

Study on the Current Development, Problems, and Countermeasures of Shadow Banking in China

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Abstract—With the continuous development of financial innovation in China, the shadow banking system has accumulated a large number of systemic risks, which has become an important factor affecting the safe and stable operation of China's financial system. Therefore, on the basis of defining the concept of China's shadow banking, this paper analyzes the conditions, main characteristics, main problems and causes of China's shadow banking, and puts forward countermeasures and suggestions for the healthy development of China's shadow banking system.

Keywords—*shadow banking; development status; financial supervision*

I. INTRODUCTION

In 2007, the subprime mortgage crisis broke out in the United States, leading the focus of global attention to the shadow banking system, which has been developing rapidly for a long time. In order to avoid supervision, traditional commercial banks continue to carry out financial innovation, and gradually derive shadow banking in this process. However, shadow banking not only plays a positive role in widening financing channels and improving market efficiency, but also has a negative effect on the safe and stable operation of finance. In recent years, the United States has a relatively perfect shadow banking risk prevention and the control system. Different from the shadow banking in the United States, the development history of shadow banking in China is relatively short, and some risks have been accumulated internally. Therefore, it is of great significance to further improve the supervision system for the development of shadow banking in China by deeply analyzing the conditions, existing problems and causes of the shadow banking system in China.

II. THE DEFINITION OF THE CONNOTATION OF THE SHADOW BANKING IN CHINA

The connotation of Chinese shadow banking is defined from three dimensions: core subject, core function and core result. First, the core subject of shadow banking is the traditional commercial banks that endorse them. Commercial banks are the core of China's financial system. They obtain funds through shadow banking and provide implicit guarantees of "rigid payment", which makes it possible for China's shadow banks to expand their credit and create money. Second, the core functions of shadow banking are

the same as those of traditional commercial banks, both of which have the functions of liquidity conversion, credit conversion and term conversion. Third, the core result of shadow banking is to create money, shadow banking uses liquidity conversion, credit conversion and term conversion function to create financial products with short duration, high liquidity and low credit risk. In a word, China Shadow Bank is a financial institution that relies on bank credit, is engaged in off-balance sheet business, and can create financial products with short term, high liquidity and low credit risk.

III. CONDITIONS OF CHINA'S SHADOW BANKING

A. Financial Repression Creates a Financing Gap

To a certain extent, financial supervision has expanded the financing gap and laid the market foundation for the rise of shadow banking in China. On the one hand, under the influence of China's financial system, financial institutions will give priority to meeting the credit needs of large enterprises. At the same time, in order to pursue high profits, traditional commercial banks raise the credit threshold, which makes domestic small and medium-sized enterprises into the dilemma of "financing difficulties" and "expensive financing". On the other hand, under the influence of the policy of raising interest rates, the "financing difficulty" of small and medium-sized enterprises further highlights that a large number of domestic small and medium-sized enterprises need to broaden their financing channels through shadow banking.

B. Inadequate Regulatory Coordination Mechanisms Contribute to Regulatory Arbitrage

The imperfect regulatory coordination mechanism leads to the enhancement of arbitrage motivation of financial institutions. On the one hand, China's rule-based regulation is difficult to adapt to the development of financial innovation, which has spawned a large number of regulatory arbitrage opportunities. On the other hand, it is difficult for China to effectively supervise the shadow banking with risk contagion characteristics and mixed operation mode because of the supervision mode of separate operation and supervision.

C. Financial Liberalization and Profit Seeking Behavior of Financial Innovation

Financial liberalization provides space for the development of financial innovation. At the same time, financial innovation promotes the development of shadow banking. In recent years, due to the lack of financial services of traditional commercial banks in China, the investment gap in China's financial system has been increasing. In order to make up for the investment gap, shadow banking products with high-yield characteristics have been gradually developed.

IV. MAIN CHARACTERISTICS OF CHINA'S SHADOW BANKING DEVELOPMENT

A. Taking the Traditional Commercial Bank as the Main Body to Engage Similar Loan Business

The shadow banking system in developed countries develops in a balanced manner with its traditional commercial banks, with non-bank financial institutions as the main body, while the shadow banking system in China takes the traditional commercial banks as the main body to carry out similar loan business and expand the credit scale through it. The shadow banking system is an important supplement to the Chinese financial system.

B. Small and Medium-sized Enterprises and Residents as the Main Service Objects

China's shadow banks are created to solve the endogenous problems of the financial system. They mainly serve small and medium-sized enterprises with excess financing demand and residents with excess investment demand. Among them, because the quality of mortgage assets of domestic small and medium-sized enterprises is difficult to meet the traditional bank lending standards, most small and medium-sized enterprises use shadow banking channels for financing. At the same time, with the continuous improvement of the income level of Chinese residents, the investment mode gradually changes from savings deposits to investment property management products, and the demand for Chinese residents to choose to buy shadow banking financial products gradually expands.

C. Financial Products Have the Characteristics of High Real Interest Rate

The real interest rate of China's shadow banking system is mainly composed of the real return rate of bank financial products, private equity and other securities investment funds, and the real loan interest rate of small loan companies to carry out entrusted loan business. The real interest rate level of financial products with the characteristics of shadow banking is higher than the benchmark interest rate level of the same period, which reduces the guidance of the benchmark interest rate of financial policies.

D. The Game Between Financial Innovation and Financial Supervision Always Runs Through the Development of China's Shadow Banking

The operation mode of the shadow banking will be adjusted according to the regulatory policy. With the continuous expansion of the shadow banking business scale and the accumulation of internal risk in the shadow banking system, the regulatory department will usually issue relevant policies to regulate the operation of the shadow banking, resulting in the reduction of the arbitrage space of the shadow banking. However, for the profit motive, the financial institutions will create a new operation mode of the shadow banking.

V. PROBLEMS IN THE DEVELOPMENT OF SHADOW BANKING IN CHINA

A. Inhibiting the Development of Traditional Commercial Banks

With the deepening of financial innovation and development, shadow banking financing tools tend to be diversified, which makes part of the credit business of traditional commercial banks be replaced, customers are continuously separated, service quality needs to be improved, posts need to be more flexible adjustment, and operation costs are increasing. Therefore, the development of traditional commercial banks in China is restrained.

B. There Are Systemic Risks

On the one hand, shadow banking "borrowing is short and loans are long" operation mode is easy to cause term mismatch problem. On the other hand, shadow banking mainly invests in local government, real estate and some private enterprises with overcapacity. Among them, the lack of transparency of local government debt, strong dependence on real estate loans, large asset bubble, high financing costs of private enterprises and heavy repayment burden, make the shadow banking system have payment risk, which may lead to systemic financial crisis.

C. Facilitating Regulatory Arbitrage

On the one hand, the management and control measures of the division supervision on the management of the mixed industry are different, and regulatory indicators deviate from shadow banking business, which weakens the effect of credit policy. On the other hand, the degree of risk concealment is high, and there is a lack of supervision, which leads to the activity of regulatory arbitrage.

VI. THE CAUSE OF CHINA'S SHADOW BANKING'S PROBLEMS

A. The Shadow Banking Business Continues to Expand

On the one hand, under the background of housing purchase restriction and deposit interest rate reduction, the investment and financing channels of residents are single, and there is a big capital gap in the market. On the other hand, shadow banking financiers are mainly enterprises with

excess capital demand and difficult to obtain bank credit funds. However, the transfer of shadow banking funds mainly depends on the "bridge" of intermediary institutions, and the problem of information asymmetry is serious. Therefore, in order to obtain high intermediary fees, the size of shadow banking expands rapidly in the short term.

B. The Structure and Characteristics of Shadow Banking Business Is Highly Prone to Cumulative Risk

Shadow banking is a chain structure of "multi-layer guarantee". The relationship of credit guarantee is complex, the risk of shadow banking is conducive, and there is a lack of lender of last resort mechanism in the shadow banking system, so it is difficult to resolve the crisis quickly after risk exposure.

C. Imperfect Financial Supervision System

On the one hand, the regulatory standards of various regulatory agencies are different, and the shadow banking business is cross, so it is difficult to adapt to the mixed operation mode of shadow banking by separate supervision, and the phenomenon of supervision vacuum and multi supervision is more common. On the other hand, the internal regulatory mechanism of financial institutions has not yet formed, and the regulatory authorities carry out risk prevention and control through external regulation, so arbitrage cannot be contained in time.

D. Lack of Information Disclosure and Sharing Mechanism

On the one hand, the driving force of the development of the shadow banking system is regulatory arbitrage. Therefore, in order to avoid supervision, the information disclosure of the system is insufficient. On the other hand, the information sharing mechanism is not perfect and the information sharing of shadow banking is difficult, which makes it difficult for the regulatory authorities to collect data and unify the evaluation indicators in the process of shadow banking information statistics.

VII. COUNTERMEASURES AND SUGGESTIONS

A. Strengthening the Role of Shadow Banking in Serving the Real Economy

Once the financial industry breaks away from the real economy, a bubble will emerge, which will threaten the sustainable development of the economy. To guide the shadow banking to serve the real economy, it is recommended to further improve the supervision system, strengthen the diversification of shadow banking funds, enhance the transparency of shadow banking funds utilization, and continuously inject vitality into the real economy through financial innovation to solve the real economic development dilemma.

B. Attaching Importance to Functional Supervision

With the deepening of financial innovation and development, shadow banking involves more and more cross-business. Financial mixed operation has become the

general trend, and institutional supervision has been difficult to adapt to the current financial format. Therefore, it is necessary to pay attention to functional supervision, optimize the regulatory coordination mechanism, and avoid regulatory vacuum and long supervision.

C. Promoting Financial Product Innovation Step by Step

Financial innovation is difficult to put an end to risk, and may even accelerate the transmission of risk. Therefore, it is necessary to coordinate the relationship between financial innovation and financial supervision, promote the innovation of financial products step by step, bring innovative financial products into the framework of financial supervision in time, and constantly fill the regulatory vacuum.

D. Perfecting the Legislation of the Shadow Banking Supervision

At present, there is little legal basis for shadow banking supervision, and some department regulations have not yet risen to the legal level. With the gradual expansion of the scale of shadow banking, accelerating legislation has become an urgent task. It is necessary to have laws and evidence to follow in the supervision of shadow banking. The law should clearly define the concept of shadow banking, reasonably divide the business scope of shadow banking, and regulate the leverage ratio, term structure and capital investment direction of shadow banking.

E. Clarifying the Functions of Local Financial Management Departments

On the one hand, it is clear that the functions of the financial management departments of the various regions, the right to cooperate and supervise each region at the national level, and the supervision boundary between the financial offices and the "A bank and two commissions" of the regions. On the other hand, due to the different levels of financial development in various regions of China, the financial supervision policies of various regions should also be characterized by differentiation.

F. Strengthening Industry Self-discipline

Guide shadow banking to establish internal control mechanism and improve their awareness of risk prevention. First of all, a shadow banking product approval system should be established to require the shadow banking to clearly inform the product of the risks before issuing financial products. Secondly, in the process of investment, the type, scale and capital turnover of investment products should be announced in time to alleviate the information asymmetry. Finally, the credit status of shadow banking should be rated by professional rating agencies.

VIII. CONCLUSION

China's shadow banking is a financial institution that relies on bank credit to engage in off balance sheet business and can create short-term, high liquidity and low credit risk financial products. Financial suppression leads to financing gap, imperfect regulatory coordination mechanism

encourages regulatory arbitrage, financial liberalization and financial innovation lead to profit-seeking behavior, and other factors force Chinese traditional financial institutions to continue to open up shadow banking business, resulting in the birth of Chinese shadow banking. The shadow bank of China is the main subject of the traditional commercial bank, and takes small and medium-sized enterprises and residents as the main service object to engage in similar loan business, and its products have the characteristics of high real interest rate and so on. In China, the game between financial innovation and financial supervision always runs through the development of shadow banking. At present, China's shadow banking has systemic risks, which have inhibited the development of traditional commercial banks to a certain extent. China should continuously strengthen the role of shadow banking in serving the real economy and gradually promote financial product innovation. In the process, China should improve shadow banking supervision legislation, attach importance to functional supervision, and at the same time clarify the functions of local financial management departments and strengthen industry self-discipline.

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