

## Regional Financial Risk Control in the new period in China ——A Case Study in Heilongjiang

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**Abstract.** In recent years, with the rapid development of China's economy, the financial industry also will be considerable progress, but along with economic development, financial risks arises. So far, although the possibility of large-scale outbreak of the financial crisis is relatively low, but the regional financial risk still exists, and has been widespread concern in the community. Although our country has taken a series of regional financial risk control measures and means, but with the increasing complexity of financial issues, a lot of imperfections appear. Heilongjiang Province, at this stage, the financial sector to promote the economic development of Heilongjiang played an important role, but there are still some Heilongjiang problem prevention and control of financial risks, which is the obstacles of the financial industry development in Heilongjiang Province. Based on the regional financial risks associated with the theory, the status of financial risk control in Heilongjiang province and the problems in detail, and make recommendations to improve financial risk control and countermeasure.

### Introduction

In recent years, as China's economy continues to develop, the risks from the economic activities also will continue to increase, which produce a great threat to the normal operation of our economy<sup>[1]</sup>. Because of the deepening economic and financial risk has become an important part in economic risks. Especially under the influence of the subprime mortgage crisis and the European debt crisis, major developed economies suffer a very heavy blow, the world's financial system is facing serious financial risks. Although China is not like other countries suffered as severely affected, but the adverse effects on our exports is causing more significant, resulting in more obvious economic decline<sup>[2]</sup>. In this context, to strengthen regional financial risk prevention, to protect the safety of our financial system, to promote the development of the financial sector that has important theoretical and practical reference value.

### Overview of Regional Financial Risk Theory

**A. Define The Area of Financial Risks.** According to different sizes-ranging, financial risks can be divided into individual financial risks, financial risks and the regional system of financial risk. In the sphere of influence, regional financial risk should be between systematic risk and individual risk, which is belong to Meso Economy risk. Within different ranges, regional financial risk has different definition. Typically, regional financial risk is the financial risk generated in a region in a country. Regional financial risk is often sudden financial risk of individual institutions in a given region, and gradual accumulation, dissemination, diffusion, or with close ties to the spread of financial risk areas in the region, caused by the relevancy financial risks. If regional financial risk is bad treatment, that would pose a direct threat to financial risk and may induce financial risk.

## **B. The Reason of Regional Financial Risks Arising.**

**The traditional business model.** In our current economic system, four state-owned commercial banks have carried out reforms to achieve the transformation of business ,the capital organization has been further optimized, international competitiveness has been greatly improved. At the same time, we must clearly see that there are still a lot of imperfections during the development of the financial, Such as the convergence of business model, one-sided pursuit of the expansion, Imperfect internal organization,etc. These problems led to a variety of risks continue to accumulate<sup>[4]</sup>.

**Unsound internal control system.** In a market economy, the financial sectors bear more than the risk in the past. Many financial institutions are lack of effective internal control system. Regional financial institutions, small scale, low capital adequacy, low internal efficiency,which has brought great risks to the regional finance and regional economic development.China's financial institutions take qualitative analysis method to control financial risks<sup>[5]</sup>. Although this method is relatively easy to operate, but the Information technology is not high, and relatively simple means, the lack of macro-financial risks for the region to understand and grasp, remained obsolete in management, lack of innovation<sup>[6]</sup>.

**The intervention of local government on area of financial activity.** Regional Financial is affected by national and local governments to develop economic policies, in the process of economic transition, the national policy adjustments will affect the regional financial development, the impact of local governments on regional economic and financial operations is more obvious, the appropriate government make the regional financial intervention can reduce risk, but the occurrence of improper intervention would exacerbate regional financial risks. National and local government is not necessarily unified specific policy objectives, which makes the area of financial risk become complicated. Such as Commercial Banks, under the planned economy, government is willing to intervene inertia of economic development, so that the government, especially local government, under market economy conditions placed himself in the body and the center of capital allocation, and local governments in order to promote economic development and social stability,the government intervenes its owned operations of financial institutions<sup>[7]</sup>.Government forced banks to provide more credit to state-owned enterprises,foreign enterprises , That make the bank's credit activities break away from the principle of efficiency, the risk. increases. In pursuit of GDP growth for local official own achievements, they take the initiative intervene the normal business activities of commercial banks and blindly set point the project. However, the project by government intervention is often long investment cycle, high risks. Some local governments even see commercial banks as a function of local government departments, point loan, loan guarantee, act of apportioning have occurred, the safety of bank loans, liquidity and profitability are rarely considered. Regional financial guided by local interests will increase local protectionism, regional financial operation is very adversely affected. Our government and the regional banks (especially state-owned banks) are in a close relationship,that making the government and enterprises are still not able to completely separate.Under the government's intervention, the business objectives of financial institutions prone to bias, which will undoubtedly increase the operational risks of financial institutions, but also lead to low financial institutions operating efficiency .Sometimes the local government regulation of financial institutions in the region on the right there is a serious responsibility and asymmetry. When the government made the wrong decision, it will cause a fatal blow to the regional financial industry.When the government made the wrong decision, it will cause a fatal blow to the regional financial industry.

**Regional financial risk monitoring information system.** Optimal regulation rules theory proposed by Stigler indicates that excessive state regulation will stifle the market,lost healthy competition,but regulation is necessary.Internal control system of regional financial institutions is lack of standardized management.Public officials of local government and its subordinate departments are lack of financial knowledge and information related to financial policies, leading to the daily work of economic behavior and policy decisions from the finance, thus making it difficult

macro-financial regulatory policies play an effective role at the grassroots level.establishing a scientific internal control system can regulate the operation of financial institutions,prevent and reduce financial risks due to internal inefficiencies caused.

## Regional Financial Risk Analysis of Heilongjiang Province

### A. The overall development of regional financial status quo in Heilongjiang Province

**The rapid development of the financial industry.** In recent years, the financial industry in Heilongjiang Province has been rapid development, the number of financial institutions keep increasing, the quality of service has also been greatly improved, that provide a strong support to the province's economic and social development<sup>[8]</sup>.Since 2009,Suggestion of Heilongjiang Provincial People's Government on accelerating the healthy development of the financial sector has been implemented,Heilongjiang financial industry is facing a period of vigorous development, from the table, it can be seen that the province's GDP contribution rate of financial sector increases year by year.In the process of economic development in Heilongjiang province, the financial industry plays an important role.

Table 1 The financial industry's GDP contribution rate table in Heilongjiang Province

Unit:One hundred million RMB				
Time/year	2010	2011	2012	2013
Financial value added	246.7	320.1	431.3	524.6
Percentage of GDP	2.41%	2.56%	3.15%	4.37%

Source: Bureau of Heilongjiang Province

The financial system has a great development

In recent years, the introduction of foreign financial institutions in Heilongjiang Province,the number of financial institutions, asset size has made great progress.

Table 2 Financial institutions in Heilongjiang Province in 2013

Institutional category	Outlets		Total assets (hundred million yuan)	Corporate bodies
	Number of institutions	Number of employees		
1.large commercial banks	2891	67821	16709	0
2.The State Development Bank and the policy banks	121	3165	1893	0
3.The joint-stock banks	87	3976	2650	0
4.City commercial banks	387	9617	3128	10
5.urban credit cooperatives	0	0	0	0
6.rural cooperative organizations	4761	47893	6872	143
7.financial companies	3	75	72	3
8.Trust	1	87	25	1
9.postal savings	1265	7893	1769	0
10.foreign banks	1	41	8	0
11.New rural financial institutions	18	467	23	19
12.Others	1	76	37	1
Total	9536	141111	33186	177

Source: China Banking Regulatory Commission

At the press conference on the development of the financial industry situation in Heilongjiang Province in 2013,Zhai Guanzhao pointed out in the report: the loan to deposit ratio reached 62% in Heilongjiang Province in 2013.Deposit balance 1.65407 trillion yuan, the loan balance of 1.02599 trillion yuan, deposit-loan ratio compared with 2008 increased by 11.4 percentage points, loan ratio reached 70.5%, the added deposit and lending strong support to the province's economy.In Heilongjiang province, there are 24 overseas listed companies whose total financing is about 24 billion yuan and 31 domestic listed companies whose total financing is 38.54 billion yuan;there are one securities company,3securities branch companies,121 securities business department,3 futures companies, annual proxy futures trading volume 20,466,100 board lot,turnover of 1.640516 trillion yuan, poundage 48,356,400 yuan; more than 200 listed companies, including small and medium enterprises in line with the system requirements for the transfer of shares of more than 90 companies;the issuance of bonds and notes is 33 in total, financing is 42.7 billion yuan; PE, VC invested in 20 companies, a total investment of 1.04 billion yuan.In the insurance industry,A total of 39 insurance market players, premium income 34.415 billion yuan,payment of claims 9.833 billion yuan.93.994 billion yuan in total assets of insurance companies which provide risk protection 4.903642 trillion yuan<sup>[9]</sup>.

### **Risks facing the financial industry in Heilongjiang Province**

From the above perspective, although the financial industry in Heilongjiang Province has made great progress, but compared with the eastern coastal economically developed provinces in China, the industry still lags behind the financial in Heilongjiang Province, the core competitiveness of financial institutions are not strong.

Table 3 National per capita deposits situation in some provinces from *China Regional Financial Performance Report*, People's Bank of China in 2013

Beijing	112292.42 RMB
Shanghai	87720.02 RMB
Zhejiang	53402.11 RMB
Tianjin	52273.79 RMB
Guangdong	47574.78 RMB
Liaoning	45234.62 RMB
Jiangsu	42915.60 RMB
Guangxi	36873.28 RMB
Shanxi	32686.72 RMB
Chongqing	32486.20 RMB
Hebei	31941.56 RMB
Fujian	31802.86 RMB
Shandong	30788.14 RMB
Neimeng	29944.63 RMB
Ningxia	28942.66 RMB
Jilin	28364.25 RMB
Heilongjiang	26403.13 RMB

The main reason why Heilongjiang financial industry still lags behind:

Administrative regulations related with Financial industry are still not perfect

Overall, the framework of the financial industry in Heilongjiang province are still inadequate, not perfect. Lack of appropriate laws and regulations, business cross between financial institutions exist, risk compensation mechanism and subsidy mechanism is not perfect<sup>[10]</sup>.Lack of evaluation criteria of financial institutions,Weakening of monetary policy objectives, vagueness of functions,lack of supervision architecture,Single way to raise funds,these are some obstacles to the optimization of financial resources.

**The limitation of Supervision of financial institutions.** However, from the current regulatory effect,it can be seen that Although the Heilongjiang provincial government regulators have taken the appropriate reform measures, for the financial system,regulatory strength is not enough, the effect is poor supervision, regulation is still in the exploration stage properties.Financial regulatory is biased towards agency approval,audit oversight is limited to compliance checks,financial regulator is lack of systematic and continuous.Reforms enacted by government regulators are mostly financial institutions credit business in disguise "ban" requirement, which does not create a system solution.The existing reform measures are not comprehensive, functional departments are of supervision, information disclosure exist blind area of supervision,low efficiency of government regulation and other defects exist.

**Inadequate financial structure.** Financial Structure in Heilongjiang Province is still not perfect, the dependence on commercial banks is more serious,the development of bond markets, venture capital, private equity funds, etc. are still unsatisfactory.In addition, the credit structure in Heilongjiang Province is also required major changes.From now, Heilongjiang Province, the main credit funds are tilted to the traditional manufacturing, real estate, state-owned enterprises, which have been a very serious industry overcapacity and high leverage ratio.If the credit funds can not be turned into new industries,that is bound to have a very negative impact on the future economic development of Heilongjiang province.

### **Regional financial risk control measures in Heilongjiang Province**

First of all, according to the actual situation of the stage of economic development and financial needs in Heilongjiang province, we must play the role of financial institutions to construct a reasonable and effective financial system.Secondly, we must carry out effective supervision of the financial system, and improve regional risk monitoring, evaluation and disposal mechanisms,Strengthen regional financial regulation, supervision and coordination.On the corporate governance model ,we need to absorb the advantages of Germany, the US and Japan models, combined with the practice of Heilongjiang Province to establish the commercial financial institutions market-oriented operation mode. Again, strengthen adjusting of credit structure. Heilongjiang Province according to macroeconomic developments and policies in the external situation changes, combined with their own development strategies and risk appetite to focus on credit and restructuring objectives and requirements.Actively encourage the development of strategic emerging industries, advanced manufacturing, modern services, upgrading of traditional industries."Three rural", education, health, culture industry, marine economy and other industries should be supported increasingly by credit .Finally, the social security reform need to improve.China's social security system has many unreasonable, bankruptcy unemployment benefits system has not been established, the financial risk cannot be directly dispersed metastases.Enterprise overburdened weakened the ability of enterprises to accumulate, causing an enterprise to return the loan in financial institutions in last order.Therefore, we should further improve the social security

system of the social security system. Taking great efforts to establish and improve the corporate bankruptcy system of unemployment benefits to enable enterprises to move forward with ease and enhance its accumulation and development capabilities, so that can resolve some financial risks.

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