REAL LEARNING. REAL IMPACT

IN THE FIELD WITH PING AN

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How can an incumbent go beyond the boundaries of its traditional business and become a tech giant?

Ping An is now the most valuable insurance group worldwide and ranks seventh in the Forbes Global 2000 ranking of public companies. Ping An began in 1988 by selling property and casualty insurance, but soon expanded to banking and financial services. Although firmly rooted in finance, the company invested heavily in new technologies and launched an array of spin-offs that operate far beyond the boundaries of its traditional business. How exactly did Ping An transform its solid but predictable businesses, like life insurance, to enable it to become a tech disruptor?

THE BROADER ISSUE

The rise of tech giants such as Alibaba and Tencent not only unlocked new waves of growth through the internet, but did so in a way that had never before been seen in the traditional economy – the sector in which Ping An was rooted. Peter Ma, the founder and chairman of Ping An, observed the internet economy's ubiquitous quality, which affected the way people worked, lived and played. Whether in e-commerce, mobile payments, games or texting, little was left untouched, including insurance and other financial services. Ma did not want Ping An to be left behind.

At a glance

- Ping An of China successfully built up its technology capability and transformed from a traditional financial services firm to a technology ecosystem.
- It incubated 11 technology affiliates across five verticals: financial services, health care, automobiles, real estate and smart cities.
- With financial services, technology and ecosystems empowering each other, Ping An succeeded in increasing its market value by more than 400% in the six years since 2013, when it began to move its IT systems to the cloud.

Moreover, the world is changing how companies are evaluated. In 2006, among the world's ten most valuable companies, three were banks (HSBC, Citigroup and Bank of America), and the leading sectors were energy and financial services. By 2019, the top ten was dominated by tech-related groups, and only one bank was there. This change reflects broader trends in company valuation. Value is increasingly being attributed to intangible assets – brand, know-how, intellectual property (IP) and data. Valuation linked to tangible assets has decreased, and asset-heavy organizations are not being rewarded by investors (see Figure 1).

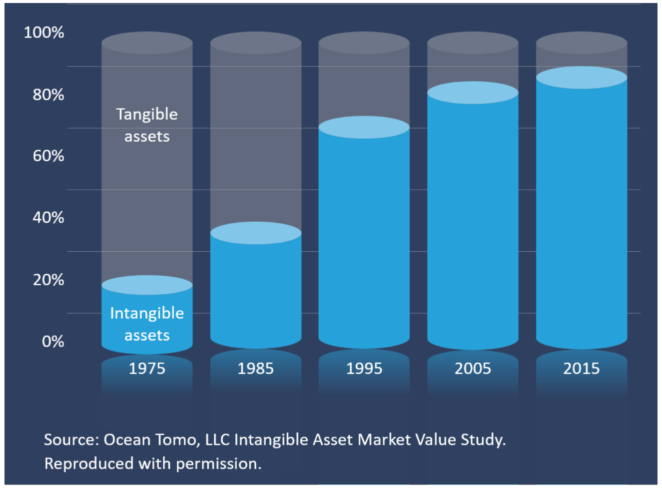

Figure 1: Market value of S&P 500 (1975–2015)

ADOPTING TECHNOLOGIES, INCUBATING START-UPS AND ORCHESTRATING ECOSYSTEMS

Empowering financial services with technlogies

In 2013, digitalization such as cloud computing was still a fringe phenomenon. Peter Ma anticipated the trend and began to prepare Ping An by investing aggressively in the cloud. Jessica Tan, an MIT graduate and former McKinsey partner, was tasked with moving all of Ping An's proprietary IT systems to the cloud. Tan later became one of three co-CEOs under Ma. She recalled: «This was unthinkable at the time. There was no organization in the world that was doing this back then. But we moved 80% of our production systems to the cloud nonetheless. It took time and it was a painful process.»

Building its own cloud allowed Ping An to develop advanced data analytics across businesses, an essential step in the company's efforts to become a technology-driven company. Another crucial step was designing a suite of software services based on artificial intelligence.

Empowering ecosystems with technologies

Adopting technologies to improve internal efficiency is one aspect of Ping An's strategy. The company leveraged the technology infrastructure to orchestrate ecosystems in a manner and form not seen before.

Ping An branched out into new businesses and brought its ecosystem to scale. The fintech spin-off OneConnect is a microcosm of how itachieved this. Recognizing the opportunity to export its technology and expertise to other banks and insurance companies in China, Ping An set up OneConnect Financial Technology Co., Ltd in December 2015 to help regional banks digitalize to better serve their market segments. OneConnect was listed on the New York Stock Exchange in 2019, with a valuation of $7 billion. By 30 June 2020, OneConnect served all of China's major banks, 99% of its city commercial banks and 53% of its insurance companies.

Ping An incubated 11 affiliates like OneConnect by doing four things:

1. **Sharing talents**: When it set up new ventures, Ping An equipped the start-ups with talent in the fields of finance, consultancy and especially technology, bringing in people from Ping An's own technology department. Ping An maintained very fluid talent deployment across the businesses.
2. **Encouraging entrepreneurial spirit**: Ping An allowed the managers in charge of these businesses to be much more entrepreneurial by aligning the compensation incentive scheme to be more like that of a start-up.
3. **Allowing capital infusion from outside**: Ping An routinely brought in outside investors in the early

stages of new start-ups. This reduced capital constraints and lowered Ping An's investment risk, allowing it to be more patient and wait until the new start-ups were able to make a profit.
4. **Granting true autonomy**: Ma regularly advised on significant issues, but the senior management teams were entitled to make their own decisions on strategic direction. Each company used its own industry- and company-specific management methods and key performance indicators (KPIs).

Creating synergies among the ecosystems

Autohome, an online car-buying platform, was the only unicorn that Ping An acquired rather than building from the ground up. Ping An not only leveraged its technology to transform the platform but also added banking, finance and insurance to Autohome's business. Ping An even distributed 3,000 credit cards a day through the platform. There was a kind of learning reinforcement – whether on data analytics or customer behavior – across the seemingly disparate companies. For example, it learned from Autohome that it could improve the techniques for running data analytics in Ping An Good Doctor – the largest online healthcare platform in China, which offers consultations to registered patients and aids physicians in diagnosing thousands of ailments. The ecosystems also created opportunities to cross-sell and attract new clients from one business to another. In 2019, a total of 74 million individual customers held contracts with more than one Ping An subsidiary.

DID IT WORK?

Between 2013 and 2019, Ping An's share price surged by over 400%. By comparison, during the same period, HSBC's stock price dropped by 2%. Ping An Insurance, despite its name, was no longer a financial institution. Instead, it had become a "finance + technology" and a "finance + ecosystem" company with five industry verticals around the key facets of consumers' lives: financial services, health care, automobiles, real estate and smart cities (see Figure 2).

It had incubated companies in all verticals and used various technologies to empower these companies. Of the 11 independent technology affiliates it funded, 5 outperformed the others: HealthKonnect and Lufax were still privately held start-ups, but their multi-billion-dollar valuations earned them "unicorn" status; Autohome, OneConnect and Ping An Good Doctor, meanwhile, were publicly traded as independent entities.

Figure 2: Ping An's strategy

Collectively, the 11 technology companies achieved a market valuation of $70 billion as of October 2020. Ping An itself was valued at $215 billion.

Ping An's ecosystems also helped it gain advantage during the COVID-19 pandemic. Although its life insurance business was significantly affected, more than 30 banks turned to OneConnect for digital services, and registered users of Ping An Good Doctor surged. The ecosystems represent a wide variety of revenue streams generated by satisfying different customer needs, which served to diversify Ping An's risks in times of crisis.

TAKEAWAYS

» **Harness technology capability.** For almost ten years, Ping An has invested 1% of its revenue – about 10% of its profit every year – in R&D in new technology.

» **Scale up innovation and connect with new partners.** Productizing technology and resources that might be useful for partners unleashes new opportunities. This is exactly the strategy of OneConnect.

» **Diversify your management team.** In Ping An, the top management team consists of a fair number of non-Chinese people with non-traditional financial backgrounds. This diversity also partly explains why Ping An was able to explore new business models more aggressively.

» **Change the mindset.** With the right mindset, people look beyond typical short-term planning horizons and are more open to taking risks. Even though Ping An is a very large organization, it has been able to generate this type of mindset and the results have paid off.

» **Kill "not-invented-here."** Stop relying on a "do-it-yourself" philosophy. The reason Ping An can allow a much longer payback period for its start-ups is that it brings in outside capital. Companies must mobilize whatever resources they can from inside and outside their organizations.

> Many CEOs of publicly listed companies are governed by the quarterly earnings cycle, so few are willing to invest unless immediate payback and near-term returns are guaranteed. If they start now, they will need a long time to catch up, by which time we will be even further ahead because we will continue to invest.
>
> **Jessica Tan** | Co-CEO, Executive Director and Executive Vice President, Ping An

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