ISSN: 2710-0723

Research on Audit Supervision of Credit Risk of Rural Commercial Banks

-- A Case Study of Taizhou Rural Commercial Bank in Jiangsu Province

Zewu Chen, Yuxuan Ji, Qi Hu, Yan Xie, Tengjiao Hong

School of Finance, Nanjing Audit University, Nanjing, Jiangsu, 211815, China

Abstract

Under the financial environment of in-depth innovation, commercial banks are facing systematic risk prevention, and rural commercial banks are the main force of financial services for rural revitalization, but their limited service level and unsound credit system are still the main factors restricting the development of "agriculture, rural areas and farmers" in China. Based on the annual report data of Taizhou Rural Commercial Bank in Jiangsu Province and the credit risk faced by rural commercial banks, this paper puts forward corresponding countermeasures and suggestions from both the perspective of audit supervision and the essential causes of credit risk.

Keywords

Credit Risk; Audit Supervision; Rural Commercial Bank.

1. Introduction

In 2022, the People's Bank of China launched the Opinions on Comprehensively Promoting the Key Work of Rural Revitalization, which pointed out that commercial banks need to strengthen resource allocation, innovate financial products, optimize financial services, adhere to the market orientation of "supporting agriculture and supporting small businesses" and the development orientation of "downward and inward", deepen the service purpose of "serving agriculture, rural areas, farmers and promoting small businesses", support national life, and serve as an important support for the real economy. However, as a special bank, rural commercial banks have certain risks in the process of developing financial services. At the same time, the reform and upgrading of the banking industry has not been fully synchronized with Internet finance, financial technology, etc., and the time lag of following suit has also brought new challenges to commercial banks. Under the environment of internal and external threats, the application of supervision and supervision mechanism is particularly important for the risk control of commercial banks. The audit and supervision measures of commercial banks against credit risk are important factors for stable operation. This paper will specifically analyze the causes of the credit risk faced by rural commercial banks and the necessity of audit supervision. Taking Taizhou Rural Commercial Bank in Jiangsu Province as an example, combining the data in its audit reports for the past five years, this paper will propose corresponding countermeasures for its credit risk audit supervision.

ISSN: 2710-0723

2. Current Situation of Credit Risk of Rural Commercial Bank in the Transition Period

By integrating the annual information of the audit report and financial statements of Taizhou Rural Commercial Bank in Jiangsu Province, we mainly intercepted relevant indicator data from 2017 to 2021 for analysis.

Deposits and loans are the basic business of commercial banks and an important indicator to measure the credit risk of rural commercial banks. In recent five years, the total deposit of Taizhou Rural Commercial Bank has basically maintained at more than 25 billion yuan, and has always been in a steady state of growth. In 2020, the total deposit will reach 29.822 billion yuan, and in 2021, it will exceed 30 billion yuan, reaching 31.505 billion yuan. At the same time, the total loan will also increase year by year, and in 2021, it will exceed 26.659 billion yuan. By analyzing and comparing the data of the two, the proportion of loans/deposits will be 68%, 74%, 79%, 79% and 85% respectively in 2017, 2018, 2019, 2020 and 2021. In 2019, the loan deposit ratio of the Rural Commercial Bank exceeded the relatively safe range, and has been rising in recent years, so the current credit risk of the Rural Commercial Bank is increasing.

According to the core indicators of risk supervision of commercial banks, the non-performing loan rate shall not exceed 5%. The non-performing loan rate of Taizhou Rural Commercial Bank remains at about 2.3%, which reached the maximum in 2017, with the non-performing loan rate of about 2.38%, and about 2.3% in 2021. Although the non-performing loan rate of the bank fluctuates within five years, it is always in a safe area, which is conducive to better control of its credit risk.

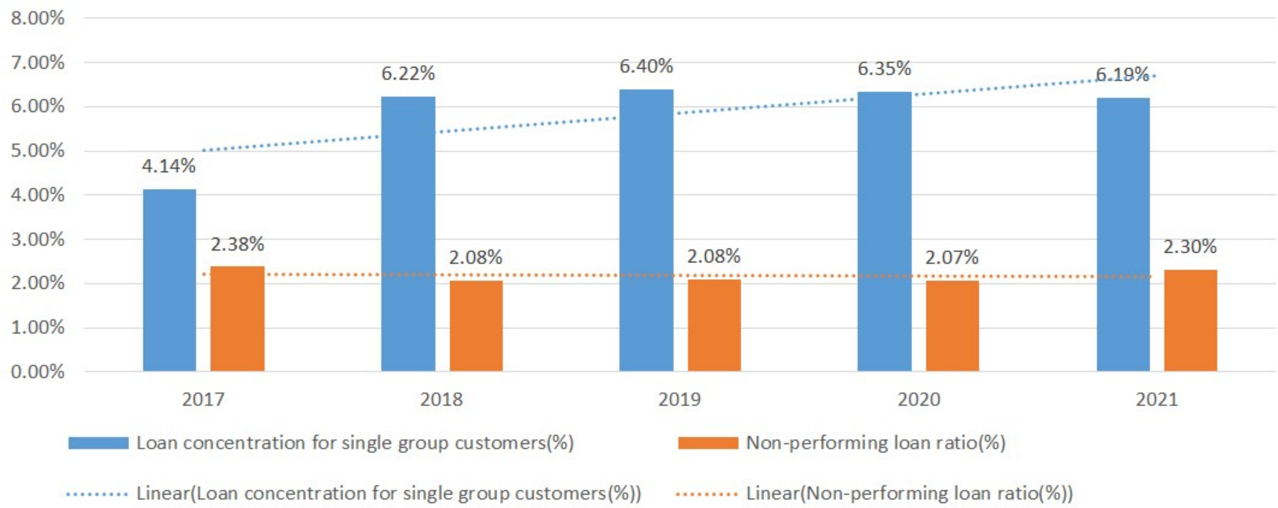

Figure 1. Loan Concentration and NPL Ratio of Single Group Customers

At the same time, the concentration ratio of single group customer loans is an important indicator to measure the concentration of credit risk. According to the relevant regulations of the CBRC, the concentration ratio of single customer loans of commercial banks should be less than 15%. The concentration ratio of Taizhou Rural Commercial Bank in 2020 is 6.35%, and in 2021 is about 6.19%, which is not higher than the regulations of the CBRC, This has largely avoided the large-scale credit risk of rural commercial banks due to the excessive concentration of loan audiences.

The analysis of appeal data reveals the current credit risk situation of rural commercial banks. In this context, it is particularly important to timely adjust the credit business and establish a sound and scientific audit supervision system.

ISSN: 2710-0723

3. The Main Causes of Credit Risk in Rural Commercial Banks

3.1. There are Some Defects in the Credit Process

The main credit service objects of rural commercial banks are the surrounding small and medium-sized enterprises and individuals. The customer groups they contact are relatively fixed and the division is relatively simple. Through the collection of relevant data and the analysis of the loan industry of Taizhou Rural Commercial Bank, the main industry loans are concentrated in the secondary industry, playing an important role in the banking industry to support the real economy. By the end of 2021, the loan balance of the manufacturing industry will reach 65,410,900 yuan, Compared with other industries, the loan amount of manufacturing industry is relatively high, accounting for about 27% of the total loan. The second is wholesale and retail, accounting for about 15%. According to the research on the distribution of industry loans, the loans of rural commercial banks are mainly concentrated in the secondary industry and government supported industries, which have certain advantages and national policy support. At the same time, these industries are mainly real economy industries, involving people's livelihood. On the contrary, there are also some disadvantages, such as lack of stability. At the moment of the epidemic, the survival environment of small and medium-sized enterprises is compressed, and the real economy is struggling, which increases the difficulty and risk for rural commercial banks to recover loan funds in the later period.

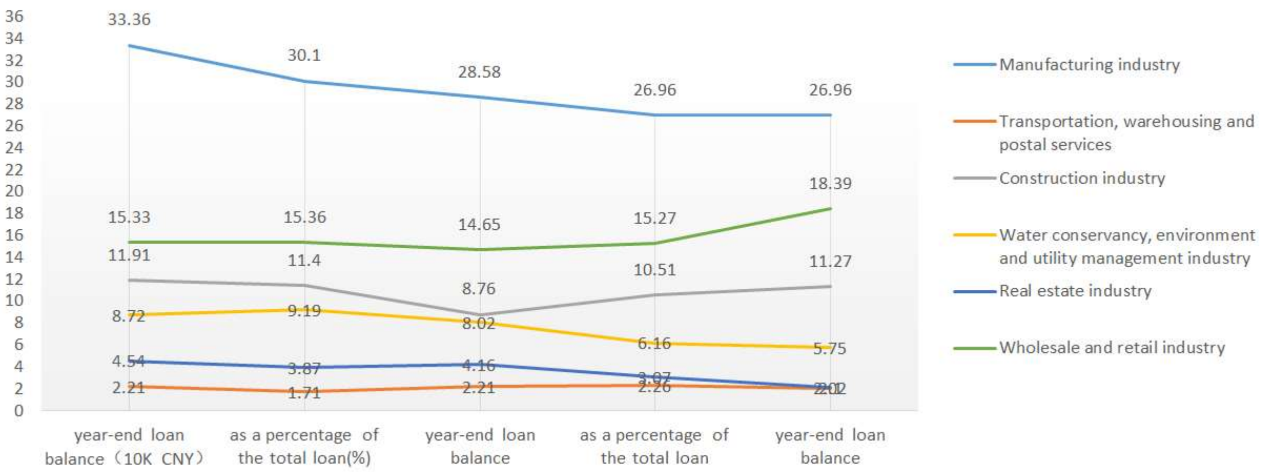

Figure 2. Proportion of Total Loans by Industry

3.2. The Risk Warning Mechanism is Not Perfect

The provision ratio for non-performing loans is actually the utilization ratio of the bank's provision for possible bad debts and uncollectible loans. It is an important aspect of measuring credit risk and can also truly reflect the bank's performance. This indicator reflects whether the provision for bank loans is sufficient on a macro level, and also reflects the risk degree and social and economic environment of bank loans on a macro level. The provision rate for non-performing loans of Taizhou Rural Commercial Bank has remained above 170% in the past five years, and reached a new high of 280.98% in 2019. Although it has remained above 150% of the standard set by the CBRC in the past five years, the provision rate of rural commercial banks is relatively sufficient, but the volatility of the provision rate is relatively large, so the bank's risk early warning mechanism cannot timely feedback the credit risk faced.

ISSN: 2710-0723

3.3. Outdated Loan Credit Risk Control Measures

In the audit report issued by Taizhou Rural Commercial Bank in 2021, the bank formulates five level classification implementation rules and manages loan credit risk with reference to the Guidelines on Loan Risk Classification formulated by the CBRC, However, the five level classification itself has certain defects, such as: ex post facto, it is difficult to give early warning of asset quality deterioration; The classification conditions are rough, and the factors of the two dimensions of customer and loan are comprehensively analyzed without distinction; Qualitative analysis is the main method, which mainly depends on subjective judgment, making the boundaries between different types of loans more vague, and the classification results are difficult to maintain consistency. In recent years, China's economy has shown a downward trend, and the overall environment has a great impact on small and medium enterprises, especially the retail industry, which has led to the inability of some bank customers to make regular payments. According to the original local five level classification, the credit rating of some customers with good credit will be lowered. In addition, the five level classified loans emphasize the classification of non-performing loans, while the classification of normal loans is not enough, which is not conducive to the operation of ABC's own capital, leading to the simultaneous increase of its own assets while the risk of non-performing loans rises, further weakening the bank's ability to resist risks.

3.4. The Counter Operation Is Not Standard

Up to now, Taizhou Rural Commercial Bank has 34 business outlets, including 429 employees. Due to historical reasons, coupled with the "siphon effect" of big cities, rural commercial banks have generally recruited employees with low educational qualifications. Although some college students have been recruited in recent years, most of them are currently engaged in comprehensive positions, and their professional positions in credit are not competent enough. In addition, the age structure of employees in grassroots institutions is aging. Although they have accumulated some practical experience, with the continuous complexity of the trading market and the emergence of new online financial instruments, traditional credit risk management methods can no longer meet the current counter operation business. Secondly, most of the bank's employees come from the areas near the Rural Commercial Bank, and they are "close" to customers, which is likely to lead to non-standard counter operations and increase the hidden danger of bank credit risk management.

4. Contaol Measures for Credit Risk of Rural Commercial Banks

4.1. Improve Credit Process

First of all, based on the comprehensive consideration of the market, the general environment, the needs of customer groups and the internal development of the bank itself, and based on the detailed information and real data collected in real time, a more complete measurement model of the credit risk management of rural commercial banks is constructed to provide scientific data and prediction support for audit supervision. When building the model, it mainly focuses on the prediction of pre loan risk. Therefore, the bank should establish a relatively complete pre loan control system and formulate clear loan standards and principles for different types of business products. According to the loan approval process and risk standards, customers with obvious insufficient repayment ability should be rejected directly to ensure that the risk is controlled within a reasonable range.

The loan management is the focus of the loan work of the Rural Commercial Bank. It is necessary to improve the customer credit file management mechanism, improve the professional quality of credit personnel, implement an effective internal audit mechanism, focus on the whole process of loan services, and always maintain a high sensitivity to the credit

ISSN: 2710-0723

risks that commercial banks may face. At the same time, attention should be paid to the importance of the internal audit system at this stage. A sound internal audit system can effectively improve the quality of audit and maintain the upward development of bank credit risk management. Therefore, it is necessary to refine the internal audit responsibility system, implement standardized and unified internal audit standards, quantify audit indicators, and adopt a clear and reasonable division of labor. At the same time, it is also necessary to establish a sound audit inspection mode to ensure the professionalism and comprehensiveness of auditors and their audits, so as to more effectively warn, supervise and audit the credit risks of commercial banks, and improve the management efficiency and profitability of ABC.

4.2. Innovation of Credit Risk Early Warning Mechanism

Establish big data credit risk early warning system. That is, based on big data technology, real-time data collection and analysis run through business acceptance, pre loan review, loan issuance, and post loan management, so as to realize real-time risk detection, quantification, and prevention and supervision of credit risk. For example, in view of the large fluctuation in the provision rate of Agricultural Bank of China recently, we can quickly integrate the business data in recent years to find out where the risk concerns lie. It can not only systematically analyze and process data, but also find out the specific risks. At the same time, it is necessary to establish relevant emergency mechanisms, that is, to strengthen system security. Strengthen the firewall security of the computer system, and prevent criminals from using technical means to enter the computer information system to steal customer or bank data information; Hire professionals to regularly check the Bank's computer information system to ensure that there is no gap where viruses can invade; The system is tested at a fixed time to ensure the security of the system in many ways. Due to the privacy and importance of information, the operation of data information, storage, transfer and destruction of backup media need to be controlled and supervised through strict management systems.

4.3. Implement Hierarchical Archival Management of Credit Risk and Stabilize Cooperation between Government and Banks

Risk management and control should start from the source. In the daily operation and management of the bank, the bank staff actively collected the possible and existing credit risks and results, formed a credit risk file, implemented risk management and control in each business, and formed a sense of active prevention to achieve the pre identification and timely disposal of risks. At the same time, the severity and possibility of risk consequences are graded: the most likely and the most serious consequences are called red risks, which should be prioritized for prevention and monitoring. Those with low probability of occurrence but serious consequences are called yellow risks, which should be controlled secondary. The control should focus on reducing the risk impact. Blue risk refers to those with high probability but low consequence. Such risks generally exist in daily business activities, so it is necessary to reduce their occurrence frequency and strengthen early prevention. The last category is green risk, which basically does not need to be controlled. At the same time, because the government has both macro and micro characteristics, it has a great advantage in the degree of information mastery, and the development of banks can not be separated from the guidance of government policies. Therefore, maintaining a long-term and good cooperative relationship with relevant government departments is a win-win situation, which can not only share information, but also determine the direction of bank development, and play a role in risk management and control.

4.4. Attach Importance to Talent Training

Strengthen internal talent training and pay attention to the improvement of staff quality. In the whole process of credit risk control, professionalism and systematicness run through. For new employees, although their comprehensive quality is high, it is a common problem that they lack practical experience or relevant professional qualifications. Therefore, we should conduct pre employment basic training and post employment professional training for new employees within the bank, and incorporate the training results into the annual performance appraisal to effectively improve their practical ability. For those who have worked for a long time, their inherent idea of pursuing performance should be changed to determine whether to approve the loan after considering the lender's credit level, repayment ability, actual needs, etc., so as to achieve comprehensive evaluation in all aspects; At the same time, regular professional training is also required, with the main purpose of learning new risk early warning management technologies and tools, and improving the level of risk analysis and control.

5. Conclusion

To sum up, as an important part of rural financial institutions, rural commercial banks' ability to prevent and control credit risks will also directly affect their enthusiasm to serve "agriculture, rural areas and farmers", small and micro businesses as well as the real economy. Taking Taizhou Rural Commercial Bank in Jiangsu Province as an example, in view of the essential causes of its credit risk, such as the imperfect credit process and risk early warning mechanism, the outdated risk management measures, and the nonstandard counter operation, Taizhou Rural Commercial Bank should improve its credit process and risk management system, strengthen personnel training to better prevent the risks faced, so as to constantly adapt to the reform trend, adapt to the market economy. It should also strengthen transformation and development in order to better serve "agriculture, rural areas and farmers".

Acknowledgments

Fund project: Nanjing Audit University Undergraduate Innovation Training Program (2021SX05016Z) (funded by Nanjing Audit University Undergraduate Innovation and Entrepreneurship Training Program).

References

[1] Qiu Xiaodan. Research on Credit Risk Management of Rural Commercial Banks -- A Case Study of Branch Z of C Rural Commercial Bank [D]. University of Electronic Science and Technology of China, 2021.

[2] Wang Zhiliang. Research on Credit Risk Prevention and Control of Jiangsu Changshu Rural Commercial Bank [D]. Shihezi University, 2021.

[3] Pan Zhenfei. On Problems and Countermeasures in Credit Risk Management of Rural Commercial Banks [J]. Finance and Economics: 2021, (25): 72-73.

[4] Yang Xiaoling. Empirical study on the construction of credit risk early warning system of China's rural commercial banks based on AHP evaluation method [J]. Food Science and Technology and Economy: 2021, 46 (01): 44-49.