

The Impact of Digital Finance on China's Household Saving Rate: Evidence from Yu'e Bao

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Abstract. In recent years, with the continuous development and extensive application of digital finance, digital finance has had a profound influence on the financial market. In this situation, digital finance has become an important factor affecting the household saving rate. This study reviews the literature on the impact of digital finance on household behavior, the impact of household behavior on the saving rate, and the impact of digital finance on the household saving rate. This paper takes Yu'e Bao as an example to discuss the impact of digital finance on household savings rate in the context of the digital era. Through research, it is found that digital finance, with its low threshold and high liquidity, has prompted residents to use platforms such as Yu'e Bao more changing the financial management concept of Chinese people. Although it has reduced the household savings rate of residents, it has also injected vitality into the economy. The research findings contribute to a better understanding of the behavioral shifts driven by digital finance and provide insights for high-quality economic development during the process of digital construction.

Keywords: Financial market, digital finance, savings behavior, savings rate.

1. Introduction

Due to the rapid development of network technology, artificial intelligence and other fields in recent years, digital finance has drawn widespread attention. According to the World Bank Global Index 2021 report, the proportion of adult who have bank accounts or mobile payment accounts has risen from 51% in 2011 to 76% in 2021. Among them, developing countries have shown significant growth. The penetration rate of digital payment in China is 89%, ranking among the top globally. As stated by the People Bank of China in its Financial Technology Development Plan (2022-2025), 'Digital finance refers to financial institutions using technologies such as big data, cloud computing, artificial intelligence, and blockchain to optimize business processes, enhance service efficiency, and strengthen risk management capability'. From facilitating daily payment and settlement to stimulating economic growth, digital finance plays an important role. It not only improves financial efficiency, reduces transaction costs, but also disrupts the traditional financial institution model, giving rise to new business and risks. It will become a trend in the financial market and have an impact in the future.

This research aims to inquiry the influence of digital finance on household savings rate, using Yu'e Bao as an example. It focuses on the psychological effects of Yu'e Bao on households and its influence on the household savings rate. As digital technology advances at a rapid pace, digital finance plays an increasingly important role, integrating into all aspect of household lives and exerting a profound influence on both consumptions and savings. This article uses Yu'e Bao as a case study to investigate the relationship between digital finance and household savings rate. It also explores which aspects of household behaviors are influenced by digital finance and how these behavioral changes affect the saving rate.

This paper finds that digital financial service platforms such as Yu'e Bao have a profound impact on the household savings rate. The digital financial service platform provides lower threshold for financial management and higher liquidity, which reduces household savings in banks.

2. Literature review

2.1. The Impact of Digital Finance on Household Saving Behaviors

Since the continuous development and progress of digital finance, all aspects of people's work and life have been integrated into digital finance. The continuous updates in internet economy, digital mobile devices, and media usage, along with a steady decline in the willingness to use these devices, have all contributed to an increase in financial information searches and financial transactions [1]. Managing assets through online mobile payment platforms has become very common, and these platforms are also gaining increasing attention. According to the People's Bank of China's survey data in 2023, non-bank institutions processed as high as 1.06 trillion online payment transactions in 2022, totaling 364 trillion yuan, influencing household saving behavior. Additionally, statistics show that global mobile user numbers surged from 700 million in 2016 to 2.4 billion in 2023, reflecting rapid popularization worldwide [2]. Fig.1 shows the tremendous growth of digital transactions in Southeast Asia in recent years and predictions for future trends in this regard.

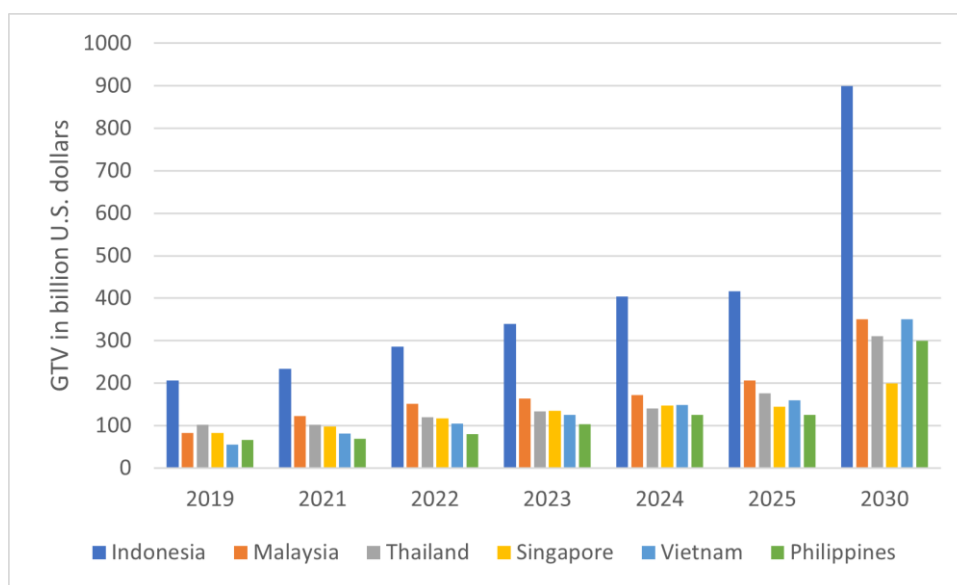


Figure 1. Historical and projected gross transaction value (GTV) of digital payments in Southeast Asia (2019–2024), including forecasts for 2025 and 2030 [3]

As can be seen from above chart, the use of digital payment in these countries is on the rise. However, this widespread phenomenon has led to a sharp decline in banking services. Studies have shown that with the development of financial markets, households have access to a growing variety of funding sources. As a result, the household funding constraints are alleviated and the expected household savings rate decreases [4]. Moreover, since household savings accounts for a significant portion of private savings, the national savings rate will also decrease [4].

In contrast, relevant data also shows that the development of digital finance has promoted the development of inclusive finance, enabling low-income groups such as small and micro enterprises and farmers to obtain appropriate and effective financial services. The growth of inclusive finance can encourage household saving in both the short and long run [5].

2.2. The Impact of Household Saving Behaviors on Saving Rate

The impact of household saving behaviors on the savings rate is multi-dimensional and complex, involving household consumption, psychological expectation, income level, social and environment policy. Firstly, income level is one of the most important factors determining the savings rate. According to Marquez (1989), due to the rapid growth of the stock market, household wealth increases, more money flows into the stock market, leading to a decline in the saving rate. In addition, labor productivity also affects the saving rate [6]. When labor productivity rises, people's expectations

of future income increase, making them more willing to consume, thus causing the savings rate to fall [6].

In addition, due to limited consumer demand, low-income people may have difficulty saving because of reduced demand behavior. Some studies point out that the reason why some household saving rate is low may be that their consumer demand is limited [7]. In this case, the increase in financial tools brought about by digital finance can broaden investment channels, increase households' disposable cash, thereby reducing restrictions on consumer demand, increasing consumption behavior and lowering the savings rate.

2.3. The Influence of Digital Finance on Household Savings Rate

Digital finance, driven by technology, continues to become more popular and updated, leading to an increasing number of products such as Yu'e Bao and current management services. Taking Yu'e Bao as an example, it has had a significant impact on household saving behavior by lowering the threshold for financial management and improving the liquidity of. There is a report that the return level of Yu'e Bao is higher than that of current deposits in banks in the long term. The advantages of its settlement function are increasingly prominent, and the funds are more flexible.

Through further research, it has been found that digital finance reduces household savings rates by easing liquidity constraints, relaxing credit restrictions, and expanding social networks [8]. Yu'e Bao leverages these methods to increase financial participation among middle-and low-income groups. It provides more financing channels and lower financing thresholds for households, enabling them to take risks and cope with future uncertainties while reducing the savings rate [9]. Additionally, evidence suggests that when people use their phones more for saving, the amount saved actually decreases, indicating that the use of mobile financial services has an opposite effect on savings accumulation [10].

3. Case Study of Yu'e Bao

Yu'e Bao was launched by Alibaba Group and is operated by its subsidiary Alipay. It is a product developed by Ant Group to provide balance services and demand fund management services. Launched in China in June 2013, Yu'e Bao aims to compete with bank wealth management products by providing users with a convenient and quick investment channel. Yu'e Bao is as convenient and quick as Alipay, it has the function of earning profits and can withdraw cash at any time, and pay. Alipay provides its users with a direct channel to purchase financial products such as funds, and Yu'e Bao also cooperates with online shopping platforms, allowing to use the funds in their Yu'e Bao accounts for online shopping and payments. The amount entered into Yu'e Bao will be confirmed the next day and start to accrue interest. After several years of development, Yu'e Bao has become one of China's largest money market funds, significantly boosting the growth of China's internet finance industry. Yu'e Bao not only changed Chinese people's financial management concepts but also injected new vitality into the healthy development of China's economy. However, Yu'e Bao is essentially a money market fund, with its returns paid by the money market fund rather than Alipay, so it also carries market risks.

Yu'e Bao witnessed explosive growth during its start-up period (2013-2014), disrupting the traditional financial industry. It attracted a large number of customers through high returns, a minimum investment of 1 yuan, and seamless integration with Alipay. By the end of 2013, it had become one of the largest money funds in the world. From 2015 to 2017, the number of Yu'e Bao users and its assets under managements continue to grow rapidly. Tianhong Fund announced that it would raise the personal investment limit to address liquidity risks and comply with regulatory adjustments to the quick redemption rules. The central bank also issued the "Guiding Opinions on Regulating the Asset Management Business of Financial Institutions", which required money funds to enhance risk management. From 2018 to 2020, China's macroeconomic growth slowed down due to the COVID-19 pandemic. In this situation, the central bank's reserve requirement ratio cuts and

interest rate reductions, declining market interest rates. This led to a reduction in Yu'e Bao's scale and slower growth. However, multiple fund companies, such as China AMC, were introduced to continuously improve user experience and collaborate with Huabei to enhance cash flow within Alipay. Since 2021, Alipay has continuously strengthened risk control, combined with AI to optimize fund allocation, and improved the stability of returns. New asset management regulations have also been implemented, further highlighting the transparent and low-threshold advantages of Yu'e Bao while standardizing bank wealth management products.

4. Recommendations and Implications

Several policy recommendations for commercial banks are proposed. Firstly, the relatively higher yield of demand deposit products offered by Yu'e Bao, compared to those provided by traditional banks, has contributed to a decline in the household saving rate. In this case, banks can introduce innovative financial products, such as ETC payment, big data credit, etc., to enhance the efficiency of fund allocation and utilization. Such innovations may help improve the saving rate. Secondly, the continuous development of inclusive finance has lowered the entry barrier to financial management for middle and low-income groups. In contrast, traditional banks often impose higher thresholds for financial services. Thus, households tend to choose financial management platforms such as Yu'e Bao. The inclusiveness of the financial market has been enhanced and the access of households to asset management services have increased because of digital finance. There is reason to believe that commercial banks can learn from Yu'e Bao's case and launch similar wealth management products to lower the threshold for wealth management.

While lowering the threshold for financial management, both commercial banks and wealth management platforms like Yu'e Bao should also strengthen investment education for households. This includes promoting financial literacy, discouraging excessive and blind pursuit of high-yield products, fostering a long-term investment mindset, and continuously improving mechanisms that protect consumer rights. The freedom to participate in financial activities will increase in the digital world, potentially infringing on others' rights [11]. Commercial banks tend to have better consumer protection systems and are more responsive to complaints than Internet-based platforms such as Yu'e Bao. Yu'e Bao and other platforms should further enhance their service taking advantage of the technology advancement. For both digital platforms and traditional commercial banks, they should aim to establish a more comprehensive financial system because of complementary advantages.

5. Conclusion

In conclusion, in the context of the digital age, products such as Yu'e Bao, which provides balance value-added services and current fund management services, have changed household saving behavior through advantages and means such as family liquidity constraints, relaxation of credit restrictions, and expansion of social networks. As investment channels broaden and financing constraints reduces, household consumption increases and saving rate decreases. From the case study of Yu'e Bao, there is a positive correlation between digital finance and the household saving rate. Compared with traditional commercial banks, these digital platforms often feature high information transparency, but also carry greater risk of infringing users' rights. In this case, traditional commercial banks and products such Yu'e Bao should learn from each other, combining the strengths of robust regulatory compliance and consumer protection with technological innovation.

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