

# Research on Business Model Innovation of Inclusive Finance in China

-- Based on trust industry's cases

Jiangjun Li, Tao Fu \*

School of Urban Economics and Management, Beijing University of Civil Engineering and Architecture, Beijing 100044, China

\* Corresponding author: Tao Fu (Email: futaowssy@163.com)

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**Abstract:** To solve the basic contradiction of inclusive finance, the key lies in reducing transaction costs and risks, and improving the sustainability of inclusive financial services. After being standardized, China's trust industry has innovated a sustainable business model in inclusive financial services. On the capital side, trust companies raise funds through capital trust plans; on the asset side, they use funds through a variety of financial instruments. Compared with commercial banks and insurance companies, trust companies do not have obvious cost advantages on the capital side. However, Trust products have attracted the attention of the industry due to their flexibility and innovation. Among them, the traditional mode is characterized by the trust company giving full play to the financial function advantages given by the system, combining with small loan companies, policy guarantee companies and other institutions, effectively reducing transaction costs, reasonably sharing risks, and providing inclusive financial services for vulnerable groups. Furthermore, the new mode of technology empowerment further reduces transaction costs, overcomes the risk of information asymmetry, and makes the trust company inclusive financial services more sustainable, thus providing a new idea for inclusive financial services.

**Keywords:** Inclusive Finance, Trust Industry, Model innovation.

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## 1. Introduction

In 2005, the United Nations formally proposed the concept of inclusive finance during the promotion of the "International Year of Microfinance". For more than a decade, inclusive finance has attracted the attention of governments and many scholars all over the world. Initially, financial inclusion focused on microfinance products. Consultative Group to Assist the Poor (CGAP) puts forward that financial inclusion is to allow all people who need financial services to have equal rights to financial services [1]. Affected by the international definition of the concept of inclusive finance, China's research on inclusive finance is also limited to financial organizations that target low-income groups such as microfinance companies and village banks. China's "Promoting Inclusive Finance Development Plan (2016-2020)" pointed out that inclusive finance refers to the principle of equal opportunity and business sustainability, and provides appropriate and effective services to all classes and groups of society at affordable costs [2]. Financial services. Special groups such as small and micro enterprises, farmers, urban low-income groups, the poor, the disabled, and the elderly are the current key service targets of inclusive finance in China. According to the report of the People's Bank of China and World Bank Group (2018), inclusive finance refers to a series of suitable financial products and services which individuals and small and micro enterprises can obtain and use [3]. They are convenient and safe for consumers, and commercially sustainable for providers. This definition contains four key elements of financial inclusion: availability; diverse and appropriate products; commercial viability and sustainability; safety and responsibility.

Judging from the research results in recent years, inclusive finance should be regarded as a comprehensive policy goal

covering a wide range [4]. Zuofa Wang and Zuogong Wang (2014) believe that trust companies integrate the operation and financing of farmland management rights into an enterprise through farmland management rights trusts, which reduces transaction costs and provides a new perspective for the innovation of inclusive finance [5]. Qinxian Bai and Kun Zhang (2017) pointed out that the definition of the concept of inclusive finance in relevant literature is one-sided, technical, policy-oriented and descriptive, and does not have a high degree of ideology and strict logic [6]. From the perspective of a higher standard and broader scope, inclusive finance is a shared financial development method that leads, regulates and realizes financial development. Inclusive finance has three essential characteristics: upholding the philosophy and humanistic development concept of finance; demonstrating that finance is born to promote human economic and social development; insisting that finance serves the broadest social people wholeheartedly. Finance is inclusive, but the inclusiveness is alienated under the condition of capitalization. The reintroduction of inclusive finance is just a return to financial inclusiveness. The concept of inclusive finance is highly compatible with traditional Chinese thinking. It is highly consistent with the national development philosophy of "innovation, coordination, green, openness, and sharing". And it highly conforms to Jinping Xi Thought on Socialism with Chinese Characteristics for a New Era.

The traditional financial system mainly serves large enterprises, large projects and real estate and other high-return economic sectors, and often excludes the disadvantaged groups, small and medium-sized enterprises and other low-return economic sectors. At present, the Chinese government has been fully aware of the problems of the traditional financial system and has clearly pointed out the direction for improvement. In November 2015, the Central Leading Group for Comprehensively Deepening Reform pointed out at the

18th meeting that the purpose of developing inclusive finance is to increase the coverage, availability and satisfaction of financial services, and to meet the growing financial needs of the people. During a study session of the Politburo of the CPC Central Committee on February 22, 2019, Jinping Xi pointed out that it is necessary to deepen the understanding of the international and domestic financial situation, correctly grasp the nature of finance, and deepen the structural reform of the financial supply side. The implementation of financial supply-side reform includes various aspects such as monetary policy optimization, capital market reform, adjustment of the layout of large, medium and small financial institutions, and reshaping of the internal mechanisms of financial institutions. The purpose of financial supply-side reform is to meet the needs of economic and social development and the people for financial products, so that micro-economic organizations, including small and medium-sized enterprises, can truly benefit from financial services. Therefore, inclusive finance is precisely the shared development concept that leads China's financial supply-side reform.

## 2. Practice of Inclusive Finance in China

In recent years, China has made significant progress in the development of inclusive finance, showing basic features such as continuous improvement of the inclusive financial policy system, increasingly enriched inclusive financial institution system, continuous deepening of digital inclusive financial innovation, and continuous innovation of inclusive financial business models.

From the perspective of financial institutions, policy banks, commercial banks, trust companies, insurance companies, financing guarantee companies, small loan companies, finance companies and Internet finance companies and other financial institutions have all provided inclusive financial services. And a multilevel, wide coverage and differentiated inclusive financial cooperation service system with policy and commercial characteristics has been basically established [7]. Among them, commercial banks actively explored and innovated inclusive financial organization structures and have played the "head goose" role in developing inclusive financial services. Local financial institutions have used their advantages of being close to the grassroots to make inclusive financial services reach lower classes, small and micro businesses and three rural extensions. At the same time, there are also some problems: (1) Rural banks have high management costs and weak innovation capabilities; (2) The market positioning of micro-finance companies is similar to that of commercial banks, with narrow funding sources, weak risk prevention and control, and restricted operating areas; and (3) risks such as fraud, information leakage and capital loss caused by financial technology.

From the perspective of financial technology, with the rapid progress of China's digital economy and related infrastructure, digital inclusive financial services have developed rapidly. Traditional financial institutions and emerging financial technology enterprises have become the main force in digital inclusive finance innovation [8]. Relying on the "aggregation model" of financial technology proposed by the industry, by leveraging the professional advantages of all parties involved in customer acquisition, risk management, credit enhancement and capital and other business nodes, it provides diversified and affordable inclusive financial

services with economies of scale.

Although China has made great progress in inclusive finance, there are still some problems in both theoretical and practical aspects. As a result, inclusive financial services often have counterproductive effects. In summary, the problems are mainly reflected in: (1) Misunderstanding of the connotation of inclusive finance has led to the phenomenon of alienation in practice. At present, some people still equate inclusive finance with credit subsidies, mandatory loans and charitable activities and so on. They believe that even if financial services are provided in financial backwaters, they have to rely heavily on subsidies. (2) Some business models of inclusive financial services are unsustainable. For example, some of the inclusive financial services provided by financial institutions have received a relatively large amount of administrative intervention and high subsidies, failing to follow market rules, distorting market competition, and making inclusive finance unable to achieve long-term sustainable development. And (3) insufficient diversity of inclusive financial services. Currently, when financial institutions provide inclusive financial services, they do not give enough consideration to the diversity of financial products needed by disadvantaged groups. Therefore, analyzing the basic contradictions of inclusive finance and their causes, and further improving the sustainability and diversity of inclusive financial services are one of the important contents of China's financial supply-side reform.

In China's financial system with commercial banks as the mainstay, although the inclusive financial services provided by trust companies are not mainstream, they have attracted great attention from the industry for their flexible and innovative nature. The trust model is different from the indirect model of commercial banks and the direct model of the capital market. In the trust model, on the capital side, trust companies raise funds through capital trust plans; and on the asset side, trust companies use funds through a variety of financial instruments. Compared with commercial banks and insurance companies, trust companies do not have obvious cost advantages on the capital side. However, after standardization, China's trust industry has conducted long-term exploration in inclusive financial services, innovated effective business models, and made useful explorations for the improvement of the inclusive financial system construction.

## 3. The Basic Contradictions of Inclusive Finance and Their Causes

Through the inclusive financial model to solve the poverty problem of disadvantaged groups, Grameen Bank's successful practice has proved the feasibility of inclusive finance. However, in theory, inclusive finance has naturally formed a pair of basic contradictions between market and publicity. On the one hand, from a market perspective, financial institutions should follow market rules and allocate resources in accordance with the risk-return principle. Therefore, financial institutions should try to avoid disadvantaged groups of customers. On the other hand, from a publicity perspective, the targets of inclusive financial services are long-tail vulnerable groups, and the government and society have the responsibility to help such customers. The customers of inclusive financial services mainly include small and micro enterprises, individual businesses, urban low-income groups, farmers, the elderly and the disabled [9]. Each group is a

contradiction between market and publicity which is both opposite and unified. In practice, the development of inclusive finance will not be sustainable if it is too public, while inclusive finance will fall into a dead end of be "universal" rather than "benefits" if it is too market-oriented. Solving this fundamental contradiction has become the key to the development of inclusive finance.

There are two main reasons for the basic contradictions in inclusive finance: relatively high transaction costs and relatively high risks. And the specific analysis is as follows:

First, relatively high transaction costs. Financial institutions provide inclusive financial services to small and micro enterprises, individual businesses, urban low-income groups, farmers, the elderly and the disabled and so on. The specific transaction costs include contract signing costs, contract performance costs and default processing costs. Specifically, contract signing costs include information collection costs and contract negotiation costs, etc.; contract performance costs include supervision costs and execution costs, etc.; and default processing costs include bad debt losses and litigation expenses, etc. Under the traditional financial development mode, when financial institutions serve large enterprises and projects, due to the large transaction amount, the contract signing, performance and default processing costs caused by one-to-one transactions are relatively low, and the probability of obtaining higher profits is greater. In contrast, it is obvious that due to the small amount of loans and the large number of target customers of inclusive finance, the three costs above are all relatively high, which seriously reduces the profit margin of financial institutions.

Second, relatively high risks. Generally speaking, small and micro enterprises, individual businesses, urban low-income groups, farmers, the elderly and the disabled and other groups have low market competitiveness, opaque information and high financing risks. Therefore, only from the perspective of market principles, in order to avoid risks, financial institutions are unwilling to provide financing to these disadvantaged groups.

In summary, the key to solving the basic contradictions and improving the sustainability of inclusive financial services lies in reducing transaction costs and financing risks. This requires financial institutions to transform traditional financial development methods and actively develop differentiated financial products based on market demand. At the same time, they need to be customer-centric, reduce transaction costs, share risks reasonably, and improve the sustainability of inclusive financial services.

#### **4. Institutional Advantages of Inclusive Financial Services for Trust Companies**

Improving the sustainability of inclusive financial services for vulnerable groups requires financial institutions to change their business concepts, use financial functions to overcome the basic contradictions of inclusive financial services, reduce transaction costs and resolve transaction risks. Among them, due to its unique institutional advantages and functions, China's trust industry has made long-term explorations in enhancing the sustainability of inclusive financial services.

First, the standardized development of the trust industry is a prerequisite for inclusive trust services.

Trust is a legal relationship among the trustor, trustee and

beneficiary centering on property right. The unique system advantages of the trust mechanism are independent trust assets, long-term planning, flexible space, and better protection of the rights and interests of beneficiaries. The trust with the property management system nature originated from Use System in England in the 13th century, and first appeared as a free private civil trust. At present, trust has been widely used in civil, commercial and even public welfare fields in the UK and US and other countries.

Since the reform and opening up, China's trust industry has gone through 40 years of bumpy development. Before 2000, it was reorganized many times. In 2001, China promulgated the "Trust Law" drafted after 8 years of hard work, which introduced trusts originating from the Anglo-American legal system into China with rapid economic development [10]. Although the loss of the backing of Equity has caused some controversial problems in it, the promulgation is an important milestone in China's trust industry and provides a strong institutional guarantee for the development of the trust industry. After its promulgation, China's trust industry entered a stage of recovery and development from 2002 to 2006. During this period, the CBRC checked and accepted trust companies one by one, decisively closed high-risk trust institutions, and re-registered trust companies that met the conditions. After the fifth comprehensive clean-up and rectification, the number of trust companies has been reduced from 239 in 1999 to 68 now.

Beginning in 2007, regulators began to revise the supervisory system from the trust regulations. In the revision of the "Measures for the Management of Collective Fund Trust Plans of Trust Companies", it is stipulated that individuals or households with total financial assets of more than 1 million yuan are qualified investors, which raises the threshold for trustors [11]. And the "measures for the management of net capital of trust companies" promulgated and implemented in 2010, through net capital and risk capital management, guides trust companies to develop their original business and prevent industry redemption risks [12]. Moreover, in April 2018, the regulatory authorities issued the "guiding opinions on standardizing asset management business of financial institutions" [13], the core requirements of which include: (1) Breaking the rigid payment. Asset management products are required to implement net value management, and it is not allowed to guarantee capital and return in any form or carry out fund pool businesses. (2) Restrict the channel business. Require asset management products to allow only one level of nesting, reduce channels, and strictly implement penetration management in supervision. (3) Eliminate term mismatched. Non-standard debts and equity investments in unlisted companies cannot be mismatched within the term. (4) Leverage down. Standardize the leverage of asset management products on the investment side and the liability side, reduce the leverage ratio of equity products to 1:1, and open products cannot be classified.

Under the constraints of the regulatory regime, the scale of trust assets continued to decline in 2018 and 2019, which forced trust companies to carry out innovation and transformation. Inclusive financial services are the new blue ocean of trust industry innovation. Simultaneously, the standardized development of the trust industry guarantees the standardized operation of trust companies, thereby providing preconditions for inclusive financial services.

Second, policies and regulations provide institutional advantages for the sustainability of inclusive trust services.

Policies and regulations have led to differences in the investment fields of different financial sub-sectors in China, which in turn determine the sustainability of China's trust companies in providing inclusive financial services. According to Article 19 of China's "Measures for the Administration of Trust Companies" [14], trust companies may adopt various methods such as investment, sale, deposit in the same industry, buy-back resale, lease and loan when managing or disposing of trust assets. In addition, according to the provisions of Article 26 of China's "Administrative Measures for Trust Companies' Collective Fund Trust Plans" [15], trust companies may use creditor's rights, equity, property rights and other feasible methods when using trust funds. In the financial system consisting of the four major financial sub-sectors of banking, trust, securities and insurance, the trust industry is the only financial institution other than commercial banks that has the legal qualifications to issue loans. Moreover, the trust company is the only financial institution in China that invests across the currency market, capital market and the real economy.

Over the past decade, Chinese trust companies have accumulated rich practical experience in improving the sustainability of inclusive financial services. In the process of developing inclusive financial services, trust companies can comprehensively use multiple investment methods to give play to the advantages of institutional functions to reduce transaction costs, rationally share risks and improve the sustainability of inclusive financial services.

Third, the basic principles of inclusive financial services in the trust industry.

In China, there are currently four major financial institutions: commercial banks, trust companies, securities companies and insurance companies. Different from the other three business models, trust companies mainly adopt the model of fund trust plans for their business. According to the provisions of Article 2 of China's "Administrative Measures for Trust Companies' Collective Fund Trust Plans" (2007), the collective fund trust plan established within the territory of the People's Republic of China refers to the fund trust business activities in which the trust company acts as the trustee and conducts centralized management, utilization or disposal of the funds delivered by two or more (including two) trustors according to the trustor's will and for the benefit of the beneficiary.

Through collective fund trust plans, trust companies can realize the inclusive financial function of serving disadvantaged groups. The key to their operation steps is the two agents: first, the trustee first "entrusts" the funds to the trust company for centralized management; second, trust companies then use various financial instruments such as equity, debt, and combination of stocks and bonds to serve the disadvantaged groups with the pooled funds, meet their financial needs, and realize the increase of value at the same time. After the trust plan expires, the trust company recovers the funds and transfers the proceeds to the beneficiaries (Figure 1).



**Figure 1.** The basic model of inclusive financial services for trust companies.

When trust companies explore inclusive financial services, on the basis of collective fund trust plans, they flexibly use

financial instruments such as equity, debt, combination of stocks and bonds, and asset securitization, which contribute a wealth of cases worthy of in-depth analysis to inclusive financial services in China

## 5. Inclusive Financial Service Model of Trust Companies under the Traditional Model

The trust industry has been providing inclusive financial services for more than ten years. Currently, of 68 trust companies, more than 50 provide inclusive financial products. Before the rise of financial technology, with the help of flexible trust functions conferred by policies [16], the traditional inclusive financial services provided by trust companies were also representative in reducing transaction costs and sharing product risks.

### 5.1. Support the Development of Three Rural and small and Micro Enterprises through Loans

Providing loans to customers is the most basic inclusive financial product provided by trust companies. Take serving agriculture, countryside and farmers as an example, the specific business process is: (1) The partner selects the appropriate project, which can effectively reduce transaction costs of acquiring customers. Under the traditional inclusive financial service model, trust companies need to cooperate with relevant local rural economic authorities to recommend some more profitable financing projects for agriculture, countryside and farmers. In doing so, transaction costs are effectively reduced. Trust companies conduct on-site and off-site due diligence on the projects according to the companies' process, demonstrate the risk level of these projects, and finally select relatively high-quality projects; (2) Formulate corresponding trust plans to reduce transaction costs by expanding the scale of financing. According to the specific conditions of the project, trust companies determine the financing amount, financing period, financing cost and other factors, and determine the corresponding trust products. Due to the small amount of financing for inclusive financial service targets, trust companies often package multiple similar projects to form a trust plan. (3) Raise project funds. Trust companies issue collective fund trust products to investors to raise money and provide funds to the demand side. (4) Introduce guarantee companies or financial guarantees from local governments to share risks reasonably. Since inclusive finance has a public aspect, local governments play a very important role in the process of financial institutions serving disadvantaged groups. And in the process of cooperating with trust companies, it is more appropriate for local governments to play the guiding role of fiscal funds, that is to say, skillfully deflected, instead of directly providing financing.

The specific operation model of Collective Funds Trust Plan of Benefiting Grassland Farm Fund issued by CITIC Trust Co., Ltd. is (Figure 2): (1) In order to reduce transaction costs, the Financial Affairs Office of the Inner Mongolia Autonomous Region Government takes the lead in coordinating and selecting high-quality micro-finance companies in the region, then CITIC Trust selects qualified micro-finance companies according to the process; (2) CITIC Trust completes fund-raising through the issuance of a collective fund trust plan and increases capital and shares in

qualified micro-finance companies; (3) After the project expires, the shareholders of the micro-finance company buy back shares and CITIC Trust withdraws funds; and (4) In order to reduce risks, Northeast SME Credit Re-guarantee Co., Ltd. provides guarantees for repurchase obligations and realizes risk sharing. The target customer groups of micro-

finance companies are farmers and herdsmen, individual businesses and small and micro enterprises. After obtaining the equity capital increase of the trust company, micro-finance companies can provide loans to farmers and herdsmen and small and micro enterprises to serve Three rural and support rural economic development.

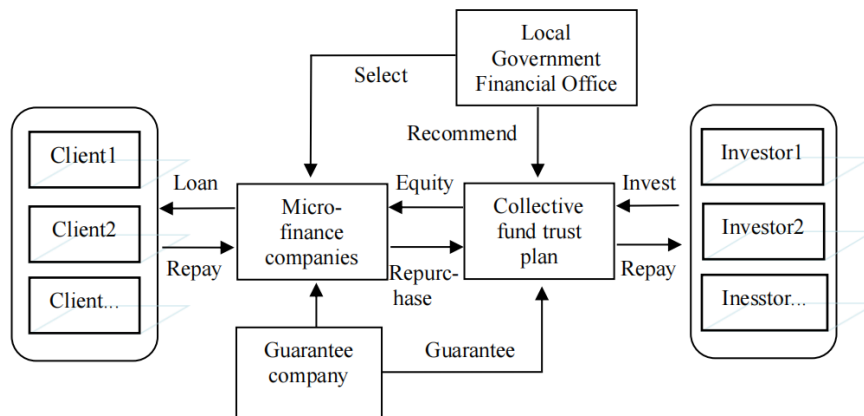


Figure 2. The operation model of Collective Funds Trust Plan of Benefiting Grassland Farm Fund issued by CITIC Trust Co., Ltd.

## 5.2. Use Industry Advantages to Provide Financing Services for Small and Micro Enterprises in the Upstream and Downstream of the Supply Chain

Relying on its professional advantages, COFCO Trust has a profound insight into the operation rules of COFCO's related industrial chains, and leverages the institutional advantages of the trust industry to provide financial services for small and micro enterprises upstream and downstream of the supply chain, and innovates a unique inclusive financial service model. Take "COFCO Trust Supply Chain Trust Loan (COFCO Rice and Flour Distributors) Collective Fund Trust Plan" as an example, the specific operation mode is: On the capital side, COFCO Trust issues a collective fund trust plan; on the asset side, the trust funds are used to issue trust loans to COFCO Fulinmen dealers of rice and flour. The loans obtained by the distributors are specially used to purchase COFCO Fulinmen rice and flour, and credited to COFCO International's account in the form of entrusted payment. COFCO International assists in monitoring the daily operations of the distributors within the loan period. In order to control risks and protect the fund safety of investors in the trust plan, COFCO Trust Company has introduced an insurance institution in the project and paid a reasonable risk premium to appropriately transfer the risk of dealer default to the insurance institution.

## 5.3. Innovative Intellectual Property Mortgage Trust Supports the Development of SMEs

In view of the fact that technology-based SMEs are difficult to obtain bank loans due to lack of fixed assets, Anhui Guoyuan Trust Co., Ltd. used the advantages of the system to flexibly expand the scope of collateral, so that the intellectual property rights of SMEs became collateral, and issued the first intellectual property trust in China called Hefei High-tech Zone Small and Medium-sized Enterprises' Intellectual Property Beneficial Right Investment Collective Funds Trust Plan, this has helped SMEs to solve their funding problems to a certain extent. After multiple rounds of consultations, the

Anhui Development and Reform Commission, Intellectual Property Office, Guoyuan Trust, and Hefei High-tech Zone Management Committee determined the total scale of trust funds to be 300 million yuan and issue them in installments. The issued trust plan has a scale of 20 million yuan and a term of 2 years. The beneficiary rights of intellectual property rights of three enterprises in the Hefei High-tech Industrial Development Zone are transferred. After the trust period expires, the enterprise will repurchase the beneficial rights of the intellectual property under the trust plan at the agreed price. In order to control risks, the measures adopted by the project are: (1) Hefei High-tech Financial Guarantee Co., Ltd. is the guarantor, providing irrevocable joint guarantee obligations for the company's scheduled repurchase obligations; and (2) the enterprise provides pledge guarantees for it repurchase obligations and signs the Intellectual Property Pledge Contract.

Under the traditional trust inclusive finance model, the following disadvantages still exist: (1) The costs of acquiring customers are relatively high and the channels are relatively narrow. In order to reduce transaction costs, trust companies often need the cooperation and collaboration of other departments instead of directly screening customers due to the long distance when acquiring customer groups, which in turn leads to project cooperation costs; and (2) Project operation efficiency is relatively low and risk control is more difficult. The need to rely on the help of micro-finance companies when providing financial services with the ultimate target customers has resulted in low project operation efficiency. Moreover, because it is not directly transacting with target customers, it also makes risk control more difficult. These unfavorable factors affect the sustainability of inclusive financial services under the traditional model.

## 6. The Technology Empowerment Model of Inclusive Trust Product Innovation

In recent years, the Internet revolution has made China achieved rapid development of digital economy and digital finance [17]. Digital finance has promoted inclusive growth

in China. A complete inclusive trust product includes multiple links such as customer acquisition, product design, product marketing, risk control, product credit enhancement and post-loan management. According to the key nodes of trust products, they can be divided into three main links: customer acquisition, risk control and operation management. The rapid development of financial technology has resolved the disadvantages of trust companies in providing inclusive financial services from the above three main links, overcome information asymmetry, reduced transaction costs and risk levels, and made trust inclusive finance more sustainable [18].

First, financial technology has reduced the transaction costs of trust companies' inclusive financial services in acquiring customers and broadened the channels. Customer acquisition is a very critical link in the trust inclusive financial service process. Its purpose is to find and obtain customers that match inclusive financial products. And the key is the cost of acquiring customers. Under the traditional model, trust companies mainly cooperate with micro-finance companies, agricultural aid organizations, non-profit organizations and other institutions and departments to acquire customers. The channels are narrow and lead to relatively high costs. In the information age, a large amount of Internet behavior, consumptive accumulation and payment data of target customers have been accumulated. Therefore, under the financial technology empowerment model, trust companies can classify target customers through self-built inclusive financial intelligence systems or cooperation with other financial technology companies, and find potential customers that meet a certain trust product, which greatly reduces the transaction costs of acquiring customers. Moreover, according to the big data provided by the intelligent financial system, trust companies can also analyze the actual performance of inclusive finance customers to a certain extent, and drive the continuous optimization and upgrade of the customer acquisition model.

Second, financial technology effectively overcomes information asymmetry, reduces the risk of inclusive financial services for trust companies, and reduces transaction costs of risk control at the same time. Under the traditional model, when trust companies provide inclusive financial services, they mainly rely on offline methods of cooperative institutions and departments to obtain target customers' credit information to control risks, resulting in high costs and low efficiency. However, intelligent technology has solved the industry problem of inclusive financial customer data fragmentation. It provides information support for customer credit profile, anti-fraud and risk control through big data. In the intelligent mode, there are four main sources of data: (1) The People's Bank of China and third-party credit data; (2)

the data accumulated by trust companies themselves in the course of conducting businesses; (3) the data of finance and taxation departments and business sectors and other public institutions; and (4) data from a professional personal credit management platform. With the help of financial technology, trust companies conduct risk assessments on inclusive financial customers, breaking through the high costs and low efficiency problem in the offline model.

Third, financial technology has reduced labor costs of inclusive financial service operation and management of trust companies and effectively reduced transaction costs. The target customers of inclusive financial services are relatively scattered, so the operation and management costs under the traditional model are relatively high. But based on the financial technology model, trust companies use intelligent systems to control the marketing, operation and post-loan management of trust products, thereby improving operational efficiency. In the post-loan collection link, based on the intelligent system, trust companies urge inclusive financial borrowers to repay in a timely manner through various methods such as SMS and APP, etc., which greatly reducing labor costs.

It is precisely because of the great support of financial technology to inclusive financial services that they attach great importance to the construction of scientific and technological financial intelligence systems. At present, more than 10 trust companies have invested more than 10 million yuan in the inclusive financial intelligence systems. Among them, TX Consumer Financial Intelligent System of Zhongrong International Trust Co., Ltd has been docked with the central bank's credit investigation system, with functions such as risk control approval, independent payment, big data storage and mining, and post-loan fund monitoring and so on. Besides, Inclusive Star System developed by Yunnan International Trust Co., Ltd can serve inclusive financial services such as consumer, supply chain and rural finance.

Inclusive finance customers include diversified vulnerable groups such as Three rural, small and micro enterprises and low-income groups. Under the technology empowerment model, since the sustainability of inclusive financial services in the trust industry has been effectively improved, trust companies can provide effective inclusive financial services to a diverse group of customers. From the perspective of industry practice, the inclusive trust product innovations of trust companies in recent years mainly include (Figure 3): using the "scenario + big data" model to serve small and micro enterprises and assist Three rural; improving the efficiency of mortgage loans for SMEs through intelligent platforms; and combining with application scenarios to boost consumer finance businesses.

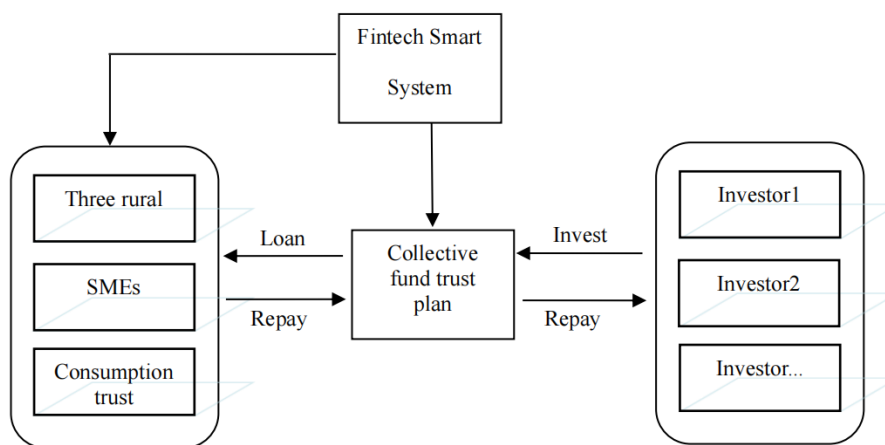


Figure 3. The technology empowerment model of inclusive financial services for trust companies

### 6.1. Use the “scenario + big data” Model to Serve Three Rural

Generally speaking, small and micro enterprises, such as restaurants, convenience stores, and clothing stores, have relatively high financing risks due to opaque information and lack of fixed asset mortgages, so traditional financial services are often not covered. Because, from the perspective of market principles, financial institutions are unwilling to provide financing to these groups in order to avoid risks. In the context of fintech, trust companies have adopted the "scenario + big data" model to provide inclusive financial services to these groups. Under this model, the trust company bases on the self-service loan system and big data risk control model, and cooperates with lending agencies to conduct transaction authenticity assessment and anti-fraud assessment on customers through transaction data provided by real scenarios, and with big data, such as credit reference and payment data of the People's Bank of China, credit evaluation and risk pricing are conducted for these groups, so as to provide a basis for their credit decision-making.

Currently, Yunnan International Trust Co., Ltd provides inclusive financing services to small and micro enterprises in catering, Three rural and education and other fields through “scenario + big data risk control” model. Take Farmhouse trust product as an example, this product adopts TOT (Trust of Trusts) method: The first level of trust is the “Yunnan Trust · Huize Farmhouse Collective Fund Trust Plan”, which is subscribed by qualified investors for priority and loan service companies for general level. And the trust funds are used to subscribe for the second level of single fund trust. The second level of trust is the “Yunnan Trust · Inclusive Farmhouse Single Fund Trust Plan”. The trust funds are used to provide loan services for farmers to purchase seeds, fertilizers and pesticides, etc. In this case, Yunnan Trust mainly adopted the following key measures to control risks: (1) The loan service companies in the first-tier trust have been deeply involved in the agricultural field for many years, and are familiar with the customers’ conditions. Therefore, their recommendation of customers not only saves transaction costs, but also helps to control risks. Moreover, the loan service company subscribes for the general level in the first-tier trust, which can avoid the moral hazard of it and play a role in credit enhancement; (2) On the basis of the recommendation of the loan service company, Yunnan Trust uses big data to cross-verify the information of farmers to evaluate their repayment ability; and (3) in order to avoid

farmers from using the trust funds for other purposes, the credit funds are paid directly to the dealers of agricultural machinery or agricultural materials, rather than directly to the customers.

### 6.2. Improve the Efficiency of Mortgage Loans for SMEs through Intelligent Platforms

The mortgage credit business is one of the financial service models provided by trust companies for small and micro enterprises. When small and micro business owners encounter financial difficulties, it is a feasible way to obtain funds through the mortgage of their property. To achieve the goal of financial inclusiveness, trust companies should, on the one hand, maintain a marginal profit and benefit small and micro enterprises. On the other hand, they must reduce operating costs, and financial empowerment provides the feasibility of to control the costs. Some trust companies have not only reduced the cost of serving SME owners, but also optimized the approval process and improved the efficiency of mortgage loans by building a smart loan system.

In more than 10 years, China Foreign Economy and Trade Trust Co., Ltd (FOTIC) has developed into a small and micro financial service provider with “platform + data” as the core, and has established a complete small and micro financial service product line. Its main operation model is: on the capital side, FOTIC cooperates with institutions focusing on small and micro financial business to initiate the establishment of a single fund trust plan or a structured collective fund trust plan; on the asset side, the trust funds raised will be used to issue trust loans to small and micro enterprises that meet the loan conditions of the trust program according to the set loan issuing standards. Among them, the “Jinghua” series of mortgage loans require the borrower to mortgage the collateral to the foreign trade trust to obtain funds, and the average loan amount ranges from 150,000 to 2 million yuan.

In order to improve efficiency, FOTIC has strengthened its platform service capabilities based on information technology, using the law of large numbers and financial technology to provide comprehensive financial services for small and micro enterprises. The company increased investment in financial technology and established an intelligent platform. The platform can automatically perform related business operations. The clearing and settlement system and the penetrating account reconciliation system refine and automate the business, meeting the needs of small and micro enterprises for multiple small loans. Relying on its

sophisticated and advanced intelligent system, FOTIC has effectively improved the efficiency of risk control decision-making, product payment, reconciliation, and settlement for small and micro enterprises.

### 6.3. Combine Application Scenarios to Help Consumer Finance Business

Currently, about two-thirds of trust companies carry out consumer finance businesses. In the traditional model, trust companies provide credit services to a wide range of end customers through cooperation with lending agencies, and risk control also relies on cooperation with loan lending institutions. In the past two years, with the help of financial technology, this model has made breakthroughs. Generally speaking, combined with the application scenarios of consumer finance business, consumer finance business can be divided into three stages: customer identification, risk prevention and control, and operation management. In the customer identification stage, trust companies mainly use APP to obtain customers, and use facial recognition, voiceprint recognition and other technologies for customer identity verification. In the risk prevention and control stage, some companies such as FOTIC, Yunnan International Trust, Bohai International Trust, and CR Trust began to build anti-fraud and risk control capabilities based on big data, directly provided credit services to end customers, and tried to independently control business risks. And in the operation management stage, the big data technology is used to analyze accounts and control bad debt rates. For example, since 2018, FOTIC has launched a cash instalment product called "Xian Xian Bei", which directly lends money to end customers. The product authenticates customer identities through face recognition, etc., and evaluates the credit qualifications of terminal customers through joint modeling and data risk control, and realizes online approval, payment and other processes.

## 7. Conclusion

The regulated Chinese trust industry has conducted long-term exploration in improving the sustainability of inclusive financial services and innovated effective business models, including traditional business models and technological empowerment models. Among them, the characteristic of the traditional model is that trust companies give full play to the financial function advantages conferred by the system, unite with micro-finance companies, policy guarantee companies and other institutions to effectively reduce transaction costs, reasonably share risks and provide inclusive financial services to disadvantaged groups. However, the new model of technology empowerment breaks through the problems of high customer acquisition costs, high risk control costs and low operating efficiency that exist in the traditional model of inclusive financial services for trust companies. And it further reduces transaction costs and overcomes the risk of information asymmetry. So companies' inclusive financial services are more sustainable.

Inclusive finance customer groups are widely distributed, large in number and extremely diverse, so there are diversified demands for inclusive financial services. Among them, the behavior of some customer groups is mainly performed offline, and it is difficult for intelligent systems to obtain comprehensive data reflecting their solvency. Therefore, traditional business models are still required to

complete procedures such as customer acquisition, data collection and due diligence. However, for customer groups with a high degree of information technology, the financial technology empowerment model has great advantages in overcoming information asymmetry and saving transaction costs in terms of customer acquisition, data collection and due diligence. Facing the differentiated and diversified financial needs of inclusive financial customer groups, trust companies can use traditional models and financial technology empowerment models at the same time to integrate the advantages of online and offline businesses, reduce transaction costs and share risks, thereby providing new ideas for improving the sustainability of inclusive financial services.

Different from the inclusive financial service model developed by commercial banks and other financial institutions, the funds for inclusive trust products come from the trustee's investment in trust plans, so it is difficult to directly enjoy the monetary policy's preferential financial services for small and micro enterprises. Moreover, the characteristics of the fund trust plan determine that each trust product needs to be managed separately, and it is difficult to diversify risks like commercial banks. Once there is a risk in an inclusive trust project, it will directly lead to the difficulty of cashing in the funds of the project investors. Therefore, it is necessary for the regulatory authorities to introduce preferential policies related to the innovation of inclusive trust products in order to facilitate the construction of a more diversified inclusive financial service system. When supervising trust companies in hierarchical management, they could consider including inclusive trust services in the industry rating standards, so as to encourage trust companies to invest more resources to develop inclusive trust services in the process of exploring transformation.

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