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中国人民银行
THE PEOPLE'S BANK OF CHINA

Development and supervision of non-bank payment service providers

2021.5

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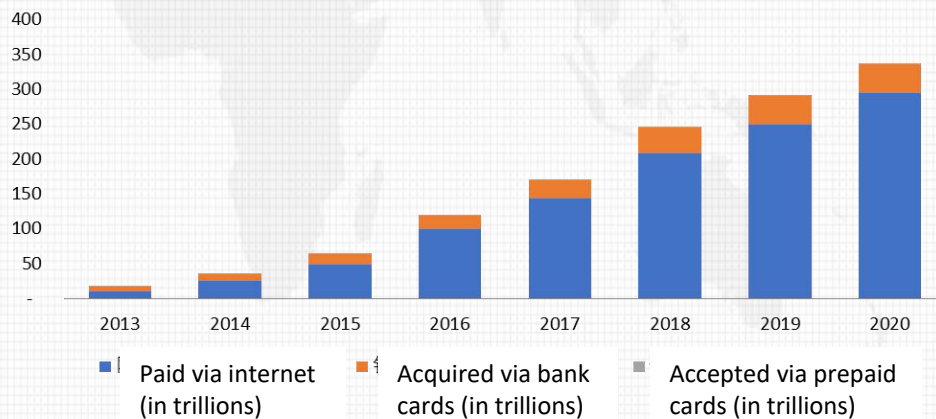
Focus of next step of work

I. Development of payment service providers

Payment service providers are included in the supervision. Market structure is optimized continuously.

Ø The People's Bank of China (PBoC) issued the *Administrative Measures for Payment Service not Provided by Financial Institutions* in 2010, payment service providers were included in the supervision.

2013-2020 Total business volume of payment service providers



In 2020, 231 payment service providers processed transactions of 336.41 trillions yuan, with an year-on-year increase of 15%, and a compound annual growth rate of 45% as compared with 2013.



II. Main regulatory measures

➤ 1. *"Cutting the direct connection" between payment service providers and banks*

- ∅ **Background:** in the early stage, payment service providers and commercial banks were interconnected in pairs, with multiple accounts opened, resulting in high operation and maintenance cost, intransparent transactions, fragmentation, and greater hidden risks
- ∅ **Regulatory measures:** Starting in 2017, the PBoC required every payment service provided under direct connection with commercial banks to be transferred to clearing houses to process. The work was completed on January 14, 2019.
- ∅ **Outcome:** effectively lowered the operation and maintenance cost, improved the efficiency of transaction, and clearing and settlement process became more transparent. Currently relevant clearing houses process 1.8 billions transactions daily by average, with a total amount of 1.3 trillion yuan.



II. Main regulatory measures



2. Having centralized depository of cash reserve, and improving the supporting regulatory system

- Ø ***Regulatory measures:*** : in order to solve the problems of dispersed depository of cash reserve, the PBoC set up a centralized depository system and required payment service providers to deposit cash reserve in the PBoC and qualified commercial banks. The work was started in 2017, and completed on January 4, 2019.
- Ø ***Supporting system:*** reviewing the regulatory experience, adapting to the market needs coming after the centralized depository of cash reserve, and formulating the *Methods for the Depository of Cash Reserve from Non-bank Payment Service Providers*, which entered into force on March 1, 2021. The *Methods* have standardized the account system and business process, with regulatory and administrative responsibilities clarified and penalty provisions added.

II. Main regulatory measures

3. *Standardizing the cross-cutting financial transactions*

- Ø ***Background:*** in the early stage, some payment service providers cooperated with fund management companies to launch money market funds, which confused the payment and financial products, and resulted in hidden liquidity risks. Some of the products were enormous in volume and could possibly lead to systematic financial risks.
- Ø ***Regulatory measures:*** in May 2018, the PBoC and China Securities Regulatory Commission jointly issued the *Guiding Opinions on Further Standardizing Services Related to Internet-based Sale and Redemption of Money Market Fund*, implementing the look-through and homogeneous supervision, including the money market fund transactions of payment service providers in the banking regulatory system, adjusting and lowering the instant redemption limit, guiding the funds to divert to banks, and ensuring the safety of customers' funds.⁶

II. Main regulatory measures

4. intensifying the day-to-day supervision of payment service providers

- Ø *Structuring a multi-level supervision system, and maintaining the market development order.* Promoting the building of a supervision system that combines “government regulation, industry self-discipline, institution governance and society monitoring”.
- Ø *Insisting on stringent regulation and intensifying the inspection and punishment.* Firstly, strengthening the cross-departmental linkage to jointly combat cross-border gambling and telecommunication fraud; secondly, inspecting key business, and strictly penalizing institutions that violate regulations.
- Ø *Initiating the classification and rating to continuously improve the effectiveness of supervision.* Initiating the classification and rating on annual basis, taking differentiated regulatory measures, and guiding institutions to develop in a compliant way.
- Ø *Building the payment environment in rural areas, and filling the gaps in payment service.* Continuously promoting the bank card withdrawal service, satisfying the basic payment needs of rural residents, and advocating mobile payment, internet payment and other new payment methods

III. Focus of next step of work

- Ø ***To elevate the legislative level of payment service provider regulatory system***, expedite the promulgation of *Regulations on Non-bank Payment Service Providers*. The *Regulations* were open to public consultation in January 2021, and presently are being improved based on comments from various parties.
- Ø ***To maintain the fair competition order of payment service market***, intensify the supervision of large payment service providers, study and promote anti-monopoly measures in the payment sector, and maintain fair competition order.



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THANK YOU



Session 2: Financial Inclusion in China

Practice and experience of China's digital financial inclusion in rural areas

JIANG RUNDONG

PEOPLE'S BANK OF CHINA

MAY 2021



Improving the financial service system that serves rural areas



Instructing large and medium-sized banks to set up business units or other institutions that are specialized in financial inclusion (agriculture-countryside-farmer, poverty alleviation)



Requiring rural credit cooperatives, rural commercial banks and rural cooperative banks to persist in the market positioning of serving the county and supporting the agriculture and small businesses



banks coverage in villages and towns has exceeded 97%

Implementing incentive policies that are conducive to promoting the development of financial inclusion

Monetary loan policy

- Re-lending and re-discounting to support agriculture and small businesses
- Differentiated deposit reserve ratio



Fiscal and taxation policies

- Rewards to financial institutions at county-level for increase in agriculture-related loans
- Targeted expenses subsidy for rural financial institutions



Differentiated regulator policy

- Differentiated tolerance of non-performing loans
- Due diligence and no responsibility for delinquency



Vigorously promoting the development of digital financial inclusion in rural areas

Mobile payment

Encouraging and supporting various payment service providers to conduct business in rural areas

Actively guiding the mobile payment convenience project to extend to the countryside

Digital service platform for financial inclusion

Converging diversified financial products and services from multiple financial institutions

Farmers can have one-click or one-stop access to financial products or services they need without leaving their homes

Connectable to the public data of tax and other departments

Acquiring abundance of financial products and services more effectively and less costly

Digital credit

Small-sized unsecured online loans for farmers and financial products for digital agriculture supply chain

Loan application, approval and disbursement are completed on line

Multi-dimensional data and intelligent risk control models

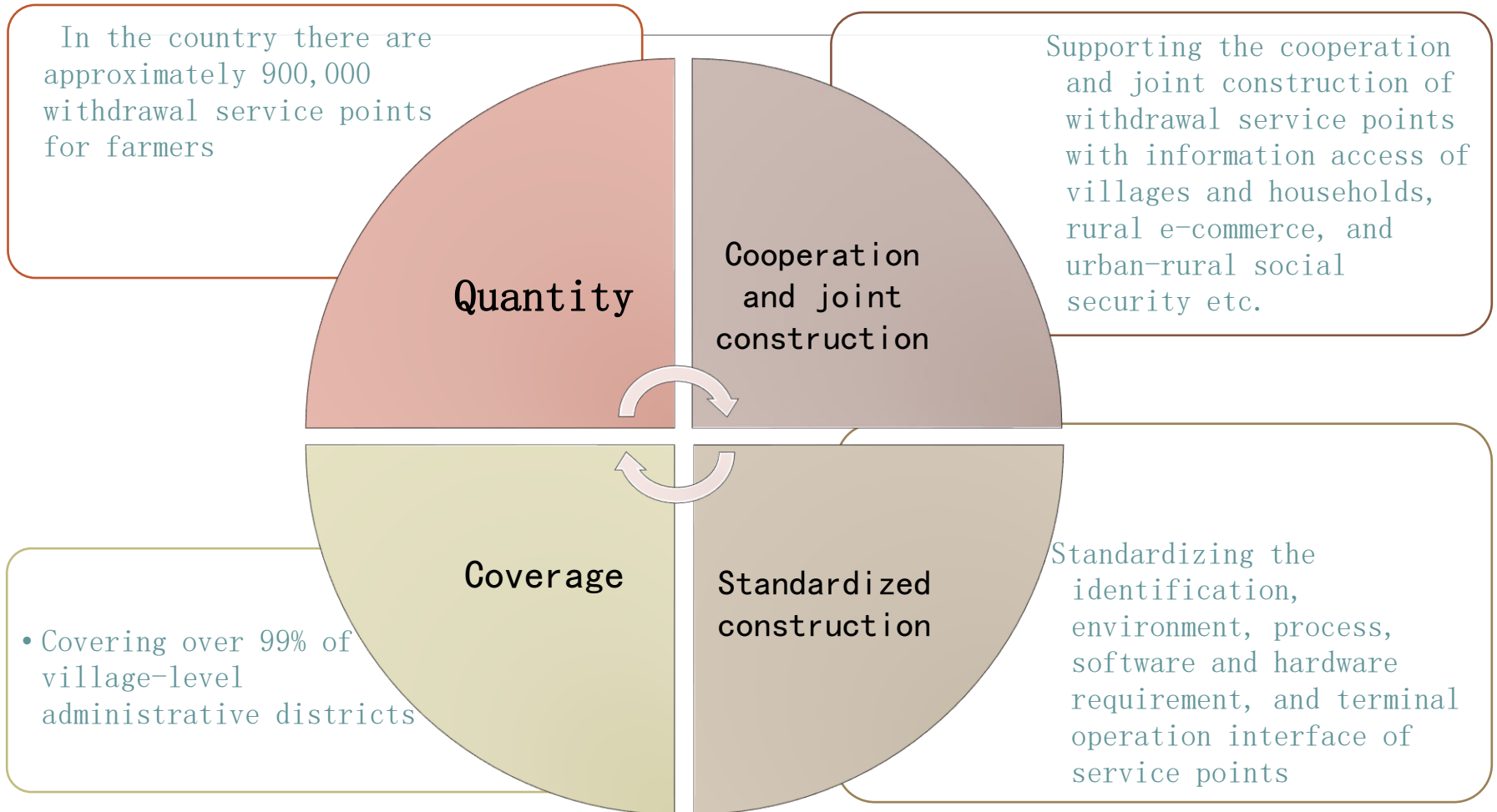
Improving the construction of rural credit system

Hosting events to
assess creditworthy
towns, villages and
households, and
strengthening the
application of
assessment results

Integrating
rural credit
information
from various
channels

providing
assistance
through
lending

Guiding the standardized development of withdrawal service point for farmers in rural area

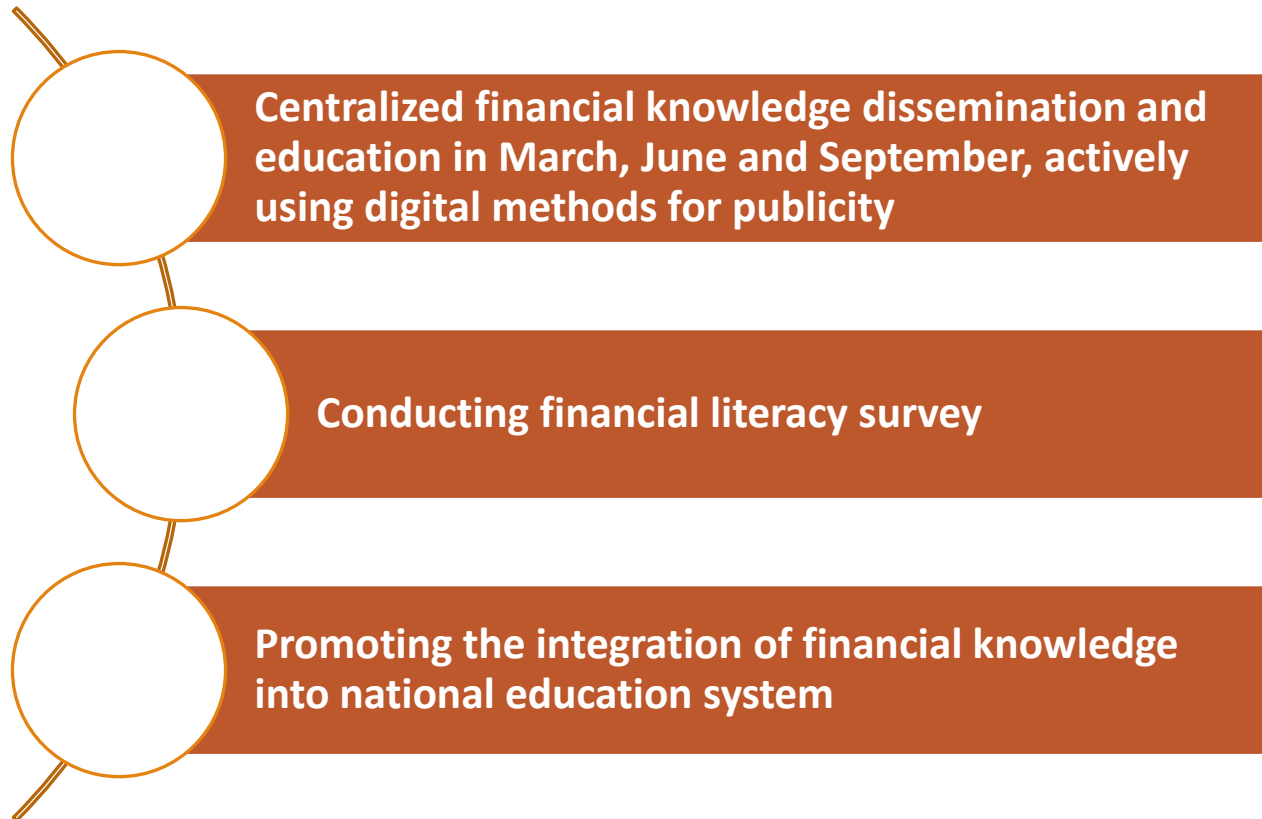


Deploying regional pilots for financial inclusion



Lankao County, Hunan Province:
Financial inclusion-based county economic reform and new urbanization
The “one platform and four systems” Lankao Model, with integrated service platform for digital financial inclusion as the core, and the financial service system, inclusive credit system, credit information system and risk control system as basic contents

Extensively disseminating financial knowledge in rural areas



Intensifying the monitoring and evaluation for financial inclusion

Building the financial inclusion indicator system

- Indicators on both the supply and demand sides
- Usage of various financial products and services including payment, credit, wealth management and insurance etc.

Conducting financial inclusion survey

- Different ages
- Different income levels
- Different regions Different occupations
Different educational background
- Different genders

THANK YOU





China Financial Diaries

Dr. Peng Deng

Research Fellow, CAFI

Dr. Daryl Collins

Author of *Portfolios of the Poor* and
CEO of Decodis

Objectives and Methods

Objectives of the China Financial Diaries

- To support the Rural Revitalization Plan (2021-2025)
- To provide recommendations for “last mile” digital financial inclusion in rural areas of China

Methods

- Financial Diaries - In-depth, granular household and individual level surveys
- Collect data every other week for 6 months
- 181 households in Yijun and Pingjiang counties
- From December 2019 to June 2020, including COVID lockdown period between February - March 2020
- Continued surveys over lockdown period via WeChat
- Conducted under FIGI China program, with generous support from Visa

Map of China

with Yijun and Pingjiang counties highlighted

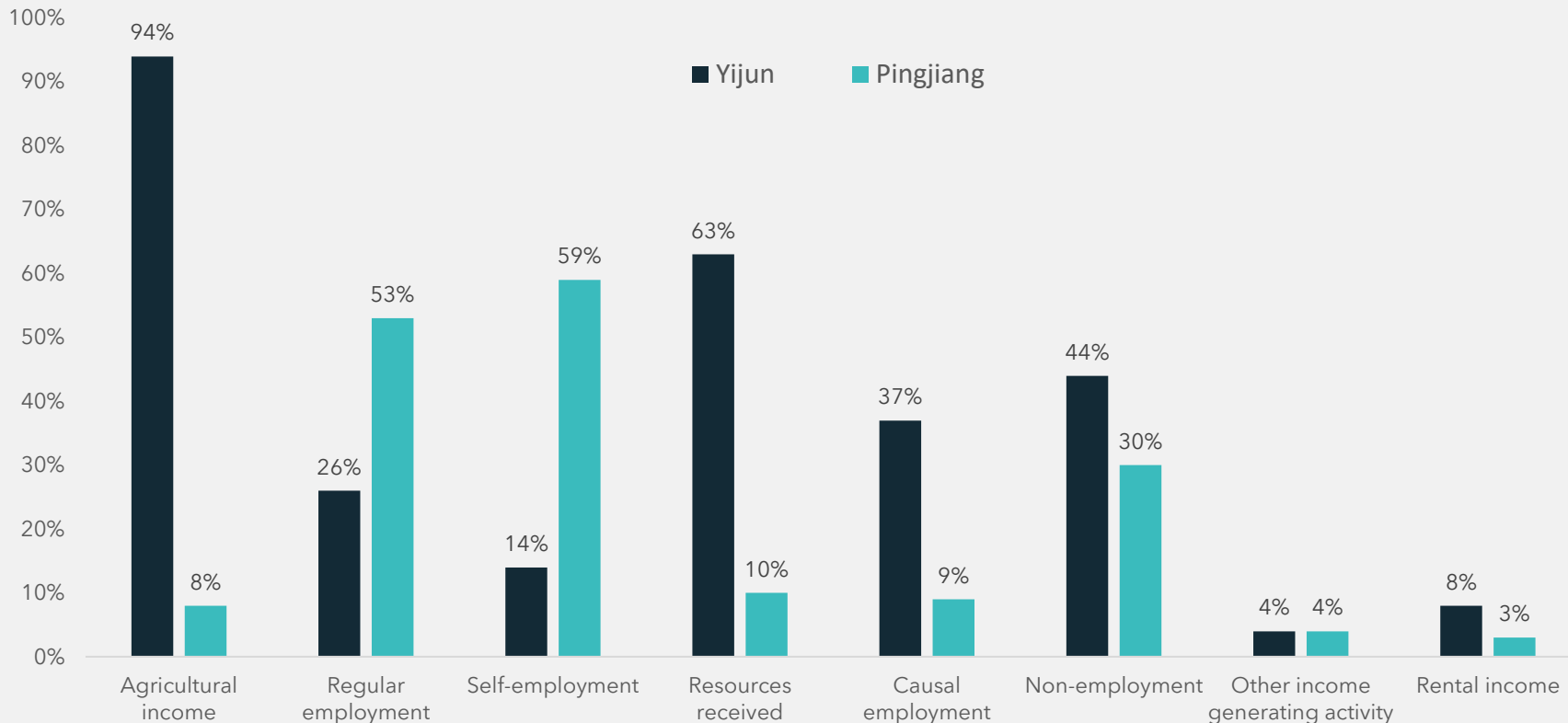


	Yijun county	Pingjiang county
% Rural population	78%	54%
No. of financial institutions	3 banks	9 banks, 16 insurance companies

Key finding: Both counties are “poverty-designated” but have different financial service needs

Distinct patterns in sources of income

Share of households that had income from each source during the Financial Diaries study period, Yijun versus Pingjiang (%)

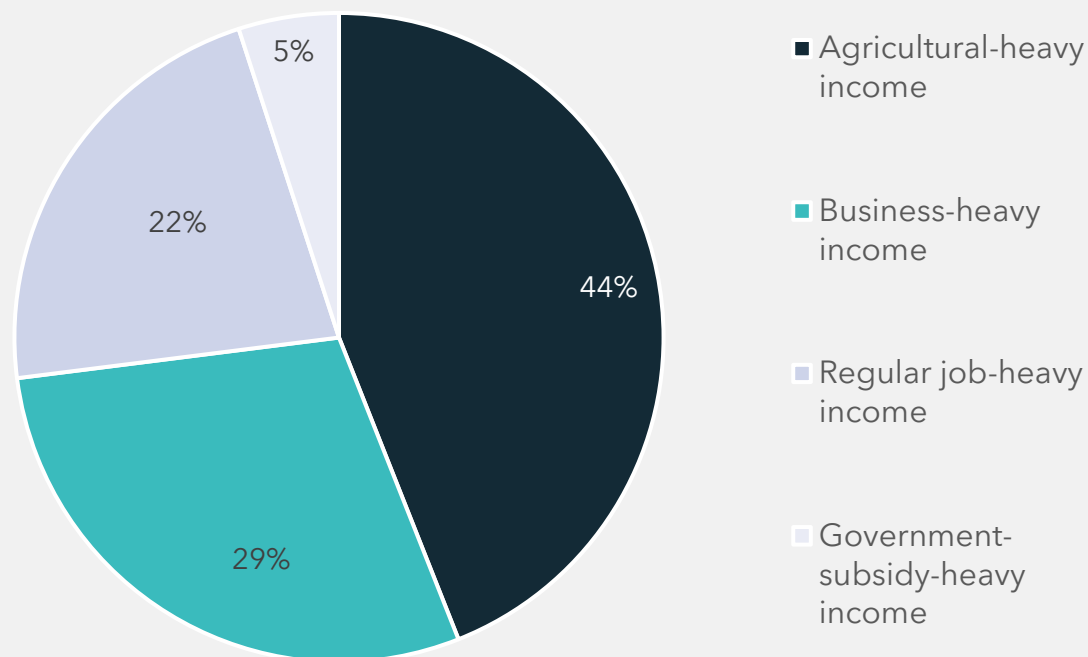


Key finding: Different types of income dictate different financial needs

Three main household segments according to sources of income

Percent of households in each income segment (%)

TOTAL SAMPLE

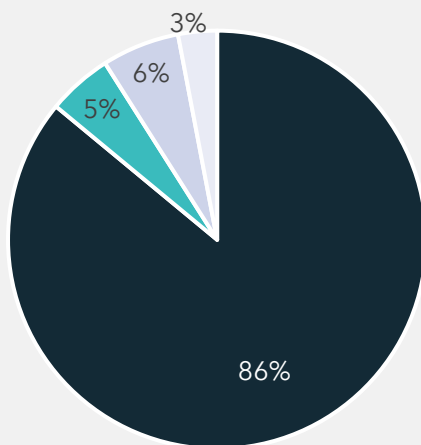


Key finding: Households fit into segments which have different financial needs

Income Segments

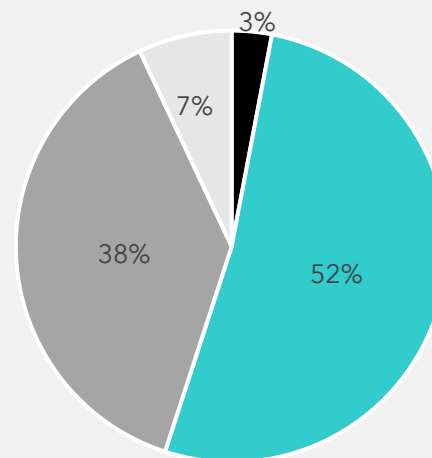
Percent of households in each income segment (%)

Yijun
mostly agricultural households



- Agriculture-heavy income
- Business-heavy income
- Regular job-heavy income
- Government-subsidy-heavy income

Pingjiang
business and regular jobs

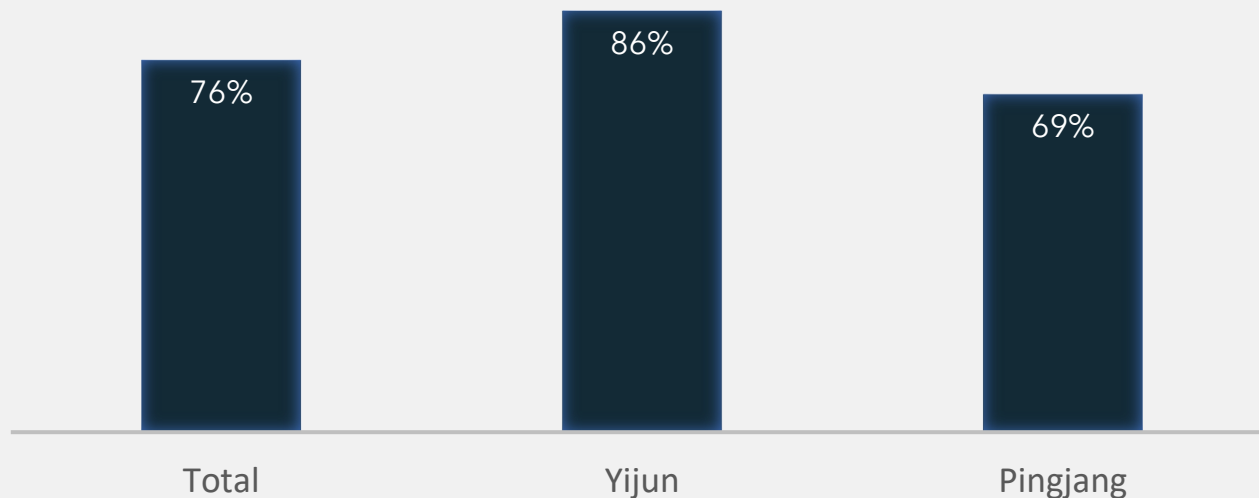


- Agriculture-heavy income
- Business-heavy income
- Regular job-heavy income
- Government-subsidy-heavy income

Key finding: Even counties that are both “poverty-designated” can have very different income streams and therefore different financial needs.

High income volatility in all areas

Income volatility* for total sample and comparison

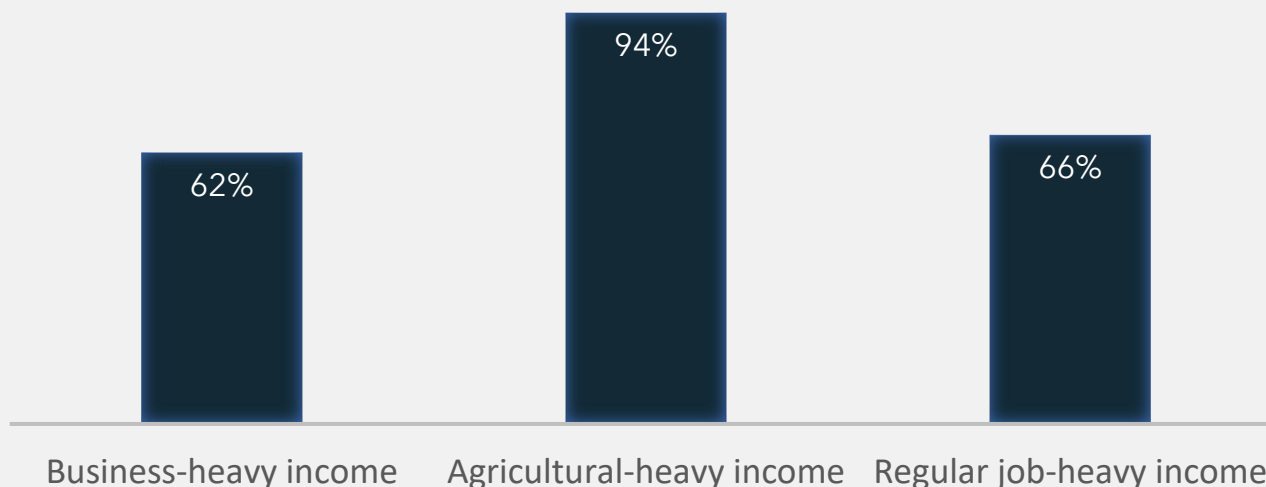


* Income volatility is defined here as the median income coefficient of variation, i.e. the monthly percentage change in income relative to average income, then the median over time for each household and the median for each sample.

Key finding: Income volatility is high - so a strong financial portfolio is critical to smooth consumption and be prepared for emergencies and opportunities.

High income volatility in all areas

Income volatility* for income segments



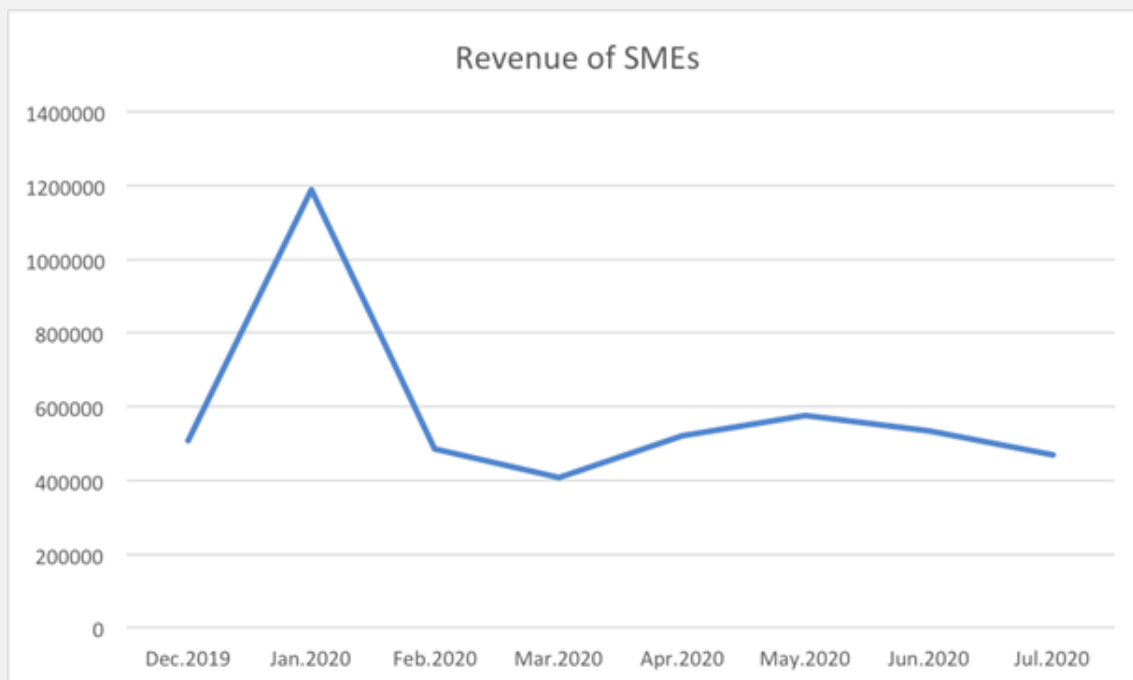
* Income volatility is defined here as the median income coefficient of variation, i.e. the monthly percentage change in income relative to average income, then the median over time for each household and the median for each sample.

Key finding: Regular job-heavy income is so volatile because 59% of the regular jobs in the sample were either paid hourly or by commission

Resilience during lockdown

from agricultural households and small businesses

Farmers were hit by COVID just after they had sold most of their crops and before they planted for the next season. They were therefore less impacted due to the timing. Moreover, during the lockdown period, farmers had little to do in the field and they also happened to be temporarily “cash-rich” because they had just sold their crops.



Small business owners were far more likely to say that they were adversely affected because their small businesses closed during the lockdown.

But: their revenues recovered to December levels quite quickly, partially because of Spring Festival spending prior to lockdown.

Key finding: The timing of the lockdown was lucky for farmers and even for small businesses

Less resilience during lockdown for job holders



43% of regular job holders did not get back jobs or find new ones for four months. No insurance because work hourly or on commission

Key finding: Job holders found it most difficult to recover from the lockdown

Recommendation: Unemployment insurance that covers hourly or commissioned workers would be beneficial.



Digital payments usage

A significant portion of households are already using digital payments but opportunities remain – especially for farmers

Share of income and expense transactions for each mode of payment

	Business-focused households				Agriculture-focused households			
	Cash	WeChat Pay	Alipay	Bank transfer	Cash	WeChat Pay	Alipay	Bank transfer
Expense	39%	60%	0.7%	0.5%	71%	25%	0.7%	4%
Income	38%	59%	0.4%	2.5%	63%	24%	0.2%	13%

But farmers use WeChat for small frequent expenditures

pre-paid phone (21%)

alcohol (19%)

electricity (15%)

personal care items (12%)

Key finding: Farmers do use WeChat Pay for expenses but not for income.

Recommendation: Farmers would benefit from having more of their income digitized.

Digital payments usage

A significant portion of households are already using digital payments but opportunities remain – and a few other places

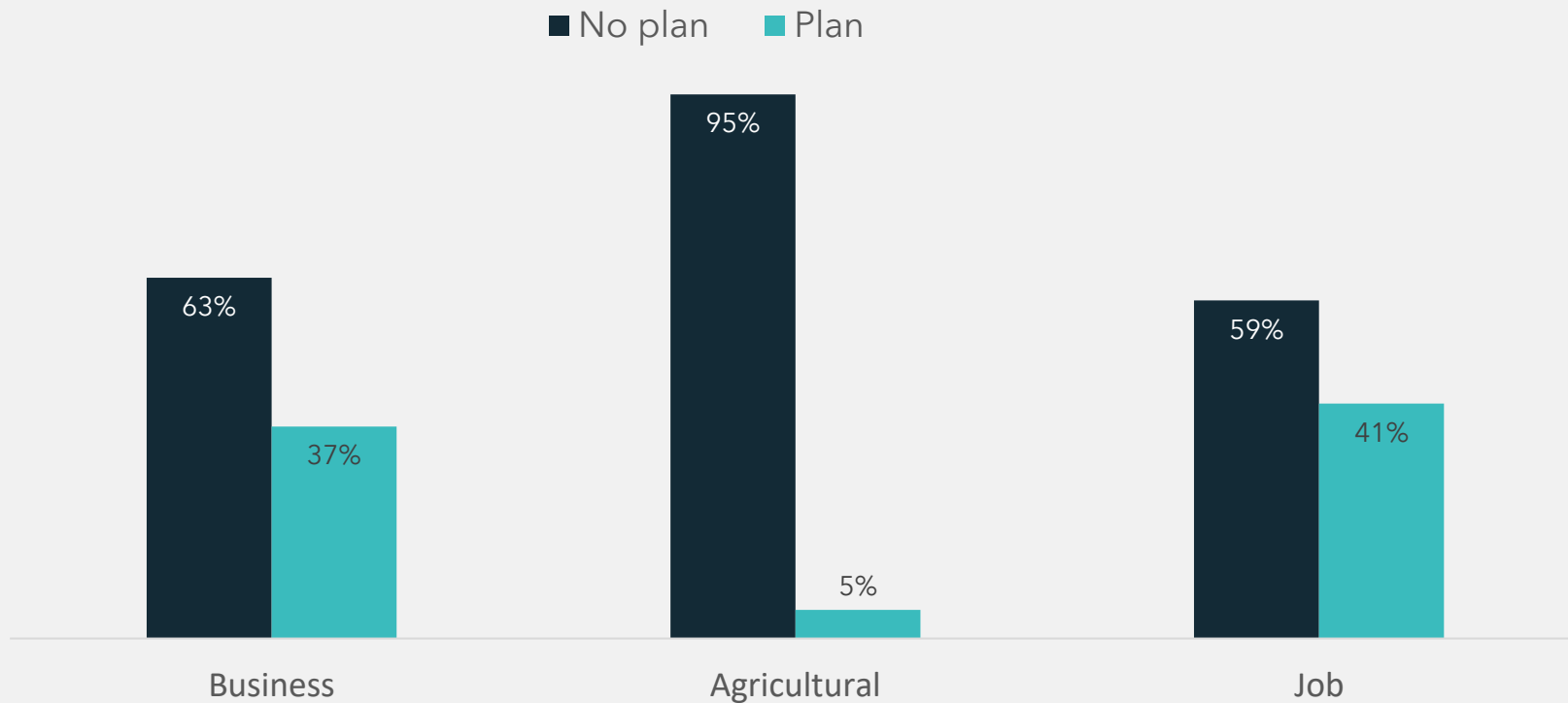
- Two key sectors:
 - Gas/oil stations
 - 32% in Yjiun pay in cash
 - 25% in Pingjiang pay in cash
 - Public transport in Yijun
 - 68% still pay in cash
- Busy small businesses still pay some bills in **cash**
 - 67% of health/motorbike insurance
 - 29% pay water bill
 - 19% pay electricity
 - 15% pay pre-paid phone

Recommendation:
Digitize payments in gas/oil stations as well as public transport in very rural counties.

Recommendation: Enable digital utility and insurance payments for small businesses.

Savings: Findings and Recommendations

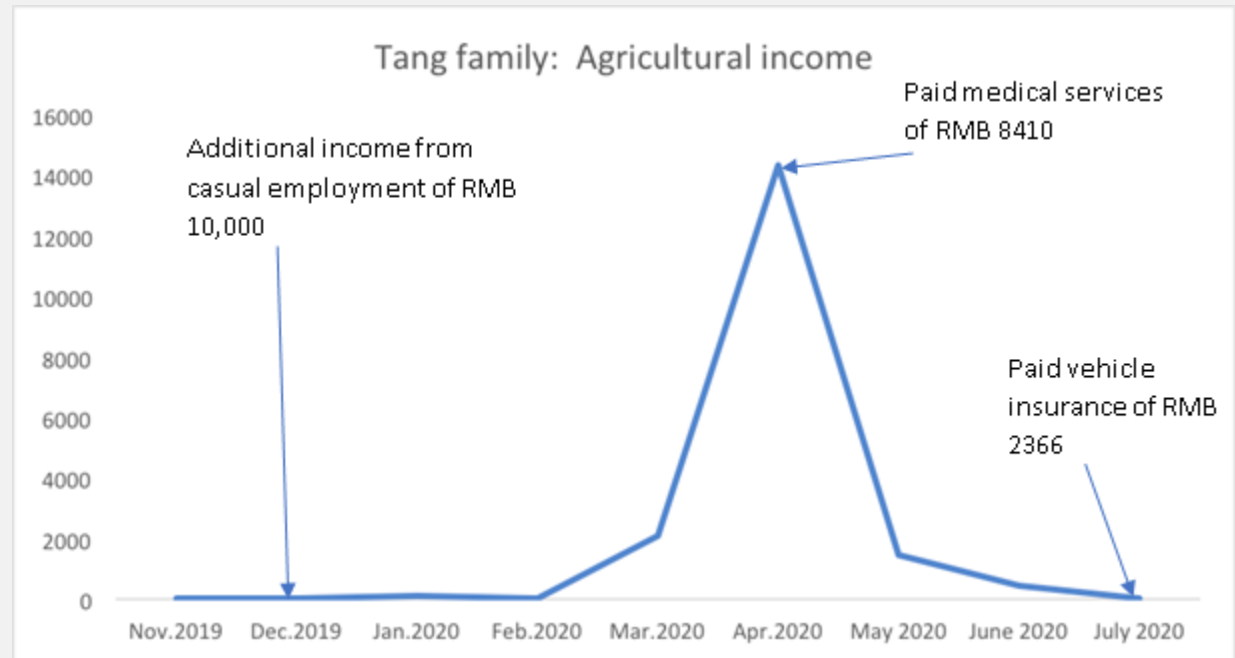
Share of each earning segment classified as having a plan or no plan for regular savings



Key finding: All households could use a convenient microsavings product.

Savings: Findings and Recommendations

Tang family uses the typical strategy of putting off medical services until the crop is sold

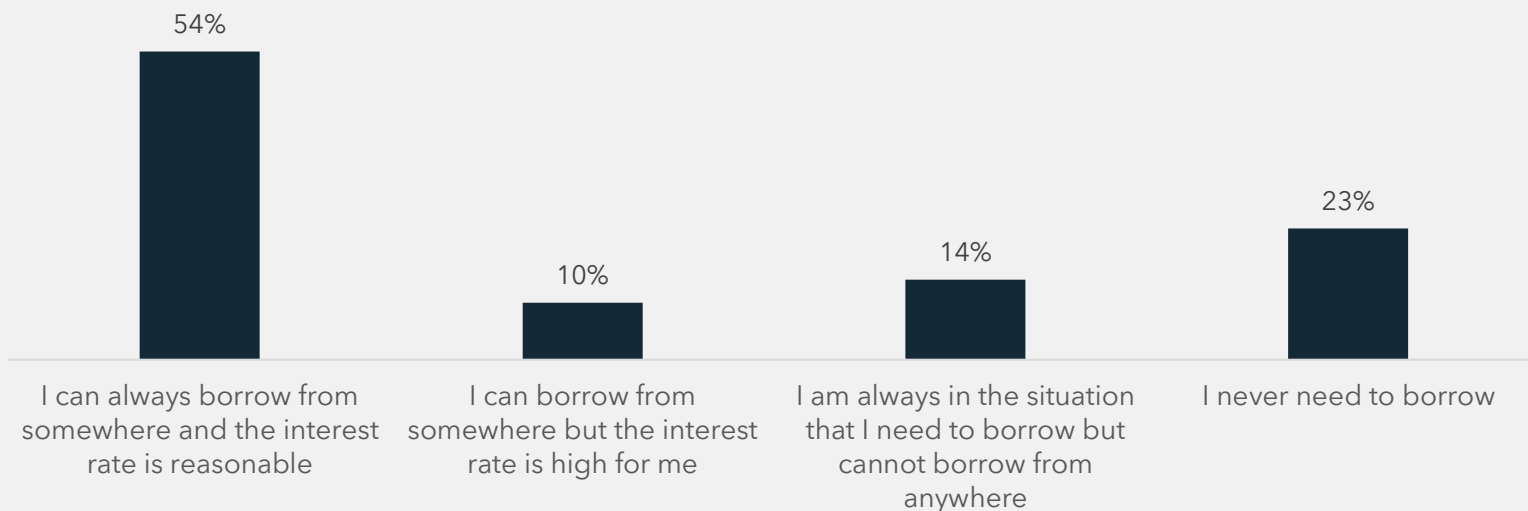


Key finding: Farmers, in particular, need a convenient microsavings product.

Recommendation: Prioritize the provision of microsavings products for farmers which are timed to take in deposits after harvest and allow for withdrawals when funds are needed.

Borrowing: Findings and Recommendations

Share of agricultural households that had different responses to “Have you ever been in the situation where you need to borrow but cannot?”



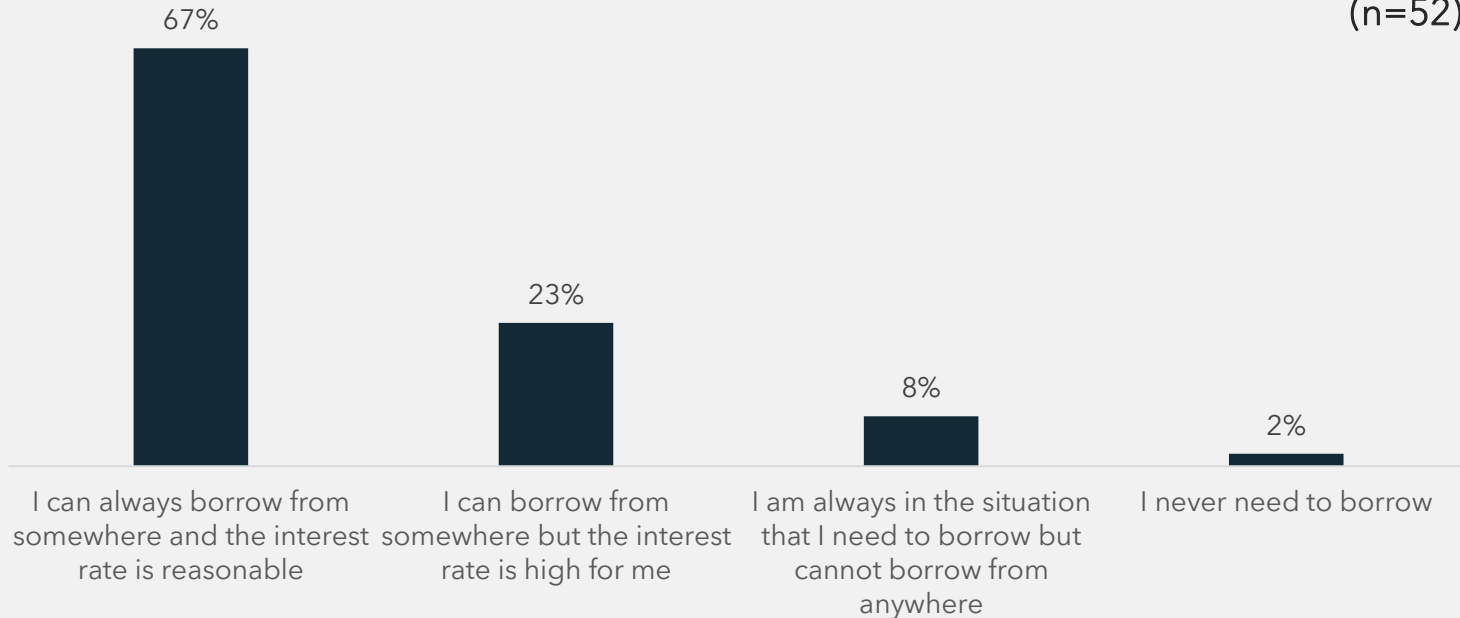
- Would like interest-free, 5 year loans from gov't - interest is a burden only for most urgent times
- Can do emergency borrowing with family and input credit with agro-dealer
- Loan application too complex
- Difficulty finding guarantor
- Missed payments can hurt credit history
- Difficult to borrow for crops with longer-term growing histories

Recommendation: Farmers need longer term loans that allow them to diversify into crops with longer production cycles.

Borrowing: Findings and Recommendations

Share of small business households that had different responses to “Have you ever been in the situation where you need to borrow but cannot?”

(n=52)

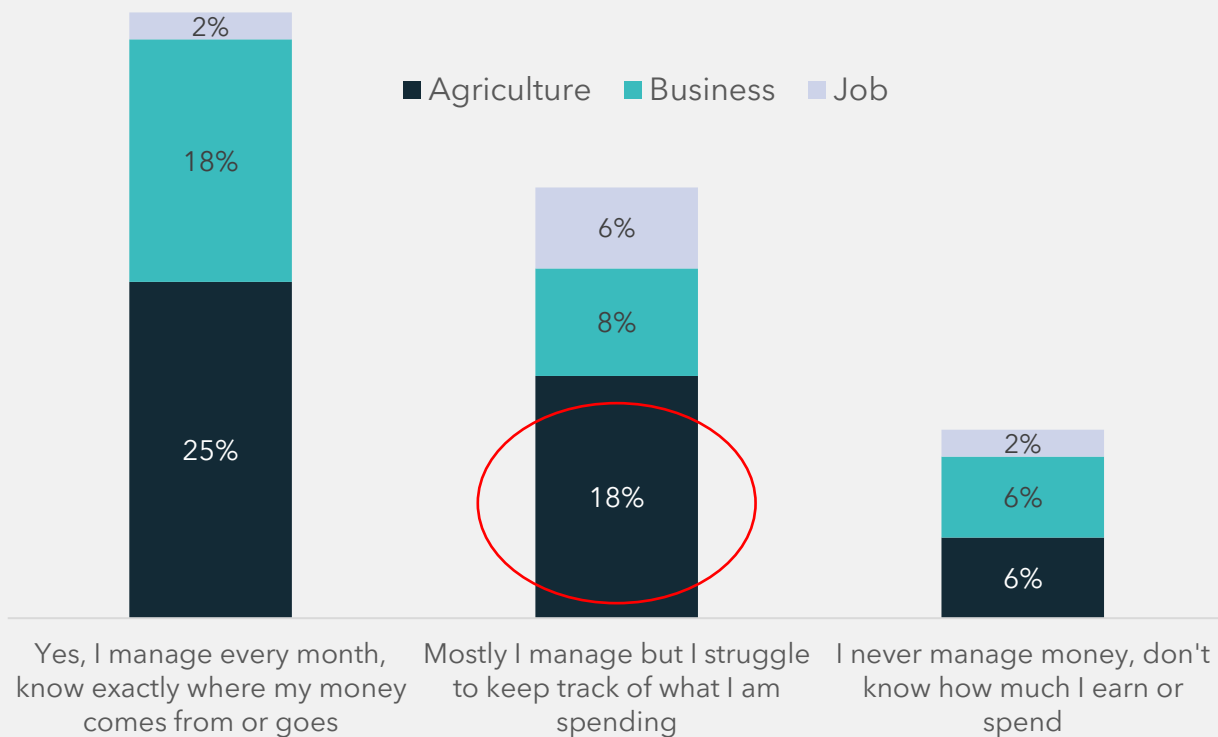


- Many have bank loans with smaller interest rates already
- Use online loans but from Alipay to buy clothes
- Focus groups report that working capital is always a challenge
- Longer term loan doesn't meet those needs

Recommendation: Small businesses need revolving credit facilities that allow them to take out small sums of money and pay back quickly.

Money management: Findings and Recommendations

Share of households that had different responses to
"Do you manage your money regularly?"

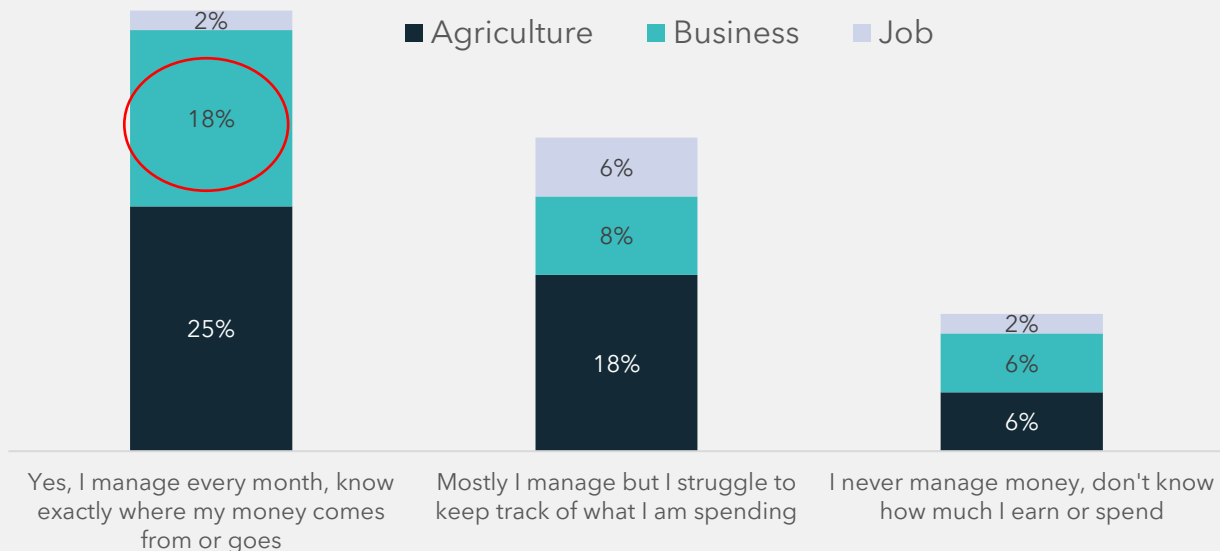


*Key finding:
For agricultural households, with no monthly income, it is difficult to determine a monthly expenditure budget*

Recommendation: Small businesses would benefit from a money management product which would allow users to keep track of the money coming in and out of their businesses.

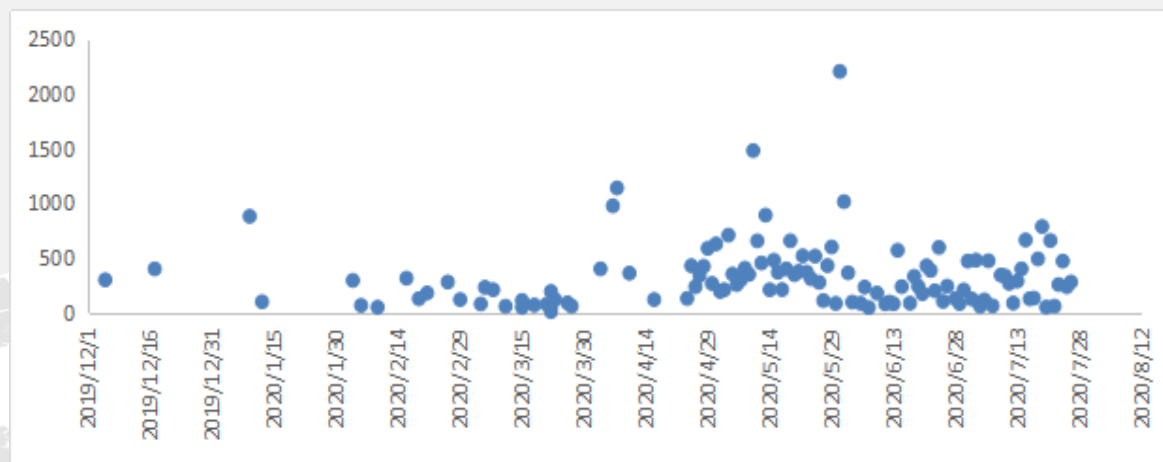
Money management: Findings and Recommendations

Share of households that had different responses to
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Recommendation:
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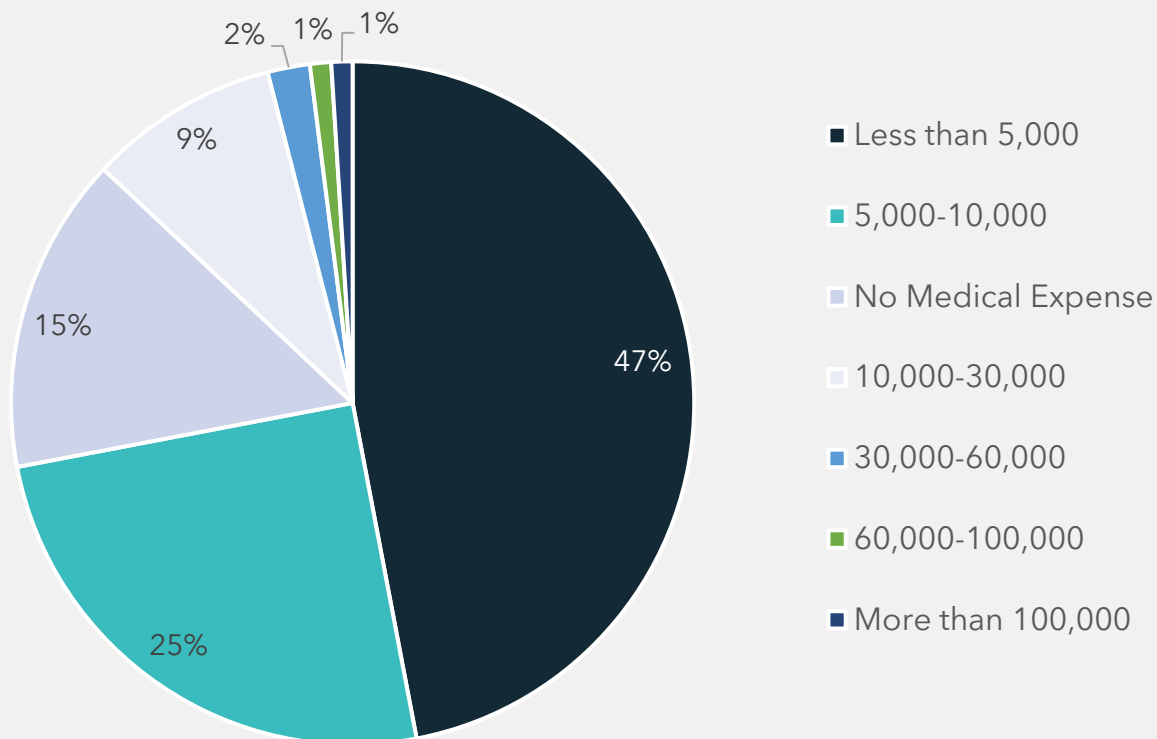
Frequency of groceries shopping by restaurant-owning household



Insurance: Findings and Recommendations

Amounts of medical expenses in past year (What households paid after medical insurance subsidy applied)

Medical Expenses in Households (Jun 2019-Present)



Key finding: The most significant uncovered risk is outpatient medical expenses.

Insurance: Findings and Recommendations

How households paid for medical expenses over RMB 5,000, by segment

	Savings	Social security / commercial insurance reimbursement	Borrowing from friends and family	Borrowings from banks	Borrowings from online financial platform (Jie Bei, Wei Li Dai, etc.)	Selling assets/ pawning
Total	48%	23%	23%	4%	1%	1%
Business-focused households	63%	16%	16%	3%	3%	0%
Agricultural focused households	35%	30%	25%	8%	0%	3%
Job-focused households	40%	31%	21%	3%	6%	0%

Key finding: Most households cover these expenses with savings – but agricultural households need to borrow.

Recommendation: Households would benefit from additional commercial medical insurance that would help them manage unexpected expenses.

Conclusions

- Generally, the China Financial Diaries provides an example of how “last mile” financial inclusion is achieved
- What remains are select areas where remaining financial needs could be better met, including via digitization, to advance financial inclusion further:
 - a. Increase digital payments in gas/oil stations as well as public transport in very rural areas, as well as completing the “last mile” in utility payments;
 - b. Increase digital payment for agricultural products for farmers;
 - c. Provide convenient microsavings products, especially for farmers;
 - d. Provide longer term loans to enable farmers to diversity into crops with long production cycles;
 - e. Provide revolving credit facilities for small business;

Conclusions (cont)

- f. Provide revolving credit facilities for small business;
- g. Provide better money management tools for both small businesses and farmers to track both inflows and outflows;
- h. Provide additional commercial medical insurance to help households manage unexpected expenses. Note that it would be helpful for these to come with financial education from a trusted source;
- i. Provide unemployment insurance that covers hourly or commissioned workers



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