ATLANTIS PRESS

Advances in Social Science, Education and Humanities Research, volume 610

Proceedings of the 7th Annual International Conference on Social Science and Contemporary Humanity Development (SSCHD 2021)

Discussion on Financing Risks and Countermeasures of Small and Micro Enterprises under Internet Finance

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ABSTRACT

Small and micro enterprises are the important factors to promote the healthy development of China's macro economy, and also the main body of the economy at the present stage. However, due to the inherent limitations of small and micro enterprises, financing has become an important factor restricting their development. Although the development of Internet finance has brought new ways of financing for small and micro businesses, Internet finance is still in the development stage, and its corresponding laws, regulations and technologies are not yet mature. Therefore, Internet finance brings opportunities to small and micro businesses and also brings corresponding risks. Based on the mainstream Internet financial financing channels, this paper analyzes the risks that small and micro enterprises are most likely to bear in financing under the Internet financial model and puts forward the corresponding solutions.

Keywords: *Internet finance, Small and micro enterprises, Financing risk, Countermeasure.*

1. TRADITIONAL FINANCING METHODS OF SMALL AND MICRO ENTERPRISES AND THE REASONS FOR THE FINANCING DIFFICULTIES

1.1. Relevant Concepts

1.1.1. Internet Finance

Internet finance (ITFIN) refers to the new financial business model in which traditional financial institutions and Internet enterprises use Internet technology and information and communication technology to realize financing, payment, investment and information intermediary services.It is the product of combining traditional finance with the Internet.With the advantage of the Internet's fast, rapid, and wide coverage of information dissemination, Internet finance can not only expand the scope of use, but also mobilize more niche funds, enhancing the efficiency of currency use.

1.1.2. Small and Micro Enterprises

Small and micro enterprises are a general term of small enterprises, micro enterprises, family workshop enterprises and individual industrial and commercial households, which is put forward by economist Professor Lang Xianping.The standards for defining small and micro enterprises in 2020 are as follows: Article 92 of the Implementation Regulations of the Enterprise Income Tax Law stipulates: the qualified small and low-profit enterprises mentioned in paragraph 1 of Article 28 of the Enterprise Income Tax Law refers to the enterprises engaged in the national non-restricted and prohibited industries and meet the following conditions: (1) the annual taxable income shall not exceed RMB 300,000 yuan, the number of 100 employees and the total assets shall not exceed RMB 30,000; (2) the annual taxable income shall not exceed RMB 300,000 yuan and the total assets shall not exceed RMB 10 million.

1.2. Traditional Financing Channels of Small and Micro Enterprises

1.2.1. Bank Loans

Bank loans, generally required to provide guarantee, housing mortgage, or income certificate, good personal credit investigation can apply for.The bank examines and approves the relevant loan applications according to the financial statements, audit statements, bank transactions, guarantee and mortgage conditions of small and micro enterprises.It is the most important external financing method for small and micro enterprises.

1.2.2. Internal Financing

Since the internal financing is its own capital, the company does not have to pay outside the use of the capital, which makes this part of the capital cost can also be used for the company's development of the cost. Therefore, internal financing costs are far lower than external financing. It is because of these advantages that internal financing becomes one of the common financing methods for small and micro enterprises.

1.2.3. Private Lending

Private lending is a channel of investment for private capital. In the process of private lending in China, it is generally mainly family loan. That is, for China's new small and micro enterprises generally tend to seek financing from relatives. Because the enterprise is in its initial stage, there is no fixed assets and related capital mortgage, it can only rely on the trust relationship between relatives to obtain the needs of the enterprise financing. As the enterprise grows, and grows, fixed assets and credit degree accumulate. Enterprises generally apply for loans from banks when they seek to develop fixed assets, and turn to private lending when seeking raw materials and part of the procurement funds. This fund is generally short-term, frequent and mainly used.

1.3. Reasons for the Financing Difficulties for Small and Micro Enterprises

1.3.1. Financing Costs are Relatively High

Under general circumstances, the formulation of the management system, financial system, internal control and other relevant systems of small and micro enterprises may be relatively chaotic compared with the implementation of that of large and medium-sized enterprises. Secondly, small and micro enterprises have their own weak assets and their ability to resist risks is weak. This leads to the operating risk of small and micro enterprises is relatively high for large and medium-sized enterprises, so the loan risk of banks to small and micro enterprises is higher than that of large and medium-sized enterprises. Therefore, banks generally raise loan interest rates while making loans to small and micro businesses, in order to make up for excess risks. Financial institutions usually make the financing cost of small and micro businesses above normal for their own interests.

1.3.2. The Narrow Channels of Financing

The mainstream financing methods of small and micro enterprises are only bank loans, private lending and internal financing. However, due to the inherent restrictions of small and micro enterprises themselves, banks bear more risks of loans to small and micro enterprises than large and medium-sized enterprises, so banks either do not provide loans to small and micro enterprises, or will ask for a higher rate of return to make up for the excess risks. Because private lending borrows more from relatives, the amount of financing often cannot meet the demand, and the arbitrariness of lending is higher, and the risk of capital problems is even greater. The economic cycle is in the next operating period, but the price of raw materials does not fall but rise, which makes the net profit of small and micro businesses further compressed, so the retained income may not be able to meet the financing demand. To sum up, the three main financing methods may be unable to meet the capital needs of small and micro enterprises.

1.3.3. Guarantee Ability is Limited

In order to support the development of small and micro enterprises, the state has set a relatively low access line for small and micro enterprises. This leads to some small and micro enterprises of their own very limited guarantee ability. Due to the fuzzy internal management system of small and micro enterprises, the weak internal control effect and the low authenticity of financial reports, which makes the risk of investing in small and micro enterprises higher than the normal level of the market. Some risk-aversion guarantee companies tend to do not work with small and micro businesses. More serious, some small businesses do not meet the guarantee qualification rating and cannot be guaranteed. Even some fixed assets of small and micro enterprises are assets that do not meet the bank mortgage provisions. To sum up, in the current environment of small and micro enterprises, guarantee companies rarely guarantee small and micro enterprises, even if the guarantee, it will also set many restrictions.

2. NEW WAYS OF FINANCING FOR SMALL AND MICRO ENTERPRISES UNDER THE INTERNET FINANCE ENVIRONMENT

2.1. Point-to-point Financing

Point-to-point financing refers to a personal loan to an individual. The understanding of the operation mode of this mode can be done through the mode of the real estate agent. Network credit companies play the role of a real estate agency, it only provides a platform and does not borrow money. Fund demanders will publish their own information and loan information on the platform. The platform investigates its data and collects management fees, and investors can choose suitable borrowers according to their own financial needs. This operation mode makes point-to-point financing have the difficult advantages of traditional finance. It can

network a large number of small idle funds, to fully mobilize the use of these funds, and to reduce the access threshold of financing to a certain extent.

2.2. Crowd Financing

Crowd financing refers to the financing behavior in which capital demanders rely on the Internet to show the creativity and products of small and micro enterprises to the society, and then attract the public interested in the project. Take JD Crowdfunding as an example, and its operation mechanism is as follows: First, the fundraiser initiates financing projects on the platform and submits relevant materials according to the regulations. Secondly, the crowdfunding platform reviews the submitted materials and publishes the audit results on the platform. Finally, if the project financing is successful, the financiers will pay the investor additional income, otherwise, the funds return in the original path. Crowdfunding platform has the characteristics of openness. If people invest through the Internet, small and micro enterprises can obtain funds through the platform. At the same time, the crowdfunding platform has clearly stipulated on the fund raising and acquisition of small and micro enterprises, which improves the standardization of this financing mode. This approach lowers the access threshold for financing, making it easier for small and micro businesses to obtain funds.

2.3. Small Loans for E-commerce

The e-commerce platform set up its own small loan company and made loans to small and micro enterprises that need financing for e-commerce business on their own e-commerce platform. This is the small e-commerce loan. The main process is as follows: First, small and micro enterprises first submit loan applications on the e-commerce platform and provide corresponding information according to the requirements of the platform, and the platform will use big data to analyze the usual sales and customer complaints of small and micro enterprises, so as to determine the possibility of loan recovery. Small and micro enterprises with greater repayment possibilities to give loans. Secondly, because cash flow is very important for small and micro enterprises, e-commerce platforms will irregularly spot check the capital status of small and micro enterprises that have provided funds to prevent small and micro enterprises from affecting their operating conditions due to cash flow problems, and then affect their repayment ability.

3. FINANCING RISKS OF SMALL AND MICRO ENTERPRISES UNDER THE INTERNET FINANCIAL ENVIRONMENT

Although Internet finance provides more financing channels to small and micro enterprises, it has effectively solved the difficult financing problem of small and micro enterprises on a certain basis. However, because Internet finance is not mature and still in the stage of development, there are still many places to be improved. It is these imperfect places that will enable small and micro businesses to bear certain risks when financing. Here the main risks are as follows:

3.1. Risk of Insufficient Technical Level

The risks caused by insufficient technical level are roughly divided into three aspects. The first is the system failure: Alipay, a third-party payment giant, had a system failure in 2015, and it was not available until all the functions were used normally that night, which brought huge trouble to the financing of small and micro enterprises. hacker: pay treasure once attacked 1.6 billion hackers a day, as a payment giant ant gold may be able to deal with, but China's financing platform developed very rapidly in recent years, for the platform qualification is not strict, for not strong financing platform, if attacked, have the ability to resist is an unknown.

3.2. Risk Caused by Imperfect Laws and Regulations

Internet finance is a new finance derived from after the combination of traditional financial industry and Internet technology. Due to the fierce and rapid trend of Internet finance, the laws and regulations previously applied to traditional finance no longer apply to Internet finance. The so-called legal risks of Internet finance mainly refer to all kinds of risks due to the changing environment of the external laws and regulations of Internet financial institutions and investors, or that they have no legal basis and fail to effectively exercise their rights and obligations in accordance with the provisions of the contract, thus leading to negative legal consequences.

3.3. Risk Caused By the Imperfect Credit Rating System

Internet finance is essentially a finance that relies on credit. So the credit rating system is particularly important for Internet finance. However, China's credit rating system is not perfect, and the Internet financial platform cannot obtain all kinds of specific financial data like banks, but can only evaluate the credit rating of small and micro enterprises through the comprehensive basic data and big data conclusions for small and micro enterprises provided by small and micro enterprises themselves. Due to the imperfect credit evaluation system, some small and micro enterprises with low credit rating will improve the financing barriers of other

small and micro enterprises after the bad repayment events, resulting in the difficulties for some small and micro enterprises to finance under the Internet finance.

3.4. Risk caused by the operational risks of the financing platform

In the current period of declining real economy and rising financial risks, it is more difficult for small and medium-sized enterprises to operate, and the possibility of debt default increases, leading to the decline in the quality of major assets connected by Internet financial platforms, and the rise of the overdue rate and non-performing rate. At the same time, ordinary investor sentiment and market expectations fluctuations increase, and the instability of capital flow increases, making the operating pressure of the platform continues to increase. The instability of the operating conditions of the financing platform will reduce the ability to finance it for small and micro enterprises.

4. COUNTERMEASURES AGAINST THE FINANCING RISKS OF SMALL AND MICRO ENTERPRISES UNDER THE INTERNET FINANCIAL ENVIRONMENT

Due to the various types of risks, the identified risks cannot be fully addressed by the efforts of one party alone. This requires the national side, the platform and small and micro enterprises themselves to actively respond, multi-pronged.

4.1. Improve the legislation and Supervision of Internet Finance

For the country, the primary problem to be solved is the imperfect laws and regulations and inadequate supervision. Due to the rapid development of Internet finance, China's supervision and legislation system has not kept pace with its development, which leads to legal risks such as insufficient supervision, lagging and vague relevant legislation. Therefore, the first preventive measure is to strengthen the construction of China's Internet financial legal rules system. First of all, it makes strict provisions on the security and legitimacy of computer crime and electronic transactions. Make electronic vouchers and digital signatures give full play to their own value, and all parties to the transaction clarify their rights and obligations. Secondly, scientifically and accurately modify the Internet financial laws and regulations that are not suitable for the current development, and reasonably increase the intensity of sentencing. Thirdly, it divides the responsibilities of the transaction subject, attaches importance to the confidentiality value of consumer information, the identification method of electronic signature and so on. Finally, since the current domestic Internet financial supervision mainly adopts the supervision mode of separate operation and separate supervision, the information exchange between various departments is inconvenient and unified decision-making is difficult. Therefore, when strengthening the supervision and management of Internet finance, it is necessary to actively cooperate between various regulatory departments and formulate an effective joint implementation scheme based on laws and regulations, So that Internet finance can be more exposed to supervision.

4.2. Gradually Improve the Credit Rating System

For the deficiencies of the current Internet financial credit rating system, the people's Bank of China shall determine a unified information disclosure format in strict accordance with the relevant provisions of the regulations on government information disclosure. At the same time, we should unify the identification norms of information subjects and the norms of basic terms of credit investigation, formulate clear and perfect overall standards for the credit investigation industry, and improve the applicability and scientificity of credit investigation standardization. Banks can master the basic information of most customers. Credit rating agencies disclose the credit rating of enterprises, which can enable the two parties to exchange information to maximize the reliability of credit rating.

4.3. Improve the Operation Level of Financing Platform

Improving the operation water of the financing platform can reduce the operation risk of the financing platform. This needs the cooperation between the government and the financing platform. The government should first improve the access qualification of financing platforms: first, limit the assets of financing platforms and set a minimum asset value. Because the stronger the assets, the stronger the anti-risk ability. Second, evaluate the internal management system of the financing platform, and set the number of staff and academic requirements for some key positions. Third, look at the internal control system of the financing platform. It is necessary to evaluate the operation effectiveness of internal control and create a relatively safe financing environment for small and micro enterprises.

4.4. Improve the Level of Internet Technology

The fundamental to deal with technical risks is to improve the level of Internet technology. This requires the financing platform to take the following measures: first, upgrade hardware equipment and develop its own patented products. Secondly, increase the salary of the post to attract more excellent talents. Finally, network security management should be further strengthened to

block risk transmission, system paralysis and information leakage from the source.

5. CONCLUSION

Internet finance has broadened the financing channels of small and micro enterprises and solved the financing difficulties of small and micro enterprises to a certain extent. However, Internet finance is still in the development stage in China, so its own loopholes are very normal. However, these vulnerabilities do affect small and micro enterprises and increase the financing risk of large and small micro enterprises. In the fierce market competition, if there is a problem in financing, it may be a disaster for small and micro enterprises. Therefore, we should try our best to find solutions to these vulnerabilities to help small and micro enterprises have a safer financing environment, which requires the joint efforts of various forces. For example, small and micro enterprises should establish a sound and feasible management mechanism internally and form an effective supervision system to strengthen the authenticity of financial statements. Relevant national departments should also take corresponding measures, such as innovating the financial system, improving relevant laws and regulations, relying on big data to innovate the credit evaluation system, etc. Only with the healthy development of small and micro enterprises can the national economy have the potential for sustainable development.

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