

Tough road ahead for consumer finance firms

Consumer finance firms still have a long way to go before they catch up with banks, though they still remain an integral part of the financing chain, said experts.

The China Banking Regulatory Commission yesterday unveiled the final rules for setting up consumer finance firms in Beijing, Shanghai, Tianjin and Chengdu on a trial basis as part of its efforts to step up domestic spending.

Savings is still the most preferred option for parking money in China. By setting up consumer finance firms, the regulator intends to provide funding avenues for purchase of home appliances, electronic products and for other purposes like house decoration, travel and education.

Surprisingly the move also comes at a time when there have been concerns over bank credit flowing into the stock market for quick returns and doubts on whether the firms would end up fueling more speculation.

"Capital is by nature profit-driven, hence it is quite possible that some funds may end up being used for speculative purposes," said Zhao Xijun, deputy dean of Financial and Securities Institute, Renmin University of China.

"Enhancing risk management and loan tracking capacities are common issues for banks and consumer finance firms," he told China Daily.

There were also reports that due to the lax lending norms, many individual stock speculators in Shenzhen were using the availed personal consumption loans for purposes other than durables purchase.

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Stung by these reports, the regulator had subsequently asked banks to tighten the tap on lending and carefully monitor where the loans actually end up. It also warned the soon-to-be established consumer credit firms on the need to enforce strict credit checks and loan tracking processes.

Judging from the early market response, consumers are not too enamored about the new funding channel.

"I am loath to try such funding services, as there are only two purposes for which I would seek loans - a car or a house, which in any case I can get from a bank," Chen Yiqiao, an employee at a Shanghai-based financial institution, said.

Zhao said consumer finance firms impact on domestic consumption would be limited initially due to subdued demand, but still remains an important channel from a strategic perspective.

"Consumer credit firms can offer more specialized and convenient services that complement the facilities provided by banks," he said.

During the first half of the year Chinese banks advanced 7.37 trillion yuan worth of new loans. However, the actual amount that flowed to consumers is quite limited. The 650.8-billion-yuan personal consumption loans only accounted for some 0.8 percent of the total loans, even though the figure has seen a big leap from previous years.

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