fenqi, a public debate arose within the industry about the major risk of defaults among students. In response, 007fenqi formed a partnership with a part-time

job portal (i.e. qtshe.com), hoteliers, as well as food and beverage operators. The vision was to offer customers help finding part-time employment to earn an income and ensure they make their payments on time (Leong et al., 2017).

The ecosystem is designed based on the typical financial lifecycle of a college student, which is to spend, loan, earn, and invest. The fourth and final stage of the lifecycle involves Peer-to-Peer (P2P) lending that pools financial capital and converts customers into investors. This part of the 007fenqi platform helps the firm expand its borrower base and attract new customers. While enhancing financial literacy is embedded into all corporate services, 007fenqi also offers “personalized financial advice” for students graduating from colleges to complete the package.

At each step, when 007fenqi saw that they could not succeed in a service by themselves, they identified and partnered with other organizations (i.e. Wal-Mart for e-commerce, big data companies to develop their proprietary credit worthiness system) or brought in expertise from customers or outside the ecosystem. In the crowd investing

service offering, the company leveraged existing clients and their purchasing power to enhance the customer base further (initiatives to address pain points).

## CHALLENGES

Apart from the novelty of using non-traditional data and techniques to develop the credit profile of college students, the main challenge for 007fenqi has in fact been regulatory. The financial services sector has traditionally been one of the most heavily regulated in the world. The FinTech story is one of disruption both in terms of technology and the slowness and uncertainty of new regulation to address those changes. In moving into this arena, the 007fenqi founders decided to follow a deliberate strategy to comply with all regulatory requirements (even when ambiguity exists) when designing services. For this reason, the firm began with an e-commerce portal before launching its microloan and payment by instalment service. As well, the 007fenqi annual interest rate on lending remains deliberately below the threshold sanctioned by financial regulators (Leong et al., 2017, p. 95).

**Table 1.** Ecosystem Pain Points and Solutions by Stakeholders - adapted from Leong et al. (2017)

		Stakeholders					
		Chinese college students	007fenqi staff	007fenqi merchants or e-commerce partner	Big data Companies	Job portal/job opportunity orgs	Gov. regulators
Initiatives	Microloans with e-commerce	--	Regulatory uncertainty	Students having means to purchase	--	--	Regulatory control
	Microloans through alternative credit assessments	Loans with low access to credit	Student credit condition	Students having means to pay	Information on segment with low financial literacy	--	--
	e-commerce in instalments (spend)	“Need essentials”	students making payments	students making payments	--	--	--
	e-commerce arrangement with partners	More products	system insufficient	(For Wal-Mart, it meant access to China)	--	--	--
	Job portal (earn)	Making payments, earning	Student financial literacy	Students making payments	--	Access to students	--
	Crowd investing (invest)	Helping peers, self-reliance	Widening customer base	--	--	--	--

F

## FINANCIAL CAPITAL

007fenqi is a story of inclusive banking with an ecosystem purpose that is broader than profit maximization. Its policies – developing alternative credit rating scores including a social-network based ‘guarantor’, holding interest rates low, leveraging an ecosystem business model that features earning and investing as well as stringent credit assessment over short term profits – demonstrate a resolute aim to include population segments previously disregarded from the formal banking system. The company’s peer-to-peer crowd investing services is a clear example of pooling (i.e. shared) financial capital. Already 007fenqi is one of the top five players in China providing college students with microloans. At one point, there were over 100, but the field has narrowed considerably. In mid-2017, 007fenqi registered over 300,000 users (Austin, 2017) and its user base continues to grow with nearly 2000 new applications per day (Leong et al., 2017).

S

## SOCIAL CAPITAL

The social capital element of 007fenqi is evident throughout its growth history. Its mission to offer microloans and products and services to Chinese college students has resulted in enhancing the financial literacy of this important population segment. The fourth service offered by 007fenqi, peer-to-peer investing, demonstrates most clearly the firm’s emphasis on social capital, as it helps facilitate cooperation and building trust for mutual benefit.

H

## HUMAN CAPITAL

Each of the four services offered by 007fenqi help enhance financial literacy, which is related to human capital. Stronger elements of human capital are represented in the earn basket of 007fenqi services (job portal), as this helps enhance college students’ skills training, a critical pathway toward improving their productivity and economic prospects.

## PROGNOSIS

Financial literacy from youth is a catalyst for responsible and sensible financial behavior later on in life. Understanding this, 007fenqi has been willing to trade off short-term profits in order to build a healthier ecosystem that would ingrain a sense of responsibility into its young customers. For instance, 007fenqi's approval rate for loan applications hovers around 30% because the firm believes it is more important to ensure that only truly qualified customers are granted credit (Leong et al., 2017, p. 96).

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## ADDITIONAL INFORMATION

### Location:

China

### Year created:

2015

### Sector of activity:

FinTech and commerce

### Purpose & Mission:

Boosting Chinese college students' financial inclusion through microloans, e-commerce, jobs and investment services

### Size:

From 2017, 007fenqi has over 300,000 registered users. It has become one of the top lending platforms for 37 million Chinese college students

### Stakeholders in the ecosystem:

007fenqi (financial, e-commerce, technical, job matching), e-commerce merchants including Wal-Mart, big data companies, job providers (property, hotels, food and beverage), and college student customers and lenders

### Key Financial Performance Indicators:

007fenqi's emphasis on credit assessment over short-term profits is evidence of its long-term planning and commitment to enhancing financial literacy of Chinese youth