

Effects of Opening Personal Credit Scoring System on Consumer Credit Market

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ABSTRACT. *The market-based operation of personal credit scoring system institutions provides favorable support for consumer credit service, renders positive effect on the consumer credit market and provides diversified consumer credit services. At present, the problems existing in consumer credit market will be effectively solved through opening personal credit scoring system. This paper further analyzes and discusses the impact of opening personal credit on consumer credit market.*

KEYWORDS: *Personal credit scoring system; Consumer credit market; Effects*

1. Introduction

Commercial banks are playing a leading role in consumer credit service, which as an important means to promote consumption and stabilize the economic growth, has been gradually diversified with the rise and development of Internet finance. While the types of consumer credit institution increase abundantly, the collection of personal credit information remains a difficult task for Internet financial companies since the closed personal credit market imposes certain constraints on the acquisition of data and the development of the consumer credit market. Therefore, opening personal credit scoring system not only greatly promotes the Internet finance companies but also brings a profound impact on consumer credit market.

2. Status Quo and Problems of the Consumer Credit Market

2.1 Status Quo

After the Subprime crisis, consumer credit service has grown significantly under the stimulation and strong support of various consumption policies. In recent years, the balance of household consumption loans has been maintaining a growing tendency, with personal housing loans accounting for a relatively large proportion. Meanwhile, the types of credit loans have also been gradually enriched. Apart from individual housing loan and furnishing loan comprising the majority, there are personal comprehensive consumption loan, short-term credit, marriage loan,

microcredit and labor fee loan, etc. Under the categories of microcredit and mortgage, credits offered by Internet finance companies will be more diversified and flexible. The conventional consumer credit institutions mainly include consumer finance agencies, automobile finance companies and commercial banks. In recent years, there surge Internet small loan companies and online lending platforms with the development of the Internet finance service, diversifying the consumer credit institution.[1]

2.2 Current Problems

At present, in consumer credit market, the insufficient individual credit and the overly-high cost of the credit impose limits on the development of the consumer credit service. Since personal credit data needs to be collected from the basic financial credit database of Credit Reference Center of the People's Bank of China, it is impossible for Internet finance companies who usually depend on the data provided by third-party credit scoring agencies or the data accumulated by their platforms to effectively obtain the core information in personal credit evaluation. As a result, their credit investigation coverage remains narrow with limited data. Conventional financial institutions also have such problems as the lack of multi-dimensional personal credit information in the credit scoring system of PBOC imposes certain constraints on the development of consumer credit service.

Subject to environment and culture, the consumer credit demand is obviously insufficient. As the Chinese conventional consumption value has been always emphasizing saving instead of spending, debt consumption hasn't been accepted by most of the consumers yet. In terms of income, the growing gap between rich and poor to some extent influences consumption. In respect of social security system, there still exist deficiencies in the system of education, pension and health-care, etc. The lack of stable expectations also has a direct impact on consumption.^[2]

Also, the development of consumer credit needs to be balanced. Commercial banks still dominate the consumer credit market, leading to the imbalance of consumer credit among different regions and different groups. Commercial banks neglect the diversified consumer credit demands such as that from low-income people and farmers, let alone meet their demands, while providing various loan services for Internet finance companies and consumer finance companies. In a word, the current diversification of consumer credit institutions is still insufficient.

3. The Impact of Opening Personal credit scoring system on Consumer Credit Market

3.1 Entry of non-commercial banking institutions

As for the smooth operation of consumer credit service, the important guarantee is to effectively strengthen the control over credit risk, while the prerequisite, to effectively acquire applicants' comprehensive credit information. At present, with

the applicants' permission, consumer credit institutions are able to externally acquire the applicant's credit information. With the support of external credit investigation, the consumer credit service may run smoothly, allowing more non-commercial banking institutions to enter the consumer credit market. Meanwhile, as the number of non-commercial banking institutions grows in the market, more attention will be paid to the consumer credit demands which are previously neglected.

3.2 Promoted Consumer Credit Service

Thanks to the opening of personal credit scoring system, a great improvement has been made on the credit environment created by credit institutions. Now, China's credit scoring system is in a gradual transition from the single credit scoring system of PBOC to a pluralist one based on public credit investigation institutions and supplemented by market-based credit investigation agencies that enjoys the advantages of a wide consumer coverage, a large scope of data collection, dynamic and multi-dimensional credit evaluation, and diversified products for credit investigation which effectively compensate for the deficiencies in the previous credit scoring system of PBOC.

3.3 Increased Consumer Credit Market Demand

As personal credit is opened, there is a conspicuous change in the consumption value of the consumers who has a direct influence on the demand of the consumer credit market. The low-income people also have the demand for short-term and small capital turnover which in the past could be met by private or acquaintance lending but now through the diversification of credit agencies and the subdivision of consumer credit market. At the same time, the consumption values of people with different incomes can be cultivated by the subdivision of consumer credit market. In addition, the social security system needs to be constantly improved so as to increase consumer credit market demand.

3.4 Optimized Market Structure & Expanded Market Size

At present, the problems of lack of supply and demand remain in the market structure and size. The opening of personal credit scoring system enables the supply to be enhanced through diversified consumer credit institutions. Besides, consumption demands from people with different incomes are met through the creation of consumer credit demand and the cultivation of credit culture. In terms of consumer credit service, the opening of personal credit scoring system enriches the variety of service products and contents, lengthens the consumer credit chain, optimizes the market structure, and expands the market size.[4]

4. Suggestions on Development of Consumer Credit Market

4.1 To Introduce Related Laws and Regulations

At present, in terms of personal credit information, there is a lack of relevant personal privacy protection system by means of laws or regulations. In the area of Internet credit investigation, it is necessary to protect personal privacy and Internet credit investigation through the improvement of laws and regulations. For the development of consumer credit business for Internet companies, it is necessary to clearly define the acquisition of financial licenses and the inclusion of management tracks. Therefore, with regard to increasingly diversifying credit institutions, the qualifications for credit business and related management regulations should be clarified through the improvement of the corresponding laws and regulations.

4.2 To Upgrade the Personal Credit Scoring System

The important guarantee and premise of the development of the consumer credit industry is the personal credit scoring system which still needs to be continuously improved. Market-based personal credit agencies should be encouraged to make innovation, according to market demand, in the credit investigation technology, credit data scope, the development of credit products, and credit evaluation methods, etc. In addition, through the establishment of an interconnection mechanism, an effective connection between conventional credit investigation and Internet credit investigation should be set up, so that information held by different credit scoring systems will be effectively unified, and consumer credit institutions will be provided with effective data support.[5]

4.3 To Further the Diversification of Consumer Credit Institutions

The diversification of consumer credit institutions optimizes the structure of consumer credit, lifts the level of market service, and expand the credit size. Therefore, the diversification needs to be boosted in several aspects. First, incentives should be given to the participation of non-bank financial institutions, such as small loan companies, credit cooperatives, and Internet finance companies. Secondly, retailers need to be encouraged to carry out consumer credit business by providing loan services to consumers who purchase products. In addition, it is appropriate to strengthen the supervision of differentiation and functionalization in the credit industry, since the differentiated supervision, namely, adopting different regulatory systems and standards for different credit institutions, will guarantee credit industry a sustainable and healthy development while the functionalized supervision, regulatory effectiveness and business innovation.

5. Conclusion

In the past, the privacy issues of personal credit scoring and reporting had been carefully handled when the industry was run exclusively by the government. But with the dramatic growth of the Internet finance, the expansion of credit information by market-based credit investigation institutions not only supports the development of consumer credit market but also meets the market demand. And the opening of personal credit scoring system, on the one hand, gives Internet finance companies great opportunity in developing the business of consumer credit. On the other hand, the marketing of personal credit scoring would consequently improve the conventional credit scoring system. To sum, the opening of personal credit scoring system brings a huge opportunity on the consumer credit market as well as challenges. It is essentially important to introduce related laws and regulations in order to protect personal privacy and guarantee the healthy and sustainable development of consumer credit market.

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