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Jack Ma's Ant in Talks to Share Data Trove With State Firms

The fintech giant is in discussions to start a new credit-scoring business with Chinese state-owned enterprises



A Beijing billboard advertises Alipay, which handled the equivalent of more than \$17 trillion worth of payment transactions in the year to June 2020.

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HONG KONG—Ant Group Co. is in talks with Chinese state-owned enterprises to create a credit-scoring company that will put the fintech giant's proprietary consumer data under regulators' purview, according to people familiar with the matter.

The new entity, which could be established as soon as the third quarter of this

year, could result in Ant ceding some control over the voluminous data it has on the financial habits of Chinese citizens. More than one billion individuals use Ant's Alipay app to spend, borrow or invest their money, and the information that Ant has collected and used has been the secret sauce behind the company's success in recent years.

The talks between Ant, which is controlled by billionaire Jack Ma, and Chinese state-owned companies are likely to result in the formation of a joint venture that would be licensed as a credit-scoring company. Ant and regulators have also been discussing whether the firm should be run and controlled by Ant or state-owned companies, according to people familiar with the matter.

The regulators are pushing for prospective state-owned shareholders to play a greater role in the new entity in order to have a bigger say in how it operates, according to some of the people familiar with the negotiations. Potential shareholders include a Shanghai-based financial conglomerate. There have also been talks about what sort of data would be collected by the new firm, and how the credit scores it produces would fit into China's broader plans to build a nationwide database, the people added.

The discussions are continuing and final decisions haven't been made, the people said.

An Ant spokesman declined to comment on plans for the credit-scoring business. The People's Bank of China, which is overseeing a broader overhaul of Ant, didn't respond to requests for comment.



Ant is controlled by billionaire Jack Ma.

PHOTO: STR/AGENCE FRANCE-PRESSE/GETTY IMAGES

The new venture with state-backed investors would override Ant's previous attempts to spearhead a national credit-scoring system under its own brand, Zhima Credit, which it started six years ago. Ant once had ambitions of using Zhima—previously known as Sesame Credit—to provide credit scores for most of China's population, but those hopes were dashed, reducing the division to what is in essence a loyalty program for Alipay users.

For all of China's world-beating advances in mobile payments and financial technology, the country has lacked a robust national credit-scoring system akin to America's FICO, whose scores are used by many lenders and are based on individuals' borrowing and repayment histories from a variety of sources.

The PBOC runs a Credit Reference Center that collects credit information about individuals and companies from banks and other financial institutions. But it lacks data on many people who don't qualify for traditional bank loans.

Over the last decade, Ant and other fintech companies ramped up lending to much of China's population, but the information they gathered on individuals was largely kept within their own systems.

Until recently, Ant had resisted pressure from financial regulators to share its data or feed it into a central repository accessible by other financial institutions, saying that it didn't have its users' consent to do so.

The tables have now turned, following the cancellation of Ant's initial public offering and a broader regulatory crackdown on China's technology giants. By strengthening its grip over Ant, Beijing is also trying to put a stop to what it considers excessive data collection and lax consumer-privacy protection.

Ant in April said it would restructure into a financial-holding company overseen by China's central bank. It pledged to get its payments, lending, wealth-management and other operations fully regulated, and said it would set up a company that will apply for a personal-credit reporting license.

Earlier this month, Ant started a consumer-finance company that also counts state-owned and private enterprises as shareholders. That firm will change the way Ant funds and makes some of its short-term loans.

Ant, whose Alipay platform handled the equivalent of more than \$17 trillion worth of payment transactions and originated loans to more than a third of China's population in the year to June 2020, has collected troves of consumer data for years.

The company in 2015 launched Sesame Credit, then changed the name to Zhima, the Mandarin word for Sesame. Ant said its aim was "to help the hundreds of millions of Chinese consumers and businesses who have little or no formal credit history establish their trustworthiness in a commercial setting."

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Mr. Ma, who founded Alipay's original parent Alibaba Group Holding Ltd., had high hopes for the division, whose name was similarly inspired by the folk tale "Ali Baba and the Forty Thieves." In it, the magical phrase "Open Sesame" revealed the entrance to a cave where thieves had hidden a treasure.

Around that time, the PBOC invited eight private companies, including Zhima and Ant's rival Tencent Holdings Ltd. , to pilot their own credit-scoring systems. That set off a race by the companies to build what they hoped would eventually be adopted as the country's premier credit-monitoring database.

Zhima expanded aggressively, hiring people from companies like Equifax to build a risk-assessment and scoring system that could be connected to thousands of financial institutions such as banks, consumer-finance companies and online lenders.



Ant aggressively expanded Zhima Credit after launching it in 2015, but it is now a shadow of its former self.

PHOTO: QILAI SHEN/BLOOMBERG NEWS

Zhima's credit-scoring metrics incorporated more than people's borrowing and payment histories into its assessments. It also analyzed alternative data such as individuals' online social networks and purchasing habits, which are considered

complementary to information about car loans and mortgage debt.

In early 2016, Mr. Ma made Zhima his first stop during a post-Lunar New Year visit to Ant's Hangzhou headquarters. In a pep talk to staffers, he proclaimed that "Zhima shall be adopted in every household," according to a person who was there.

Inspired, the Zhima team accelerated the rollout. Between June and September that year, it connected to more than 300 nonbank financial institutions such as peer-to-peer lending platforms that were mushrooming across China, according to people familiar with the matter. It also supplied its credit scores to dozens of commercial banks and in return, some of them provided it with loan data and default information, the people said.

The industry expected the PBOC to hand out credit-scoring licenses after the pilot program ran its course.

That never happened. In 2017, regulators stepped up a crackdown on peer-to-peer lending platforms after some of them turned out to be scams or lacked proper risk controls.

The PBOC also decided it no longer wanted a nationwide credit-scoring system run by private companies with profit motives. A central-bank official told a state-owned media outlet at the time that the firms weren't willing to share information and had conflicts of interest as well as a poor understanding of how to do credit scoring.

Instead, the central bank in early 2018 issued a three-year license to a new government-led company called Baihang Credit Scoring. The eight companies that were previously asked to build their own systems were told to suspend those efforts and were each given an 8% stake in Baihang, with the remaining 36% held by a government-affiliated entity. They were all asked to feed data into Baihang to help build a national credit-scoring database.

It was another failed effort, because some of the companies didn't want to contribute data that their rivals could benefit from. "There was no way Ant was going to share all this with a company in which it had only an 8% stake, so that most of the benefits of the data would potentially go to other companies," said Eswar Prasad, a former China head of the International Monetary Fund and a

professor at Cornell University.

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What does Ant's new credit-scoring business say about fintech innovation in China? Join the conversation below.

With its ambitions curtailed, Zhima's relevance began to fade. Ant changed its mission and made it more akin to a loyalty program for Alipay users. People with high Zhima scores could enjoy perks such as deposit-free hotel bookings and rentals of cars, bicycles

and mobile power banks. The Zhima team shrank, becoming a shadow of its former self, according to people familiar with the matter.

In January this year, the central bank put out a draft rule to “strengthen the supervision and management of credit-scoring businesses.” It said such firms would require licenses to operate legally.

Zhima won't be part of the new credit-scoring company that Ant is likely to set up with state-owned firms, according to people familiar with the matter. The new entity would have access to the same data used by Zhima, and after it is formed Ant would exit its position as a shareholder in Baihang, the people added. Baihang's credit-scoring license expired in January, according to a regulatory filing. Baihang didn't respond to a request for comment.

At the end of the day, Ant will have to share some of its consumer data with other institutions because “it's a matter of public interest,” said He Zhiguo, a professor of finance at the University of Chicago.



Ant's headquarters, where Jack Ma made Zhima his priority for a visit in 2016.

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