Ant Group

Ant ordered to restructure by Chinese regulators

Lending services could be severely weakened by loosening ties to Alipay payment platform

Details of Ant's 'rectification programme' have been made public for the first time since its IPO was halted in November © REUTERS

Yuan Yang and **Sun Yu** in Beijing APRIL 12 2021

Ant Group has been ordered by Chinese regulators to "cut off" the "improper connections" between its payment platform and its financial products, in the first public comments on the fintech giant's "rectification programme" since its blockbuster public offering was shelved.

The move could strip Ant down to a mobile payments platform, and severely weaken its credit businesses, said analysts. Only 36 per cent of Ant's revenues at present come from its payment services, with the remainder coming from digital finance.

The announcement by the People's Bank of China on Monday clarifies some of the uncertainty that has hung over Ant since November when Beijing halted the group's initial public offering in Shanghai, days before it was set to raise a record $37bn.

It also comes days after Alibaba, the Chinese technology group that owns a 33 per cent stake in Ant, was fined a record $2.8bn by Chinese antitrust regulators over restrictions it placed on merchants on its ecommerce platform.

"The aim is to restrict the financial nature of Ant's activities, and to make it return to its origins as a payments platform. It will have a big impact on suppressing Ant's consumer credit-lending businesses," said a senior official at a state-owned bank who regularly deals with Ant.

"The plans will force Ant to completely restructure their business," said Zhao Xijun, professor of finance at Renmin University of China.

"Under the rectification plan, they will need to put walls among their different businesses, and each business shall be under the regulation of its specific industry. The impact could be huge," Zhao added.

China's top financial regulators met the company on Monday to "demand Ant Group face up to the severe problems existing in its financial business activities, and the seriousness of its rectification work", according to People's Bank deputy governor Pan Gongsheng, in a summary posted on the bank's website.

"The need for a second meeting [since the first in December] suggests the PBOC has not been 100 per cent happy with Ant's progress on its rectification plan so far," said Chen Long, partner at Beijing-based research company Plenum. "It is likely that what Ant was putting on the table was not deemed harsh enough."

Since December, the People's Bank and Ant had conducted "in-depth communications" on the group's rectification programme, Pan said. The two sides had reached an initial deal this year, according to people with knowledge of the negotiations.

Pan emphasised that the regulatory drive to strengthen oversight of fintech was being done to reduce financial risk and improve data protection and anti-monopoly measures, citing the example of recent antitrust regulation and cases in the EU and US.

"Under the guidance of financial regulators, Ant Group will spare no effort in implementing the rectification plan . . . we will put our growth proactively within the national strategic context," the company said on Monday.

Ant arranged about one-tenth of China's total consumer lending in 2020 via two products: Huabei, which is similar to a credit card, and Jiebei, which offers small unsecured loans through Ant's Alipay app.

Chen said the regulatory changes would "eliminate a lot of the business that Jiebei and Huabei have at the moment".

Regulators have also demanded Ant apply for a personal credit reporting licence — an unprecedented move in China's nascent credit-rating sector, where the only two such licences in existence are held by government-backed agencies.

"I don't think Ant will be able to get a licence to do credit ratings. As a result, they may be forced to share their payments data with government agencies like Baihang in order to continue lending," said Oliver Rui, professor of finance at China Europe International Business School. "And if they don't have their own credit-rating system, they lose their advantage in lending."

Ant also confirmed that it would "in its entirety" apply to set up a financial holding company, as has been previously reported.

Additional reporting by Nian Liu in Beijing