Analysis and Prevention of Financing Risk of Supply Chain Enterprises

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Abstract: The supply chain finance model has become an effective way to solve the financing difficulties of SMEs. It has changed the credit model of the single financial institutions in the past, and provided financial support for the SMEs in their supply chain around the core enterprises. Supply chain finance has great market potential and is becoming a new area for banks to compete with each other. Therefore, it is necessary to systematically study the financing risk control of supply chain finance, so as to provide ideas for the continuous innovation and development of supply chain finance business.

Introduction

As an emerging financial innovation business, supply chain financing has introduced core companies and logistics regulatory partners, making full use of transaction information in the supply chain to make up for the problems of insufficient information and high information costs for SMEs, which has effectively improved the financing environment for SMEs. However, as a relatively new business of supply chain financing, apart from the general risks, supply chain financing has its own special risks. How to identify risks and conduct effective risk management is an important issue facing banks and other participants.

The Supply Chain Financing Risk Overview

The supply chain is a network chain structure centered on core enterprises, through the reasonable control of capital flow, logistics, and information flow, starting with the procurement of raw materials, producing intermediate products and final products, and then sending products to the hands of consumers through the sales network.

![Flow chart of supply chain operation.](image)

The supply chain financing service system can help the core and supporting companies in the chain to streamline cash flow and logistics, change the imbalance of funds, and integrate the cash and inventory controls in the supply chain so that the upstream and downstream enterprises can strengthen collaboration and increase supply. Chain competitiveness. In practice, due to various participants, flexible financing models, and complex contractual relationships, supply chain
financing has certain risks in actual operations. The operational risk is dependent on the three financing modes of accounts payable, prepayments, and inventory in the supply chain. Therefore, the financing risks analyzed in this paper mainly focus on these three modes.

Supply Chain Companies Financing Risk Analysis

Accounts receivable financing risk

Compared with traditional loans, the risk characteristics of the accounts receivable pledge financing business are somewhat different. In essence, due to the fact that the account receivables are the time span for the conversion of the company’s products into cash, the capital turnover is slowed down, and the operating costs are increased. As the time span increases, the risk that the accounts receivable cannot be recovered on schedule is also increasing. Big. The potential risks of this model lie in:

1. The authenticity of the accounts receivable. Since accounts receivable in financial statements are easy to make up and this kind of fiction is difficult to detect, fraudulent risks in the accounts receivable financing business can easily cause losses to the banks.
2. The ability to pay for core companies. Due to the continuous changes in the economic situation, the situation of the core companies is also not the same, there is a great deal of uncertainty in the accounts receivable, and the risk of bad debts is always faced.
3. Transfer of credit risk. If the supporting enterprise remits the accounts receivable that have been pledged to the bank to other accounts of the company and uses it on its own, it will cause losses to the bank.

Prepayments for financing risks

In the course of prepayments financing business, due to weakening the inspection of the qualifications of financing companies, strengthening the dependence on upstream manufacturers and third-party logistics companies, and the relatively complicated operation links, their potential risks cannot be ignored. The potential risks of this model lie in:

1. Credit risk. Due to the characteristics of this model, when the bank grants credit to supporting companies, supporting enterprises are only suitable for the core enterprises to sign relevant trade contracts, and trade may not be performed in a true manner.
2. Operational risk. Prepaid accounts involve many man-made operations. A slight inadequacy may lead to the occurrence of bank operation risks.
3. The risk of changes in the price of pledged goods. Due to the fluctuation of market prices, the poor coordination of various departments of core companies will expose banks to the risk of price changes of pledged goods.

Inventory Financing Risk

In the supply chain financing model, the capital provider uses the company-owned inventory as a pledge to provide financing to the company. The risk factors of this financing model are mainly around inventory, which means that the quality, quantity, and price of inventory determine the inventory financing model. The main factor of risk. The potential risk point of this model is also:

1. Warehouse risk. The risk of bill of lading refers to the risk that the customer may use the false bill of lading to cause the bank to lose.
2. The credit risk of logistics companies. If the logistic companies have weak supervision or conspiracy to commit fraud with financing companies, it will seriously affect the links in the supply chain and the security of pledged goods, greatly increase the risk of supply chain finance, and in severe cases will directly interrupt the financing business.
3. The risk value of the pledge. If the price of the product fluctuates greatly, it will fall sharply at any time, causing the risk of shrinking the value of the pledge.
Supply Chain Financing Risk Response Measures

Receivables financing risk coping strategies

1. For the accounts receivable information already provided by the financing customers, the core company should be required to issue a document proof of the accounts receivable to the capital provider, combine the purchase and sales contracts of the buyers and sellers, value-added tax invoices, freight transport documents, and buyer’s goods receipt. Credentials and other documents review the authenticity of accounts receivable.

2. Analyze the ability to pay for core companies. It is recommended that the authenticity of the core company's revenue be reviewed through cross-checking to ensure that it has a stable ability to pay.

3. In response to the risk of transfer of accounts, in practice, the financing company may be required to issue a “Pledge Account Receivable Account Receivable Account”. It should also ensure that the core company pays the amount of accounts payable to the account designated by the financing company at the commercial bank.

Strategies for dealing with prepayments for financing risks

1. Ensure the creditworthiness of the core company. In-depth mining of core companies using a combination of on-line and off-line models, such as on-the-spot acquisition of the company's core operating data on the spot, and three-dimensional cross-checking of business, financial, and physical objects, combined with external data, Conduct a comprehensive assessment of the company to ensure that the creditworthiness of the core company is worth relying on.

2. Ensure the circulation of goods information. Fund providers should share information with third-party logistics companies to ensure the circulation of goods information. The goods are the conditions for SMEs to repay loans. The quality of goods is the guarantee for the capital provider to avoid risks. Logistics companies generally understand the situation of the goods better than the capital providers. Therefore, the fund providers should share information with the logistics companies in order to ensure the effective operation of the goods. Supervision.

3. In response to the risk of fluctuations in the price of pledged goods, the fund provider may adjust the interest rate and the loan amount according to changes in the production stage and changes in the credit risk. Do a good job in the diversity of loan interest rates and reduce the risks caused by various uncertainties.

Risk response measures for inventory financing

1. Ensure the authenticity and effectiveness of the warehouse receipts. The capital provider must reserve the warehousing companies to handle the various business seals, conduct inspections, verification, and inspections, and if necessary, directly contact the logistics company.

2. The fund provider should carefully select third-party logistics companies and try to choose a logistics company with good credit standing. It is necessary to strictly examine the credibility and repayment ability of logistics companies, and prevent them from collusion with financing companies in order to obtain credit funds.

3. Correct selection of pledges and establishment of commodity price fluctuation forecasting system. The quality of the pledged goods directly affects its price. Therefore, the bank should select products with high market share and good brands as pledges according to market conditions. In addition, forecasting mechanisms for market demand and price changes should also be established to avoid the risk of volatile prices of movable products.

Conclusion

In short, the financing behavior has always been the coexistence of interests and risks, and good preparation for risk control is the foundation of all things. In recent years, China's supply chain finance has developed rapidly. Banks and other financial institutions have also had more useful attempts. Supply chain finance has also solved the problem of financing difficulties for SMEs, and
at the same time promoted the role of supply chain synergy. Can also benefit from it. Therefore, the supply chain finance model has great potential for development for all parties involved to form a "win-win situation."

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References


