



Risk Analysis and Effective Countermeasures of Investment Banks

Mengyang Li^(✉)

School of Management, Taiyuan Foreign Language School, Taiyuan, China
1582333530@qq.com

Abstract. In recent years, China's securities market has maintained a rapid development trend, which has played a significant role in promoting the growth of the national economy. But at the same time, there are a series of major problems in the securities market, such as market manipulation, letter violations and so on, which not only damage the interests of investors, but also disturb the order of the securities market. As the main participants, securities companies are facing an increasingly complex development situation. The important business of securities companies is investment banking business. During the COVID-19 epidemic, the global economy was depressed. If we can't do a good job in risk management, securities companies will have significant operational risks. Therefore, securities companies need to further improve the investment banking business risk management mechanism, scientific management and prevention of investment banking business risks, so as to enhance their comprehensive competitiveness. Based on this, this paper analyzes and studies the risk management of investment banking business of securities companies.

Keywords: Securities companies · Investment banking · Risk management · Evasion methods

1 Introduction

In the new era, the pace of innovation in China's financial market is accelerating, which puts forward higher requirements for the risk management ability of securities companies. If securities companies fail to guard against risks scientifically, it will not only directly affect the normal operation of securities companies, but also transmit risks to the securities market, posing a threat to the overall development of the financial market and the real economy. Among them, investment banking is an important business type of securities companies, and capital transportation. There is a close relationship and a high risk. China formally implemented the new rules on investment banking in 2018, but there are still some violations by securities firms in recent years. Thus it can be seen that the weak risk management of investment banking business is an important factor restricting the stable development of securities companies. Therefore, securities companies need to systematically examine the problems existing in investment banking business risk management, and timely adopt targeted optimization and improvement strategies to

effectively improve the level of investment banking business risk management. The rest of the article can be divided into three parts, the problems existing in the development of investment banking business of commercial banks, the present situation of Investment Banking Business of Commercial Banks in China, countermeasures to strengthen the risk management of investment banking business of securities companies.

2 Problem Exposition

According to some literature, we can easily find the problems existing in the development of investment banking business of commercial banks.

2.1 Serious Homogenization

The people's Bank of China clearly stipulates that commercial banks can carry out investment banking business model, which to a certain extent expands the business scope of commercial banks and loosens the business of commercial banks. The state affirms the value of commercial banks in terms of policy.

2.2 Environment Restriction

In order to maintain the stability of the financial market and promote the smooth progress of the financial reform, China does not allow commercial banks to carry out mixed operation, nor does it allow commercial banks to be fully involved in investment banking business. Although our law has improved this, there is also a certain relaxation for commercial banks to carry out investment business, but we should be soberly aware that the current investment banking business carried out by commercial banks is only marginal business. It has not been really implemented and promoted. Under the current financial management system, in the face of the huge market space of the capital market, commercial banks are shut out, hindering the development of commercial banks.

2.3 Core Competence

Innovation plays an important role for commercial banks, it can not only affect the development of commercial banks, but also affect the competitiveness of commercial banks in the major banks. With the rapid development of economy, China's commercial banks are springing up like bamboo shoots after a spring rain [1]. If commercial banks do not have core competitiveness and do not carry out innovation and reform, it is difficult to get a place in many commercial enterprises. However, many of the investment business products of commercial banks in China copy the business models of foreign commercial banks, lack of product improvement and innovation, and blindly copy other countries, which not only make some products not in line with the Chinese market, but also affects the transformation and upgrading of commercial banks.

2.4 Development Room Insufficient

In recent years, the development of investment banking business has been highly valued by commercial banks, sticking to the traditional business while carrying out investment banking business [2]. However, compared with foreign banks with rich experience in mixed operation, there is an obvious gap, which is still in its infancy.

2.5 Lower Competitiveness

With a single type of investment banking business, it is difficult to have room for large-scale development. Domestic commercial banks also began to pay attention to the development of intermediary business, and developed rapidly, but now the scale is still very small, the development is still in the labor-intensive stage dominated by receipt and payment agents, and there is still a big gap compared with foreign counterparts. Comparing the intermediary business income data of commercial banks in developed countries with that in China, the proportion of intermediary business income in total bank income of commercial banks in developed countries is usually higher than 40%, and in some countries it even reaches 70% [3]. Flag Bank even reached the level of 80%. The intermediary business income of domestic banks is only 5% or so 10% (some inland provinces are only about 2%, and the lowest is 1%), which is only compared with the former's 1% 8–1 color 4. At the present stage, China's commercial banks have not obtained the permission to carry out investment banking business, which limits the development of investment banking business to a great extent, the speed of innovation can't keep up with the changes of the market, and the market liquidity is poor and the transparency is not high. As a result, the variety of investment banking business is small, the development scale is small, and it is difficult to meet the market demand.

There is no centralized investment banking business layout, resulting in low core competitiveness. China's commercial bank investment banking business started a little bit late, in the initial development process did not set up a department with investment banking business functions, usually using the way of uploading and issuing to guide the regional branches. Each region has a high degree of autonomy in conducting business. Limited by the level of operation and management, there is little effective information that can be fed back to the financial services of investment banks. It is really lead to low brand effect and lack of core competitiveness.

2.6 Lack of Talents

Investment banking business is lack of professional talents, and the overall quality is low. Investment banking business shall set up a team of talents with professional knowledge, and the personnel among them shall be proficient in financial, financial, legal and other professional knowledge [4]. However, the investment banking business of commercial banks in China is in its infancy, failed to form a complete personnel structure, did not train a large number of professionals, and the overall quality of existing personnel is low, resulting in the development of talents can't meet the needs of investment banking business.

3 The Problems Existing in the Risk Management of Investment Banking Business of Securities Companies

3.1 Risk Management Deficiency

At present, in order to promote the standardized development of investment banking business, securities companies have to build risk management organizations, systems, processes and so on. However, in the process of risk management implementation, it can be found that some personnel lack the intention of risk management. First, some employees do not have a correct understanding of the strategic positioning of investment banking business risk management objectives, and there are still bad problems such as emphasizing performance and neglecting risks in business departments, and misconceptions such as muddling along have not been completely eliminated [5]. Second, The risk management ideas have not been fully implanted in the whole process of investment banking business, and some personnel have not formed a good habit of taking the initiative to carry out risk management.

3.2 Human Resources Insufficient

The development of securities companies is inseparable from the support of human resources, especially the investment banking business with strong professionalism and high technology. There is a great demand for high-quality talents. Continuous innovation of investment banking business in the process of the development of the financial industry requires employees to have a strong learning ability [6]. But at present, some securities companies lack talents, which have a negative impact on the risk management of investment banking business. In addition, the survey found that “failure to do their duty” is that many securities firms have been punished in recent years, and the root cause of this problem lies in the lack of sufficient professional competence of talents. Some personnel can’t scientifically control the key risk points of the project, it is difficult to effectively identify and assess the risk, and can’t take effective measures in time, resulting in serious risk events. In the process of the development of the securities market, securities enterprises compete fiercely for high-quality talents of investment banks, and the head securities firms gather a large number of business resources and human resources. On the other hand, there is an obvious loss of high-quality talents in other securities firms, which leads to the lack of corresponding talent support in the implementation of investment banking business and risk management.

3.3 Further Strengthened

At present, securities companies have built a relatively perfect quality control system according to relevant policies and regulations, but there are still some hidden risks in the process of operation, such as due diligence, continuous supervision and so on. First, risk factors have not been fully taken into account. When setting the investment banking business access conditions, some securities companies take performance as the focus of attention, and do not take into account the business risk and the risk control ability of the team [7]. Some securities do not set strict access standards in risk assessment, business

scale, qualification and credit, which not only can't control the business risk, but also increase the difficulty of risk management. Second, risk identification and assessment need to be strengthened. Some securities companies have expanded the scope of due diligence and continuous supervision, and applied a series of routine verification methods. However, the risk-oriented awareness is relatively weak, and the pertinence of the verification work is not strong, so the effect of risk identification and assessment will be affected. For example, during the verification process, the staff can carefully collect manuscripts and determine the verification procedures and procedures according to the operating specifications. But there is no in-depth analysis and identification of key audit areas and so on.

3.4 Poor Information System

First, the risk monitoring information system is not perfect in some securities companies.

The Division mainly collects duration management project information manually, including official websites, information supply software, etc., but the risk monitoring system is not sound enough to efficiently monitor, identify and early-warning project risks [8]. The sustainability of this monitoring mode is difficult to guarantee, does not have high monitoring efficiency, and is easy to produce hidden dangers such as monitoring omissions, calculation errors and so on. Second, the risk management database system has not yet been built. Although risk managers will regularly collect and interpret investment banking risk cases, securities companies have not yet built a database system, so it will be difficult for employees to dynamically grasp the dynamics of market risk and regulatory policy changes, leading to risk control.

The level of informatization can't be improved.

3.5 Policy and Legal Risks

Personal financial management business is the key development object of commercial banks, and the development of financial management business mainly depends on the capital market [9]. When capital operates in the market, it is bound to run counter to policies and regulations, coupled with the country's strict supervision of the financial industry. CSRC and CBRC will focus on supervising commercial banking business, which will inevitably lead to policy and legal risks. Most of the holding groups in the financial market are not legally recognized, and the business scope and business model of financial holding groups are lack of legal norms.

3.6 Excessive Staff Control

The excessive control of the internal staff of the investment bank leads to the increase of risk. From the point of view of the operation and management of investment banks in China, there are problems in the aspect of principal-agent. And the phenomenon of information asymmetry is very obvious. In the process of investment bank operation, due to the reasons of internal staff control, the information asymmetry leads to the damage to the interests of customers and the income of bank internal managers can be

well protected. Some managers mainly focus on short-term interests and take advantage of speculation in the process of trading, which leads to severe short-term behavior in the operation of enterprises, which leads to transactions. The risk increases. However, although successful transactions have high risks, they can bring rich bonus returns for managers, so this phenomenon still exists, resulting in increasing risks in the business process.

4 Countermeasures to Strengthen the Risk Management of Investment Banking Business of Securities Companies

4.1 Management Culture

In view of the lack of risk management awareness of business departments and some personnel at the present stage problems, securities companies need to make great efforts to build investment banking business risk management culture. First, publicize the importance of risk management in the development of investment banking business spread, vigorously promote the concept and system of risk management, and guide relevant personnel to change the original misconception. Second, in the performance evaluation of investment banking business.

The proportion of risk management performance evaluation should be appropriately increased, which can not only allocate resources efficiently, but also guide employees to fully comply with and implement risk management requirements [10]. Third, management should carry out risk culture publicity activities regularly according to the actual situation, including case discussion, regulatory trend analysis, etc., and build a risk management level assessment mechanism in order to give continuous warning to employees. Second, strengthen the allocation and construction of human resources. Only by building a team of talents with high professional competence can we successfully promote the development of investment banking business and improve the level of risk management of investment banking business. Therefore, securities companies should pay full attention to the construction of human resources, improve the talent training mechanism and use mechanism, and give full play to the value of talents. First, actively introduce high-end talents. On the one hand, securities companies should hire industry experts in the field of investment banking and risk control to be responsible for the construction of business lines and risk line teams; on the other hand, they should be combined with the development trend of the financial market in the new period, adjust the focus of talent introduction in a timely manner, and appropriately tilt to risk management, information technology and other fields. In the process of introducing talents, it is necessary to clearly introduce standards and integrate professional abilities, comprehensive ability and other testing activities and interview work norms will be implemented to ensure that the talents introduced can fully meet the needs of the position. Second, train and train talents. On the basis of introducing talents, it is necessary to train existing talents at the same time. According to the level differences and strengths of employees, we should scientifically plan their career development direction, scientifically formulate short-term, medium-and long-term training plans and programs, and steadily promote and implement them, so as to promote the development of talents in all professions. At the same time, improve

the risk mechanism of business communication and encourage employees to share and communicate with each other in order to achieve the goal of common improvement. Third, scientific use and motivation of talents are available. In the situation of fierce market competition, the problem of loss of outstanding talents is more serious. In the face of this situation, securities companies need to build a talent database, accurately understand and grasp the advantages of various talents, and allocate them to the most suitable positions in order to give full play to the advantages of human resources. In addition, we should learn from the experience of other enterprises, establish a long-term incentive mechanism, solve the problems encountered by talents in time, and enhance the stability of core talents.

4.2 External Supervision

Market access supervision refers to the examination and approval of the activity of banks to provide financial services in the financial market, which is used to ensure the safety of bank operations. Therefore, When domestic commercial banks invest, they need to attach importance to risk assessment and strengthen their control over entry mechanism. First, market access supervision and administration units should limit the scope of licenses and licenses issued by banking institutions and control businesses that have not been licensed. Second, financial regulatory units should create access rules related to investment banking business. Third, the domestic supervision and management units should have all-round control over the changes in the equity of banks. When investors are unable to meet the relevant supervision and management standards, the regulatory units should have the right to prevent this activity and strengthen the control over the changes in the equity of banks.

5 Conclusion

Investment banking has high profitability, but it is also faced with many types of risks. Only by doing a good job of risk management can the investment be guaranteed. The normal operation of capital banking business will promote the overall development of securities companies. Therefore, combined with the problems exposed in the operation of the investment banking business risk management system, securities companies need to take further effective measures from the aspects of risk culture, talent team and so on, so as to improve the risk management level of investment banking business. Through the discovery of the risk management of the investment bank and the analysis of the various risks faced by the company, this paper discusses how to take corresponding measures to avoid the risk, reduce the possibility of failure and reduce the uncertainty affecting the company's performance. The aim is to contribute to the development of financial risk management and enterprise risk management theory in our country.

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