CHINA: Financial sector anti-corruption purge reflects systemic risk concerns

- Anti-corruption authorities have arrested dozens of senior bankers and financial regulators in recent months, following a broad investigation into the financial sector last year.
- The focus on the financial sector probably reflects President Xi Jinping's conception of "financial security" as essential to national security; recent financial scandals demonstrate how isolated acts of corruption can create systemic risk.
- China Construction Bank and Everbright Group are under particular scrutiny, and rumors are circulating about whether the investigation is targeting associates of Wang Qishan, a former top leader.

Chinese anti-corruption authorities have targeted dozens of financial industry executives and regulators for investigation, arrest, and punishment in recent months. The key background to the latest anti-corruption purge is the broad-ranging investigation into the financial sector that the Communist Party's anti-corruption agency, the Central Commission for Discipline Inspection (CCDI), formally launched last October. That investigation included both regulatory agencies and financial institutions. In February, CCDI announced the results of its investigation, which included harsh public criticism. The recent arrests and punishments of specific individuals appear to be follow-on actions from that broader investigation.

In choosing the targets of its investigations, CCDI ostensibly rotates between various industry sectors and their corresponding party-state agencies. The relevant Chinese term is ## (*xun2shi4*), which translates as "inspection tour," reflecting a Maoist-Leninist, permanent-revolution mentality according to which anti-corruption is a never-ending, iterative process. From that perspective, last year's inspection of the financial sector was not necessarily a response to specific problems. CCDI had previously targeted other sectors, and it is possible that by last year, the financial sector's turn on the hot seat had arrived.

Threats to "financial security"

However, there are probably more specific reasons why CCDI chose to focus on the financial sector. President Xi Jinping has explicitly linked "financial security" to national security, and a series of financial scandals in recent years has apparently persuaded top leaders that corruption in the financial sector poses special risks. The first of these was the stock market boom-bust cycle in 2015, which forced the government to spend hundreds of billions of dollars on a market bailout and sparked capital flight that threatened the stability of the renminbi.

Then came the rise and fall of Anbang and HNA Group. Both companies apparently received extraordinary support from state-owned banks and financial regulators, enabling them to pursue risky, debt-fueled business models that were off-limits to other institutions. The collapse of these companies posed systemic financial risks, due to their size and interconnectedness with the state banking system. Finally, the collapse of Huarong amid corruption by its former chairman, Lai Xiaomin, made a big impression on the leadership, according to sources, because it similarly demonstrated how relatively isolated acts of corruption could create systemic financial risk.

The wind-down or restructuring of these companies is now largely complete, and top executives are in jail or dead, but the pursuit of accountability for their patrons in government and state banks may still be ongoing.

Specific institutions at risk

Recent actions include an investigation into the former president of China Merchants Bank, Tian Huiyu, by the National Supervisory Commission (NSC), the state anti-corruption agency formed in 2018. The NSC and CCDI are effectively a single agency, but the 2018 law that created the NSC extended CCDI's authority beyond party members.

Another action was the arrest of Zeng Changhong, a former senior official at the China Securities Regulatory Commission, by China's top prosecutor, weeks after CCDI placed her under investigation for accepting bribes. Zeng had authority to authorize initial public offerings (IPOs) under China's tightly managed IPO approval mechanism.

Among financial institutions, Everbright Group (which includes Everbright Bank and Everbright Securities) and China Construction Bank (CCB) are under particular scrutiny. Six members of Everbright Securities' internal party committee have recently faced punishment, including former board chairman and party secretary Yan Jun. At CCB, multiple executives have faced investigation this year, including the presidents of the Shenzhen and Inner Mongolia branches.

Scrutiny of CCB has raised questions about whether the investigation may be targeting associates of Wang Qishan, who served on the Politburo Standing Committee and as party secretary of CCDI until 2017. During Xi's first term as party secretary, Wang led Xi's signature anti-corruption campaign and was viewed as China's second most powerful man. He also has deep ties to the financial sector, having served as vice premier in charge of financial policy in 2008-13. Tian served Wang's secretary when Wang was president of China Construction Bank in the 1990s. Unsubstantiated rumors about Wang's links to HNA have circulated for years. Wang remains unlikely to face punishment, but the recent investigations probably weaken his influence and those of his faction.

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