

# *Research on the Evolution Mode and Risk Control of Financial Supervision System*

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**Abstract:** The evolution of China's financial supervision system has consistently been a focal point in both academic and practical domains. This study conducts a comprehensive study of the historical progression of China's financial supervision system and delves into the correlation between its mode transitions and risk control strategies. Firstly, it discerns a shift in China's financial supervision system from simplicity to complexity and from singularity to multiplicity. Secondly, this study underscores the significant role of reinforcing capital supervision and risk management. Further research reveals that market transparency and information disclosure significantly influence risk control. The enhancement of information disclosure requirements and the improvement of market transparency contribute to mitigating information asymmetry, enhancing investors' risk awareness, and fostering the sound operation of financial markets. Lastly, international coordination and cooperation emerge as prevailing trends in China's financial supervision. Confronting the global financial market, China has intensified collaboration with regulatory agencies of other nations to collectively address cross-border financial risks, thereby advancing the continual enhancement of international financial governance. This study serves as a valuable reference for deepening comprehension of the evolution of financial supervision and risk control in China, as well as formulating more effective supervisory policies.

## 1. Introduction

Since the reform and opening up, China's economy has developed vigorously, the scale of its financial system has been expanding, and the financial market has become increasingly complex. However, with the rapid development of the financial market, the risks in the financial system have gradually emerged, which has aroused the concern of all sectors of society about financial security and stability. In order to maintain the healthy operation of the financial system, the China Municipal Government has gradually improved the financial supervision system to adapt to the increasingly complex and changeable financial environment [1-2]. Under the background of globalization and digitalization, the uncertainty and complexity of the financial market are increasing, which puts forward higher requirements for the supervision system. Therefore, it is of great significance to deeply study the evolution model of China's financial supervision system and its risk control strategies for promoting the stability and sustainable development of China's financial system.

The evolution of financial supervision system not only reflects the maturity and development of

China's financial market, but also reflects the unremitting efforts of regulatory authorities in risk prevention and market supervision [3]. After the outbreak of the global financial crisis, financial supervision has become the focus of attention of governments all over the world, and China has also carried out a series of important financial supervision reforms under this background. This evolution process is not only a summary of past experience, but also a forward-looking reflection on future risks, aiming at establishing a more stable and flexible financial supervision system.

The purpose of this paper is to deeply explore the evolution of China's financial supervision system, and focus on its model and risk control strategy. By reviewing the historical evolution, we will analyze the main features and core mechanism of China's financial supervision system. On this basis, we will analyze the conceptual changes of financial supervision in different periods and study the impact of these changes on financial risk control. By digging deep into the internal logic and practical effect of the supervision system, we aim to provide theoretical reference and policy suggestions for the optimization of the financial supervision system in the future.

## 2. Global financial supervision trend

Under the background of the turbulent global financial system, countries have adjusted and strengthened financial supervision to ensure the stability and sustainable development of financial markets. These global financial supervision trends reflect concerns about financial stability and reflect on past crisis experience. With the outbreak of the financial crisis, countries have strengthened capital supervision and raised the capital adequacy requirements of financial institutions. The emphasis on prudential supervision is also increasing, aiming at improving the risk management ability of financial institutions and preventing systemic risks. This trend shows that countries pay more attention to the balance sheets and risk exposures of financial institutions to ensure that they can remain stable in the face of pressure.

The trend in global financial supervision underscores the importance of enhancing market transparency and elevating standards for information disclosure to augment the comprehension of financial markets by both investors and regulators [4-5]. This entails compelling financial institutions to divulge more pivotal information, particularly pertaining to risk management, financial status, and business operations. The augmentation of transparency contributes to the mitigation of information asymmetry, thereby amplifying the market's effectiveness. In tandem with the rapid evolution of financial technology, global financial supervision is progressively transitioning towards digitization. The integration of regulatory technology encompasses the utilization of big data analysis, artificial intelligence, and blockchain to enhance the efficiency and precision of supervision. Digital supervision not only facilitates the monitoring of market risks but also proves adept at accommodating financial innovation and technological advancements, ensuring that regulatory practices align with the ongoing developments in the market.

The trend of global financial supervision is manifested in more strengthened cooperation and coordination among countries. The global nature of financial markets requires regulators of all countries to make joint efforts, coordinate regulatory policies and jointly deal with cross-border financial risks. The role of international regulators is becoming more and more important and has become a key force to promote global financial stability. In recent years, the global financial supervision trend highlights the concern about green finance and sustainable development. Regulators began to pay attention to the environmental, social and governance performance of financial institutions and promote sustainable investment and financing [6]. This trend reflects concerns about climate change and environmental risks, and the positive role of the financial industry in promoting social responsibility and sustainable development.

The evolution of global financial supervision trend is not only a response to the financial crisis,

but also a response to the ever-changing financial market and technological innovation. Through strengthening supervision, strengthening cooperation and digital innovation, countries are committed to establishing a healthier, more stable and sustainable financial system to promote the development and prosperity of the global economy.

### 3. Mode of financial supervision system

The evolution of China's financial supervision system reflects the exploration and adjustment of policy makers in the process of constantly coping with economic development and financial market changes. From the planned economy period to the initial stage of reform and opening up, and then to the comprehensive deepening reform in recent years, China's financial supervision system has experienced several stages of development (Figure 1).

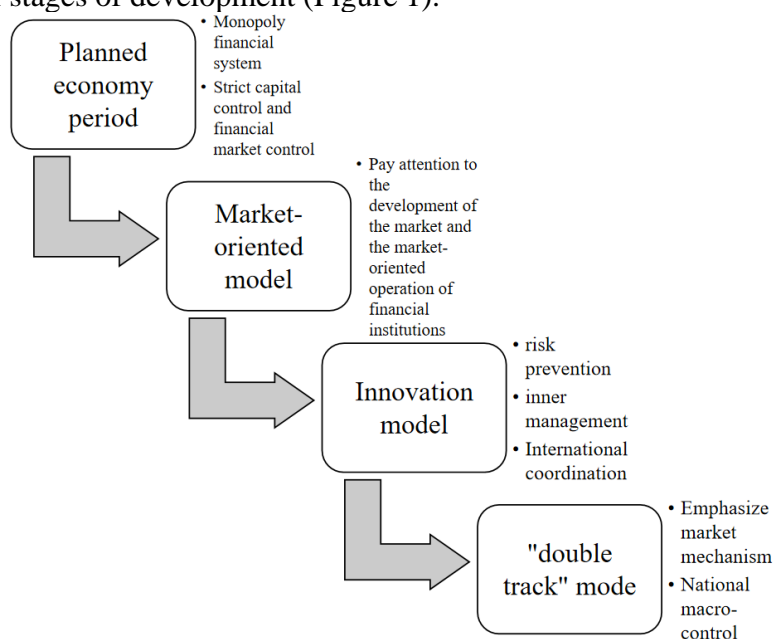


Figure 1: Mode of financial supervision system.

In the era of planned economy, China's financial supervision mode was predominantly confined within the ambit of national planning. The state exercised monopoly over the financial system, with the central bank assuming a leading role, enforcing stringent capital control and financial market oversight. The primary objective of supervision was to guarantee the realization of the national economic plan, with less emphasis on ensuring the stability and vitality of the financial market. Within this paradigm, the financial system primarily functioned in service of the national planned economy system, lacking the incorporation of market-oriented principles and risk management concepts.

With the promotion of reform and opening up, China has gradually transformed from a planned economy to a market economy, and the financial supervision mode has also undergone fundamental changes. During this period, the supervision paid more attention to the development of the market and the market-oriented operation of financial institutions. The securities market has been established, the banking industry has gradually implemented differentiated management, and the central bank has gradually turned to a more market-oriented and macro-control direction. The goal of supervision has gradually shifted from the implementation of a single planned economy to maintaining the stability and sustainable development of financial markets.

In recent years, the comprehensive deepening of reform has promoted the upgrading and

innovation of China's financial supervision system. Regulators put more emphasis on risk prevention, internal management and international coordination. By establishing a macro-prudential management framework and improving financial supervision laws and regulations, China has actively fulfilled its international financial responsibilities and promoted the stability of the global financial system. The way of supervision also pays more attention to structural reform and innovation to adapt to the rapid development of financial technology and ensure the coexistence of innovation and stability in the financial market.

At present, China's financial supervision system presents a "dual-track" model, which emphasizes both the market mechanism and the national macro-control. While maintaining the stability of the financial market, regulators pay attention to the application of regulatory technology and promote the digital transformation of the financial industry. This "dual-track" model aims to maintain the flexibility and efficiency of the market, while ensuring the controllability of systemic risks [7-8].

The evolution of China's financial supervision system reflects that under the background of the development of market economy and the reform of global financial system, the cognition of supervision institutions is constantly updated and the adaptability is improved. The financial supervision mode has transitioned from centralized management during the planned economy era to market orientation in the early stages of reform and opening up. Subsequently, it has evolved into an innovative mode under comprehensive deepening reform, demonstrating characteristics of increased openness, market orientation, emphasis on risk prevention, and international coordination. In the future, China's financial supervision is poised for continual adjustments to align with the developments in the financial market and changes in the international economy.

#### 4. Risk control strategy analysis

The evolution of China's financial supervision system is to better adapt to the complex and changeable financial environment. Especially after the global financial crisis, risk control has become one of the important directions of system design. The risk control strategy includes the contents as shown in Figure 2:

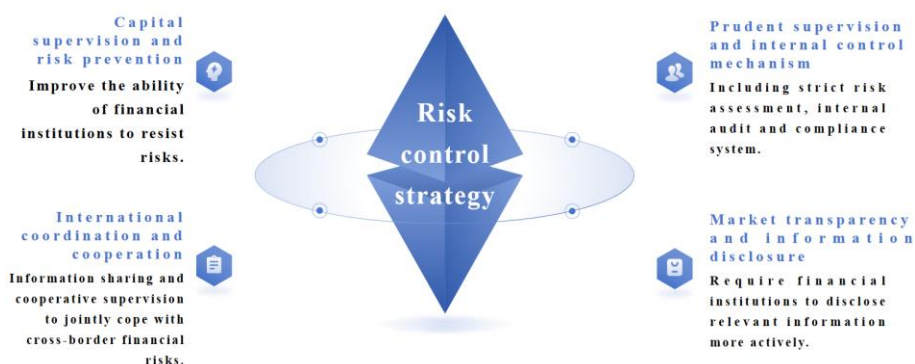


Figure 2: Risk control strategy

##### 4.1 Strengthen capital supervision and risk prevention

Capital supervision is one of the cornerstones of the financial supervision system. The capital level of financial institutions directly affects their ability to resist various risks. By setting capital adequacy requirements, regulators can ensure that financial institutions have sufficient capital reserves to prevent potential losses caused by market fluctuations, credit risks or poor management. Adequate capital not only contributes to the stable operation of financial institutions themselves, but also contributes to the stability of the entire financial system [9].

Establishing reasonable capital adequacy requirements is a key measure to strengthen capital

supervision and risk prevention. Regulators should set differentiated capital adequacy standards according to the business characteristics and risk tolerance of financial institutions. This can not only ensure that systemically important institutions have sufficient capital reserves, but also impose appropriate capital requirements on different types of institutions according to different risk levels, and improve the anti-risk ability of the entire financial system. Strengthening capital supervision and risk prevention is not only to set up capital adequacy requirements, but also to require financial institutions to establish a sound risk management and internal control system.

Financial institutions ought to possess a comprehensive risk identification, measurement, and management mechanism, enabling them to promptly address various risks such as market fluctuations and credit risks. Furthermore, the establishment of an internal control mechanism proves to be an effective measure in preventing internal operational risks, thereby enhancing the overall risk resilience of financial institutions. The reinforcement of capital supervision and risk prevention necessitates international coordination and standardization. Regulators should intensify collaboration with their international counterparts and advocate for the development of globally unified capital supervision standards. This initiative will contribute to the mitigation of risks associated with cross-border financial activities, elevate the international competitiveness of financial institutions, and ensure the stability of the global financial market.

#### **4.2 Strengthen prudential supervision and internal control mechanisms**

In the financial field, emphasizing risk management and internal control is the key strategy to ensure the stable operation of financial institutions and prevent potential risks. Risk management is the basis for financial institutions to maintain stable operation in a complex and changeable market environment. The types of risks involved in the financial industry include market risk, credit risk and operational risk, which may have a serious impact on the financial position and reputation of financial institutions. By emphasizing risk management, financial institutions can better identify, measure, monitor and control these risks, thus improving the overall risk resilience. Emphasizing risk management means that financial institutions need to establish a sound risk management framework. This includes clearly defining and classifying various risk types, establishing appropriate risk measurement and monitoring indicators, and establishing effective means to deal with risks [10]. A perfect risk management framework not only helps financial institutions to better understand their own risk situation, but also provides a basis for formulating corresponding risk control strategies.

Internal control is the key factor to ensure the effective operation of financial institutions. It includes a series of systems, processes and procedures aimed at ensuring the accuracy and compliance of the company's financial report and preventing potential risks. Emphasizing internal control means that financial institutions need to ensure the soundness of internal control mechanism, including the rationality of business processes, the authenticity of financial reports and the monitoring of employee behavior.

Amidst the continual advancement of technology, digital technology plays an increasingly important role in risk management and internal control. Financial institutions can leverage technologies such as big data analysis, artificial intelligence, and blockchain to enhance the precision with which risks are identified and evaluated. The application of digital technology further augments the efficiency and accuracy of internal control mechanisms, enabling more adept responses to potential risks.

#### **4.3 Emphasize market transparency and information disclosure**

Market transparency and information disclosure play a key role in risk control and are the cornerstones to ensure the stable operation of the financial system. Market transparency and information disclosure are key factors to build investor confidence. Transparent market environment and sufficient information disclosure can reduce the uncertainty of investors and make them more

aware of market trends and investment targets. On the basis of fully understanding market information, investors are more confident to participate in market activities, thus promoting market liquidity and stability. Market transparency and information disclosure are helpful to reduce information asymmetry among market participants. In the case of asymmetric information, some investors may be treated unfairly, which will lead to market instability. By emphasizing transparency and information disclosure, we can make the information in the market more symmetrical, reduce unfair transactions and improve the fairness and efficiency of the market.

Transparency and information disclosure are important means for regulators to effectively perform their duties. Regulators can better monitor the operation of the market by requiring financial institutions and market participants to provide timely, accurate and comprehensive information, and discover potential risks in time. The improvement of market transparency will help regulators to formulate policies and regulations more pertinently and ensure the stable operation of the market. Market transparency and information disclosure are also important components of financial institutions' own risk management. Through open and transparent financial reports and risk disclosure, financial institutions can better identify, evaluate and manage all kinds of risks they face, including credit risk, market risk and operational risk. This will help to improve the overall anti-risk ability of financial institutions and reduce the systemic risks of the financial system.

Generally speaking, emphasizing market transparency and information disclosure is a comprehensive and long-term risk control strategy. Through the enhancement of investor confidence, alleviation of information asymmetry, enforcement of regulatory measures, augmentation of risk management capabilities, and facilitation of corporate social responsibility, market transparency and information disclosure collaboratively contribute to the establishment of a healthier, fairer, and more stable financial market environment. This lays a robust foundation for the sustainable development of the financial system.

#### **4.4 International coordination and cooperation**

Against the backdrop of the global financial market, international coordination and cooperation emerge as pivotal factors for effective risk control. The interlinked nature of global financial markets renders international coordination and cooperation an indispensable component. The dynamics of cross-border capital flows, international trade, and the global operations of financial institutions underscore the potential for a financial crisis in one country or region to swiftly propagate to others. Consequently, the attainment of international coordination and cooperation is imperative for collectively addressing global risks and preventing the dissemination of cross-border risks.

International coordination and cooperation need to establish common financial supervision standards. By promoting the cooperation of international regulatory agencies and formulating a consistent regulatory framework and standards, the uncertainty of the international financial market can be reduced and the regulatory effectiveness of national regulatory agencies can be improved. For example, the cooperation between international organizations such as the International Monetary Fund (IMF) and the Financial Stability Board (FSB) helps to promote the formulation and implementation of global financial regulatory standards. An important aspect of international coordination and cooperation is information sharing. Regulators in various countries should establish smooth information communication channels and share information about financial markets, institutions and risks in a timely manner. Information sharing can improve the ability to monitor the global financial market and help countries to detect and deal with potential cross-border risks more quickly.

International organizations play a key role in achieving international coordination and cooperation. In addition to regulatory organizations, other international organizations such as the World Bank and the World Trade Organization should also play a role in supporting countries to jointly cope with financial risks by providing technical assistance and policy suggestions. In addition to international organizations, multilateral and bilateral cooperation is also a means to achieve international

coordination. Countries can establish bilateral cooperation mechanisms to jointly formulate policies to deal with cross-border financial risks. At the same time, we can also strengthen our participation in multilateral cooperation platforms and jointly safeguard the stability of the global financial system.

In the era of globalization and interconnection, the imperative to attain international coordination and cooperation becomes paramount in ensuring the stability of financial markets. By instituting international financial supervision standards, fostering collaborative information sharing, addressing systemic risks through coordinated efforts, and leveraging the roles played by international organizations alongside multilateral and bilateral cooperation mechanisms, nations can jointly confront the challenges posed by the global financial system. This collaborative endeavor is geared towards the cultivation of a more stable and resilient global financial system.

## 5. Conclusions

China's financial supervision system has experienced the evolution from simple to complex, and from single to multiple. At first, it mainly focused on the supervision of traditional banking business, but with the rapid development and innovation of financial markets, the scope of supervision gradually expanded to securities, insurance, internet finance and other fields. This evolution reflects the adaptability and flexibility of the regulatory system to better adapt to the increasingly complex and changeable financial environment. Strengthening capital supervision and risk prevention has become the core strategy of financial supervision in China. By setting capital adequacy requirements and emphasizing risk management and internal control, China actively improves the anti-risk ability of financial institutions and prevents potential financial crises. The evolution model of China's financial supervision system presents multi-level and multi-faceted characteristics. The strategies of strengthening capital supervision, strengthening risk prevention, paying attention to market transparency and information disclosure, digital supervision and international coordination are intertwined, and a more healthy, stable and adaptable financial supervision system is jointly constructed. This has laid a solid foundation for the sustainable development of China's financial system.

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