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Research on the Development of Small Loan Industry Under the Background of Strict Supervision

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Abstract: In recent years, the microloan industry has faced unprecedented challenges under strict regulatory policies. The adjustment of regulatory policies, such as raising the entry threshold and strengthening risk management, has significantly increased the compliance cost of small loan companies and limited their business operations. The industry faces major challenges such as narrow funding sources, increased difficulty in risk control, and intensified market competition. In response to these challenges, the microfinance industry actively explores the path of transformation and innovation, including the innovation of business models, the deepening of science and technology application, and the construction of cooperation and win-win mechanisms. At the same time, strengthening internal compliance management, actively responding to regulatory policy changes, and improving the level of industry self-discipline have become the key to the development of industry compliance. This paper deeply analyzes the development of the microfinance industry under strict supervision and puts forward corresponding countermeasures and suggestions.

Keywords: Strict supervision; Small loans; Industry challenges; Compliance development

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1. Introduction

With the rapid development of the financial market, the microloan industry, as an important part of financial services, provides a convenient financing channel for many small and micro enterprises and self-employed people. However, the continuous tightening of regulatory policies in recent years has had a profound impact on the microloan industry. Against the background of strict supervision, small loan companies are facing unprecedented challenges. How to maintain steady business development under the premise of compliance has become the focus of common attention in the industry. With its flexible and efficient financing methods, the small loan industry has eased the financial pressure of small and micro enterprises and self-employed people to a certain extent. However, with the gradual strengthening of regulatory policies, the industry compliance costs are rising, and business operations are also subject to many restrictions. These changes not only affect the profitability of small loan companies but also put forward higher requirements for their risk management ability. Therefore, in-depth research on the development of the microfinance industry under the background of strict supervision and discussion of its challenges, transformation and innovation paths, as well as compliance development strategies, are of great significance for promoting the healthy development of the industry. This paper will focus on this topic in detail.

2. Analysis of the impact of strict supervision policies on the small loan industry

2.1. Main contents of policy adjustment

In recent years, the regulatory policies for the small loan industry have been intensively introduced, which has profoundly impacted the industry. On January 17, 2024, the State Financial Supervision and Administration issued the Interim Measures for the Supervision and Administration of Small Loan Companies (hereinafter referred to as the "Measures,") marking a new stage of supervision of the small loan industry. The Measures comprehensively regulate the business scope, loan concentration ratio, financing leverage multiple, information disclosure, and other aspects of small loan companies, aiming to strengthen industry risk management and promote the steady operation of small loan companies [1].

The Measures make it clear that small loan companies are not allowed to conduct business across provinces, autonomous regions, and municipalities directly under the central government, limiting their ability to operate across regions. At the same time, the upper limit of the balance of single-family loans is also stipulated, such as the balance of the loan of a single household for consumption shall not exceed 200,000 yuan, and the balance of the loan for production and operation shall not exceed 10 million yuan. These policy adjustments are aimed at reducing the concentration risk of small loan companies, protecting borrowers' rights and interests, and preventing irrational lending. In addition, the Measures also strengthen the compliance requirements of small loan companies, such as requiring companies to strengthen internal compliance management to ensure that all business activities meet the requirements of laws and regulations. These policy adjustments have not only raised the entry threshold of the microloan industry but also put forward higher requirements for its daily operation and promoted the industry to develop in a more standardized and professional direction.

2.2. Increasing compliance costs in the industry

With the continuous tightening of regulatory policies, the compliance cost of small loan companies has increased significantly. Taking a small loan company in a certain region as an example, to meet regulatory requirements, the company has to increase human costs such as legal counsel and compliance specialists, and the annual increase in compliance-related expenses is about 300,000 yuan. At the same time, to comply with data protection and information disclosure regulations, the company also needs to invest a lot of money in system upgrades and information security construction, and the relevant investment reaches about 500,000 yuan per year. These increased compliance costs put pressure on the profitability of microfinance companies. On the one hand, the increase in compliance costs directly reduces the company's profit margin. On the other hand, to remain competitive, companies have to be more cautious in business expansion and innovation, which restricts the development speed of the industry to a certain extent. Therefore, how to find a balance between compliance and business development has become a major challenge for microfinance companies [2].

2.3. Limited service operation

Regulatory policies have imposed specific and profound restrictions on the business operations of microfinance companies. Taking the newly released regulatory policy as an example, it stipulates that small loan companies are not allowed to conduct business across provinces, autonomous regions, and municipalities, which directly limits the company's ability to expand the market. According to statistics, in the past, small loan companies that relied on cross-regional operations had 30% to 40% of their business volume coming from customers in different places. The implementation of the new policy means that this part of the business will be significantly reduced, which has a direct impact on the company's operating income. At the same time, the regulatory policy has also strictly restricted the concentration of loans and the amount of loans of small loan companies. For example, the loan balance of the same borrower cannot exceed 10% of a microfinance company's net assets, which limits the company's ability to make large loans to a single customer. In addition, the balance of loans for consumption by a single household of online small loan companies cannot exceed 200,000 yuan, which has also had a profound impact on the company's loan product structure. These restrictions on business operations not only reduce the flexibility of small loan companies but also weaken their competitiveness in the market and bring challenges to the sustainable development of the entire industry [3].

3. Main challenges facing the microfinance industry

3.1. Narrowing the source of funds

Funding for microfinance companies has been a problem. Compared with large financial institutions, they are unable to take deposits from the public in the same way as banks and have a relatively single source of funding. Currently, microfinance companies rely on shareholder funding, bank financing, and a small amount of government support. However, the bank financing threshold is high, the conditions are strict, and the financing amount is limited, usually only meeting the short-term capital turnover needs of small loan companies. The limitation of the source of funds has seriously restricted the development of the microfinance industry. The lack of funds has led to the inability of small loan companies to expand their business scale and meet market demand. At the same time, the high cost of capital also increases the company's operating costs and reduces its profitability. In the long run, small loan companies may fall into operational difficulties due to lack of funds and even affect the steady development of the entire industry. Therefore, expanding the source of funds and reducing the cost of funds has become an urgent problem for the small loan industry [4].

3.2. Increasing difficulty in risk control

In the context of strict supervision, small loan companies are facing more severe risk control challenges. On the one hand, the tightening of regulatory policies makes microloan companies more cautious in customer screening, loan approval, and other aspects, which undoubtedly increases the difficulty of risk identification. On the other hand, the uncertainty of the economic environment has intensified, and the risk of borrowers defaulting has risen, putting more pressure on the loan recovery of small loan companies. Strengthening risk control is crucial for microfinance companies. To effectively deal with risks, the company needs to establish a sound risk management system, including risk identification, assessment, monitoring, and disposal. At the same time, internal staff training should be strengthened to improve their risk awareness and risk management ability. In addition, the use of advanced technologies such as big data and artificial intelligence for risk early warning and monitoring is also an effective way to improve the level of risk control.

3.3. Market competition intensifies

At present, the small loan market is increasingly competitive. With the rapid development of financial technology, more and more Internet giants and financial institutions have poured into the microloan market, rapidly seizing market share with their technological advantages and financial strength. Traditional microfinance firms are under intense pressure from emerging competitors. Increased competition has had a profound impact on the microfinance industry. On the one hand, it promotes the industry to accelerate the reshuffle, the survival of the fittest, those companies with non-standard management and weak risk control ability will be eliminated by the market. On the other hand, competition has also promoted innovation and development in the industry, forcing microloan companies to continuously improve service quality and efficiency and reduce operating costs to attract and retain customers. However, for most small loan companies, maintaining competitiveness in the fierce market competition and achieving sustainable development is still a problem to be solved [5].

4. Transformation and innovation path of the microloan industry

4.1. Innovation of business model

In the context of strict supervision, small loan companies need to explore the innovation of business models to adapt to market changes and customer needs. A noteworthy innovation direction is online and digital transformation. Through the construction of an online platform, the online submission, approval, and lending of loan applications are realized, which greatly improves the service efficiency and customer experience. At the same time, big data, artificial intelligence, and other technologies are used for risk assessment and credit rating, making loan approval faster and more accurate. Another innovation is the development of inclusive finance, focusing on small and micro enterprises and "agriculture, rural areas." Microfinance companies can take advantage of their flexibility and connectivity to provide customized and differentiated loan products to these groups that are difficult to reach with traditional financial services. The innovation of the business model plays a significant role in promoting the development of the small loan industry. It can not only broaden the company's customer base, increase revenue sources, but also enhance the company's market competitiveness and brand influence. More importantly, through innovative business models, small loan companies can better serve the real economy, promote the balanced allocation of financial resources, and contribute more to economic and social development.

4.2. Deepening of science and technology application

Technology is quietly changing the face of the microfinance industry. Nowadays, advanced technologies such as big data, cloud computing, and artificial intelligence are widely used in the small loan business, which has greatly improved the industry's efficiency and risk control ability. Through data analysis, companies can more accurately assess customer credit and quickly approve loans, reducing the risk of artificial judgment. The application of technology in the microfinance industry has a broader prospect. For example, the use of blockchain technology can ensure the transparency and immutability of loan contracts, enhancing customer trust. The introduction of an intelligent customer service system can provide service to customers 24 hours a day and improve customer satisfaction. To enhance the competitiveness of the industry, deepening the application of science and technology is the key. Small loan companies should increase investment in science and technology, cooperate with technology companies, and jointly develop technical solutions suitable for the characteristics of the industry. At the same time, strengthen staff training so that science and technology become a powerful driving force to promote the development of the industry. In this way, the small loan industry can maintain steady development in the background of strict supervision and better serve the real economy.

4.3. Construction of cooperation and a win-win mechanism

In the context of strict supervision, it is difficult for small loan companies to meet market demand alone, and cooperation and win-win situations have become a new trend in the development of the industry. Small loan companies have broad cooperation potential with banks, insurance companies, guarantees, and other financial institutions. For example, joint loans can be made with banks to share risks, cooperate with insurance companies to provide insurance protection for loan customers, and Work hand in hand with guarantee companies to provide customers with credit enhancement services. The establishment of a cooperation and win-win mechanism is of great significance to the development of the microloan industry. Cooperation can broaden funding sources, reduce operating costs, and improve risk resilience. Win-win can promote healthy competition in the industry, avoid vicious price pressure, and maintain market order. At the same time, cooperation can also promote industry innovation, jointly develop new products, and meet the diversified needs of the market. Therefore, small loan companies should actively explore cooperation paths, build a win-win mechanism, and jointly promote the healthy development of the industry.

5. Compliance development strategies of the small loan industry in the context of strict supervision

5.1. Strengthening internal compliance management

In the context of strict supervision, small loan companies must strengthen internal compliance management, which is the cornerstone of the healthy development of the industry. The company shall establish and improve the compliance management system, clarify the responsibilities of each department, and ensure that business operations have rules to follow. At the same time, it is necessary to strengthen staff training, improve the compliance awareness of all staff, and make compliance a conscious behavior of every employee. In terms of specific measures, a special compliance management department can be set up to supervise whether the company's various businesses meet the requirements of laws and regulations. For the compliance risk points found, it is necessary to rectify them in time to prevent micro-accumulation. In addition, a compliance reporting mechanism should be established to encourage employees to actively report violations and form a good atmosphere for all employees to participate in compliance management. Internal compliance management is crucial to the healthy development of the industry. It can not only effectively prevent legal risks but also enhance the company's reputation and customer trust. Only by operating in compliance with regulations, small loan companies maintain an invincible position in the fierce market competition and achieve sustainable development. Therefore, strengthening internal compliance management is an important strategy that small loan companies must adhere to for a long time.

5.2. Actively responding to regulatory policies

In the context of strict supervision, small loan companies must learn to actively respond to changes in regulatory policies, which is the key to ensuring business compliance and steady development. The adjustment of regulatory policies often means the improvement of industry norms, and small loan companies should see it as an opportunity rather than a challenge.

To cope with regulatory policies, small loan companies first need to pay close attention to policy dynamics, timely understand, and grasp the latest regulatory requirements. At the same time, it is necessary to strengthen communication with the regulatory authorities, take the initiative to report the company's compliance operation, and strive for regulatory support and understanding. In terms of specific strategies, small loan companies can adjust their business structure, optimize product design, and ensure compliance with regulatory requirements. At the same time, increase investment in science and technology, use technical means to improve the level of compliance management, and reduce compliance costs. In addition, it is necessary to establish and improve risk prevention and control mechanisms, improve risk response capabilities, and ensure steady development in the face of regulatory policy changes. In short, actively responding to regulatory policies is the only way for small loan companies to achieve compliance development in the background of strict supervision.

5.3. Improving the level of industry self-discipline

In the context of strict supervision, the self-discipline level of the small loan industry is particularly important. Industry self-discipline can not only regulate the market order but also enhance the image and credibility of the entire industry, laying a solid foundation for the long-term development of the industry. The role of industry self-regulation in the microfinance industry should not be underestimated. It can effectively curb unfair competition, prevent malicious price suppression, false publicity, and other behaviors, and protect the rights and interests of consumers. At the same time, self-discipline can also promote benign cooperation between small loan companies and jointly promote the healthy development of the industry. To improve the level of industry self-discipline, we can start from many aspects. On the one hand, it is possible to establish industry self-regulatory organizations, formulate industry norms and standards, and strengthen the supervision and management of member units. On the other hand, industry training can be strengthened to improve the professional quality and compliance awareness of practitioners. In addition, the transparency of the industry can be enhanced through an open and transparent information disclosure mechanism so that all sectors of society can jointly supervise industry behavior. Only in this way can the microloan industry maintain a healthy and orderly development in the background of strict supervision.

6. Summary

Under the background of strict supervision, the compliance development of the small loan industry has become the key to the survival and development of the industry. By strengthening internal compliance management, actively responding to regulatory policies, and improving the level of industry self-discipline, microfinance companies can not only regulate their behavior and reduce legal risks but also improve market competitiveness and win customer trust. Strengthening internal compliance management is the foundation that ensures the compliance and robustness of the microfinance business. Responding positively to regulatory policies is a necessary condition to adapt to market changes, which helps microfinance companies maintain flexibility and competitiveness in the regulatory environment. Improving the level of industry self-discipline is a long-term plan to maintain market order and promote the healthy development of the industry. In the context of strict supervision, the small loan industry should continue to strengthen its construction, enhance compliance awareness, and capacity.

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