

Credit Risk Management Research of Y Group Finance Co., LTD

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Abstract

In recent years, with the growing prominence of group finance companies in the financial system, research on credit risk management for these companies has also gained increasing attention. Credit risk management runs throughout the entire credit business process, and its management level is influenced by various factors such as systems and personnel. This paper takes Y Group Finance Co., Ltd. as an example, analyzing the shortcomings in its pre-loan, mid-loan, and post-loan management processes. It identifies four main reasons: inadequate credit business process management, unreasonable compensation and job placement for credit staff, the need to improve the professional competence of credit personnel, and insufficient application of information technology. The paper also proposes optimization suggestions for these four areas, aiming to enhance the credit risk management capabilities of Y Group Finance Co., Ltd. and provide insights for similar enterprises in credit risk management.

Keywords

Group Finance Company; Credit Business; Risk Management.

1. Introduction

The 2023 Central Financial Work Conference emphasized that finance is a vital component of the national economy and a key element of core competitiveness, with risk prevention being an eternal theme in financial work. In this context, the importance of credit risk management has become increasingly prominent. However, according to the China Macroeconomic Forum (CMF)'s "China Macroeconomic Analysis and Forecast Report (2024-2025)," the current national economy exhibits signs of "insufficient domestic demand and supply-demand imbalance." This economic situation can lead to negative feedback in credit, increasing the likelihood of economic difficulties for businesses and exposure to credit risks. Moreover, credit risks exhibit diverse and hidden characteristics[1], making it even more necessary to strengthen credit risk management.

As an essential component of the financial system, the finance company industry has closely aligned with group needs in recent years, leveraging its proximity to the real economy. It has played a positive role in implementing capital-intensive management within corporate groups and supporting the implementation of major national strategies. Its credit business has also gradually become one of the key pillars of China's financial sector[2]. Credit business, as the mainstay of finance companies, strengthens credit risk management to better leverage financial leverage, enhancing both the efficiency and effectiveness of capital movements[3], ensuring stable company development. On the other hand, it can also trigger a chain reaction throughout the entire financial system and macroeconomy[4].

However, many current studies focus on banks as financial institutions, and lack of credit risk management research on financial companies as a special financial industry. Based on this, this paper focuses on Y Group Financial Co., Ltd. to carry out credit risk management research.

2. Overview of Y Group Finance Co., LTD

Y Group Finance Co., Ltd. was established in 2014, belongs to the industry of monetary financial services. Y Group Finance Co., Ltd. (hereinafter referred to as the finance company) is a China Banking Regulatory Commission approved company whose main purpose is to strengthen the management of funds, improve the efficiency of the use of funds and maximize the interests of the group, the non-bank financial institutions jointly funded by shareholders such as Y Group Co., Ltd. and Y Joint Stock Co., Ltd. are the important basic financial platforms of Y Group and undertake to meet the internal financial needs of the group, the important mission of promoting the development of group's financial industry. Since its inception, the company has always adhered to the "Prudent Management, risk prevention, sustainable development" business policy, closely around the "Service Group, support diversity, create value, continue to go beyond" business purposes, and strive to maximize the interests of the group goals.

The finance company has ten departments, with Customer Department One and Customer Department Two responsible for preliminary investigations and post-loan management of credit ratings for dealers and member units; the Risk Control and Compliance Department reviews customer risks based on investigation reports and other materials submitted by the Customer Departments and disburses loans accordingly; the Information Department maintains the company's information systems to ensure IT supply; the Audit and Inspection Department conducts random checks on various business operations and provides an objective evaluation of internal controls and business compliance; the Planning and Finance Department is responsible for financial planning and analysis of the entire finance company; the Strategic Development Department oversees human resources; the Business Department handles counter transactions; and the Financial Markets Department manages funds and other tasks. Each department works together to promote the development of the company.

3. The Shortage of Credit Risk Management of Y Group Finance Company

3.1. The Deficiency in the Pre before Loan

(1) Insufficient pre-loan investigation

Pre-loan investigation is the first step in credit business that a finance company takes from the moment it receives a customer's loan application. In this initial phase, the client manager of the finance company needs to gain an initial understanding of the customer's basic situation, including their credit history, loan amount, and purpose. This is followed by a site visit to the customer's company to assess the true operating conditions and verify the authenticity of the financial information. After the on-site inspection, combining the financial data, the internal rating and credit model of the company will determine its credit rating value, which is then compiled into an investigation report for review by the risk control department. However, in actual practice, during busy periods, some client managers do not conduct on-site visits to the real operating conditions of the customer's enterprise, instead relying solely on the loan documents and financial statements provided by the customer to judge the credit limit, leading to insufficient pre-loan investigations and potential risks for later stages.

(2) Customer quality is uneven

The financial companies mainly serve the members of the group and the upstream and downstream enterprises of its industrial chain. Some of them are in good operation and occasionally need working capital turnover, while others are not optimistic about their business situation, relying on the credit support of the parent company to obtain credit, the financial company focuses on the group's strategic synergy when customer access, which will bring challenges to the subsequent risk identification and control.

3.2. Deficiency in the Loan Review

(1) Business review time is tight

The review of various loans by the finance company is conducted by the Risk Control and Compliance Department. In addition to this, the department also handles delegated authorization, five-level classification of credit business, operations of the Risk Committee, applications for loan review meetings, compliance construction, and other tasks, making it a busy operation. The actual number of employees on duty in the Risk Control and Compliance Department is only two. The loan business of the finance company is divided into two major sectors: dealers and member units. Each sector processes at least two to four transactions per week. During peak periods, one employee may need to review four or five transactions in a week. Besides their review duties, each employee must also handle other matters from different departments. Some client companies are particularly eager for loan processing, leaving less time for the Risk Control and Compliance Department to conduct reviews. Therefore, the heavy workload and tight schedule of the reviewers can negatively impact the quality of the reviews.

(2) Business review is subjective

During the review process, the reviewer referred to the customer department's credit rating and combined it with the client company's financial statements to provide risk opinions. However, big data technology was not fully utilized for risk assessment. Moreover, the entire review was completed by a single person without a business verification step. The review results were influenced by the professional capabilities of the reviewer, making it easy to underestimate the authenticity of loan documents and potential risks.

3.3. The Deficiency in the Post-Loan Management

(1) Post-loan inspection tends to be formalized

Throughout the entire credit business process, financial companies place greater emphasis on pre-loan and mid-loan stages, neglecting post-loan management. Most client managers fail to conduct required post-loan inspections. After disbursement, client managers rarely visit the client company to understand the use of loan funds or the company's operations, leading to superficial post-loan management. This lack of deep understanding of the client company can result in misjudgments about the client's repayment ability and risk profile, increasing the likelihood of credit risks.

(2) The loan information is not electronic

Before the loan, the client needs to submit paper documents including the company's financial statements for the past three years and the current month, the loan application, board resolutions approving the loan internally, and the articles of association. If there is collateral, a list of pledged items and value assessment certificates are also required. The client manager must write an investigation report for risk control reference. During the loan process, the risk control personnel need to prepare a review report and retain voting records from the credit review committee on whether each loan should be disbursed. For approved transactions, the client must provide proof of disbursement and transaction records, as well as original approvals for group-wide loan applications. Apart from the investigation report and review report being available in electronic form, all other materials are archived in paper form.

(3) The quantity of pledged goods does not match the actual account

For customers with mortgage guarantees, the financial company must meet specific requirements regarding the quantity and type of collateral before disbursing funds. Due to the unique nature of financial companies, a significant portion of the collateral consists of alcoholic beverages. These are entrusted to different custodian companies based on the type of collateral. Subsequently, the corresponding amount of collateral is released according to the customer's repayment status. The types, quantities of collateral, and the release of these items are all

recorded by the client manager through an internal system, followed by supervision by the custodian company. However, in actual operations, there are instances where client managers incorrectly input the quantities of collateral and released items. There is no dedicated person to verify the actual numbers against the recorded ones, making it easy for discrepancies to occur. This phenomenon is generally difficult to detect, and once loan disputes arise, the financial company faces certain risks.

4. Analysis of Insufficient Credit Risk Management of Y Group Finance Company

4.1. The Credit Business Process Management is Not Perfect

First, from pre-loan inspection to mid-loan review and then post-loan follow-up, the entire process is linear, lacking corresponding personnel for business verification and supervision. In the pre-loan stage, since the pre-loan inspection can be conducted solely by the client manager without any supervisory measures, there is a tendency for the client manager to take risks, leading to insufficient pre-loan inspections. During the mid-loan review phase, after being reviewed by the audit position of the Risk Control and Compliance Department, it is reported to the Credit Review Committee for further examination, which again lacks a role responsible for verifying the business. Finally, in the post-loan management stage, which is crucial for preventing credit risks, the client manager typically conducts regular follow-ups with the client company to assess the use of loan funds and the company's operational status. However, in practice, due to the follow-up being completed solely by the client manager and the lack of supervision, the client manager often neglects to handle this aspect properly.

Second, there are oversights in the management of collateral. After inventorying the pledged items upon entry into storage, no one generally manages them afterward. In practice, client managers only decompress the pledged items online and do not conduct on-site counts afterward. There have been instances where errors entered by client managers led to discrepancies between the actual number of pledged items and the recorded figures.

Third, in terms of the disposal of non-performing loans, first of all, the financial company has not set up a special non-performing loan collection team. For loans that have problems, the customer department generally arranges for personnel to collect them, but because the team is set up temporarily, the team members have not only the collection of this matter, but also other business to deal with, the processing time for non-performing loans is not enough. At the same time team members lack of professional collection skills, collection lack of professionalism. Second, financial companies for non-performing loans mainly through judicial proceedings to safeguard rights. Judicial proceedings are cumbersome and time-consuming, which will consume a lot of manpower, material resources and financial resources, increase the financial burden of the financial company, and have an impact on the process of cleaning up non-performing loans. In addition, the conditions required for the settlement of non-performing loans through judicial procedures are relatively harsh, and the final actual implementation rate of the settlement of non-performing loans through this means is not high.

4.2. There are Deficiencies in the Salary Assessment and Post Arrangement of Credit Personnel

First, there are deficiencies in the evaluation of the compensation of account managers. The compensation of account department leaders and employees is largely affected by the total amount of loans, and risk indicators account for a relatively low proportion in the evaluation, therefore, some customer managers in order to meet the assessment requirements, blindly increase the number of loans, there is a neglect of the phenomenon of risk lending.

Second, there are deficiencies in the post arrangement. It is understood that the post of general manager of the financial company has been understaffed for a long time, and the authority of the general manager has been entrusted to the chairman of the board. The issue has been raised many times in terms of supervision, but the personnel are still not in place. On the one hand, because the financial company belongs to the group, it needs to get the approval of the group in the appointment of personnel, and the approval process is more complex; on the other hand, the internal recruitment of personnel is not paid enough attention to, and the efficiency is not high. In addition to the absence of the general manager pointed out by the supervision, the number of personnel in the risk control and compliance department is relatively small. The department actually has a staff of six, but the actual number of employees is four, one minister and three employees, one of the employees was seconded to the General Management Department to help, and only 3 people actually worked on matters related to risk control and compliance. And the customer department is divided into two departments according to the business sector. Each department has six or more customer managers, and each customer manager has its own customers, the number of credit business line staff and audit staff does not match, easy to cause the staff workload, slow down the progress of the business, affect the quality of the review.

4.3. Insufficient Professional Quality of Credit Personnel

On the one hand, the professional skills of credit practitioners need to be improved, and the pre-loan client manager needs to make a preliminary judgment on the authenticity of the financial information of the client company through his professional knowledge and experience, then from the customer's business situation, financial statements, such as the evaluation of the customer company's rating credit value, and finally the formation of a survey report for risk control auditors for reference; In-loan review requires risk control personnel to use their knowledge and experience, judging the potential risk points of the business and the compliance and authenticity of the loan information according to the loan information provided by the customer and the investigation report of the customer department; The post-loan management needs the customer manager to judge the customer's repayment ability and willingness through the return visit. From the pre-loan to the loan and then to the post-loan, every step requires a certain degree of professional ability for the credit practitioners. When the professional skills of the practitioners are insufficient, it is easy to make an inaccurate judgment before the loan, the review of the loan can not grasp the risk point, and can not find the problem in time after the loan, which affects the efficiency and quality of the credit review.

On the other hand, the professional ethics of credit practitioners need to be improved. Financial companies have different guarantee conditions for different customers, and member units with good management and good credit can be given credit guarantees, for the relatively poor operation of the member units need certain collateral to lend. However, if some of the account managers fail to maintain their professional ethics and are tempted by the outside world to turn what should have been a collateral guarantee into a credit guarantee, it will increase the workload of the company and increase the risk of credit exposure. In addition, some managers and employees misunderstand and even abuse the principle of "Due diligence exemption" to avoid responsibility, which hinders the effective control of credit risk and will have a negative impact on financial companies.

4.4. Insufficient Application of Information Technology

The first issue is that the archive management has not been digitized. Currently, financial companies still use traditional paper-based archive management methods, where customer information and contract documents for credit business are all stored in paper form. This method not only occupies a large amount of physical space but also poses risks of damage and

loss to the archives. Additionally, it is inefficient when it comes to searching and retrieving records, making it difficult to quickly respond to business needs.

Secondly, big data technology has not been fully utilized in credit risk assessment. In the process of evaluating credit risks, financial companies mainly rely on limited information such as financial statements and credit records provided by customers to identify risk points. They fail to make full use of modern big data technologies to analyze customer behavior data and social networks, thereby predicting their repayment ability and willingness.

The third aspect is the lack of real-time information technology monitoring in post-loan management. Financial companies rely on manual tracking for post-loan activities, which not only leads to oversights in collateral monitoring but also means that clients' business conditions, financial status, and repayment capabilities can change at any time. Traditional post-loan management methods struggle to capture these changes promptly, resulting in delayed risk detection.

5. Suggestions for Improving the Credit Management of Y Group Finance Company

5.1. Optimize Credit Business Process Management

(1) Strengthen supervision measures in the credit business process

First, for the customer manager position responsible for pre-loan investigation, the risk control personnel position responsible for mid-loan review, and the customer manager position responsible for post-loan follow-up, an AB role support system is established. In the pre-loan phase, Role A handles specific tasks such as pre-loan investigations and credit rating, while Role B acts as a support role to ensure that Role A conducts due diligence and that the credit rating and granting of credit are objective. Both roles sign off on the investigation report and bear corresponding responsibilities. During the mid-loan review phase, Role A's reviewers conduct preliminary reviews and then transfer relevant business documents to Role B for re-review to ensure the objectivity and comprehensiveness of the review results. Role B focuses on checking the completeness of documents and the compliance and coverage of risk points identified by Role A during the re-review process, promptly addressing any issues found. In the post-loan management phase, Role A maintains continuous contact with clients and conducts regular or irregular visits to client companies to track their operations and repayment intentions, forming corresponding follow-up reports. Role B supervises whether Role A carries out post-loan management. All AB roles must not be each other's B roles.

Secondly, the Risk Control and Compliance Department can intervene in the pre-loan investigation phase, rather than leaving it solely to the client manager. The involvement of risk control serves two purposes: first, it acts as a supervisory role over the client manager; second, it allows review personnel to gain a deeper understanding of the client company's situation, reducing information asymmetry. The fundamental cause of credit risk lies in information asymmetry during the credit process[5], and reducing moral hazard and adverse selection risks caused by information asymmetry in the credit market is a key approach to lowering credit risk[6]. Comprehensive knowledge of the client company by risk reviewers can nip potential risks in the bud during the review process.

(2) Optimize mortgage management

In the collateral management process, on one hand, personnel can be assigned to regularly or at each release of collateral to conduct inventory checks, aiming to minimize discrepancies between records and actual quantities due to operational errors by client managers, ensuring that the number of collaterals in the system matches those in the warehouse; on the other hand,

information technology should be fully utilized to monitor the entry and exit of collaterals in real time, thereby strengthening collateral management.

(3) Strengthen the management of non-performing loans

Firstly, it is essential to prevent the formation of non-performing loans. On one hand, strictly enforce post-loan management responsibilities. Assign post-loan management for each transaction to the client manager, clarifying their duties and ensuring continuous communication with clients. Regularly monitor the client's business operations, financial status, and repayment intentions [7], dynamically tracking changes in the client's repayment capacity. For any difficulties clients encounter during repayment, promptly provide targeted solutions to help alleviate repayment pressure, thereby reducing the risk of loan delinquency. On the other hand, enhance communication and cooperation between business positions and risk control roles. Client managers should synchronize relevant information from post-loan follow-ups to risk control personnel. After identifying risk points, risk control personnel should promptly inform client managers, facilitating adjustments in business strategies and forming a closed loop in risk management.

For the non-performing loans that have already been formed, on one hand, financial companies should strengthen the professionalization of their collection teams, establish fixed collection teams, and provide regular training to enhance the communication skills, legal literacy, and other professional abilities of collection personnel. This will enable them to communicate professionally and flexibly with clients, improving the success rate of collections and minimizing asset losses to the greatest extent possible. On the other hand, financial companies should actively strengthen cooperation with judicial departments, optimize litigation coordination processes, and improve the efficiency of litigation execution to ensure that non-performing assets can be legally and efficiently recovered. In terms of collection, additionally, financial companies can also establish a mechanism for evaluating the effectiveness of collections, regularly assessing and optimizing collection strategies and the performance of collection personnel to ensure continuous improvement in collection work and provide strong support for post-loan risk management.

5.2. Optimize the Salary Assessment System and Personnel Arrangement of Credit Personnel

(1) Optimize the compensation and assessment system of customer managers

Currently, the evaluation criteria for account managers focus on business scale, with risk-related indicators holding a relatively low weight in their compensation assessment. On one hand, financial companies can appropriately adjust the compensation evaluation mechanism for account managers, incorporating risk indicators such as loan delinquency rates and non-performing loan ratios into the evaluation system, increasing the weight of these risk indicators in the compensation assessment. This will guide account managers to prioritize risk control and not neglect risks for the sake of performance. On the other hand, an incentive mechanism can be implemented, offering additional bonuses or promotion opportunities to account managers who perform well in risk control, while reducing their performance-based pay and requiring re-education training for those who perform poorly in risk control, thereby enhancing their risk awareness.

(2) Optimize job arrangement

On one hand, financial companies need to increase the frequency of personnel recruitment and reduce the long-term vacancy of key positions; on the other hand, companies should fully consider business needs, ensuring that risk control staff matches with those in business lines. They should appropriately expand their risk control teams and increase the number of risk reviewers to ensure sufficient human resources for rigorous review of every credit transaction.

This can help identify potential risks earlier, reduce the occurrence of non-performing loans, and improve the quality of reviews.

5.3. Improve the Professional Quality of Credit Personnel

(1) Introduce excellent credit personnel

On one hand, financial companies can introduce credit professionals with rich experience, professional backgrounds, and good occupational ethics according to their own business strategies. This not only enhances the overall level of the credit team but also sets a role model for employees, fostering a positive competitive atmosphere; on the other hand, it can establish a talent reserve mechanism, providing clear career development paths for outstanding employees, enhancing their sense of belonging and enthusiasm, thus retaining top talent. Excellent credit personnel provide human resources support for optimizing credit risk management.

(2) Regular training to improve employees' professional skills

Financial companies can regularly organize credit officers to participate in professional skills training, which covers topics such as credit policies, risk assessment methods, financial statement analysis, laws and regulations, and industry trends. Through systematic training, credit officers can promptly grasp the latest business knowledge and risk control tools, enhancing their ability to evaluate customer qualifications and identify risks. After the training, the effectiveness can be assessed through evaluations to ensure that the training outcomes translate into improved practical work capabilities, thereby providing technical support for optimizing credit risk management.

(3) Enhance professional ethics

Financial companies should focus on cultivating the professional ethics of credit personnel, instilling in them values of integrity and compliance. The company can achieve this through ethical training, case studies, and warning education, making employees aware that violating professional ethics may lead to legal consequences. This helps employees understand the importance of professional ethics for both their personal career development and the long-term growth of the company. At the same time, the company can establish an ethical evaluation system, incorporating ethical performance into the employee performance assessment system. Outstanding employees should be recognized, while violations of ethical standards should be dealt with strictly, fostering a positive work environment[8]. By enhancing professional ethics, risks caused by human factors can be effectively reduced, providing moral assurance for optimizing credit risk management.

5.4. Improve the Application Level of Information Technology

(1) Promote the electronic management of archives.

Financial companies should accelerate the digital transformation of archive management, establishing an electronic archive management system to convert paper-based documents such as customer information and contract files into digital formats for storage. Through electronic archive management, not only can physical storage space be saved, but it also enhances the security and traceability of archives. At the same time, electronic archives support rapid search and retrieval, significantly improving work efficiency and providing timely and accurate information support for credit decisions. Additionally, electronic archive management can achieve standardization and systematization of information, reducing human errors and omissions, further enhancing the standardization of credit risk management.

(2) Establish and improve the big data platform to monitor customer dynamics in real time

Finance and technology have a natural coupling [9], big data risk control models possess significant information and model advantages, enabling more accurate prediction of defaults and reduction of credit risks [10]. Building on the existing platform of financial companies,

integrating internal business data such as customer information, transaction records, repayment status, along with external data resources like industry data, macroeconomic indicators, and credit reporting data, can form a more comprehensive data asset library. First, through big data technology, algorithms analyze customers' trading behaviors, credit records, and industry trends to identify potential risk points. The data is then visualized to help management promptly grasp risk dynamics and adjust credit strategies in a timely manner. Second, IoT technology can be introduced to collect real-time operational data such as production line status, inventory levels, and sales data from customers. Combined with AI algorithms, this data is analyzed to dynamically assess the customer's operating conditions and repayment capabilities. By monitoring key indicators such as cash flow changes and supply chain stability, companies can detect potential risks early and take corresponding risk mitigation measures. Additionally, AI technology can be used for automated post-loan management, with intelligent warning systems monitoring customers' repayment behavior in real time to promptly identify anomalies and trigger warning mechanisms, thereby reducing the incidence of non-performing loans.

6. Conclusion

Risk Prevention and control is not only the top priority of financial companies, but also the focus of the financial industry. Therefore, this paper focuses on the credit risk management process of Y Group Finance Co., Ltd., finds the shortcomings of its credit management from three aspects: pre-loan, loan and post-loan, and summarizes the reasons for the shortcomings, they are: the credit management process is not perfect, the salary system and job arrangement are insufficient, the professional quality of credit personnel is insufficient, and the application of information technology is insufficient. The follow-up in view of the shortcomings of these four aspects, put forward the corresponding solutions. On the one hand, the credit risk management level of Y Group Finance Co., Ltd. is improved to ensure that it can promote the development of the group; on the other hand, it contributes to the healthy development of the financial industry.

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