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Issues concerning Development of Consumer Credit Business in China's Agricultural Bank

LI Yan*, LIU Rong, ZHANG Xue-mei

School of Management, Xi'an University of Science and Technology, Xi'an 710054, China

Abstract This article introduces the status quo of consumer credit business in China's agricultural bank, indicating that the scale of China's consumer credit business is expanded year by year; the growth of consumer credit business slows down; housing loans grow rapidly. We analyze issues concerning development of consumer credit business in agricultural bank as follows: single variety of consumer credit business makes the operating scope narrow; the formality of consumer credit business is trivial, abating consumers' will to borrow; consumers' consumer attitudes are stale, yet to be further changed; the loan interest of consumer credit is beyond the majority of consumers' actual ability to pay; the existing regulations and systems are not sound; the risk prevention mechanism is not perfect. Based on this, we put forward the following countermeasures and proposals for further improving consumer credit business in China's agricultural bank: first, formulate reasonable marketing strategy of consumer credit business; second, establish and improve the internal management mechanism; third, establish and improve risk assessment system; fourth, improve consumer credit legal system.

Key words Agricultural bank, Consumer credit business, Risk prevention, Consumer attitudes

1 The status quo of consumer credit business in China's agricultural bank

1.1 The scale of China's consumer credit business is expanded year by year Consumer credit expands year by year, and the proportion between balance of consumer credit and balance of total loan increases year by year. According to statistics, in the period, the balance of consumer credit in China's agricultural bank increases from 281.176 billion yuan to 857.685 billion yuan, an average annual growth of 24.99%. The proportion between balance of consumer credit and balance of total loan also rises rapidly. At the end of 2005, the proportion between balance of consumer credit and balance of total loan was only 9.94%, and it rose to 14.01% in 2009 (Table 1). It can be seen that with China's rapid economic growth, the income levels and consumption levels of residents rise ceaselessly; the absolute scale and relative scale of China's consumer credit business both rise rapidly. The consumer credit business has become one of important loan services in China's agricultural bank^[1].

1.2 The growth of consumer credit business slows down

In order to confront the Asian financial crisis which may inflict negative impact on China's economic growth, the People's Bank of China (hereinafter referred to as the central bank) formulated the consumer credit policies aiming to expand domestic demand. Due to the promulgation of these policies, the growth

rate of China's balance of consumer credit increased sharply, and especially in 2009, the growth rate of balance of consumer credit reached 82.64%. However, after rapid growth in the period 2005 – 2009, the growth rate of consumer credit shows a decreasing trend. By 2010, the growth rate of balance of consumer credit has dropped to 46.98% (Table 2)^[1]. Unsound China's consumer credit system and especially the flaws in law, make consumers devoid of confidence in consumer credit, and agricultural bank also devoid of confidence. With consumers' constant cognition of consumer credit, they gradually find that the consumer credit lacks sound legal system to protect the interests of the consumers and the agricultural bank, which makes the growth rate of consumer credit decline.

Table 1 The balance of consumer credit in China's agricultural bank and the proportion between it and total loan balance

Year	Balance of consumer credit//10 ⁸ yuan	Proportion between balance of consumer credit and total loan balance//%
2005	2 811.76	9.94
2006	2 924.93	9.32
2007	3 136.12	9.01
2008	3 194.98	8.43
2009	5 835.46	14.01
2010	8 576.85	17.30

Table 2 The growth rate of balance of consumer credit in China's agricultural bank

Year	Balance of consumer credit//10 ⁸ yuan	The growth rate of balance of consumer credit//%
2005	2 811.76	7.80
2006	2 924.93	4.02
2007	3 136.12	7.22
2008	3 194.98	1.88
2009	5 835.46	82.64
2010	8 576.85	46.98

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* Corresponding author. E-mail: lili14103@126.com

1.3 Housing loans grow rapidly According to statistics, by the end of 2009, the balance of housing loans in China's agricultural bank was 497.946 billion yuan, an increase of 95% over 2005, accounting for 85.33% of the total balance of consumer credit. At the end of 2010, the balance of housing loans was 724.592 billion yuan, an increase of 226.65 billion yuan over the previous year, accounting for 84.48% of total balance of consumer credit, showing that the housing loans occupy an important position in entire consumer credit. As the state-owned commercial bank, the agricultural bank has the advantage of domestic image. The agricultural bank has long established strong relationship with the masses in township, and the people have a deep understanding of the agricultural bank, basically without misgiving on the agricultural bank. Compared with the credit cooperative system and other small-scale joint venture banks, the agricultural bank still has high status in minds of the people in China.

2 Issues concerning development of consumer credit business in agricultural bank

2.1 Single variety of consumer credit business makes the operating scope narrow Currently, the consumer credit business in agricultural bank is limited to housing loans and other small loan services. The balance of housing loans is slightly high in consumer credit business, but the loans balance of other consumer credit business is low, with conspicuous imbalance. On the one hand, the economically developed areas and central cities develop rapidly; on the other hand, the consumer credit business in economically underdeveloped areas, small and medium-sized cities, is still in a backward state^[2].

2.2 The formality of consumer credit business is trivial, abating consumers' will to borrow At present, there are no intermediaries which can provide complete credit history of the individual, and the channels for agricultural bank investigating consumers' personal credit are not smooth^[3]. Due to lack of sound precautionary measures for ensuring the safety in agricultural bank, it results in excessive links in handling personal consumer credit, which objectively makes consumers have an idea of "it is to seek trouble when borrowing money".

2.3 Consumers' consumer attitudes are stale, yet to be further changed Consumer credit business has just started in China. In comparison with the foreign countries, the majority of China's residents' consumer attitudes lag behind, and it still needs a process of cognition for people to accept it. Maintaining thriftiness and starting career are still Chinese people's traditional consumer attitudes^[4]. At the same time, having neither external nor internal debts and do things in accord with the capacity, is what the Chinese people advocate for managing family affairs, who hold that consumption by borrowing runs afoul of the tradition, unwilling to spend extravagantly by borrowing. Consequently, it is extremely urgent to change consumer attitudes.

2.4 The loan interest of consumer credit is beyond the majority of consumers' actual ability to pay At present, the distribution of the residents' personal income in China is relatively uneven, and the income gap between the eastern and

western regions is large. The residents' income is increased slightly, thus people lack excess funds for consumption. In the process of carrying out consumer credit business, what can really translate the monetary capital into consumer demand is ordinary resident, which thus increases the difficulty in promoting consumer credit business. When the consumers do not know clearly about the prospects for economic development and the social security system is not improved, the consumers can not form accurate expectancy of income and expenditure, and they scruple about whether they have sufficient funds to bear the repayment obligation in the future.

2.5 The existing regulations and systems are not sound

At present, China lacks a set of complete laws of regulating the behaviors of consumer credit party, and there are flaws in realizing the legal procedures of the bank hypothec and protecting the legitimate rights and interests of the borrowers, so that in the process of carrying out consumer credit business, the bank lacks legal protection and is often at a loss when the problems arise. Furthermore, China has not yet established comprehensive credit system, and the bank is in need of tools and related data for investigating and querying the borrower's credit, making the bank have more qualms on consumer credit business, thereby leading to great focus on precaution but insufficient emphasis on business development.

2.6 The risk prevention mechanism is not perfect Currently, the agricultural bank is devoid of management experience concerning consumer credit. The credit information of the same borrower is scattered in various business sectors, and a considerable part of the information has not been managed in computer, thus it is difficult to achieve resource sharing, and the bank makes judgments and decisions only by the borrower's identification papers, personal income papers, and other original query materials, investigating the personal credit basically dependent on the borrower's self-report and proof provided by units^[5-6].

3 Countermeasures and proposals for further improving consumer credit business in China's agricultural bank

3.1 Formulate reasonable marketing strategy of consumer credit business One vibrant and vigorous bank must have visionary marketing strategies taking panoramic view of the situation. In terms of agricultural bank, when formulating new product strategies, it should strive to provide high-quality services with low prices, and change strategies in accordance with the actual situation to vie with the rivals. In terms of development of new products, we should fully carry out market survey and research, fully know the consumer information, and work out different marketing measures of consumer credit, to meet the consumer demand of different customers. Through expansion strategy of products, we should integrate the existing business types, accelerate the innovation of financial products, enhance the competitive advantage of the agricultural bank in consumer credit business, and strive to transform the agricultural bank into a "department store" of personal consumer credit business, so that each customer obtains the loans demand he

wants from the agricultural bank, to enhance customers' confidence in the agricultural bank.

3.2 Establish and improve the internal management mechanism The credit management mechanism of the agricultural bank should protect the independence and professionalism of the organizational setting, and establish specialized agency to be responsible for the management, approval, examination and marketing of consumer credit. And without violating the relevant provisions, all links of consumer credit should also maintain flexibility to some extent. The establishment of an effective personal enquiry system is the guarantee for the banks to control consumer credit risk. The scale of loans object of personal consumer credit is large, with complex situation, and the bank lacks comprehensive statistical method on consumers' income and payment situation, therefore, based on reality, the bank should use modern electronic network technology, learn from the management measures of the loan card implemented by the People's Bank on enterprises and institutions, and implement the network management of personal consumer credit.

3.3 Establish and improve risk assessment system Sound evaluation system and excellent reward and punishment system can help achieve effective control after the event^[7]. In terms of the quality management of credit assets in branches, the agricultural bank must adhere to the principle of using the experience of a selected spot to promote the work in the entire area, carry out rotation on the the leading bodies, and conscientiously implement strict reward and punishment management measures. In terms of the evaluation system, it should improve and perfect the allocation coefficient of economic capital that can reflect the risk of loan customers. In the KPI assessment, it is recommended to optimize the quality indicators of new loans; strengthen the management of existing loans; take some indicators as the assessment indicators, such as non-performing rate of new loans, the cost of credit, the non-performing loans, and risk-based management; encourage various branches of agricultural bank to optimize the structure of the existing loans, improve risk identification capacity, preserve assets timely, enliven non-performing loans, and improve the quality of loans. Furthermore, it should improve the risk management system of consumer credit, to gradually achieve online queries, graded review and approval, and concentrated

check. In the links of pre-loan investigation, loan examination and inspection, and post-loan check, it should make responsibilities clear, regulate operations, and strengthen re-inspection and supervision.

3.4 Improve consumer credit legal system At present, in China, channels of transacting and collecting the personal letters of credit of consumer credit are not smooth, the specific regulatory systems are not perfect, and especially the punishment of dishonesty, breach of contract is not specific. In the process of transacting consumer credit business, it is necessary to comply with financial regulations, ensure the safety of funds, try to simplify procedures, strictly implement the loan review and approval procedures; strictly inspect and examine the credit history of surety or the guarantee units; strictly limit the mutual guarantee between the borrowers; strictly check, examine and assess the mortgage loans, establish a set of effective incentive and restraint mechanisms, and reduce and manage the risk of assets to the extreme. The government and relevant departments should formulate appropriate policies to abolish all unreasonable charges restricting the consumption, promulgate the policies conducive to consumer credit encouraging consumer spending, arrest local protectionism, and further establish and perfect the legal system of consumer credit, to provide reliable legal protection for consumer credit.

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and Danzhai, they have not involved all sections of batik production, so it is required to establish cooperation mechanism of companies and peasant households. The other is combination of production of traditional handicrafts with modern technologies. Even though the high value batik products are manually produced, it does not repel application of modern technologies in some sections. Thus, it is proposed to invite experts to study the application of modern technologies in production of traditional handicrafts.

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