

Analysis of the Risk and Control of the Micro-credit Companies

Taking Ant Finance as an Example

Yating Li

Guangdong Experimental High School AP curriculum, Guangzhou, 202108, China

*tang_yuyan@163.com

ABSTRACT

Nowadays, many microfinance companies are booming, but they not only bring convenience to people, but also bring many risks. Taking ant financial as an example, this paper analyzes the credit risk and points out the improvement suggestions of the supervisor, which is conducive to the supervisor to better fill the loopholes of supervision.

Keywords: Ant Financial, Micro Credit, Risk, Management and Control

1. INTRODUCTION

Micro finance refers to the small amount of loan services provided by financial institutions to individuals or enterprises. The amount of loan is generally more than 10000 yuan and less than 200000 yuan. In the traditional lending mode, mortgage guarantee can ensure the reliability of the loan. When the debtor refuses to return the corresponding amount, the creditor can discount or auction the collateral. However, in recent years, the Internet has been used by thousands of users. Till December 2015, the rural Internet penetration rate was 31.7%, and the number of rural Internet users in China reached 195 million[1]. With the help of the Internet and big data, credit loans are also booming in China. Credit loan means that financial institutions determine the loan amount and interest rate according to the lender's credit rating, which changes the cumbersome mortgage guarantee in the past. As one of the largest financial technology companies in the country, ant financial services group has its own balance sheet, Alipay, recruit treasure, ant treasure, sesame credit and other business segments including ant credit pay. At present, more than 140 million of China's farmers and more than 37 million of the farmers are using Alipay under the ant financial services group and the balance treasure. [2]Ant financial has developed sesame credit as a credit evaluation system. Through big data and cloud computing, sesame credit evaluates the lender's credit history, behavior preference, performance ability, identity characteristics and interpersonal relationship in a short time. Only when the grade is good can we have the opportunity to make loans.

And the loan arrival time is very short. According to the data, it takes only 3 minutes from applying to getting the loan. [3]Its credit evaluation model is very similar to that of shadow banking during the subprime mortgage crisis. However, while bringing convenience to people's life, the risk is also self-evident.

2. RISKS BROUGHT BY ANT FINANCIAL SERVICE LOAN MODEL

2.1. Highly Leveraged Lending Model

Leverage refers to the ratio of the company's assets to net assets. If the multiple is too large, the company's own assets cannot cope with future risks. As far as banks are concerned, under the condition that the capital adequacy ratio is required to be about 10%, it can be simply considered that the leverage ratio greater than 10 is too high. [4]According to the data, in the first half of 2020, ant lent a total of 2.15 trillion yuan, which is estimated that its annual lending scale exceeded 4 trillion yuan. [5]Through the model of circular lending, ant financial leverage has even reached 120 times. Ant financial first used its 3 billion principal for mortgage loans and got a 6 billion loan from the bank. Ant loaned its 9 billion book capital, and then converted its creditor's rights into ABS for a second round of lending. Through such circular lending, the leverage of ants is actually 120 times higher than the traditional 10 times leverage. Thus, similar to shadow banking, leverage will amplify financial risks several times in the case of economic and financial downturn. In the context of a sharp decline in asset value,

if ants choose to sell assets or attract new investment to expand capital, the price of risky assets may decline significantly, causing market turmoil, market liquidity tension, and even systemic crisis in the whole credit market. At the same time, the highly leveraged lending model will also have an impact on the effectiveness of money. According to the financial and economic cycle theory, since internal and external shocks will lead to sustained and periodic fluctuations in financial and economic activities, one country can adopt fiscal policy or monetary policy to regulate the economy against the economic wind, which is similar to the shadow banking system, ant financial highly leveraged operation may have an impact on the effect of a country's economic policy. For example, its credit creation will affect the money supply by changing the money multiplier, and then affect the effectiveness of monetary policy.

2.2. The Imperfection of Sesame Credit

"Credit" in the economic category is a kind of economic interest relationship, which reflects a specific production relationship[6]. Nowadays, sesame credit has a dynamic evaluation system[7], although the five dimensions are combined to analyze the actual situation, the influencing factors of score still exist. For example, there are differences between users' Internet behavior and actual social behavior. Traditional credit theories and algorithms cannot be used in the process of Internet credit investigation, which will greatly affect the authenticity and reliability of scores, and greatly improve the possibility of data fraud. Most of sesame's credit data comes from the fields involved by Alibaba. Since some users who use less Taobao and other software will be difficult to collect data, the credit evaluation will cause deviation. According to the existing data, the ant group has more than 1 billion of its personal users, and more than 80 million of its business users. Its Alipay's amount of transactions in digital payment is as high as 118 trillion yuan. In the micro loan technology platform, the operator's credit is 400 billion and the consumer loan is 170 million. The insurance technology platform is 51.8 billion, and the asset management scale of financial technology platform is 4.1 trillion. In addition, there are innovative businesses, such as blockchain, database. The credit evaluation of the above loans is completed by sesame credit. However, the data show that by September 2015, the central bank's personal credit investigation system had only 370 million natural persons' credit records, covering less than 30% of the population, far lower than the 85% coverage of the credit investigation population in the United States. When sesame credit risk still exists, large amount of borrowing is easy to lead to a significant increase in risk. If the borrower fails to repay in time, it is easy to cause serious losses to the bank. Like the subprime mortgage crisis in 2008, many financial institutions went bankrupt one after another, and even led to the violent turmoil of the stock market a few years later.

According to the data, the sesame credit score of Hangzhou enterprises is 41 points higher than the national average. However, this can't prove that its credit is better, but only proves that it has sufficient data retained in ant financial.

2.3. High Interest Rate Lending Model

The Ant Financial's use of high interest rate lending model can make up for economic costs and ultimately make it sustainable for business development. However, the high interest rate audience for microcredit tends to be low-income people. The reason is that bank lending procedures are relatively complex and lengthy for low-income borrowers, and additionally loans without subsidies and preferences are not particularly attractive to high-income earners. In this case, microcredit might solve the financial problem in time for a while, but in a long term it will gradually increase the burden on the low-income borrowers. Furthermore, some borrowers are even college students whose living expenses are provided by family or part-time jobs. It would be much harder for these low-income borrowers including students to repay exorbitant interests while the high interests are within the limits of the law. When a payer fails to repay interest or principal on time, it means that there would be different negative effects on both the lender and the borrower. According to the Provisions of The People's Republic of China on The Application of Law to The Trial of Private Lending Cases, the law supports the lending interest rate when it is not higher than 24%. However, ants divide the interest rate according to the user's credit rating, 15% with good credit and 18% with average credit. It is inconsistent with the positioning of "Inclusive Finance", which will also cause a large repayment burden to young people who loan.

3. REGULATORY POLICIES ADOPTED BY THE STATE

3.1. Legislation

Due to the high interest rate of ant financial service loan, large loans will cause no small financial burden to individuals or enterprises. Therefore, the Interim Measures for the administration of online microfinance business clearly stipulates that the balance of single online microfinance for natural persons shall not exceed 300000 yuan in principle and one-third of their average annual income in the last three years. In principle, the balance of single household online small loans to legal persons or other organizations and their affiliates shall not exceed RMB 1 million. Ant financial services regulations effectively reduce the default amount of a single customer or enterprise, and control the default loss of a single customer within a reasonable range. At the same time, the total amount of loans of ant financial

services is very large, which makes the market risk faced by ant financial services as a whole small and scattered.

3.2. Adjustment of Credit Investigation Policy

In the new version of the credit investigation regulations, even if the cardholder cancels the credit card, the repayment records and bad records will be retained for five years. With these data, the reliability of sesame credit rating evaluation will be strengthened. At the same time, small loans and daily consumer loans are also included in the credit report query in the credit investigation record, so that even short-term small loans can be reflected in the credit investigation report in time, which makes the daily credit behavior of users more identifiable. In the latest measures, it is clearly stipulated that if various APPs collect customers' consumption information, specify some "credit portraits" for users, and provide users with financial products or financial services, these belong to credit investigation activities, which need to obtain the financial license issued by the China Banking and Insurance Regulatory Commission to determine the qualification. Before collecting information related to user credit investigation, credit investigation institutions need to formulate a plan for collecting personal credit information, and report the collected relevant data, credit relevance, all protection of information subjects and other matters to the central bank. This means the standardization of credit report query. Enterprises or individuals, even relevant institutions, need to obtain the authorization of the inquired person before they are qualified to query the user's relevant credit reports, which is a manifestation of the perfection of the national credit investigation system. This not only means that the possibility of personal information disclosure is greatly reduced, but also means that the credit evaluation system will be gradually improved. The development and perfection of credit evaluation system is the premise of further using credit to create more value.

4. IMPROVEMENT MEASURES TO BE TAKEN

4.1. Improve the Credit Evaluation System

Although sesame credit can evaluate personal credit from multiple perspectives, information security and authenticity still need to be studied. The coverage of sesame credit is not perfect, and its coverage only includes the relevant data of Ali. In order to improve the credit investigation system of various institutions, the state can build a data trading platform and establish a sharing platform through big data and cloud computing. Enterprises can upload personal credit investigation records and obtain relevant information of their credit investigation records on other platforms at the same time, making credit data common between enterprises to

ensure the perfection of multi-party data, so as to improve the authenticity of data.

4.2. Improve Legal System Nowadays

At this stage, the laws and regulations on microfinance are still quite lacking. It can be said that there is no perfect law. With the vigorous development of microfinance companies, the government has not specially formulated relevant legal systems for them. With only some administrative regulations of relevant local governments, microfinance companies are unable to rely on. At the same time, many credit companies like ant financial have a lot of potential safety hazards in their operations. At present, the supervision of China Banking and Insurance Regulatory Commission on financial service companies is not perfect, and online financial platforms often rely on the licenses of offline financial enterprises to implement financial intermediary behavior. Moreover, online financial behavior is highly innovative and updated quickly, and the supervision often has a lag effect. Once something goes wrong, it should be borne by the whole society, and the mistakes in decision-making will lead to huge financial systemic risks. In addition, financial risks are often underestimated, resulting in many financial activities that are free from the edge of the law are still going on, and huge profits are obtained again and again through high leverage operation. In the final analysis, this phenomenon is caused by the imperfect legal system. If this legal vacancy is not filled in time, the consequences will be unimaginable.

4.3. Financial Assistance

Unlike banks, even if they aren't very different in nature, the loan business sector is the same. Many microfinance companies that are similar to ant financial services can't obtain financial subsidies from the government. At the same time, they also need to bear the corresponding tax. Therefore, most of its revenue depends on its internal business. Since most of ant financial's business is based on borrowing, if the interest rate is too low, it will be detrimental to the development of the company. Therefore, the provision of financial assistance can reduce the loan interest rate to a certain extent. With appropriate government financial assistance or lower taxes, microfinance companies can make relatively more profits and reduce credit rates appropriately, and borrowers can lend more securely in the face of credit that has the help of national governments. At the same time, State financial assistance also requires the legal approval of the eligibility and conditions for microfinance companies to borrow, and the regulation of microfinance companies, while providing the necessary support.

5. CONCLUSION

This paper analyzes the risk and related management and control of microfinance companies taking ant financial services as an example, and puts forward the relevant gaps in supervision. The risks are brought by Ant Financial Service Loan Model including the burden of high leverage loan model on many banks and even the national economy, the imperfect credit of Sesame credit has a risk to its financial services and the high interest rate loan model which could have negative impacts on both borrowers and itself. In addition, this paper puts forward the relevant gaps in supervision which means that microcredit requires the support and supervision of national laws and policies. At the same time, online financial service platforms also need more timely regulatory measures. By proposing improvement measures, the government can improve legislation, provide more effective help to microfinance companies, At the same time, the China Banking and Insurance Regulatory Commission also needs to put forward more detailed and timely regulatory measures for such enterprises and online financial platforms, so that they can maximize their advantages and flourish in the future.

REFERENCES

- [1] Zhou.Y,Zhou.Y,Bao.H,Gao.Y(2017),Exploring the situation of rural micro-finance under Internet finance-take Jingdong and Wangnong loan as examples[J],Economic Forum,11:106-10
- [2] Ma.G , Wei.M.(2018)Exploring the path of promoting the development of inclusive finance base on Internet plus initiative[J],Industrial&Science Tribune,17 : 118-119
- [3] Ruan.Y.(2018)Analysis of Ant Finance's micro loans based on big data and Internet Finance[J],Brand Research,02:158-160
- [4] Guo.Z(2020)Is the leverage of Ant Finance really sixty times?[J]Shanghai Insurance,11:29-33
- [5] Cai.J , Guo,M.(2021)A Brief discussion on the ethic problems in the Ant Finance event[J],Modern Business, 15: 10-12
- [6] Zhang.R.(2021)Research on the Credit Risk and Risk Prevention of Internet Finance in China[J]Management & Technology of SME,05:98-99
- [7] Liu.K,Xia.C(2021)Discussion on development status and problems of Zhima credit[J]Global circulation economy,02:163-165