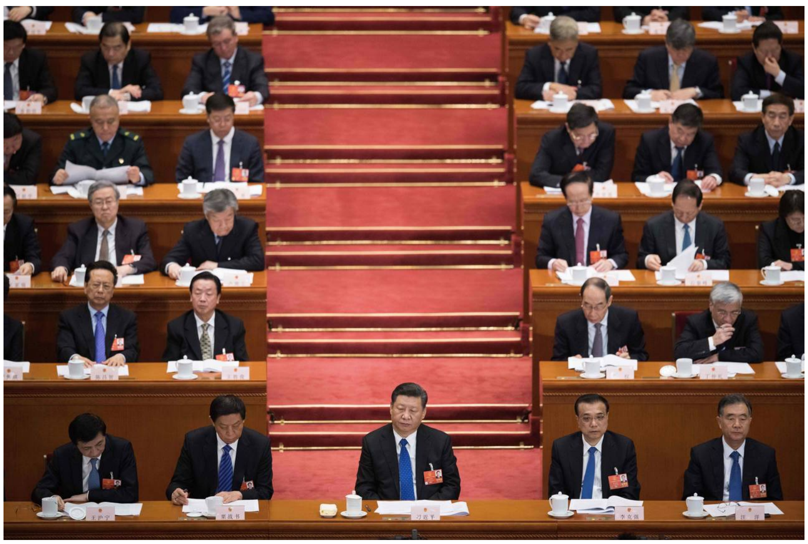
CHINA

Risk Strategy: China Rolls Dice With New Megaregulator

Xi Jinping aims to mend oversight of banking, insurance as debt threatens economy



China's President Xi Jinping, front and center at the National People's Congress session in Beijing on Tuesday, ordered a revamp of regulators after a series of government missteps. **PHOTO:** NICOLAS ASFOURI/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Lingling Wei and Chao Deng

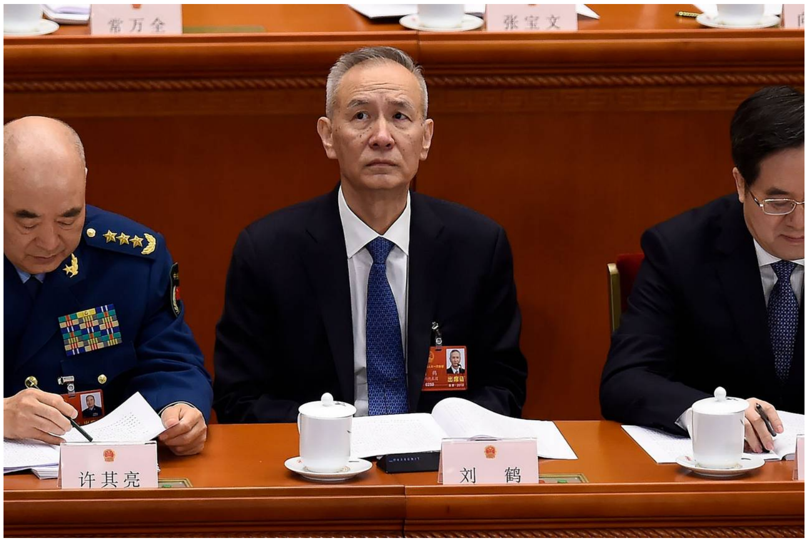
Updated March 13, 2018 9:08 p.m. ET

BEIJING—China's overhaul of its financial and business regulators will give the country's leadership more punch in its top-priority battle to fend off deep-seated risks in the banking system and overall economy.

Under a plan reviewed by China's legislature on Tuesday, the separate agencies that oversee the country's banks and insurance companies will be combined into a new commission to "ensure the nation's financial safety."

The central bank will then set overall rules for the banking and insurance industries, leaving supervision of individual firms to the combined commission.

that at times has been fragmented and has failed to get a handle on risks from rising debt and new financial products, according to officials involved in policy-making.



Liu He, the National People's Congress delegate shown here in Beijing on March 5, has been President Xi's top economic adviser and will become China's financial "superregulator," officials involved in policy-making said. **PHOTO:** WANG ZHAO/AGENCE FRANCE-PRESSE/GETTY IMAGES

A broader reorganization effort will place the newly combined banking-insurance regulator, the top securities watchdog and the central bank under a cabinet-level committee formed last year, according to these officials.

Liu He, President Xi Jinping's top economic adviser who is expected to be named vice premier, will head the committee, becoming China's financial "super-regulator," the officials said.

The overhaul also gives more teeth to regulators charged with managing competition, commerce and other swaths of economic life. A new market regulatory agency subsumes the pricing authority and antimonopoly enforcement held by other departments and takes over safety for products, food and drugs. A reconstituted health commission will more squarely focus on health care and policies for an aging society while a new natural resources ministry will manage mineral, ocean, forestry and other land resources.

The shake-up is "very necessary. This has broken through the previous balance, the previous vested interests and the previous regulatory fragmentation," Ma Li, an adviser to the cabinet, the State Council, told reporters.

As the juggernaut Chinese economy began to lose steam in recent years, problems that emerged have pushed controlling financial risks to the top of Mr. Xi's economic agenda.

> Debt is piling up at companies, government-backed entities and households and now reaches 265% of China's GDP, according to estimates by analysts at Macquarie Group.

securities industries have exacerbated problems. Regulatory gaps allowed high-yield, risky investments—often repackaged debt—marketed to ordinary investors to flourish; one purveyor, Anbang Insurance Group Co., was seized by regulators last month.

Policy missteps, such as badly timed stabilization measures and a poorly communicated currency revaluation, fed stock market turmoil in 2015 and 2016—and prompted Mr. Xi to order the regulatory revamp.

To control risks, authorities have made it harder for money to leave China, cracked down on private conglomerates that piled on debt for overseas investments, squeezed the interbank market and other financing channels for financial firms and tightened approvals for companies seeking public listings.

Along the way, Beijing has struggled to reconcile two often incompatible goals: encouraging open markets as a source of capital, while controlling them to produce desired outcomes.

"China is grappling with something that almost every country grapples with," said Eswar Prasad, a Cornell University professor and former China head for the International Monetary Fund. "That is, what is the right degree of centralization and unification of financial regulation?"

The debate in China has parallels to regulatory shake-ups in the U.S. and Europe following the global financial crisis. In the U.S., for instance, while the Federal Reserve oversees banks and large financial institutions, other agencies hold sway over different parts of the financial industry. A new entity formed in 2010 to improve coordination, the Financial Stability Oversight Council, is under fire from the financial industry for excessive regulation.

China's new cabinet-level group, called the Financial Supervision and Development Committee, is supposed to play the role of regulatory traffic cop. Headed by Mr. Liu, the committee will be

A look at China's restructuring of government agencies.

- COMBINED: Separate banking and insurance regulators will be merged into a single agency to better fend off risks in the country's financial system.
- SET UP: A national market regulatory administration with sweeping responsibilities will incorporate functions of a half-dozen offices to oversee business competition and practices, from corporate and antitrust regulation to pricing and food safety.
- RETOOLED: A National Health Commission, with responsibilities over public health issues, is replacing the National Health and Family Planning Commission, de-emphasizing government-set birth limits and refocusing policy for an aging society.
- REVAMPED: A beefed-up environment ministry will add to its environmental-protection mission, taking on antipollution and conservation functions currently spread across six other agencies.
- MERGED: The Culture Ministry with the national tourism administration, in a push to develop and promote Chinese culture, and enhance China's soft power.

ised of senior officials from other regulatory bodies, according to the officials involved in policy-making.

"We'll see more synergies and more policy coordination," said Liao Qiang, a Standard & Poor's analyst.

China's leadership considered combining all the banking, insurance and securities regulators under one roof, but ditched that idea after strong pushback from officials in the agencies unwilling to cede turf, according to the officials involved in policy-making and other people familiar with the process.

The insurance regulatory agency became an easier target after its chairman was put under investigation last year for possible corruption charges. Since then, the agency has been functioning without a chairman.

"It's possible they don't have the political muscle to resist a merger," said Victor Shih, an associate professor of political economy at the University of California, San Diego.

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The combined China Banking and Insurance Regulatory Commission will oversee 262 trillion yuan ($41.43 trillion) in assets—about three times the size of the Chinese economy—including 245.8 trillion yuan in banking and 16.6 trillion yuan in insurance.

stability, like insurer Anbang, is needed to safeguard overall financial stability, many analysts said.

Given that banks and insurance companies represent the biggest source of funds to the financial markets, it makes sense to combine supervision into one regulatory body, said Zhang Ming, a senior economist at the Chinese Academy of Social Sciences, a government think tank.

—Grace Zhu contributed to this article.

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Appeared in the March 14, 2018, print edition as 'Beijing Targets Risk With Overhaul of Bureaucracy.'