Henan rural bank scandal points to wider social tensions in China

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Protests erupted in Zhengzhou, the capital of central China's Henan province, on July 10, as thousands of village bank depositors complained about a financial scandal at several rural banks. The rally sparked a standoff between protesters and police, and in a widely circulated video, protesters were also beaten by unidentified thugs in uniform. This brought the scandal involving several rural banks in Henan to the public's attention.

By April, many such banks in Henan Province had said depositors could not withdraw money, and closed their platforms for online withdrawals and transfers. At least a thousand customers began to travel to Zhengzhou hoping to solve the problem. Larger protests began in May. Hundreds of protesters gathered at the site of the Henan Banking and Insurance Regulatory Commission on May 23 and were dispersed by police.

Official crackdowns only deepened the scandal, sparking a tsunami of public criticism and comment on the Chinese internet. Many savers said on social media that although they had undergone nucleic acid testing as required and had not been infected with COVID-19 or had close contact with someone with COVID-19, their "health codes" had turned red (meaning "risk personnel"). That meant they were restricted from travel or required to quarantine under the provisions of pandemic prevention and control. Health codes are QR codes set up by many cities in China for epidemiological investigations and are often associated with people's travel and daily activities.

This response led to more criticism and wider public attention. Angry people questioned the abuse by authorities of pandemic measures to suppress protesters. Many accused officials of "acting as thugs for the capitalists."

In response to these denunciations, in late June, a number of officials were punished. They included Feng Xianbin, executive deputy secretary of the Zhengzhou Municipal Political and Legal Committee and head of the city's pandemic prevention and control headquarters, and Zhang Linlin, secretary of the Zhengzhou Municipal Committee of the Communist Youth League of Henan Province and deputy director of the pandemic headquarters.

According to the official investigation, a total of 1,317 village bank depositors were forcibly given "red codes" and restricted from traveling. The investigation report stated that Feng and Zhang had acted "without authorisation" and ordered their subordinates to implement their measures. This had "seriously endangered the seriousness of the management and use of health codes, and caused serious adverse social impacts."

However, many people believed that the removal and demotion of such officials was not enough. The investigation report evaded or did not explain many key questions. How did the officials of the Political and Legal Affairs Commission obtain the personal information of depositors of the rural bank? By what means did these officials arbitrarily assign a 'red code'? Several comments said other regions had used similar methods to suppress dissent.

After the initial public outcry passed, officials still provided no solution to the problems related to the rural banks, and that led to the protests on July 10. The violent attack that day caused tens of thousands of comments on social media in a short period of time, before related topics were blocked.

On the evening of July 10, Zhengzhou police issued a notice to try to calm the anger of depositors. The notice said the police had arrested a group of financial crime

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suspects and frozen the funds involved in the case. Henan province's financial regulator said it was speeding up the formulation of a resolution plan.

But the violence of the day and the relationship between the thugs and the police remain unexplained. Moreover, according to online posts, some protesters were forced by the authorities to sign "guarantee letters" and "letters of admonition," promising not to participate in rallies.

Subsequent news reports and investigations revealed that the banks involved are controlled by a group called Xincaifu (New Fortune), which was deregistered in February. According to media reports, the amount involved in the case currently exceeds 39 billion yuan ($US5.8 billion), and the affected depositors number up to hundreds of thousands of people. Many of these depositors are not local residents of Henan, but conduct business through third-party internet platforms, often because rural banks offer higher interest rates.

Since 2011, according to a police investigation, the New Fortune group has controlled a number of village banks through various means, including by installing or manipulating bank executives, using internet platforms to sell financial products and attract depositors, illegally transfering funds, and setting up companies to delete data.

In an attempt to ease the dissatisfaction of depositors, the Henan Provincial Banking and Insurance Regulatory Commission said it would gradually release funds to relevant depositors. The first batch of funds was to be released on July 15, covering customers who had deposited less than 50,000 yuan. The second batch of funds was be released on July 25, extending up to deposits worth 100,000 yuan.

The scandal is just one reflection of the ongoing pressure on China's economy. In recent years, the real estate crisis has worsened local economic and government finances. Over the past two decades, the real estate market has grown into an important pillar of China's economy and local fiscal revenue. In fact, the real estate industry accounts for about a quarter of China's gross domestic product (GDP).

Since the beginning of the year, house prices have dropped sharply, falling by 8.8 percent in May and 7.2 percent in June. This will inevitably affect financial companies and the capital markets.

At the same time, attention has been drawn to unfinished housing projects in many regions, with more than 100 being halted across 50 cities, prompting thousands of homebuyers to protest and refuse to pay bank loans.

The continuing scandals in the fields of economy and finance have led many people to believe this is just the tip of the iceberg, with concerns about a domino effect. Economic issues, along with rising youth employment and social inequalities, remain among the hottest topics on the internet.

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