

Assessing the Impact of the Fintech Development Plan (2022-2025) on China's Fintech Sector

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Cover Image Attribute: A file photo of a staff member of the Bank of Communications (BOCOM, 交通银行) Beijing Branch instructs a visitor to open a digital RMB wallet on a mobile phone on June 16, 2021. / Source: Xinhua

2022, a significant shift occurred as China embarked on the ***Fintech Development Plan (2022-2025)*** [金融科技发展规划(2022-2025年)]. That year marked a transition from fortifying the foundation of fintech to leveraging its growth potential. As fintech continues to reshape the global financial landscape at a breakneck pace, China emerges as a frontrunner with its financial institutions actively embracing digital transformation in 2022, utilizing cutting-edge financial technologies to ensure the sustained and stable growth of the fintech sector. They also enhanced the overarching system and established ethical and prudent regulations for fintech.

Unveiled by the People's Bank of China (PBoC) in January 2022, this forward-looking plan articulates the government's strategic vision for the fintech sector in the coming four years. The first Plan — *Fintech Development Plan for 2019-2021*, released in 2019, focused on laying the foundation for the fintech sector, while this new Plan emphasizes building on this foundation to achieve rapid growth in the industry by 2025. In this exploration, we delve into the foundational principles, primary objectives, and the plan's influence on emerging trends shaping the future of the fintech landscape in China.

A Brief Introduction

Nestled within the framework of China's *14th Five-Year Plan (2021-2025) for National Economic and Social Development and the Long-Range Objectives* extending to 2035, the Plan presents an encompassing strategy for navigating the rapidly evolving landscape of fintech. It delineates lucid directives, encompassing an overarching strategy, developmental milestones, critical imperatives, and pragmatic measures poised to usher in a digital transformation in the financial sector.

The Plan's overarching goal is to strategically channel technology-driven financial resources into pivotal sectors and areas requiring reinforcement of economic and social development, thereby enhancing the financial sector's capacity to serve the real economy. Moreover, it underscores the critical role of developing a digitalized, fintech-based economic infrastructure, firmly positioning it within the "*new infrastructure*."

The Four Principles

The Plan outlines its strategic approach based on four fundamental principles, each bearing the promise of redefining China's fintech landscape:

Innovation-Driven Development: The plan emphasizes innovation as the primary driver of fintech's expansion. The Chinese government seems to be dedicated to facilitating the development of new fintech products and services, with the aim of improving the efficiency and accessibility of financial services to meet evolving consumer demands. This approach reflects a forward-looking perspective, acknowledging that innovation is critical in navigating the constantly evolving fintech landscape.

Financial Stability: While innovation is a focal point, it is accompanied by the necessity for oversight. The government is equally committed to maintaining the foundation of financial stability. China seeks to carefully regulate the fintech sector in an age of rapid technological advancements. The objective is to establish a regulatory framework that mitigates risks and preserves the financial system's stability. This dual commitment to innovation and stability represents China's balanced approach to fintech, aiming to ensure dynamic progress and security.

Green and Low-Carbon Development: The plan acknowledges the pressing requirement to align the potential of fintech with broader societal goals, particularly in environmental sustainability. China's commitment to promoting green and low-carbon development via fintech indicates a strong dedication to a sustainable future. The country intends to use fintech solutions to facilitate the creation of an environmentally friendly economy.

Open and Inclusive Development: The government's vision for fintech goes beyond economic and technological goals and is based on principles of fairness and inclusiveness. In an increasingly interconnected world, China aims to ensure that fintech's benefits are within reach for all segments of society. This involves making financial services more accessible, reducing inequalities, and narrowing the digital gap. It is a commitment to ensuring that the advantages of fintech are distributed broadly rather than being concentrated among a select few.

These four principles collectively form the scaffolding of China's fintech development strategy. They provide a strategic framework and underscore the multifaceted nature of China's fintech ambitions, intertwining innovation, stability, sustainability, and inclusivity into a cohesive vision for the future.

The Eight Tasks

The Plan encompasses eight pivotal tasks, each serving as a building block for China's fintech transformation:

Task 1: Empowering Fintech Governance - The foremost task revolves around reinforcing fintech governance. This entails developing robust digital capabilities while instilling an ethical framework. It promotes multi-party participation and collaborative management, fostering a digital ecosystem where progress is a collective endeavor.

Task 2: Harnessing Data Potential - The second task enhances data capabilities. It aims to facilitate the orderly sharing and comprehensive utilization of data while safeguarding security and privacy. By unlocking data's potential as a production factor, this step seeks to elevate the quality and efficiency of financial services.

Task 3: Building Digital Infrastructure- The third task centers on establishing critical digital infrastructure. This includes constructing a green and resilient data center, ensuring a secure and extensive financial network, and implementing an advanced computing power system. These efforts fortify the digital foundation crucial for financial innovation.

Task 4: Promoting Digital Technology - Task four delves into the deeper integration of digital technology within the financial sector. It seeks to refine the system for applying technological achievements, emphasizing both safety and efficiency. Through open innovation and cooperative ecosystems, this task aims to facilitate the transformation of scientific advancements into practical solutions.

Task 5: Facilitating Safe Fintech Innovation - The fifth task focuses on fostering a secure environment for innovation. This involves creating an operational middle platform that harmonizes business, technology, and data. An intelligent risk control mechanism will be established, fostering new dynamics for digital operations.

Task 6: Enhancing Financial Services - Task six revolves around the intelligent overhaul of financial services. It aspires to build diverse, integrated service channels and establish a barrier-free service system. The ultimate goal is to offer the public more inclusive, environmentally conscious, and user-centric digital financial services.

Task 7: Implementing Regulatory Technology - The seventh task accelerates the adoption of regulatory technology. This involves strengthening digital regulatory capabilities and implementing comprehensive oversight of fintech innovation. The objective is to build a protective shield, mitigating risks at the intersection of finance and technology.

Task 8: Nurturing Fintech Talent - The eighth and final task is cultivating fintech expertise. It includes refining standards, reinforcing rule-based frameworks, and ensuring robust legal implementation. These measures safeguard the sustainable development of fintech in the long run.

The Plan also comprehensively outlines various specific measures to bolster the fintech sector. These encompass initiatives such as extending financial support to fintech startups, instituting a regulatory sandbox for piloting new fintech solutions, and advocating for fintech adoption in rural areas, ensuring that the benefits of financial technology reach far and wide.

The Influence of the Plan on China's Fintech Sector as of August 2023

Since the launch of the plan in January 2022, a number of notable trends have surfaced (as of August 2023), indicating a pivotal period of change within China's fintech industry. Let's explore these trends revolutionizing how financial services are accessed and delivered in China.

1. The Rise of Embedded Finance: Embedded finance has taken center stage, seamlessly integrating financial services with non-financial products and services. For instance, a food delivery app now offers a 'Buy Now, Pay Later' (BNPL) option, providing users with convenient financing choices. This trend is gaining momentum as it allows financial institutions to extend their reach and offer more accessible financial services. Notably, Ant Group's Alipay has embedded finance features, empowering users to make payments, purchase insurance, and invest in financial products within its app.

2. The Rapid Adoption of Digital Yuan (e-CNY): China initiated pilot programs for its Central Bank Digital Currency (CBDC) in April 2020, making it the first major economy to do so. Initially, the digital yuan was introduced in just four cities: Shenzhen, Suzhou, Xiongan, and Chengdu. Fast forward to the end of June 2023, transactions conducted using China's digital yuan had reached 1.8 trillion yuan (\$249.33 billion), according to Yi Gang, the then-governor of PBoC (retired in July 2023). This represents a significant increase from the approximately 100 billion yuan recorded as of August the previous year. These figures solidify China's position as a leader in the development of CBDCs, although global adoption remains in its early stages. Do note the digital yuan a.k.a., e-CNY, has primarily been utilized for domestic retail payments.

3. The Growth of Open Banking: Open banking is another trend reshaping the fintech landscape, with financial institutions sharing customer data with third-party providers. This data sharing enables third-party providers to craft tailored financial solutions. China's adoption of open banking is facilitated by guidelines from the PBoC, aiming to promote innovation and enhance financial services by leveraging customer data.

4. The Increasing Role of Big Data and Artificial Intelligence (AI): AI is pivotal in automating various fintech processes, from customer service interactions to risk management. Fintech firms also harness AI to create innovative products like robo-advisors and chatbots. Chinese players are actively embracing Big Data within fintech to boost operational efficiency and effectiveness. For example, Ping An Insurance employs AI-driven chatbots to provide customer support and financial advice.

5. The Emergence of Green Fintech: China's commitment to sustainability is reflected in the development of green fintech. Here, technology is harnessed to promote environmentally responsible practices. Fintech companies are creating products and services aimed at helping businesses and individuals reduce their environmental footprint. Ant Group, for example, has launched a green credit platform that facilitates financing for environmental projects.

6. The Growth of Regulatory Technology (Regtech): Regtech is swiftly gaining traction in China's fintech ecosystem. This trend involves employing technology to aid financial institutions in adhering to regulatory compliance. Regtech solutions streamline compliance tasks, reduce the risk of regulatory penalties, and enhance overall efficiency. Notably, the PBoC's establishment of a regtech innovation lab signals a proactive push to foster regtech development in China.

About the Author

Yang Jianyu, an author based in the United States, offers illuminating insights into global economics through profound analyses and captivating narratives. His works bridge economic theory with real-world applications, offering a nuanced comprehension of economic trends and their effects on society.

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