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Q4 2019 360 Finance Inc Earnings Call

EVENT DATE/TIME: MARCH 27, 2020 / 12:00PM GMT

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PRESENTATION

Operator

Thank you for standing by, and welcome to the 360 Finance Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to Ms. Mandy Dong. Please go ahead.

Mandy Dong

Thank you. Hello, everyone, and welcome to our fourth quarter and full year 2019 earnings conference call. Our results were issued earlier today and can be found on our IR website.

Joining me today on the call are Mr. Wu Haisheng, our CEO and Director; Mr. Alex Wu, our CFO and Director; and Mr. Zheng Yan, our Vice President.

Before we begin our prepared remarks, I would like to remind you of the company's safe harbor statement in connection with today's earnings call. Except for any historical information, the material discussed on this conference call may contain forward-looking statements. These statements are based on our current plans, estimates, and projections. Therefore, you should not place undue reliance on them.

Forward-looking statements involve inherent risks and uncertainties. We caution that a number of important factors could cause actual results to differ materially from those contained in the forward-looking statement. For more information about potential risks and uncertainties, please refer to the company's filings with the SEC in the registration statement.

In addition, this call will also include a discussion of certain non-GAAP financial measures. Please refer to our earnings release, which contains a reconciliation of the non-GAAP measure to the most directly comparable GAAP measure. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in RMB.

I will now turn the call over to our CEO, Mr. Wu Haisheng.

***Haisheng Wu** 360 Finance, Inc. - President, CEO & Director*

Thank you, Mandy. Hi, everyone. Thanks for joining our earnings call today. We delivered another quarter of strong results to finish the year on a high note. During the full year of 2019, our loan origination volume reached RMB 198.67 billion. Cumulative registered users reached 135 million at the end of 2019.

Users with approved credit lines increased by 12.18 million throughout the year. Total revenue reached RMB 9.22 billion, which is quite a strong beat to our guidance at the beginning of 2019.

During the fourth quarter, we continued to adopt a stable and prudent management approach. Taking the ongoing regulatory changes into consideration, we proactively slowed the pace of our business development. Despite the challenging environment, we still achieved a great quarter with loan origination volume reaching RMB 53.12 billion.

The fourth quarter of 2019 is atypical for China's fintech industry. A series of regulatory requirements were rolled out, all of which present significant change for companies that are relatively weak in maintaining compliance standards. The measures also affected multiplatform loan borrowers, which could in some way affect our business. Fortunately, we quickly and successfully adapted to this challenging environment. I believe we mainly benefited from 2 factors: firstly, we remained in close communication with regulators on a regular basis as we are one of the leading fintech platforms in China; secondly, our main target market is prime borrowers with credit cards who are more resilient through economic downturns. As a result, this further strengthens our cooperation with institutional funding partners.

Next, I would like to brief you on a few key business updates during the quarter. In the aspect of regulatory compliance, we successfully passed a rigorous assessment conducted through a joint government campaign by Cyberspace Administration of China, the Ministry of Industry and Information Technology, the Ministry of Public Security and the state Administration for market regulation. This was a direct result of our strict standards for data collection and personal information collection. In addition, we took the initiative to apply for, and were one of the first batch of select companies to have our mobile app approved by National Internet Finance Association.

In January 2020, regulators released a draft version of the commercial banks Internet loan provisional regulatory measures, which legitimizes the loan facilitation business model and removes geographic restrictions placed on online lending business. We view this regulation as beneficial to the fintech industry, which will allow it to grow in a more healthy manner.

In the aspect of customer acquisition, we proactively slowed borrower acquisition activities, raised credit approval standards and cut acquisition costs of each new borrower. We focus more on precise user targeting contributing to cost reduction of borrower acquisition and LTV accretion. In the meantime, we devoted more resources towards existing borrower operations, and as a result, their contribution to loan origination volume during the fourth quarter improved to 81.9%.

In the aspect of funding, despite the turbulent markets, we continue to add our institutional funding partners. We now work with a total number of 81 in the fourth quarter, up from 74 last quarter, among with nearly 40 operate on a nationwide scale. While the geographic restrictions on online lending business have been removed, our internal stress test indicates that we are capable of coping with the most rigorous regulation. Our funding costs showed a downtrend momentum throughout 2019, falling by more than 100 basis points. And we will expect this trend to continue in 2020.

During the COVID-19 outbreak in the first quarter of 2020, we successfully issued RMB 500 million ABS as the first consumer finance ABS in 2020.

In terms of equity stakeholders, we feel honored to welcome to the world-renowned project equity group FountainVest become a significant strategic investor and Board member in November last year. They were subsequently joined by our Chairman, Mr. Hongyi and all key members of management team in December to announce a plan to jointly invest up to USD 60 million to purchase 360 Finance shares in the next 12 months. By the end of December 2019, the management team and FountainVest have already purchased USD 20 million worth of shares, in addition to the initial investment made by FountainVest in November.

FountainVest's strategic investment and the repurchase of shares by management not only ease the pressure on our stock price due to legacy shareholders, but also reflects solid vote of confidence by management in the future growth and the development of our business.

I'm very glad to share a couple of resolutions that were part of our Board meeting earlier this week. First, in order to further strengthen synergies with 360 Group, the Board appointed Liu Wei, Senior Vice President at 360 Group, as Vice Chairman of our Board. Second, one of our affiliates established an Internet insurance business last year, which delivered very outstanding results during the COVID-19 outbreak. The Board authorized us to undertake a minority equity investment in this business through which we expect to generate synergies with our loan business.

I understand everyone is concerned about the impact the COVID-19 outbreak on our operations and what measures we have undertaken in response. I'd like to state with confidence that, taking into account our 2020 year-to-date operational performance, our loan volume and the risk management have already fully recovered after a short challenging period. This is another strong demonstration of our business resilience attributing to our customer base and the risk management capabilities.

I want to highlight that we are one of the very first companies to take a proactive action in response to outbreak. Before the widespread outbreak, we delivered loan collection devices to our staff at home and put in place setups to ensure the quick recovery of our business operations by working remotely in anticipation of a difficult operational environment following the Chinese New Year holiday. By the end of February, our loan collection operations have been 100% recovered.

In addition, we and 360 Group jointly organized a number of charitable activities to donate and purchase medical supplies. During the Chinese New Year holiday, a team consisting of several hundred of our staff continued working to ship medical supplies from broad to Wuhan. This reveals that we are not only a team with professional capability, but also with one commitment to corporate social responsibility.

Now a few words on our 2020 outlook. The largest uncertainty comes from the ongoing COVID-19 outbreak, especially overseas. Hence, we are implementing a prudent approach to manage risk and wait for opportunities. In addition, I believe platform lacking essential key elements to operating a fintech business will be impacted to a much larger extent than we will be. Our affiliation with 360 Group provides us with structural advantage in terms of compliance funding, risk management and customer acquisition, which will allow us to take more market share in the long run.

Taking into account our 2020 year-to-date operational performance, we are confident to achieve our business goals in 2020.

Now I will turn the call over to Alex to discuss our financial results.

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, Haisheng, and hello, everyone. Firstly, let me give you a quick update on our full year financials. Our total net revenue reached CNY 9.22 billion in 2019, a remarkable 107% year-over-year increase. And non-GAAP net income reached CNY 2.75 billion in 2019, a 53% year-over-year increase as well. We are thrilled to deliver this result, and this is a strong fit to our guidance, CNY 8 billion to CNY 8.5 billion net revenue announced in early 2019. These solid results further proved our capability to fully deliver our promises committed to all our stakeholders.

Specifically, in the fourth quarter, as Haisheng just mentioned, our stable operations translate into healthy financial results. Total net revenues increased by 53% year-over-year to CNY 2.4 billion, and non-GAAP net income reached CNY 515 million in the same quarter. In face of the industry turbulence during the fourth quarter, we proactively adopt a more prudent strategy and successfully carried out a series of initiatives on various operation fronts, such as risk management, borrowers acquisition, fund management, and et cetera. In summary, we focused on 2 aspects: one, the increase of the operational efficiency; and two, maintain sufficient margin of safety.

In terms of operational efficiency, we witnessed a significant reduction of borrower acquisition costs, continued the decreasing trend of funding costs and enjoying the full year low effective tax rate. Firstly, we proactively refined borrower acquisition strategy and trimmed down sales and marketing expenses. The acquisition costs continued to drop to CNY 228 for each new borrower with approved credit line in comparison of CNY 246 in the previous quarter. With this, we delivered a decrease in unit acquisition costs in 2 constituted quarters, and we are confident to see the trend to continue in the first quarter of 2020.

Secondly, in spite of the challenging industry environment, we successfully issued CNY 1 billion ABS with attractive all-in cost at around 5.6%. By this, our total ABS issued for the full year of 2019 reached CNY 2.3 billion, with all-in cost of 5.6%. Moreover, we have expanded our cooperation with financial institutions. The number of financial institutions working with us increased to 81 by end of 2019 in comparison of 26 by end of 2018. And thanks for all these efforts, our overall funding costs slided from 9.2% in the fourth quarter of 2018 to 8% in the fourth quarter of 2019.

Thirdly, we have spent a great effort to reach a record-low effective tax rate of 14.5% in 2019 in comparison to slightly higher than 20% in 2018. Again, this is a good indicator to share our sound relationship with all the regulators.

In terms of margin of safety, we're focused on maintaining a healthier leverage ratio and to proactively increase our provisions. Firstly, we continued to expand the capital-light model business, which is without any risk taking.

During the quarter, loan origination under the capital-light model account for 22% of the total loan origination volume, up from 20% in the prior quarter, with a Q-on-Q increase of 27% in terms of outstanding loan balance. While our total outstanding loan balance continued to grow, the outstanding balance with risk-taking business decreased to CNY 58 billion from CNY 59 billion last quarter. Our net equity increased by 6.9% year-over-year to CNY 7.2 billion as our leverage rate ratio continued to decrease to 8.1x from 8.8x in the previous quarter. We expect that leverage ratio will continue to its downward trend in the coming quarters.

Secondly, in terms of the provision, we would like to highlight that different platforms might undertake different accounting approaches. And as a result, there may not be a direct like-for-like benchmarking analysis among different platforms. Our approach is to assess capital quality in the perspective of entire loan life cycle and build a sufficient provision covering the whole cycle at inception of the loan origination. We had more provision this time when we see the negative impact is slightly worse than our original expectation so as to maintain 4x provision coverage.

More importantly, before loan expiry, we do not recognize any gain from over reserve provision items when asset quality turns out to be better than our original expectation. Therefore, you won't see any negative numbers on any of the provision items on our P&L. The gain from excessive provision will be booked under other revenue line only after loans retired.

In light of the economy uncertainty and impact on the collection process, we enhanced our provision cushion for the whole outstanding loan portfolios and maintained a sufficient coverage ratio of more than 4x. Take into consideration of our 2020 year-to-date operational performance. We preliminarily expect a further increase of provision due to the impact of COVID-19 situation, but we can assure you that this will be a manageable level.

Furthermore, in regard to compliance, I would like to add that the contribution from our related P2P funding continued to decline in the fourth quarter. As of December 31, 2019, the P2P funding dropped to 4.5% of our total loan outstanding balance. We expect that this downtrend continue in the coming quarters. Currently, the credit line granted by our institutional funding partners is more than 2x of our total loan origination volume, which provides easy replacement for the P2P funding. This is another solid demonstration of our sufficient and various institutional funding resources.

In closing, despite the unexpected outbreak of COVID-19 and the volatile global economic conditions, our business remains stable and healthy. In the meantime, we will continue to focus on asset quality and launch of margin of safety through careful cash management and also stay alert on any minor turmoil down the road, aiming to accomplish our full year business target in 2020.

Additionally, I would like emphasis that our management are in a firmer consensus that we are facing a prudent opportunity which further solidify our market-leading position and remain the fullest confidence in our long-term growth prospects.

Now I would like to turn the page to our COO, Zheng Yan.

Yan Zheng ***360 Finance, Inc. - VP***

Thank you, Alex. Now let me give an update on risk management. We maintained a very stable risk performance through 2019. In face of industry turbulence during the fourth quarter, we undertook a more prudent risk strategy to keep up asset quality. And we adopted this prudent strategy through the whole product life cycle.

To elaborate in more details, when we granted credit lines to customers, we adopted a tight credit approval policy for new customers, leveraging a robust risk model with higher precision and more underlying variables. After borrowers made a credit drawdown, we enhanced the management of customers with relatively worse credit profiles in order to control risk exposure. Our delinquency ratio was 6.77%, with a modest drop compared to 6.93% in the last quarter of 2018 and a slight increase compared to 6.4% in the third quarter of 2019 despite the turbulence environment. This is a clear demonstration that our risk policy refinement came into good effect already.

In addition, during the second quarter of 2019, we started a pilot program, applying different terms to borrowers according to their credit profiles. In the A/B test, we offered different products so that borrowers with relatively better credit profiles were provided with longer terms to ease financial pressure and borrowers with relatively worse credit profiles were provided with short terms to accelerate their repayments. In the fourth quarter, we took more efforts to shorten loan tenor to borrowers with worse credit profiles and intended to scale up this pilot program in the future.

In the loan collection process, we continued to improve the performance of AI robots and increased effective communication times of our collection teams through new technology refinement. In addition, I would like to highlight our system automatically logged every collection action, including activities of outsourced teams. 100% of the records are monitored in real time by AI robots to ensure compliance to the greatest extent.

In face of the coronavirus outbreak, we continue to maintain this more prudent risk management strategy as we did in the fourth quarter. We quickly tightened credit policy in those areas most affected by the pandemic and for those customers with occupations that may be significantly affected in the economic slowdown. Nevertheless, we still undertook some pressure of asset quality during the outbreak. We expect our day 1 delinquency rate during the first quarter to be in the range between 7.2% to 7.3%.

As the outbreak gradually stabilized in China, we saw day 1 delinquency and collection rate have normalized and improved gradually. Moreover, we took rapid and effective management of both in-house and outsourced collection employees. As a result, collection operations were 100% recovered by the end of February.

During the outbreak, we are glad to find out that borrowers in some certain risk categories stay at their normal risk level, showing strong risk-resilience. All of those data during the outbreak, which is huge stress test, are valuable to further refine our customer acquisition strategy and risk management strategy. We will use the data to further identify our borrowers according to different credit profiles and explore more differentiated risk strategies. In 2020, we have continued to implement this competitive strategy and have full confidence in maintaining the risk management as a service.

That's all. Thank you. Operator, we can now start the Q&A session. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today comes from Jacky Zuo.

Jacky Zuo ***China Renaissance Securities (Hong Kong) Limited, Research Division - Analyst***

I have 2 questions. First is on the loan originations and our guidance. So can you give us some color on the first quarter loan originations given that we are coming to the end of March? And also regarding to our 2020 loan origination guidance, I just want to know what the assumptions behind -- for example, what's the distribution of the quarterly originations we are expecting for this year?

And second question is about the asset quality. So it's very helpful to know our day 1 delinquency rate is expected to be 7.2% to 7.3% at the end of this quarter, up from 6.8% from last quarter. So I just want to know, in terms of vintage loss, what will be the level we're expecting given the current virus.

And also, I noted that we actually set aside a large provision during the quarter. It's over RMB 700 million. So just want to know what is the assumption behind this additional provisioning. It seems it's about 1% of our loan balance at the end of last year. Is that the kind of level of provisions we expect for the impact from the virus?

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, Jacky. Let me take the question first and probably Haisheng and Zheng Yan will add on that. This is a very important question. The first one is the guidance. And yes, we issued our guidance for the full year - the loan origination, CNY 200 billion to CNY

220 billion. The rationale behind that is that standing at today's situation, it's a little bit unclear for the future. But we are confident that everything is under control. But just as you know, our company always take a relatively conservative measures in terms of daily operation. So we want to at least keep the guidance as flat as last year because last year, the total loan origination is CNY 198 billion. So that's the key rationale for that. And hopefully, if we see any recovery signs from the outbreak of COVID-19, this number will have a positive adjustment in the future.

And just to add a few color on this underlying assumption is the -- we would expect the capital-light model will continue to grow and to fulfill our strategies as a technology-enabler.

And the second thing is that we will continue to see the acquisition costs to remain at a relatively low level. And that's the information we can share with you on this call.

And your second question, talking about the asset quality. Yes -- for the first question, you asked about Q1. Standing as of today, all the numbers are subject to the auditors' review. But all we can say is that we see the loan origination for the first quarter should be around CNY 50 billion. So that gives you a rough sense of how we might conclude the guidance for the whole year.

Your second question, talking about asset quality. Yes, I think I would defer day 1 delinquency ratio question to our CRO. But for the provision, let me explain a little bit further. As I mentioned in my speech just now, different platforms have different measures to -- or say, accounting approach to take provisions. Our approach is to assess asset quality for the entire loan life based on the situation we were facing, okay? So what we do is to -- standing at the Q4 situation, we evaluate as usual for the whole historical assets, all outstanding balance. We will see that there is some impact on their asset quality, so we take the additional provision.

And in terms of vintage, what we can see is by end of Q4, the overall asset vintage is around 2.6%. It's still manageable. So that number can be compared with, maybe our CRO will mention later, the full year estimate for this year. I would defer the day 1 delinquency ratio question to our CRO.

Yan Zheng ***360 Finance, Inc. - VP***

[Interpreted] So for the new transactions in 2020, the day 1 delinquency rate will be expected to be around 6.5% to 7.5%. And our expectation of the vintage delinquency rate will be around 2.5% to 3.5% on average, which depends on its ongoing COVID-19 virus outbreak in China will be eased soon or not. For now, we can see that the epidemic control in China is very effective. We believe in our government, and we are fully confident that our credit performance will be fully within our range of expectations. I hope that can clarify.

Operator

The next question comes from Daphne Poon with Citi.

Daphne Poon ***Citigroup Inc, Research Division - Associate***

So I also have some more questions regarding your provisioning and the asset quality. So first is we see that the 4Q on-balance sheet provision actually also increased. And if we calculate, the annualized credit cost is around 13% of your average on-balance sheet loan balance. So it just seems like quite a high percentage. Just wondering whether that is also because (inaudible) like front-loading of provisions reflecting in the coronavirus impact or is that effect just because of the Q4 rising at current risks. And also, do you see on-balance sheet loans customers as currently compared to the off-balance sheet one?

And admit I just want to understand more about your provisioning outlook for Q1. In particular, I think on the guarantee liability, that's a big number in Q4. So just want to confirm whether it also has taken into consideration of the coronavirus impact and how much more provision you expect to set aside in the first quarter. Do you expect a similar -- around CNY 700 million, additional guarantee liability? So should we see that as a recurring number for Q1?

And also regarding your guidance. So I just want to confirm because it just seems that -- you mentioned earlier that Q1 origination is already CNY 50 billion, and your full year is around CNY 200 billion to CNY 220 billion. So it just seems very conservative given you also mentioned you feel pretty confident about the recovery of your asset quality and coronavirus situation. So just wanted to understand more on the rationale behind. Do you see the whole industry -- that the penetration is high and the room for growth is declining so that you turn more conservative on the customer addition? Or is it just because of the uncertainty of this macro or coronavirus all-related situation here?

And lastly, it's on the capital-light model. I wondered if you have any specific targets of (inaudible) of that model and what potential contribution do you expect to have, say, by the end of this year?

Jiang Wu ***360 Finance, Inc. - CFO***

Sure. Thank you, Daphne. Just for your first question, the provision on the balance sheet assets, what we can see is that we treat on-balance sheet assets and off-balance assets in the same way in terms of taking provisions. The methodology is the same. So the only difference is that the asset quality might varies under different type of model. But in terms of methodology of provision, it is the same, okay?

And to answer your second question, just following the accounting rules, we are not allowed to take in provision for the things never happened in that quarter. For example, in the fourth quarter, if we take a provision, strictly follow the accounting rules, we can only take provision based on the assumption that there is no coronavirus. That's the basic assumption. But as you know, this is just an estimate, and we tend to provide higher provision coverage. So first of all, we follow the rules, accounting rules. Secondly, we put our best effort to do the estimate. So in the Q1, though it's already 27th of March, but in terms of the provisions, we're still in discussion with our auditor. And we can't give you a specific guidance what number it would be. But what we can reemphasize here is that numbers should be manageable.

Okay. Question 3, the guidance. The conservative guidance is not based on our forecast for the whole industry, also the outlook of the industry, but purely based on the uncertainty of this COVID-19 incident because even China is under control, the whole world is in the turmoil. So until that factors fully show up their impact, we will take relatively conservative in terms of guidance. But as you mentioned, we will closely monitor the whole daily operation, all the data to see if there's any signs of recovery or the certainty in the future, in this year, we will definitely speed up our growth in the coming few quarters. So that's the reason we are very confident to deliver this guidance.

The fourth question is about the capital-light target model. We do have a general target for the capital-light proportion. By end of this year -- last year, 2019, the new loan originations on the capital-light model contributed around 22% of the whole book. We expect that number will increase to 30% to 40% by end of this year under this relatively conservative guidance. Hopefully, I answer your questions.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

(foreign language)

Jiang Wu ***360 Finance, Inc. - CFO***

[Interpreted] I just want to add some point here.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

[Interpreted] To add Alex's question, actually there are like 420 million customers or the credit card holders in the China market. And around that 50% are revolvers that's waiting to borrow from the money from the bank. So these are our potential customers. And compared to what we have now, that means there are 20x the customers base are still available for us to grow. So to add on Alex's answer of that question.

Daphne Poon ***Citigroup Inc, Research Division - Associate***

Yes. So just want to follow up on the capital-light. So you've mentioned 30% to 40% is based on the conservative loan volume guidance. So does this mean that the percentage would drop like if the loan volume turns out to be better than your current expectations?

Jiang Wu ***360 Finance, Inc. - CFO***

Well, we will evaluate that percentage. If the outlook for this year is better than what we expect today, then we will give the guidance accordingly.

Operator

The next question comes from Steven Chan with Haitong International.

Sik Tin Chan ***Haitong International Research Limited - Executive Director***

I think three quick one here, if I can. One, a follow-up question on the loan origination volume guidance. And you talk about -- I think you had mentioned much about all the assumptions you're based on. But I would like to know one key assumptions. What will be your assumptions of the increase in cumulative borrower in order to achieve the loan origination guidance for 2020? That's the first question.

And secondly, you mentioned that you're going to increase the share of capital-light model of business. I would like to know because you have increased your provision coverage for the nonguarantee, so does that affect your effective return or take rate from your nonguarantee model? Meaning that if you are making more provisions for the guarantee model, does it imply that for the nonguarantee model, the return you can get also have been reduced starting in the final quarter last year?

And a sub-question for that is, do you have any target of having 100% of your loan originations being capital-light? So that's the second question.

And finally, I think a follow-up on these, so like new item, calling guarantee liability expenses. I would like to seek for your clarification again. So if this item related to the preparation for the new accounting rules in 2020, so that's why you're trying to make more provisions now and make sure that that will likely to reduce the potential negative impact, especially in the first half of 2020 if the economy or unemployment rate or whatever delinquencies is very, very high?

And a question for that is in case if the economy starts to pick up very significantly in second half 2020, are you going to see potential write-back? Because it seems to me that it's very similar to the IFRS 9 for banks. So when the economy is recovering, probably the provisions would likely to reduce. So I'm not sure whether -- you are trying to make a lot of excess provision in the final quarter of 2019 and then that could be too much. And probably, there could be a chance to write-back if the economy actually pick up very fast.

Jiang Wu ***360 Finance, Inc. - CFO***

Okay. Thanks, Steven. Very good questions. The first one, yes, we do have some underlying assumptions in terms of new borrowers to generate this guidance -- to meet the guidance. And under that assumption is we will continue our strategy in the fourth quarter last year, i.e., we focused on our existing borrowers who we know much better, instead of acquiring more new customers under such circumstances. So based on that underlying assumption, our new borrowers for 2020 under such a guidance will be much lower compared with last year. And we can easily meet up the guidance primarily focused on our existing customers and to better serve them.

The second question in terms of capital-light. A quick answer for your second piece of your question is, ultimately, this capital-light model will contribute the majority part of our business in the long run, but not this year. So 100%, even it would be accomplished or be -- in the 5 years, at least 5 years' horizon, okay?

The second part of your first piece of your question is the return on the capital-light and whether they have any negative impact during this space treated by the asset quality decrease. In short, answer is no. We have maintained our sound relationship with our financial institutions because in the commercial terms with those financial institution, the threshold to decrease our service charge is very high. Of course, it's based on the industry general practice and industry standard. But just because our historical vintage is so much better compared with the industry average, so we have a significant buffer in terms of commercial terms. So even in February this year, we still see strong support from the financial institution under the capital-light model as well. So to answer your question, there's no negative impact on that front. We still have the similar unit economic as today.

The third question about the expense of guarantee liability. As I mentioned, this is Q4 results, so we didn't adopt the new accounting policy in the fourth quarter. The impact of that accounting policy are still in discussion with our auditor. But based on our preliminary discussion, we don't expect a very strong negative impact on us. The influence will be very limited. That's the only thing I can mention at this moment for the ASC 326.

And the other thing is you mentioned when the loan expires, the excess coverage of the provision will definitely come back to our revenue. We did that every single quarter. Even in the fourth quarter, we have more than CNY 70 million come back from the guarantee liability to our revenue item. So we will see that trend continue in this year and going forward. Hope I answered your questions.

Sik Tin Chan ***Haitong International Research Limited - Executive Director***

So can I have a follow up on that just for the first question? So under your guidance on the new cumulative borrowers, so to put the same hole, there could be high chance that we're going to see a decline in sales and marketing expenses in 2020 compared to 2019?

Jiang Wu ***360 Finance, Inc. - CFO***

Yes. Yes. Yes.

Operator

(Operator Instructions) The next question comes from John Cai with Morgan Stanley.

John Cai ***Morgan Stanley, Research Division - Research Associate***

I have, I think, three. So the first one is just to see if the management can share with us some insights on how they assess the current credit cycle. Is it fair to say that the worse is over? And what matchings would the management monitor to see whether we can accelerate the growth or not?

And related to that is we have heard some banks are getting very prudent in terms of the credit card business. So -- and some of them might reduce some credit lines, and they see some risk increase in the portfolio as well. So if the banks scale back the credit card business, do we see it as a risk better or an opportunity? And the reason is because we have our borrowers over that risk, the bank's credit card customers seems to be high. So that's the first questions on the industry.

And the second question is also related to the guarantee and the 4x coverage. So I just wonder what's the 4x mean. Does it mean our delinquent reserve balance divided by the delinquent loan is 4x? Or if there's any colors you can share on that metric.

And the final question is about basically customer acquisition and then cash. Because on the customer acquisition, you have seen both the total number decline in the fourth quarter and also the unit cost. And so it's very good trend. And just wondering, going forward, do we expect the customer acquisition cost to remain at this low level? And is it a function of our quantity and the unit price? That means, if we increase the volume that the unit price will go up. So if we keep it lower, the unit cost is also low?

And then during the fourth quarter, we reduced the sales and marketing expense, and seems our loan balance is going much slower. So if we keep the acquisition costs low, do we see any pressure to grow the loan balance? And with our strategy to translate to the capital-light model and reduce or lower sales and marketing expenses, it seems we will build enough cash in 2020. Just wondering if there's any other plans on how we use the cash on hand.

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, John. And the -- later, I just put on a list of 4 to 5 questions. Let me answer some things first and then I would leave the rest to the CEO and the CRO, Zheng Yan. Just backwards, okay?

For the customer acquisition, yes. As I mentioned in my speech just now, we do expect the acquisition costs, so we'll follow this decrease in churn in the coming few quarters and maintain a relatively low level. That said, this is based on our conservative guidance at this moment, okay? So to some sense, you are right, if the economy recover quickly in this year, we might decide to speed up our growth and we will invest more on customer acquisition in the coming few quarters. And that unit costs might go up a little bit. But it's still too early to say because we take a lot of initiative to fine-tune our customer acquisition strategy and focus more on the high thickness and high-quality customers in the coming few quarters. And we will see the positive impact on this acquisition strategy as well.

Yes, if the situation continues like this or even getting worse, of course, we will have more cash than the normal business needs. We might consider the cash for some capital market activities. We don't rule out the options. Also, we might take a closer look at the insurance business. We just plan to take a minority stake, as announced just now by Haisheng. But this is just options. We will carefully evaluate the situation based on all the macro and micro data we can get, okay? That's the customer acquisition question.

The third one is the guarantee liability 4x. Yes, this is a very good part. Thank you for giving me an opportunity to explain this. Okay. As I mentioned, different platforms have different policy of that, but we maintain our prudent strategy to give a high cushion to our delinquencies. So just put it at very simple way might not be absolutely correct. You can take a look at our M3+ delinquency ratio, then times 4, slightly higher than 4, that would be our provisions. The total provisions for the loan, all outstanding loan balance.

And the second question regarding the bank's scale back of credit card if that is an opportunity or not or a risk for us. I think I will leave that question to our CEO. And for the credit cycle, the macro credit cycle question, I will leave to our CRO.

Yan Zheng ***360 Finance, Inc. - VP***

[Interpreted] Okay. The pandemic situation now in China, as an example, to answer the question of the credit cycle. So actually, we have discovered that the pandemic has different impact across different customer groups on our assets. For example, for Hubei province, the high delinquency rate during this period has doubled but it accounts for only around 5% of our total assets. And for different industries, the impact varied as well. So for instance, sports, fitness and Internet industry, hotel and the catering industry, and the retail industry has been affected a lot. While financial services, government, education and medical services have not been affected. For manufacturing, especially those who have orders from overseas countries might be affected later as -- because of virus widespread of overseas countries. While delivery industry increased at the beginning, will normalize very fast.

So with all these data, we have done much dimension clustering analysis. And we found that around 80% of our customers are not being affected at all or even have lower credit risks. While 15% is slightly being affected, and around 5% are severely disrupted. So those kind of data and behavior is like treasure for us and a real situation pressure test. So in the future, in terms of the credit cycle, we will emphasize on good customers that we have data and we have the evidence and credit performance as well. And we also have quite stable indicators and models to monitor the changes in the credit performance of the same customer. So we can say that we are fully prepared with all the data for the credit cycle. I hope this can clarify.

So maybe the next question is for our CEO about the credit card.

Haisheng Wu ***360 Finance, Inc. - President, CEO & Director***

[Interpreted] Okay. So for now, with the uncertainty of the COVID-19 situation, we cannot just say whether it's opportunity or it's not. But in the future, when the situation is eased and we can say that, basically, we are complementary compared with the credit card instead of the competitors directly, with the data and with all the credit card holders base, we can have more opportunities when the situation is more certain.

Operator

The next question comes from Claire from Gold Dragon Asset Management.

Unidentified Analyst

Yes. So I have three questions. First, management mentioned that you are much more conservative compared to your peers. So can you give a bit more color on our guarantee liability ratio, which I guess is calculated at current quarter, like new provision of guarantee liability divided by the amount of newly originated balance sheet loan covered by guarantees?

And my second question is, so how do we manage the collection of overdue loan during the coronavirus? And why are you able to manage our NPL almost like better than our peers?

And my third question is also like on the guaranteed liability expense. Can you mention -- I'd like more color on what's the definition of guarantee liability expense. And how much of our expenses are related to the current quarter? And how much is more related to our expectation about the future or the full year? And what's our, like, guidance of this item in Q1 and full year?

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, Claire. Let me take the guaranteed liability questions first, and I will defer the collection question to our CRO. So first, the expense of the guaranteed liability. To put it in sort of the unprofessional way, it's more like a fair value reevaluation of the guarantee liabilities, okay? So basically, when the transaction happened, according to the U.S. GAAP, we need to estimate what is the potential there under that transaction? So that adds -- that number will go into the so-called guarantee liability. So every single quarter, we may release the full result. Before that, we need to ask a third party, independent third-party to reevaluate all the outstanding balance to see whether the original expectation or the estimate is in line with the current situation. If the situation is worse than our original expectation, we will add more guarantee liability, we'll add more provisions as well. But if the situation is better than our original expectation, we will do nothing under our current treatment. We will wait for the asset to expire, and the excess guarantee liabilities will go back to our revenue. That's the key methodology. And this fair value change of a guarantee liability, also the expense of the guarantee liability is more like reevaluate all the outstanding balance in that specific quarter, and we will see what was their lifetime performance is like. Then we have our best estimate at that quarter for the future, then we book that into this fair value book change.

So this change is based on the accounting rules we take. It's purely standing at the end of Q4. So we made a forecast for the asset quality. And we will reevaluate the asset quality by end of first quarter before we release the first quarter results. And we will process it in -- but again, under the same position.

Hope I answered the guarantee liability question. And then I will turn to our CRO in response to your collection question.

Yan Zheng ***360 Finance, Inc. - VP***

[Interpreted] Sorry, Claire, can you please repeat? The question is about the collection actions in place during the COVID-19 situation?

Unidentified Analyst

Yes. So before that, can I like repeat my another answered question. So first, so we like recorded more than CNY 700 million guarantee liability expense. And we have CNY 71 billion outstanding loan balance. So does that mean that we are expecting like NPL to increase like around 1% because of coronavirus? And also, you also mentioned that our company is much more conservative than others in terms of reserving. So can you share like with us what's the guidance level in the expense ratio for Q4 and also for the full year guidance?

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Unidentified Analyst

(foreign language)

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Unidentified Analyst

(foreign language)

Yan Zheng ***360 Finance, Inc. - VP***

(foreign language)

Jiang Wu ***360 Finance, Inc. - CFO***

So we will still estimate the impact, the negative impact of the COVID-19. So at this moment, what we can say is that we will continue to increase the guarantee liabilities to maintain our reserve coverage to more than 4x. But to what extent? It's too early to say because the situation is still evolving. We probably need a few more months to see the impact on our asset quality. But what we can see as of today is the impact is limited and is acceptable.

Operator

The question-and-answer session is closed, and this will also complete our conference. So thank you for participating today. You may now disconnect. Thank you again, and have a great evening.

Jiang Wu ***360 Finance, Inc. - CFO***

Thank you, everyone.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]