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BUSINESS

Jack Ma's Ant Group Will End Some Practices That Helped Fuel Its Growth

Beijing wants the financial-technology giant to unwind arrangements that gave it an advantage over rivals and banks



Ant's mobile payments and lifestyle app Alipay has more than one billion users in China.

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In its path to becoming one of the world's most valuable startups, Ant Group Co. built a complex financial ecosystem that captured huge sums of money and kept millions of people in it by supplying them with credit and managing their investments.

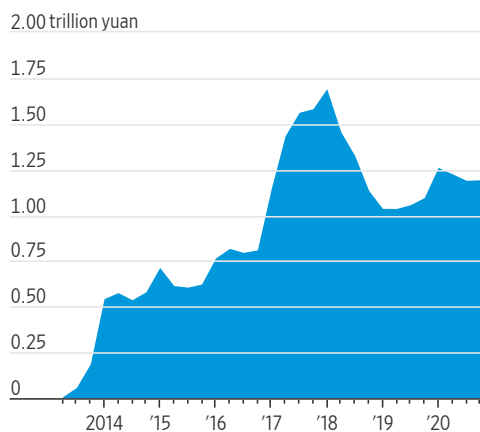
Now, Beijing is forcing the Chinese financial-technology giant to scale back its activities and dismantle arrangements that have given Ant a big advantage over its rivals as well as the country's banks and traditional financial institutions.

This week, the People's Bank of China outlined a [five-pronged rectification plan for Ant](#), which will fall fully in line with regulations by applying to become a financial-holding company overseen by the central bank. Ant, an affiliate of [Alibaba Group Holding Ltd.](#) [BABA -2.73%](#) ▼, will be subject to regulations similar to those governing banks, which will curtail some of its growth prospects.

Still Giant

Chinese regulators want Ant to shrink its flagship Tianhong Yu'e Bao money-market mutual fund.

Assets under management



Note: 1 trillion yuan = \$152.7 billion

Source: Wind

Ant's mobile payments and lifestyle app Alipay, which has more than one billion users in China, has in recent years sought to generate bigger profits from its customers by directing them toward other financial services such as online loans and a giant money-market mutual fund where they can park their money. In the year to June 2020, Ant reported profit of \$5.8 billion on revenue of \$21.5 billion.

Half a billion Chinese citizens used Ant's microlending services in the year to June

2020, and they had the equivalent of more than \$264 billion in outstanding loans at that point. And at the end of last year, more than 690 million people—or close to half of China's population—were invested in Ant's flagship money-market mutual fund, which had \$182 billion in assets under management.

The central bank Monday said Ant needs to shrink the giant fund and reduce its risks. It said Ant also needs to break an "inappropriate link" between its microlending and payments services, and curb monopolistic behavior in how it collects, controls and uses consumer data.

Ant used to aggressively market its virtual credit card service to Alipay

users while they were making purchases. Many of them were prompted to select Huabei—which means “Just spend”—as their default payment option, and some individuals inadvertently selected it without realizing they had opted for that.

Ant partnered with banks that supplied most of the credit to Alipay users, and Ant took a cut of the interest income. The ease of borrowing from Huabei also led many young Chinese citizens to borrow money to spend on luxury goods and lifestyles they couldn't afford.

Following the central bank's directive, Ant will stop pushing Huabei in this manner.

Regulators don't want Ant to “nudge people into using consumer credit that they don't need,” said Martin Chorzempa, a research fellow at the Peterson Institute for International Economics, adding that regulators want other credit-card providers, such as banks, to operate on an even playing field.

Ant has been benefiting from “cross-pollination across different lines of business that have positive feedback effects on each other,” said Eswar Prasad, a Cornell University professor and former head of the International Monetary Fund's China division. Users' payment histories have also helped Ant develop internal scoring systems to gauge their creditworthiness, helping to strengthen Ant's dominance of the financial-services sector, he said.

Chinese financial regulators are uneasy about the intertwined nature of Ant's services. “Therefore, it is best to separate the various businesses and supervise them individually to avoid cross-selling,” said Ma Xiangyun, an analyst with Soochow Securities.

Ant's giant money-market mutual fund, known as Yu'e Bao—which means “leftover treasure”—was started in 2013. It was the first of its kind globally: an online-only fund that people could put money in at any time of the day with a minimum investment of just 1 yuan, equivalent to \$0.15.

By early 2018 it had become the world's biggest money-market mutual fund, with close to \$260 billion in assets under management, effectively keeping the money within Ant's ecosystem and allowing Ant to earn fees from it.

Financial regulators grew concerned and pressured Ant to shrink the

fund. Ant has given Alipay users other investment options, but regulators want it to do more.

Monday's directive from the central bank said Ant will have to reduce the liquidity risks of its investment products and lower the assets under management of Yu'e Bao. Regulators have long worried about a situation where the fund's manager can't sell its underlying assets quickly if many investors pull out at the same time, which could cause them to incur losses.

"It's a remote problem but real. It is remote until many people suddenly want their money," said Richard Turrin, a financial-technology-industry consultant.

Ant was valued at \$150 billion in a private fundraising round in mid-2018, and last fall was on track to go public at a valuation in excess of \$300 billion when its blockbuster initial public offerings were scuttled by Beijing. Some Ant shareholders in recent months marked the value of their Ant stakes at prices that implied a company valuation of \$230 billion, according to regulatory filings.

Broadly, Ant's restructuring plan could serve as a blueprint for other financial-technology companies in China, said Mr. Prasad. "It is likely to result in other companies restructuring themselves in similar fashion before the heavy hand of the regulator falls on them," he said.

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