

A Study on Credit Risk Management of Small and Micro Enterprises in Commercial Banks

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ABSTRACT:

As an important part of the economy, small and micro enterprises play an extremely important role in increasing social employment, activating the market, promoting technological innovation, and ensuring people's livelihood. However, due to their own limitations, such as small assets, high operational risks, and unscientific financial management, they have always had corresponding problems of financing difficulties and high financing. As the core financial institution in China, commercial banks provide major credit services to small and micro enterprises, which is an important means to promote employment and support the development of the real economy. At the same time, with the expansion of service areas, the risks of commercial banks in providing credit services to small and micro enterprises also increase. At the same time, the government has continuously paid more attention to the financing problems of small and micro enterprises, and introduced a series of relevant policies and measures to reduce the financing costs related to small and micro enterprises, aiming at solving the traditional problems of financing difficulty and expensive financing for small and micro enterprises and improving the availability of financing for enterprises. In this context, how commercial banks can reduce the credit risk of small and micro enterprises while responding to policies has become a major goal at present, and strengthening the risk management research of small and micro enterprises has become an important research direction of commercial banks at present.

Keywords: Commercial banks; Small and micro enterprises; Credit operations; Risk management

I. INTRODUCTION

With the rapid economic development, small and micro enterprises have become an important part of the national economy, which plays an irreplaceable role in promoting employment, ensuring people's livelihood, promoting innovation

and stable growth. However, the problem of difficult and expensive financing for small and micro enterprises has not been fundamentally solved, especially in terms of credit. Because of its inherent high-risk characteristics, it is difficult for small and micro enterprises to obtain sufficient loan support from traditional commercial banks. Credit risk management of small and micro enterprises has become an important topic for commercial banks. With more and more credit problems exposed, it is more and more difficult to control the credit risk of small and micro enterprises. Therefore, how to optimize the credit risk management of commercial banks for small and micro enterprises is more important. Strengthening the research on credit risk management of small and micro enterprises has become a major research direction of commercial banks at present.

II. LITERATURE REVIEW

Venkateswaraet al.(2023) research thinks that because the financial management system of small and micro enterprises is often not perfect, they may not be able to ensure the integrity, accuracy and authenticity of information when submitting information to banks. This makes banks face challenges when collecting and screening these enterprise information, and it is difficult to make accurate credit decisions based on this information. Therefore, information asymmetry is one of the main reasons leading to bank credit risk. In addition, after small and micro enterprises get loans, their business activities are often easily affected by various external environmental factors, which leads to increased uncertainty, which further increases the difficulty for banks to manage the credit business of these enterprises. Zhang et al. (2023) pointed out that the purpose of using loans, the interest rate paid, the repayment period, their operating efficiency, credit history and financial status will all have an impact on the credit risk of small and micro enterprises in commercial banks. At the same time, due to the

inherent limitations of small and micro enterprises, they often have defects and weaknesses in the internal management and decision-making process, which makes small and micro enterprises more prone to default.

III. PROBLEMS IN CREDIT RISK MANAGEMENT OF SMALL AND MICRO ENTERPRISES IN COMMERCIAL BANKS

1.1 The credit risk management system has been initially established, but it still needs to be improved

At present, commercial banks have carried out a strategic plan to strengthen credit supply in small and micro enterprises such as people's livelihood by optimizing credit structure, deepening related strategic business to support the high-quality development of related manufacturing industries, consolidating related development advantages in the infrastructure field, and continuously improving and optimizing the corresponding science and technology innovation evaluation system of "technology flow". However, due to the short time and lack of relevant experience, commercial banks have not completed the green transformation and formulated relevant green financial strategic plans by adding environmental and climate risks to the whole process management of small and micro enterprises' credit. Secondly, in the plan of improving the risk management and control level of enterprise credit process by improving digital capacity building, there is still much room for improvement in the process of accelerating the automation and intelligence of loan review, collateral and collection; However, the risk monitoring order of related key areas has not been synchronized in the cooperation of parent and subsidiary companies in risk management of small and micro enterprises, and needs to be further improved to prevent and resolve risks.

1.2 The goal of credit risk management and control has been determined, but it still needs to be strengthened

Commercial Bank should strengthen the construction of credit approval in key areas of credit for small and micro enterprises, such as infrastructure research, manufacturing, and agriculture, so as to ensure the financing needs of key customers. However, as far as the current customer credit management model is concerned, there is a certain deviation between the center of gravity and the target of the project evaluation process in key areas, which needs to be adjusted; Secondly, there is still much room for improvement in the quality and effectiveness of credit approval; Finally, in the construction of the dynamic adjustment mechanism

of credit approval, there is still a mismatch between the authorized scale of each institution and the management level of Cinda, which leads to the failure to smoothly advance the fine management of the whole process of credit approval business on schedule.

1.3 Risk measurement system is introduced, but it still needs to be developed

While adhering to systematic thinking, user thinking, connected thinking, shared thinking and open thinking, in order to adhere to the principles of enterprise-level, burden reduction and empowerment, economy and efficiency, commercial banks have launched the exclusive risk measurement and evaluation tool "Star" cited by technology-based enterprises, but in the current trial process, many functions have not been released in promoting the platform construction of enterprise-level risk management, including high-quality credit investment business support; On-line promotion of the new version of small and micro enterprises to apply for scorecards; The lack of financial and economic views in online areas has affected the regulatory requirements of commercial banks and the further implementation and deployment of comprehensive risk management systems. However, as far as the current customer credit management model is concerned, there is a certain deviation between the center of gravity and the target of the project evaluation process in key areas, which needs to be adjusted; Secondly, there is still much room for improvement in the quality and effectiveness of credit approval; Finally, in the construction of the dynamic adjustment mechanism of credit approval, there is still a mismatch between the authorized scale of each institution and the management level of Cinda, which leads to the failure to smoothly advance the fine management of the whole process of credit approval business on schedule.

IV. SUGGESTIONS

1.4 Promote the unified management of credit risk and improve the risk management ability of the whole process

In-depth promotion of credit structure optimization, continuous structural optimization and adjustment, through a unified credit strategy, in-depth promotion of inclusive finance, green finance and other businesses, support for small and micro enterprises in credit-intensive manufacturing, technological innovation, energy security, modern services, new infrastructure and other key areas, and implement basic measures for long-term sustainable development. At the same time, improve the risk management and control ability of the whole process,

incorporate external factors such as environmental and social governance into the credit management system and the whole process before, during and after lending, continuously optimize various basic management factors such as loan review, post-loan tracking and collateral detection, and build a perfect intelligent collection model system for large retail, so as to strengthen the forward-looking prevention and control of credit risks of small and micro enterprises. And improve the unified credit risk detection mechanism of China Construction Bank, consolidate the division of main responsibilities in risk management and control, carry out overall management with corporate customers as the center, strengthen collaborative management and control among letter companies, and ensure the continuous and stable operation of asset quality in the future.

1.5 Optimize the credit approval management mechanism, and the two departments will cooperate in comprehensive financing business

In accordance with the comprehensive financing management system, commercial banks can implement the comprehensive financing business for small and micro enterprise customers in accordance with the basic procedures of "rating first, then total amount, and then single transaction". The quantitative comprehensive financing of corporate customers is regarded as the relevant standard to cover the credit business or non-credit investment and financing business provided or to be provided by corporate customers in banks. Arrange the division of labor and cooperation between the business department and the credit approval department. The relevant business departments will report the rating of corporate customers, the business-related plans of comprehensive financing and the post-loan management measures through the investigation or access to small and micro enterprises. The credit approval department is responsible for the evaluation of independent projects and the implementation of target policies, and will examine and approve the credit rating results and independently approve the comprehensive credit business.

1.6 Improve the risk measurement ability and realize the integration of ESG elements

In the exclusive evaluation tool of "STAR" technology-based enterprises, firstly, banks should integrate ESG elements into the rating of customers, further improve the system function of rating customers' ESG, develop the enterprise risk evaluation model in the medium-sized chain of supply chain, and complete the function of the organizational scorecard system of rural collective economy; Continue to develop online business risk

detection system and improve the use of scorecard related tools in retail business. At the same time, we regularly carry out credit risk-related stress tests, internal capital adequacy stress assessment tests, recovery and disposal plan stress tests, collateral risk stress tests and other results to comprehensively measure risks, so as to ensure that the relevant test results meet the regulatory requirements and ensure the stability of risks.

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