

Exploration Of The Insurance Model To Boost The Microenterprises' Financing

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Abstract: The Chinese micro-enterprises have made major contributions to boost the economic growth, to augment employment and to promote the scientific and technical innovation and the social harmony and stability and so forth. But in recent years, our steady monetary policy and the increasing factor price have made the enterprises to increase the investment and decrease the benefit. Thus it is very difficult now for them to get loans from the bank. As a result, financing difficulty has become the bottleneck for the micro-enterprises to develop themselves. Against this background, the insurance industry is actively opening up the guarantee insurance, the credit insurance and the liability insurance and so forth to explore and boost the micro-enterprises' financing effectively. Some insurance companies are making corresponding experiments. This paper analyses the background of the corresponding businesses which can play active roles in boosting the micro-enterprises' effective financing. This paper also compares these above mentioned different insurance modes, points out the existed problems and puts forward proposals and strategies for risk control and the sustainable development through the insurance subject, the object insured and the conditions of the insurance.

Keywords: Micro-enterprise, guarantee insurance, credit insurance, liability insurance, proposal

I . Introduction

The micro-enterprises are the general terms for the small enterprises, the mini-enterprises, the family workshops and the individual-owned businesses. The Chinese micro-enterprises have made major contributions to boost the economic growth, to augment employment, and to promote the scientific and technical innovation and the social harmony and stability and so forth. Owing to their small scale and lack of the collateral, it is very difficult for the micro-enterprises to obtain the loans from the bank. As a result, the financing difficulty has become the bottleneck for them to develop themselves. This situation has already drawn the high attention of the government and all the circles of the society. The State Council thus unveiled nine taxation and financial policies and measurements to support the development of the micro-enterprises including the guarantee insurance and the credit insurance to help develop the micro-enterprises and the mini-enterprises in

October,2011. China Insurance Regulatory Commission also instructs the insurance companies to play an active role in raising the insurance trustworthiness and upgrade the level of the credit risk management. How to boost the micro-enterprises to solve the problems of the corporate finance has become an issue in the insurance business. The key of this issue lies in what kind of the insurance mode should be taken in order to combine the petty loan transaction and the insurance services. Against this background, the insurance industry is actively opening up the guarantee insurance, the credit insurance and the liability insurance and so forth to explore and to boost the micro-enterprises' financing effectively. Some insurance companies are making corresponding experiments.

At present, some provinces are making experiments on the combination of the petty loan and the insurance services. Some insurance companies are targeting to launch the innovation of the related insurance products and the insurance patterns. Whereas in most provinces and insurance companies adopt the pattern of the petty loan and the guarantee insurance. Some others adopt the pattern of the credit insurance and the liability insurance.

Ningbo, Zhejiang Province adopts the mode of "government + insurance + bank" to share the risk altogether. 1485 small enterprises have obtained 15.64 billions with the support of insurance. This breakthrough can be described as what the Chinese idiom says to lever a ton of weight with four ounces force. Shanghai experiments the loans with the performance bond insurance and is warmly welcomed by the small and medium-sized enterprises. On the tri-corporation among the government, the bank and the insurance (guarantee) industry, they participate in and share the risks together. The insurance company takes the place of the surety company, which makes up for gap of the financing difficulties. Co-operated with the bank. PINGAN Insurance Company of China,Ltd. has customized for the small and micro-enterprises the "loan guarantee insurance" which will help them to get the loans from the bank.. This is a real breakthrough to solve the financing difficulties for the small and medium-sized enterprises. China Export Credit Insurance Corporation thrusts out an easy "SMECUI" project,

that is an easy credit underwriting insurance project for the micro-enterprises. It will give the small and micro-enterprises still greater support. Its distinguishing feature is "comprehensive guarantee, simplicity of operation". The product interface is compact, clear and attractive and is easy for the small and micro-enterprises to understand and use. IEL, namely the mode of bank + guarantee + insurance is the first financing product for the enterprises launched by Jiaxing Bank in China, the risk is shared by the bank, the insurance company and the guarantee company. Its basic mode is that Jiaxing Bank provides the loans, the guarantee company offers the guarantee and the insurance company insures the guarantee liability for the guarantee company. The diversification and the compensation of the credit risk is executed and operated through the marketization. If a loan occurs the risk, the guarantee company will first compensate for it for the loss of the bank, the insurance company will then settle the claim according to the insurance liability. China Pingan Group sells a product called the Pingan Easy Loan Insurance which is a free mortgage loan for the ordinary residents to get the credit guarantee loans with mortgage free. Once succeeded, the applicant can get a small loan from 10,000 yuan - 150,000yuan from the cooperative bank without mortgage and the guarantee. The procedure is simple, the length of the loan is flexible and the approval process moves fast. There are more insurance products such as the insurance policy mortgage, the comprehensive policy for the small loans and the short-term trade credit insurance and so forth. From the theoretical point of view, all these products launched by different cities or companies belong to the guarantee insurance, the credit insurance and the liability insurance. The purpose is to solve the difficulties in financing.

II. The Main Insurance Modes In Supporting The Small and Micro-Enterprises' Financing

A. Small loan credit insurance

The guarantee insurance means the creditor insures his own credit risk to the insurer in answer to the debtor's request. On the condition that the debtor fails to repay the debt on time, the insurer will compensate the loss for the creditor. In fact, the insurer plays the role of guarantee. From the angle of the person concerned, the insurer of the guarantee insurance is the debtor, and the insured is the creditor. The debtor becomes a party of the insurance contract. From the insurance object, the credit insurance uses the debtor's own credit as the insurance object. According to the insurance terms, the credit insurance is the debtor to use his own credit to insure himself according to the creditor's

request. It is clear that the guarantee has credit risks. To decrease the insurer's risk, such as the moral risk, the debtor is usually requested to provide a counter warranty,(impawn and guarantee and so on). Thus, the contract of the guarantee insurance also involves the debtor, the counter-guarantor and the creditor besides the insurer. There are different kinds of the guarantee insurances, the small loan guarantee insurance can be used to boost the small and micro-enterprises' financing.

The small loan guarantee insurance means that the enterprise buys it from the insurance company, applies for the loan with the policy and then the bank will lend the loan to the enterprise after going through the checking process. When the risk occurs, the insurance company will repay the debt for the bank in accordance with the proportional liabilities and the compensational order.. There are two such insurances: one is the mortgage free loan guarantee insurance, the insurance company will bear certain loan risks; the other is the mortgage loan guarantee insurance to increase the credit limit by means of evaluating the impawn of the enterprise.

B. Small loan credit insurance

The credit insurance means that the creditor insures the debtor's credit risk from the insurer, that is the creditor, as the obligee, asks the insurer to take the responsibility of the credit risk for the debtor so as to avoid loss for the creditor. From the point of view of the party client, the insurer and the insured of the credit insurance are all creditors and the parties of the insurance contract. However the debtor becomes the third party. From the object of the insurance, the credit insurance is based on the object of insurance of the credit assets of the creditor. From the insurance conditions of view, the credit insurance does not need the insurer (creditor) to provide the counter-guarantee measures.

The small loan credit insurance means the bank insures the small and micro-enterprises' credit risk at the insurance company which bears the bank's loss owing to the debtor's credit risk.

C. Small loan liability insurance

The liability insurance takes the object insurance as the insurance. The insured must be responsible for the compensation liability of the third party according to the law. The insurer's reparation is directly paid to the insured. But actually this reparation is paid to the aggrieved party. That is the third party besides the insured. Thus the mode of the liability insurance is a dual protection mechanism to protect the interests of the insured directly and the aggrieved party indirectly. Here the insured becomes a party in the insurance contract, the risk of the civil law becomes the insurance subject. In practice, there

are several liability insurances, However, the small and medium-sized enterprises' loan liability insurance can be used to support their enterprises' financing.

The small and medium-sized enterprises' loan guarantee insurance means that the enterprise should first send the application to the guarantee company, the guarantee company then insures the liability at the insurance company. After checking by the three parties, the bank grants the loan. Once the credit risk occurs, the guarantee company will first repay the bank' loan. After handling the anti-guarantee collateral together, the guarantee company will claim the insufficient from the insurance company.

III. Functions

A. To raise the credit of the loan and the financing ability of the micro-enterprise

When buying the small loan guarantee insurance, the small enterprise can obtain the loan from the bank with no collateral or a few collaterals. And even obtain more loans. The guarantee institution can also buy the loan liability insurance to get the risk guarantee from the insurance company so as to request the bank to reduce the portion of the margin., to raise the guarantee ability and to help more enterprises to finance.. Because of the special functions of the insurance products, the insurance company is able to bear the credit risk. Therefore, the enterprise's credit can be raised on the one hand and enhance the willingness of the bank to give out loans.

B. To reduce the cost of financing, to help the enterprise decrease the pressure of the management

Since the insurance company is well-capitalized and the ability to pay debt, the bank will provide favorable terms to reduce the interests and can also lower the cost of financing besides well covering the insurance expenses.

C. To share management and control the risk, to provide the complete risk guarantee

By utilizing its technical experience and the reserve of talents, the insurance company to complete the credit examination, analytical and disposal system together with the bank and the guarantee company and so forth. The purpose is to distinguish, be on guard and defuse the risk of the credit. Meanwhile, the traditional products like the accident and injury insurance, the business property insurance and the cargo and transportation insurance can also be insured to

provide the risk guarantee for the small and micro-enterprises and to decrease the uncertainty during the business operation.

IV. Problems

From what has been mentioned above, different insurance modes can help the small and medium-sized enterprises to finance, transfer risks, promote the development of the enterprises. But as to the insurance companies, they deal with the high-risk businesses and face the challenge from the developmental environment, policies, techniques and talents. In service of the small and medium-sized enterprises and the risk prevention, The problem confronting the insurance company is how to avoid risks and how to reach the balanced development.

A. The small credit guarantee insurance reduces the bank' s responsibilities, this will lead to the disadvantage of establishing true risk-sharing system

In the small loan guarantee insurance, the party of the contract is the borrower (insurer), the bank (insured) is only the related party. This causes most guarantee insurance contracts are lack of the binding force to the bank.. The bank actually is in a unconcerned position with them. If the insurance company's solvency is adequate, the bank's risk is very low. The insurance company is always in the passive position. This is not good for establishing a fair and reasonable mechanism.

B. Lack of a perfect credit management system of the enterprises

The credit management system is comprised of the investigation reports and the credit data base of the enterprise. At present, the enterprise is credit system has not been established in China, the insurance industry has not connected with the data of the bank's reference system. When underwriting the loan insurance, the insurance company mainly depends on the borrower's information from the bank. It is clear that the insurance company is in a passive position. Meanwhile, the credit reporting system of the small and medium-sized enterprises is not perfect, the insurance company can not get a clear picture of the insurer's credit status. This will increase the risk. These will be increased .Often the insurance company will raise the requirements and the adopt complex procedures to avoid the risk. To certain extent, it is in favor of the risk control, but it will also bring more difficulties and increase the cost to small and medium-sized enterprises. The result is some will give up applying the loans through the insurance company.

C. Lack of sufficient law support and the well established law system

The survival foundation of the liability insurance lies in the well-established law system. But now the trial implementation of the loan guarantee liability insurance is short of such base. In practice, The situations confronted are: The warrantor does not have the qualification or does not have capability to guarantee. Then this guarantee is an invalid guarantee. The warrantors provide warranties in several banks, warrant one another or provide serial warranties among themselves. The borrower's collateral is not registered in the related institution. Out of a variety of causes, the bank gives tacit consent to it. The collateral loan only remains the name in reality. The value of the collateral is not estimated in the related institution. It sometimes leads to the phenomena of overvalued collateral .

D. The operational high risk and high cost challenge the managerial and administrative expertise of the insurance company

The economic circle greatly influences the small and medium-sized enterprises to repay the loans on time. So does their own managerial and technical level. Once the economy is going down periodically fairly quickly, the loan guarantee insurance business will face a large scale risk. And on the other hand, the financial accounting of most small and medium-sized enterprises is not standard, the transparency of the financial information is quite low, the authenticity and reliability of the financial data and the reliability exist flaws. The amount of the work for the insurance company to examine and verify is fairly big. Because of the fairly small loans, the insurance company will bear fairly high operational cost. Generally speaking, this kind of insurance challenges the risk control level of the insurance company.

V. Proposals

A. To complete the risk-sharing mechanism between the bank and the insurance company

When implementing the small loan guarantee insurance, the insurance company and the bank will share the risk of the loss of the loan principle according to a certain proportion and that the proportion and the ways to the share risk should be adjusted with differentiation on the basis of the practical situation of the quality of the risk management and the loss of the loan. The borrower may also be asked to insure the accident and injury insurance at the same insurance company, the insured amount must not less than the loan principle. The borrower's property

insurance should also be insured at the same insurance company.

B. To establish a complete credit information system

Bank of China should take the lead in establishing a unified credit reporting platform, which will bring into the relative credit information from the insurance and the security institutions step by step so as to not only realize the resource sharing among the financial institutions to guard against the credit risk effectively, but also to actively promote the formation of the integrity system of the whole society. To immediately establish a practical credit file system will save the numerous risk examining workload, reduce the acquisition cost and will also do good to the insurance company to carry on the follow up service well and to improve the risk management.

C. To improve the legal Environment

The Suggestion is that China Insurance Regulatory Commission or agencies to strengthen corporation with the judicial institution and unveil legal documents in accordance with the new situation and new problems out of the small and medium-sized enterprises to complete the disciplinary measures to punish these discreditable borrowers. vicious default, the personnel getting of the financial debt severely. Those in serious circumstances will be subjected to criminal prosecution. These legal and effective financing of the small and medium-sized enterprises will be protected by the law. The insurance company must study "the Guaranty Law" seriously and other details about the secured loan related with the law, raise the secured loan quality, reduce and guard against the risk of the secured loan.

D. The government provides the policy support

1) .To establish the credit insurance fund for the small and medium-sized enterprises

Owing to the high risk, the small and medium-sized enterprises will be very difficult to speed up the development of the loan credit insurance, if merely depends on the market mechanism. The suggestion is that the government to invest the fund for the small and medium-sized enterprises which will be used to provide the subsidy of the credit guarantee insurance fee of the small and medium-sized enterprises and share the amortization cost of the loss of the loan in order to encourage the insurance company to provide the credit insurance service. When the bank issues the loan to the small and the medium-sized enterprise, it can use the credit insurance fund to subsidise a portion of the insurance fee so as to reduce its insurance cost. If the loan fails to be paid back, the enterprise, the government and the insurance company will share the loss all together

according to the proportion. Thus the insurance company can reduce the loss.

2).To use the credit guarantee insurance of the small and medium-sized enterprise as the “policy insurance”

Since the big customer’s cash flow is abundant, the requirement for the credit guarantee is not urgent. On the contrary, the small and medium-sized enterprises have a high demand for it. Many are asset-light. Their financial condition may not accord with the bank credit requirements. The suggestion is to develop the credit guarantee insurance of the small and medium-sized enterprises into the “policy insurance”, just like the government supported export credit insurance. Therefore, the business volume of the credit guarantee will surely be increased. The policy orientation can be reflected from their customers, such as the policy supports the small and medium-sized enterprises, the cultural enterprises and the scientific enterprises and etc.

3).The suggestion is to establish a credit guarantee system for the small and medium sized enterprises to meet with their needs of financing. The small and medium-sized enterprises find it difficult to seek guarantee. The government should take the lead to establish a loan guarantee center. The other important organizations are the mutual assistance fund and a commercial guarantee organization for the small and medium-sized enterprises which belong to the constituent part of the guarantee system.

4).With the support of the government, a research should be made to establish a reinsurance organization which will effectively help disperse the risks of the insurances companies. Engaging in loan insurance businesses.

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