

Research on the Principle of Marketization to Deal with Financial Risks and Their Dilemmas

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Abstract. The continuous progress of financial technology, interest rate increase means emerge in an endless stream, and financial risks continue to accumulate. The principle of marketization requires that the equal status of market entities be effectively maintained and the mechanism of self-governance be perfected. In order to maintain financial stability and resolve financial risks, the principles of marketization and rule of law emphasize that financial institutions actively help themselves. The market-oriented principle has its logical basis for resolving financial risks, but the application of "self-rescue" will also encounter obstacles in resolving financial risks, so a series of solutions can be adopted, such as focusing on the intervention of public authorities, combining public and private sectors for better monitoring, or establishing a risk monitoring system. In the face of complex financial forms, the means of resolving financial risks should be constantly improved in order to maintain financial stability and achieve financial goals.

Keywords: Principle of Marketization; Financial Risk; Resolution of Financial Risk; Dilemmas and Solutions to Financial Risks.

1. Introduction

Since the beginning of this year, the banking crisis in the United States and Europe has superimposed the risk of default on US debt, which has had an impact on the global financial markets. In recent years, China has implemented the new concept of development, deepened supply-side structural reform, promoted economic development from rapid growth to high-quality development, and achieved important results in preventing and defusing major financial risks. Resolving systemic financial risks with high-quality economic development has important theoretical logic, practical logic, realistic logic and the logic of the times. Among them, the principle of marketization as a part of it, encouraging market subjects to participate in financial risk prevention is of great value.

China's draft Financial Law on Stability stipulates that financial institutions should introduce social capital in a market-oriented manner, and it is clear that deposit insurance funds and industry security funds should play the role of a market-oriented platform and perform their duties of risk disposal, which can greatly reduce the dependence of financial institutions on public resources. The draft Financial Law on Stability defines the obligation of financial institutions to operate prudently and complies with regulations, and makes strict regulations on the requirements of shareholders, fund management, governance structure and internal control system, in an effort to stifle financial risks in the cradle. In order to further stimulate the enthusiasm of market subjects in financial risk prevention, it is more important to treat all kinds of market subjects equally, whether state-owned enterprises or private enterprises, should unify the applicable standards of macro-control and financial supervision and regulation. thus with the help of the "market hand" to eliminate and isolate financial risks.

Therefore, in the financial market, the expansion of scale is accompanied by the increase of risks. To maintain financial stability, it is not necessary to calm the boiling water, but to deeply grasp the law of the market, give full play to the role of the market in the allocation of resources, improve the ability to prevent risks, maintain financial stability, and promote the sound development of the financial economy.

2. Theoretical Analysis of Resolving Financial Risk by Marketization Principle

2.1. The Nature and Positioning of Financial Risks Resolved by Marketization Principle

2.1.1. Financial Risks

Financial risks are usually caused by changes in stock prices, currencies, interest rates, etc. that cause instability and losses in the financial market. Financial risks arise through numerous transactions of a financial nature, including sales and purchases, investments and loans, and various other business activities. It may arise as a result of legal transactions, new projects, mergers and acquisitions, debt financing, the energy component of costs, or through the activities of management, stakeholders, competitors, foreign governments or weather.

Financial risks are a major obstacle to maintaining financial stability and achieving financial goals. In order to resolve financial risks from their roots, it is necessary to analyze them from their roots, that is, their causes. The causes of financial risks are comprehensive and the result of the interaction of multiple factors. These factors mainly include: financial risks, which are caused by changes in market prices, such as exchange rates, interest rates, commodity price changes, etc. For example, the current interest rate hike in the United States is one of the important causes of inflation and bank bankruptcy. Blindly pursuing individual goals without conducting market research will cause turmoil in the financial market. Secondly, financial risks, that is, property risks arising from organizations or transactions, for example, risks arising from interactions between suppliers, customers, counterparties, etc. in securities market transactions. Finally, there is organizational risk, which is the financial risk within the organization or resulting from failures. Therefore, in the process of resolving financial risks, it is necessary to identify the types of financial risks and determine the priority of solving which types of financial risks; secondly, determine the current tolerance of specific objects to financial risks, and determine financial risk treatment strategies based on current policies; Finally, monitor the resolution of financial risks at any time and make appropriate adjustments and improvements based on specific circumstances.

2.1.2. Market Principles

The principle of marketization refers to resolving risks in the financial market, maintaining financial stability, and achieving stable and efficient economic development based on market rules, price mechanisms, and free competition. The national policy also points out that "in order to further consolidate financial security and improve the level of financial risk prevention and control, it is necessary to always adhere to the principle of marketization in the process of preventing, resolving and handling financial risks, guided by market demand, and using the free flow of resource elements as a means, to promote market entities to respond to financial risks openly, fairly and fairly." [1] Therefore, it is necessary to adhere to the principle of marketization when resolving financial risks, adhere to the orientation of market demand, and promote the flow of resources. The principle of marketization is to give full play to the decisive role of the market in resource allocation, strengthen the basic position of competition policy, accelerate the transformation of government functions, and make full use of the advantages of ultra-large markets to unify the large market to gather resources, promote growth, and resolve financial risks.

Before the industrial revolution, the barter market had existed for a long time. Later, the development of the formal futures market enabled both buyers and sellers to achieve their own trading purposes in the market. The ability to trade products and guarantee prices is particularly important in markets where products have limited lifespan or are too large to be shipped frequently to market. Therefore, using market-oriented principles to resolve financial risks has a certain historical background.

2.2. Logical Justification of Market-Oriented Principles to Resolve Financial Risks

Theoretically, the main cause of financial risks is the "financial instability" theory, that is, the instability of the financial market itself will cause the accumulation of financial risks, thereby leading to financial crises.[2]

However, this theory is highly subjective, relies on the subjective judgments of financial market participants, and is not supported by strict theoretical argumentation. "Information asymmetry" theory, that is, due to the existence of information asymmetry among financial market entities, financial resources will not be effectively allocated, resulting in moral hazard and adverse selection, which will then expand into financial risks and even systemic risks. This theory is used in various current studies. Be widely used. [3] "Asset price fluctuation theory", that is, on the one hand, asset price fluctuation will affect the credit scale by affecting the price, capital and liquidity of collateral in capital lending, thus causing financial risks; On the other hand, while banks are engaged in traditional deposit and loan business, they also securitize loans. In this case, the fluctuation of asset prices will also affect financial stability, and the decline of asset prices will also lead to the decrease of the value of corporate credit collateral, which will be forced to reduce investment, which is not conducive to economic and financial stability.[4]

There are uncertainties brought about by various transactions and operations in the financial market, such as credit risk, liquidity risk, default risk, economic cyclical risk and so on. The reason for these risks is that they can be explained by the above theory. On the other hand, it emphasizes the principle of marketization and the self-rescue of financial institutions, for example, when shareholders or investors are in a difficult situation, they can appropriately introduce external capital investment, which can reduce the impact of asset price fluctuations. By reducing the risk of individual financial institutions in a dangerous and difficult situation, and then reduce the risk of instability in the financial system as a whole. Under the principle of marketization, a fair, transparent and predictable financial market environment can be created under the guidance of market subjects, that is, financial institutions, supplemented by government guidance. For example, banks can better adapt to the changing risk landscape by effectively embedding non-financial risk management and rethinking their risk preference approach (beyond the cascade of current capital indicators, or randomly choosing KPI and KRI). [5] For example, in the trust financial business, insurance fund companies can prevent and resolve liquidity risks in a market-oriented way. To carry out liquidity support and asset acquisition business in a market-oriented way, the first is to give full play to the function of risk prevention to prevent and control risks at minimum cost. The second is to build a tool for adjusting the liquidity pressure of the industry. Strengthen the monitoring and analysis of market liquidity and control the rhythm and intensity of funds. The third is to resolve the stock risk in an orderly manner. [6] Explore and promote the asset acquisition business aimed at the inherent property and trust property of trust companies, invigorate trust stock assets, and enhance the liquidity of trust assets.

Therefore, adhering to the principle of marketization, standardizing unfair competition and non-standard market intervention can effectively reduce financial risks and maintain financial stability.

3. The Limitation of Marketization Principle in Resolving Financial Risks and Way to Advance

3.1. The Limitation

There are some improvements in the process of financial risk management. The whole financial sector only attaches importance to the use of market-oriented principles to improve transaction efficiency, but neglects to use it to resolve market risks. For example, the financial risk prevention management departments within financial institutions intersect with other functional departments, especially when there is a serious shortage of personnel in small and medium-sized financial institutions. Departments that are lack of risk monitoring at any time and respond in time can only hope for relief from the government when risks arise.

Then, the variety of transactions in the financial market is gradually increasing, and innovative derivative products emerge in endlessly, especially with the emergence of new financial products under the background of big data, the ability to resolve risks of financial institutions is getting higher and higher. However, under the background of the country promoting marketization to resolve

financial risks, the means of resolving financial risks of many small and medium-sized financial institutions still cannot keep up with the pace of the times. For example, at present, many small and medium-sized banks have a single method of risk management, which tends to the collection and trend analysis of business data, which is slightly insufficient in the measurement and analysis of risk management indicators, and the conclusions drawn are relatively simple. even some institutions are at a loss in the face of diversified data, delaying the analysis because it is difficult to start, affecting the progress of risk management business. [7] At present, many small and medium-sized banks in China have purchased the mature system software of foreign financial risk solution providers, but these purchased software risk measurement and valuation modules are not open source, resulting in opaque risk pricing. At the same time, it will be unable to achieve the purpose of risk resolution because of the differences between domestic and foreign financial products.

The contagion of risk increases, and the difficulty of market risk management increases. In recent years, the risk performance of the financial market has become more and more diverse, and the risk infectivity has increased. Therefore, it is necessary to take measures to make better use of the principle of marketization to resolve financial risks.

3.2. The Way to Advance

First of all, the local public power organs should intervene appropriately. Although the principle of marketization is encouraged to resolve financial risks, throughout the history of economic law, it is not difficult to find out the importance of appropriate state intervention. Local organs of public power shall not make excessive use of administrative means to interfere with the personnel appointments of financial institutions and the normal production and operation activities at the same time. For example, local power organs and professional risk prevention and control personnel in relevant financial institutions have set up special working groups to focus and regularly investigate whether the relevant risk management organizations and staffing of financial institutions meet the requirements of resolving financial risks in the context of marketization. Under the multi-level capital market model, the level of risk is also different, so the special working group should also have different criteria for different financial institutions.[8]

Secondly, construct the risk early warning system. Penetrating supervision is a powerful way to regulate the potential risks in the new financial market. if the authorities concerned want to achieve efficient and long-term risk resolution, the authorities concerned must establish corresponding supporting measures. The establishment of the financial risk early warning system in the new market needs to take big data's information collection as the basic technical support on the basis of fully understanding the types and characteristics of financial risks in the market. For example, by using the reward and punishment mechanism in the context of marketization, regulators are more likely to collect data related to financial risk prevention and control, and then use the industry data system to manage the operation mode and with the help of dynamic database.[9] make the risk early warning system collect and screen data automatically, and on this basis, carry out risk analysis, create risk identification models, and set different levels of risk early warning tips. Make financial institutions participate in the financial risk supervision of financial supervision departments.

4. Conclusion

The current financial environment is impacted by the accelerated technological change and the increasing risks of financial derivatives. To resolve and deal with financial risks, the authorities concerned must adhere to the principle of proceeding from reality. Due to the differences in historical evolution, economic environment and business operation, the resolution of financial risks varies from country to country, but historical experience has also proved the importance of the application of market-oriented principles. For example, the source of funds for risk disposal can be led by financial institutions to save themselves, and under the premise that major shareholders and real controllers are unable to contribute, introduce external assistance to reduce dependence on public funds as much as

possible. Mobilizing market-oriented funds to participate in the M & A of the disposed institutions is also an efficient disposal path to make use of the principle of marketization to resolve financial risks.

At present, the economic and financial operation situation is more complex. With the acceleration of financial reform, the development and application of information technology, and financial innovation, the spread of financial risks across markets and regions has accelerated, with more channels, and has become more concealed and destructive. Risk disposal in a certain field may cause risks to be transferred between different industries and different financial markets, thereby causing local or systemic financial risk shocks, thereby affecting economic and financial stability. Therefore, when using marketization and the rule of law to resolve financial risks, the authorities concerned should also focus on public-private integration and further improve the macro-prudential policy framework, improve systemic risk monitoring, assessment and early warning capabilities, enrich the macro-prudential policy toolbox, and steadily expand the coverage of macro-prudential policies.

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