

Industrial Digital Finance Can Break Down Information Asymmetry Barriers between Banks and Enterprises¹⁰

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Abstract: *The future of industrial finance should follow the path of “digitization + platformization.” To achieve platformization, it is necessary to establish relevant infrastructure in terms of enterprise identity authentication and digital invoicing. An industrial digital finance platform can break down the barriers of information asymmetry between enterprises and banks, ensuring the authenticity of data, reducing financing costs for businesses, and improving financing efficiency. The development of industrial finance requires a platform-oriented mindset to digitize industries and transform digital data into assets.*

I used to work in the financial department of a central state-owned enterprise (SOE), and in the past eight years, I have been involved in industrial digital finance. I would like to share my views on the digital transformation of industrial finance from the perspective of industrial chain digitization.

In the past decade, the development of the Internet has tackled a series of challenges that hinder consumption, social interactions, and transportation. Consumers and businesses have each achieved digitization, and through the connectivity of the Internet, information asymmetry between them is no longer an issue. Following the same logic, I hope to build a platform to eliminate information asymmetry between enterprises and financial institutions, so that small and medium-

sized enterprises (SMEs) as well as the anchor enterprises in the industrial chain can access financial services conveniently. With this goal in mind, we established Cloud Chain to build an industrial digital finance platform.

Currently, both central SOEs and non-central SOEs are undergoing digital transformation, and so are financial institutions. However, their transformations are running parallel to each other with no points of contact. I hope to build a platform that allows their paths to cross, enabling both parties to be “seen” and “understood,” so that the functions and value of the platform can be fully realized.

I believe that the future development path for industrial finance should be “digitalization + platformization.” To achieve platformization, there must be infrastructure, and I would like to discuss three aspects.

First, digital identity for enterprises. When an enterprise wants to have its digital identity verified, it needs to undergo authentication across different banks and platforms. Currently, there is a lack of trust between different platforms, necessitating an infrastructure

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11 Mr. Liu Jiang is Chairman of Cloud Chain.

that enables mutual recognition of enterprise identity across various platforms. This is similar to the practice of logging in to many apps using facial recognition or a WeChat account, yet the same ease of identity verification has not been achieved for enterprises. That's why financial personnel or procurement staff often keep various U-Keys in their drawers to log in to different platforms.

Second, structured registration of trade background. To access industrial finance services, it is necessary to register trade information at zhongdengwang.org.cn, an online registration and information system for movable properties financing established by the Credit Reference Center of the People's Bank of China. However, because the platform has not been fully structured and digitalized, searching for information in the system can be laborious and time-consuming, more so when enterprises and banks are engaged in more industrial finance. The complexity of the queries has slowed down the speed at which financial institutions can disburse loans to enterprises.

Third, invoices. The State Taxation Administration is promoting the use of digital invoices. However, commercial banks providing supply chain finance still require enterprises to complete traditional processes such as printing paper invoices and stamping documents. This prevents the realization of a fully paperless process. We hope to reduce these meaningless offline procedures.

When I initially ventured into supply chain finance, I was puzzled about why central SOEs could enjoy a loan interest rate that was 10% below the base rate, while their suppliers were subject to rates that were 20%, 30% above the base rate or even higher. I wondered if I could establish a platform that both suppliers and banks could use, which could first authenticate the rights of the suppliers and then allow banks to providing loans to them, thereby addressing the issue of information asymmetry.

The business model of this digital supply chain finance platform, which emerged in 2015, has gradually gained

recognition. In 2022, our industrial digital finance platform achieved a financing scale of approximately 260 billion RMB, with an average financing cost of less than 4%. As long as suppliers use this platform, they can enjoy financing costs equivalent to those of central SOEs in the industrial chain. Both SMEs and anchor enterprises can log in to the platform, view the pricing from various banks, make comparisons, and eventually find a suitable bank.

We have found that banks are most willing to provide financing for suppliers of core enterprises during the payment planning phase. After receiving orders, many SMEs as well as start-up tech enterprises require financing during the production process to purchase raw materials and pay employee salaries, but they find themselves unable to provide the proof of orders to the banks. Is it possible to help them prove that they have received the orders and are organizing production, digitalize these information, and send them to the banks, so as to address the issue of information asymmetry?

For example, in the construction industry, construction machinery and equipment are generally leased, with an annual scale of around 800 billion RMB. However, due to a six-month settlement and accounts payable cycle, most SMEs in the construction industry can only seek private financing, incurring high financing costs of up to 12%, 15%, or even higher. In 2018, we set up an industry digitalization platform to facilitate rental deals and on-site management of construction machinery and equipment. This platform provided free assistance to SME lessors and SOEs in the construction industry to achieve bid matching. Additionally, to ensure data authenticity, the platform adopted digital supervision by installing sensors on construction machineries in substitution of manual on-site data collection.

This is a very low-cost form of industrial digitalization because businesses use this digital platform for free. It profits by way of data monetization: if an SME needs financing, it authorizes the platform. The platform then sends relevant digitalized data of production and operations to the bank. Based on this authentic

digitalized data of production and operations, along with some external data and the core enterprise's commitment to future fund payments, the bank provides financing to the lessor. Upon completion of the loan, the platform charges a certain subscription and service fee. This platform can address the issue of verifying the authenticity of production and operation data. It can also coordinate the future payment by the core enterprise to a designated account, giving banks more confidence to lend.

For industrial chains where both core enterprises and upstream/downstream businesses are well digitalized, we achieve cross-verification of data on the Cloud Chain platform by directly connecting the ERP systems of core enterprises, suppliers, and distributors. Because we have a better understanding of what data enterprises can provide and what data are required by the banks to provide a certain product, businesses can seamlessly connect with various banks' supply chain finance products through the platform, reducing the burden on core enterprises to engage with multiple banks and improving efficiency.

Looking vertically at industrial digital finance, how can we provide core enterprise-led service for first-tier, second-tier, and third-tier suppliers, such as electronic proof of credit and supply chain bills, both of which have gained considerable popularity. Horizontally, by utilizing industrial digitization, we can create digital scenarios or connect directly with ERP systems through the platform to access data. Further, we can utilize technologies such as blockchain to prove that the data are from the production site, unaltered, irrefutable, and traceable, and then send the data to banks to gain their trust. We have achieved such a business model of industrial digitization and data asset creation, enhancing SMEs' access to low-cost financing.

In conclusion, developing supply chain finance requires a platform-oriented mindset to digitize industries and transform data into assets. Only through digitization and platformization can the financial sector confidently provide more financing services, ultimately achieving cost reduction and efficiency improvement across the entire industrial chain. 🏡