

CBRC unveils norms for consumer finance firms

Consumer finance firms are likely to boost consumer spending in China and provide competition to the consumer lending services offered by banks, analysts said.

The China Banking Regulatory Commission (CBRC) issued draft rules on Tuesday that would allow domestic and foreign financial institutions to establish consumer finance firms to provide personal loans to finance purchases of durables. The CBRC said it is seeking feedback on the rules from the public till June 12.

"Personal loans account for only a small portion of the loan portfolio in most Chinese banks. This is mainly because loans to consumers have a relatively high cost compared to corporate loans," said Zhang Jing, analyst, Minzu Securities.

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Zhang said he expects the competition from the soon-to-be established consumer finance firms to prompt Chinese banks to put more efforts into consumer lending.

Despite a record-setting 4.58 trillion yuan of new loans issued in the first quarter, consumer-lending growth in Chinese banks remained relatively weak.

Industrial and Commercial Bank of China (ICBC), the world's largest bank by market value, extended 52.5 billion yuan worth of new loans to consumers in the first quarter, accounting for just 8.2 percent of ICBC's 636.4 billion yuan of new loans in the first quarter.

The proportion of personal loans in China Construction Bank and Bank of China, the other two of the country's top three State-controlled banks, was 8.6 percent and 8 percent in the first quarter, respectively.

According to the draft rules issued by the CBRC, the consumer finance firms will not be allowed to take deposits or to offer automobile loans or housing mortgage loans. But they are expected to provide loans to consumers faster than banks and can issue loans of up to five times the applicant's monthly salary.

Compared with credit cards with similar credit lines, which usually require cardholders to repay the credit within 50 days, personal loans offered by the consumer finance firms give customers a longer time for repayment.

Applicants, willing to set up such a consumer finance company, are required to have at least five years experience in consumer lending and possess assets of no less than 800 million yuan.

The CBRC also set a 10 percent capital adequacy ratio and 100 percent loan-loss coverage ratio requirement for the proposed consumer finance companies.

The Chinese government has recently unveiled a series of measures aimed to spur domestic consumption.

The central government began to dole out 5 billion yuan of subsidies to help rural residents buy vehicles in March. It also introduced a program to help consumers in rural areas buy appliances at a discount.

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