

Jack Ma

Beijing hints at truce in war on Jack Ma's business empire

Alibaba appears to escape tough punishment while Ant Group faces more severe measures



Jack Ma's Ant Group will be forced to impose tough remedies following a Beijing-ordered restructuring © Bloomberg

Tom Mitchell in Singapore and **Ryan McMorrow** and **Yuan Yang** in Beijing APRIL 14 2021

The contours of a possible truce between Beijing and Jack Ma's internet empire are beginning to take shape, with the Chinese billionaire's ecommerce flagship Alibaba faring better than its sister fintech unit Ant Group.

China's central bank, which has been leading the clampdown on Ant since its record \$37bn initial public offering was [abruptly halted](#) in November, this week outlined the terms of a "rectification" of the fintech's operations. The plan will have big repercussions for both Alipay, China's most popular online payments app, and Ant's huge consumer lending business.

The crackdown on Ma's companies is part of a broader effort to bring China's booming tech sector to heel, with regulators [summoning](#) 34 industry leaders this week and giving them one month to cease anti-competitive behaviours or face severe penalties.

The shock to the industry has been underlined by the [virtual disappearance](#) of Ma, who has only been seen in public once since he gave a speech at a Shanghai forum in October that is believed to have offended regulators.

The People's Bank of China this week [revealed demands](#) that could hinder Ant's lending business more than previously feared and have substantial consequences for investors. Even if it can [resuscitate its IPO](#) later this year or in 2022, it is unlikely to be the world's biggest, with Ant's valuation set to tumble below its previously estimated \$300bn.

"Overall, [Ant's] rectification plan is more onerous than we expected," said Dong Ximiao at the Zhongguancun Internet Finance Institute in Beijing. He added that Ant could have to raise up to Rmb200bn (\$30.6bn) in capital to comply with all of the regulations.

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Former Alibaba executive

"Most predict that Ant Group's valuation will only reach one-third of its highest level after Ant transforms into a financial holding company," analysts at Guotai Junan Securities wrote in a note.

The tough remedies for Ant contrast with those for Alibaba, which on Saturday was [fined Rmb18.2bn](#) for anti-competitive behaviour. China's State Administration for Market Regulation could have imposed a penalty of up to Rmb51bn, or 10 per cent of Alibaba's 2019 revenues, and the ecommerce group subsequently said it was not aware of further regulatory issues.

"The announcements are good, things are coming to a resolution," said one former Alibaba executive who asked not to be identified. "A \$2.8bn fine is a lot better than being broken up."

Analysts at Moody's, the credit rating agency, said changes demanded by Beijing in how the internet company deals with sellers on its platform will "constrain Alibaba's ability to increase market share". But it noted the group had plenty of cash to weather the challenges.

Ant faces a much stricter separation of businesses that together have given it huge advantages over its [state bank competitors](#). A powerful interest group, the state banks have been lobbying regulators for years to rein in fintechs and private online lenders.

“Regulators have clearly pushed Ant to bring its constituent units into compliance with a broad range of regulations, from risk management and corporate governance to privacy and consumer protection,” said Eswar Prasad, a China finance expert at Cornell University. “The restructuring plan is likely to become a template for other players, big and small.”

Many of the conditions spelt out by PBoC on Monday were already known, such as a requirement for Ant to become a [financial holding company](#) that will be regulated more like a traditional lender.

One of the most onerous demands is to decouple its payments and lending businesses. In the weeks after its scrapped IPO, banking regulators and state media criticised Ant's [huge and highly profitable](#) consumer lending operations, denouncing the company as predatory.

Some Alipay users told the Financial Times they felt that the app was designed to encourage them to take out loans. Incentives included offering discounts in return for setting Ant's online credit card, Huabei, as their default payment method.

Ant's lending business had Rmb2.2tn in loans outstanding as of June last year, contributing 39 per cent of revenue in the first six months of 2020. Analysts said the changes ordered by the PBoC would reduce Alipay's ability to offer credit, and in a worst-case scenario, ban the app from including Huabei among its payment options.

The PBoC will also require Ant to apply for a licence for its personal credit rating operations. Its lending services assess potential borrowers using information collected from buyers and sellers on Alibaba's platforms. These data are among Ant's [most valuable assets](#) and are coveted by the central bank and state lenders, whose credit systems are less sophisticated. Two state-backed agencies are the only holders of credit rating licences and the PBoC could refuse to grant Ant a licence or impose strict conditions on how it can use data.

The PBoC and Ant have fought a multiyear, [unresolved battle](#) over the latter's data, which the fintech has said it cannot share with other parties without customer consent. But that line of argument may not satisfy Beijing.

Additional reporting by Nian Liu in Beijing and Tabby Kinder in Hong Kong