Prevention and Supervision of Illegal Fund-Raising Risk from the Perspective of Financial Security

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Abstract: With the rapid development of China's financial market, the risk of illegal fund-raising has become increasingly prominent, posing a serious threat to financial security. From the perspective of financial security, this paper discusses the important role of financial institutions in the prevention and supervision of illegal fund-raising risks by using political, economic, historical and legal logic. This paper first analyzes the logic of safe development contained in the preventive supervision of financial institutions, then discusses the practical exploration of preventive supervision and the obstacles it faces, and finally puts forward corresponding policy suggestions. To this end, this paper proposes to improve the preventive supervision efficiency of financial institutions from the aspects of legislative coordination, data sharing and technological innovation, so as to build a legal financial security defense line.

Keywords: financial security; risk of illegal fund-raising; preventive supervision

Introduction

Under the background of today's times, financial security has become an important issue of national development. As a risk factor in the financial market, illegal fund-raising poses a serious threat to financial security. As an important part of the financial market, financial institutions play a vital role in the prevention and supervision of illegal fund-raising risks. This paper discusses the role of financial institutions in the risk prevention and supervision of illegal fund-raising, analyzes the logic, practical exploration and main obstacles of preventive supervision of financial institutions, and puts forward policy suggestions to improve the effectiveness of preventive supervision of financial institutions and build a legal financial security line.

1 The Concept of Safe Development Contained in the Preventive Supervision of Financial Institutions

Since the new era, various contradictions and risks have become increasingly prominent, and various risk factors are intertwined and influence each other, which may evolve into systematic risks. To this end, we should put the idea of safe development through all aspects and links of national development, so as to effectively prevent and resolve all kinds of risks that may occur in the process of modernization and build a solid barrier of national security. Therefore, we must stand on the strategic height of overall development and security, study the risk of financial institutions to prevent and supervise illegal fund-raising, and improve their political awareness and conscientious initiative [1].

1.1 Political Logic

Financial risk management, the risk of illegal fund-raising and the role of financial institutions in prevention and supervision are all important issues in the current financial field. As an important participant in economic activities, the stable operation of financial institutions is very important for maintaining the health of the whole financial market. Illegal fund-raising and other illegal activities not only harm the interests of investors, but also may have an impact on the stability of financial markets. Therefore, strengthening preventive supervision is a necessary measure to ensure the order of financial markets and social stability. In the current economic environment, we really need financial institutions to better assume the responsibility of prevention and supervision, improve their risk prevention and control capabilities through technological and management innovation, and at the same time, strengthen the construction and implementation of laws and regulations, and severely crack down on illegal fund-raising and other illegal activities. In this way, it can not only protect the legitimate rights and interests of investors, but also maintain the stable operation of the financial market. In addition, while preventing supervision, financial institutions also need to pay attention to serving the real economy and promoting scientific and technological innovation and green development, which is an important way to achieve high-quality development. In this process, financial institutions should balance the relationship between risk control and service development and provide strong financial support for economic and social development [2].

1.2 Economic Logic

Financial risk theory reveals that risk contagion follows specific laws. By establishing monitorable risk indicators and models, we can effectively monitor market dynamics, optimize asset allocation and formulate management strategies, and realize risk early warning and supervision. Risk contagion presents a three-level model of "individual-part-whole", which has both internal self-infection and external diffusion. Therefore, it is the key to cut off the spread of risks to establish a monitoring system for risk "intermediary" and "bridge", strengthen early identification and early warning, and take isolation measures.

This theory provides a new perspective for financial institutions to prevent the risk of illegal fund-raising. It is necessary to study the flow of illegal fund-raising and its relationship with the operational risk of financial institutions in order to realize early warning and intervention. In practice, illegal fund-raising is often hidden in legal form, and financial institutions become the main channels. Once the capital chain breaks, it may lead to the spread of risks and spread to financial institutions, causing various risks. Interest linkage and illegal behavior have laid hidden dangers for systemic financial risks. With the development of network technology, the prevention and supervision of illegal fund-raising risks are increasingly urgent.

1.3 Historical Logic

Historical research is very important for understanding the present situation and planning the future. The preventive supervision of financial institutions should learn from historical experience and realize its importance to national financial security. Since 2004, China has established a perfect anti-money laundering system and monitoring technology, and formed an intelligent auxiliary fund monitoring system, which provides a reference for preventing and monitoring the risks of illegal fund-raising. Through the anti-money laundering mechanism and technology, financial institutions can identify the risks of illegal fund-raising in time, ensure that the risks are controllable and avoid systemic financial risks. General Secretary Xi Jinping emphasized the dynamic supervision of funds by modern scientific and technological means, which provided guidance for preventive supervision.

1.4 Legal Logic

In the new era, General Secretary Xi Jinping requires financial institutions to establish and improve the financial risk monitoring and early warning mechanism according to law, and build a financial risk prevention and control system of early detection, early warning, intervention and disposal. This requirement has contributed to the introduction of relevant policies and regulations, and clarified the legal responsibility and institutional guarantee of financial institutions in the prevention and supervision of illegal fund-raising. Relevant documents of the People's Bank of the State Council and China further emphasize the responsibility of financial institutions in the risk monitoring and early warning of illegal fund-raising, and combine the anti-money laundering responsibility with the early warning of illegal fund-raising, thus strengthening the role of financial institutions as "sentries" of financial security. During the "Fourteenth Five-Year Plan" period, the state defined the legal responsibilities of financial institutions in the prevention and supervision of illegal fund-raising risks through administrative regulations. Combined with relevant laws, financial institutions naturally assumed the monitoring and prevention of illegal fund-raising activities when performing their duties such as anti-money laundering, showing the comprehensive application of the rule of law in the field of financial security [3].

2. Practical Exploration of Preventive Supervision of Financial Institutions

The legal system barriers have long restricted the financial supervision institutions, making them mainly rely on the anti-money laundering system for early warning and supervision of illegal fund-raising risks. Recently, with the change of control strategy from "remedy afterwards" to "prevention beforehand", all localities have actively innovated and gradually built a diversified preventive supervision framework with "dependence", "integration" and "independence" as the core.

2.1 "Dependence" Prevention Regulatory Framework

The "dependence" structure refers to bringing the risk investigation of illegal fund-raising into the core link of the anti-money laundering function of financial institutions, and monitoring and early warning abnormal capital transactions. This model verifies the suspected illegal fund-raising clues and related accounts through automatic screening, manual audit and counter identification of the anti-money laundering system, and reports the clues with high suspicion in time. At the same time, the clues obtained by other channels can be reversely verified through the anti-money laundering system to ensure the accuracy and effectiveness of the information. Relying on the mature monitoring foundation and technical accumulation of financial institutions, the "dependence" framework ensures the reliability and authority of monitoring work, and avoids the problems of multiple clues reporting and repeated construction of monitoring facilities. However, there are technical limitations in this architecture, such as the lack of adaptability of monitoring model and threshold, the difficulty of real-time adjustment, and the monitoring effect is affected by the degree of attention of financial institutions, and the stability is insufficient.

2.2 "Integrated" Preventive Supervision Strategy

The "fusion" strategy is to extract the core monitoring indicators from the risk characteristics of illegal fund-raising, analyze the data by using artificial intelligence technology, develop an early warning model suitable for abnormal capital flow, and embed it into the business process of financial institutions for real-time monitoring. The advantage of this strategy lies in overcoming the technical limitations of traditional anti-money laundering monitoring system in adjusting models and thresholds, allowing fine-tuning parameters according to regional differences and actual needs, thus avoiding certain administrative illegal risks. However, the implementation of this strategy is limited by many factors, such as financial institutions can only monitor internal transaction data, lack of effective monitoring of cross-institution, cross-regional and cross-industry capital flows, and data barriers limit the monitoring scope. In addition, monitoring illegal fund-raising increases the workload of financial institutions, which may lead them to resist or delay the work, thus affecting the monitoring effect.

2.3 "Independent" Preventive Supervision Framework

The goal of the "independent" framework is to create a system specially used for monitoring and early warning the risks of illegal fund-raising. The system will initially analyze the original data of suspicious transactions recorded by financial institutions in a certain period, and then input it into a system designed for monitoring, identify suspicious accounts and capital flows through model calculation, and screen out illegal fund-raising clues. Like the "integrated" strategy, it has the flexibility to adjust the system parameters, promotes the data circulation and sharing among financial institutions, realizes the comprehensive monitoring of capital flow, improves the accuracy and efficiency of monitoring, and provides a positive attempt for establishing a nationwide illegal fund-raising risk monitoring network.

3 The Main Obstacles to the Implementation of Preventive Laws and Regulations in Financial Institutions

The exploration of preventive supervision of financial institutions in various places has played an important role in cracking down on illegal fund-raising and accumulated useful experience. However, from a macro point of view, the work in this field is still in the primary stage, facing key challenges such as lagging regulations, blocked information circulation and insufficient technical support, which has become the main bottleneck to promote preventive supervision.

3.1 Lack of Legal Norms

Under the background of ruling the country by law in an all-round way, the prevention and supervision of illegal fund-raising risks should follow laws and regulations and embody the spirit of the rule of law. However, there are some problems in the current legal system: first, the lack of the basis of the superior law makes financial institutions use customer information to monitor the risk of illegal fund-raising under the anti-money laundering framework, which may violate the Anti-Money Laundering Law and run counter to the principle of "major reforms are based on the law"; Secondly, the current law lacks special protection measures for regulatory authorities, which increases the litigation risk of investors, and the handling of abnormal transaction information is too broad and the requirements for personal information protection are strict, which leads to the dilemma of regulatory agencies in the use of information; Finally, there are inherent conflicts in the regulations on the control of abnormal accounts. Financial institutions need to take follow-up control measures after submitting suspicious transaction reports, which may contradict the original intention of protecting customers' interests. However, the fuzziness of the principle of "prudent balance" makes risk prevention ignored and contributes to the rise of systemic financial risks. Therefore, it is urgent to promote the legalization, standardization and systematization of illegal fund-raising governance.

3.2 Inadequate Integration of Resources

In practice, local protectionism and departmental interests lead to data islands and information barriers, which limit the integration and docking of information and hinder the establishment of a comprehensive preventive supervision model. In particular, the three key links of information flow, information sharing and resource integration are hindered. For example, the data information channel between financial institutions has not been opened, resulting in the data of a single or a few financial institutions can not fully reflect the flow of funds, affecting the accuracy of early warning. At the same time, there is a gap between the data channels of traditional and Internet financial institutions, which makes it difficult to analyze the characteristics of capital transactions and affects the regulatory effect. In addition, the lack of data coordination between financial institutions and regulatory agencies limits the effectiveness of financial institutions in preventive supervision and affects the comprehensiveness and accuracy of supervision [4].

3.3 Insufficient Technical Support

On the technical support level, China's financial institutions are faced with the problems of difficulty in quantifying and grading risks, insufficient monitoring index system, and unsynchronized monitoring mode and risk evolution. In view of the high similarity between illegal fund-raising and pyramid schemes, fraud, money laundering and other financial activities, and there is no unified quantitative evaluation index and index at present, it is difficult to effectively identify important clues from massive data. The update of monitoring indicators is lagging behind, and the capital operation mode of illegal fund-raisers can not be adjusted in time, which leads to the dislocation between monitoring model and monitoring object and affects the accuracy of monitoring. In addition, the monitoring model is not synchronized with the risk evolution, and it lacks dynamic tracking and induction of the characteristics of illegal securities fund transactions, which leads to misjudgment of normal transactions as illegal fund-raising, increases the workload of manual work, and reduces the accuracy of monitoring and early warning.

4 Foreign Reference and Policy Recommendations

In view of the above problems, there is still a lack of effective solutions in China. In view of this, we can learn from the international perspective and analyze the advanced experience of financial risk monitoring and early warning in developed countries such as Europe and America to improve the efficiency of preventive supervision in China [5].

4.1 Experience Enlightenment

This paper systematically combs the relevant laws and regulations and preventive supervision practices of major European and American countries, and finds that they generally emphasize that financial institutions must implement the principle of "early detection and early treatment", closely monitor financial risks, and report illegal or illegal financial behaviors in time. Its successful practice and governance wisdom can be summarized as follows:

(1) Technology-driven: the "eye of wisdom" of financial risk monitoring.

Facing the great challenge of financial security, many countries have adopted advanced technology to realize rapid and accurate identification of financial risks. For example, the SMARTS system launched by NASDAQ Exchange in the United States can automatically monitor potential illegal transactions and analyze potential abnormal transactions, thus becoming the benchmark for monitoring digital assets. Paypal has developed a "black box" large-capacity monitoring system, which can quickly discover fraud methods and automatically generate a suspicious report. Some large internet companies, such as Facebook, have also made use of security protocols and scientific methods to closely examine suspicious false advertisements, and established a cooperative mechanism with law enforcement agencies. Technology-driven has become a key strategy for the global response to illegal financial risks.

(2) Duty exemption: the "legal shield" for information processing of financial institutions.

With the continuous strengthening of personal privacy protection and data security in China, countries have formulated corresponding "due diligence exemption" systems for financial institutions to prevent civil litigation caused by information disclosure. The "safe haven principle" in the American "Anonzio-Wylie Anti-Money Laundering Act" gives financial institutions immunity in civil law and strictly regulates them. The EU General Data Protection Regulation also exempts personal information processing on the grounds of public safety. The consensus between academic and practical circles is that it is necessary to regulate "safe harbor" in order to protect public interests and financial security.

(3) Clear responsibilities: the "responsibility field" for the supervision of financial institutions.

Through the legal regulation of financial institutions, European and American countries have clearly defined their legal responsibilities, thus developing their own unique regulatory models. The United States adopts a "screening and monitoring" model to prevent risks through strict customer access and compliance review. Germany's "suspicious reporting" model requires financial institutions to report suspicious activities, and the compliance officer is responsible for the investigation. Britain's "flexible response" model emphasizes the investigation of customers' real business situation and process supervision. These models jointly embody the consolidation of the regulatory responsibility of financial institutions through institutional norms.

4.2 Policy Recommendations

On the basis of the above research, the article gives the following policy suggestions:

(1) Legislative coordination and policy guarantee: strengthening the legal basis of preventive supervision of financial institutions.

It is suggested that the National People's Congress should systematically promote financial legislation and amendment to ensure the internal unity and coordination of the legal system. First of all, it is proposed to establish a "duty exemption system", and at the same time clarify the legal status of financial institutions in preventive supervision in the Financial Stability Law, and add consumer relief clauses in the Consumer Protection Law to balance the regulatory responsibilities of financial institutions and consumer rights. Secondly, it is proposed to amend the Anti-Money Laundering Law to clarify that the financial authorities have the right to transfer the early warning information to the relevant departments for processing on the premise of safeguarding public interests and financial security. Finally, it is suggested to improve the laws and regulations of investigation power and clarify the authority of financial institutions to inquire and use account information in preventive supervision.

(2) Data sharing and information exchange: building big data support for preventive supervision of financial institutions.

Aiming at the problems of single data source and early warning lag in existing research, this project plans to build a normalized data information interaction and verification mechanism at the national and regional levels. On this basis, a suspicious data summary and screening mechanism and a dynamic information feedback and response mechanism are established to monitor abnormal capital flows.

(3) Technological innovation and model optimization: enhancing the technical ability of financial institutions in preventive supervision.

This paper puts forward the research ideas of establishing and perfecting China's financial supervision system, and puts forward the corresponding research ideas. Establish a compound monitoring mode of "basic mode+feature identification point" to ensure the openness and adaptability of the mode. At the same time, by setting a scientific and reasonable monitoring threshold and dynamically adjusting it according to different risk levels and situations, the purpose of accurate positioning and effective monitoring can be achieved.

5 Conclusion

From the perspective of financial security, the prevention and supervision of illegal fund-raising risks need to comprehensively use multi-dimensional logic such as politics, economy, history and law to build a complete framework for prevention and supervision.

Financial institutions should give full play to their "sentinel" role in financial risk prevention and improve their risk prevention and control capabilities through technological and management innovation. At the same time, it is necessary to strengthen the construction of laws and regulations to ensure the legalization and standardization of preventive supervision. In practice, financial institutions should establish a sound monitoring and early warning system to effectively identify and early warn illegal fund-raising. In view of the problems existing in the current supervision practice, such as the lack of legal norms, insufficient resource integration and insufficient technical support, it is suggested to improve the effectiveness of preventive supervision of financial institutions from the aspects of legislative coordination, data sharing and technological innovation. Drawing lessons from international experience, financial institutions should actively use advanced technical means to build a big data support system, optimize monitoring models, and enhance the technical capabilities of prevention and supervision. At the same time, establish and improve the duty exemption system, clarify the regulatory responsibilities of financial institutions, and build a legal financial security defense line.

On the whole, financial institutions should follow the principle of rule of law, improve the legal system, strengthen technical support, and realize the harmony and unity of financial security and economic development.

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