

Research on the Rural Financial Service System in China

Yi Li ¹

¹ Business School of Hubei University, Wuhan, Hubei 430072, China

Abstract: With the in-depth implementation of the Rural Revitalization Strategy, the optimization of the rural financial service system is particularly critical, which is of great significance in promoting rural economic development and improving the living standards of farmers. At present, the rural economy and the overall economic strength are relatively weak, making it difficult to achieve the goal of promoting rural revitalization comprehensively only through rural finance. Based on this, this paper analyzes the current situation of the rural financial service system and puts forward strategic measures such as strengthening the construction of the service network, innovating financial products and services, and improving the risk prevention and control mechanism. These measures will help to improve the overall efficiency of the rural financial service system, provide strong financial support for rural revitalization, and promote the sustainable development of the rural economy.

Keywords: Rural Revitalization Strategy; Rural Finance; Service System

Published: July 16, 2024

1. Introduction

Rural finance is the core of the development of modern agriculture and rural economy, and it is the sustained driving force to promote the coordinated development of urban and rural areas. It mainly involves the economic activities of mobilizing, allocating, and

managing agriculture-related financial resources by means of credit, playing an increasingly important role in the revitalization of the rural economy. In order to achieve the long-term goal of the strategy of "rural revitalization," it is particularly urgent to strengthen the construction of the rural financial system and build a new rural financial model that aligns with China's national conditions and sustainable development.

However, at present, China's rural financial system is still facing a series of challenges and difficulties, such as the scope of services not being wide enough, financial products and services being relatively single, insufficient penetration of financial services, and inadequate supervision of rural financial markets. These problems restrict the healthy development of the rural financial service system to a certain extent and affect the effective implementation of the "rural revitalization" strategy.

In view of this, the purpose of this study is to comprehensively analyze the problems of the rural financial service system and put forward a series of scientific, reasonable, and feasible strategies and measures to optimize and enhance the rural financial service system. This will better meet the needs of rural economic development and farmers' lives, providing stronger financial support for the prosperity of the rural economy and the improvement of farmers' well-being. Ultimately, the grand goal of the "rural revitalization" strategy will be achieved.

2. Development Status of Financial Service System under the Strategy of Rural Revitalization

2.1 Development Process of Rural Financial Service System

The rural financial service system is mainly composed of rural commercial banks, rural cooperative banks, rural credit cooperatives, rural mutual funds cooperatives, postal savings banks, and other financial institutions. In addition, it also includes non-bank financial institutions such as small loan companies and financial leasing companies in rural areas.

China's rural financial service system has experienced a development process from

scratch, evolving from weak to strong. In the initial stage (1950s-1970s), China's rural financial service system was mainly composed of rural credit cooperatives, which alleviated the shortage of funds in rural areas to a certain extent. After the reform and opening up (1980s-1990s), the rural financial market gradually opened up, and new financial institutions such as rural commercial banks and rural cooperative banks were established, significantly expanding the rural financial service network. In the transitional stage (2000s-2010s), China's rural financial service system faced the pressure of transformation and upgrading, needing to adapt to the adjustment of the rural economic structure and the diversification of farmers' needs. With the implementation of the Rural Revitalization Strategy and the development of financial technology, China's rural financial service system has entered a new stage of optimization and upgrading (2010s-present), with more inclusive financial services and further enhanced service efficiency.

2.2 Service Scope and Efficiency of Rural Financial Service System

The rural financial service system in China's rural areas has established a relatively extensive service network, providing a series of basic financial services including but not limited to deposit, loan, transfer, and payment. It is also exploring the introduction of more diversified service options such as insurance, investment, and financial management. Although the scope of rural financial services is wide, the service efficiency still needs to be improved.

On the one hand, due to the imperfection of infrastructure and the decentralization of population distribution in rural areas, the distribution of the financial service network is not balanced, and some areas still find it difficult to obtain convenient financial services. On the other hand, the internal management level of rural financial institutions is not high, the speed of business processing is slow, and the ability for service innovation is insufficient, all of which restrict the improvement of service efficiency.

3. The Importance of Rural Financial Service System to Rural Revitalization

3.1 Financial Support and Rural Economic Development

Agricultural production requires significant capital investment, especially in seeds, fertilizers, pesticides, and other means of production. However, rural areas are often short of funds, and farmers can hardly afford these costs. Under the background of the Rural Revitalization Strategy, the rural financial service system provides diversified financial products such as loans and credit. Through the mode of "loan + insurance," it not only solves the problem of farmers' funds but also disperses the risks of agricultural production through insurance, thus meeting farmers' financial needs. This model has been successfully operated in many provinces, effectively improving the efficiency of agricultural production and promoting the process [2] of agricultural modernization.

3.2 Diversification of Agricultural Production Risks

Agricultural production is highly uncertain, and natural factors such as climate change, pests, and diseases often cause serious damage to crops. The rural financial service system provides effective risk management means for farmers by offering financial instruments such as agricultural insurance and agricultural product futures. For example, with agricultural insurance, farmers can receive compensation when natural disasters occur by paying a smaller premium, thus reducing economic losses and ensuring that their production and life are not seriously affected.

3.3 Diversification of the Rural Economy

With the continuous improvement of the rural financial service system, its service scope has been extended to many fields other than agriculture, such as rural tourism and deep processing of agricultural products. The development of these areas has provided new growth points for the rural economy and promoted the optimization and upgrading of the rural economic structure. For instance, through loans and other financial services provided by financial institutions, farmers can improve infrastructure, enhance service quality, and attract more tourists, thereby increasing their income and promoting the development of the local economy.

3.4 Improving the Living Standards of Rural Residents

The rural financial service system has also played an important role in improving the

living standards of rural residents. Through the popularization of financial knowledge and the enhancement of financial services, farmers' financial literacy has improved, enabling them to use financial instruments more effectively to increase their income and improve their lives. For example, through microcredit services, rural women can access venture capital to engage in cottage industries or small-scale agro-processing, thereby increasing family income and improving quality of life.

3.5 Promoting Farmers' Entrepreneurship and Employment

With the gradual improvement of agricultural production efficiency, a large number of rural labor forces have not been fully utilized. Although these workers have a strong desire for entrepreneurship and employment, they often lack the necessary technology and capital, leading to a relatively low success rate in employment and entrepreneurship. Innovating and exploring the rural financial service system, especially by encouraging the rural idle labor force to engage in entrepreneurship, will effectively address the issues restricting farmers' income and pave the way for them to become prosperous. This approach not only helps to optimize the allocation of labor resources but also provides a strong driving force for the sustainable development of the rural economy.

4. Analysis of the Problems of Rural Financial Service System under the Background of the Rural Revitalization Strategy

4.1 Uneven Distribution of Service Networks and Resources

In some remote and underdeveloped rural areas, the financial service network is relatively weak. For example, in a mountainous area in Sichuan Province, due to the low network coverage of financial institutions, farmers need to walk or drive a long distance to the nearest financial institution for business, resulting in high time costs and economic costs for farmers to obtain financial services. This unbalanced distribution of the service network limits the popularity and efficiency of rural financial services, making it more difficult for farmers to obtain loans and other financial services.

4.2 Uniformity of Products and Services and Lack of Innovation

The service products of rural financial institutions focus on traditional deposit and loan business, and innovative products are scarce. According to statistics, personal business loans account for more than 60% of the loan balance of rural microfinance companies, while innovative products such as supply chain finance and warehouse receipt loans account for less than 10%. For example, in a rural area of Henan Province, farmers generally reflect the lack of agricultural insurance products for small-scale growers, resulting in their inability to get effective risk protection [3] when they suffer from natural disasters.

4.3 Risk Management and Internal Governance Weaknesses

Small rural financial institutions have significant shortcomings in credit management and asset quality control. Taking rural credit cooperatives as an example, the long-term non-performing loan rate is higher than that of urban commercial banks and rural commercial banks, with the non-performing loan rate in some areas even exceeding the warning line of 10%. The reason may be that financial institutions lack professional personnel and institutional support in key links such as credit risk assessment and post-loan management. There are also some governance problems within rural financial institutions, such as the decision-making process not being transparent enough and the division of responsibilities not being clear. Additionally, the insufficient level of information construction limits these institutions' abilities in data collection, analysis, and risk early warning, resulting in slow responses to market changes and increased business risks.

4.4 Information Asymmetry and Lagging Infrastructure Construction

The problem of information asymmetry in rural areas is serious, and the construction of information infrastructure lags behind, making it difficult for rural financial institutions to accurately assess the credit status of farmers, increasing the cost and risk of financial services. In a remote village in Shanxi Province, farmers often need to provide a large number of paper materials when applying for loans, and financial institutions can only reduce credit risk through guarantees or mortgages because they

cannot obtain the credit records of these farmers, which greatly increases the financing costs [4] for farmers.

4.5 Imperfection of Laws, Regulations, and Supervision System

The legal and regulatory system of the rural financial market still needs to be improved, and there are loopholes in the regulatory system that cannot effectively prevent and deal with financial risks and protect the legitimate rights and interests of farmers. Taking Internet finance as an example, in recent years, a large number of P2P platforms have emerged in rural areas, but due to lagging supervision, some platforms have problems such as illegal fund-raising and false propaganda, which damage the property security of farmers. A rural P2P platform fraud case that broke out in 2018 caused thousands of farmers to lose nearly 100 million yuan, reflecting the serious defects in the rural financial supervision system.

5. The Optimization Strategy of Rural Financial Service System under the Strategy of Rural Revitalization

5.1 Strengthen the Construction of Rural Financial Service System

The modern financial system plays a more critical role in promoting the development of the agricultural economy than traditional and Internet financial models. Improving the financial knowledge level of farmers and ensuring their central position in the financial ecology have become significant trends in the progress of rural finance in China. Faced with the wave of the Internet, it is particularly urgent to shape a financial service network that meets the actual needs of rural areas. In this process, innovative technologies such as blockchains are actively introduced to provide farmers with more technological and comprehensive financial solutions. At the same time, the integration of digital technology will help improve the efficiency of financial and credit services and ensure that financial policies can be deeply rooted in the hearts of the people. In the field of rural finance in China, strengthening the protection of farmers' economic rights and interests is still the focus. Therefore, it is crucial to build an unimpeded financial appeal channel to ensure that every farmer can exercise effective monitoring

and appeal rights on financial affairs.

5.2 Improve the Service Capacity of Rural Financial Service System

In order to provide better and more comprehensive financial services in rural areas, it is essential to enhance the service capacity of rural financial institutions. In terms of personnel training and introduction, rural financial institutions need to invest resources, provide professional training and academic upgrading opportunities for employees through cooperation with higher education institutions, and attract talents with high-level financial expertise to work in rural financial services to ensure that the professional competence of internal personnel can meet the special needs of rural financial services. In terms of technology upgrading, rural financial institutions need to actively introduce and apply advanced financial technology to promote the digital transformation of institutions, while ensuring investment in network security to provide customers with safe and efficient services. The application of modern information technology such as cloud computing, big data, and artificial intelligence will help financial institutions optimize business processes, improve service efficiency, and meet the complex needs of rural economic development for financial services. In addition, in the establishment of cooperation mechanisms, rural financial institutions need to actively seek cooperation with universities and research institutions, hold regular financial forums and practical training projects, and introduce new ideas and technologies. At the same time, establishing close cooperation with local governments can provide more policy and resource support for financial institutions and form a good situation [5] to jointly promote the improvement of rural financial service capacity.

5.3 Upgrading and Optimizing Rural Financial Products

The economy in rural areas is diverse, and the financial needs of farmers are more complex, so it is very important to design financial products that meet the local characteristics and the needs of farmers. In view of the long planting and breeding cycle and unstable income of farmers, financial institutions can provide periodic repayment or post-harvest repayment loan products, which not only reduces the repayment

pressure of farmers but also improves the security of loans. Secondly, in rural areas, where traffic is inconvenient and information dissemination is limited, financial institutions should strengthen the construction of online service channels and provide convenient and efficient financial services through mobile banking and palm banking. Modern information technology is used to streamline and upgrade rural financial services, integrate information resources with diversified financial institutions, optimize and simplify approval procedures, and explore the "finance + service" model, which not only provides financial products for farmers but also provides comprehensive services such as agricultural technical guidance and market information to help farmers improve their production and operation level and increase their income.

5.4 Strengthening Rural Financial Supervision and Risk Management

Strengthening rural financial supervision and risk management is the core element to ensure the stable operation of the rural financial service system. Regulators should deepen the improvement of the rural financial supervision system and strengthen the comprehensive supervision of rural financial institutions. In recent years, in order to better serve the rural financial market, the People's Bank of China has strengthened the supervision of small loan companies, formulated a series of management measures, clarified their business scope and capital requirements, and ensured their healthy development through standardized management. Secondly, in terms of risk prevention, it is effective to establish a comprehensive risk management mechanism similar to "agricultural insurance + futures." China has promoted agricultural futures and options tools in some areas to help farmers avoid the risk of price fluctuations and ensure the stability of farmers' income. In improving the risk management ability of financial institutions, the introduction of modern financial technology is the key. For example, through big data and artificial intelligence technology, financial institutions can accurately assess the credit status of farmers, thereby improving the efficiency and accuracy of loan approval and reducing credit risk. By setting up special funds for green credit and providing preferential interest rates, financial resources are guided to flow to green industries, which not only supports the sustainable development of rural areas but

also improves the public's awareness and participation [6] in green finance.

5.5 Improve Farmers' Financial Literacy and Utilization Ability

Financial institutions can impart financial knowledge to farmers by setting up service outlets, conducting itinerant lectures, and providing online training to help them improve their financial awareness and enhance their financial judgment. In recent years, the Indian government has implemented the "Universal Financial Education" program, which aims to popularize financial knowledge and raise farmers' awareness of financial products and services by setting up special financial education centers and conducting online courses. Secondly, providing more convenient financial services is an effective way to enhance farmers' financial utilization ability. Drawing on the experience of Kenya's mobile payment service "M-Pesa," it provides financial services such as transfer, deposit, and loan through mobile phone networks, greatly facilitating the financial activities of rural residents and promoting the popularization of finance. Through the introduction of relevant policies, financial institutions are encouraged to provide products and services more suitable for farmers' needs, strengthen the crackdown on financial fraud, and protect farmers' legitimate rights and interests, thereby improving farmers' confidence and satisfaction in financial services.

6. Conclusion

Under the background of the Rural Revitalization Strategy, optimizing the rural financial service system is an urgent and complex task, involving financial product innovation, infrastructure improvement, supervision strengthening, and other aspects. The government, financial institutions, and farmers need to participate together to form a joint force to continuously improve the coverage and effectiveness of financial services. By improving relevant policies and regulations, strengthening the regulatory system, and enhancing farmers' financial literacy, we can effectively promote the optimization of rural financial services, provide solid financial support for rural revitalization, and ultimately achieve the grand goal of "strong countryside, beautiful countryside, and rich farmers."

7. References

- [1] Tian Kunming, Liao Zhongxin. Perfecting the Rural Financial Service System: Contradictions, Problems and Countermeasures — Investigation Report on the Rural Financial Service System in Gongxian County, Sichuan Province [J]. Southwest Finance, 2013 (02): 37-40.
- [2] Sun Xueli. Research on the Construction of Rural Mutual Financial System under the Background of Rural Revitalization Strategy: Taking Shandong Province as an Example [J]. Journal of Shandong Administration College, 2018 (6): 105-109.
- [3] Liu Dan. Research on Rural Financial Service System under the Background of Rural Revitalization Strategy [J]. Market Outlook, 2023 (16): 30-32.
- [4] Atomic Wen. Problems and Countermeasures of Rural Financial Service System [J]. Rural Practical Technology, 2019 (03): 81-82.
- [5] Tan Yong. Research on Innovation and Development of Rural Financial Services under the Background of Rural Revitalization Strategy [J]. Smart Agriculture Guide, 2022, 2 (21): 79-81.
- [6] Wu Qian. Research on Innovation of Rural Green Financial Service System in Shaanxi Province under the Strategy of Rural Revitalization [J]. Rural Science and Technology, 2020 (7): 62-63.