The Overall Chinese Model For Embracing Financial Inclusion

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Abstract

The current study aims to present the general Chinese model through which financial inclusion is adopted as a concept with clear significance through the path of development and promotion, in addition to ways to achieve digitization within the framework of financial technology, with reference to the current status of the extent to which the concept of financial inclusion has been adopted.

The study finds that universal access to a wide range of affordable financial services provided by a variety of sustainable institutions must be sought.

Keywords: financial inclusion, financial technology, digitalization, China.

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Introduction:

Financial inclusion is increasingly being applied globally. By October 2018, more than 55 countries had committed themselves to the comprehensive financial service framework, and more than 60 countries had planned national strategies to promote it. The Global Findex database shows that 1.2 billion adults worldwide have recently received an account since 2011. The proportion of adults with bank accounts has risen from 62% in 2014 to 69% in 2017 in the world, and from 54% to 63% in developing economies according to the World Bank 2017, and there have been successful and valuable examples of financial inclusion practices in many economies during this period, such as the Grameen Bank in Bangladesh, community banks in the United States, banking service agents in Brazil and agricultural cooperatives in Japan. However, there are still challenges to inclusive financing: for example, about 1.7 billion adults in the world remain unbanked - without accounting in a financial institution or through a mobile money service provider.

As China, the world's second-largest economy, has accumulated significant experience in inclusive financial systems, coupled with the rapid evolution of its economy and the ongoing reform and transformation of the financial sector, there has been a notable expansion in the provision of financial services to individuals and businesses, particularly small and medium-sized enterprises (SMEs) and low-income groups. By the conclusion of the Johannesburg Summit, loans extended to SMEs and agricultural sectors in China reached 40.7 trillion Chinese yuan and 37.8 trillion Chinese yuan, respectively, constituting 24% and 22% of the total loans held by financial institutions. As an integral component of fiscal reform, fiscal inclusion has played a pivotal role in fostering poverty alleviation and regional economic growth in China. Despite the rapid progress in financial inclusion, the concept remains relatively nascent and requires refinement to foster a thriving market. The key challenge lies in enhancing the efficacy of the general model of financial inclusion adopted by Chinese authorities and financial systems to ensure long-term sustainability.

Therefore, the aim of the current study is to provide a detailed understanding of China's progress in addressing financial inclusion challenges by presenting the developmental trajectory of financial inclusion in China. Subsequently, it aims to identify the elements enhancing the development of financial inclusion and digital financial inclusion in China, in order to present the current status of financial inclusion in China.

1. Advancement of Comprehensive Finance in China

On June 15, 2021, the Chinese Ministry of Finance allocated 9.215 billion yuan from private funds to develop financial inclusion. 68.8% of the fund is directed towards subsidized interest and incentive funds for secured commercial loans.

Financial inclusion refers to efforts aimed at making financial products and services accessible to all individuals and businesses, regardless of their personal wealth or company size. There are many similarities in the journey towards financial inclusion in China with neighboring markets, but its development has been more robust than anticipated. (Xu, 2021)

1.1. Charitable Work and Integration in the Banking System 1990-2010

As in many markets, financial inclusion in China was based on a combination of local charitable traditions and lessons learned from Grameen Bank in Bangladesh. China had the Yizhuang system, or popular relief organizations, (UNDP, 2016) to support entrepreneurs and widowed families within clans, which was later replaced by governmental efforts such as the Women's Federation when the new government formed in 1994.

In the 1990s, financial development institutions - such as the United Nations Development Program and the World Bank - and international non-governmental organizations - such as Plan International - collaborated with the Chinese Academy of Social Sciences, the All-China Women's Federation, and the Ministry of Commerce to initiate over 300 microfinance institutions (MFIs) following the Grameen model. Chinese funders like the Leping Foundation also joined the movement.

In 2005, with the experience of microfinance institutions and talent pooling, financial institutions entered the microfinance sector. The first national-level industrial association, the China Microfinance Association, was established to connect microfinance institutions, rural credit cooperatives, and banks.

In 2006, the China Banking Regulatory Commission (CBRC) issued a policy to support the development of microfinance. Private capital entered the scene. A former trainee at Grameen Bank, working on Wall Street, returned to China and opened a microcredit company: CreditEase. (Microfinance, 2010)

CreditEase became the largest microcredit company, evolving into the largest lending platform in the market focusing on microcredit. Although not the first, CreditEase quickly grew to become the largest lending platform in the market focusing on microcredit. Additionally, more inclusive financial instruments emerged, with small and medium-sized enterprises becoming the primary beneficiaries rather than farmers.

At the same time, microfinance institutions began to disappear due to intense competition, funding shortages, and excessive debt problems. In 2010, following the microfinance crisis in India, Chinese regulators began to take note of potential risks associated with microfinance, such as overindebtedness and fraud. CFPA Microfinance, founded by the China Association for Poverty Alleviation, began integrating smaller microfinance institutions and improving management to mitigate risks. (Microfinance, 2010)

1.2. Sustained Growth in Microfinance Lending and the Leap in Financial Technology 2011 – 2016

In 2011 marked the first year of internet finance in China, witnessing the rise of online payments, peer-to-peer (P2P) lending, credit scoring, and more online services. (DING CHEN, 2020)

The development of inclusive finance made it easier for people to borrow and lend online, attracting heavyweight asset managers such as Morgan Stanley, IDG, and KPCB, alongside amateur investors from non-financial backgrounds. P2P entrepreneurs began calling themselves "financial innovators."

In the same year, the People's Bank of China established the Financial Consumer Protection Bureau. In 2012, leading organizations such as Visa China began offering financial literacy programs for financially vulnerable customers, including rural residents and migrant workers. The outreach system expanded to reach 10.8 million rural residents by 2020.

In November 2013, the Chinese Communist Party's National Congress officially proposed "developing inclusive finance, promoting financial innovation, and enriching the levels and products of the financial sector."

In this same year, China entered the era of the fourth industrial revolution. WeChat began offering online payment services, and Ant Financial, a subsidiary of the Alibaba Group, was established in 2014. This period witnessed the emergence of the necessary infrastructure for a cashless society. Through online payment platforms, individuals could seamlessly borrow, lend, and invest from their mobile devices within seconds. (Rio, 2018)

A year later, in November 2014, Queen Máxima of the Netherlands hosted a roundtable in China where leaders and practitioners in inclusive finance gathered. After two decades of joint international efforts, China finally found its own path and established a thriving ecosystem. (Xu, 2021)

By 2015, the P2P industry surpassed a trillion yuan in volume, and in December of the same year, CreditEase's Yirendai was listed on the New York Stock Exchange (NYSE). Some leading platforms followed suit and were listed internationally. Draft regulations for internet finance were issued, with regulators expecting P2P programs to alleviate financing difficulties faced by small and medium-sized enterprises.

In 2016, the eleventh G20 Summit was held in Hangzhou, where the Advanced Principles for G20 Digital Financial Inclusion were adopted. In the same year, Ant Financial, the largest company in the financial technology sector, made a strategic investment in CFPA Microfinance, which integrated most of the rural microfinance institutions in China and established a strong network. Later, CFPA rebranded itself as CD Finance. With microloan financing, even farmers in remote areas can access financial technology services. (Xu, 2021)

1.2.1. Peer-to-Peer (P2P) Digital Platform in Financial Technology

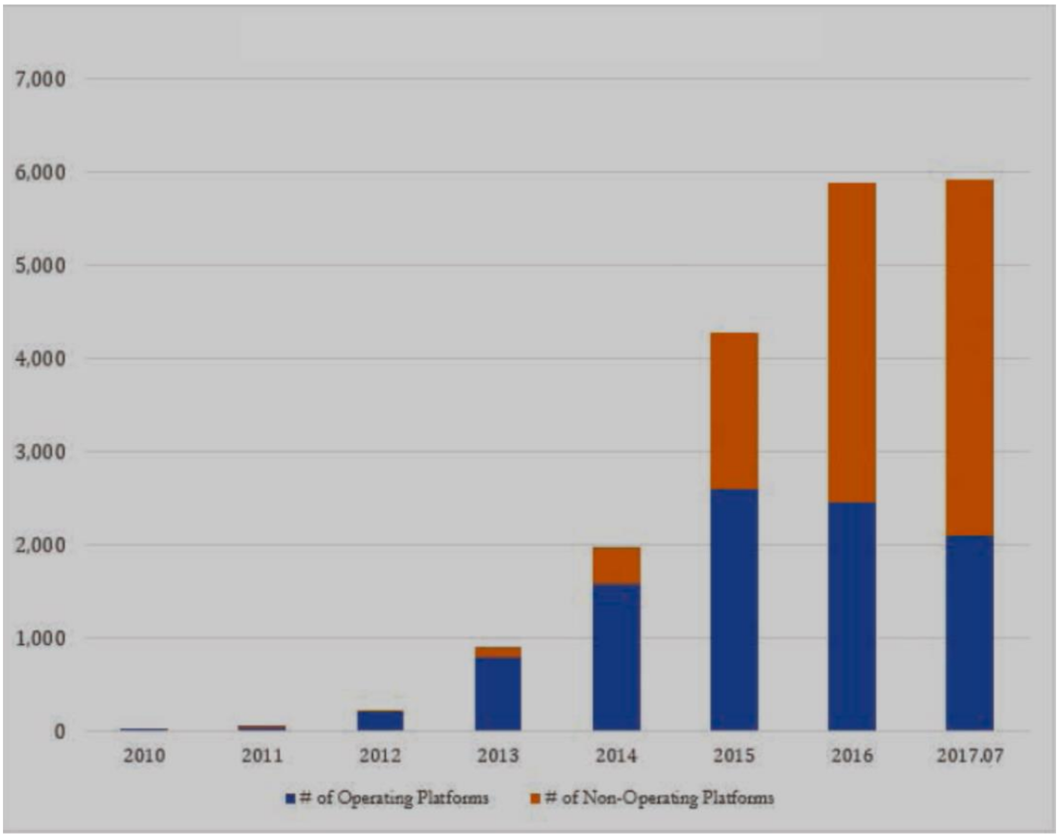
China considers financial inclusion crucial for achieving a "moderately prosperous society," as outlined in the State Council's Plan to Promote Financial Inclusion Development (2016-2020). This strategic national plan has been approved by the Central Leading Group for Deepening Overall Reform, chaired by President Xi Jinping.

In comparison to other countries in the region, China enjoys a relatively high level of financial inclusion in terms of savings deposits in formal financial institutions. The World Bank's Global Findex database indicates that in 2014, 79% of Chinese adults had accounts with formal financial institutions, which is 10% higher than the regional average of 69%.

However, in absolute terms, there are still 234 million adults in China who do not engage with banks, indicating significant room for progress in addressing financial exclusion. This includes population segments with the lowest access to finance, such as rural household (small-scale farmers, livestock breeders, and fishermen), women, migrant workers, unemployed individuals, and informal workers. Additionally, micro, small, and medium-sized enterprises face a sharp financing gap. State-owned commercial banks in China are hesitant to lend to private small and medium-sized enterprises due to their strict collateral requirements and credit history, political preference for lending to state-owned enterprises, and high transaction costs associated with processing large numbers of small, short-term loans. (Tsai, 2017)

In this context, financial entrepreneurs in China have turned to new technologies - especially digital programs and platforms - as a more efficient means of delivering financial services to individuals and micro, small, and medium-sized enterprises (MSMEs). Increasingly common forms of "financial technology" (fintech) include mobile payments, money transfers (remittances), online lending, and crowdfunding. The tremendous growth in peer-to-peer (P2P) platforms since 2007 represents a particularly dynamic market response to the financing gap faced by individuals and entrepreneurs, as illustrated in Figure 01. P2P websites bypass the banking system by hosting projects/businesses in need of funding, attracting investors seeking higher returns than the low interest rates (about 1.5% annually) offered by banks on savings deposits. By June 2017, there were 5,029 P2P platforms with over 1.09 trillion yuan (162 billion US dollars) in outstanding loans, more than ten times the level of P2P lending just two years prior.

Figure 01: Number of P2P Platforms in China 2010-2017 (Cumulative Average)



Source: Wangjiazhidai.com

2.2.1. Web-Based Financial Technology Services

Fintech, or financial technology in general, has the ability to serve populations who do not engage with traditional banks and suffer from banking scarcity more efficiently than branch-based commercial banking services. While traditional brick-and-mortar banks favor densely populated urban centers, those living in remote rural areas are less likely to have physical access to financial institutions. The introduction of branchless banking services and digital technologies that completely bypass banks can significantly enhance access to financial services.

For example, the M-Pesa payment system in Kenya allows users to deposit cash into their mobile phones at retail outlets and transfer money through secure SMS text messages with a personal identification number. M-Pesa operates in Africa, the Middle East, and Eastern Europe, and now boasts the widest network of mobile-based financial services in the world. Newly established remittance agencies like WorldRemit and Azimo also offer mobile-based services, leading to a drastic reduction in fees compared to those imposed by traditional outlets.

China increasingly possesses robust infrastructure to disseminate these technologies towards financial inclusion. The People's Bank of China has reported that over 90% of villages already have ATMs or point-of-sale (POS) devices through retailers or non-banking financial institutions, enabling rural residents to withdraw cash. Digital patterns of financial inclusion are also promising, with over 95% of China's 731 million internet users accessing the internet via mobile devices, especially smartphones, and an estimated 66% of rural households in China having at least one smartphone. Accordingly, the government's 2016-2020 financial inclusion plan explicitly encourages the use of digital technologies "to provide small deposits, small loans, payments, settlements, insurance, and other financial services to agricultural producers." (tsai, 2017)

The government's strategy bodes well as financial technology (Fintech) has evolved more rapidly in China than in other regional countries, including Hong Kong, Japan, and Singapore. While state-owned telecommunications and banking institutions have begun integrating mobile technology into their products, it's the private Fintech companies in China that have achieved significant milestones in expanding their web-based service market. Companies like Alibaba and Tencent, through their payment arms Alipay and TenPay/WeChatPay respectively, boast over 475 million and 600 million subscribers, respectively. Moreover, these platforms not only serve the credit needs of small and medium enterprises but also extend loans to individual consumers. For instance, shoppers on Alibaba.com and JD.com can access small loans from Ant Financial, Alibaba's financial unit. Ant Financial also manages the world's largest money market fund, Yu'E Bao, with assets exceeding 800 billion Chinese yuan and over 300 million investors. (Yue, 2022)

Private sector initiatives demonstrate that China's technology-driven financial inclusion can be highly profitable. In 2015, Yirendai.com became the first online finance company to be listed on the New York Stock Exchange. The following year, China's fintech industry attracted investments worth $10 billion, representing 90% of total investment in Asian fintech companies and more than half of global fintech investment capital.

1.3. Banks and Financial Technology Development Within the Risk Framework: From 2017 Onward

Banks continued to adapt new financial technology to enhance risk management with increased data transparency. A report by the China Banking Regulatory Commission (CBRC) showed that by the end of 2017, the coverage rate of banking outlets in towns in China reached 95.99%. The balance of loans granted to small and medium-sized enterprises in the banking industry reached 30.74 trillion yuan, an increase of 73.1% compared to the end of 2013. Services were provided to 15.21 million small and medium-sized enterprises, an increase of 21.7% compared to the end of 2013. (Banking, 2022)

Data from the Ministry of Finance showed that the central government issued 10 billion yuan of private funds for the development of inclusive finance in 2018, marking a 29.85% increase compared to 2017.

In 2020, the pandemic led to increased financial needs for small and medium-sized enterprises, but it also heightened the risks of lending to these enterprises. Regulators reinforced the assessment of bank support for financial inclusion and increased the tolerance level for non-performing loans. However, balancing social responsibility with operational risks remains a challenging task for banks.

At the same time, in the P2P industry, ongoing scandals and cases of defaulting have led to significant capital losses for lenders. Some extreme methods of protecting their rights, such as street closures, have also impacted social stability. The P2P lending industry has become synonymous with illegally collecting funds, prompting authorities to reconsider regulations.

From 2019 to 2020, all operational P2P lenders were excluded. However, industry leaders like CreditEase gradually transitioned to fintech and wealth management companies before this occurred.

Consumer financing and online loans were regulated to impose high interest rates ranging from 15% to 35% annually, encouraging excessive indebtedness among young people. A report by Nielsen in 2019 found that 86.6% of Chinese consumers aged 18 to 29 use credit products. According to the initial public offering prospectus of Ant Financial, 500 million people borrowed from their platform in the previous year up to June 30, 2020. In October 2020, Jack Ma, the founder of Alibaba and Ant Group, criticized financial regulators in China at a forum in Shanghai for avoiding risk. In the first half of 2020 alone, Ant's net profit reached 21.9 billion Chinese yuan. (Zhong, 2020)

In November 2020, China issued provisional measures for managing online microfinance businesses (draft for comments). At the same time, regulators suspended the initial public offering of Ant Group two days before its scheduled date.

In March 2021, the central bank issued Notice No. 3 of 2021, which specifies that "all loan products must express the annual interest rate of the loan."

2. Enhancing Financial Inclusion Development

The banking industry is the main force in the Chinese financial system, with banking lending being the most common financial channel for the real economy. According to the CBIRC, by the end of 2019, there were 4,607 banking financial institutions in China, with total assets reaching 290 trillion Chinese yuan (41.5 trillion US dollars). In the context of significant policy directives, Chinese banking financial institutions have significantly expanded the scope of their service networks, product offerings, and innovation, in line with the commitment to enhance financial inclusion development.

2.1. The physical extension of service outlets

The network of branches in China is complemented by an extensive network of long-distance agents, reaching nearly a million agents, making it the largest in the world in terms of absolute volume. The adult population (aged 15 and above) ratio in China equates to approximately that of Brazil (84 agents per 100,000 adults), but lags behind counterparts in Kenya (156), Peru (344), and Bangladesh (505). The limited function of agents is significant in China, where agents do not immediately facilitate full financial product uptake (such as account opening and loan repayment), nor do they facilitate depositing money into customers' accounts.

Access to financial services is fundamental to achieving financial well-being. Historically, traditional financial service providers in China were geographically limited and unequal. Recently, political impetus, increased competition, and market opportunities have prompted diverse financial institutions to expand their branch networks, particularly in remote and rural areas. By categories of financial service providers, there were six state-owned commercial banks, 12 joint-stock commercial banks, 134 city commercial banks, and 3,915 rural financial institutions (including 1,478 rural commercial banks, 1,630 rural cooperative banks, 722 rural credit cooperatives, 44 rural mutual credit cooperatives, 28 rural cooperative banks, and 13 small credit companies) by the end of 2019. Additionally, other banking financial institutions in China increased rapidly in recent years, totaling approximately 228,000 by 2019, an 8.4% increase since 2013 (Weidong & Xiaohui , 2021).

Rural financial service providers also witnessed rapid growth, especially new-type rural financial institutions such as village and township banks, credit cooperatives, small credit companies, and rural mutual credit cooperatives. The total number of outlets for these new-type rural financial institutions reached 84,000 by 2018. Meanwhile, financial infrastructure such as automated teller machines (ATMs) and point-of-sale (POS) terminals has significantly increased over the years, with 1.1 million ATMs and 31 million POS terminals as of 2019.

2.2. Ownership of Bank Accounts and Cards

As an important indicator of financial inclusion, owning a bank account or card enables individuals to access a wider range of financial services and develop financial literacy (Zibei & Minchao , 2017). The foundation for opening and using bank accounts and debit/credit cards has been laid due to national payment and settlement systems and the continuous expansion of commercial bank networks. According to the Budget Committee, the number of accounts and cards issued by commercial banks increased from 2.02 billion and 2.8 billion in 2009 to 8.4 billion and 11.3 billion respectively by the end of 2019. The number of accounts and cards per capita reached 8.09 and 6.03 respectively by the end of 2019. The growth rate in rural areas was higher than in urban areas, reflecting a strong penetration of bank accounts and cards in remote and rural areas (China, 2019).

3. Digital Financial Inclusion in China

China has recently emerged as a global leader in digital finance and financial technology. With the integration of digital technology and financial services, both traditional financial institutions and prominent online financial service providers have expanded their ability to address the financially underserved and traditionally neglected consumer demand, such as small and micro-enterprises. The development of digital finance reduces the threshold for financial services and enhances operational efficiency through new models, delivery channels, and products. Key features of digital financial inclusion development in China can be outlined as follows:

3.1. Non-Cash Payment Methods

In 2019, a total of 331.019 billion non-cash payment transactions were processed by banking institutions across China, amounting to 3,779.49 trillion Chinese yuan. This showed an increase of 50.25% and 0.29% annually, respectively.

The issuance of debit cards has been steadily increasing. By the end of 2019, the number of debit cards in use rose by 10.82% annually to 8.419 billion.

Among them, debit cards increased by 11.02% annually to 7.673 billion, while integrated credit and debit cards saw an 8.78% annual increase to 746 million. The number of debit cards accounted for 91.14% of the total number of bank cards in use, with an increase from the previous year. The total number of bank cards per capita reached 6.03, representing a 10.40% annual increase. The per capita share of credit cards and integrated credit and debit cards reached 0.53, an 8.36% annual increase (Bank of China, 2019).

At the end of 2019, there were 23.6296 million merchants and 30.8928 million point-of-sale (POS) terminals linked, along with 1.0977 million Automated Teller Machines (ATMs) equipped with the banking card payment system. This reflects a decrease of 3.7004 million, 3.2554 million, and 13.1 thousand annually, respectively. The number of POS terminals and ATMs per 10,000 people decreased by 9.88% and 1.56% annually, respectively, reaching 221.39 and 7.87.

Banking transactions continued to grow in 2019, with a total of 321.989 billion transactions processed using banking cards, accumulating to a trading volume of 886.39 trillion Chinese yuan nationwide. This reflects an annual increase of 53.07% and 2.82%, respectively, with an average of 8.82 billion transactions and 2.43 trillion Chinese yuan per day. These transactions included 7.085 billion cash deposits worth 52.88 trillion yuan, decreasing by 9.9% and 11.9% annually, and 11.385 billion cash withdrawals worth 51.65 trillion yuan, decreasing by 19.18% and 12.31% annually. Additionally, there were 144.726 billion transfers worth 664.71 trillion yuan, increasing by 60.68% and 2.2% annually, and 158.792 billion consumer payments worth 117.15 trillion yuan, increasing by 61.48% and 26.30% annually. The rate of bank card penetration reached 49.03%, increasing by 0.06 percentage points annually. Consumer payments per banking card amounted to 13.9 thousand yuan, increasing by 13.97% annually, while consumer payments per transaction via banking cards amounted to 737.76 yuan, decreasing by 21.79% annually. (Bank of China, 2019)

Bank credit continued to grow, as by the end of 2019, the total bank credit reached 17.37 trillion Chinese yuan, marking a yearly growth of 12.78%. Meanwhile, the outstanding balance of credit cards amounted to 7.59 trillion Chinese yuan, growing at an annual rate of 10.73%. The credit limit per banking card was recorded at 23.3 thousand yuan, with a credit utilization rate of 43.70%. The total amount overdue for credit for more than six months reached 74.266 billion yuan, representing 0.98% of the total outstanding credit balance. (Bank of China, 2019)

3.2. Online Banking

Many internet-based companies have realized the benefits of e-commerce such as rich customer resources and diverse transaction data, and have entered the field of online banking services, such as WeBank and MyBank launched by Tencent and Alibaba respectively. With no physical branches and services disconnected from the internet, internet banks aim to leverage online technology platforms and data to target small and medium-sized enterprises (SMEs) and individuals. For example, WeBank offers two small loan products, "Weilidai" and "Weiyedai", targeting both individuals and small and micro-enterprises, with lending limits of up to 300,000 Chinese Yuan (43,000 US dollars) and 3 million Yuan (430,000 US dollars) respectively. By the end of 2019, both WeBank and MyBank, as leading internet banks in China, had total assets of 42 billion US dollars and 20 billion US dollars respectively, with outstanding loans of 23 billion US dollars and 10 billion US dollars respectively. Internet banks have also demonstrated unique characteristics compared to traditional banks in identifying and developing risk management models based on data and technology from major stakeholders - internet-based companies. The business and operational models of internet banks continue to evolve and explore, with remaining challenges and constraints. For example, internet banks face difficulties in absorbing deposits and other funds without physical presence. With further exploration and regulation, internet banks will greatly contribute to financial inclusion through more diverse product offerings and more precise risk management tools (China K. , 2021).

3.3. Financial Technology Development Plan in China for the Period 2022-2025

Unlike the phase of online financing, financial technology is broader in scope. In addition to internet technology, more emerging technologies such as big data, cloud computing, artificial intelligence, and blockchain have been integrated into the financial sector to change or create new financial products or services, reduce transaction costs, and improve operational efficiency. Representative applications include credit investigation with big data, smart investment, supply chain financing, and so on.

Given the limited coverage of traditional financial services (insufficient supply of comprehensive finance, especially in rural areas) and the advanced development of internet infrastructure, China has much to gain from developing the fintech sector and supporting financial inclusion.

China has been the leading investor in fintech globally since 2018. In 2018, Chinese investment in fintech reached $25.5 billion, a 900% increase on an annual basis, representing over 50% of the global total. According to CCID Consulting, in 2019, the market value of the fintech sector in China reached 375.3 billion Chinese yuan (59.2 billion US dollars), and it is expected to reach 543.4 billion yuan (85.7 billion US dollars) by the end of 2022 (Qian Zhou, 2022).

Today, fintech is an integral part of daily life in China. According to the Ernst & Young Fintech Adoption Index published in 2019, the consumer fintech adoption rate in China reached 87%, meaning 87% of digitally active population in China use at least one fintech service (mobile payments, online banking, insurance, lending, etc.) in their daily lives. The adoption rate is expected to continue growing as fintech becomes accessible to rural populations.

3.3.1. The main challenges facing the financial technology industry in China.

The development plan for financial technology for the period 2022-2025 identifies the main challenges facing the financial technology industry in China. Despite significant achievements, it is believed that the development of the financial technology sector in China is unbalanced and insufficient.

Among other things, the increasing digital divide resulting from the uneven application of smart technology in different regions and groups has become more prominent. For example, it is not uncommon to see that the older age group faces difficulties in adopting financial technology. Regional financial development disparities persist. The unregulated expansion of some tech giants into the financial sector has sparked antitrust investigations. The "Matthew Effect" (where the strong get stronger and the weak get weaker) of digital evolution between large and small financial institutions has been observed. Most importantly, China's performance has waned in developing key breakthrough technologies. These challenges are fundamental to integrating finance and technology in the future and to promoting the digitization of the financial sector (Qian Zhou, 2022).

3.3.2. China's vision for financial technology by 2025

By 2025, China aims to achieve significant breakthroughs in the financial technology sector, where data processing becomes a complete production factor, ensuring high-quality digital transformation of the financial sector, enhancing the governance of financial technology, and applying key technologies. The development of digital infrastructure has also become more advanced.

China also aims to have a "digital, intelligent, green, and inclusive" financial technology sector that can provide strong support for implementing strategies such as innovation-driven development, digital economy, revitalizing rural areas, carbon peak, carbon neutrality, and all within the framework of China's financial inclusion plan.

4. The current state of inclusive finance in China

The banking system in rural areas of China provides zero-interest to low-interest loans to farmers to alleviate poverty. In some remote areas where there are no rural banks or credit unions, smaller financing is provided through CD Finance and local microfinance institutions. For example, Incofin, a globally impactful asset manager, has been lending to Chinese microfinance institutions for nearly a decade, investing in shares of Ningxia Huimin in 2020. Ningxia Huimin serves financially excluded smallholder farmers in Ningxia Hui Autonomous Region, an underdeveloped inland province in northwest China, where per capita GDP is less than half of its coastal counterparts (Xu, 2021).

In towns and cities, peer-to-peer lending (P2P) via the internet has disappeared. However, anyone can borrow through platforms like WeChat, Alipay, JD, and consumer finance institutions. Banks also have key performance indicators in providing financing for small and medium-sized projects. There are instances of fraud through these new channels, especially online social media, but overall, the urban microfinance industry is more transparent.

Internet giants are "forced" to become less profit-driven, not only them but also many young companies exploring fintech innovations such as AI, Blockchain, Cloud, and IoT. They expect to become the next Jack Ma in their era.

In May 2021, the central bank and six other departments issued a new policy, further expanding comprehensive rural financial reforms to promote the development of new agricultural commercial credit loans. Institutions like Leping continue to operate in this field.

The national digital currency in China is available in a few leading bank applications, which have been created using blockchain and cryptographic technology. As a new pricing tool providing new access to information and more, it remains to be seen how this market movement will change and impact the world.

Despite the flourishing financial technology industry and the rise of innovative service delivery models, Dina Pons, the regional manager of Incofin, highlights the ongoing need for high-touch traditional microfinance institution service models to complement financial technology solutions. She stated, "There are still customers who are either less tech-savvy or have little digital footprint for big data models to work." However, it's good to see the government recognizing the importance of inclusive finance and harmonizing regulations; the latter will make the regulatory environment easier to navigate for foreign investors.

Private companies like CreditEase continue to support growth in this sector. On the fifteenth anniversary of CreditEase, CEO Tang Ning pledged to collaborate with more partners to share capabilities in software, solutions, and other business aspects. He stated, "We will continue to offer more diverse and innovative products and services." "The high-growth business services platform we have established will continue to assist innovative entrepreneurs" (Xu, 2021).

Bai Chengyu, the head of the China Association of Microfinance, stated that China's progress towards achieving the United Nations goal regarding financial inclusion should be evaluated, with a particular focus on enhancing access to financial services for individuals and micro, small, and medium-sized enterprises (MSMEs). When there is comprehensive access to a wide range of low-cost financial services provided by a variety of sustainable institutions, especially for individuals and micro, small, and medium-sized enterprises, China can claim to have already achieved financial inclusion.

5. Conclusion

Financial inclusion in China has made significant progress in recent years, and there is a need for further systematic research on this topic. Despite some preliminary studies on financial inclusion, rural finance, and digital financial inclusion, there is still work to be done to ensure comprehensive access to a wide range of low-cost financial services provided by a variety of sustainable institutions.

The combination of government support for financial inclusion and private entrepreneurship in the fintech sector, along with the optimistic response from the international investment community to the fintech sector in China, is encouraging. However, from the perspective of promoting financial inclusion and social stability, it is necessary to mitigate the pace of market development by acknowledging that the tremendous growth in fintech in China has occurred in a regulatory vacuum .

Lenient regulations mean that fintech products pose greater risks to consumers, investors, and non-banking entities compared to traditional financial services. Until recently, practically anyone could launch a P2P website and start raising funds from enthusiastic investors. In the absence of appropriate regulation, nearly 65% of P2P platforms in China have ceased operations due to bankruptcy or fraudulent practices. The collapse of Ezubao in 2015 was a prominent example of the risks associated with free-wheeling fintech. Within a year of its establishment, the online finance company raised nearly $7.6 billion USD from almost 900,000 investors through offering "investment products" that turned out to be fake. Thousands of P2P platforms have ceased operations due to mismanagement and/or direct fraud.

Therefore, a new committee for financial stability and development was proposed under the State Council to mitigate seven types of financial risks to the system, including "non-performing loans, liquidity management, shadow banking, external shocks, real estate market, government debt, and internet finance." However, it is still unclear the extent of authority and executive power the new committee will possess as the regulatory environment for fintech continues to evolve.

Finally, the Chinese government should support the establishment of a national "social credit system" aimed at providing credit scores for consumers and small, micro, and medium-sized enterprises who lack collateral and/or credit history, thus promoting financial inclusion.

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