

The Research on Development Status of China's Consumer Finance under the Background of Financial Technology

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Abstract—By analyzing Sino-American consumer finance, the developmental gap and causes for the gap are found out. SWOT analysis clearly shows that financial technology brings development opportunities and challenges to consumer finance. By aiming at the above-mentioned analysis, this paper proposes several measures of using financial technology to develop consumer finance.

Keywords—Financial technology; Consumer finance; SWOT; Credit system

I. RAPID DEVELOPMENT OF CONSUMER FINANCE

In 2016, the state proposed to greatly support consumer finance in the Guiding Idea of Enlarging Finance Support in the New Consumption Field and definitely proposed to use innovation on financial technology to promote deep transformation of consumer finance for the first time. In recent years, consumer finance is rapidly developing in the financial field. According to the Insight Report of Consumer Finance in 2017 latest issued by IResearch, trade scale of consumer finance in the internet has been dramatically increased to 436.7 billion from 6 billion within 4 years. From 2013 to 2016, the trade scale of consumer finance in the internet realized 70 times of the explosive growth. The compound annual growth rate(CAGR) was up to 317%^[1]. In the big cake of consumer finance, consumer finance on the internet gets the most shares and also has the fastest growth rate, because consumer finance on the internet realizes the deep integration between technology and finance, so as to realize the innovations on financial services and products and improvement on efficiency. Here, technology refers to the financial technology. In other words, mobile internet, cloud computing, big data, artificial intelligence, and block chain are used for the financial field. The consumer finance discussed in this study refers to the consumer finance—consumer credit in a narrow sense, which means to the medium-short loans to individuals for daily consumption and a large amount of family expenditures(including vehicle and education expenditures). How to use the internet and big data under the economic era background of the “Internet+” to complete the great-leap-forward development for China's consumer finance from the starting stage to the innovative development stage is the goal to be achieved by China's consumer finance. In this study, the

author aims to analyze the status of China's consumer finance and discuss some conclusions based on the overall background of financial technology, showing the reference significance to achieve this goal.

II. DEVELOPMENT STATUS OF CONSUMER FINANCE

A. Comparative analysis of Sino-American consumer finance

American consumer finance has experienced more than 100 years of history from the preliminary formative stage (1910) to the innovative development stage in current days. Relevant data of Roland Berger showed that in 2015, market scale of China's consumer finance was 81.26 billion RMB and that of the USA in the same period was 12.22 trillion USD. The proportion of China's consumer credit in total consumption expenditures was lower than the USA for 8 percent points. China's consumer finance starts late and has the short history of development. Nowadays, it belongs to the starting stage.

One of the internal powers for the strong development of the American consumer finance is the popularity of consumption credit culture. Generally speaking, Americans have the very strong awareness of credit consumption. According to the Wind investigation, 70% of Americans are willing to undertake interests and select payment by installment, while such data in China only reach 30%. Furthermore, from the perspective of payment habits, nearly 70% American residents may not have the habit to pay off credit card balance for one time. Even 30% of consumers only pay off the minimum repayment amount or may be slightly higher than the minimum repayment amount, but they are willing to pay off high interest costs. However, only 2% of residents in China are willing to undertake the high interest costs. The saving ratio data of residents in both countries revealed that from 1959 to 2015, the minimum monthly saving rate per capital in the USA was 0.8% and the maximum was only 5.6%, while the saving rate per capital in China reached 46% in 2015. Moreover, the saving accounts of more than 62% of Americans might be less than 1000 USD. Even 1/3 of people didn't have saving accounts at all. As a low saving rate country, even if more than half of young people below 35 years old have less than 1000 USD funds, American young people can reasonable arrange expenditures or even overdraft

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consumption, because they have no need to save money for buying a house^[2].

American consumer finance system is mainly featured with the diversification of consumer finance service subjects and diversification of consumer finance product types, while there are few service agencies of China's consumer finance. And their product types are relatively single and have insufficient individualization and creativity.

TABLE I. COMPARISON ON THE SINO-AMERICAN CONSUMER FINANCE SYSTEMS

Types	China	USA
Financial service subjects	Only regard commercial banks as the subjects and then approve to establish automotive financial companies and consumer finance companies	Commercial banks, financial companies, credit cooperatives, thrift institutions, retailing institutions, petroleum companies, non-profit and educational institutions and federal government
Product types	Give priority to housing credit and then gradually develop credit cards, automotive credit, and educational loans or other consumer finance products	Housing mortgage loans, automobile loans, credit card loans, student loans, durable consumer goods loans, tourist consumption loans, medical loans, and marriage loans, as well as guaranteed loan securities (secondary market of consumer finance)

Data source: Yang Pengyan: Theoretical Connotation of Consumer Finance and Its Practice in China

The development of the American consumer finance takes the lead. The mature consumer credit mechanism is the footstone of its development. The American credit system always gives priority to three credit reporting agencies. More than 400 small-scale credit reporting agencies exist the "3+400" credit pattern. Nowadays, the main credit reporting agencies in the USA include Experian, Equifax and Trans Union. Over 400 small-scale credit reporting agencies depend on 3 magnates to provide credit data investigation services of states for them or serve for the specific market (medical treatment).

China's credit system applies the government-oriented mode. The individual and business credit reporting systems of the central bank basically cover the national traditional credit market. It is the foundation of China's credit system. numerous social enterprises, local credit agencies and 8 published social individual credit agencies, as the third-party institutions, focus on serving for the midstream and downstream. Relative to the USA, the credit system development is incomplete and it is urgent to be perfected, such as shortage of the strict risk management and punishment for dishonesty. Until December 2014, the American credit coverage has been 85%, while China's individual credit coverage was only 25.5% of all populations.

Legal and institutional construction is the last point. From the end of 1960s to the early 1980s, the United States Congress started formulating relevant credit management laws and gradually perfected them. In 1968-1988, ten laws including Fair Credit Report Method were issued. Up to now, the USA has had 16 laws about the basic credit management. These laws and relevant regulations issued by the government

constitute in the legal environmental to guarantee the normal operation of the American consumption credit system. With the rapid development of the market, American laws are constantly correcting and perfecting. China has a few laws and institutions about consumer finance. There is no perfect legal and institutional system. Relevant laws and regulations began to take shape in the end of 1990s. In September 1998, the People's Bank of China also issued the Management Regulations on Automobile Consumption Loans. In March 1999, the People's Bank of China published the Guidance Opinions on Individual Consumption Loans. In 2003, the China Banking Regulatory Commission (CBRC) issued the Management Regulations on the Automotive Financial Companies. In 2009, CBRC also issued the Management Regulations on the Pilots of Consumer Finance Companies. Shortage of legal systems or imperfect legal systems limit the stable and sound development of China's consumer finance and it is the important factor to affect China's consumer finance development^[3].

B. The SWOT analysis of consumer finance under the background of financial technology

1) Strengths

Consumer finance under the background of financial technology refers to the internet consumer finance to a large extent. Application of the internet and big data enables consumer finance to take place revolution in clients, products, services, business process and risk control and also stands out the great advantages.

Consumer finance customers under the background of financial technology are featured with youth. They are the internet aborigines and extremely depend on the digital equipment and internet, but they have the limited incomes and show demands for consumer finance and high acceptance to credit consumption and scene consumption.

TABLE II. THE COMPARISON ON THE TRADITIONAL CONSUMER FINANCE AND CONSUMER FINANCE UNDER THE BACKGROUND OF FINANCIAL TECHNOLOGY

	Traditional consumer finance	Consumer finance under the financial technology
Product form	Credit card and large consumption loans	Cash loans and installment consumption
Product features	Low frequency, large limit and single categories	High frequency, small limit, more categories, scene and individualization
Target groups	High-quality bank clients	Young and low-income customers
Service efficiency	Loans about two weeks	Timely account
Service modes	Visa interview of offline application	Online channel application
Risk control	Credit of central bank and artificial auditing	Big data credit and system auditing

Data source: Public data

2) Weaknesses

Firstly, China's big data and cloud technology have the high technical contents, but their development is immature. Relevant professionals are insufficient. Such a gap is not good for the development of consumer finance.

Secondly, risk overflow effect of consumer finance under the background of financial technology will be enlarged. The application of internet technology and unique risk mode of internet finance will make local risks spread to the entire network loan market easily. It is possible to rapidly affect, infect and enlarge to other types of the financial market, resulting in magnification of regional risks and affecting the overall stability of the financial market. By taking the network loan as an example, the number of newly increased problem platforms in 2015 was up to 896, which was 3.26 times in 2014. The specific data are shown in the Table below. The very important cause is attributed to the risk overflow^[4].

Thirdly, the financial technology applies the big data and cloud computing for making innovations. Such a property enables innovative enterprises of financial technology to face up with the more complicated risk type. The original financial business risks, especially for credit risks, are more concealed. In addition, there are information and capital safety risks derived by other technologies. The upgrading period of financial technology is short, thus risk supervision difficulty is enlarged.

TABLE III. THE NUMBER OF PROBLEM PLATFORMS (2011-2015).

Years	The number of problem platforms(PCS)
2011	10
2012	6
2013	76
2014	275
2015	896

Data source: Home of Network Loans

3) Opportunities

To begin with, China's consumer finance has the great policy bonus. In 2016, the State Council issued the National Technical Innovation Plan of the 13th Five-year Plan, which proposes to promote scientific financial products and service innovation and constructs the national technical financial innovation center. The technical financial development welcomes the good time of development. The application of the new technology is changing the ecological pattern of the financial industry. In addition, the traditional financial institutions and scientific companies will get involved in it. Also, the development of financial technology also expands the development space of consumer finance. Furthermore, China's consumption market has the huge development potential. AS the important means to develop consumption, consumer finance is greatly supported and encouraged by the national policy.

4) Threats

China's consumer finance industry has the fiercer competition by comparing with previous days. Overseas consumer finance has the perfect supervision, as well as abundant products and service types. China stays in the starting stage of development, while consumer finance business has the small and scattered financial scale. Even if it takes the lead in technologies and innovations, it is still limited in financing and lack of financing power.

III. SUGGESTION ON DEVELOPING CHINA'S CONSUMER FINANCE UNDER THE BACKGROUND OF THE FINANCIAL TECHNOLOGY

A. Reinforce the supervision system construction

Consumer finance credit has no need for guarantee and mortgage, thus the credit risks are higher. China's consumption credit supervision system is not perfect and it is short of the systematic legal support, thus it suggests that from the perspective of consumer finance's demands, China can learn from the mature institutional experience of developed countries to develop China's loan default punishment mechanism and individual bankruptcy protection, improve default costs, and develop a role of cracking down on defaulters. As for the consumer finance supervision, it is necessary to sound the laws and regulations and establish the corresponding supervision system. It also can learn from the capital adequacy ratio, inter-bank borrowing capital ratio, proportion of investment balance in total capital, and adequacy ratio of capital losses in international Basel Agreement to further perfect relevant regulations of Management Regulations on Pilots of Consumer Finance Companies in China, standardize consumer finance companies' behaviors to take deposits or make loans^[5]. Furthermore, it is necessary to establish the corresponding supervision system. For example, the industry association should be established to publicize relevant knowledge of consumer finance and individual credits, and implement supervision on consumer finance companies.

B. Perfect the credit system construction

China's credit system is the government-oriented and has the lower population coverage. Moreover, it is tedious for consumers to inquire their individual credit process and they have poor experience. It suggests that the construction should be reinforced from the following aspects: firstly, it is necessary to enrich the inquiry mode of personal credit. At present, only the central bank can provide the credit services of financial agencies, thus it suggests establishing the specialized credit inquiry companies and membership industry self-regulation association, as well as opening the management system of individual credit. Enriching inquiry mode of individual credit can make consumer finance companies own more selection of credit inquiry. Secondly, it suggests standardizing the loan approval credit granting and post-loan process of financial institutions. Nowadays, financial institutions have the strict permission for loans, but they are easy to ignore the importance to inform credit to customers in time. As transacting the credit cards and loans for customers, they don't fully state the post-loan risks, thus it suggests standardizing the loan approval, credit granting, and post-loan process of financial institutions, and reinforcing the bank credit management. Next, it is necessary to perfect the source of individual credit information. Individual credit report mainly includes: basic information of individuals, credit cards, loan balance, default information, and credit report inquiry recording. The information is originated from customer data of banks, but it can't embody customers' information when they gain loans from the micro-loan companies and small and medium-sized banks. This is not good for financial institutions to do comprehensive evaluation on customers' capital credit. For this reason, it suggests real-

name system for loans. In this way, relevant ID card can be used to inquire customers' loan information in the credit report. Last but not least, it is essential to improve customers' credit consciousness^[6]. At present, there are lots of overdue repayment phenomena, because they forget repayment or have no ability to pay for it, so as to reduce the customers' credit rating in financial institutions. It suggests improving customers' credit consciousness, so that credit report can develop the role to really real the individual loan qualification.

C. Reinforce the perfection of the consumer finance system

The diversified consumer finance supply subjects should be developed. In 1980s, China attempted to promote consumption loan development loan through legislation, but man providers of consumption credit products limited by law referred to commercial banks. According to the successful experience in the American consumer finance market, supply subjects should avoid from being single-oriented. The government should gradually broaden the permission limitation for the consumer finance market, so that more institutions will participate in the consumer finance business, so as to provide the diversified loan services for consumers.

Diversified consumption credit products and services should be provided. Interest accrual, payment methods, deadline, and application conditions constitute in the elements of consumer finance loan products. With the diversification of consumers' loan demands, it is difficult for the traditional interest accrual and payment mode to satisfy the individualized loan demands of consumers, thus it suggests that consumer finance companies should increase interest accrual and payment mode of consumer finance products, formulate different product interests, and formulate different interests for different levels of the same product. This is beneficial to customer expansion of consumer finance companies. Furthermore, occurrence of financial technology brings the new development opportunity to the development of consumer finance. Consumer finance products in e-

commerce department including Jingdong "blank note", Alibaba Ant "Huaba", Suning "Anypay—installment" and Ctrip "Naquhua" receive the good development. Under the background of financial technology, there are various new-type business modes of consumer finance. Each consumer company should positively use the internet technology platform to develop consumer finance business.

IV. CONCLUSION

By analyzing and summarizing the status of China's consumer finance, the author thinks that China will greatly develop consumer finance by aiming at SWOT features of consumer finance under the background of financial technology, shown as follows: the industry association should be established to publicize relevant knowledge of consumer finance and individual credits; reinforcing the perfection of the consumer finance system and reinforcing risk control is becoming more and more important.

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