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CASE STUDY—AUGUST 2020

网商银行

MyBank

MYBank's gender-driven approach to lending

A GENDER FINANCING GAP

Micro, small, and medium enterprises (MSMEs) are engines of growth. Yet they also face persistent financing gaps, with women-owned businesses also confronting challenges such as the protections related to nondiscrimination in credit.[1] Data from the SME Finance Forum indicate that China's 74 million MSMEs face a financing gap of 43 percent, rising to almost 63 percent for women-owned small and medium enterprises (SMEs). For the banking sector, closing this gap presents a Y 1 trillion ($1 billion) opportunity, one that MyBank has begun to seize through its data-driven approach to lending.[2]

Quick facts about MyBank

A subsidiary of Alibaba Group's Ant Financial Services, MYbank was established in 2015 with a focus on serving SMEs and farmers. The platform was among the first batch of private commercial banks to be piloted in China and leverages artificial intelligence, computing, and risk management technologies to improve customer service and increase efficiency.

Founding year: 2015

Footprint: China

MYBANK LEVERAGES DATA FOR FINANCING DECISIONS

Since 2015, MYBank—China's first digital bank, a brand under the Ant Financial Services Group—has provided loans to more than 20 million SMEs in China.[3] Whereas traditional banks have historically steered away from MSMEs because of their lack of formalization and a higher risk of default,[4] MYBank's data-driven approach uses more than 3,000 variables to assess an applicant's ability to repay within three minutes—or with a few taps on a smartphone. MyBank has a default rate of just 1 percent.

But the majority of loans approved through MYBank are not made on the basis of credit history or collateral, which many small businesses in China—particularly those run by women—do not have. Instead, MYBank's algorithms weigh risk using repayment data from parent company Alibaba's financial services, including Alipay, which boasts 900 million users in China. This use of algorithms allows them to quickly and cost-effectively assess monthly sales of small businesses and their repayment patterns, enabling what they call the 3-1-0 lending model: borrowers can complete their online loan applications in 3 minutes, obtain approval in 1 second, with 0 human interactions.

MYBank's approach is increasingly seen as effective or more effective than traditional credit scoring. Research by Peking University's Institute of Digital Finance finds that digital credit-scoring systems are able to predict default risk better than traditional banking models because they (a) draw on real-time transaction data, (b) expand beyond balance sheets to include

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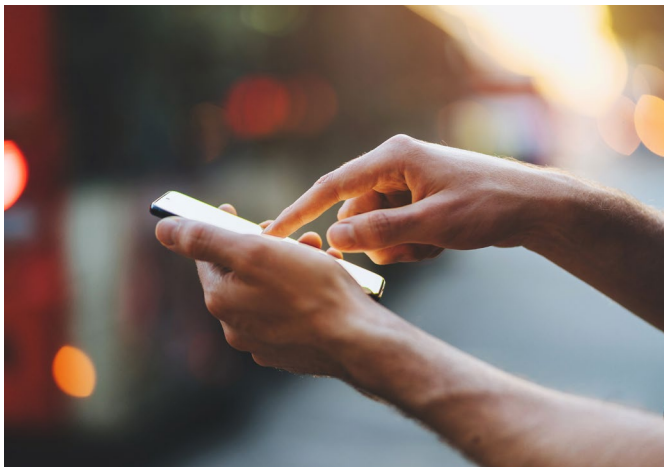
behavioral variables and network indicators, and (c) by doing so are able to better capture nonlinear interactions compared with traditional banking's more linear models.[5]



TARGETING WOMEN ENTREPRENEURS

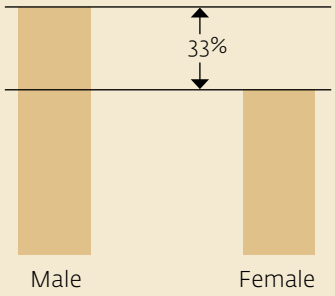
Women-owned SMEs present a particularly large opportunity for MYBank; analysis of historical data by the platform reveals that women-owned SMEs have lower risk levels compared with those owned by men. In addition, analysis of performance shows that women-owned SMEs are 8 percent more likely to receive a loan approval based on their risk profile.

The analysis prompted specific initiatives to be developed that are aimed at drawing more women to take advantage of MYBank's offerings, including the Women's Entrepreneurship Program in MYBank's suite of trainings, SME College.

To date, MYBank has provided loans to more than 7 million women-owned businesses totaling Y 500 billion ($43.8 billion)[6] and has provided women-owned businesses interest relief of more than Y 150 million ($21.1 million).

Figure 1: Credit risk level by gender of MyBank platform users

33% difference between male and female risk level



1 World Bank, *Women, Business and the Law 2019* (Washington, DC: World Bank, 2019), http://pubdocs.worldbank.org/en/702301554216687135/WBL-DECADE-OF-REFORM-2019-WEB-04-01.pdf.

2 Shi Jian Ping, *China MSME Finance Report 2018 (Compact Edition)*, (Beijing: Mintai Institute of Finance and Banking and Central University of Finance and Economics, 2018), https://www.smefinanceforum.org/sites/default/files/blogs/China%20MSME%20Finance%20Report%202018.pdf.

3 Bloomberg, "Jack Ma's Online Bank Is Leading a Quiet Revolution in Chinese Lending," *Fortune*, July 29, 2019, https://fortune.com/2019/07/29/jack-ma-mybank-lending/.

4 John Wong and Wei Liu, eds., *China's Surging Economy: Adjusting for More Balanced Development*, Series on Contemporary China, vol. 11 (Singapore: World Scientific, 2007).

5 Leonardo Gambacorta, Yipin Huang, Han Qiu, and Jingyi Wang, "How Do Machine Learning and Non-Traditional Data Affect Credit Scoring? New Evidence from a Chinese Fintech Firm," BIS Working Paper 834, December 19, 2019, Bank for International Settlements, Basel.

6 Information provided by MYBank.