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Exploration of China's Financial Supervision Reform

Lingxiao Zhu[1, a]

[1]Department of Economics, Jinan University, China

[a]Gnice1006@163.com

Abstract

This paper briefly summarizes the history and current situation of China's financial supervision system, analyzes the development status of China's financial mixed operation and the main problems faced by China's financial supervision system and the role of financial supervision in it. According to the status quo of China's financial system, several suggestions for the reform of financial supervision system are putting forward.

Keywords

Financial supervision, mixed operation, macro-prudential, functional supervision.

1. INTRUCTION

With the rapid development of China's financial industry in recent years, some old problems have become more prominent, new problems have emerged, and domestic research and discussion on financial regulatory system reforms are heating up. In recent years, China's financial innovation and Internet finance have developed rapidly, and are increasingly becoming a supplement to formal finance, and have become a hot spot of concern to all sectors of society. Internet finance has the characteristics of openness, sharing, equality, inclusiveness, decentralization, and the complement of traditional finance by Internet finance. Although some current public opinion on Internet finance may exaggerate the positive and positive effects of Internet finance, Internet finance It has better performance than traditional finance in alleviating information asymmetry, improving transaction efficiency, optimizing resource allocation, and enriching investment and financing methods. On the basis of accurately grasping the essential attributes and development laws of Internet finance, we should learn from the experience of international supervision and explore an effective financial supervision system.

In addition, the emergence of “shadow banking”, a financial entity that is independent of traditional commercial banking systems and engages in financial intermediation activities similar to traditional commercial banks, but is almost unregulated, also brings benefits to the public. Showing some risks. The bankruptcy of commercial bank wealth management products and trust company trust plans that have erupted since 2012 has triggered a crisis in the domestic financial community that the risk of China’s shadow banking has increased dramatically and the systemic financial crisis may erupt. In this regard, how should we adjust the financial supervision model?

2. THE HISTORY SND CURRENT SITUATION OF CHINA’S FINANCIAL SUPERVISION SYSTEM

The financial regulatory system is an organizational and institutional framework for financial supervision established by an economy. It is used to clarify who will supervise different financial institutions, financial services and activities; how to supervise and adopt what means According to which theory to supervise; the expected goals and so on should be included.

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Each country has a different social form, and its financial regulatory system is different, and it will gradually change and improve. Classifying the financial regulatory system, analyzing the pros and cons, has important guiding significance for the reform of China's financial regulatory system. This paper focuses on the classification according to the structure and authority of financial supervision, and divides financial supervision into the following four modes: institutional supervision (separate supervision), functional supervision, comprehensive supervision (unified supervision) and targeted supervision (double Peak supervision). Institutional supervision is based on different financial institutions to arrange different regulatory departments for supervision. The regulatory agencies have clear division of labor within the scope of their duties, and can be accurate and professional. Functional supervision starts from a specific business perspective, establishes a regulatory body according to the type of business, and sets up a financial supervision system from a functional perspective. Integrated supervision is to establish a unified and comprehensive regulatory body for financial supervision of the entire economy. In the targeted supervision, there are two kinds of regulatory departments, each of which is responsible for their respective objectives: prudential supervision and the interests of financial consumers, placing the interests of financial consumers in an important consideration, which is beneficial to the financial industry. Continue to develop.

The history of China's regulatory system is relatively short. Before the reform and opening up in 1978, China's financial industry developed extremely slowly. The only financial institution that existed at that time was the People's Bank of China, which was part of the functions of the bank and the central bank. system. After the reform and opening up, the market economy began to develop and deepen, which led to the rapid development of China's financial industry. Financial institutions continued to grow, financial business continued to develop, and financial products became increasingly rich. The identity of the People's Bank of China also began to move toward the central bank. The transformation has divested the functions of the original commercial banks and financial supervision, established special regulatory agencies, continuously improved relevant laws and regulations, and improved the reform of the financial supervision system. In 1982, the People's Bank of China began to become the central bank. After that, the China Securities Regulatory Commission (CSRC) was established. In 2003, the China Banking Regulatory Commission was established and the Chinese financial supervision system was officially formed. China's financial supervision is based on the principle of “separate operation and separate supervision”, forming a financial supervision system led by the “three banks” of the central bank, the China Securities Regulatory Commission, the China Insurance Regulatory Commission and the China Banking Regulatory Commission. In addition, it is supplemented by other relevant administrative departments such as the Ministry of Finance and the National Audit Office. At the same time, there are also financial regulatory agencies at all levels to form the current financial supervision system. However, in recent years, China's financial industry has developed rapidly, financial innovation has emerged, and Internet finance has developed rapidly. These have made China's separate supervision system gradually unsuitable for the development of the current financial industry.

3. THE MAIN PROBLEMS FACING CHINA’S FINANCIAL SUPERVISION SYSTEM

China's financial innovation is still in its infancy, and some financial derivatives markets have not yet developed in China. Some of the unique financial innovations in China mainly focus on how to circumvent the regulatory system and carry out regulatory arbitrage. After more than two decades of rapid development, China's financial structure has undergone profound changes. Although it is still dominated by separate operations and dominated by commercial bank behavior, the equity relationship and business linkages between banks, securities, insurance, trusts and other industries are deepening, and business cooperation and market transactions

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are very frequent. The risks faced by various industries are closely linked and it is difficult to achieve risk isolation.

In terms of financial products, banks, trust companies, fund management companies, insurance companies, and securities companies are all selling similarly-integrated investment plans. These products are supervised by the China Banking Regulatory Commission, the China Securities Regulatory Commission, and the China Insurance Regulatory Commission according to the organization that sells the products. Differences are easy to trigger regulatory arbitrage. In addition, the financial holding group continues to emerge, and there is no clear regulatory body for the financial holding group. Under this circumstance, the separate supervision system of “one line and three meetings” cannot fully cover the development needs of the financial structure, and it is urgent to adjust the financial supervision system.

In general, the problems faced by China's financial system mainly include the following aspects.

3.1. Financial Market Segmentation

At present, the separate supervision mode implemented in China is mainly that the CBRC, the CSRC and the China Insurance Regulatory Commission respectively supervise and manage the three core financial fields of banking, securities and insurance. The main object of the management of the three sessions is determined according to the institutional license. Separate supervision leads to site awareness. Wu Xiaoling (2016) believes that “the current Chinese regulatory authorities have a strong sense of territory, regard the institution as their own management object, and the rule of law environment is not sound enough, and the market mechanism is not perfect enough.” The three conferences each guard a piece of land, and naturally have their own interests. Strongly motivated, do not want others to intervene in their own regulatory targets, and do not want their regulatory targets to intervene in other areas of development. This has led to a certain degree of artificial fragmentation of the financial market, and financial institutions have become the "children" of the regulatory agencies, forming a regulatory system of "who is the child who takes away."

The division of financial market administrative divisions makes it impossible for funds to flow freely between financial markets, which is not conducive to the formation of risk-based capital prices, which reduces the efficiency of financial resource allocation and affects the operational efficiency of the central bank's monetary policy transmission mechanism.

3.2. Government Relief, Rigid Redemption

For a long time, there has been a widespread and widespread problem of rigid redemption in the financial fields such as trusts and bonds in China. At the same time, small and medium-sized financial institutions such as rural credit can continue to operate under policy support and government guarantees even in the case of extremely poor management and technical bankruptcy. This aspect has pushed up the risk-free rate of return, which has led to the “funding difficulties and financing problems” of the real economy. On the other hand, the financial market has lost its risk pricing ability. The capital price cannot reflect the true risk level, resulting in over-allocation of funds. The financial sector and financial institutions with high risks and low returns have pushed up the risk level of the overall economic operation. The financial market resource allocation capacity has been greatly weakened, and the economic operation efficiency has been greatly reduced.

In terms of rigid redemption, in addition to the investment philosophy of lack of risk and self-insurance by Chinese investors, financial institutions are unwilling to bear the loss of reputation, and other financial supervision systems. Under the current financial regulatory system, the financial regulatory authorities are also responsible for financial development. The pre-emptive exposure of risk events is considered to be the failure of financial development and the

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responsibility of the regulatory body. This has caused the financial regulatory authorities to be unwilling to expose their risks. They are willing to cooperate with local governments, financial institutions, state-owned enterprises, etc. to carry out excessive rescue and risk through various means, so that financial supervision departments can safeguard their local financial security and social stability and exempt their own regulatory responsibilities. And sacrifice the market mechanism. Rigid redemption also becomes a self-fulfilling psychological expectation.

3.3. The Development of Shadow Banking, Financial Repression and Regulatory Gap

The development of shadow banking has a direct and close relationship with the defects of China's financial regulatory system. First of all, under the supervision system of “who is the child who robs away”, in order to avoid taking risks, the regulatory authorities adopted strict admission control of “less children”, which inhibited private capital from entering the financial industry, and social investment and financing were forced into Underground, private financing outside the system is huge. At the same time, the regulatory authorities regard the emerging financial formats and businesses that are not approved by themselves as "children" of others, and since they do not need to be responsible for "taking away," they "dispose of them." Second, the existing regulatory division of labor rejects any other regulators' implementation of penetrating supervision, or they are unwilling to enter the jurisdiction of other regulators, so that the penetrating supervision principle of the entire financing chain cannot be effectively implemented. . It has led to various emerging financial institutions moving through different platforms and using regulatory gaps for regulatory arbitrage.

3.4. Internet Finance Risk

There are many Internet financial participants, with obvious publicity, and it is easy to touch the red line of law and supervision, such as illegally absorbing public deposits, illegally issuing stock bonds, raising funds, etc., and even triggering systemic financial risks. Although some of the formats and parts of the Internet finance chain in China have received supervision (such as third-party payment), in general, they are still in a state of “three noes” with no threshold, no supervision, and no standards. Many businesses have not been Covered by existing regulations, in addition, due to the complexity of the business, Internet finance services such as Yu'ebao and P2P are mixed at the same time, and it is difficult to clearly define their regulatory attribution. It is a major problem in the Internet financial supervision model to effectively maintain financial stability and financial order, protect consumer rights, and punish illegal crimes in a timely manner.

3.5. Lack of Supervision and Lack of Comprehensive Financial Supervision

In recent years, China's finance has been continuously developing and innovating, and the business of different financial institutions is interconnected. This will inevitably lead to rapid cross-border communication between different types of financial institutions after the emergence of risks, and with the influence of financial groups, risks may spread in the entire financial market in an instant. The CSRC, the China Insurance Regulatory Commission and the China Banking Regulatory Commission have no way to fully grasp the information data at that time because of their respective regulatory authorities. When the supervision of the division is faced with the situation of mixed operation, the regulatory authorities show obvious deficiencies in the risk identification and prevention of cross-industry. Due to the scope of their respective supervision, they have no right to supervise and may aggravate financial risks.

At present, the new trend of financial supervision in the world can be roughly summarized as follows: the financial supervision system is basically stable, and the reform is mainly to adjust and improve the original framework, so that the domestic supervision system is closer to the comprehensive supervision and similar supervision mode. Macroprudential supervision has

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begun to receive more and more attention; strengthen the functions and authority of the central bank; focus on risk prevention.

4. SUGGESTIONS ON CHINA'S FINANCIAL REGULATORY REFORM

According to the current situation of China's existing mixed operation and the requirements of financial development in the National Financial Conference and the 19th National Congress, it is the core of future financial supervision to maintain non-systematic risks. At the same time, to enhance the coordination between financial supervision, Incorporating all financial services, including a series of financial innovation businesses, into financial supervision is the general direction of China's regulatory reform. According to the current supervisory level, the future regulatory framework can be sketched as: superimposed functional supervision based on the existing pattern of the three-party structure, which is not only in line with the practice of China's gradual reform, but also in the current economic downturn. In the case of a relatively large financial risk, the financial regulatory system is not suitable for large-scale adjustments.

In general, the reform of China's regulatory system can start from the following directions.

4.1. "One Industry, One Meeting" Plan

This program is to merge the "three sessions" into the National Financial Supervisory Committee and set up with the Central Bank. The advantage of this program is that it can break the barriers of separate supervision, help to establish a unified financial market and comprehensive financial supervision, and make up for the blank areas of financial supervision. The disadvantage is that there are two strong regulatory departments, "one line" and "one meeting", which may form higher policy supervision costs and easily form redundant supervision. The regulatory authorities still face the contradiction of promoting industry development and fulfilling their supervisory duties.

4.2. Integrated Regulatory Program

Taking the central bank as the leader of financial supervision, it becomes a super-supervisory department and is fully responsible for financial supervision. Under this kind of supervision scheme, the central bank is solely responsible for the supervision of the entire financial system in addition to its own monetary regulation function. The Financial Supervisory Authority can be set up under the central bank to be responsible for micro-prudential supervision; the Financial Stability Board is responsible for macro-prudential supervision and prevention of systemic risks. Comprehensive supervision is better at identifying and preventing systemic risks because it is clear and clear. It can make up for the problems of regulatory blanking and duplication and coordination in separate supervision. However, the drawbacks are also obvious: First, the PBOC acts as the central bank. Monetary policy objectives may conflict with regulatory objectives as financial regulators; second, because such a large regulatory body lacks competition, it is easy to form a regulatory monopoly.

4.3. Bimodal Supervision Program

As the core of financial supervision, the central bank is responsible for maintaining the stability of the financial system as a whole, implementing relevant economic and financial policies, strengthening the central bank's functions in preventing systemic risks and prudential supervision, and establishing a financial policy committee within the central bank to take charge of the entire system. Risk prevention and financial stability. The Financial Policy Committee is divided into the Prudential Regulation Bureau and the Financial Stability Board, which are mainly responsible for macro-prudential supervision. At the same time, the Financial Consumer Protection Association is established to protect consumers, maintain market order, boost market confidence, and establish financial behavior supervision bureaus for financial

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institutions and Consumer behavior is regulated. Moreover, each unit should cooperate with each other while doing their part to maintain market stability.

In short, no matter how China's financial regulatory system is reformed, it should be carried out gradually. While it is close to the institutional supervision, it needs to strengthen the overall function of the central bank, appropriately expand the central bank's authority in prudential supervision, and focus on the identification and prevention system. Sexual risk; in addition, it is necessary to establish a coordination mechanism between institutions. This mechanism can be led by the central bank, or an information sharing platform can be established to share the regulatory information with other regulatory agencies and prevent regulatory loopholes. And supervision is repeated; in the end, the protection of the rights and interests of financial consumers has always been the weakness of China's financial supervision, and it needs to be strengthened.

5. CONCLUSION

Through the analysis of the status quo and problems of China's financial supervision, it is not difficult to find that with the development of Internet finance and the challenges of separate supervision, the financial supervision problems faced by the Chinese government are becoming more and more difficult. Government departments should strictly control systemic risks on the basis of financial de-leverage. Under the circumstances of the growing scale of Internet finance, the supervision should be strengthened to strictly control the risks brought about by technological innovation. Secondly, the line between the three parties should be Paying attention to the risk of mixed operation brought about by the cross-cutting business of financial institutions should actively respond to the core of financial supervision that the 19th National Congress emphasizes to maintain a systemic trend; at the same time, enhance the coordination between financial supervision and include all financial services. A series of financial innovation businesses have been incorporated into the financial supervision system, gradually accelerating the reform of China's financial regulatory system.

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