

Research on the Challenges and Pathways to Breakthroughs in the Development of Consumer Finance in China

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Abstract: As a key link connecting the financial system with real-world consumption, consumer finance serves as a vital financial pillar for expanding domestic demand, promoting consumption upgrades and driving high-quality economic development. In recent years, China's consumer finance sector has undergone a profound transformation, shifting from explosive growth to a phase of standardisation. A diverse range of players—including licensed institutions, commercial banks and internet platforms—have collectively built a vast market ecosystem, with digitalisation and scenario-based services becoming increasingly prominent. However, against a complex backdrop of comprehensive regulatory tightening, falling interest rate caps, macroeconomic pressures and intensifying industry competition, China's consumer finance sector faces multiple developmental challenges, including high funding costs, inadequate risk control systems, pressures from multiple borrowing and asset quality, compliance risks associated with loan facilitation models, severe product homogenisation, a lagging credit reporting system and insufficient consumer rights protection. Based on the latest developments in China's consumer finance sector, this paper systematically analyses the industry's deep-seated challenges. By integrating the latest regulatory policies with trends in fintech, it proposes targeted solutions across dimensions including compliant operations, enhanced risk management, deepening engagement with specific scenarios, optimised financing, improved credit reporting, consumer protection and differentiated transformation, with the aim of promoting the sustainable and high-quality development of China's consumer finance industry.

Keywords: Consumer Finance; Development Challenges; Fintech; Risk Management; Pathways to Breakthrough

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1. Introduction

Against the macroeconomic backdrop of China's transition from an investment-driven to a consumption-driven economy, consumption has been the primary driver of economic growth for several consecutive years. By providing consumer credit services to households, consumer finance effectively alleviates current liquidity constraints and unlocks latent consumer demand; it is a key financial instrument for facilitating the domestic economic cycle, boosting household consumption and improving people's livelihoods. Since China officially launched the pilot scheme for consumer finance companies in 2009, the industry has undergone more than a decade of rapid development. Following 2020, internet-based consumer finance has risen rapidly. By the end of 2025, the number of licensed consumer finance companies nationwide had reached 31, with the

industry's total credit volume exceeding 10 trillion yuan, forming a diversified market structure in which bank credit cards, bank-operated consumer loans, licensed consumer finance companies, and internet platform consumer finance coexist^[1].

In recent years, the regulatory environment for the sector has undergone profound changes. The 2025 revision of the 'Administrative Measures for Consumer Finance Companies', the implementation of new regulations on loan facilitation, the strict cap on the comprehensive annual percentage rate (APR) at 20%, and the full implementation of interest and fee transparency have signalled the sector's departure from extensive growth^[2]. At the same time, increased downward pressure on the macroeconomy has weakened households' debt-repayment capacity, leading to a rise in the sector's non-performing loan ratio and a significant compression of profit margins, marking the onset of a period of transitional growing pains. Drawing upon life-cycle consumption theory and information asymmetry theory, this paper employs literature review, current status analysis and inductive summarisation to examine the industry's current state, dissect its core challenges and propose appropriate pathways, thereby providing practical guidance for the compliant transformation and high-quality development of consumer finance institutions.

2. Current Status and Characteristics of China's Consumer Finance Sector

2.1 Diversification of Market Participants and Continuous Expansion of the Industry

Currently, China's consumer finance market has evolved into a structure where four types of entities—licensed consumer finance companies, commercial banks, internet technology platforms and micro-loan companies—develop in concert. As shown in Tables 1 and Table 2, licensed consumer finance companies, as the mainstay of the industry, numbered 31 by the end of 2025. These are categorised into three major types: bank-affiliated, industry-affiliated and internet-affiliated, with their asset scale and profitability continuing to rise; Leveraging their cost of funds advantage, commercial banks dominate the market through a combination of credit cards and proprietary consumer loans; internet platforms, capitalising on e-commerce scenarios and traffic advantages, have deeply penetrated the long-tail consumer market, significantly enhancing the accessibility of financial services. By the end of 2025, the total credit scale of China's consumer finance industry exceeded 10 trillion yuan, with the breadth and depth of inclusive finance coverage reaching historic highs.

Table 1: The Scale of Development in China's Consumer Finance Industry, 2016–2025

Year	Total consumer credit (trillion yuan)	Number of licensed consumer finance companies (companies)
2016	4.9	18
2017	5.3	19
2018	6.2	23
2019	6.8	24
2020	7.8	27
2021	8.2	28
2022	8.9	30
2023	9.4	30
2024	9.8	31
2025	10.2	31

Source: China Banking and Insurance Regulatory Commission; compiled from annual industry reports

Table 2: Market Share of Key Players in China's Consumer Finance Market in 2025

Market entities	Market share
Commercial banks (credit cards and in-house consumer loans)	62%
Licensed consumer finance company	21%
Consumer finance on internet platforms	13%
Microfinance company	4%

Source: China National Financial Regulatory Administration, 2025 Industry Statistical Bulletin

2.2 Digitalisation and Scenario-Based Lending Emerge as Mainstream Trends

The deep integration of fintech serves as the core driving force behind the industry's development. Technologies such as big data, artificial intelligence and cloud computing have been widely adopted across the entire process—from customer acquisition and risk control to credit approval and debt collection—significantly enhancing the levels of digitalisation, automation and intelligence in business operations^[3]. At the same time, China's consumer finance sector is gradually moving away from a purely credit-based, scenario-less 'blank lending' model, becoming deeply embedded in real-world consumption scenarios such as e-commerce, tourism and culture, education, home furnishings, automotive and healthcare. In 2024, scenario-based consumer loans grew by 18% year-on-year, with an increasingly evident trend towards a return to the fundamental purpose of serving consumption; the 'finance plus scenario' integration model has effectively reduced the risk of misappropriation of funds^[4].

2.3 Comprehensive Tightening of Regulation Accelerates the Industry's Transition Towards Standardisation

In recent years, regulatory authorities have continuously introduced policies to standardise industry development and establish a rigorous regulatory framework: firstly, entry barriers have been raised, with the revised *Administrative Measures for Consumer Finance Companies* significantly increasing requirements for registered capital and shareholder qualifications; secondly, business boundaries have been clarified, with new regulations on loan facilitation services introduced to explicitly prohibit the outsourcing of core risk control functions and platform guarantees, thereby severing the chain of risk transmission; Thirdly, strict control over interest rates has been implemented, with interest, service fees and guarantee fees now calculated uniformly to comprehensively reduce hidden high interest rates, and a requirement that the comprehensive annualised interest rate for new loans issued in 2026 does not exceed 20%; fourthly, strict monitoring of capital flows has been enforced to prevent funds from flowing into the property and stock markets in violation of regulations. This series of measures has driven the industry's shift from scale expansion towards compliant, stable and high-quality development.

2.4 The Matthew Effect in the Industry Is Intensifying, with a Marked Polarisation

In this era of competition for existing market share, industry resources continue to concentrate among the leading players. Leading consumer finance companies affiliated with banks have secured a dominant market position thanks to low-cost funding, strong shareholder resources and robust risk management systems, with net profits maintaining steady growth^[5]; meanwhile, mid-tier and smaller consumer finance institutions, as well as unlicensed platforms, face high funding costs, weak risk management capabilities and difficulties in generating profits. It is predicted that the top five institutions will account for over 70% of the market share in the future, whilst smaller players will face gradual exit from the market, with industry consolidation continuing to accelerate^[5].

3. Key Challenges Facing the Development of China's Consumer Finance Sector

3.1 Severe Compression of Profit Margins and Structural Imbalances in Funding Costs

The narrowing of profit margins represents the industry's most pressing survival challenge at present, with the core contradiction lying in the divergence of funding costs and the rigid constraints imposed by interest rate caps. Licensed consumer finance institutions primarily rely on interbank borrowing, financial bonds and shareholder deposits for funding; leading institutions, backed by shareholder credit and economies of scale, are able to keep their funding costs within 4%–6%; whereas small and medium-sized institutions, lacking credit backing and stable funding sources, face financing costs as high as 8%–12%. Coupled with fixed operational, customer acquisition and risk provisioning costs, the comprehensive cost of funding for small and medium-sized institutions generally exceeds 16%. Under the 20% interest rate cap, their net interest margin approaches zero or even turns negative, trapping them in a dilemma where 'the larger the scale, the greater the loss'. This structural cost disparity further widens the profitability gap between institutions, posing a severe challenge to the sector's sustainable operations.

3.2 Continued Deterioration in Asset Quality and Concentrated Outbreak of Credit Risk

Macroeconomic volatility and weakening household income expectations have directly led to rising credit risk within the sector. Between 2023 and 2025, the industry's non-performing loan (NPL) portfolio is projected to rise from 14.256

billion yuan to 24.632 billion yuan, with growth rates exceeding 30% for two consecutive years; the pace of risk exposure is significantly outpacing business expansion^[7]. There are three primary root causes of this risk: firstly, widespread multi-lender borrowing, where borrowers' liabilities across platforms accumulate, resulting in actual debt-service ratios far exceeding sustainable levels; secondly, inadequate credit reporting coverage, with a large number of 'long-tail' borrowers lacking credit histories, making precise risk identification difficult^[7]; and thirdly, limited channels for non-performing loan disposal, depressed market prices for asset transfers, and provisioning that continues to erode profits^[7]. The combination of these multiple factors has pushed the industry's asset quality into a downward cycle, with pressure on risk management rising sharply.

3.3 Compliance Breaches in the Loan Facilitation Model and the Erosion of In-House Risk Management Capabilities

Loan facilitation was once the core model driving the industry's rapid expansion, but it also sowed the seeds of compliance and risk management risks. In order to acquire customers quickly, a large number of small and medium-sized institutions outsourced core risk management processes—such as credit approval, risk pricing and post-loan management—to loan facilitation platforms, creating an irregular model characterised by 'platforms directing traffic, institutions providing the capital, and platforms acting as the safety net'. Following the introduction of new regulations prohibiting the outsourcing of core risk control functions and platform guarantees, the shortcomings in institutions' independent risk control capabilities have been laid bare: risk control models reliant on external data, insufficient in-house development capabilities, limited data dimensions, and weak anti-fraud systems have led to a stagnation in business operations and a decline in the quality of new assets. The hollowing out of risk control not only contravenes regulatory requirements but also directly threatens the security of institutions' assets, becoming the greatest obstacle to the industry's transformation.

3.4 Shortcomings in the Credit Reporting System: Data Silos Hinder Risk Control Effectiveness

China's personal credit reporting system centres on the People's Bank of China's credit reporting, yet it suffers from three major shortcomings: insufficient coverage, poor data sharing, and a lack of diversity in data dimensions. On the one hand, long-tail groups such as blue-collar workers, new urban residents and self-employed individuals lack credit records, creating 'blind spots' in risk control; on the other hand, data remains isolated between licensed consumer finance institutions, internet platforms and micro-loan companies, making it impossible to verify users' total liabilities and multiple borrowing in real time, thus creating data silos^[7]. Incomplete and non-interoperable credit information directly leads to low accuracy in institutional risk control, as well as high incidence of adverse selection and moral hazard, constituting the underlying cause of the intractability of credit risk^[7].

3.5 Product and Scenario Homogenisation, Lack of Differentiated Competitive Capabilities

The industry is generally plagued by product homogenisation, superficial application scenarios, and rudimentary service provision. Products are predominantly cash loans and small-value general instalment plans, with highly similar credit limits, terms and interest rates, lacking customised designs for specific customer segments and vertical scenarios; Scenario partnerships are mostly limited to superficial payment instalments, failing to engage deeply in merchant operations, user engagement and risk management cycles, resulting in high risks of misappropriation of funds and low user retention^[4]. Institutions lack core competitiveness and are thus trapped in price wars and a race for traffic, making it difficult to establish long-term competitive advantages or to genuinely serve authentic consumer needs.

4. Pathways to High-Quality Development in China's Consumer Finance Sector

4.1 Licensed Consumer Finance Companies: Optimising Financing Structures and Reducing Overall Funding Costs

Licensed consumer finance companies should make cost reduction and liability optimisation their core strategies. Firstly, they should broaden their financing channels by actively issuing financial bonds, ABS and Tier 2 capital bonds, monetising existing credit assets, and seeking support from the central bank through re-lending and rediscounting to replace high-cost interbank liabilities; Secondly, they should optimise the maturity structure of their liabilities, increasing the proportion of long-term, stable funding to alleviate the duration mismatch arising from borrowing short-term to lend long-term; thirdly,

they should strengthen synergies with shareholder resources, encouraging high-quality shareholders to inject capital and thereby reducing reliance on high-interest market-based financing. By adopting a multi-pronged approach, they can bring overall financing costs under control and drive them down, thereby creating room for profit.

4.2 Licensed Consumer Finance Companies: Rebuilding Autonomous Risk Control and Fortifying Credit Risk Defences

Licensed consumer finance companies must reclaim control over risk management and address technological shortcomings. Firstly, fully implement the new regulations on loan facilitation by independently establishing an end-to-end risk control system covering customer acquisition, credit approval, pricing and post-loan management, whilst eliminating outsourcing of core processes; secondly, utilise big data, artificial intelligence and large-scale models to construct multi-dimensional user profiles, thereby enhancing the ability to identify risks associated with multiple borrowing, excessive indebtedness and fraud; thirdly, establish a rigid liability control mechanism, setting thresholds such as the monthly debt-to-income ratio and total debt ceiling to curb excessive borrowing at source ^[6]. By leveraging technology to empower independent risk control, achieve steady growth whilst maintaining risk under control.

4.3 Commercial Banks: Leveraging Funding Advantages to Deepen Engagement in Scenarios and the Inclusive Finance Market

Commercial banks should adopt a differentiated strategy by capitalising on their three key strengths: low-cost funding, physical branches and a robust customer base. Firstly, they should focus on real-life scenarios such as home furnishings, motoring, cultural tourism, healthcare and green consumption, developing closed-loop instalment products to mitigate the risk of misappropriation of funds ^[4]; Secondly, they should expand into county-level and rural markets, developing dedicated inclusive financial products for new urban residents, blue-collar workers and farmers to enhance service coverage ; thirdly, they should collaborate with offline merchants and industry partners, shifting from merely providing credit to comprehensive ‘finance + scenarios + services’ operations, thereby strengthening user retention and asset quality .

4.4 Regulatory Framework: Improving the Credit Reporting System and Strengthening Compliance and Institutional Safeguards

Regulators are focusing on breaking down data barriers, improving institutional rules and regulations, and standardising market order. Firstly, accelerate the achievement of comprehensive credit reporting coverage, promoting complementarity between the People’s Bank of China’s credit reporting system and market-based credit reporting agencies, and fully incorporating long-tail customer groups and small-scale credit records into credit reports ; secondly, utilise technologies such as privacy-preserving computing to achieve compliant data sharing, break down data silos between institutions, and accurately monitor multiple borrowing ; Thirdly, expediting specialised legislation for consumer finance to elevate the legal standing of regulatory provisions, strictly enforcing licensed operations, clearing out unlicensed and non-compliant institutions, and maintaining a fair competitive environment; fourthly, refining consumer rights protection rules to standardise interest rates, fees, marketing and debt collection practices, and mitigate reputational risks within the industry ^[8].

4.5 Industry-Wide Collaboration: Promoting Product Innovation and Returning to the Essence of Consumer Services

The entire industry should pursue a transformation characterised by differentiation, scenario-based approaches and financial inclusion. Firstly, institutions should position themselves within specific market segments based on their own resources, avoiding homogenisation and internal competition, and developing customised products for young people, family households and the elderly ; secondly, deepen scenario integration, shifting from ‘credit supply’ to ‘consumption empowerment’, and designing products and services around genuine consumer needs ^[8]; thirdly, strengthen financial literacy, enhance users’ awareness of debt and risk, and drive the industry’s transition from a ‘scale-oriented’ approach to a ‘high-quality development-oriented’ approach.

Conclusion

China’s consumer finance sector serves as a core financial pillar for expanding domestic demand, driving economic structural transformation, and boosting household consumption. Following more than a decade of rapid, unsustainable expansion, the

sector has now fully entered a new phase of high-quality development characterised by stringent regulation and structural transformation^[9]. Currently, the industry's total credit volume has exceeded 10 trillion yuan; however, it simultaneously faces core challenges such as squeezed profit margins, pressure on asset quality, hollowed-out risk control in loan facilitation, siloed credit data, and homogenised product competition. The Matthew effect within the industry continues to intensify, with smaller institutions facing pressure to exit the market.

The root causes of the industry's current difficulties stem from a combination of factors, including reliance on traditional, extensive growth models, a comprehensive tightening of regulatory policies, changes in the macroeconomic environment and household debt landscape, and insufficient integration of fintech with risk management systems. To break through these developmental bottlenecks, licensed consumer finance companies, commercial banks and regulators must collaborate through clear division of labour and targeted efforts: licensed consumer finance institutions should focus on three core areas—cost reduction, risk management and innovation; commercial banks should leverage their capital and scenario advantages to deepen their engagement with inclusive finance and real-economy consumption; and regulators should improve credit reporting, legislation and compliance oversight to foster a healthy market ecosystem.

The industry must remain true to its fundamental purpose of serving household consumption, adhering to four key directions: compliant and prudent operations, technology-enabled risk control, deep integration with real-world scenarios, and sustainable inclusive development. By comprehensively addressing development bottlenecks, the industry can ultimately achieve a fundamental transformation from high-speed, extensive growth to high-quality, sustainable development, thereby continuing to support the implementation of the strategy to expand domestic demand and the stable development of the real economy.

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