

# ***Research on Risk Management of Credit Card Business of Tangxia Branch of Guangzhou Rural Commercial Bank***

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**Keywords:** Credit card, risk, commercial bank, risk management, interest rate

**Abstract:** In today's society, although the scope of credit card business is widely popularized, it also meets people's daily financial trading service needs, but its risk of use cannot be ignored. This article aims to use the historic Guangzhou Rural Commercial Bank Tangxia Branch as a breakthrough, and explain the problem of the bank's credit card business in the process of risk management through the literature research method and case analysis method, and then discover the bank's credit card business risk management. The status quo is not optimistic, and its business environment is relatively poor, which is mainly related to factors such as the cardholder's security awareness, the service level of the card issuer and the management measures. Based on this, the author believes that individuals and society must start from the cardholders' risk management awareness and risk management system, and effectively avoid the risks of credit cards during use and operation in order to ensure scientific and rationalization of credit card business risk management.

## **1. Introduction**

### **1.1. Research Background**

In people's daily life, credit card consumption is gradually prevalent, in China, the history of credit card development is not far away, strictly speaking, it is slowly integrated into people's production and life after reform and development, and step by step changes people's lifestyle and consumption patterns. Compared with the domestic credit card business, the offshore credit card business developed earlier and became a relatively stable model. In the early 1850s, countries such as the United States and the United Kingdom began to use credit cards for daily consumption, transactions and other financial services. Compared with overseas, China's credit card business is relatively slow to develop, and the current business development and management is not perfect [1]. At the end of the first quarter of 2018, the total amount of credit cards was 13.14 trillion yuan, and the number of credit cards per capita increased from 0.17 in 2008 to 0.53 in 2018, doubling the overall growth.

With the growing issuance of credit cards, special merchants and customer base, credit cards have gradually become an important channel for commercial banks in China to make profits, which has led to the intensification of competition among commercial banks in credit card business. However, due to the credit card environment, cardholder's security awareness, the functional design of card issuers, the concept of marketing, customer positioning and requirements, the overall level of service, management measures and means, security skills and other reasons, the risks of credit card business have become increasingly prominent. Especially in the past two years, with the rapid expansion of the credit card business of commercial banks, illegal intermediaries have frequently issued cards and merchants have cashed out, and all kinds of illegal credit card crimes have become increasingly serious, seriously endangering the funds of banks and cardholders, thus producing serious social consequences. Constrained by many conditions, compared with foreign banking business, China's banking industry has insufficient understanding of credit card-related professional knowledge, and insufficient experience in risk management, that is, the risk management awareness and security technical measures of commercial banks cannot adapt to the situation. This has limited the good development of China's credit card business to a certain extent.

## **1.2. Significance of Research**

Guangzhou Rural Commercial Bank is a local bank, and its Tangxia branch has a certain development history. But the bank's credit card business is still in its early stages of development. To increase market share, it is crucial to maintain an effective credit card ratio when issuing and opening a large number of credit cards. It is also very difficult to take precautions to prevent credit card business risks. Because considerable economic benefits and scientific risk management are important, it is difficult to balance, but ignoring credit card business risk management can lead to a large number of bad debts, which may have a significant impact on the bank's credibility and economy [2].

Of course, Guangzhou Rural Commercial Bank Tangxia Branch strengthens the risk control of credit cards, which is conducive to further promoting the bank's business development, improving the attention to credit cards and risk control of banks. Credit card operation is becoming more and more standardized and scientific. The research on credit card operation risk management of Guangzhou Rural Commercial Bank Tangxia Branch has important historical and practical significance. This paper takes the Tangxia branch of Guangzhou Rural Commercial Bank as an example to discuss the problems existing in its operation process and put forward corresponding countermeasures to reduce its potential risks. In order to ensure the safety and rights of bank credit card business, improve the efficiency of bank credit card business operation, and provide strong guarantee. In terms of risk control of credit cards, the bank has also established an internal control system that is in line with its actual situation. To a certain extent, this reduces its business risks, enhances its credibility, wins the recognition of customers, and thus increases the trust of customers in themselves [3]. From the customer's point of view, effective risk control of credit cards is objectively conducive to standardizing the bank's business process, and can protect customers' personal privacy and the safety of their economic and economic property.

## **2. Current Situation and Existing Problems of Business Risk Management of Tangxia Branch of Guangzhou Rural Commercial Bank**

### **2.1. Brief Description of Credit Card Business**

Guangzhou Rural Commercial Bank Tangxia Branch was founded in 2009, the company began to establish a system for applying for credit card issuance qualifications and *UnionPay* data. In

March 2017, the company began issuing credit cards. As of the end of June 2019, its total assets were 68.118 billion *yuan*, and the bad debt ratio was 1.92%, but it had 74 branches and won many honors. The bank's credit card center directly manages and promotes its marketing team [4]. At present, due to the continuous improvement of the company's development strategy and system, the company's main business objects in the early stage are Guangdong Rural Credit Cooperatives, and the business objects are foreign customers. Among them, credit cards are dominated by installment and consumption, and their most important benefits are a large amount of installment fees. According to the principle of "overall planning, gradual implementation, and gradual progress", the issuance of credit cards and the research and development of new products are in full swing, and it is expected that more credit products will come out in the future.

Table 1: Comparison of credit card operation of The Bank in 2019-2018

Comparison Items	Cumulative Trading volume	Cumulative gross merchandise volume	Total Revenue	Income possession limit
In 2019	74239 Pens	644.9687 million <i>yuan</i>	5.8657 million <i>yuan</i>	417.0513 million <i>yuan</i>
In 2018	50142 Pens	410.7232 million <i>yuan</i>	3.1502 million <i>yuan</i>	257.2602 million <i>yuan</i>
Growth rate	18%	14%	80%	3%

Table 1 is based on the *credit card business report of Tangxia Branch of Guangzhou Rural Commercial Bank from 2017 to 2019*. The content is a comparison of the business development data of Tangxia Branch of Guangzhou Rural Commercial Bank in 2018 and 2019. It can be seen that compared with 2018, the scale of bank card transactions and revenue in 2019 have greatly improved.

## 2.2. Status Quo of Credit Business Risk Management

The starting point of credit card operation is to identify the risk of credit information, which plays a pivotal role in preventing credit risks. In China, there are a large number of internal and external risks in the credit system. External risks mainly include credit risk, fraud risk, marketing risk, etc. The credit card center of Tangxia Branch of Guangzhou Rural Commercial Bank attaches importance to risk identification according to its own credit risk characteristics. At the same time, based on the particularity of the business activities of commercial banks, their business content will also be subject to credit risk assessment, generally before the credit card is issued.

## 2.3. Types of Risks in Credit Card Business

### 2.3.1. Credit Card Business Risk Identification is Difficult

The development of credit card business of Tangxia Branch of Guangzhou Rural Commercial Bank is in its infancy, and it will spend a lot of manpower and material resources on credit card marketing and expand the scale of credit cards. At present, the credit card inventory of high-end customers is far beyond saturation and there is no new growth momentum, so many banks will launch a large number of marketing tactics to attract more customers and occupy a wider market, thereby putting their operations at risk. There are two aspects of credit card risk, one is endogenous and the other is external [5]. The inherent danger is manifested in the fraud of credit card processing. Some people obtained a credit card by falsifying information and falsified some information in the application form to obtain a line of credit from the bank. The fake identity is to apply for a credit card in someone else's name [6]. Once a series of problems such as accounting errors occur, the

bank cannot track and timely make claims, resulting in direct losses. False information refers to the provision of credit cards or high credit to ineligible applicants through false work information and real estate information; "Fake group card" refers to the issuance of false documents to many non-working people when the company applies for false information and materials, which cannot bring a certain amount of cash flow to the company's development due to lack of funds; Unscrupulous black intermediaries, without the consent of the bank, used forged or forged information to deceive the bank to issue credit cards and obtain higher credit limits, and they conducted detailed investigations into the credit card issuance systems and operating procedures of major banks, so that major banks were misled in prevention, resulting in huge losses of credit cards. In addition, employees in the company's business activities, due to employees in the company's business activities there are violations or illegal business risks, especially employees viewing, stealing customer information, using authority or system security risks, these are very hidden and difficult to find, and their danger is much greater than its external danger [7].

### **2.3.2. Credit Card Business Risk Management System is not Perfect**

The credit card business of Tangxia Branch of Guangzhou Rural Commercial Bank is currently based on risk assessment, supplemented by manual approval. However, the evaluation method for cardholders' use of credit cards is relatively lagging and a post-evaluation method is used, which leads to the potential dangers of credit cards.

First, in terms of credit assessment, although based on the research of a large number of risk score data, a mathematical model of risk assessment has been established, and the scoring is efficient, but its evaluation method is relatively single, and in the absence of massive data, it is likely to encounter a card issuance mechanism that's not suitable for itself. The method of manual audit is set by the bank itself and determined by the auditor based on experience. During implementation, manual audits are likely to create deviations [8]. Guangzhou Rural Commercial Bank Tangxia Branch's credit card business and the number of customers and other reasons, its risk assessment mode is not accurate, especially the credit records of audit institutions mostly rely on the credit records of the People's Bank of China, lack of comprehensive information, can only rely on the customer's loan, age and other basic information, can't understand the customer's vehicle, insurance, provident fund and other information. Moreover, for many customers who don't have a credit history, there is no basis for judgment.

Second, the scores are not consistent enough. The ability and work experience of the reviewer have a great influence on the final review effect, and for the same candidate, the review results of the auditor will also be different. Moreover, the same censors will be implicated, and their effectiveness will change.

Finally, due to the asymmetry between the applicant and the bank, the manpower can not make a comprehensive assessment of the policyholder, and can only assess the risk of the policyholder according to the data provided by the system, which will increase some credit costs, or reduce the credit limit, but at the same time, there will be some bad credit users become the subject, resulting in bad money driving out good money, thereby aggravating the risk of the entire credit card.

### **2.3.3. Cardholders Lag Behind in Card Evaluation**

Guangzhou Rural Commercial Bank Tangxia Branch has not established a sound risk assessment system, resulting in backward risk assessment methods. In most cases, based on the evaluation of credit card consumption, there is no continuous dynamic evaluation of credit card consumption, only credit card consumption is evaluated and expected. Credit card risk control is a continuous monitoring work, as long as the cardholder's information changes, it will affect the cardholder's

ability to pay, and even the cardholder's willingness to repay, which is an objective requirement for the cardholder's integrity assessment, therefore, the credit card center must supervise it, especially when there is significant information, to update it at any time. In the second credit entrustment inquiry, the timely update of key information plays a pivotal role.

#### **2.3.4. Credit Card Risk Management Prevention Mechanism is not Perfect**

First of all, China's internal control system is relatively backward, and internal control needs to be further strengthened. Compared with the credit card business of mature commercial banks, there are problems such as imperfect system and inadequate supervision. Although the system provides for full monitoring of credit card purchases, and in the event of an anomaly, cardholders are immediately contacted to verify their existence, after issuance, they are unable to continue to track their funds and repayments to manage their risk. Second, the way of doing business after the loan is outdated. In the post-loan operation, the bank's risk control technology and early risk prediction are relatively weak. Post-loan supervision focuses on monitoring the customer's repayment amount each month. In practice, we only focus on business risks and ignore the impact of other risks on the credit card business [9]. Failure to do a good job in prevention, failure to grasp new types of fraud in the new situation in a timely manner, and insufficient monitoring of professional and large-scale crimes.

### **3. Analysis of the Causes of Problems in Credit Card Business Risk Management of Guangzhou Rural Commercial Bank**

#### **3.1. Lack of Risk Management Awareness**

Although the current credit card industry is in a stage of rapid development, Guangzhou Rural Commercial Bank Tangxia Branch has not yet established the basic risk management concept of credit cards, therefore, the understanding of risks is not deep, whether it is the risk to customers, or the whole process of sales, operation and development, there is no effective supervision. In view of the governance of credit card risk, the work of banks has not formed a unified and coordinated allocation and internal control mechanism with a clear division of labor, and there is no correct dialectical understanding of the relationship between risk and return, and it is impossible to achieve the best interests under the premise of risk control. On the other hand, many banks do not attach importance to the ability to repay unqualified applicants, do not attach importance to the "three-parent" system, issue credit cards with a low threshold in exchange for higher credit limits, easily ignore the emergency treatment of risks, and lack the concept of risk management before, during and after risks. Therefore, under the new situation, the business model of banks should constantly keep pace with the times and face more and more risks, abandon the conservative thinking of blindly pursuing the scale or risk of card issuance, and abandon the concept that it is exactly contrary to business development.

At present, China's credit card risk management is still at a low level. In actual work, because the performance concept of relevant personnel has always been very important, so many times, relevant staff will ignore certain operational risk factors and rules and regulations, and try to keep it simple and loose. This shows that the risk management and cultural awareness of the enterprise within the enterprise are still very weak, and the risk awareness of the personnel and the enterprise has not yet been consistent. Although many employees engaged in business activities follow the regulations, few staff consciously include their own business in the prevention of risk management, lack of positive preventive thinking, resulting in some major risk problems, which has a negative impact on the timely upgrade and development of the system.

### **3.2. Insufficient Capacity of Business Personnel**

In recent years, the credit card business has developed on a large scale, and the number of cards issued has increased sharply, and risks have also followed. Many criminals have also started using credit cards for scams and theft. They cheated in a relatively covert way in the approval process of bank credit cards, resulting in the failure of the risk prevention role of bank verification. From the perspective of credit risk, without the support of professional personnel, no matter how sound the rules are, there will be shortcomings in implementation. At present, many credit card businesses of Guangzhou Rural Commercial Bank Tangxia Branch are still manually audited, and the comprehensive quality of its staff needs to be further improved. The bank's credit card business personnel are at a disadvantage in terms of quantity, personnel structure, quality and other aspects. Especially when they lack professional risk management experience and supervision platform, marketers generally have high turnover rate, low cultural literacy, lack of legal, marketing, operation, audit and other professional skills. The quality and implementation level of management personnel are generally poor. They do not have enough understanding of the company's relevant documents and regulations, and there is a wide range of prejudices against it, so the execution ability is a key factor related to the success of credit card operations, it plays an irreplaceable role in credit card marketing, approval, collection and other links, and the work of business personnel is also closely related to it, but they are currently difficult to achieve the expected results in the work [10].

## **4. Measures to Optimize the Risk Management of Credit Card Business of Tangxia Branch of Guangzhou Rural Commercial Bank**

### **4.1. Strengthen Risk Management Awareness**

In the credit system, the establishment of a sound credit system is the key. Therefore, to strengthen the risk understanding of the credit card industry, we must treat risks in a scientific way and establish a good risk concept and value concept. Strengthening the operation of the credit card business is the core of improving its operation. To strengthen the control of risks, it is necessary to solve the problem fundamentally. The Basel II advocates three integrated risk control ideas, namely: capital adequacy ratio, market regulation and market constraints. Promote a unified risk management concept so that it can be instilled in the daily staff the correct perception that the bank's dangers come from a lack of awareness of the risks, and these risks will penetrate into the life of every employee through all stages of the credit card. In the process of comprehensive control of the overall risk of customers, the potential dangers of individual customers and individual transactions cannot be ignored, and they are guided and standardized to improve employees' self-risk awareness. At the same time, to have a comprehensive concept of crisis management, there must be a clear concept of crisis from top to bottom.

### **4.2. Improve the Internal Control System**

Based on the principles of system optimization, functional positioning enhancement and quality and benefit as the core, the author conducted a preliminary study on credit card operation in Guangzhou, established a set of scientific and reasonable development direction, grasped the development quality, avoided huge risks, and prevented blind expansion, so as to ensure the sustainable development of credit card business and establish an effective risk control system.

The basic premise of improving bank credit card operation is to strengthen the supervision of banks and long-term risk management. Therefore, while strengthening the construction of the

bank's internal control system, we should strengthen the supervision of the bank to ensure the bank's operational safety and reduce risks, so as to achieve the company's development goals. A sound internal control system shall form a set of scientific and strict internal control systems at several levels, such as unified standards, standardized systems, clear responsibilities, in place supervision, mutual restraint, and specific assessment.

Credit card administrators should ensure that there are laws and regulations in place for each procedure. In short, to a certain extent, it guarantees the risk management of customers to customers, improves the operational efficiency of customers, and reduces customers' trust in customers. It is necessary to adhere to the principles of science, rationality and application, and verify and strengthen them in practice. By monitoring the key risks of enterprise business behavior, optimizing them in the process of operation, and implementing a reward and punishment system internally.

The values and working philosophy of staff are the basic risks of bank credit operation, and the bank's internal governance is its core element. While implementing "hardness", the principle of "softness" should always be adhered to in the construction of the entire credit card business system. From the ideological level, all personnel of the bank are managed and educated to enhance the ability of prevention and prevention. To promote the healthy and rapid development of the credit card industry with a high-level internal control culture, we will create a number of credit systems with high professional ethics.

### **4.3. Improve the Risk Management System**

The institutional construction of credit card risk management process is very important for credit card risk prevention. From the credit card customer marketing process, we must adhere to the principles of simple operation, strict scrutiny and within the tolerance of risk, ensuring that marketers can quickly and efficiently complete the review and approval personnel to the business in a timely and credit approval. When issuing credit cards, staff members are required to exercise prudence and assume responsibility for the approved limits in accordance with the scoring system and past work experience to ensure the correctness and effectiveness of the work. Raise the threshold for risk control. Through the management of risks, the whole process is controlled by risk.

On the other hand, we need to enhance the risk identification ability of customers, and at the same time as the credit card industry develops, due to the rapid issuance and approval of credit cards, the number of users and cards issued has grown rapidly, and at the same time, the update of personal information and historical information and the accumulation of credit ratings have also made it impossible to rely on manual work with low accuracy and poor consistency.

At present, the evaluation model of Tangxia Branch of Guangzhou Rural Commercial Bank is manpower-oriented. Due to the existence of numerous credit terms, market entities are unable to identify the authenticity of the information and risk being deceived by consumers. Therefore, it is necessary to conduct online evaluation of credit card users to improve the accuracy of their credit assessment. The updated evaluation model will include customers' occupation, marital status, education, credit history, assets, loans, etc., and build a scoring system with basic situation score, business status score and special situation score as the main indicators. The basic condition score is some basic information of the customer, such as age, income, address, etc. Business scoring is based on the customer's banking situation, such as deposit and loan business, wealth management product purchase, credit card swipe, etc. The final special status score is the positive and negative impact on the customer's repayment status, for example, the customer's career changes, family status changes, whether the repayment record is normal or overdue, malicious overdraft, etc., which must be recorded in the scoring system to confirm the customer's credit status, set the amount, avoid duplicate points, and determine the customer's ability to repay. At present, China's credit card

centers lack experienced risk managers and audit talents, so the credit evaluation model can introduce external experts and appraisal talents with a certain technical level. The accuracy of the evaluation can be improved through the evaluation of experts and the analysis of the system evaluation.

Credit risk early warning and anti-fraud indicators of credit card customers usually include large utilization rate, late repayment rate, etc., to measure the credit default risk of credit card customers. Through precise analysis and monitoring, empirical risk classifications are established and different control methods are employed. When the risk reaches a certain level, the system will sound a warning, through the analysis of the credit card center, find possible risks, and according to the source of the risk, through freezing, suspension of payment and other methods, to minimize the risk.

## 5. Conclusions

Although the use of credit cards is very wide, it can be seen from the above information that the current status of credit card business risk management is not optimistic. As an individual, it is necessary to actively strengthen risk management awareness. For relevant institutions, the design of the risk management system is also effective for the important means of avoiding risks, everyone should avoid unnecessary risks with a high sense of alertness.

## Acknowledgments

This work was supported by the Fund project, Guangzhou University of Business 2021 provincial project: Exploration of OBE Training Mode for Economic Applied Talents in Private Colleges and Universities under the Background of New Business, (2021JXGG01).

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