

The Role and Development Path of Internet Banking in Inclusive Finance

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Abstract: With the rapid development of Internet technology, Internet banks, as an emerging financial model, are gradually changing the landscape of the financial industry. This paper aims to explore the role of Internet banks in inclusive finance. By using a literature review as the research methodology, it analyzes how Internet banks achieve the popularization and deepening of financial services and explores their development paths and significance. Inclusive finance is a key focus of national policy and financial reform, aiming to provide more convenient and efficient financial services to low-net-worth individuals and small and micro enterprises through innovative financial services and products. Internet banks, as emerging financial institutions, have achieved remarkable results in the field of inclusive finance with their digital nature and financial technology tools. They promote the in-depth development of inclusive finance, facilitate the integration of financial innovation and technology, provide a theoretical basis for policy-making, enhance the competitiveness of financial institutions, and foster inclusive economic growth.

Keywords: Inclusive Finance, Internet Banking, Fintech, Digital Finance

1. Introduction

Inclusive finance, as an important component of the financial system, aims to alleviate and eliminate financial exclusion and enhance the accessibility of financial services, thereby providing appropriate and effective financial services to all strata and groups of society. In recent years, Internet banks have made significant progress in the field of inclusive finance. Taking XW Bank as an example, it has cumulatively provided more than 300 million digital inclusive loans, covering over 30 million new urban residents, individual business owners, farmers and small - and - micro - enterprise customers nationwide. In addition to this, the integration of Internet banks with the real economy has been continuously deepened, providing financial services to small and micro enterprises and farmers along the industrial chain.

However, traditional financial institutions often face challenges such as high costs, low efficiency, and insufficient service coverage when implementing inclusive finance, which restricts the widespread development of inclusive finance. In recent years, with the advancement of technology and the popularization of the Internet, Internet banks, as an emerging financial model, have provided new opportunities for the development of inclusive finance [1].

This paper primarily investigates the role mechanism and development path of Internet banks in inclusive finance, employing case analysis as the main research method. It explores the role mechanism of Internet banks in inclusive finance and examines their development paths and

significance. This study holds important theoretical and practical significance. By investigating the role of Internet banks in inclusive finance, it can provide references and insights for traditional financial institutions, encouraging them to accelerate their digital transformation and improve service efficiency and coverage. It also helps deepen the understanding of inclusive finance, providing a scientific basis for policymakers to promote the improvement and optimization of inclusive finance policies.

2. The Theoretical Basis of Internet Banking and Inclusive Finance

2.1. The Concept and Operating Model of Internet Banks

Internet banks, also known as online banks, rely on modern digital communication, the Internet, mobile communication, and Internet of Things (IoT) technologies. They use cloud computing and big data to provide a range of financial services to customers online. Their services are in digital form, featuring personalized customer experiences, highly convenient operations and the ability to access services at any time [2].

In the context of the digital age, online banks, as a key component of financial technology, play a crucial role in advancing the modernization of financial services and promoting economic development.

2.2. The Connotation, Objectives, and Measurement Indicators of Inclusive Finance

Inclusive finance refers to a system that can effectively and comprehensively provide financial services to all strata and groups of society. Its connotations include equal opportunities, commercial sustainability, and appropriate costs. The goal is to support small and micro enterprises, agriculture, rural areas, and poverty alleviation loans, ensuring that all adults have access to and can use quality financial services. Common indicators for measuring inclusive finance include account ownership rates, financial service coverage, and financial transaction costs.

Digital inclusive finance has broken through the spatial and temporal limitations of traditional finance, embedding digital attributes into the financial industry. It has innovated the way financial resources are allocated through digital methods such as big data and cloud computing, empowered supply-side structural reforms, and promoted mass entrepreneurship and innovation. It is of great significance to macroeconomic development and is crucial for achieving sustainable, balanced and inclusive economic growth. [3].

3. The Role Mechanism of Internet Banks in Inclusive Finance

3.1. Reducing Transaction Costs

In the product design and operation of "Micro Business Loan," digital means are fully adopted. The need for paper documents is eliminated, which means that businesses don't have to spend labor and resources on organizing, photocopying and binding large amounts of paper files. This not only saves costs on office supplies such as paper and ink cartridges but also avoids the costs of repeated work due to non-standard document organization. Additionally, without the need for collateral, businesses save on related expenses such as collateral appraisal fees and registration fees. WeBank continues to explore new models and methods for practicing inclusive finance and serving the real economy. As of the end of June 2024, it has served over 400 million individual customers and more than 5 million small and medium-sized micro-enterprise clients, forging a new path with Chinese characteristics to solve the problem of unbalanced and insufficient financial services [4].

Internet banks reduce labor costs by leveraging Internet technology, reducing the number of branch and counter staff. Customers can complete most financial services through online channels, thereby lowering financial transaction costs. At the same time, they integrate the financial needs of the general public and small amounts of funds, creating economies of scale that align with the essence of inclusive finance development. In this way, Internet banks can reduce transaction and operational costs and improve the efficiency of capital allocation.

3.2. Enhancing Financial Service Efficiency: Rapid Loan Approval and Instant Fund Availability

"Micro Business Loan" leverages three major advantages: digital big data risk control, digital precision marketing, and digital fine-grained operations, to achieve online application, second-level approval, instant credit limit determination, and flexible borrowing and repayment of funds. For example, a small e-commerce business urgently needed funds to purchase goods before an e-commerce promotion to meet order demands. The enterprise submitted a loan application through the "Micro Business Loan" platform, and the system instantly analyzed the company's operating data and credit status, providing an approval result and determining the credit limit within seconds, with the funds immediately available. The whole process from application to fund availability took less than one minute, enabling the business to purchase goods promptly and seize the promotional opportunity. Compared to traditional bank loan approval processes that often take several days or even weeks, the efficiency improvement is significant.

Internet banks utilize big data and artificial intelligence technologies to achieve automated and intelligent loan approval. In collaboration with big - data loan service companies, they offer a fully digital loan process for small and micro - enterprises, making near - real - time loan approval and rapid fund disbursement possible.

Online loan products typically achieve instant fund availability. Relying on the three major characteristics of digital big data risk control, digital precision marketing, and digital fine-grained operations, they offer a process without collateral or paper documents, with online application, second-level approval, instant credit limit determination, and flexible borrowing and repayment of funds.

3.3. Expanding Service Coverage

By collaborating with agricultural industry chain enterprises and leveraging digital technology, financial services are extended to various links of the agricultural industry, including small and micro enterprises and farmers. For example, in cooperation with Yili Group, credit support is provided to Yili's distributors and livestock breeders. Under the traditional financial model, livestock breeders often find it difficult to obtain bank loans due to the lack of collateral and unstable income. However, through cooperation with Yili Group, MYBank uses digital means to obtain breeding data and cooperation records of livestock breeders with Yili, accurately assesses their business conditions and credit risks, and provides appropriate credit limits [5]. This enables many livestock breeders to obtain funds to expand breeding scales and improve breeding conditions, promoting the revitalization of the dairy industry. At the same time, it extends financial services to the grassroots groups of the agricultural industry chain, expanding the boundaries of financial service coverage.

Internet banks, leveraging their technological and systemic advantages, have expanded the breadth and depth of financial services. Their information dissemination characteristics break through the limitations of traditional finance, which is constrained by physical branches, allowing them to penetrate any area where the Internet is available [6]. They also lower the entry barriers for financial services, with characteristics of small amounts, mass market, and long-tail services, which have

obvious inclusive features [7]. Aiming for intelligence, simplicity, and user-friendliness, they build a panoramic digital financial service system.

3.4. Innovating Financial Products

The Bailing Intelligent Interactive Risk Control System is a major highlight in financial product innovation by MYBank. This system breaks through the limitations of traditional risk control models, where banks conduct unilateral assessments, by introducing a human-machine interaction mechanism that allows small and micro business operators to actively participate in the credit limit enhancement process. Business operators can proactively submit documents such as contracts and invoices. After intelligent parsing by "Bailing," the system assesses the business conditions and increases the credit limit. Currently, it supports more than 70 types of self-certification tasks. This innovation not only enables banks to obtain more comprehensive and accurate business information, thereby providing more precise credit limits, but also enhances the sense of control over loan amounts for small and micro business owners. For example, a small catering business submitted recent food procurement contracts and transaction records from food delivery platforms through the "Bailing" system.

4. The Development Path of Internet Banks in the Field of Inclusive Finance

4.1. Technological Innovation

Leveraging Frontier Technologies to Achieve Dual Improvements in Service Quality and Security

Amid the wave of digital transformation, Internet banks, as pioneers in financial technology, are actively embracing frontier technologies such as artificial intelligence (AI) and blockchain to achieve breakthroughs in both service quality and security. The integration of these technologies not only revolutionizes the service models of Internet banks but also adds new momentum to their security systems.

In the core process of credit approval, the application of AI-based loan approval technology demonstrates the progress of Internet banks' risk control systems towards intelligence. AI, with its capabilities in deep learning and natural language processing, can efficiently mine multi-dimensional data such as customer credit records and transaction behaviors, accurately assess credit risks, and improve approval efficiency while reducing risks [8]. This transformation enables more small and micro enterprises and individuals to enjoy convenient and personalized financial services, promotes the optimal allocation of financial resources, and supports the in-depth development of inclusive finance.

The application of blockchain technology, with its decentralized and distributed ledger characteristics, ensures the traceability and immutability of data, creating reliable "digital evidence" for financial transactions. This significantly enhances the transparency of financial services, allowing every transaction to be clearly recorded and traceable at any time. It also greatly increases the credibility of financial services, laying a solid foundation for building a fair, just, and transparent financial market environment.

Overall, the introduction and integration of frontier technologies have significantly improved the service quality of Internet banks, establishing a comprehensive and multi-layered security protection system. This provides strong technical support and guarantees for the sustainable development of Internet banks and the in-depth practice of inclusive finance.

4.2. Strengthening Collaboration

Building a New Ecosystem of Cross-Boundary Integration to Expand Service Boundaries and Deepen Value Creation

Collaborating with traditional financial institutions offers Internet banks a good opportunity to expand service channels and enrich financial products. By sharing customer resources, technology platforms, and market information, Internet banks can leverage the deep experience and extensive networks of traditional financial institutions to quickly expand their business areas and provide more diverse financial services.

E-commerce platforms, as an important part of the digital economy era, possess vast amounts of user data and rich consumption scenarios. Through in-depth cooperation with e-commerce platforms, Internet banks can obtain more comprehensive and in-depth customer information and consumption data, providing more accurate data support for credit assessment models. Financial investments flowing toward high-tech, green innovation, and low-carbon economic sectors closely link financial services with carbon emissions and environmental trading, promoting the rational allocation of resources, supporting the green transformation of the economy, and achieving emission reduction and carbon reduction [9].

Strengthening collaboration has become a key means for Internet banks to expand service boundaries and deepen value creation. By closely cooperating with traditional financial institutions and e-commerce platforms, Internet banks can reduce credit risks and enhance the personalization and intelligence of financial services, creating a more considerate and convenient financial service experience for customers. Building a new ecosystem of cross-boundary integration achieves resource sharing and complementary advantages, jointly injecting new vitality into economic and social development.

4.3. Improving Regulatory Policies

Creating a Comprehensive Regulatory Framework Tailored to the Characteristics of Internet Banks to Promote Compliance, Safety, and Innovation

The formulation of regulatory policies needs to fully consider the unique attributes of Internet banks. This requires policymakers to deeply understand the operating models, technology applications, and risk distribution of Internet banks, and on this basis, formulate regulatory rules that can effectively identify, assess, and control potential financial risks while providing sufficient space for innovation for Internet banks. Specifically, the regulatory framework should cover multiple aspects such as capital adequacy ratio, liquidity management, data security and privacy protection, anti-money laundering, and anti-terrorist financing, ensuring that Internet banks adhere to the principle of stable operation while providing efficient and convenient financial services.

4.4. Enhancing Risk Management Capabilities

Deepening Credit Assessment Model Optimization and Strengthening the Construction of Internal Control Systems to Enhance Core Competitiveness in Inclusive Finance Practice

Optimizing credit assessment models is a key measure to reduce credit risks and improve the precision of financial services. Internet banks should fully utilize the powerful capabilities of big data analysis and artificial intelligence technology to deeply explore the potential value in customer data and build a more accurate and efficient credit assessment system. By integrating multi-dimensional information, including but not limited to customer transaction records, social media behavior, and consumption patterns, a comprehensive and dynamic assessment of customer credit status and repayment ability can be achieved [10]. This not only helps Internet banks make wiser decisions in the credit approval process but also effectively identifies potential risks and takes preemptive measures to prevent them, significantly reducing the level of credit risk.

Strengthening the construction of internal controls and risk management mechanisms is the cornerstone of ensuring the stable and sustainable operation of Internet banking businesses. Internet

banks should establish and improve risk warning systems to detect potential risk points in a timely manner through real-time monitoring of business data and analysis of market dynamics, and take corresponding risk response measures. In addition, a sound risk disposal mechanism is also essential, enabling rapid response during risk events, effectively isolating risks, preventing their spread, and ensuring business continuity and customer fund security.

5. Conclusion

Through the method of literature review, this study has thoroughly explored the role mechanism and development path of Internet banks in inclusive finance. The findings indicate that Internet banks, with their digital nature and financial technology tools, effectively address the issues of high costs, low efficiency, and insufficient service coverage faced by traditional financial institutions in the field of inclusive finance. By reducing the costs of financial services, enhancing service efficiency, expanding service coverage, and alleviating information asymmetry, Internet banks have significantly improved the accessibility and convenience of financial services. They provide more convenient and efficient financial services to low-net-worth individuals and small and micro enterprises.

Despite revealing the significant role mechanism of Internet banks in inclusive finance, this study has some limitations. Since the study primarily employs the literature review method, it lacks an in-depth analysis of the specific operational data of Internet banks, which may limit the depth and breadth of the research findings. Additionally, the study does not involve comparative analysis of international experiences, failing to fully draw on the successful practices of other countries in the fields of Internet banking and inclusive finance.

To address these limitations, future research should further deepen the understanding of the role mechanism of Internet banks and can be improved and expanded in the following ways:

Enhance empirical research: By collecting and analyzing the operational data of Internet banks, further verify the role mechanism of Internet banks in inclusive finance to enhance the reliability and persuasiveness of the research findings.

Conduct international comparative studies: Draw on the successful experiences of other countries in the fields of Internet banking and inclusive finance. Analyze the impact of different policy environments, market structures, and technology applications on the development of Internet banks to provide references for the development of Internet banks in our country.

Focus on technological innovation and sustainable development: Investigate the application of emerging technologies in Internet banks and explore how technological innovation can achieve sustainable development of Internet banks and further enhance their role in inclusive finance.

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