

# Research on System Construction of Inclusive Supervision of Rural Finance in China

Chao Lv

Jilin University of Finance and Economics, Changchun, 130117, China

**Keywords:** Inclusive supervision, Rural finance, System construction

**Abstract:** The current financial supervision system has caused serious financial exclusion in rural areas, and restricted the development of rural economy and finance in China. We should rethink the development of rural finance from the perspective of inclusive supervision and promote the innovative development of rural finance in China. This paper discusses the concept, characteristics and necessity of inclusive supervision of rural finance and gives the admittance mechanism, regulation mechanism and coordination mechanism of inclusive financial supervision to provide some references for the relative researchers.

## 1. Introduction

With the further development of rural economy and financial system reform, the rural financial system in China has been further developed and developed. Especially after years of reform and opening, rural financial system has evolved from a single national banking system to a co-existence of formal financial institutions and informal finance, which is composed of Agricultural Bank, agricultural development bank and rural credit cooperatives. Due to the long-term catching up strategy, China has formed the dual structure of two urban and Eastern and western regions and the financial system arrangement of urban and rural integration, leading to the rural financial regulatory system cannot better fit the development of the rural financial market. Moreover, the supervision institution has not developed the financial supervision system adapted to the rural financial development in different areas according to the operation and development characteristics of the rural finance in different regions, which leads to many defects in the rural financial supervision system in china. Specific performance: the fuzzy value orientation of rural financial supervision system, information disclosure system has not yet established effective communication mechanism and information, lack of external supervision and restraint mechanism, policy support system is not enough, the regulatory index is not appropriate, the lack of exit mechanism, supervision of the main body complex. Most of the research emphasize the prudential supervision goal, not fully reflect the weakness of financial support and tilt. Although some scholars have proposed to build inclusive financial supervision system, but it is not how to build to do more in-depth research. The characteristics of rural financial operation and development are different in different areas of China. The development of inclusive financial supervision system is helpful to promote the development of rural finance. We should seek innovative path of rural financial development under the guidance of inclusive supervision theory to continuously meet the diversified needs of rural financial services, and make rural finance achieve innovative development.

## 2. Concept, Features and Necessity of Inclusive Finance

### 2.1 Concept

The inclusive financial system is a new financial concept put forward by the United Nations in 2005. It can also be called the inclusive financial system. Its basic meaning is that the products provided by the financial system should be able to provide comprehensive and effective services for

all strata of society, especially the rural class which can serve the disadvantage. The service provided by this inclusive financial system should be equal opportunity and not monopolized by some classes. In other words, inclusive financial system is to benefit farmers, who include primitive inhabitants in agricultural production and small and micro businesses in agricultural processes. Inclusive financial regulation is a new concept based on inclusive finance. The concept of Inclusive Finance was first proposed by Asian banks, and it is a new concept for the rural areas, small business owners and the poor classes. Inclusive finance refers to a financial system that can effectively provide services to all classes and groups of society. Inclusive Finance is the core of Inclusive Finance and sharing, and has the characteristics of sustainability, sharing and universal benefits. In view of the systematic nature of finance, inclusive gold must be differentiated and moderate or flexible financial supervision as the premise, so under the concept of Inclusive Finance, it has extended the concept of inclusive financial supervision. In the process of supervision on rural finance, through formal and informal institutional arrangements, to create a good institutional environment of exercising public power supervision and the formulation and implementation dependent regulatory policy and operational mechanism, to realize the integration and coordination of effective governance for rural finance sustainable interaction.

## **2.2 Features**

Supervision should promote the compliance of rural financial institutions according to law. To ensure the orderly development of the deposit, we should not only have reasonable financial laws and regulations, but also need moderate supervision to ensure the compliance operation of the financial institutions. In addition, to ensure that rural finance has the characteristics of universality and territoriality, as well as protect different areas. It should be sustainable, shared, inclusive and so on. Specifically, inclusive financial system should continue to develop. Rural financial institutions provide high-quality financial services for rural areas, but also ensure their own real interests and win-win results. Inclusive financial system also has the meaning of sharing, to be excluded from the rural financial system outside all farmers groups to accommodate, so that they have equal opportunities to participate in financial construction, share financial results. As for the inclusive is, inclusive financial system should not only serve large enterprises in rural poverty alleviation loans at the same time, let the farmers get their value through inclusive financial products. Supervision should promote the sustainability of the development of rural financial institutions. There are two meanings in this Sustainability: It is financial sustainability, that is, income is equal to or slightly higher than expenditure. It is the sustainability of assets based on no credit crisis, to give higher tolerance of non-performing assets. Inclusive financial supervision should be based on the premise of ensuring the safety of financial institutions.

## **2.3 Necessity**

China has introduced the hook system of financial balance development, and has been fully cooperated by the Ministry of Finance, which is conducive to the innovation of rural financial services. Its essence is to realize inclusive development of rural finance. However, there is still a certain gap between ideal and practice. For example, the new policy has limited influence and the distribution is still unbalanced. Financial inclusion is lagging the overall strength of the financial system, which makes the rural financial institutions unable to meet the needs of agriculture related financial products and services. Therefore, we must reconsider the inclusive development of the rural financial system. This is very necessary. It should be said that inclusive development of rural finance can drive the rapid development of rural economy, make financial services better achieve the coordinated development of urban and rural areas, and fundamentally solve the problem that has been plaguing the construction of new countryside in China. From this point of view, it is imminent to build an inclusive supervision system in rural areas. Specifically, it is the inherent requirement of financial fairness, the only way from urban finance to rural financial development, the only way to promote financial services to poor areas, and the necessary move to eliminate rural poverty. It is also the inevitable requirement to improve the efficiency of financial services, because of the current

financial city has been saturated, while the rural financial demand is very strong, to improve the efficiency of financial services, we should expand into rural financial service system by the city, to obtain the best rural financial environment, promote the development of rural financial market. In addition, the construction of inclusive financial system in rural areas, as well as for their own interests and value realization needs of rural residents, they originally in the financial system occupies a disadvantageous position, it is difficult to enjoy the fair opportunity and inclusive financial services.

### **3. System Construction of Inclusive Supervision of Rural Finance in China**

#### **3.1 Admittance Mechanism**

Regulatory authorities are responsible for the access and exit of rural financial institutions, and prudential supervision of financial institutions, to ensure the sustainability of financial institutions. The regulation of business access mainly refers to the examination and approval of the business and products of the organization within the scope allowed by the regulations, according to the type of organization and the information of the credit. Due to the small loan companies did not deposit business, does not belong to the deposit or banking financial institutions, the current access from around the finance office is responsible for the supervision, but to avoid regulatory arbitrage, prudent advice access of small loan companies and exit mechanism and unified by the rural financial regulatory agencies responsible for the promotion bureau. A clear functional positioning of rural cooperative financial institutions, accelerate the construction of rural financial services for the characteristics of the management and operation system, establish a comprehensive lending procedures, simplify the loan application process, enhance financial services availability and agricultural innovation in financial services, and actively introduce all kinds of system financial products full range to meet the financial needs of farmers, expand farmers small loans face. Secondly, deepen the reform of rural credit cooperatives. On this basis, the function is mainly to innovate business and strengthen institutions, improve profitability and service level, and expand business coverage. The agricultural bank operating agencies in rural areas mainly represent the exchange settlement business of rural credit cooperatives, and promote the expansion of the exchange business of rural credit cooperatives. At the same time, because of the strong financial strength of Agricultural Bank, it can provide a large amount of funds for agricultural industrialization and large-scale agricultural development projects, and can provide financial services for rural residents and other new financial services.

#### **3.2 Regulation Mechanism**

Financial resources are not reasonably and effectively deployed in rural areas, and they play the role of savings mobilization in the form of net outflow. The idea of inclusive growth in the construction of rural financial system is of great significance to improve the service function of rural financial system and to clear the breakthrough point of the new round of rural financial reform. Regulatory compliance mainly refers to the supervision of the consistency between the business conduct of the institution and the relevant laws and regulations. Among them, the main contents of the small loan company regulatory compliance should include: the interest rate regulatory compliance: Loan regulatory compliance, namely single loan amount is a breakthrough: the loan object regulatory compliance, namely whether the business adhere to the principle of territoriality: compliance of funding sources, whether deposits. For other rural financial institutions, regulatory compliance should focus primarily on supervision agencies operating in adherence to the use of funds in agriculture, business dependency, service object membership, namely rural fund cooperatives and credit cooperatives is to serve members. For small loan companies, they should mainly focus on corporate governance structure and internal control regulation. For other rural financial institutions, prudential supervision should include four aspects: corporate governance, internal control regulation, risk regulation and sustainable regulation. Among them, the sustainable supervision mainly includes capital adequacy supervision, reserve adequacy supervision and profitability supervision. In

accordance with the principle of inclusive supervision, the risk supervision indicators of rural financial institutions, capital adequacy indicators and reserve adequacy indicators should be appropriately relaxed in the setting of standard values, while internal control and corporate governance structure should be strengthened.

### **3.3 Coordination Mechanism**

The regulatory coordination department is responsible for the regulatory coordination of the departments and coordination with other regulatory bodies and local governments to avoid regulatory duplication and regulatory vacuum. The supervision and coordination of rural finance should first include the supervision and coordination between two functional departments of the rural finance promotion bureau to avoid the overlap between regulatory overlap and regulatory gaps. Secondly, with the deepening of insurance business and securities business to the western rural areas, especially the mutual agency and penetration between banks, securities, insurance and trust, the coordination of supervision also includes the coordination with the and other regulatory agencies. The coordination departments should include: the establishment of internal supervision and coordination mechanism, bridging the regulatory agencies and business regulatory gaps, to avoid regulatory overlap, establish external supervision and coordination mechanism, realize. The financial policy should reflect the weakness of agricultural projects and infrastructure projects of the national guidance, to meet the needs of the infrastructure construction, innovation in the form of long-term loans, to meet the construction of small towns, agricultural products logistics infrastructure construction, rural power grid, network, communication network construction and the credit needs of commercial finance should fully satisfy the development of peasants the demand scale economy and rural economic entities need to adapt to the needs of the development of small and medium-sized enterprises, improve farmer loan guarantee system will be extended to small and medium-sized enterprises, guarantee mechanism of cooperatives and other areas, supporting the county small and medium-sized enterprises and small enterprises cluster development. The financial risk problem about this type of organization, the regional modular closed management, can effectively reduce the risk, debt risk and financial innovation relative to the modernization of various financing platform of big city of the financial risk, the modular operation is a more realistic way of county.

## **4. Conclusion**

We should guide the innovation of rural financial system through inclusive theory, and provide effective, all-round and fair financial services for low-income groups in rural areas. This requires that we at the micro level, realize the diversification, improve the rural financial infrastructure. The establishment of effective legal and policy framework at the macro level can make the rural financial system obtain the financial services equal to that of the cities and share the results of the financial development.

## **Acknowledgement**

The paper is the result of the Scientific Research Project of Education Department of Jilin Province named “Problems Research on Supervision Absence and System Construction of a New-Type of Endogenous and Cooperative Rural Finance—Taking Jilin Province as an Example” (Grant No. JJKH20170135SK).

## **References**

- [1] Zhang Lin, Li Zijun. Financial Inclusive Development and Growth of Urban and Rural Residents Income in China [J]. *Modern Finance and Economics-Journal of Tianjin University of Finance and Economics*, 2017(10): 38-49.
- [2] Jia Jin, Xiao Jian. The Innovative Development of Rural Inclusive Financial System in the

Context of Taking Targeted Measures for Poverty Alleviation [J]. *Theoretical Investigation*, 2017(1): 70-75.

[3] Wang Fengfeng. Inclusive Effect of Rural Financial Institutions in Northeast China [J]. *Journal of Shenyang University (Social Science)*, 2017, 19(3): 257-260.

[4] Wang Xiuhua, Guan Jian, Gu Xi. Study on the Provincial Differences of Financial Inclusion and Influencing Factors in Rural China [J]. *Economic Review*, 2016(4): 50-62.