

## The Main Constraints and Countermeasures of China's Auto Finance Development under the New Situation

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**Keywords:** Auto Finance; Constraints; Regulation

**Abstract:** With the rapid development of the automotive industry, China's auto finance business is also developing at a high speed, but it is still insufficient to meet the financial needs of China's auto industry. Based on this, the article analyzes the main constraints and countermeasures of China's auto finance development under the new situation. Under the simple analysis of the status quo of auto finance development, this time constraints on financial development, including policy factors, regulatory factors, and environment. Factors, etc., and propose improvements from these aspects, in order to provide a reference for the development of automotive finance.

### 1. Introduction

In the past ten years, the pattern of China's automobile industry has undergone tremendous changes. The self-owned brand cars have gradually won the trust of more consumers. The joint-venture brand cars still occupy the dominant position in the market, and high-end brand cars have laid down their nobles[1]. The body of the company, invested in China to build a factory, achieved localization, and the price is more civilian. The research and practice of finance always leads the development of the industry, but the outbreak and popularization of finance always appear after the industry is highly prosperous[2]. Since its invention, the automobile has a history of 100 years. At the same time, the development history of automobile-related finance has also surpassed 100 years. Finance and automobile industry have accompanied each other and promoted development. China's high savings national conditions have made commercial banks' financial status in China more trusted by the people. The core position in the entire financial system is self-evident, but at the same time, the supervision is also the most stringent[3]. In recent years, financial institutions such as securities companies and trust companies have become more and more mature in the business of mergers and acquisitions and capital markets[4]. After the listing of auto dealers and successful mergers and acquisitions, these companies often participate in commercial banks. The upstream financial services sector of the auto dealer group may face competition from these financial institutions.

### 2. Automotive Finance Related Knowledge

Auto finance can be understood as such: from the main engine factory as the core, to the upstream and downstream of the industry, to the end consumers, the various financial products derived from the main body of the company, individuals, government, automobile operators, etc[5]. The main providers of automotive financial products include commercial banks, professional auto finance companies, insurance companies, leasing companies, insurance companies and other financial institutions or related institutions[6].

At present, auto financing can be divided into three categories. In the financial market, for such automotive financial needs, the main solutions include inventory vehicle financing (host factory, financial institutions, dealers) under the three-party model, inventory vehicle financing (financial institutions, dealers) under the two-party model, and major financial[7] Products include bank acceptance bills, corporate account overdrafts, and bicycle financing. In the automobile circulation

industry, there is a huge demand for new store construction financing in the future. At present, the solution mainly includes project construction financing, working capital loans (short-term long-term investment, non-compliance, and high risk)[8]. Car dealerships have very little land for their own land, and in the past car dealers were very fragmented, so it was difficult to get financial support during the construction phase of the store[9]. In the past, this investment was mainly for shareholders' investment or high-interest funds. M&A cases among dealers' group companies are frequent and cannot be separated from financial support. Looking back at some mergers and acquisitions cases in China's auto industry in the past few years, these mergers and acquisitions occurred mostly before and after listing, and just raised a large amount of funds from the capital market[10]. At the same time, there is an urgent need for expansion after the listing. In the true sense of M&A loans, major corporate groups are not easy to obtain, and the financing leverage is not high.

### 3. The Restrictive Factors and Countermeasures of Automobile Finance Development

#### 3.1. Status of automotive finance development

China's car sales are increasing every year, as shown in Figure 1. The main mode of China's automobile wholesale finance is that commercial banks and professional auto finance companies rely on the OEM to donate credit to the OEM. Within the credit limit of the OEM, commercial banks (or professional auto finance companies), dealers, and manufacturers Signing a tripartite financing agreement to finance auto dealers. The responsibilities and benefits of all parties in this model are as follows: Commercial banks: providers of financial services, bear the risk of loans, mainly in the form of bank acceptance bills or corporate account overdrafts. Financial services, which can obtain margin deposits, redemption deposits, discounts and loan income from dealers, and obtain deposits and discounted income from manufacturers; dealers: in accordance with the requirements of the agreement, provide collateral collateral and basic resident supervision sites, in accordance with The agreement requires coordination with the supervision of the regulatory party, and repays the interest and payment according to the agreement; the OEM: bears a very limited guarantee responsibility, usually only responsible for assisting the sales of sales.

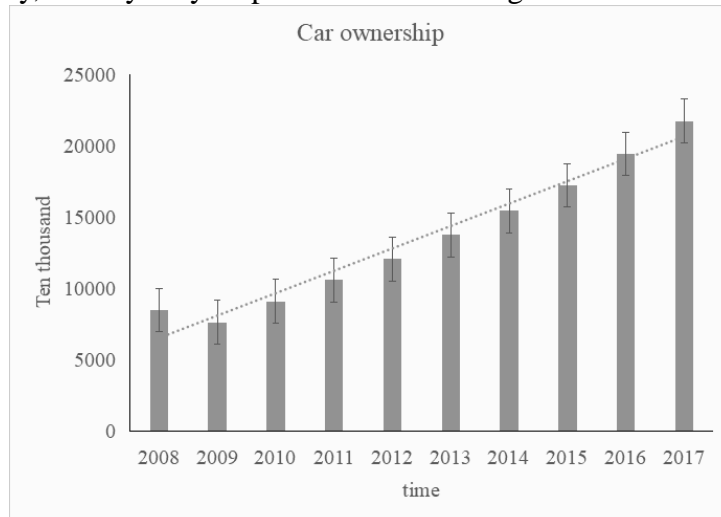


Fig.1. Car ownership

#### 3.2. Constraint analysis

The financing channels are narrow, the financing costs are high, and the liquidity management faces the challenge. First, the scope of deposits is limited, and it is difficult to obtain full support from shareholders' funds. For foreign-owned auto financing companies, overseas shareholders and their groups as "final lenders" of their subsidiaries around the world play an important role in ensuring adequate liquidity in the local market. However, subject to the current regulations of the Administrative Measures for Auto Finance Companies (hereinafter referred to as the "Measures"),

auto financing companies cannot accept the financial support of overseas shareholders. On the one hand, they have limited sources of deposits, and on the other hand, they lack liquidity. Management tools. Moreover, also subject to the Measures, foreign-invested auto finance companies (including wholly foreign-owned and joint ventures) cannot accept deposits from overseas shareholders and their subsidiaries in China (non-wholly-owned), and this part of the funds is often More secure and stable funds within the group.

The threshold for issuing financial bonds is higher. Although China allows qualified auto financing companies to issue financial bonds, due to the high threshold for issuing bonds, the auto finance companies under the jurisdiction have not met all the standards. Indicators such as registered capital, asset quality, and profitability make it difficult for auto finance companies that are currently in the early stages of development.

The mortgage guarantee for the transit vehicle is missing. According to the current regulations on motor vehicle registration in China, the vehicle can only be registered after the sale to the end user. The vehicles involved in the dealer financing business are in the middle of the circulation. As the general movable property, the ownership registration system is not applicable, but the ownership of the vehicle is obtained in the form of possession. In practice, due to the long cycle of bicycle mortgage processing, high cost and fast flow of inventory vehicles, auto financing companies generally do not apply for bicycle mortgages for dealer financing vehicles, so they cannot obtain the corresponding mortgage rights. Therefore, when the dealer defaults, the auto finance company as a creditor cannot directly claim rights to the financed vehicle.

Vehicle certification does not have legal effect. Temporary deduction of financing vehicle ex-factory certification is one of the measures for auto finance companies to control dealer financing risks. However, since the vehicle certificate itself has no market exchange value, it is not a property, nor is it a right certificate that can be pledged. Therefore, the detained vehicle certificate can only be used as a means of supervising and controlling the performance of the dealer, and is not a legal guarantee. The measures cannot be against any third party and have no priority for debt settlement. Therefore, once the dealer defaults, the auto finance company can not compensate for the loss by disposing the vehicle certificate.

The credit system is not perfect. Foreign auto finance companies rely on a powerful scorecard system to accurately assess borrowers, relying on a sound and complete personal credit system. However, this advantage has been greatly reduced in China. The main reason is that there is a big gap between the domestic credit environment and foreign countries. The credit information system is still not perfect, and there is no effective restriction and punishment mechanism for individual default. Therefore, based on this foundation, it is established. There are many uncertainties in the domestic scorecard system.

The pressure of competition in the same industry is huge. In addition to auto finance companies, institutions that currently offer auto credit services on the market include commercial banks (including traditional auto loans and credit card installment products), finance companies, financial leasing companies, microfinance companies, and pawn shops. Although auto finance companies have a professional one-stop service feature with the support of the group, the core loan prices and product categories are not absolutely competitive.

### **3.3. Countermeasures analysis**

Establish a comprehensive industry management mechanism. Auto finance is closely related to the entire industrial chain of automobiles. It involves automobile production, consumption, use and after-sales service. Finance is the core issue, but it is not only a financial issue, it should have a comprehensive industry management, and the difficulties it faces need to rely on auto finance. All the industries involved are solved together, so the supervision of auto finance companies also needs to involve relevant departments. It is recommended that all regulatory authorities strengthen communication and, if necessary, try to establish a multi-party joint meeting mechanism to help solve the difficulties of auto financing companies in mortgage registration, renewal, credit inquiry and leasing business, thus promoting the healthy and healthy development of auto finance business..

Modifying regulations and regulations in a timely manner to provide more space for the development of auto finance companies. Auto finance companies are new financial institutions, and their supervision is also in the process of continuous exploration. The current “Measures” are also revised from the 2003 edition of the regulations, and it is recommended that timely Modify current regulations. First, the conditions and steps to expand the scope of deposits, so that auto finance companies can make full use of the resources and support of the brand group, effectively play the comparative advantage of auto finance company brand grouping. Second, it is timely to lower the threshold for auto financing companies to issue financial bonds and interbank lending, so as to alleviate the dilemma of high capital costs and narrow financing channels. The third is to properly adjust the scope of business, encourage auto finance companies to introduce foreign mature auto finance products into China, and give full play to the diversified advantages of auto finance companies in the fields of insurance, maintenance, fleet management, package discount and leasing business. The fourth is to solve difficult problems through product innovation. For example, if it is difficult to renew the insurance, you can try to learn from international practices and package the financing of car loans and premiums. On the one hand, it can better solve the problem of renewed insurance for financing vehicles. On the other hand, it can give full play to the professional advantages of auto finance companies. Improve market competitiveness.

Encourage and support auto financing companies to carry out multi-faceted cooperation with commercial banks. First, actively support auto finance companies to establish strategic cooperative relations with banks, expand funding sources and ensure financing stability. In the current situation of poor financing channels, commercial banks will still be the most important financial supporters of auto finance companies, and auto finance companies can use the network advantages of banks to handle fund clearing and collection of service payments to make up for auto finance companies. Insufficient function. The second is to encourage the diversification of the equity structure of auto finance companies. If auto finance companies can introduce commercial banks and domestic automaker investors, they will gain greater benefits in terms of financial support, vendor systems, outlet layout, customer channels and risk control technology.

#### **4. Conclusion**

Auto finance companies have gone through nearly a hundred years of development history. At present, the global auto finance penetration rate has reached 70%, and auto finance has become the largest profit margin in the auto industry chain. At the same time, the average penetration rate of domestic auto finance is less than 20%, and China's auto consumer credit market still has huge room for growth. By comparing the development of automobile finance companies and commercial banks' car loan business, this paper finds that auto finance companies still face many practical difficulties and constraints in their business development. It should be pointed out that the content proposed in the article is not comprehensive enough, and it needs to be further improved in terms of supervision.

#### **Acknowledgement**

In this paper, the research was sponsored by Analysis of agglomeration effect of artificial intelligence industry and automobile industry -- take shenzhen special zone as an example. Project number: 2017WQNCX179.

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