Chinese business & finance

# China tightens online lending rules in fresh blow to Jack Ma's Ant Group

Tech platforms will be forced to provide capital for 30% of the loans they offer in partnership with banks


Ant, Group is set to come under even more valuation pressure due to the new rules © AP

**Primrose Riordan** in Hong Kong FEBRUARY 21 2021

China's banking regulator has tightened rules governing how online lending platforms fund their loans, a move that analysts say could hit the valuation of Jack Ma's Ant Group.

Under the rule changes announced over the weekend by the China Banking and Insurance Regulatory Commission, online lending platforms will have to contribute 30 per cent of the funding for loans they offer in partnership with banks.

The CBIRC will also cap how much capital commercial banks can commit to online lending in co-operation with tech platforms. The new rules will come into force next year.

The draft of the new regulations released late last year caused Chinese tech stocks to tumble, and was one of the catalysts for the abrupt cancellation of the proposed $37bn listing of Alibaba's online payments and lending arm, Ant Group, in Hong Kong and Shanghai.

Ant, which uses algorithms to determine the loans individuals are eligible for, is set to come under even more valuation pressure due to the new rules, experts said.

Wong Kok Hoi, the founder of APS Asset Management, said the rules were likely to force the current scale of fintech loans to "contract significantly" in China and the changes could force the companies to operate more like commercial banks. "Ant's business model will need to be drastically revamped," he said.

"This will raise financing costs for consumers and will cripple one of the fastest-growing business segments for Ant, almost certainly forcing a steep drop in its eventual valuation," said Michael Pettis, finance professor at Peking University.

Bruce Pang, head of macro and strategy research at China Renaissance Securities, said the new rules meant banks would be required to cap the joint lending business they carry out with these fintech companies. Some of the fintechs would also need to seek new licenses.

"Online lending platforms could face more valuation pressure with dampened growth prospects, considering that they would have to raise more capital to fund [themselves] in joint loans with banks," Pang said.

Before these new regulations on capital contributions, Ant had been funding only 2 per cent of its hundred of billions of dollars in consumer loans with most of the remainder coming from partner banks.

Ant's listing would have been the world's largest and was suspended just days before it was due to start trading.

The company’s Alipay app, which is used for payments, loans, and insurance, has more than 700m monthly users.

The cancellation was also seen as political, and came after Ma, Ant’s founder, had publicly criticised Chinese regulators.

Since then, the company has reached a deal with Chinese regulators to restructure its business, which would involve Ant placing all of its major businesses, including its technology units, inside a financial holding company.

The squeeze on Ant has pushed Chinese borrowers towards alternative lending platforms, many of which charge higher interest rates because they lack Ant’s economies of scale and have less sophisticated systems to identify and manage risk.

Regulators have in recent months taken a harsher stance against the nation’s burgeoning private fintech companies in official statements.

Ant Group declined to comment.