Insight of Financial Crisis to Financial Risk Management in China

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Abstract. The U.S. subprime mortgage crisis erupted in 2007 and soon spread to global financial markets, whose impacts have not yet subsided. Financial crisis have presented new challenges to China's financial risk management, so which countermeasures should we take has become an important issue for us.

Introduction

With the continuous development of the financial industry and the accelerated pace of financial innovation, financial risks are gradually exposed. Especially since the 1990s, the international financial market have been vibrated frequently, the financial crisis occurred not only in developing countries such as Brazil and Southeast Asia but also developed capitalist countries as the United Kingdom, Japan and others. When it comes into the 21st century, the U.S. subprime mortgage crisis occurred and its influence gradually expanded, which then evolved into a global financial crisis. As the beginning of the crisis, Wall Street has become the hardest hit, and at the same time, Europe and Asia-Pacific region are also subject to strong impacts. When asset prices fell rapidly and reorganization and acquisition of the financial industry expanded quickly, we have to pay attention to the cause of this financial crisis and the global financial crisis-financial risk management issues.

Financial risk refers to any risk that causes financial losses of the enterprises or institutions, that is, the uncertainty or volatility of enterprises future earnings which has relationship with financial market volatility. Financial risks pose a huge threat to the financial institutions as well as the financial systems, which include market risk, credit risk, liquidity risk, and personnel risk. Therefore, financial risk management is the rewards and losses between profit organizations and nonprofit organizations on the control the risks. Through the measurements and understanding of risk, we should take the appropriate measures and disposal programs to make the risk of losses get to the minimum, to make economy profit maximization, thus to ensure the smooth running of the monetary fund raising and economic activities. Thus, financial risk management is financial management practice to regulate the financial investment security and balanced benefits.

Problems of Financial Risk Management in China

Through the analysis of root causes and impacts of the U.S. subprime mortgage crisis, we can easily find out that there are still many problems in financial risk management in China, these problems include the following aspects.

Financial organizations are imperfect, risk management system is unsound.

Impeccable financial risk management system is an important guarantee for financial institutions in the normal operation in modern financial organizations. China's financial system has made tremendous progress after years of reform and opening development, China Banking Regulatory Commission and China Securities Regulatory Commission have introduced many relevant instructional documents to actively promote the development of China's financial system. But compared with the international advanced financial risk management system, China hasn’t established a sound risk prevention system and management system.

Risk awareness is low, law awareness is weak.
With the development of market economy, globalization of financial markets has brought many problems in financial risk management. Our financial institutions are in transition in this environment with low awareness of financial risk, even lack of understanding of the concept of risk, and have low legal awareness. In order to attract more funds to expand the size of loans, commercial banks create a large number of non-performing loans, and the blind expansion of a variety of financial investment business increase financial risks to a certain extent. For investors, in order to obtain more revenue they invest in financial institutions so blindly that they the neglect risk awareness. Because of the imperfect financial risk management systems, the various laws and regulations has not yet penetrated into the financial system, resulting in a lack of supervision and legal awareness. Therefore, to increase efforts to promote financial risk awareness and the importance of legal concepts will be benefit to comprehensively improve the financial awareness of risk prevention.

Information of financial markets is not transparent.

Information transparency refers to information promulgators disclose comprehensive and reliable information to the whole of society and public timely in order to help information users accurately assess a business activity of an enterprise and its financial condition and risk investment philosophy and so on. To some extent financial products are the collection of information, and information transparency determines the financial market's ability to develop healthy. Financial market in China is lack of information transparency, which will likely result in the financial information distortion of listed companies and a lot of inside trading that may manipulate the market capital flows. From a macro point of view, this will lead to confusion in the market and lead to market volatility. These conditions are not conducive to the capital injection to financial markets from investors, and this will continue to increase the risk of financial investment. Shortage of funds will further aggravate the vicious circle of financial markets financing, and will affect healthy and stable development of China's real economy to some extent.

Financial transaction and financial products are simplex.

Currently major financial institutions of the international financial markets is mixed operation, which operates the traditional deposit and loan business, financial operations and futures trading business at the same time, commence the operation of globalization, but China is still in the traditional business model, mainly rely on deposits and loans, lack of the intermediary business to carry out, financial products are simplex, this can not meet the needs of investors well, resulting in narrow investment channels, so investors can not enjoy a high quality service. There are more and more instructions loans of China's financial enterprises, leading to reduced profits and increasing bad debts year by year, greatly increases the probability of financial risks. As more and more foreign financial institutions are gradually entering the Chinese market, if China's financial enterprises don’t operate according to the popular practice of today's international market, it will be difficult for them to stand and progress.

Countermeasures

Faced with the problems of financial risk management in China, we can solve them from the following aspects.

To strengthen supervision of financial risk and improve risk management level of financial institutions.

Financial regulation is the process that the government checks, organizes and coordinate various financial institutions and financial markets through the relevant financial authorities according to certain laws and regulations to ensure smooth macroeconomic running and achieve macroeconomic objectives. In order to solve the problems existing in China’s financial system currently, the government should make the appropriate financial system reform, establish a financial institutions system and regulatory system that is sound and compatible with national conditions of China, strengthen the check and blow of the financial regulatory authorities to illegal financial institutions and the illegal social financial activities in order to build and maintain financial order. The government here should take administrative leadership responsibility of the steady development of
the financial industry and make administrative intervention indirectly about the financial business. At the same time, the central bank should disclose of financial risk situation in time, and timely propose processing policy according to the risk problems emerging in order to make China's financial market use and turnover of social capital effectively to promote the sustained and steady development of China's macroeconomic.

**To establish a sound internal risk management system.**

Financial institutions are not only faced with external financial risks, but also faced with internal risk management system imperfect problem which affects financial enterprises’ ability to resist risks. Concerned financial competent institutions should improve risk awareness, establish rigorous risk management systems, so that various departments could fulfill their functions, improve the institutional structure, and optimize the asset structure. Concerned financial competent institutions should also establish internal monitoring system to urge effective implementation of the relevant the operating principle through internal monitoring on each department, and should establish the ownership of rights and responsibilities of the system to make clear responsibility of human rights and administration range along with severe penalties for unauthorized persons, and establish risk-responsibility mechanism of financial business and the risk products. In short, managers should respond adequately to a variety of potential risks, select the appropriate management system that is more suitable for the development of the enterprise, and minimize financial risk probability.

**To strengthen the construction of information disclosure system, to prevent effectively credit risk.**

China's financial markets should be run healthy under the provisions of relevant laws, in particular, we have to speed up the legislative progress of the securities, insurance and other new industries, to improve the legal and regulatory system, to strengthen law enforcement. At the same time, we should regulate information disclosure system by the application of laws and regulations, strengthen information transparency, ensure the timely disclosure of inside information, and resolutely crack down on false information in the market, increase penalties to prevent market fraud, and protect investors public information accession right, and consciously accept the outside world supervision.

**To strengthen the international financial cooperation, and to enhance the ability to resist the global financial risk.**

The financial crisis began in the United States has made people see a new picture of economic globalization. Although the financial crisis occurred in the United States, but it spread rapidly, made the bond market suffer the panic selling and stock market suffer upheaval. Because of the global investors’ panicked mind, some country's bond market even plummeted dramatically. Although China has not cancelled capital controls, so we didn’t suffer much impact, but the insight of this financial crisis for China is much more important than the effects of the financial crisis on China’s economy. Along with the further strengthening of economic globalization, the cancelling of capital controls is an inevitable trend. So we can not merely think on the basis of closed self-protection, but have to fully understand the importance of international financial cooperation, to inject liquidity into the market by open market operation and the role of lender of last, to take financial measures such as decisive monetary policy to prevent further spread of the financial crisis, in order to establish and consolidate the international financial cooperation mechanism, enhance our ability to resist the global financial risk.

**To enhance the training of new type financial persons.**

Although in this crisis the practice of conducting risk management entirely by the method of measuring mode has been questioned, but the method is still an auxiliary reference for risk management of financial institutions, which requires the people of financial institutions have higher level of professional techniques. However, by now, in our financial institutions, especially state-owned commercial banks, the situation is there is still great gap between the technique level of our primary staff and the actual work requirements. Therefore, we must enhance the process of personnel selection, and actively organize training for serving staff in order to improve the quality of the staff in financial industry. Only in this way we can do the analysis and research in scientific method to
adjust the relationship between metering methods and empirical judgments, and to apply it to daily management.

To strengthen the risk management of real estate mortgage business, and to effectively prevent the real estate bubble.

In the past several years, China's asset prices are artificially high, and the real estate prices are soaring dramatically. Although some parts in China have adopted small adjustments, but overall country is still in a rising cycle. Therefore, the continuous rising of real estate prices may contain great financial bubble. The government should establish risk warning mechanism in real estate industry, strengthen the risk management of real estate mortgage business, maintain to pay close attention to the index of the real estate industry, have the forward-looking judge of the real estate in advance to take macro-control means such as monetary policy to avoid or mitigate the adverse effects of real estate prices fall.

To develop the capital market steadily and slow down the pace of securitization.

China's capital market developed slowly, and the direct financing channels are narrow for the enterprises, so it is difficult to reduce the burden of the bank. We should develop China's capital market appropriately, and increase the direct financing channels and proportion gradually. Along with the external mitigation of bank stress, we should achieve the asset securitization of financial institutions, and we shouldn’t give up the improvements in this area just because of their risk. We only have to temporary slow down the pace of asset securitization of financial institutions, and have to make the level of financial risk management keep up with the pace of securitization in order to achieve effective control of risks.

To clarify the relationship between the government, banks and enterprises.

On one hand, in our country there is always the situation that government takes instructions, banks make recapitalization, and the enterprises make expansion. This kind of method is effective, but the risk is considerable huge, and it is contributing to official corruption, corporate inefficiencies and bad bank loans. On the other hand, a substantial proportion of loans of state-owned commercial banks goes to the large state-owned enterprises, and inefficient state-owned enterprises, in turn, lead to rising bad debt ratio of commercial banks, which affects the liquidity of the assets of commercial banks, and for some better efficiency middle and small sized enterprises, it is hard for them to get the support of the bank. At the same time, most state-owned commercial banks are injected capital by the government, so the bank managers tend not to consider the security of the assets, operate these high-risk business, itself simply can not afford the risk so the losses caused ultimately bear by the country.

Summary

Finance is playing an important role in the modern market economy, along with the changes of economic globalization, the financial system also changes, and new challenges appear for the financial risk management. China's financial development is in a short time, and the financial system is in the gradual improvement process, at the same time, financial risk in our country has the trend to expand, so to study and solve the problems of risk management is without delay. In conclusion, we have to establish a set of financial regulatory mechanisms which are suitable of our country’s situation to regulate financial markets, to make the financial engineering achieve sustainable development. This will contribute to China's financial reform, to the stable and sound development of the financial industry, and will improve the financial risk aversion capacity and market development potential to a great extent.

References


