The rise and fall of Anbang

Out with a whimper

SHANGHAI

China's government takes control of its would-be financial colossus

"WHEN it comes to the meaning of life, we will all return to zero one day." So philosophised Wu Xiaohui, a Chinese tycoon, as he reflected on his success in 2015. Little did he realise how soon his words would be proved true. He founded his firm, Anbang, as a small car-insurance company just over a decade ago. By 2017 it ranked among the world's biggest insurers, with some $300bn of assets, including stakes in hotels and financial firms in America, Europe and Asia. But then, even more vertiginous than its ascent, came its fall. On February 23rd China's government said it had taken over Anbang and would prosecute Mr Wu for economic crimes.

Rarely in corporate history has a giant grown and collapsed so quickly. But Anbang's tale is also interesting for what it reveals about China's economic landscape. It is the clearest demonstration that regulators are serious about defusing debt risks that have built up in recent years. And it reveals the murky political waters running through the financial system. As Xi Jinping, China's president, consolidates his grip on power, these seem to be getting rougher.

On the surface, nationalising Anbang is a case of smart, preventive regulation. The insurance watchdog said it intervened because illegal operations had "seriously endangered" Anbang's solvency. It did not spell out Anbang's alleged offences, but two features of its business were problematic. The first was its method of raising cash. It sold high-yielding, short-term investment products disguised as insurance, turning what should have been the safest part of the financial system, the insurance sector, into one of the most dangerous.

The second was what it did with that cash. It was an aggressive, some say foolhardy, investor overseas. It paid $2bn for New York's Waldorf Astoria hotel and $6.5bn for hotels owned by Blackstone Group, the world's largest private-equity firm. When Mr Xi last year called for a crackdown on "financial crocodiles"—companies destabilising the economy with reckless borrowing and investment—Anbang's misery deepened. The regulator blocked its overseas deals, reined in its insurance business and detained Mr Wu.

Beneath the surface, though, there are political currents. The overseas investments of other high-flyers, notably HNA and Wanda, two of China's biggest private conglomerates, have also faced close scrutiny. They, too, are racing to sell assets to repay debts. But none has come under as much pressure as Anbang.

That may be because Anbang lacks defenders in high places. State-owned banks are some of the main creditors to HNA and Wanda, whereas Anbang has relied more on premiums from insurance sales. For a time, Mr Wu was backed by powerful princelings, as the descendants of revolutionary leaders are known. He was married to the granddaughter of Deng Xiaoping, China's revered former leader. Chen Xiaolu, the son of a military commander under Mao, was listed as a company director. Mr Wu was also reputed to have a close relationship with Xiang Junbo, the top insurance regulator during Anbang's rise.

But under Mr Xi, these connections appear to have frayed. In 2015 *Caixin*, a Chinese financial magazine, reported that Deng's granddaughter had separated from Mr Wu. Mr Chen distanced himself as well, saying he was merely an adviser. And early last year Mr Xiang, the regulator, was detained for corruption.

There will be three things to watch in the coming months. The first is whether regulators can limit the collateral damage as they unwind Anbang's excesses. The stated goal is to manage the firm for one year, stabilise its operations and return it to private hands. The real goal, according to two executives with other insurers, is to pay off policy-holders and honour its debts by selling its assets. Although Anbang might have overpaid on its international forays, it bought into domestic banks and property developers when they were priced more cheaply. Its stakes in Minsheng Bank and China Merchants Bank, two of the country's top lenders, will be sought after by other insurers.

The second is the impact on the financial sector. With its reliance on short-term debt and undisciplined deal-making, Anbang's business model was inherently unstable. Closing the loopholes it exploited should put China's economy on a more stable footing. Credit Suisse, a bank, says that Anbang's rush to expand generated "irrational competition" in the insurance sector. Its takeover will help stop that.

Terminal velocity

Finally, there is the political backdrop. Mr Xi has warned many times that no one is immune from his crackdown on corruption. But princelings have, for the most part, been less affected. The question is whether Mr Wu's takedown is a sign that all tycoons, no matter how well connected, are now vulnerable—or whether his protection had simply evaporated. ■

Emerging markets

Putin's fiscal fortress

Russia's credit rating rises; Brazil's falls

BRAZIL and Russia, the third- and fourth-biggest emerging economies, have much in common beyond their size. Each boasts annual GDP per person of around $10,000, which depends more than either would like on natural riches. After commodity prices tumbled in 2014, their economies shrank and their currencies sank. Their central banks have fought hard against the ensuing inflation, driving it below 3%. That has allowed both to cut interest rates, contributing to modest economic recoveries.

But their fiscal fortunes have diverged. Brazil's credit rating was cut by Fitch on February 18th, making its sovereign bonds even "junkier" (ie, more speculative). Russia's rating, by contrast, was raised a few days later by S&P Global, which became the second agency to rate Russian sovereign debt as "investment grade".

That might seem an odd description for a country embroiled in two wars and encumbered by sanctions. But Russia's upgrade is not hard to justify. Though its approach to geopolitics is adventurous, its approach to macroeconomics is deeply conservative. Indeed, in many ways Russia's geopolitical adventurism has necessitated its economic conservatism.

"The whole Russian economic policy, starting from the president, is focused on keeping inflation low, ensuring that the budget is stable, and that reserves are moving up," says Oleg Kouzmin of Renaissance Capital, an investment bank. It is a "very defensive" strategy, argues Timothy Ash of BlueBay Asset Management, designed to help Russia weather future sanctions and build defences against the West.

When oil prices fell in 2014, Russia's ▸▸