

## New Ideas of Inclusive Financial Model

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**Abstract:** The concept of "inclusive finance" aims to enable all people in need of financial services to enjoy these services equally and fairly. With the development of inclusive financial services in China, because of national and social factors, the existing inclusive finance has a series of disadvantages. Even, there are some illegal financial storms, so we have to re-examine the existing inclusive financial system. This paper proposes to combine the "P2P network loan platform model" and "B2B business model" to build a new inclusive financial model, so that it can fully play its maximum value. The inclusive finance under this model not only greatly exerts its concept, but also solves its existing problems.

### 1. Introduction

Since the United Nations proposed "Inclusive Finance" in 2005, it has gained attention of many countries. As a socialist country, China's development of inclusive finance suits our socialist concept. China keeps exploring and practicing inclusive finance and is committed to finding a path that suits the national conditions of socialism with Chinese characteristics. In 2016, inclusive finance was even included as an important item in our "13th Five-Year Plan", which means that it has become one of the important development strategies and a national key project; In 2017, the "Government Work Report" clearly claimed that large and medium-sized banks across the country must establish an inclusive financial business department before the end of the year, which shows that the country's focus on inclusive finance keeps strengthening; On January 25, 2018, the People's Bank of China decided to conduct a targeted cuts to required reserve ratios policy for inclusive finance, which aims to enable major Chinese banks to develop inclusive finance and make it develop as much as possible. In recent years, China has issued many policies and guidelines on promoting its development, which aims to fully combining it with the national conditions of socialism with Chinese characteristics.

However, not everything is satisfactory. Recently, there have been many financial crises related to inclusive finance, which makes people realize the need to re-examine the existing inclusive finance problems. These problems include inadequate financial infrastructure, poor financial risk prevention and control ability, and independent differentiation of credit system. Its current problems are not unilateral. From the national overall inclusive financial laws and regulations, China's long-standing national conditions to the research of financial theory, all of these will lead to its stagnation in China. This paper believes that despite of great problems with the P2P online loan model, its vision is good, and the "P2P online loan platform model" and "B2B business model" can be combined to build a new platform. This platform under the new model can effectively solve the problems arising from the development of inclusive finance in China. Meanwhile, it integrates China's independent and dispersed credit system to form a sound credit system, which provides a strong guarantee for the future construction of socialism with Chinese characteristics.

### 2. Inclusive Finance

#### 2.1 The Concept of Inclusive Finance

Inclusive finance aims to enable all people in need of financial services to enjoy these services equally and fairly. Its focus is to allow all people to enjoy financial services equally, especially those who are excluded from the traditional service financial system, like small and micro enterprises, agriculture, rural areas and farmers and the poor. It should be noted that it is definitely not the opposite of traditional finance, so it does not reject or exclude financial services to large enterprises and customers in big cities.

Secondly, though "inclusive finance" includes "inclusive", it is also a financial product and cannot achieve completely "inclusive". Thus, it is particularly important to note that inclusive finance is a profitable product, not a product of charity.

## 2.2 Features of Inclusive Finance

- (1) Availability. As the name implies, it refers to how many people can get financial services from it and how many regions of people can enjoy financial services, which describes a measure and focuses on a coverage.
- (2) Price rationality. This refers to whether the price of the financial products or services is reasonable. This requires that pricing must be favourable, so that people who are excluded by traditional finance can have consumption power, without exclusion. Secondly, the pricing of products should also enable providers to make profits and ensure the sustainable development of financial institutions.
- (3) Convenience. This means that the procedures of financial products or services made by financial institutions are not too complex, so that the financial services or products can be handled more conveniently on the premise of ensuring quality.
- (4) Security. This means that financial services are conducted under the national laws and regulations with legitimacy; Secondly, for financial consumers, there should be proper protection to ensure that they are not cheated by financial institutions.
- (5) Comprehensiveness. This means that on the premise of ensuring the availability of basic financial services, a variety of financial products will be introduced so as to involve all aspects of people's lives.

## 2.3 Development Situation in China

**Table 1.** Development Situation in China

Names of Banks	Institutional Establishment	Time of Establishment	Details
Agricultural Bank of China	Financial Business Department of Agriculture, Rural Areas and Farmers	2008	Constantly improving the organizational structure and management system of the financial business department of agriculture, rural areas and farmers, providing a strong institutional guarantee for the Agricultural Bank of China to serve agriculture, rural areas and farmers and strengthen the county.
	"Implementation Plan for the Construction of Inclusive Finance Business Department"	June 30, 2016	Fully establishing a inclusive financial service system with the characteristics of Agricultural Bank of China, full coverage of urban and rural areas, two-wheeled "financial department of agriculture, rural areas and farmers + inclusive financial business department", and stepping into the fast track of its inclusive financial business
China Construction Bank	Inclusive Financial Development Committee	April, 2017	Constantly extending the inclusive financial service institutions to the first and second level branches, counties and towns, and forming the "three-level" inclusive financial vertical organizational structure of head office, branch and sub-branch. Besides, as an important strategies of China Construction Bank, inclusive financial strategy will also support with housing leasing and financial technology, and work

			together to create a differentiated competitive advantage.
Industrial and Commercial Bank of China	Inclusive Financial Business Department	April 12, 2017	Industrial and Commercial Bank of China will tailor the "six separates" mechanism. The first is a separate credit management system, which sets up an independent credit plan and an independent credit management system for small and micro financial businesses; The second is a separate capital management mechanism, which enjoys separate capital measurement, allocation, and evaluation policies; The third is a separate accounting system, and gradually establish and improve the reporting system of small and micro enterprises' financial business; The fourth is a separate risk provision and write-off mechanism, which sets a differentiated risk tolerance and implements a differentiated write-off policy; The fifth is a separate fund balance and operation mechanism, which verifies the special fund plan and integrates it into the bank's asset liability business planning and unified management; The sixth is a separate appraisal incentive and constraint mechanism, differentiated appraisal and accountability mechanism, and double-line appraisal for the inclusive finance business departments of branches.
Bank of China	Inclusive Financial Business Department of Bank of China	June 20, 2017	Based on Fuden village bank, Bank of China, integrating relevant business, quickly establishing inclusive financial business department, and adopting the "line" management system.
China Bank of Communications	Inclusive Financial Business Department	June 30, 2017	The reform of the inclusive financial business department of the Bank of Communications starts with the top-level design, improves the system and mechanism, and plans the overall supporting service system of institutional settings, statistical accounting, assessment incentives, risk management, and resource allocation. It promotes the implementation of various regulatory policies, which will further enhance the ability and level of inclusive financial services of the Bank of Communications.

### 3. Building an Inclusive Financial Platform of Socialism with Chinese Characteristics

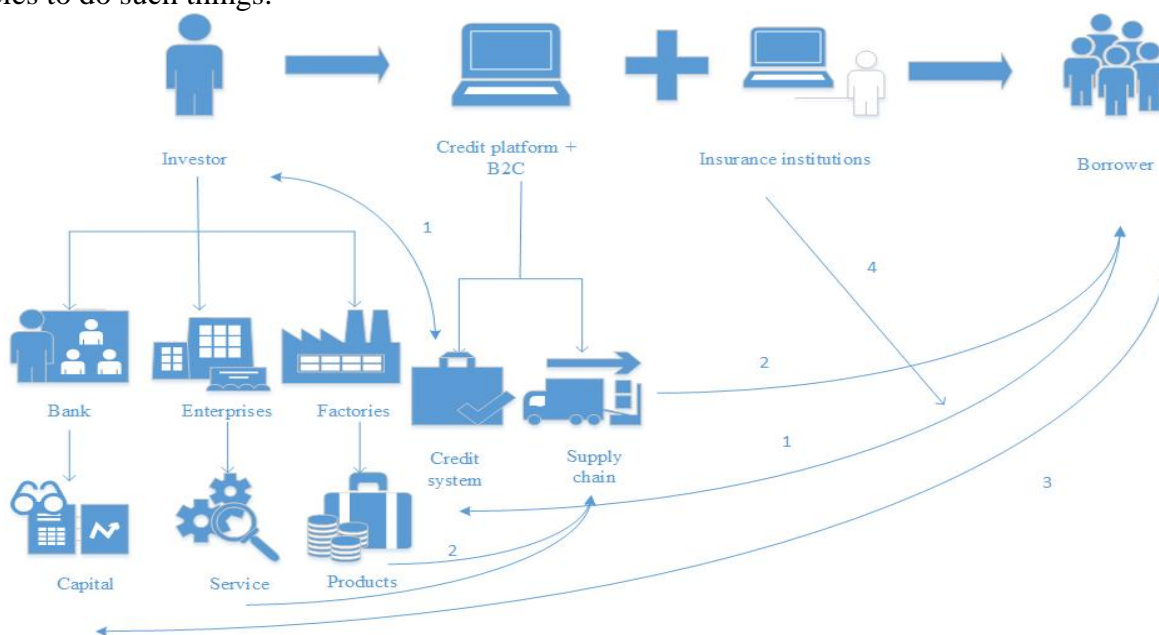
#### 3.1 Model Vision

**Investor:** The investor can be any person or institution with idle capital and access requirements. Fig. 3.1 lists the main sources, namely banks, enterprises and factories. It can be seen that we divide the investors into three types including capital investment, product investment, and service demand.

**Borrower:** The borrower is anyone who needs financial services. Apart from normal large-scale enterprise customers, here we focus more on small and micro enterprises, farmers and low-income groups.

**Platform model:** The establishment of the platform model consists of two aspects, including the Internet model and insurance institutions. The Internet model is mainly to establish a comprehensive platform integrating financing and supply chain, and continuously accumulates credit information to prepare for the construction of a comprehensive and independent third-party credit platform. Indeed, one point that has to be mentioned here is who will build such a platform to

achieve such an effect? Considering the use of this platform and the development strategic objectives, it is consistent and most capable for national government departments or administrative agencies to do such things.



**Fig. 3.1.** Flow Chart of New Inclusive Financial Structure

### 3.2 Access Conditions

For investors, the first is to connect the bank-related products and financial capitals with inclusive financial business departments to this platform through national policies. The second is that enterprises, factories and other institutions must comply with enterprises that have not violated Chinese laws and regulations (including not being punished) and have been profitable in the past 2 years. Secondly, for enterprises, factories and other institutions, they must not violate Chinese laws and regulations (including not being punished) and have profits within two years.

For borrowers, they need to register with real names and upload personal electronic files. Meanwhile, after registration, the platform can access the household registration file information according to their ID numbers, so as to avoid the inability to find them. Borrowers must be users who have not been involved in fraud.

### 3.3 Operational Management

The platform is managed by the national government and will not disclose personal information to the outside. If users of the platform need to call the credit file, they can only see the profit status, credit degree, past stains, registered banks or government institutions and other information that does not involve privacy.

In the establishment of the credit system, firstly, it is necessary for government departments to set an example, and to integrate the collected enterprise credit system, tax system, household registration information, etc. into the platform's credit system. Secondly, banks need to connect the internal credit information to the credit system. However, as for the management of each bank, they have independent management, and only put their online products on this comprehensive platform. Then, when insurance institutions enter this platform, they also need to integrate the credit system they have collected into this comprehensive credit platform. Then, enterprises with access can publish their requirements on the platform, either for talents or for services, and display them on the page of each investment manager. Finally, it is the enterprises or factories that provide products. The first thing to bear the brunt is to ensure the quality of products (through the inspection of departments) and to be more favorable in prices than those in the market.

In such cases, borrowers can borrow money on the platform, and also enjoy high-quality supply chain services after borrowing money. It must be emphasized here that only borrowers or investors

can enjoy the supply chain services on the platform. However, after borrowers return all the borrowed capitals plus interest to the account of the platform after 2 years, if they still want to enjoy the services provided by the platform, they need to pay different amount of security funds (which can be returned after withdrawal). Here, we can learn from the way of building an inclusive financial system in India. We can implement the group system in some rural areas, and organize small borrowers into groups. We can deposit the full amount of security funds on the platform in the name of groups instead of individuals, but the loan can be borrowed in the name of individuals. The credit system adopts the group or family binding system, which makes borrowers bear more risks in default. Besides, the credit system on the platform should be connected with the blacklist of national dishonesty personnel to further increase the cost of dishonesty. It should be emphasized that to ensure the rational use of funds, we encourage the money borrowed from the platform to be used on the platform and give preferential treatment. The services of the platform are diversified. If there is no relevant service, it can be applied on the platform, and it can also be specially treated after being reviewed.

Finally, it has to be mentioned that services of the platform need to be improved before borrowing (the entrepreneurial platform can be introduced) and managed by categories. This supply and marketing platform can be searched based on geographical locations, price advantages, and favorable reviews, mainly for the poor who want to start a business.

### **3.4 Policy Assumption**

For the government work, apart from providing some guarantees mentioned above, some incentive policies should be introduced to attract relevant enterprises or factories into the platform. Now, in addition to relevant policies to encourage banks to establish inclusive financial business departments, the guidance policies of enterprises are also needed. For example, the amount of money and number of years an investment enterprise achieves can reduce the relevant taxes; Borrowers can enjoy tax exemption in 2 years and so on.

### **3.5 Withdrawal System**

To ensure the stable operation of the platform, as investors, if they choose to withdraw for bankruptcy, the relevant investment amount can be returned directly, but the relevant interest will be devoted to the platform free of charge; If they choose to withdraw for other reasons, they can only receive 90% of the investment in 3 years; If they are investors with products, they can choose to take back products directly or withdraw the proceeds from auction. As borrowers, they must guarantee that they have repaid all their loans to the platform when applying, and they will not receive the security funds until one year after they withdraw. The relevant information of any party who has applied for withdrawal above is still retained and can only be applied for 3 times. Meanwhile, after submitting the application, they can no longer see any member information of the platform or accept any services.

### **3.6 Regulatory Mechanism**

The government has a strong capacity to set up a separate regulatory department. If investors or borrowers escape with funds or do anything that affects the operation of platform, the regulatory departments can coordinate with the relevant departments to arrest or search. When the above situations occur, the regulatory departments can notify the public through media networks, and apply to banks and other departments to freeze their personal accounts.

## **4. Advantages of Inclusive Financial Platform under the New Model**

### **4.1 Gradually Establishing Credit Platform**

The advantages of the credit system are also obvious. Having a sound credit system can not only make the financial economy develop harmoniously, but also make the whole society enter a good socialist atmosphere. China's credit industry started relatively late. Not only the whole financial system, but also the whole Chinese society needs a sound credit system. Despite years of

development, China's credit system is still not perfect, and each credit agency is relatively independent, which makes the whole China has not a credit system with the level of the United States.

Through the government's macro-control, on this comprehensive platform, we can not only develop inclusive finance, establish an inclusive financial platform of socialist with Chinese characteristics, but also integrate various resources to form a comprehensive credit system that is different from a profit-making one. It is a credit system that is independent from but can serve the relevant stakeholders. Meanwhile, the government departments can obtain a comprehensive credit platform to facilitate their work.

#### **4.2 Avoid Non-performing Loans**

Now, P2P network loan platform and inclusive financial institutions have more or less non-performing loans. Imagine what is the main reason for the occurrence of non-performing loans. Is it because borrowers do not have money to repay? We can't deny that this situation exists, but it can be avoided through this platform. Through the research, it is found that the main reason is that borrowers fail to start their own businesses after borrowing and do not have enough money to repay. On this platform, they can obtain high-quality supply chain, allowing them to obtain the lowest cost to get profit. They can also get high-quality sales services, and even the product demand information provided by investors. Even people who can't do business can make a profit through the information advantages of the platform.

#### **4.3 Forming a Benign Ecosystem**

As shown in the direction of line ③ in Fig. 3.1, borrowers need to return loans and interest to the platform after 2 years of entrepreneurship. If they also need the services provided by the platform, they need to pay a security deposit (which can be returned). If the platform's money is used internally, apart from outside investors, borrowers' security funds can be used to lend to new borrowers. With this cycle, a good capital cycle chain can be formed gradually, which ensures the operation of the whole platform.

### **5. Conclusion**

The development of inclusive finance in China suits the national conditions of socialism with Chinese characteristics, and it will surely be a necessary path for China to enter the socialist society. With the introduction of encouraging policies for inclusive finance, its development speed is rapid. The platform under the new model of inclusive finance proposed in this paper still has many shortcomings. However, it is believed that with more and more people's theoretical research and practice of inclusive finance, its development in China will be better and better.

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