Research of Risk Identify of Accounts Receivable Financing Based on System Dynamics

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Abstract—Based on the analysis of operational mechanism and risk causes, this paper analyzes the financing risk, supply chain operation risk, financing operation risk, legal risk, macro system risk and market risk in six dimensions of SME accounts receivable financing in supply chain. This paper systematically studies the risk characteristics of SME accounts receivable financing, and build SD model of SME accounts receivable financing through the VENSIM simulation software to carry out risk identification, it could identify the risk dimension and risk boundary effectively, and it could dynamic identify the incentive of financing risk through feedback loops analysis of financing process, provides technical support for the further risk measurement and risk prevention of SME accounts receivable financing in supply chain.

Index Terms—Supply chain finance; SME; Accounts receivable financing; Risk identify; System dynamics.

I. INTRODUCTION

On the one hand, SCF enable more SME to enter into the scope of services of financial institutions and with help to the development of supply chain. On the other hand, financial institutions can further transfer and reduce the risk of its commitment effectively [1]. At present, both international and domestic banks are all actively developing accounts receivable financing business of SMEs in the supply chain, which is the preferred choice for SMEs to solve the financing problem [2]. Risk identification and assessment of financing is an important part of bank and other financial institutions to work on loans, and risk identification method of single enterprise with real estate has been relatively mature [3]. However, accounts receivable financing in the supply chain is different. It includes SME accounts receivable (movable) + supply chain that SME participated (debt), the lack of movable property of SME make up by supply chain. So, the risk of accounts receivable financing is influenced by multi-dimensional factors in supply chain, it is in the complex risk system of supply chain [4]. System dynamics view the complex problem as a boundary system to conduct analysis from the perspective of system thinking [5], which has significant advantages on researching complex system problems, it is considered to be effective.

Facing complex system problems, system dynamics analyze deeply and debugging repeatedly by building SD model, identify risks and analyze the main risk in the financing process [6]. Based on the mode of SME accounts receivable financing, under the background of real transaction process in the supply chain. This paper systematically studies the risk types of SME accounts receivable financing, establish the feedback relationship between the risk factors through the VENSIM simulation software to build SD model of SME accounts receivable financing, to identify the main factors that may trigger different risks, and the different consequences that the risk may lead to.

II. Risk Analysis of SME Accounts Receivable Financing in Supply Chain

A. The Operation Mechanism of SME Accounts Receivable Financing in Supply Chain

[Diagram of the operation mechanism]
After analysis, we divided SME accounts receivable financing risk into six dimensions as follows:

1) Financing credit risk
   SME accounts receivable financing Credit risk is defined as SME and core business due to various reasons in supply chain, unable or unwilling to repay the loan, then leads to the possibility of banks and other financial institutions suffered losses.

2) Supply chain operation risk
   The repayment of accounts receivable financing in supply chain comes from the sales income in the supply chain, and the fundamental of self compensation is the real transaction under the trade. The precondition is the design of value, the realization of value and the transmission of value can form a complete and circular closed system in the operation of supply chain. Once a link fails, the risk will also spread to the entire supply chain, causing loss of supply chain operations directly. Thus, the loan can't repay in time, it will cause great risks in implementing SME supply chain accounts receivables financing.

3) Operation risks of financing
   Operation risks of SME accounts receivable in supply chain refers to the risk of indirect or direct losses of the financing entity that due to the imperfect or the operation process, system, personnel, technology or external events and other factors during the process of providing financing services.

4) Market risks
   According to the definition of new Basel agreement, the market risk refers to the risk for adverse changes in the market price and the company's internal and external business losses, it exists in the company's trading and non trading business, market risk, interest rate risk, exchange rate risk, including stock price risk (including stocks, derivatives, etc.) commodity price risk.

5) Macro system risks
   Macro system risks refer to the loss of enterprise profits caused by the fluctuation of economic activity and price level, which is affected by the economic trend and macroeconomic policies.
Because of the mode of SME accounts receivable financing has the characteristic of short-term financing, influences of macro systemic risks has no direct effect on the financing behavior, but through the impact of supply chain and the market, the transitivity of the supply chain, then affects the safety of financing.

6) Legal risks

Because of accounts receivable is based on contract of monetary claims, according to the relevant provisions of the "contract law", there exist contract rights revocation, modification, offset, subrogation and the limitation of action period and other legal risks under the basic contract of accounts receivable financing. There still exist defects on the relevant legal effect and the level of judgment, and there are also legal efficiency conflicts. In these cases, there is a risk of failure of repayment.

III. Identification of risk of SME accounts receivable in supply chain financing based on system dynamics

According to the feedback principle of system dynamics, we build system dynamics risk identification and causality feedback model of SME accounts receivable financing supply chain by system dynamics simulation software of VENSIM, as shown in figure 2.

SD model could describe the internal structure of the feedback system of risk, and it reflects all the impact of risk factors and the relationship between principal parts also reflects the correlation of various risk factors [10]. In the model, "+" represents a positive correlation between two variables and "-" represents a negative correlation between two variables. Due to the article limited in length, this paper selects financing credit risk to carry out risk identification in detail, which is the most representative, and other types of risk identification process is similar.

Select "Credit Risk" variable in the table and click the toolbar button "Causes Tree" analysis, then get causes-tree of accounts receivable financing credit risks showed as Figure 3. In order to find the boundary that affects the credit risk, it is necessary to analyze the end of the causal tree use the same approach, and then we can get all the risk factors.

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**Figure 2 Financing risk identification model of SME accounts receivable financing in supply chain**
IV. Conclusions

According to the principle of system dynamics, positive feedback has a self-reinforcing effect and negative feedback has a self-regulatory effect.

We can get all the risk factors for the other five risk dimensions in the same way, also the corresponding feedback loops and the loop path of risk, so that the system boundary point of risk analysis could be identified.
Through analysis of cause-consequence tree and feedback loops, we can identify all the risk factors for credit risk, and we have some conclusions as follows:

1) The more factors, the greater likelihood of the risk will occur, the longer of the chain, the more difficult to identify potential risks.

2) If more consequences caused by a risk factor, the possibility of loss will more likely to happen after the risk occurred, and the longer of the chain, the wider of impact scope and range.

3) The risk will give rise to new risk of the next level, and then lead to take measures to control these risks, so as to reduce possible risks. Also, risk reduce may lead to reduction of controls, and then result in risk increase ultimately.

4) After the risk occurs, it will be gradually reduced through self strengthening of positive feedback loops and self-regulation of negative feedback loops. Thus, it is necessary to implement supply chain financial regulatory mechanism.

It will identify the risk dimension and risk boundary effectively with the help of system dynamics to carry out risk identification for SME accounts receivable financing in supply chain, and it could dynamic identify the incentive of financing risk through feedback loops analysis of financing process. Based on Analysis of characteristics, status and severity of various risks, we could develop corresponding measures and path to deal with all types of risks. Thus, risk Identify of accounts receivable financing based on system dynamics is feasible and effective, it also provides technical support for the further risk measurement and risk prevention of SME accounts receivable financing in supply chain.

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References


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