

# Digital Financial Inclusion Innovation for Large and Medium-sized Commercial Banks

## —Case of the Agricultural Bank of China

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### ABSTRACT

Large commercial banks are critical financial entities in the development of inclusive finance, and they should play an essential leading role in the development of inclusive digital finance. Large commercial banks often face challenges in developing digital financial inclusion. Therefore, some banks have begun to explore the acceleration of digital transformation, accelerating financial technology, and reforming their business models. This article takes the Agricultural Bank of China as an example to explain its innovative measures and difficulties in inclusive digital finance. It provides a reference for large and medium-sized commercial banks to promote the development of inclusive digital finance.

**Keywords:** *Digital financial inclusion, Large and medium-sized commercial banks, The Agricultural Bank of China, Innovation*

### 1. INTRODUCTION

Digital financial inclusion solves complex problems such as service distance and service time and provides a path for the development of the financial industry. In particular, large and medium-sized commercial banks have economies of scale and can serve the public well. The development of digital financial inclusion is a political requirement for supply-side structural reforms and an economic strategy that regulates the main contradictions in the current society[1]. In particular, China has paid special attention to the development of digital financial inclusion in recent years. After several years of practical development, some traditional commercial banks have achieved remarkable results in exploring the development of inclusive digital finance. Large commercial banks are critical financial entities in the development of inclusive finance, and they should play an essential leading role in the development of inclusive digital finance. Large commercial banks sometimes face challenges in developing digital financial inclusion.

Some large and medium-sized retail banks have blindly imitated and remained stuck in the exploration of inclusive digital finance, which has made the financial industry fall into the trap of homogeneity competition. The development of Hewlett-Packard

Finance, a large and medium-sized bank, often requires inclusiveness, especially when taking digital action. Only with more inclusiveness can there be more innovation [2].

With the development of digital technology and the advent of the 5G era, the traditional inclusive financial model has further aggravated the problems faced by commercial banks such as high operating costs, low efficiency, high risk of bad debts, and lagging follow-up services [3]. The Agricultural Bank has successfully achieved breakthroughs through innovation and other initiatives. The bank successfully solved the problems mentioned above and effectively realized the sinking of users, stood out in the fierce financial industry competition and explored a unique "agricultural bank model" in practice [4]. Which ones are included in these modes in these modes? This article takes the Agricultural Bank of China as an example to explain its innovative measures and difficulties in inclusive digital finance. It provides a reference for large and medium-sized commercial banks to promote the development of inclusive digital finance.

## **2. FOLLOW UP THE DEVELOPMENT OF THE TIMES, CHANGE THE DEVELOPMENT THINKING, AND ADAPT THE SUPERSTRUCTURE TO THE MARKET FOUNDATION**

Different from other commercial banks' pilot or sectoral explorations, ABC closely follows policies and market development laws, formulates and implements top-down digital transformation and development strategies in a timely and timely manner, with the help of technology and property innovation, Take the lead in bringing digital financial inclusion to the market and accurately grasp the market opportunities.

On the one hand, provide vital financial support. Many empirical studies show that adding appropriate capital investment is conducive to the development of banking industry[5].The Agricultural Bank of China continues to invest in technological innovation based on customer needs.

On the other hand, strengthen the construction of scientific and technological innovation teams. During the development of digital financial inclusion, ABC has established talent and technology sharing mechanisms with domestic and foreign universities such as Tsinghua University and the University of Electronic Science and Technology and has vigorously introduced excellent talents such as software development, product managers, data analysts, and information security. Driven by the innovation reward mechanism, a team with outstanding business skills and exceptional innovation capabilities has been built in the industry, providing a foundation for developing digital financial inclusion. Use technology innovation as a carrier to empower the development of inclusive digital finance [6].

The Agricultural Bank of China insists on optimizing and upgrading the financial technology development system and improving the innovation path. By strengthening the intelligent collaboration capabilities of "mobile banking + remote banking + "smart branches," it provides bank customers with a variety of experiences; through investment in major strategic projects and talents in crucial areas, it provides a talent pool for realizing bank's digital financial innovation; At the same time, the Agricultural Bank of China insists on the integration of wealth management, payment and financing, and makes further efforts to achieve innovative development.

## **3. BUILD A DIVERSIFIED DIGITAL FINANCIAL INCLUSIVE PRODUCT SYSTEM TO INCREASE MARKET SHARE AND SERVICE EFFICIENCY**

The Agricultural Bank of China uses digital analysis as the carrier and product innovation as the driving force. The Agricultural Bank of China eliminates violations and imposter operations, strengthens the real-name system management of system operations, and effectively prevents operational risks; automatically pushes risk information, policy systems, regulatory requirements and other information to the bank's credit officers through system prompts, mobile phone SMS notifications, etc., for business Approval, provides intelligent support. For important risk information, the system directly intervenes in business decision-making and enforces rigid risk control. Through the computer, mobile phone and other terminal equipment, combined with corporate business to create an Internet financing platform, not only reduces the bank's labour expenditure and additional operating costs but also effectively improves small and micro-enterprises. The financing efficiency of China has solved traditional problems such as difficulty in the financing, high rates, and slow lending to a large extent. Small and micro-enterprises can realize remote operation, automatic authorization, and automated lending through the digital financing platform.

In addition to digital financing platforms such as "Weijiedai" and "tax e-loan" for small and micro enterprises, the Agricultural Bank of China has also launched a comprehensive service platform, "E-Tong," in line with the development needs of agriculture, rural areas and farmers. Chinese farmers can be in the process of agricultural modernization. Realize four significant products and services: online wealth management, online payment, online loan, and information inquiry without leaving home.

Through modern Internet technology, ABC uses digital financial products to identify customer needs accurately and significantly solve information asymmetry, thereby effectively improving financing and capital-output capabilities. Compared with the traditional inclusive finance model, its effects are more diversified, the service radius is extended, and the individual needs of different customers can be solved.

The Agricultural Bank of China promotes opening up and integration, actively exploring the formation of an open, cooperative, and win-win digital ecosystem, and continuously expanding channel extensions through self-construction and co-construction. The cloud life ecosystem dominated by banks, channels, charging units, and users, fully integrates finance and life scenarios. The development of digital Inclusive Finance has also greatly helped people in rural areas, who can be applied to agricultural production through convenient services [7]. The platform currently has 500 million daily payment transactions, 60 weekly access payment projects, cumulative access projects that have exceeded 10,000, and more than 500 cooperative export

merchants. A broad digital footprint often leads to greater financial inclusion [8].

#### **4. COORDINATE THE INTEGRATED ONLINE AND OFFLINE RISK CONTROL SYSTEM TO RESOLVE FINANCIAL RISKS EFFECTIVELY**

First, the Agricultural Bank of China conducts digital intelligent assessments. Through the Internet financial information-sharing platform, the bank's external information is combined with internal communication, and the Internet is connected offline. In this way, customers' current and expected risk status can be comprehensively, objectively and efficiently evaluated, and the intelligent evaluation of credit ratings can be realized. And then recommend corresponding digital financial products for customers based on their credit status. Large and medium-sized banks can also use big data and artificial intelligence to prevent and control financial fraud and money laundering risks[9].

Second, the Agricultural Bank of China makes digital system decisions. Use OCR technology to realize automatic comparison and identification of customer financial statements, contracts, and other unstructured documents, significantly improving information collection and proofreading accuracy and efficiency.

Finally, the Agricultural Bank of China carries out digital and intelligent monitoring. After the successful lending, the Agricultural Bank of China used the credit risk monitoring platform to timely monitor the customer's money flow, credit information changes, and changes in the assets under the name, and realized the transformation from ex-post reports to pre-predicted risks and greatly improved the ability to prevent and resolve significant financial risks. Combining with the risk characteristics of financial products such as "Weijiedai" for small and micro enterprises, the Agricultural Bank of China has developed exclusive monitoring indicators to promptly and automatically warn of the risks of bad debts after loans. Provide comprehensive intelligent prevention and control of customers' abnormal transaction behaviours, and provide prompts through dialogues with online platforms, text messages, and phone calls. Continue to improve the level of information security dynamic defence and co-processing. Continue to improve the ability to control core technologies in key areas and build financial technology innovative long-term mechanisms.

The Agricultural Bank of China has taken many measures to solve possible problems, but it still faces data security issues. Therefore, to further solve this problem, the Agricultural Bank of China has to solve further problems.

#### **5. CONCLUSION**

By analyzing ABC's digital financial inclusion innovation practice cases, we found that digital financial products can more effectively and quickly meet our diverse financial service needs. But at the same time, because the current data security is still not fully guaranteed, its development also faces many challenges, such as distrusting data providers. It even makes people fundamentally suspect digital financial inclusion. According to statistics, since 2018, the number of large-scale data breaches has been increasing every year. Data security has triggered public panic and worries about digital technology. It will begin a series of chain reactions, increasing financial risks, and its impact will be faster and broader. In summary, financial risks will hinder the sustainable development of inclusive digital finance. Therefore, large and medium-sized commercial banks must pay attention to prevent financial risks.

In the context of the digital economy era, except for the Agricultural Bank, the entire large and medium-sized commercial banking system is facing changes. Some large and medium-sized banks in China have also made significant changes in the development of digital financial inclusion. They have carried out a series of organizational structure adjustments regarding the product innovation system and digital transformation. However, there are still institutional breakthroughs, poor risk tolerance, The regulatory policies of the regulatory authorities need to be further clarified and many other issues.

Therefore, large and medium-sized banks urgently need to establish a differentiated, retail, and systematic system to break through the original restrictions of customer access, quotas, online ratings, and write-off systems. These measures will have a significant and far-reaching impact on commercial banks' current digital financial inclusion and digital transformation. At the same time, large and medium-sized retail banks must re-examine whether their digital transformation business models and management methods can adapt to regulatory policies. On the other hand, it is necessary to strengthen communication with regulatory agencies to avoid lagging in adjusting business and information systems.

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