

# Research on the Development of Inclusive Finance in China\*

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**Abstract**—Currently, inclusive finance has become the realistic choice of China's financial development strategy. Through analyzing the problems existing in the development of inclusive finance in China, the paper puts forward some countermeasures and suggestions to optimize the development of inclusive finance.

**Keywords**—*microfinance; inclusive finance; finance code*

## I. INTRODUCTION

Inclusive finance was first proposed by the United Nations in 2005 to promote microcredit, which is all about the community. The financial system that provides efficient financial services, especially those with low income and poverty, can realize the common prosperity of the society. The world bank's consultative group on poverty alleviation (CGAP) believes that inclusive finance is a better use of various financial services to meet the needs of financial services. Thought at present: the concept of inclusive finance is an extension of microfinance and microcredit, which can be seen that inclusive finance is the result of microfinance and microfinance, but higher than that of the two. Because the inclusive finance from the service object and service scope are far more than the microfinance and microcredit. One of the concepts about inclusive is "universal", which reflects the various financial institutions service main body being equal and everyone should enjoy a full range of financial services, the other concept is "benefit", which embodies financial support for the poor. It aims that, through the financial quality of services, we can improve their standard of living, as well as a few small micro enterprises, private enterprises and other financing channels. Therefore, the only way to achieve the real meaning of inclusive finance is to achieve the real value of financial equality. At the same time, the inclusive finance also reflected the height of comprehensive innovation, which extended the target customer group, creating new financial products and financial services, then,

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realize the whole society to enjoy high quality financial services goal. The development of inclusive finance cannot depart with healthy financial ecology.

## II. PROBLEMS EXISTING IN THE DEVELOPMENT OF INCLUSIVE FINANCE IN CHINA

### A. The Development of the Financial System Is Uneven

In 2014, the people's bank of China (PBC) applied factor analysis method to the 31 provinces, autonomous regions and municipalities directly under the central government. This paper carries on the research and the empirical analysis, calculates the comprehensive score of the financial development level, and constructs the comprehensive evaluation model. Statistics show that in 31 provinces, autonomous regions and municipalities directly under the central government, only seven provinces are above average of comprehensive score, which means 7 provinces inclusive finance development level is higher, and the rest of the 24 provinces inclusive finance development level is low. And the inclusive finance development level of 31 provinces are grouped, however, the development of Beijing and Shanghai is seem to be imbalanced. Among them, development level is higher than other provinces, most of other areas in China inclusive finance development level is still at a relatively low level, which shows that in our country still need to construct a constantly perfect inclusive finance service system. At present, China still has no index system suitable for China's national conditions, which hinders the development and deepening of inclusive finance.

### B. Financial Services Supply and Demand Asymmetry

There is a great gap between the supply of financial services in China and the demand of financial services, which cannot satisfy the financial services demand. From the demand of financial services, they are low income or even poor people or small and micro businesses group. For financial institutions, they have a common characteristic: low interest and a fragmented demand for finance. The demand for capital is mainly small and short-term because of the constraints of economic conditions and lack of sufficient collateral, which leads to the occurrence of risks. From the main body of the supply of financial service, at present, there are commercial Banks, rural credit cooperatives, trust companies, small loans companies, security companies, etc. In recent years, private lending financial is also involved,

and the Internet for some regular large financial institutions focuses on high-end customer group. The financial industry and the financial services are imbalance, reflecting financial inequality is in front of everyone. Financial institutions tend to overlook some low-income groups and small micro enterprise, thus resulted in the asymmetry of supply and demand of financial services. In addition, the above financial institutions have unbalanced regional distribution, as well as some large and medium-sized cities, a few urban and rural institutions, which fully account for the imbalance of resource allocation. So these vulnerable groups have to focus on the folk financial borrowing and the Internet. The Internet financial is a new born in the area of the financial industry, getting the favor of inclusive finance demand subject. But due to the high risk of default probability, high risk led to these groups, to a certain extent, to curb the inclusive finance development. So, focusing on the high-end customers at the same time, financial institutions should be paid more attention to the financial needs of the vulnerable group, and strive to design inclusive finance related products and services. Concept rate on the real demand of target audience, then, tailor financial products for them. Such as: "microcredit", "micro-payment" and other financial services. At present, the more successful international inclusive finance development model are the Bangladesh's grameen bank microfinance projects, Brazil at the federal reserve bank of agency model, the m-pesa in Kenya mobile banking. The financial institutions of our country can draw on these mature experiences, and investigate the unique financial demand preference and characteristics of low-income groups, and design the financial products.

### III. THE COUNTERMEASURES AND SUGGESTIONS FOR DEVELOPING INCLUSIVE FINANCE

#### A. *Market Expanding the Scope of Inclusive Financial Coverage*

At present, there is no preferential financial service in remote areas of our country, and there is still a "binary" financial ecological structure of urban and rural areas. To develop inclusive finance and optimize the financial environment, we need to vigorously promote innovative financial products of financial institutions and enhance the initiative of these institutions to carry out inclusive finance. The postal savings bank, as a pioneer in inclusive finance, has developed inclusive finance in the retail business. In 2013, the postal savings bank has reached more than 39,000 branches in urban and rural areas in China. Over the past six years, there have been more than 800 million yuan of microfinance loans and more than 8 million service customers. Zhengzhou lankao also established the inclusive finance reform test area, test area including multiple levels of coverage, and other characteristics of inclusive finance system, so as to realize the rural households, rural industry and rural township group of target coverage, further promote the Lankao county economic development. It is fair to say that developing inclusive finance is an ideal way to get people out of poverty. Nowadays, China's banking, securities, insurance, and separate operation management system formed the government finance, commercial finance and

cooperative finance co-exist, and inclusive finance development needs to raise capital demand, while the supply of money not only requires the participation of more financial institutions, but also needs to develop an auto financing company, financing, loan company, rural financial support, village banks and currency brokerage companies and other emerging financial institutions. Nationally, the southern financial system is more developed.

Therefore, to improve the inclusive financial system, on the one hand, the products and functions provided by financial institutions should be diversified. In addition to the traditional class bank deposit products, should also provide settlement, payment, credit, lease, multi-level products and services such as pension insurance, further to the development of insurance, credit, futures business, play to the role of the different kinds of financial products together, inclusive finance ecological environment optimization. Gradually expand, on the other hand, inclusive finance financial services customer coverage, and the service object from urban white-collar workers, expanded to small micro enterprise, disadvantaged groups and low-income customers in less developed areas, so as to enhance the capacity and inclusive finance the sustainable development of the financial system service level.

#### B. *Build a Comprehensive Risk Management System*

The low inclusive finance admittance threshold, increase the risk of the financial industry. Therefore, risk management become the highlight of a financial institution, which requires some inclusive finance business financial institutions should establish a comprehensive risk management system as soon as possible. In particular, there is the need for timely and effective risk reporting systems and independent audit institutions and risk control. In addition, risk management is more inseparable from effective internal control procedures, management of employees, system support, cultural construction and sound financial ecological environment construction.

The grameen bank of Bangladesh adopts the effective and unique risk prevention and control measures to implement the dynamic incentive lending mechanism in terms of repayment risk prevention. Due to the target audience is poor small loans, most lenders when applying for loans own all property cannot reach the minimum guaranteed bank loans, the bank requires after each of the owners to apply for a loan need to join a team consists of five lenders loan of 40 lenders and loan center, Each team member to other members of the repayment of supervision, if all members of the team can on time reimbursement, so they can get bank loans, again if one default in the team, so team members can't again to get bank loans.

Visible, the method of risk management, transferring bank supervise and examine the cost of the project quality to borrowers, through the way of supervision from each other and jointly and severally liable, let borrowers' repayment consciously, so as to effectively prevent the moral hazard.

### C. Establish and Improve the Credit System

In 2014 the people's bank of China issued "about to speed up the small micro enterprise and the opinions of the rural credit system construction, deployment of widening the small micro enterprise and development of the rural credit system, further improve the credit system construction, the basic framework and work content. Because the financial target group is the low-income group, most of them in remote areas, in these groups, are not included in the central bank's credit collection system. The current domestic most of the rural areas still has credit consciousness, financial institutions lack of effective ways and means to control credit risk, which fully demonstrates that the financial credit system has a lot of work to improve.

This requires that the supply principal of inclusive finance should energetically assist the central bank and other regulators to collect customer credit information, establish credit information of electronic files, Construct a complete and reasonable credit collection credit rating system. In addition, we should expand the coverage of credit system, foster third-party credit rating agencies, and increase customers' awareness of trust and credit. At the same time, focusing on their financial needs enhances the efficiency of financial transactions and increases the effective supply of inclusive finance.

Through establishing and perfecting the credit system, optimize the inclusive finance services of credit environment, so as to realize the more sufficient funds flow to low-income and vulnerable groups, solve the difficulty in their capital requirements. Therefore, the improvement of our credit environment is a systematic project, and the establishment of a credit system is of great significance to the development of inclusive finance. At present, Peru has established a relatively perfect credit collection system, with four credit bureaus, including one state credit agency and three private credit bureaus. Its credit information system also connects the tax management system with the id card system, which mainly records the debt information of small and micro financial institutions. The system divides the debtor into general and specific debtors. For general debtors, to record the credit limit and debt balance, loan assignment and guarantee. Specific debtors are more detailed on their records, such as credit incentives and exits, risk patterns, guarantees and transfers.

## IV. CONCLUSION

China is currently in the economic transition period, the reform of interest rate liberalization accelerates. The deepening of reform in the financial sector and the continuous change of the financial environment of the financial sector have made the new Internet finance, mobile finance and Internet finance new force new. This is a new challenge to the service level, innovation ability and business model of inclusive finance. It also enriches the connotation of inclusive finance. In conclusion, financial institutions should establish and improve reasonable supporting measures and systems in combination with the development concept of foreign inclusive finance. To realize the financial

equality of social groups, fundamentally solve the incoordination of financial development, the imbalance of financial resources and the inequality of financial services. Thus, it can effectively improve the economic situation of vulnerable groups and realize the goal of financial equality.

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