Risk Management in the Global Banking Business (Chinese aspect)

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Abstract

This article examined the most serious issues related to risk management. The implementation of the risk management strategies in global banking business is inherited as risk in all business activity of the banking intermediaries on the financial services market. If not managed well, risks can result in financial loss, damage to the reputation of banking organization, penalties and regulatory sanctions, each of which may adversely impact organization's ability to execute its business strategy. The issue of risk management in the global banking and finance sector could hardly be more topical. Perceived deficiencies in this area have been widely linked with the Asian financial crisis in 1997, global banking crises in 2007–2009, European banking crises 2011–2013 and a great deal of attention has since been paid by everyone – from financial authorities to the media – to risk management and regulation.

Key words: risk management, corporations, financial services, organizational structure, business strategy, subsidiaries, organizational transformations.

Introduction. Risk management in banks has changed substantially over the past ten years. The regulations that emerged from the global financial crisis and the fines that were levied in its wake triggered a wave of change in risk functions. The management of nonfinancial risks became more important as the standards for compliance and conduct tightened. Stress testing emerged as a major supervisory tool, in parallel with the rise of expectations for bank risk-appetite statements. Banks also invested in strengthening their risk cultures and involved their boards more closely in key risk decisions. They also sought to further define and delineate their lines of defense. Given the magnitude of these and other shifts, most risk functions in banks are still in the midst of transformations that respond to these increased demands [4, p. 5].

There is an inherent advantage that large, diversified financial services companies generally have a range of risk management functions and departments already in place. Thus, while corporate real estate issues haven't historically been prominent in the risk management arena, there are existing centers of thinking and practice within these companies that functions can tap into. To this extent, prevailing corporate cultures and organizational structures are helpful in spreading risk awareness as broadly as possible around the business [8, p. 2].

In this article we take for analysis risk management of 3 the biggest Chinese banks: China Construction Bank, Industrial and Commercial Bank of China and Agriculture Bank of China.

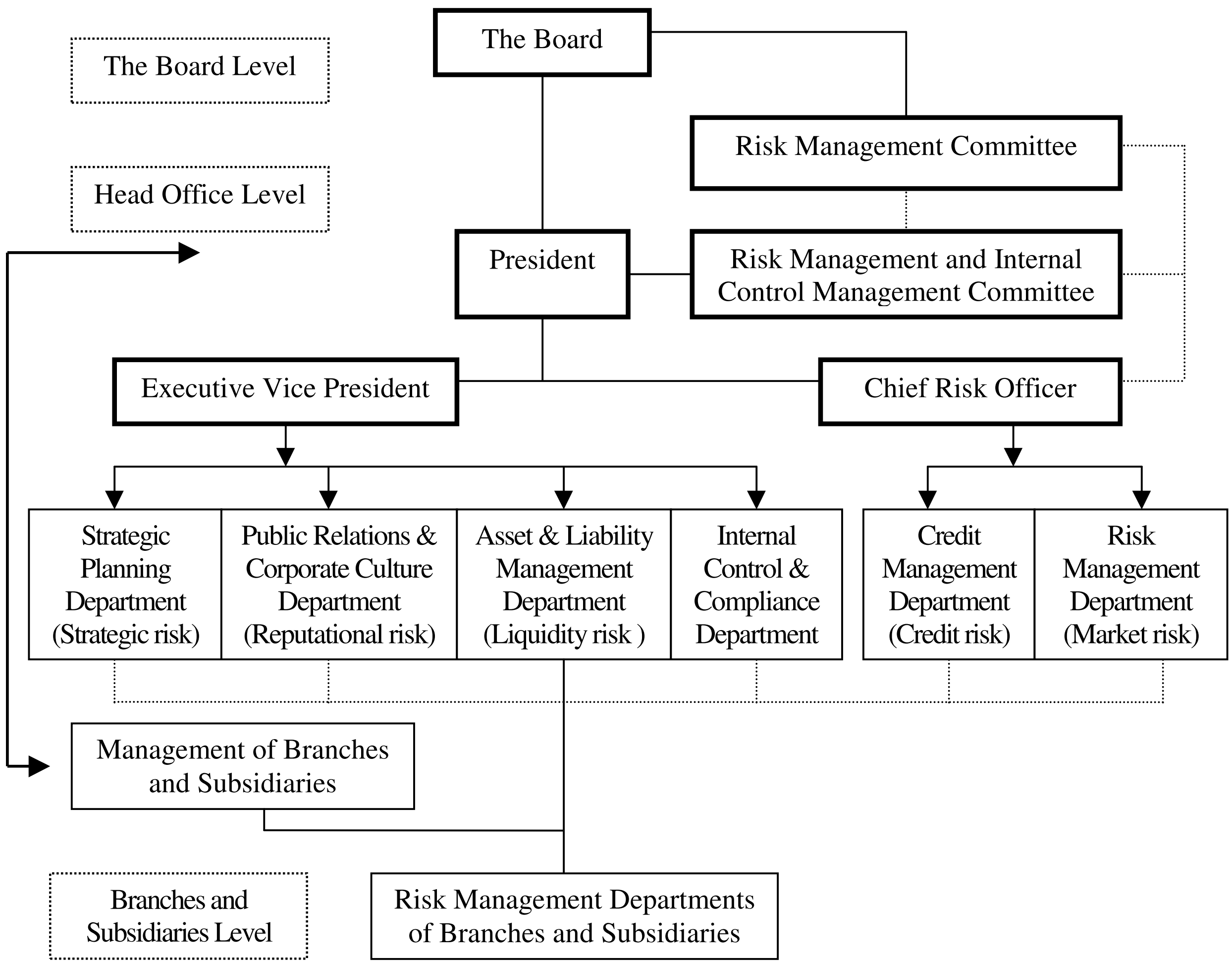
The main results of research. In 2015, China Construction Bank effectively strengthened the comprehensive risk management, promoted the re-examination, monitoring, conduction and implementation of its risk appetite, strengthened risk management of overseas institutions and subsidiaries, and promoted the unified risk management at the Group level. The risk management organizational structure of the China Construction Bank constitutes the Board and its special committee, the senior management and its special committee, the Risk Management Department, etc. The basic risk management structure of the Bank is shown in table 1.

The Board carries out the risk management responsibility pursuant to the Articles of Association of the China Construction Bank and other related regulatory requirements. The Risk Management Committee under the Board is responsible for making risk management strategies, monitoring the implementation, and evaluating the overall risk profile on a regular basis. As the core component of the risk management structure, the Board deliberates and approves the statements of risk appetite regularly, and delivers and communicates its risk appetite through corresponding capital management policies, risk management policies and business policies, to ensure that the business operation of the China Construction Bank adheres to its risk appetite. The Board of Supervisors oversights the establishment of the comprehensive risk management system as well as the performance of the Board and the senior management in assuming their comprehensive risk management responsibilities. The senior management is responsible for carrying out the risk strategy established by the Board and organizing the implementation of the comprehensive risk management of the Group [1, p. 55].

However, it should be noted that the senior management appoints Chief Risk Officer who assists the President with the corresponding risk management work.

Table 1

Risk Management Structure of China Construction Bank [1, p. 55]



Risk Management Department is the comprehensive management department responsible for the overall business risk management. Credit Management Department is the comprehensive management department responsible for the overall credit risk management. Credit Approval Department is the comprehensive management department responsible for the credit granting and approval of the overall credit business. Asset and Liability Management Department is the comprehensive management department responsible for the management of liquidity risk and interest rate risk of banking book. Internal Control and Compliance

Department is the comprehensive management department responsible for internal control management, compliance risk and operational risk management. Other specialized departments are responsible for other respective risks.

As we can see, China Construction Bank attaches importance to executing, monitoring and re-examining risk appetite. China Construction Bank strengthens the policy guidance of risk selection and allocation of risky assets by implementing communication mechanism of risk appetite. It monitors, analyses and reports execution of risk appetite quarterly. Taking the change of risk trend under the "new normal" of the macro-economy into consideration, the Bank initiates the re-examining and revising of risk appetite of the Group. Subsidiaries implement risk management requirements of the Group through corporate governance mechanism, establish and improve internal risk appetite, risk management system and risk policies [1, p 55].

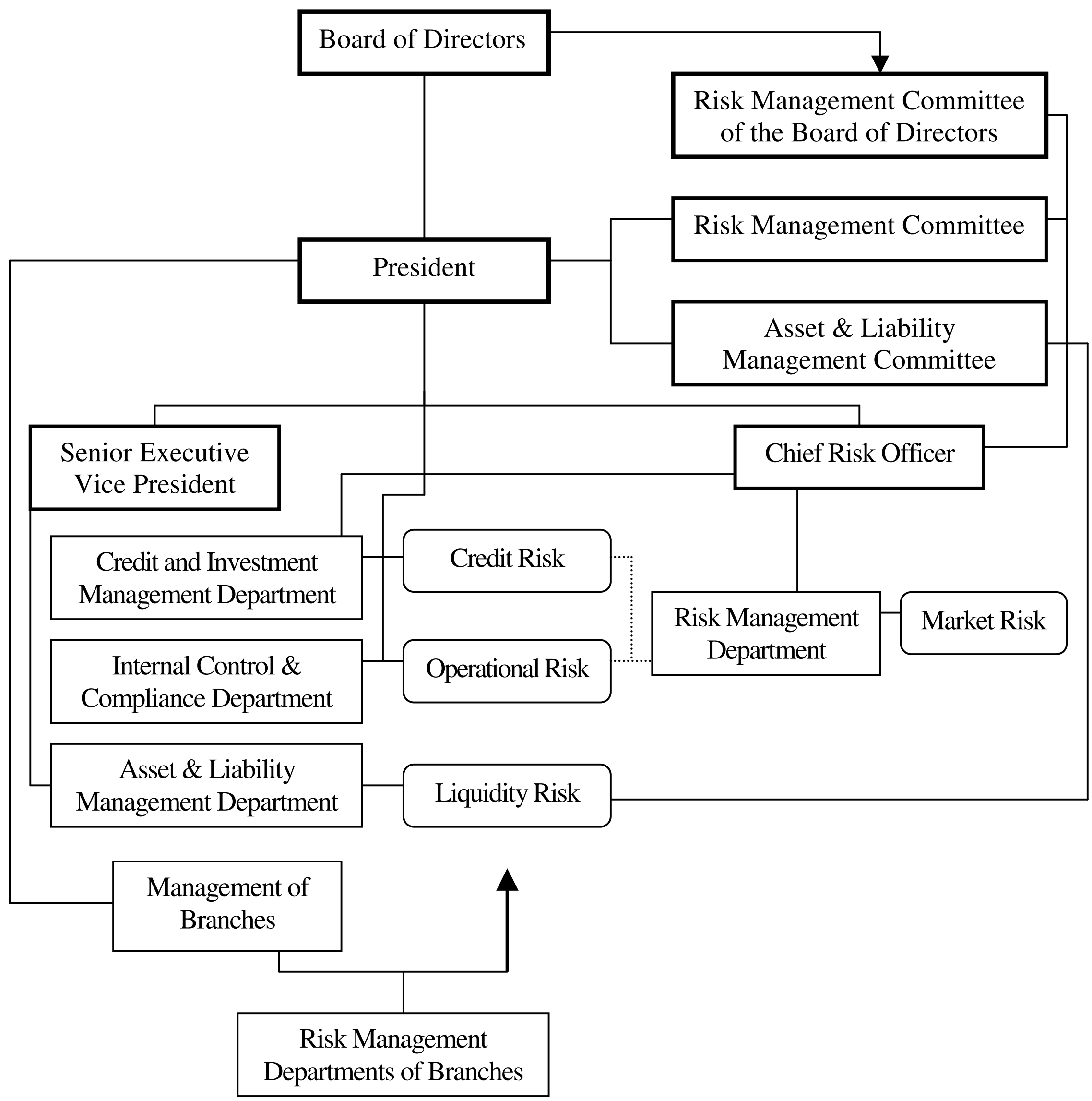
Thus, enterprise risk management is a process where the Board of Directors, the Senior Management and other employees of the ICBC perform their respective duties and responsibilities to take effective control of all the risks at various business levels in order to provide reasonable guarantee to the achievement of objectives of the ICBC. The principles of risk management include matching return with risk, internal check and balance with consideration as to efficiency, risk diversification, combination of quantitative and qualitative analysis, dynamic adaptability adjustments and gradual improvement, etc [2, p. 52].

The ICBC's organizational structure of risk management comprises the Board of Directors and its special committees, the Senior Management and its special committees, the Risk Management Department, the Internal Audit Department, etc. The risk management organizational structure of ICBC is illustrated below in table 2.

In 2015, ICBS further improved the enterprise risk management system, pushed ahead with the implementation of regulatory requirements on systemically important banks, and continuously improved risk management technologies and methods. The level of its enterprise risk management was further enhanced. It reinforced consolidated risk management at the Group level, with the focus on risk management of non-banking subsidiaries, reinforced country risk management and strengthened country risk monitoring and limit management of key countries and regions. It also enhanced the market risk management through proactively classifying

Table 2

Risk Management Structure of Industrial and Commercial Bank of China



the market risk management of overseas institutions, carrying out standard product control and bolstering market risk management of asset management business. Additionally, it propelled the implementation of advanced capital management approaches, improved the measurement system concerning credit risk, market risk and operational risk and continued to promote monitoring, validation and management application of the risk measurement system [2, p. 52–53].

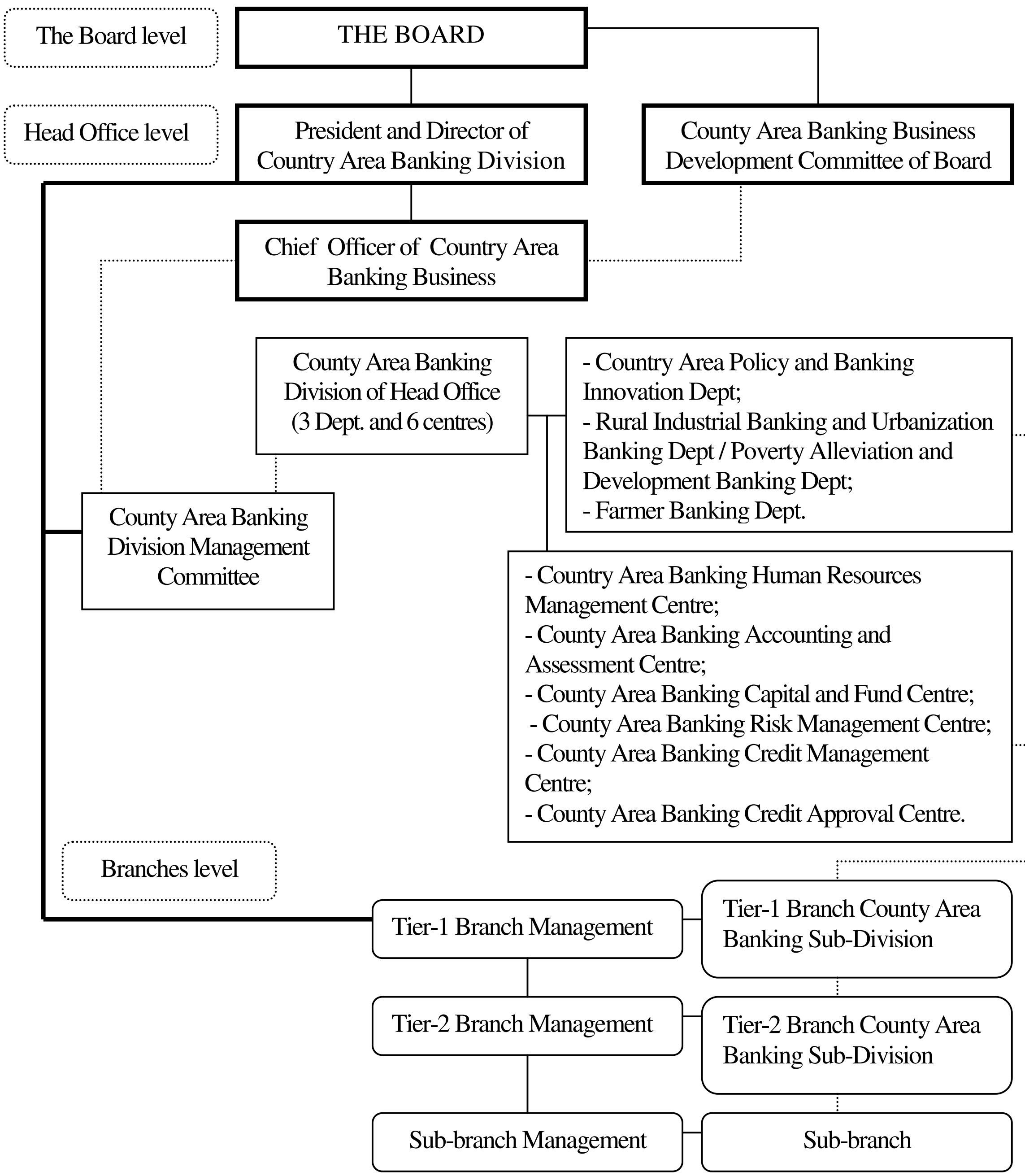
Agriculture Bank of China provided customers in the County Areas with a broad range of financial services through all branch outlets in the County Areas in China. In 2015 Agriculture Bank of China adhered to its business strategy of catering to the needs of «Sannong» and fully implemented reform of County Area Banking Division. Through speeding up the transformation of County Area Banking Business, improving financial services for major fields and key customers and enhancing product innovation, and further improved its service capabilities of County Area Banking Business and consolidated leading position in the County Areas and illustrated in table 3 [3, p. 72].

The Board of the Agriculture Bank of China established the County Area Banking Business Development Committee. The senior management is responsible for organizing and carrying out the County Area Banking Business of the Bank. The County Area Banking Division Management Committee is subordinate to the senior management. Three departments and six centers were established under the County Area Banking Division. "Three departments" refer to the County Area Policy and Banking Innovation Department, Rural Industrial Banking and Urbanization Banking Department/Development-oriented Poverty Reduction Banking Department, and Farmer Banking Department. "Six centers" refer to the six management centers of the County Area Banking Business for the middle and back offices covering six major aspects of human resources management, accounting and assessment, capital and fund management, risk management, credit management, as well as credit approval, in order to formulate the mechanism of sharing resources of the middle and back office between County Area Banking Business and Urban Area Banking Business. County Area Banking Sub-Divisions are set up in tier-1 branches and tier-2 branches according to the structure of "three departments and six centers" of head office. Sub-branches in County Areas are the basic operation units of County Area Banking Division [3, p. 73].

In 2014, Agriculture Bank of China promulgated the annual credit policy guideline for County Area Banking Business and refined our credit policy for agriculture-related industries. Agriculture Bank of China introduced new review

Table 3

Management structure and management mechanism in Agriculture Bank of China



standards for major agriculture-related industries, such as loans for new-type urbanization construction, loans for hydraulic engineering construction and rural land contracting right mortgage loan, in order to improve the efficiency and quality of credit review in Country Area Division. Some sub-branches in Country Areas were qualified to independently approve certain loans to rural households and small and simple loans to small enterprises in order to improve their market competitiveness. Agriculture Bank of China strengthened its cooperation with government and 19 branches participated in credit enhancement through government arrangement. The Bank continued its specialized reviews on risks from loans to rural households and «Huinongtong» projects and focused on the risk control on branches and corporate customers related to Sannong with high risk. Agriculture Bank of China continuously optimized the separate mechanism of risk allowance and write-off. The Bank put great efforts in disposing of non-performing loans in Country Areas by various ways such as collection activity, restructuring, extension and write-off [3, p. 74].

Conclusions. *According to our research, we can conclude* that Agriculture Bank of China, ICBC and China Construction Bank manages a variety of risks that can significantly affect their financial performance and ability to meet the expectations of customers, stockholders, regulators and other stakeholders. Among the risks that manage this banking financial organizations are operational risk, credit risk, and asset/liability management risk, which includes interest rate risk, market risk, and liquidity and funding risks. The risk culture of this Banks is strongly rooted in the vision and values, and in order to succeed in their mission of satisfying their customers' financial needs and helping them succeed financially, their business practices and operating model must support prudent risk management practices.

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