

## Research on Problems and Solutions of China's Financial Regulatory System

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**Abstract** 2008 U.S. broke out a serious financial crisis and quickly spread to the whole world. This severe tangible notes that every country must have a sound financial regulatory system. This paper uses empirical analysis to point out and analyze problems of the current financial supervision system and put forward ideas to solving these problems, including reform of the current financial supervision system and establishment of coordination mechanisms and supervision of financial supervision legislation. This paper tries to build our country's financial regulatory framework of the coordination mechanism and obtain that only by conforming to mixed trend in the financial sector, the establishment of coordination mechanisms of financial regulation to ensure healthy and stable China's financial sector development.

**Key Words** Financial regulatory; Financial regulatory system ; Problem; Measure

### 1 Introduction: Review of Researches on Financial Regulatory System

Looking abroad, from separate operation and separate supervision in 1930s to separate supervision "according to the classification of financial services" and unified supervision by the Fed in 1990s, the financial regulatory of the United States present a unified regulatory trends on mixed system. The financial regulatory of UK was from the early "moral persuasion and restraint" on the 20th century, to establish the regulatory system in 1970s, and finally establish the unified regulatory system in 1990s. The supervision system of Germany was also from separate supervision to a unified control. The increasingly risk push the trend of unified regulatory and the international financial regulatory model has been presenting a unified regulatory trends.

From a domestic perspective, Chinese scholars are also exploring the need for monitoring and trend patterns. For example, some scholars have pointed out: financial innovation in promoting the integration of the financial industry to make mixed global trend. It also generally increases the risk of the financial system and the sub-existing operators fail to face the regulatory model dangerous. Another scholar said: great changes in the financial field, so regulators highlighted the issue of how to set up, if in accordance with the types of financial institutions to set up and financial services categories in accordance with a regulatory agency are difficult to regulate. In this case, the establishment of a unified regulatory model will be unavoidable.

### 2 The Problems of China's Financial Regulatory System

China's financial system has now established a "separation of operation and separate supervision" of the system. The regulatory bodies set up in terms of a "line 3 will be" system: the People's Bank, China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission management system. Affect the global financial crisis on China's current regulatory system of separation of a severe challenge, "line 3 will be" objective requirement of separate supervision of regulatory coordination. In addition, the financial sector more deeply integrated operation, which needs more urgent. At present, China has emerged Mixed trend, the practice has touched the world Mixed two basic models: the all-powerful banks and financial groups holding gold Mixed mode. Meanwhile, China's financial regulatory system faces the concentrated expression in the following aspects:

#### 2.1 The disharmony of financial industry regulatory resulted in many practical problems

First of all, it is difficult to properly assess the risk of financial holding group. The three regulatory bodies in the regulator's objectives, target system, not the same mode of operation, leading to the implementation of regulatory policy is not the same. Financial Holding Group of the risk of an entity subject to great influence on other entities for an entity group are difficult to assess the regulatory bodies with powers of the real risk of the whole group. Although the three institutions to establish a joint system, there is still lack of communication and information sharing problem of low degree, if the entire financial system crisis in the regulators may each pass the buck.

Secondly, separate supervision faces regulatory vacuum. With the development of financial innovation, financial institutions and their respective business boundaries become increasingly blurred, it is difficult to distinguish what type of organization they are, not to mention some of the domestic financial holding companies, and there is still no unified regulatory regulation.

Finally, the sub-sector is not conducive to China's financial regulatory structure optimization and risk diversification. Long-term imbalance in China's financial structure, many reasons for the separation of the current regulatory system are the main factor, and in the separation of banking supervision to the securities industry and the contribution of the insurance industry is far less than the unified supervision. Securities and insurance essential is closed conditions in self-development.

### **2.2 The regulatory legislation has seriously lagged behind the low level of supervision**

Our current financial regulatory legislation ignored the competition still has a strong planned economy, market discipline and financial industry out of touch. Regulatory authorities, regulatory philosophy, professional level, to enforce the law degree is essential to the effectiveness of restricting the financial regulatory issues. At present, China's financial regulation over the backwardness in financial innovation and a large number of regulators has to face the new organizational structure and new phenomenon, with legislation has by far been difficult to introduce. Furthermore financial institutions are unable to face and operations of specific, cause regulations have no explanation.

## **3 Study on Reform of Financial Supervision System**

### **3.1 The selection of coordination mechanism model for financial supervision**

China's financial market is still in the developmental stage. The difference between the financial departments is more common, there is a clear division between most of the financial institutions, far from being mature enough to be by a single agency to integrated monitoring. Firstly, it has 2 implications in unified control that is agency unification and rules unification. If only the integration of agency, then the formation of integrated striation is same as umbrella framework, can not bring into full play to the merits of consolidated supervision. In view of our current scale of the three regulators, if only for institutional integration, it will also mean the huge cost of change. As unified regulatory rules, considering the actual situation of china's financial markets and financial legal system, it is very unrealistic. Secondly, the deposit class financial institutions are represented by four state-owned commercial banks is still dominant in the financial system. Financial system is still dominated by banks; significant inequality of strength will lead the banking regulators to get a great advantage from single agency. Made the monitoring of resource allocation and regulatory policy have slope. Thirdly, due to the short time of the establishment of china's financial regulatory system, combined with a larger proportion of the financial industry-owned and more complex relationship between regulatory and financial institutions, regulatory independence also is not fully established. In this case, relative to bull regulation, and unity regulatory system will be creating more conditions for administrative intervention and regulatory interests.

Therefore, from our present reality, the unified control could not workable, establishing financial regulatory coordination mechanism is a wise choice. In the reality and rends of mixed development, the management take a division of labor, coordinated regulatory mechanism is undoubtedly wise, also help to deepen financial system reforms.

### **3.2 Establish and complete regulatory coordination mechanism**

August 2008 China promulgated the "main role the central bank internal organization and staffing requirements". The program gives the central bank to strengthen the synergy and promote financial sector reform and healthy development of responsibility, that the central bank in conjunction with Bank and Insurance 3 will be the establishment of coordinated financial supervision mechanism. This also means that line 3 will be the official regulatory framework for financial coordination down, and the central bank will act as overall coordinator role.

In view of this, we suggest that the state under the "People's Bank Act" article 9 of the mandate of the administrative rules in the form of the regulator to confirm the overall People's Bank of dominant position, under the auspices of the permanent establishment of the PBC financial regulatory coordination Institutions - Bank regulatory coordination committee. Meanwhile, the current Commission, CBRC and CIRC were reorganized into the securities regulatory bureaus, the Banking Bureau and the Insurance Regulatory Bureau, the three led by the People's Bank of unified financial supervision and coordination of the Coordinating Committee to perform financial supervisory duties. In

this framework, various financial services in order to "function" as the basis for coordination of supervision by the People's Bank is as a financial holding group's statutory regulator.

### **3.3 Sound and improving financial supervision legislation**

Financial legislation is an important guarantee for financial regulation and financial supervision system, the main body, composition, functions and mechanisms have to be determined by law. As the law has to rationalize the use of state power, regular, open, systematic value, the financial regulatory system can not do without legal effect. China promulgated the "People's Law", "Banking Regulatory Law", "Commercial Bank Law", "Securities Law", "Insurance Law" and "Trust Law", has taken shape in the legal system of financial supervision, but still far not meet the needs of practice, need to constantly adjust and improve. Improve and perfect the financial regulatory legislation, proposed the following aspects: First, the main regulatory powers and responsibilities clearly defined limits, by specific legal provisions to strengthen the regulatory powers of the main constraints. Secondly, the regulatory legislation should be better regulated to encourage competition and innovation. Thirdly, intensify research to develop the financial holding group supervision and regulations. Finally, exit market mechanism for financial institutions to speed up legislation.

## **4 Conclusion**

Modern financial market is constantly changing, the risks and benefits forever, only strict financial supervision and efficient development of financial markets can provide strong protection. This paper argues that given the current financial crisis and the problems exposed, Mixed China should follow the trend of the financial industry, draws extensively on lessons learned from around the world, reform of the current financial supervision system, and establish coordination mechanisms of financial supervision, improve financial regulation legislation, the development of China's financial industry to provide better conditions and environment to ensure the healthy and stable development of the financial industry.

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