Research on the Operation Strategy of Small and Medium-Sized Enterprises Financial Leasing Business Based on Sublease Modeling

Yuezhong Chen[1], Ang Zhang[2*]

e-mail: [1] jshaczcyz@163.com； [2]zhang-ang-07@163.com*

（[1]Jiangnan Rural Commercial Bank, Changzhou, China

[2]China Academy of Industry Internet, Beijing 100102, China ）

Abstract—Small and medium-sized enterprises have gradually become an important part of Chinese current economic development. Financial leasing is another financial tool after commercial banks. It is a new financing method that combines corporate financing with financial assets. This paper studies a new type of financing channel and designs a corresponding SME sublease model to better solve the problem of shortage of funds for SMEs. The article first introduces the purpose and significance of the research of this article and makes a brief overview of financial leasing. The second part analyzes several models of financial leasing. The third part models the risks and strategies from a business perspective. Finally, based on the previous analysis of the current financial leasing model, corresponding policy recommendations are given.

Keywords-SMEs, financial leasing, risk control

1 INTRODUCTION

In the past 10 years, Chinese financial leasing service industry has shown a good trend of rapid development. Although the growth rate of development in 2020 has dropped significantly, the company's overall business development profitability is still very good. However, compared with the financial leasing service market in developed countries, the financial service leasing industry of Chinese enterprises is still in the initial stage of development[1-2]. With the regulatory transformation of financial leasing companies and the continuous improvement of industry development, the differences between banks and independent third-party leasing companies at the level of customer and service positioning will develop into the division of the industry chain in the future[3-5]. However, the competition formed in some market segments will continue to increase; on the other hand, with the strengthening of financial leasing industry supervision, financial leasing companies may face a competition pattern of survival of the fittest.

Small and medium-sized enterprises accounted for 90% of the total number of enterprises in the country, solved nearly 80% of the employment population, achieved 70% of national scientific and technological innovation, 60% of GDP, and 50% of national taxation[6-7]. However, due to its small scale, low credibility, low asset scale, high risk, and weak debt-bearing ability, it will be greatly affected by external conditions and restricted by factors such as unstable development.

ICIDC 2022, June 17-19, Qingdao, People's Republic of China

DOI 10.4108/eai.17-6-2022.2322696

Banks and other financial institutions have successively reduced opportunities for loans to SMEs[8-9]. At the same time, investors did not pay much attention to SMEs, which led to the general problem of financing difficulties for SMEs. How to promote the development of the financial leasing industry and comprehensively solve the financing problems of small and medium-sized enterprises is one of the foundations for Chinese continuous and stable development.

2 System Design

The financial leasing industry has also innovated a variety of operating models. Its typical models include equipment financing models, equipment investment models, and equipment sales models, which achieve a balance of power and responsibility between different transaction entities, and also bring new financing methods to customers. And gradually developed into a financial management tool that complements each other's advantages, and equalizes resource allocation and taxation. In the context of the rapid development of financial leasing business, the operating models of financial leasing companies are also increasing. The operating models of financial leasing companies mainly include the following business methods:

(1) Direct financial leasing in Figure 1, generally refers to a kind of lease mortgage object that the lessee freely chooses to purchase according to the lease needs. The lessor will directly lease and transfer the leased object after self-assessing the financing risk of the purchase of the leased object item For those with tenants to continue to use. During the entire lease period of the subject matter, the lessee does not have the ownership, but can enjoy the right to use, and at the same time is responsible for regular repairs and routine maintenance of the subject matter itself belonging to the lessee. It can be applied to the level of fixed assets and enterprise technology improvement.

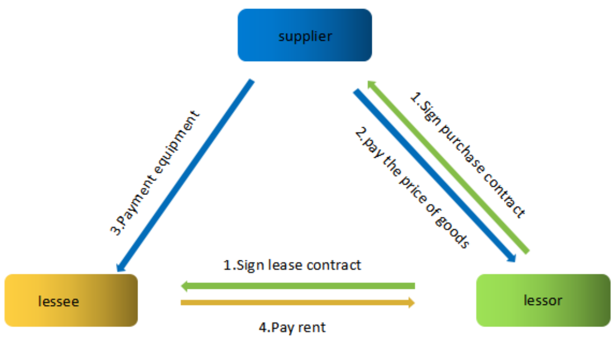

Figure 1 Direct leasing model

Operation process of direct financing lease:

First, the lessee selects the supplier and the leased object;

Second, the financial lessee submits an application to the financial leasing company for financing business;

Third, the financial leasing company conducts business and technical exchanges and cooperation with the lessee and the leasing supplier,

Negotiate agreement;

Fourth, the financial leasing company and the lessee have signed lease financing contracts respectively;

Fifth, the financial leasing company raises funds as a loan and pays it to the supplier;

Sixth, the supplier delivers the leased property to the lessee;

Seventh, the lessee pays the rent on schedule;

(2) Sale and leaseback in Figure 2 , also called repayable lease, means that the lessee first sells his original assets to the lessor, and then leases back the assets for use. In the process of this kind of lease, the ownership of the leased asset will change at the same time, and the lessee only has the right to use the asset. Both parties may allow the lessee to continue the lease before the lease term expires. This allows the lessee to revitalize its existing assets, so that it can raise funds needed for enterprise development in a short time and in a timely manner to meet market requirements. Applicable to: small and medium-sized enterprises that are relatively short of working capital; small and medium-sized enterprises that hope to have new rapid investment appreciation projects but have insufficient funds; and enterprises with fixed assets that have rapid investment appreciation. Operation process of sale and leaseback:

First, the asset owner of the original equipment has the right to sell or sell it to the leasing company.

Second, the leasing company pays the purchase price to the asset owner of the original leased equipment.

Third, the asset owner of the original equipment leases the equipment back.

Fourth, the asset owner of the original equipment pays rent to the leasing company on a regular basis.

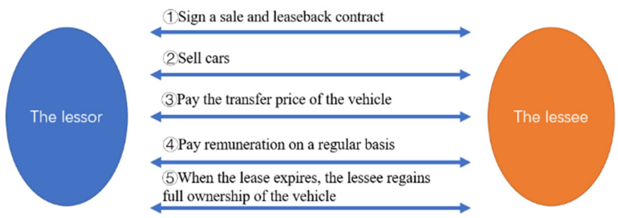

Figure 2 Sale and leaseback process

(3) Leveraged leasing is similar to syndicated loans in **Figure 3** . It is a financial leasing business with tax advantages, mainly for large-scale projects. The first is to set up a non-lease company operating unit to provide more than 20% of the total project capital for the project. In addition, the remaining funds are mainly taken from banks, etc., using 100% to enjoy tax deductions, and "taking two strokes and eight" as a measure of leverage to obtain large-scale funds for leasing projects. The approach is generally similar to contract financing, in which the complexity of the contract is further increased because of the many levels of the contract. Because it has the advantages of tax management, the operation conforms to the regulations, the cost is low, and the benefit is good.

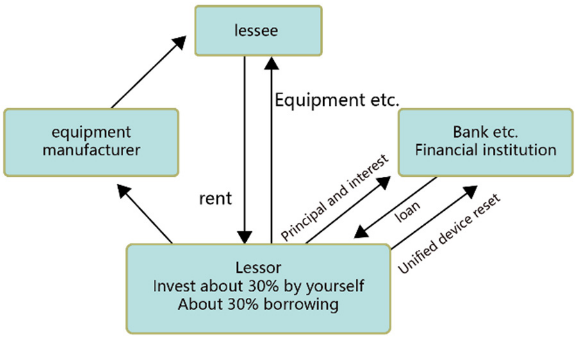

Figure 3 Leveraged lease model

(4) Entrusted leasing means that a person who owns funds or equipment entrusts a non-bank financial institution to engage in financial leasing. The first lessor is the principal at the same time, and the second lessor is also the trustee. The lessor accepts the principal's funds or lease subject matter, and according to the principal's written authorization, handles the financial leasing business to the lessee designated by the principal. During the lease term, the ownership of the leased object belongs to the principal, and the lessor only charges a handling fee and does not assume risk. A major feature of this type of entrusted lease is that it allows enterprises that do not have the right to lease the right to operate.

(5) Sub-leasing refers to the financial leasing business with the same object as the subject matter. In the sub-leasing business, the lessee of the previous lease contract is also called the lessee of the next lease contract. The ownership of the subleased property belongs to the first lessor. The sublease involves at least four parties: the equipment supplier, the first lessor, the second lessor, and the second lessee. Sublease involves at least three contracts: purchase contract, lease contract, and transfer lease contract. The leased property is rented from another lessor and then subleased to a third party. The sublessor aims to collect the rent difference, and the ownership of the leased property belongs to the first lessor. The sublease in **Figure 4** involves at least four parties: the equipment supplier, the first lessor, the second lessor and the second lessee. Sublease involves at least three contracts: purchase contract, lease contract, and transfer lease contract.

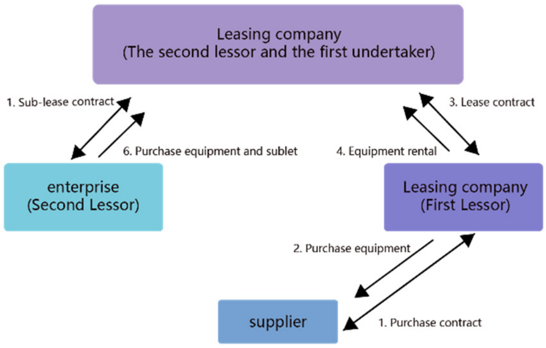

Figure 4 Flow chart of sublease

Under normal circumstances, sub-leasing is mainly implemented internationally. In the process of renting equipment by other leasing companies, the lessor is carried out between financial institutions, so in specific operations, only the amount of financing is clarified in accordance with the purchase contract. In the financial operation of the purchase of the leased object, there is always no connection with the last tenant. In some cases, the leasing company directly treats the purchase contract as the leased asset to agree on the sublease contract. This approach is essentially a form of financing the leasing company. The leasing company acts as the first tenant, so it is not allowed to depreciate or withdraw the leased object.

(6) Structured shared leasing means that the lessor purchases the leased property from the supplier and provides it to the lessee based on the lessee's selection and designation of the supplier and the leased property, and the lessee pays the rent according to the contract. Among them, the rent is calculated and agreed on the basis of the cash flow generated after the leased property itself is put into production. It is a lease method in which the lessor and the lessee share the income of the leased project. The share of rent includes the purchase cost, related expenses (such as capital cost) and the part of the project's expected income level shared by the lessor.

Applicable to: telecommunications, ports, power, urban infrastructure projects, ocean-going ships and other projects with large contract amounts, long durations and good income expectations.

3 BUSINESS STRATEGY ANALYSIS

1. Strengthen the promotion of industry-finance integration

Financial leasing integrates financing, financing and asset management, and plays an active role in expanding investment and alleviating debt burdens. Financial leasing has achieved synergies between industry and finance through the internalization of financial business, and ultimately promotes the rapid development of the group. development of. At the same time, because the group has a high rating in the industry chain and has certain monopoly capabilities, it can share its advantages with upstream and downstream enterprises. Financial leasing companies can make full use of the group's resource advantages to obtain industrial chain projects, and when rents are overdue, they can deal with risks through industrial integration and other means. Therefore, the integration of industry and finance is the main support for financial leasing companies to expand the market and prevent risks. The company's most ideal business direction.

2 Establish a customer credit risk control system centered on credit entities

The credit subject is the core node. In the management of leasing projects, the purpose of financial leasing companies is to recover the rent smoothly. Therefore, as long as the credit subject is operating normally, the cash flow is stable, and the financial lease rent is repaid smoothly, the asset management department will not care too much about the credit of the leased property. That is to say, the risk of the leased property is based on the risk of the credit subject, as long as the credit subject does not occur Risk, leasehold risk will not be triggered. The risk control department should set an entry threshold when reviewing the credit status of the applicant. The negative list of the client company and the red line of the client company should be set. The level is distinguished.

3 Strengthen and improve the control of the subject matter and industry

The business establishment and coverage of financial leasing companies are established based on their operating experience. The customer industries involved are mostly familiar industries, especially the equipment financial leasing business, which restricts the involvement of financial leasing projects in the industry through the restrictions on the subject matter. According to the second-hand liquidity assessment of different types of subject matter, different subject matter types will also set the corresponding upper limit of the financing ratio. The financial leasing company may stipulate that the financing ratio is generally not more than 80% for the target of Class A equipment, and the financing ratio is generally not more than 70% for the target of Class B equipment. If the bid is not in the restricted equipment category, a special application must be made to the director of risk control, and the amount of financing applied for does not exceed 60%. The category limitation and grading assessment of the subject matter can reduce the scope of project sources, and place limited financial resources in more certain industry fields, which has a certain positive effect on risk control. Secondly, setting the upper limit of the tiered financing ratio can effectively control the second-hand residual value of the subject matter, and try to avoid the situation where the second-hand output value of the subject matter is lower than the total rent that has not been recovered in the event of default.

4 Set up a project

From the perspective of credit, the smaller the credit amount, the higher the credit subject's turnover, the lower the credit risk, and vice versa, the higher the risk. For financial leasing companies, because they are mainly small and medium-sized enterprises, their annual turnover is generally less than 100 million yuan. According to the analysis of the operating experience of the leasing company for many years, the general customer group with an annual invoicing turnover of 20-50 million has a low proportion of bad debts, so a high-quality customer project has been set.

For project entities that meet the above conditions, the financing ratio for purchasing equipment can reach 90% of the equipment tax-included price. Since the implementation of the project, although the development goals are not clear, it has limited effect on channel development and new project development, but for existing high-quality customers, it has greatly helped increase the loyalty of these customers.

4 CONCLUSION

Given the difficulty of financing for domestic SMEs, financial leasing provides relatively low-cost and convenient financing channels for SMEs. At present, the penetration rate of Chinese financial leasing industry is significantly lower than that of developed countries. In this environment, the financial leasing industry has also developed rapidly in recent years. For a time, financial leasing companies have been formed together, especially those with small and medium-sized enterprises as the main applicant. Although there are many opportunities and large room for development, the financial leasing industry is still in the initial stage of development based on the current non-standard management of Chinese small and medium-sized enterprises, and the financial leasing companies still lack operating experience and the accumulated foundation is weak. How to rationally operate financial leasing companies for small and medium-sized enterprises, how to set up mechanisms and strategies under the balance of risk control management and business development; how to develop more steadily in the constantly changing market environment, is the direction of this article.

Based on the actual situation of the financial leasing company, this article proposes an optimization plan for the operating problems of the leasing company, and draws the conclusion: First, although small and medium-sized enterprises are dressed in "dirty, messy" coats, they can still be traced as long as they are carefully digging. Follow and find the feasibility of the project; second, the internal issues and risk control issues of the financial leasing company in the operation process need to be paid attention to, and it is important to adjust the strategy appropriately and in time; third, improve the salary system and strengthen the team building, and actively promote the process Online systematization is plus.

The only way to strengthen the management of financial leasing companies. From this, we propose that financial leasing companies should pay more attention to the development of risk control, personnel training, and process systemization.

Acknowledgment. Supported by Changzhou 2020 Industrial Internet Innovation Project-Digital Tracking and Training of Production Scenes in the Welding Industry (Changkejiaochengfa 2020 (31)). Supported by the 2020 Industrial Internet Innovation Development Project -A regional integrated public service platform for basic manufacturing in the Yangtze River Delta.

REFERENCES

[1] Wen Ruosi. Research on the business strategy and risk control of the financial leasing business of small and medium-sized enterprises [D]. Sun Yat-sen University, 2020.

[2] Hu Wenguang. Research on the Development Strategy of Serving SMEs' Financial Leasing Business [D]. Shanghai University of Finance and Economics, 2020.

[3] Xing Xiuqing, Gao Chunyan, Cen Ding. Game analysis of the coordinated development of Chinese financial leasing enterprises and small and medium-sized enterprises[J]. Journal of Jilin Teachers College of Engineering and Technology, 2020, 36(01): 48-51.

[4] Zhang Shanshan. Analysis of Chinese small and medium-sized enterprises' financing problems based on the perspective of financial leasing[J]. Market Research, 2019(10): 45-47.

[5] Yu Bin. Research on the Problem of Financing Leasing of Small and Medium-sized Enterprises [J]. Market Modernization, 2019(09):93-94.

[6] Shu Chunhua. Research on the path of financial leasing services for the transformation and upgrading of small and medium-sized enterprises[J]. Financial Economics, 2019(06): 3-5.
[7] Liu Pei. Research on Risk Management of Financial Leasing Business of Z Company [D]. Southwestern University of Finance and Economics, 2019.
[8] Li Xin. Research on Chinese Small and Medium-sized Enterprises' Financial Leasing Issues[J]. Science and Technology Entrepreneurship Monthly, 2018, 31(12): 30-32.
[9] Li Saiqun. Problems and countermeasures in the financial leasing of small and medium-sized enterprises in my country [J]. Enterprise Reform and Management, 2018 (23): 108-109.