

# Countermeasures for Credit Risk Control of Small and Micro Enterprises in Commercial Banks

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**Abstract:** This paper starts with the operating status, management model and financial status of small and micro enterprises, focuses on analyzing the risks faced by commercial banks in the credit business of small and micro enterprises, and finds a series of problems in credit risk management, and then proposes to improve banks' credit risk recommendations on management and control in order to better promote the win-win and healthy development of banks and enterprises.

## 1. Introduction

Although commercial banks can provide corresponding credit services to small and micro enterprises to obtain a higher rate of return, small and micro enterprises generally have a relatively low amount of credit, have a short credit cycle, and the frequency of credit is also high. Micro enterprises mainly determine whether they can repay loans in accordance with the requirements of the corresponding contract based on their own operating conditions. These have added a certain degree of difficulty to the credit risk management of commercial banks' loans to small and micro enterprises. This has also become a commercial bank's small and micro enterprises. It is the key concern in risk management.

## 2. Analysis on the Characteristics of Credit Risk of Small and Micro Enterprises

### 2.1. Low risk resistance and lack of core competitiveness

From the perspective of the classification criteria of Chinese enterprises, the proportion of small and micro enterprises in China is more than 90%. In view of the low entry threshold of small and micro enterprises, the number of small and micro enterprises is also increasing year by year in recent years. Compared with large enterprises, small and micro enterprises are still in their "infancy" and have greater problems in their survival. Data show that the average life of small and micro enterprises in China is only about 3 years. The lack of scientific research and technology and the acceleration of product update speed make small and micro enterprises unable to compete with large enterprises, and shorten the life cycle of small and micro enterprises.

### 2.2. Low risk resistance and lack of core competitiveness

The financial information of most small and micro enterprises is not transparent, and some small and micro enterprises even fabricate financial statements, creating the illusion that the company has few debts, high profits, and strong profitability. As a result, banks are unable to understand the actual operating conditions of the enterprise and it is difficult to accurately evaluate the small and micro enterprises. The repayment ability of the enterprise, once the bank lends to such small and micro enterprises, will lead to the occurrence of moral hazard. The purpose of loans for small and micro enterprises is not clear. If it is invested in high-risk projects, it will aggravate the formation of bank non-performing loans.

### 2.3. Rules and regulations are not standardized, and there are risks in the business process

Most small and micro enterprises in my country have drawbacks in their management models and operating methods. Due to their small scale, small and micro enterprises do not have a complete management system and professional management personnel, so there is a phenomenon of one person with multiple posts. In addition, most of the managers of small and micro enterprises are mainly sales entrepreneurs, with rough management methods and weak management capabilities, so it is difficult to have a complete and efficient management system.

### **3. Problems in Credit Risk Management of Small and Micro Enterprises in Commercial Banks**

#### **3.1. Poor communication with small and micro enterprises and poor pre-loan review**

On the one hand, the credit process of commercial banks is often suitable for large-scale enterprises with standardized and systematic management, and they have not developed a relatively complete and appropriate credit mechanism for small and micro enterprises with weak anti-risk capabilities. Therefore, they cannot reasonably and effectively evaluate small and micro enterprises. Credit Risk. On the other hand, the financial statements of small and micro enterprises do not reflect their true operating conditions, resulting in a situation of asymmetry in information. As a result, commercial banks cannot fully understand the financial revenues and expenditures and economic activities of small and micro enterprises, which increases commercial bank loans. Difficulty of previous review.

#### **3.2. The credit risk management organization is imperfect, and the awareness of prevention is weak**

At present, the position setting of the credit department of commercial banks is not reasonable enough, the division of labor is not fine enough, the internal work distribution is chaotic and fuzzy, the interaction between various positions is not close enough, and the complete management organization framework is lacking. The credit department is in the situation of separation of approval and loan, and the approval team cannot cooperate. It's easy to have problems. Although commercial banks have provided staff with a series of risk education and related training, and established a mechanism for accountability, some staff have misunderstandings in risk perception and lack of awareness of risk prevention.

#### **3.3. Low risk identification and risk pricing capabilities**

Credit risk, market risk, operational risk, moral hazard, etc. are all branches of credit risk. The occurrence of these risks is often caused by lack of information. This means that commercial banks have imperfect information databases and risk identification technologies. The risk rating system set up by the bank may not be applicable to all companies, and the authenticity of the corporate information obtained by the bank is also open to question. Therefore, the results obtained lack objectivity, and the misjudgment rate of the risk rating system is too high, which can easily lead to credit risks.

### **4. Countermeasures to Control the Credit Risk of Small and Micro Enterprises in Commercial Banks**

#### **4.1. Strengthen pre-loan management and control the pace of approval**

When making loans, most small and micro enterprises will apply for mortgage loans. Bank-related investigators should conduct in-depth investigations on the spot, do their own work, seek truth from facts, and make comprehensive and multi-level judgments on the mortgaged goods of small and micro enterprises, and reduce the high price estimation of mortgages. The phenomenon. In addition, the various positions of the credit department must be effectively connected to ensure quality and quantity, further intensify compliance review, and earnestly implement the credit policies of the supervisory department and the bank.

#### **4.2. Improve the credit risk management system and optimize the risk management process**

At present, the credit risk management system of commercial banks in my country is still lacking. If banks want to improve the quality of credit business for small and micro enterprises, they must first follow the characteristics of small and micro enterprises, pay attention to the development of local small and micro enterprises, and formulate suitable for small and micro enterprises. China's credit management system should not confuse the credit processes of small and micro enterprises with those of large enterprises. Secondly, banks should be more rigorous in the credit business of small and micro enterprises while improving their efficiency. They should improve their own credit management system in accordance with the loan policy formulated by the monetary authority, optimize their own capital structure, and effectively avoid risks and improve Own risk tolerance.

#### **4.3. Improve the credit risk management system and optimize the risk management process**

At this stage, as the education level of the credit staff of various commercial banks is uneven, if the bank wants to accurately identify the credit risk, it must improve the overall quality of the credit staff.

On the one hand, it is necessary to establish the awareness of bank credit risk prevention. For banks, cultural construction is the foundation for the formation of a good internal working atmosphere, and the construction of a credit culture centered on controlling credit risks is the key to guiding credit departments to strengthen their awareness of prevention. Relevant staff members should establish correct professional ethics while clarifying their responsibilities and obligations, strengthen the foresight and initiative of credit risk prevention and control, and earnestly implement the requirements of the regulatory authorities and superiors on credit risk management.

On the other hand, it is necessary to strengthen the training of bank account managers. As a bridge between the bank and customers, the bank account manager is responsible for maintaining customer relationships and controlling credit risks. Due to the serious information asymmetry between banks and enterprises, banks are often at a disadvantage, which places higher demands on customer managers. First, it is necessary to strengthen the account manager's familiarity with professional knowledge, understand various rules and regulations, increase risk sensitivity, and conduct regular professional skills training; second, the account manager must fully understand the customer and understand through various channels Customer information starts with the company's management capabilities, profitability, and financial status, and eliminates information asymmetry as much as possible. necessary to strengthen the account manager's familiarity with professional knowledge, understand various rules and regulations, increase risk sensitivity, and conduct regular professional skills training; second, the account manager must fully understand the customer and understand through various channels Customer information starts with the company's management capabilities, profitability, and financial status, and eliminates information asymmetry as much as possible.

#### **4.4. Improve the assessment mechanism and incentive mechanism**

On the one hand, in order to strengthen credit management and specify the responsibilities of employees, it is necessary for banks to formulate detailed assessment mechanisms. By adopting an assessment method that focuses on comprehensive profit-making of loans, supplemented by non-performing loan rate and new overdue loan rate, at the same time, the implementation of pre-loan files and the review of post-loan data are approved, and various indicators are linked to employee performance. Employees conduct a comprehensive inspection. In addition, banks should shorten the evaluation cycle, fully mobilize the enthusiasm of employees, and achieve both quality and efficiency.

On the other hand, banks can tap the potential of employees by improving incentive mechanisms, stimulate their motivation, and promote business development. Give certain material rewards and spiritual encouragement to employees with high efficiency and good performance; employees who mismanage after loan and shirk their responsibilities, resulting in increased credit risk, will be

criticized or financially punished. Achieve a clear distinction between rewards and punishments, without shielding or condoning. Under a reasonable and realistic assessment mechanism and incentive mechanism, employees can experience pride and satisfaction, which will help the bank to form a self-development and self-discipline system.

## **5. Conclusion**

To sum up, as the basic force for maintaining social stability in our country and the main force for alleviating employment pressure, small and micro enterprises play a pivotal role in promoting development and improving people's livelihood. As the main financing channel for small and micro enterprises, commercial banks are duty-bound to support the financial business of small and micro enterprises. Credit business is the main source of profits for commercial banks, and credit risk is also a non-systematic risk that commercial banks cannot avoid in the course of their operations. The quality of credit risk management directly or indirectly affects the healthy development of banks. Commercial banks should build a credit risk management system suitable for small and micro enterprises based on their actual financing needs and the characteristics of small and micro enterprises. Develop innovative products that meet the development status of small and micro enterprises. By establishing a scientific and effective risk assessment mechanism, optimizing the risk management framework, strengthening the internal control of risks, minimizing the probability of credit risks, improving the market competitiveness and development potential of commercial banks, and providing guarantees for the healthy and sustainable development of banks.

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