Liu Guiping: On the Development of Financial Inclusion in China

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Abstract: In recent years, the international community has attached great importance to the development of financial inclusion, leading to new theories and practices as well as increased international cooperation in the field. Under the leadership of the Communist Party of China (CPC) Central Committee and the State Council, China has achieved significant progress in advancing financial inclusion, which has rendered strong support to poverty eradication, rural revitalization, pandemic control, and the provision of services for the people. Efforts have been undertaken to set up the mechanisms whereby financial institutions will have the confidence, willingness, ability, and professionalism to provide inclusive financial services. Work has also been underway to improve relevant infrastructures, to carry out pilot programs and demonstration projects, and to participate in international governance on financial inclusion. These efforts have brought into shape a model of financial inclusion with Chinese characteristics. As the Fifth Plenary Session of the 19th CPC Central Committee has highlighted the need to enhance the inclusiveness of the financial sector, financial inclusion has taken on greater significance. Going forward, we will continue to build a long-term mechanism that features affordable costs and commercial sustainability, promote the integrated development of inclusive finance, green finance, sci-tech finance, and supply chain finance, create a favourable ecosystem for digital financial inclusion, uphold the concept of responsible finance, and take active steps to achieve financial health, thereby fostering a new paradigm for the development of financial inclusion.

Keywords: financial inclusion, evolution, responsible finance, financial health

In recent years, with the deepening of global cooperation in economic development, the international community has become more and more concerned with financial inclusion. Meanwhile, financial inclusion ideas are gaining recognition and theories and practices in the field are being improving continuously. Under the leadership of the CPC Central Committee and the State Council, China has made remarkable progress in advancing financial inclusion. Standing at the historic junction of the "Two Centenary Goals," we should learn from past practices at home and abroad. More importantly, we should look to the future by always putting the people's interests above all else, firmly implementing the new development philosophy, and vigorously promoting the high-quality development of financial inclusion. With these efforts, we hope the financial sector will give the people a more substantial sense of gain, a more sustainable sense of happiness, and a more solid sense of security while contributing more financial wisdom, financial solutions, and financial strength to the endeavours of realizing the second centenary goal of China as scheduled.

I. Evolution of Financial Inclusion

Financial inclusion originated as an effort to address financial exclusion. Due to various factors, a considerable part of the world's population were long excluded from the formal financial services sector. In developing countries with inadequate financial infrastructures, many people did not have bank accounts; or even if they did, it would be difficult for them to get further access to financial services. Some had to turn to usury because formal financial institutions wouldn't meet their loan needs. Even in developed economies with full-fledged financial systems, effective financial services were often out of the reach of disadvantaged groups. It was in response to these problems that financial inclusion took shape. Globally, financial inclusion has so far undergone several important stages of development.

In the 1970s, some developing countries started experimenting with microcredit, which was the initial form of modern financial inclusion. While microcredit programs were launched in countries like Bangladesh, India, Indonesia, the Philippines, Brazil, Bolivia, and Egypt, the pioneer among them has generally been considered to be the Grameen Bank of Bangladesh, which was founded in 1983 by Muhammad Yunus following the trial operation of microcredit he started in Bangladesh in 1974. The bank made small short-term loans to the rural poor, especially women, and allowed them to repay the loans in installments. While no collateral was required, borrowers were organized into groups of five to provide group guarantees and conduct peer monitoring. They were also required to put certain amounts of compulsory savings into a fund as precautions against risks. Additionally, group meetings were held to follow up on project implementation and fund use, to share information on livelihood improvement, and to make the borrowers better able to run their businesses. In defiance of the conventional bias that "the poor is less creditworthy and unable to manage money," the Grameen model showed that under a well-designed system poor people can maintain good credit after getting startup funds. During this period, with microcredit proved to be fit for sustainable development under given conditions, it was replicated by many countries and evolved further into a microfinance model, which became common practice of developing countries in their efforts to alleviate poverty through financial means.

With the start of the 21st century, the United Nations declared 2005 the International

Year of Microcredit and formally launched the concept of financial inclusion, giving rise to more and more theories and practices in the field. As defined by the United Nations, an inclusive financial system is a financial system that delivers effective and all-round services to all segments and groups of society. The ideas came to be accepted by more and more countries. With the development of relevant theories and practices, the spectrum of financial inclusion was expanded from a narrow focus on microcredit to a wide range of multi-tiered and diversified financial services, such as payments, remittances, deposits, loans, insurance, and wealth management. Many countries came to recognize financial inclusion as not only instrumental to poverty alleviation, but also highly significant to economic growth, financial stability, monetary policy, and fiscal policy. In 2010, the G20 Summit in Seoul endorsed the *G20 Financial Inclusion Action Plan* and announced the establishment of the Global Partnership for Financial Inclusion (GPFI), a multilateral mechanism for promoting financial inclusion under the G20 framework. In 2011, the World Bank started a global survey on financial inclusion indicators to launch the Global Financial Inclusion (Global Findex) Database, which is used for quantitative monitoring of the development of financial inclusion. In the same year, members of the Alliance for Financial Inclusion (AFI), including China, met in Mexico and jointly issued the *Maya Declaration*, making international commitments officially to advance financial inclusion. During this period, financial inclusion gained considerable attention from countries around the world, with innovative models emerging from explorations and the government playing an increasingly important role in the efforts.

In September 2015, Chinese President Xi Jinping attended the United Nations Sustainable Development Summit, during which the *2030 Agenda for Sustainable Development*—with significant contributions from the Chinese government—was adopted. Setting global goals for sustainable development with the pledge that "no one will be left behind", the *Agenda* marked the start of full-scope development and open collaboration on financial inclusion. It focused on eradicating poverty and hunger, promoting economic growth and social progress in all aspects, ensuring fairness and justice, building ecological civilization and achieving sustainable development. Financial inclusion was viewed as an important way to achieve these goals, evidenced by growing resources invested in it from the international community. In 2016 during China's presidency of the G20, the *G20 High-Level Principles for Digital Financial Inclusion* spearheaded by the Chinese government was formally endorsed at the Hangzhou Summit. It laid out 8 principles and 66 specific actions that would promote financial inclusion through digital technology, which became an essential part of top-level international initiatives on financial inclusion. From 2017 to 2020, GPFI issued a string of high-level guidelines such as the *Digital Financial Inclusion: Emerging Policy Approaches*, *G20 Policy Guide on Digitisation and Informality*, *G20 Fukuoka Policy Priorities on Aging and Financial Inclusion*, and *G20 High-Level Policy Guidelines on Digital Financial Inclusion for*

Youth, Women and SMEs. Vigorous development of financial inclusion has since become a global consensus, technological innovations its principal driver, and digital transformation its primary pathway around the world.

II. Implementations of Financial Inclusion with Chinese Characteristics

Financial inclusion has been a top priority for the CPC Central Committee and the State Council. At its Third Plenary Session in 2013, the 18th CPC Central Committee called for "enhancing financing inclusion", which marked the establishment of financial inclusion as one national strategy. In 2015, upon approval of the CPC Central Committee, the State Council released the first national plan for the initiative—*Plan for Promoting the Development of Financial Inclusion (2016–2020)*. Following the decisions and arrangements made by the CPC Central Committee and the State Council, the financial sector and the country as a whole tried new ideas, learned from experiences, and provided guidance on practices. Thus, China has made major strides in financial inclusion. In particular, basic financial services are now accessible in almost all urban and rural areas with improvement in service outlets, service device and equipment, and online service channels. More resources have been allocated for financial inclusion, which led to remarkable improvement in financial services offered to farmers and micro- and small businesses (MSBs). Higher service efficiency and expediency as well as enhanced protection of financial consumers' rights and interests have significantly boosted the satisfaction rates of financial services. With these developments, China has basically established an inclusive financial service system that adapts to the building of a moderately prosperous society in all aspects, and has created a Chinese model for financial inclusion development. This model has the following distinguishing features.

(I) Upholding the Party's leadership, to effectively leverage inclusive finance in poverty reduction and rural revitalization. The target beneficiaries of poverty alleviation programs are mostly the intended beneficiaries of financial inclusion, which makes the two initiatives intrinsically aligned. The rapid development of inclusive financial services in rural areas throughout the country in recent years would not have been possible without the CPC Central Committee's close attention and careful planning for the battle against poverty. The financial sector has fully committed to the battle against poverty, which features substantial policy support, resource inputs from the financial system, and joint efforts of all levels of Party organizations and the public. From the beginning of the battle, central-bank lending for special poverty alleviation projects totaled RMB668.8 billion. Loans issued by the financial sector for targeted poverty alleviation projects amounted to RMB9.2 trillion. In an attempt to eradicate poverty, financial approaches have been integrated with industrial, labor, educational and other approaches, which effectively activated endogenous driving force of development and contributed to nationwide poverty reduction. Inclusive financial services have flourished in rural areas—evidenced by outlets and services in every village and bank accounts for every household in general. With this greater penetration, financial service is now playing a critical role in rural production and living. With China's reduction of poverty as scheduled, financial inclusion has been contributing to the consolidation of the achievements in poverty reduction and to the subsequent advancement of rural revitalization.

(II) Putting people's interests in the first place, to fight against the pandemic and serve people's livelihood with the support of inclusive finance. MSBs and self-employed businesses were hit hard by the sudden outbreak of COVID-19 in 2020. In response, the PBC applied a range of monetary policy tools in a timely and swift manner with a multi-level and multi-tier approach, and launched two monetary policy instruments directly supporting the real economy, namely the support instrument for deferring the repayments of inclusive MSB loans and the support scheme for unsecured inclusive loans to MSBs. The PBC has kept money supply at a reasonable and appropriate level, enhanced directness and precision of policies, and effectively alleviated the financing and financial difficulties of MSBs. Owing to the combined efforts of relevant parties, MSB financing has realized increase in volume, drop in price, and expansion in coverage, and witnessed surges in first loans, renewal loans and unsecured loans. At end-2020, outstanding inclusive MSB loans reached RMB15.1 trillion, an increase of 30.3 percent year on year. The inclusive loans were issued to support 32.28 million business entities in 2020, up 19.4 percent year on year. Inclusive finance was further deepened to serve people's livelihood. In an attempt to foster employment and entrepreneurship, the scope of secured personal entrepreneurship loans was expanded to ten key groups including registered unemployed residents in urban areas and rural migrant workers returning home for starting businesses. Financial institutions were also guided to launch new products and services for first-time or women entrepreneurs. These moves effectively boosted employment and entrepreneurship. Intensive efforts were made to support education of impoverished students, to deepen implementation of financial assistance loans for impoverished students, and, during the pandemic, to further extend loan maturities and to lower loan interest rates, so that the burdens of impoverished students were eased. Financial institutions were encouraged to optimize their services for the disabled and the aged in a comprehensive manner with safer, more convenient and warmer products and services, in an attempt to continuously enhance the sense of financial accessibility of these people.

(III) Maintaining overall planning to build proactive service frameworks for financial inclusion. In recent years, the Chinese governmental has been introducing a growing list of incentives and institutional safeguards, which have invigorated financial institutions and turned them from reluctant participants of inclusive finance to its active proponents. Specifically, the establishment of inclusive rules and policies has helped boost their confidence in practicing financial inclusion. For example, financial authorities have instituted differentiated and more tolerant supervisory regimes for inclusive financial programs, which, coupled with maturing laws and regulations, has created a favorable environment for financial inclusion. Financial institutions have incorporated financial inclusion into corporate strategies and exempted employees from liabilities as long as due diligence has been observed, enabling the grassroots staff to be worry-free when handling inclusive programs. The other issue, that of willingness, is tackled with steadily improving incentives. A number of incentivizing support policies—monetary, credit, fiscal, and tax—have been introduced by government departments to build policy synergies and create a conducive environment for the inclusive programs of financial institutions. Financial institutions, for their part, are setting up dedicated business units and entities and separate credit schemes, re-allocating internal resources, and implementing differentiated performance assessment to motivate grassroots employees to offer inclusive services.

(IV) Pursuing an innovation- and technology-driven approach to building capacity and competence. The rise of digital technologies is a boon to financial inclusion, enabling financial institutions to discover new approaches to high-quality inclusive services and China to make major breakthroughs in MSB financing, a global challenge. Digital customer acquisition and big data solved the issue of "how": with digital service channels, time and distance are no longer factors for consideration, enabling financial institutions to deliver inclusive services at a lower cost to a vast number of geographically dispersed target customers such as MSBs, while big data reduces the information asymmetry between financial institutions and enterprises, so that the former can better identify customers through more accurate profiling. Smart risk management and digital economy and ecosystems, on the other hand, have addressed the question of "how well." The use of computer models and algorithms have made risk management a networked, standardized, and smarter process, considerably improving financial institutions' end-to-end risk management capacity. Furthermore, fusing digital technologies with service scenarios and the building up of ecosystems have brought financial institutions closer to customers, leading to better understanding of customer needs and one-stop solutions. Notably, the contact-free feature of digital inclusive financial services has greatly bolstered the resilience of the industry during the pandemic, which successfully withstood the crisis with new vigor and vitality.

(V) Strengthening financial infrastructures to provide low-cost and high-quality public services for the development of financial inclusion. The PBC has been strengthening collaboration in all areas to develop highly functional, stable, and efficient payment systems, bringing the convenience of mobile payment to county-level regions, strengthening and better regulating bank-card withdrawal services for rural residents; and canceling administrative approval for opening bank accounts by businesses. These changes mean that the public can receive basic financial services through a variety of channels such as service outlets, networked terminals, and online platforms, and MSBs can open accounts easier than ever. As of end-2020, China boasted 8.8 bank accounts per person and 2,715 POS machines per 100,000 people. Furthermore, to address longstanding obstacles to sustainable financial inclusion—lack of general information, credit history, and loan collateral among its intended beneficiaries—China has invested extensively in its credit reporting systems and credit enhancement and guarantee systems. Among them are the National Financial Credit Information Basic Database (NFCIBD), regional platforms for credit information sharing and integrated financial services, and market-based credit reporting agencies, which have enabled multi-dimensional credit scoring for the underserved population, thereby reducing information asymmetry. By the end of 2020, the NFCIBD were tracking the credit information of 1.1 billion individuals and 60.923 million enterprises and other organizations, and credit records were filed for 189 million rural households. Financing guarantee companies and risk compensation funds run by various levels of government are increasing support for MSBs and *sannong* (agriculture, farmers, and rural areas) through credit guarantees and reduced fees, thus encouraging more financial resources to flow into financial inclusion. These public infrastructures have substantially reduced the base cost of inclusive financial services, making economical and commercially sustainable inclusive services a reality for financial institutions.

(VI) Introducing well-thought-out pilot and demonstration projects to test new models and practices for financial inclusion. Because China is so vast and diverse, different regions have adapted the general principle of financial inclusion to their local conditions, building up much experience in the process. Similarly, the PBC has also been testing out innovative ideas through pilot programs. By setting up pilot zones for financial inclusion reform and innovation, it seeks to accumulate experience and identify issues that would shed light on future innovations and more sweeping reforms, with risks kept at manageable levels. These programs are preceeded in Lankao (Henan), Ningbo (Zhejiang), Ningde and Longyan (Fujian), Ganzhou and Ji'an (Jiangxi), and Linyi (Shandong). Each is unique: some focus on digital financial inclusion, others county-level services. In addition to their notable effect on regional financial inclusiveness, many successful practices have been upscaled to the local provinces or even nationwide.

(VII) Embracing openness and cooperation to promote international governance. Perennially committed to dialogue, collaboration, and sharing, China has been working with GPFI under the G20 framework, the World Bank Group, AFI, FinCoNet (International Financial Consumer Protection Organization), and other international organizations and multilateral platforms to draft international rules on financial inclusion. China-led outcomes include the *G20 High-Level Principles for Digital Financial Inclusion*, *G20 Financial Inclusion Indicators (2016 Update)*, and *G20 Action Plan on SME Financing Implementation Framework* unveiled at the Hangzhou Summit. Similar collaboration also takes place through various forms and at various levels. For example, the PBC and the World Bank co-published the report *Toward Universal Financial Inclusion in China: Models, Challenges, and Global Lessons* and jointly launched the Financial Inclusion Global Initiative (FIGI) program in China, strengthening international exchange.

III. Keys to Building a New Development Paradigm for Financial Inclusion in China

At its Fourth Plenary Session, the 19th CPC Central Committee called for “improving the modern financial system to make it highly adaptable, competitive and inclusive.” The Fifth Plenary Session put forward that we should “enhance financial inclusiveness” and thus imparted greater significance to financial inclusion. On the morning of July 1, 2021, General Secretary Xi Jinping solemnly declared to the world: “With the continued efforts of the whole Party and the entire nation, we have realized the first centenary goal of building a moderately prosperous society in all respects. This means that we have brought about a historic resolution to the problem of absolute poverty in China, and we are now marching in confident strides toward the second centenary goal of building China into a great modern socialist country in all respects.” In this broader context, the high-quality development of financial inclusion will certainly face more opportunities but also bigger challenges. Looking ahead, we need to seize the opportunities of the new development stage, remain committed to people-centered principle, implement new development philosophies, and ride the wave to create a new development paradigm for financial inclusion.

(I) Deepening financial reforms to establish a long-term mechanism for financial inclusion featuring affordable costs and commercial sustainability. Under the general framework of financial supply-side structural reform, we will build an orderly yet competitive supply side of inclusive services by ensuring the market can play a decisive role in allocating financial resources, motivating market players to engage in financial inclusion more proactively and creatively, and building a multi-layered organizational structure for financial inclusion. In particular, development banks and policy banks should find their positions in financial inclusion, and major banks and joint-stock banks should set an example for local banks in serving local businesses, MSBs, and urban and rural residents. The risk-sharing function of insurance should be capitalized on to build a social safety net. Capital market needs to become more inclusive and direct financing ought to account for a bigger share of inclusive finance. Other priorities include directing policy and resources to correct market failures, strengthening legal and institutional bases, improving infrastructure development, increasing investments in primary-level governance and further enhancing the mechanism that promotes proactive and effective inclusive services.

(II) Adopting holistic thinking to promote the integrated development of inclusive finance, green finance, sci-tech innovation finance, and supply chain finance. Financial inclusion is a rich and broad concept, serving many groups and overlapping with many segments. First, its key intended beneficiaries, including MSBs and rural households, are often susceptible to climate and environmental changes, but, for their sheer number, they are also major forces of responding to these changes. Second, the majority of sci-tech innovation companies are MSBs. And third, connected to the core enterprises in supply chain finance are innumerable MSBs in upstream and downstream industries, which means green supply chains and tech and innovation supply chains hold tremendous potential. Therefore, from a holistic perspective, these segments are integrated with each other. Under the guidance of the new development philosophy, their integration can enhance the efficiency of development, hence achieving a magnifying positive effect.

(III) Promoting compliance in innovations to build a healthy ecosystem for digital financial inclusion. As science and technology are the primary productive forces and innovation is the primary driving force for development, the digital transformation of financial services will fundamentally alter the development and governance of inclusive finance. Facing the digital economy wave, we must: (i) adopt a mix of emerging technologies to provide digital and smart services so as to enhance innovations and services of financial products; (ii) apply digital technologies to risk management to make inclusive finance safer, more convenient, and more sustainable; (iii) improve the regulatory system for digital financial inclusion, address supervisory deficiencies, and upgrade regulatory technologies (regtech); and (iv) aligning with the needs of government services, e-commerce and the like, build a healthy ecosystem for digital financial inclusion that promotes positive, complementary, and mutually beneficial interactions between its members.

(IV) Prioritizing safety and raising awareness of responsible finance. We must always be prepared for the worst, strike a dynamic balance between financial inclusion and risk prevention, combine prudential regulation with conduct supervision in order to curb financial turmoil, and firmly hold the bottom line that no systemic risks should occur. Exercising responsible finance is particularly important to financial inclusion because of the comparatively higher vulnerability and sensitivity of the financially under-served groups. At the core of responsible finance are three major entities (financial institutions, financial regulators, and financial consumers) and three pillars (financial literacy, self-regulation of financial institutions, and supervision over the protection of financial consumers). The three major entities need to shoulder their respective responsibilities to bolster the three pillars. They should also help the general public understand, use, and trust financial services, and protect the long-term and fundamental interests of financial consumers.

(V) Maintaining financial health to empower financial inclusion. To promote the higher-quality development of financial inclusion, our focus should shift from “starting from scratch” to “enhancing the quality” and even “elevating it to a higher level” in the future. An ideal target is to help the intended beneficiaries achieve and maintain financial health. When they are financially healthy, they can (i) correctly apply financial knowledge and tools to achieve a good financial position through appropriate actions and effectively manage their daily financial activities; (ii) make plans for large expenditures so that incomes can generally cover outlays; (iii) maintain a good credit history and ensure debts are affordable; (iv) have a suitable amount of savings and insurance coverage to build up a certain degree of resilience against unexpected financial shocks; and (v) enjoy access to proper investment channels to take on just the right amount of risk and maintain sufficient liquidity and safety of assets, and thus create a virtuous financial cycle. As an advanced form of financial inclusion, financial health should be prioritized in rural revitalization and common prosperity drives.

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