

# Analysis on the Transformation Path of Fintech Companies under the Background of Financial Regulatory Policy Changes —— Evidence from Ant Group

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**Abstract.** The rapid development of fintech has disrupted the traditional financial order, and the traditional financial regulation has gradually become ineffective. In response to these emerging challenges, the Chinese government has introduced a series of policies to strengthen financial regulation and bring fintech enterprises under tighter regulatory oversight. As a result, fintech companies are now under greater pressure to transform in order to comply with regulations and enhance their competitiveness. The suspension of Ant Group's IPO in 2020 served as a turning point, indicating an era of more stringent regulations to the fintech industry. Ant Group's subsequent transformation also provides valuable insights for other fintech companies facing similar regulatory changes. They should prioritize technological innovation over regulatory arbitrage, reduce leverage and financial risks, strengthen compliance with data and credit regulations, and realign their operations with the goal of supporting small businesses and promoting inclusive finance to achieve long-term and sustainable growth.

**Keywords:** Fintech, financial regulation, Ant Group, transformation path.

## 1. Introduction

In recent years, the rapid development of the Internet has enabled major technology companies, such as Ant Group, Baidu, Tencent, and JD.com, to expand into the financial sector. Their fintech subsidiaries have utilized advanced technologies such as big data, artificial intelligence, and blockchain, to transform traditional financial operations and drive innovation in China's financial market, continuously injecting new vitality into it. However, innovation and opportunities often come with risks and challenges. As fintech companies continue to grow in scale, the financial regulatory system also faces increasing challenges. In November 2020, the Shanghai Stock Exchange urgently halted Ant Group's IPO, seemingly marking the entry of China's financial regulation into an era of stringent oversight. Following the introduction of relevant policies and laws, fintech companies need to shift from a model of "wild growth" to one of "compliant service." This article uses Ant Group as a case study to analyze its rectification plan after policy changes and to study the transformation path of fintech companies.

Amid policy changes, the transformation of fintech companies is urgent. This paper constructs a systematic transformation framework through case studies to provide guidance for fintech companies. It concludes that the transformation of fintech enterprises should focus on changing governance structures, rectifying business practices, transforming technology output, and ensuring user data security.

## 2. Literature review

### 2.1. Fintech Development and Risk

The International Financial Stability Board (FSB) defines fintech as the general term for financial in business models or products. Ba and Wang (2021) point out that the concept of fintech was first proposed by Citibank Chairman John Reed in the 1990s, but its practical application did not see

explosive growth globally until 2013 [1]. Because fintech relies on advanced Internet technology, the rapid development of the internet has enabled many fintech enterprises to grow quickly by leveraging the technological advantages and market reach of leading internet companies. In the early stage of development, China's top fintech enterprises were often backed by major internet companies. Huo and Zhang (2015) find that internet finance differs from traditional financial service. Traditional finance often follows the "80/20 rule," where 20% of high-end customers can generate 80% of a bank's profits. Internet finance, however, leans more towards the "long-tail theory," using information technology to reduce search and transaction costs, serving the remaining 80% of the population or small and medium-sized enterprises, thus promoting financial inclusion [2]. Huang and Tao (2019) point out that the relatively inclusive regulatory environment is one of the important drivers of the rapid development of China's digital finance industry. In addition, the limited supply of traditional financial services and the rapid development of information technologies such as smart phones, big data and cloud computing also accelerate the growth of digital finance in China [3].

The relatively loose regulatory environment has allowed fintech to "grow wildly" for a period of time. Despite the rapid growth, there are also many violations, and the financial regulatory system is facing certain risks. Yang (2018) reveals that while fintech brings innovation and convenience, traditional financial regulation and legislation have become increasingly outdated in the face of technology-driven financial innovations. Technological innovations often operate outside the regulatory framework or circumvents regulations indirectly, leading to regulatory arbitrage or regulatory gaps [4]. At the same time, companies themselves face risks. The extensive use of technology by fintech firms can lead to technical risks, which are believed to be offset to some extent by human errors and moral hazards. Fintech companies also encounter regulatory policy risks. While standardized and institutionalized regulation can effectively reduce these risks, the sudden implementation of new regulatory policies often increases the compliance costs of firms [5]. For example, in the case of Ant Group, sudden regulatory changes directly halted the company's IPO plan.

## 2.2. Changes in Financial Regulatory Policies

Financial regulation not only constrains and regulates the development of fintech, including setting requirement for market access, standardizing business scopes, and strengthening risk management, but also promotes and supports innovation, such as encouraging innovative business models, providing policy support for innovation, and promoting pilot regulatory sandboxes. A research team from Renmin University of China argues that it is necessary to fully utilize regulatory technology tools to establish intelligent and dynamic financial market monitoring systems and financial risk prevention systems, enhance the identification and prevention of new financial risks, and improve the practical effectiveness of financial regulation [6]. Song (2022) highlights that since 2020, China has entered an era of stringent fintech regulatory policies. A series of regulatory policies and regulations are implemented, mainly focusing on refining regulatory requirements in the financial business sector, strengthening anti-monopoly regulation of leading platforms, emphasizing licensed operations, building a financial holding company regulatory framework, and paying attention to financial data governance to protect personal information security [7]. For example, the "Interim Measures for the Administration of Online Micro-loan Business" sets specific requirements for joint loan contribution ratios and leverage scales, which has a significant impact on Ant Group's credit business.

## 2.3. Transformation Strategies for Fintech Enterprises

The Alliance for Financial Inclusion reported in 2018 that to maximize financial inclusion and fully leverage the potential of fintech, it is necessary to establish a framework based on robust digital identity verification and electronic payment systems, supported by infrastructure and favorable policy and regulatory environments. This will facilitate a broader digital financial transformation [8]. The People's Bank of China's "Fintech Development Plan (2022-2025)" emphasizes the integration of digital elements throughout the entire process of financial services, the application of digital thinking across all business operations, and a strong focus on technology-driven innovation and data

empowerment. The plan outlines a transition from "building the framework" to a new phase of "accumulating strength." The goal is to achieve a leap in overall level and core competitiveness by 2025 [9]. According to the World Economic Forum's 2024 report, although fintech companies identify different factors that support or hinder their growth, regulatory environment consistently ranks among the top three factors for both. This highlights the importance of regulation for fintech growth. Additionally, the report indicates that AI is considered the most important factor for the development of the fintech industry over the next five years, while embedded finance, digital economy, and open banking are almost equally important as the second most significant factor [10].

Most of the existing literature focuses on the evolution of regulatory system and technological trend, but lacks in-depth discussion on how fintech firms can build a systematic framework for long-term transformation.

### **3. Case Analysis of Ant Group**

Ant Technology Group, as a unicorn company, has a representative business model. As a pioneer of fintech companies, its transformation path can provide some guidance for other fintech companies.

#### **3.1. Background**

##### **3.1.1. Company Overview**

Ant Technology Group Co., Ltd. primarily focuses on four major sectors: digital payments, digital connectivity, digital finance, and digital technology. It is a globally leading open platform for fintech, dedicated to driving the digital transformation of modern service industries worldwide, including financial services, through technological advancements. Ant Group collaborates with partners to provide inclusive, green, and sustainable services to consumers and small businesses.

##### **3.1.2. Suspension of Ant Group's IPO**

In July 2020, Ant Technology Group initiated its IPO plan. According to the Shanghai Stock Exchange in October, the total market value of Ant Group's IPO reached 2.1 trillion yuan. On November 2, the People's Bank of China, CBIRC, CSRC, and SAFE jointly held talks with Jack Ma, the actual controller of Ant Group, and his senior management team. On the same day, the People's Bank of China and CBIRC issued an announcement soliciting public opinions on the "Interim Measures for the Administration of Online Micro-loan Business (Draft for Comments)." On November 3, 2020, the Shanghai Stock Exchange announced the decision to suspend Ant Group's IPO.

#### **3.2. Cause Analysis**

##### **3.2.1. Controversy Over Regulatory Arbitrage**

Ant Group is conducting its IPO on the STAR Market of the Shanghai Stock Exchange, positioning itself as a tech company. Tech companies often have higher PE valuations than financial firms. However, the true technical service revenue from Ant Technology's four major business segments accounts for a relatively low proportion of Ant Group's overall revenue structure. The main source of Ant Group's income relies heavily on financial services. Despite its reputation as a tech company, its business scope largely overlaps with that of traditional financial firms. At the same time, Ant Group secured numerous financial licenses, covering areas such as insurance, consumer finance, payments, banking, funds, factoring, credit reporting, and microloans. It was the non-financial company with the most comprehensive license portfolio at that time. Additionally, Ma Rui pointed out that Ant Group's R&D expenses accounted for only 7.89% of its revenue in the first half of 2020, significantly lower compared to the average of 18.53% for companies listed on the STAR Market. Moreover, Ant Group did not disclose the number of their R&D personnel explicitly [11]. In essence, the financial attribute of Ant Group is greater than its technological attribute. At the same time, Ant Group's dual

nature as both a financial and technology company has exposed the shortcomings of traditional financial regulation, posing significant risks to the financial regulation.

### **3.2.2. Business Risk**

As mentioned above, Ant Group's revenue primarily relies on financial services, with the credit business generating substantial income. Within this credit business, joint loans account for the majority of the revenue. Joint loans refer to co-investments made by financial companies and financial institutions, where Ant Group contributes only 2%, and financial institutions contribute 98%. However, Ant Group can earn 30-50% interest income from these joint loans. This means that Ant Group not only avoids the risk of user default but also enjoys high profits. Ant Group leveraged its minimal capital to drive a massive credit business, making high leverage risks inevitable. Moreover, with the rapid expansion of credit scale, the risk is compounded by the fact that Ant Group's risk control capabilities are limited for joint loans primarily targeting long-tail customers. If widespread defaults occur, financial institutions will face significant risks. Additionally, given that Ant Group collaborates with over 100 financial institutions, the ultimate risk could be passed on to depositors in society.

### **3.2.3. Information Monopoly**

Ant Group has achieved information monopoly through Sesame Credit. By accessing Alipay, a payment platform with a large number of user, Sesame Credit quickly amassed a large amount of user data. Additionally, through cooperation with Alibaba, Ant Group can collect users' consumption records, financial status, and information related to merchants. Collaborating with financial institutions allows them to grasp customers' financial conditions, credit management preferences, and risk tolerance. Through this information monopoly, Ant Group can implement differential pricing for consumers, harming consumer interests while also exposing users to the risk of information leakage.

## **4. Strategic Transformation**

### **4.1. Decentralization of Management Structure**

In January 2023, founder of Ant Group, Jack Ma, relinquished actual control and introduced new independent directors, ensuring that more than half of the board members were independent. The voting rights of shareholders were changed from joint control by Jack Ma and his associates individual holdings by ten natural persons. This shift resulted in a more stable governance structure. By eliminating the veto power and the concerted action agreement, Jack Ma lost his personal control over Ant Group. These governance reforms help mitigate decision-making risks due to individual subjectivity, reduce the cost of corporate transformation, and enhance the company's transparency, openness, and market orientation.

### **4.2. Protect Consumer Data Security and Rights**

Ant Group has taken significant steps to break the information monopoly and ensure personal and national information security. It was separated from the Alibaba ecosystem. Relevant management members of Ant Group no longer serve as Alibaba partners, and data sharing with Alibaba has been terminated to protect user data security. At the same time, financial product transparency has been improved, with mandatory display of annual interest rates. Prior to this, Ant Group would recommend credit products with vague terms, such as low thresholds, no collateral or guarantees requirements. But in reality, Ant Credit Pay's highest annual interest rate could reach 18.5%, severely infringing on consumer rights.

The leakage of users' personal information poses a threat to the property security of consumers. When consumers' rights and interests are infringed for a long time, consumers will gradually lose trust in the enterprises. Moreover, such practices may constitute legal violations. Therefore, it is the responsibility and obligation of every fintech enterprise to protect user data security.

### 4.3. Business Rectification

Ant Group is generally established as a financial holding company, with all financial operations subject to financial regulation. Ant Group has set up a new subsidiary, Chongqing Ant Consumer Finance Co., Ltd., and transferred "Huabei" and "Jiebei" to Ant Consumer Finance. The brands operate independently with clear responsibility, and the credit structure has been adjusted to reduce the issuance of high-risk credit products. At the same time, "Mutual Treasure" has been shut down. Originally positioned as an insurance product, Mutual Treasure was required by the China Banking and Insurance Regulatory Commission in 2018 to transform into an online mutual aid program. After the transformation, Mutual Treasure no longer falls under the insurance category but is considered a non-licensed business, placing it in a regulatory gray area. Therefore, the business was not retained for rectification but was directly shut down. In addition, Ant Group has scaled down Yu'e Bao to lower liquidity risks.

Compliance with financial regulations is the primary task for fintech enterprises under policy changes. It is precisely the presence of non-compliant activities that has prompted regulatory authorities to increase supervision and introduce relevant policies. Rectifying non-compliance must remain the top priority of fintech firms' transformation efforts.

### 4.4. Technology Strategy

Ant Group establish the Digital Payment Business Group and the Alipay Business Group. The Digital Payment Business Group integrates online payments, offline payments, and Alipay services, focusing on technological innovation and scenario-based products. The Alipay Business Group is transforming into a comprehensive internet service platform, covering APP development, advertising, digital products, and public services. In 2023, the company established the "AI First" strategy, aiming to strengthen its technological capabilities through investment and independent research and development. As part of this initiative, the "Bailing" large language model was released in 2025, and "Good Doctor Online" was acquired to build an "AI+ medical" ecosystem, improving the accessibility of medical services. Additionally, Ant Group is committed to promoting blockchain and green finance innovations to reinforce its technological positioning. It has the largest number of blockchain patents in the world. Ant Chain technology has been applied in many fields, such as finance, government affairs, medical care, and energy. For example, in cooperation with COSCO Shipping through the Global Shipping Business Alliance (GSBN), Ant Chain has reduced the time of maritime document processing from several days to a few hours.

As a fintech company, while paying attention to financial products, it also needs to be committed to technological innovation, provide technical services, increase the proportion of R&D investment and revenue, and reaffirm its identity as a technology-driven enterprises.

## 5. Conclusion

In an era marked by intensified financial regulation, fintech companies need to reshape their competitive strategies based on their specific circumstances. This paper explores this question using the case of Ant Group. First of all, fintech companies should emphasize their technological advantages and avoid regulatory arbitrage. Fintech companies need to strengthen the positioning of science and technology, and increase investment in research and development of science and technology. The focus should be on technological innovation rather than just financial innovation. Secondly, they should reduce their leverage, mitigate financial risks, and avoid illegal businesses. Excessive leverage increases the risk of corporate bankruptcy, and the resulting losses often passes on to consumers and society. Thirdly, fintech companies must strictly comply with the Credit Investigation Industry Regulation and the Data Security Law to protect user information and data. They should realign with their original mission of supporting small and micro businesses and promoting inclusive finance, thereby contributing to the development of the real economy.

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