

Study on the Empowerment of Inclusive Finance by Financial Technology in WeBank

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Abstract. The United Nations introduced the concept of inclusive finance in 2005, aiming to support economic entities from all social strata in need of financial services. In China, inclusive finance is of paramount importance due to challenges such as a large population, regional disparities, wealth inequality, and ongoing financing obstacles for small businesses and low-income individuals. The recent three years of the pandemic have exacerbated economic difficulties, highlighting the need for a focus on small and micro enterprises. This paper takes WeBank as its research subject to investigate a case study of its endeavors in the field of financial technology, specifically concerning the advancement of inclusive finance. This research not only holds substantial academic significance and provides a wealth of theoretical insights but also carries substantial practical importance for traditional banks aiming to achieve digital transformation and innovative development.

Keywords: Fintech; Inclusive Finance; WeBank; Small and Micro Enterprises.

1. Introduction

In 2019, the People's Bank of China introduced the concept of inclusive finance, emphasizing its significance in providing support to economic entities across all social strata in need of financial services. China, facing substantial challenges such as a vast population, regional and industrial disparities, wealth inequality, and persistent financing difficulties experienced by small and micro enterprises, underscores the urgent importance of inclusive finance. Furthermore, the recent three years of the pandemic have placed small and micro enterprises under severe strain, exacerbating the issue of limited access to financing.

WeBank, as China's pioneering internet bank, has dedicated its efforts to serve core groups, including small and micro enterprises and low-income individuals. It aims to provide innovative solutions to address the long-standing issues of 'difficulty in obtaining financing' and 'high financing costs.'

Scholarly research has shed light on the role of FinTech in enhancing operational efficiency for small and micro enterprises. For instance, Abbasi (2020) conducted an in-depth analysis of data from 1,617 small and medium-sized enterprises in 22 OECD countries, revealing the significant impact of financial technology on their operational efficiency [1]. On the other hand, Zhu Taihui (2016) pointed out that the openness of financial technology introduces various risk factors, and its interoperability and high technological barriers pose challenges in conducting financial operations [2].

To address the issue of financing difficulties faced by small and micro enterprises, lessons from international literature highlight the role of financial institutions in offering a comprehensive and accurate enterprise image, beyond what small business managers' experience can provide, as suggested by Berger (2002) [3].

Researchers have categorized digital inclusive finance models into three categories, depending on the financial service providers: financial institutions, supply chain finance service providers, and financial technology companies [4]. Xie Lin (2020) emphasized the crucial role of digital technology in the development of inclusive finance services and analyzed digital inclusive finance business models through e-commerce platforms, industry chains, and rural financial platforms [5].

While recognizing the importance of digital technology in advancing inclusive finance, Li Mingxian et al. (2020) also pointed out potential issues such as the digital divide and increased financial risks [6].

In the realm of credit risk management, Yang Xuerong and Li Luoyao (2022) observed that China's current credit environment is not yet fully developed, and credit data are insufficient for individual credit reporting agencies [7]. Regarding regulation, He Chao et al. (2019) noted that technological advancements have increased industry complexity and regulatory costs, leading to higher risks of information leakage and a lag in coordination among sector systems in the development of digital inclusive finance [8].

Summarizing existing literature, it is evident that many scholars, both domestically and internationally, have conducted in-depth research on digital inclusive finance. Nevertheless, limited research has been devoted to the practical aspects of digital inclusive finance business models, and specific analyses of banking models and products are scarce. In particular, the study of internet banking business models remains relatively underexplored. Practically, developing digital inclusive finance is of paramount importance. This paper takes WeBank, China's first internet bank, as a case study. Through an analysis of WeBank's digital inclusive finance business model, it identifies challenges and offers improvement recommendations.

2. Analysis of the Current Development Status of Financial Technology Empowering Inclusive Finance

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WeBank, established on December 16, 2014, is China's first digital bank with technology as its core development engine. It is also the first internet private bank approved by the China Banking and Insurance Regulatory Commission (CBIRC). WeBank focuses on providing financial services to both small and large enterprises and the general public, enhancing service diversity, and expanding its reach while promoting ethnic, cultural, and general empowerment. This approach fosters sustainable, privately controlled digital financial development. Currently, WeBank's intelligent services have been widely applied in areas such as customer operations, product innovation, and risk management, positioning the bank as a leading innovator in China's financial sector.

Table 1. Comparative Financial Metrics of WeBank (in thousands of CNY)

Year	Operating Revenue	Total Profit	Net Profit	Total Assets	Total Liabilities	Shareholder Equity
2020	19,880,616	5,444,713	4,957,070	346,429,986	346,429,986	21,028,066
2021	26,989,261	7,771,982	6,883,757	438,747,807	438,747,807	27,723,525
2022	35,364,050	10,204,031	8,937,051	473,861,630	437,447,935	36,413,695

Data Source: WeBank Annual Reports for 2020-2022

As of the end of 2022, WeBank has surpassed 360 million individual active customers, reached out to over 3.4 million small and micro-market entities, disbursed various loan balances totaling 337 billion RMB, and managed assets exceeding 1.8 trillion RMB. The non-performing loan rate stands at 1.47%. In the same year, WeBank provided services to 2.4 million individuals with special needs, including those with hearing and visual impairments, as well as the elderly, with an amount exceeding 100 billion RMB, dedicating its efforts to bridging the "digital divide" for these special groups.

By the end of 2022, the number of individual active customers reached 362 million, marking an increase of approximately 41 million from the previous year-end, representing a year-on-year growth of 12.8%. The total amount of loans and advances extended stood at 337 billion RMB, reflecting a 28% increase compared to the previous year-end. With 360 million individual active customers, the bank has essentially reached its target customer base.

3. WeBank's Application of Financial Technology: Technical Analysis

The bank has leveraged information technology such as the internet, big data, and cloud computing to develop the first commercial working capital loan product in China that doesn't require collateral or physical documents and can be accessed at any time - 'Micro-Business Loan.' This product offers more services to small and micro-enterprises, catering primarily to general taxpayers, small-scale taxpayers, and individual business owners. The company allows online loan applications without the need for any guarantees.

Table 2. Features of 'Micro-Business Loan' Product

Feature	Description
Interest Calculation Method	Daily interest calculation, pay as you go
Loan Amount Range	Up to 3 million CNY
Customer Application Method	Online application for customers with financing needs
Collateral/Guarantee	No collateral required
Application Process	Follow WeBank and apply via 'Micro-Business Loan': Verification and application, obtaining credit limit, loan application at 0.03% to 0.045%
Customer Access	WeBank's 'Corporate Finance' official account and 'Corporate Finance' webpage on WeBank's official website
Loan Daily Interest Rate	0.03% to 0.045%
Overdue Interest Calculation	Overdue interest = Overdue principal × daily interest rate (1 + 50%) × number of overdue days
Repayment Method	Corporations repay with equal principal amounts on a fixed date each month, with the first repayment date being the loan initiation date. The corporation needs to transfer the payment automatically to WeBank's corporate repayment account.
Credit Reporting	Reported to credit bureaus

Source: WeBank Official Website

4. WeBank's Practices and Strategies in Facilitating Small and Microenterprise Financing

4.1. Breaking Information Barriers and Achieving Regulatory Technologization

Leveraging financial technology to enhance credit information systems, employing big data technology to comprehensively analyze vast and complex datasets, generating various types of user credit information, and creating precise user profiles based on this information. Big data credit reporting promotes the digitization of financial services, distinguishing itself from traditional credit ratings by the ability to repeatedly use data with high stability and adaptability, which helps financial institutions reduce operational costs.

4.2. Breaking Credit Isolation and Strengthening the Social Credit System

The challenges posed by the inadequacy of traditional regulatory frameworks in adapting to the development of financial technology necessitate an accelerated transformation of regulatory concepts and methods. This transformation includes several key elements:

Regulatory Technological Innovation: Strengthening innovation in regulatory technologies to align them with innovations in financial technology.

Enhanced Supervisory Approaches: When implementing macro-prudential management for financial institutions engaged in internet credit services, it is essential to fully consider the unique nature of their business.

Optimization of Regulatory Methods: Constructing financial systems that are in sync with financial technology developments, encompassing areas such as anti-money laundering, payment systems, and credit reporting system management.

Furthermore, the government can provide guidance to facilitate credit information sharing among various credit reporting agencies. This can promote the establishment of a unified national credit information system and drive the creation of a nationwide unified database.

5. Summary

WeBank, as the first internet bank in China, presents a representative and valuable model for business operations and risk management in the financial sector. An analysis of the characteristics of WeBank's microloans and the current state of financing for small and microenterprises can effectively reduce credit risk for commercial banks and enhance their credit risk tolerance. In the microcredit business, fintech companies should focus on strengthening regulation and risk prevention, innovating products and services, breaking down data silos, and promoting their own development.

With the support of financial technology, big data can capture user profiles and accurately assess their risk preferences and financial service needs. Leveraging Tencent's technological advantages, WeBank has built a comprehensive big data platform capable of identifying the characteristics of small and microenterprises, creating a unique online lending model. This not only effectively controls lending risks but also reallocates idle funds to low-risk financial sectors, expanding the range of financial services to address the "long tail demand."

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