Fintech promoting financial inclusion for SMEs in China, say experts

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China's sophistication in the "fintech" sector is helping to promote financial inclusion for small and medium-sized enterprises (SMEs) and individuals, industry officials have said.

State-owned banks in China have traditionally adopted a top-down approach and have tended to have a policy-serving function, a recent forum heard. As a result, their lending has traditionally focused on state-owned enterprises and larger firms. In recent years, however, the Chinese government has attempted to push financial services technology innovators to cater more widely for individuals and SMEs.

Some of the major fintech companies in China include Alibaba, JD.com, Tencent and Ant Group — which was recently dual-listed, raising $30 billion in the country's biggest initial public offering (IPO).

"Borrowing money from [state-owned] banks ... is so hard. Because they have the privilege of lending money to their borrowers, they are not considering they are serving people," Dr Wanli Min, chief executive of North Summit Capital and QuadTalent Technology, said in a recent talk organised by the University of Southern California U.S.-China Institute.

"With that mindset in place, I don't think [state-owned banks] have any motivation for innovation, because they [see] themselves as gods," he said.

By contrast, the large fintech companies have made huge strides by combining technological solutions with a mindset where they serve users and customers equally, reaching out to SMEs and individuals in need.

"Tech giants from day one knew how important it was to serve their customers [and] their users," Min said. "By serving their users — it does not matter whether [they are] old or young people, male or female, PhD or high school students. This mindset categorically differentiates the two approaches and also explains why these tech giants started the fintech innovation in China."

Fintech's contribution to risk-verification models

China's "credit-for-consumption" phenomenon took off in 2016, said Sara Hsu, associate professor of economics at the State University of New York at New Paltz. Since then, fintechs have introduced credit risk models which help to identify suitably qualified consumers and enable them to get loans, thus providing a service that was not available before, Hsu said.

China's tech-savvy younger generation is sophisticated in terms of its wealth management appetite, and is not afraid to invest in bitcoin, for instance. As a result, lenders need to utilise technology such as artificial intelligence (AI) or big data to help reconcile the different kinds of financial assets held by such investors and carry out a thorough risk-verification assessment.

"This will give us another opportunity to leverage on the AI part," Min said. "Because with so many heterogeneous data sources in real-time updating and refreshing, you need the AI, the cloud, in order to do the real-time processing and understand the status, the threshold and also the criticality of potential borrowers [and their] financial status."

Data breaches and transparency

The Chinese authorities have rolled out a series of rules and regulations to monitor peer-to-peer lending platforms, given their vulnerability to data breaches and the lack of transparency.

Many peer-to-peer platforms' compliance functions fail to preserve borrowers' and customers' original data, Min said.

"Those platforms [do] not have enough data to categorise their borrowers' risk profiles," Min said. While those platforms attract a lot of money from their borrowers, "they only [have] some collateral approach … to mitigate risks, rather than leverage on the data tank [itself] to have a reasonable assessment on their potential borrowers", he said.

Peer-to-peer lending platforms can become brokerage firms without any risk assurance function, and this explained why the sector had had such a bumpy ride in the past couple of years in China, Min said.

Nor was there any transparency in terms of how such platforms carried out credit-scoring assessments, he said.

"Peer-to-peer platforms should theoretically be open about how they assess their credit scores or their credit limits [for] potential borrowers," he said.

In China, peer-to-peer lending platforms have previously declined to explain why people were given a certain credit limit, or equally why an application for a particular credit limit had been declined.

"In the past, it was a mystery, and nobody knew," he said. "How [are you] going to improve your credit score and … credit limit. There is no answer [to] that. Therefore, it becomes a transactional process rather than risk-control or risk-averse process."

Against this backdrop, transparency and data security will be crucial for the sector as it continues to develop. With the right technology and regulation in place, however, it will be possible to avoid adverse impacts, yet still do a good job for the majority of consumers, Min said.

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