

**Ant Group**

## The transformation of Ant Financial

Beijing has reshaped Ant's business as it prepares for blockbuster IPO



Jack Ma © Getty Images

**Ryan McMorrow, Nian Liu and Sherry Fei Ju** in Beijing AUGUST 26 2020

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Jack Ma's Ant Group has changed beyond all recognition in the five years since it was [first reported](#) to be seeking an IPO.

Back then, the Zhejiang Ant Small & Micro Financial Services Group was a \$50bn company that was disrupting China's financial system, offering anyone with a mobile phone an easy way to pay for things and invest their savings without having to go to the bank.

Today, Ant is aiming for a [valuation](#) of \$200bn to \$300bn in a dual-listing in Hong Kong and Shanghai, although meetings with investors are still ongoing.

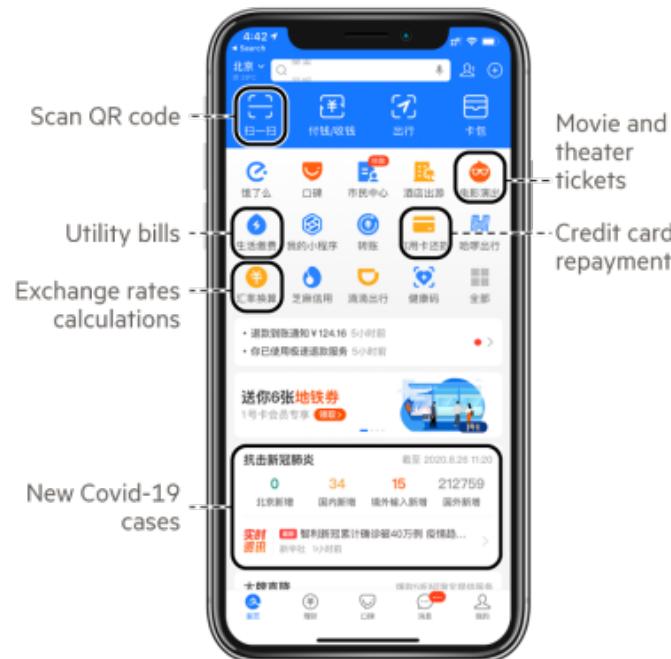
It still dominates mobile payments in China, but instead of competing with the financial sector, it has become a digital supermarket of others' offerings, letting users buy on credit, invest in mutual funds, and find insurance through established players.

It has even changed its name, from Ant Financial to Ant Group, to emphasise that it is a tech, rather than a financial services, company.

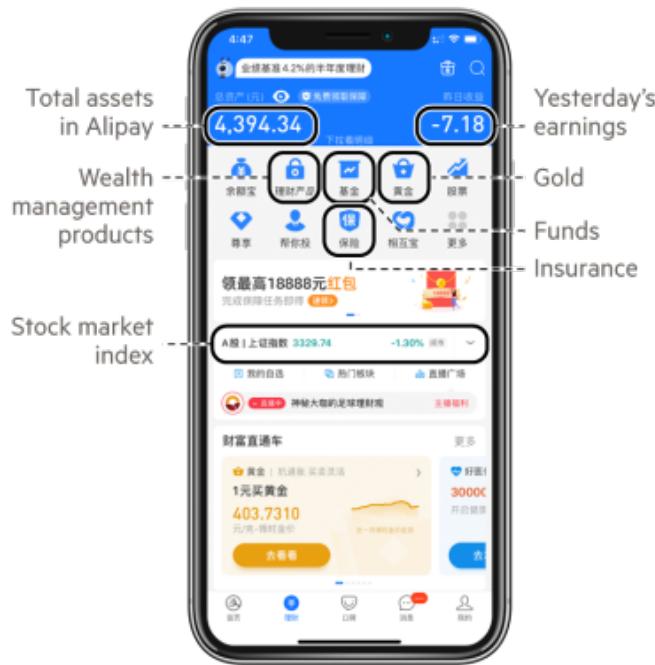
## Alipay, Ant Group's flagship superapp

From online payment to buying gold, it's an online supermarket of financial offerings

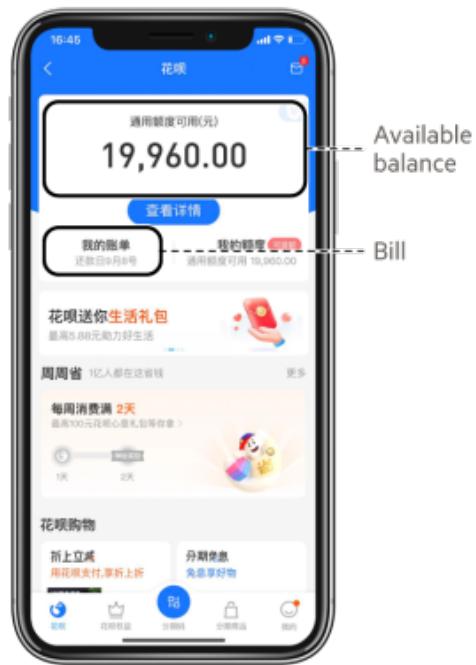
Alipay home page



Wealth management



Huabei consumer credit



Source: Nian Liu  
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Ant earned Rmb18bn (\$2.6bn) in net profit on Rmb120.6bn in revenue last year. It eclipsed that figure in the first half of this year, according to its IPO filing, with net profit hitting Rmb21.9bn. That growth has impressed analysts, with David Dai at Bernstein Research suggesting that Ant is likely to eventually trade at a similar 30 times earnings multiple as its peers Tencent and Visa.

Ant's transformation from a direct provider of financial services to an aggregator of a huge number of customers for other people's services began in 2017, when regulators in Beijing began to fret at the role the company was playing in the financial system.

The fees that Ant earned last year matching its users with financial firms' loan, wealth management and insurance offerings contributed 63 per cent of its revenue in the first half of the year, up from 44 per cent in 2017.

Nevertheless, Martin Chorzempa at the Peterson Institute of International Economics think-tank noted that large parts of China's financial system have been reorganised around technology platforms.

"It's the western bankers' worst nightmare of what would happen under an open banking system," said Mr Chorzempa. "Essentially, the banks lose their direct relationship with the customer and all of it is mediated by the platform."

## **Payments**

Ant's payment app, Alipay, launched in 2004 as a service for shoppers on Alibaba's ecommerce site. Today, it is used widely in the real world, too, with more than 80m merchants taking payments through the app every month.

But Ant's payment business, which processed Rmb118tn (\$17tn) of transactions in mainland China in the year to the end of June, is increasingly under pressure from Tencent-owned WeChat.



© AFP via Getty Images

Its share of China's third-party payments market has fallen from three-quarters in the first quarter of 2015 to about half in the first quarter of this year, according to Analysys.

At a store in Qijiayuan market in Beijing selling soft drinks, snacks and wines, almost all shoppers scan either the Alipay or WeChat QR code to pay. "Most customers use WeChat pay these days, very few use Alipay, and even fewer use cash," said the owner Ms Xiao. Neither Tencent nor Ant charge her a fee for transactions.

Ivan Platonov of research firm EqualOcean said shoppers prefer to use WeChat because they can easily toggle between messaging on the app and payments. WeChat is also the dominant channel for money transfers between friends and relatives. But Alipay's monopoly on payments for purchases on Alibaba's ecommerce platforms helps it remain the leader in online commerce payments, said Mr Platonov.

Mr Dai said that, while payments is the conduit that draws users into Ant's ecosystem of other offerings, it is unprofitable as a standalone business line. Partly that is because regulators in 2017 started reducing the amount of unused cash held in user accounts that **payments' groups** could invest for their own benefit, an important source of interest income, from 100 per cent to zero.

The reduction in payments' share of Ant's revenue — from 55 per cent in 2017 to 36 per cent in the first half of the year — has also helped strengthen Ant's bottom line.

## Lending

Consumers paying with Alipay also start borrowing from it. Alipay arranges small loans to consumers and small businesses and earns a service fee from the lender tied to the loan balance.

Last year revenue from its lending business grew 87 per cent year-on-year to Rmb42bn and it was Ant's largest revenue driver in the first half. About 500m customers took out loans through Alipay in the past 12 months.

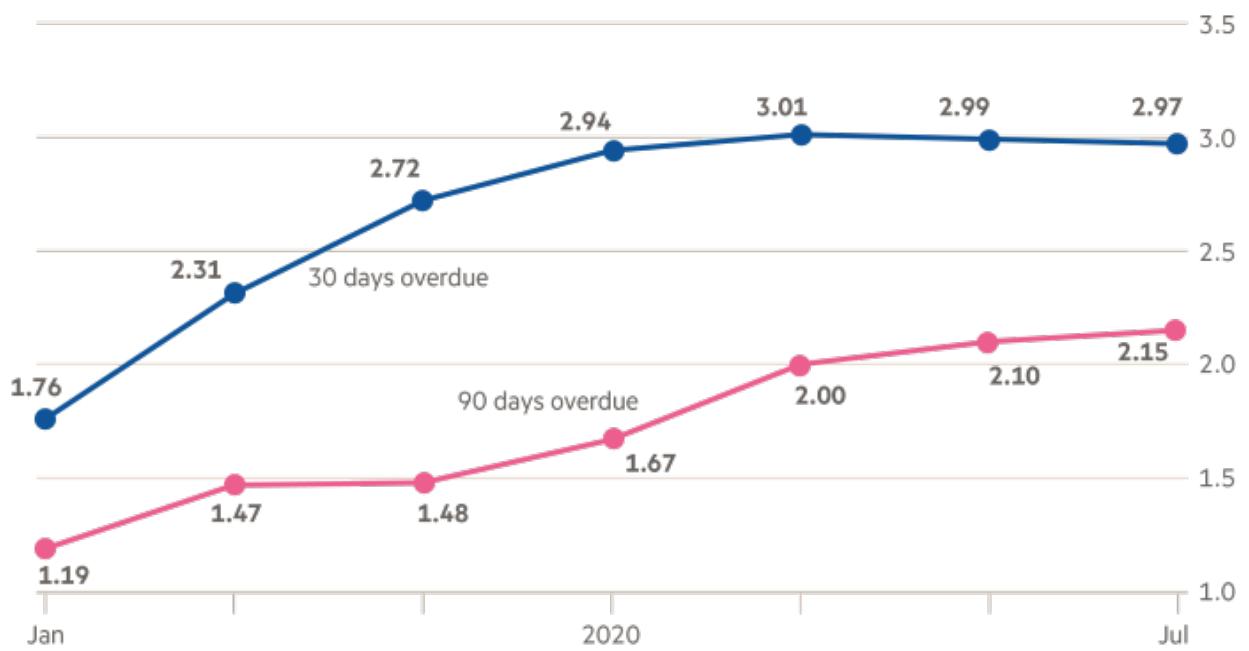
The balance of consumer loans it handed out stood at Rmb1.7tn as of June 30, with 98 per cent of the credit extended by its 100 partner banks or securitised by the company and sold into the market. China's total credit outstanding on bank cards and credit cards was Rmb6.5tr in the same period.

“Much of the decision making, the data, the risk analysis, the rules, the financial product — it is all designed by the tech company, not the banks,” said Mr Chorzempa. “The banks provide the capital, but in a way, the banks are becoming dumb pipes . . . vying for customers and businesses on the platforms of the big tech giants,” he said.

This year the coronavirus outbreak caused delinquency rates on loans to spike. While Ant is not on the hook for defaults, keeping the rate low is important for its lending partners. The company [earlier struggled to turn](#) its heralded credit scoring system, Sesame Credit, into a useful lending determinant and it was only mentioned a handful of times in Ant's 674-page prospectus as a “trust score” useful for deposit-free hotel booking and bike rentals.

## Coronavirus causes rise in delinquency rate

By balance (%)



Source: Ant Group  
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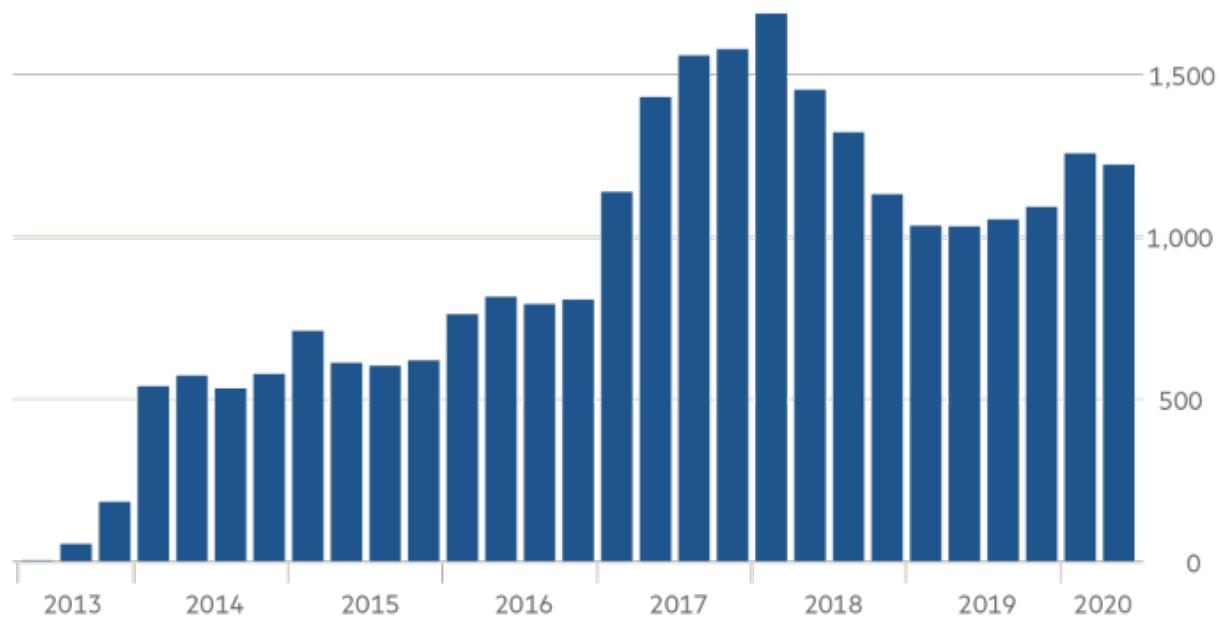
## Wealth management

Ant introduced its Yu'E Bao fund in 2013, allowing customers to invest the piles of cash growing in their Alipay accounts. For years its [Tianhong Asset Management](#) subsidiary invested all of the money and it ranked as the world's largest money market fund.

That is no longer the case today, with tighter regulations starting in 2017 gradually forcing Tianhong to shrink the amount each user could invest with the fund. Chloe Qu, an analyst at Morningstar, said regulators took action when they believed the Yu'E Bao fund had grown so large that a wave of withdrawals could cause systemic risk to the financial system.

## Ant's flagship wealth management fund past its peak

Assets under management at Tianhong Yu'e Bao (Rmb bn)



Source: Wind Financial  
© FT

Ant now offers competing funds in the Yu'E Bao slot and Ms Qu said most users have little idea which firm is actually managing their money. “If you can get your product in the Yu'E Bao channel that's like a money making machine, people are just piling their money in,” she said.

Ant earns a small commission on the money its more than 500m users invest with its asset management partners such as Invesco's China joint-venture and Bank of China Investment Management. It is the largest online investment services platform in China by assets under management, with a total of Rmb4.1tn invested through the platform as of June 30.

Last year, the business line grew 22 per cent year-on-year and added Rmb17bn to Ant's top line.

### Insurance and other projects

Ant's insurance business contributed seven per cent of revenue last year, growing 107 per cent year on year. Like with its other offerings, the company earns fees based on percentage of the premiums and contributions that users pay to the insurance firms distributing the products.

The company's innovation initiatives, like a block chain project, are similarly small, contributing less than one per cent of revenue last year.

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