China Consumer Finance Market Insights

Working Group of CFA China Shanghai CrowdResearch Project*

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Research Summary

After many years of initial development, China's consumer finance market, with the rapid development of Internet finance and e-commerce, has entered a period of market eruption. Now it is rapidly penetrating into all walks of life in the society and catching the attention from many investment institutions. Against such background, we conducted an industry research on this market, hoping to explore the development trend of the industry, put forward development proposals for the enterprises in the industry, and help investors to identify the investment trend.

In Introduction and Chapter I, we define consumer finance and the scope of this study, and analyze the consumer financial behavior. The essence of consumer financial behavior is that consumers pay certain financial costs to change the disposable capital flow within a specified period to match their consumption demand. Target customers of consumer finance are those who have demand for consumption but lack liquidity, and are willing to advance their consumption and have sufficient repayment ability.

In Chapter II, we review the history of the development of China's consumer finance industry and the evolution of the relevant policies. We also narrate the industry development in the United States, Europe and Japan, which provides us with reference to analyze China's future industry trends.

Chapter III centers on the industry chain of consumer finance and expounds the current development of the industry in China. It covers different types of consumer finance companies, including banks, licensed consumer finance companies, Internet giants, P2P, e-commerce, start-ups and industry companies, as well as various consumer finance scenarios and special consumer groups including automobile, travel, medical cosmetology, education, rural area, house rental, home improvement, college students and blue-collar workers. In addition, we count a total of 356 financing incidents among 52 consumer finance companies. Data shows MatrixPartners China, Sequoia Capital, Bluerun Ventures, Source Code Capital and Shunwei Capital are the most active investment institutions in China's consumer finance market, and in terms of market segments arrangement, they often focus their support on one or two potential enterprises to give many rounds of investment.

In Chapter IV, we discuss the future development trend of China's consumer finance industry from three aspects: industry macro environment, various types of consumer finance companies and various consumption scenarios.

In terms of the macro environment:
China's consumer finance industry is still in the early stage of its development with great market potential in the future.

China will form a unique personal credit reference system with Chinese characteristics. China's future credit reference system may form a two-tier structure: the upper level is the credit reference center of the Central Bank and the government-led social credit union, while the lower level is a few licensed third-party credit reference companies that provide the whole society with specific data products and services.

The industry risk control is strengthened day by day, and the calculation rule of the default rate is in urgent need of unification. We also propose a time-weighted default rate calculation method that allows businesses, consumers, investors and regulators to assess and monitor risks. This calculation method is clear in standards, objective and comparable, and the impact it gets from the sharp change in ending balance is reduced. In addition, the stratification of default rates (divided by the default period of default loans into: overdue 1M, overdue 3M and bad debt ratio) helps to investigate consumer finance company's default loan composition.

Default rate = \[ \frac{\Sigma (\text{principal balance of default loans at the beginning of the period} \times \text{the current period's duration}) + \Sigma (\text{principal balance of newly-added default loans in the period} \times \text{the current period's duration})}{\Sigma (\text{principal balance of the loans at the beginning of the period} \times \text{the current period's duration}) + \Sigma (\text{principal of the newly issued loans during the period} \times \text{the current period's duration})} \]

In terms of the consumer finance companies:

- National banks will still dig up the demand for consumer loans of their existing customers, while local banks actively seek cross-regional consumer credit licenses.
- The advantages of licensed consumer finance companies are becoming evident gradually, and their overall market share of the industry is increasing.
- Internet giants (BATJ – Baidu, Alibaba, Tencent, JD) are taking strategic initiatives through the technical output and business cooperation in various consumption scenarios.
- P2P companies will seek breakthrough transformation in the capital cost and customer acquisition.
- Consumption installments service will become a must-to-have for e-commerce, but it will mainly be provided by third parties.

In terms of the consumption scenarios:

- Automobile: Used cars are becoming the next hot spot in automotive consumer finance market.
- Travel: Travel installment market has high entry barrier, and the licensed consumer finance companies with industrial background may become leaders.
➢ Medical cosmetology: The potential of the medical cosmetology installment market is huge with undetermined patterns. The comprehensive operation and data technology capabilities are the core of the competitive advantage.

➢ Education: The education market is huge but fragmented, and the education installment services will mainly be provided by third-party consumer finance companies.

➢ Rural area: Rural installment payment market, as the largest and deepest inclusive financial market, is a blue ocean for reclamation.

➢ House rental: Rental agencies will continue to play a key role in the rental installment payment industry chain.

➢ Home improvement: Home improvement installment payment market will still be dominated by banks and licensed consumer finance companies.

➢ College student: The student installment payment market will maintain its high entry barrier for a long period, and banks and licensed consumer finance companies are main market players.

➢ Blue-collar workers: Blue-collar market segment will return to the specific consumer scenarios in the long run.
Introduction

Consumer finance covers a very wide range of topics. As its name indicates, it focuses on the financial subjects involved in the consumption process from the perspective of the consumers, including payment, risk management, loans, savings and investment. In *Administrative Measures on Pilot Consumer Finance Companies* issued by China Banking Regulatory Commission (CBRC), consumer finance companies are defined as the non-bank financial institutions that provide loans for individuals for the purpose of consumption. It can be seen that the consumer finance is approximately the same as consumer loan. The consumer finance in this study refers to consumer credit, which is credit loan for short-term consumption. The scope of this study does not include loans for housing purchase, and mainly covers the consumer credit for automobile, travel, medical cosmetology, education, rural area, house rental and home improvement, digital product, etc. The typical consumer credit period is less than two years and the amount is between 2,000 yuan and 200,000 yuan.

Chapter I Consumers and Consumer Financial Behavior

The essence of consumer financial behavior is that consumers pay certain financial costs to change the disposable capital flow within a specified period to match their consumption demand. In simple terms, it is the behavior of consumers who pay interest for loans in order to meet their short-term consumption demand and repays principal and interest with future cash flow.

Customers of consumer financial services must firstly have demand for consumption. The consumer credit without demand for consumption usually aims at fraudulent loans. At present, China is still in the early development stage of the consumer finance, and many Internet companies know well the game of "subsidies for market cultivation". The promotion model of "no interest and no processing fees" gives the risk-free arbitrage opportunities to consumers who had no need for credit. Part of them will convert into future customers, while the rest are just simple arbiters. The potential customers who do have liquidity needs are divided into existing and potential consumers of consumer finance based on whether they choose immediate consumption. The existing customers with no repayment ability are impulsive consumers while those with adequate repayment ability are high-quality target customers for consumer financial services.

Chapter II Summary of China's Consumer Finance Industry Development

Section I China Consumer Finance Development Events

In 1987, China's commercial banks started the operation of consumer durable goods loans, marking the beginning of China's consumer finance industry. In 1999, at the request of the People's Bank of China, commercial banks launched a comprehensive consumer credit business for urban residents. However, at a time when the entire Chinese economy was immature, the consumption patterns and consumer attitudes were relatively conservative, and the level of development in science and technology and finance lagged behind, China's consumer finance industry has been in a very long period of infancy for 10 years until 2009. During that period, in 2004, PPF Group, a mature and successful enterprise in consumer finance, set up a
representative office in Beijing. In 2007, it set up the China headquarters of Home Credit in Shenzhen and officially started the consumer credit business in China. PPF Group was one of the first non-bank companies to develop consumer finance business in China and was the first wholly foreign-owned enterprise approved to establish a consumer finance company.

In August 2009, China promulgated the "Administrative Measures on Consumer Finance Pilot Projects" and established four pilot cities in Beijing, Shanghai, Tianjin and Chengdu. As China began piloting consumer finance companies, the consumer finance market ushered in more diversified participants, who began to explore new modes of consumer finance businesses by the use of the Internet.

Since 2013, the rapid growth of several representative companies in the consumer finance market has marked the starting stage of the market. In August 2013, the installment shopping mall "Fenqile", which focuses on the consumption scenario of college students, was established and officially launched in October of that year. In October 2013, JD Finance was established with operations in supply chain finance, consumer finance, crowdfunding, wealth management, payment, insurance and securities. Among them, the consumer finance business offer products such as White Note, Golden Note, Small White Card (co-branded credit card), and Coins. In October 2014, Ant Financial Services Group was established. Its licenses include private banking, securities, insurance, funds, fund sales, trusts, third-party payment, crowdfunding, small loans and corporate credit.

In 2015, the consumer finance pilots were fully liberalized and pushed from point to area across the country. Consumer finance started its first year of blowout development.

Since 2016, the consumer finance industry has entered a period of rapid development. The participants of the consumer finance market and innovations in various segments keep popping up. On the capital side of the consumer finance industry, in 2016 both Qudian Group and Lexin Group received significant funding of several hundred million U.S. dollars. In addition, the investment priorities of the investors are also differentiated, and the consumer finance enterprises focusing on blue-collar consumers, family consumption, young people's consumption, decoration market, education market and rural market also got financing. On the asset side, according to Wind Information Statistics, the first three quarters of this year announced the issuance of asset-backed securities (ABS) at a scale of 867.193 billion yuan, up 66.7% over the same period of last year. Among them, Ant Financial and JD had the largest issuance. From another perspective, it verifies that the exponential growth in the development scale of the consumer finance industry has provided a large number of basic assets for asset securitization. Meanwhile, ABS provides faster cash return, further promoting the rapid growth in demand for consumer financial credit.

In addition, after the stringency of the policies, consumer finance has become one of the directions for the transformation of the network loan platform. In August 2016, the Interim Measures for the Administration of Business Activities of Internet Loans and Information Intermediaries promulgated by the CBRC became the basic business norms and policies of the industry, clarifying the two-pronged management system of the CBRC and local government departments. Meanwhile, a ceiling was set for borrower’s loan balance and the
total borrowings on the same platform. Many platforms have begun to diversify their businesses and circumvent the ceiling of borrowings on a single platform. They have strategically weakened the go-between P2P business while transforming to other categories. The consumer finance with real trading background has become one of the key transformation directions.

Section II Development of China's Consumer Finance Policies

In 2009, Administrative Measures on Pilot Consumer Finance Companies promulgated by CBRC made regulatory requirements on the definition, establishment, alteration, conditions of investors, business scope and operating rules of consumer finance companies. The founding of the first four consumer finance companies marked the formal entry of the consumer finance industry into the regulatory era.

In 2013, CBRC updated and promulgated the Administrative Measures on Pilot Consumer Finance Companies, which loosened the requirements on investor conditions, business scope and operating conditions, diversified equity ownership, widened the sources of funds of consumer finance companies and expanded the pilot cities.

In 2015, government departments and financial regulatory authorities intensively introduced various policies, most of which encouraged and promoted the development of the consumer finance industry in terms of finance, technology and consumption. Driven by favorable policies, the consumer finance industry has rapidly experienced starting period and fast development period. However, some hidden dangers have gradually emerged during the rapid development and the corresponding restrictive policies have also been introduced.

Since 2016, the regulatory authorities have promulgated a number of restrictive and normative policies and measures. For example, People’s Bank of China (PBC)'s norms governing credit card businesses have re-regulated the overdraft interest rates, interest-free repayment period and minimum repayments, liquidated damages and service fees. The Ministry of Education and CBRC jointly intensified the supervision of bad online loans, set up campus daily monitoring mechanism, real-time early warning mechanism and response mechanism for bad online loans; CBRC and MIIT (Ministry of Industry and Information Technology of the People's Republic of China) regulated the business activities of online loan information intermediaries, which stipulates that online loan information intermediaries should be registered with the local banking regulatory agencies and the online loans should be mainly small amount with the balance ceiling limit; CBRC and local governments shall establish cross-sector cross-regional regulatory coordination mechanism. In 2017, the special remediation team for P2P lending risks cleaned up the payday loan and carried out the thorough investigation and centralized remediation of the payday loan platforms featuring unusually high interest rates, unsecured loans, short term (1-30 days) and violent collection.
Table 1 Summary of China's consumer finance related policies

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<th>Theme</th>
<th>Key contents</th>
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<td>2009</td>
<td>CBRC</td>
<td>Administration of consumer finance companies</td>
<td>The definition, establishment and alteration, conditions of investors, business scope, operating rules and the regulatory requirements of consumer finance companies; the first batch of 4 consumer finance companies were established</td>
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<td></td>
<td>CBRC</td>
<td>Tighten credit card business</td>
<td>No credit card shall be issued to students under Age 18 (except for ancillary cards); banking financial institutions should be prudent in implementing collection outsourcing</td>
</tr>
<tr>
<td>2013</td>
<td>State Council</td>
<td>Finance supports the economic restructuring and upgrading</td>
<td>Improve bank card service functions; meet reasonable consumer credit needs in housing, service consumption, etc.; expand the scope of the pilot consumer finance companies; strengthen personal credit management</td>
</tr>
<tr>
<td>2013</td>
<td>CBRC</td>
<td>Administration of consumer finance companies</td>
<td>Loosen the requirements on investor conditions, business scope and operating conditions, diversify equity ownership, expand the pilot cities, widened the sources of funds</td>
</tr>
<tr>
<td>2015</td>
<td>PBC</td>
<td>Mobile financial technology innovation</td>
<td>Lay down four directive principles: safe and controllable, beneficial to state and people, inheriting innovation and development, service integrated development; platform construction, innovation, pilots</td>
</tr>
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<td></td>
<td>State Council</td>
<td>Market access is opened to consumer finance companies</td>
<td>Approval of consumer finance companies is decentralized to provinces; continue to relax the business scope of credit products</td>
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<td>2016</td>
<td>People's Congress</td>
<td>The Thirteenth Five-year Plan</td>
<td>Develop inclusive finance and multi-format small, medium and micro financial organizations; standardize the development of Internet finance; vigorously develop inclusive finance and green finance</td>
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<td>PBC, CBRC</td>
<td>Financial support for new consumption areas</td>
<td>A series of detailed financial measures to support new consumption: fostering the development of consumer finance organizations (institutions, outlets); promoting product innovation (optimizing management models, product innovation and encouraging innovation in automotive finance business); supporting the key areas of new consumption (elder care, housekeeping, health care, information and network, green consumption such as automobile, tourism and leisure, education and culture, and rural consumption); improving the environment for the development of consumer finance companies (broadening the financing channels for consumer finance companies, improving payment services and safeguarding the rights and interests of financial consumers)</td>
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<td></td>
<td>NDRC</td>
<td>Promote consumption to promote transformation and upgrading</td>
<td>Ten Consumption Expenditure Initiatives (sales smoothness of urban commodity, rural consumption upgrade, residential housing improvement, promotion of automobile consumption, travel and leisure upgrade, health and family services expansion, education and cultural information consumption innovation, sports and fitness consumption expansion, green consumption growth, consumption environment improvement and quality improvement)</td>
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<tr>
<td></td>
<td>PBC</td>
<td>Standards for credit card business</td>
<td>Re-regulate the overdraft interest rates, interest-free repayment period and minimum repayments, liquidated damages and service fees, in-advance cash borrowing business (more flexible)</td>
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<td></td>
<td>NDRC</td>
<td>New consumption’s leading role</td>
<td>Overall requirements and basic principles for releasing new consumption, creating new supply and forming new impetus; put forward 50 major measures. PBC takes the lead to support the development of consumer credit</td>
</tr>
<tr>
<td></td>
<td>Ministry of Education, CBRC</td>
<td>Bad campus online loans</td>
<td>Intensify the supervision of bad online loans, set up campus daily monitoring mechanism, real-time early warning mechanism and response mechanism for bad online loans</td>
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<td></td>
<td>CBRC, MHI</td>
<td>Standards of the business activities of online loan information intermediaries</td>
<td>Online loan information intermediaries should be registered with the local banking regulatory agencies and the online loans should be mainly small amount with the balance ceiling limit; CBRC and local governments shall establish cross-sector cross-regional regulatory coordination mechanism</td>
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<tr>
<td>2017</td>
<td>Special remediation team for P2P lending risks</td>
<td>Payday loan cleaning up</td>
<td>Carry out thorough investigation and centralized remediation of the payday loan platforms featuring unusually high interest rates, unsecured loans, short term (1-30 days) and violent collection</td>
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Section III History of Foreign Consumer Finance

Globally, the representative regions where consumer finance developed earlier are the United States, Europe and Japan.

- Consumer finance in the United States

The United States is the cradle of consumer finance and the largest consumer finance market in the world. As of August 2017, the total consumer credit balance is 3.77 trillion U.S. dollars. Consumer finance in the United States sprouted in the 19th century when peasants bought farm implements in installments. With the advent of the industrial revolution in the early 20th century and the urbanization and industrialization, automobile gradually replaced farm tools as the largest consumer products. The vigorous development of the automobile industry led to the rapid growth of consumer finance, with a substantial increase in penetration rate and popularization rate. In the 1950s after World War II, consumer finance ushered in explosive growth in the United States. More credit products covered all aspects of life. Meanwhile, the credit system, data processing capabilities, laws and regulations, and big data-based risk control system have all contributed to the development of consumer finance. With the continuous increase of penetration rate, the population covered by consumer finance continued to increase. The content was not limited to the purchase of daily durable goods but extended to such fields as travel, education and beauty. Consumers also turned from passively accepting to more independently choosing consumption credit products and interest rates.

Initially, consumer finance was initiated by manufacturers to increase their revenue. In 1930, more than 60% of cars were purchased by consumers in installments. Commercial banks then joined. At present, the main players in the market are commercial banks and consumer finance companies. In addition, credit unions, the federal government and savings institutions, securitization credit asset pool institutions, non-financial institutions, etc. also provide consumer financial services.

The target groups of consumer finance companies in the United States are those with low but stable income. They are mostly young people who have greater funding needs in education, marriage, decoration and travel. They are hard to be covered by commercial banks either because of their low income or less accumulated savings due to their short working lives.

The consumer credit in the United States is divided into revolving credit and non-revolving credit. Revolving credit means that the bank gives a certain amount of credit according to the borrower's credit rating, and the borrower can consume within the credit limit. Revolving credit does not have a fixed repayment term, which mainly includes credit card loans, revolving home equity loans, etc. Non-revolving credit means that when the borrower does not complete the repayment, the corresponding repayment amount can not be borrowed again. It mainly includes student loans, auto loans, consumer durable goods loans, unsecured personal loans, personal funds-revolving loans, personal debt restructuring loans.

In the residential loan structure, the balance of household loans by August 2017 was 18.37 trillion U.S. dollars, among which housing loans accounted for 79.48%, and the remaining 20.52% was consumer credit with the balance of 3.77 trillion U.S. dollars. In consumer credit, revolving loans were 1 trillion U.S. dollars,
accounting for 5.44% of the total, of which the largest amount was credit card loans. Non-revolving loans were 2.766 trillion U.S. dollars, accounting for 15.08%, of which the largest parts were student loans and car loans.

The credit reference system in the United States is a market-based system, which generates credit report through commercial operations and provides comprehensive credit information services to the whole society. Credit agencies are responsible for collecting, organizing, processing information and data, as well as providing credit reports. The government is responsible for providing legislative support and supervision, regulating the rules for the collection, organization, storage and processing of information so as to create free competition among institutions. Taking personal credit service as an example, ACR developed the unified credit data reporting format and standard data collection format for personal credit reference business, while agencies headed by Experian, Equifax, and TransUnion are responsible for data collection. After collecting data, credit reference agencies form credit rating products such as FICO score, vantage score, credit report, and finally apply them to a variety of scenarios. Among credit rating agencies in the capital market are S&P, Moody's, Fitch, etc. while ordinary corporate credit agencies include Dun&Bradstreet.

In the policy supervision, the consumer finance regulation in the United States adheres to the idea of making the consumer finance market transparent and open, focusing on the protection of the rights and interests of consumers and adopting a relatively lenient guiding principle. The United States does not have an institutional regulation that specifically targets at consumer finance companies; instead, it mainly regulates consumer finance as a business. Nor do laws have strict restrictions on the sources of finance, business scope, product categories of consumer finance companies. In the 1960s, restrictions on products and interest rate ceilings were used to protect consumers. In the 1970s, states passed laws to protect consumers not only in terms of products but also in terms of various procedures of consumer finance. In the 1990s, through the Financial Services Modernization Act, the banking, insurance and brokerage firms’ business boundaries were eliminated. Banks started cross-border operations and conducted large-scale merger and acquisition integration. The financial institutions in the consumer finance markets were diversified. After the financial crisis in 2008, financial supervision was comprehensively reformed and Consumer Financial Protection Bureau was established to protect the legitimate rights and interests of consumers. Since 2008, US consumer finance regulation has gradually entered a mature and stable period.

Representative companies of consumer finance in the United States include: American Express in credit cards, Sears in retail, and Paypal Credit on the Internet.

- Consumer finance in Europe

European consumer finance companies started in the late 1950s, which is almost half a century later than those in the United States. One of the reasons was that the industrial revolution and global expansion in Europe brought huge wealth and its residents did not need credit spending to meet their consumption demand. Another reason is that the wide acceptance of Christian doctrine of thrift in Europe also inhibits the development of consumer credit. However, after the World War II, its economy suffered heavy losses and its residents had
poor living conditions. In addition, due to the cyclical over-supply caused by the industrial revolution, manufacturers urgently needed to reduce their inventories by installments. Residents (especially middle-to-low-income young people) began to gradually use consumer credit to meet their needs in everyday life. Since then, consumer finance began explosive growth. Now Europe has become the world's second largest consumer finance market and it is in a mature stage of development.

From the history of the development of consumer finance in Europe, it can be seen that consumer finance mainly targeted at people with low but stable income, especially young people. Similar to the United States, such groups have a relatively open conception of consumption. They have greater consumer demand for travel, house decoration, weddings, education, etc., and they are unable to be included in the traditional banking credit reference system because of their low income or short credit records. They are the key target customers of consumer finance companies.

From the purpose of consumer loans, European consumer finance companies mainly provide customers with specific purpose loans and non-specific purpose loans. Specific purpose loans include household durable consumer goods, POS merchant sales, merchant's membership cards, car loans, home improvement loans and other functions similar to the non-revolving loans in the United States. Non-specific loans, including payday loans, cash advances, revolving credit, etc., are usually unsecured loans with the borrower's integrity and repayment ability as a basis for lending; they are equivalent to revolving loans in the United States.

Most of the major consumer finance companies in the EU are affiliated to European banks or financial conglomerates such as Cetelem (a consumer finance company of BNP Paribas) and Home Credit (a consumer finance company of PPF Group in Czech). Besides, BENEFICIAL, a consumer finance company of HSBC Group, Citi Financial, a consumer finance company of Citibank, and GE Money, a consumer finance company of GE, also conduct consumer finance business in the EU. In addition, specialized consumer finance companies are also an important part of the EU market, such as Santander Consumer Finance Ltd., which was established in Spain in 1963. Its main businesses include auto finance (new and used cars), personal loans, credit cards, leasing, durable consumer goods loans and other businesses.

In the acquisition of customers, consumer finance companies in Europe have two modes: direct marketing and indirect marketing. Direct marketing means that the consumer finance companies directly develop customers and transact with customers. This model often requires more branches or outlets as a support, with Cetelem as a representative. Indirect marketing means that consumer finance companies expand their customer base by working with resellers or retailers. Consumer finance companies partner with large resellers, and resellers search for customers, review customer risks, screen customers, go through loan procedures, and collect loans. A representative one is Home Credit.

In credit reference model, unlike the market-oriented credit reference model in the United States, public credit reference is commonly used in European countries. The public credit system model adopts the social credit management mode that focuses on the central credit registration system established by the central bank. The government funds the national database, which is established to form a nationwide investigation network.
that is controlled and supervised by the government. The government also uses administrative means to require data providers to provide credit information and data to public credit agencies. This model is used by major EU member countries such as Germany, France, Italy, Spain, Austria, Portugal and Belgium. Compared with the market-oriented credit reference, public credit reference agencies can establish a comparatively authoritative credit information database and can guarantee the authenticity of information and data.

On policy regulation, Directive on the Protection of Individuals with Regard to the Processing of Personal Data and on the Free Movement of such Data, EU 95/46/EC, which was promulgated by the EU in 1995, stipulates the rules for the collection, preservation, processing, acquisition and deletion of credit information, becoming the prerequisite and basis for the existence and operation of the EU credit agencies. A series of bills, such as the Consumer Credit Directive, the EU Consumer Rights Directive Proposal, the Consumer Credit Contract and Directive 2008/48/EC on the repeal of Directive 87/102/EEC, constitute a relatively complete credit reference and credit consumer protection system, with an aim to protect the rights and interests of consumers and safeguard the stability of the consumer finance markets.

- **Consumer finance in Japan**

  Japan's consumer financial services started in the late 1930s after World War II, which is later than the United States and almost at the same time with Europe. In Asia, Japan’s consumer finance developed earlier and is the most mature one. Japan's department stores firstly carried out monthly installments of consumer credit services, which are also the characteristics of Japan's consumer finance: mainly the circulation enterprises and retail enterprises provide consumer credit services. Take Japan's Saison Corporation as an example. Its predecessor was an installment department store. Saison Company issued a limited number of house cards for internal use and also started to work with VISA to issue international credit cards during the gradual development process. In the late 1970s, foreign consumer finance companies from the United States and Europe flooded into Japan. Coupled with the ever-changing concept of consumption of Japanese people, they cultivated the habit of credit consumption, which promoted the rapid development of the consumer credit market. Since the 1990s, the share of micro-finance in Japan's credit cards and consumer finance companies has increased. However, the rapid development of consumer finance in Japan also brought many problems, such as borrowers with multiple debts, consumer bankruptcies and loss of consumer interest. In the early 21st century, the bankruptcy of Takefuji stimulated Japan to reflect on many issues under the development of consumer finance and started to formulate a series of laws and regulations to regulate all aspects of the market, including credit reference, protection of consumers' rights and interests, collection of funds, protection of consumers, relief of debtors, and maintenance of the industry order.

  Founded in 1966, Takefuji started out from small-sum consumer loans. During the overall expansion of the consumer finance industry in the 1970s, Takefuji also enjoyed rapid growth and became the number one giant in consumer finance. However, in November 2010, Takefuji went bankruptcy, and the reasons include: (1) The interest rate on consumer credit was generally too high (about 30% per year), causing consumers’
difficulty in repayment and the rise in non-performing loan ratio. The financial crisis in 2008 made it even worse. (2) It conducted illegal and improper collection. Many consumer finance companies, including Takefuji, not only collected from other family members such as their parents, but also entered the houses arbitrarily and intimidated the elderly and children. They also used the gangsters to collect the loans. All these caused serious social problems.

As of March 2017, Japan's credit was 127 trillion yen, of which the balance of real estate loans was 94 trillion yen, and the balance of consumer loans was 33 trillion yen. Of that, 5.6 trillion yen was credit card loans, accounting for 17% of the entire consumer credit.

The supply of consumer financial service in Japan is dominated by non-bank institutions, including consumer unsecured lending companies, credit card companies and installment companies. Commercial banks mainly serve large enterprises, while personal consumer financial services are not their focus.

The service targets of consumer finance in Japan mainly include working-class people, housewives, students, etc.; its service areas are financial loans for auto loans, education, travel, health care, wedding, digital products and other consumers; as for the use of funds, it can be divided into earmarked and non-earmarked consumer loans.

In the credit reference system, Japan adopts the membership credit reference system. After the 1970s, the credit reference agencies in Japan began to conglomerate local agencies, moving from dispersion to concentration. Industry associations of sales credit, consumer credit, and banks in Japan integrated their regional credit information centers, which gradually developed into a national industry credit reference agencies. In 1984, Credit Information Center (CIC) was established to integrate personal sales credit information centers throughout Japan. In 1986, 33 personal consumer credit information centers conglomered into the Japan Information Center (JIC), integrating personal consumer credit information. In 1988, Japan's National Bank Information Credit Center (BIC) was established to integrate 25 banks' personal credit information centers across Japan. At the same time, in order to further define risks and solve the problem of multiple liabilities, the three major industry information centers set up the Tripartite Information Society to start the operation of the information exchange system and establish a comprehensive credit reference system.

In the supervisory system, Japan promulgated the Installment Sales Law in 1961 to regulate the development of the industry in the early stages of the development of consumer finance. After 20 years of development, the Regulation on Loan Industry was promulgated in 1983. With the rapid development of consumer finance in the late 1990s, Japan promulgated laws for the protection of consumer information, including the Personal Information Protection Law of Electronic Computer Processing Held by the Administrative Organs in 1998 and the Law on the Protection of Personal Information in 2003, which protect the rights and interests of consumers by respecting the basic concepts of individual personality, the responsibilities of state and local public bodies in handling personal information and the basic matters of personal information protection measures. The brutal growth in the early days of Japan's consumer finance caused serious social problems and even the bankruptcy of Takefuji. With the painful lessons, the Japanese
government made more stringent legal systems than those in Europe and the United States, aiming at the healthy development of consumer finance in Japan.

Japan's consumer finance market has four giants: Promise, a subsidiary of the Sumitomo Mitsui Foundation, Acom and Atful, subsidiaries of Mitsubishi Financial Group, and Mobit, a consumer finance company under Sumitomo Mitsui Financial Group. One of the typical companies of non-bank institutions is Japan's Orient Corporation, established in 1954. The two major shareholders are Mizuho Financial Group and ITOCHU. Its business scope covers automobile loans, shopping installments, credit cards, credit guarantee and financing. Among Japan's non-bank financial institutions, Orient ranked first in the personal finance area with 4,887 billion yen in consumer financial assets.

Chapter III Current Situation of China's Consumer Finance Market

Section I Industry Chain of Consumer Finance

Companies that provide consumer financial services in China can be broadly divided into:

- Banks: the earliest consumer finance financial institutions, whose main consumer finance business is credit card installment.
- Licensed consumer finance companies: consumer finance companies approved by the CBRC, whose shareholders are mostly banks and large private enterprises.

Non-licensed companies providing consumer financial services include:

- Internet giants (BATJ): Baidu, Alibaba, Tencent and JD, who rely on their own ecology and resources to carry out consumer finance business.
- P2P (Peer-to-Peer): P2P companies have become an important source of funding for non-licensed consumer finance companies. Many P2P companies have also expanded consumer credit businesses by their own.
- E-commerce: E-commerce providers besides those Internet giants above are also gradually promoting consumer finance businesses to stimulate consumption and improve sales performance.
- Start-up companies and industry enterprises: a large number of start-up companies and industry enterprises focus on consumer segments and specific groups of people, relying on their understanding of consumer scenarios for market plowing.

It can be seen from above that consumer financial companies are often those who often have the advantage of funds or online/offline sales channels in the industrial chain. The general providers of goods and services do not cross-operate consumer financial businesses. Banks and licensed consumer finance companies are financial institutions regulated by the CBRC and have a relatively low policy risk, so they are known as the regular army in the industry. Other unlicensed consumer finance companies, though not licensed, have their own unique advantages and innovation in customer acquisition, risk control system, and operational efficiency; they are the new force in the industry.
Table 2: Comparison of consumer finance companies

<table>
<thead>
<tr>
<th>Category</th>
<th>Banks</th>
<th>Licensed consumer finance companies</th>
<th>Non-licensed consumer finance companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target customers</td>
<td>• High credit, low-interest contributor</td>
<td>• Medium credit, higher interest contributor</td>
<td>• Different products cover different populations; almost full coverage</td>
</tr>
<tr>
<td>Capital cost</td>
<td>• Lowest (public deposit, etc.)</td>
<td>• Lower (interbank borrowing, bank loans, exchange ABS, etc.)</td>
<td>• Higher (bank loans, P2P, exchange / over-the-counter ABS, etc.)</td>
</tr>
<tr>
<td>Bad debt ratio</td>
<td>• Lowest</td>
<td>• Lower</td>
<td>• High</td>
</tr>
<tr>
<td>Operational efficiency</td>
<td>• Low</td>
<td>• Medium</td>
<td>• High</td>
</tr>
<tr>
<td>Policy risk</td>
<td>• Low</td>
<td>• Low</td>
<td>• High</td>
</tr>
<tr>
<td>Customer acquisition channels</td>
<td>• Cross-sale for credit card holders and deposit customers: statement installment, cash installment, promotions of installment purchase, etc.</td>
<td>• Branches or own point-of-sale networks</td>
<td>• Offline agents or own point-of-sale networks</td>
</tr>
<tr>
<td></td>
<td>• Branch networks</td>
<td>• Online and offline business cooperation</td>
<td>• Own Internet platform</td>
</tr>
<tr>
<td></td>
<td>• Online and offline business cooperation</td>
<td>• Internet platform of itself and its shareholders</td>
<td>• Cooperate with other Internet platforms (relying on vertical e-commerce or third-party payment platform)</td>
</tr>
<tr>
<td>Risk control system</td>
<td>• Central bank credit reference and manual review</td>
<td>• Mainly central bank credit reference and manual review</td>
<td>• Mainly self R&amp;D of risk control system</td>
</tr>
<tr>
<td></td>
<td>• Slow review process</td>
<td>• Self R&amp;D of risk control system</td>
<td>• Cooperate with third-party credit reference agencies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cooperate with third-party credit reference agencies</td>
<td>• Faster review process than the bank</td>
</tr>
</tbody>
</table>

In the industry chain, credit reference agencies provide consumer finance companies with credit-related personal information and credit information products to help them measure credit risk and conduct risk pricing. Various credit information platforms facilitate the matching transactions between consumer demands and capital. Governments and relevant associations formulate and implement various policies and regulations to supervise the industry and promote the sound and stable development of the industry.

Section II Consumer Finance Companies

Banks

For many banks, consumer finance business is equivalent to credit card statement installment as well as the payday loan business for credit card holders. Bank credit card customers are often those who have a stable income or a good credit history. According to statistics, at present, there are 0.3 credit cards per capita in China, and the statistics also include the case of 1 person with more than 1 card. Therefore, it can be said that the consumer financial services provided by banks cover only a small part of the population, which also leaves a vast market space for other consumer finance companies. In addition, some larger banks are also aggressively expanding their reach through self-owned subsidiaries or are participating consumer finance companies.

Licensed consumer finance companies

The licensed consumer finance companies are non-bank financial institutions that are approved by the CBRC and more comprehensively supervised by the banking regulatory department and specialized in personal consumer finance loans business.

Since July 2009, with the CBRC promulgation of the *Administrative Measures on Pilot Consumer Finance Companies* and the approval from the State Council, licensed consumer finance companies started...
their pilot projects in four cities including Beijing, Shanghai, Chengdu and Tianjin, and they developed rapidly from 2014 onwards. The development of licensed consumer finance companies has gone through three stages:

The first stage is from 2010 to 2013. The initial pilot measures impose high entry barriers and strict operating restrictions, requiring major shareholders to be financial institutions whose fund takes up more than 50%; only the businesses in the place of registration can be conducted; a single borrower can not be issued directly for general-purpose loans (payday loans); instead, installment (installment purchase) loans must be issued first, and only when the repayment records are in good condition, the general-purpose loans can be issued. During this period, only four licensed consumer finance companies were opened, namely: BOB Consumer Finance Company (initiated by Bank of Beijing), BOC Consumer Finance Company (initiated by Bank of China), JinCheng Consumer Finance Company (initiated by Chengdu Bank) and wholly foreign-funded Home Credit Consumer Finance Company. Overall, the pace of development was relatively slow.

The second stage is from 2014 to 2015. With the advent of the Internet finance era in 2013, personal consumer credit entered an unordered and rapid development phase. The growth leaders ushered in the financial support from mainstream investment institutions from the second half of 2013 to the first half of 2014, and their business development has already exceeded the business scope of licensed consumer finance companies. Both traditional financial institutions and regulators found themselves unprepared in front of the fast-changing business models. Therefore, the CBRC revised the Administrative Measures on Pilot Consumer Finance Companies at the end of 2013, which loosened entry standards and operating restrictions. The second batch of seven licensed companies was set up in late 2014 and early 2015.

The third stage begins since the second half of 2015, when the State Council further liberalized industry entry standards to encourage the participation of private capital. At this point, local banks work with private capital and Internet companies to speed up the preparation of applications for licenses. For example, (1) Bank of Jiangsu allied with Hailan Home and 2345; (2) Jiangsu Wujiang Rural Commercial Bank allied with Hainan Airlines Travel and Hengtong Group; (3) Haikou Rural Commercial Bank allied with Lily Network; (4) Bank of Guangzhou allied with Gold Group, etc. Local banks can expand their geographic reach from local places to the whole nation through consumer finance licenses while seeking strategic cooperation opportunities.

As of the end of September 2017, 22 consumer finance companies have been approved and opened. However, due to the relatively high barrier to entry and the regulators’ control in license issuance, the number of licenses is still scarce.

Table 3: List of licensed consumer finance companies

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Place of registration</th>
<th>Date of establishment</th>
<th>Registered capital (100 million yuan)</th>
<th>Ownership structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sichuan Jincheng Consumer Finance Limited Liability Company</td>
<td>Chengdu</td>
<td>2010/2/26</td>
<td>3.20</td>
<td>Chengdu Bank Co., Ltd. 51%; Hong Leong Bank Berhad 49%</td>
</tr>
<tr>
<td>No.</td>
<td>Bank Name</td>
<td>City</td>
<td>Date</td>
<td>Rate</td>
<td>Equity Structure</td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------</td>
<td>-------------------</td>
<td>------------</td>
<td>------</td>
<td>----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>2</td>
<td>BOC Consumer Finance Co., Ltd.</td>
<td>Shanghai</td>
<td>2010/6/10</td>
<td>8.89</td>
<td>Bank of China Limited 40.02%; Brilliance Group Co., Ltd. 20.64%; Shanghai Lujiazui Financial Development Co., Ltd. 12.56%; BOC Credit Card (International) Co., Ltd. 12.37%; Shenzhen Bode Innovation Investment Co., Ltd. 9.90%; Beijing Sequoia Shengyuan Management Consulting Co., Ltd. 4.50%</td>
</tr>
<tr>
<td>3</td>
<td>Home Credit Consumer Finance Co., Ltd.</td>
<td>Tianjin</td>
<td>2010/11/10</td>
<td>70.00</td>
<td>Home Credit B.V. 100%</td>
</tr>
<tr>
<td>4</td>
<td>BOB Consumer Finance Co., Ltd.</td>
<td>Beijing</td>
<td>2010/2/25</td>
<td>8.50</td>
<td>Bank of Beijing Co., Ltd. 35.29%; Santander Consumer Finance Co., Ltd. 20%; Lisi Group Co., Ltd. 15%; Dalian Wanda Group Co., Ltd. 5%; Lenovo Holdings Co., Ltd. 5%; Beijing Juyuan Chenguang Venture Capital Co., Ltd. 5%; Beijing Liando Investment (Group) Co., Ltd. 5%; Huaxia Dong Brothers Trading (Group) Co., Ltd. 5%; Beijing Jingzhou Enterprise Group 4.21%; Shanghai Ruying Business Consulting Co., Ltd. 0.5%</td>
</tr>
<tr>
<td>5</td>
<td>Industrial Consumer Finance Co., Ltd.</td>
<td>Quanzhou, Fujian</td>
<td>2014/12/22</td>
<td>5.00</td>
<td>Industrial Bank Co., Ltd. 66%; Fucheng (China) Co., Ltd. 24%; Fujian Quanzhou City Commercial Corporation 5%; Xtep (China) Co., Ltd. 5%</td>
</tr>
<tr>
<td>6</td>
<td>Haier Consumer Finance Co., Ltd.</td>
<td>Qingdao, Shandong</td>
<td>2014/12/26</td>
<td>5.00</td>
<td>Haier Group Corporation 30%; Haier Group Finance Co., Ltd. 19%; Beijing Red Star Macalline International Furniture Building Materials Plaza Co., Ltd. 25%; Zhejiang Yi Rong Investment Co., Ltd. 16%; Beijing Tiantong Sibao Information Technology Co., Ltd. 10%</td>
</tr>
<tr>
<td>7</td>
<td>Merchants Union Consumer Finance Co., Ltd. (MUCFC)</td>
<td>Shenzhen</td>
<td>2015/3/6</td>
<td>20.00</td>
<td>Wing Lung Bank Limited 50%; China United Network Communications Co., Ltd. 50%</td>
</tr>
<tr>
<td>8</td>
<td>Hubei Consumer Finance Co., Ltd.</td>
<td>Wuhan, Hubei</td>
<td>2015/4/7</td>
<td>5.00</td>
<td>Hubei Bank Co., Ltd. 50%; Wuhnan Commercial Union (Group) Co., Ltd. 15%; Wuhnan Wushang Group Co., Ltd. 15%; TCL Group Co., Ltd. 20%</td>
</tr>
<tr>
<td>9</td>
<td>Suning Consumer Finance Co., Ltd.</td>
<td>Nanjing, Jiangsu</td>
<td>2015/5/14</td>
<td>6.00</td>
<td>Suning Business Group Co., Ltd. 49%; Xianshenh ZaiKang Jiangsu Pharmaceutical Co., Ltd. 16%; Bank of Nanjing Co., Ltd. 15%; BNP PARIBAS PERSONAL FINANCE 15%; Jiangsu Yanghe Winery Co., Ltd. 5%</td>
</tr>
<tr>
<td>10</td>
<td>MashangMSXF Consumer Finance Co., Ltd. (MSXF)</td>
<td>Chongqing</td>
<td>2015/6/15</td>
<td>22.10</td>
<td>Chongqing Department Store Co., Ltd. 30.62%; Bank of Chongqing Co., Ltd. 15.31%; Sunshine Property Insurance Co., Ltd. 1.63%; Wumart Holdings Group Co., Ltd. 17.02%; Zhejiang China Commodity City Group Co., Ltd. 1.36%; Beijing Zhongguanunc Branch Technology Co., Ltd. 29.08%; Chengdu Fun Arts and Culture Communication Co., Ltd. 4.99%</td>
</tr>
<tr>
<td>11</td>
<td>China Post Consumer Finance Co., Ltd.</td>
<td>Guangzhou, Guangdong</td>
<td>2015/11/19</td>
<td>10.00</td>
<td>China Postal Savings Bank Co., Ltd. 61.3%; DBS BANK LTD. 12%; Bohai International Trust Co., Ltd. 11%; Lakala Network Technology Co., Ltd. 5%; Guangdong Haiyn Group Co., Ltd. 3.5%; Guangzhou Grandbuy Co., Ltd. 3.5%; Guangdong Sanzheng Group Co., Ltd. 3.5%</td>
</tr>
<tr>
<td>12</td>
<td>BOH Consumer Finance Co., Ltd.</td>
<td>Hangzhou, Zhejiang</td>
<td>2015/12/3</td>
<td>5.00</td>
<td>Bank of Hangzhou Co., Ltd. 41%; BANCO BILBAO VIZCAYA ARGENTARIA SOCIEDAD ANONIMA 30%; Zhejiang Wangsheng Shengbao Co., Ltd. 10%; Hailiang Group Co., Ltd. 10%; Zhonghui Rayon Co., Ltd. 4.5%; Zhejiang Union Investment Group Co., Ltd. 4.5%</td>
</tr>
<tr>
<td>13</td>
<td>Huarong Consumer Finance Co., Ltd.</td>
<td>Hefei, Anhui</td>
<td>2016/1/19</td>
<td>6.00</td>
<td>China Huarong Asset Management Co., Ltd. 55%; Hefei Department Store Group Co., Ltd. 23%; Shenzhen Huajiang Asset Management Group Co., Ltd. 12%; Anhui Xin’an Assets Management Co., Ltd. 10%</td>
</tr>
<tr>
<td>14</td>
<td>Shaanxi Chang’an Bank Consumer Finance Co., Ltd.</td>
<td>Xi’an, Shaanxi</td>
<td>2016/11/1</td>
<td>3.60</td>
<td>Chang’an Bank Co., Ltd. 51%; Huitong Xincheng Leasing Co., Ltd. 25%; Beijing Yide Chenxiang Investment Co., Ltd. 24%</td>
</tr>
</tbody>
</table>
The current business of licensed companies is mainly an extension of the retail banking business of commercial banks. 17 out of the 22 licensed consumer finance companies have their major shareholders from commercial banks. Their business framework, IT framework and risk control system inherit the characteristics and experience of retail banking business to a large extent. Compared with the direct operation of consumer loan business by commercial banks, the business differences mainly lie in the lowered risk control standards and larger customer base, including eligible non-credit card users and those who need to use it as a supplement when the card users lack consumption credit. For national commercial banks, the scope of its business has already included personal consumer finance. They can choose to set up an independent subsidiary or business department to serve this part of customers; or they can also choose to apply for consumer finance licenses. For local commercial banks, when applying for consumer finance licenses, they can extend their scope of the consumer finance business to the whole country. They can also ally with commodity retailers and Internet platforms to apply, which may bring strategic cooperation opportunities.

Except for these 17 companies, currently the licensed consumer finance company with the largest registered capital and loan scale is Home Credit Consumer Finance. It is 100% held by a foreign company Home Credit specializing in point-of-sale loans, and its business model also follows its parent company while seeking optimization and innovation based on the characteristics of the Chinese market. In addition, there is Huarong Consumer Finance, whose major shareholder is an asset management firm, and there are also Mashang Consumer Finance, Haier Consumer Finance and Suning Consumer Finance, whose major shareholders are industrial groups.
The license of consumer finance is a double-edged sword. On one hand, licensed companies can obtain interbank borrowing funds and their shareholders have strong capability with lower capital costs; their operations are regulated and their bad debt risks and operational risks are controllable; their business scope approved by CBRC includes installment purchase and general-purpose consumer loans (ceiling for single user is 200,000 yuan), so they can justifiably carry out consumer credit business with small policy risks. On the other hand, the increase of registered capital and the introduction of new shareholders are subject to the application for approval and the procedures are more complicated. Since they are under supervision, they may not engage in business beyond the scope of business without approval and shall not touch the areas with unclear policies. For example, they shall not issue over-the-counter asset-backed securities (ABS) on its own; they are more or less affected and restricted by the shareholders in terms of organizational structure, remuneration mechanism and innovation process, and its growth rate is relatively lower than that of Internet finance companies, financial technology companies, and start-up companies.

Each licensed consumer finance company also has its own focus on the business model. Given the huge profit in online shopping installments and payday loans, all of them are developing these businesses. In the short term, there is a tendency of convergence in business development model and it still takes time to form a clear and differentiated competition pattern.

<table>
<thead>
<tr>
<th>Business model</th>
<th>Representative enterprise</th>
<th>Shareholders characteristics</th>
<th>Product and business features</th>
<th>Competitive advantage</th>
<th>Competitive disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Point-of-sale loans</td>
<td>Home Credit</td>
<td>Mature foreign point-of-sale loans provider</td>
<td>Mainly offline durable consumer goods installment purchase. Personnel are sent to large and medium-sized electrical appliance sellers, department stores and supermarkets.</td>
<td>• With real consumption scenarios and F2F signing, the risk control is guaranteed</td>
<td>• Wide outlets distribution, high operating costs</td>
</tr>
<tr>
<td>Extension retail banking business</td>
<td>BOC MUCPC China Post</td>
<td>Bank as the main shareholder</td>
<td>As a supplement to the lower credit rated retail banking customers. The product types are similar to those of the retail banking, mainly cash installment, and online installment purchase.</td>
<td>• Based on the traditional bank control; low bad debt ratio</td>
<td>• The approval process and documentation are more complicated</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Smaller range of potential customers</td>
</tr>
<tr>
<td>E-commerce additional installment payment services</td>
<td>Haier Suning</td>
<td>Vertical e-commerce as the main shareholder</td>
<td>Obvious synergies with the sales of the main shareholder; mainly online and offline installment purchase.</td>
<td>• Close to consumption scenarios; low-cost in customer acquisition</td>
<td>• The speed and scope of business expansion are limited by the development of the shareholder's main business</td>
</tr>
<tr>
<td>Start-up financial technology companies</td>
<td>MSXF</td>
<td>Decentralized; less direct synergy with shareholders</td>
<td>Diverse products; innovative; covering online and offline installment purchase, and payday loan, etc.</td>
<td>• Advanced IT infrastructure; Research and develop their own core big data technology</td>
<td>• Unstable products and services, high complaints rate</td>
</tr>
</tbody>
</table>

Internet giants (BATJ)

Internet companies have gradually extended their businesses to a variety of domains, including consumer finance, in which the leading four giants are BATJ.
Baidu set up Chongqing Baidu Micro-Loan Co., Ltd. in 2015. At the same time, Baidu's "Umoney" education loan business began to operate. With the support of Baidu Wallet APP and intelligent selections such as white-list reviewing and scoring rating, it provides excellent customer experiences. What’s more, it covers some other sections, including home improvement, real estate, tourism, medical cosmetology and payday loans as well. In addition, AiBank, was founded on November 18, 2017 by the joint establishment of CITIC Bank and Baidu.

Ant Financial of Alibaba moved into the consumer finance field in 2011, since when it has been a pioneer and innovation leader in small and scattered ABS market in China. With the large amounts of real-name users and consumption data of Alipay, until June 2017, the Ant Financial has issued 65.5 billion yuan Huabei public offering ABS through Chongqing Ant Commerce Small Micro-finance Co., Ltd., and issued 50.9 billion yuan Jiebei public offering ABS through Chongqing Alibaba Micro-Loan Co., Ltd.

During the transition of Internet users from PC-side to mobile-side, Tencent has acquired a wide range of clients with the leverage of WeChat. Tencent gradually focuses its strategy on the "two and a half" core businesses, “two” referring to communications platforms and digital contents, and “a half” meaning the Internet finance. In January 2015, Premier Li Keqiang went to visit WeBank, the first Internet bank owned by tencent in China, that was the beginning of its entering into finance. Later on, WeChat Payment and WeChat Loan were successfully integrated. Relying on large amounts of social mobile data, WeChat Loan has accumulated to loan 300 billion yuan and the balance achieved 100 billion yuan in two years since its establishment.

The birth of JD BaiTiao stimulates the shopping needs of consumers in JD Mall and eases the financial pressure of suppliers, which makes the fund chain in JD.COM more efficient and smooth. With this positive effect, JD Century Trade, the original owner of JD BaiTiao, accelerates its pace to further expansion and distribution, which will bring round after round equity investment towards the trading companies and third-party payment companies serving in JD.COM.

P2P

Since 2016, many P2P Internet financial platforms are seeking transformation and consumer finance has become their key area of focus. Regulators have made it clear that P2P operations should be "small” and "scattered”, and consumer finance business well suits the regulatory directions.

P2P platforms have higher capital costs than that of banks and licensed consumer finance companies. Traditional consumer financial products, such as credit card loans and automobile mortgage loans, are generally dominated by commercial banks. P2P platforms do not have the qualification for issuing credit cards; and their own financing costs are often higher than the interest rates of bank mortgage loans.

Compared with e-commerce suppliers, P2P companies are lack of data advantage. JD, Alibaba, Suning and other platforms, with not only the abundant financial resources but also rich consumer data, are able to implement their low cost risk pricing strategy. For most P2P platforms, the credit reference process is done
manually: credit check, law enforcement, blacklist, call or even home visits, causing very high credit costs. Therefore, many P2Ps simply cover high default rates with high interest rates. However, future trends in consumer finance should be towards differentiated risk pricing.

While P2P platforms have neither cost advantage over traditional consumer financial institutions, nor data advantage compared with e-commerce retail platforms, their short-term transformation directions could be payday loan or micro-finance. In particular, payday loan has inherent attributes of without consumption scenarios, low requirements of risk control and high interest rates. The risk control review requirements which are pulled down by the high interest rates can just make up for P2P’s disadvantage in high cost of risk pricing. However, in the long run, P2P still needs to build its own core competence in capital acquisition or asset management.

The outlook of P2P can refer to the Hong Kong model. Hong Kong stipulates that only licensed corporate bodies can be engaged in lending business and the annualized interest rate below 48% is legitimate. After the Internet bubble of 2000, P2P companies (financial companies) retreated one after another and eventually oligopoly was formed. By 2015, only two P2P companies exist in Hong Kong and both have seized great market shares. The sustainable and healthy development of P2P in Hong Kong owes to the key attributes such as mature financial market, credit reference system in particular, as well as the complete legal system.

E-commerce

E-commerce has the advantage of flow entrance and convenient payment in consumer installment. Its customers are mainly the young people with the advanced consumption concept, highly overlapping with the consumers of the consumer finance. On one hand, since e-commerce providers have mastered customer data, they can analyze customer characteristics, credit risk and the like and can provide accurate marketing to customers by processing the big data. On the other hand, providing installment payment can increase their sales. Thus, e-commerce providers have the motivation for installment payment.

However, the survey shows that the self-operated installment payment services only account for a small part, and the major part of the installment payment services are provided in cooperation with banks, Alipay and other agencies, with banks taking up more than 50% and Ant Huabei 30%. Although the e-commerce industry has a strong desire to promote installment payment business, the increase in related capital and labor costs brought by self-operated installment payment prompted most e-commerce operators to choose to focus their primary business on e-commerce sales instead of installment payment consumption. Taking into account of the 100% coverage of Alipay channel in e-commerce, the advantages in third-party payment channels can bring Alibaba the unique competitive advantage, forming the oligarchic trend in the industry. However, due to the high profit caused by the high interest rate and the low threshold caused by the small amount of individual consumption, we cannot rule out the possibility that in the future, with the coming of new entrants or the increase in self-operated installment payment of e-commerce providers, the interest rate will decrease, and so will be the profitability.
Start-ups and industry companies

A large number of industry companies are also actively planning consumer financial services with the hope to promote the growth of related businesses; in addition, many start-up companies will also choose to enter a segment scenario and exploit the consumer finance market.

Section III Consumption Scenarios

Automobile

During the two sessions of the country in 2015, the concept of "Internet +" was adopted in the Government Work Report. Premier Li Keqiang put forward the "Internet +" plan to promote the modernization of manufacturing industry by combining the new Internet industry with the traditional real economy, promoting the sound development of new industries such as e-commerce and Internet finance. “Internet + Auto Finance” is precisely the product of this transformation background, which originated from the traditional auto finance enterprises. It takes the use of the Internet to improve the process of "automobile selection, purchase, use and change". In addition, it further extends the customer acquisition channel and improves the user experience. Meanwhile, the continuous innovations of the Internet enterprises and Internet financial platforms in data accumulation, user experience and transaction payment also give birth to more diversified business models of the auto finance market.

According to China Automotive Internet Finance Development Report 2017, in 2015, the total amount of automobile consumer finance market in China was 746 billion yuan, of which the amount of consumer loans through commercial banks accounted for 49%, and the credit card automobile loan installment through commercial banks accounted for 20%, consumer loans through auto finance companies accounted for 24%, and the rest accounted for 7%. The national average penetration rate of automobile credit reached 25%.

Attracted by the market with a trading volume of hundreds of millions, Internet giants are getting into auto finance. Baidu invested in Uber, Car Every Day, 51 Car, Youxin Second-Hand Car; Alibaba set up the Ali Automotive Division and set up a joint Internet car fund with SAIC; Tencent invested in Renren Car with the C2C direct selling model of the car, and Youxinpai with the B2B model. Together with JD, Tencent also invested in Bitauto in a nearly monopolistic way in cash and exclusive resources and thus owns Tiantian Paiche with the C2B model. In addition, many other players also came to participate in this market, such as various types of P2P, crowdfunding platforms and other Internet financial platforms, automobile e-commerce providers, Internet auto financial service platforms, including Micro-Credit Network, Investment Network, No. 1 Car Loan, Melon Seeds Used Car, Laiyongche, etc. The 30-70 profit rule of the automotive industry has become the industry consensus; that is, only 30% of profits have been created in the production of automobiles while about 70% of profits come from circulation and after-sales service.

Therefore, in addition to the traditional financial services for car purchase, Internet auto finance companies have extended their business to the whole automotive industry and peripheral industries, including manufacturing, trading, dealers, 4S shops and other middlemen, license plate auction, scrap, driving license
application, rescue, parking, maintenance and repair, as well as the used car transaction. Traditional auto business, such as media consulting, car loans, auto insurance, and financial leasing, has been converted into online business, like e-commerce and O2O, which will bring a bright and broad future to Auto Internet finance.

Travel

As China's travel industry enters mass tourism era, China is becoming the largest tourism market in the world. According to the statistics of National Tourism Administration Center, domestic tourists reached 2.537 billion person-times in the first half of 2017, bringing revenue of 2.17 trillion yuan. By 2020, the market size of China tourism industry will reach 6.7 billion person-times, with a total investment of 2 trillion yuan and total revenue of 7 trillion yuan.

With the popularization of the Internet, the Online Travel Agent (OTA) has a tremendous impact on consumer behavior and tourism market structure due to its convenience and diversification. According to iResearch, the transaction scale of China's online travel market was 593.46 billion yuan in 2016, up 34.0% over the previous year and the online penetration rate was 12.1%. In terms of market share, Ctrip is the clear winner. After buying in or acquiring Tuniu, Tongcheng, E-Long, Qunar etc, Ctrip has taken up over 30% of the total market share. Secondly, Fliggy, Alibaba's self-built online travel platform is actively building its global seamless service to all their clients across the world backed by Alipay’s 400 million active monthly users and Alibaba's capital strength. Under the impact of OTA, the traditional large-scale travel agencies began to actively partner with online companies to build their own Internet platforms by using their traditional resources. Representative partnerships include CYTS with Aoyou.com, U-tour with Uzai.com and Qyer.com, Kaissa Tourism with JD. In general, the traditional travel agencies are actively embracing the Internet while OTAs are also penetrating into the offline market and building deeper business cooperation with offline travel companies. It is foreseeable that the tourism development is online-offline integration and group-oriented development.

Meanwhile, installment payment for traveling is taking its shape, especially in large-amount segments such as outbound travel and vacation travel. Online and offline travel giants have clearly seen the tremendous market potential of consumer finance in the tourism industry. Enterprises in the travel industry have laid out their consumer finance businesses in succession. However, due to the lack of experiences and capabilities of self-built consumer finance business lines, tourism companies are currently expanding their travel consumer finance businesses through cooperation with financial institutions. At present, in addition to cooperating with traditional banks, there are the following types of joint service providers:

The first type is licensed consumer finance companies. Consumer finance licenses are very rare. Now the only company specializing in the tourist market segment is Shangcheng Consumer Finance Co., Ltd., a joint venture between Ctrip and Bank of Shanghai.
The second type is Internet finance companies, including JD Finance, Alibaba and Suning. For example, JD Finance got into tourism consumer finance by making a strategic investment of Shoufuyou. The two parties launched a joint tourism product -Shoufuyou, realizing the integrated operation.

The third type is the third-party payment agencies. Third-party payment agencies are payment channels. They rely on big data mining, modeling and risk control to provide third-party credit services and connect with consumption scenarios through the cooperation with tourism companies. The representative enterprises include QuantGroup, Shanbaitiao, etc.

The fourth type is small-loan companies. They are generally the subsidiaries under travel companies. By providing consumer finance, they serve as a good complement to their main businesses.

The table below shows the layout of the major travel companies in the tourism consumer finance sector. We can detect that both the mainstream OTAs and offline travel agencies have participated. Although the industry development history is not long, the business model has been more comprehensive and mature. In the future, with the development of consumer finance business lines, not only tourism business can drive growth, but also customers' repayment behavior after using of consumer financial products will also be detected and accumulated. As a result, tourism enterprises’ integrated operational capability in the industrial and financial integration will be nurtured and improved.

**Table 5: Consumer finance moves of major travel companies**

<table>
<thead>
<tr>
<th>Type</th>
<th>Company Name</th>
<th>Operation Mode of Consumer Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offline agency</td>
<td>Tempus</td>
<td>TFTpay self-built platform, independent operation of Internet finance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Established the small-amout loan company Rongfast to solve the financing needs of downstream agents</td>
</tr>
<tr>
<td></td>
<td>U-tour</td>
<td>Set up the joint venture Beijing Youjia Technology Co., Ltd. with 9F Financial Co., Ltd.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Set up a small-amout loan company - Guangzhou You Dai</td>
</tr>
<tr>
<td></td>
<td>Kaiser Toursim</td>
<td>Connected with the financial services of HNA's Yisheng Financial Service, building the industry ecosystem</td>
</tr>
<tr>
<td></td>
<td>CYTS Toursim</td>
<td>Worked with Everbright Bank with the intention to launch a consumer finance company</td>
</tr>
<tr>
<td>OTA</td>
<td>Tuniu</td>
<td>JD made strategic investment in Tuniu to launch a travel installment payment product “Down Payment Departure”</td>
</tr>
<tr>
<td></td>
<td>Qunar</td>
<td>Worked with QuantGroup to launch the consumer loan product &quot;Naquhua&quot;. Data control was done by using QuantGroup’s machine learning expectation model</td>
</tr>
<tr>
<td></td>
<td>Ctrip</td>
<td>Established a joint venture with Shanghai Shangcheng Consumer Finance Co., Ltd., obtained the consumer finance license</td>
</tr>
<tr>
<td></td>
<td>Lvymama</td>
<td>Independent platform - Xiaolv financial platform; launched Xiaolv Baitiao with Shanbaitiao</td>
</tr>
<tr>
<td></td>
<td>Tongcheng</td>
<td>Tong Cheng Financial service provides supply chain finance and consumer financial services</td>
</tr>
</tbody>
</table>

**Medical cosmetology**

With the accelerated consumption upgrade in China, the market demand for medical cosmetology increases rapidly. According to the statistics of the State Statistics Department, the population of women aged from 16 to 65 in China is over 400 million. Assuming that 3% of women of the target age receive medical beauty services with an average annual spending of 8,000 yuan, the market size is about 96 billion yuan. If we calculate with the 6% penetration rate, the market size of the transaction will reach 192 billion yuan. In
addition, beauty career and beauty economy have got not only the attention of women, but also of many men. It can be said that the medical cosmetology service industry has a huge growth potential.

Medical cosmetology is a series of beauty treatments to improve the physiological function of human body by changing the external shape, color and part of the human body through medical means, including drugs, instruments and surgery. Compared with the usual beauty care, medical cosmetic treatment is more sophisticated, with longer lasting effect and higher prices. Medical cosmetology institutions are medical institutions that have the administrative approval from Department of Health. Doctors must have medical cosmetology qualifications. Specifically, there are two types of medical cosmetology: cosmetic surgery and cosmetic dermatology. Cosmetic surgery offers surgery projects, such as eyelid plastic surgery, liposuction, rhinoplasty and breast augmentation surgery; cosmetic dermatology offers micro-plastic items, including injection and laser beauty. At present, the medical cosmetology industry in China is dominated by micro-plastic types, accounting for about 60%.

According to statistics, there are more than 4,000 medical cosmetology institutions in China, of which 500 are plastic surgery departments of public hospitals, 500 are plastic surgery beauty hospital chains, and the remaining 3,000 are small and medium-sized hospitals and clinics. Overall, the market is highly fragmented by a large number of private hospitals occupying about 85% of the market share. Specifically, large plastic surgery hospitals provide consumers with the higher level of technical solutions and better services. They target the mid-to-high-end consumers with the single spending amount over 8,000 yuan. Small and medium-sized chain hospitals and clinics mainly target mid-end consumers with single spending amount of 5,000-8000 yuan.

The medical cosmetology industry in China is still in the early stage. The medical cosmetology institutions have not yet formed their national brand reputation. They acquire consumers through marketing channels, mainly like advertising and cooperating with the diversion platforms. Diversion platforms include advertising agencies (online search engines) and medical cosmetology APP. At present, Baidu is the first large-volume traffic entrance for consumers to obtain medical cosmetology information. Medical cosmetology APP is a new type of diversion service provider. According to 2017 Medical Cosmetology Industry White Paper 2017 released by SoYoung, the leading provider of medical cosmetology APP, the average annual growth rate of medical cosmetology APP has exceeded 200% in the past four years. Medical cosmetology APP provides information about hospitals, including prices, items, hospital doctor evaluation, plastic diary and booking advice, etc., and the customers choose hospitals according to their needs. This integration of online and offline resources is convenient and fast for medical cosmetology APP providers with unique advantages. In the future, they may exceed Baidu to become the mainstream medical cosmetology traffic entrance. At present, the market landscape of diversion APPs has been initially shown. SoYoung APP is in a dominant position while Gengmei, Yemay, Meidaila, MEB and MeiLiMei are in the second tier. With more and more consumers making transactions on APPs, offline beauty care providers can effectively reduce their sales costs while focusing on the medical services. Accordingly, because the medical cosmetology APPs own customer resources, they will have the stronger pricing power in the industry chain.
On one hand, the medical cosmetology industry itself has great market potential. On the other hand, the features of medical cosmetology consumption make itself a good match for installment payment business: with respect to consumption amount, the price for medical cosmetology is about 3000-20000 yuan, belonging to large-amount spending; with respect to consumer features, urban women with stable income are the major customers. These young women are in their ascendant period of life, and they are independent with strong spending power. Therefore, many consumer finance companies treat the medical cosmetology segment as an important scenario. Major providers of medical cosmetology finance services include:

1) SoYoung Baitiao: based on SoYoung APP

SoYoung has a website and an APP, creating a new “community + e-commerce supplier” model for medical cosmetology industry. With micro-plastic business as a starting point, it constructed a closed loop from preoperative consulting, consumption, to postoperative care. By doing so, it solves two industry-wide pain points: the customer has less knowledge of choosing hospitals and doctors while the medical cosmetology institutions’ customer acquisition costs remain too high.

SoYoung’s self-built installment payment product - SoYoung Baitiao was launched in 2016 and operated completely through the Internet. Products are promoted on the platform, and consumers must use the mobilephone number that has been used for at least 6 months and registered on SoYoung APP at least 3 months ago to submit the application on APP for installment payment and treatment appointment. Consumers provide the personal informaiton online, and the platform cooperate with Sesame Credit to review the information. After the credit review, payment is directly made to the hospital.

2) Mi-Me.com-Me-me Credit: A consumer finance company (unlisenced) for young women

Mi-Me.com is a consumer finance company that provides financial services to young women. In October 2015, it started the medical cosmetology installment product: Meme Credit. In terms of business model, Mi-Me relies on the cooperation with offline institutions to acquire customers. On the other hand, it helps the partners enlarge the transaction scale by providing credit services. When the user has the installment payment demand in the offline scenario, the cooperative merchant may recommend Meme Credit to him or her. The user can apply for installment payment on the Meme Wallet APP. After approval, the financial institution will directly give the fund to the merchant who ensures the fund is earmarked for its specified purpose only. The user repays each period to the platform, and the platform repays to the financial institution. As for pricing, it adopts unified fee rates of about 20% annually, including service fees and interest. As for the business development with cooperative medical institutions, Mi-Me does not rely on third-party channels; instead, it has a self-built local business development team.

3) Baidu Umoney: Baidu’s consumer finance product

In July 2015, Baidu Wallet was launched, providing installment services for education, and medical cosmetology. It has set up a wide range of cooperative businesses across the country. Medical cosmetology customers are directed to Baidu Wallet from Baidu Search website. The maximal amount of medical cosmetology financing for one person is up to 150,000 yuan, and the deal can be approved in seconds.
(4) Star Program: subordinate product under PayMax, a leading service provider for blue-collar installment payments

Star Program is a financing product developed by PayMax for medical cosmetology scenario. PayMax is the earliest consumer financial start-up company once engaged in blue-collar 3C installment payment, and Star Program is run by an independent team of 50 people. Launched in September 2016, it has set up partnerships with more than 200 medical cosmetology institutions, and has shared female customers with the original PayMax platform. Although the medical cosmetology installment and blue-collar 3C installment have differences in customer group coverage, there are still a lot of common places such as spending amount, consumption behavior pattern (both are impulsive consumption) and cooperation model with offline merchants. Therefore, the product developed very fast.

Education

In China, education installment services mainly focus on non-academic education and training market, among which the vocational training is the largest segment. According to Baidu Finance, in 2017 China's vocational skill training market is about 210 billion yuan, covering 30 million people and 99,000 vocational training institutions. As a result, vocational training has become a major target market for most education installment payment platforms. In addition, early education and K12 market are also important segments of education installment.

Currently in the field of education installment, Baidu Finance's Umoney is more established and has built its educational financial service ecosystem. The product types of Baidu Umoney are mainly education installment payment and payday loans. The operators are Chongqing Baidu Small-Loan Co., Ltd. and Shanghai Baidu Small-Loan Co., Ltd. under Baidu Finance. Baidu Umoney education installment service covers language training, IT skills training, vocational training, MBA education and other scenarios. According to Baidu 2016 Q4 Financial Report, Baidu Umoney continued to lead the education credit market with a 75% share. It has nearly 3,000 cooperative institutions with a YOY increase of about 80% and the number of served students with a YOY increase of about 45%.

The reason why Baidu Umoney is able to occupy the vast majority of such a scattered market is that Baidu Search is the largest online customer acquisition channel for various training institutions. Therefore, it is very easy for Baidu to expand the market by cooperating with training institutions. Meanwhile, with the existing data from Baidu’s system, Baidu can conduct more accurate analysis and risk assessment for cooperative education institutions and loan applicants. Specifically, on one hand, Baidu Umoney establishes an early warning indicator system for cooperative education institutions and dynamically monitors and adjusts the cooperation strategy with educational institutions based on the various dimensions such as Baidu Search index, Baidu public opinion index, LBS data, loan amount, asset quality and etc.. On the other hand, by analyzing the borrower's personal information such as user's social attributes, educational backgrounds, age and search portraits, it can assess the borrower's fraud risk and credit risk more accurately.
Another representative product in the field of education and training is 9f's education installment product "Crayon Installment". At present, 70-80% of Crayon Installment’s businesses are from tuition installment payment for vocational training, with the rest coming from early education and the K12. As of 2016, Crayon Installment has set up cooperation with 1,000 qualified educational institutions with registered users of 354,000 and a total transaction volume of over 1 billion yuan. Its capital mainly comes from 9f Group; meanwhile, the lending rates are 17%~18%. In terms of risk control, Crayon Installment conducts a double credit review on cooperative educational institutions and loan applicants. The review of educational institutions does not follow the standard process, and the whole process is about two weeks. After the credit review on educational institutions, Crayon Installment will give a credit score to the educational institution. For lower-score education institutions, credit reviews on individual users are relatively strict, requiring further information verification and credit reference. For the borrowers from higher-score education institutions, the review requirements are relatively lower.

Therefore, we can see that Baidu Umoney makes use of its absolute advantage in technology, resources and traffic to effectively establish a systematic business decision-making system. It builds a closed loop working process from the perspectives of data, model, strategy to system, so that it is able to effectively organize education installment business and set up higher competition barriers. Although Crayon Installment does not have the strong technical advantage as Baidu, in its target segments, it goes deeper in the response to market demand. With the accumulation of customers and partners, it can also build its own business characteristics.

Rural area

According to National Bureau of Statistics, China has nearly 700 million rural residents. From 2010 to 2016, the per capita disposable income of rural residents rose from 5,919 yuan to 12,400 yuan. The growth rate of income surpassed the GDP growth rate. In addition, the per capita consumption expenditure of rural residents in 2016 has reached 10,130 yuan. With the improvement of rural economic development and the increase of income of rural residents, the consumer demand in rural areas is increasingly stimulated.

From the perspective of consumer demand, more and more rural residents’ lifestyles and consumption patterns are moving closer to urban residents, and the gap between urban and rural areas is constantly shrinking. From the perspective of supply, the offline commercial system in rural China is still lagging behind. The rural commercial system is dominated by rural groceries, rural supply and marketing cooperatives and township shops. The products offered are high in price and less in variety, making it difficult to meet the needs of rural residents. Due to the popularization of the Internet and the convenience of online shopping, rural consumption patterns are changing. Rural online consumption is becoming a new blue ocean in China's consumption field. By the end of 2016, the number of rural Internet users reached 201 million, accounting for 27.4% of the total Internet users in China. According to JD, compared with cities, rural areas are more
dependent on mobile terminals. The fast popularity of smart phones enables many rural residents to skip over PC to become mobile Internet users directly.

Rural consumer finance is also receiving more and more attention. Apart from the traditional banks and village and town banks, Internet financial enterprises such as Ant Financial, JD Rural Finance, 9f Mujinong and Shima Financial are also speeding up their initiatives in the rural market.

The penetration rate of traditional financial institutions in rural areas is very low, mainly because the dispersion of rural areas and the lack of credit data have led to the difficulty in setting up the rural credit reference systems and thus the difficulty in risk control. Secondly, the poor convenience of rural financial services and the low popularization of financial literacy among rural residents have also led to the high cost and low efficiency to promote rural financial services. In view of this, Internet financial enterprises such as JD Finance and Ant Financial have started to try new business models to solve the difficulties in rural finance. The practice can be summed up as taking advantage of the core advantages of their e-commerce ecology and bringing rural cash flow, information flow and logistics data into the online platform. In this way, the previously very loose rural value chain can be brought together to reduce risks and improve efficiency.

- **JD Rural Finance**
  In September 2015, JD Finance issued a rural financial strategy that will develop rural financial markets as a group development strategy. According to JD Rural Finance website, as of the end of 2016, JD has built 1,700 county-level service centers, serving 300,000 administrative villages. On one hand, in the agricultural production sector, it meets the financial needs of farmers in the entire industry chain, from purchasing agricultural materials to cultivating agricultural products to processing and selling. On the other hand, focusing on rural consumption in daily life, it provides complete product chain financial services such as credit, payment and financial management, crowdfunding, and insurance to farmers. JD has the advantage of integrating its own big data, wide distribution channels and Internet financial products into the rural scenario.

  Focusing on the rural economy’s closed loop with the core of "bringing agricultural products to the cities" and "e-commerce going to the countryside", it is building a rural financial model with JD characteristics.

- **Ant Financial**
  In December 2016, Ant Financial launched a rural financial strategy and announced that it would cooperate with 100 leading enterprises to provide financial services to large-scale breeding farmers in the coming three years. Together with its partners, it will provide integrated financial services to 1,000 counties, including payment, credit, insurance, etc. For all the "agriculture, farmer and rural area" users, it will drive partners and social forces to provide a total of 1 trillion yuan of credit.

  For risk control, Ant Financial uses means of Internet technologies, cloud computing, big data, customer identification and risk control measures, to gradually establish a rural credit system. Its ultimate goal is to achieve differentiated and efficient financial services in urban and rural areas. In terms of business model, Ant Financial segments the rural financial market into three types of demand with the pyramid structure. The first type of demand is at the bottom level. This segment has the market size of about 5-6 billion people, covering
rural consumers and small farmers throughout the country. It mainly meets the needs for consumer credit, and the practice in this segment is that all loans and repayments are made through Alipay. Through the popularization of Internet usage and Alipay, rural residents can enjoy services such as Ant Huabei, Ant Jiebei and Sesame Credit. The second type of demand is at the middle level, mainly from small-scale rural operators, with a market size of about 30-50 million persons. The credit demand is mainly for purchasing means of production. Ant Financial uses the online and offline acquaintance model. That is, in the counties and rural areas lacking information and financial services, Ant Financial works with offline "acquaintances" of Alibaba Village Taobao Partners, and CFPA Micro-finance (a small-loan company established by China Foundation for Poverty Alleviation) to provide users with operating loans and other financial services, covering the whole nation. The third type is at the top level, including mainly large-scale breeding farmers, with a market size of about 2.6 million persons estimated by the Ministry of Agriculture. For this market segment, Ant Financial mainly provides supply chain financial services.

According to the rural financial data released by Ant Financial, as of the end of February 2017, Wangnong Credit of Ant Financial has covered 231 cities and 557 counties in all provinces and cities in the country with a loan balance of 546 million yuan, a user population of 3.5 million, and an average loan amount of 15,600 yuan.

**House rental**

Rental installment payment is a new type of house rental mode that started to emerge after 2015. In the first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, the 20 million migrant population are the major tenants. In the market, the lessor requires the payment of three-months’ rent plus the cash pledge equivalent to one month's rent. For the typical rental-installment users, the new graduates within three years after graduations, such payment method will easily cause their short-term capital deficit. Rental installment model, in fact, is to turn the traditional three-plus-one months’ rent into a monthly payment. The lessee pays a fixed monthly payment to the renting company, including rent and handling fees, and then the renting company pays the lessor three-plus-one months’ rent.

From 2015 to 2017, the rental installment market experienced different stages from the pursuit of hot capital to cooling and to the influx of industry giants. Early players such as Dingding Rental, Zufangbao have quietly withdrawn from the market. Quzu (a brand of Qufenqi) has shifted its main business scenario to payday loan market. House rental installment start-up companies such as Huifenqi, weZebra and 58fangdai got into this market quickly with O2O mode. They provide tenants with the financial product of one month’s rent plus the cash pledge equivalent to one month's rent with the processing fees of generally 3% -5% of the monthly rent. Due to the strong demands and less competition, orders grewed fast and this market segment attracted capital investors very much. Alipay, JD Finance and other Internet giants also entered the house rental market. On October 10, 2017, Alipay formally launched a credit house rental platform. Searching for "rent" in Alipay, users can see the rental listing and introduction in relevant cities. At present, the first batch of eight cities is
connected in including Shanghai, Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Xi’an, and Zhengzhou. Different from the traditional rental agencies, the credit rental platform realizes their credit renting thought means of financial products. For instance, the tenants can pay the monthly rent with the installment products, and the sesame users with over 650 credit points can enjoy deposit-free payment.

**Home improvement**

The installment amount of home improvement is bigger than that of most of the other consumer finance scenarios. Only the bodies with sufficient amount of financial resources are able to provide the installment payment services, resulting in high entry barriers. The ceiling limit for home improvement installment is from 200,000 yuan to 500,000 yuan. Customers of home improvement installment often need to provide a lot of materials, such as proof of identity, proof of marriage, proof of real estate property, bank statement, etc. Accordingly, the interest rate of home improvement consumer finance is below average. For example, ICBC’s installment payment period can be as long as 3 years, and rate for each month is as low as 0.29%, with a 3-year total rate of only 10.43%. Currently, the total one-year installment rate for home improvement is almost the same as the benchmark lending rate of the central bank.

At present, the penetration rate of installment services in the home improvement industry is not high. 13 out of 52 home improvement companies we sampled provide installment payment service, accounting for 25% of the total. Only one of the 13 has self-operated installment payment business, while the remaining 12 have adopted the approach of cooperation with a third party. The home improvement industry itself is a heavy-asset industry, and home improvement enterprises generally put funds into their main business, so they have no excess liquidity for self-operated installment payment business. Home improvement companies, serving as service agencies in the consumer installment payment chain, earn service fees.

Home improvement installment financial services are mainly provided by banks, of which China Construction Bank has the highest market share, followed by Bank of China and China Merchants Bank. The second largest group of market players are licensed consumer finance companies, including Haier Consumer Finance, MUCFC and BOC Consumer Finance. The third group is Internet giants. Among BATJ, Baidu was the first to enter the market and worked with and Jia.com, Ikongjian, and Elvdou to provide consumer financial services for home improvement. Other consumer finance companies have a rare presence because their financing costs are much higher than that of the above.

**College students**

Consumer finance for students, mainly the college students, is one of the most important segments of consumer finance market. Students have different demands including the segments like: student education loans, installment purchase of 3C and other consumer durable goods, payday loan for living expense shortages, etc. In foreign countries, student education loans are one of the most important fundamental asset classes for ABS.
During the brutal growth of Internet finance and consumer finance between 2014 and 2015, many market chaos took place, including: (1) Students are given the desire and need for advance spending too early and too much, and they are too optimistic about their own future repayment ability. (2) Unfair businesses make false marketing and charge unreasonable fees; especially they deduct service fees directly from the principal and charge outrageous overdue penalty. (3) When students cannot repay the loan or when they are being pursued for high principal and interest, under the guidance of unethical campus agents, they repay old debts with new debts, and thus the debt snowball gets bigger and bigger. Eventually the students bring a heavy burden on families and friends and they also suffer tremendous mental torment. (4) Even some vicious phenomena took place such as extreme fraud, violent collection, etc., causing serious adverse social consequences.

Therefore, since 2016, Ministry of Education and CBRC frequently issued policies to show their determination to supervise and regulate the campus segment in depth. On May 27, 2017, CBRC, Ministry of Education, Ministry of Human Resources and Social Security jointly issued the Circular on Further Strengthening the Management of Campus Loans (CBRC [2017] No. 26), urging all institutional lenders except banks and licensed consumer finance companies to withdraw from the student market, universities and colleges to make proper implementations to educate the students, Ministry of Human Resources and Social Services to investigate in and rectify black intermediaries.

At this point, the campus segment entered a period with high entry barriers and strict regulation. Large commercial banks cooperate with universities to provide student consumer financial services under supervision. Since 2017, many large banks have released campus financial products successively, including ICBC's "University Finance Lending", Bank of China's "BOC E-Lending Campus Loan", China Construction Bank's "Golden Bee Campus Express Credit", China Merchants Bank "College Students Lightning Loan", etc.

The start-up companies that had good performance in the student market, based on their accumulated experience in the student market and capital support, have successfully transformed themselves into emerging consumer finance brands targeting "young people" such as Fenqile, and Qudian (formerly Qu Installment). The main advantages of their successful transformation include: (1) They got into the campus market in the early stage and have deeper study and accumulation about the post-95 (people born after 1995) behavioral preferences and the effectiveness of the risk control models. (2) They received the strategic investment from Internet giants to form strategic cooperation, which can help them in customer acquisition and risk control. (3) Some of their early-stage clients graduated and have a steady income, becoming high-quality customers with high credit level and high interest contribution. (4) The organizational structure of technology enterprises with the light asset model is more accommodated to rapid development and innovation.

However, as mentioned in the prospectus of Qudian submitted to the Securities and Exchange Commission (SEC), China’s legal norms in the field of consumer finance and Internet consumer finance in particular are still at a nascent stage. The formulation of new policies and the explanations on existing policies, as well as the changes in regulatory intensity, can pose significant risks to existing business models.
Blue-collar workers

Blue-collar workers refer to manual workers engaged in non-agricultural work, including both industrial workers such as factory workers and construction workers, but also service workers such as restaurant workers, security guards, beauticians, hairdressers, couriers, etc. Blue-collar workers are characterized by frequent mobility and lack of credit and social security records. Traditional financial institutions such as banks seldom cover such groups. However, blue-collar workers have very strong consumption demands. According to iResearch, the blue-collar population is mainly concentrated in the 26-35 age brackets and distributed in tier 2 and tier 3 cities. Their monthly income is 2000 to 5000, with more than half not having savings. Most of them have not used consumer loan but are interested in it. Thus, the blue-collar population is an important potential consumer finance market. iResearch forecasts that the blue-collar consumer finance market size will increase to 1.7 trillion yuan in 2019.

At present, there are not many enterprises that provide consumer financial services for blue-collar workers on the market, mainly including Home Credit, Billions Finance, PayMax, Give U Credit, etc. At the same time, there are still some enterprises who have also seen the development potential of this market and have successively entered this segment, with Pai Installment as a representative.

Section IV Consumer Finance Investment Institutions

The rapid development of consumer finance results from not only the outbreak of market demand, but also the capital injection from the investment financial institutions. We counted a total of 356 financing cases among 52 consumer finance companies. According to the statistics, MatrixPartners China, Sequoia Capital, Bluerun Ventures, Source Code Capital and Shunwei Capital are the most active ones. They all have more than 10 investment incidents and participated in many consumer finance market segments. For example, MatrixPartners China has participated in automobile, medical cosmetology, house rental, home improvement and college student market. When choosing segments, these active investment institutions often choose one or two potential enterprises to invest in for multiple rounds and focus support. For example, Bluerun Ventures participated in 5 rounds of financing in Haifenqi and 4 rounds of financing in Qufenqi.

From the time series point of view, the number of financing cases was less than 10 before 2013, 48 in 2014 and 115 in 2015. Therefore, it is clearly seen that 2015 is the first year of the blowout development. Financing cases in 2016 and 2017 have been declining year by year, but they are still above 50 at present. It can be predicted that the number of financing activities will resume to normal as the industry leaders in various segments gradually emerge in the future.

From the perspective of consumption scenarios, the auto industry has the largest number of financing events (89 cases), followed by travel (47 cases). Before the policy tightening, the college students segment was the hot field for the capital market, but it disappeared in the past two years. Rural area, medical cosmetology, education, and house rental have a similar number of cases, with all more than 30 cases. Home improvement and blue-collar consumers have less number of consumer finance companies and financing cases.
Table 6: Representative enterprises and investment institutions in consumer finance consumption scenarios in China

<table>
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<tr>
<th>Consumption scenarios</th>
<th>Automobile</th>
<th>Travel</th>
<th>Medical cosmetology</th>
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Active investment institutions


Chapter IV Prediction of China's Consumer Finance Market

Section I Macro Environment

Industry development

China's consumer finance industry is still in a period of rapid growth with great potential in the future

From the perspective of the overall trend, China's consumer finance industry is still in the early stages of development, and the high-growth trend will not change in the short term. More and more consumption scenarios appear. There are many consumer finance companies of different sizes in different stages. Various financial products keep popping up. According to iResearch, in 2008 China's consumer credit accounted for only 3.6% of the total consumer spending, but the proportion of consumer credit rose linearly to account for about 18% in 2016. In the United States where consumer credit industry is more mature, the expenditure ratio of consumer credit has been stable at about 26% since 2008. It can be seen that if the United States is taken as the benchmark, there is still much room for the development of consumer finance in China. In the future, with the transformation and upgrading of consumption, the change in people's consumption concept, the full
development of Internet finance technology, and the gradual standardization and socialization of credit information, the future development potential of China's consumer finance industry will be huge.

Credit system

China will form a unique personal credit reference system with Chinese characteristics

Compared with the history of the credit industry in the United States for more than 100 years, the credit history of China started from the 1990s. Its 30-year development has been relatively slow and it has not gained the due attention for a long time. At present, the laws and regulations on credit information in our country are still in the "vacuum" zone. There is not yet a single law or regulation that provides direct guidance for credit reference activities, including information collection, processing, handling and disclosure. In addition, the effective coverage of credit reference is far less than half of the population.

The existing credit system in China is government-led, mainly the Credit Reference Center of PBC, which grasps the credit data of individuals and enterprises from commercial banks. However, the PBC credit reference report contains only the credit data of financial institutions and can not comprehensively reflect the individual's credit conditions from multiple dimensions. Third-party credit reference companies, such as Sesame Credit and Pengyuan Credit Service, provide more personal non-financial credit data, which is an indispensable part of the credit reference industry.

The Measures for the Administration of Credit Reference Institutions promulgated in 2014 opened up the establishment of personal credit reference agencies. In January 2015, the central bank once asked eight market agencies to prepare for the licensed personal credit business. However, personal credit reference licenses were not issued yet mainly due to the fact that the eight pilot agencies had problems in independence and objectivity to varying degrees.

In the future, China's credit reference system may form a double-layer structure with Chinese characteristics: the top layer is the PBC Credit Reference Center and the government-led social credit union. PBC Credit Reference Center is mainly responsible for financial credit data while credit union is responsible for related non-financial personal credit data. The main purpose for establishing credit reference union is to incorporate the non-financial credit data of individual customers that are not covered by PBC Credit Reference Center to build a national-level basic database and share information in the industry so as to effectively lower the industry risk. The establishment of credit reference union may be similar to that of Network Alliance Clearing Limited, and it consists of the joint participation of major third-party credit reference companies and financial institutions. The second layer is a handful of licensed third-party credit reference companies that provide specific data products and services to the whole society.

Risk control

The industry risk control is increasingly strengthened, and the calculation rule of the default rate needs to be unified urgently
With the rapid development of consumer finance in our country, risk control will inevitably become the focus of the entire industry. As of now, a unified method of calculating the default rate has not been formed in the industry, and regulators have not yet made rules for the calculation of default rate of consumer finance companies, so the industry is full of a variety of statistical methods, bringing misunderstandings and confusion to consumers, investors and regulators.

Currently, commercial banks generally adopt the five-tier classification of loans promulgated by PBC in 2002. It determines the loss risk of loans based on the borrower's repayment ability, that is, the actual ability to repay the loan principal and interest. Based on that the loan quality is divided into five categories: normal, concerned, secondary, suspicious and loss. The latter three categories are defined as non-performing loans (NPL). The non-performing loan ratio is a time point indicator. The non-performing loan ratio at the end of the period is calculated as the non-performing loan balance / loan balance at the end of the period. If this calculation method is applied to consumer finance companies, there are several problems: (1) five-level classification method is subjective and susceptible to human control. (2) The non-performing loan ratio is a time point indicator and the denominator is the balance of the loan at the end of the period, which is greatly affected by the large amount payment and collection at the end of the period. (3) The duration of the NPL is not considered. In particular, at present, the consumer finance industry in China is in a period of rapid development, and the development of the companies in the consumer finance industry is also polarized. The industry's leading companies grow exponentially while the companies failing to seize the market have seen their business volume fall steeply. Therefore, the year-end balance in the consumer finance industry may be greatly different between the years. As a result, the year-end default rate calculated by using the denominator will show a greater volatility. In addition, when calculating the numerator of the default rate (default amount), most of the current algorithms do not consider the duration of overdue loans. In fact, the length of an overdue loan will affect the probability of collecting the overdue loan, and it will also affect the company's provisions, take up the company's economic capital, and have a substantial and lasting impact on the company operation.

In view of the current situation of China's consumer finance industry, we propose the following method for calculating the default rate:

(A) Calculation principles

First, comparability. The calculation process needs a clear definition of elements and the objective criteria, so that the human manipulation must be avoided during the operation of different enterprises. Second, rationality. When measuring the overall default rate of a consumer finance company, we often consider the overall situation of a complete year. Thus the choice of sample pool needs to be considered rationally. Third, prudence. If one repayment has a loan default, all the loan balance is included in the numerator. Fourth, operability. Only the principal is taken into consideration when calculating the loan amount, and interest is not included. This is also consistent with the calculation of the bank's NPL ratio.

(B) Sample selection
There are two sample options for default rate calculation. The first option can be called a static sample pool. The loans issued within a certain period of time are taken as a fixed sample. All the subjects are locked in-advance and the default rate is calculated after all the borrowings are due. The second option can be called a dynamic sample pool. All the existing outstanding loans within a certain period of time are taken as a sample, and the default rate is calculated after a certain period of time. In this method, there may be various situations such as new issuance, overdue payment, and early repayment. Therefore, during the calculation period, the composition of loans in the sample pool can not be determined and thus it is called a dynamic sample pool. According to the principle of rationality, the proposed calculation method is to use a dynamic sample pool to monitor the overdue situation of all samples in a period of time. For example, to calculate the 2016 default ratio, the sample includes all the ongoing contracts at the beginning of 2016 and all the new loan contracts issued in 2016.

(C) Calculation formula

Default rate = \[ \frac{\sum (\text{principal balance of default loans at the beginning of the period } \times \text{the current period's duration}) + \sum (\text{principal balance of newly-added default loans in the period } \times \text{the current period's duration})}{\sum (\text{principal balance of the loans at the beginning of the period } \times \text{the current period's duration}) + \sum (\text{principal of the newly issued loans during the period } \times \text{the current period's duration})} \]

The first part of the numerator is the principal balance of the default loans at the beginning of the period multiplied by its duration in the calculation period. If the defaulted loan is returned within the period, the duration is the period from the beginning of the period (not the overdue date or the date of issuance) to the date of return. If a defaulted loan at the beginning of the year is repaid in the exact middle of the year, the current year's duration is 6 months. If that defaulted loan is still not paid at the end of the period, the duration is the entire calculation period. The second part of the numerator is the principal balance of new default loans in the year multiplied by the current period's duration, which lasts from the date of overdue to the end of the calculation period. Similarly, the denominator is the principal balance of the loans at the beginning of the period, and the principal of the newly issued loans during the period multiplied by the corresponding duration in the current period respectively.

According to the default periods of different default loans, we break down the default rates into:

- **Overdue 1M:** The loan ratio with overdue of 1-30 (inclusive) days;
- **Overdue 3M:** The loan ratio with overdue of 31-90 (inclusive) days;
- **Bad debt ratio:** The loan ratio with overdue of over 90 days.

The recommended calculation method has the following advantages:

- **Clear in criteria, objective, comparable.** Longitudinally, the default rates of consumer finance companies are comparable over the years, which is a meaningful reference for the operation and development of consumer finance companies. Horizontally, the default rates at the same time point of various operating entities in the consumer finance industry are comparable. For the consumer financial sector investors, it can also be used as a useful reference.
The impact of the significant changes in the ending balance decreased. In order to reduce the default rate, consumer finance companies have the motivation to raise loans at the end of the period by pushing up the ending balance. Our recommended calculation method can stabilize the overdue fluctuations caused by large-amount issuance and collection at the end of the period.

The classification of default rates facilitates to analyze the composition of default loans of consumer finance companies. The shorter the overdue, the greater the possibility of principal collection. In fact, the overdue loan can bring processing fees, service fees and other benefits, so it can not be simply classified as a negative indicator. Default rate classification can help to analyze the overdue rates for different levels of overdue time. Then the consumer finance companies can make more scientific and reasonable policies for defaulting fee rate and gain higher returns. It also helps investors to judge the risk control ability of the consumer finance companies.

Section II Consumer Finance Companies

Banks

National banks dig up the demand for consumer loans of their existing customers, while local banks actively seek cross-regional consumer credit licenses.

Currently, among the major national banks, only Bank of China, China Merchants Bank and China Postal Savings Bank have set up consumer finance companies. Among them, Bank of China and China Merchants Bank are leading ones in personal finance and credit card businesses traditionally. Their original intention for investing in consumer finance companies may be to respond to the political need for a pilot program. From a sales perspective, banks and their participating consumer finance companies cover different customers, and they lack cross-selling and operating synergies. On the other hand, the national banks themselves already have the license of all the business areas of licensed consumer finance companies, and they can expand their consumer finance businesses directly through the reorganization and consolidation of institutions and departments related to internal personal finance. Major banks develop their consumer finance business primarily by selling innovative consumer financial products to their regular customers. In addition to promoting the credit card statement installment, they also developed pure online "easy loan" and "quick loan" products, which are no different with cash credits in nature. Their amount is about tens of thousands to hundreds of thousands yuan, and they mainly target the existing credit card customers.

Local banks have geographical limitations in their businesses and are therefore more motivated to seek national consumer credit licenses. In addition, one of the important focuses of local banks is to cooperate with strategic partners to establish consumer finance companies and to expand the consumer finance business to the whole country.
Licensed consumer finance companies

The advantages of licensed consumer finance companies are becoming evident gradually, and their overall market share of the industry is increasing

With the continuous development and standardization of the whole industry, the advantages of licensed consumer finance companies will be gradually released such as clear business positioning, professional operating specifications, reasonable capital cost, clear policy application and strong profit sustainability.

Due to the restriction of the traditional risk control of retail banks, the customer base of their consumer financial services is mainly credit card cardholders and depositors as well as wealth management customers. This part of the population has higher credit level. However, except for the large-amount low-frequency and low interest mortgage loans and auto loans, retail banks do not have much demand for consumer loans, and they can hardly obtain interest income from current customers.

Non-licensed consumer finance companies do not have a unified risk control standards, and their potential users can cover all groups of people. With differentiated pricing covering different credit risks, interest rates (together with fee rates) designed for borrowers with high credit risk are high. Interest rates (together with fee rates) range from around 20% to above 100%. For businesses with interest rates below 20%, non-licensed institutions have no advantage in terms of capital costs and can not achieve better profit performance. For businesses with higher interest rates, they have good profits in the short term. However, with intensified competition in the industry and increasing popularization of customer financial knowledge, the sustainability of profitability is uncertain.

According to the risk control requirements of licensed consumer finance companies, their target customer base is the population that has real consumer credit needs and relatively high credit level, and can continuously accept interest rates (together with fee rates) of 10% ~ 20% and make sustained contributions of interest income. In the long run, licensed consumer finance companies can be assured of quality and capability of profitability as long as they keep attracting and retaining customers through specialized and personalized service.

Currently, the industry is still in the initial stage of development. Non-licensed companies receive less supervision and have diversified business models. In the short term, their growth rate is faster than that of licensed consumer finance companies. However, the tightening of policies has become an inevitable trend and their future growth is facing greater uncertainty. Yet licensed consumer finance companies have already been operating under regulatory control, and their approved business scope also clearly includes installment purchase loans and general-purpose loans, which can be polished in the clear regulatory framework to obtain a long-term competitive advantage.

From the end of 2013, the government removed many business restrictions on licensed companies. Most of the licensed companies were approved (except the first four) by the end of 2014 and turned profitable in 2016. In the first half of 2017, the industry leaders in licensed companies recorded a rapid increase in profits compared with the first half of 2016. Among them, BOC Consumer Finance realized a net profit of 645 million
yuan and MUCFC a net profit of 541 million, all exceeding the annual results of 2016. MSXF Consumer Finance posted a net profit of 134 million in the first half of 2017, while its profit was just realized by the end of 2016. Suning's consumer finance company also turned losses into gains in 2017. This shows that licensed consumer finance companies have just entered a period of rapid development. Currently the market share of licensed companies accounts for less than 5% of the total consumer finance market. However, the license advantages of licensed consumer financial companies will gradually emerge and the overall share in the industry will substantially increase.

**Internet giants (BATJ)**

**Focus on the technical empowerment and business cooperation**

BATJ and other Internet giants have infiltrated into all fields of society, but they are unwilling and unable to take over the various sub-sectors through acquisitions. Therefore, in a cooperative manner, they can extend their new techniques to a variety of different domains to promote the growth of innovative companies and even help the transformation and upgrading of traditional entities. Predictably, BATJ and other Internet giants will gradually provide all kinds of Internet services and financial elements to all walks of life through capital and technical empowerment.

**P2P**

**P2P companies will make breakthrough transformation by focusing on capital cost and customer acquisition**

The P2P industry has entered a period of adjustment, with the number of platforms substantially reducing and the larger P2P platforms seeking to obtain financial or quasi-financial licenses. With the feature of no geographic restrictions, online micro-loan business is a good direction for the future of P2P platforms. The recent price rising of the online micro-loan license just reflects this trend. Through holding of licenses, those P2P platforms are expected to cooperate with commercial banks in assets and capital and to carry out asset securitization so as to further reduce the cost of capital. In addition, the licensed P2P platforms can connect with the central bank's credit reference system to effectively reduce the bad debt ratio in terms of risk control. Moreover, P2P platforms will increase consumption scenarios to bridge credit loan business, and collaborating with online shopping platforms and offline retail stores will be the main model to achieve this goal.

**E-commerce**

**Consumer installment payment will become a must-to-have for e-commerce providers, but it will be mainly provided by third parties**

At present, most of the e-commerce providers are still focused on their main businesses and are unable to operate the consumer finance business. Apart from a few e-commerce providers with strong capital power (such as vip.com offers its own installment payment service), the remaining e-commerce providers rely on
third parties to provide installment payment services, such as bank credit cards, Ant Huabei. At present, Ant Huabei has come out of Taobao, and got access to more than 40 e-commerce providers. Taking into account of the payment habits of e-commerce consumers, it is expected that the coverage of installment payment will continue to expand. The speed of market expansion of other third-party payment will determine whether the future e-commerce installment payment market will show an oligopoly pattern.

Section III Consumption Scenarios

Automobile

**Used cars are becoming the next hot spot in automotive consumer finance**

In March 2016, in the *Government Work Report*, the Premier of the State Council mentioned that "used car industry should be active." In April, the State Council released eight opinions on the promotion of transactions of used cars. According to iResearch, it is expected that the penetration rate of new and used car transactions will be almost the same by 2020. Assuming that the average price of used cars is 60,000 yuan a vehicle, the total amount of transactions in 2020 will reach 2.34 trillion yuan. According to the forecast of China Association of Automobile Dealers, the trading volume of second-hand cars in 2017 will be 12 million units nationwide, with the growth rate of 20%.

From the view of automotive industry, the sales of second-hand cars in the United States, Germany, Switzerland, Japan and Taiwan, are currently 3 times, 2 times, 2 times, 1.4 times and 2 times of the sales of new cars respectively, while the number in China is only 0.4 times, much lower than other countries. This huge growth potential has attracted Car King Used Car Supermall, Guazi.com, renrenche.com, xin.com and other e-commerce platforms to enter the market. They provide second-hand car loans, auto mortgage loans, car rental, car insurance, car owner credit card and other products and services, gaining experience for exploring the innovative business model for used cars.

Travel

**Travel consumption installment has high entry barrier, and the licensed consumer finance companies with industrial background may become leaders**

China has a huge tourism market and a high degree of online scenario concentration. Meanwhile, its consumer finance has a low penetration rate and thus a huge space for future development. With the industrial background and the license for compliant operation, the advantages of the licensed consumer finance companies in the travel industry are emerging. They can not only expand the business rapidly, but also extend the breadth of services from building the closed loop of financial services to constructing the closed loop of the ecosystem-based entire industrial chain. For example, OTA giants such as Ctrip's Shangcheng Consumer Finance and HNA's Yisheng Financial Service have the supports from the groups in huge user base and transaction data, and they also have the license and business permission for consumer finance business. They
are able to expand their consumer finance business with low cost while using installment products to promote travel consumption. The integration of industry and finance is just around the corner.

In addition, the offline local travel companies are large in number but scattered, and these companies want to offer their customers with travel consumer financial services but do not have the appropriate business capabilities. This provides good market opportunities for service providers with the advantages in big data technology such as Shanbaitiao, Ant Huabei, and JD BaiTiao. Through cooperation with offline travel companies, they can obtain the entrance to travel consumption scenario and get market share.

Medical cosmetology

The potential of the medical cosmetology installment market is huge with the undetermined pattern.
The comprehensive operation and data technology capabilities are the core of the competitive advantage

Medical cosmetology industry is still in its early stage of development. With the increasingly popular medical cosmetology consumption scenarios, medical cosmetology consumer financial services will surely develop as an adjunct product to the medical cosmetology industry. The consumer finance sector has the characteristics of low penetration and low customer risk. Therefore, market players have already been engaged in it, such as BAT, 9f Yimeijian, Meme Credit, Baidu Umoney, SoYoung Baitiao, Yemay, etc. However, due to its relatively early market development, the size is not yet big.

Based on the current stage of the medical cosmetology industry, the installment payment platforms with customer acquisition and traffic direction capabilities have a short-term competitive advantage. On one hand, these platforms can effectively connect end-users and provide consumer financial services with lower customer acquisition costs. On the other hand, through continuous accumulating and expanding data sources, these enterprises have the opportunity to continually cultivate and improve the risk control mode targeting the consumption characteristics of the medical cosmetology industry. In the long run, comprehensive operation capability and risk control capability are the keys. While the consumer finance user base keeps expanding, only the enterprises with controllable bad debts level can have the chance to win. With the development of the medical cosmetology industry, there will inevitably emerge industrial giants in the medical cosmetology consumer finance industry who have high-quality data sources and accurate user portraits insight, as well as the ability to provide professional integrated solutions.

Education

The education market is huge but fragmented, and the education installment services will mainly be provided by third-party consumer finance companies

The education market has huge market space but is too fragmented. Therefore, it is less likely for those enterprises to rely on their own to expand the consumer financial services. As a result, the consumer finance services in this industry are mainly provided by third-party consumer financial service agencies and a leader has already shown up, Baidu Umoney. Baidu Umoney is good at integrating the scattered offline scenarios to
achieve large-scale expansion: it already has a comprehensive service system in terms of service accuracy, operational efficiency, pricing power and risk control. By integrating the solution into the target market, it is able to achieve a rapid increase in penetration of the installment payment market. This is a manifestation of its comprehensive business strength, and other competitors can not be on a par with it now.

In the future, the education installment market still has great potential. For example, consumer finance for non-vocational education and training is still in its infancy; there are still many niche areas such as K12, early education, driving, and MBA which are all incremental markets. Meanwhile, diploma education consumption is an even larger market to be exploited. Therefore, by relying on their own advantages, the new entrants to the industry still have the opportunities to enter the market with different positioning and get a market share.

Rural area

Rural installment payment market, as the largest and deepest inclusive financial market, is a blue ocean for reclamation

Upgrading of rural consumption and narrowing of the gap between urban and rural areas will lead to the outbreak of rural consumption. From a consumer perspective, the demand for durable consumer goods in rural areas is enormous, including household appliances, transportation tools and farm equipment. Therefore, the consumer financial service providers that have the ability to lower their channels to the rural areas are actively exploring the rural credit market. They provide consumer finance solutions to the farmer with a steady income and to boost rural consumption.

This is an attractive blue ocean market where Alibaba and JD are sparing no effort to cultivate the rural retail ecology with the rural consumer finance as an integral part. In addition, the regional city commercial banks are also active in setting up consumer finance companies. With regional city commercial banks as the main sponsors and local retailers as partners, they cut into offline consumption scenarios and effectively cover the demand for rural consumer finance. Leading players can also take advantage of the national licenses for consumer finance to extend their regional service experience nationwide. As the largest and deepest inclusive financial market, the rural market is also expected to continue to receive policy support and promotion.

Of course, there are still many difficulties to be overcome in developing rural consumer finance. For example, the lack of credit information, the difference in mindset and the social connections in rural areas have increased the complexity and operability of the business. Therefore, it is foreseeable that only the enterprises with excellent comprehensive service abilities and capabilities in managing complex businesses can handle the rural consumer finance well.

House rental

House rental agencies will continue to play a key role in the industry chain of house rental installment payment
The business model for house rental is a typical pure offline or O2O mode, which is difficult to be fully online. In different regions, a variety of intermediary companies dominate most of the listing information on the market. If house rental installment companies rely solely on customer-side push and subsidies to obtain customers, customer acquisition will have high cost and low efficiency, and there will be risks in user credit. Therefore, the vertical house rental installment payment companies should work with online and offline rental intermediary companies on the business-side, and jointly educate users to gradually accept the installment payment, a new concept of house rental.

With the participation of Alipay and other third-party payment agencies, the deposit-free or discounted deposits become a new consumer scenario where personal credit is playing an increasingly important role. Traditional rental agencies benefit from the convenience of credit review brought by the entry of third-party payment into the rental market. They rapidly expand their share of the rental market by relying on their strong offline listings and teams.

**Home improvement**

**Home improvement installment market will still be dominated by banks and licensed consumer finance companies**

Home improvement industry is a downstream sector of real estate industry. The materials needed for home improvement installment payment include property ownership certificate and renovation contract. Property owners are regarded as high-quality bank customers, and the market competition between banks has been more intense. Also, the home improvement installment business has the large amount and long duration (up to 5 years), and with the bank’s participation, the interest rate is quite low, resulting in the reduced profits. Therefore, other consumer finance companies have low enthusiasm for participation due to the financing costs.

In the future, the competition in the home improvement industry will be mainly between traditional banks and licensed consumer finance companies. Under the background of low interest rates in the home improvement industry, banks and licensed companies will compete for these relatively high-quality customers and pose barriers for other new entrants.

**College students**

**College student installment payment market will continue to have high entry barriers where banks and licensed consumer finance companies are main market players**

The *Notice on Further Strengthening the Regulation of Campus Loans* issued in May 2017 calls for a complete suspension of issuing campus loans by non-licensed lenders, including Internet loans and non-Internet loans. It sounds a special warning to the loans for the job application, training and business start-up while urging commercial banks and policy banks to develop campus financial products. For existing Internet loans, the Notice calls for a clear exit schedule and an orderly return of outstanding balances. The Notice also requires all colleges and universities to issue the notification letter to each student for their signature.
confirmation, to offer compulsory education, and to encourage reporting of clues for bad campus loans. As a result, non-licensed lenders have totally no chance in the (on-campus) student market. In addition, since college students’ lack of social experience and insufficient rational decision-making capacity will continue to exist for a long time, the consumer loans for college students are expected to remain a regulated market with strict policies for a long time. It is necessary to support their normal financial needs in such fields as student aids and entrepreneurship, to guide and alleviate the unnecessary advance consumption demand, and to maintain high market entry barriers in the long run.

In general, students have strong demand for loans. In foreign countries, student education loans are one of the important asset classes for ABS. Therefore, the size and potential of the student market can not be ignored. In addition, college students are also the reserve force for future quality customers. However, at the moment, banks and licensed consumer finance companies are not familiar with students’ behavioral preferences, product preferences, and risk models. They merely extend their retail product lines to campus while the campus market is not served with efficient and in-depth services. They are very likely to lose student customers after they graduate. In the future, banks and licensed consumer finance companies will need to make more in-depth endeavors on the campus market, including providing targeted and even personalized products, collaborating with third-party big data companies to intelligently update student users' preferences, needs and characteristics, and continuously improving user experience and providing services precisely.

Blue-collar workers

Blue-collar market segment will return to the specific consumer scenarios in the long run

At present, the main business of consumer finance companies targeting the blue-collar workers is to provide customers with financial installment service mainly for 3C products in offline stores. However, with the mutual penetration of online and offline markets and the constant improvement in the entire social credit system, the development space of such consumer finance companies will be suppressed. In addition, unlike students, blue-collar consumers do not have obvious age feature and regional constraints. In a strict sense, it is very difficult to distinguish blue-collar consumers from ordinary consumers. Various consumer behaviors have been covered by various specific consumption scenarios, so in the future the concept of this market segment may slowly fade out and relevant consumer finance companies will also be classified into specific consumption scenarios.
About CFA China Shanghai

CFA China Shanghai was founded in October 2008 with the founding members of CFA professionals dedicated to integrating finance technology with asset management. Their goal is to promote the highest moral standards and professional ethics in the financial industry, and to improve the professionalism and research methods in financial investment and analysis, so as to lead the global investment community in building Shanghai into an international financial center. CFA China Shanghai has a volunteer team of more than 100 people. With Mr. Guo Tao as the chief representative and 10 other representatives of senior members from securities, funds, exchanges and regulators as the core and assisted by a number of professional groups, it provides quality services for nearly 2,000 members in Shanghai, including continued education seminars, social networking platforms, promoting ethics and professional standards and promoting the application of financial technology in investment. The aim is to create the close connection between financial professionals and investors in Shanghai and to make contributions to building talent environment for Shanghai international financial center. CFA China Shanghai will spare no effort to build Shanghai Financial Analyst Association with international influence, to promote the training and recruitment of financial talents in Shanghai and to enhance the standardization, specialization and internationalization of Shanghai's financial industry, with the hope to make contributions to building Shanghai as an international financial center and a world city with Chinese characteristics.

About CrowdResearch Project of CFA China Shanghai

The CrowdResearch project of CFA China Shanghai is a non-profit research project initiated by the Continued Education Group of CFA China Shanghai and intended to promote in-depth industry research, provide suggestions for the industry development and help investors to judge investment trends. Members of the research team are recruited from members of CFA China Shanghai. All members do not receive any remuneration and contribute their time and energy to complete this research project.

The first research topic is the Chinese consumer finance market insight, and the whole research lasted for 6 months. The research team leader is Zhang Shuguang, CFA, and the research working group members include: Chen Yan, CFA, Gu Yuan, CFA, Li Chen, CFA, Wang Yingren, CFA, Ying Yi, CFA, and Zhao Yang, CFA. If you have any questions or suggestions on this report or the CrowdResearch project of CFA China Shanghai, please feel free to contact ce-sh@cfa-china.org.cn

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