

Research on Loan Risk Management of Rural Commercial Banks in China

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Abstract

China's social economy has entered a new era, and the bank loan risk has become the largest financial risk in China's commerce. Rural commercial banks are an important part of the rural financial market. Studying the loan risk management of rural commercial banks will help promote rural economic development and achieve urban-rural integration. This paper will start from the current situation of rural commercial banks, describe the current loan risks of rural commercial banks in detail, and give reasonable suggestions for the reference of loan risk management of rural commercial banks.

Keywords

Rural commercial banks; Loans; Risk management; Financial market.

1. Introduction

In recent years, China's rural commercial banks have actively responded to the "three rural" policies issued by the state, and have made great progress. However, they are still insufficient in new business expansion and have weak competitiveness in the field of commercial banks. As China's economy has entered a new normalization, the operating pressure of rural commercial banks has gradually emerged, and they will face new challenges in risk management, Bank loan risk management has become an important link in winning the battle against and resolving financial risks [1]. Rural commercial banks, as an important part of the rural financial market, study their loan risk management, which is of practical and practical significance for the development of rural finance, is conducive to promoting the development of rural finance and realizing the integration of urban and rural rural commerce.

Jiang Lijia (2019) gave a brief introduction to credit risk, then analyzed the causes of risk formation and the problems of commercial banks in credit work, and proposed preventive measures for commercial banks to implement credit risk [2]. Tan Wu (2020) took the current situation and influencing factors of credit risk management and control of rural commercial banks as the research object, and analyzed the countermeasures of credit risk management of rural commercial banks [3]. Zhang Haoru (2021) focused on discussing the impact of credit rating on bank operation and management with the research object of eight rural commercial behaviors in southern Jiangsu, and drew corresponding conclusions through theoretical and research [4]. Lin Shuhui and Zhao Haifeng (2022) studied the characteristics, current situation and existing problems of risk management of rural commercial banks under the background of rural financial reform, and put forward countermeasures and suggestions for optimizing risk management of rural commercial banks [5]. Based on the above, this paper will take rural

commercial banks as the object, study loan risk management from both internal and external aspects, and draw corresponding management suggestions.

2. Current situation of rural commercial bank loans

2.1. Number and loan scale of rural commercial banks

With the in-depth implementation of the reform of rural credit cooperatives, the number of rural commercial banks will increase from 1396 in 2018 to 1596 in 2021, while the number of rural credit cooperatives will decrease from 812 in 2018 to 577 in 2021. And in the context of financial institutions helping rural revitalization, the assets of rural commercial banks grew rapidly. By the end of March 2022, the total loan scale of rural commercial banks had reached 22.3 trillion, a year-on-year increase of 13.9%, higher than the loan growth rate of 11.6% of the commercial banking industry in the same period.

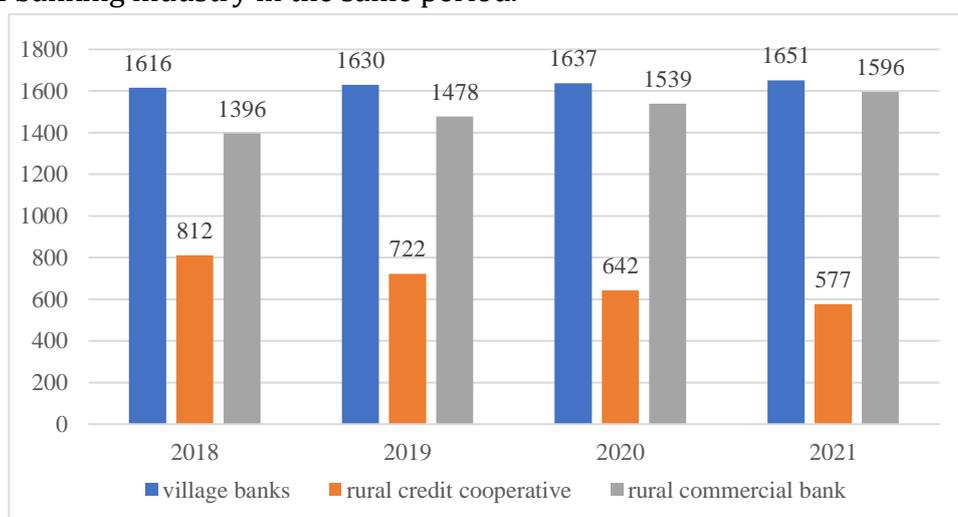


Figure 1. Number of rural financial institutions from 2018 to 2021 (unit: number)

2.2. Current situation of non-performing loans of rural commercial banks

Since this year, China's macroeconomic operation has faced "triple pressures" of shrinking demand, supply shocks and expected weakening. Downward economic pressures continue to exist. With the intensification of the epidemic and geopolitical turbulence, the banking industry is facing the impact of declining asset quality. However, the bad debt rate of Rural Commercial Bank continues to be at the highest level in the industry. By the end of March 2022, the non-performing rate of rural commercial banks was 3.37%, a decrease of 0.33 percentage points over the same period last year, but still higher than the average non-performing rate of 1.69% in the commercial banking industry.

3. Risk of Rural Commercial Bank Loans

In recent years, with the development of economy, the rate of non-performing loans has gradually risen, and the form is severe. The risk brought by loans is the main risk of commercial banks, which has a certain threat to the security of bank funds. The reasons for this phenomenon are both internal and external.

3.1. Internal causes

(1) Operational risk caused by imperfect internal control system. At present, the rural commercial bank system generally has the problem of imperfect internal system, which is mainly manifested in the following aspects: First, its organizational structure is unreasonable, and the restriction mechanism of checks and balances between the upper and lower levels has

not been formed; Second, there is no good implementation of the bank's important business and internal control measures; Third, the control is not sufficient and the control is very decentralized, and the construction of internal control system is relatively lagging behind, leaving a gap in risk control. In addition, the effectiveness of the risk identification and evaluation mechanism of the internal control system is lacking, and the risk level cannot be accurately forewarned and evaluated [6]

(2) The guarantor's loan guarantee is in form. Some rural commercial banks' credit did not strictly review the guarantor's guarantee qualification, and the loan responsibility could not be implemented, which ultimately led to no one being responsible for it. Some rural commercial banks have bad guarantees for loans. For example, a person is both a borrower and a guarantor. If the borrower guaranteed by him has problems, because the guarantor himself is also a borrower, and his own loans are guaranteed by others, the guarantor will inevitably be held accountable in litigation, causing a series of reactions [7]

(3) Relationship loans still exist. Some credit management personnel of rural commercial banks care about and operate because of human relations, working relations, business relations, etc. Although most of the loan projects they granted to these people were in line with the loan conditions at the time of granting, due to the existence of these relations, they often did not closely review before and during the loan, and failed to check in place after the loan, The potential risks of these loan projects cannot be found and controlled in time.

3.2. External causes

(1) The impact of national policies. At present, China is in the period of economic transition, and the adjustment of financial policies will be large and complex. Multiple factors need to be considered, which will also bring bad loan effects to rural commercial banks. For example, the current loose economic policy in China will increase the amount of money circulating in the financial market, which will develop the current economy. At this time, rural commercial banks will generally choose to implement the same policy as the state, so the credit policy will become loose, which will lead to an increase in the risk of non-performing loans [8]

(2) Influence of laws and regulations. The basic knowledge of social credit of rural residents in China is relatively weak, and the number of non-performing loans of rural commercial banks has also increased due to the lack of knowledge of national laws and regulations by some lending personnel, while the consequences it has formed have no effect on these. For example, when the information of the borrower and the borrower is not complete, the bank's security personnel in charge of this work cannot fully understand the situation, which makes it difficult to preserve assets and implement legal proceedings. Even if litigation can be conducted, a series of subsequent acceptance fees, attorney fees, etc. are very expensive, and there is little money left for repayment, which leads to the malicious proliferation of non-performing loans [9]

(3) The impact of economic operation. The change of bank credit quality can be reflected from the operation of the national economy, which is one of the important factors affecting the formation of non-performing loans by rural commercial banks. For example, when the development of the country's market economy is unbalanced, some small and medium-sized enterprises may suffer from poor operating income, and their solvency will decline, which will bring about the risk of default.

4. Credit Risk Management Methods of Rural Commercial Banks

4.1. Gradually optimize the organizational structure of loan risk management

At present, there are many contradictions between the bank's corporate governance structure and credit security, which is an important source of credit risk. To prevent credit risk, we must improve the company's internal risk management organizational structure. Each rural

commercial bank can determine its own business strategy according to its own adaptive conditions, and needs to improve the assessment and evaluation of credit structure adjustment and optimization, and dynamically adjust relevant policies in real time to ensure that the goal of credit structure adjustment and optimization is achieved.

4.2. Further improve the internal control system of loan risk

First of all, we need to improve the specific control measures of the bank, adjust the internal control in time, so as to improve the applicability of internal control; Secondly, it is necessary to monitor and repair the implementation deviation of internal control measures to ensure the effectiveness of internal control; Finally, we need to optimize the internal information transmission mechanism. We can create an information center to implement general management information for the bank's internal control. We can also carry out some activities to promote cooperation and exchange between business departments and subordinates [10]

4.3. Attach importance to the training of loan management talents

In order to enhance the business ability to serve customers, better perform the administrative and strategic financial functions, and accelerate the high-quality leapfrog development of business, rural commercial banks should start with the construction of credit teams, train the legal knowledge and compliance concepts of bank employees, improve the legal concept, promote development by learning, improve the comprehensive quality of credit teams, pay attention to the daily training of credit teams, and establish and improve the source of credit talents Tracking and whole process training system. For example, online learning can be used to increase knowledge reserves, improve theoretical knowledge reserves and enhance business development skills. Offline training, strengthen business skills, help credit personnel accurately understand and grasp business knowledge, and improve their ability to handle loans.

4.4. Innovation of financial products

Due to the restriction of the regional environment, rural commercial banks cannot resist the high risks brought by some products in their business development and cannot expand the market. The innovation of financial products can just break through this problem. First of all, financial innovation products are the focus of commercial banks. By providing customers with special personalized services and products, they can bring rich profits to commercial banks, make them conform to the market value, and better prevent market risks. Moreover, the innovation of financial products is conducive to improving the competitiveness of banks. Financial innovative products, that is, products different from competitors, form regional monopolies in specific areas through their own characteristics, thus defeating competitors. Therefore, rural commercial banks can innovate their own financial products according to the current market conditions.

5. Conclusion

Credit business is an important part of rural commercial banks. In the course of its development, due to the influence of internal and external factors, there are some deficiencies in loan risk management. Therefore, rural commercial banks must pay attention to loan risk management. For the current deficiencies of rural commercial banks in loan management, we need to take effective measures immediately, Lay a good foundation for the development of rural commercial banks.

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