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As China's Financial Leasing Sector Grows, So Will Risks

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HONG KONG (Standard & Poor's) Oct. 26, 2015--China's burgeoning financial leasing sector is likely to become a significant contributor to the nation's economy. Standard & Poor's Ratings Services answers some questions about the possible hazards of such rapid growth in a report, titled "Booming Business For China's Financial Leasing Companies Brings Rising Risks," that it published today.

"We expect China's financial leasing sector to continue to grow strongly over the next few years," said Standard & Poor's credit analyst Chris Lee. "But unbridled growth could increase credit risks in the financial system, particularly because China's economy is slowing and already-high private debt has amplified asset quality risks."

According to the report, the number of financial leasing companies in China surged to 2,202 in 2014, from 80 in 2007, and total leasing assets increased to Chinese renminbi (RMB) 3.2 trillion from RMB24 billion. Much of this growth was a result of market demand and a supportive regulatory environment. The China Banking Regulatory Commission has been granting financial leasing licenses to some large local banks since 2007. Also, the Ministry of Commerce has lowered the entry barrier for foreign players and granted over 2,000 licenses to smaller players in the past decade.

"In our view, the regulatory framework for China's financial leasing industry is still evolving," said Mr. Lee. "Nevertheless, recent regulatory changes have signaled increasing openness to this industry by widening the business scope and lowering entry barriers."

Standard & Poor's believes China's financial leasing sector encounters higher industry risk than banks. This sector typically lacks funding access to the central bank and heavily relies on wholesale funding. Supervision and regulation for this industry are also generally less comprehensive than that for banks. In addition, financial leasing companies are also susceptible to business cycles, which may lead to volatile revenues in general.