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Ant Group Will Be Back, but Not the Same as Before

By QIAN Jiwei

China's Ant Group is in a strange fix. The financial technology (fintech) firm went within days from being on the cusp of the world's largest initial public offering (IPO) to those thwarted through new regulations by its own government. This sudden development has not only disappointed investors, but also raised the question of whether Ant's listing will return with the same fervour and magnitude.

The Alibaba-linked company was supposed to raise US$37 billion through listings in Shanghai and Hong Kong on 5 November – eclipsing the US$26 billion IPO of Saudi Aramco last December. In the lead up to the much-anticipated listing, the group faced great pressure from the Donald Trump administration in the United States in a move to derail these plans. Last month, the US State Department had proposed to add Ant Group to a trade blacklist in its effort to prevent US investors from participating in the Chinese company's IPO.

While Ant was cautious of any action from the Trump administration, it was caught off guard by a move from the Chinese government instead. On 3 November, the country's financial regulator introduced new rules on online lending – one of which requires online and micro lenders like Ant to provide at least 30% of the funding when it offers loans with other banks. This is more than the two per cent currently, while loans to individuals are to be capped at 300,000 yuan (US$45,347) or a maximum of one-third of the borrower's average income in the last three years.

LEVELLING THE PLAYING FIELD

With the new rules announced, the Shanghai stock exchange suspended Ant's IPO on the same day, prompting the company to also pull out of its listing in Hong Kong. Ant is one of the world's most integrated fintech platforms that provides services including payment, consumer lending, asset management and insurance services, among others. Ant's online lending

business has been a big hit – accounting for almost 40% cent of its revenue – as it provides easier access to credit for young Chinese through simple online platforms. Many of these borrowers have little income or credit history.

Such penetration of the lending sector has seen Ant underwrite about 1.7 trillion yuan (US$259 billion) worth of consumer loans and 422 billion yuan in small business loans for about 100 banks and financial institutions, according to media reports.

As a result of these developments, Chinese big state-owned banks have had to compete with Ant for customers. The new regulations could hence be targeted at levelling the playing field between major fintech players like Ant and the big banks which have been calling for the government to regulate the growth of fintech giants for years.

Even as early as 2014, Yang Kaisheng, a former president of the Industrial and Commercial Bank of China and then an adviser to the China Banking Regulatory Commission, urged that it was time "to step up regulation for the industry's own good". "The emergence of Internet financing is inevitable in China because it serves the grassroots better, but whoever is engaging in financial services, no matter online or off-line, must comply with regulations", he added.[1]

The new regulations thus force the likes of Ant to take on more risk and set aside more capital just like what the bigger banks are doing.

WRITING ANT OFF?

In spite of the IPO setback, the prospects remain bright for Ant.

For one, the company still intends to list, even though it has not confirmed if that will still be the case in Shanghai – industry professionals say more Chinese companies could look to list in the United States as president-elect Joe Biden may bring more stability to the regulatory regime. According to the prospectus filed to the Shanghai Stock Exchange,[2] Ant aims to invest the IPO funds in three major items — R&D in Artificial Intelligence (AI), blockchain, the internet of things and other cutting-edge technology; upgrading its infrastructure for cross-border payment; and innovating and digitalising services, with a focus on upgrading data infrastructure and developing services empowered by data-driven technology.

Moreover, digital data is pivotal to Ant's strategies, including technology development and internationalisation of its businesses. So even though the new regulations will increase operational costs for the group, the centrality of data in its operations and strategy is a game-changer.

Alipay, part of Ant, currently serves over 80 million businesses, one billion users and two million mobile apps.[3] The data generated by these users form the basis of Ant's comparative advantage as it uses massive digital data to increase operational efficiencies, reduce costs and control risks.

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[1] http://www.chinatoday.com.cn/ctchinese/zhuanti/2014-03/10/content_604854.htm, accessed 11 November 2020.

[2] http://static.sse.com.cn/stock/information/c/202008/e731ee980f5247529ea824d20fcdb293.pdf, accessed 28 October 2020.

[3] http://static.sse.com.cn/stock/information/c/202008/e731ee980f5247529ea824d20fcdb293.pdf, accessed 28 October 2020.

A recent news report suggested that Ant uses over 100,000 indices, more than 100 prediction models and over 3,000 risk management strategies to assess small and medium-sized enterprises' collateral-free loan applications.[4] With that, more inclusive financial services are provided especially for people or businesses which used to have difficulties accessing traditional banking services. So borrowers may still find Ant's loan offerings an attractive proposition.

Moreover, data and the deployment of AI-related technology are supporting Ant's penetration into the overseas markets. In recent years, Ant invested in fintech-related companies in Asia including Paytm in India, Ascend Money in Thailand, GCash in the Philippines and Kakao pay in Korea. Enabled by big data, Ant provides data analytics to support those payment companies in other countries.

Therefore, Ant's market power is likely to increase with the IPO amount it is set to raise, which would not only eclipse the loss of profit it would suffer under the new financial rules, but also increase the group's competitiveness. Specifically, while big data and AI-enabled technology can improve the accessibility of financial services, they also give the incumbent platforms more market power, compared to other financial services providers.

FUTURE REGULATORY CHALLENGES

Despite the inherent strengths in Ant's operational capabilities, which will be accentuated through its IPO, future regulatory changes in terms of data governance are likely.

Digital platforms such as Ant have so-called network effects, referring to the situation in which an increasing number of users on a given platform will improve the value of services or goods provided by the same platform. For example, the values of Facebook are likely to increase with the number of users. Likewise for mobile apps developed for Facebook on the platform.

With network effects, digital platforms like Ant benefit more from accessing additional data, compared to other firms. Further, it might also be costly for users to switch platforms. In many cases, to keep users, the AI-based data analytics supported by big data are used to accommodate their demand. Moreover, when switching platforms, users might have concerns on data privacy — about how the platform collecting their personal data will use the data.

As such, the Chinese government may consider further regulating how companies like Ant collect, share and use data. A recent report by the Bank for International Settlements suggests that well-designed regulation of digital platforms pertaining to data sharing, data privacy and data flow could support market competition.[5]

One interesting proposal is to support data portability. With data portability, a user is able to transfer his or her data elsewhere from the platform which collects the data. Data portability might be supported by open format data through "application programming interfaces".

Data privacy has been addressed to some extent in the European Union's General Data Protection Regulation. It requires digital platforms to get users' active consent when using or sharing personal data.

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4 http://www.xinhuanet.com/2020-04/23/c_1125892937.htm, accessed 28 October 2020.

5 https://www.bis.org/publ/arpdf/ar2019e3.pdf, accessed 28 October 2020.

Should China pursue such directions of regulatory changes in data governance, the changes are likely to further level the playing field. That may spell further challenges for the profitability and business model of digital platforms such as Ant.

Note: An initial version of this commentary was first published by Channel News Asia at https://www.channelnewsasia.com/news/commentary/ant-group-ipo-listing-china-suspension-fintech-rules-alipay-13516424

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