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The Development of Digital Financial Inclusion in China

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Abstract: *"The development of China's digital financial inclusion" is an important research field that has attracted much attention in recent years. Digital financial inclusion refers to the use of emerging technologies such as the Internet, big data, and artificial intelligence to provide the general public with more convenient, efficient, and low-cost financial services. Digital financial inclusion has become an important means to promote financial inclusion. In recent years, the development of my country's digital financial inclusion has achieved world-renowned achievements. However, there are still many issues and challenges to be resolved. For example, information asymmetry, difficulty in risk control, and imperfect regulatory policies are still the main obstacles to the development of digital financial inclusion. This article will discuss the background, development, problems and challenges, and future development directions of China's digital financial inclusion, aiming to give readers a comprehensive understanding of the development status and future trends of China's digital financial inclusion.*

Keywords: *Digital Financial Inclusion, Financial Services, Internet Banking*

1. Background

1.1 Introduction to Digital Financial Inclusion

Digital financial inclusion refers to the use of digital technologies such as mobile phones, the Internet, and other digital channels to provide financial services to people who are excluded from traditional banking systems. It aims to provide more convenient, efficient, and low-cost financial services to people who are underserved or unserved by traditional financial institutions. Digital financial inclusion can help promote financial inclusion and reduce poverty by providing access to financial services such as savings accounts, loans, insurance, and payment services.

The essential components of digital financial inclusion include digital transactional platforms that enable customers to make or receive payments and transfers and to store value electronically through the use of devices that transmit and receive transaction data and connect to a bank or non-bank permitted to store electronic value. The development of digital financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals.

1.2 The development history of digital financial inclusion

The development process of digital financial inclusion can be roughly divided into three stages:

The first stage: from 2004 to 2013, the rise of third-party payment companies represented by Alipay promoted the popularization of digital payment. At this stage, digital payments have become an integral part of people's lives.

The second stage: From 2014 to 2017, Internet finance companies began to set foot in fields such as microfinance and consumer finance, and digital inclusive finance began to expand to a wider range of fields. This stage of development enables more people to enjoy financial services.

The third stage: From 2018 to the present, regulatory policies have been gradually improved, and digital inclusive finance has entered a stage of standardized development. The development of this stage makes digital financial inclusion safer, more reliable and more convenient.

1.3 The Development Status of Digital Inclusive Finance in China

The development of my country's digital inclusive finance is relatively late, but it has developed

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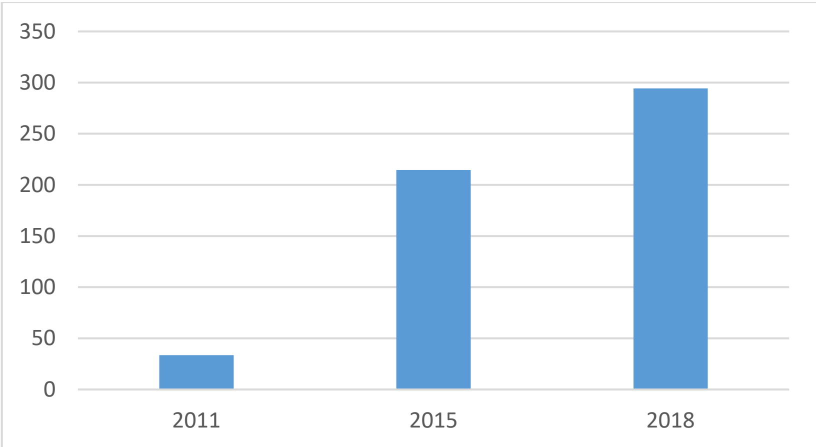
well in recent years. A digital inclusive financial system centered on banking financial institutions, supported by Internet companies, and supplemented by non-bank financial institutions is being formed. In recent years, the development of inclusive finance in my country has shown the characteristics of diversified service entities, wide service coverage, and high utilization rate of mobile Internet payment. The level of basic financial services such as the number of bank accounts held per capita and the density of bank outlets has reached the international mid-upstream level. . In recent years, through the continuous joint efforts of the government, the market, and the society, and under the overall planning and promotion of the financial management department, my country has carried out top-level design, product services, technology applications, infrastructure, and consumer protection for digital inclusive financial development. A large number of beneficial explorations have achieved certain results and progress.[5]

From the perspective of macro development, according to the report of Peking University's digital financial inclusion index, China's digital financial inclusion business has achieved leapfrog development from 2011 to 2018, and the median value of the digital financial inclusion index in each province has increased from 33.6 in 2011 To 214.6 in 2015, and further increased to 294.3 in 2018, the index increased by 8.9 times in eight years, with an average annual growth rate of 36.4%. As shown in Table 1.

Table 1: Median Growth Change in Digital Financial Inclusion Index



The "China Inclusive Finance Index Analysis Report (2020)" released by the People's Bank of China shows that my country's digital inclusive finance is continuously sinking to the counties and villages, and the service objects have also expanded from the original financial poverty alleviation to small and micro enterprises, "agriculture, rural areas and farmers". "Customer waiting. This will be combined with rural finance to bring financial services from cities to the countryside. It can help farmers trade agricultural products and agricultural equipment, promote rural revitalization, ensure food security, increase farmers' income, and narrow the gap between urban and rural areas. Let the lives of people in rural areas become richer and stronger, and let all Chinese people enjoy the dividends of a well-off society.

2. The development of digital financial inclusion in China

2.1 Significance and value of digital financial inclusion

Digital financial inclusion refers to actions to promote financial inclusion through financial services supported by digital technologies. Digital finance uses digital technology to lower the threshold of financial services, enabling market entities excluded from traditional financial institutions to obtain financial services more conveniently, increasing the coverage of inclusive finance, and injecting financial resources into the production and operation activities of a wider range of market entities. Live blood. The advantages of digital inclusive finance lie in "low cost, fast speed, and wide coverage". It can make up for the shortcomings of traditional inclusive finance, break through the bottleneck of traditional inclusive finance, and enrich inclusive financial products and forms.[1]

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2.2 Main models and services of digital financial inclusion

Digital financial inclusion refers to the innovation of financial services such as payment, credit, and wealth management with inclusive nature realized by traditional financial institutions and Internet companies through emerging digital technologies such as the Internet and big data. Through government authorization, digital inclusive finance can clearly support the financing direction of green ecological projects, improve the loan acquisition rate and credit coverage rate of ecological agriculture, and realize rural ecological livability. At present, the participants of my country's digital inclusive finance are divided into two categories: traditional financial institutions and Internet financial companies.

Traditional financial institutions include commercial banks, trust companies, insurance companies, etc. The main advantages of these institutions in the field of digital inclusive finance lie in their financial strength and risk control capabilities, and their acceptance is more convenient for the elderly or people in rural areas. In addition, another advantage of traditional financial institutions in the field of digital financial inclusion is their experience and expertise in financial services. Traditional financial institutions have developed in this field for many years and have a lot of experience and services, which can help them provide better services to customers. Internet finance companies refer to providing users with convenient, efficient, and low-cost financial services based on the Internet and using technological means such as big data and artificial intelligence. The advantages of Internet finance companies lie in their advanced technology, convenient service, and low cost, which can better meet the needs of young people and urban people.

2.3 Development status and trends of digital financial inclusion

Digital financial inclusion is the use of Internet, big data, artificial intelligence and other technical means to provide ordinary citizens with more convenient, efficient and low-cost financial services. The data shows that the national average growth rate of 43.3% of digital inclusive finance rose from 36.2 to 218.9 from 2011 to 2015. With the emergence of electronic payment and online banking, the changes are so fast and continue to provide financial services for new users in the market. Lay the foundation for the development of digital financial inclusion. However, in 2016-2017, digital financial inclusion experienced a slowdown and a decline in average annual growth, which may be related to financial risks and market saturation. Coupled with the lack of a strong regulatory mechanism for the development of digital finance, it has led to a decline in solvency and encountered a development platform period.[2] [3] As shown in Figure 1.

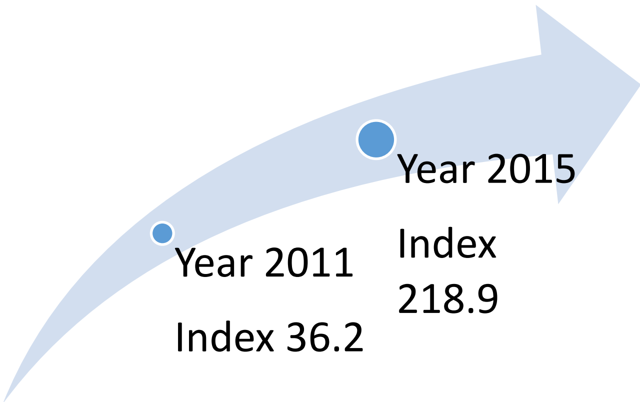

Figure 1: Provincial digital financial inclusion index achieves huge growth

In addition, some indexes show that the development of digital finance in China has shown a continuous and rapid upward trend from 2011 to 2018. From the perspective of sub-indicators, the development of China's digitalization is faster than the overall development of digital financial inclusion. This shows that thanks to the mobile, affordable, and convenient advantages of digital finance, digital finance can be quickly accepted by users. With the expansion of coverage and the improvement of digital support, the depth of use of digital finance in payment, credit, insurance, investment and other fields has increased.[4]

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3. Problems and challenges of digital financial inclusion in China

3.1 The problem of information asymmetry

The information asymmetry problem of digital inclusive finance refers to that in digital inclusive financial services, because the objects of inclusive financial services are scattered and the scale is small, it is particularly difficult to solve their information asymmetry in financial transactions. In the development of digital financial inclusion, the problem of information asymmetry is one of them. For example, small and micro businesses and individuals in rural areas lack adequate credit and financial records, making it difficult for them to obtain loans and other financial services. In addition, people in many rural areas cannot obtain convenient deposit and loan services from financial institutions because of information asymmetry. Some people don't even know that financial institutions can provide deposit and loan services, and more of them will ask their relatives and friends to borrow money. And the working capital of financial institutions cannot flow to the farmers who need it, which also causes excess working capital of financial institutions.

3.2 The problem of difficulty in risk control

The difficulty of digital financial inclusion risk control is an important issue in the development of digital financial inclusion. Due to the lack of China's traditional risk control system, it is almost impossible for ordinary people to form a complete credit system data. In addition, China's risk control data is very large, and it takes a full amount of time to collect it to build a complete credit risk system. For financial institutions, without a complete credit risk system, it becomes very difficult to provide financial services to users. Therefore, promoting the high-quality development of the social credit system is an important measure to promote financial services to the real economy, improve the overall efficiency of the national economic system, and build a new development pattern. In addition, small and micro businesses and individuals lack sufficient credit and financial records, making it difficult for them to obtain loans and other financial services. Credit records and financial records are an important basis for banks and financial institutions to assess the credit risk and repayment ability of borrowers. If there are no such records, or if the records are incomplete and inaccurate, it will affect the credit rating of the borrower and reduce its financing efficiency and financing cost.

3.3 The problem of imperfect regulatory policies

The imperfect regulatory policy of digital financial inclusion is an important issue in the development of digital financial inclusion. At present, my country's digital financial inclusion regulatory policies are not yet perfect, and there are still certain blind spots and deficiencies in the supervision of digital financial inclusion by the regulatory authorities. For example, my country's digital financial inclusion involves many aspects and fields, and requires a variety of technologies. However, my country's regulatory models and standards are difficult to meet the development needs of digital financial inclusion at this stage. In addition, my country's digital inclusive finance involves many national government departments and agencies, and various agencies have differences in supervision and information is not interoperable, which also affects the efficiency of supervision.

4. The future development direction and suggestions of digital financial inclusion in China

4.1 The importance and necessity of developing digital financial inclusion

The development of digital inclusive finance will help improve the ability of financial services to revitalize rural areas, help small and medium-sized enterprises integrate into the global value chain, narrow the gap between the rich and the poor, and achieve the goal of common prosperity.

The digital economy can promote the rapid flow of various resource elements, help inclusive financial market players to restructure their business models, promote the integration of various market players, achieve cross-border development, break the constraints of time and space, extend the industrial chain, integrate into the state-owned economic cycle, and play a universal role. The long-term role of benefit finance in boosting poverty alleviation, preventing returning to poverty, serving people's livelihood and rural revitalization.

Digital financial inclusion can bring "digital dividends" to the vast number of rural areas and

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vulnerable groups, and continuously narrow the income gap between urban and rural areas.

4.2 Strengthen the construction of regulatory policies to ensure the healthy development of digital financial inclusion

In order to ensure the healthy development of digital inclusive finance, it is necessary to strengthen the construction of regulatory policies, and strengthen the construction of a regulatory rule system in the field of digital inclusive finance from the dimensions of business norms, technical security, and consumer protection, so that regulatory authorities can implement various innovations. Understandable, penetrating, controllable, and well managed. Relevant departments will formulate and improve laws, regulations and standards related to digital inclusive finance to prevent non-compliant operations and vicious competition. Improve various technologies, ensure technical security, establish a technical review and testing mechanism, ensure data security and privacy protection, and improve system stability and reliability. In addition, improve consumers' financial literacy and risk awareness, and safeguard consumers' legitimate rights and interests.

4.3 Promote the deep integration of digital financial inclusion and the real economy

The deep integration of digital inclusive finance and the real economy can promote the supply-side reform of inclusive financial services through digital technology, and ultimately improve the level of inclusive financial services, thereby promoting the growth of financial service supply brought about by the integration of traditional financial services and new technologies.[6] At the same time, the digital economy can promote the rapid flow of various resource elements, help inclusive financial market entities to restructure their business models, promote the integration of various market entities, achieve cross-border development, break the constraints of time and space, extend the industrial chain, and integrate into the state-owned economy.

5. Conclusion

China's digital financial inclusion is a cause of great significance and great potential, which plays an important role in promoting economic and social development, improving the level of financial services, and realizing common prosperity. This article analyzes the development status, problems and challenges, and future directions of China's digital financial inclusion from multiple perspectives, hoping to provide some reference and inspiration for relevant research and practice. Of course, there are some deficiencies in this paper, such as limited data sources, insufficient analysis methods, and insufficient perspectives, etc., which need further improvement and deepening. In the future, with the continuous innovation of digital technology and the continuous deepening of inclusive finance, China's digital inclusive finance will usher in more opportunities and challenges, and more research and exploration are needed.

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