

# Research on the Risk Early Warning and Prevention and Control Strategies of Supply Chain Finance Based on P2P Platform

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**Keywords:** P2P Platform; Risk of Supply Chain Finance; Early Warning and Prevention and Control

**Abstract:** P2P supply chain finance has opened up a new financing channel for small and medium-sized enterprises (SMEs) and solved the dilemma of fund shortage for the development of SMEs. However, due to the fact that P2P supply chain finance involves multiple parties, credit supervision is difficult, there are many operational links, and risk influencing factors are complex, it makes P2P supply chain finance contain huge systemic risks. Based on the in-depth analysis of the main modes and corresponding risks of P2P supply chain finance, it is of great significance to propose feasible risk warning and prevention and control strategies.

## 1. Introduction

SMEs are weak in their own strength, small in scale, inadequate in operational management, and unsatisfactory in financial status. At the same time, SMEs have low financing requirements and short financing periods, making it difficult to obtain financing from traditional financial institutions. However, the supply chain financial services provided by P2P online lending platforms have shorter application cycle, lower threshold and more flexible loan term, which fully integrate the supply chain financial mode with the advantages of P2P lending platforms and effectively solve the financing difficulties of SMEs. Therefore, the emergence of P2P supply chain finance business is the inevitable result of the development of The Times.

## 2. Overview of P2P Supply Chain Finance Development

From January to September 2018, the trading volume of supply chain finance in P2P online lending industry was about 696.3 billion yuan, accounting for 3.31% of the transaction volume in the same period. According to relevant statistical information, at present, the P2P platform is involved in or partially involved in the supply chain financial business are mainly distributed in first-tier cities and coastal cities, with Beijing, Guangdong and Zhejiang as the most concentrated platforms. Most of them are platforms with great background, which also proves that supply chain finance business has a threshold. In 2018, the comprehensive rate of return on the supply chain financial business showed an overall upward trend, slightly higher than the comprehensive rate of return of the online lending industry.

## 3. Main Operation Modes of P2P Supply Chain Finance and Its Corresponding Risks

Judging from the actual business development of the P2P platform, supply chain finance mainly has the following specific modes, and each has specific risk points.

### 3.1 Core enterprises provide financial services to upstream and downstream enterprises in the supply chain

This model specifically refers to the short-term accounts receivable mode of the upstream and downstream SMEs of the P2P platform around one or several core enterprises. Through the management of capital flow and logistics of upstream and downstream SMEs, the platform

disperses the uncontrollable risks of single enterprise to the whole supply chain and translates them into the overall risk of supply chain enterprises.

In this mode, core enterprises are often required to assume the responsibility for information verification of suppliers, risk supervision, and guarantee of principal and interest of P2P investors. In other words, if the financing enterprise defaults, the core enterprise, as a guarantee, shall bear the responsibility of making up for the loss of the platform. If the accounts receivable are actually fictitious accounts of the core company for self-financing, or accounts receivable have a high risk of bad debt rate, it will pose a great threat to the operation of the platform and the protection of investors' principal and interest. Therefore, in response to this risk, the P2P platform should fully integrate the relevant information of the buyer and the seller's cargo transport documents in the audit process, and also consider whether the transfer of the receivable documents is legal and effective. These are all things need to be considered when dealing with this particular credit risk.

### **3.2 Debt transfer mode in cooperation with factoring company**

After obtaining the accounts receivable from the core enterprise, the upstream supplier transfers the creditor's rights to the factoring company, and the factoring company will provide them with comprehensive financial services such as receivables financing, receivables management and collection, and credit risk management. After the factoring company obtains the asset, it packages the creditor's rights into investment targets through the P2P platform for the platform investors to invest. After the original accounts receivable are due for collection, the factoring company will recover the principal and interest and then pay the P2P investors. In this process, factoring companies are usually required to undertake capital and interest protection for investors through asset repurchase, insurance or other means.

Under this mode, the main risk point lies in the qualification and risk control capabilities of the asset transferor (i.e., the factoring company). Factoring companies' financing of the same receivables through different P2P platforms may lead to the risk of "multiple transfers of one debt". In addition, whether the P2P platform correctly judges the choice of commercial factoring companies directly determines the success or failure of the mode. The reality is that at present, China's commercial factoring business is in its infancy, lacking professional factoring talents. Risk control teams are generally generated by banks and lack of practical experience in supply chain financial factoring, so there are some operational risks.

### **3.3 Logistics enterprises-based mode**

In this mode, P2P platforms should first establish strategic partnership with logistics companies in the supply chain. In the relationship within the supply chain, the transaction between different enterprises is usually achieved through the relevant services provided by logistics enterprises, such as warehousing site rental and cargo transportation services. The logistics system within the supply chain, whether from suppliers to core companies, or from core companies to distributors, is a core business of logistics companies. Due to its effective control of logistics, logistics companies can act as agents of P2P platform, grasp the latest developments of the entire supply chain enterprise group through the collection and transportation of daily goods, assist the platform to evaluate and inventory the goods, acquire the information of enterprise daily business activities, and then provide risk early warning platform.

The main risk of this mode lies in whether the P2P platform is right in judging the choice of logistics companies. In addition, from the perspective of principal-agent, logistics enterprises, as one of the important subjects of supply chain finance, play a dual role. That is, the same agent corresponds to the interests of different principals. If the logistics company chooses to give priority to the interests of the supply chain enterprises, such as allowing them to take delivery of goods under the unqualified conditions, the platform will lose control of the logistics and lead to credit risk.

#### 4. Countermeasures for Risks of P2P Supply Chain Finance

Due to the large number of participating entities, the relatively complicated operating procedures, and the variable value of credit support assets, the risk management of P2P platform for supply chain financial services must be different from conventional business. (see Figure 1)

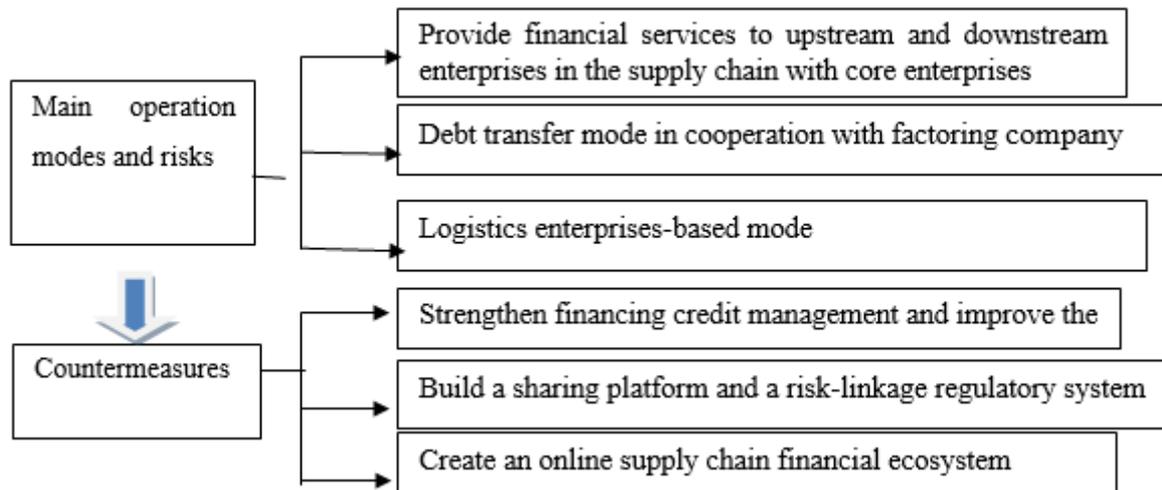


Figure 1 Risk early warning and prevention of supply chain finance based on P2P platform

#### 4.1 Strengthen the management of credit granting to supply chain financing entities and establish a sound access mechanism

##### 4.1.1 P2P supply chain platforms should strengthen credit management for core enterprises in the supply chain and SMEs in the upstream and downstream

When conducting credit vetting on financing entities, it is necessary not only to pay attention to the review of the main risks of the company's own operations, finance, management, but also to strictly examine the actual controllers and teams of the company to avoid the financing risks caused by personal risks.

##### 4.1.2 Attach importance to credit access management of core enterprises in the supply chain

The cooperation between core enterprises and P2P platforms plays an important role in credit endorsement for the financing of upstream and downstream enterprises, and various risks will be transmitted to upstream and downstream enterprises in the supply chain. Therefore, the business reputation and economic strength of core enterprises are important contents of the risk management of P2P supply chain finance. P2P platforms set the admission standards for core enterprises by establishing the risk measurement mode that combines the subject rating with the debt rating.

##### 4.1.3 Consolidate credit risk management of upstream and downstream enterprises in the supply chain

In P2P supply chain finance business, although the upstream and downstream enterprises have reduced their credit risk to some extent through the credit binding with the core enterprises. However, P2P platforms should not only blindly reduce the access requirements for small and medium-sized enterprises by traditional methods such as financial statements, operating conditions and cash flows, but also put emphasis on the historical performance records and risk sources of upstream and downstream enterprises and select financing subjects with stable cooperative relations with core enterprises.

## **4.2 Build an information sharing platform and an online supply chain financial risk linkage supervision system**

P2P supply chain finance has more participants, so it is necessary to establish an online information sharing platform from a global perspective and conduct all-round risk monitoring. Based on cloud computing, big data, Internet of things, mobile Internet and other modern information technologies, the professional and intelligent level of early warning and prevention and control of the business line of supply chain of P2P platform is improved. Before the services of P2P platform supply chain finance, P2P platforms can more comprehensively grasp the real operation information and data of financing enterprises through strategic cooperation with core enterprises, so as to reduce the potential risks of financing projects caused by credit problems of SMEs in advance. After the loan is issued, the P2P platform will share the information and coordinate with the logistics enterprise, the third-party e-commerce platform, and the factoring company to real-time control the financing enterprise dynamics and the use and flow of funds, and observe the transportation and inventory data of the third-party logistics enterprise to grasp the volatility of the pledge market, prevent the financing enterprises from losing loans, depreciation of pledges, illegal operations, commercial fraud, and finally give an early warning of risks. On the basis of credit evaluation, banks and other financial institutions obtain the online transaction data of financing enterprises by means of big data analysis of shared information platform, so as to give early warning of credit risks. By constructing a shared information platform, a multi-dimensional identification index database and a legal risk database are constructed to complement the wind control of traditional financial institutions.

## **4.3 Create an online supply chain financial ecosystem**

Using Internet thinking and technology to re-create the entire industry of online supply chain finance, and actively build an online Internet information service platform and a four-in-one online supply of banks, financing companies, core enterprises, and third parties (e-commerce platforms). This will create a financial services ecosystem environment with better experience, lower cost, and lower risk to meet the needs of different customers. Firstly, online customer electronic information files should be established and improved to integrate online and offline data, and conduct hierarchical management of customers. Second, internal and external resources must be integrated to give full play to the complementary advantages of Internet finance and traditional finance, so as to improve the core competitiveness, and create a diversified online financial products and services target system for the actual needs of SMEs. Finally, the application level of information technology should be improved through innovation, so as to build an efficient, smooth and seamless omni-channel system and create an integrated development ecosystem of supply chain finance and Internet finance.

## **5. Conclusion**

Through in-depth research on the P2P supply chain financial mode and its risks, it can be found that no matter what mode the platform adopts, it needs to find the core enterprise with absolute control in the supply chain, and find potential high-quality financing companies around it. The platform is then responsible for matching online investors to enter into a deal with them to complete the transaction. The subsequent risk prevention and control measures, whether it is the establishment of access mechanism, credit evaluation system or information platform, are inseparable from the participation of core enterprises.

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