

Analysis on the Development of Auto Finance in China

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ABSTRACT

With the continuous improvement of China's technological level and innovation capabilities, the automobile industry is developing rapidly, and a large number of self-produced and manufactured local brands of automobiles are put on the market.^[1] With the rise of the auto industry, the auto finance business has gradually emerged. Banks, auto finance companies, leasing companies and other institutions have stepped into this field.^[2] Auto finance has helped auto sales and effectively solved the financial problem of consumers buying cars.^[3] However, as the auto finance business has grown and developed, many problems have also emerged.^[4] This article expounds the current situation of my country's automobile industry, the current situation of automobile finance, and the problems existing in the automobile finance business, and proposes countermeasures to the problems.^[5]

Keywords: *auto, auto finance, bank, auto finance company*

1. INTRODUCTION

With the improvement of living standards, people's living conditions have gradually improved. As high-end durable goods, automobiles are no longer luxury goods for ordinary people. After the problem of food and clothing is solved, more and more people are pursuing the improvement of the quality of life. In particular, consumer finance has gradually become popular, auto finance has emerged, and Volkswagen's demand for automobiles has increased. My country's auto industry has ushered in an unprecedented breakthrough.^[6] However, many problems have arisen in the process of auto finance boosting auto sales. How to solve these problems is the key to maintaining the sustainable and healthy development of my country's automobile industry.

2. THE DEVELOPMENT STATUS OF CHINA'S AUTOMOBILE INDUSTRY

The manufacturing industry is an important pillar of a country's economic development. As an important part of the manufacturing industry, the importance of the automobile industry to my country's economic development is beyond doubt. In the early stages of development, my country's automobile industry grew slowly, and even suffered losses for the entire industry. Since my country's accession to the WTO in 2001, the process of reform and opening up has accelerated, and

my country's automobile industry has ushered in new opportunities for development.

China's automobile production has been increasing all the way. Since 1997, my country's automobile production has gradually increased. From 1997 to 2008, the growth rate of automobile production has been slow. From 2008 to 2010, the growth rate of China's automobile production increased significantly. However, due to policy factors and the impact of macroeconomics, my country's auto production and sales in 2018 fell back, down by 4.3% and 2.8% year-on-year, which was the first negative growth in 28 years. With the development of the automobile industry, the automobile credit business has a history of nearly 30 years in my country. With the current decline in auto production and sales, the impact of auto finance on the auto industry is particularly important.

3. CURRENT STATUS OF CHINA'S AUTO FINANCE

China's auto finance business is still immature compared to Western developed countries, but emerging markets have more potential and development prospects. This article divides the auto finance business into five stages, and further studies and analyzes the auto finance business on this basis.

Table 1 Development stages of China's auto finance

time	stage
1995 - 1998	Initial stage
1998 - 2003	Early development stage
2003 - 2004	Adjustment stage
2004 - 2014	Rapid development stage
2015 - 2020	Stable development stage

China's auto finance industry sprouted in 1995. At that time, the auto consumer market was not very active. In order to stimulate auto consumer demand and pursue benefits, auto manufacturers joined forces with state-owned commercial banks to launch an auto consumer credit business. Due to just starting out, lack of experience, causing frequent problems. In 1996, the People's Bank of China stopped the auto loan business, and in 1998, China Construction Bank resumed its auto finance loan business.

From 1998 to the first half of 2003, a series of documents on automobile consumption were issued. The masses' consumer demand for automobiles has increased, and the sales of private cars have soared, and automobile consumer loans have also shown a rapid growth trend. During this time, the auto finance business was monopolized by major commercial banks. In order to compete for market share in the auto finance market, major commercial banks have lowered loan interest rates and down payment ratios, relaxed loan conditions, and extended loan terms. Over the years, supervision has weakened and financial risks have accumulated.

From the end of 2003 to the beginning of 2004, low car prices and an incomplete credit information system resulted in a large number of bad debts on auto credit. In order to control risks, tighten monetary policy and increase loan down payment ratio, the pressure of insurance compensation has increased and the auto credit business has entered a slump. On March 31, 2004, the China Insurance Regulatory Commission officially called the parking loan insurance business, and auto finance fell into a trough. Automobile manufacturers and dealers are eager for a new funding channel to sell goods.

From 2004 to 2014, my country's auto finance developed in an all-round way, the relatively mature market environment, and the increasingly strict regulatory mechanism provided a favorable growth environment for the stable development of the auto finance industry. In August 2004, my country's first auto finance company-Shanghai General Motors Finance Company was established. My country's auto finance industry has ushered in a new pattern of competition

among banks, auto finance companies, manufacturer finance companies, financial leasing companies, consumer finance companies and other institutions. This year, 3 auto finance companies were established. As shown in Figure 2, as of 2012, the number of auto finance companies has reached 16.

In 2015, the establishment of China's auto finance companies reached a peak, with 7 establishments within one year, bringing the total to 25. The market scale of my country's auto credit has increased year by year from 2008 to 2014, from 158.7 billion yuan to 659.6 billion yuan, and the market size has quadrupled in just 7 years. At present, the Internet economy is on the stage, and Internet cars also appear. Mobile payment, artificial intelligence, big data and other technologies are also competing to penetrate the field of auto finance.

4. AUTO FINANCE OPERATION MODE

Banks are the first institutions to participate in the auto finance business and possess professional business skills. As early as 1998, the People's Bank of China promulgated the "Auto Consumer Loan Management Law", and stipulated that auto finance can only be carried out in the four major banks. Since the establishment of the China Banking Regulatory Commission, the state has further liberalized the scope of commercial banks' auto finance business.

In 2004, auto finance companies emerged, and the types of auto finance products increased. Banks faced huge challenges. Compared with auto finance companies, the bank's interest rate is lower than that of auto finance companies, and the car loan interest rate is determined according to the bank's interest rate. Although the calls of financial auto companies to cancel the auto finance business of banks are increasing, banks are still the main force in auto finance business due to the natural advantages of huge deposits in banks and the support of national policies. The emergence of auto finance companies has greatly impacted the auto finance business of banks.

With the popularity of auto finance, the development prospects are broad and the market potential is huge. Financial leasing companies have also joined the big family of auto finance in an attempt to get a share of the pie. The financial leasing company is under the supervision of the Ministry of Commerce, so product design is flexible, lower down payment can be made, longer loan period, purchase tax, maintenance, insurance, etc. can all be loaned. However, it is difficult to access the central bank's credit information system for the time being, and risks are difficult to control.

Compared with developed countries, our auto finance penetration rate is low, the market space is large, and the profitability is strong. Many Internet companies also want to join it. Pioneers have linked Internet auto

finance with auto e-commerce, and internet auto finance has naturally become one of the payment methods for auto e-commerce.

However, the authenticity of the information of online car buyers cannot be verified; some financial institutions require a lot of qualification certificates and the content is complicated, and car buyers have to operate multiple times to complete the data certification; the website of auto finance companies is not mature enough and lacks comprehensive functions, such as appointment. With functions, consumers can only understand the most basic product information on the website, and cannot enjoy any functional services. For all these reasons, Internet auto finance companies are not yet mature.

5. PROBLEMS IN THE DEVELOPMENT OF CHINA'S AUTO FINANCE INDUSTRY

5.1. The credit system is not sound

China's credit system is not sound and its ability to withstand risks is low. My country's credit investigation system is still improving, because of the lack of accurate credit ratings, auto finance companies cannot know the true income level of consumers. In order to make a profit and attract consumers to carry out credit business, some financial companies do not screen and screen the loan information provided by customers, and rashly lend out, which intensifies the occurrence of bad debts and bad debts, and increases industry risks.

For banks, although the qualification review of lenders is relatively strict, the information between the banks is not completely the same. For example, customer A has loaned a loan from Bank H, and there is no overdue (but there are hidden dangers). When bank N takes a loan, bank N will assume that the customer has the qualifications to handle auto loan business and allow the loan. Once credit default occurs, a series of risks will arise. In addition, the car is a movable property, the replacement is fast, and the degree of depreciation is high. After the default, the car can no longer be worth much.

5.2. Consumers have low acceptance of auto finance

Due to the influence of traditional thinking, most Chinese consumers are willing to buy cars in cash. People are more willing to save money to buy a car at once, and are unwilling to participate in the credit business, and their acceptance of car credit is low. At present, the proportion of Chinese residents using auto finance to buy cars is about 40%. Compared with western developed countries, the popularity of auto finance is still very low.

5.3. Lack of relevant laws and regulations

At present, my country's relevant laws and regulations in the field of auto finance are not complete, and the protection of the legal rights of creditors and debtors is not comprehensive. Although my country has established rules and regulations for auto financial services, the supporting solutions are not detailed enough. Once the two parties have contract conflicts and contradictions, they cannot make corresponding solutions according to relevant systems. This will not only cause inconvenience to consumers, but also detrimental to the development of auto credit business and the long-term development of auto finance companies.

6. CONCLUSION

6.1. Improve the credit system

In the era of big data, with the integration of new technologies and finance and technology, new risk control products and methods continue to come out. If all auto financial institutions want to take the lead in the industry, they should improve their innovation capabilities and technological level. Based on the application of big data in the field of risk control, combined with actual business scenarios, we developed our own risk control model, combined with multiple dimensions to create risk control rules, which can calculate vehicle risks in real time and give risk control recommendations.

6.2. Cultivate credit consumption awareness

Affected by traditional concepts, people tend to invest in savings and real estate. Fewer people have the awareness of loan consumption. Although credit consumption can cause waste to some extent, as long as we grasp the degree and use credit consumption well, it will help us to reasonably arrange the expected income and make a contribution to our future income. More reasonable planning. Banks, auto finance companies, and other relevant institutions should strengthen their publicity efforts, perform their duties effectively, and bring convenience to consumers, so as to produce benign effects. Give full play to the guiding role of the news media, strengthen the propaganda of consumer credit, guide residents to rationally use financial products, promote the development of a correct consumer outlook for the people, and let credit consumption enjoy popular support.

6.3. Strengthen multi-institutional cooperation

Banks and auto finance companies each have their own advantages and disadvantages. Although the bank has many branches and abundant funds, it lacks professional management experience. Although auto

finance companies do not have many service outlets, they have expertise in the technical industry and have rich management experience in auto finance management. In order to achieve long-term development, banks and auto finance companies can cooperate with each other, learn from each other and make progress together.

Cooperation and innovation between insurance and auto finance. Unmanned driving technology will bring considerable impact to the auto insurance business. Many traditional auto insurance types will gradually be eliminated. Auto insurance giants are also actively looking for breakthroughs. Deploying the aftermarket is one of the strategies. Auto finance is the most important part of the aftermarket, and the combination of insurance and finance in the aftermarket is just around the corner.

6.4. Encourage the upgrading of the auto finance industry

With the consumption upgrade, the auto industry has ushered in a new window period. Auto finance is about to enter the fast lane. Various auto financial institutions use powerful financial technology to promote industrial upgrading, continuously explore and deploy, and interpret diversified development paths. Using financial technology means can optimize product pricing, simplify business processes, identify high-quality customers, improve risk control capabilities, and greatly enhance user experience, so as to achieve a comprehensive, multidimensional and personalized layout of auto financial products. With the help of financial technology, auto finance can achieve innovations in business models, customer acquisition methods, risk control models, and post-loan management.

6.5. Improve relevant laws and regulations

As the auto finance business becomes more perfect, relevant laws and regulations must also be improved accordingly. The more complex the auto finance business, the more complicated the interest relationship involved, which requires us to establish a more complete auto finance legal system framework. Essentially, legislation is adopted to regulate the development of auto finance and clarify every transition in the development of auto finance business. Third, all relevant government departments supervise each other, promote the coordinated development of government enterprises, and jointly create a good credit consumption environment.

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