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CBRC for consumer finance firms

The nation's banking regulator has proposed the establishment of new consumer finance companies specializing in consumer loans as part of the government efforts to boost domestic consumption.

China Banking Regulatory Commission (CBRC) has recommended the idea to the government and proposed pilot projects in the major cities such as Beijing and Shanghai, according to a report in Guangzhou Daily. These companies would not be allowed to accept deposits.

The proposed finance companies are expected to provide unsecured loans to individuals for the purchase of consumer durables such as refrigerators and air-conditioners, and expenses on education, tourism and wedding ceremonies.

Economists and financial experts said the new move would help promote domestic consumption by making bank credit more easily available to consumers.

"The establishment of the finance companies could be good news at a moment when the country is trying to increase the contributions of consumer spending to economic growth," said Hu Yonggang, a professor of economics at Shanghai University of Finance and Economics.

Considering the potentially higher risks associated with unsecured loans, the source of funds of these proposed consumer finance companies should be confined to capital investment by qualified domestic or foreign investors, and borrowings in the inter-bank market, which is expected to be limited to no more than 100 percent of total capital.

The proposed regulation is also expected to allow only investors who can meet stringent standards to own and manage the new consumer finance companies.

The Guangzhou Daily report said an institution wishing to open a consumer finance company must have capital of no less than 300 million yuan and total assets of at least 80 billion yuan, a minimum five years experience in consumer finance services and have been making a profit for two consecutive fiscal years.

In addition to meeting those requirements, an overseas investor must have established a representative office in China for more than two years.

To avoid excessive consumption, the maximum loan amount given to consumers will be limited to five times their monthly income.

To minimize risks, the proposed finance companies are required to maintain a capital adequacy ratio of no less than 10 percent.

But financial experts also warned that the regulator need to further improve risk control on the operation of the new consumer finance companies, because of the lack of a nationwide credit information system.

"The lack of a well-established credit information system in China should be developed in line with the projected growth in consumer credit," Hu said.

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