

## **How to Solve the Difficult Problem Between Banks and Guarantee Companies -- take Guarantee Companies in Guangdong province for example**

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**Key words:** Financing guarantee, Corporation between Banks and Guarantee Companies, Difficulty problems, Countermeasures and suggestions.

**Abstract.** The corporation between Banks and Guarantee Companies nearly come into the freezing point in 2015, which is a very difficult year for the Guarantee Companies. Our country always hope to solve the financing problem of small and medium-sized enterprises through the development of financing guarantee. But cooperation between Banks and Guarantee Companies is the premise of the exertion of Guarantee companies, how to resolve the problem of this cooperation and promote the healthy development of the guarantee industry is a big problem. Based on the investigation of guarantee industry in Guangdong Province, take Guangdong Province for example, this paper deeply analyses this problem and put forward some countermeasures and suggestions.

### **Introduction**

Based on the science and Technology Department of Guangdong Province——small and micro enterprise financing service system research of specialized town of Guangdong Province . We investigate the financing guarantee companies of the main areas of Guangdong Province from April 2015 to December 2015, which mainly carried out in the form of discussion through over the Finance Bureau and the main financing guarantee company, during the survey, we found the cooperation between Guangdong Province financing guarantee industry and banks is very difficult. Financing guarantee companies hope to use the guidance of government policy to break the current Silver Bear cooperation dilemma. Facing this problem, the relevant government departments also showed the helpless, there is no good way to solve this problem. Therefore, this article analysis this problem from the overall status and put forward countermeasures and suggestions. The first part of this paper is the description of the current situation of the cooperation between the financing guarantee industry and the bank. The second part is the analysis of the reasons for the difficulty. The third part is the countermeasures and suggestions to promote the cooperation between the financing guarantee industry and the bank.

### **The current situation of the cooperation between the financing guarantee industry and the bank**

About Silver Bear cooperation, domestic scholars generally from the risk of cooperation and how to spread the risk and how to spread the risk, and promote the cooperation of bank and other aspects to analyze and put forward countermeasures and suggestions. Yan Lurong (2007) and colleagues analyzed the existing several security model in China, puts forward the concept of building diversified financing guarantee mode of structural proposals -- guarantee business and risk investment business, combined conditions, in order to increase the income of the guarantee risk investment company. Zhang Haifeng (2012) believes that the lack of strict security regulatory system and the uneven risk sharing of Silver Bear is the main reason for the problem of Silver Bear cooperation, should strengthen the supervision of the security industry to improve the security

system to promote cooperation. Duan Hongwei (2014) believes that the government can support the policy guidance and financial support to the credit guarantee institutions to eliminate the information asymmetry between the bank and the lack of compensation ability of guarantee agencies. Luo Zhihua (2015) believes that the security model of bank cooperation in the existence of legal defects and operational risks, easily lead to cooperative banks in credit, loan in the prisoner's dilemma, so set the risk sharing ratio can solve the current problem of risk sharing negotiation mechanism in Silver Bear cooperation, introduction of the trust relationship, the risk of capital financing Guarantee Corporation to carry out legal isolation, eliminate the legal risk and the prisoner's dilemma of cooperative banks, reduce the liquidity risk faced by the Guarantee Corporation and promote regional financial stability. This paper argues that the reasons for the difficulty of cooperation in Silver Bear is the overall development of the industry and the security system is not perfect, government policy support is not enough, based on these puts forward the countermeasure and suggestion.

## **Analysis of the reasons for the difficulty of silver Bear cooperation**

### **Current situation of financing guarantee industry in Guangdong**

From April 2015 to July, the work group conducted interviews with small and micro enterprises in Foshan, Dongguan, Zhongshan, Zhuhai, Jiangmen, Qingyuan and other small and micro enterprises financing related to the Financial Bureau and the Bureau of science and technology, also interviews the financing guarantee companies and local banks, in the course of the investigation found that in 2015 Silver Bear cooperation entered a very difficult period, Silver Bear cooperation almost stagnant. In 2015, the size of the financing guarantee business of Guangdong fell a lot, guarantee magnification further decline, the development of financing guarantee industry is not optimistic. The average guarantee magnification of Guangdong province is only 1.4, compared with last year decreased by 13%. New financing guarantee business significantly shrinking, only 31 billion 800 million Chinese yuan, compared with last year decreased by 26%.

### **Analysis of the main reasons for the difficulty of Silver Bear cooperation**

#### *Guarantee agency profitability is generally weak*

At present, due to the large number of security agencies, small size, excessive competition in the industry is serious, resulting in a large number of its guarantee magnification is difficult to improve, profitability is generally weak. Low profitability prompted some agencies to operate outside the main industry, illegal operations, endangering the healthy and sustainable development of the entire financing guarantee industry, which directly led to the suspension of the majority of banks and private security agencies to cooperate. After nearly 3 years of shuffling, in the process of market competition, has been eliminated part of the strength of the weak Guarantee Corporation, but the current situation is the future development of the Guarantee Corporation is not clear, the enthusiasm is seriously hurt. In addition, a single guarantee business, at present guarantee institutions to provide service is mainly to short-term loan guarantees, and to ensure that the project, trade financing guarantee share is very low, single varieties of business is not conducive to business risk dispersion. Besides Guarantee agencies for small and medium-sized enterprises in financing bank guarantee at the same time, general requirements of small and medium-sized enterprises to provide counter guarantee and counter guarantee is also very single, although a bank requirements is relatively low, but basically or requirements of corporate finance to provide fixed asset mortgage, and process of handling procedures are cumbersome, the lack of innovative guarantee the cooperation effect between commercial banks and guarantee agencies.

#### *Industry development asymmetry*

China's banking industry is an oligopoly industry, the size of bank funds, strength, and therefore the guarantee industry must build a strong enough scale, in order to obtain the equal right of cooperation with the bank. In the short term, with the possibility of building a strong market security system is relatively low, therefore, it needs the government's intervention to strengthen the construction of the guarantee system. By July 2015, there are 360 financing guarantee institutions in Guangdong Province. 69% of the registered capital of the financing guarantee companies of Guangdong Province

in the 1-2 billion Chinese yuan, accounting for more than 1 billion Chinese yuan of registered capital of 1% Chinese yuan. Therefore, there is no guarantee institutions to be able to negotiate with the banks on equal, also led to guarantee institutions in order to obtain cooperation with the bank, had to make concessions, enjoy limited benefits, bear all the risk of repayment. In case the risks and benefits of unequal, guarantee company in order to pursue the maximization of benefits, tendency to very large, desperate to from the bank to obtain funds for high risk investment or usury business.

*Re guarantee system is not perfect, the government's support for the security industry is insufficient*  
Re guarantee system is not perfect, lack of a unified system of re guarantee. In our country, with the development of the guarantee industry, some provinces and cities have carried out the exploration and practice of re guarantee in different degree. At present, China has 24 provinces (cities, districts) established a re guarantee institutions or clear the re guarantee institutions financing function, 24 provinces were established regional, provincial re guarantee function (or functions) re guarantee institutions to 25, but are still in the exploratory stage, has not yet formed a unified and guarantee system.

Financing guarantee, as a kind of economic activity, reflected is a kind of trust and financial leverage effect, have financial and intermediary double attribute is a high leverage, high risk industry, need the government to give specific risk subsidy, in order to ensure the basic profit space and its sustained development. At present, direct government investment to guarantee system of funds rarely, in terms of quantity and capital accounts for the ratio of view, policy guarantee mechanism in the industry accounted for than are low, and private security agencies to occupy the dominant position, policy guarantee mechanism construction did not form unified system, and is in the stage of exploration, is clearly not enough to support the development of the entire security system.

*Lack of effective risk management mechanism in the security industry*

The guarantee industry lacks effective risk management mechanism and effective risk management mechanism is an important guarantee for the healthy development of credit guarantee institutions. The guarantee risk management mechanism includes the guarantee risk early warning mechanism, the internal control mechanism and the compensation transfer mechanism and so on. For example, in the security risk early warning mechanism, security agencies generally lack a set of scientific risk identification and evaluation system, and reduce its risk control ability. Government for lack of supervision of the security industry, degree has encouraged guarantee industry brought about by the rapid development of the problem, the research found that around the financing guarantee institutions belong to bureau of financial regulation, and around the Financial Bureau set up time is not long, professional financial personnel lack, for financing guarantee institutions only afford statistical functions, and no sufficient manpower to its supervision. Of their own lack of effective risk management mechanism and external supervision due to the lack in recent years, many security companies closed down, causing banks to guarantee industry a high degree of vigilance, since 2014 began to tighten and guarantee institutions of cooperation, coupled with the downward pressure on the economy by 2015 is large, many banks stopped cooperation with private financing guarantee company, Silver Bear cooperation entered a very difficult period, almost a standstill.

*Lack of a strong social credit system*

At present, China's largest credit is the government credit, commercial credit at a relatively low level, regardless of business or individual are not given due attention to credit, there is a lot of concealment and deception. Whether a bank or a Guarantee Corporation, the biggest risk comes from the enterprise itself. To the enterprise, they also has a grudge guarantee the company, the lack of the social credit system also leads to high default rates. Banks, Guarantee Corporation is difficult to grasp the real situation of small and medium enterprises, small and micro enterprises do not know the real situation of the Guarantee Corporation, the two sides just show their own favorable side, to hide their own shortcomings. Especially for banks, companies and Guarantee Corporation in collusion to cheat the bank loan event often occurred, which led to the Bank suspected the entire guarantee industry enterprises, refused to cooperate with them.

## **Countermeasures and suggestions to promote Silver Bear cooperation**

To ease the plight of the current Silver Bear cooperation, the government should assume greater responsibility, promote Silver Bear cooperation, to guide the financing guarantee industry bigger and stronger.

### **The government should strengthen the leadership role of financing guarantees, increase policy support**

#### *Highlight the role of the government in the construction of credit guarantee system*

The construction of credit guarantee system is a good medicine to solve the problem of financing for small and medium enterprises. In the process of building the system, not only need commercial guarantee institutions as the main body, but also need the government policy guarantee fund to do support. In the construction of credit guarantee system, the United States, South Korea and other countries to establish a credit guarantee system from the central to local, this guarantee system requires the government to establish a national credit guarantee institutions, and then local governments establish regional credit guarantee agencies, the government plays a leading role in the system. Italy has established a credit guarantee system for mutual assistance and the government to provide a guarantee. The government also plays a fundamental role in the system. Therefore, no matter which kind of credit guarantee system, the government needs to provide the foundation, the leading support.

#### *Increase policy support for the development of the financing guarantee industry*

Financing guarantee industry has developed rapidly in recent years, there has been a series of risk events, the government and banks to guarantee the attitude turns cold, the introduction of a financing guarantee policy documents mostly formulated in order to regulate the industry development. In recent three years, the government has a series of standardized financing guarantee industry documents also show that the government's attitude to the Guarantee Corporation's prudent supervision. In view of financing guarantee in the small micro enterprise financing role, the center has also been in support of the propaganda financing guarantee industry, the government in the policy file although did not appear to limit the development of the financing guarantee industry, but a secured financing to support the policy document still rarely. As a growing industry, the government should regulates its growth and give the same support measures to realize the social function of the industry. Private financing Guarantee Corporation facing severe survival problems, and policy formulation is not divided. The government should formulate the development plan, the development goal, the development direction and the development steps of the financing guarantee system; at the same time, financial office, science and Technology Bureau set up a development coordination group to formulate corresponding policies to the problem of financing guarantee industry; for the survival of the financing guarantee industry, to give tax, financial and other systematic policy support; implement the relevant policies of the Central Committee; increase the financial support for small and micro enterprises mainly serving small and micro enterprises financial support; for the development direction of the financing guarantee industry, learn from the typical guarantee company advanced experience to give the pilot to promote. In addition, the government can timely formulate policies to guide the financing guarantee industry combined with the Internet, cross-border development, mixed operation, broaden the industry's profitability channels.

### **Build a sound financing guarantee system**

A sound financing guarantee institutions system includes four kinds of policy guarantee institutions, mutual guarantee agencies, commercial guarantee agencies and re guarantee institutions. Policy guarantee institutions are the core of the financing guarantee system, the government support the development of small and medium enterprises has always been the establishment of state-owned policy financing guarantee institutions; mutual guarantee institutions is a supplement to the functions of the policy guarantee institutions, and it is a non-profit guarantee organization formed by the small and medium-sized enterprises to ease their own financing constraints and is an important part of the financing guarantee system; the establishment of the commercial guarantee company is for the purpose of profit, also engaged in investment and other business, in the small and medium-sized

enterprise financing guarantee system, occupy a large proportion;and re guarantee institutions as the basis for improving the SME financing guarantee system, in improving the financing guarantee system to play an important role.At present, Guangdong Province has 1 security agencies, the government guarantee agencies 18, more than 300 commercial guarantee institutions, mutual guarantee institutions have no statistics, but rarely met in the process of visiting.

#### *Establishment of policy financing guarantee institutions*

The government should encourage the orderly establishment of policy financing guarantee institutions around the city, so that the government financing guarantee agencies to cover every place and strive to create a model of policy guarantee institutions for the various regions of the financing guarantee institutions, give full play to the policy guarantee institutions to guide the role of other security agencies.Policy guarantee institutions as the core component of the financing guarantee system, its operation in the form of organization, in the efficiency and guide capacity is far greater than the various municipal government and the Bank jointly set up the pool of guaranteed funds.

#### *The establishment of mutual guarantee institutions*

In the aspect of mutual guarantee institutions, we should establish the form of guarantee institutions according to the trade associations, and promote the establishment of mutual guarantee institutions.Through field investigation of each city of Industry Association, we found that industry associations throughout the city where the industry has played a significant role, especially coordination within the association enterprise mutual help, there are several association based on its superior set up a small loan companies and financing guarantee company, the main object of service for the enterprises of the association, this reduce the degree of information asymmetry between financial institutions and enterprises, reducing the loan or guarantee risk.So that the government can refer to the typical industry association set up a financing guarantee institutions, this as a template in the province wide promotion, the industry association as a platform can promote new mechanism of landing speed and promote the efficiency of financing guarantee institutions serve the industry small and micro enterprises.In the establishment of these mutual guarantee institutions to give special tax, financial and other support; after the establishment of the organization, to promote cooperation with the provincial financing and then Guarantee Corporation to set the risk of the bottom line, to guard against the risk of.

#### *Strengthen the guidance of commercial guarantee institutions*

To strengthen the guidance of commercial guarantee institutions, so that the size of the financing guarantee institutions to expand, increase the ability to guard against risk.The financing guarantee institutions in Guangdong Province is much but not strong,therefore the government should encourage the registered Guarantee Corporation to carry out business as soon as possible at the same time, to actively support more private capital to enter the field of security, and constantly improve their own strength.Now the financing guarantee institutions to provide security business is mainly for liquidity loans to be secured, rather than to provide guarantees for long-term financing, this situation happens to be contrary to foreign security agencies.In view of this situation, we should encourage financing Guarantee Corporation to introduce strategic investment, expand their scale, in order to develop long-term financing guarantee and improve the current situation.Financing Guarantee corporation can be in the short term, a moderate increase in long-term financing guarantee business,make the short term financing guarantee and the long-term financing guarantee coexist.But in the long term, long-term financing guarantee business should be the main guarantee business of Guangdong Guarantee Corporation.

#### *To promote the development of re guarantee institutions*

An important reason for the low rate of long-term financing guarantee business is that the role of re guarantee institutions in the security industry is still very small,therefore, the government should increase the number of re guarantee institutions, in order to expand the total amount of re guarantee business, optimize the guarantee institutions and business structure.In addition, the government should improve and perfect the evaluation mechanism of government financing guarantee and provincial re guarantee institutions.For the government financing guarantee institutions ,local

people's governments at various levels shall, in light of the local actual, reduce or cancel the profitability requirements, with emphasis on the examination of the small micro enterprise financing guarantee business scale, service; the provincial re guarantee institutions, adhere to the guaranteed profit business principles, not for profit purposes, in front of the sustainable management provided, efforts to reduce financing guarantee and re guarantee service fees.

### **Improve the Silver Bear cooperation policy**

*The government introduced specific policies for Silver Bear cooperation*

Provincial government departments should encourage banking financial institutions in accordance with the national policy oriented banks, in accordance with the principles of sustainable business, risk prevention and control, initiative and financing guarantee institutions, simplify procedures, expand, deepen cooperation in Silver Bear cooperation; support the financing guarantee institutions and Financing Guarantee Corporation cooperation, financing guarantee institutions of cooperation and in accordance with market principles, provide risk sharing, or margin, increase magnification, control floating rate loan interest rate preferential terms; improve the performance appraisal and risk accountability mechanisms of financing guarantee institutions, improve the risk tolerance of small and medium micro enterprise financing guarantee loans. The banking financial institutions do not bear the risk or only part of the risk of small and micro enterprises financing secured loans, can appropriately cut the risk weight.

*Explore political and Silver Bear three party cooperation, improve the risk compensation mechanism*

First, establish risk sharing and cooperation mechanism. Currently in the Silver Bear agreement, the Guarantee Corporation to bear the risk of loss liability. The provincial government should play a leading role in exploring the political and banking cooperation mechanism to achieve the risk of small and micro enterprises financing guarantee in the government, banking and financial institutions and financing guarantee institutions to share the reasonable; or introduce the third party to provide a guarantee, effectively reduce the risk of Guarantee Corporation. Second, broaden the anti security channels, try to carry out the "twice mortgage". For small and medium enterprises collateral shortage and the use of collateral is not sufficient, banks should base on a certain percentage of collateral to grant loans, the remaining value of the collateral is secured by second times, the insured is mortgaged to the Guarantee Corporation, Guarantee Corporation again in accordance with the ratio of the proportion of the remaining value of mortgage again, to avoid the surplus value of collateral idle. Third, provincial government to promote the Guarantee Corporation as a platform, cooperate with the banks, give reasonable compensation for the risk of the banking financial institutions to guarantee loans, promote the establishment of sustainable business cooperation model.

*Promote the financing guarantee institutions to access the people's Bank Credit System*

The core reason for the difficulty of the silver bear cooperation lies in the guarantee institution itself risk control ability is low, beyond the bank to the risk tolerance range. Guarantee institutions of enterprises are evaluated through their own research, and then make judgments. This way increases the cost, and brings about not necessarily good results. Because of the high cost of access to credit system, most of the financing guarantee institutions did not access to the credit system, this also increases the cost of information search. In view of this, the government should formulate relevant policies and measures to encourage and promote the financing guarantee institutions access to the people's Bank credit system.

*Improve the supervision of financing guarantee institutions, control the risk of the industry*

The government should deal well with the balance between support and supervision work, and handle the relationship between development and supervision. Regulators need to innovative mechanism and means of supervision, actively explore the implementation of classification regulation, promote information construction supervision, strengthen inter departmental interconnection of information sharing and cooperative supervision, improve the effectiveness of supervision, to ensure that the area of systemic risk does not occur. At present, Guangdong Province, according to the State Council promulgated the "Interim Measures for the management of financing Guarantee Corporation" to develop the relevant rules, this rule is the financing guarantee institutions market access regulatory

documents. But the regulation of the industry can not only rely on market access file, the government should develop a standardized and effective industry management approach as soon as possible, clear government regulatory responsibilities, in accordance with the implementation of the measures for the supervision function. At the same time to establish brand and industry status, make the industry overall credit rating upgrade. The government should also guide the social security agencies rating, to facilitate the evaluation of the bank and the government of the financing guarantee industry, but also urged the financing guarantee institutions to improve their management level.

#### *Promotion financing guarantee institutions credit rating*

The government should guide the security industry to introduce rating agencies, to promote the credit rating of the financing guarantee institutions. At present, the Guangdong provincial government began to pilot the introduction of credit rating agencies, rating the financing guarantee institutions, this method can increase the guarantee agencies credit and improve the relationship with the bank. Under the coordination of the government guarantee agencies to conduct a unified credit rating, and according to the rating results on the financing guarantee institutions supervision. Combine rating with government regulation to improve the efficiency of rating.

### **International Experience for Chinese**

#### **Policy guarantee institutions occupy the leading position in the small and medium sized enterprises financing guarantee business**

Security system in the United States, there are both policy guarantee institutions and commercial guarantee institutions. But the commercial guarantee organization mainly engaged in bid guarantee, payment guarantee, performance guarantee and other non financing guarantee business, SME financing guarantee business mainly by the U.S. Small Business Administration, local government operations of the regional professional security agencies and the community to small enterprises guarantee machine structure, such as the policy guarantee mechanism. Japan's two levels of credit guarantee system, Japan credit guarantee associations and small and Medium Enterprises Credit Insurance Corporation, to provide financing guarantee business policy institutions for the small and medium-sized enterprise; supported by the financial capital, but the government did not operate guarantee business, but will be entrusted to the Treasury of credit insurance and credit guarantee association to commercialize the principle of operation. Visible, policy guarantee institutions in carrying out the SME financing guarantee business has its own advantages, whether it is take the government direct operation type (such as) the United States or government funded, market-oriented operation, such as that of Japan, the government's financial support and to ensure the credibility of the are in the establishment of credit guarantee system for small and medium enterprises has an important role.

#### **Credit guarantee institutions and cooperative financial institutions signed a standardized agreement, and take different forms of authorization in business cooperation.**

In Taiwan, small and medium enterprises credit guarantee fund and cooperative financial institutions signed a contract to handle the credit guarantee business, small and medium enterprises can directly to any one of the financial institutions of the network to apply for credit guarantee. Cooperation with the trust fund to carry out cooperation in various banks and credit cooperatives in Taiwan, there is a wide range of business outlets, companies can apply for the nearest, making the application of credit guarantees more convenient and efficient.

#### **Perfect re guarantee system**

In foreign countries, when the guarantee industry has developed to a certain stage, need re guarantee system build and perfect, such as Korea credit guarantee fund Federation, Japan's small and medium enterprises credit insurance corporation and other, are national re guarantee institutions. Re guarantee system most set by the government institutions which undertake the re guarantee business, most guarantee funds are from government funded, to guarantee the company provides a very good role in increasing trust. At present, China's re guarantee, due to its uncertainty, its role in increasing the credit

of the Guarantee Corporation is very limited, compensatory procedures are relatively complex, has not played a role in re guarantee. Also led to all the risk focused on Guarantee Corporation, banks do not want to cooperate with private Guarantee corporation.

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