

Research on Credit Risk Management of Inclusive Finance in Bank A

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Abstract. MSMEs play an important role in China's economic system, and the Chinese government has been strongly emphasizing MSMEs' role of the massive wealth they create and the large number of jobs they provide. However, the difficulty of financing for MSMEs has always been a bottleneck restricting the development of MSMEs, for which the Chinese government has called on commercial banks to promote inclusive financial services for MSMEs. As MSMEs themselves have problems such as unstable operation, irregular corporate governance, and dependence on the personal credit of the controller, coupled with the severe macroeconomic situation in recent years, it makes the loan risk of MSMEs higher. Therefore, how to scientifically and effectively manage the risk of small and micro-enterprise loans has become the focus and difficulty of commercial banks' inclusive financial business.

Keywords: MSME; inclusive finance; credit business; risk management.

1. Introduction

This paper takes the inclusive financial business of the S branch of Bank A as the research subject to probe the risk management of small and micro-enterprises. It was carried out through interviews, questionnaires, and literature review, communicating with customer managers, approvers, risk management departments, and other relevant personnel to obtain first-hand information, laying a realistic foundation for the succeeding research on risk management of inclusive finance.

2. Literature References

Joel Bessis provides a more comprehensive study on the relationship between risk management system and performance appraisal in commercial banks[2]. Thomas (2000) suggests that banks should assess customer credit risk in several aspects, such as solvency, customer quality, collateral value, and the economic capacity of the enterprise[3]. Adam Smith emphasized that loans must be based on business practices and evidenced by notes, and when a company fails to pay the loan on time, the bank can use the notes pledged by the company to secure the bank's assets[5]. Xu Gungxia (2023) believe that commercial banks should follow the principles of comprehensiveness, systematicity, and prudence in credit risk management for SMEs, establish a functional credit risk management system that suits the actual situation of the region, and ensure that the credit risk is within a reasonable range[7]. Pang Xinjun and Chen Yiru (2023) believe that the high credit risk of small and medium-sized enterprises is the main reason for their financial difficulties, and is also one of the difficulties in the credit risk management of small enterprises in commercial banks. In terms of risk influencing factors, the influencing factors of SME credit risk can be summarized into three major aspects: enterprise, bank, and environment[6]. Liu Li and Xu Huanzhang (2018) believe that in the process of controlling the financial risk of small and medium-sized enterprises (SMEs), it is necessary to consider the personal factors of the owners of the enterprise[9]. Most small and medium-sized enterprise owners are individuals and closely linked to the enterprise, and the owner's business risk directly affects the business risk of the enterprise.

3. Background

The Chinese government has proposed that finance should aid in the substantial economy, allocate more financial resources to key areas and weak parts of economic and social development, and propose the construction of an inclusive financial system; relevant departments have issued a series of policies to promote the construction of an inclusive financial system.

On May 2, 2018, the head office of Bank A held the Inclusive Finance Strategy Launching Conference, which put forward the Inclusive Finance Development Strategy, focusing on small industries and small enterprises, adjusting the strategic focus, and helping to solve the main contradiction of Chinese society, which is the imbalance and insufficiency of development. Bank A is centered on the reshaping of customer relationships, supported by the application of financial technology, driven by the use of big data, operated by service platforms, propelled by the innovation of business models, and guaranteed by the management of intelligent risk control.

4. Current Status of Bank A's Inclusive Finance Risk Management

4.1 Pre-Loan Stage Risk Management

4.1.1 Eligibility examination.

The business acceptance staff conducts qualification examination of customers, and small business customers should have the following qualifications:

1. Registration and approval documents from the People's Republic of China Industry and Commerce Administration.
2. Comply with China's financial and industrial regulations and policies and the bank's credit policy for small enterprises;
3. Have active bank accounts, and the proportion of production and operation funds handled through the bank for settlement is not less than the proportion of loans;
4. Good credit standing, ability and willingness to fulfill contracts and pay debts.

4.1.2 On-site investigation.

Through on-site visits and interviews with the legal representatives and actual controllers of the enterprises applying for loans and guaranteed enterprises, the bank investigates the operating conditions of the enterprises, the situation of the pledges, the situation of the guarantors, the creditworthiness of the business owners, and other pertinent information. The information is kept for future reference.

4.1.3 Off-site investigation.

Off-site investigation mainly includes: inquiring about external and internal information, analyzing the value stability and liquidity of collaterals, investigating the stakeholders of the enterprise, and assessing the financial status of the enterprise.

4.2 Risk Management at the Loan Origination Stage

Loan disbursement is a process in which Bank A, after approving the loan application submitted by the customer by the relevant departments, releases the loan through the review of the relevant personnel on the premise of meeting the approval conditions, temporarily ceding the bank's funds to the customer's use. Risk management in this process is mainly the implementation of the loan conditions. The account manager receives the approval and implements the loan approval conditions and disbursement conditions. Credit executives review the implementation of loan conditions, and if there are still outstanding loan conditions, they need to notify the account manager right away for additional processing.

4.3 Post-Loan Stage Risk Management

4.3.1 Post-loan inspection

1. Customer situation. This includes the basic situation of the customer, production and operation, financial status, credit status, implementation of credit continuity conditions, and changes in key management personnel.

2. Debt situation. The use of credit funds, customers in other banks or financial institutions to finance the situation.

3. Security situation. The situation of the physical integrity of collaterals, revaluation of value, custody of collateral warrants, and changes in the guarantor's production and operation and credit status.

4. Other circumstances. Credit rating, asset classification, recovery of principal and interest, rectification of problems arising from previous inspections, etc.

4.3.2 Daily monitoring

1. Account managers and related positions collect and understand the relevant information about enterprises and business owners in daily contact activities such as customer marketing visits and telephone interviews, and obtain customer-related risk matters.

2. Early warning personnel, post-credit management personnel, and personnel in relevant positions discover customer risk matters in daily monitoring through mainstream media, websites, third-party personnel, information platforms of relevant departments, and other means.

3. Relevant post personnel of the second-tier branches obtain customer-related risk matters in their daily operations.

4. Relevant information obtained in bulk through the head office, first-tier branches, or second-tier branches.

5. Credit Risk Prevention, Control and Response

5.1 Adhere to Both Front-end Gatekeeping and Process Control

Promote the balance between business development and asset quality control. Accurately understand and grasp macro policies, optimize the allocation of credit resources. Adhere to the bottom line of policies, unify risk preferences, and enhance the effectiveness of credit execution. Actively conduct industry research, clarify key investment areas, and focus on preventing overcapacity industries. Comprehensively collect customer information, integrate and analyze multi-dimensional data, enhance the awareness of customer segments.

5.2 Insisting on Both Model Innovation and Penetration Management

Establishing a risk management model that is compatible with the characteristics of network finance, such as the online operation of the whole process, small amount and high-frequency transactions. Strengthening case analysis and emphasizing the summary and analysis of lessons learned in business development and risk management. Shifting from after-the-fact compensation to before-the-fact control, from subjective judgment to data-driven, and from manual operation to systematic machine control. With the help of Bigdata, we have strengthened analysis and verification, implemented anti-fraud management, enhanced risk identification and blocking capabilities, practiced penetration management, and provided strong protection for business development.

5.3 Insisting on Compliance Management

Relying on the application of bigdata to improve system control, increase the support of information technology to business management, promote bigdata analysis in-depth, and improve

the function of business system machine control. Effectively implement the requirements of compliance management and enhance the awareness of compliance.

1. Integrate laws, regulations and regulatory provisions into the relevant systems and methods of the bank, and clarify the requirements of compliance management.

2. Do a good job in compliance review, strengthen prior control, and review new products and businesses to ensure that all business activities are in line with legal and regulatory requirements.

3. Strengthen process management, through continuous monitoring of business, timely discovery of operational risks and hidden problems, and optimization and improvement of problems exposed and defects reflected.

4. Bolster the accountability for rectification of problems, looking at the overall situation through individual cases, addressing both symptoms and root causes, and promoting the root causes of problems together.

5. Rectify compliance education to enhance employees' awareness of compliance and ability to implement the system through employee training, examination, warning notification, and other means.

6. Adjust the assessment constraints through various assessment indicators to effectively guide the employees and organizations to effectively fulfill their compliance responsibilities and actively achieve the goal of compliance management.

6. Strengthen Training and Team Building

6.1 Accelerating the Construction of Inclusive Financial Talent Teams

Talent team building is an important guarantee for realizing the sustainable development of inclusive finance business. The number of customers in the field of inclusive finance is high and dispersed, and the standardization of operation is relatively poor, which puts forward higher requirements for the professional quality and operational capacity of practitioners.

First, the characteristics of the inclusive financial business with a large number of customer groups and a wide scope are fully taken into account, and corresponding human resources are allocated for the inclusive financial business in combination with the rapid growth of the inclusive financial business of grassroots organizations and the rapid expansion of the scope of responsibilities of the inclusive financial management department of the branch in recent years.

Secondly, it is necessary to enhance competence. Financial inclusion training is one of the important works to promote the financial inclusion strategy, through full-coverage training, learning and striving to build an Internet platform to create an ecosystem, and be good at tapping into the bigdata to innovate the operation and management, and so on.

6.2 Establishment of Inclusive Finance Training System

Branches and business outlets focus on the actual needs of business development and do daily training and targeted training for specific products, operational processes, application of system tools, and other issues in the process of business marketing and processing, as well as related work requirements. The main training targets include personnel engaged in inclusive finance-related businesses in the branches and business outlets, including small business account managers, marketing supervisors of business outlets, account managers of outlets, product managers, and lobby managers.

6.3 Enriching Inclusive Finance Training Means

In the training, we can employ novel technology based on on-site training or online training, considering innovating the training form and augmenting the training means of financial inclusion. Case analysis of good experiences in marketing customer groups, comprehensive service programs, assessment and incentive policies, risk disposal and prevention, product innovation and channel construction, as well as risk exposure, internal control cases, and other counter-typical cases are

conducted to evaluate, study, and discuss specific scenarios to investigate the practices, advanced experiences, and major problems that can be learned from, and to put forward replicated and popularized solutions or improvement measures. Improvement measures will be proposed, and internal control cases will also be used as a lesson to carry out warning education.

7. Conclusion

Inclusive financial business is high-risk low-yield compared to the general corporate lending business, but with a large customer base and great social responsibility. It has been influenced by Chinese government policies in recent years so inclusive finance has a broad development prospect. More research is needed to improve the role of risk management in the development of the bank's inclusive financial business.

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