

The Development Direction of Rural Finance in the Era of Internet Finance

Jingrui Fu

School of Finance, Shanxi University of Finance and Economics, Taiyuan, China

519836297@qq.com

Keywords: Internet finance; rural financial market; financial institution

Abstract: China is a great agricultural country, however, the huge demand for financial market in rural area has not be well satisfied. Rural financial market has characteristics of small deposit and loan, short allotted time and special service subject, in this way, most financial institutions are reluctant to developing rural financial service. It causes difficulty in loan and financing in current rural financial market. At present, the growth of Internet technology promotes the popularity of Internet finance. Internet finance can realize the service of online petty deposit and loan and close the distance between financial supply side and demand side, which can solve the deficiencies in rural financial market. Therefore, in the era of Internet finance, rural financial market has a new development direction. This paper starts from the theory of demand and supply to study the combination of Internet finance and rural financial market.

1. Introduction

China, as an agricultural country with the largest population, has a great potential in agricultural development. Under the development and transformation of agriculture, the demand for capital from agriculture increasingly expands. The difficulty in loan and financing generally exists in various regions, and rural financial market has characteristics of single financial institution, small loan, short borrowing period, special service subject and varied guarantee forms. Besides, the demand of rural financial market is diversified and multilayered. The mismatching supply and demand puts forward requirements for the direction of rural financial market. At present, Internet financial companies are prosperous, and the development of Internet financing provides new idea for the growth of rural finance.

From current literature, typical studies are the analyses on the supply and demand of rural finance, and the latest studies mainly focus on Internet finance. This paper, in the era of Internet finance, discusses the development direction of rural finance, including the improvement of rural financial market (the satisfaction of micro-financial demand) and the establishment of rural financial system.

2. The Development of Rural Finance

According to the basic theory of supply and demand in economics, whether rural finance is perfect depends on whether the supply and demand of rural financial market can be balanced.

2.1 Financial demand of Chinese traditional countryside

In this paper, there are mainly three demand subjects of rural financial market: peasant household, rural enterprises and township government.

In general, demand subject refers to the subject who has willingness and capability to purchase a certain commodity. Based on previous studies, combined with three businesses of bank (deposit business, loan business and intermediate business), the demand of rural finance is divided into three layers. The first layer is the demand for currency, or the demand for deposit business, which is limited by the income level of subject. The second layer is demand for credit, or the demand for loan business. When rural capital source is insufficient, there will be the demand for credit. The third layer is the demand for financial services, or the intermediate business provided by financial

institutions from the corresponding perspective of supply and demand, such as customized service of financial products of bank.

First of all, financial demand from Chinese traditional countryside is considered from the perspective of willingness.

Chinese society is a society caring about human relationship, so when peasants have capital strain, they think of private lending in the first time, not the credit demand for financial institutions. Whereas, with the improvement of agricultural system in China, the support policy for agricultural production and the development of rural credit have partly transfer private lending to financial institutions. Till now, China has also issued a series of policies to promote the services of small loan to meet the rural financial demand.

Secondly, financial demand from Chinese traditional countryside is considered from the perspective of capability.

The most noticeable feature of Chinese traditional countryside is self-subsistence peasant economy. The main purpose of agricultural production for traditional peasants is self-subsistence, without worrying about food or clothing, not to obtain profits. Thus, their income level is limited, which has an impact on their demand for currency and financial services. In terms of traditional peasants, they demand more credit for the expansion of personal capital, or special demand of personal household, such as house enlargement, wedding or funeral.

2.2 The supply of rural financial market

In terms of financial supply, American economists McKinnon and E.S.Shaw propose the theory of financial repression and financial liberalization in *Currency and Capital in Economic Development* and *Financial Deepening In Economic Development* under the premise of financial market being in perfect competition. When market is in imperfect competition, Stiglitz et al put forward financial restraint that is suitable for developing countries to transfer from financial repression to financial liberation. On the basis of this, three viewpoints are formed for rural finance in developing countries: subsidized credit paradigm, rural financial market theory and imperfect market paradigm.

Before the 1980s, it is believed in rural financial theory that income level in rural area is poor, and deposit demand is insufficient, which requires subsidy from policy funds and financial services from specific non-profit institutions. However, in fact, poor peasants also have demands for deposit. Besides, this theory causes peasants' dependence on credit subsidies and distorts rural financial market. After the 1980s, rural financial market theory is replaced by subsidized credit paradigm, emphasizing the function of market mechanism. According to this theory, macro low-interest-rate policy will inhibit the development of financial market; in addition to bank, other financial institutions also shall be developed. After the 1990s, some scholars propose that financial market of developing countries is not in perfect competition, and there is probably information asymmetry between financial institutions and borrower. Thus, there is partial failure in financial market, so it is necessary for the government to intervene in the market.

According to national conditions of China, this paper divides the supply subject of rural financial market into formal financial institutions and informal financial institutions. The former include Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China Construction Bank, Rural Commercial Bank, Rural Credit Cooperatives and Postal Savings Bank of China; informal financial institutions actually are private lending, loan based on favor, usurious loan, private financing and so on. In terms of financial regulation, there is less difficulty in the regulation on formal financial institutions, it is performed by monetary authorities, and the development of rural financial market mainly depends on the development of formal financial institutions.

2.3 Problems in the development of rural finance

Problems in the development of rural finance are presented. First of all, rural financial institutions are less and single service is deposit and loan, which cannot meet diversified financial demands of peasant, agricultural enterprises and government, with a high degree of monopolization; secondly, the non-performing loan ratio of formal financial institutions is higher; thirdly, there is

information asymmetry between supply side and demand side, resulting in difficulty in loan and financing by demand side of finance.

3. The Reform in the Era of Internet Finance

Since the 1990s, Internet has been rapidly popularized in school and family, and many “Internet +” modes appear. Traditional financial service is combined with Internet to form Internet finance. Specifically, traditional financial service, by virtue of the convenience of Internet, promotes offline service to online service, such as widely-used online banking and mobile banking.

According to previous study on Internet (Li Bo & Dong Liang, 2013), based on the different subjects of financial service, Internet finance can be divided into Internet financial service, Internet financial intermediate service and the Internet expansion of traditional financing service. The first type includes online services of financial instruments, such as Internet marketing channels of fund, bond and insurance; the second type is the third-party payment platform, crowdfunding and so on; the third type is online banking and electronic banking, such as mobile banking of Industrial and Commercial Bank of China.

The three types of Internet financial services all improve and perfect current offline financial services, developing characteristics of low transaction costs, small deposit and loan, large coverage, low risk costs, high service efficiency and diversified forms.

4. The Similarity of Internet Finance and Rural Finance

Based on separate analysis of rural finance and Internet finance, the characteristics of these two can be analyzed in comparison. It can be found that the two all have features of small deposit and loan, large coverage and flexible forms. Therefore, it is feasible to make use the convenience of Internet finance to develop rural inclusive finance, implant the concept of Internet finance into rural financial market, innovate and develop rural financial service and solve existing problems in rural financial service.

5. New Development Direction of Rural Finance in the Era of Internet Finance

5.1 The promotion of Internet finance to rural finance

First of all, it can be analyzed from the perspective of financial supply and demand. In recent years, along with the growth of Chinese economy, the increasing income level of peasant, the rapid development of information technology in rural area, influenced by Internet thinking, financial demand side puts forward higher requirements for financial service; with the aid of Internet technology, financial institutions can provide more convenient and diversified financial services by virtue of new technologies. Rural finance has feature of small deposit and loan, and short allotted time. With the assistance of big data and cloud technology, financial institutions can realize effective management in small and short loan.

Secondly, it can be seen from the perspective of financial products. Internet finance can enrich product categories of rural financial market, close the distance between financial institutions and peasant, enterprise and government due to its natural popularity. In this way, financial institutions can targetedly understand the demand of borrower, so as to provide personalized and customized financial services, which is conducive to the flexible development of financial institutions.

Thirdly, in terms of business procedure of financial institutions, Internet finance can optimize service procedure and expand financial service network. Currently, cloud technology can give full play to the advantages of high efficiency of Internet finance, highly meet rural financial demand, expand service network stations of financial service, provide various demands for peasants on mobile banking and lower the threshold for financial service.

Lastly, it is analyzed from risk control. In the era of Internet finance, big data can solve the information asymmetry in rural financial market. Financial institutions can make use of big data to innovate credit guaranty and construct credit reporting system for credit rating of rural borrower. In

this way, financial institutions can deeply understand the loan repayment ability, morality, capital of borrower, further control risks within a controllable range and effectively reduce information asymmetry, moral risk and credit risk.

5.2 The combination of Internet finance and rural finance

In order to develop rural finance to inclusive finance, it is necessary to learn the latest Internet technology, apply new-type Internet thinking to meet financial demand and realize the combination of Internet finance with rural finance.

First of all, financial institutions shall actively adapt to changes of rural financial market, construct perfect management system, enhance information management of operating department and improve the ability to prevent risks. Management system includes operating procedures of business and regulations of loan origination. Financial institutions shall formulate personalized and professional regulations according to their market positioning and types of target client; at the same time, they shall improve the professional quality of salesman, introduce high-quality professional talents, conduct training on professional knowledge, ability and occupational quality for salesman and enhance their risk awareness.

Secondly, financial products and operating procedures shall realize electronic development. Offline bank can develop mobile banking and online banking. According to characteristics of rural financial market demand, it is necessary to formulate personalized and customized financial products, simplify business procedure, reduce financial service costs, improve the efficiency, promote the assessment and expand the range, realize the expansion of small loan and promote the development of inclusive finance.

6. Conclusion

In the era of Internet finance, problems such as remote rural area, poor recognition of peasant and large credit risk of rural enterprise can all be solved by applying Internet technology, which is inevitably the new direction for the development of rural financial market. The effective combination of rural finance with Internet finance can greatly promote the development of inclusive finance in rural area.

References

- [1] Wang Fang. Rural Financial Demands and System in China: A Theoretical Framework [J]. Journal of Financial Research, 2005(04):89-98.
- [2] Yang Zhaoting. Path Selection of Chinese Rural Financial Supply Innovation [D]. Tianjin University of Finance and Economics, 2009.
- [3] Feng Xingyuan, He Mengbi, He Guangwen. On the Diversification of Chinese Rural Finance – A Perspective of Local Knowledge Paradigm [J]. China Rural Survey, 2004(05):17-29+59-79.
- [4] Li Bo, Dong Liang. Mode and Development of Internet Finance [J]. China Finance, 2013(10), 19-21.
- [5] Zeng Gang. Focus on Characteristics and Development of Internet Finance –Based on the Perspective of Monetary Finance Theory [J]. The Banker, 2012(11):11-13.
- [6] Wang Shuguang. The Development of Internet Finance and Inclusive Finance [N]. Chongqing Daily, 2019-04-17(008).