A Research on the Development of Inclusive Finance in China

As the emergence of modern finance, financial institutions have always been facing the problems of how to deal with the relationship between the poor and the rich, cities and villages, high profit and micro profit business. Recently, as inclusive finance has become more and more critical, the Research Center for Digital Finance of THUIFR did a research on the development of inclusive finance in China. The original report was published on May 5th 2019.

This research mainly:

- Clarified the history and development of inclusive finance from a global perspective.
- Compared the differences in service processes between traditional inclusive finance and internet finance.
- Provided several recommendations for triple relationships (financial institutions, individuals and enterprises, and government and regulators) of inclusive finance.

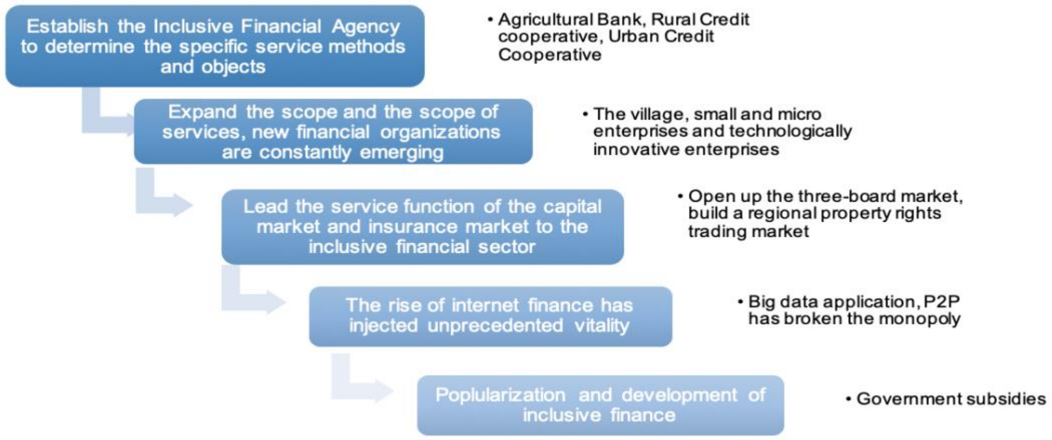
1. Definition and related characteristics of inclusive finance

1.1 The development of inclusive finance

As a global issue, many countries have been working on inclusive finance and established several financial institutions to conduct inclusive finance. For example, Bank of America, the largest commercial bank in the US actually started from an inclusive finance company of Italian immigrants. The US also established a community bank with community banking laws which clearly defined the functional positioning of community banks. A forestry and treasury bank was established in Japan to guide the provision of specific financial services for small and medium businesses, farmers and industries through supervision, government subsidies and interest rate concessions.

The development of inclusive finance in China is shown in Figure 1

Figure 1 The development of inclusive finance in China



1.2 Concept of Inclusive financial

The United Nations defined the term of Inclusive Finance in 2005: providing appropriate and effective financial services to all sectors and groups of society who needs financial services at an affordable cost. Later in 2006, the United Nations stated in the Blue Book on Building an Inclusive Financial System that under appropriate policies, legal and regulatory framework, each developing country should have a set of financial institutions that work together to provide financial products and services for people from all classes.

2. Differences in service process between traditional inclusive finance and internet finance

The large-scale use of Internet technology, especially big data and AI has brought significant changes to the inclusive financial implementation. Changes were listed below.

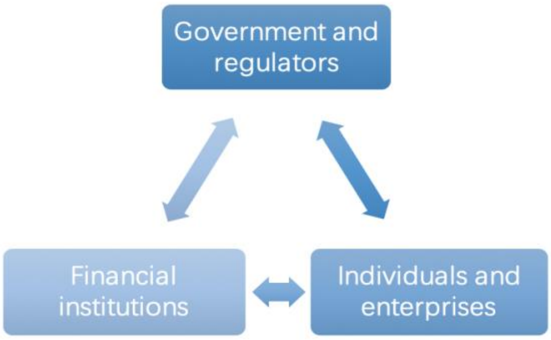
	Past	Present
Service process	Physical branches, face to face service	Online banking provides all-weather, long-distance, uninterrupted service
Marketing	Relatives and acquaintance	Strangers
Admission	Site investigation; face to face registration	Based on big data and internet use remote electronic certification

Payment and transfer	Open an account with the physical financial institution, and the lender must use the financial institution to remit the loan to the business or personal account before using it.	Through the third-party payment system, the loan can be flexibly transferred to the designated account of the lender.
Process	Manual	Electronic
Risk control	Based on mortgages and guarantees methods	Credit history recorded through big data analysis
Coverage	Within the wheel or foot range, 50KM, less than 300 accounts	The scope of services has been extended to the whole country, the service time and space have been greatly expanded.
Pricing	Relatively limited, the interest rate of large banks generally does not exceed 50%, and the maximum does not exceed 70%.	The rate of interest rate has now reached 6-8 times the benchmark interest rate, showing a high-return, high-risk situation.
Usage of loans	Controllability, productivity, consumption; designation,	Breaking this limit, the flexibility of loan use is greatly enhanced.
Cooperation	Regards the third party as alien, often giving rejection and contempt attitude.	Being a coworker of banks. For example some big data analytics companies
Regulation	High barrier to getting in, and license-required	More encouraging

3. Suggestions on the coordination of the triple relationship among financial institutions, individuals and enterprises, and government and regulators in inclusive finance

Financial institutions, government and regulators, and individuals and enterprises form a dynamic triple relationship in the inclusive finance market, as indicated in Figure 2. The more stable the triangle, the more active and developed the market.

Figure 2 the triple relationship



At present, the triangular relationship in the inclusive financial market in China has formed, but it is still not fully stable and well-coordinated. Therefore, several suggestions were given in this research.

Suggestions

- Financial intuitions

Financial institutions equipped with more well-established IT systems and better staff would be able to raise awareness and solve relevant problems in inclusive finance. And financial institutions should cooperate with governments, customers and regulators more closely to provide better financial services for customers.

- Government and regulators

Government and regulators are supposed to make policies more stable and predictable for markets and enterprises, and these policies could be easily adopted to maintain the balance of the triple relationship.