Analysis of Development Causes and Risk Prevention to Logistics Financing

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Abstract: China is now in the process of economic transition. It is a "golden development period", but also a "contradiction highlights period." Enterprise management is an open system. In this system, enterprises closely related to the suppliers, customers, logistics companies, banking institutions, and so on. Logistics finance is an important measure to promote the logistics supply chain integration, and improve the whole supply chain efficiency. It plays a great role in enhancing the competitiveness of the supply chain. Concept and content of financial logistics are put forward from three integrated supply chain, logistics enterprise risk management, supply chain risk management and integrated logistics requirements. Financial logistics of the financial services and their mutual relations are analyzed.

Keywords: Logistics financial, logistics factoring, risk prevention

1 Introduction

Domestic scholars on the logistics financial of the research in related fields are “material banks”, “intermediation wharf” of the areas. These studies are mainly based on the traditional logistics financial services, and the corresponding financial services issues are not discussed in supply chain, logistics development perspective. The logistics financial services are strongly demanded by SMEs, logistics service providers and financial institutions. At present, China's logistics financial services degree is not high, and is still remaining in the level of providing financing services about some point of the supply chain. For China's logistics financial services which are throughout the whole supply chain, as there are less enterprises setting foot in this field, there is still much room to improve in logistics financial services market. The causes of logistics financial business are analyzed based on the development of China's logistics financial status and bottleneck. Finally, financial risks and prevention measures which logistics financing faced are analyzed.

2 Financial status, bottlenecks and countermeasures of the logistics development in China

China's domestic logistics financial services are born with modern third-party logistics companies. If foreign logistics financial services are promoter of financial institutions[1], domestic logistics financial services are the main promoter of third-party logistics enterprises.

Modern third-party logistics businesses become more complex in the domestic logistics financial services. In addition to provide modern logistics services, it is also need to cooperate with financial institutions, and provide some financial services[2].

2.1 The status of China's logistics financial business

The specific status of China's logistics financial business is as following:

First, although there have the needs and infrastructure of logistics financial business in China, but the current service level is not high, and the scope of service is single, which is still remaining in the level of providing financing services about some point of the supply chain. Logistics financial services market in China is at initial stage now.

Second, industries the products involved are very widely. For example, logistics financial businesses of Zhongehu Group involve in black non-ferrous metals, building materials, foodstuffs,
household appliances, automobiles, paper, coal, chemical and other nine categories of products. Pledge monitoring businesses of Suchuan Logistic Company involve in plastics, chemicals, steel, cotton, rubber, non-ferrous metals, paper, and other fields.

Third, financing modes are flexible and diverse.

At present the logistics financial services methods in the domestic are flexible and diverse. Zhongchu Wuxi Company implements the model of overall control, which use all stocks as the pledge, total goods are controlled by banks, and goods can flow expediently. Banks such as Shenzhen Development Bank accept a type of pledge business based on goods, which is called “Movable property and Cargo property rights pledge credit”. This type of pledge can meet the needs of financing enterprise’s normal operations by the repeated process of “additional margin-redemption some of pledge”.

2.2 Bottleneck of China’s logistics financial business

First of all, the scale and strength of 3PL is not good enough yet. As process of logistics financial services business is very complex, the scale and strength of 3PL are the key factors to successfully implement the financial logistics services. 3PL enterprises should have considerable capital and operational scale, good business credit and financial credit; they should have strong storage capacity and experience in services, and be able to take the necessary transport distribution, thus realize the effective supervision of the goods; they should have perfect Logistics Management Information System; they should have the aptitude of value assessment, sale of goods and auction, which is very important to the accurate assessment and timely realization of goods value, and is the high light of risk control.

Second, China's relevant laws, regulations and policies are not perfect, and the environment has not yet formed. Domestic existing legal system is not perfect. For example, there haven’t clear provisions on warehouse receipt, issue, segmentation, and transfer. As China's laws provide that third-party logistics companies can not M & A banks, so how to use their own funds and credits to operate business and not against financial laws is still a big problem to logistics companies.

Third, the idea that third-party logistics enterprise developing the logistics financial services needs to be introduced. As the concept of logistics financial services in China has just launched, there are many small and medium enterprises can not fully accept the value-added services, therefore logistics financial services market needs to be nurtured.

Fourth, there are no uniform standard of business operations. To warehouse receipt hypothecation business, there are different process modes and contract clauses in different regions and different banks.

In order to control the warehouse risk in logistics financial business, some third-party logistics enterprises, particularly the stronger business enterprises, formulate their own warehouse regulations to control risks based on their own conditions and accumulated experience. Though it has played a certain effect, however, from the industry point of view, the procedure is too cumbersome to control the process risks, and standards of different enterprises maybe bring a certain degree of risks to SMEs.

2.3 China's measures about logistics financial business development

For the healthy development of China's logistics financial business, we should constitute countermeasures from the following sides:

First, the development of third-party logistics enterprises should be propped up so as to make them have enough capital and operational scale, storage capacity, logistics management information systems, and ability of value assessment, selling and Dutch action.

Second, improve the laws and regulations, reduce the restrictions of policies, and promote the formation of the over all environment.

Third, research and study the ideas of logistics financial services in theory and practice side, and make them into third-party logistics enterprises to provide customers personalized and varying value-added services.

Fourth, relevant state departments or industry associations should enact a relatively uniform pledge financing business processes as soon as possible to promote the logistics financial business to be more normative. The good news is that the relevant State Council departments are preparing to draw out
warehouse receipt hypothecation financing business norms, warehousing company regulatory norms, warehousing company status review system, bond warrant standard and charge standard, etc.

3 The reasons to provide Logistics financial business

3.1 The urgent needs of Modern Logistics development

Modern logistics services need for financial support and protection. Logistics is the foundation and financing is the guarantee so as to achieve high efficiency of logistics and financial support. If there has phenomena such as lagging behind and out of touch between the logistics and capital flow, it will not only reduce the efficiency of logistics, but also increase the liquidity of the capital costs and time. Therefore, the modern logistics services desire for a highly unified, coordinated operation between logistics and capital flow.

3.2 The needs of increasing value-added and enhancing competitiveness

Third-party logistics enterprises provide logistics services which cover the financial value-added services. These services can make stock funds occupiers alive, and enhance the competitiveness of the overall supply chain. To the other enterprises in the supply chain, it can accelerate the flow of funds to get more business opportunities. To 3PL enterprises, it can attract more SMEs to become its customers, so that their enterprises can be better to integrate into the supply chain, expand the area of services and business scale. In addition, there service income can be increased through innovative services, such as value assessment, credit guarantee and goods auction, etc.

Since the majority of services are parts of overlap with its traditional business, and the merchandises of enterprises is a good guarantee, the cost of services and risk cost should not be increased too much. Because of these, profit of enterprise can be increased, service level can be enhanced, and competition among enterprises can be raised.

3.3 SMEs’s needs of speeding up the flow of found and bank’s needs of business innovation

Financial logistics business which is supplied by logistics providers can not only provide reliable supervision of pledge items to financial institution, but also help two main sides of loans to resolve value assessment of pledge items, auction and other issues. In addition, these services can be effectively integrated into the production and marketing supply chain of SMEs, and 3PL can provide good third-party logistics services to these SMEs. Third-party logistics enterprises in financial services are not only in favor of SMEs finance innovation and bank’s financial business innovation, but also an important mean to raise their own competitiveness.

4 Logistics financial risks faced by financing and how to prevent

4.1 Logistics financial risks faced by financing

Compared to developed countries, logistics financial business in developing countries began late, and operation system is not perfect yet. In China, the financial industry pays little attention to the requirement of logistics development, managers of the logistics industry do inadequate supervision of funds, and financial instruments are behind the development of the logistics industry [3]. This means that banks and 3PL face a wide range of risks in the process of financial products operation.

1. The risks of logistics financial services products. For example, logistics factoring business have latent risks[4][5]: (1) Operations involve goods of defects. Customers should be chosen carefully. Their operational capacity, business volume and the legitimacy of the sources of cargo(smuggled goods have confiscated risk) also need to be reviewed. (2) Species involved in business which price change modest and quality is stable should be chosen, such as ferrous metals, nonferrous metals, and soybeans, etc. (3) Seller breach of contract. (4) Buyer breach of contract.

2. Internal management risk. Management system and supervision mechanism is not sound, low-quality staff, the management decision-making errors, staff cheating and operation errors, etc. The
innovation of logistics bank lies in that it brings bond warrant and even the logistics process into pledge targets. This will certainly cause the pricing assessment issue of bond warrant and logistics process. In the process of estimating and apprising to collateral, whether the method of valuation and appraisal are objective, fair, scientific and accurate, is an important factor which affects the profit and loss of bank.

3. Operating risks. Almost all logistics enterprises will face the operating risk. But as logistics companies which engaging in the financial business need go deep into production and sales supply chain, and provide various services to customers. This is not only expanding the scope of operations correspondingly, but also increases the risks. From the storage, transportation and exchanging with banks to contacting with supply and marketing, operation risks always be there. As China's logistics transportation industry is still in the extensive development stage, operation risks shouldn’t be ignored.

4. Legal risks. This is mainly contract clause issue and goods ownership issue. Because the business involves in multi-bodies, and goods ownership is transferred among these multi-bodies, it is likely to have ownership disputes. On the other hand, as the logistics financing-related provisions in China's "Guarantee Law" and "Contract Law" are not perfect, and there is no other guidance documents can be based on, so business contracts may have legal issues in a high probability.

5. Credit risk. Include the legality of the goods, customer integrity, etc. Credit risk is also associated closely with these financial risks, operational risks, legal risks and safety risks.

4.2 The prevention of logistics financial risks

Faced with these new problems, potential financial risks should be prevented in multi-pronged approaches which need cover the entire supply chain in all aspects, such as bank, logistics companies and bonding company, etc.

In the financial services of logistics financing, financing and settlement services are run though the actual business by financial institutions, insurance services are run though the actual business by insurance company, and supply chain risk management services are primarily run through the provision of consult scheme. As the interaction within varying services, in the actual business, design team should be consist of the staff who are both having service expertise and understanding of various services. The team can provide value-added services to companies, which is an integration scheme of logistics, financing, and other various financial services. The concrete methods to prevent logistics financial risks are found by the means of obviating risks, preventing risks, spreading risks, separating risks and shifting risks.

1. First of all, the type of goods involved in business should have certain restrictions. We should select the type of goods that are using diffusely, easy disposal, easy liquidation, changing modest on prices, strong negotiability, and stable quality. Meanwhile, we also should investigate the legality of the source of goods, smuggled goods have confiscated risk.

2. Send an officer to administrate the warehouse receipt, strictly prevent operation errors and internal staff committing the crime, and ensure the authenticity, uniqueness and effectiveness.

3. Construct the risk management and control system in logistics finance. Strengthen bank internal management, and prevent internal staff from appearing moral hazard. Therefore, it is very urgent to establish and improve the bank risk control system.

4. Intensify client credit management. Credit management is one of the key management content of modern enterprises. As the fundamental guarantee of transaction completion of buyer and seller, credit constitutes the most important basis of contractual relationship. During the courses of logistics enterprises’ financial service, they manage client’s credit fully by constructing client information collection system, client credit and important cases management system, client credit investigable management system, client credit classification system, credit risk prevention system during contract settlement processes, credit limit audit system, financial management system, etc.

5 Conclusions

Logistics is one of China's emerging industries which have great developing potential. As a emerging and very promising industry, logistics financing plays a vital role in China’s national economic
Modern logistics cannot develop without the support of financial services, so it has a huge development potential in China. Logistics finance is still a new thing in China and its development has just during a short time. Compared with abroad, the domestic theory research lags behind foreign. The theory construction of logistics financial system is still to be further unifying. Meanwhile, foreign theory can’t be applied directly because the matching environment fitting logistics finance is still destitute. Therefore, from the macro point of view, it is the direction of our efforts to optimize the external system-level problems and logistics financial theory info; from the intermediate point of view, attention should be paid to how to achieve a combination of the logistics and financial industry, and to the relationship of both, especially to the application on logistics. On the micro level, some logistics financial practice questions need to solve further, such as risk management and control, establishing credit evaluation system and information system, loan contract designing, etc.

Reference


Author brief introduction

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