OneConnect Financial Technology Co., Ltd. (NYSE: OCFT, SEHK: 6638)

Earnings Call Transcript

Wednesday, August 17, 2022 8:00 PM (BJ/HK Time)

Executives

Mr. Chongfeng Shen – Chairman of Board of Directors & Chief Executive Officer

Mr. Yongtao Luo - Chief Financial Officer

Mr. Michael Fei – Board Secretary

Mr. Ji Li – Chief Technology Officer

Ms. Danielle Gao - Head of Investor Relations

Analysts

Timothy Zhao from Goldman Sachs

Yang Liu from Morgan Stanley, Research Division

Tianen Zhou from Orient Sec

Presentation

Operator

Ladies and gentlemen, welcome to OneConnect earnings conference call for the second quarter and interim results 2022. In addition, please be noted that this event is being recorded. Now, I would like to hand the conference over to your speaker host today Ms. Danielle Gao, the company's Head of Investor Relations.

Head of IR - Danielle Gao

Thank you. Hello, everyone, and welcome to our earnings conference call for the second quarter and our interim results 2022. Our financial and operating results for the second quarter and the first half of the year were released earlier today and are currently available on our IR website at ir.ocft.com and irhk.ocft.com.

Today's participants include our newly-appointed Chairman and CEO, Mr. Chongfeng Shen; CFO, Mr. Yongtao Luo; Board Secretary, Mr. Yiming Fei; and our CTO, Mr. Jie Li. In today's meeting, you will hear from Mr. Chongfeng Shen, who will start a call with updates of key achievements and business highlights. Afterwards, our CFO Mr. Yongtao Luo will offer a closer look into our financial. In Q&A session, our management team will be available to answer your questions.

Before we continue, I would like to refer you to our safe harbour statement, as in our earnings release press we will be making forward-looking statements, which involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that we may present both IFRS and non-IFRS financial measures. A discussion of the limitation of non-IFRS measures and its reconciliation to IFRS measures are included in the earnings press release.

For today's meeting we have both Mandarin and English channels. Our management team will stay in Mandarin channel and the interpretation will be provided in the in English channel. If there is any discrepancy, management statement in the original language will prevail. For today's meeting. We will offer webcast replay on our IR website.

With that I'm pleased to pass the call to our Chairman and CEO Mr. Chongfeng Shen.

Chairman and CEO - Chongfeng Shen

Hi everyone, I am Chongfeng Shen. Thank you for taking the time to join OneConnect's Q2 and H1 earnings release.

I would first like to announce a personnel change. On the meeting of the board of directors held this afternoon, the Board deliberated and approved Dr. Wangchun Ye's resignation as the chairman of the Board. The Board has trusted me to be appointed as Chairman and CEO. The Board would like to thank Dr. Ye for his contribution to the incubation of the company's innovative business and product development, expansion of target market and setting-up of unique business model of "technology + business", which have paved the way for OneConnect's Stage II growth strategy and long-term development. Dr. Ye, will remain as our Executive Director in the future.

Growing complexities in the international landscape and relapses of COVID outbreaks, lock downs in places like Shanghai in the second quarter in particular, have resulted in negative impacts on the macro economy. Despite these challenges, everyone at OneConnect did their best to overcome difficulties and achieve steady growth in the second quarter.

We completed our dual primary listing in both New York and Hong Kong as we officially listed on the Hong Kong stock exchange on July 4. This will cement our position as a mainland company with outreach to Hong Kong and Southeast Asia and boost our international reputation and competitive advantages.

We have always valued Hong Kong as an important market. OnConnect first established its Hong Kong subsidiary in 2018 to serve local financial institutions and regulators. Ping An OneConnect Bank , OneConnect's wholly-owned subsidiary, officially launched in 2020 as the first virtual bank focusing on serving small- and-medium-sized enterprises. We see good momentum in PAOB's

development. The *Asian banker* included us into its *Global Top 100 Digital-only Banks Ranking* this June, and awarded us the highest ranking among virtual banks in Hong Kong.

We do hope that with our Hong Kong listing, more Asia-Pacific based investors will take note of OneConnect and share with us the achievements of our rapid growth as we capitalize opportunities from digital transformation across the world.

Also an update on the share repurchase plan OneConnect announced on February 24. As of the end of June, the company has bought back approximately 8.02mn ADRs, representing approximately 2.1% of its total issued and outstanding shares, for approximately US$11.17mn in value. The company plans to use these shares as employee incentives. These efforts show OneConnect and the management's commitment to long-term and healthy development in the capital market as well as their confidence in the OneConnect's future.

Of course we do recognize the increasing uncertainties in China's economy caused by COVID outbreaks. But we believe these are temporary influences. Over the long term, the FinTech industry still enjoys immense potential, evidenced by the various policies from regulators in support of the development of digital economy. As a part of *the 14th Five-Year Plan for the Development of the Digital Economy*, the State Council approved establishing an inter-ministerial joint conference system on the development of the digital economy this June. Led by NDRC, the joint conference system consists of 20 departments, including the CBIRC and CSRC, which will be responsible for implementing strategies to develop digital economy. As financial institutions become more digitalized, China Insights Consultancy estimates that by 2025, IT spending by financial institutions in China will total RMB799.3bn, representing a CAGR of 23.6% since 2020.

Looking forward, OneConnect will remain more committed to our vision, Technology Creates Value through Expertise. We will improve third-party revenue, recurring revenue and profitability with consistent productization for us to create value for our customers and generate returns for our investors.

Next, I will brief you on OneConnect's business development in the first half and second quarter of 2022.

You can go to our slides and look at Page 3 and 4. As OneConnect is still in the second stage of customer upgrades, we continued our solid efforts in our Stage II strategy and achieved steady growth in our results. Revenue up by 17.2% YoY, reached RMB1.13bn this quarter. Third-party revenue increased by nearly 10% to RMB 340mn. The number of premium plus customers grew from 113 to 134 by 18.6%. Adjusted net loss ratio narrowed significantly to 18.6%, an improvement of 17.3 pcts. This is no easy achievement as many industries are in a downturn due to macro impact from COVID outbreaks. OneConnect's performance is a result of effective execution of our Stage II strategy and joint efforts of every one at OneConnect.

Please go to Page 3 and 4. You can see a map of our Stage II strategy. In this quarter, as a part of Stage II strategy, we have made some progress in digital banking, Gamma platform and overseas, on which I will give you a more detailed introduction.

Please go to Page 5. In relatively mature product - retail banking, we focused more on improvements in our product functions and broader engagement with existing customers. In terms of products, we have established 3 mature solutions, namely Smart Marketing, Smart Retail Mid- platform and Smart

Wealth Management. Smart Marketing is the business development tool for customer relations managers with 100% coverage of their daily work, including existing customer operations and customer acquisitions. Smart Retail Mid-platform includes 8 functions, for example, small customer and product configure centres. Componentized, configurable and with micro services, the retail mid-platform can make technology systems more flexible. Smart Wealth Management empowers digitalization in wealth management and with this coverage of wealth planning, portfolio, advisory, rebalancing, et cetera.

On broadening engagement with existing customers, we start with single modules to win customer recognition and continue to expand our engagement, which leads to usage of integrated products. 80% of premium plus customers from retail banking in H1 are existing customer from last year. We successfully build reference cases for integrated products in large banks. For instance, with a trillion level AUM City Commercial Bank in Eastern China and 500 billion AUM Rural Commercial Bank in Southern China, our cooperation with them started from retail digital transformation planning and smart marketing tools. Happy with our products, these customers expanded to smart mid-platform and smart wealth management, which generated contract value over RMB 10mn in the first half of 2022 alone.

Now please go to Page 6. Gamma platform, a relatively newly incubated product, has rapidly gained market share. With OneConnect's unique “business + technology” advantage, AI customer service combines rich expertise in financial scenarios with leading technology and offers applications in 3 business scenarios, namely smart customer service, smart loan collection and smart marketing, as well as a smart robot platform. These products incorporate 5 knowledge bases, over 1,600 AI scenarios, over 200 Q&A models and over 3mn AI sales scripts in the bottom layer, with AI adoption rate over 94%.

AI customer service is well recognized among our customers. The number of customers nearly doubled- compared with the first half of last year. At the same time, the product charges based on stock business volume, which by nature generates recurring revenue. Half-year results show that NER has already exceeded 80%.

Now please go to Page 7, which shows our overseas business. We have continued to make progress in Hong Kong and Southeast Asia, which are important parts to our Stage II strategy – ecosystem. PAOB is the first virtual bank to focus on SME services in Hong Kong. PAOB is also the only one to use alternative data for credit modelling, which means simpler and more precise loan approvals for SMEs, and won us recognition from HKMA and HKMC. PAOB is committed to digital financial inclusion. Account opening can be done 100% online and within 1 day. Of the customers we serve, 30% are first-timer loan applicants. Revenue growth in 2021 ranked first among virtual banks in Hong Kong and revenue continued to show strong momentum in the first half of 2022, increasing by over 5x to RMB 45.7mn. PAOB also enjoys great brand name in the industry, evidenced by awards from renowned financial media, including *Asiamoney*, the *Asian Banker*, the *Digital Banker*. The bank ranked the 45th in *the Global Top 100 Digital-only Banks Ranking*, top in Hong Kong.

Turning to Southeast Asia, we signed a strategic cooperation agreement with Pismo, a core system provider in Brazil, to explore SaaS core systems to small-and-medium-sized banks in Southeast Asia and Middle East. This is a strong complement to OneConnect’s core system business development overseas. We are also working with CIMB Philippines to launch a cloud deployed core banking system and mobile banking, as well as a lending platform with full product coverage.

Now please go to Page 8. Technology product is our core competitiveness in the future. We further upgraded our product in H1, improving standardized functions and performance. The company updated over 40 product versions in the first 6 months. These iterations prioritized 2 things. Firstly, we aim at improving standard features to provide more comprehensive marketing and risk management, broader operation scenarios and smarter analysis in products. The second thing is to make product infrastructure more configurable and flexible. Through low-code development, process engine configuration and other approaches, product deployment and configuration are lighter, faster and easier.

Despite pressure from COVID and the macro environment in Q2 and H1, with support and joint efforts from all sides, OneConnect has been on track to our Stage II growth strategy as we continue efforts in sales and product standardization, achieved steady growth revenue, narrowed losses and balanced business mix.

Next, I will hand it over to Yongtao to introduce financial results in the second quarter and first half of the year. Yongtao, please.

CFO - Yongtao Luo

Thank you, Mr. Shen. Good evening, every one. Next, I will give you some updates on our financial results in Q2 and the first half of 2022.

Despite impacts from COVID outbreak, OneConnect still managed to deliver our solid financial performance. Total revenue in Q2 reached R MB 1.13bn compared with the RMB 970mn, with the increase amounting to 17.2%. Third-party revenue grew by 9.6% YoY to RMB 340mn. At the end of Q2, the number of premium plus customers (i.e. customers with revenue contribution over RMB 1mn) was up by 18.6% to 134. Excluding listing fees, net loss adjusted for listing fees reached RMB 210mn. Adjusted net loss ratio improved significantly to -18.8%, or 17.3pcts, from- 36.1% in Q2 2021.

Page 11 is about the total revenue of OneConnect. Revenue grew by 17.2% in the second quarter. Whereas in the first 6 months, the top line increased by 20.4% to RMB 2.15bn. I will give you more color on revenue growth drivers later.

Now let's turn to Page 12. Let's take a look at the revenue mix by customer type. Revenue by customer type remains stable this quarter. Contribution from third-party customers increased from RMB 314mn in the same period last year to RMB 344mn or by 9.6%, accounting for 30.3% of our total revenue. AI customer service in Gamma platform, virtual bank business in Hong Kong were the main growth drivers for the third-party revenue. COVID outbreak in Q2 remained a drag for the third-party implementation and risk management revenue, which includes auto insurance claims and off-line loan business. Growth would be better without these influences.

Contribution from Lufax grew by 19.9% YoY from RMB 90mn to RMB 107mn in Q2, representing 9.5% of total revenue. Growth mainly comes from cloud services platform and operation support business. COVID temporarily affected the revenue from loan business and implementation though.

Revenue from Ping An Group reached RMB 680mn in the second quarter, an increase of 20.9% YoY from RMB 560mn, representing 60.2% of total revenue. Other than business origination, which was dragged by the COVID, other types of revenue all improved steadily.

It's worth mentioning that in addition to cloud services platform, other types of revenue also experienced a steady growth becoming equally important drivers of revenue growth from Ping An Group. We believe that as an important customer for OneConnect, Ping An Group will continue to work closely with us in operation support, risk management and cloud services platform.

Turn to Page 13. On revenue mix by business type, implementation revenue at 15.1% of total revenue increased by 7.2% YoY from RMB 159mn to RMB 171mn in Q2. Implementation revenues from Ping An Group and Lufax grew steadily, while third-party implementation revenue slipped slightly as a result of delayed delivery due to COVID.

Business origination revenue declined by 11.1% YoY from RMB 118mn in last Q2 to RMB 105mn, accounting for 9.2% of total revenue. Off-line business interruption due to COVID was the major reason for the drop.

Risk Management revenue was down by 13.4% YoY from RMB 106mn to RMB 92mn this Q2. Its contribution to total revenue stood at 8.1%. As we mentioned in the last earnings call, risk management business is in a temporary decline as a result of stagnated off-line loan business and auto insurance claim ecosystem.

Operation support revenue improved from RMB 274mn in the same period last year to RMB 317mn, an increase of 15.5% YoY, making up 28% of our total revenue. Operations support mainly charges on stock volume or usage, which makes it less susceptible to COVID outbreaks. As a strategic focus, this type of revenue experienced growth from Ping An Group, Lufax as well as third-party customers. On contribution by product, the usage of AI customer services and remote services improved because of COVID.

Cloud services platform remains the biggest part of total revenue, with revenue growing by 41% YoY from RMB 262mn to RMB 369mn in the second quarter, accounting for 32.6% of our total revenue. Revenue growth was mainly driven by Ping An and Lufax, as we continue to benefit from the group's strategy to deepen digital transformation. Lufax, which started a cloud services in the last Q2 also became an important contributor to growth this year. We would also like to draw your attention to the fact that third-party revenue in cloud services maintained the strong momentum seen in the first quarter. Despite this modest contribution to total revenue, progress in cloud services demonstrates OneConnect’s capability to build Iaas+PaaS+SaaS solution. As the bottom layer infrastructure, cloud services platform is an indispensable part of our solution.

Post implementation and other revenue was up from RMB 48mn to RMB 80mn and YoY increase of 66.2%, or 7.1% of total revenue, benefiting from revenue growth from virtual bank business in Hong Kong. The virtual bank experienced the highest growth rate in 2021 among 8 virtual bank in Hong Kong and also saw revenue increasing by several folds in the first 6 months of this year.

Now let's turn to revenue mix by product type. As a strategic focus for innovation, Gamma platform was the biggest chunk of our revenue this quarter, at 55%. Other than cloud services platform, AI customer service, core banking system and other innovative business also presented a remarkable

growth in Q2. On the other hand, the digital banking made up 25% of total revenue. Digital Insurance and the PAOB contributed 18% and 2% of total revenue, respectively.

Page 15 is about our premium plus customer. This quarter, we continue to implement our Stage II strategy where we focus on potential from premium plus customers. Building upon an increase of 15.6% YoY growth in Q1, the number of premium plus customers continued to grow this quarter by 21, bringing the total number to 134. With most of them being our existing customers, this increase also testifies our success in deepening engagement with the existing customers. New premium plus customers mainly came from Gamma platform and the digital insurance.

Page 16 is about our gross margin. Despite the impacts from COVID, we are happy to note that gross margin maintained a steady growth in Q2. IFRS gross margin improved from 34.1% by 2.1 pcts to 36.2% to this quarter. IFRS gross margin in H1 also grew from 34.0% in the same period last year to 35.3%, up to 1.3pcts. The improvement mainly comes from our efforts in sales and product standardization. Sales standardization aims to improve the company's sales capability by guiding customers to purchase the standardized products and solutions. Product standardization is about improving product functions. As Mr. Shen mentioned, OneConnect released over 40 updated product versions in the first 6 months as we continue to improve standardization.

Non-IFRS gross margin in Q2 decreased by 2.3pcts from last year's 42.3% to 40%. As non-IFRS gross margin is unaffected by capitalization of R&D expenses, it is a better metric for comparison with our peers at 40%. Our non-IFRS gross margin outperformed the industrial average.

Page 17 is our expenses and profit and loss. Breaking even by mid-term has always been an important target for us. We are pleased to report that in Q2, we are well on track to our mid-term target as we made more progress in loss reduction. R&D expenses remain the key to our core competitiveness. The absolute amount of R&D expenses grew slightly compared with the same period last year from RMB 359mn to RMB 378mn with 5.2% increase. As top line grows, R&D expenses as a percentage of revenue dropped by 3.8pcts from last year’s 37.1% to 33.3%. The company will continue to maintain our R&D investment level to keep our competitive advantages in products.

On S&M expenses, the company spent RMB 109mn on sales and marketing in Q2, or 9.7% of revenue, an improvement of 3.3pcts versus the same period last year. As COVID outbreaks reduced sales and marketing efforts, spending on this aspect decreased in terms of absolute amount. In addition, thanks to economy of scale as revenue grows, expenses as a percentage of revenue are also improving.

Regarding G&A expenses, general and administrative spending amounted to RMB 191mn in Q2, accounting for 16.8% of total revenue. Adjusted for one-off listing fees of RMB 32mn, G&A stood at RMB 159mn, about 14% of revenue. Compared with 21.8% in the same period last year, the ratio improved by 5 and 7.8 pcts, respectively.

Based on this, we see that operating loss narrowed significantly to RMB278mn from RMB395mn in last Q2, and the operating margin improved 16.4pcts from -40.9% in last Q2 to -24.5%. On the other hand, the adjusted operating loss is further narrowed to RMB246mn and the corresponding adjusted operating margin is significantly improved by 19.2pcts to -21.7%. Net profit margin to shareholders improved by 14.5pcts YOY from -36.1% to -21.6% this quarter, adjusted net profit margin to

shareholders narrowed by 17.3pcts to -18.8% and the adjusted net loss to shareholders is RMB213mn.

On Page 18, you can find a comparison of costs in the past 3 years and the last H1, which shows that we continue to work towards breaking even by mid-term. Our current priority remains a steady growth in revenue and improvement in gross margin through sales and product standardization. Meanwhile, we will maintain strict cost discipline, implement higher ROI requirements for R&D spending and shut down products falling short of our standards. S&M spending is controlled with the improvement in sales capability and average productivity. We also strive to curb the actual amount in G&A expenses. Based on this, we are very confident about breaking even by midterm.

On Page 19, we have 3 focuses in the second half of 2022. The first is the growth in third-party revenue. The second is the sustainable growth in revenue. We will continue to update our products and services that charge on stock volume so as to generate stable and recurring growth in revenue. The third one is the cost discipline. We will improve our cost discipline and push ahead with the breaking even in the midterm. Nevertheless, we see strict pandemic control measures and slower-than-expected rebound in economy, which will put our operations in H2 under pressure. Therefore, we will take pre-emptive measures to cope with this impact.

For instance, we will allocate more resources for operations and volume-based business and promote remote delivery. In H2, OneConnect will continue to execute the Stage II strategy, where we will improve sales and product standardization as well as implement restricted cost discipline to overcome the impact from COVID and the macro environment.

In the last 2 pages, we summarized the key financial metrics in Q2 and H1 and adjustment in non-IFRS gross margin for your reference Thank you.

Head of IR - Danielle Gao

Thank you, Luo Zong. Operator, we are ready for the Q&A session.

Question and Answer

Operator

Your first question comes from Morgan Stanley, Mr. Yang Liu.

Morgan Stanley - Yang Liu

I have 2 questions. Firstly, I would like to ask about the business outlook given the macro environment. In Q2, we see measures to control the COVID pandemic as well as the shocks from the macro economy such as those in the property industry, however, we also see the positive impacts on relevant industries from the promotion of China Information Technology Innovation. So I would

like to know management's prediction or analysis on the total IT spending that the banks may budget in light of the macro environment.

My second question is about financials. We see a significant improvement in operating cash flow compared with Q1 and the same period last year. So I would like to know the reasons behind this improvement.

Head of IR - Danielle Gao

The first question will be answered by Mr. Shen, and the second will be answered by Mr. Luo.

Chairman and CEO - Chongfeng Shen

I will answer your first question concerning the macro economy and bank's total IT spending. In the short run, we are of the view that banks might be more cautious about IT expenditure, especially as they focus more on reducing costs and improve efficiencies. Spending in such IT that will not increase revenue in the short term might be restricted. However, in the medium to long term, as regulators encourage digital transformation, higher demand for IT in the business innovation and development will be increased.

The second aspect is that OneConnect has a unique "business + technology" model with a much diversified business -- most of the revenue are actually booked in the business budget of financial institutions, such as in marketing, risk management and operating budget growth. As a result, although time is harsh, more opportunities are laid out for OneConnect.

You mentioned that the real estate sector is also affected by the macro economy. However, OneConnect serves SMEs and personal lending business, which are encouraged by the national policies.

So overall although banks may be cautious about the IT expenditure in the short term. However, banks may increase their budget in business innovation and development, which also perfectly fit with the OneConnect "business + technology" model.

CFO - Yongtao Luo

I will answer your second question. You mentioned that in mid-year our cash position remains healthy. We have RMB 2.45bn cash position, including capitals reserved for PAOB and other subsidiaries of OneConnect.

If we look at H1, the total cash we used is approximately RMB 1bn, in which we used around RMB 260mn in PAOB and RMB 760mn for other entities. The usage of funds matches with our loss in H1. The loss stood at RMB 630mn. In Q1 there is some mis-match in cash flow and P&L in short term. However, if we expand the time horizon to look at the overall condition in H1, we can see the match with each other.

The basis for cash flow is operating profit and loss. This is our foundation. If we are to improve the cash flow, the priority will be reducing loss and realizing the breaking even target. This is the core for business operations of OneConnect. On top of this, the cash flow management is also vital for us. In recent years, we have been very strict about cash flow management. For example, we have adopted a higher requirement on each BU to monitor the collection of cash receivables, e.g. tracking how many days it takes for the account payable to be cash. We also have KPIs that corresponds to the requirements.

We will also monitor the proportion between our account receivables and our revenues to ensure a healthy financial status. Such proportion drops year by year. Therefore, our continuous loss reduction as well as our proactive management of cash flow can ensure a healthy financial status.

Now we have enough cash, which can support the daily operations of OneConnect.

Operator

Your next question comes from OrientSEC.

OrientSEC - Tianen Zhou

Congratulations to the management of the company for your solid performance in Q2. My first question is about your new products. We noticed that in the past few quarters, you disclosed progress in new products such as AI customer services and core banking system. So I want to know more about its momentum in the market and competitive advantages.

My second question is about your overseas business. We noticed that PAOB has grown rapidly. Can the management introduce the progress and outlook about PAOB?

Head of IR - Danielle Gao

Your first question will be answered by our CTO, Mr. Li, and then our board secretary Mr. Fei will answer your second question.

CTO - Jie Li

Let me answer your first question about the AI customer service and core banking system. First, AI customer service. If you look at the market potential and the target customers, medium and large financial institutions and regulators have a market of tens of billions. Although financial institutions have voice robot technologies, they lack scenario-based AI customer service which will be the main growth point of AI customer service in the future. Compared with our competitors, OneConnect's advantage is its technology plus business model. Our AI customer service covers more than 2,000

banking, insurance and investment AI customer service scenarios, including customer services, marketing, loan collection as well as the profound experience in fine-tuning AI financial scenarios.

And we have Ping An proven experience. It can be widely replicated among financial institutions without enormous customization. The AI customer service is also highly recognized by the market as of the end of H1. The number of customers almost doubled compared with the same period last year. And the net expansion rate of value customers were already surpassed 80% in 6 months' time. This is about AI customer service.

The second product is about core banking system. We have gradually expanded from products in application layer to core system layer, which are very hard to be replaced and will deepen engagement with customers.

In terms of competitiveness of the products, I think there are mainly 3 areas. First, it is a cloud-based digital banking system solution. It integrates with the front-end system of OneConnect seamlessly, which will better support online business and it is fully adaptive to “self-developed technology” from application layer to infrastructure layer. It is highly modulized in its infrastructure design. We can configure these services at a single client level.

In terms of infrastructure, we use cloud-native micro service design. By leveraging the cloud, we can offer scalable core services for banks and provide them with a faster, more reliable platform. We also use the self-developed technology distributed infrastructure. We can make sure that the basic IT infrastructure used by banks are advanced and controllable and can meet the regulatory requirements.

In terms of the sales strategy, the upselling to existing clients works very well. If you look at our customers, most of them have used our other products before they use the core banking system.

In terms of our market recognition, although it is a relatively newly launched product, core banking solution is widely recognized in the market. In H1, we have already acquired around 20 customers in the first half of 2022. The revenue is highly recurring. The net expansion rate is over 100% in H1.

Board Secretary - Michael Fei

I'd like to respond to PAOB question. Among the 8 virtual banks in Hong Kong, PAOB is the only one that serve SMEs. Our goal is to leverage technology to provide SMEs with fast, convenient and cost-effective financial services. There are 3 features of our business. The first is that the purely online process, i.e. the PAOB is the first of its kind to offer a purely online solution to SMEs. It only take 1 day for them to open account with us. PAOB is also the only one that use alternate data to do credit evaluation. Customers do not need to provide their financial reports or collaterals to obtain a loan from us. And the third feature is that we use the scenario-based customer acquisition and product development. The results are good. In 2021, the revenue growth ranked the first among all virtual banks in Hong Kong. In the first half of this year, the revenue grew more than five times in the first half. In the future, we will go further in this strategic direction, which is to serve the SMEs. The market is huge. We only reached out to a small number of the business in need. We are very confident that we will maintain fast growth in the future.

Head of IR - Danielle Gao

Operator, we are ready for our next question.

Operator

Your next question comes from Goldman Sachs.

Goldman Sachs - Timothy Zhao

Congratulations to Mr. Shen and Mr. Luo on financial performance in Q2. I have 2 questions. Firstly, I would like to know more about revenue growth in H2. Do you think revenue growth from third-party will outpace revenue from Lufax and the Ping An Group? And if we look at it by division, for instance, by digital insurance and digital banking, where do you see the opportunity for growth is?

My second question is about standardization. We talked a lot about standardization. And we see that it can bring improvements in gross margin. So I would like to ask management to help me understand during product standardization, how much is customers' acceptance? And how do we balance between revenue growth and standardization? Will reduction in customization drag our revenue growth in the future?

Head of IR - Danielle Gao

Mr. Luo will answer your first question.

CFO - Yongtao Luo

Let me answer your question about third-party revenue growth. In the previous introduction, I mentioned that in Q2 and in H1, pandemic always poses impact on third-party revenue growth. Otherwise, in Q2 and H1, the third-party revenue, would have grew faster, especially in terms of implementation business origination and the risk management. These business lines were hit by COVID.

Third-party revenue growth remained a priority for us in 2022, as per the 3 keywords as mentioned before. For example, in the banking business line and in the micro small-and-medium-sized enterprise loan platform, we continue to upgrade our products to meet their demands. However, because of COVID some off-line businesses were interrupted. And we hope in the second half, the COVID will be under control and we will have higher revenue growth of third-party. In terms of the Gamma platform, we mentioned a lot about the AI customer service, the growth in the number of customers and its recognition in the market. The core systems and the data products are also well

on track. We hope that this will all contribute to third-party revenue growth in the second half of 2022. Insurance product is one of the core business line for us. And we hope that we can maintain the growth momentum as the economy recovers. We will see better growth.

Another part is about our overseas business. PAOB was mentioned a lot. The business grew by more than 5 times in H1. And we expect to maintain this momentum throughout 2022. PAOB is not only a virtual bank. It is also a benchmark for us in terms of technology and the system. It is embodiment of our advanced technology. I believe these directions will all contribute to our revenue from third parties. Our medium-term target remains unchanged. We hope that the third-party revenue will account for 50% of our total revenue in the future, and we are constantly working towards realizing this.

Head of IR - Danielle Gao

The second question concerning standardization, will be answered by Mr. Shen.

Chairman and CEO - Chongfeng Shen

Let me answer this question. This year, the management has raised 3 standardization initiatives in sales, product and delivery, especially product standardization. In the past, the majority of products for banks are customized, which makes it rather difficult this year because of COVID. Many banks started to control their IT expenditure. And they are willing to take testified business cases. So more and more banks accepted the standardized products now, and we are also building new benchmarks and to reach out actively with customers and make them understand that it is not only a server or IT infrastructure. It will help for their business to iterate and operate faster and bring better customer experience. So they are convinced that using standardized products is even better than customized versions. And we'll continue to guide our customers to accept more standardized products.

In terms of how we strive to balance between standardized and customized products, I think in the short term, we still need to use customized products. However, if we have existing standard products, we will reduce the need for customization. And in case there is no standard version, we will make the customized version more replicable and more generic. In this way, we can include this customized version to our next standardized products. This is the principle for the balance between standard and customized products.

Operator

Thank you, and that concludes our Q&A session. And I hand it back to the management.

Head of IR - Danielle Gao

Thank you, every one, for joining the call today. This is the first earnings release after we got listed in Hong Kong. We appreciate your interest in following OneConnect and look forward to speaking with you again. If you have any questions, please contact our IR team, ocft_ir@ocft.com. Thank you.

Operator

That's all for today's meeting. Thank you for your participation, and wish you a good day.

[Statements in English on this transcript were spoken by interpreters present on the live call.]