

Consumer Research in China with a Focus on Financial Consumers

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A Brief Introduction to Research on General Consumers

Generally speaking, there is no such a field called consumer research in China. First, consumer research in China had a late start as economics, management science and psychology, inter alia, started to develop with China's opening and reform in 1978, in particular after China's accession to WTO in 2001. Second, consumer research is not a recognized field yet. Areas of research are separately and relatively independently located in a variety of disciplines: Historically national policy has focused on manufacturing and investment, having ignored consumption and consumers together for a long time. However, research on consumers has been developing rapidly during the past decade and it is increasingly so for the past half a decade. The reasons include the need for new engines for economic growth, emergence of consumer awareness, food and product safety, more foreign-trained researchers, etc.

With these said, I will only briefly talk about consumer-related research published in main academic journals in economics and finance, marketing, psychology and sociology.

- (1) Although household finance has been a topic in economics and finance journals in China for quite some time, the only journal that has a consumer focus is *Consumer Economics*, which was created in 1985. It is bi-monthly, mainly including sections as consumption demand, consumption market, trend and levels of consumption, consumption patterns, and the structure of consumption, consumer interest and protection, consumer behavior, cultural and service consumption, etc. Some recent trend of research includes:
 - From macro analysis of consumption to micro analysis of consumption and consumer.
 - From general comments and conceptual works to empirical analysis, both quantitative and qualitative.
 - Emerging issues such as rural land policy, public rental units, food and product safety, and low carbon consumption, etc.
- (2) In marketing, there is a good literature review article published in No. 1 market journal in China--*Journal of Marketing Science*. Li et al. (2010) analyzed 369 articles from 30 English journals and 1560 from 21 Chinese journals during the period of 2000-2008, which are all about "marketing in China." Papers on consumer behavior have accounted for 14%, ranking 3rd below product and brand, and relationship marketing. About 41% of the papers are general comments, leaving only 29% of them on quantitative empirics. The main data collection method is site investigation, with very few fieldwork, phone interview or mailed questionnaires. They conclude that future marketing research will focus more on consumer and customer behavior, firm behavior, quantitative analysis and new marketing channels such as network marketing.
- (3) In psychology and sociology, I analyze using key word search for journals listed in Chinese Social Science Citation Index (CSSCI). The findings are
 - In the listed four psychology journals: 69 articles have the key word on consumer/consumption between 2006 and 2012. Paper topics mainly focus on social and cognitive psychology, e-commerce and internet purchases, brands and advertisement.
 - In the listed three sociology journals: 65 articles have the key word on consumer/consumption during the above time period, and they are mainly concerned about culture and social values.

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Research on Financial Consumers

In terms of financial consumers, I will mainly talk about two strands of emerging research. One is about *consumer finance*, which has been greatly advocated as an independent field by leading finance scholars like Peter Tufano (Tufano, 2009); the other is about *financial consumer protection*, which has become more important worldwide since 2008 financial crisis (Campbell et al., 2011).

1. Consumer Finance

As consumers and consumer finance are both quite new to Chinese, I will mainly introduce some of the recent developments in China, which actually follows the contemporary development in the U.S.

Consumer finance was established as a “semi-field” in China in 2010, with a special issue on consumer finance published in the top Chinese economic journal *Economic Research*. And the second special issue came out in 2011. Besides new special issues in academic journal, Tsinghua University and Citi Foundation have jointly sponsored *Forum on Consumer Finance*, which has been regularly held twice each year and brought together policy makers, researchers and media for dialogues on consumer financial issues.

Besides some of the household finance survey instruments that have been included as an integral part of national surveys on both urban and rural households carried out by Chinese National Bureau of Statistics, data collection efforts directed specifically at consumer finance in recent years have resulted in two independent sets of surveys: one is called *China Consumer Finance Survey*, and the other is named *China Household Finance Survey*. The former was initiated by Tsinghua University with the sponsorship from Citi Foundation and has finished 3 rounds of surveys (Liao, 2009). And the latter had a late start and just released its first summary report from the survey this year (CHFS, 2012). For details about household financial issues in China, please refer to the above two reports.

2. Financial Consumer Protection

Along with the spectacular economic growth, China has witnessed rapid development in its financial sector, which mainly comprises of banking, securities and insurance. However, consumers’ complaints about financial products are becoming a more and more sensitive social issue, which often makes media highlights. For example, some of the keywords often used in the media include:

- *Overbearing*: banking sector is oligopolistic as the four largest banks dominate the market (about 90% and 80% of saving and credit markets in 2006).
- *Confusing/Cheating*: bank branches could have different standards from what are stipulated and made public by their Headquarters.
- *Stealing*: charges without informing consumers.

(Source: *Report on Inappropriate Fees on Bank Cards* by Qinguo Meng in 2011.)

Besides courts and financial institutions’ own complaints handling offices, complaining to regulators through mails is another option. According to one source, the structure of these complaints (in the banking sector) has the following characteristics:

- (a) Money management, deposits and withdrawals, credit cards and loans are the four kinds that received the most complaints, each representing 24% or so.
- (b) The No. 1 reason for complaining is mis-handling by bank employees, accounting for one third of all complaints, which is followed by false advertisement and product design, each accounting for another 17%. For example, among credit card related complaints, mis-handling by bank employees was mainly concentrated on their unsatisfactory resolution of bad credit record/stolen credit card; complaints about product design were from consumers’ questioning about credit card fees and interests charged (inappropriate and/or too high).
- (c) Complaints about money management mainly focused on false descriptions about the products recommended by bank employees. Most consumers complained that bank employees often exaggerated return, ignoring the risks that should be disclosed.

These observations are consistent with the literature: traditional information and power asymmetry between financial institutions and consumers, and cognitive limitations of consumers, which creates, from a societal view, a trade-off between access to financial services (financial innovations) and the accompanying risks. In China fierce competition between banks’ branches clearly has forced banks to shift risks to their consumers and to take up more unfair practices during their interaction with the consumers.

In retrospect, financial consumer protection has evolved with the increasing complexity of financial products and the increasing number of financial consumers. According to the World Bank research, an effective framework for financial consumer protection should comprise of at least three mutually complementary parts (pillars): (1) it should include a legal and regulatory framework to regulate the relationship between financial institutions and financial consumers, ensuring fairness, transparency and recourse rights; (2) it should have effective enforcement mechanisms including dispute resolution; (3) it should aim for improving financial

literacy and financial capacity to help financial consumers to acquire necessary financial knowledge and skills, so that they might effectively manage their own finances.

Based on this framework, I will briefly talk about current situation in China about each of the three pillars.

(2) The Legal Framework

China's current financial laws separate legislation according to different financial sectors. Overall speaking, there is no particular law on bank consumers' protection in China, even the concept of "financial consumers" has not been adopted in the context of law. While the current *Consumers Protection Law* protects the rights of general consumers, it does not take into consideration the special nature of financial industry. On one hand, *Law of Commercial Banks* mainly focuses on regulating banks' establishment and organizational registration, while regulating business conducts for the purpose of consumer protection is rarely seen. Furthermore, these laws are mainly principle laws rather than operational ones. In addition, the provisions along this line are less systematic and are scattered among others, which is partly due to China's lack of a higher-level law on financial consumer protection.

(3) The Institutional Structure

From the point of view of financial regulation, China could be considered as a multi-regulator functional model. Different regulators supervise different industries, for example, China Banking Regulatory Commission (the "CBRC") for the banking industry. China's banking sector has special importance due to the fact that Chinese households have been consistently saving a higher proportion of their income than households in most other countries, and that most financial products have been sold to the consumers through banks, even if they are not designed by banks.

Under the *Law on the Regulation of and Supervision over the Banking Industry*, the China Banking Regulatory Commission is the statutory regulator that is responsible for the administration and supervision of the banking sector. Since its establishment, the CBRC has set out four regulatory objectives, one of which is to protect the interests of depositors and consumers.

Over these years, the issue of fair treatment to consumers has gained more and more importance as the CBRC has made and enacted a number of rules and regulations that have explicit reference to financial consumer protection. However, China's current regulatory structure has shown some inadequacies in response to consumer protection.

- (a) *Lack of Statutory Functions.* Although article 1 of the *Law on the Regulation of and Supervision over the Banking Industry* has set out the protection of consumers as one of its statutory purposes, there is no single provision in relation to consumer protections in article 3 governing the regulatory functions.
- (a) *Lack of a Consumer Protection Division.* A consumer protection department could be either independent from or dependent on the regulators but it is necessary to have one in order to protect the interests of financial consumers. Although the securities and insurance regulators have such kind of divisions, they are not very effective in terms of protecting investors/customers. But the situation has changed quite a bit recently, when all financial regulators have or will have one soon.
- (b) *Lack of Enforcement Power.* Without an effective regulation and appropriate system of rewards and penalties, consumer protection can not be properly achieved. China's current regulatory system is short of inspection criteria relating to consumer protection and corresponding measures or methods in respect to penalties. For instance, the measures employed by the CBRC in requiring banks to carry out consumer protection are dominantly directive rather than prescriptive.
- (c) *Lack of rapid, cost-effective external dispute resolution mechanisms.* There are mainly two channels for Chinese consumers to file complaints: one is letter complaints mailed to the financial regulators and its branches across China, and the other is the court system. Obviously the former is time-consuming and slow, while the latter is very costly.

(4) Financial Literacy and Financial Education

Information on Chinese financial literacy is very rare and sparse, let alone systematic surveys as have been done in developed countries. But we observe the following features from the very few survey questions:

- (a) *Lack of confidence in own financial capability.* For example, in an online survey on one of China's main internet portals (<http://survey.finance.sina.com.cn/result/52897.html>), people are asked: "Do you think that you have enough financial knowledge and risk awareness to purchase and use banking products and services?" The three answers to this question are 1. not enough; 2. basically enough; 3. more than enough. The graph below shows the distribution of these answers. Close to 50% of the respondents do not think they are equipped with enough knowledge or risk awareness.

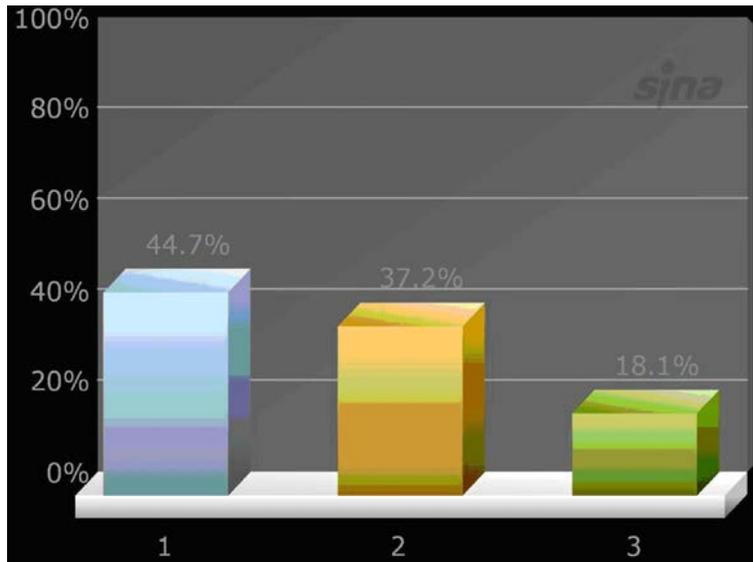


Figure 1. Self-appraisal of own financial capability

For other questions in the same online survey, we observe the following:

- There are about 69% of respondents who consider it very necessary to provide public education on banking;
- A large majority of respondents (90%) are willing to participate in the banking education programs provided to the public;
- In terms of specific banking products about which respondents would like to know more, about 20% show their interests in money management, and about 15% show similar interests in personal credit, credit card and e-banking respectively.

(b) *Lack of knowledge/information about financial products.* The two figures below are drawn from China's first survey on consumer finance, which was completed in 2008 (*China Consumer Finance Survey (2009)*, Economic Science Publishing House.)

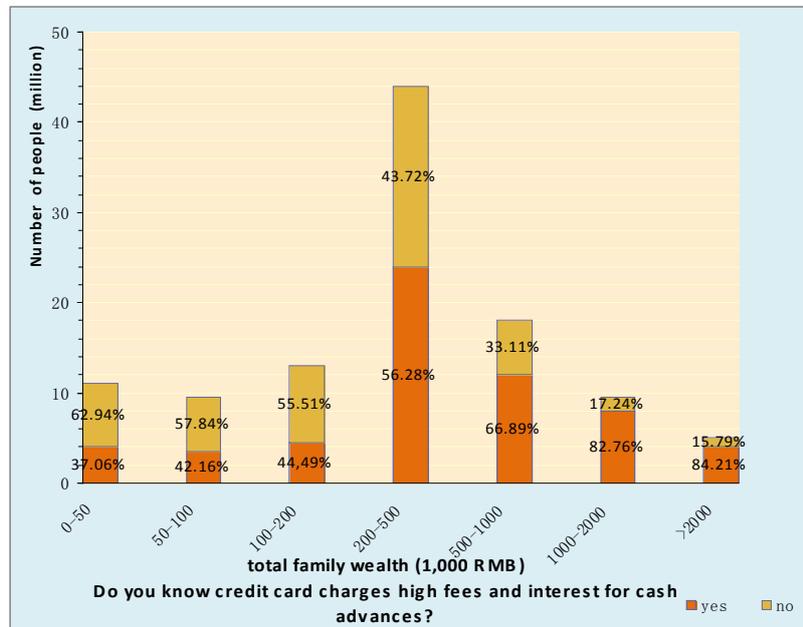


Figure 2. Knowledge about credit card cash advance

Figure 2 shows that many households, in particular those with low levels of family wealth, do not know that credit card companies will charge fees and interest for cash advance. However, with the increase of family wealth, households become more aware of this fact. The proportion of households that are aware of this has increased from 37% for the poorest cohort with family wealth below 50,000 RMB to 84% for the richest cohort with family wealth above 2 million RMB.

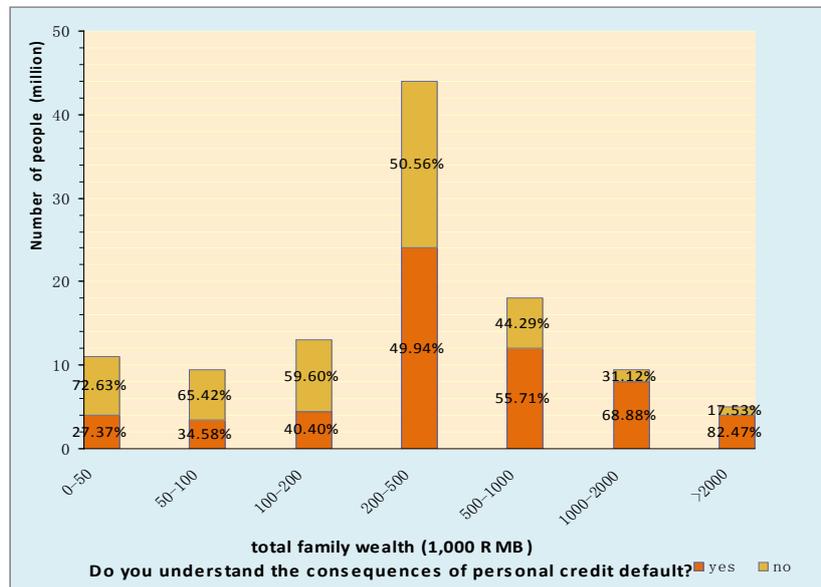


Figure 3. Knowledge about personal credit default

Compared to the previous figure, Figure 3 shows a similar pattern: the lower the wealth cohort, the less the households are aware of the consequences of personal credit default. Only 27% of the lowest wealth cohort understands this consequence. In contrast, 82% of the richest cohort knows about it.

(c) *Lack of systematic plan/approach in financial education.* The CBRC and the China Banking Association (the CBA) are the main drivers for providing banking education to the public. For example, the CBRC set up a public education area in its office building, the CBA published *Encyclopedia on Personal Finance Services in China's Banking Sector: a Popular Reader*, and they together organized “National Financial Education Day” in 2009, which involved most banking institutions. But there is no systematic plan on medium and long-run financial education (As far as I know, the CBRC is now willing to draft such a plan.), nor are systematic surveys on the levels of financial capability or systematic evaluation of existing education programs.

In summary, the establishment of an appropriate framework for consumer financial protection, in particular one that is commensurate with China's current stage of financial development is both urgent and challenging. The good news is that China's Banking Regulatory Commission (CBRC) has taken on a very active role after 2008 financial crisis, which is highlighted by a program named “Treating Customers Well (TCW)” with the sponsorship from the British Embassy Beijing (Meng, 2011). However it is still a long way to go towards an effective framework of financial consumer protection.

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