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How to Strengthen the Financial Risk Management of Enterprises in the Era of Financial Technology

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Abstract: In recent years, artificial intelligence, blockchain and other emerging technologies have been gradually applied to traditional financial businesses, making the financial industry undergo great changes. However, there are two sides to everything. Although financial technology brings much convenience to people, it also generates some potential risks and hazards. This paper firstly analyzes the main financial risks faced by enterprises in the era of financial technology and their causes from a theoretical point of view; then finds that the financial risks faced by enterprises in China at present show a trend of diversification and complexity through empirical research, where the most prominent performance is the rise of credit default risk; finally puts forward the proposed measures to cope with these financial risks.

Keywords: Financial Technology; Enterprise; Financial Risk.

1. Introduction

The rapid development of the financial industry has resulted in the emergence of more and more new financial businesses in the financial market. While these businesses bring convenience and efficiency improvement to enterprise financing, they also put forward higher requirements on the financial management of enterprises. Financial risk management is professional and systematic work. In the process of operation, enterprises need to scientifically evaluate financial products and take reasonable measures to control financial risks. Hence, how to effectively cope with the new risks brought by financial technology has become one of the urgent issues to be solved at present. This paper aims to analyze the main financial risks faced by enterprises in the financial technology era and their causes, and to discuss the corresponding preventive measures and suggestions, thus helping enterprises improve their financial risk management capabilities and maintain sound operations.

2. Financial Technology and Financial Risk

2.1. Concept and Characteristics of Financial Technology

Financial technology refers to the use of the Internet, big data, artificial intelligence and other emerging technologies to upgrade and reconstruct traditional financial businesses and promote their innovative development [1]. In essence, financial technology mainly includes the following aspects: firstly, digital transformation. The use of advanced information and communication technologies to achieve business process optimization, efficiency improvement, and cost reduction; secondly, intelligent decision-making. The application of data analysis to customer marketing, risk assessment, portfolio construction, and other areas to provide a scientific basis for business decisions; thirdly, blockchain technology, which can improve transaction security and prevent credit fraud; and fourthly, cloud computing technology, which can store massive data in the cloud for users to access anytime and anywhere.

Financial technology has the following three distinctive features: firstly, inclusiveness. The financial technology services for the general public, especially small and micro enterprises and individual consumers; secondly, efficiency. The use of new technological means to significantly shorten the financing cycle and processing procedures to improve the efficiency of financing; thirdly, innovation. The continuous introduction of new products and new models to adapt to changes in market demand and maintain a competitive advantage.

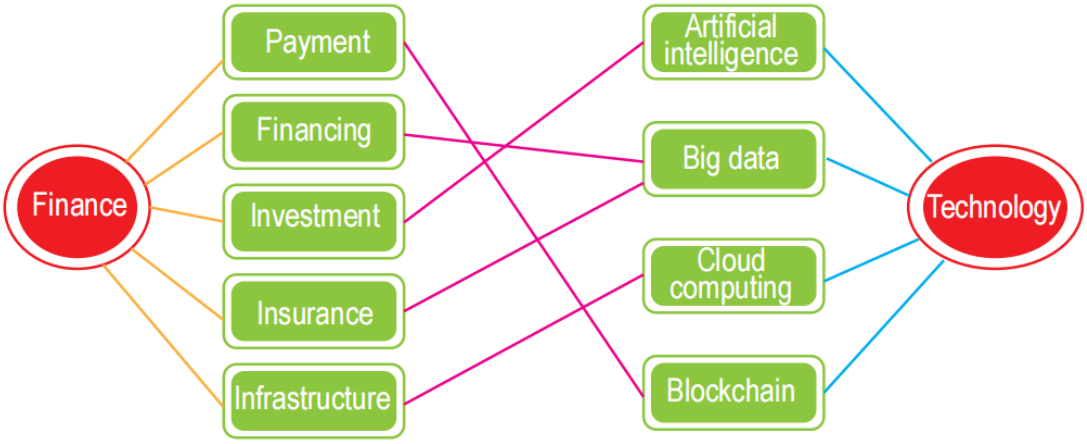

Figure 1. Connotation of financial technology [2]

2.2. Concept and Characteristics of Financial Risk

Financial risk refers to the losses that investors face when conducting financial transactions due to various uncertainties. Specifically, it includes market risk, credit risk, liquidity risk and other aspects. Among them, market risk mainly arises from fluctuations in stock prices and changes in interest rates; credit risk mainly arises from borrowers' failure to repay on time or malicious default; and liquidity risk mainly arises from insufficient cash and cash flow in the balance sheet to meet payment needs. These different types of financial risks are intertwined and interact with each other to form a complex and huge systemic financial risk. Hence, it is necessary and important to manage financial risks effectively.

Financial risks have several distinguishing features: firstly, they usually involve large amounts of money or property and can cause significant economic losses. Secondly, they often originate from unstable external environments, such as policy adjustments, natural disasters and other force majeure events. Thirdly, they are often difficult to predict and control as they evolve and expand over time. Finally, they need to be responded to and coped with promptly; otherwise, they will have serious consequences for the whole society.

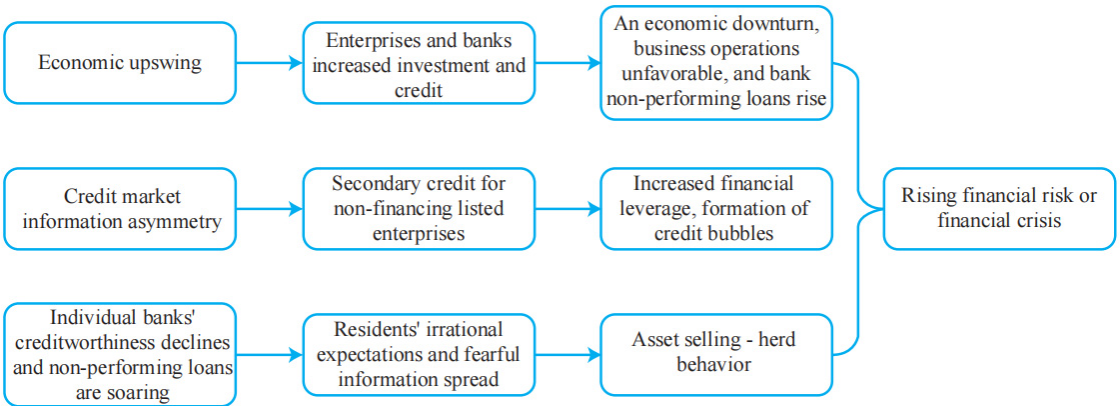

Figure 2. Transmission path of financial risks [3]

2.3. Impact of Financial Technology on Enterprises

Firstly, financial technology helps to improve the financing ability of enterprises. With the continuous innovation and application of financial technology, more and more financial institutions have started to adopt the Internet, artificial intelligence and other emerging technologies for business expansion and reform. These new technologies can help enterprises obtain more financial support and improve their credit ratings, thus increasing their chances of obtaining loans. In addition, financial technology can also provide enterprises with more convenient and efficient financing channels, such as crowdfunding platforms and P2P lending.[4]

Secondly, financial technology helps to improve the level of enterprise risk control. Financial technology has the characteristics of high automation and digitalization, which can effectively reduce manual operation links and avoid mistakes or fraud caused by human factors. In this way, enterprises will become more standardized and controllable when conducting various businesses, greatly improving their risk control capabilities.

Thirdly, financial technology helps improve the operational efficiency of enterprises. With the help of cloud computing, big data analysis and other technical means, enterprises can realize information sharing and resource integration, significantly shorten business processing time and improve work efficiency.

Fourthly, financial technology helps improve the quality of enterprise and customer service. Financial technology can use voice recognition, natural language processing and other technical means to provide users with a more humane and accurate service experience, enhancing customer viscosity and loyalty.

3. Primary Risks Faced by Enterprises in the Context of Financial Technology

3.1. Credit Risk

In the era of financial technology, information technology is widely used but also brings some new financial risks. Among them, the most prominent one is credit risk. With the continuous development of technological means such as the Internet and big data, financial institutions can assess the credit status of their customers by analyzing them in multiple directions and from multiple angles, thus better-controlling credit risks. However, this approach can also lead banks to rely excessively on the information provided by borrowers, which can easily lead to credit risk in case of information asymmetry or other reasons that prevent them from obtaining true and credible information. In addition, financial technology may also give rise to moral hazard issues, such as hacker attacks and system vulnerabilities that may cause leakage of users' personal privacy or loss of property, thus affecting the reputation and stability of the whole industry.

In addition, due to the highly complex and specialized characteristics of financial technology, the cooperation and synergy between different fields become increasingly close, and the phenomenon of cross-sector operation is increasingly common. At this time, if there is a lack of effective regulatory mechanisms and standardization criteria, it is easy for business crossover, risk transmission and even chain reaction to occur, bringing huge challenges to financial business.

3.2. Liquidity Risk

Under the traditional business model, enterprises usually spend large amounts of capital on production and investment

activities. As the global economy becomes more complex and changeable, enterprises must have more flexibility to cope with the ever-changing market competition. Therefore, they must have enough liquidity to meet these challenges. Suppose an enterprise fails to adapt to this trend and adjust accordingly. In that case, it will lead to problems such as its inability to meet customer demand and a decline in business volume, which in turn will lead to liquidity risk. In addition, financial technology also provides more financing channels for enterprises, such as equity crowdfunding and P2P lending, etc. Although these new financial businesses can help enterprises expand their scale and increase their revenue, there is also a certain risk of insufficient liquidity, which puts much pressure on the liquidity of enterprises.

3.3. Operational Risk

With the deepening integration of finance and technology, fintech profoundly impacts both financial services and financial risks. Additionally, as the technology carrier of FinTech, the underlying technologies will affect financial services from different dimensions, such as products, institutions, financial ecology, indirect impacts, and others, thereby leading to changes in financial risks.

However, the lack of proficiency or mistakes in mastering the new technologies leads to various problems in actual operation, which leads to operational risks. For example, in payment and settlement, a system failure or improper human operation may cause capital loss; in investment and finance, an improper choice of platform or incomplete information disclosure may also easily lead to investor dissatisfaction or even complaints. In addition, the financial industry itself is a highly complex and fast-changing field, so if there is any oversight or mistake in one link, it will bring immeasurable impact to the whole enterprise. Hence, how to effectively identify and control operational risks has become one of the current challenges urgently addressed.

3.4. Legal Risk

The rapid application of FinTech has also brought many challenges to the current financial supervision and financial legal system, which involves more legal risks.

For example, in the field of e-commerce, the lack of corresponding regulatory measures and imperfect consumer rights protection mechanisms have led to many disputes. Hence, enterprises must conduct a comprehensive analysis of their own environment and formulate corresponding coping strategies. Only in this way can they better avoid various potential legal risks and ensure the healthy and stable operation of the enterprise.

3.5. Compliance Risk

As a highly regulated industry, the financial industry must comply with all laws, regulations and rules. Especially in today's rapid development of financial technology, various new financial instruments and business forms are emerging. The enterprises must master the latest policies and regulations and study and apply them in a timely manner; otherwise, they will be easily punished by the regulatory authorities or lose market access.

4. How to Strengthen the Financial Risk Management of Enterprises in the Era of Financial Technology

4.1. Building an Enterprise Risk Management Framework

Enterprises shall establish a sound risk management framework in the financial technology era. Firstly, they need to conduct a comprehensive assessment and analysis of their internal enterprise to understand what potential risks they have and the degree of impact these risks may bring. Secondly, enterprises need to monitor and alert the external environment to identify new risks caused by external market changes, policy and regulatory adjustments, and other factors in a timely manner. Finally, corresponding countermeasures shall be taken for different types of risks to minimize losses. Specifically, this can be done in the following ways:

(1) Build a complete risk identification mechanism. Collecting internal and external information and a comprehensive analysis of the actual situation, to determine the various types of risks that may occur in each business process and their levels to provide the basis for subsequent risk control.

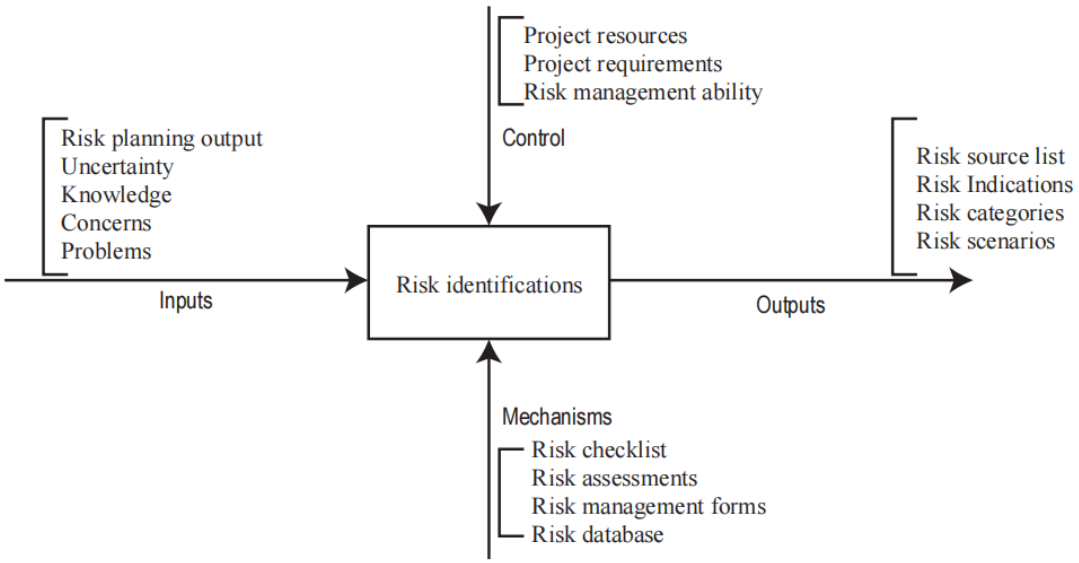

Figure 3. Enterprise risk identification mechanism [5]

(2) Build an efficient risk transmission channel. Use advanced technological means to realize information sharing and exchange to ensure that various departments can respond quickly and work in a coordinated manner. Concurrently, it

can also make use of big data analysis tools to dig deeper into the regularity features behind the data, predict future trends and development directions, and formulate contingency plans.

(3) Implement scientific and effective risk monitoring. Adopt various ways to track the risk status in real-time, including regular audit of financial statements, review of contractual agreements, and attention to industry trends, etc., to master the latest progress of risks in time to make better decisions.

(4) Develop specialized risk management personnel. An experienced risk management team is critical to ensuring the safety of the enterprise. Hence, enterprises shall strengthen the training of employees to make them more aware of the hazards of risks and take active measures to strengthen the control of risks.

4.2. Innovative Enterprise Risk Management Methodologies

With the current rapid development of financial technology, traditional risk management methods have failed to meet the needs of enterprises for risk control and prevention. Hence, there is a need to combine new technological means to innovate risk management models to better adapt to market changes. Specifically, we can start from the following aspects: firstly, to establish an intelligent risk control platform using emerging technologies such as big data and artificial intelligence to achieve real-time monitoring and warning; secondly, to ensure reliable information security through blockchain technology to prevent tampering or loss; thirdly, to adopt cloud computing technology for data analysis and processing to improve efficiency and reduce costs; fourthly, to use “Internet + thinking” to build a risk control system that integrates online and offline system to improve the risk identification ability and coping level. In addition, we shall pay attention to the introduction and training of talents to build a high-quality professional risk management team to provide strong support for sustainable and sound enterprise operations.

5. Conclusion

After elaborating on the connotation, types and impact of the enterprise's financial risk, the enterprise can form a comprehensive understanding of financial investment. Moreover, to effectively prevent and control their financial investment risks, enterprises must establish a sound financial investment risk control mechanism to minimize their financial investment risks. In addition, it is necessary to innovate the existing financial investment risk management concept, build an enterprise financial risk management system, and focus on the standardization of financial investment risks.

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