

Analysis of Problems in China's Financial Supervision and Related Suggestions

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Abstract: With the development of the financial industry, China's financial supervision system has transitioned from "centralized and unified supervision" to "separate supervision" to "collaborative supervision". At present, the financial supervision pattern of "one committee, one party, two sessions and local financial supervision bureaus" has been formed. The financial supervision system in China is becoming more and more perfect, and the organizational system structure is becoming more reasonable. However, there are still some problems that we need to pay attention to and solve. This article analyzes some problems in current financial supervision structure by exploring the reform process of China's financial supervision system, and puts forward relevant suggestions for the existing problems.

1. Introduction

The financial regulatory system is an objective need for the development of the financial industry, and it is also a direct reflection of the level of financial governance in a country. With the deepening development of economic globalization and financial liberalization, China's financial sub-sector operation and sub-sector supervision are facing challenges and the trend of mixed operation is more and more obvious [1-2]. With the development of financial innovation and Internet finance, the business of various financial institutions has continued to innovate, and the financial derivatives have emerged endlessly, financial risks have been diversified. The objective basis of financial supervision has changed, requiring China's financial supervision system continues to reform and innovate with a view to better preventing, controlling and mitigating financial risks and promoting the healthy and stable development of our economy.

2. The Course of China's Financial Supervision System Reform

2.1 The Formation of a Centralized and Unified Regulatory Structure

Under the planned economic system nearly thirty years from the founding of the People's Republic of China to the eve of reform and opening up, the People's Bank of China, which is the only financial institution in the country that handles various banking businesses, is integrated the function of financial administrative agencies and business operating entities. The reform of the economic system has begun, and the financial business model has gradually changed from a natural mixed operation to a separate operation. With the development of financial business and the increase of financial institutions, it is urgent to establish a functional department that uniformly monitors and comprehensively coordinates the financial industry. The People's Bank of China began to perform the functions of the central bank, implement monetary policy regulation, and shoulder the responsibility of supervising the entire financial industry of banks, bonds, stocks, insurance, and trusts [3-4]. The financial supervision system has initially formed, which is, a single "universally unified" supervision mechanism.

2.2 Transition from Centralized and Unified Supervision to Separate Supervision

After 1992, the "universally unified" regulatory system no longer met the requirements of the market-oriented development of China's economy at that time, and the supervisors decided to implement separate supervision of the financial industry. The establishment of the Securities Regulatory Commission and the Insurance Regulatory Commission was responsible for the supervision of the securities industry and the insurance industry. The Banking Regulatory Commission, as the banking supervision and management agency of the State Council, changes its financial supervision system from unified supervision to separate supervision, forming a financial supervision system structure of "one party, three meetings".

2.3 Transition from Separate Supervision to Collaborative Supervision

With the frequent cross-industry cooperation between financial institutions and the gradual dissolution of industry barriers, the shortcomings of the cross-oversight and unclear supervision responsibilities of the "one bank, three associations" regulatory system have become increasingly apparent. In order to effectively strengthen financial supervision and comply with the trend of comprehensive operations, the Financial Stability and Development Committee was established in 2017. In March 2018, the CBRC and the CIRC merged to form the China Banking and Insurance Regulatory Commission. Chinese financial regulatory system has entered the "Financial Stability Commission, the People's Bank of China, the Banking Regulatory Commission, and the Securities Regulatory Commission" In the new era led by the "one commission, one bank and two sessions", comprehensive supervision is taking off. The reform of the local financial supervision system from "office" to "bureau" is also gradually being carried out. The establishment of the local financial supervision and administration authority has improved the "one committee, one bank, two sessions" financial supervision structure [5-6].

3. Analysis of Problems in China's Financial Supervision

3.1 The Rise of Internet Finance Challenges Financial Supervision

The rise of Internet finance has brought diversified financial products and services, which has brought great convenience to people's lives. However, some Internet finance online loan platforms have low barriers to entry, imperfect information disclosure systems, and their businesses are often in multiple markets. The cross-cutting between multiple financial institutions has greatly increased the contagion of financial risks between different markets and institutions, which has brought great challenges to financial regulators. Shadow banking business layers are nested, reducing business transparency, and part of the investment direction is opaque. As a result, it is difficult for the regulatory authorities to effectively control the leverage ratio, and the issues of excessive borrowing and repeated credit frequently occur, which has caused a vacuum in the supervision of shadow banks and other financial entities in China. Zhou Xiaochuan, governor of the central bank, said: "The primary reason of the quick development of shadow banks is the regulatory vacuum and regulatory arbitrage, shadow banks get higher profits, and traditional financial institutions (such as banks, insurance companies, etc.) will follow suit. "Internet and financial innovations have brought new development opportunities to financial companies, but also adding supervision difficulties to financial regulators.

3.2 Prominent Local Financial Supervision Problems

Under the original "one party, three meetings" vertical supervision system, the vertical allocation of financial supervision power at the central and local levels was not clear enough, and the disadvantages were prominent. Before the establishment of the local financial supervision bureau, local financial supervision responsibilities were dispersed in multiple parts, which results that local finance Supervision had problems in overlapping supervision, regulatory vacuum, and inefficient supervision in a long period. After the formation of the financial supervision pattern of "one committee, one party, two sessions and local financial supervision bureaus", the allocation of

financial supervision authority to "central-land" has been optimized, but local financial supervision is lacking perfect institutional guarantee mechanism and effective supply of normative documents. In the "central-land" allocation practice, local financial regulatory agencies lack effective information exchange platforms, and responsibilities deviation and target alienation occur from time to time. And local financial regulatory resources are quite limited, but they are mostly concentrated at the provincial and municipal levels, and the lack of county-level regulatory resources is obviously incompatible with the distribution of its financial institutions. The problems of local financial supervision are prominent, and the coordination and supervision mechanism is not perfect, affecting the steady development of local finance and the economy.

3.3 Imperfect Financial Supervision Legal System

Whether a country or region has sound financial supervision laws is a basic standard for measuring its level of financial supervision internationally. At present, China's financial supervision legal system is not integrated and it lags behind the development of financial services. On the one hand, although the development of financial innovation has enriched China's financial business forms, it has also been used by some illegal elements and financial crimes have been rampant. However, the circumstance of blank or ambiguous legal regulations have emerged sometimes when it comes to for some new types of financial crimes. In addition, securities, there are still a large number of illegal and illegal behaviors in the futures market, utilizing legal gaps to make huge profits, and even causing financial market turmoil, which has a lot to do with the incomplete laws and regulations of China's financial supervision.

4. Suggestions on China's Financial Supervision

4.1 Gradually Transition to Functional Supervision and Comprehensive Supervision

The formation of the "one committee, one party, two sessions " financial supervision pattern means that the division of industry supervision is gradually shifting to coordinated supervision, which helps to alleviate the contradiction between mixed operation and division supervision, but there are still multiple regulators simultaneously controlling a single financial institution, which results in duplication of supervision, inefficient supervision, and waste of supervision resources. At present, if China directly transitions from "separate supervision" to "unified supervision", it will still face many problems. On the one hand, although financial liberalization and financial mixed industries objectively required unified supervision, but the depth and breadth of liberalization and mixed industries are not enough; on the other hand, at present, China's financial mixed operations mostly appear in many private financial holding banks and small and medium-sized commercial banks, which means that there is still a long way to go in completely breaking through the cross-industry business crossover and equity crossover. In addition, the mixed operation of the financial industry still lacks effective support in law. These have determined that unified supervision in our country lacks a solid foundation in a short term. With the cooperation of the People's Bank Of China and other functional supervision, the shift from institutional supervision to product and function supervision can effectively supplement the disadvantages of separate supervision and reduce the duplication and vacuum of financial supervision, which will provide financial regulatory efficiency. Make decisions according to the situation and developments in the economy and establish the foundation for the transition to consolidated supervision.

4.2 Strengthen Supervision of Internet Finance

To prevent and resolve Internet financial risks, first of all, we must improve the legal system of Internet financial supervision, and ensure the operation and supervision of Internet finance from a legal level. Second, we should raise the threshold for Internet financial access, standardize the order of the entire financial industry, and firmly control Internet finance. In the end, we are supposed to increase investment in the construction of "big data" supervision platforms for financial regulators, give play to the role of scientific and technological supervision, build an information sharing

platform between regulators, and promote the rational allocation of resources. Strengthen effective supervision of Internet financial behavior, and maintain the safety and effectiveness of financial markets.

4.3 Improve Financial Supervision Laws and Regulations

To deepen the reform of the financial regulatory system and improve its ability to prevent and mitigate financial risks, there should be a comprehensive legal and regulatory system to protect it. At present, China's financial regulatory legal system is not complete, and laws, regulations, rules and regulations that have been promulgated and implemented should be modified and improved in due course. For emerging financial products, we should formulate the implementation rules of relevant laws and regulations as soon as possible, ensure that financial supervision is carried out in depth, and truly bring financial supervision into the legalized track. Promote special legislation for Internet finance, protect the legal operation and supervision of Internet finance from the legal level, effective control and prevention of Internet financial risks. Strengthen the intensity of supervision, crack down on illegal financial acts in accordance with the law, strictly enforce laws fairly and maintain the safety of financial markets.

4.4 Improve the Coordination Mechanism of Central and Local Financial Supervision

Clarify the principle of central-territory allocation of financial supervision authority, adhere to the central supervision and supplement local supervision. Define the specific responsibilities of central-territorial supervision institutions by legislative form, formulate the list of powers of local financial supervision, strengthen the responsibility for territorial responsibility and risk disposal and regulatory accountability. Strengthen the legislative work of local financial supervision, ensure the independence and legitimacy of local financial supervision, and clarify the objects and scope of local financial supervision. Strengthen effective information exchange between the central and local governments, and among local governments which is conducive to the stability of regional finance and the management of systemic financial risks. Under the establishment of the local regulatory coordination mechanism of the Office of the Financial Commission, the role of multi-sectoral coordination of local government, financial supervision and finance will be fully utilized to improve the effectiveness of risk management.

5. Conclusion

At present, China's financial supervision is in the process of transitioning from separate supervision to collaborative supervision. The cooperation between financial companies is becoming more frequent, and the barriers between different industries are gradually being eliminated. The pattern of financial supervision is gradually improving. However, the rise of Internet finance and financial innovations such as shadow banking have added obstacles to the improvement of China's financial supervision system. At the same time, local financial supervision still has problems such as overlapping supervision, regulatory vacuum, and inefficient supervision. The legal system is not perfect, and there are still legal gaps or ambiguities in the process of financial liberalization. Therefore, to achieve full coverage of financial supervision and the smooth resolution of existing problems, the reform of China's financial supervision system still needs to be continuously promoted to explore the real suitability China's financial development regulatory system.

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