



IN THE FIELD WITH PING AN

By Professor Howard Yu and Research Associate Yunfei Feng

Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

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 7th in the Forbes Global 2000 (a ranking of the world's top 2,000 public companies). Ping An began by selling property and casualty insurance but soon expanded to banking and financial services. While 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 disrupter?

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 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 had a ubiquitous quality to it, and 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 felt restless; he did not want Ping An to be left behind.

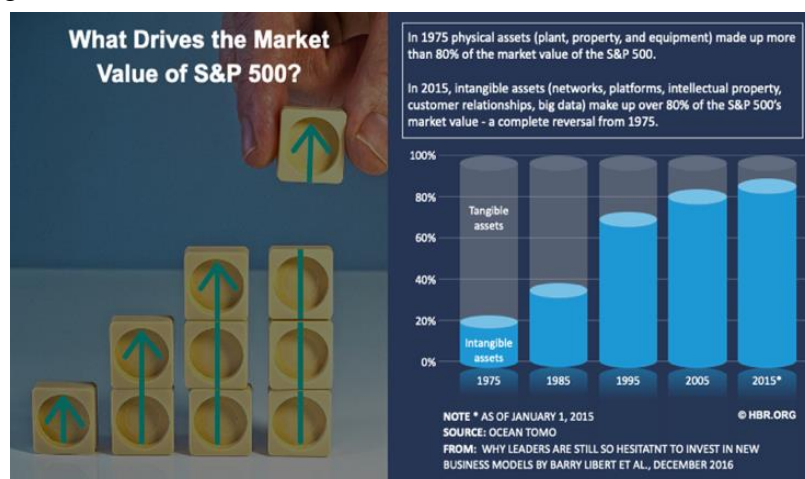


Figure 1 Intangible Vs Tangible Assets

Moreover, the world is changing how companies are evaluated. In 2006, among the world's ten most valuable companies, three are 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 made the top ten. This change reflects broader trends in company valuation. Value is increasingly being attributed to intangible assets – brand, know-how, IP and data. Valuation linked to tangible assets has decreased and asset-heavy organizations are not being rewarded by investors (see Figure 1).

ADOPTING TECHNOLOGIES, INCUBATING STARTUPS AND ORCHESTRATING ECOSYSTEMS

Empowering financial services with technologies

In 2013, digitalization such as cloud computing was still a fringe phenomenon. Ma anticipated the trend and had begun 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 the three Co-CEOs under Peter 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 very painful process.

Building its own cloud allowed Ping An to develop advanced data analytics across businesses, which is an essential step in the company's effort 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. What Ping An has done is to leverage the technology infrastructure to orchestrate the ecosystems in a manner and form we have never seen before.

In order to do this, Ping An branched out to new businesses and brought its ecosystem to scale. OneConnect is a microcosm of how Ping An did this. When it recognized 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. (OneConnect), a fintech spinoff, in December 2015 to help the digitalization of regional banks to serve their segments of the market. OneConnect was listed on the New York Stock Exchange in 2019, giving the company a valuation of \$7bil. As of 30 June 2020, OneConnect had 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:

- **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 a very fluid talent deployment across the businesses.
- **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 a start-up.
- **Allowing capital infusion from the outside:** Ping An routinely brought in outside investors in the early stages of new start-ups. This reduced capital constraints and lowered investment risk in Ping An, allowing Ping An to be more patient and wait until the new start-ups were able to make a profit.
- **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 KPIs.

Creating synergies among the ecosystems

Autohome, an online car-buying platform, was the only unicorn that Ping An acquired rather than building it from the ground up. After acquisition, Ping An not only leveraged its technology to transform Autohome, but injected banking, finance and insurance into Autohome's business. Ping An even distributed 3,000 credit cards a day through the platform. There was a kind of learning reinforcement across the seemingly disjointed companies. For example, it learned from Autohome that whether it is data analytics or customer behavior, this may also improve the techniques on running data analytics in Ping An Good Doctor – the largest online health care platform in China that 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 from more than one Ping An subsidiary.

DID IT WORK?

Between 2013 and 2019, Ping An's share price surged by over 400%, and 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 the lives of consumers: 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, five outperformed the others: HealthKonnnect and (until last month) 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. Together, all the 11 technology companies collectively achieved a market valuation of \$70bil as of October 2020. Ping An itself was valued at \$215bil.

Figure 2 Ping An's ecosystems



Ping An's ecosystems also helped it gain advantage during COVID-19 pandemic. While its life insurance business has been hit significantly, more than 30 banks have turned to OneConnect for digital service and the registered users of Ping An Good Doctors have surged. The ecosystems represent a wide variety of revenue streams from satisfying different customer needs, which diversified 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:** By productizing technology and resources that might be useful for partner will unleash new opportunities. This is exactly the strategy of OneConnect.
- **Diversify your management team:** In Ping An, the top management team is comprised of quite a substantial number of non-Chinese workers with untraditional financial backgrounds. This diversity also partially explains why Ping An was able to explore new business models much more aggressively.
- **Change the mindset:** With the right mindset, people look beyond typical short-term planning horizons and want to take risks. While difficult for large organizations, it is worth doing. Ping An has been able to generate this type of mindset within its very large organization.
- **Kill the “not-invented-here” syndrome.** Stop relying on a “do-it-yourself” philosophy. The reason why Ping An can allow a much longer payback period for its start-ups is that it brought in outside capital. Companies must mobilize whatever resources they can from inside and outside their organizations.

At a glance

- Ping An successfully build up technology capability and transformed itself from a traditional financial services firm to an ecosystem.
- It incubated 11 technology affiliates across five verticals: financial services, health care, automobiles, real estate and smart cities.
- Financial services, technology and ecosystems are empowering each other, resulting in an increase of Ping An's market value by over 400% compared to 2013 when it began to move its IT system to the cloud.

“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

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