攻坚“最后一公里”

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THE REPORT OF FINANCIAL INCLUSION DEVELOPMENT IN CHINA (2018)

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Summary

The "Last Mile" issue often refers to the difficulty of financial services to reach the marginalized population, reflecting the higher cost of marginalized groups in obtaining financial services compared to other clients in current financial system conditions. This Report studies the background of the "Last Mile" issue, and the explorations and practices on the "Last Mile" issue by financial institutions and FinTech companies. This report also summaries existing accomplishments and reflections on related issues.

The "Last Mile" issue is a complex and dynamic concept. The main factors preventing financial institutions from serving marginalized clients include high service costs and high risk to be borne by the institutions, and low affordable interest rates by clients. The lack of financial capability, knowledge and skills, and the distrust of financial institutions by those marginalized groups further hinder their use of financial services. The "Last Mile" issue is also related to the policy environment. Inappropriate fiscal and financial policy and the lack of consumer protection are all negative factors affecting the popularization of financial services among small and micro enterprises and the disadvantaged individuals.

Currently, the financial service models reachable to marginalized clients include the direct chain model, agency model, cooperative model, digital model and supply-chain financing model. Among them, the first three allow direct interaction with end clients. Digital model is found in digital financial services provided by all types of financial institutions and quasi-financial institutions, and often involves indirect interactions with clients. Supply-chain model can be online, offline, or a hybrid of both. It is regarded as a different service model due to its unique risk-control method.

Examples of international experiences on solving the "Last Mile" issue include M-PESA mobile banking in Kenya and the Agency Network Model of Banco Postal in Brazil. They provide valuable experiences on solving the "Last Mile" issue in China in are-

as of acquiring marginalized clients by FinTech service providers, cooperation between government and the industry, competition in financial services, and consumer protection, etc..

In the attempt to solve the “Last Mile” issue, financial service providers should focus on the needs of end clients, promote the development of digital financial services to construct online-offline hybrid service system, explore on the cross-institution aggregated service model and optimize the whole financial ecosystem, so as to provide financial services that are best matched to the needs of end clients, improve client welfare and at the same time promote the inclusive development of economic society.

Rural financial service institutions play a vital role in promoting the development of financial inclusion in China, achieving targeted poverty alleviation, and conquering the “Last Mile” issue (Chapter 1). Currently, agriculture-related financial institutions include traditional financial institutions, new type rural financial institutions, newly-emerged internet financial companies, and other non-bank financial institutions and some leading conglomerates with financial divisions.

In recent years, the two agriculture-related development banks, i. e. China Development Bank and Agricultural Development Bank of China, have made positive contributions to solving the issue of the “Last Mile”. For example, China Development Bank supported the demolition and relocation of poverty areas and provided funds for characteristic industries in poverty areas. Agricultural Development Bank of China provided interest-subsidy loans, participated in construction of poverty alleviation experimental demonstration areas, established cooperative models on industrial poverty alleviation with local governments, made attempts on Equity-Loan Combined Financing and Dual-Right① Collateralized Loans. Such measures all directed funds towards marginalized areas and poverty households, playing a leading political role.

Rural Credit Cooperatives (Rural Commercial Banks), Agricultural Banks, Postal Banks are traditional banks deeply involved in solving the “Last Mile” issue. These institutions made innovations on FinTech digital technology, built a rural household credit rating system, and developed credit products suitable for local clients, and set up comprehensive financial service station to provide basic financial services to local residents. The comprehensive financial service stations set up by these three institutions have formed the most concentrated technological financial services network, achieving a full coverage of all village residents. At the same time, rural banks, rural mutual cooperatives and other new type rural financial institutions have increased the overall sup-

① The two rights are: operating rights on the contracted land by farmers, and property right of rural housing.

ply of rural financial services. Also, internet companies, taking advantages of their FinTech skills, are playing a constructive role in delivering financial services to rural area clients.

Fast developing new type financial institutions are facing unique challenges and dilemmas in solving the "Last Mile" issue (Chapter 2) . The speedy development and iteration of information technology are playing a profound revolutionary role in the financial industry. In Chapter 2 we will discuss the development of new type financial institutions and introduce their contributions and challenges in solving the "Last Mile" issue.

New type financial institutions are essential in conquering the "Last Mile" issue in financial inclusion. They offer deep and efficient services for rural clients, enhancing financial service quality and financial inclusion capability while protecting consumer privacy. As an example, based on Ant Financial and the IT skills of Alibaba, MyBank provides financial services to small and micro companies as well as individual entrepreneurs, filling the un-serviced and under-serviced market gap left open by traditional financial institutions. By the end of June 2018, the accumulated loan issuance had amounted to over 1 trillion RMB, and 10 million small and micro companies had benefited from such services. The loan product facing the rural market, "Wang Nong Dai", had served almost 4 million clients, including small and micro enterprises and farming households.

While new type financial companies increased the audience scope of financial services through improved new technology, we should be aware that the foundation of all financial services is credit, and the core of all transaction is trust and safety. For the previously excluded small and micro companies and entrepreneurs, the available financial services are still rather limited. There are yet mounting difficulties and challenges in the inclusive finance business faced by new type financial institutions.

International institutions undertook financial inclusion practices in China, providing valuable experiences (Chapter 3) . The participation by international institutions in China's inclusive finance market is closely related to China's national policy of reform and opening up. In almost 40 years, international institutions introduced resources necessary in the development of financial inclusion into China, stimulating its development. Their involvement in China's financial inclusion industry can be divided into the following three phases: the development assistance phase, endowment investment phase, and social impact investment phase. International participants in China's financial inclusion include multilateral/bilateral development institutions, non-profit institutions, cross-border companies and oversea financial institutions.

The implications of international institutions' practices in China can be three-fold. Firstly, as the targeted audiences of financial inclusion are mainly small and micro sized companies and disadvantaged individuals, there is a natural trade-off between economic impact and social impact in determining the effectiveness of such practices. Therefore, a dual-purpose balancing mechanism should play a decisive role in the sustainable development of financial inclusion. Secondly, localized innovations determine the successfulness of implementing international experiences in China. Thirdly, the imported advanced management models are also very influential for financial inclusion projects and the sustainable development of institutions.

In summary, international institutions have made significant contributions on financial inclusion development in China, especially in business modes, fund support, and technical support for micro loans.

A clear understanding of the target audience and local characteristics helps to find the best solution in solving the "Last Mile" issue (Chapter 4) . The Chinese Academy of Financial Inclusion (CAFI) Financial Inclusion Index provides data evidence on the characteristics of marginalized clients based on a Zhejiang sample.

Their characteristics include: heavy household labor burdens, low employment ratio, unstable income, and heavy economic burdens; low education level and income level resulting in low financial service demands; high expenditure ratio and lack of confidence in obtaining social assistance. All above factors contribute to relatively high exclusiveness in receiving financial services. Besides, there are distinct differences in the level of financial inclusion between the east and west side of the country. In the west provinces, the accessibility, usage, quality, and consumer satisfactory level are relatively at the left side of the distribution (more excluded) . Overall, the development and policy assistance should be tilted towards the west in China.

The occurrences of the "Last Mile" issue are mostly likely to happen in the rural areas in China. Although naturally disadvantaged, rural areas have huge development potential. For example, insurance products related to "San Nong" (agriculture, villages, and farmers) have large development potential. Besides, the difficult and costly financing problem is partly due to the incomplete credit referencing system. Solving the financing problem is the key impetus to the development of agricultural industry and improving personal income in rural areas.

In rural finance, a financial aggregator has an important role to play. As the social conditions, economic conditions, culture, and growth potential of the residence of rural areas differ significantly from that of cities, financial services should differ too among the two regions. In rural areas, completion of financial services requires the facilitation from an aggregator, which is connected to both demand side and supply side. The aggregator plays an important "bridging" role between the audience and financial service providers (FSP). On the one hand, the aggregator enables financial service providers to reach potential clients in the rural areas; on the other hand, the aggregator also helps rural residence to better communicate their needs with FSP in order to receive more and better financial services. Typical financial aggregators include: village-level financial service stations, financial service agents in rural areas, rural cooperative organizations, local basic-level government organizations, leading enterprises in rural areas, and platforms jointly established by rural platform companies and financial regulators, etc..

The realization of financial services in rural areas relies heavily on one or more forms of aggregators. In commercial practice, the type of aggregators has profound effect on the choice of the business models. All business model types are not isolated either, and are often used jointly by most institutions, such as Direct Chain + Agency + Digital Model, Online + 2B2C + 2G2C Model, Internet Finance + Non-Profit Micro Loan Institution/Rural Cooperatives + Farming Households Model, G2B2C Digital Model (regulator together with financial institutions provide services to rural households) and Mutual Cooperative Model. This chapter reviews different financial aggregator models, discusses their problems and provides corresponding suggestions.

During the discussion of financial aggregators, we also included a case study of a company which successfully established an all-winning financial inclusion business model making use of the financial aggregators, which provided valuable experience in tackling the "Last Mile" issue.

Super Digital Financial Platforms also plays a crucial role in solving the "Last Mile" issue (Chapter 5). Super Digital Financial Platforms show characteristics of being comprehensive, digital, platform-based, and large client based etc.. They can provide financial services as well as other life-style services. The biggest challenge for such platforms to solve the "Last Mile" issue is that large amount of marginalized clients are not online clients yet. In such cases, the above mentioned financial aggregators are required to link the platforms to end clients. Such aggregators are deeply rooted in villages, and thus are able to channel direct financial services provided by the platforms to end marginalized clients.

As financial aggregators can directly interact with institutions and individuals along the "Last Mile", they act on an agency role. The effectiveness of cooperation between super digital financial platforms and financial aggregators relies largely on the close relationship between the aggregators and end marginalized clients. Their cooperation models include: “Business Add-on Model”, “Business Hybrid Model” and “Business Extension Model” .

Other challenges faced by super digital platforms in solving the “Last Mile” issue include: regulation and compliance, development level of financial aggregators, and financial capability of marginalized client, etc.. To solve these problems, firstly, super digital financial platforms should try to develop sustainable business models, play their IT strengths to the maximum. Secondly, we should explore more cooperative methods between super digital financial platforms and financial aggregators; enhance marginalized clients' financial capability, in order to provide more diversified products and services to these clients. Thirdly, super digital financial platforms should be actively involved in the credit system construction.

FinTech is an influential contributor in solving the “Last Mile” issue (Chapter 6). Cloud Computing, Big Data, Artificial Intelligence and Blockchain are the core technologies used in the financial industry. The development of FinTech relies heavily on the hardware technology advances. Computing power, storage and internet resources will become more cost efficient with technology advances, ensuring flexibility in time and space in cloud computing by the platforms. This builds solid foundation for technologies such as Big Data and Artificial Intelligence.

Digital financial products based on the wide applications of FinTech skills can facilitate solving the “Last Mile” issue. Based on payment services, credit information collection and credit referencing services can provide basis for other products. Loan provision is an essential product. Wealth management and insurance are also important supplements to the complete product line. For all of the above products and services, FinTech plays an important role, helping to reduce client acquisition cost, enhance the risk management and pricing abilities, lowering the entry requirements for end clients. These are all consistent with the high accessibility, affordability, abundance, and sustainability of financial inclusion. Some closely relevant technologies such as machine learning and biological identification are also introduced in this chapter.

Service costs can also be greatly reduced by FinTech. The large cut in front-line personnel can reduce both HR costs and costs related to physical branches. Besides, FinTech also reduces costs related to risk management, enhancing efficiency and risk control ability. Risk control ability determines operational cost and sustainability of financial inclusion businesses. Therefore, improving risk control ability through advancing FinTech skills is crucial for operational efficiency in the industry.

We should also be aware that, with enhanced cost efficiency and accessibility of inclusive finance products and services, challenges started to accumulate due to lack of financial education and capability. Problems such as financial fraud, digital safety, digital gap and exclusion, etc.. may further threaten the healthy development of the industry.

Regulation requires particular attention in solving the "Last Mile" issue (Chapter 7). Problems in the regulation system, firstly less developed financial regulation system, lack of regulation resources in rural areas, informal rural financial institutions are excluded in the regulation system, all hinder effective regulation. It is inevitable for the "Last Mile" problem to occur when financial institutions are not providing timely, accessible and affordable financial services. Secondly, the lack of flexibility of some regulatory rules may have caused a long term negative effect on the development of rural financial institutions, leading to lack of inclusive financial service supply as financial service resources could not cover the marginalized areas. Thirdly, over-regulated interest rates are leading to mispriced financial assets. Fourthly, consumer protection in rural inclusive finance consumption needs to be improved. Fifthly, some regulatory indicators might be overly idealistic.

Based on practical circumstances, a more "inclusive" regulation regime should be adopted during the early phases of financial inclusion in China. On the basis of existing regulatory principles, prudential regulatory principles shall be used more "prudently"; and other regulatory principles such as "moderateness" "inclusiveness", and "differentiation" shall be applied as well. This can promote the effective competition and fair development, and avoid negative effect brought about by penetrative regulation and institutional regulation. We also recommend adjusting the current collateral guarantee regulation and strengthen financial inclusion education, adjust regulation regarding interest rate, improve the consumer protection system, and take advantage of technological innovations to promote the speedy development of financial inclusion in China.

Financial infrastructure is the foundation for solving the "Last Mile" issue (Chapter 8). Since the reform and opening up in China, financial infrastructure has made steady improvements in areas of payment and settlement system, credit reference system, evaluation system, and the supporting system. Firstly, in terms of payment infrastructure, branch-less and terminal-less banking services have been established; farmer-assisting cash withdraw services have reached the village level. And with the development of technology, the reliance on bank branches has been dramatically reduced. Secondly, the credit referencing system has seen the co-existing of traditional credit referencing and new Big Data referencing. The traditional public sector credit referencing service is supplemented with Big Data commercial credit referencing services which provide a new data source. Next，the evaluation of financial inclusion industry has also evolved. Social impact evaluation indicators are being discussed together with economic and financial indicators. Thirdly，the industry-wide supporting system is also providing environment，resources，and talents for the better development of the industry.

However，the overall condition of payment and settlement system in rural areas is generally less developed，large urban-rural gap exists in the credit reference system，punishments to dishonest behaviors are inefficient，evaluation system is unable to make industry forecast and risk alert，and the supporting system for industry-wide financial inclusion has not yet been established. With this background，the construction of financial infrastructure needs to start from the organic needs and demands from the disadvantaged clients.

The CAFI Financial Inclusion Indicator and Monitoring System provide data support for the “Last Mile” issue（Chapter 9）. As a major component of the financial inclusion infrastructure，the precise measurement，dynamic monitoring，and timely evaluation of the financial inclusion development using an indicator and monitoring system is of great significance. CAFI developed a “Digital Financial Inclusion Indicator and Monitoring System”. Using a sample of 14 counties in Zhejiang based on the cooperating with Zhejiang Rural Credit Cooperatives，CAFI finds that Zhejiang Province has a relatively high financial inclusion development level. Evidences include high service level，low exclusion level，a relatively small difference between different geographic regions in the sample.

Financial capability and usage of inclusive financial services are the two less satisfactory sub-indices and thus have larger improvement potential. Data also shows that，lower income，lower educational level，and higher age groups are more likely to be “excluded”. Determinants such as age，educational level of household head，difficulties in using financial services，and level of digitization not only significantly affect the above two sub-indices，but also significantly affect the comprehensive index of financial indication（proxied using different variables）. Moreover，data shows that low financial exclusion level is significantly associated with better future prospects.

CAFI also conducted a survey in Lishui City，Zhejiang Province to examine the effect of the rural financial reforms started in 2006. Results show that the financial reform in Lishui significantly reduced the exclusiveness of financial services. The reform targeted at eight areas such as financial organizations，financial products，farmer-benefiting policies，financial markets，credit，service platforms，payment services，financial ecosystems etc.. The main objective was to enhance client experience. And based on the study, we can conclude that such financial reforms have produced satisfactory effects.

Banks can effectively promote the development of small and micro enterprises (Chapter 10). As small and micro enterprises make extensive contribution in providing jobs and improving people's income level and life quality, inclusive finance emphasizes on providing banking services to these enterprises to promote the balanced development of the society. This chapter shows that providing financing to small and micro enterprises significantly increases people's income level.

Study shows that, the number of bank accounts owned by an enterprise in the sample is significantly associated with the number of contracted employees and the level of employee salary. The number of bank accounts for a company is used as a proxy for its cash liquidity, which increases the probability of the company receiving loan credit and thus further increase liquid asset size. Company's liquidity is an important factor contributing to the operational stability, efficiency, and sustainable development of the company. And the latter effects are proxied using two variables: number of contracted employees and salary level of employees. Therefore, it can be concluded that, improving banking services for small and micro enterprises has positive social implications.

This report describes China's experiences in addressing the 'last mile' issue in financial inclusion practices. We wish our findings could assist in providing financial services to the underserviced, promoting financial services and eventually making our society a one with sound financial health.