Proceedings of Business and Economic Studies, 2024, Volume 7, Issue 5
http://ojs.bbwpublisher.com/index.php/PBES
Online ISSN: 2209-265X
Print ISSN: 2209-2641

Current Situation of Digital Inclusive Finance in China

Yun Li*

Hainan Vocational University of Science and Technology, Haikou 570100, China

***Corresponding author:** Yun Li, TP068746@mail.apu.edu.my

Abstract: Inclusive finance is not only an innovation in financial service concepts but also an institutional arrangement to address the imbalance in social and economic development. Therefore, it is particularly necessary to study the current development status, development level, and challenges of inclusive finance and to conduct research on these issues. Overall, inclusive finance has demonstrated a positive momentum of development, but improvements are still needed in terms of market players, products and services, and the external ecosystem. China's inclusive finance is still in its infancy, making it essential to accelerate its development and promote inclusive finance in the country.

Keywords: Digital inclusive finance; Status quo; Problems; Countermeasure

Online publication: October 23, 2024

1. Introduction

With the continuous development of China's economy, issues such as poverty and unbalanced development between developed and underdeveloped areas have gradually come into focus. In recent years, due to individual abilities, regional factors, institutional culture, and other influences, certain groups have been unable to access the financial services offered by the mainstream financial system. This has led to a situation of financial exclusion, which causes some enterprises with strong solvency and development potential to encounter difficulties, thereby reducing overall financing efficiency and hindering China's economic development. By establishing an inclusive financial system, sustainable financial products and services can be provided to enhance social welfare and improve the efficiency of resource allocation within the overall financial system.

2. Current situation of digital financial inclusion in China

2.1. The overall development of digital financial inclusion is sound

With the popularization and application of modern information technologies such as big data and artificial intelligence, digital financial inclusion has become a major trend in the development of inclusive finance. From 2011 to 2016, digital financial inclusion in China achieved a leap forward, with an average annual growth rate of 42% [1-3]. During this period, the rapid development of online finance and the rise of electronic payment attracted a large influx of new customers and capital, laying a solid foundation for the development of inclusive finance. Consequently, China's digital inclusive finance has also seen significant advancements. Since 2017, China's financial inclusion index has begun to grow steadily, with an average annual growth rate of 8.2%. The promulgation of various regulatory documents and the continuous improvement of the risk monitoring system have established a robust foundation for the further development of inclusive finance [4].

2.2. Digital financial inclusion actively helps small and micro enterprises

With the rapid development of the digital economy, the state has continued to promote digital financial inclusion [5-7]. Through scientific and technological means, small and micro enterprises have been able to access financing that was previously difficult and expensive to obtain, and tax reductions have been implemented for more small and micro enterprises, showcasing the powerful potential of inclusive finance. In recent years, China has proactively addressed the "pain points" and "weaknesses" of small and micro enterprises, seizing the opportunity to accelerate the sharing of credit information. Modern financial technologies, such as big data, have been actively utilized to conduct comprehensive credit evaluations for loan enterprises [8]. With a highly automated process and data-driven credit evaluations, the approval and issuance of loans can be expedited, allowing small and micro enterprises to quickly access the financing they need. Additionally, the government has vigorously promoted credit loans, intellectual property rights, and equity pledge loans, collaborating with overseas capital companies to explore diversified financing methods. To significantly reduce the operating expenses of enterprises and improve the development environment of the real economy, government departments have adopted tax reductions and profit concessions as major means to enhance services for people's livelihoods, thereby providing timely assistance to small and micro enterprises and individual industrial and commercial households facing difficulties. In terms of inclusive finance, by the end of 2022, the outstanding RMB credit reached 32.14 trillion yuan, reflecting an increase of 21.2% compared to the same period last year. Inclusive small and micro credit rose by 23.8% to reach 23.8 trillion Chinese yuan [9].

3. Problems in the development of digital inclusive finance

First, the key problem constraining the development of digital financial inclusion remains the "cost-risk" constraint. Due to the geographical dispersion of small and micro enterprises, the marginal cost of acquiring customers for commercial banks has risen. Additionally, small businesses and consumers in rural areas often lack collateral and reliable financial data. Consequently, the traditional methods of assessing corporate credit risk inevitably increase the expected default risk for these companies. Limited by challenges in customer acquisition and risk control, it becomes difficult for commercial banks to sustain the development of digital inclusive credit [10].

Second, there is insufficient support from digital technology. Digital inclusive financing bears the important social responsibility of providing customers with high-quality credit products and is also one of the most valued financing methods. Although the application of digital means has significantly enhanced financial inclusion, commercial banks have not demonstrated sufficient credit scale to improve their competitiveness in the financial market, largely due to opportunity cost constraints and other factors. In other words, customers with poor risk/return ratios are often systematically excluded based on "instinct," especially when the same technological costs can yield greater returns in other markets.

Third, the development of inclusive finance in China has not been balanced. Differences in people's understanding of financial knowledge and digital technology—similar to those in other advanced countries—seriously hinder the deep integration and development of inclusive finance. According to the Research Report on China's County-Level Digital Financial Inclusion Development Index (2020), the development of inclusive finance in eastern Chinese counties is significantly better than in central and northeastern regions, but the overall development remains less than ideal [11]. The five provinces of Zhejiang, Guangdong, Jiangsu, Shandong, and Fujian account for nearly 50% of the total inclusive microfinance. The root cause of this disparity lies in the pronounced differences in financial knowledge among urban and rural residents. Additionally, there exists a gap in people's understanding of digital technology; survey results indicate that a higher proportion of farmers find "banking websites and mobile apps are not convenient or clear enough." Lastly, the asymmetry between the supply and demand of financing platforms leads to issues such as adverse selection and moral hazard [12].

Fourth, competition over data and data monopolies are intensifying. In the digital economy era, competition among major banks has shifted from merely acquiring market share to focusing more on users' data and information. Currently, the biggest bottleneck restricting the development of inclusive finance in China is the flow and sharing of data, primarily due to the lack of legislation governing data property rights and ownership. Disputes and lawsuits surrounding the flow of financial information create a lack of effective means to address these issues, which discourages information exchange among stakeholders. To resolve the problems of market monopolies and data security arising from data competition, it is essential to formulate relevant policies and standards for the development of the digital economy in China's financial industry [13].

4. Development countermeasures for digital inclusive finance

4.1. Strengthening the inclusive nature of digital finance

First, it is essential to actively explore the application of various emerging digital technologies in inclusive finance. Currently, technologies such as big data, artificial intelligence, machine learning, blockchain, and the Internet of Things are widely used in digital financial inclusion and have achieved remarkable results; however, there is still significant potential for further utilization. In the future, through initiatives like open banking and the Internet of Everything, these technologies should continue to be integrated into various consumption and life scenarios. In this context, digital inclusive finance should consistently enhance the existing digital inclusive credit business model, integrating it with diverse consumption and service areas, while continuing to innovate in digital inclusive financial service models to strengthen overall inclusivity.

Second, it is crucial to continuously improve the service quality of digital inclusive finance, narrow the digital gap, and achieve full coverage of inclusive finance. In light of the new financial exclusion resulting from the digital divide, it is essential to design suitable and convenient digital-inclusive financial services for vulnerable groups, including farmers and low-income individuals, through reasonable interactive design and technology application. In terms of security, promoting new user-friendly authentication methods, such as facial recognition and voice recognition, is necessary. Furthermore, educating digital vulnerable groups about these new security methods through various channels is important. To enhance user experience, optimizing the human-machine interface (for example, by designing larger fonts for elderly users and providing voice services for visually impaired individuals) and improving service processes and security certifications are essential. By employing customer-oriented optimizations, such as artificial intelligence-based virtual customer service simulations, barriers to accessing different types of digital inclusive finance can be reduced, thereby narrowing the digital divide and ensuring that digital inclusive finance genuinely benefits the poor [14].

Third, it is necessary to reasonably guide the development and collaboration of digital inclusive finance in China to improve the overall supply capacity and service quality. During the process of digital inclusion, online finance has unique characteristics and advantages. For instance, online finance companies, such as Ant Financial, have leveraged their technological capabilities to conduct large-scale micro-lending businesses. However, currently, China's small and micro consumer credit is primarily focused on individual small consumer loans, which often lack sufficient guarantees and have high interest rates (generally over 15% annually), increasing the financial burden on borrowers and contradicting the principles of inclusive finance. In comparison, the affordability of large commercial banks is better than that of small inclusive loans. For example, the annual interest rate for China Construction Bank's "microloan" product is only 4.0525%-4.5025% (as of November 14 this year) and is offered purely online, making it very convenient. Therefore, it is essential to scientifically guide the competition and collaboration between online financial institutions and traditional financial institutions, ensuring they complement each other's advantages. By combining the technological strengths of online finance with the capital interest rate advantages of traditional financial institutions, it is possible to enhance the supply level of digital inclusive finance, with a focus on lowering costs, especially interest rates, to provide unsecured loans to small and medium enterprises (SMEs) and individuals that are widely accessible, affordable, and commercially sustainable [15].

4.2. Improving regulatory standards

First, it is vital to appropriately balance innovation and risk management in digital financial inclusion. As financial inclusion develops, it must be well-regulated while encouraging the pursuit of digital inclusion. Sufficient regulatory flexibility should be allowed for the innovative development of digital financial inclusion. Simultaneously, the government should focus on the financial characteristics of inclusive finance, establishing a clear regulatory framework concerning market access, business norms, and risk control. Effective tracking and monitoring should be implemented to avoid regulatory gaps, thereby laying a solid foundation for the healthy growth and development of inclusive finance.

Second, preventing regulatory arbitrage and promoting fair market competition is necessary. Initially, it is essential to identify the basic carriers of various inclusive financial products and services based on the characteristics of digital inclusive finance and conduct thorough supervision to ensure fair management through "equal treatment." Additionally, traditional financial institutions (such as banks) and online companies should be clearly defined according to their business licenses and fields of operation, eliminating regulatory "gray areas" to prevent institutional arbitrage. This encourages both traditional and online companies to leverage their advantages for the development of digital inclusive finance. Furthermore, a financial big data sharing mechanism should be established, focusing on user personal information security, to restrict "platform private" data assets and enhance their "public goods" attributes, preventing "platform monopolies" in digital inclusive finance.

Third, regulatory technology should be proactively utilized to oversee inclusive finance through digital means. Due to its digital characteristics, digital inclusive finance differs fundamentally from conventional financial services, making traditional supervision ineffective. Therefore, digital technologies such as big data, artificial intelligence, and blockchain should be integrated into financial supervision to build regulatory technologies that enhance the efficiency of monitoring digital financial inclusion.

Fourth, it is important to develop regulatory laws and systems that meet the demands of digital financial inclusion reform and development. To address the evolving needs of digital financial inclusion, existing financial regulatory laws and systems should be timely improved to establish a robust framework for the advancement of "digital financial inclusion."

4.3. Improving the protection mechanism

First, enhancing the financial literacy of consumers utilizing digital financial inclusion is essential. Promoting financial and fintech knowledge to the public through various means will improve the overall financial cultural quality and technological proficiency of financial consumers, particularly vulnerable individuals. This enhancement will empower them to identify and prevent risks, protect their legitimate rights and interests, and effectively utilize digital inclusive financial services.

Second, relevant laws and systems must be established to safeguard the rights and interests of consumers involved in digital inclusive finance. A regulatory system for financial inclusion should be developed that aligns with China's national conditions, providing legal and effective protection for the rights of financial inclusion consumers in terms of their rights and obligations, data collection and usage norms, and data security.

Third, a comprehensive system should be established to safeguard the rights and interests of financial consumers. Under the leadership of financial regulatory authorities, a dedicated Financial Consumer Rights Protection Committee should be formed alongside relevant government departments to address complaints from various types of financial consumers, including those in digital inclusive finance. This committee will help protect their rights and provide professional assistance in safeguarding their interests.

4.4. Improving the credit investigation system

First, building a robust credit information system is crucial to achieving comprehensive coverage of digital-inclusive financial groups. The traditional credit investigation system relies excessively on historical credit information, which does not adequately meet the needs of digital inclusive finance. Wu's theory of "three-dimensional structure" categorizes credit into three dimensions: the degree of trust, compliance, and adherence. Guided by Wu's theory, this project aims to leverage financial technology to comprehensively collect various big data reflecting the integrity, compliance, and performance of enterprises and individuals. A credit evaluation system based on big data analysis, artificial intelligence, and other digital technologies will be constructed to provide reliable assessments of credit status for enterprises and individuals. This comprehensive credit management approach will support the development of digital inclusive finance.

Second, it is necessary to enhance the punishment mechanisms for dishonesty. The existing punishment framework for dishonesty has effectively supported the normal functioning of the social economy and finance. Based on the concept of "credit capital," it is important to promote the recognition of credit as an economic and social virtual asset within the system, enhancing its deterrent effect against credit failures. This will help establish an effective punishment mechanism for credit failures in the context of "digital inclusive finance."

5. Conclusion

In conclusion, the development of inclusive finance not only supports the overall strategic framework of the country and the formulation of phased inclusive finance planning but also facilitates the coordination and sharing of parameters among relevant institutions. The comprehensive implementation of integrated inclusive financial information promotes the establishment of a unified and standardized inclusive financial database. This initiative plays a significant role in building the future inclusive financial system, advancing the development and progress of regions involved in inclusive finance, and providing high-quality financial services to local residents.

Disclosure statement

The author declares no conflict of interest.

References

[1] Sun L 2019, Research on the Path of Inclusive Finance to Boost Rural Revitalization – Based on A Case Study of Inclusive Finance Reform Pilot Zone in Lankao. Modern Economic Information, 2019(24): 295 + 297.

[2] Ma H, Ibreyimu A, Fan J, 2018, Analysis of Inclusive Finance Development Level in Xinjiang – Based on Inclusive Finance Development Index. Xinjiang Finance and Economics, 2018(5): 15–24.

[3] Ma H, 2018, Digitalization Leads the Way of Inclusive Finance – Research on the Development and Trend of Inclusive Finance. Economist, 2018(10): 169–170.

[4] Peng H, 2018, Exploring the Unique Road of Inclusive Finance Development – Interview with Yan Yong, General Manager of Inclusive Finance Department of Industrial Bank. China Credit Card, 2018(11): 23–29.

[5] Sun L, 2018, Research on Sustainable Development of Inclusive Finance – Based on the Practice of Inclusive Finance Reform Pilot Zone in Lankao County. Finance Theory and Practice, 2018(9): 45–50.

[6] He Y, Wang Y, 2018, Discussion on the Path of Inclusive Finance for Rural Development in Anhui Province From the Perspective of Internet Finance. Business Economics, 2018(12): 103–104 + 163.

[7] Guo R, Gu W, 2020, Innovation Practice of Digital Inclusive Finance. China Financial Computer, 2020(6): 33–36.

[8] Zhang X, 2020, Analysis of Innovation Practice of Digital Inclusive Finance. Economic Management Abstracts, 2020(15): 16–17.

[9] Xiao W, 2021, Can Digital Inclusive Finance Improve Unbalanced and Inadequate Development? Economic Review, 2021(5): 50–64.

[10] Chen B, 2021, Research on the Development of Digital Inclusive Finance. Financial Management Research, 2021(10): 92–100.

[11] Cai W, Xu M, Duan J, 2019, The Development Path, Problems, and Suggestions of Digital Inclusive Finance in China. Financial Technology Times, 29(7): 83–89.

[12] Yan J, 2021, Problems and Countermeasures of Digital Inclusive Finance in Supporting SMEs' Financing. Shanghai Commerce, 2021(8): 32–33.

[13] Zhang X, Peng G, Digital Financial Inclusion Development and Regional Innovation Ability: A Nonlinear Impact Study Based on Data from 282 Cities. Technical Economics and Management Research, 2021(10): 32–36.

[14] Zhang Y, Zhou Y, 2021, Digital Inclusive Finance, Traditional Financial Competition, and Rural Industry Integration. Journal of Agrotechnical Economics, 2021(9): 68–82.

[15] Kong X, 2020, Digital Financial Inclusion, Spatial Spillover Effect, and Income Growth: Based on Urban-Rural Dual Aggregate Empirical Analysis. Journal of Dongbei University of Finance and Economics, 2020(3): 61–68.