

# Risk Management of Commercial Banks in the Context of Financial Innovation

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**Abstract:** In the context of financial innovation, new financial products emerge one after another. For commercial banks, their risk management coefficient increases. How to evaluate the risk of new products, establish the corresponding system, upgrade the relevant technology and introduce the corresponding policies have become the top issues for commercial banks. In order to solve this big problem, commercial banks and government agencies can cooperate with each other to make use of popular big data systems to visualize risk management, together with the training and input of talents, and the introduction and implementation of government policies, commercial banks' risk management will be further promoted. The compensation measures in the electronic measurement system are also discussed in this paper.

**Keywords:** Financial Innovation; Commercial Bank; Risk Management

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## 1. RECENT SITUATION OF COMMERCIAL BANK RISK UNDER FINANCIAL INNOVATION ENVIRONMENT

As the demand for financial services increases sharply, financial instruments and financial systems are constantly changing. Therefore, commercial banks are in urgent need of making corresponding changes to adapt to the current financial innovation environment.

With the improvement of China's material and cultural level, the idle assets owned by Chinese citizens have become increasingly large. People's thinking has shifted from how to make money to how to take money to make money, and a single financial business can no longer meet the needs of capital holders for diversified financial products. With the dividend in the context of the Internet, the innovation of financial market, financial system and financial products has mushroomed in the capital pool, bringing more opportunities and challenges to investors. At the same time, it means that commercial banks will gather funds through multiple channels and have higher requirements for the management and application of funds. <sup>[1]</sup>

In order to effectively promote the risk prevention and control ability of commercial banks, commercial banks should carry out a combination of measures to deal with the endless financial chaos and strictly observe the control before, during and after the event. <sup>[2]</sup>

## 2. THE RISK MANAGEMENT OF COMMERCIAL BANKS UNDER THE FINANCIAL INNOVATION ENVIRONMENT

In order to achieve the goal of profit maximization, commercial banks launch diversified financial innovative products. If product risks are not well controlled, it will bring huge problems to commercial banks. Therefore, commercial banks need to recognize their own risks before they can work out solutions. Here are some of the problems facing commercial banks today.

### 1.1 Credit rating is more difficult

The increasing expansion of the financial market has led to the rapid development of different financial systems. However, the establishment of systems often lags behind the development speed of market reform. For example, various lending platforms in the financial market have successively launched loan services such as Jingdong Baitiao, Huabei and Jiebei.<sup>[3]</sup>

Most of the lending services are not in the credit investigation system of the bank, and each platform has its own independent credit evaluation system.

The credit system failed to establish a timely communication bridge, so that borrowers could borrow money from multiple platforms at the same time. The snowball of lending would lead to bad debts when borrowers could not repay, which seriously affected the normal operation of the lending system. The difficulty of credit assessment lies in the fact that different financial products and services use different assessment standards, and cannot unify weights and measures, and the cost of supervision and maintenance is large. That makes it difficult to regulate all the products and services in existing financial markets. Customer credit information is not fully available in a timely manner.<sup>[4]</sup>

It can not accurately guarantee the accuracy of information during customer review, which provides space for customers to open false accounts, and leaves space for customers to open accounts and borrow and other businesses without qualification, which is not conducive to the management of bad debts of commercial banks.

## **1.2 The updating speed of financial risk control system is slow**

Research and development and application of technology need to spend a certain amount of time and manpower investment, which means that there is a certain time interval for the update of risk control system. Time interval is the gray area of risk control, and it is easy to cause systemic risks.

During the system update period, the customer's business progress is limited to some extent, and the data is prone to chaos. If the risk control personnel fail to find the system vulnerability in time, it will cause great losses to the customers, not to mention losses to the credit of commercial banks.

However, there is an extreme lack of cross-type talents in finance and Internet technology, and a small number of mixed talents can hardly support the huge financial innovation market. As a result, the system of commercial banks has not been substantially updated and replaced for many years, and the existing risk control system has been difficult to adapt to the current financial innovation environment.<sup>[5]</sup>

In addition, commercial banks are too casual in constructing the organizational structure of risk management personnel and fail to provide systematic training for risk control personnel, which leads to the low risk control ability of commercial banks and increases the systemic risk of commercial banks.

## **1.3 The financial risk control system is not sound**

At present, the risk control system of banks is relatively unified, and it fails to rectify and control according to the characteristics of commercial banks, which makes commercial banks less rigid in dealing with risks. In addition, modern commercial banks are eager to expand business and increase revenue, so they neglect risk education for employees and ignore the huge hidden dangers brought by financial risks. At present, most of China's commercial banks fail to meet the requirements of risk management in the Basel Agreement,<sup>[6]</sup> do not strictly implement operational risk measurement methods, do not regularly carry out stress tests and residual risk treatment. This phenomenon is particularly prominent in small and medium-sized private commercial banks. In addition, the incomplete disclosure system of China's commercial banks' risk control makes it impossible for market participants to obtain timely information on the risk profile and capital level of commercial banks, and the information asymmetry can easily increase the risks of investors in the financial innovation market.<sup>[7]</sup>

# **3. COMMERCIAL BANK RISK MANAGEMENT SOLUTION UNDER FINANCIAL INNOVATION ENVIRONMENT**

In order to adapt to the endlessly emerging financial innovative products, commercial banks should unite to formulate their own coping policies and policies.

### **3.1 Establish a big data credit supervision system**

With the rapid development of current science and technology, commercial banks should strengthen the construction of their own database and improve the credit supervision system in order to adapt to the development of the current era of big data.

In the first step, the CBRC can strengthen its regulatory function and set up a special team to review all financial businesses of commercial banks by using economic models, so as to control the risks in advance.

The second step is to rectify the credit system by changing it from qualitative analysis at the beginning to quantitative analysis after big data analysis.

Combining the risk-adjusted rate of return index with the return on equity and return on assets, the risk system utilization efficiency and business level of commercial banks are evaluated comprehensively. During the operation of commercial banks, the risk management of big data should be monitored regularly, and problems arising in the operation process should be timely fed back, so that risk problems can be solved point-to-point in a targeted and effective manner.

The third step is to establish a national bank credit exchange system to collect credit information from Internet platforms and commercial banks.

The risk tolerance and historical record of individuals are assessed and attributed to individual or enterprise credit investigation files. It is helpful for commercial banks to conduct comprehensive evaluation and audit on individuals or enterprises.<sup>[8]</sup>

The application of big data can greatly reduce the difficulty of credit supervision of commercial banks, improve the efficiency of risk management of commercial banks and promote the healthy development of commercial banks.

### **3.2 Cultivation and introduction of financial technology interdisciplinary talents**

At the present stage, there is a shortage of financial technology interdisciplinary talents in China. The current education mechanism cannot quickly change the current situation. It can only encourage college students to develop in multiple directions and become interdisciplinary talents to gradually relieve the market pressure in the future.

Commercial banks can also provide technical training for the existing financial talents to improve the information technology level of the staff, so as to improve and upgrade the business system of commercial banks. It is also necessary to supplement the financial knowledge of IT talents, so that they can carry out daily maintenance of the necessary security protection system of the commercial bank system and timely update the system patches with major risks.

However, it takes a long time to train talents. If necessary, we can directly introduce talents with higher wages and favorable welfare, so as to compile a system suitable for the business system of commercial banks.<sup>[9]</sup>

In this way, financial innovation business can be flexible and rapid development.

### **3.3 The government strengthened the formulation and implementation of the financial supervision system**

The government can strengthen supervision of online payments, strengthen the construction of digital currencies, and conduct legal tracking of money flow data to crack down on illegal money laundering and other criminal activities.

Secondly, the mutual binding force of the government regulatory system is low, and the communication between regulatory agencies is not timely. This makes it possible for law enforcers to be corrupt and corrupt. Government agencies can set up separate agencies with three powers to supervise and restrict each other internally, so as to achieve orderly and healthy development externally.

Finally, China's financial innovation related legal provisions are deficient, improve the "Commercial Bank Law", "Banking Supervision and Management Law", "Economic Law" and other relevant laws.<sup>[10]</sup>

By providing a legal basis for the financial innovation market and ensuring that the government follows the

principle of strict law enforcement and punishment for lawbreakers, the external systemic risks of commercial banks will be significantly reduced.

## 4.CONCLUSION

The improvement of information technology is good information for commercial banks. Commercial banks can sell financial innovative products through multiple channels to maximize their earnings. However, the opening of channels also means the surge of risks, and risk management is still a huge problem facing commercial banks. If the technology of commercial banks does not match the ability of commercial banks to draw money in time, it will be like Barings Bank bankrupt in a matter of days. Therefore, commercial banks should be aware of their own systemic risks in time, speed up the construction of risk assessment system, improve their business speed and level, strengthen the training and promotion of staff professional level, and use big data to achieve risk assessment quantification. In addition, the government standardized market behavior and introduced policies and regulations, which greatly improved the external environment for financial innovation. As the environment for financial innovation is a foregone conclusion, commercial banks should move forward step by step to lay a solid foundation for the internationalization of RMB.

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