

Original Research Article

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Research on Compliance Risk Management in Commercial Banks

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Abstract: This paper focuses on compliance risk management in commercial banks, analyzing existing issues and strategies. Compliance risk is characterized by its endogeneity, concealment, and significant potential harm, with banks facing various compliance risks including legal, regulatory, and internal challenges. Currently, commercial banks grapple with issues such as weak compliance awareness, a lack of compliance culture, imperfect systems, and talent shortages. To optimize compliance management, it is essential to strengthen awareness by integrating compliance into strategy and management while enhancing employee training; foster a robust compliance culture through strategic planning, widespread dissemination, and promoting interdepartmental collaboration; refine the management system by establishing independent departments, updating policies, and utilizing technological tools for risk monitoring; and bolster talent development by recruiting, training, and implementing reasonable incentives to build a professional team. These measures aim to elevate banks' compliance management standards and ensure sustainable development.

Keywords: Commercial banks; Compliance risk; Risk management; Financial regulation

1. Introduction

Amidst the ongoing development and transformation of the financial industry, commercial banks, as key pillars of the economic system, must prioritize operational stability. Compliance risk management serves as the cornerstone of their sound operations, directly determining their ability to thrive in a complex and volatile market environment. With accelerated financial innovation and increasingly stringent regulatory requirements, commercial banks face ever more diverse and intricate compliance risks. However, many banks exhibit significant gaps in their compliance management frameworks, leading to frequent violations that not only result in financial losses but also severely damage their

reputations.

2. Overview of Compliance Risk Management

2.1. Definition and Characteristics of Compliance Risk

Compliance risk refers to the risk that commercial banks may face legal sanctions, regulatory penalties, significant financial losses, or reputational damage due to failure to comply with laws, rules, and standards. These laws, rules, and standards encompass legal and regulatory requirements applicable to banking operations, departmental regulations, operational rules, as well as industry guidelines, codes of conduct, and professional ethics established by self-regulatory organizations. Compliance risk exhibits the following



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distinctive characteristics: First, it is endogenous, primarily arising from the bank's own operational and management behaviors, closely related to internal system implementation and employee conduct, unlike credit risk or market risk which are mainly influenced by external factors. Second, it is concealed, often becoming apparent only some time after a violation occurs, making it difficult to detect initially, potentially hidden within daily business operations or internal management processes. Third, it is highly damaging; once compliance risk materializes, it impacts the bank in multiple ways, not only causing direct economic losses but also severely damaging the bank's reputation, reducing market trust, and affecting its long-term development.

2.2. Types of Compliance Risks Faced by Commercial Banks

Commercial banks face a diverse range of compliance risks, including but not limited to the following aspects: (1) Legal compliance risks: Commercial banks must adhere to laws and regulations covering finance, labor, environment, anti-corruption, and other areas. Failure to comply with anti-money laundering regulations, data protection laws, and similar requirements may result in legal sanctions and litigation risks. (2) Regulatory compliance risks: Regulatory authorities impose increasingly stringent requirements on commercial banks. Failure to meet standards related to capital adequacy, liquidity management, risk reporting, and other areas may lead to regulatory penalties and risks such as license revocation. (3) Internal compliance risks: Deficiencies in the formulation and implementation of internal systems and policies within commercial banks, such as inadequate internal controls or employee misconduct, can give rise to internal compliance risks.

2.3. Importance and Challenges of Compliance Risk Management

Compliance risk management is critically important for commercial banks. From the perspective of meeting regulatory requirements, compliance is a fundamental prerequisite for banks to conduct business. Only by adhering to regulatory provisions can banks operate normally and avoid legal sanctions and regulatory penalties^[1]. In terms of enhancing risk management capabilities, compliance risk management serves as

the foundation of a comprehensive risk management system. It is interconnected with credit risk, market risk, operational risk, and other types of risks. Effectively managing compliance risk helps reduce the probability of other risks materializing. At the same time, robust compliance management can strengthen a bank's market reputation, earn the trust of customers, investors, and regulatory authorities, and enhance the bank's competitiveness.

Compliance risk management also faces numerous challenges. First, financial innovation is continuous, with new financial products and business models emerging constantly. However, related laws, regulations, and regulatory rules often lag behind these developments, making it difficult for banks to accurately determine compliance boundaries when engaging in innovative businesses. Second, building a culture of compliance is challenging. Instilling a deep-rooted compliance mindset and making it a conscious behavior for all employees cannot be achieved overnight; it requires long-term promotion, training, and practice. Third, there is a shortage of compliance risk management professionals. Qualified compliance experts must be well-versed in financial operations while also possessing expertise in laws, regulations, and regulatory policies. Currently, such interdisciplinary talent is in short supply, which hampers the effective implementation of compliance risk management efforts.

3. Issues in Commercial Banks' Compliance Risk Management

3.1. Weak Awareness of Compliance Risk Management

In commercial banks, some members of management place excessive emphasis on the growth of business metrics and short-term economic benefits, while paying far too little attention to compliance risk management. When formulating business strategies, they often prioritize the speed and scale of business expansion while overlooking the potential threats posed by compliance risks. For example, when aggressively promoting credit card services, some banks have relaxed their standards for reviewing applicant qualifications in pursuit of higher card issuance volumes, failing to strictly adhere to relevant regulations regarding identity verification and credit assessment. This has created hidden risks for subsequent credit card fraud, malicious

overdrafts, and other issues. Frontline employees also face the issue of insufficient compliance awareness. On the one hand, some employees lack a thorough understanding of compliance policies and requirements; they are unclear about what constitutes a violation, making them prone to oversights and errors in their daily operations. On the other hand, some employees harbor a sense of complacency, believing that non-compliant actions may not be detected, and even if they are, they may not face severe penalties. As a result, they take risks for personal gain or to meet business targets.

3.2. Lack of Compliance Risk Management Culture

Although many commercial banks have proposed the concept of compliance culture, few have truly implemented it and integrated it into daily operations and employee behavior ^[2]. The development of compliance culture lacks systematic and sustained effort, often remaining at the level of slogans, documents, and training without forming deeply ingrained values and behavioral norms. Within banks, there is insufficient communication and collaboration among departments, failing to create an environment where all employees participate in and jointly advance compliance risk management. Business departments often view compliance management as the sole responsibility of the compliance department, focusing only on achieving business objectives while neglecting the prevention and control of compliance risks. Meanwhile, the compliance department, due to a lack of close cooperation with business departments, has limited understanding of compliance risks in business processes and practical operations, making it difficult to propose effective management measures. This fragmentation between departments prevents compliance risk management from functioning effectively.

3.3. Incomplete Compliance Risk Management System

(1) At the organizational level, the compliance management departments of some commercial banks lack sufficient independence. Some banks position the compliance department as a subordinate unit within the risk management or legal departments, making it susceptible to interference and constraints from

higher-level departments when performing its duties. This hinders independent and effective identification, assessment, and supervision of compliance risks. For example, when the compliance department investigates violations by business units, it may face pressure from senior management due to shared hierarchical oversight, preventing thorough investigations and timely exposure of compliance risks. (2) There are also shortcomings in system development. On one hand, some banks fail to update their compliance systems promptly, making it difficult to keep pace with rapidly evolving financial services and changing regulatory requirements. In the current era of rapid fintech development, emerging businesses such as online financial services and digital payments continue to emerge. If compliance systems do not promptly cover these areas, regulatory gaps in compliance risks may arise. On the other hand, existing systems have loopholes, with some provisions being too vague and lacking operability. This ambiguity in practical implementation can lead to inconsistent understanding of compliance requirements among employees, increasing the likelihood of non-compliant operations. (3) Methods for identifying, assessing, and monitoring compliance risks are outdated. Some commercial banks primarily rely on manual processes for compliance risk identification and assessment, lacking effective technological tools and data analysis methods. Additionally, the scope of compliance risk monitoring is limited, making it difficult to promptly detect potential compliance risks.

4. Optimization Strategies for Commercial Bank Compliance Risk Management

4.1. Strengthening Compliance Risk Management Awareness

Strengthening the awareness of compliance risk management is crucial for enhancing the compliance management level of commercial banks and is key to their stable development. Firstly, for management, it is essential to deeply understand the importance of compliance risk management and fully integrate the concept of compliant operations into the bank's strategic planning and daily management. When formulating long-term development strategies, regulatory policies and legal requirements must be thoroughly considered to ensure that business layouts

are lawful and compliant. For instance, when expanding into emerging financial businesses, conducting in-depth research on legal gaps or ambiguous areas in advance can prevent compliance risks arising from reckless expansion. Establishing a comprehensive accountability system for compliance risk management, with clearly defined responsibilities and authorities for management at all levels, is imperative ^[3]. In the event of violations, accountability must be strictly enforced in accordance with the system to serve as a deterrent, ensuring that management always prioritizes compliance in decision-making. Secondly, for employees, strengthening compliance training and education is urgent. This can be achieved by organizing lectures on compliance knowledge to systematically explain various compliance policies and business norms; conducting case studies that use actual violation incidents as starting points to analyze the causes, consequences, and preventive measures of non-compliant behavior; and implementing warning education to demonstrate the severe damage that violations cause to personal career development and the bank's reputation. These multidimensional approaches will enhance employees' awareness and ability to prevent compliance risks.

4.2. Cultivating an Excellent Compliance Risk Management Culture

(1) Develop a compliance culture construction plan. Commercial banks should conduct an in-depth analysis of their business characteristics, organizational structure, and workforce conditions to tailor a long-term compliance culture construction plan. Define objectives for different stages, such as enhancing employees' awareness of compliance in the short term, integrating compliance concepts into business processes in the medium term, and fostering a cultural atmosphere where all employees consciously practice compliance in the long term. Based on these objectives, develop detailed tasks, including regularly conducting compliance training, reviewing and improving compliance systems, and implementing specific measures such as establishing a dedicated fund for compliance culture construction to support activities. Actively organize events like compliance culture essay contests and compliance knowledge competitions to stimulate employee participation and create a strong compliance culture atmosphere.

(2) Strengthen the dissemination and promotion of compliance culture. Fully utilize diverse channels such as the bank's internal website, bulletin boards, and WeChat official accounts to regularly publish content like compliance policy interpretations and case analyses, disseminating compliance culture concepts and knowledge in an accessible manner. Highlight exemplary compliance models by recognizing and publicizing departments and individuals who excel in compliance work, sharing their experiences and practices to leverage the demonstrative and leading role of role models. Guide all employees to actively learn from them and proactively practice compliance culture.

(3) Promote communication and collaboration among departments. Establish and improve a cross-departmental compliance risk management coordination mechanism, clarifying the division of responsibilities among business departments, compliance departments, risk management departments, audit departments, and others in compliance management. Regularly hold joint meetings on compliance risk management with participation from all departments to discuss compliance issues encountered in business operations, brainstorm solutions, break down departmental barriers, and form a synergistic effort in compliance management to collectively advance the bank's compliance culture construction.

4.3. Improve the Compliance Risk Management System

First, establish an independent compliance management department that reports directly to the board of directors or senior management, freeing it from undue interference by other departments to ensure the independence and authority of compliance management. Clearly define the responsibilities of the compliance management department, such as formulating compliance policies, supervising the implementation of systems, and conducting risk assessments. Set up compliance officers in each business department to be responsible for the daily compliance management of their respective departments and to regularly report to the compliance management department. These compliance officers, being deeply embedded in the front lines of business, can promptly identify potential compliance issues, forming a coordinated and collaborative compliance

risk management network with the compliance management department to enhance the efficiency of risk prevention and control.

Second, as financial markets evolve and regulatory requirements are updated, commercial banks must promptly revise and improve their systems. Regularly review existing systems and adjust content that no longer meets regulatory requirements or business development needs. Strengthen compliance research on emerging and complex businesses such as fintech and green finance, conducting in-depth analysis of business characteristics and risk points to develop detailed and actionable compliance rules and processes.

Finally, leverage advanced technological tools such as big data and artificial intelligence to establish a compliance risk monitoring and early warning system. Through real-time analysis of vast amounts of business data, potential compliance risk points can be quickly and accurately identified. For example, by using big data to analyze customer transaction behaviors, the system can automatically issue alerts upon detecting abnormal fund flows, prompting the compliance management department to conduct further investigations. Additionally, construct scientific risk assessment models to quantitatively evaluate identified risks, determine risk levels, and implement corresponding prevention and control measures based on the degree of risk, such as risk warnings, business suspensions, or rectification requirements. This approach helps control compliance risks in their nascent stages, ensuring the stable operation of commercial banks.

4.4. Strengthening the Development of Compliance Risk Management Talent Teams

Talent is the core element of commercial banks' compliance risk management, making it urgent to strengthen the talent development system. First, through campus recruitment, outstanding fresh graduates specializing in law, finance, risk management, and related fields should be attracted. Their dynamic thinking and up-to-date knowledge can inject new vitality into the compliance management team^[4]. Second, a talent cultivation mechanism should be established, including regular professional training for compliance management personnel. Industry experts and regulators should be invited to deliver

lectures covering topics such as the latest regulatory interpretations and compliance requirements for complex business operations. Compliance staff should be encouraged to participate in various learning and exchange activities, such as industry seminars and academic forums, to broaden their horizons and stay informed about industry trends. Support should be provided for employees to pursue relevant professional qualifications, such as Certified Compliance Officer or Financial Risk Manager, to enhance their expertise, obtain authoritative certifications, and strengthen their competitiveness in the compliance field. Finally, a reasonable compensation system aligned with market standards should be established. Performance evaluations should define key indicators, with rewards such as bonuses and certificates of honor for top performers. Opportunities for promotion and job rotation should be offered to encourage talent to play a greater role, fostering mutual growth for both individuals and the bank.

5. Conclusion

In summary, compliance risk management in commercial banks is a long-term and challenging task. Despite numerous challenges, the implementation of a series of optimization strategies—such as strengthening compliance awareness, fostering a compliance culture, improving management systems, and enhancing talent development—can effectively elevate the compliance management standards of commercial banks. This not only helps banks meet regulatory requirements and mitigate various risks but also enhances their market credibility and competitiveness. As the financial industry continues to evolve, commercial banks should remain vigilant to dynamic compliance risks, continuously refine their management strategies, and adapt to new market environments and regulatory demands. This ensures their sustained development on a stable trajectory and contributes to the stability and prosperity of the financial market.

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