

Research Review on Commercial Banks Small Loans Risk and Control

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Abstract This paper puts forward commercial bank small loans are not only benefit for Commercial banks which develop clients of medium-sized and small enterprises and rural market, becoming new profit growth point, but also are good for the medium-sized and small enterprises and farmers' financing difficulties. And uses risk management, early warning management and risk control to solve the problems which lie in commercial bank small loans. At last we conclude we should take examples by foreign countries and adopt kinds of methods continually in order to decrease the gap, and achieve the best development.

Key words Commercial bank; Microcredit; Risk management; Risk control

1 Introduction

Since reform and opening, China's commercial banks are accelerating quickly with the pace of development, and China's commercial banks are faced with many problems in the credit market as well. In the capital requirements, the difficulties of loans to farmers and urban employees still abound. The foreign banks use many supervision measures to balance the relatives between banks and enterprises and farmers. They did a lot of researches and summarized the corresponding measures. This paper argues that the development of microfinance services can alleviate these difficulties. Therefore, risk management, learning the advanced experiences from foreign banks, continuing to strengthen risk management and control of commercial banks are important guarantees to improve economic efficiency, stability and rapid development in China.

2 Research of Commercial Banks Small Loans Risk and Control

2.1 The connotation and character of China's commercial banks small loans

In the "Research on the issues of Commercial banks small loans", Fang Xianjun(2008) said small loans services are Commercial banks which provide for entrepreneurs and corporation of medium-sized and small enterprises, urban workers and farmers, the loan period is short (normally within one year or longer than one year investment cycle) and the loan amount is minor.

In the "Creative research in helping social vulnerable groups: A Case Study of Taizhou Commercial banks micro credit", He Sijiang and Shi Jinchuan (2009)said small loans have four primary services, they are small micro-loans, small little loans, small credit loans, small flexible installment loans. The educational level and financial knowledge of general clients are not high, so it requires microcredit staff that not only have higher communication abilities and competency, but also have excellent identification and judgment abilities.

In the "Comparative analysis between abroad small loans modes and the small loans companies in Zhejiang", Zheng Zhihui, Wang Zihan and He Jiangling (2009) pointed out the main modes of the small loans are financial institutions which are regulated by non-government business organization or government, it has four modes: First, mode of group loan; Second, the mode of village bank; Third, the mode of personal loan; Fourth, the mode of mixed type.

In the "Postal savings business in microfinance development of rural markets", Liu Wenping and Feng Wujun(2009) said China post office savings bank should continuously enhance popularity among the society and the microcredit clients by means of various promotional methods. Small loan business as a postal savings funds to provide support services to businesses, loans fast and transparent operation are the main highlights of its publicity, In the initial micro-credit business, we must always adhere to "safeguarding the interests of customers" for the purpose, to "loan fast, no dinners "for the feature and "customer satisfaction" as the goal.

2.2 Risk of commercial bank

American scholar Hamins(1895) said in his book "Risk As An Economic Factor", "risk" is defined as: " the word of risk in economics and other academic fields, there is no technical content, it means that the likelihood of damage. An act whether result in harmful consequences or not can be defined by its

uncertainty, if a behavior is uncertain, the behavior reflects the risk of the burden.” So risk is that refers to the uncertainty created by the loss (or probability). Risk has two elements: the loss and uncertainty (possibility), it excludes the loss and inevitable loss in both cases. The probability of loss is more than 0 and less than 1.

The former president of Citibank Walter Winston said that risk management is the task of bankers. Greenspan said the task of banking is always the measuring risk, accepting risk and managing risk. Visible, banks need to prepare for a variety of risks, and for most banks, the main risk is credit risk. Needless to say, in order to ensure the steady operation and development of commercial banks, the primary task is to guard against and control lending risks.

In the “On Risk Management of Commercial Banks”, Yao Xu (2006) said commercial bank risk is the risk that during the operations of commercial banks, because of the impact of uncertainties, makes the real income of commercial banks deviate from the expected return, resulting in losses or obtain additional revenue possibilities. The risk of commercial banks include credit risk, liquidity risk, interest rate risk, market risk, foreign exchange risk, liquidity risk, operational risk, technology risk.

In the “Research on credit risk management of city commercial bank loan”, He Yao (2006) said credit risk can be defined as the refusal or inability in full payment of outstanding debts to the credit provider on time, resulting in potential losses. It is generally divided into commercial credit and bank credit. Credit risk is defined as; in the process of commercial banks provide loans to borrowers, because of decline in the solvency of the borrower or malicious breach of contract and other factors, leading to uncertainty to repay bank loans and the amount of bank loan loss.

In the “Risk Assessment on Commercial Bank Loan Project”, Chai Jianxin (2008) pointed out that commercial banks as credit enterprise, the definition of risk is much wider than the average industrial and commercial enterprises. Financial safety, efficiency and the possibility of the loss or damage of liquidity should be defined as risk. This commercial banks risk can be defined as: in the management process of the commercial banks, due to the uncertainties with the customers' and their own factors, the actual operating conditions and expected operating conditions produce a certain deviation, which makes the commercial banks suffer the possibility of efficiency or safety and liquidity of loss and damage.

In the “Credit risk control of commercial banks”, He Kang (2010) said the implications of credit risk for the borrower can not repay quantity of principal and interest on time in accordance with the contract or breach of other terms agreed in the contract (for example, the loans used for other purposes), resulting in loss of funds of the lender.

2.3 Early warning management of commercial bank loan risk

In the “On early warning mechanism of the state-owned commercial bank's credit risk”, Ge Liwei (1999) referred to the establishment of credit risk assets should have a distinct warning mode and the content of forward feed control. Then indicates the early warning mechanism of credit risk is composed of five aspects, which are credit information collection, transmission mechanism, credit risk analysis system, credit risk management system, credit risk accountability mechanisms, and incentive and restraint mechanisms.

In the “Artificial Neural Network Based on Credit Risk Early Warning”, Yang Baoan and Ji Hai (2001) proposed artificial neural network (ANN) applies to commercial bank credit risk early warning (EW) system, then overcomes the lack of adaptive capacity, the indirect information and knowledge, time-consuming, low efficiency so as to build a foundation from alert to the practical. And it uses the former to three of the BP model, designing the network structure, and the network training and testing. Finally, use VB language and ACCESS97 for computer implementation and empirical sample research.

In the “Bank Loan Risk Management of Financial Early Warning System”, Liu Yuxiang (2006) proposed that apply corporate financial distress prediction model to bank loan risk management, early warning method for early identification of loans through the existence of the business risk.

In the “Based on metabolic GM (1,1) non-performing loan ratio of commercial banks warning”, Chen Jinlong, Hu Jia and Lu Tai (2010) use GM (1,1) Grey forecasting model to predict, it provides similar data for commercial banks' relevant departments or regulatory bodies to start corresponding control, defusing the risks ahead. Its main feature is the raw data needed to build prediction models are easily captured; this method is simple and has high accuracy.

Through the analysis of the above-mentioned, we can build two charts to illustrate the early warning management which applies to the commercial banks loan risk, and in the factual examples, what we should do. Through the charts, we can see the different risk grade, so we will find corresponding methods to solve.

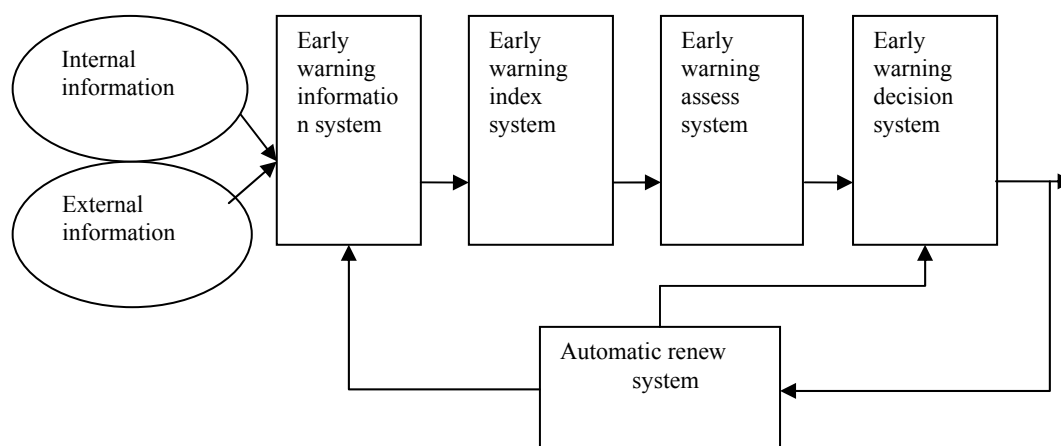


Figure 1 Loan Risk Early Warning and Monitoring System

Table 1 Client for Loan Risk Index, Risk Grade and Early Warning State

Risk Index	Zero to twenty	Twenty to forty	Forty to sixty	Sixty to eighty	Eighty to hundred
Risk State	High risk	Higher than moderate risk	Moderate risk	Lower than moderate risk	Low risk
Early Warning State	Crisis	Serious crisis	Medium crisis	Light crisis	No crisis

2.4 Commercial bank risk management of small loans

In the “Research on credit risk management of state-owned commercial bank loan”, Yu Wanling (2006) proposed the credit risk measurement methods, and its innovative significantly improves the existing system of vague and subjective ill, for the development of more accurate loan credit risk management mechanism lays a theoretical foundation.

In the “On Risk Management of Commercial Banks”, Yao Xu (2006) said in order to strengthen risk management of commercial bank, we need to cultivate advanced risk management culture, establish and improve a full range of risk management system, improve risk management infrastructure, strengthen financial supervision, standardize information disclosure these five points.

In the “Commercial Bank Credit Risk Management Strategy”, Wang Xinyu (2007)said we should build the commercial bank's credit risk management system in accordance with economic and financial development needs. Details from the macro and micro aspects of strategic management approach are proposed.

In the “Commercial bank risk management - people management”, Zhang Mingzhi and Luan Yingchao(2010)proposed a concept which is people-oriented, strengthening commercial bank risk management. Because people are in the process of the entire business in commercial banks , people-oriented is to strengthen risk management around “people”, and shape the cultural concept of “behavior at home”, and regulate employee behavior from the big aspect.

2.5 Commercial bank risk control of small loans

In the “Credit Risk Control on Farmers of Small credit in China”, Chen Ying (2006) said farmer credit loans use credit scoring methods to assess and control credit risk, to achieve the combination of qualitative and quantitative analysis.

In the “Product development of China Postal Savings Bank small loans”, Zhao Xuguo (2008) said the risk of small loans should strive mainly from the strict process operations, the establishment of risk sharing and transferring mechanism and actively participate in the credit system construction these three areas together.

In the “On the current rural credit cooperatives, credit risk control system”, Yuan Tao (2009) designed a control system of rural credit cooperatives in accordance with his years of work experience, four parts mainly are credit risk lending by the good review, strict control associated with business loans, strengthening the credit after the establishment of risk management and transfer mechanisms.

In the “Commercial bank loan risk and control project”, Han Wenguang(2010)said in order to achieve prevention and management of the project lending risk, every aspect of project loans should use scientific methods, pre-loan assessment, loans in the management , post-loan monitoring, so as to truly

achieve effective control of the risk of project loans.

In the “On the credit risk control of commercial banks”, He Kang (2010) presented the credit risk of commercial banks, respectively, from the establishment of effective early warning mechanism; Strengthening commercial bank credit risk aversion; strengthening their management of commercial banks; strengthening monitoring funds after lending the four aspects of control.

3 Conclusion

This article is reviewed from the meanings and characteristics of commercial banks small loans, risk of commercial banks, commercial banks loans risk early warning management, business risk management of microfinance banks, risk control of commercial banks small loans five aspects respectively. Through the review we can see that compared to the developed countries, there is still a big gap on the risk of commercial banks in China, which requires us to further realize our limitations and adopt a series of measures to improve gradually. Just as lending examination, severely control associated enterprises to loan, strengthening the afterwards management after loans and establish risk transfer mechanism and so on.

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