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Jack Ma's Ant Plans Major Revamp in Response to Chinese Pressure

Fintech giant plans to become a financial holding company overseen by China's central bank

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Ant Group Co. is planning to turn itself into a financial holding company overseen by China's central bank, responding to pressure to fall fully in line with financial regulations, according to people familiar with the matter.

Chinese regulators recently told Ant, which is controlled by billionaire Jack Ma, to become a financial holding company in its entirety, subjecting it to more stringent capital requirements, the people said. Ant, in response, has submitted to authorities an outline of a restructuring plan, they said.

The plan represents a significant turnaround by a digital-payments juggernaut that has in recent years tried to shed its image as a financial-services provider and fashion itself as an internet-technology company, which helped it command lofty valuations. Before its blockbuster initial public offering was called off in November, Ant had been on track to go public at a valuation north of $300 billion, well above the market capitalizations of the world's biggest banks.

Designating Ant in its entirety as a financial holding company wasn't something earlier envisioned by the company's executives and stakeholders. In its listing prospectus last year, Ant said it intended for one of its subsidiaries to become a financial holding company and house its licensed financial businesses such as asset management and consumer lending. Doing this at the group level will subject Ant to a thicket of regulations similar to those that govern banks, and affect its growth and profitability.

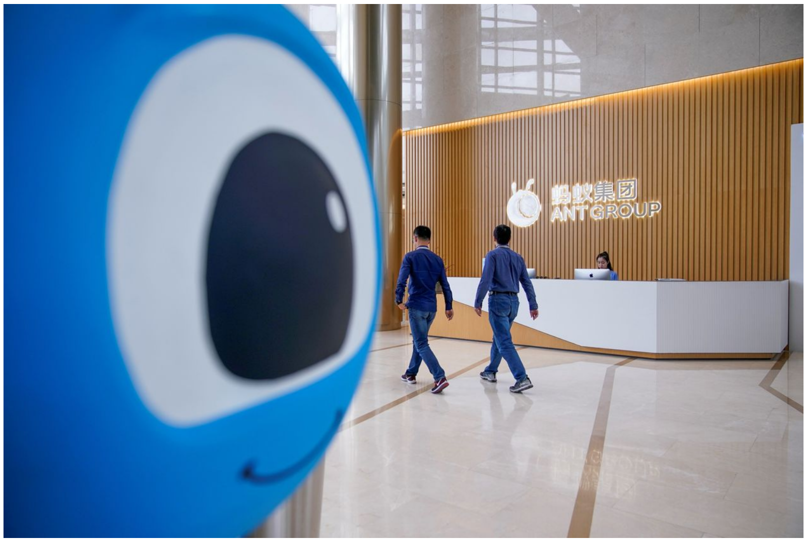
The restructuring plan, still under deliberation, could be finalized before China goes on a weeklong Lunar New Year holiday in mid-February, people familiar with the matter said.

Any final plan will need a signoff from the Financial Stability and Development Committee, a superregulator chaired by Vice Premier Liu He, two of the people said.

An Ant spokesman declined to comment. The People's Bank of China, the China Banking and Insurance Regulatory Commission and the State Council Information Office didn't comment.

Ant owns Alipay, a payments and lifestyle app with more than one billion users in China. It handled more than $17 trillion of digital payment transactions in the year to June 2020, originated unsecured short-term loans to roughly 500 million people, and sells many insurance policies, mutual funds and other investment products.

Ant's payments business and other financial services have been subject to some regulations, but the group as a whole has long been spared from the stringent capital requirements and rules that banks, insurers and other traditional financial institutions have been subject to.



Inside Ant Group's headquarters in Hangzhou, China, in October.

PHOTO: ALY SONG/REUTERS

In December, four Chinese regulators summoned Ant executives to a meeting and demanded the company rectify what they said were problems in its businesses. In a statement after it, Pan Gongsheng, a PBOC deputy governor, chastised Ant for "despising" regulatory compliance and "engaging in regulatory arbitrage," without providing specifics.

Mr. Pan said regulators have laid out five demands for Ant, telling it to return to its payment roots, safeguard personal data in its credit business, set up a financial holding company, improve corporate governance and exercise more disciplines in its securities and asset-management businesses.

Putting all of Ant's businesses under a financial holding company would give regulators oversight of all its activities, and eliminate the potential for regulatory arbitrage, according to one of the people familiar with the plan.

The new structure will make it harder for Ant to shuffle its overall portfolio among its constituent units, which has allowed it to disguise risks by shifting them to more lightly regulated parts of the conglomerate, said Eswar Prasad, a former head of the International Monetary Fund's China division and a professor of trade policy and economics at Cornell University.

"Financial regulators were concerned that Ant's regulatory arbitrage had allowed the company to provide a rosy picture of its overall financial position and hide the financial risks engendered by its aggressive expansion into new lines of business," he said.

Ant has formed a working group, led by Chief Executive Simon Hu, to work with regulators on how to rectify its businesses. The company has appointed a chief compliance officer to oversee day-to-day compliance and restructuring work.

Top Chinese financial regulators recently hinted they are happy with the progress being made at Ant. On Tuesday, when asked during a virtual meeting of the World Economic Forum if Ant would revive its IPO, PBOC Gov. Yi Gang said that if laws and regulations are followed, "you will have the result."

He said consumers are broadly satisfied with Alipay, but Ant has to resolve issues such as complaints over data privacy before getting back on track.

Ant is working on segregating customer data that is currently shared across its business units to put in place protocols that are common at banks, according to people familiar with the matter. Alipay has amassed a trove of data on many people's spending habits and payment patterns, and has been leveraging it to provide loans and sell investment products to its users. It is a key reason the company has been able to grow quickly and diversify its business in recent years.

China's new rules for financial-holding companies, released last fall, apply to large conglomerates holding two or more financial businesses. They took effect on Nov. 1. and affected companies have one year to submit applications to become a regulated financial holding company to the PBOC.

The new measures for financial-holding companies include regulatory requirements on shareholders, management, sources and uses of funding, risk management and corporate governance. They also require injecting additional capital into financial subsidiaries whenever necessary.

If Ant's overhaul is implemented, the company's revenue and profit growth could be significantly curtailed. Ant may also have to raise substantial capital to meet the regulatory requirements, and the company's lofty valuation—which was premised on its profitability and growth potential—could also take a hit. Ant has already moved to cut borrowing limits for individual users of its digital lending services, a sign it is downsizing its business to comply with regulations.

It is unclear how the restructuring would affect Ant's nonfinancial businesses such as blockchain-technology development, digital-lifestyle services and artificial-intelligence technology, areas the company has previously identified as growth drivers.

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