

Research on the Current Situation of Bank Financing Business under Supply Chain Finance

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Abstract: The competition in the financial industry is intensifying, and it is inevitable to serve more SME with relevance. SCF business is a kind of innovation in line with the times, which can break through the shackles of traditional credit methods. However, SCF itself has two sides. Banks should take precautions against risks and improve the mechanism while enjoying the benefits of innovative business.

1. Introduction

SCF is of innovative significance in financing financial capital and real capital, which has attracted great attention of the state. With the development trend of real economy slowing down, in order to better respond to the policy arrangement and promote the development of industrial supply chain, the bank timely carried out the innovation of financial business. With the help of financial technology, the bank provides financing services to SME based on the real trade of supply chain and the credit level of core enterprises. So as to improve the difficulties caused by traditional credit methods such as excessive credit to large enterprises and insufficient SME loans.

2. Classification of bank financing business under SCF

In order to realize the financing of financial capital and real capital in SCF, logistics, information flow and capital flow must keep balance, while the bank's entry into the real economy is mainly reflected in the three capital flow gaps of SME, namely the three stages of procurement, operation and sales. Around these three different capital needs, banks can carry out the following three kinds of SCF financing business.

(1) Receivables financing business.

Receivables financing business is mainly for the sales stage. Accounts receivable are generated in the process of waiting for payment return after sales. The bank provides the financial service of financing business by obtaining the right of collection of the undue receivables of the enterprise, which is called receivables financing business. Due to the different credit level and scale of enterprises in the supply chain, banks often rely on core enterprises for financing business. Therefore, according to the relationship between loan enterprises and core enterprises, this kind of financing business can be divided into two categories: one is to take core enterprises as suppliers, the other is to take core enterprises as demanders.

In the first business, banks are mainly aimed at the downstream enterprises of core enterprises. Core enterprises are faced with many distributors, and will receive a number of accounts payable with different periods and amounts. As the financing party, core enterprises can transfer these accounts receivable to banks to collect them in disguised form, so as to accelerate the capital return of enterprises, so as to meet the needs of large capital turnover of enterprises. In order to maintain the

long-term and stable cooperation with core enterprises, SME will pay off the loan in time, and this kind of accounts payable is scattered, with small amount and low default rate, which can also reduce the risk of bank loans and form a capital pool.

In the second business, banks are mainly for upstream enterprises. This kind of receivables financing business relying on core enterprises as payers is relatively common. Generally, it can be divided into two modes: pledge financing mode of accounts receivable and factoring financing mode of accounts receivable. Before providing loans, banks need to carry out risk assessment on enterprises. Because core enterprises have strong credit strength and payment ability, and generally have stable cooperative relationship with banks, they can play a role of credit enhancement in risk assessment and provide guarantee in financing. Based on this, the pledge financing of accounts receivable can better meet the requirements of banks. The factoring model is the common "m + 1 + n" factoring financial services in SCF. Relying on the core enterprise "1" and facing many suppliers "m", it provides comprehensive financial services, such as capital financial communication, account management, credit evaluation, account collection and a series of services. A variety of factoring methods are adopted to realize the combination of financial and product elements.

The financing business of accounts receivable is based on the stable cash flow of accounts receivable in the future and guaranteed by the core enterprises. It not only reduces the cost of risk assessment and management costs of banks, but also accelerates the capital flow and increases the bank's efficiency.

(2) Prepayment financing business.

The prepayment financing business is mainly for the purchase stage. It is the financing business that the bank provides prepayment for the downstream SME to the upstream supplier core enterprise. One of the most widely used is the "confirmed warehouse financing business". Confirmed warehouse financing business is based on the real trade and industrial chain between upstream and downstream enterprises in the supply chain. With the help of multiple credit enhancement methods of core enterprises, it can realize the financing business of capital demand, scheduled purchase and goods acquisition for the purchasers. In daily life, it mainly consists of three party confirmed warehouse financing business and four party confirmed warehouse financing business. Tripartite confirmed warehouse financing business is also known as "manufacturer bank". The main participants are core enterprises, distributors (downstream enterprises) and banks, which sign agreements to provide financing for dealers to purchase goods from core enterprises, and notify core enterprises of delivery with delivery notice after dealers repay or make up the delivery deposit. In this mode, the core enterprise not only delivers goods one by one according to the agreement, but also undertakes the guarantee responsibility and promises to refund the difference or adjust the sales of goods. It reduces the loan risk caused by the information asymmetry between banks and SME. While four party confirmed warehouse financing business takes core enterprises, distributors (downstream enterprises), banks and warehousing logistics companies as the main participants, forming a "factory warehouse bank" model. The goods are no longer kept by the core enterprise, but transferred to the designated warehouse of the bank, with the established warehouse receipt as the pledge and the third-party logistics company as the supervision subject. Whether it is the control of the three party confirmed warehouse financing business over the right to take delivery or the control of the four party confirmed warehouse financing business over the right to take delivery, it embodies the implantation of the parties cooperation agreement of the confirmed warehouse financing business, the specialization of the financing purpose, the self compensation of the repayment source, the closeness of the operation process and the guarantee of repayment after breach of contract. These characteristics not only alleviate the purchase pressure of SME, but also reduce the bank's credit risk, increase the revenue, and reflect the concept of all-win of SCF.

(3) Inventory pledge financing business.

The inventory pledge financing business is mainly aimed at the operation stage. The bank's inventory pledge financing products mainly include static pledge credit, dynamic pledge credit and warehouse receipt pledge credit (standard warehouse receipt pledge credit and common warehouse receipt pledge credit). Because the financial institutions are only engaged in financial services, in

order to achieve the possession and supervision of chattel, it is necessary to rely on the third-party logistics enterprises.

Especially with the rise of SCF, chattel pledge financing refers to the mode that banks accept the chattels of SME guaranteed by core enterprises as collateral, and at the same time, with the supervision of logistics enterprises, issue loans to SME. Among them, banks and core enterprises sign guarantee contracts or pledge repurchase agreements to ensure the feasibility of loans. It is generally applicable to industries with large inventory and slow inventory turnover. Through this mode, banks can not only effectively supervise the current assets of financing enterprises, but also promote the cooperation with the third-party logistics, and expand new channels of asset mortgage and pledge.

3. Characteristics of bank financing business under SCF

(1) The non isolation of the assessment.

SCF takes the supply chain as a whole and transforms the evaluation of bank loans from enterprise rating to project rating and debt rating. Break the fixed credit perspective and replace the focus on the static financial statement data with the focus on the financial situation and operating results of the entire supply chain. In the evaluation, it is very important for product selection and risk management, and the core enterprise with the most bargaining power often plays a controlling role in the project. Therefore, it is necessary to evaluate the strength and status of core enterprises, assess the historical trade between SME and core enterprises and its importance to the whole supply chain.

(2) The controllability of funds.

The financing mode for supply chain makes the capital demand of SME certain. Banks need to strictly limit the financing in the real trade between SME and core enterprises, and strictly grasp the misappropriation of funds through platform data collaboration, so as to make the financing purpose specific.

(3) Self repayment of repayment sources.

In order to reduce the loan risk, the bank should guarantee that the products take the real transaction in the supply chain as the design core and the capital income in the transaction as the direct repayment basis. Through special management, ensure that the enterprise repay the bank loan supporting the transaction with the sales revenue of the specified transaction.

(4) Conformity with the industrial chain.

The financing mode of the bank realizes the balance among cash flow, logistics and information flow. It is not only in line with the financial needs of upstream and downstream SME, but also in line with the dynamic change law of different trade stages. Make the bank's financing business more consistent with the product production and marketing process of the supply chain.

(5) Comprehensive supervision.

In order to weaken the information asymmetry between banks and SME, core enterprises and third-party logistics enterprises are introduced as regulators in bank financing business. The supervision of core enterprises is reflected in the fact that SME will establish a good reputation image in order to maintain a long-term and stable cooperative relationship with core enterprises. The increase of the supervision of the third-party logistics enterprises improves the mechanism of inventory pledge, reduces the risk of chattel pledge, and conforms to the dynamic management concept of supply chain.

4. Difficulties for banks to develop financing business under SCF

(1) Credit risk.

Although SCF relies on the integrity of the supply chain and the high credit rating of the core enterprises to enhance the credit credibility of SME and reduce the moral risk of default, in essence, it can not eliminate the credit risk such as the weak anti market risk ability of SME themselves, the imperfect information transmission system on the chain, and even the inability to effectively

cooperate with the core enterprises. Especially when it comes to different fields, the loan risk faced by banks due to information asymmetry is more prominent.

First of all, core enterprises are the starting point for banks to carry out credit business, which has a huge impact on financing security. Because of this, banks often set a high threshold for the access of core enterprises. In order to ensure the synchronization and transparency of information, nuclear enterprises are required to have a better information system. In order to ensure the credibility, core enterprises are required to have a mature upstream and downstream supplier evaluation system and strong control. But for core enterprises, if they think that they have no direct interest in themselves, they should bear the biggest impact of the spontaneous diffusion risk of supply chain. It is likely to lead to the low enthusiasm of core enterprises, unwilling to provide upstream and downstream lists and trade information, more reluctant to commit to repurchase and provide guarantees. What's more, core enterprises may occupy SME' financing line for a long time, which will lead to credit expansion and collusion with SME to make fraud. Secondly, there is operational instability in SME. Because of its imperfect management mechanism, it may lead to speculative behavior and arbitrary decision-making, affect product quality and order completion, even affect the core enterprises. Finally, information asymmetry between banks and SME and improper information transmission between upstream and downstream may also cause credit risk. SCF requirements must be based on the real trade background and there shall be no false trade. However, due to the fact that SME information is not disclosed and the data is easy to be distorted, banks need to pay high investigation costs. Therefore, it is difficult for banks to reach cooperation with secondary and tertiary suppliers who do not have direct transactions with core enterprises. However, the communication differences between supply chain enterprises due to the lag of information technology will also bring risks.

(2) Operational risk.

Due to the innovation of SCF business, the operational risks caused by non-standard are easy to appear in the operation of personnel, process design, credit investigation, approval and post loan management. The business ability of the personnel is not strong, the process design is not perfect, and the audit personnel's omission, misjudgment and even intentional concealment in the investigation process will cause losses. In the core part of financing, risk operations such as insufficient pledge and guarantee caused by price change, improper evaluation of pledge object by bank personnel, unreasonable management process and goods loss are also very easy to occur.

The innovation of SCF business is also reflected in the introduction of third-party logistics as the regulator. However, there are also regulatory risks in the selection of third-party logistics cooperative enterprises and the selection and custody of pledged goods. If the bank's evaluation of the third party is improper and the supervision is not effective, it is likely that there will be violations such as joint financial fraud, repeated pledge, and private release of pledge. At the same time, there are some problems, such as the warehouse receipt is not standardized and the pledge is inferior. In addition, the self repayment of SCF repayment sources and the specificity of financing purposes require banks to strengthen supervision to prevent SME funds from being misappropriated, resulting in failure to repay on time.

5. Countermeasures and suggestions for banks to develop financing business under SCF

(1) To avoid credit risk.

To carry out SCF business from the perspective of core enterprises' interests, it is necessary for core enterprises to realize the significance of SCF in enhancing the overall competitiveness of the supply chain, and to establish a reasonable benefit sharing mechanism, which will expand customer sources, increase the revenue of loans, and establish a friendly cooperative relationship. On the basis of mutual benefit, we should realize risk sharing, continuously and dynamically evaluate the operation risk of core enterprises, find out the risk points of the chain, determine the corresponding risk management mechanism, and adjust the loan amount in time. And establish a perfect information technology system (such as supply chain financing system and ERP system) with core enterprises to realize the real-time transaction information of upstream and downstream. Through the

above measures to reduce credit risk, and appropriately reduce the access threshold of core enterprises.

For SME in SCF, banks should use big data, cloud computing and other technologies to verify the authenticity of transaction background, enterprise production and operation information, and the overall credit level of the industry. Using high-tech to expand the scope of attention to the whole chain and the whole industry, using multidimensional evaluation method to accurately position the enterprise and establish the data monitoring of the whole process. Secondly, the bank must also pay attention to SME' own credit risk, which can not be excessively interfered by the core enterprise's credit increase. It is necessary to audit SME' transaction contract, business strength, tax payment voucher, finance and benefit, etc., so as to ensure the stable and reasonable use of SME' cash flow, good performance record and high inventory turnover rate.

(2) To avoid operational risks.

In SCF business, there are many subjects and operation links, so it's easy to have nonstandard personnel operation. Therefore, it is necessary to add special supply chain financing management posts, refine the division of labor, and clarify the operational responsibilities and regulatory requirements. Strengthen staff training regularly to improve staff professional quality; implement responsibility management mechanism to improve staff risk awareness, standardization of goods pricing and accuracy of approval. At the same time, optimize the SCF system and simplify the manual participation. Secondly, for process design, banks should focus on innovation. Innovate product design, create electronic platform and online operation. Optimize the process to meet the market demand, improve product defects, and increase the financial service products for daily operation of enterprises. Innovative information channels, from the traditional balance sheet, profit and loss statement, cash flow statement verification upgrade to the logistics, information flow, capital flow, business flow of the four in one.

To avoid regulatory risks, first of all, we should carefully choose the collateral. In the pledge business of accounts receivable, the pledged accounts receivable must have a true transaction contract, a clear relationship between creditor's rights and debts, and shall not exceed the validity period of creditor's rights. In the inventory pledge financing business, the selected products should be easy to preserve and transfer, clear ownership, relatively stable value and easy to measure, strong liquidity, and complete vouchers. Secondly, when choosing the third-party supervisor, the warehouse equipment should be professional, management process and operation standard, and advanced technology. Finally, the bank should check the quality and value from time to time and track the collateral in real time.

6. Conclusion

The new type of bank enterprise partnership brought by SCF not only alleviates the difficulties of SME financing, but also brings new development ideas to banks. SCF business not only maintains the close relationship between banks and core enterprises, but also prevents excessive dependence. It can not only reduce the loan risk to SME, but also expand the customer source to increase the revenue and serve more high-quality enterprises. However, in order to achieve win-win results, banks should also be alert to all kinds of risks, update product structure and optimize business design against the background of big data risk control, financial technology innovation and intelligent development.

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