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Fintech and Management Strategies to Reduce the Risks of Supply Chain Finance to Commercial Bank

Yifei Ren*

renaozhou@163.com

**corresponding author*

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Abstract: Supply chain finance has carried out innovation in traditional credit services. It can start from every link of the entire supply chain that financial institutions use financial tools, third-party logistics companies participate in supervision, logistics, business flow, capital flow, and information flow for small and medium enterprises financing. In this situation, so many companies participating in the supply chain finance are likely to cause some risks to commercial banks. By studying the specific forms of supply chain finance risks, this paper aims at the risk prevention measures of supply chain finance. To stabilise financial services, improve the use ratio of funds, and give corresponding suggestions on dealing with supply chain finance risks effectively.

Introduction

Most companies require financing support to enable their products and activities. However, it is difficult to have financial support for the small and medium-size enterprises (SMEs) because the guarantee capacity is insufficient, supply chain finance can become a financial intermediary to help SMEs. [1] In addition, Financial information service institutions and enterprises need to enhance competitiveness, expand development channels, and provide new financing channels for supply chain members. However, as a new product of the integration of logistics and finance, there will inevitably be some risks and loopholes. Therefore, in light of the current situation, we should take preventive measures while giving full play to the role of supply chain finance to promote the further development of supply chain finance.

1. Supply Chain Risk Categories

1.1 Risks from the Market

The price and demand in the market change dynamically with the economic environment change. The market's real-time exchange rate and commodity price will change with time, and the environment will change. Under the difference in the market, it is likely to cause some delay risks such as production capacity risk, inventory risk, etc. The price of goods has fallen, and companies may be unable to repay when they are due. Moreover, the complex internal and external environment has made supply chain finance more uncertain with the further deepening of economic globalisation.

1.2 Risks in Actual Operation

Operational risk can arise from failures in various parts of the supply chain and in people or systems. During the process and practical function of supply chain finance, due to the degree of education and professional knowledge understanding of employees, some employees may violate rules and regulations to defraud property. Also, products may be damaged due to natural disasters and companies may fail in business or partnerships. What is worse, once a core enterprise has a loophole in a particular link, it is likely to spread to other enterprises, affecting the regular operation of the supply chain.

1.3 Risks from Credit

Credit risk mainly comes from the low credit rating of some small and medium-sized enterprises. SMEs may lock money for repayment and do business. Especially for the oversea company, it is hard to evaluate the credit, and some small and medium-sized enterprises, due to problems in their internal control and financial management process, do have not high enough credit ratings, and their credit risk coefficients are relatively high. The information of core enterprises is not transparent enough, so it isn't easy to assess. Moreover, as a small and medium-sized enterprise, it is more likely to operate poorly, which may cause bad debts and affect the credit rating of commercial banks.[2]

2. The Problems Existing in the Supply Chain Finance

Finance and preventing systemic financial risks have become the most important issues for Internet finance. There are many pan-supply chain finance phenomena. Commercial banks' monitoring of third-party entities is insufficient, and there are few large-scale and well-regulated logistics companies.[3]Some operators use arbitrage in supply chain finance to obtain illegal gains, which seriously endangers the economy. The delicate operation of the supply chain financial industry has caused chaos. Moreover, supply chain financing activities often do not exist independently, but there are loopholes in multiple links, such as credit granting, approval, and back-office disposal. There may be operational risks. Supply chain finance innovation, such as arbitrage, foreign exchange, or even tax under the guise of supply chain finance, for commercial banks' accounts receivable financing, there are even fraudulent acts such as repeated false warehouse receipts. Moreover, with core corporate bills as the guarantee, the risk is much greater than strongly collateralised credit products.

3. Supply Chain Risk Control Measures of Commercial Banks

3.1 Strengthen Internal Management Mechanism

Commercial banks should strengthen internal management construction to deal with the risks of supply chain finance and analyse potential risks based on experience and big data. In addition, it can do an excellent job in internal management construction, using the algorithms and models of financial technology to improve the management system to reduce the subjectivity of operations, thereby reducing risks, strengthening the training of internal relevant personnel, strengthening exchanges and cooperation with core enterprises, and inviting some relevant financial field experts to conduct related Lectures. At the same time, enhance external supervision, use systems to restrain operators, adhere to professional ethics, and promote the sound development of the supply chain finance.

3.2 Fintech Controls Risk

Making the banking business and supply chain enterprises technologically at the same time creates digital supply chain finance and enables the company of supply chain participants to be online. Some of the operational practices that are pertinent to risk management are the lean production system, single sourcing and information sharing across the supply chain. [4]For instance, the proportion of electronic bills increases in the ticketing business. With the emergence of electronic banking, there are more and more payment methods. Electronic statements in supply chain finance can make business activities, transaction behaviours, and capital delivery between enterprises more transparent, enable commercial banks to judge credit risks better, determine the authenticity of bills, and ensure effective control of pledges. Sources are carefully checked, thereby effectively reducing the fraud and credit risks encountered by commercial banks.

3.3. Control the Risk from Credit

To the commercial bank, due to the small and media company's credit rates are not high, It is necessary to establish and improve the social credit system, enterprise and individual credit registration systems and credit files.[5]Especially the oversea trade is full of risk because the business law in the world is different. The commercial bank should improve the institute of the oversea trade. Commercial banks should carry out an in-depth and comprehensive investigation and analysis of all enterprises in the supply chain to reduce the risk.

4. Conclusions

To sum up, there is currently less experience in supply chain finance. At present, for commercial banks, there are still more areas to be supplemented and improved in the development of supply chain finance in actual operation. Commercial banks shouldn't only focus on business inside the bank, combined with internal and external risk factors. Still, it can also connect financial technology to explore new prevention and control measures, coordinate with multiple factors, and jointly manage and control supply chain financial risk factors.

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