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Research Announcement: Moody's - China’s tighter fintech regulation poses mixed implications across sectors

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» China’s tighter and broader regulatory framework on all fintech participants will need to balance between maintaining system stability and fostering innovation

» The credit impact will be mixed across online microloan businesses, regional banks, large internet companies, leading financial institutions and securitization transactions

China’s slew of tighter and broader regulations on financial technology (fintech) activities will curb systemic risk from under-regulated fintech growth. However, they pose a mixed credit impact across a wide group of participants, according to a new report published by Moody’s Investors Service.

“China’s fintech industry participants will have to adjust to tighter regulations that will have a broader and stronger oversight, leading to a period of moderating fintech growth and investment in the sector,” says Yan Li, a Moody’s Assistant Vice President and Analyst. The emerging framework will cover all financial institutions and nonfinancial companies involved in fintech, and has aligned regulations and business standards between financial institutions and fintech companies conducting similar financial activities.

“Chinese authorities, therefore, will need to balance between maintaining system stability and fostering financial innovation. Strong policy incentives to encourage future fintech innovations that support economic development and financial inclusion will remain,” adds Li.

The credit impact will be mixed across China’s fintech firms, financial institutions and securitization market. Credit risks will increase for fintech companies involved in the online microloan businesses because they will have to assume more credit risk. Small regional banks will face heightened credit challenges because of refinancing risks from borrowers. Meanwhile, large internet companies will have to adjust business models and decelerate growth but are likely to have the financial resources and management capability to maneuver. Leading financial institutions’ extensive technology penetration will allow them to easily transit to the new regulatory environment.

For securitization transactions, asset risk in existing asset-backed security (ABS) deals sponsored by online lenders will increase because of rising refinancing risk. By contrast, future unsecured consumer loan ABS deals will benefit from the change in regulatory environment as underlying asset quality is likely to improve.

Subscribers can access the report “Cross Sector – China: Fintech regulations will have mixed credit impact for financial and nonfinancial sectors” at: http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1259439

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