
INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications, and from the iResearch Report, a market research report prepared by iResearch, which was commissioned by us. The information from official government sources has not been independently verified by us, the Joint Sponsors, the [REDACTED], the [REDACTED], the [REDACTED] or any of our or their respective directors, officers, representatives, employees, agents or professional advisers, or any other person or party (except iResearch) involved in the [REDACTED], and no representation is given as to the completeness, accuracy, or fairness of such information.

SOURCE OF INFORMATION

We commissioned iResearch, a PRC-based independent market research institution that provides consumer insights and market data to companies in various industries, including Credit-Tech, mobile internet, big data, information technology, e-commerce and advertising, among others. We have agreed to pay a fee of RMB750,000 to iResearch in connection with the preparation of the iResearch Report. We have extracted certain information from the iResearch Report in this section, as well as in “Business” and elsewhere in this document to provide our potential [REDACTED] with a more comprehensive presentation of the industry where we operate.

During the preparation of the iResearch Report, iResearch performed both primary and secondary research, and obtained knowledge, statistics, information, and industry insights on the industry trends of the Credit-Tech industry in China. Primary research was conducted via interviews with key industry experts and leading industry participants. Secondary research involved analyzing data from various publicly available data sources, such as the PRC National Bureau of Statistics, other government departments and various industry associations, publications and studies by industry experts, public company annual and quarterly reports, iResearch’s other research reports, online resources and data from iResearch’s research database.

iResearch’s projection on the size of the related markets in China takes into consideration various factors, including (i) historical market size data, (ii) the public filings of, and other publicly available information regarding Credit-Tech platforms, and (iii) iResearch’s views and estimates of industry developments. iResearch has prepared the iResearch Report on the assumptions that (i) the social, economic and political environments of China will remain stable during the forecast period, which ensures a sustainable and steady development of China’s Credit-Tech industry, (ii) the COVID-19 pandemic is likely to pose short-term impact on China’s economy and the Credit-Tech industry, and the short-term impact of the COVID-19 pandemic has been taken into consideration in the iResearch Report, (iii) the data quoted from authoritative agencies remain unchanged, (iv) related key industry drivers remain relevant and applicable in the forecast period, and (v) there will be no subversive changes to the related industries.

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iResearch believes that the basic assumptions used in preparing the iResearch Report, including those used to make future projections, are factual, correct and not misleading. The information and data collected by iResearch have been analyzed, assessed, and validated using iResearch’s in-house analysis models and techniques, but the reliability of the iResearch Report may be affected by the accuracy of the foregoing assumptions and factors.

OVERVIEW OF THE CREDIT-TECH INDUSTRY IN CHINA

Credit technology services, or Credit-Tech, refer to using advanced or innovative technologies, business models and operational solutions to empower and enhance credit services, which is characterized by distinguished efficiency and quality. The Credit-Tech industry in China evolves from the traditional credit industry, and compared to traditional credit solutions, Credit-Tech services feature broader borrower outreach, enhanced credit assessment, improved operating efficiency, and more accessible and convenient user experience.

Challenges Faced by the Traditional Credit Industry in China

Financial institutions in the traditional credit industry face a number of challenges that hinder them from meeting consumers and SMEs’ increasingly sophisticated credit demands. From the demand perspective, consumers in need of credit, particularly those who have limited credit history, are calling for efficient financing solutions that offer a high level of flexibility in loan principal amounts, tenors, drawdown frequencies and repayment arrangements to fulfill their financial needs. Meanwhile, SMEs are in grave need of versatile financing solutions to fuel their growth, but generally have difficulty in securing debt financing in the traditional credit industry due to the lack of strong credit profiles, sufficient operating track record, and eligible collateral assets.

These unmet needs for credit impose challenges on the supply end, and financial institutions in the traditional credit industry find it difficult to keep up with such challenges. Financial institutions are challenged to find a cost-efficient way to extend services to such an expansive base of unserved or underserved prospective borrowers. Also, it is challenging for financial institutions to equip themselves with strong technology capabilities, especially in the areas of AI and data analytics, credit profiling and risk-based pricing, to (i) effectively discern the portion of consumers and SMEs that are creditworthy for credit lines approval; (ii) launch diversified products that can dynamically balance pricing, loan tenor and principal, among others, in response to different and evolving borrowers needs and credit profiles; (iii) conduct effective credit assessment and control asset quality of the loan portfolios on a continual basis; and (iv) streamline operations and deliver convenient, transparent and intuitive services to satisfy borrowers’ heightened expectations. Therefore, a large number of consumers and SMEs are unable to obtain sufficient credit, if at all, from traditional financial institutions to fulfill their financing needs in consumption and other life or business settings.

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Benefits Brought by the Credit-Tech Industry

Aiming to solve these challenges in the traditional credit industry, Credit-Tech platforms emerged to reshape the credit industry as well as the relationships among the market players with innovative products and service offerings. Credit-Tech platforms leverage robust data analytics and other advanced technology capabilities to optimize each aspect of the credit services. Main benefits brought forth by Credit-Tech to the credit industry primarily manifest in user acquisition, credit assessment, fund matching and post-facilitation services.

- **User acquisition.** Enabled by advanced data analytics, Credit-Tech platforms identify the diversified needs of consumers and SMEs and acquire quality users effectively via multi-channels such as targeted online advertising, collaborations with other internet platforms with rich consumption scenarios and heavy user traffic, and offline sales efforts;
- **Credit assessment.** Credit-Tech platforms conduct preliminary credit assessment by using credit profiling models and risk-based pricing models, and empower financial institutions to carry out final risk management and pricing in line with their own risk-management policies and protocols and make the ultimate lending decisions;
- **Fund matching.** Empowered by robust data analytics, Credit-Tech platforms can effectively grasp and evaluate each borrower’s diversified needs and credit risks, and can efficiently refer them to suitable financial institutions in line with the financial institutions’ risk preference and funding protocols, thereby seamlessly matching credit demand and fund supply; and
- **Post-facilitation services.** Following loan principal disbursement, Credit-Tech platforms carry out ongoing post-facilitation credit assessment, monitor and manage potential overdue risks, and improve collection strategies and efficiency.

SIZE OF THE CREDIT-TECH MARKET IN CHINA

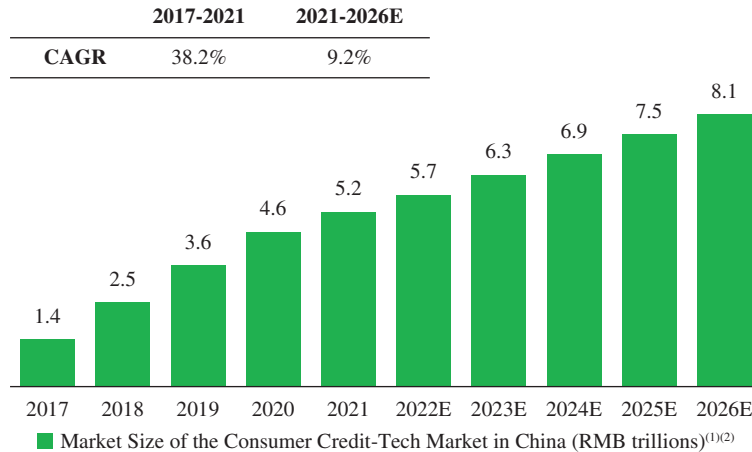
With the development of China’s economy and technology, the Credit-Tech industry has witnessed rapid growth in recent years and is expanding with growing maturity and enhanced regulatory compliance. Credit-Tech has become an effective way to provide borrowers with access to comprehensive and convenient credit services, as well as empowering financial institutions with technology capabilities.

Credit-Tech industry originated from serving consumers and the consumer Credit-Tech market remains a significant segment in the Credit-Tech industry of China. While SME loans typically carry a much larger principal amount in comparison with consumer loans, the SME Credit-Tech market has a much shorter history as compared with the consumer Credit-Tech market. With insights and experience accumulated from serving consumers, Credit-Tech platforms have been gradually expanding their services to SMEs in recent years.

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The size of the consumer Credit-Tech market in China measured by total outstanding loan balance increased from RMB1.4 trillion in 2017 to RMB5.2 trillion in 2021 at a CAGR of 38.2%, and is expected to reach RMB8.1 trillion in 2026, representing a five-year CAGR of 9.2% between 2021 and 2026, according to iResearch.

Consumer Credit-Tech Market in China



Source: iResearch Report

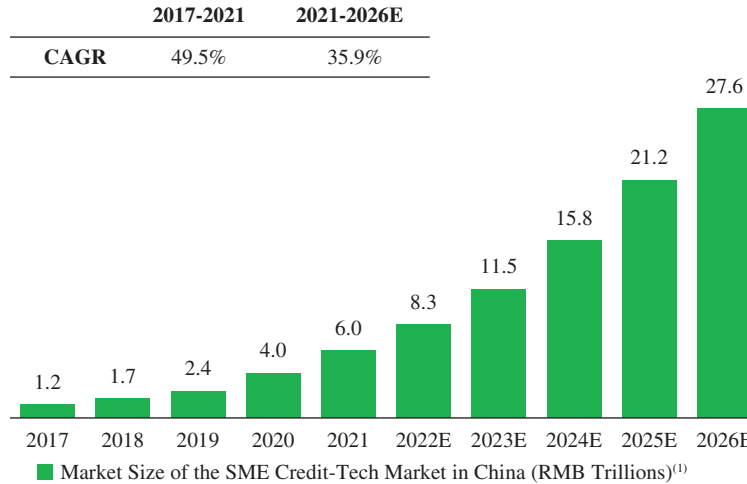
Notes:

- (1) The size of the consumer Credit-Tech market in China refers to the total outstanding balance of online consumer loans offered by traditional financial institutions and Credit-Tech platforms.
- (2) In calculating the market size of the consumer Credit-Tech market, interest-free services of Ant Credit Pay or JD Baitiao are not taken into account. Ant Credit Pay and JD Baitiao are products similar to bank's credit cards, which can be used for payment by eligible borrowers within their lines of credit. Such borrowers usually enjoy a one-month interest-free period after payment. Because the actual lending activity does not occur until such borrowers select a loan tenor, the interest-free service of Ant Credit Pay and JD Baitiao is not included in the calculation of the total outstanding loan balance.

The size of the SME Credit-Tech market in China measured by total outstanding balance of loans with approved credit line below RMB1 million increased from RMB1.2 trillion to RMB6.0 trillion between 2017 and 2021, representing a CAGR of 49.5%, and is expected to further increase to RMB27.6 trillion in 2026, representing a five-year CAGR of 35.9% between 2021 and 2026, according to iResearch.

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SME Credit-Tech Market in China



Source: iResearch Report

Note:

- (1) The size of the SME Credit-Tech market in China refers to the total outstanding balance of online SME loans with approved credit line below RMB1 million offered by traditional financial institutions and Credit-Tech platforms.

BUSINESS MODELS UNDER LOAN FACILITATION SERVICES IN THE CONSUMER CREDIT-TECH MARKET

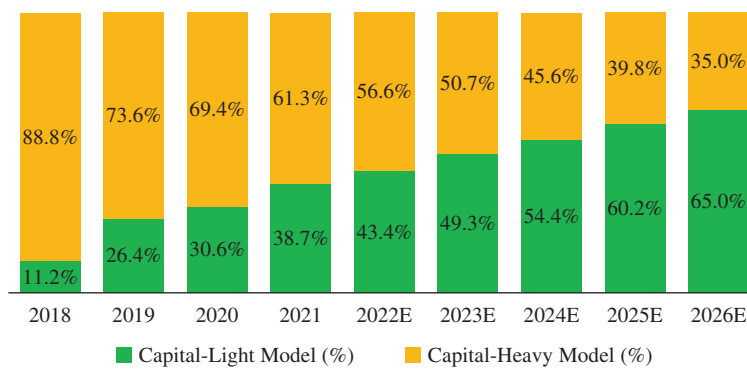
Based on the different sources of funding, credit services in the consumer Credit-Tech industry can be categorized into loan origination and loan facilitation. In loan origination, Credit-Tech platforms and financial institutions use their own fund for lending to borrowers. In contrast, in loan facilitation, Credit-Tech platforms partner with financial institutions in offering borrower acquisition, credit assessment, fund matching and post-facilitation services.

Consumer loan facilitation services are offered under either the capital-heavy model (also known as the credit-driven model) or the capital-light model (also known as the platform model). Under the capital-heavy model, Credit-Tech platforms either contribute a certain share of fund or provide guarantee to financial institutions against potential borrower default, and therefore takes on credit risks. In contrast, under the capital-light model, Credit-Tech platforms do not contribute fund nor take credit risks.

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In recent years, several leading Credit-Tech platforms in the consumer Credit-Tech industry have taken the lead in the transformation into the capital-light model. According to iResearch, the proportion of the capital-light model in the consumer loan facilitation business measured by total outstanding loan facilitation balance increased from 11.2% in 2018 to 38.7% in 2021. With the improvement of technological capacities, accumulation of business experience, optimization of risk management model, and deepened cooperation with financial institutions, these Credit-Tech platforms have won the trust of financial institutions, and the proportion of risks that need to be taken by them gradually decreases. The proportion of the capital-light model in the consumer loan facilitation business measured by total outstanding loan facilitation balance is expected to further increase to 65.0% in 2026, according to iResearch.

Business Models of Loan Facilitation Services in China’s Consumer Credit-Tech Market



Source: iResearch Report

Note:

- (1) The percentage figures represent the proportion of the total outstanding loan balance for loan facilitation services in the consumer Credit-Tech market attributable to capital-light model and capital-heavy model, respectively.

MARKET DRIVERS OF CREDIT-TECH INDUSTRY IN CHINA

China’s Credit-Tech industry is primarily driven by the following market opportunities.

Rising Spending Power and Growing Consumer Market Fuel the Growth of the Consumer Credit-Tech Industry

From 2017 to 2021, the total personal disposable income in China increased rapidly with a five-year CAGR of 7.8%. The consumption expenditure in China grew in parallel with the total personal disposable income. According to iResearch, the average consumption per capita is projected to increase from RMB24,100 in 2021 to RMB36,505 in 2026, representing a CAGR of 8.7%. At the same time, the outstanding balance of China’s consumer loans (excluding house loans) increased from RMB10.9 trillion in 2017 to RMB17.0 trillion in 2021,

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with a CAGR of 11.9%. The growth rate of consumer loans is higher than the growth rate of average consumption per capita from 2017 to 2021, indicating Chinese residents’ improved acceptance of consumer loan products. The increasing spending power and the Chinese residents’ improved acceptance of consumer loan products are expected to boost the vitality of the consumer Credit-Tech services, which represent a convenient and flexible means for consumptions in China.

Consumer Credit-Tech services provide consumers with a flexible means to finance their consumptions and can ease the liquidity constraint of consumers who have consumption demands but temporarily lack sufficient funds. With the continuous growth in the level of consumer expenditure and the diversification of consumption scenarios, consumer Credit-Tech services have received increasing popularity among consumers. According to iResearch, the penetration of Credit-Tech services in consumption scenarios is expected to further increase.

Digitalization Underpins Rapid Development of Financial Technology Platforms

China has entered the digital era characterized by the deepened penetration of the internet and mobile phones that boosted the digital transformation of residents’ daily lives. The number of mobile phone internet users in China is growing rapidly, from 750 million in 2017 to 1.03 billion in 2021, accounting for 72.8% of the total population of China in 2021. According to iResearch, the number of mobile phone internet users in China is projected to reach 78.3% of the total population of China in 2026. As consumers’ uptake on digital channels increases, their needs and expectations with respect to easy-to-access financial services offered through online platforms are also rising, requiring financial services players to develop and enhance technology capabilities in order to capture users’ evolving demand, acquire users and improve user experience.

Favorable Government Policies Have Been Implemented to Promote SME Loans to Assist Underserved SMEs

Currently, there is a wide gap between the economic contribution of SMEs and the level of financing support that they receive from financial institutions. SMEs in China contributed about 60% of China’s GDP, more than 50% of tax payments, more than 70% of technological innovations and more than 80% of employment in urban areas. However, as of the end of 2021, SME loans accounted for only 41% of total corporate loans in terms of outstanding loan balance, which is not proportionate to the economic contribution by SMEs. Driven by policy tailwinds, the future development of the SME Credit-Tech market is promising. The relevant government authorities in China have issued various guidance and measures to promote inclusive lending to SMEs. For example, in April 2019, the General Office of the CPC Central Committee and the General Office of the State Council issued the Guiding Opinions on Promoting the Healthy Development of Small and Medium-Sized Enterprises (《關於促進中小企業健康發展的指導意見》), which require relevant government authorities to refine policies to provide greater access to credit services for small and medium-sized enterprises. In June 2020, the PBOC, the CBIRC, the MOF, the NDRC and the MIIT jointly issued the Notice

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on Increasing Credit Loan Support for Micro- and Small-Enterprises (《關於加大小微企業信用貸款支持力度的通知》), pursuant to which local corporate banking institutions are encouraged to optimize risk assessment in evaluating credit applications of SMEs, deploy big data, cloud computing and other financial technologies to improve their risk assessment and management capabilities and control interest rates for loans extended to SMEs. More recently, in April 2022, the CBIRC issued the Notice to Further Strengthen Credit Support for the Development of Micro- and Small-Enterprises in 2022 (《關於2022年進一步強化金融支持小微企業發展工作的通知》), which requires financial institutions to further develop credit services to SMEs through Credit-Tech and product innovations, among others. Such government policies and measures are designed to address the financing difficulties encountered by SMEs, and are expected to promote the growth in the scale of SME loans and further unleash the potentials in the SME Credit-Tech market.

Development of Frontier Technologies Enables Increasingly Comprehensive Technology Services

A new generation of cutting-edge technologies manifested by data analytics and AI expand the ammunition of Credit-Tech platforms, empowering them to innovate each stage of the credit services. For example, in conducting credit assessment, AI-enabled data analytics technologies have been enabling increasingly accurate and differentiated risk-based pricings of loan products for a given borrower. In the fund matching stage, data-driven automated fund matching systems significantly improve the accuracy and efficiency in matching borrowers' financing requests and risk profiles with the preferences of financial institution partners. In post-facilitation services, intelligent chatbots have been releasing manual labor from repetitive and mundane chores, which, together with the use of AI that helps with dispatching workload, are expected to further enhance the efficiency of credit services.

FUTURE TRENDS OF CREDIT-TECH INDUSTRY IN CHINA

Premised on years of evolution and the market opportunities discussed above, the Credit-Tech industry in China is expected to witness the following trends.

Consumer Needs and Expectations Continue to Grow and Become Increasingly Sophisticated

Deeper penetration of internet coverage and more comprehensive business-to-consumer consumption scenarios are expected to unleash more consumption potential. Meanwhile, as the younger generation progresses in life, individuals in this group are expected to have rising demand for consumption associated with their career, marriage, child-rearing and other stages of their lives. These individuals, with early exposure to the internet, higher acceptance of online consumer finance and more knowledge on the idea of using consumer credit at a reasonable level, are more likely to become users of loan products on the Credit-Tech platforms. Therefore, the market demand for consumer Credit-Tech products is expected to continue to increase.

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Credit Demand by SMEs Continues to Grow

As SMEs continue to grow, their demand for flexible financing services has experienced a steep rise. Notably, the accelerated speed of digitalization and the policy tailwinds in support of SME financing is projected to further lead to a high growth in credit demand from SMEs, encouraging SMEs to seek for credit services that are more diversified and easily accessible. According to iResearch, the size of the SME Credit-Tech market measured by the total outstanding balance of loans with approved credit line below RMB1 million is estimated to reach RMB27.6 trillion in 2026, representing a five-year CAGR of 35.9% between 2021 and 2026.

Heightened Regulatory Environment Give Competitive Advantages to Leading Credit-Tech Platforms

In line with an increasingly strengthened regulatory environment, the Credit-Tech industry faces heightened regulatory compliance requirements, which is expected to pose both challenges and opportunities for players in the industry. Rigorous regulatory environment is projected to further elevate the entry barrier, giving competitive advantages to the leading Credit-Tech platforms. In the meantime, an increasing number of long-tail platforms may leave the market due to the inability to obtain the required business permits or licenses, or the difficulties in acquiring qualified users and maintaining stable profitability under the evolving regulatory environment. As a result, users of such platforms are expected to switch to the leading Credit-Tech platforms with advanced proprietary technology, credit assessment capabilities and diversified product offerings.

Technology Attributes of Credit-Tech Platforms Becomes Increasingly More Relevant

As the Credit-Tech industry continues to develop, it is expected to witness a steady and sustainable growth, propelled by the launch of more diversified products and refined services. The work allocation between market participants in different stages of the lifecycle of a loan is likely to be clearly defined. Such trend is expected to make the technology attributes of Credit-Tech platforms increasingly more relevant. Through technology, Credit-Tech platforms are projected to empower more financial institutions and construct broader networks of partnership. In return, they are likely to be benefitted by gaining experience and user insights through such cooperation and thereby further developing and enhancing their services within the regulatory framework.

COMPETITIVE LANDSCAPE ANALYSIS

Competitive Landscape of the Consumer Credit-Tech Market

Consumer Credit-Tech market currently is the most established segment of the Credit-Tech industry in China, and remains to be the main competition arena for Credit-Tech platforms. 360 DigiTech currently primarily targets this market. Among all Credit-Tech

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platforms in the consumer Credit-Tech market, the top five platforms in the aggregate had taken 35.8% of the market share in 2021 measured by the total outstanding loan balance in the consumer Credit-Tech market in China.

Key Success Factors for Credit-Tech Platforms

Future success of players in the Credit-Tech industry is expected to be affected by the following key factors:

Technology. Seamless integration of data analytics, AI and other cutting-edge technologies with credit services and the construction of financial technology infrastructure are pivotal to the sustainable and healthy development of Credit-Tech platforms. Credit-Tech platforms need to build strong technology capability to effectively reduce the marginal costs of user acquisition and credit services, improve operational efficiency and enhance credit assessment capabilities. Only with constant technology advancement can Credit-Tech platforms become more capable of providing services to scaled and diversified consumers as well as long-tail SMEs more directly and efficiently, thereby accomplishing the mission of financial inclusion.

User acquisition. Effective and efficient user acquisition enables Credit-Tech platforms to achieve deeper user penetration and sustainable business growth. Credit-Tech platforms should deploy both online and offline user acquisition channels and collaborate with internet platforms with heavy user traffic in order to acquire users to the maximum extent.

Credit assessment. In-depth user insights, interactive algorithm models and a powerful credit profiling system are the foundation for effective credit assessment. As one of the most important aspects of credit assessment, a reasonable risk-based pricing system can provide borrowers with more suitable certain terms that are in line with their credit credentials while controlling overall risk level. Furthermore, a superior risk-based pricing system can better grasp the overall risk level and interest rate sensitivity of borrowers, and optimize Credit-Tech platforms’ scale and profitability under different business strategies. This helps Credit-Tech platforms adjust business strategies more quickly and take scale, risks, and return on investment into full consideration in providing services.

Partnership with financial institution. Collaborations with financial institutions help Credit-Tech platforms develop services, expand reach to broader user groups and further extend the network of financial institution partners. Against the backdrop of stringent regulatory requirements, leading Credit-Tech platforms that are compliant with applicable laws and regulations are more likely to forge deep relationships with financial institutions of various types and sizes. In addition, leading Credit-Tech platforms are better positioned to serve financial institution partners capitalizing on their ability to grow user base, profound user insights, advanced credit assessment capabilities and other technology edges.