

Research on the Path of the Influence of Consumer Finance to Consumers

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Abstract: Consumer finance refers to an industry that provides financial services to meet the consumer needs of individuals or families. With the continuous innovation and application of non-cash payment tools, the new consumption methods have been created, the threshold for people to participate in consumption has been lowered, so consumer finance is gradually becoming an important area of the financial industry. The development of consumer finance can increase the purchasing power of consumers and promote the expansion of consumption, which in turn contributes to economic growth and employment opportunities. However, the consumer financial market is also facing a number of challenges, such as risk management, information security and so on. Therefore, while promoting the development of consumer finance, it is also necessary to strengthen supervision and risk control to ensure the healthy development of the market.

1. Introduction

Consumer finance is a modern financial service derived from consumer behavior, which plays a positive role in promoting the improvement of residents' living standards, the optimization of industrial structure and the expansion of residents' consumption. Consumer finance has a history of more than 400 years in developed countries. While in China, it is still a newly-emerging market. In recent years, China's consumer finance has ushered in innovative development, and has been closely integrated with the Internet, fostering China's economic development to a certain extent. At present, as the basic carrier, Internet provides financial services for individual users, including consumer payments, capital storage, loans, etc., which changes the traditional consumer behavior patterns of users. Survey data showed that in March 2023, newly-added RMB loans amounted to 3.89 trillion yuan, an increase of 760 billion yuan over the same period of time, significantly exceeding market expectations of \$3.09 trillion. The year-on-year growth credit balance reached 12.2%, continuing to hit a new high since September 2021 (as shown in figure 1).^[1]

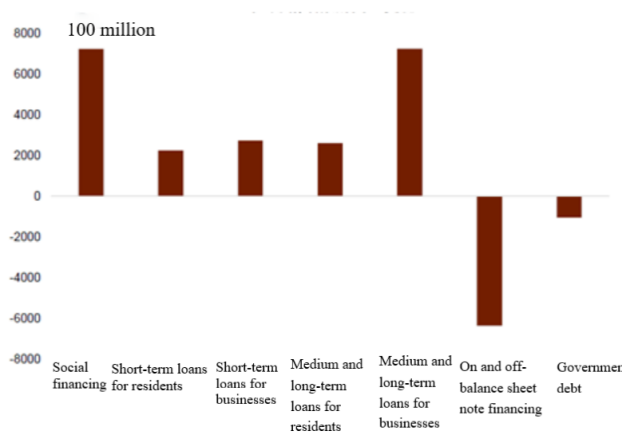


Figure 1: Year-on-year New Increases in March 2023

State-supported consumer finance has continued to enlarge the scale of transactions involved, allowing consumers to have a variety of more convenient ways to consume, changing the traditional habits of consumers. For example, JD Baitiao and Ant Huabei, etc. allow consumers to enjoy installment loan services to meet the personalized needs of consumers, which reduces the financial pressure of them in consumption. However, in the process of the rapid development of consumer

finance, there are many risk problems, which will pose a certain impact on consumers. Therefore, it is essential for financial industry to conduct regular surveys on consumer behavior patterns to encourage the sustainable development of consumer finance.

2. The Concept of Consumer Finance

Consumer finance is a kind of financial loan service, which mainly caters to the personal needs of modern consumers. This type of financial service is mostly aimed at middle and low-income groups. Users do not need any collateral when applying for consumer financial loans. At the same time, it also requires a lower credit limit for users, with faster approval and a relatively shorter loan term.^[2] As a modernized financial service model, traditional consumer finance provides consumers with loans during the spending process. Consumer finance can further increase domestic demand and promote the innovation and development of financial products. In terms of its characteristics, consumer finance offers important financial support for consumers' activities, which contributes to the improvement of the quality of life of individuals, put forward the rapid development of the economy, and has a wide range of applications in the process of market development.

Consumer finance companies are one of the financial institutions that provide consumer financial services. They offer consumer loans to consumers at all levels. The concept of consumer finance can be understood as a bridge between enterprises, individuals and financial institutions to meet the various needs of consumers by providing personalized, all-round and convenient financial services. Generally speaking, consumer finance is an important area to promote consumption, expand domestic demand and promote economic growth. However, at present, in the course of the development of consumer finance, it is still necessary to pay attention to continuously strengthening the consumption capacity and consumption level of residents, so as to enable residents to purchase safely and achieve the development goal of promoting consumption and expanding domestic demand.^[3] Nevertheless, the overuse of consumer finance may also cause consumers to fall into excessive debt and financial pressure. Consumers need to be cautious when using consumer financial products, and they should be reasonable when planning consumption, to avoid debt burdens beyond their own ability to bear.

3. Characteristics of Consumer Finance

3.1 Small in amount and high in frequency

Consumer finance mainly involves small loans, credit cards and other financial products to meet the needs of individuals for scattered consumption or emergency purchases, with relatively small loan amounts. Moreover, consumer financial services are mainly targeted at middle and low-income user groups, so the single credit limit is relatively small. Since consumer finance mainly satisfies short-term consumption demands, the loan period is comparatively short, usually between 1 and 3 years.

3.2 Simple in the approval process

Compared with traditional loans, the approval process of consumer finance is relatively simplified. Generally, there is no need to provide too many asset certificates and guarantees to get quick approval and lending. Because no collateral is required, the approval of consumer financial services is relatively fast, and application and approvals can usually be completed in a short time. Meanwhile, consumer finance does not need a mortgage guarantee. Unlike traditional bank loans, consumer financial services do not require users to provide collateral or guarantors, but only personal information and credit records.^[4]

3.3 Rich and diverse in products

The consumer finance offers a wide range of products, including credit cards, installment payments, personal consumer loans, etc., to meet the various consumption needs of individuals or families in shopping, travelling, education, and so on. In addition, the interest rates and fees of consumer financial products are relatively high, in order to make up for risks and improve the profitability of enterprises. Consumers need to be aware of the reasonableness of fees when using consumer finance

products.

3.4 Emphasis on consumer experience

Consumer finance enterprises emphasize lifting the customer experience and deliver convenient consumer financial services through technical means, such as mobile payment, online consumption installment, etc., to facilitate consumers' purchase and repayment. At the same time, consumer financial services are flexible, and provide consumers with a variety of services, such as online banking, mobile banking, telephone banking, etc., which is simple for users to apply for and use loans anytime and anywhere. Overall, consumer finance is characterized by speed, flexibility and convenience, which can meet the capital needs of individuals for scattered consumption, but meanwhile, attention should be paid to reasonable borrowing and avoiding the impact of high interest and expenses.

4. Problems in the Development of Consumer Finance

The development of consumer finance is closely linked to the consumption needs of modern society. By providing personalized financial products and accessible services, it has promoted consumption enlargement and economic growth. However, consumer finance also has some negative effects, such as high interest rates, overspending and debt risks, etc. The current problems in the development of consumer finance are mainly reflected in the following points.

4.1 Over-traditional consumer attitudes

Although different types of consumer financial products are used more frequently, most users belong to young groups, and other groups are still conservative in consumption attitudes. When purchasing, they will store their disposable income in the bank, adhering to the virtue of diligence and frugality, the frequency of consumption will decline, and the consumption demand will weaken, which will affect the expansion of the coverage of the consumer financial market in the future.

4.2 Less competitive in consumer financial products

In the consumer credit system, housing and car purchases are the main focus of the loan business, with about 75% of consumer credit activities in housing loans, and other products accounting for a small proportion in the credit system. Although it has changed the consumer behavior, it can play a lesser driving ability. The growth trend of consumer loan balance has been differentiated in 2022. Among them, only institutions with stronger comprehensive operation ability and better risk control could still achieve a higher growth rate than the industry as a whole (as shown in Figure 2).^[5]

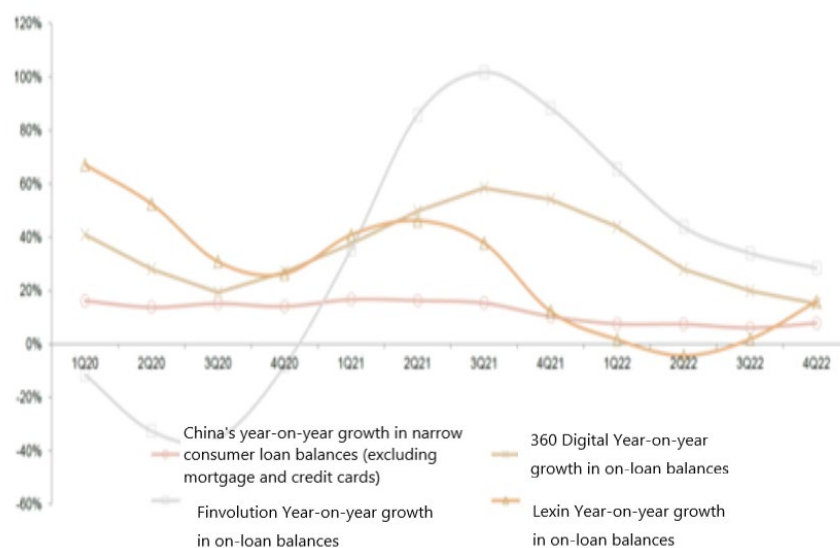


Figure 2: Some head lending institutions (e.g., 360 Digital/Finvolution) maintain a higher growth rate than that of the industry

4.3 Lack of a perfect credit system

At the present stage, the personal credit information system is not yet perfect, and there is no comprehensive collection of personal credit information for individuals. Consumers often fail to repay in time when using consumer financial products, which will constrain and affect the development of consumer finance companies. The guarantee mechanism is inadequate. Currently, the consumer financial market is developing rapidly, but there is a lag in the relevant laws, which cannot make effective norms available for the development of consumer finance.

5. Analysis of the Influence of Consumer Finance on Residents' Consumption

5.1 To provide easy and quick access to finance

Consumer finance facilitates consumers with convenient financing channels, making it easier for them to obtain the funds they need. Through consumer financial products, such as credit cards, consumption installments, etc., consumers can quickly complete consumption without paying the entire amount at one time, which improves purchasing power and consumption ability. Moreover, in order to fulfill the increasingly diversified and personalized requirements of consumers, the consumer finance industry continues to engage in financial innovations, introduce new technologies and service models, launch innovative products and services, and provide more flexible and personalized financial solutions. These innovations have not only satisfied the needs of consumers, but also made financing channels more flexible and diversified, which also advanced the development and upgrading of the financial industry.^[6]

5.2 To provide consumer protection

On the one hand, the development of consumer finance has promoted the upgrading and diversification of consumption. Through credit cards, consumer loans and other means, consumers can realize higher-grade consumer demands, such as purchase of high-value products, appreciation of luxury goods, travel and vacations, etc. This has a positive impact on enhancing the consumers quality of life and satisfying personalized needs. On the other hand, consumer financial products provide certain safeguards for consumers. For example, credit cards put forth a dispute resolution mechanism for the quality problem or a service dispute to ensure the legitimate rights and interests of consumers. Furthermore, some consumer financial products also cover shopping insurance, extended warranty services, etc. to conduct certain protection for consumers' spending. Under the background of continuous supervision to guide consumer finance to "reduce fees and make concessions" and "practice inclusive finance", the upper limit of consumer financial products has been reduced from 36% to 24% since the second half of 2021. In 2022, we observed that the mainstream consumer financial products of current sample companies were all priced below 24% (as shown in Figure 3).^[7]

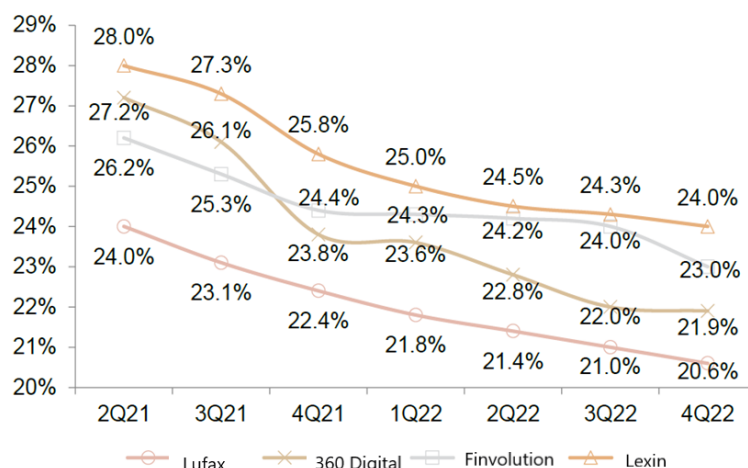


Figure 3: Lending institutions achieve significant reductions in average pricing

5.3 To stimulate the consumption

The existence of consumer finance can stimulate consumers to spend money. By providing access to finance and services like installment payments, consumer finance enables consumers to have more ability and confidence to purchase, thus contributing to economic growth and employment opportunities. Additionally, the development of consumer finance has directly fostered economic growth. By providing financing services, consumer finance supports the consumer need of individuals and households, thus in turn stimulating market demand, driving the growth of related industries, and boosting economic advancement.

5.4 To promote financial literacy

The development and application of consumer finance have promoted the establishment of personal credit, and the use of consumer financial products can build personal credit records for consumers. Through on-time repayment and good credit performance, consumers can gradually establish a good credit evaluation, which results in a higher credit limit and a lower loan interest rate, improving one's personal credit rating, and helping with future loans and other financial requirement. The progress of consumer finance also prompted consumers to understand and learn about financial literacy. Consumers need to understand relevant financial knowledge and risks when choosing and using consumer financial products, such as interest rate calculation, repayment methods, overdue fees, etc. Therefore, the development of consumer finance can help improve the financial quality and fiscal management ability of consumers.

6. Research Recommendations

6.1 To dig deeper into user needs

In the process of the development of consumer finance, how to clarify the consumption needs of users is extremely critical. By in-depth exploration of the needs of users, accurate service products can be provided for them, so as to further encourage consumer behavior. In the era of big data, users' consumption is characterized with personalization. Financial companies are also supposed to implement refined layering according to changes in consumer demand, improve the customer management system, and customize personalized service product plans for them. For example, family users are most concerned about personal housing and education issues. In particular, the current school district housing is a hot topic for families. Relevant companies can recommend consumer financial products for housing and education, which can further strengthen the satisfaction of family users. In view of the needs for high-net-worth users, the approval mode of consumer finance should be optimized, the approval process simplified, and high-end products taken as the R&D focus. Simultaneously, it is also necessary to layer customers based on their credit level, provide customized products for high-quality users, and continuously enhance their satisfaction.

6.2 To construct a risk management mechanism

Risk management is extremely critical, especially for financial companies. Effective risk management can effectively ensure the stability of enterprise operations. Judging from the high-frequency risk indicators disclosed by consumer credit technology service providers, by the end of 2022, the relevant indicators have stabilized or improved, or have passed the pressure peak. We believe that its risk side may be further repaired along with the gradual recovery of macro-economic growth (as shown in Figure 4). Even if the risk situation becomes better, financial institutions still have to reinforce the establishment of a risk management mechanism. By setting up a credit mechanism on personal credit, the process and data of personal use of consumer financial products are recorded in the system. If the personal credit level is low, it will directly affect subsequent loans, house purchase or car purchase, etc. It can efficiently raise consumers' credit awareness, prompt them to take the initiative to repay the loan, and protect the rights and interests of consumer finance companies. Also consumer finance companies need to complete the internal control mechanism, reasonably expand the financial innovation business in accordance with the characteristics of

economic development, attach importance on the analysis of the bubble risk under the financing model, optimize business processes, and adopt effective response mechanisms and collection methods for non-performing credit and defaults. Through the increase of internal and external risk control, it can provide an important guarantee for the innovative development of consumer finance.

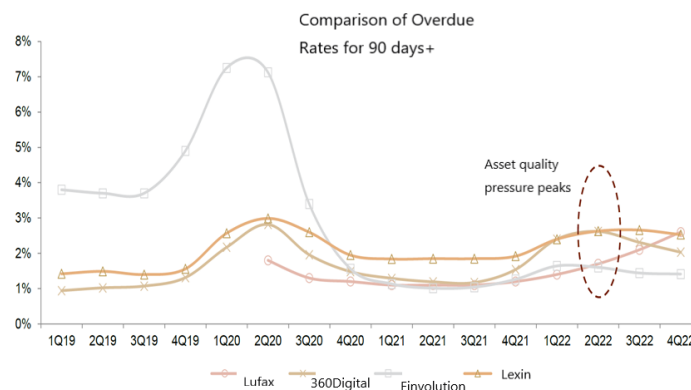


Figure 4: Risk metrics for head consumer credit technology providers have all gradually stabilized or are improving steadily

6.3 To enrich products and services

Financial institutions must grasp the opportunities for development in the new era, on the basis of consolidating the advantages of existing products and services, launch a new series of consumer financial products or services, expand the product structure, and reinforce their comprehensive capabilities oriented to the demands of the economic market. Meanwhile, it is also vital to actively combine emerging technologies to optimize the strategic layout, analyze and innovate businesses lagging behind the same industry, simplify the credit approval process, speed up lending, formulate flexible repayment plans, and gradually extend to daily consumption fields such as housekeeping, rental, decoration and education through online and offline integrated service models. Besides, consumer finance needs to further deepen diversified products and services. More innovative financial products and services will emerge apart from traditional credit cards and consumer loans. For example, consumer finance products may include installment plans, shopping finance, points discounts, etc., customized to the needs of consumers. Consumer finance enterprises may also cooperate with other industries and enterprises to launch joint products and services to meet the broader financial and needs of consumers.

6.4 To strengthen digital construction

On the one hand, digital financial services should be provided. With the continuous progress of science and technology and advancement of digital transformation, consumer finance will focus more on the progress of digital financial services. Consumers will be able to apply for and manage consumer financial products, such as mobile apps, websites, etc., through online platforms more conveniently. Digital technology will also be used to provide personalized product recommendations and customized services to lift consumer experience and satisfaction. On the other hand, with the introduction of artificial intelligence and big data analytics, it will play an increasingly important role in the field of consumer finance. By analyzing consumers' habits, preferences, credit history and other information, consumer finance enterprises can more accurately assess consumers' credit risks and demands, and set forth more exact product recommendations and personalized services.

6.5 To strengthen financial education and consumer protection

As consumer finance continues to expand, risk management and safety and security will become more important concerns. Consumer finance enterprises need to strengthen risk assessment and preventive measures to protect the personal information and capital security of consumers. Regulators will also enforce the supervision of the consumer finance industry, standardize market order, and protect the

rights and interests of consumers. In order to improve consumers' knowledge and understanding of consumer finance, the consumer finance industry will strengthen the effort on financial education and consumer protection. When using financial products, consumers need to fully understand their characteristics, fees and risks, and make smart decisions. Consumer finance enterprises and related institutions will provide more financial education and counseling services to ensure that consumers are able to make informed and rational choices.

7. Conclusion

The consumer financial market has a broad space for development, but the competition in the industry is becoming more and more fierce. Science and technology empowerment and scenario expansion are the key directions of consumer finance companies to focus on. In the future, consumer finance will continue to evolve in digital services, artificial intelligence applications, diversified products and risk management, concentrate on consumer demand and personalized services, and strengthen financial education and consumer protection. This will provide consumers with more convenient and personalized financial services, while protecting their rights and interests.

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