

# *The Problems and Solutions of the Supply Chain Financing of the Enterprise from the Perspective of the Bank*

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**Abstract:** Supply chain finance is one of the key topics in today's research. Recently, the number and size of enterprises of various types have increased, and the demand for financing has grown significantly. At the same time, banks are providing supply chain finance services to enterprises to meet the demand for enterprise financing. Some researchers have found that banks play an important role in the supply chain finance business, and the amount of financing is also increasing. However, there are still some unresolved problems in the process of enterprise financing by banks. Therefore, this study focuses on the difficulties in the process of enterprise financing from the perspective of banks and the countermeasures to solve them. The research methodology of this paper is as follows: firstly, to collect the transaction data of Ping An Bank's supply chain financial services in the past ten years, and secondly, to analyse the data and identify the problems in the financing process from the changes in the data. It is found that the current Ping An Bank has problems such as financing cost is still high, it is difficult to guarantee the financing security and transaction transparency, and the financing mode innovation is insufficient, and these problems also limit the further development of the enterprise. In order to better improve the domestic supply chain financial system, the government, enterprises, banks and other parties should work together to overcome the current difficulties.

**Keywords:** Supply chain finance, Ping An Bank, enterprise finance

## 1. Introduction

Banks' supply chain finance business is crucial to the development of enterprises. Supply chain finance, as an important hand in promoting supply-side structural reform, has been hot in China in recent years. At present, China's economy has moved from a rapid growth stage to a high-quality development stage. The economic growth model pays more attention to balanced development, and more attention to achieving a dynamic structural balance between supply and demand at a higher level. Through co-development with enterprises and regulators, closely linking various links such as supply, production, circulation and consumption, and realizing the matching of supply and demand, costs can be effectively reduced and efficiency improved. It is crucial to develop and promote the supply-side structural reform of supply chain financial services or platform construction. According to the information data released on the official website of Ping An Bank of China, the service amount of Ping An Good Chain alone will grow from 34 billion yuan to 82.7 billion yuan in 2020, and there is

no doubt that banks play a huge role in the supply chain finance business [1]. However, at present, banks still face bottlenecks in service model innovation, service platform security risks, high operating costs, low customer development, and low transaction process transparency, and how to solve these problems is the top priority of the research.

Based on the 2023 Digital Research Report on Supply Chain Finance in China, this paper attempts to explore the relationship between banks' supply chain finance business and enterprise finance under objective data. This study puts traditional theoretical research into more detailed data analysis, so that the role and shortcomings of banks in supply chain finance can be more easily found.

## **2. Ping An Bank Supply Chain Finance Business Overview**

The demand for supply chain finance-related business or platform transactions in all industries in China is rapidly increasing, and how to ensure high-quality development while growing rapidly is a key point for all parties to consider. Undoubtedly, banks play a key role in the whole process of supply chain finance transactions. Compared with traditional credit business, supply chain finance pays more attention to the supply chain itself, that is, the trade background between upstream and downstream. In the traditional credit model, the approval of commercial banks mainly involves a comprehensive investigation of core enterprises and small and medium-sized enterprises, and an all-round approval of their creditworthiness, whether there is real estate to be mortgaged, and whether the cash flow is stable to ensure the ability to repay the debt and interest in the future. Among them, Ping An Bank is a leader in supply chain finance in China.

Here are some of the main supply chain finance businesses provided by Ping An Bank:

### **2.1. Advance Financing**

Banks, together with enterprises and regulators, provide a complete online pre-financing platform through which companies further down the supply chain offer online pre-financing. This product provides credit customers with online ordering, online financing, online collateral and pledging, and online repayment services [2].

### **2.2. Online Spot Financing**

Ping An Bank cooperates with the regulator to provide customers with online pledge, online debit, online redemption and online repayment services through online collaboration between the bank's online financing platform and the regulator's warehouse supervision platform.

### **2.3. Reverse Factoring**

Through the online supply chain financing system, core enterprises can provide suppliers with accounts receivable (invoice) information in various forms, suppliers can complete the accounts receivable transfer and financing applications online, the bank system automatically completes the transfer audit, financing online issuance and repayment funds processing.

### **2.4. Core Enterprise Collaboration**

Online data collaboration. Ping An Bank and the core enterprises carry out data collaboration, through the online supply chain financial system, to promote online communication between core enterprises, improve risk prevention ability and efficiency, improve supply chain management and the overall competitiveness of the supply chain. Through data collaboration, core enterprises can obtain real-time financing data from upstream and downstream enterprises, predict market trends,

effectively prevent supply chain risks, and provide data support for the formulation of production and operation strategies.

### **3. Financing Process**

First, the distributor submits the order plan and financing application to the core enterprise. After the core enterprise reviews the order plan and financing application, it submits it to Ping An Bank, then Ping An Bank reviews the order plan and confirms that the financing application is correct, and then releases the money. During the period, Ping An Bank appoints the supervisor to store and supervise the goods. After the core enterprise receives the payment and confirms the account, it confirms the order and arranges for the supplier to produce the goods, the supplier accepts the order, produces the goods, and finally ships the goods to the core enterprise, the core enterprise ships the goods to the distributor. After the core enterprise receives the payment, it confirms the order and arranges for the supplier to produce the goods, the supplier accepts the order, produces the goods, and finally ships the goods to the core enterprise. After the core enterprise receives the payment, it confirms the order and instructs the supplier to produce, the supplier accepts the order, produces and finally ships the goods to the core enterprise, the core enterprise ships the goods to the distributor,, the distributor ships the goods to the supervisor, the supervisor confirms the arrival of the goods and goes through the collateral and pledge procedures, the supervisor finally issues the collateral and pledge to Ping An Bank [3].

### **4. Industry Pain Points**

#### **4.1. Service Model Innovation Bottleneck**

First of all, the technological innovation level of Ping An Bank is limited, and there is still a big gap in financial information technology when compared horizontally with the products and services or platforms of the same industry abroad, so that it cannot achieve the effective docking of logistics and capital flow, which has hindered the innovation and development of the bank's supply chain finance. For example, in a supply chain finance business of Ping An Bank, the asymmetry of transaction information between financiers and suppliers at all levels leads to low communication efficiency between core enterprises and remote suppliers, which in turn affects the production efficiency of the whole industrial chain [4]. Secondly, it is difficult for Ping An Bank to devote more time and energy to business innovation. Ping An Bank, as the earliest batch of banks to carry out supply chain finance business, launched the relevant business earlier, quickly seized the market, its business every year, high profits and high returns, but high returns are difficult to promote business innovation, plus China's overall supply chain finance business started late, the lack of domestic competition in an orderly manner, so to sum up, Ping An Bank's business model is relatively single, insufficient innovation ability.

#### **4.2. Security Risks of the Service Platform**

In the era of big data, all kinds of information are easily leaked on the Internet, and how to balance transaction transparency and privacy protection is an important point for Ping An Bank to consider. As the supply chain financial services platform is in the primary stage of development, the platform is vulnerable to attacks and theft of private information by lawless elements, resulting in the leakage of financial data and jeopardising the security of customers' property. Second, Ping An Bank lacks a professional operating platform. The bank has implemented the business concept of "professionalism" in the management of supply chain financing. However, the bank has not yet established an independent organisation responsible for managing the supply chain finance business,

resulting in Ping An Bank's lack of a professional operating mechanism in assessing supply chain commitments.

### **4.3. High Operating Costs**

Ping An Bank requires companies to submit financial statements and, after analysing the business status and market position of the customer, confirms that the company is able to repay the loan before granting the loan, which results in its operating costs remaining at a high level. Second, Ping An Bank's current supply chain financial services platform relies heavily on third-party logistics companies to supervise goods, which requires Ping An Bank to bring in a supervisor to assist in supervision and pay a substantial supervision fee. To solve the problem of information asymmetry, supply chain financial services require a large number of credit intermediaries and information intermediaries, which greatly increases the cost of capital borrowing and lending. Third, as commercial banks have many competitors, the business models of supply chain finance are similar. Therefore, it becomes the most common means for banks to gain a competitive advantage by lowering service charges [5].

### **4.4. Low Level of Customer Development**

Ping An Bank provides supply chain financial services to a number of industries, which leads to the dispersion of service areas, and the scale effect of customer development is not obvious. At present, the core enterprises hold the actual customer resources, bargaining power and comprehensive strength, and constantly squeeze the profit space of Ping An Bank; in addition, due to the excessive supply chain financial services industry of Ping An Bank, resulting in the impossibility of spending a lot of manpower and resources to do a good job in the research of each industry, which puts Ping An Bank in a disadvantageous position in some areas, and is very likely to cause bad debts.

### **4.5. Less Transparency in the Whole Transaction Process**

From raw materials to finished products to distribution to consumers, the supply chain has many links and is closely connected to all parties. How to verify and confirm the authenticity of products and processes in the supply chain is an important factor limiting the further development of Ping An Bank's supply chain finance business, which also indicates that it is difficult for banks to provide upstream and downstream credit to SMEs based on limited information. As discussed earlier in this paper on platform security, Ping An Bank's service platform must achieve both openness and transparency in the transaction process and protect customers' important financial and private information. Ping An Bank has a long way to go to achieve a balance between the two [6].

## **5. Risk Control**

### **5.1. Credit Risk**

#### **5.1.1. Core Company Credit Risk**

In the receivables financing model of supply chain financial services, the core enterprise is the first repayer. If the core enterprise's credit rating is not high and it does not have sufficient repayment ability, the bank will face the risk of bad debts. Whether the core companies have good creditworthiness and the ability to repay the loans directly determines whether the bank can provide receivables financing services to these companies.

### **5.1.2. Fraud Risk**

First of all, in order to gain the bank's trust, enterprises will make fraudulent loans, they will deliberately avoid mentioning their own defects, some enterprises will even be false to the financial statements, and the bank must invest a large amount of money and manpower to pay attention to the screening, in order to reduce the risk of fraud. Second, the buyer and seller may join hands to defraud the bank of funds, the two companies refuse to repay the bank after fraudulently obtaining the funds by creating a fake transaction. In this case, the bank is also very prone to losses and bad debts [7].

### **5.1.3. Pledge Risk**

During the period of goods pledge, due to the macroeconomic environment or other factors, such as the tightening of inflation, inventory liquidity, price changes of goods and other factors, the real value of the pledge will change to a certain extent, when the value of the pledge changes will bring more uncertainty to the bank, these uncertainties may trigger risks.

### **5.1.4. Credit Risk of the Financing Company**

Similar to the credit risk of the core enterprise, the financing enterprise will intentionally exaggerate its comprehensive ability in order to obtain financing from the bank. However, under the market economy system, due to the instability of the market, high-risk enterprises often incur losses and go bankrupt due to market fluctuations, thus failing to repay their loans.

## **5.2. Operational Risk**

Supply chain finance involves a number of entities such as upstream producers, downstream sellers, regulators and banks. Each subject is an independently operating economic entity. As the structure of the supply chain becomes more complex and the scale increases, the risk of misinformation transmission in the supply chain also increases. The risk is also gradually increasing. Once an operational error occurs, it will increase the potential risk for banks to conduct supply chain finance business [8]. Therefore, the standardisation and rigour of business operations have become the focus of banks' control.

At the same time, as the post-loan operation is very important in the risk control of supply chain finance, Ping An Bank should clearly specify the responsibilities and obligations of buyers and sellers as well as supervisors. It can speed up the registration and consultation of post-loan management information, so as to record the arrival, redemption and return of payment in real time, compare the information provided by the operation platform and the information obtained by the post-loan management in a timely manner, strengthen the supervision of credit-granting enterprises, take measures to preserve the collateral, increase the default cost of credit-granting enterprises, and realise the bank's claims in supply chain finance.

## **5.3. Market Risks**

### **5.3.1. Operational and Guarantee Risk of Logistics Companies**

In supply chain financing, logistics companies play an important role as a link between financial institutions, SMEs and core enterprises. For example, order request information, cargo monitoring and guarantee training are all transmitted through logistics companies at the upper level of the supply chain. In a situation where their standardisation and regulation still need to be improved, the variable of goods monitoring in supply chain finance can turn into a new source of risk. For example, if there is regulatory malpractice, fraudulent collusion with SMEs, or disputes with the core enterprise, the

orderly cycle of supply chain finance is bound to be affected, so that the risk management of supply chain finance is not seamless, and in serious cases, it will cause the entire supply chain finance to be interrupted or collapse, and the impact may even be greater than the risk of loss caused by the default of the core enterprise [9].

### **5.3.2. Economic Fluctuation of the Market Economy**

In the process of developing the socialist market economy, the macro-control policies of the state will have a far-reaching impact on the development of the social economy. The adjustment of these laws and changes in macro-control policies will have a more or less significant impact on various economic activities in the supply chain. For example, the adjustment of the direction of industrial structure will affect the direction of enterprises' capital investment, and investment in traditional industries will suffer a certain loss, thus causing financial problems.

### **5.4. Political Risk**

As China has not yet established laws and regulations specifically for this business, some of the assets involved in the business or services provided by the platform do not have a legal status and effectiveness that is relatively independent of the underlying transaction [10]. Therefore, the relevant legal lag phenomenon is presented, which hinders the stable development of Ping An Bank's supply chain finance business. Compared with the rapid development momentum of Ping An Bank's supply chain finance products, the construction of relevant laws and regulations in China's financial industry is still lagging behind, which is not conducive to providing a good legal environment for the in-depth development of supply chain finance.

## **6. Conclusion**

This study concludes that the banking industry, represented by Ping An Bank, continues to improve and innovate its existing supply chain finance business, so that it can greatly promote the development of various types of enterprises and achieve the ultimate goal of economic growth. This conclusion is consistent with the general impression of the bank's supply chain finance business. First of all, the bank launched the supply chain financial services is one of the embodiments of China's financial science and technology progress, scientific and technological innovation is the first productive force, the bank continues to innovate supply chain financial services model, the process also further promotes the development of China's financial science and technology, at the same time financial science and technology is also in the counteraction and the development of banking business. Second, the status of banks, enterprises and third parties in the whole supply chain is equal, and each takes what it needs, which greatly improves the efficiency of work and use of funds. The focus of this study is to identify the status and role of banks in supply chain finance, the current difficulties and risks faced by the entire industry, and to propose some countermeasures based on the current situation.

Finally, this study does not consider the comparison of the existing supply chain finance in China with the more mature supply chain finance in foreign countries, which lacks data support. In the future, more variables can be designed for the same type of research, such as increasing the comparison between domestic and foreign banks in the supply chain finance business, or comparing the amount of money and changes in Ping An Bank's supply chain financial services for enterprises of different years and sizes, which will be conducive to the in-depth study of this research.

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