

# ***How to Effectively Identify Financial Risks in Financial Management***

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**Abstract:** In the context of global economic integration, China's financial industry has been influenced by the international situation, and the openness of the industry is obvious. The entry of foreign financial institutions has made the competition in China's financial market more and more intense, which has intensified the financial risks while promoting economic growth. In view of this, this paper will discuss in depth the effective identification of financial risks in financial management and put forward feasible protection countermeasures, aiming to help the financial industry further improve its risk management. The results of this study show that accurate identification of financial risks can provide a basis for financial management and fully maintain economic efficiency. To meet the international development trend, the financial industry must do a good job of risk identification, assessment, and prevention so as to reduce the probability of risk and the losses it brings. Since financial risks are inevitable, each company must face the increasingly complex economic market according to its own situation, which puts higher demands on the risk management of companies.

**Keywords:** financial management, financial risk, identification, prevention strategy

## **1. Introduction**

Based on the reality that the world financial situation is becoming more complex and the competition in the industry is intensifying, China's financial industry is now making efforts in risk management to achieve stable business development and carrying out many reform efforts. There are already relevant studies in academia. For example, Xiaoyue Li conducted a study similar to this paper in "How to effectively identify financial risks in financial management", and the final result shows that, in the case of unavoidable economic risks, companies must take a higher standard of risk control in order to adapt to today's economic environment [1]. To achieve stable business development, China's financial industry has made efforts in risk management and carried out many reforms. However, at this stage, under the influence of a series of factors such as weak risk awareness and the lack of a risk management system, the smooth implementation of financial risk management still encounters multiple obstacles, which is not conducive to the healthy development of the financial industry. This paper will analyze and discuss risk identification in financial management with the aim of further strengthening the level of financial risk management and building a more perfect wind control system.

## **2. Overview of Finance and the Importance of Financial Management**

Finance is a kind of financial activity that collects private capital and redistributes it, and such financial projects can effectively stimulate private capital and redistribute it rationally. In this way, enterprises that are short of funds can obtain a large amount of financial support in a short period of time, so as to expand production and improve profitability, while the enterprises can rely on profits to pay off their loans. In the information age, the globalization of the country is increasing. For a long time, the traditional closed state operation strategy has been unable to meet the requirements of the times, and the world exchange interactions show a geometric growth trend. Our economy has gained remarkable development in foreign exchange and trade. In the development of global integration, we must adjust and reform financial management. At this stage, most enterprises pay more attention to economic efficiency and make it a task of business operation. Although economic efficiency has a greater impact on business operations, the excessive pursuit of high efficiency can also affect social financial management. Therefore, both social developments as well as units and individuals must ensure financial management. Paying great attention to financial management is important to maintain social stability and harmonious development, and to comprehensively strengthen the comprehensive strength of the state, society and enterprises.

## **3. Types of Financial Risks and Identification**

The development process of the financial industry, the development of new customers, the expansion of the market, and the maintenance of old customers will face more risk problems. The impact on the efficiency of the operation of China's financial industry is very large, and it will also have an impact on the development of economic efficiency. Currently, the financial industry involves risks, including micro and macro risks. The difference between the above-mentioned risks is that macro-financial risks are more common and need to be undertaken and solved actively by governments at all levels. Micro-risks are individual business risks that are managed using unit management measures to prevent and deal with risk issues. Therefore, financial risk involves the following points:

### **3.1. Financial Credit Risk**

Financial credit risk mainly refers to the problem of unilateral default in financial service activities, which is commonly found in personal lending or SME loan businesses. Borrowers will cheat to get loan money by some bad means, and after completing the loan business, the enterprise cannot repay the loan according to the standard, thus causing the financial credit risk. In the early days, China lacked a perfect supervision and management system, so there were a lot of bad debts in the financial lending business. Many enterprises possess bad lending records, which will not directly affect the flow of financial capital and the development of the market once the credit is at risk. Some of the receptionists themselves are aiming at fraudulent loans to carry out financing activities, and the credit information cannot be transparent and open, which further leads to the increase in financial credit risk.

### **3.2. Interest Rate Exchange Rate Risk**

At present, with China's industrial structure deeply embedded in the international system, financial activities do not only exist in the development process of domestic enterprises, foreign financial institutions have also begun to integrate into the domestic big cycle. Therefore, the construction of China's economic development is more inclined to internationalization, and with the deepening of internationalization, the problem of interest rate and exchange rate risk is constantly highlighted.

As an important factor regulating the national economic development, it will have a direct and important impact on the strategic development of the country. The collapse of the national interest rate and exchange rate may result in a wide range of financial risk issues, precipitating a global financial crisis. For example, the exchange rate is mainly the ratio of exchange between the currencies of different countries, but the exchange rate is a variable data. The exchange rate is a variable figure. In the short term, currency exchange rates may be relatively stable, but if a financial investment business is a long-term project, there is a high risk that interest rates will rise or fall. If the exchange rate fluctuates too much, there is a high risk that the total value of the investment will fall, although there is no default in the international market, but it still affects the economic market.

### **3.3. Risks in the Financial Product Itself**

With the continuous development of Internet finance, the threshold of the financial industry is getting lower and lower, and a large number of small and medium-sized financial institutions are rapidly integrating into the financial market. Financial products on the market and any financial products themselves will have certain risks. Some financial institutions or investors are bent on the pursuit of higher benefits, but do not judge the financial products. Some financial institutions or investors who seek higher profits without judging the risks of the financial products themselves invest relatively blindly, which is likely to lead to future financial products being reported as a result of all investment costs not being recovered. These defects, once manifest, will lead to losses of financial investors' funds, and thus financial risk is encountered.

### **3.4. Financial Management Risk Within the Financial System**

China's financial industry is mainly represented by the banking industry. However, in addition to banks, there are also a large number of financial institutions, large and small, in the financial market. Although the banking industry and financial institutions are in the same industry, they are actually in a state of mutual competition, and in the process of development of banks and financial institutions, there is a high possibility of contradiction between enterprises, thus causing vicious competition. Once this problem occurs, China's current common method is to issue bonds to attract private investment to tide over the financial crisis, but this method still has risks, which will increase the security of financial business. At present, China's common method is to issue bonds to attract private investment as a way to overcome the financial crisis, but this method still has risks and will improve the security of financial business. This will have a serious negative impact on our financial activities in the long run.

### **3.5. Risk of Capital Flow**

If capital wants to serve the real industry, then it must flow between multiple industries or sectors. Once the enterprise has a broken capital chain, although the enterprise can ensure self-sustainability, the stagnation of capital flow will lead to a break in the enterprise's capital chain, so that it cannot effectively obtain the funds to maintain the existing production and operation activities, resulting in the enterprise's liquidity risk. These risks cannot be compensated for by conventional management measures. At the same time, for the enterprises in the market industry, once the capital chain breaks, then the enterprises. Once a default occurs, the credit rating of the enterprise will decline, and it will not be able to obtain more advantageous treatment in future operation and development.

## **4. Financial Management in the Prevention of Financial Risks of Effective Countermeasures**

### **4.1. Strengthening the Construction of the Financial Risk Management System**

In the new era, financial management must pay attention to the construction of a risk management system and system improvement, the development of a more comprehensive and feasible risk control system, and the prevention of risk to solve a series of risk problems [2].

Specific practices are as follows: first, optimize the organizational structure; change the traditional vertical management model, emphasizing mutual supervision and mutual control between different levels and positions. Secondly, the formation of a special risk control team responsible for the development of programs will determine the objectives, supervision and control, coordination and balance, etc., for the potential risk of each link and analyze the potential risk. Thirdly, with reference to risk management standards, we actively learn from the experience of large domestic and foreign financial institutions in risk management, but we must not copy their risk management mechanisms but rather optimize and adjust them in accordance with the characteristics of financial enterprises themselves to ensure the practicality of the systems and to provide guarantees for their implementation.

Fourth, we should improve the risk control system, focus on the pre-prediction and control of risks, establish a risk research and analysis mechanism, make scientific assessments of the impact and likelihood of various risks, and enhance risk management. Fifth, establish an internal personnel training and risk management performance assessment mechanism, increase risk management education and training, strengthen all employees' risk awareness, deepen their correct knowledge of risk management, solidify the foundation guarantee, and use performance assessment on a regular basis.

We will conduct performance assessment, incorporate risk management indexes into the performance index system, change the assessment and incentive methods, set up a lifelong tracking system, and reward the department or employee with excellent risk management results. If the risk is not dealt with in a timely manner, we will find out the cause and punish the person responsible. The pressure and motivation will motivate the personnel and enhance their management responsibilities.

### **4.2. Taking Multifaceted Measures to Prevent Credit Risks**

China's financial enterprises should take multifaceted measures to apply new technologies and new ideas to actual management, as well as by increasing credit risk management. The company has been able to achieve strong control over credit risks and reduce the losses caused to financial development by strengthening the management of the whole process before, during, and after the loan.

First of all, in the pre-loan review of credit In the pre-credit review, we should make a comprehensive assessment of the borrower's basic information, credit history and debt ratio, and ensure the quality of the collateral and the authenticity of the assets. At the same time, the purpose of the pre-credit investigation should be clarified at all times, and the quality of the implementation of the verification work should be continuously checked.

Secondly, in the process of loan processing, we will try our best to strengthen the review and approval of loans and credit issuance, especially in the process of credit issuance, and we will make sure to check the completeness of loan information and the quality of loan contracts, IOUs, and identity certificates. In particular, in the process of credit issuance, it is important to review the completeness of loan information and loan contracts, IOUs, identity certificates and other information one by one. When there are problems with the information, we will promptly investigate and analyze the causes so as to strengthen the compliance of loan issuance.

Finally, after the loan processing is completed, the loan usage and repayment status should be regularly tracked and monitored through the risk warning mechanism. When there is a delay in loan repayment, we need to promptly investigate the reasons and take effective measures. For the refusal to repay, we will inform the person concerned verbally or by letter at the first time, and we will deal with the penalty interest. If necessary, the collateral can be disposed of or legal measures can be taken until the problem is solved [3].

Take Bank A as an example, the bank has formulated the following risk control programs to prevent credit risks: Firstly, to strengthen the basic management, promptly revise the systems of credit management, make explicit provisions for the management of information files, storage of credit-related information, etc., designate professional staff mainly responsible for this work, and regularly check whether the information is complete. The second is to establish a supervisory mechanism, with a special credit management agency responsible for approval and supervision, implement the system of separation of audit and credit, clarify the division of authority and responsibility of different positions, and regulate the approval authority and procedures.

Thirdly, establish a risk early warning mechanism, form a risk assessment team, and submit risk assessment reports to the bank management every quarter with the goal of dealing with risk issues and taking corresponding measures. Based on this, a complete credit risk early warning mechanism is established, and the risks are classified according to the assessment results to form a risk list. If the customer is in danger, the information system will issue an early warning signal, and the plan formulated in advance will be imported automatically until the risk treatment is completed. Family situation, interpersonal relationship, health level, etc. are included in the evaluation; set the scoring standard corresponding to them; a score above 90 is excellent, 80–90 is good, and the customer will become a good borrower and meet the conditions for loan issuance.

### 4.3. Improving Access to Financial Risk Information

In today's rapid development of information technology, e-commerce platforms and online transactions provide more possibilities for financial business expansion, but also lead to an increase in risk factors. It is urgent to strengthen risk management. In the financial management, we can make full use of information technology and adopt information technology to improve the access to risk information, such as the use of big data, for a large amount of data and information in the external market. For example, with the help of big data, a large amount of data and information in the external market can be comprehensively collected, integrated and screened, and criteria can be set in advance to automatically identify, analyze and extract information according to such criteria to ensure the authenticity and accuracy of the information.

In addition, based on information technology, we will provide a reference basis for decision making and program development. In addition, based on information technology, we will strengthen the information construction for risk management and build an internal information management system. We will build an internal information management platform, upload a large amount of data and information to the platform, and then the relevant personnel will be able to query and call after obtaining the authority to realize the internal. Information and communication will be smooth, information silos will be eliminated, the timeliness and speed of information transmission will be enhanced, and the efficiency of risk management will be improved.

Take the construction of the data sharing platform of Bank A Jiangxi Branch as an example, the bank first strengthened the computing capability of the data server to enhance the processing and analysis capability of the platform system for big data. The bank first strengthened the computing power of data servers to enhance the processing and analysis capability of the platform system for big data. Then, by establishing data interfaces between the platform and other systems, the bank realized the interconnection of data and information within the bank, and also realized the



interconnection of data with administrative organs such as industrial and commercial taxation authorities through this method. The data interconnection with administrative organs such as industrial and commercial taxation authorities is also realized through this method. Finally, by improving the functional modules of the system platform and enhancing the self-upgrading capability of various software, we ensure that the bank's information is secure [4].

Finally, by improving the functional modules of the system platform and enhancing the self-upgrading capability of various software, we can ensure that the bank's information construction keeps pace with the times and constantly adapts to the operational needs of new products and services and the new stage of development of the bank.

#### **4.4. Establishing a Perfect Internal Control Organization System and Improving the Internal Control Mechanism for Market Risks**

First of all, financial enterprises need to establish a scientific and perfect internal control organization system, which not only needs to include strong supervision by the board of directors and management, implementation of the supervisory board [5]. The system should not only include strong supervision by the board of directors and management, supervision by the supervisory board, and control by the internal control committee, but also risk management, prevention and control of risks by the finance and business departments, and strict auditing by the audit department for each [6].

Secondly, financial companies need to prepare corresponding market risk management processes and measures in accordance with the requirements of the CBRC and based on the business volume, risk tolerance and other specific conditions, which should include not only risk identification, analysis and assessment, but also risk monitoring, prevention and control [7].

Finally, financial enterprises need to strengthen the independence and authority of the audit work, so as to ensure the objectivity and fairness of the audit results, and avoid audit loopholes that affect the management of risks in financial enterprises. In addition, in order to give full play to the risk prevention and control function of the internal control system of financial enterprises, their internal control supervision methods also need to be changed accordingly [8]. For example, with the Internet's network dynamic monitoring function and standardized accounting reporting system, the risk management function gradually changes from post-facto control to pre-facto prediction.

## **5. Conclusion**

According to the above analysis, it can be seen that financial risks are inevitable in the financial market, and with the continuous improvement of information technology construction, the financial market is rapidly changing and evolving. In the face of the complex and changing financial market, China's major financial enterprises must focus on the effective control and reasonable avoidance of risks if they want to stand firm in it. Under the new situation, the financial industry should have a correct and profound knowledge of risk management, pay great attention to it from the ideological level, combine the characteristics of the enterprise itself, continuously strengthen financial innovation and financial supervision, and adopt a scientific management system to improve risk management. In the new situation, the financial industry should have a correct and profound knowledge of risk management, pay high attention to it from the ideological level, continuously strengthen financial innovation and financial supervision, adopt scientific management system to improve risk management, so as to quickly identify risks and strengthen risk response to prevent financial crisis and further promote its sustainable and healthy development. Due to the lack of a thorough study of the relevant literature, the countermeasures mentioned in this article are not perfect. The author will continue to study and provide more effective measures for financial risk identification and management.

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