

# Research on the Development of Inclusive Finance in China's Commercial Banks

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**Abstract:** *At present, China's commercial banks are actively exploring the practice of digital transformation. Through big data, artificial intelligence and other financial technologies, we will develop inclusive financial services and product models, and solve the problems of difficult and expensive financing in the private economy. This paper introduces the development of inclusive finance in China, points out the difficulties in the development of inclusive finance in China's commercial banks, and discusses the changes that can be brought by the development of inclusive finance. By introducing the digital financial inclusion index, a simple regression is made to the prospects of the banking industry and the profitability of banks, and the positive relationship is proved. Finally, some suggestions are put forward for the development of inclusive finance in China.*

**Keywords:** *Commercial banks, Inclusive finance, scientific and technological progress*

## 1. Introduction

In order to solve the difficult and expensive financing problems of the private economy and effectively improve the ability and efficiency of banks to serve the real economy, the Chinese government adopted and published the G20 High-level Principles of Digital Financial Inclusion at the G20 Summit in September 2016, advocating the use of digital technology to promote the development of inclusive finance. In 2018, 2019 and 2020, the People's Bank of China and The State Council successively issued the Opinions on Further Deepening Financial Services for Small and Micro Enterprises, The Fintech Development Plan (2019-2021), and the Reply of The State Council on Comprehensively Promoting the Comprehensive Pilot Program of Expanding the Opening of Beijing's Service Industry, and other policy suggestions. On May 13, 2020, the National Development and Reform Commission launched the Digital Transformation Partnership Action (2020), which includes large state-owned commercial banks, joint-stock commercial banks and city commercial banks, aiming to foster new forms of digital economy. [1]

## 2. Quantitative Analysis

### 2.1 Selection of Data

In this paper, the digital financial inclusion Index from 2011 to 2018 published by the research group of Digital Finance Research Center of Peking University in April 2019 is selected as the measurement index of the development of digital financial inclusion in China. Then the banking industry prosperity index and the banking industry profit index in CSMAR database are selected as the explained variables. [2]

### 2.2 Model Establishment

The banking industry sentiment index and the banking industry profit index are respectively taken as the explained variables. Referring to Tian Juanjuan (2019), the total index of financial inclusion development released by Peking University was selected as the explanatory variable. The above variables are denoted as Y1, Y2 and X respectively. At the same time, in order to maintain the data stationarity and eliminate the need of heteroscedasticity, logarithmic processing is done for the exponent.

The regression equation is:

$$\ln Y_i = \beta_0 + \beta_1 X + \varepsilon$$

### 2.3 Regression Results and Analysis

1) The Bank outlook index

*Table 1 to Regression results*

Variable	
X	0.18* (0.49)
Cons	8.644*** (7.96)
N	8
R2	0.129

2) The return of the banking earnings index

*Table 2 to Regression results*

Variable	
X	0.09** (0.06)
Cons	1.644* (24.33)
N	8
R2	0.10

According to the regression data, it can be concluded that both the banking outlook index and the banking profit index have a positive relationship with the digital financial inclusion index. With the increase of the digital financial inclusion index, both the banking outlook and the banking profit will increase.

### 3. Significance of the Development of Inclusive Finance by Commercial Banks

In China's existing banking system, large state-owned banks have the largest market share. Large commercial banks have their unique advantages in developing general financial problems. Financial inclusion does not mean to rebuild a new set of inclusive financial institutions and banking system, but to achieve greater inclusion of financial services on the existing system. In the past decade or so, large commercial banks have engaged in many services that are inclusive, serving both high-end customers such as large state-owned enterprises and "low-end customers" such as small and micro enterprises, agriculture, rural areas and farmers. Although large banks do a considerable amount of business in cities, they are relatively weak in the rural sector. However, this part of the missing services are also made up through other ways, such as postal Savings Bank, Rural Credit Cooperatives, rural commercial banks and other financial institutions. [3]

At the present stage of China's economic development, it is of great significance to propose that large and medium-sized banks should establish general financial division. The original idea was to encourage banks to focus more on serving the "small and weak". This is extremely important for the overall promotion of financial undertakings.

### 4. Problems Existing in the Traditional Financial Services of Commercial Banks

At present, the current financial service mode of commercial banks in China has lasted for decades, and the long-term operation has brought great progress to the development of commercial banks, and its anti-risk ability and risk prevention and control ability have been improved. However, commercial banks still have some deficiencies in the process of facing traditional financial services, which will become increasingly obvious with the development of society, which restricts the development of commercial banks to a certain extent. [4]

(1) Unbalanced financial services provided by commercial banks

At present, there are regional differences in financial resources in most regions of Our country, and there is a big gap between the financial resources in developed and underdeveloped regions. Beijing, Shanghai, Guangzhou and other developed areas have the highest level of financial services, while the level of financial services in northeast China, Yunnan and Guizhou is relatively low. The financial services of commercial banks are mainly concentrated in urban areas, and the gap between the financial services of rural areas and cities is still very large. Especially after 2005, a large number of commercial banks in the county areas of the withdrawal of commercial banks exacerbates the lack of financial services, making the commercial bank financial services in rural areas gradually become blank. The customer service group of commercial banks has also been affected by the 80-20 rule. Financial resources and financial services are concentrated in a small number of 20% of customer resources, while the rural customer group can obtain few financial resources and services.

(2) The financial system of commercial banks is not sound

For a long time, the development of commercial banks has been completely dependent on the traditional development concept and experience mode, and most of the financial resources are mainly indirect financing, which makes the development of commercial banks lag behind seriously. At the same time, commercial banks are profit-oriented financial institutions, and they all pursue the maximization of interests, which leads to the neglect of commercial banks' own social responsibilities, thus affecting the implementation of national development and policies to protect vulnerable groups.

(3) imbalance between supply and demand of financial services of commercial banks

The previous article has described the empirical concept of "80-20 rule" of commercial banks, highlighting the financial services and financial resources that 20% of excellent customer groups have received. The financial resources and services for small and medium-sized enterprises and small and micro enterprises as well as remote areas are formalized or even blank, but the financial resources and services needed by small and micro enterprises and remote areas are the most in demand. They are restricted by credit rating, which leads to a serious lack of motivation for financial services, which also shows that the supply and demand of financial services of commercial banks is very unbalanced.

## 5. The Development Difficulties of Traditional Inclusive Finance of Commercial Banks

(1) The problem of information asymmetry is prominent and the operating cost is too high

First, the information of small and micro enterprises is not transparent. Due to the non-standard operation of small and micro enterprises, information transparency is poor, financial statements and tax audit information lack of standardization. Second, information asymmetry between banks and enterprises. Due to the poor transparency of small and micro businesses, the integrity and authenticity of the information submitted by small and micro businesses when they apply for loans cannot be guaranteed, and it is difficult for banks to grasp the true financial situation of small and micro businesses, and they cannot accurately conduct risk assessment. Information asymmetry leads to high cost for banks to collect and process information from small and micro enterprises. In order to control credit risks, banks have to raise the loan price for small and micro enterprises and set stricter loan conditions. The increase of the price of small and micro finance in banks, on the one hand, leads to fewer and fewer high-quality customers, and more and more risk-oriented customers, "adverse selection" problem is obvious; On the other hand, it causes the problem of "moral hazard", and the customers win high returns with high risks, thus producing the "risk incentive effect".

(2) The degree of refinement of marketing management is low, and the customer stickiness is poor

Commercial banks' traditional inclusive finance business marketing management efficiency is low and customer stickiness is poor. First, a scientific and reasonable customer evaluation and stratification mechanism has not been established. The bank's internal and external data quality and quantity problems are prominent, which affect the comprehensive and accuracy of customer evaluation. Second, the lack of effective intelligent marketing system support, can not integrate customer resources, can not accurately match customer marketing strategies through data analysis. Marketing is still dependent on labor and has not been fully realized online, and the efficiency of marketing management needs to be improved. Third, the transformation of intelligent and light physical branches of banks is slow, which cannot fully release the labor force of branches and support the inclusive finance business. Most outlets do not have professional staff of Pratt & Whitney small and micro loans, so the concept of retail credit is not deep and the professional ability is weak. Fourth, the linkage mechanism between customer manager and product manager has not yet been formed, and the responsibilities of customer

management have not yet been clarified. Some customers are not equipped with customer managers in time, which affects the subsequent customer maintenance and the in-depth exploration of customer value.

(3) Lack of obtaining scenes and inadequate customer coverage

In the past, the traditional customer acquisition method of "physical network + marketing" of commercial banks has high operating costs, and banks will focus on large enterprises and big customers, namely the traditional "20-80 law". Scene marketing needs to be strengthened, mainly reflected in: first, the lack of specialized technical team support; Second, single marketing means, insufficient customer resources, the lack of more perfect electronic channel marketing management tools

(4) The business process intelligence level is low, and the customer experience is poor

At present, commercial banks' inclusive finance offline loan product business still mainly relies on customer managers' on-site investigation and offline filling in the pre-loan investigation, in-loan approval and post-loan inspection. It is still a human-intensive business with a low degree of system automation. Commercial banks' inclusive finance offline loan products need to acquire customers offline, and the pre-loan investigation can not introduce external data such as industry and commerce, tax, etc., for the time being, and the pre-loan investigation is cumbersome. The approval of business in the loan requires manual approval, and the level of standardization in the approval link is low and the efficiency is not high. After the loan, the risk identification and warning of big data has not been introduced, and the intelligence level in the business process is low.

(5) Insufficient innovation of risk control technology and low efficiency of risk management

The risk control of commercial banks based on big data technology started late, and the credit risk management system is not perfect. First, the risk control model is backward, and the overall risk control ability of inclusive finance needs to be improved. The risk prevention and control system of inclusive finance has not yet applied big data and artificial intelligence technology to build an automated and intelligent model of credit risk management, and commercial banks cannot monitor the risks of small and micro enterprises in the whole process. Second, lack of professional data mining technology, lack of data dimension. The quality of external data is poor, the degree of standardization of many key data information is not high, and the caliber of data statistics is inconsistent. Third, the efficiency of post-loan management is not high. Field investigation, manual inquiry and other methods are mainly used to identify and predict the credit risks of small and micro enterprises. These traditional methods not only cost high, but also have low efficiency.

## **6. Progress Brought by the Development of Digital Inclusive Finance by Commercial Banks**

The development of society and the improvement of science and technology have accelerated the application of digital technology in the financial field. Digital finance can break through the constraints of traditional financial services and play a promoting role in the practice of inclusive finance by commercial banks. On the one hand, digital inclusive finance can increase the coverage of commercial banks. The development of digital finance is mainly accomplished by relying on the Internet, which breaks the limitation of time and space. On the other hand, digital inclusive finance carried out by commercial banks can reduce the cost of financial services. Commercial banks are affected by traditional financial services and restricted by network layout, and the cost to expand the scope of the business is very large. However, the development of digital inclusive finance for commercial banks can save the cost very well. With the Internet and terminal equipment as the carrier, the cost can be effectively reduced. In addition, big data and cloud computing can be used to better obtain information and mine information, directly and effectively reducing the risks of commercial banks. [5]

The development of digital inclusive finance by commercial banks can effectively improve the market share of bank customer groups. The traditional financial mode restricts the development of commercial banks, so that the competition of commercial banks mostly comes from high-quality customer groups. Who has a large number of clients, who will have the advantage. The emergence of inclusive finance enables commercial banks to develop more customer groups, and tapping the potential of these customer groups can effectively improve the market share of commercial banks, and then enhance the dominant position of commercial banks.

## 7. Policy Suggestions

Based on the above analysis and demonstration, this paper proposes the following policy recommendations:

### (1) Establish the concept of inclusive finance, focusing on services and strengthening weak links

At present, China's economy is in a critical period of transformation and development and comprehensive poverty alleviation. Small and micro enterprises, "agriculture, rural areas and farmers" and other customer groups are the weak link and "depression" in China's financial service sector. Commercial banks should seize the opportunity to strengthen the concept of inclusive financial development and market positioning of serving agriculture, rural areas and farmers as well as "small and micro" services. First, to popularize inclusive financial knowledge, a long-term mechanism of financial knowledge popularization should be established in all parts of the country, especially in poor and backward areas, to improve national financial literacy, enhance consumers' risk awareness, improve their ability to obtain financial services, let people know how to cherish their credit, so as to change their fate. Second, we should gradually cultivate a culture of inclusive finance. By strengthening information disclosure, establishing service standards, strengthening risk warning and other diversified means, the transparency of inclusive financial services will be provided and the legitimate rights and interests of consumers will be fully protected. Digital inclusive finance is gradually recognized by consumers, especially rural residents' recognition of non-cash financial services, which will become an important driving force to promote the development of digital inclusive finance in China.

### (2) Further promote convenience services. Let financial contagion take root.

With the help of digital technology, how to build the inclusive customer acquisition model of mass marketing, product standardization, precise management, process and risk diversification, which can not only extend the service space, but also effectively reduce the cost, is a realistic task faced by the business development of inclusive finance. First, adhere to the e-banking business priority development strategy. Integrate electronic channels such as personal e-banking and mobile banking into an online transaction service platform with complete varieties and good experience; At the same time, relying on the offline marketing service platform with rich equipment and convenient process, we actively build an integrated online and offline financial service network, so that customers can access financial services anytime and anywhere without obstacles. This not only significantly reduces the cost of doing business, but also increases the coverage of financial inclusion services. Second, we will actively promote the Internet plus financial service model. With the continuous popularization of the Internet in underdeveloped areas and rural areas, the use of smart phones and the improvement of personnel quality, banks should take the opportunity of the construction of the Internet financial cloud platform, take data analysis as the engine, and try to open convenient financial services such as agent financial management, fund agency, small and micro loans. We have effectively improved our support for financing services for agriculture, rural areas and farmers, small and micro businesses, and individual entrepreneurs, and effectively improved the quality of our services. Third, build an efficient credit review and approval mechanism. For pratt & Whitney financial families, small volume, single amount, the characteristics of vertical management system by pratt & whitney financial department, directly to pratt & whitney financial services customers, optimize business processes, lower the examination and approval authority, specializing in "specialize commissioner", such as innovative microfinance with borrowed also, improve efficiency, promote the general financial roots ". Fourth, financial services should be convenient and convenient. Network information technology itself is complex, when it is applied to the field of inclusive finance, it should not deliberately complicate the service, but through.

The operation interface, real-time online customer service and easy to understand contract terms make the service easier to operate and avoid new financial exclusion of vulnerable customers due to relevant skills.

### (3) Increase innovation of common data problems and improve financial service mechanism

First, innovate business models. For example, commercial banks can set up branches in poor areas, extend service outlets to communities and towns and towns, and gradually increase the proportion of financial products suitable for the needs of low-income customers by buying or holding shares in small loan companies and rural banks and other innovative models. Second, innovative financial products, Banks to expand through innovation pratt & whitney financial microfinance products such as small small micro enterprise credit loans, tax credit loans, standard factory building mortgage loan, the farmers of microcredit loans, rural youth entrepreneurship and poverty alleviation loan small discount

interest loans, etc., strengthen the financial targeted for weak links in economic and social development services. Third, we will step up service innovation. Differentiated design should be carried out in credit line, loan term, guarantee mode, capital price, etc. Under the premise of controllable risks, credit standards of inclusive financial service objects should be appropriately reduced, procedures simplified, and the scope of financial resource input expanded to make positive contributions to the optimization of credit structure. Fourth, improve the level of inclusive financial services in multiple dimensions, such as applying big data to deeply dig information, realizing precision marketing to achieve the scenario-based services of Inclusive financial services, designing personalized financial products and services for customers, and improving customer viscosity by optimizing the experience of financial services. In addition, the application of big data evaluation technology can cover customers that are difficult to be served by traditional finance, and greatly improve the coverage rate of inclusive finance.

#### (4) Improve the internal control system and effectively control risks

First, comprehensive risk management should be carried out. We should carefully grasp the appropriate balance between innovation and development and risk prevention, and keep the possible risks brought by financial innovation within a manageable, controllable and tolerable range. Analysis tools such as scenario analysis should be used to predict risks, and process management should be strengthened to prevent risks in advance. In the process of product innovation, risk management departments should be involved in advance to prevent risks before they happen. Secondly, big data technology should be used to improve the risk control level, improve the information transparency of the supply and demand sides of financial resources, and improve the risk pricing, evaluation, identification and control ability of inclusive finance. To avoid information asymmetry, we should not only properly control risks, reduce risk management costs, but also promote the development of inclusive finance.

#### (5) Improve policy support and optimize the ecosystem of inclusive finance

In recent years, the state has issued a series of targeted preferential guidance policies, but from the perspective of the operation of the policies, it is necessary to further optimize and improve, highlight sustainability, so that commercial banks can engage in inclusive financial services at ease. We will strengthen infrastructure development. It is suggested that government departments should further expand the investment scale in rural informatization construction, provide certain financial subsidies or fee reduction, reduce the cost of using the Internet for farmers, and provide favorable environmental conditions for expanding the coverage of xihui finance. Second, a policy framework should be established to promote the development of inclusive finance. To increase the effective supply of inclusive finance, appropriate risk compensation mechanism should be established, and policy support should be given to commercial banks to provide payment and settlement services, microcredit and other businesses to rural areas and urban low-income groups. Third, establish a data sharing mechanism. Suggested that the government department unified data standard and format as soon as possible, break the pattern of information island between data resources, integrate scattered in financial institutions, judicial, industry and commerce, taxation, utilities and other departments of the credit information resources, form a unified information sharing platform, improve the social credit system, lay solid foundation for the pratt & whitney financial services. Fourth, it is suggested to remove legal and institutional obstacles as soon as possible, improve the rural mortgage guarantee system, improve the right confirmation, evaluation, registration, transaction and other operational norms, to create a good market environment and legal environment for the disposal of rural property rights mortgage. Fifth, the government should revise and improve relevant laws and regulations, establish a risk prevention and control system that organically combines legal constraints and industry self-discipline, strive to establish a fair, open and just legal system and regulatory measures, strengthen financial supervision, ban industrial chaos, and truly safeguard the rights and interests of xihui financial customers.

## 8. Conclusion

The emergence of digital inclusive finance has played an inestimable role in the economic development of commercial banks, and has also been strongly supported by the state. Since the G20 Summit in 2017, the deep integration of digital technology and inclusive finance has become an opportunity for the development of innovative commercial banks. Countries around the world are seeking a new model of inclusive finance based on digital, thus promoting the development of commercial banks. The development of digital inclusive finance in China is very rapid, which is mainly based on the continuous development and improvement of China's national economy. In the process of developing digital inclusive finance, commercial banks should pay attention to the emergence of new

situations and new problems and usher in new opportunities for development. [6]

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