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Bankers' remuneration and political incentives in Chinese state-owned commercial banks: regulation and practice

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ABSTRACT

In the aftermath of the Global Financial Crisis (GFC), the regulatory tightening of bankers' remuneration has become an essential part of the reform of banking regulation in global financial markets. With reference to these international principles and standards, China has also launched a regulation-guided reform to promote the modernisation of bankers' remuneration. This article provides the first empirical analysis of the regulation and practice of bankers' remuneration and incentives in China's state-owned commercial banks (SOCBs). The empirical evidence shows that the regulation has not been effectively implemented. Instead, the traditional politicised and administrative approach, which prioritises political incentives over market-oriented remuneration, remains predominant.

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KEYWORDS Bankers' remuneration; political incentives; state-owned banks; China; regulation

I. Introduction

In major advanced markets, the practice of bankers' remuneration before the GFC was deemed to be one of the factors that contributed to the banking crisis.¹ As a result, tightening the regulation of bankers' remuneration has become an essential component of the post-crisis overhaul of banking regulation. At the international level, the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB) have established core principles

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¹Financial Stability Forum (FSF), Principles for Sound Compensation Practices (April 2009) 1; International Monetary Fund (IMF), Global Financial Stability Report: Risk Taking, Liquidity, and Shadow Banking – Curbing Excess While Promoting Growth (October 2014) <<http://www.imf.org/en/Publications/GFSR/Issues/2016/12/31/Risk-Taking-Liquidity-and-Shadow-Banking-Curbing-Excess-While-Promoting-Growth>> accessed 5 April 2018, 105; Financial Services Authority, The Turner Review: A Regulatory Response to the Global Banking Crisis (March 2009) <http://www.fsa.gov.uk/pubs/other/turner_review.pdf> accessed 5 April 2018, 79.

and implementation standards of remuneration practice,² so as to guide national regulators to reform and regulate bankers' remuneration.³

However, these international principles and standards are targeted primarily at the problems in advanced markets, where the financial industries are highly marketised. In many emerging economies, the reforms of financial marketisation are still at a transitional stage. Their financial systems and the corporate governance mechanisms of financial institutions can diverge from those in advanced markets. Accordingly, the systems of bankers' remuneration and incentives may also be different.

China is one of the leading emerging markets,⁴ and home to many top-ranking commercial banks in the world.⁵ However, it is widely acknowledged that the Chinese banking sector is unique and different from those of advanced financial markets.⁶

Compared to advanced markets, political intervention in the Chinese banking sector has always been more penetrating, more frequent and more complex.⁷ Before the GFC, Chinese SOCBs had just accomplished their transformations to shareholding corporations and IPOs. However, at that stage, the management of top bankers, including the appointment, remuneration, incentives, promotion, transfer and dismissal, remained untouched by reforms. Instead, bankers were still managed by the government and the Chinese Communist Party (CCP) through a politicised and administrative approach,⁸ acting as a channel of political intervention and government control.⁹

²The regulations at the international level include: BCBS, Compensation Principles and Standards Assessment Methodology (January 2010); FSF, Principles for Sound Compensation Practices (ibid); FSB: Principles for Sound Compensation Practices: Implementation Standards (September 2009). FSB was established in April 2009, as the successor of FSF.

³For instance, according to the international principles and standards, the Financial Conduct Authority (FCA) in the UK has made substantial changes to its Handbook to incorporate sophisticated provisions in relation to bankers' remuneration. See the FCA Handbook, SYSC 19D. In the US, the Wall Street Reform and Consumer Protection (Dodd-Frank) Act, which was enacted in 2010, has also mandated far-reaching and strict requirements, in order to control executive remuneration in banks and other financial institutions. See Dodd Frank Act, Section 951–957.

⁴According to the data on GDP growth provided by the IMF, in the post-GFC decade, China and India have taken the lead among all emerging market economies. See IMF, 'Real GDP Growth: Annual Percent Change' <http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD> accessed 5 March 2018.

⁵From 2015 to 2017, the world's top four banks by assets were all Chinese. The data is available at 'Banks Around the World' <<https://www.relbanks.com/worlds-top-banks>> accessed 5 March 2018.

⁶Yu Chen and Yufei Wang, 'The Efficiency of China's Banking Industry and the Determinants' (2015) 29 *International Economic Journal* 631, 632.

⁷Sebastian Heilmann, 'Policy-making and Political Supervision in Shanghai's Financial Industry' (2005) 14 *Journal of Contemporary China* 643, 645.

⁸Violaine Cousin, *Banking in China* (2nd edn, Palgrave Macmillan 2011) 27; Katharina Pistor, 'The Governance of China's Finance' in Joseph Fan and Randall Morck (eds), *Capitalising China* (University of Chicago Press 2012) 35, 42.

⁹Yingyi Qian, 'Reforming Corporate Governance and Finance in China' (1994) Economic Development Institute of The World Bank Working Paper No. 16290 <<http://documents.worldbank.org/curated/en/660761468025477232/pdf/multi-page.pdf>> accessed 21 July 2018, 9.

After the GFC, Chinese banks have had more opportunities to expand their overseas businesses and to play a greater role in global financial markets. The Chinese regulators have also been aware of the necessity to push for further reforms towards financial modernisation.¹⁰ A central task for the regulators is to cultivate the spirit of modern corporate governance, including a market-oriented system of remuneration incentives.¹¹

Before the GFC, the remuneration system in western markets, which relied predominantly on equity-based incentives, was regarded as the ideal model for enhancing corporate governance efficiency. However, the problems exposed during the GFC demonstrated that the system was not efficient in maintaining financial stability. In the context of the post-crisis regulatory reform of bankers' remuneration in global financial markets, the task for Chinese regulators is to guide banks to adopt a modern system of remuneration incentives, and at the same time, to regulate their reforming practice to guard against the problems that occurred in advanced markets.¹² In 2010, the Chinese banking regulators established a regulatory framework, including advanced measures based on international principles and standards, as well as special rules for the reforms of SOCBs.

After the GFC, there have been constant and extensive academic discussions on the regulation of bankers' remuneration in advanced markets. In stark contrast, the regulation and practice of bankers' remuneration in the Chinese banking sector has been paid very little attention, despite the rising financial power and the important position of Chinese SOCBs. Thus, this article is an attempt to fill the research gap by undertaking the first empirical study of bankers' remuneration in Chinese SOCBs.

This article has seven sections. Section II discusses the traditional politicised and administrative approach of remuneration and incentives, with an emphasis on its impact on the businesses and decision-making mechanisms of SOCBs. Section III introduces and analyses the regulation of bankers' remuneration. Section IV empirically examines the level and structure of bankers' remuneration of SOCBs and assesses the implementation of the regulation. Section V examines the impact of the politicised and administrative approach since the regulations came into force. Based on the empirical evidence obtained in Section IV and V, Section VI summarises and analyses the achievements or failures of the regulatory reform of bankers' remuneration. Section VII is the conclusion.

¹⁰CBRC, *The Guidance on the Implementation of New Regulatory Standards in the Chinese Banking Industry* (No.44, 2011); CBRC Annual Report 2010, 30.

¹¹Xiaochuan Zhou: Listing Is Not the Ultimate Purpose to Reform SOCBs' *People.cn* (9 November 2004) <<http://www.people.com.cn/GB/jingji/1040/2974517.html>> accessed 11 March 2017.

¹²CBRC Managers Responded the Media About the Regulatory Guidelines on Sound Remuneration in Commercial Banks' *The PRC Government website* (10 March 2010) <http://www.gov.cn/zwhd/2010-03/10/content_1552368.htm> accessed 26 July 2017.

II. The operation of the politicised and administrative incentive mechanism

1. The political intervention in SOCBs' businesses

Government ownership of banks is pervasive around the world.¹³ However, it is overwhelmingly considered a negative influence on banks' efficiency and economic growth.¹⁴

In China, the financial system is always dominated by SOCBs. In the last two decades, many scholars have continuously pointed out and proven the inefficiency of SOCBs, from different perspectives. Empirical studies have found that in terms of both cost and profit efficiency, Chinese SOCBs are outperformed by foreign banks, domestic joint-stock commercial banks (JSCBs) and private banks.¹⁵ Namely, SOCBs need to spend more to achieve the same-level outputs, whereas they produce less under the same input conditions. Further, it has also been shown that inefficiency is a persistent, rather than a transient problem for Chinese SOCBs.¹⁶ Thus, there are institutional reasons for this inefficiency.

While there are multiple determinants of banks' efficiency, including both bank-specific and macroeconomic factors, the quality of corporate governance, especially the managerial decision-making mechanism, is of great importance.¹⁷

The mainstream academic standpoint is that state-owned enterprises (SOEs) are subject to intensive political and administrative intervention. The

¹³Rafael La Porta and others, 'Government Ownership of Banks' (2002) 57 *The Journal of Finance* 265, 265.

¹⁴This argument has been supported by a great number of empirical studies. For example, see *ibid*; see also John P. Bonin and others, 'Privatisation Matters: Bank Efficiency in Transition Countries' (2005) 29 *Journal of Banking and Finance* 2155; John P. Bonin and others, 'Bank Performance, Efficiency and Ownership in Transition Countries' (2005) 29 *Journal of Banking and Finance* 31; James R. Barth and others, 'Banking Systems Around the Globe – Do Regulation and Ownership Affect Performance and Stability?' (2000) The World Bank Policy Research Working Paper 2325 <<http://documents.worldbank.org/curated/en/295671468779405439/pdf/multi-page.pdf>> accessed 15 August 2018, 31; Paola Sapienza, 'The Effects of Government Ownership on Bank Lending' (2004) 72 *Journal of Financial Economics* 357; Marcia Millon Cornett and others, 'The Impact of State Ownership on Performance Differences in Privately-owned Versus State-owned Banks: An International Comparison' (2010) 19 *Journal of Financial Intermediation* 74.

¹⁵Allen N. Berger and others, 'Bank Ownership and Efficiency in China: What Will Happen in the World's Largest Nation?' (2009) 33 *Journal of Banking and Finance* 113; Xiangning Wang, 'The Influence of the Market Power of Chinese Commercial Banks on Efficiency and Stability' (2014) 4 *China Financial Review International* 307; Xiaoqing Fu and Shelagh Heffernan, 'Cost X-efficiency in China's Banking Sector' (2007) 18 *China Economic Review* 35; Subal C. Kumbhakar and Dan Wang, 'Economic Reforms, Efficiency and Productivity in Chinese Banking' (2007) 32 *Journal of Regulatory Economics* 105.

¹⁶Zuzana Fungacova and others, 'Are Chinese Big Banks Really Inefficient? Distinguishing Persistent from Transient Inefficiency' (2010) <<https://www.aeaweb.org/conference/2018/preliminary/paper/S3tk5AyH>> accessed 31 July 2018.

¹⁷Alicia García-Herrero and others, 'What Explains the Low Profitability of Chinese Banks?' (2009) Bank of Spain Working Paper Series No. 0910 <<https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/PublicacionesSeriadas/DocumentosTrabajo/09/Fic/dt0910e.pdf>> accessed 31 July 2018, 11.

involvement of politics and bureaucracy impairs the efficiency of the decision-making process and managerial operation.¹⁸ Moreover, the government imposes non-commercial tasks on SOEs, resulting in less autonomy in pursuit of economic profit and business development.¹⁹

In Chinese SOCBs, a typical embodiment of the inefficiency is the burden of policy loans, and the consequential accumulation of non-performing loans (NPLs).

Policy loans are the loans extended at the behest of the government authorities at the central and local levels rather than as a result of normal decision-making in commercial banks.²⁰ Prior to the corporatisation reforms launched in 2003, the majority of SOCBs remained wholly state-owned. The government interfered heavily in the credit and lending decisions of SOCBs, compelling them to play a significant role in supporting industrial and economic reforms.²¹ As a result, SOCBs had to provide loans to government-favoured projects undertaken by SOEs.²² Empirical evidence demonstrates that SOEs, even with fewer guarantees while higher risks, could still obtain more loans from SOCBs than other enterprises.²³ However, those SOEs that received more and longer bank loans performed worse than others, meaning that the policy loans were inefficient.²⁴ Furthermore, policy loans were often used to support loss-suffering and unprofitable SOEs, notwithstanding the higher propensity to default.²⁵ Sometimes, these SOEs had already defaulted on their previous bank loans. To maintain their operations and prevent them from bankruptcy, SOCBs had to roll over the loans.²⁶ According to statistics, in the mid-1980s and mid-1990s, policy loans constituted one-fifth and one-third of total bank loans respectively.²⁷

¹⁸Deqiang Liu and Keijiro Otsuka, 'A Comparison of Management Incentives, Abilities, and Efficiency Between SOEs and TVEs: The Case of the Iron and Steel Industry in China' (2004) 52 *Economic Development and Cultural Change* 759, 775.

¹⁹Justin Yifu Lin and Guofu Tan, 'Policy Burdens, Accountability, and the Soft Budget Constraint' (1999) 89 *American Economic Review* 426, 429.

²⁰Nicholas R. Lardy, *China's Unfinished Economic Revolution* (Brookings Institution 1998) 83.

²¹M.J. Gordon, 'Is China's Financial System Threatened by Its Policy Loans Debts' (2003) 14 *Journal of Asian Economics* 181, 182; Robert Cull and Lixin Colin Xu, 'Bureaucrats, State Banks, and the Efficiency of Credit Allocation: The Experience of Chinese State-owned Enterprises' (2000) 28 *Journal of Comparative Economics* 1, 6.

²²Lardy (n 20) 86.

²³Minggui Yu and Hongbo Pan, 'Government Intervention, Legal Enforcement, Financial Development and Bank Loans to State-owned Enterprises' (2008) 339 *Journal of Financial Research* 1, 3; Fengxiang Qin and Ziqin Li, 'Governmental Intervention and The Quality of Bank Assets' (2013) 160 *Journal of Agricultural Bank of China Wuhan Training College* 35, 38.

²⁴Minggui Yu and Hongbo Pan, 'Government Intervention, Legal Enforcement, Financial Development and Bank Loans to State-owned Enterprises' (ibid) 3.

²⁵Jianbo Lou, 'China's Bank Non-Performing Loan Problem: Seriousness and Causes' (2000) 34 *The International Lawyer* 1147, 1167.

²⁶ibid1170; Songguo Li and Yuefei Zhang, 'The Trade-off Between Cost and Profit and the Behavioural Choice Under Interest Gaming: The Analysis on the Formation of the NPLs in SOCBs and the Solutions' (2003) 1 *The Financial Forum* 10, 12.

²⁷Lardy (n 20) 86.

A further problem was that government-favoured projects and the operations of SOEs might not be profit-oriented. In the context of economic opening and marketisation, many SOEs suffered tremendous losses and accumulated huge outstanding loans,²⁸ resulting in huge amounts of NPLs in SOCBs. In the late 1990s, the ratio of NPLs in Chinese SOCBs was above 40%,²⁹ making the banks technically insolvent.³⁰ Eventually, the Chinese government had to inject capital to remove the NPLs from the SOCBs' balance sheets.³¹

After the removal of NPLs, the SOCBs accomplished a flurry of modernising reforms. By 2009, all SOCBs became modern listed corporations. Nevertheless, the state-owned character of SOCBs remains, and they have still been required to assume substantial policy burdens, either explicit or implicit.³² For instance, in order to cope with the GFC, the Chinese government launched a series of economic stimulus plans, such as mega-projects of infrastructure construction and health and cultural development projects.³³ Nearly half of the stimulus funding was allocated to bank lending.³⁴ In their annual reports, SOCBs also announced that they made adjustments to their credit policies, so as to support the projects for the economic stimulus strategy.³⁵ Although investing in national strategic projects will not necessarily lead to bad loans or losses, it demonstrates that the SOCBs have still prioritised government policies over profitability. In fact, in recent years, the NPL ratios of SOCBs have been continuously increasing,³⁶ which should to a large extent be attributed to the credit preference for the economic stimulus plans.³⁷

In China, the state-owned character is always explained as the primary reason for the incline of SOCBs' credit policies to government-favoured

²⁸According to statistics, in the late 1990s, around 40% SOEs in China were losing money. See Chlarles Booth, 'The 2006 PRC Enterprise Bankruptcy Law: The Wait Is Finally Over' (2008) 20 *Singapore Academy of Law Journal* 275, 278.

²⁹John Wong, *Zhu Rongji and China's Economic Take-off* (Imperial College Press 2016) 223.

³⁰Nicholas R. Lardy, 'The Challenge of Bank Restructuring in China' in The Bank for International Settlements (eds), 'Strengthening the Banking System in China, Issues and Experience' (1999) Bank for International Settlements Policy Paper Series No. 7 <<https://www.bis.org/publ/plcy07.htm>> accessed 19 December 2017 17, 31.

³¹Jiangfeng Li, 'Non-performing Loans and Asset Management Companies in China: Legal and Regulatory Challenges for Achieving Effective Debt Resolution and Recovery' (2013) 1 *PKU Transnational Law Review* 85, 122.

³²Qin and Li (n 23) 38.

³³The Ten Measures for Boosting Domestic Demand and Stimulating Economic Development' *www.Gov.cn* (10 November 2008) <http://www.gov.cn/jrzq/2008-11/10/content_1143831.htm> accessed 1 August.

³⁴The World Bank, 'Supporting China's Infrastructure Stimulus Under the INFRA Platform' *World Bank INFRA Update* (June 2010) <http://siteresources.worldbank.org/INTSDNET/Resources/5944695-124775731647/INFRA_China_Newsletter.pdf> accessed 1 August 2018.

³⁵For instance, see ICBC Annual Report 2008, 88; CCB Annual Report 2008, 9.

³⁶KPMG, 'Mainland China Banking Survey 2017' (2017) <<https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2017/08/2017-mainland-china-banking-survey.pdf>> accessed 30 April 2018, 5–7.

³⁷Yongding Yu, 'China's Policy Responses to the Global Financial Crisis' (2009) Australian Government Productivity Commission Richard Snape Lecture <<https://www.pc.gov.au/news-media/lectures/yongding/2009-yongding.pdf>> accessed 30 April 2018, 10–1.

projects and SOEs. However, not all state-owned banks in the world would be subject to strict political intervention. In fact, in terms of Chinese SOCBs, the state-owned character *per se* is not the reason, but the institutions and traditions associated with state ownership are.

Historically, the Chinese banking system was highly centralised and uniformly controlled by the government.³⁸ The organisational structure and internal management of banks were inherently akin to those of government organs.³⁹ The top personnel were involved in the bureaucratic system and managed as government officials in accordance with the *Nomenklatura* system – a traditional Soviet model for monitoring and incentivising the leading cadres in political organs and state-owned sectors.⁴⁰ In this way, the power of the government and the CCP over the banking system could be maintained,⁴¹ and the operations of banks could be manipulated to fulfil the national strategies for economic and social development.

2. The operation of the *Nomenklatura* system

Traditionally, under the *Nomenklatura* system, the personnel management of SOEs was the same as that of government organs. The salaries and incentives were in line with the dual, parallel systems – state administration and the CCP.⁴²

The personnel of a government organ belong to the system of civil servants, and its top managers are positioned in a bureaucratic hierarchy. For instance, the People's Bank of China (PBOC) is a ministerial organ led by the State Council. Accordingly, its governor is at the chief ministerial level, and the deputy governors are at the deputy ministerial level. These levels are known as the administrative levels of officials,⁴³ and ultimately determine their salaries.

In China, the CCP system also directs and disciplines government organs and officials. The CCP committees in all organs are the Party's basic

³⁸Yuanyuan Peng, *The Chinese Banking Industry: Lessons from History for Today's Challenges* (Routledge 2007) 11; Alex Mo Cheung Au and Norman Law, *The Development History of the Chinese Banking Industry: from Late Qing to Now* (City University of Hong Kong Press 2011) 95.

³⁹Christopher D. Luehr, 'Red Banking: Chinese State-owned Commercial Bank Reform and the Basel II Accord' (2011) 20 *Minnesota Journal of International Law* 171, 174.

⁴⁰Kjeld Erik Brødsgaard, 'Institutional Reform and the *Bianzhi* System in China' (2002) 170 *The China Quarterly* 361, 365.

⁴¹Li-Wen Lin, 'State Ownership and Corporate Governance in China: An Executive Career Approach' (2013) 3 *Columbia Business Law Review* 743, 751; Sebastian Heilmann, 'Regulatory Innovation by Leninist Means: Communist Party Supervision in China's Financial Industry' (2005) 181 *The China Quarterly* 1, 17.

⁴²Li-Wen Lin, 'State Ownership and Corporate Governance in China: An Executive Career Approach' (ibid) 754 and 6.

⁴³The ministerial level ranks the second in China's bureaucratic hierarchy. The top level is the state level, including the country's chairman (chief state level), prime minister (chief state level), deputy prime ministers (deputy state level) and so on. Officials of local governments are also positioned in the bureaucratic hierarchy. For instance, a provincial governor is at the provincial level, which is equivalent to the ministerial level. See the Civil Servant Law of the PRC, Article 16.

apparatuses, playing a leading role in the management of organisations and personnel.⁴⁴ The administrative leaders of a government organ are also the leaders of the CCP committee in this organ.⁴⁵ Moreover, the leaders who are at the top positions of important government organs, such as the governor of the PBOC and the ministers of the State Council, are often selected as the members of the CCP Central Committee, which is the paramount authority of the Party.⁴⁶

The political and administrative systems in China fundamentally shaped and profoundly influenced the personnel management of SOCBs.⁴⁷ Before the corporatisation reforms, top executives of SOCBs were the leading financial cadres of the state, rather than professional bankers.⁴⁸ They were included in the bureaucratic hierarchy and entitled to corresponding administrative levels.⁴⁹ For instance, before the transformation to shareholding companies, the president, who was the 'first chair'⁵⁰ of a bank, was administratively ranked at the deputy ministerial level.⁵¹ Furthermore, in each SOCB, the CCP committee functioned as an essential decision-making and supervisory force.⁵² The president acted as the secretary and headed the CCP committee.⁵³ Conventionally, the same as the top leaders of government organs, the 'first chairs' of Central-controlled Enterprises (CCEs),⁵⁴ including SOCBs, also had the opportunities to become the members of the CCP Central Committee.

Top executives of SOCBs were important components of the country's bureaucracy. Thus, these positions were not open to market competition. Instead, they were selected by the government and the CCP in accordance with the *Nomenklatura* system.⁵⁵

In a broader sphere, the *Nomenklatura* system in China has integrated the formal and informal norms and institutions in support of all-encompassing political and administrative control over the appointment, transfer, promotion, dismissal, salary and incentives of leading public cadres.⁵⁶ There

⁴⁴The Constitution of the CCP, Article 32.

⁴⁵The situations in Chinese local governments are different. Please see footnote 124.

⁴⁶The Constitution of the CCP, Article 10 (3).

⁴⁷Pistor (n 8) 36.

⁴⁸Kjeld Erik Brødsgaard, 'Politics and Business Group Formation in China: The Party in Control' (2012) 211 *The China Quarterly* 624, 633; Heilmann (n 41) 9.

⁴⁹Zhaofeng Wang, 'Corporate Governance Under State Control: The Chinese Experience' (2012) 13 *Theoretical Inquiries in Law* 487, 492.

⁵⁰In some studies, 'first chair' is also written as 'yibashou' (the transliteration from Chinese Mandarin).

⁵¹Brødsgaard (n 48) 628; 'How High Are the Administrative Levels of the 'First Chairs' of Central-controlled Enterprises?' *Phoenix Finance* <<http://finance.ifeng.com/news/special/gqybs/>> accessed 17 July 2017.

⁵²Jiangyu Wang, 'The Political Logic of Corporate Governance in China's State-owned Enterprises' (2014) 47 *Cornell International Law Journal* 631, 656.

⁵³Lynette Ong, 'The Communist Party and Financial Institutions: Institutional Design of China's Post-reform Rural Credit Cooperatives' (2009) 82 *Pacific Affairs* 251, 271; Heilmann (n 7) 650.

⁵⁴CCEs are those SOEs that are directly controlled by the central government, including both financial and non-financial enterprises. They are distinguished from SOEs owned by local governments.

⁵⁵Brødsgaard (n 40) 365.

⁵⁶Wang (n 52) 658.

was a *Nomenklatura* list managed by the Central Organisation Department (COD) of the CCP,⁵⁷ containing the country's leading cadres.⁵⁸ Cadres on the list would be allocated to the key posts of the CCP and government organs at both central and local levels, as well as state-owned economic and social organisations. In this context, the systems of remuneration and incentives of SOCBs were traditionally in line with that of the public sector.

In terms of the performance metrics, improving banks' profitability and economic efficiency was considered but was not a principal factor. On the contrary, political achievements were of the utmost importance.⁵⁹ In the context of China's transitional economic reform, SOCBs and their bankers should provide full support to the implementation of reform policies and the maintenance of financial and social stability.⁶⁰ Interestingly, when Chinese public media eulogised the renowned bankers of SOCBs who led the significant structural reforms of their banks, they emphasised the bankers' roles in enforcing the government's reform policies, taking moderate steps to minimise all kinds of risks and maintaining state-owned financial resources, rather than the economic achievements they made for the banks.⁶¹ In addition, if a banker prioritised profitability over the government's macroeconomic policies, his career development in the bureaucratic system might be frustrated.⁶²

Instead of pecuniary benefits, the core incentive for bankers was political promotion, namely, the opportunity to climb to higher ranks in the bureaucratic hierarchy.⁶³ The fundamental principle of the *Nomenklatura* system was that 'the Party manages cadres', meaning that all leading cadres should be disciplined by the CCP and comply with its decisions on the allocation of positions. The allocation was based on the 'cadre transfer system', and the transfers were across different ministerial organs in the State Council,

⁵⁷The COD is responsible for the personnel management of the CCP.

⁵⁸Brødsgaard (n 48) 633.

⁵⁹Xiangchao Hao, 'The Correlation Between Executive Remuneration, Political Promotion and Bank Performance in Mainland China' (2014) 2 *Journal of Cross-strait Finance* 31, 35.

⁶⁰Daxing Jiang, 'Why SOEs Need Administrative Governance: An Overlooked Efficiency Interpretation' (2014) 36 *Modern Law Science* 14, 24.

⁶¹'The Biography of CBRC Governor Liu Mingkang' *Sina Finance* (4 August 2004) <<http://finance.sina.com.cn/crz/20040804/1439925205.shtml>> accessed 12 March 2018. Liu was the president of BOC from 2000 to 2003, then he was appointed as the governor of the CBRC. 'Understanding Xiao Gang' *NetEase Finance* (November 2012) <<http://money.163.com/special/jieduxiaogang/>> accessed 24 July 2017. Xiao became the president of BOC in 2003. After the corporatisation reform of BOC, he acted as the chairman of the bank.

⁶²'A Non-typical Banker Jiang Jianqing' *Sina Finance* (9 May 2016) <<http://finance.sina.com.cn/zg/observation/2016-05-09/zg-ifxryhhi8553992.shtml>> accessed 24 July 2017. In 2000, Jiang became the president of ICBC. In 2005, ICBC became a corporation. Since then, he had acted as the chairman of the bank until his retirement in 2016. Jiang adopted an efficiency-centred strategy during his tenure. Among all the 'first chairs' of SOCBs who led the corporatisation reforms and IPOs, he was the only one who was not promoted to higher political positions. For Jiang's biography and career trajectory, please see [Appendix 2](#).

⁶³Taye Mengistae and Lixin Colin Xu, 'Agency Theory and Executive Compensation: The Case of Chinese State-owned Enterprises' (2004) 22 *Journal of Labour Economics* 615, 619.

local governments, CCP organs and CCEs.⁶⁴ The transfers between different positions could be the opportunities for promotion as cadres' performance at their previous posts would influence the COD's decisions of their next posts.⁶⁵

Prior to the corporatisation reforms, many top bankers transferred to SOCBs from the public sector, including the PBOC, other ministerial organs of the State Council and local governments. For them, if the economic, political and social objectives were achieved during their tenures in SOCBs, they would have the opportunities to move to higher positions in both the systems of state administration and the CCP.⁶⁶ For instance, before joining BOC, Zhou Xiaochuan was a vice governor of the PBOC, at the deputy ministerial level. At that time, he was not included in the CCP Central Committee. However, after Zhou transferred to BOC, the post of president secured him a substitute position in the Committee. After he left BOC, his political career improved significantly. When acting as the governors of the CBRC and the PBOC, he was promoted to the chief ministerial level and finally became a formal member of the Committee. Up to March 2018, he had been serving as the governor of the PBOC for more than 15 years, and he has been globally known as a famous Chinese reformist and politician.

In the *Nomenklatura* system, bankers were incentivised with opportunities of political promotion, whereas their salaries did not serve as a modern incentive mechanism.⁶⁷ Usually, bankers' salaries were decided by their positions. Therefore, for those bankers at the same administrative levels, their salaries were not hugely differentiated, regardless of their own or their banks' performance.⁶⁸

Political incentives and fixed remuneration are the features of the system of government officials. However, this is incompatible with the values of modern corporate governance and remuneration incentives.

Before the GFC, Chinese SOCBs accomplished the corporatisation reforms and IPOs, which were regarded as a start to demolish the bureaucratic institutions and culture in the decision-making processes and internal governance of SOCBs.⁶⁹ Accordingly, establishing a modern system of remuneration and

⁶⁴The Provisions on the Transfers of the CCP's and Government's Leading Cadres, Article 16.

⁶⁵Brødsgaard (n 48) 634.

⁶⁶Fang Hu and Sidney Leung, 'Top Management Turnover, Firm Performance and Government Control: Evidence from China's Listed State-owned Enterprises' (2012) 47 *International Journal of Accounting* 235, 239. The career trajectories of the bankers who acted as the presidents of SOCBs before the corporatisation reforms are shown in [Appendix 1](#).

⁶⁷Donald Clarke, 'Law Without Order in Chinese Corporate Governance Institutions' (2010) 30 *Northwestern Journal of International Law and Business* 131, 143.

⁶⁸Eric Chang and Sonia Wong, 'Political Control and Performance in China's Listed Firms' (2004) 32 *Journal of Comparative Economics* 617, 622.

⁶⁹Xiaochuan Zhou: Listing Is Not the Ultimate Purpose to Reform SOCBs' (n 11).

incentives, which focuses on economic efficiency, risk management and capital maintenance was put onto the reform agenda.⁷⁰

III. The regulation of bankers' remuneration and incentives

The failures of bankers' remuneration in advanced financial markets alerted Chinese banking regulators to the importance of establishing a professional regulatory framework, which would serve as guidance for Chinese banks to adopt modern remuneration and incentive methods on the one hand, and a protective mechanism for avoiding the similar problems that occurred in advanced financial markets on the other.⁷¹

The current regulatory framework of bankers' remuneration in China was formed in 2010. With reference to the FSB Principles for Sound Compensation Practices and the Implementation Standards, the then China Banking Regulatory Commission (CBRC)⁷² enacted the Regulatory Guidelines on Sound Remuneration in Commercial Banks (hereafter CBRC Guidelines). The Ministry of Finance (MOF) promulgated the Measures for the Regulation of Managers' Remuneration in Central-controlled Financial Institutions (hereafter MOF Measures). In the banking sector, the MOF Measures are special for SOCBs.⁷³ In addition, there are some independent measures issued by the regulators and the CCP.

1. Remuneration cap

The CBRC and the MOF stipulate that bankers' performance-based (variable) remuneration shall be limited to three times their fixed remuneration.⁷⁴ Namely, the ratio between variable and fixed remuneration cannot be higher than 3:1.

In some advanced financial markets, such as the EU, the variable-fixed ratio is capped at 2:1, in order to control the excessive and imprudent use of variable remuneration.⁷⁵ Before the GFC, variable remuneration was

⁷⁰Conflict Existing Between the Administrative Appointment and Remuneration Incentives of the Senior Managers of CCEs' <www.npc.gov.cn> (15 August 2008) <http://www.npc.gov.cn/npc/xinwen/fztd/2008-08/15/content_1442959.htm> accessed 4 August 2018.

⁷¹'CBRC Managers Responded the Media' (n 12).

⁷²In March 2018, the CBRC and China Insurance Regulatory Commission (CIRC) merged as the new China Banking and Insurance Regulatory Commission (CBIRC), and Guo became the governor of the new regulatory agency. See Wildau Gabriel, 'China to Merge Banking, Insurance Regulators' *Financial Times* (13 March 2018) <<https://www.ft.com/content/368f3200-265c-11e8-b27e-cc62a39d57a0>> accessed 3 April 2018.

⁷³Central-controlled financial institutions are directly controlled by the Chinese central government. See 'The List of Central-controlled Financial Institutions' *MOF website* <http://jrs.mof.gov.cn/jinrongleiqiyeguoyouzichanguanli/201501/t20150123_1183782.html> accessed 27 July 2017.

⁷⁴The CBRC Guidelines, Article 7; The MOF Measures, Article 13.

⁷⁵Capital Regulation Directive IV, Article 94(g).

underdeveloped in the Chinese banking sector.⁷⁶ Thus, the remuneration cap in the Chinese context is relatively lenient, giving banks more leeway to apply variable remuneration.

However, SOCBs must comply with a special limit on the level of basic salary,⁷⁷ which is enacted by the MOF. Bankers' basic salaries should be calculated in line with the formula:⁷⁸

$$\begin{aligned} \text{Basic Annual Salary} &= 5 \\ &\times \text{The Average Annual Salary of CCEs' Employees in the Last Year} \\ &\times \text{Moderating Coefficient} \times \text{Distributive Coefficient} \end{aligned}$$

The average annual salary of CCEs' employees in the last year is based on the figure directly given by the MOF. The moderating coefficient is determined by the position level of a bank. The MOF has designed a system to assess banks' position levels, comprised of a variety of factors about business scale and financial situation.⁷⁹ Based on the position level, each bank is allocated with a specific moderating coefficient. Usually, larger, more profitable and universal banks are at higher levels and accordingly have larger moderating coefficients. Since the position level is applied to banks rather than individual bankers, bankers in the same bank have the same moderating coefficient. Conversely, the distributive coefficient is calculated on an individual basis. The MOF stipulates that the top leader, usually the chairman of the Board of Directors (BOD) is allocated with a '1' as the distributive coefficient and the figures for other bankers are allocated between 0.6 and 0.9, within which banks' boards can make discretionary decisions.⁸⁰

The majority of the coefficients in this formula are directly decided by the MOF. It has synthetically taken into account multiple factors, including the pay gap between bankers and ordinary employees, banks' business scales and financial situations, as well as bankers' positions and duties, demonstrating that the regulator attempts to achieve both values of economic efficiency and social justice. However, the MOF has positioned itself at the heart of the decision-making on bankers' basic salaries, leaving the SOCBs limited autonomy.

⁷⁶Xuebin Chen, 'An Analysis of the Mechanism of Remuneration Incentives in Chinese Commercial Banks' (2005) 7 *Journal of Financial Research* 76, 78.

⁷⁷Basic salary constitutes the major part of fixed remuneration. In addition, fixed remuneration also includes welfare benefits, such as social insurances and housing provident fund.

⁷⁸The MOF Measures, Article 7.

⁷⁹A bank's position level is decided by the bank's total assets (20%), operational revenue (20%), staff number (20%), total profits (20%), market scale (10%) and the complexity of the bank's services and products (10%). The figures in the brackets are the weightings of these factors. The aggregate score is calculated by adding up the weighted scores of each factor, and it determines the bank's position level. See the MOF Measures, Article 8.

⁸⁰The MOF Measures, Article 12.

2. Long-term performance

In advanced financial markets, regulators have taken a series of measures to link bankers' remuneration with banks' long-term sustainability, including deferral, clawback and *malus*. In light of the policy recommendations made by international banking regulators, the CBRC has also introduced these measures.

A deferral policy usually requires that the payment of an appropriate portion of bankers' performance-based remuneration is postponed until a certain period lapses, dependent upon the fulfilment of pre-determined conditions. According to the CBRC Guidelines, for bankers who have a significant impact on banks' risk-taking activities, at least 40% of their performance-based remuneration shall be deferred for no less than three years. For bankers at the very top positions, at least 50% shall be deferred.⁸¹

Clawback is a punitive arrangement whereby banks are entitled to retrieve the performance-based remuneration paid to their employees under specified circumstances. *Malus* is another punitive measure which refers to the deduction of unpaid remuneration.⁸² The CBRC requires banks to apply clawback and *malus* to performance-based remuneration when bankers' activities have caused excessive risk exposure.⁸³

Compared to the policies of deferral, clawback and *malus* adopted by regulators in advanced economies, the arrangements in the CBRC Guidelines are too general and ambiguous. For instance, in the UK, the Financial Conduct Authority (FCA) has specified the conditions, periods, the types of targeted bankers, and the proportions of remuneration, and has incorporated multi-layer arrangements in accordance with bankers' positions and responsibilities.⁸⁴ These clear rules would facilitate the enforcement of these measures. In stark contrast, without such details, Chinese banks are unclear about the circumstances under which these measures should be applied and how to

⁸¹The CBRC Guidelines, Article 16. The MOF Measures have also incorporated these rules, see Article 18.

⁸²Iris H-Y Chiu, *Regulating (From) the Inside: The Legal Framework for Internal Control in Banks and Financial Institutions* (Hart Publishing 2015) 226.

⁸³The CBRC Guidelines, Article 16.

⁸⁴According to the FCA's Remuneration Code, bank staff with one or more senior management functions shall defer at least 40% of their performance-based remuneration for a seven-year period. If a banker receives more than GBP 500,000 performance-based remuneration or is recognised as a director of a firm that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities, at least 60% of the banker's performance-based remuneration shall be deferred. See FCA Handbook, SYSC 19D.3.59(1) and (2). In addition, when a bank's entire business or the banker's responsible business unit suffers a material failure of risk management, or there is reasonable evidence of any misbehaviour or material error made by the banker, clawback and *malus* shall be applied to the performance-based remuneration of the banker. Since *malus* is imposed on unvested deferred remuneration, the period of applying *malus* equals the period of deferral. Clawback acts on paid bonuses and vested shares. The FCA requires that bankers' performance-based components are subject to clawback for seven years, and the period may be extended to 10 years under certain circumstances. FCA Handbook, SYSC 19D.3.61(3) and (4).

make them functional for cultivating bankers' long-term angles. This limitation may have a negative impact on the implementation of these measures.

3. Performance metrics and assessment

Another method the regulators in advanced markets have used to restrain bankers' excessive risk-taking activities is the application of stability-oriented indicators, such as return on risk-weighted assets, CET 1 ratio and liquidity reserves to assess bankers' performance and decide bankers' remuneration.⁸⁵ After the GFC, the weightings of profit-oriented indicators in the assessment of bankers' performance have declined, while stability-oriented factors and public interest have become more and more important.⁸⁶

In China, the banking regulators have also designed an assessment system for bankers' performance, which contains both profit-oriented and stability-oriented factors. As shown in Table 1, the CBRC requires banks to evaluate bankers' performance from three perspectives: economic efficiency, risk control and social responsibility. It has designated the specific metrics for evaluating the performance of risk control and social responsibility⁸⁷ and complied with the metrics of economic efficiency enacted by the MOF.

In January 2009, the MOF enacted an evaluation system of banks' financial situations,⁸⁸ which has also been introduced to the MOF Measures to assess bankers' performance of promoting economic efficiency. The system contains four types of performance metrics: operating income growth, profitability, asset quality and debt-paying ability.⁸⁹ For each type, the MOF has designed the specific sub-metrics and corresponding weightings.

In addition, the MOF has issued the method for calculating performance-based remuneration. First of all, the MOF assesses every bank's economic efficiency and gives an aggregate score, which is the outcome by adding up the weighted scores of each individual metric (as shown in Table 1).⁹⁰ The MOF can also add an increment to a bank's aggregate score if the bank has made dramatic achievements, or make an extra deduction if the bank

⁸⁵FSF, Principles for Sound Compensation Practices, Principle 4–7.

⁸⁶According to the author's investigations into the remuneration reports of several UK banks, before the GFC, all the performance metrics were profit-oriented financial indicators, such as total shareholder return, share price, and so on. These measures have still been adopted by these banks since the GFC, but they only constitute 60–70% of all performance metrics. The reason is that stability-oriented financial indicators and non-financial indicators, such as regulatory compliance and customers' satisfaction, have been adopted. For instance, please see HSBC Annual Report 2016, 155 and 69; Barclays Annual Report 2016, 121–6; Lloyds Annual Report 2016, 101–4; RBS Annual Report 2016, 88–100.

⁸⁷The CBRC Guidelines, Article 19.

⁸⁸The system has been incorporated in the Interim Regulatory Measures for the Performance Assessment of State-owned and State-controlled Financial Institutions (The MOF Performance Assessment Measures) (No.3, January 2009).

⁸⁹The MOF Performance Assessment Measures, Appendix II – The Table of Metrics and Marking.

⁹⁰The MOF Performance Assessment Measures, Article 18.

Table 1. The system of performance metrics.

CBRC					
Type	Metrics				
Economic efficiency	The MOF rules				
Risk control	Capital adequacy ratio, NPL ratio, provisioning coverage ratio, leverage ratio, and so on.				
Social responsibility	Regulatory compliance, the assessment of regulators, moral compliance, and so on.				
MOF					
Type	Metric	Weighting (%)	Type	Metric	Weighting (%)
Operating income growth	Hedging and proliferating ratio of state-owned assets	10	Assets quality	NPL ratio	10
	Profit increasing ratio	10		Provisioning coverage ratio	5
Profitability	Economic profit ratio	5	Debt-paying ability	Capital adequacy ratio	15
	Return on equity	15		Core capital adequacy ratio	15
	Return on assets	10			
	Cost-benefit ratio	5			

Source: The CBRC Guidelines and the MOF Measures.

has induced significant losses.⁹¹ According to the scores, banks are allocated to one of the five rating levels, ranging from A to E.⁹² Table 2 itemises the score ranges of all rating levels and the corresponding assessments.

The rating levels are used to calculate bankers’ performance-based remuneration in accordance with the formula:⁹³

$$\begin{aligned} \text{Performance-based Remuneration} &= \text{Basic Salary} \\ &\quad \times \text{Remuneration Multiple} \\ &\quad \times \text{Assessment Coefficient} \end{aligned}$$

The remuneration multiple is decided by a bank’s rating level, namely, the bank’s overall performance of economic efficiency. Table 2 also shows the figures of the remuneration multiples commensurate with different rating levels. The assessment coefficient is decided internally by a bank in accordance with the performance of each individual banker.⁹⁴

The formula of performance-based remuneration and the detailed performance metrics provide SOCBs with specific instructions. Based on these rules, bankers’ variable remuneration is decided by multiple indicators pertaining to profitability, sustainability, risk control and social responsibility. These arrangements are compatible with the regulatory principles at the

⁹¹The MOF Performance Assessment Measures, Article 19 and 20.

⁹²The MOF Performance Assessment Measures, Article 22 and 23.

⁹³The MOF Measures, Article 14.

⁹⁴The MOF Measures, Article 1.

Table 2. The MOF rating mechanism for calculating bankers' performance-based remuneration.

Final score	Rating level	Assessment	Remuneration multiple
100–85	A	Excellent	2–3
84–70	B	Good	1.5–2
69–50	C	Satisfactory	1–1.5
49–40	D	Barely passed	0–1
0–39	E	Failed	0

Source: The MOF performance assessment measures.

international level, which emphasise bankers' remuneration incentives targeted at financial stability and the public interest. Different from the rules of deferral, clawback and *malus*, the performance metrics are orchestrated by the regulator with the details of every aspect and step, and through compulsory and uniform requirements. The majority of the rules of performance metrics are stipulated by the MOF, while only the assessment coefficient is decided by SOCBs. Therefore, the regulatory approach of MOF is still administratively interfering. The regulatory interference is a double-edged sword. On the one hand, the detailed regulatory guidance would help banks implement the rules. On the other hand, banks are restrained from autonomously making adjustments to the system of performance metrics.

4. The special measures for controlling bankers' remuneration

Apart from the aforementioned measures, which resemble the international principles and the regulations and practice in advanced financial markets, there are some other specific measures taken by the MOF and the CCP to control the level and structure of bankers' remuneration. These measures are mandatory and intrusive, and they are against the purpose of modernising bankers' remuneration and incentives.

(1) The injunction on equity-based remuneration

Being afraid of repeating the failures of equity-based remuneration that occurred in advanced financial markets, in 2008, the MOF announced an injunction on all the existing and proposed equity-based remuneration schemes in state-owned financial institutions.⁹⁵ At that time, some SOCBs were preparing to apply equity-based remuneration.⁹⁶ Due to the injunction, it was entirely removed from the state-owned banking sector.

⁹⁵MOF, 'The Notice on the Issues About the Removal of Equity-based Incentives in State-owned Financial Institutions' (No.65, July 2008); 'The MOF Emergently Stopped the Equity-based Incentives in State-owned Listed Financial Institutions' *MOF website* (31 July 2008) <http://www.mof.gov.cn/zhengwuxinxi/caijingshidian/zgnet/200808/t20080801_60416.html> accessed 2 August 2017.

⁹⁶For instance, BCM prepared to launch an equity-based incentive scheme before 2008. 'BCM Preparing the Equity-based Incentive Mechanism for Executives' *Sohu Finance* (15 September 2005) <<http://business.sohu.com/20050915/n240393220.shtml>> accessed 2 August 2017.

In advanced financial markets, the incentive mechanism of equity-based remuneration was distorted, resulting in bankers prone to taking excessive risks. Thus, the regulators have imposed a flurry of restrictions on the application of equity-based remuneration. However, in China's transitional financial reform, the importance of maintaining political and social stability and reducing the uncertainties and risks during the reforms has always been emphasised.⁹⁷ Bankers' activities have always been stability-oriented, without a risk-taking culture. The stability-oriented culture has been inherently maintained by the politicised and administrative approach of incentives. In contrast to the regulatory tasks of advanced financial markets, the Chinese regulators want to guide banks to modernise the system of remuneration incentives. Therefore, they should encourage banks to appropriately apply different kinds of market-oriented incentive methods, including equity-based remuneration, rather than thoroughly prohibiting it with a compulsory administrative order.

(2) The mandatory requirement of remuneration reduction

In December 2013, the CCP Central Committee established the Central Leading Group for Comprehensively Deepening Reforms (hereafter Leading Group).⁹⁸ In August 2014, the Leading Group launched the Reform Scheme of Managers' Remuneration in CCEs,⁹⁹ an essential objective of which was to cut down the unduly high remuneration.¹⁰⁰ Based on this resolution, the MOF and the Ministry of Human Resources and Social Security collaboratively drafted a regulation that required to axe the total remuneration of CCEs' managers by 30% in 2015 and to control the amounts 'within eight times the average annual salary of all CCEs' employees in the last year'.¹⁰¹

⁹⁷The maintenance of political, social and economic stability has always been the paramount principle of China's reform. The late Chinese leader Deng Xiaoping often stressed the importance of stability. See Xiaoping Deng, 'The Overriding Need Is Stability' in *The Selected Works of Deng Xiaoping*, vol 3 (People's Publishing 1993) 284. In the financial sector, the reform approach has also prioritised stability. For more discussions, please refer to Bai Feng and Taihui Zhu, 'The Approach of Financial Marketisation Reform: The Cross-term Equilibrium Between Stability and Efficiency' (2016) 5 *International Economic Review* 100.

⁹⁸'Diagrammatising the CCP Central Leading Group for Comprehensively Deepening Reforms' *CCP News* (23 January 2014) <<http://cpc.people.com.cn/n/2014/0123/c164113-24208994.html>> accessed 4 December 2016.

⁹⁹The details of this scheme and its implementation process are not openly published. As a consequence, the information can be obtained from media broadcast only. See 'Analysing the Fourth Meeting of the Central Leading Group for Comprehensively Deepening Reforms' *People.cn* (20 August 2014) <<http://ft.people.com.cn/fangtanDetail.do?pid=2986>> accessed 17 March 2018.

¹⁰⁰*ibid.*

¹⁰¹'A Major Surgery on Executive Remuneration in CCEs' *Xinhua Online* (26 August 2014) <<http://www.xinhuanet.com/fortune/cyjj/14.htm>> accessed 4 December 2016; 'Senior Managers' Remuneration in SOCBs May Be Decreased by 70%, and No More Than RMB 600,000' *Tencent Finance* (25 August 2014) <<http://finance.qq.com/a/20140825/010363.htm>> accessed 12 December 2017; 'China's 72 CCEs Formally Carried out the Reduction and Disclosure Policies on Managers' Remuneration' *BBC Chinese* (3 January 2015) <http://www.bbc.com/zhongwen/trad/china/2015/01/150103_china_stateowned_corporation_salary> accessed 30 July 2017.

The CCP's resolution and the follow-up regulation entirely disempower SOCBs to decide bankers' remuneration. Moreover, the reduction policy would replace the 3:1 ratio and the formulas for calculating basic salary and performance-based remuneration.

The reduction policy is primarily due to political considerations. It targets CCEs' managers who are still appointed through the administrative and political process¹⁰² and belong to the bureaucratic system. Together with the reduction policy, The CCP has also enacted a flurry of restrictions against undue duty consumption and corruption.¹⁰³ Clearly, this policy still regulates SOCBs' bankers as national bureaucrats. It preserves the *Nomenklatura* system and the strong tradition of political intervention. In this sense, it is against the purpose of the modernising reform of bankers' remuneration.

5. Comments on the regulation

The Chinese banking regulators have established a framework to guide and monitor banks' reforms of remuneration incentives. However, the framework is hybrid, with both advancements and problems.

First of all, the CBRC has introduced remuneration cap, deferral, clawback and *malus* in accordance with the international principles, without considering the different purposes of the regulatory reforms in the west and China. In the western context, these measures are aimed at curbing short-term incentives in the arrangements of variable remuneration and the problem of excessive risk-taking. In advanced financial markets, variable remuneration is a market-oriented incentive mechanism. However, before the GFC, it was underdeveloped in the Chinese banking sector. For the purpose of modernising bankers' remuneration incentives, the CBRC should first provide instructions for banks to adopt different kinds of variable remuneration, and then apply those regulatory measures to avoid the potential problems of short-termism and excessive risk-taking.

More seriously, deferral, clawback and *malus* are not clearly designed, without sufficient and detailed instructions. It could be understood that banks have the discretion to design these measures according to their own needs. However, it is also possible that banks will not enforce these measures in practice.

In contrast to the general and ambiguous rules in the CBRC Guidelines, the MOF Measures have included a series of specific rules to instruct SOCBs to develop their systems of performance metrics. Some of the rules are akin to the remuneration practice in advanced financial markets. However, a

¹⁰²A Major Surgery on Executive Remuneration in CCEs' (ibid).

¹⁰³The Plan of Remuneration Reform Has Been Approved and Will Be Promulgated This Year' *Hexun* (19 August 2014) <<http://news.hexun.com/2014-08-19/167653380.html>> accessed 5 August 2018.

drawback is that all the rules are compulsory, which may limit banks' autonomy in remuneration management.

In addition, there are some other requirements imposed on bankers' remuneration of SOCBs, including the injunction on equity-based remuneration and the mandatory reduction of total remuneration. These measures are contradictory to the original purpose of the regulation-guided modernising reform.

The regulatory framework shows the efforts that have been made by the Chinese regulators to modernise remuneration incentives. However, there are still many problems in the framework. In particular, some measures have preserved the tradition of political intervention. In order to know what kinds of effects the regulations have brought to bankers' remuneration, it is necessary to examine the practice of SOCBs.

IV. The level and structure of bankers' remuneration in SOCBs

1. Data collection

In 2007, Chinese SOCBs started to disclose bankers' total remuneration in their annual reports. Therefore, the author has collected numeric data on bankers' remuneration levels from 2007 to 2015.¹⁰⁴ From 2009 to 2014, SOCBs disclosed the detailed figures of fixed and variable components and the ratios of deferred components.¹⁰⁵ These figures have also been collected.¹⁰⁶

The collection of data is based on the criteria below:

- (1) Only the data on the remuneration of executive board members and senior managers are collected. The data on independent directors and members of the supervisory board are excluded.¹⁰⁷

¹⁰⁴Before Chinese SOCBs became listed corporations, the information of bankers' remuneration was not disclosed. ABC started to disclose bankers' total remuneration since 2008. Thus, the data on bankers' remuneration of ABC in 2007 is omitted.

¹⁰⁵As explained in Section III, since 2015, the CCP has required SOCBs to reduce bankers' total remuneration by 30% and to maintain it no higher than 'eight times the average annual salary of all CCEs' employees in the last year'. This rule, if implemented by SOCBs, may invalidate the 3:1 variable-fixed ratio and the formulas for calculating basic salary and performance-based remuneration. In practice, since 2015, SOCBs have stopped disclosing the figures of variable and fixed components and the proportions of deferred remuneration. As a consequence, the data used in this article are available from 2009 to 2014 only.

¹⁰⁶The data that support the findings of this section are available from the corresponding author, upon reasonable request.

¹⁰⁷According to Article 3 of the Compensation Principles and Standards Assessment Methodology issued by the BCBS, the regulation of bankers' remuneration should be applied to bank staff whose professional activities have a material impact on the bank's risk profile. In Chinese banks, executive directors make significant and strategic decisions and senior managers are responsible for banks' day-to-day affairs. Independent directors and the supervisory board are two different mechanisms for checks-and-balance purpose, the functions of which are to make recommendations and supervise the conduct of executive directors and senior managers. Thus, independent directors and members of the supervisory board are unable to impose a material impact on banks' risk-taking activities. In a Chinese bank,

- (2) The data on the remuneration of those bankers with dual roles are counted only once. Specifically, a person who is/was both an executive director and senior manager is included in the BOD, not the senior management.¹⁰⁸
- (3) In a specific financial year, only the data on the remuneration of those bankers who worked throughout this year are included.

2. The level of bankers' remuneration

The yearly average remuneration levels from 2007 to 2015 are shown in [Figure 1](#). The changing range in each year is described in [Table 3](#).

The empirical data reveal three important features of bankers' remuneration levels.

First, bankers' remuneration levels were low. The highest recorded remuneration was around RMB 2.24 million, offered to the chairman of CCB in 2014. This figure was significantly less than the amounts earned by his western counterparts. HSBC is a UK bank which is equivalent to Chinese SOCBs in terms of assets and world rankings. In 2014, the average remuneration of HSBC's executive directors was 39.6 times that of the executive directors in Chinese SOCBs,¹⁰⁹ and the highest remuneration of HSBC was 55.8 times that of CCB's chairman.¹¹⁰ Besides this, the remuneration levels of SOCBs were also lower than other Chinese banks. In 2014, the highest remuneration level among the top bankers in non-SOCBs was RMB 8.35 million,¹¹¹ which was three times the remuneration of CCB's chairman.

The low level of bankers' remuneration in SOCBs implies two issues. First, compared to working in foreign or private banks, which can offer far more

executive board members include: chairman, vice chairmen and ordinary executive directors. Senior managers include: president, vice presidents, chief financial officer, chief risk officer, chief information officer, chief audit officer, the secretary of the BOD and others. In particular, there is a very special position in the senior management of SOCBs, which is the secretary of the commission for discipline inspection (CDI). A CDI is an organ of the CCP system which exists in all state-owned social and economic organisations to supervise party members and implement the CCP's Constitution and disciplines. A secretary of the CDI represents the CCP's engagement in a bank's corporate governance. Since it is part of the senior management, the remuneration of this role is also included.

¹⁰⁸In Chinese banks, the chairman of the BOD and the president cannot be acted by the same person. See CBRC, *The Guidelines on Corporate Governance for Commercial Banks* (No.34, July 2013), Article 32. However, it is still very common that a banker concurrently has two other roles. In practice, usually the president is also one of the vice chairmen; some executive directors concurrently act as vice presidents; and some senior managers have more than one role in the management.

¹⁰⁹In 2014, the average remuneration of HSBC's four executive directors was GBP 7,567,000. Based on the 10:1 currency exchange rate, GBP 7,567,000 amounted to RMB 75,670,000. The average remuneration of the board members in the five SOCBs was RMB 1,909,177. Therefore, the former was 39.6 times the latter. The data on exchange rate is available at: 'Current and Historical Rate Tables' [Xe website <http://www.xe.com/currencytables/>](http://www.xe.com/currencytables/) accessed 24 December 2017.

¹¹⁰The highest remuneration in HSBC in 2014 was GBP 12,545,000.

¹¹¹This figure is the remuneration package offered to the president of Ping An Bank, which is a JSCB in China.

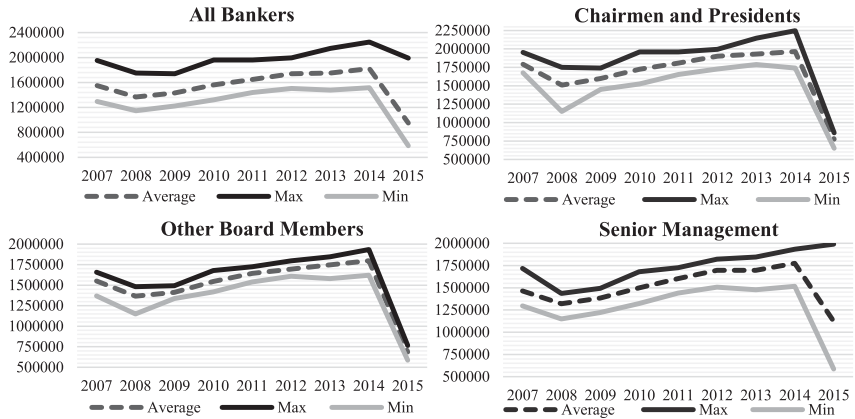


Figure 1. The levels of bankers’ remuneration from 2007 to 2015 (Unit: RMB). Source: Calculated by the author with the data on remuneration published in SOCBs’ annual reports and complementary announcements.

Table 3. The annual increase/decrease rates of bankers’ remuneration from 2007 to 2015.

Year	2008	2009	2010	2011	2012	2013	2014	2015
Rate	-11.61%	4.70%	9.03%	5.41%	5.55%	0.82%	3.95%	-47.84%

Source: Calculated by the author with the data on remuneration published in SOCBs’ annual reports and complementary announcements.

competitive remuneration packages, these bankers would rather stay in SOCBs and get poorly remunerated. If remuneration was the primary incentive mechanism, their choices were not reasonable. Therefore, the *de facto* incentive mechanism in SOCBs may not rely on remuneration. Second, SOCBs have made remarkable achievements and have been growing very fast after the GFC. From 2011 to 2014, the average annual increase rate of the total assets of SOCBs was approximately 34.89%.¹¹² However, the trends shown in Figure 1 indicate that the total level of bankers’ remuneration did not increase along with SOCBs’ business growth. Therefore, it is conjectural that bankers’ remuneration packages were incompatible with the business performance of their banks.

The second feature is that the remuneration gaps among bankers were stabilised within a certain range. In each chart of Figure 1, the three curves of the maximum, average and minimum amounts are parallel with each other. As shown in Figure 2,¹¹³ in every year the ratio between the average

¹¹²The figure is calculated with the data collected from the CBRC, ‘The Total Assets and Total Liabilities of Banking Institutions: 2011 to 2014’ <<http://www.cbrc.gov.cn/chinese/home/docViewPage/110009¤t=2>> accessed 19 December 2016.

¹¹³The total levels of bankers’ remuneration changed significantly in 2015. Thus, this issue will be analysed separately in subsequent discussions.

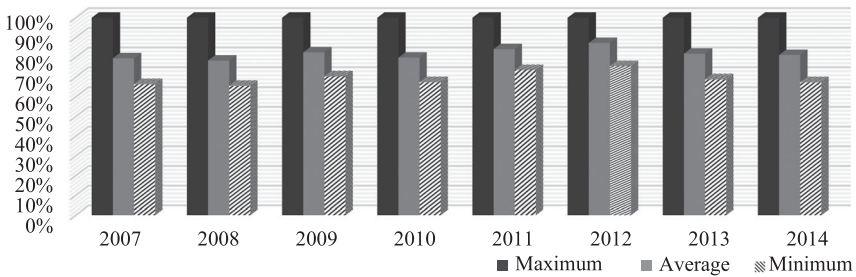


Figure 2. The ratios between maximum, average and minimum remuneration from 2007 to 2014. Source: Calculated by the author with the data on remuneration published in SOCBs' annual reports and complementary announcements.

and the maximum was about 80%, and the ratio between the minimum and the maximum was about 70%. The regularity of the ratios implies that SOCBs may have applied a uniform standard to determine the amounts of total remuneration in accordance with bankers' positions, rather than their individual performance. In fact, the original data on bankers' remuneration published in banks' annual reports demonstrate that across the five SOCBs, the total amounts offered to bankers at the same levels were very close. For instance, in ICBC, the amounts awarded to the executive directors and vice presidents were completely the same.¹¹⁴

Thirdly, as shown in Table 3, in 2015, the average remuneration level dropped by 47.84%. In 2014, the average salary in state-owned financial institutions was RMB 94,943.¹¹⁵ Eight times this number was RMB 759,544, higher than the total amounts earned by the majority of SOCBs' bankers in 2015. Moreover, according to SOCBs' annual reports, 'since 2015, the remuneration of the chairman of the BOD, executive directors, president, vice presidents and other senior managers will be arranged in line with the government's policy of managers' remuneration in CCEs'.¹¹⁶ Therefore, it is clear that the reduction

¹¹⁴For instance, in 2011, all the remuneration packages for the two executive directors (not the chairman or vice chairmen) and the three vice presidents of ICBC were RMB 1,678,800. In 2012, these five bankers were all paid RMB 1,796,200. Please refer to ICBC, 'The Complementary Announcement of the Annual Report 2012 (A share and Chinese version)' <<http://www.icbc.com.cn/SiteCollectionDocuments/ICBC/Resources/ICBCLTD/download/2013/20130627bcggA.pdf>> accessed 1 April 2018; ICBC, 'The Complementary Announcement of the Annual Report 2013 (H share and Chinese version)' <<http://www.icbc.com.cn/SiteCollectionDocuments/ICBC/Resources/ICBCLTD/download/2014/747325Chiasprintedstp227June151020140627.pdf>> accessed 1 April 2018. Similar situations can also be found in other years and other banks.

¹¹⁵There is no access to the average annual salary of all CCEs' employees in 2014. As a result, it cannot be precisely verified whether the CCP's requirement that bankers' remuneration should not be higher than eight times the average annual salary of all CCE's employees in the last year has been enforced or not. However, the average annual salary of the employees in state-owned financial institutions can be used to make a rough estimation. See the data provided by the National Bureau of Statistics, 'The Average Salary of the Employees in State-owned Financial Institutions' <<http://data.stats.gov.cn/easyquery.htm?cn=C01>> accessed 15 September 2017.

¹¹⁶For instance, see ICBC Annual Report 2016, 113.

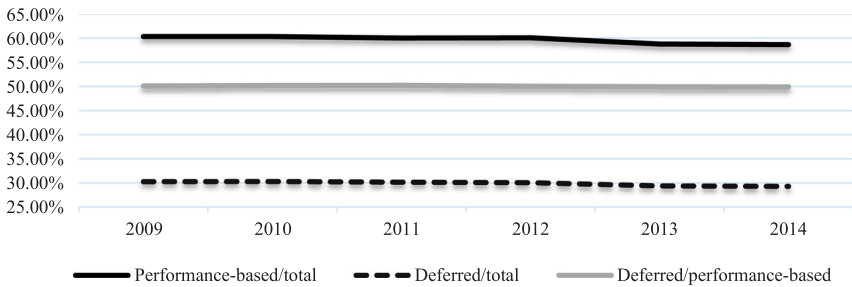


Figure 3. The average proportions of performance-based remuneration and deferred components in total remuneration from 2009 to 2014. Source: Calculated by the author with the data on remuneration published in SOCBs' annual reports and complementary announcements.

policy has been applied by SOCBs. Since 2015, the SOCBs have stopped disclosing the concrete amounts of fixed and variable remuneration. It is possible that this reduction policy has removed the functionality of the rules set out in the CBRC Guidelines and MOF Measures.

3. The structure of bankers' remuneration

SOCBs have complied rigidly with the injunction on equity-based remuneration. Since 2008, these banks have consecutively announced in their annual reports that they did not carry out any equity-based remuneration plans.¹¹⁷ As a consequence, fixed remuneration and performance-based remuneration in cash are the two major components. In addition, a portion of performance-based remuneration should be deferred.

According to [Figure 3](#), performance-based remuneration was around 60% of total remuneration. Namely, the variable-fixed ratio was around 3:2, within the 3:1 cap. Deferred components accounted for approximately 30% of total remuneration and 50% of performance-based remuneration. Thus, it seems that both the 3:1 cap and the deferral policy have been strictly enforced by SOCBs.

However, the horizontal tendencies of the three lines in [Figure 3](#) demonstrate that the ratios were maintained at the same levels throughout this period. Namely, in every year SOCBs applied the same ratios to determine

¹¹⁷The only exception is that, since 2014, BCM has started to offer the bank's ordinary shares to its directors and senior managers. This is a permitted pilot programme. See Jun Yuan, 'BCM Is Leading the Pilot Reform; Equity-based Remuneration Is Highly Expected' *Sina Finance* (16 June 2015) <<http://finance.sina.com.cn/stock/s/20150617/084122453241.shtml>> accessed 20 September 2017. See also BCM Annual Reports 2014, 81; BCM Annual Reports 2015, 92. Nevertheless, the injunction has not been annulled. If BCM's pilot equity-based remuneration scheme is successful, the prohibition may be gradually removed from the entire state-owned financial sector.

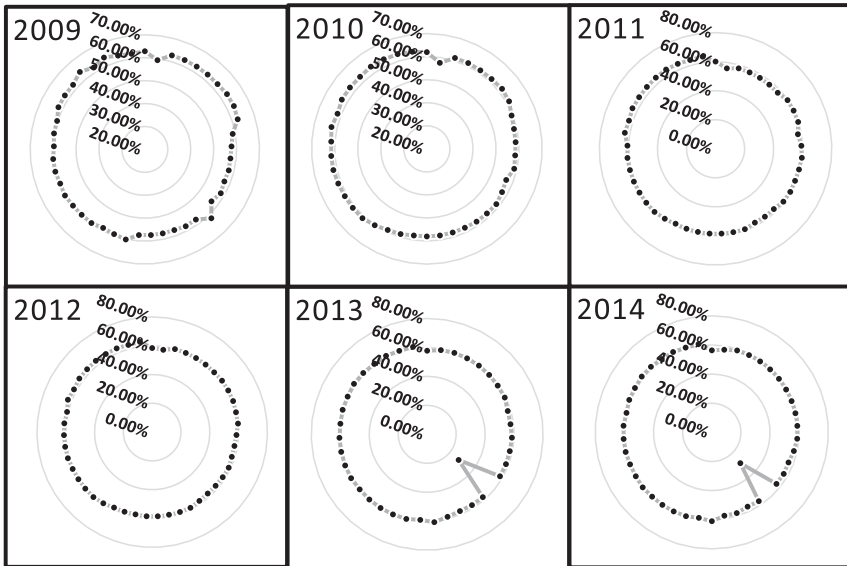


Figure 4. The proportion of each banker's performance-based remuneration in total remuneration from 2009 to 2014. Source: Calculated by the author with the data on remuneration published in SOCBs' annual reports and complementary announcements.

the amounts of performance-based remuneration and deferred components, implying that bankers' remuneration may not have been determined by bankers' individual performance or banks' overall performance. This conjecture coincides with the one based on the regularity of bankers' total remuneration levels.

In order to further consolidate this conjecture, the author has calculated the ratio between performance-based and total remuneration and the ratio between deferred components and total remuneration in each banker's annual remuneration package. As shown in Figure 4, every chart shows the proportions of performance-based remuneration in the total remuneration offered to all bankers in a specific year. In each chart, every black point on the circle represents the proportion of performance-based remuneration in the total remuneration of each banker. Figure 5 shows the proportions of delayed components in the same way.

For almost every banker, performance-based remuneration was around 60% of total remuneration. Similarly, almost every banker had half of their performance-based remuneration delayed.¹¹⁸

¹¹⁸There is only one banker whose performance-based remuneration was 28% of the total and the deferral ratio was 40%. The banker was Liu Yanfen, the chief audit officer of BOC in 2013 and 2014. There is no specified reason why her performance-based remuneration and deferred components were much less than those of others. This exceptional case can be regarded as an outlier and its impact on the overall situation can be ignored.

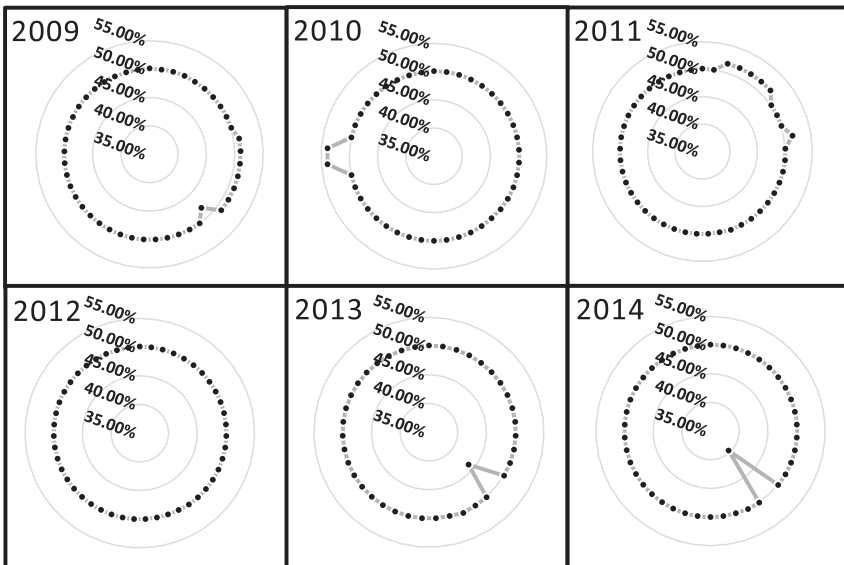


Figure 5. The proportion of each banker's deferred payment in total remuneration from 2009 to 2014. Source: Calculated by the author with the data on remuneration published in SOCBs' annual reports and complementary announcements.

Therefore, throughout the six-year period and across the five SOCBs, for all bankers, the proportions of performance-based remuneration were very approximate with each other, and so were the proportions of deferred components.

In the formula of performance-based remuneration, the assessment coefficient should be decided by SOCBs in accordance with bankers' individual achievements. Normally, bankers have differences in their expertise, capacities, experience and responsibilities, which will lead to diversity in their individual achievements. Had individual achievements been a major determinant of the assessment coefficient, the amounts and proportions of the performance-based remuneration of different bankers would have been different. In addition, the achievements of an individual banker would normally vary from year to year, so would the amounts of the banker's performance-based remuneration.

However, the empirical evidence is reversed. The high level of similarity among the structures of bankers' remuneration packages indicates that SOCBs did not take into consideration each banker's achievements, nor the impact of their conduct on banks' risk profiles.

Moreover, the remuneration multiple in the MOF's formula of performance-based remuneration is decided by banks' overall performance. As mentioned earlier, the MOF has designed a standardised system which includes all the indicators for evaluating banks' overall performance. Normally, these

indicators are dynamic. Thus, it is rare that the assessments of a bank's performance in different years remained unchanged and the assessments of different banks' performance were the same as each other. These findings verify that bankers' performance-based remuneration was irrelevant to banks' overall performance.

Bankers' performance-based remuneration was based on neither bankers' individual performance nor banks' overall performance, and the deferral arrangements were not decided by bankers' individual performance or their impact on risk-taking. Therefore, the rules of performance-based remuneration and deferral have just been implemented in a formalistic and symbolic way, in order to make bankers' remuneration superficially compliant with the regulation. However, in practice, the pay-setting processes have been on a 'one-size-fits-all' basis.

Besides, the CBRC has introduced clawback and *malus* to the regulatory book, but without specific instructions on how to implement the two measures. In practice, none of the SOCBs implemented them.¹¹⁹

4. Summary

Based on the empirical study on the level and structure of bankers' remuneration in SOCBs, there are several findings.

First, the CBRC Guidelines, which are based on the international principles and standards, have no material effect on promoting the modernising reforms of remuneration practice in SOCBs. In particular, clawback and *malus* have not been enforced at all. Performance-based remuneration and deferral have been enforced on a formalistic and symbolic basis. In practice, bankers' performance-based remuneration was not decided by bankers' individual performance or banks' overall performance, and the deferral ratios were irrelevant to bankers' risk-taking activities. On the contrary, the stable and regular gaps of the total remuneration amounts between bankers at different positions and the highly similar structures of all remuneration packages demonstrate that SOCBs have applied a 'one-size-fits-all' approach to decide bankers' remuneration, and the only determinant has been bankers' positions in the managerial hierarchy. Thus, the assessment system of performance metrics designed by MOF has not been practically implemented.

Secondly, SOCBs have complied with the injunction on equity-based remuneration and the mandatory requirement of remuneration reduction. The two measures have reinforced the control of the government and the CCP over bankers' remuneration. They would preserve the tradition of the *Nomenklatura* system and paralyse the modernising reform of bankers' remuneration.

¹¹⁹According to the remuneration reports of the five SOCBs, none of them has announced to apply clawback or *malus* to bankers' remuneration.

Thirdly, throughout the testing period, the total remuneration levels were kept at a far lower level than the remuneration packages offered to bankers in foreign or private banks. The remuneration packages offered to SOCBs' bankers were not commensurate with their achievements and contributions. However, these bankers have still chosen to work with the SOCBs for long tenures. Thus, it is conjectural that pecuniary benefits have not been the primary incentives for them. Instead, they have been incentivised with an alternative approach, which is highly possible to be the traditional *Nomenklatura* system. In order to verify this conjecture, it is necessary to examine the practice of political incentives in SOCBs since the regulations came into force.

V. Political incentives in the practice of SOCBs

In order to examine the influence and function of political incentives in SOCBs since the regulations came into force, the author has defined bankers' political careers in the *Nomenklatura* system as the indicator of political incentives and has tracked the career trajectories of the chairmen, presidents and other bankers who were or have been in their positions since 2010.

In a Chinese bank, the chairman of the BOD who plays the leading role in the decision-making process is the 'first chair'. The president is the leader of senior management, and usually one of the vice chairmen. In practice, the president is the 'second chair'. The chairmen and presidents are already at the highest positions in SOCBs and are the core financial cadres in this country. In comparison to other bankers who are in lower positions, it is easier for them to get promoted by transferring to the top positions in the government or CCP systems. Other bankers, such as vice chairmen, ordinary executive directors and vice presidents may first get promoted by moving to higher positions in the same institution or other equivalent SOCBs. Due to the different promoting routines, the career trajectories of chairmen and presidents and those of other bankers are examined and discussed separately.

1. The career trajectories of chairmen and presidents

In total, there are 22 records of chairmen and presidents collected, including 14 previous and 8 incumbent bankers.¹²⁰

(1) The pre-SOCB career trajectories

The evidence of pre-SOCB career trajectories suggests that the public sector, including central and local government organs and SOEs, have been the only

¹²⁰The incumbent bankers' are those who were in their positions at the end of 2016. The career trajectories of SOCBs' chairmen and presidents are listed in [Appendix 2](#).

source for selecting the chairmen and presidents of SOCBs.¹²¹ Bankers usually have three different types of career experience. The first type is in the state-owned financial sector, including SOCBs and other state-owned financial institutions. The second type is in the financial regulatory bodies of the State Council (the central government), such as the PBOC and CBRC. The third type is in local government. Some bankers have experience in more than one of these sectors. Therefore, there are seven possible career trajectories:

Type A: state-owned financial sector

Type B: financial regulatory bodies

Type C: local government

Type AB: state-owned financial sector and financial regulatory bodies

Type AC: state-owned financial sector and local government

Type BC: financial regulatory bodies and local government

Type ABC: state-owned financial sector, financial regulatory bodies and local government

Figure 6 shows the statistical outcomes of bankers' pre-SOCB career trajectories based on the above typology. 12 bankers (55%) developed their careers within the state-owned financial sector before being promoted to the position of chairman or president of an SOCB, which is represented by Type A. Apart from those bankers in Type A, the other 10 bankers all (45%) have the experience in the government sector, working previously as government officials.

In fact, as high as 77% of the bankers (Type A, AB, AC and ABC) have the experience in the state-owned financial industry, which means that entrepreneurship and professionalism have been emphasised when selecting chairmen and presidents. However, government officials and the employees of financial SOEs have been the only two sources, whereas financial elites in the private sector have been completely excluded, demonstrating that to be a chairman or a president of an SOCB, a person's political affiliation and loyalty are more important than his or her entrepreneurship or professionalism. Experience in the public sector, which represents a banker's knowledge about the nation's politics and the network in the bureaucratic system must be a primary consideration, even if the candidate has no experience of operating and managing a bank. For instance, Xiao Gang and Liu Shiyu, the former chairmen of BOC and ABC respectively, both transferred to SOCBs

¹²¹Tian Guoli, the incumbent chairman of CCB was ever the chairman of CITIC Bank. Zhao Huan, the incumbent president of ABC, was ever the president of Everbright Bank. CITIC Bank and Everbright Bank are JSCBs in China. Based on the official classification, these two banks are not within the state-owned sector. However, their positions in the two banks were based on their capacities in the boards and the senior management of CITIC Group and China Everbright Group (details provided in Appendix 2), which are the majority shareholders of CITIC Bank and Everbright Bank respectively. Moreover, the two financial holding groups are CCEs. In this sense, their positions were still within the state-owned sector.

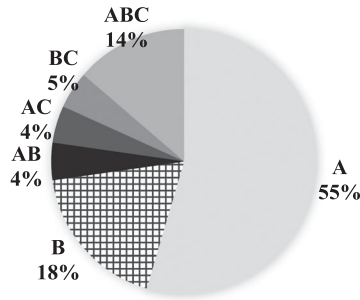


Figure 6. The types of chairmen's and presidents' pre-SOCB career trajectories. Sources: Bankers' biographies published in SOCBs' annual reports and the Index of China's Leaders and Cadres <http://cpc.people.com.cn/gbzl/index.html>, and their profiles in financial media coverage.

from the position of the vice governor of the PBOC, without any industrial experience.

(2) The careers in SOCBs and the post-SOCB career trajectories

Bankers' career development during and after their tenures in SOCBs can directly reflect the influence and function of political incentives. 10 of the 14 (71.43%) chairmen had/have posts in the CCP Central Committee, and the current president of ABC has also been selected as one of the substitute members. In total, 11 of the 22 bankers (50%) had/have concurrent political posts during their tenures in SOCBs.

Before becoming SOCBs' chairmen or presidents, these bankers usually worked as vice chairmen or presidents of SOEs, or vice governors of financial regulatory bodies or local governments. At these positions, they were not qualified to enter the CCP Central Committee. Only by becoming the chairmen or presidents of SOCBs can they have the opportunities to participate in the policy-making process of the CCP. Namely, a banker's concurrent political post in the Committee during his or her tenure in an SOCB is a substantial promotion in the CCP system.

More importantly, these bankers can secure more promising careers in the government or the CCP system afterwards. Figure 7 shows the directions of the post-SOCB career trajectories of the 14 previous chairmen and presidents.¹²²

Among them, apart from one who was dismissed due to illegal conduct, and five who retired due to age issues, the other eight bankers all stayed in the public sector and the majority of them have been immediately promoted

¹²²Tian Guoli transferred from the chairman of BOC to the chairman of CCB, which was a lateral transfer. Since Tian already worked as a chairman of an SOCB, he is categorised as a previous banker not an incumbent one. For more details, please see Appendix 2.

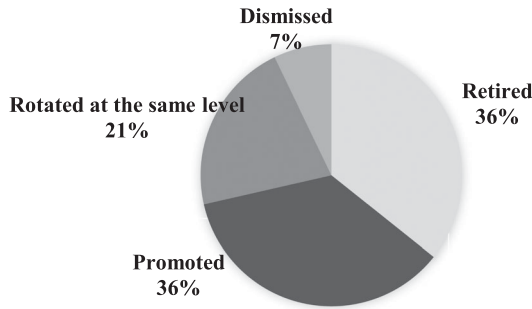


Figure 7. The directions of chairmen's and presidents' post-SOCB career trajectories. Sources: Bankers' biographies published in SOCBs' annual reports and the Index of China's Leaders and Cadres <http://cpc.people.com.cn/gbzl/index.html>, and their profiles in financial media coverage.

to higher positions in the bureaucratic hierarchy, becoming the leading officials in the central government's financial departments or provincial governments. Besides, all of those chairmen who held concurrent posts in the CCP Central Committee during their tenures in SOCBs and did not retire after the tenures, have maintained their seats in the Committee and have been promoted from substitute to formal members.

Xiao Gang and Liu Shiyu are the two bankers mentioned above who had no previous industrial experience but nonetheless transferred from the positions of the vice governors of the PBOC to the chairmen of SOCBs. After their tenures in SOCBs, both were promoted to the position of the governor of the CSRC,¹²³ which is at the chief ministerial level. After their tenures in SOCBs, Xiao and Liu have rotated back to the government system and achieved political promotions. In their cases, working in SOCBs could help them obtain industrial experience and skills and improve the records of their contributions to China's financial development, the ultimate purpose of which was to enhance their qualifications for higher positions in the bureaucratic hierarchy and thus lay the foundation for the further development of their political careers.

Some bankers have also been successfully promoted through another approach. Guo Shuqing, the previous chairman of CCB, was first promoted to the governor of the CSRC, from where he rotated to the governor of Shandong province and concurrently acted as one of the vice secretaries of the CCP provincial committee in Shandong. In China, this position is the

¹²³Xiao and Liu worked in SOCBs and the CSRC in different periods. Xiao worked as the chairman of BOC from 2004 to 2013 and the governor of the CSRC from 2013 to 2016. Liu acted as the chairman of ABC from 2014 to 2016, and in 2016 Liu took over the position of the governor of the CSRC from Xiao.

'second chair' in a provincial government.¹²⁴ Simultaneously, Guo was promoted from a substitute member to a formal member of the CCP Central Committee. In early 2017, Guo rotated back to the financial regulatory sector to act as the governor of the CBRC.¹²⁵

Another similar case is Jiang Chaoliang, the previous chairman of ABC. After his tenure in ABC, Jiang completely left the financial industry and started his political career in local government. He first worked as the governor of Jilin province and concurrently acted as one of the vice secretaries of the CCP provincial committee in Jilin. He was also promoted from a substitute member to a formal member of the CCP Central Committee. He has been subsequently promoted to the secretary of the CCP provincial committee in Hubei, as the 'first chair' leader of the province.

The two provinces where Guo and Jiang respectively governed and is governing are two economically important areas in China.¹²⁶ Being qualified to take such important positions, the two bankers particularly benefited from their experience as the 'first chairs' of SOCBs. On the one hand, their long-term chairmanship in SOCBs has made the bankers bureaucrat-minded, which is a prerequisite for being politically trustworthy. On the other hand, the experience of managing large SOEs has made them knowledgeable in economic development and skilful in personnel management.

Acting as the top leader of a Chinese provincial government or a ministerial organ of the State Council signifies an even more promising future for political careers. The aforementioned bankers have successfully developed from financial elites into political elites. Apparently, this promotion routine is entirely the same as those of the top bankers who had worked as the presidents of SOCBs before the corporatisation reforms and IPOs.¹²⁷ These findings demonstrate that political promotion remains the predominant incentive mechanism in SOCBs.

2. The career trajectories of other bankers

Apart from chairmen and presidents, other bankers, including executive directors, vice presidents, chief financial officers (CFOs), chief risk officers (CROs),

¹²⁴In China, the governor of a province is not the 'first chair', whereas the secretary of the CCP provincial committee, namely the top leader of the Party system in that province is. The governor is the top leader of the administrative system of a province and conventionally is one of the vice secretaries of the CCP provincial committee, ranking the second in a province's leading group. This is different from the situations in ministerial departments and SOEs, where the secretary of the CCP committee is concurrently acted by the top administrative leader or top executive.

¹²⁵China Said to Name Reformer Guo as Head of Banking Regulator' *Bloomberg* (24 February 2017) <<https://www.bloomberg.com/news/articles/2017-02-24/china-said-to-name-guo-shuqing-as-head-of-banking-regulator-izj84vbf>> accessed 24 September 2017. After the CBRC and the CIRC merged into the CBIRC in March 2018, Guo became the governor of the new regulatory body.

¹²⁶Shandong and Hubei ranked the third and the seventh among the 32 provinces and provincial municipalities of mainland China in terms of the GDP in 2016. See 'The GDP Ranking by Province in 2016' *Sina Finance* (7 February 2017) <<http://finance.sina.com.cn/china/gncj/2017-02-07/doc-ifyaexzn9124761.shtml>> accessed 24 December 2017.

¹²⁷For the details of the career trajectories of these bankers, please see [Appendix 1](#).

chief information officer (CIOs), chief audit officers (CAOs), the secretaries of the BOD and the secretaries of the commission for discipline inspection (CDI), also play an essential role in banks' operation and governance. Based on the information disclosed in SOCBs' annual reports, the author has tracked the pre- and post-SOCB careers of these bankers.

(1) The pre-SOCB career trajectories

Figure 8 shows the career backgrounds of all the bankers who worked in the five SOCBs from 2010 to 2016, apart from the chairmen and presidents.¹²⁸

In general, the pre-SOCB careers can be categorised into three types. 'Government' includes those bankers with previous experience in government or CCP organs. 'Private' refers to those who had worked in private or foreign financial institutions. 'SOCBs/CCEs' means that the bankers only developed their careers in SOCBs or other CCEs. Some bankers had worked in more than one type of institution. If a banker had worked in both government/CCP organs and SOCBs/CCEs, the banker is included in the type 'Government'. Similarly, as long as a banker had worked in private or foreign institutions, having the experience outside the bureaucratic system, the banker is included in the type 'Private'.

It is notable that the majority of the bankers developed their careers in the state-owned sector – around 80% of the bankers were in the type 'SOCBs/CCEs'. In particular, more than half of these bankers developed their careers in only one institution, without transferring between different SOCBs or CCEs. Table 4 shows the proportions of the bankers with single-SOCB experience.

Bankers with government or private backgrounds only constituted around 20% of all bankers. Comparatively, more than 10% were from government or CCP organs, whereas in most years only 5% or 6% were from the private sector. In comparison to the career backgrounds of chairmen and presidents, the appointments of other top bankers were not completely closed to the private sector. After the corporatisation reforms and IPOs, in order to import advanced corporate governance experience, some SOCBs recruited financial elites from overseas markets through an 'open market' approach.¹²⁹ However, the number of these bankers was very small. Moreover, by 2016, most of them had left SOCBs.

Clearly, the state-owned sector has still been the main source of the bankers in the boardrooms and senior management of SOCBs, demonstrating that the politicised and administrative approach has still been very important.

¹²⁸The details of bankers' pre-SOCB career trajectories are included in Appendix 3.

¹²⁹For example, these bankers include: Zhang Hongli, who had worked in Deutsche Bank before joining ICBC; Ye Diqi, who had worked in HSBC before he became the vice president of BCM; Ng Peng Khian and Chim Wai Kin, two Singaporean bankers who worked in BOC; and several other bankers who had worked in Chinese private financial sector.

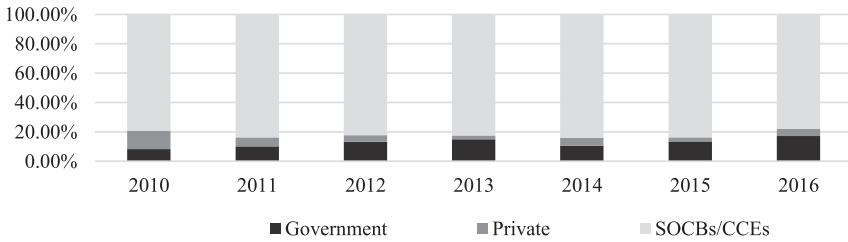


Figure 8. The types of other bankers' pre-SOCB career trajectories. Sources: Bankers' biographies published in SOCBs' annual reports.

Table 4. The proportions of bankers with single-SOCB experience.

2010	2011	2012	2013	2014	2015	2016
56.25%	55.10%	55.56%	57.50%	57.89%	48.65%	43.90%

Sources: Calculated by the author in accordance with the information in Figure 8.

(2) The post-SOCB career trajectories

From 2010 to 2016, there were 43 bankers who left their positions in SOCBs. The author has collected the public information about their post-SOCB activities. There are 10 bankers who already retired or whose information cannot be found. Among the other 33 bankers, some have stayed in the state-owned sector, some have rotated to government or CCP organs, and others have started new careers in the private sector.¹³⁰ Figure 9 shows the statistical outcomes of the 33 bankers' career directions.¹³¹

20 bankers (60.61%) have stayed in the state-owned sector by transferring to other SOCBs or CCEs. 10 of them have received promotions in the managerial hierarchy. In contrast to chairmen or presidents, bankers at lower positions usually have no explicit administrative levels, nor the opportunities to be involved in the CCP Central Committee. Nevertheless, gradual promotion in the state-owned sector may pave the way for them to become the chairmen or presidents of SOCBs or other CCEs. Vice presidents and executive directors would have the opportunities to become chairmen, vice chairmen or presidents. Senior managers may be promoted to executive directors and vice presidents. Thus, internal promotions and the working experience at different positions and institutions in the state-owned sector are of great importance. For some bankers, they may need to rotate at the same level first and wait for opportunities of promotion. There are six bankers who have transferred to lateral positions in other SOCBs or CCEs.

¹³⁰Some bankers may have changed their jobs more than once since they left the original SOCB. They may have transferred between government or CCP organs, SOCBs or CCEs, and the private sector. The statistics are based on the institutions where they worked at the end of 2016.

¹³¹The details of bankers' post-SOCB career trajectories are included in Appendix 4.

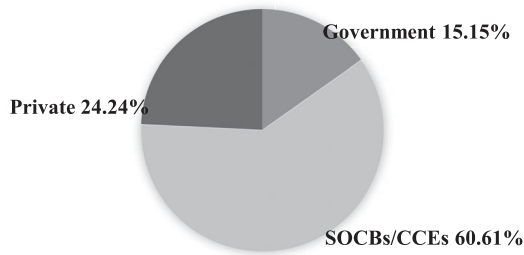


Figure 9. The types of other bankers' post-SOCB career trajectories. Sources: Bankers' biographies published in SOCBs' annual reports and their profiles in financial media coverage.

In addition, there are four bankers who left SOCBs and have started to work in JSCBs. Among the 12 JSCBs in China, their ownership structures and their affiliations to the government and state-owned sector are different. Some JSCBs are controlled by CCEs as subsidiaries,¹³² and therefore, indirectly owned by the state. After bankers in SOCBs transferred to this kind of JSCBs, usually, their managerial positions would be promoted. For instance, a previous vice president of a SOCB can transfer to the positions of executive director, president or chairman of a JSCB, and they also have the opportunities to become the chairman or president of the CCE that controls the JSCB. Therefore, these bankers are included in the type 'SOCBs/CCEs'.

In contrast, some JSCBs have a dispersed ownership structure comprised of many private owners. Those bankers who have transferred to this kind of JSCBs are included in the type 'Private'.

Based on this categorisation, in total, eight bankers completely left the state-owned sector. Two of them have been working in a JSCB without state ownership and others have transferred to private or foreign financial institutions.

In addition, there are five bankers who have directly rotated to the government system, including the PBOC, the CIRC and local governments. These bankers have realised their political promotions in the bureaucratic system.

Compared to chairmen and presidents, lower-level bankers have more choices to decide their future careers. They can choose to stay in the state-owned sector and wait for further political promotion. They can also completely alter their career plans by transferring to the private sector, which can offer much higher remuneration packages. In other words, the function of political incentives for lower-level bankers is not as significant as that for chairmen and presidents. The reason is that in an SOCB, there is only one

¹³²China Merchants Bank, CITIC Bank and China Everbright Bank are controlled by China Merchants Group, CITIC Group and China Everbright Group respectively. The three groups are CCEs. From 2010 to 2016, some bankers transferred from SOCBs to these three JSCBs.

chairman and one president. However, there are many lower-level bankers. Not all of them have a promising opportunity to get promoted in the bureaucratic system. Thus, some bankers may prioritise pecuniary benefits over political promotion and seek opportunities in a broader and more open market. Nevertheless, the majority have still chosen to stay in the state-owned sector and the government system. Clearly, despite more flexibility in career planning, political promotion is still the most important incentive for lower-level bankers in SOCBs.

3. Summary

The findings relating to bankers' career trajectories demonstrate that, even after the five SOCBs became listed modern corporations and the regulatory framework of bankers' remuneration was established, The *Nomenklatura* system has still been predominant in managing bankers. Accordingly, political incentives have still been the paramount incentive mechanism.

For chairmen and presidents, the experience in SOCBs could be conducive to their promotions in both the government and CCP systems. Until 2016, no chairman or president had left the bureaucratic system. Apart from the cases of retirement and dismissal, all bankers were promoted to the leading positions in the ministries of the central government and provincial governments or rotated to different positions in the state-owned sector.

Comparatively, the choices for lower-level bankers have been more diverse and flexible. A small number of bankers transferred to the private sector. However, for the majority, getting promoted in the state-owned sector or the government and CCP systems has still been the mainstream direction of career development.

VI. An analysis of the regulation and practice of bankers' remuneration

The last three sections have examined the regulation and practice of bankers' remuneration and political incentives in Chinese SOCBs.

The current regulatory framework is aimed primarily at guiding banks to modernise their systems of remuneration incentives. Most of the measures are based on international principles and standards, in order to enhance the function of remuneration incentives in promoting banks' profitability and stability. Nevertheless, there are two special rules enacted by the MOF and the CCP to control the level and components of remuneration, which run in the opposite direction of the modernising reform.

The empirical findings show that bankers' remuneration has been decided on a 'one-size-fits-all' basis. The amounts of bankers' remuneration were irrelevant to bankers' individual achievements or the banks' overall business

performance, meaning that the measures for the modernising reform have not been implemented or only implemented in a formalistic way. On the contrary, the two intrusive rules which impose direct control on bankers' remuneration have been strictly followed. Further, the evidence of bankers' career trajectories demonstrates that most bankers have still been managed in accordance with the *Nomenklatura* system. Political promotion remains the paramount way of incentives. The adherence to the traditional approach demonstrates that the regulation-guided reform has been inefficient.

One clear reason for the inefficiency is that the regulation is not appropriately designed, which should be attributed primarily to the unspecified measures in the CBRC Guidelines and the intrusive rules enacted by the MOF and the CCP. However, the deep-seated reason is that the traditional politicised and administrative approach has embedded substantial interests of the government and the CCP.

As discussed earlier, Chinese SOCBs have a long history of being wholly state-owned. State ownership has allowed the government and the CCP to intervene in every aspect of banks' operation and governance. During the transitional period of China's economy, political intervention in the financial system has been believed necessary to accumulate funds to support economic reform, especially financing the politically desirable but economically inefficient activities.¹³³ The pillar position of SOEs in national economic development is a typical feature of the Chinese economy. Through SOEs, government and the CCP could integrate, manage and distribute the country's resources to realise their economic, social and political goals.¹³⁴ SOEs have been regarded as the economic and political foundation for their governance. Therefore, SOEs must be predominant in those industries which are crucial and important to national economy and security.¹³⁵ Obviously, the financial system is where the government and the CCP want to maintain their robust control.

China's banking reform has been carried out through an 'up-down' approach so that the government can orchestrate the whole schedule and master the order of reform steps.¹³⁶ It is no doubt that partial openness and privatisation would push forward the modernisation of SOCBs and enhance their competitiveness. However, the government and the CCP are also afraid of completely losing the control.¹³⁷

¹³³La Porta and others (n 13) 267.

¹³⁴Wang (n 52) 660.

¹³⁵Dahai Dong and Ke Zhang, 'Deeply Understanding the Importance to Make SOEs Stronger, Better and Bigger' *People.cn* (21 August 2017) <<http://opinion.people.com.cn/n1/2017/0821/c1003-29481985.html>> accessed 11 August 2018.

¹³⁶Sonja Opper and Sylvia Schwaag-Serger, 'Institutional Analysis of Legal Change: The Case of Corporate Governance in China' (2008) 26 *Washington University Journal of Law and Policy* 245, 250; Heilmann (n 41) 3.

¹³⁷Lin (n 41) 793.

Throughout the whole period, the reform of the Chinese banking system has been moving in two paradoxical directions. On the one hand, the banking regulators have made great efforts to introduce advanced regulatory methods in accordance with international expectations, aimed at providing a rule-based structure for financial development and allowing more financial liberalisation and marketisation. However, on the other hand, the government and the CCP continue to enhance the mechanisms of political intervention in the banking sector.¹³⁸ This paradox is due to the two objectives: persisting in the state-controlled routine for the development of the state-owned banking sector, whilst pursuing a more open and market-oriented regulatory environment for the remainder.¹³⁹ As a result, SOCBs have been superficially regulated by the formal rules in the regulatory books, whereas actually subject to the traditional and informal rules in support of political intervention.

The observed paradox in the regulation and practice of bankers' remuneration is an epitome of the paradox at the macro level of financial reform. On the one hand, the government and the CCP are clear about the indispensability of adopting modern incentive methods to enhance both profitability and risk management. However, on the other hand, they also believe that retaining sufficient power over the personnel and decision-making mechanisms of SOCBs is crucial for controlling the country's core financial resources.

Bankers' thoughts and behaviours have a decisive impact on the operation and governance of banks. Bureaucrat-minded bankers would give priority to government's policies, rather than banks' economic efficiency. The *Nomenklatura* system, which bolsters the administrative and politicised management of SOCBs' bankers, is essential for the government to keep these bankers bureaucrat-minded, and thereby facilitate the control over banks' decision-making and governance.¹⁴⁰ Therefore, although China's banking reform has been implemented in many aspects, the modernising reform of the institutions in relation to personnel management and incentives remains sensitive and conservative.

As discussed in Section II, a typical embodiment of political intervention in the decision-making of SOCBs is the pervasive policy loans provided to government-favoured projects and SOEs. Even after the SOCBs became modern listed corporations, they have still been required to support the government's economic stimulus policies. As long as the very fundamental requirement on SOCBs – maintaining core financial resources and economic and political stability exists, political intervention in the decision-making processes will not be eliminated, notwithstanding the inefficiency of banks' business operation and corporate governance. Even after the regulatory reform of bankers' remuneration incentives was launched, the fundamental requirement has not been

¹³⁸Michiel Haasbroek and Jorn-Carsten Gottwald, 'The Impact of the Global Financial Crisis on China's Banking Sector' (2017) 35 (1) *Copenhagen Journal of Asian Studies* 5, 6.

¹³⁹*ibid* 9.

¹⁴⁰Heilmann (n 41) 4.

removed. Until today, the SOCBs are still highly involved in the national strategic investments in support of the government's macroeconomic policies, such as the 'Supply-side Structural Reform', the 'Belt and Road Initiative' and the construction of the XiongAn District.¹⁴¹ If the nature of SOCBs' role in China's economy and politics remains unchanged, it is impossible to mitigate the political intervention in banks' decision-making. Accordingly, the *Nomenklatura* system, especially the political incentives for bankers, will not be completely replaced by a market-oriented remuneration system.

The system of bankers' remuneration and incentives in Chinese SOCBs is highly embedded in the country's economic and political institutions. The system serves the purpose of consolidating the power of the government and the CCP over the state-owned banking sector. The government and the CCP have benefited from the existing model of personnel management and incentives. As a result, the modernising reform, which aims to apply market mechanism to mitigate the tradition of political intervention, faces formidable institutional obstacles. In this sense, the innovations in the regulatory framework are far from adequate.

VII. Conclusion

In China, the interaction and relationship between the state and the market are typically different from those in the advanced liberal markets. Thus, the internal governance systems of Chinese SOCBs cannot be explained by western theories. When the topic of regulating bankers' remuneration in advanced financial markets has been attracting huge attention, there are still few academic studies probing into the issue of Chinese SOCBs, despite their increasingly prominent position in global financial markets. This article has presented the first empirical study examining the regulation and practice of bankers' remuneration and incentives in Chinese SOCBs, the insights of which provide a fresh and unique perspective for understanding the system of bankers' remuneration and incentives in a different kind of financial market.

The article first discussed the tradition of political intervention in SOCBs' decision-making processes, as well as the operation of the *Nomenklatura* system, which served as a channel of political intervention.

With the purpose of modernising the systems of remuneration incentives, the banking regulators in China established a regulatory framework to guide banks to carry out the reforms. Accordingly, the article provided a comprehensive analysis of the regulation. The current regulatory framework is not perfect. Despite some advanced measures, there are serious problems. Based on the international principles and standards, the CBRC has introduced deferral, clawback and *malus*, which should be applied to variable

¹⁴¹For instance, see ICBC Annual Report 2017, 15; CCB Annual Report 2017, 12.

remuneration to enhance its function in long-term incentives. However, the CBRC Guidelines have failed to include any specific instructions on how to apply variable remuneration, nor any detail about how to implement these measures. More seriously, the MOF and the CCP have taken two intrusive measures to control the level and components of bankers' remuneration, which are incompatible with the original purpose of the regulation.

In order to verify to what extent the regulation has pushed forward the modernising reform of bankers' remuneration, the article examined the remuneration practice of SOCBs. It was found that the regulatory measures based on international principles and standards have not been effectively enforced, whereas the two intrusive measures have been followed strictly. The total remuneration offered to SOCBs' bankers has still been very low, and equity-based incentives have been completely forbidden. The so-called performance-based remuneration has been decided on a 'one-size-fits-all' basis, irrelevant to bankers' individual performance or banks' overall performance. Instead, the *Nomenklatura* system remains dominant. For top bankers, their experience of governing SOCBs has been essential for promotion in the bureaucratic hierarchy, paving the way for their political careers. Therefore, political promotion remains the most important incentive mechanism for SOCBs' bankers.

During the financial reform, the Chinese government has firmly controlled the core financial institutions and resources, in order to facilitate economic and social reforms and to maintain political stability. The politicised and administrative approach of personnel management has acted as a vital channel of the political intervention in SOCBs' decision-making and governance. Even today, the requirement on SOCBs to support national reforming strategies and the crucial position of SOCBs in the country's economy and politics have not been changed. As a result, despite the fact that the government has been aware of the necessity to reform bankers' remuneration and incentives in the context of financial internationalisation and marketisation, for the sake of their interests in the state-owned banking sector, SOCBs have been shielded from the regulatory reform of remuneration incentives.

The incentive mechanism of Chinese SOCBs still follows the traditional politicised and administrative approach, which is very different from the market-oriented and regulation-guided system in advanced financial markets. Bankers' remuneration and political incentives in Chinese SOCBs have been deeply rooted in the system of state-owned economy and the country's political institutions and culture. In this context, as long as the SOCBs are still operating as the financial foundation of the government and the CCP, a thorough reform of remuneration incentives would be very difficult.

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Disclosure statement

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Notes on contributor

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Appendices

Appendix 1. The career trajectories of SOCBs' chairmen and presidents (pre-corporatisation reform)

Bank, banker and tenure	Pre-SOCB career trajectory	Political post during the tenure in SOCBs	Reason for termination	Post-SOCB career trajectory (including political post)
ICBC Liu Tinghuan 1997–1999	<ol style="list-style-type: none"> The governor of a city-level subsidiary of PBOC (the secretary of the CCP committee) The vice president of ICBC (the vice secretary of the CCP committee) 	A substitute member of the 15th (1997–2002) CCP Central Committee	Rotation and promotion	The vice governor of PBOC (the vice secretary of the CCP committee)
BOC Liu Mingkang 2000–2003	<ol style="list-style-type: none"> The vice governor of Fujian province The vice president of China Development Bank (CDB) The vice governor of PBOC (the vice secretary of the CCP committee) The chairman of Everbright Group (the secretary of the CCP committee) 	A substitute member of the 16th (2002–2007) CCP Central Committee	Rotation and promotion	<ol style="list-style-type: none"> The governor of CBRC (the secretary of the CCP committee) A member of the 17th (2007–2012) CCP Central Committee
CCB Zhou Xiaochuan 1998–2000	<ol style="list-style-type: none"> A member of the State Commission for Restructuring the Economic Systems The vice president of BOC The vice governor of PBOC (a member of the CCP Committee) 	None	Rotation and promotion	<ol style="list-style-type: none"> The governor of CSRC (the secretary of the CCP committee) The governor of PBOC (the secretary of CCP committee) A member of the 16th and 17th CCP Central Committees
ABC Shang Fulin 2000–2002	The vice governor of PBOC	A substitute member of the 16th CCP Central Committee	Rotation and promotion	<ol style="list-style-type: none"> The governor of CSRC (the secretary of the CCP committee) The governor of CBRC (the secretary of the CCP committee) A member of the 17th and 18th (2012–2017) CCP Central Committees

(Continued)

Continued.

Bank, banker and tenure	Pre-SOCB career trajectory	Political post during the tenure in SOCBs	Reason for termination	Post-SOCB career trajectory (including political post)
Yang Mingsheng 2003–2007	<ol style="list-style-type: none"> The president of a provincial subsidiary of ABC The vice president of ABC (the vice secretary of the CCP committee) 	None	Rotation and promotion	<ol style="list-style-type: none"> The vice governor of CIRC (a member of the CCP committee) The chairman of China Life Insurance Company¹⁴² (the secretary of the CCP committee) A member of the 18th CCP Central Commission for Discipline Inspection (CCDI)¹⁴³

Sources: Bankers' biographies published in SOCBs' annual reports and the Index of China's Leaders and Cadres <http://cpc.people.com.cn/gbzl/index.html>, and their profiles in financial media coverage.

Appendix 2. The career trajectories of SOCBs' chairmen and presidents (post-corporatisation reform)

Bank, banker and tenure	Pre-SOCB career trajectory	Political post during the tenure in SOCB	Reason for termination	Post-SOCB career trajectory (including political post)
ICBC Jiang Jianqing Chairman 2005–2016 ¹⁴⁴	<ol style="list-style-type: none"> The president of the ICBC subsidiary in Shanghai The president of Bank of Shanghai The vice president of ICBC (the vice secretary of the CCP committee) 	A substitute member of the 16th, 17th and 18th CCP Central Committees	Retirement	1. The chairman of China-Central and Eastern Europe Financial Holding Company ¹⁴⁵ and the chairman of SINO-CEEFF Capital Management Company Limited ¹⁴⁶
Yang Kaisheng President 2005–2016	<ol style="list-style-type: none"> The president of a city-level subsidiary of ICBC The vice president of ICBC 	None	Retirement	A guest consultant of CBRC

¹⁴²China Life Insurance Company is a large CCE.

¹⁴³The CCDI is the highest internal-control institution in the CCP, which is responsible for enforcing internal rules and regulations, supervising and disciplining CCP members and combating corruption and malfeasance in the government and the CCP.

¹⁴⁴Jiang became the 'first chair' of ICBC since 2000, before the bank's corporatisation reform. At that time, he was the president. After ICBC turned into a shareholding company, he became the chairman.

¹⁴⁵This company is wholly-owned by ICBC, so it is closely connected to the state-owned financial sector. See Yu Wu, 'ICBC Invested 1 Billion Euros to Establish China-Central and Eastern Europe Financial Holding Company' *Xinhua Online* (6 November 2016) http://news.xinhuanet.com/world/2016-11/06/c_1119859179.htm accessed 22 September 2017.

¹⁴⁶This company is affiliated to ICBC Asia, which is an overseas branch of ICBC incorporated in Hong Kong.

		3. The CEO of China Huarong Assets Management Company ¹⁴⁷			
	Yi Huiman Chairman 2016-	1. The president of the ICBC subsidiary in Beijing (the secretary of the CCP committee) 2. The vice president of ICBC 3. The president and vice chairman of ICBC (the vice secretary of the CCP committee)	A substitute member of the 19th (2017–2022) CCP Central Committee	Not applicable	Not applicable
	Gu Shu President 2016-	1. The president of a provincial subsidiary of ICBC (the secretary of the CCP committee) 2. The vice president of ICBC	None	Not applicable	Not applicable
BOC	Xiao Gang Chairman 2004–2013 ¹⁴⁸	The vice governor of PBOC	A substitute member of the 17th CCP Central Committee	Rotation and promotion	1. The governor of CSRC (the secretary of the CCP committee) 2. A member of the 18th CCP Central Committee
	Li Lihui President 2004–2014	1. The vice president of a provincial subsidiary of ICBC 2. The vice president of ICBC 3. The vice governor of Hainan province	None	Retirement	The manager of the Blockchain Team in the National Internet Finance Association of China
	Tian Guoli Chairman 2013–2017	See Tian's information in the rows of CCB			
	Chen Siqing Chairman 2017-	1. The president of a provincial subsidiary of BOC 2. The vice president of BOC	A substitute member of the 19th CCP Central Committee	Not applicable	Not applicable

(Continued)

¹⁴⁷During Yang's tenure, Huarong was a wholly state-owned investment company. It turned into a shareholding company in 2012.

¹⁴⁸Xiao Gang was the president of BOC from 2003 to 2004 before the bank transformed into a shareholding company.

Continued.

Bank, banker and tenure	Pre-SOCB career trajectory	Political post during the tenure in SOCB	Reason for termination	Post-SOCB career trajectory (including political post)
	3. The president and vice chairman of BOC (the vice secretary of the CCP committee)			
CCB Guo Shuqing Chairman 2005–2011	1. A senior manager of the Economic System Reform Office in the State Council ¹⁴⁹ 2. The vice governor of Guizhou province 3. The vice governor of PBOC 4. The chairman of CHI.Ltd	A substitute member of the 17th CCP Central Committee	Rotation and promotion	1. The governor of CSRC (the secretary of the CCP committee) 2. The vice governor and interim governor of Shandong province and the vice secretary of the CCP provincial committee in Shandong; then promoted to the governor of Shandong province 3. A member of the 18th and 19th CCP Central Committees 4. The governor of CBRC (the secretary of the CCP committee) and a member of the PBOC Monetary Policy committee (concurrent)
Zhang Jianguo President 2006–2015	1. The vice president of a provincial subsidiary of ICBC 2. The vice president of BCM and then promoted to the president and vice chairman (the vice secretary of the CCP committee)	None	Retirement	Unknown
Wang Hongzhang Chairman 2012–2017	1. The governor of a city-level subsidiary of PBOC 2. The secretary of the CDI of PBOC	1. A member of the 17th CCDI 2. A substitute member of the 18th CCP Central Committee	Retirement	Unknown
Tian Guoli	1. A senior manager of CCB	A substitute member of the 19th CCP Central Committee	Not applicable	Not applicable

¹⁴⁹The Economic System Reform Office was annulled in 2003.

	Chairman 2017-	<ol style="list-style-type: none"> The chairman of China Cinda Assets Management Company ¹⁵⁰ The vice chairman of CITIC Group and the chairman of CITIC Bank (concurrent) The chairman of BOC (the secretary of the CCP Committee) 			
	Wang Zuji President 2015	<ol style="list-style-type: none"> The vice governor of Jilin province The vice governor of CIRC 	None	Not applicable	Not applicable
ABC	Xiang Junbo Chairman 2009– 2011 ¹⁵¹	<ol style="list-style-type: none"> The vice governor of the National Audit Office ¹⁵² The vice governor of PBOC 	A substitute member of the 17th CCP Central Committee	Rotation and promotion	<ol style="list-style-type: none"> The governor of CIRC (the secretary of the CCP committee) ¹⁵³ A member of the 18th CCP Central Committee
	Jiang Chaoliang Chairman 2011–2014	<ol style="list-style-type: none"> The governor of a city-level subsidiary of PBOC (the secretary of the CCP committee) The vice governor of Hubei province The chairman of BCM (the secretary of the CCP committee) The president and vice chairman of CDB (the vice secretary of the CCP committee) 	A substitute member of the 18th CCP Central Committee	Rotation and promotion	<ol style="list-style-type: none"> The governor of Jilin province and the vice secretary of the CCP provincial committee in Jilin The secretary of the CCP provincial committee in Hubei A member of the 19th CCP Central Committee
	Liu Shiyu Chairman 2014–2016	The vice governor of PBOC	None	Rotation and promotion	<ol style="list-style-type: none"> The governor of CSRC (the secretary of the CCP committee) and a member of the PBOC Monetary Policy Committee (concurrent) A member of the 19th CCP Central Committee

(Continued)

¹⁵⁰During Tian's tenure, Cinda was a wholly state-owned investment company. It turned into a shareholding company in 2009.

¹⁵¹Xiang was the president of ABC before it was restructured as a shareholding company in 2009.

¹⁵²The National Audit Office is a ministerial body of the State Council.

¹⁵³In September 2017, the CCDI announced that Xiang was expelled from the position of the CIRC's governor and deprived of the CCP membership due to the violations of law and the CCP disciplines. See the announcement of CCDI, 'The Former CIRC President Xiang Junbo Deprived of the CCP Membership and Discharged of the Public Employment Due to Serious Violations of Disciplines' (23 September 2017) http://www.ccdi.gov.cn/toutiao/201709/t20170923_126025.html accessed 9 January 2018.



Continued.

Bank, banker and tenure	Pre-SOCB career trajectory	Political post during the tenure in SOCB	Reason for termination	Post-SOCB career trajectory (including political post)
Zhang Yun President 2009–2015	<ol style="list-style-type: none"> 1. The president of a provincial subsidiary of ABC 2. The vice president of ABC 	None	Dismissal	Unknown
Zhou Mubing Chairman 2016-	<ol style="list-style-type: none"> 1. The president of a provincial subsidiary of ICBC (the secretary of the CCP committee) 2. The vice mayor of Chongqing 3. The vice governor of CBRC (the vice secretary of the CCP committee) 	None	Not applicable	Not applicable
Zhao Huan President 2016-	<ol style="list-style-type: none"> 1. The president of the CCB subsidiary in Shanghai 2. The vice president of CCB 3. The president of Everbright Bank and a member of the CCP committee of China Everbright Group (concurrent) 	A substitute member of the 19th CCP Central Committee	Not applicable	Not applicable
BCM Jiang Chaoliang Chairman 2004–2008	See Jiang's information in the rows of ABC			
Zhang Jianguo President 2004–2006	See Zhang's information in the rows of CCB			
Hu Huaibang Chairman 2008–2013	<ol style="list-style-type: none"> 1. The governor of a city-level subsidiary of PBOC 2. The secretary of the CDI of CBRC 3. The chief supervisor of China Investment Corporation¹⁵⁴ (the vice secretary of the CCP committee) 	A substitute member of the 18th CCP Central Committee	Rotation and promotion	The chairman of CDB

¹⁵⁴China Investment Corporation is a wholly state-owned company established by the State Council.

Li Jun President 2006–2009	The vice president and executive director of BCM	None	Rotation and promotion	The chief supervisor of BOC
Niu Ximing Chairman 2016–	1. The president of the ICBC subsidiary in Beijing 2. The vice president and executive director of ICBC 3. The president of BCM (the vice secretary of the CCP committee)	None	Not applicable	Not applicable
Peng Chun President 2009–	1. The president of a provincial level subsidiary of BCM 2. The vice president and executive director of BCM	None	Not applicable	Not applicable

Sources: Bankers' biographies published in SOCBs' annual reports and the Index of China's Leaders and Cadres <http://cpc.people.com.cn/gbzl/index.html>, and their profiles in financial media coverage.

Appendix 3. The pre-SOCB career trajectories of other bankers (2010–2016)

Bank	Banker	2010	2011	2012	2013	2014	2015	2016
ICBC	Executive director (Vice president) 1	Wang Lili A	Wang Lili A	Wang Lili A			Zhang Hongli C	Zhang Hongli C
	Executive director (Vice president) 2	Li Xiaopeng A	Li Xiaopeng A	Li Xiaopeng A	Liu Lixian AB		Wang Xiquan A*	Wang Xiquan A*
	Vice president 1	Luo Xi A	Luo Xi A	Luo Xi A	Zhang Hongli C	Zhang Hongli C	Gu Shu A*	Hu Hao A*
	Vice president 2	Yi Huiman A*	Yi Huiman A*	Yi Huiman A*	Wang Xiquan A*	Wang Xiquan A*	Wang Jingdong A	Li Yunze A
	Vice president 3	Zhang Hongli C	Zhang Hongli C	Zhang Hongli C	Gu Shu A*	Gu Shu A*		Tan Jiong A
	Vice president 4 Vice president 5				Zheng Wanchun A Wang Jingdong A	Zheng Wanchun A Wang Jingdong A		

(Continued)

Continued.

Bank	Banker	2010	2011	2012	2013	2014	2015	2016
	CRO	Wei Guoxiong A*	Wei Guoxiong A*	Wei Guoxiong A*	Wei Guoxiong A*	Wei Guoxiong A*	Wei Guoxiong A*	Wang Bairong A*
	CIO	Lin Xiaoxuan A*	Lin Xiaoxuan A*	Lin Xiaoxuan A*	Lin Xiaoxuan A*	Lin Xiaoxuan A*		
	Secretary of the BOD	Hu Hao A*	Hu Hao A*	Hu Hao A*	Hu Hao A*	Hu Hao A*	Hu Hao A*	Guan Xueqing A*
	Secretary of the CDI	Liu Lixian AB	Liu Lixian AB	Liu Lixian AB				Wang Lin B
	Others	Wang Xiquan A*	Wang Xiquan A*	Wang Xiquan A*				
BOC	Executive director (Vice president) 1	Li Zaohang A	Li Zaohang A	Li Zaohang A	Li Zaohang A	Li Zaohang A	Zhu Hexin A	Ren Deqi A
	Executive director (Vice president) 2	Zhou Zaiqun AC	Wang Yongli A*	Wang Yongli A*	Wang Yongli A*			Gao Yingxin A*
	Vice president 1	Wang Yongli A*	Chen Siqing A*	Chen Siqing A*	Zhu Shumin A*	Zhu Shumin A*	Ren Deqi A	Xu Deluo AB
	Vice president 2	Chen Siqing A*	Zhu Shumin A*	Zhu Shumin A*	Yue Yi A*	Zhang Jinliang A*	Gao Yingxin A*	Zhang Qingsong A*
	Vice president 3	Zhu Shumin A*	Yue Yi A*	Yue Yi A*		Ren Deqi A	Xu Deluo AB	Liu Qiang A
	Vice president 4	Yue Yi A*						
	CRO							Pan Yuehan A*
	CFO	Chim Wai Kin C	Chim Wai Kin C	Chim Wai Kin C	Chim Wai Kin C	Chim Wai Kin C		
	CAO	Ng Peng Khian C	Liu Yanfen A	Liu Yanfen A	Liu Yanfen A	Xiao Wei A	Xiao Wei A	Xiao Wei A
	Secretary of the BOD	Zhang Bingxun A*	Zhang Bingxun A*	Fan Yaosheng A*	Fan Yaosheng A*	Fan Yaosheng A*	Geng Wei A	Geng Wei A
	Secretary of the CDI	Zhang Lin A	Zhang Lin A	Zhang Lin A	Zhang Lin A	Zhang Lin A	Zhang Lin A	Fan Dazhi BC
ABC	Executive director (Vice president) 1	Yang Kun A*	Yang Kun A*	Guo Haoda A*	Guo Haoda A*	Lou Wenlong B	Lou Wenlong B	Lou Wenlong B
	Executive director (Vice president) 2	Pan Gongsheng A	Pan Gongsheng A	Lou Wenlong B	Lou Wenlong B		Cai Huaxiang A	
	Vice president 1	Guo Haoda A*	Guo Haoda A*	Cai Huaxiang A	Cai Huaxiang A	Cai Huaxiang A	Wang Wei A*	Wang Wei A*
	Vice president 2	Cai Huanxiang A	Cai Huanxiang A			Li Zhenjiang B	Lin Xiaoxuan A	Guo Ningning A
	Vice president 3					Wang Wei A*		Kang Yi A
	CFO							Li Zhicheng A*
	Secretary of the BOD	Li Zhenjiang B	Li Zhenjiang B	Li Zhenjiang B	Li Zhenjiang B	Zhu Gaoming A*	Zhang Keqiu A*	Zhang Keqiu A*
	Secretary of the CDI	Zhu Hongbo A*	Gong Chao AB	Gong Chao AB	Gong Chao AB	Gong Chao AB	Gong Chao AB	Gong Chao AB
	Others		Wang Wei A*	Wang Wei A*	Wang Wei A*			

CCB	Executive director (Vice president) 1	Chen Zuofu A*	Chen Zuofu A*		Zhu Hongbo A		Pang Xiusheng A*	Pang Xiusheng A*
	Executive director (Vice president) 2	Zhu Xiaohuang A*	Zhu Xiaohuang A*		Hu Zheyi B		Zhang Gengsheng A*	Zhang Gengsheng A*
	Vice president 1	Hu Zheyi B	Zhu Hongbo A	Zhu Hongbo A	Pang Xiusheng A*	Pang Xiusheng A*	Yang Wensheng A*	Yang Wensheng A*
	Vice president 2	Pang Xiusheng A*	Hu Zheyi B	Hu Zheyi B	Zhang Gengsheng A*	Zhang Gengsheng A*	Huang Yi A	Huang Yi A
	Vice president 3	Zhao Huan A*	Pang Xiusheng A*	Pang Xiusheng A*	Yang Wensheng A*	Yang Wensheng A*	Yu Jingbo A*	Yu Jingbo A*
	Vice president 4		Zhao Huan A*	Zhao Huan A*		Huang Yi A		
	Vice president 5					Yu Jingbo A*		
	CFO	Zeng Jianhua A*	Zeng Jianhua A*	Zeng Jianhua A*		Xu Yiming A*	Xu Yiming A*	Xu Yiming A*
	CRO	Huang Zhiling A	Huang Zhiling A	Huang Zhiling A	Zeng Jianhua A*	Zeng Jianhua A*	Zeng Jianhua A*	Liao Lin A*
	CAO	Yu Jingbo A*	Yu Jingbo A*	Yu Jingbo A*	Yu Jingbo A*			
	Secretary of the BOD	Chen Caihong A*	Chen Caihong A*	Chen Caihong A*	Chen Caihong A*	Chen Caihong A*	Chen Caihong A*	Chen Caihong A*
	Secretary of the CDI					Zhu Kepeng A	Zhu Kepeng A	
	Others 1	Gu Jingpu A*	Xu Huibin A*	Xu Huibin A*	Xu Huibin A*			
	Others 2	Du Yajun A*	Tian Huiyu A	Tian Huiyu A	Huang Yi B			
	Others 3	Mao Yumin AC	Wang Guiya A*	Wang Guiya A*	Huang Zhiling A			
	Others 4	Zhang Gengsheng A*	Zhang Gengsheng A*	Zhang Gengsheng A*				

(Continued)

Continued.

Bank	Banker	2010	2011	2012	2013	2014	2015	2016
BCM	Executive director (Vice president) 1	Qian Wenhui A	Qian Wenhui A	Qian Wenhui A	Qian Wenhui A	Qian Wenhui A	Yu Yali A*	Yu Yali A*
	Executive director (Vice president) 2	Wang Bin A	Qian Wenhui A	Yu Yali A*	Yu Yali A*	Yu Yali A*	Hou Weidong A	Hou Weidong A
	Vice president 1	Yu Yali A*	Yu Yali A*	Shou Meisheng A*	Shou Meisheng A*	Shou Meisheng A*	Shou Meisheng A*	Shou Meisheng A*
	Vice president 2	Ye Diqi C	Ye Diqi C	Hou Weidong A	Hou Weidong A	Hou Weidong A	Shen Rujun A	Shen Rujun A
	Vice president 3		Hou Weidong A		Zhu Hexin A*	Zhu Hexin A*	Wang Jiang A	Wang Jiang A
	CFO						Wu Wei AB	Wu Wei AB
	CRO	Yang Dongping A*	Yang Dongping A*	Yang Dongping A*	Yang Dongping A*	Yang Dongping A*	Yang Dongping A*	Yang Dongping A*
	CIO	Hou Weidong A						
	Secretary of the BOD	Du Jianglong B	Du Jianglong B	Du Jianglong B	Du Jianglong B	Du Jianglong B	Du Jianglong B	Du Jianglong B
	Secretary of the CDI	Shou Meisheng A*	Shou Meisheng A*					
	Others 1	Zhu Hexin A*	Zhu Hexin A*	Zhu Hexin A*	Lu Benxian A*	Lu Benxian A*	Lu Benxian A*	Guo Mang AB
	Others 2			Lu Benxian A*				

Sources: Bankers' biographies published in SOCBs' annual reports.

Notes: The capital letter underneath each banker's name is the type of the banker's career background, which is based on the classification below: A: state-owned sector (A*: sing-SOCB track); B: government; C: private sector; AB: state-owned sector and government; AC: state-owned sector and private sector; BC: government and private sector.

Appendix 4. The post-SOCB career trajectories of other bankers (2010–2016)

Bank	Year of termination	Banker	Position in SOCB	First post-SOCB position	Second post-SOCB position	Third post-SOCB position
ICBC	2016	Wang Xiquan	Executive director (vice president)	The chief supervisor of BOC		
		Gu Shu	Vice president	The president of ICBC		
		Wei Guoxiong	CRO	Retired		
	2015	Zhen Wanchun	Vice president	The president of Minsheng Bank ¹⁵⁵		

¹⁵⁵Minsheng Bank is a JSCB which is dispersedly owned by private shareholders.

	2014	Lin Xiaoxuan Liu Lixian	CIO Executive director (secretary of the CDI)	The vice president of ABC Retired	The CIO of Minsheng Bank	
	2013	Wang Lili Li Xiaopeng	Vice president Vice president	Retired The chief supervisor of China Investment Corporation	The CEO and executive director of China Merchants Group	The chairman of China Everbright Group
	2010	Zhang Furong	Executive director (vice president)	The chief supervisor of CCB		
BOC	2016	Zhang Lin	Secretary of the CDI	The vice director of the 10th Inspection Group of the CCDI		
	2015	Zhu Shumin	Vice president	The president of Agricultural Development Bank ¹⁵⁶	The vice governor of the CIRC (CBIRC)	
		Zhang Jinliang	Vice president	The president and executive director of China Everbright Bank		
		Chim Wai Kin	CFO	An independent director of Standard Chartered Bank China		
	2014	Wang Yongli	Executive director (vice president)	The CEO of LETV Finance ¹⁵⁷		
		Liu Yanfen	CAO	Unknown		
		Yue Yi	Vice president	The vice chairman and CEO of BOC Hong Kong		
	2012	Zhang Bingxun	Secretary of the BOD	Unknown		
	2011	Zhou Zaiqun	Executive director (vice president)	The vice president of Nanyang Commercial Bank ¹⁵⁸		
CCB	2015	Zeng Jianhua	CRO	The chairman of Kong Sun Holding Limited ¹⁵⁹		

(Continued)

¹⁵⁶Agricultural Development of Bank is a wholly state-owned policy bank.

¹⁵⁷LETV Finance is a private financial firm in China.

¹⁵⁸Nanyang Commercial Bank is a private bank based in Hong Kong.

¹⁵⁹Kong Son Holding Limited is a listed corporation based in Hong Kong.

Continued.

Bank	Year of termination	Banker	Position in SOCB	First post-SOCB position	Second post-SOCB position	Third post-SOCB position
	2014	Hu Zheyi	Executive director (vice president)	Unknown		
		Xu Huibin	Senior manager	The chairman of CCB Principal Assets Management		
	2013	Zhao Huan	Vice president	The executive director and vice president of China Everbright Bank	The president and vice chairman of ABC	
		Tian Huiyu	Senior manager	The executive director and vice president of China Merchants Bank		
		Wang Guiya	Senior manager	The executive director and vice CEO of Wanda Group ¹⁶⁰	The chairman and CEO of Dreamfly Capital Limited ¹⁶¹	
	2012	Chen Zuofu	Executive director (vice president)	The secretary of the CDI of China Export and Credit Insurance Corporation ¹⁶²		
		Zhu Xiaohuang	Executive director (vice president)	The president of China CITIC Bank		
	2011	Gu Jingpu	Senior manager	Unknown		
		Du Yajun	Senior manager	The chairman of the CCB Trust Limited		
		Mao Yumin	Senior manager	The chairman of CCB Hong Kong		
	2010	Fan Yifei	Vice president	The vice CEO of China Investment Corporation	The vice president of PBOC	
		Xin Shusen	Executive director (vice president and secretary of the CDI)	Unknown		
		Yu Yongshun	CAO	The chief supervisor of Huaxin Trust ¹⁶³		
ABC	2016	Cai Huaxiang	Executive director (vice president)	The chief supervisor of CITIC Group		

¹⁶⁰Wanda Group is a private-owned corporation in China.

¹⁶¹Dreamfly Capital Limited is a private financial firm in China. The company was established by Wang Guiya.

¹⁶²China Export and Credit Insurance Corporation is a CCE.

¹⁶³Huaxin Trust is a private-owned financial firm in China.

	2015	Li Zhenjiang	Vice president	The vice governor of the Financial Services Bureau ¹⁶⁴	
		Zhu Gaoming	Secretary of the BOD	The vice CEO of China CITIC Group	The executive director of China CITIC Group
	2014	Guo Haoda	Executive director (vice president)	The chief supervisor of China Investment Corporation	
	2012	Yang Kun	Executive director (vice president)	Sentenced due to bribe-taking	
	2011	Zhu Hongbo	Secretary of the CDI	The executive director and vice president of CCB	The chief supervisor of China Everbright Group
BCM	2016	Yang Dongping	CRO	Unknown	
		Lu Benxian	Senior manager	The chairman of China Minsheng Investment Group	
	2015	Qian Wenhui	Executive director (vice president)	The chief supervisor of ICBC	The president of Agricultural Development Bank
		Zhu Hexin	Vice president	The executive director and vice president of BOC	The vice governor of Sichuan province
	2012	Wang Bin	Executive director (vice president)	The chairman of China Taiping Insurance Group ¹⁶⁵	

Sources: Bankers' biographies published in SOCBs' annual reports and their profiles in financial media coverage.

¹⁶⁴The Financial Services Bureau is a subordinate body in the State Council.

¹⁶⁵Taiping Insurance Group is a CCE.