



Crime and crisis in China's P2P online lending market: a comparative analysis of fraud

Li Huang¹ · Henry N. Pontell^{2,3}

Accepted: 17 August 2022 / Published online: 15 September 2022
© The Author(s) 2022

Abstract

White-collar criminality continues to be a significant issue in countries with differing levels of economic development. This paper provides a comparative analysis of white-collar crime and crises through an examination of the recent peer-to-peer (P2P) online lending crash in China. It considers criminological findings from major United States crises in light of China's P2P online lending market failure through the lens of white-collar crime theory and research. The findings show that fraud was a main contributor to the P2P online lending crash and that various structural factors facilitated financial crimes that caused the collapse of the P2P online lending market. This study indicates that, similar to the U.S. experience, crime-facilitative environments allowed for endemic fraud in China's online lending industry. It suggests that a primarily reactive approach to financial crime is less effective than a proactive system of compliance that includes more comprehensive and transparent financial regulation and law enforcement.

Keywords Financial crime · Peer-to-peer online lending · Lax regulation · Financialization · System capacity

✉ Li Huang
lhuang14@uci.edu

Henry N. Pontell
pontell@uci.edu

¹ Department of Criminology, Law and Society, University of California, Irvine, CA, USA

² Department of Sociology, John Jay College of Criminal Justice, City University of New York, New York, NY, USA

³ Department of Criminology, Law and Society, University of California, Irvine, CA, USA

Introduction

The literature on white-collar and corporate crime has aimed at understanding the causes and consequences of financial crimes (e.g., Barak, 2012; Pontell, 2005). Estimates show that financial fraud, against individuals alone, costs upwards of \$50 billion annually in the U.S. (National Center for Victims of Crime, 2016). Large-scale financial crimes have been found to play significant roles in U.S. economic crises. The enormous losses in both the Savings and Loans (S&L) debacle and the 2008 mortgage crisis were in no small part the result of widespread fraudulent schemes (Calavita & Pontell, 1990; Calavita et al., 1997b; Nguyen & Pontell, 2010). The workings of finance capitalism have been used to explain the limited enforcement response and lack of recognition of fraud (Calavita et al., 1997b). For example, the financial industry's ability to guide regulatory behavior can effectively render criminal prosecutions out of bounds (Barak, 2012).

Financial fraud is an important global issue, constituting a significant problem in both developed and emerging markets. In 2018, the total estimated global costs of fraud were \$4 trillion (Association of Certified Fraud Examiners, 2018). Emerging markets, absent the sophisticated legal and regulatory experience necessary to effectively deter financial crimes, may succumb to high risks of market meltdowns. The regulation of financial crime is further complicated by country-specific political regimes, regulatory cultures, and organizational structures of government agencies. In addition, technological advances have exacerbated this issue by allowing the quick proliferation of financial transactions and fraudulent schemes via the Internet. Given the universality of white-collar crime, comparative study is essential for understanding this type of offending in globalized context (Kawasaki, 2019).

China, as a leading emerging market, has long attempted to thwart its increasing numbers of white-collar and corporate crimes. Since major economic reforms in the 1980s, China has increasingly experienced crimes associated with food safety, environmental hazards, and business operation (Cheng, 2012; Ghazi-Tehrani et al., 2013). The estimated economic costs of white-collar crime in China total hundreds of billions of RMB annually (Cheng & Friedrichs, 2013). This unprecedented volume of white-collar offenses has posed serious threats to Chinese society, impacting major issues of food safety, climate change, and financial market stability among others (Ghazi-Tehrani & Pontell, 2022; Ghazi-Tehrani et al., 2013).

This study examines the crash of China's scandal-plagued peer-to-peer (P2P) lending market to provide additional criminological insights into matters of financial fraud and crises. P2P lending is a practice in which an online platform is supposed to serve as an information intermediary that connects borrowers and lenders. Once the largest online lending market in the world, the rapid growth of P2P lending in China was immediately followed by the industry's massive failure in which thousands of P2P lending firms were shut down and the entire industry eventually closed. The collapse of the P2P lending market involved significant amounts of widespread fraud and financial malpractice. Utilizing media reports and official documents, we survey different fraud techniques widely utilized in P2P lending in order to examine the structural factors conducive to these crimes. Drawing upon white-collar crime

studies of financial crises in the United States that examine the role of systemic fraud, this study assesses the applicability of theories of system capacity and non-issue making to China. Despite the major differences in both government and economic structure, the dynamics of fraud in the P2P lending crisis appear similar to those found in studies of financial crises conducted in the United States.

Financial crime theory and China

Fraud in crises

Scholars have defined financial crime in varying ways (Ryder, 2011). Most broadly, financial crime can be used inter-changeably with white collar crime (e.g., Pickett & Pickett, 2002); a narrower definition relates to crimes by financial institutions (e.g., Reurink, 2018). In this study, we consider financial crimes as offenses directly related to financial institutions and/or the financial market order. Criminological research on financial crime can be categorized as follows: (1) institutional approaches; (2) organizational perspectives; (3) examinations of costs, consequences, and victims; and (4) assessments of legal and political responses (Reurink, 2018). Institutional contexts have been studied the most extensively in criminology. White-collar crime researchers have collectively attributed the prevalence of financial offenses in the U.S. to the transformation of the American economy (Calavita et al., 1997b; Tillman & Indergaard, 2005; Tillman et al., 2017). The post-1980's financialization of the economy has generated many more opportunities and motives for market players to engage in financial crimes than in the past (Tillman et al., 2017). Financial crimes are linked to structural changes in financial markets through the burgeoning of “structural holes” (Burt, 1992)—the lack of ties between buyers and sellers—during market restructuring, which allows bogus brokers to reproduce (Tillman & Indergaard, 1999).

Calavita and Pontell (1990) documented the effects of accelerated deregulatory policy on the thrift (S&L) industry during the Reagan administration, finding that it was “the cure that killed.” They argued that financial fraud in the thrift industry resulted from neoliberal political-economic ideologies of the 1980s promulgating deregulation and protectionism, which in turn “unleashed unprecedented incentives and supplied tempting opportunities to commit fraud” (Calavita & Pontell, 1990, p. 335). Similarly, Barak (2012) found that deregulatory zeal was central in accounting for the prevalence of financial fraud perpetrated during the 2008 mortgage crisis.

Financial crime research has focused on how perpetrators use organizations as vehicles to commit crimes (Black, 2005; Calavita & Pontell, 1991). The term “control fraud” refers to “situations in which those who control firms or nations use the entity as a means to defraud customers, creditors, shareholders, donors or the general public” (Black, 2005, p. 734). Studies of the S&L crisis found that in many cases thrifts became vehicles for the perpetration of fraud and insider looting, also known as “collective embezzlement” (Calavita et al., 1997b; Tillman & Pontell, 1995).

Economic costs and victimization are also significant components of white-collar and corporate crime research on financial fraud. One devastating economic and social consequence of systemic financial crime is the production of financial crises (Pontell, 2005; Friedrichs, 2013). In addition to monetary damages, financial crimes have also caused emotional, psychological, and behavioral consequences to individual victims (Reurink, 2018).

Researchers have also noted that the discovery of major white-collar crime is influenced by limited legal and enforcement capacity, and political issues resulting in non-issue making (Goetz, 1997). Legal sanctioning, according to system capacity theory (Pontell, 1984), tends to be greater where “resources are generous and demands light.” Major financial crimes that are well-hidden in extraordinarily complex business transactions can greatly complicate enforcement efforts and severely strain existing government resources (Pontell, 1984; Pontell et al., 1994). This characterized the U.S. subprime mortgage crisis of 2008, as “anonymous arms-length transactions and the opacity of products and processes decrease the likelihood of detection” (Fligstein & Roehrkasse, 2016, p. 622). Material fraud built into financial markets may also remain virtually undetected until its consequences reach epic proportions (Rosoff et al., 2018).

Non-issue making of major criminality alludes to the circumstances where enforcement agencies ignore salient white-collar crimes when such lawbreaking provides economic benefits (Crenson 1971; Goetz, 1997). For example, regarding the S&L crisis, Calavita and Pontell (1994) have argued that the U.S. government emphasized “damage control over crime control” in response to widespread lawbreaking by elites, which both allowed occurrences of fraud to go unchecked and continued maintenance of state legitimacy. In the 2008 mortgage crisis, the financial industry’s ability to influence Congress and regulators through strong lobbying campaigns including massive political contributions eventually resulted in regulatory collusion where “criminal prosecutions of securities fraud are out of bounds” (Barak, 2012, p. 76). The social status of those involved in financial fraud acted to exempt them from being accused of criminal wrongdoing (Pontell et al., 2014). The chronic problem of system capacity was manifested by major white-collar crime becoming a “non-issue,” in effect trivializing it, resulting in enforcement efforts being focused downward onto lesser offenders.

Financial crimes in China

China’s unprecedented economic growth in the past three decades has been accompanied by burgeoning white-collar and corporate crimes. Official statistics show that the number of offenders committing “crimes against socialist economic order” in accordance with the Chinese Criminal Law climbed rapidly, from 25,257 in 2000 to 113,285 in 2018 (National Bureau of Statistics of China, 2020). Despite the growing number of white collar crimes, research on the topic has been limited due to the lack of reliable data and funding (Pontell et al., 2019).

Bank fraud, securities fraud, and Ponzi schemes of increasing number, volume, and complexity, pose a threat to China’s economy and society (Cheng, 2016). In

2015 alone, almost fifteen-hundred bank employees committed fraud and other associated crimes (Cheng, 2016). Cheng and Ma (2009) found that 80% of bank fraud in China stemmed from some form of corruption facilitated by *guanxi wang* (informal connection networks) and *baohu san* (protective umbrellas) well-embedded in business culture. In addition to formal finance, the informal financial sector contains higher systemic risks, allowing for complicated forms of fraud under the influence of what has been labelled a “casino culture” (Cheng, 2016). A recent study shows that causes of white collar crimes that “involve numerous and unspecified victims” in recent years include lax regulation and inadequate financial literacy (Peng et al., 2021).

Ineffective enforcement of these crimes is attributable to prominent institutional constraints. The dynamics of system incapacity found to facilitate financial crimes in the S&L crisis also characterizes ineffective enforcement against bank fraud in China (Ghazi-Tehrani et al., 2013). Enforcement of existing laws against white-collar crime is thwarted by constraints on fiscal and physical resources (Ghazi-Tehrani & Pontell, 2019). Local protectionism makes detection and prosecution of these crimes difficult (Pontell et al., 2019). In pointing out the relatively low number of prosecutions for bank fraud in comparison to its actual rampancy in the industry, Cheng (2016) contends that both banking and securities regulatory authorities require institutional autonomy and additional resources if they are to be effective agents of control.

Non-issue making regarding white-collar and corporate crime (Goetz, 1997) is another structural impediment to its control in China. A lax regulatory system and the willingness to pursue continued economic growth at almost all costs ensures that many major white-collar crimes remain a “non-issue” (Cheng, 2016; Ghazi-Tehrani et al., 2013). While criminal enforcement campaigns often appear to be the solution when financial crimes are perceived as threats to stability and growth, general deterrent enforcement strategies have been found to be largely ineffective despite the frequent use of “crackdowns” (Cheng, 2016; Cheng & Ma, 2009; van Rooij, 2012). Typical enforcement campaigns have only short-term “stop-gap effects” and fail to achieve sustained impacts on non-compliance with the law (van Rooij, 2012).

White-collar crime is a critical issue for both Western and non-Western countries (Pontell et al., 2019). Its recognition as an important universal topic necessitates the expansion of traditional Western-based perspectives to include more global insights through comparative criminological research. This study seeks to help fill this conceptual gap. The P2P lending crisis attracted widespread attention from both domestic and international news agencies, making it an excellent case study with a ready supply of data.

Methods

This research uses a white-collar criminological framework to examine factors that contributed to the P2P online lending crisis in China. Criminological studies have identified the structural, organizational, and individual causes for financial wrongdoing (McGrath, 2019, 2020; Vaughan, 2007). While this study constitutes a structural

analysis, it integrates macro (structural) and micro (individual) dimensions, and seeks to emphasize how structural influences affect micro-level factors in shaping white collar criminality. To allow for as much documentation as possible, qualitative and historical data were gathered from various sources, including government reports, China's official and reputational newspapers (e.g. China Daily, Xinhua News, Caixin), reliable English news outlets (e.g., Reuters, New York Times), and reports by third-party research agencies (e.g., WDZJ,¹ PKU Law²). Official data consisted of reports and press releases of governmental entities, such as the Supreme People's Court of China (SPC), the Supreme People's Procuratorate of China (SPP), the China Banking and Insurance Regulatory Commission (CBIRC),³ and the People's Bank of China (PBOC). Numerous keywords were used, including "P2P lending", "online lending", and "Internet finance", to extensively search for documents from these sources. Platform data were retrieved from WDZJ, and criminal case data from PKU Law, and were used to conduct descriptive statistical analyses on platform failures and criminal charges.

The study also investigates financial deviance in the P2P online lending debacle through case studies of specific offenses. Geis (1991) and others have advocated for this methodology on the grounds that official statistics are a poor proxy for white-collar crime because of under-detection and selection bias. As an exploratory and descriptive historical accounting, the present study analyzes two distinct P2P lending cases and builds a basic non-exhaustive typology of fraud schemes.

Previous literature suggests similarities in patterns of white-collar crime enforcement between China and the U.S. (e.g., Ghazi-Tehrani & Pontell, 2015). Integrating the literature on white-collar crime and crisis in the U.S., we conducted a comparative examination of major financial crime schemes and underlying structural conditions to identify relationships between fraud and crisis across developed and developing countries, examining commonalities and differences in patterns, cited causes, and official reactions. This comparative approach allows for an assessment of both theories and conclusions regarding the role of endemic financial fraud in market crashes.

P2P online lending in China

"Barbaric growth" and crisis

P2P online lending originated in the UK, where the first peer-to-peer lending company, ZOPA, was founded in 2005. P2P online lending, in which an online platform

¹ WDZJ is the largest third-party research website that provides comprehensive and reliable data of P2P online lending.

² PKU Law (www.pkulaw.com) is a law database integrating Chinese laws and regulations, cases, legal periodicals, and other legal materials.

³ In April 2018, the CBIRC was established as a merger of the China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission.

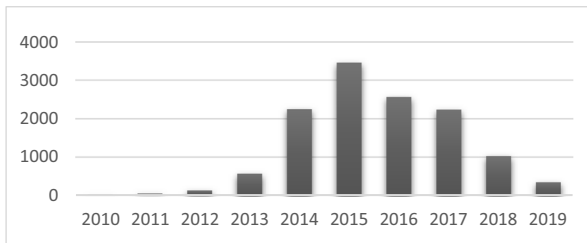


Fig. 1 Number of P2P firms yearly (Source: WDZJ)

serves as an information intermediary connecting borrowers and lenders, was originally devised to overcome “ill-treatment by the banks”—which charged extremely high fees by taking advantage of their monopoly status—and to enhance the competitiveness of the financial industry (Hulme & Wright, 2006). Within two years, the first Chinese P2P lending firm, Paipaidai, was launched in Shanghai. Different than ZOPA, it was modeled after the Grameen Bank in Bangladesh devised to micro-finance the local indigent population.

The Chinese P2P lending market grew steadily in its early stage, but in a few years the market surged, and in 2015 the number of firms jumped to 3,464. At its peak, the market constituted the world’s largest P2P lending industry, with outstanding loans of \$217.96 billion (Zhang, 2019). A dozen Chinese P2P lending firms went public on the U.S. Nasdaq. Platforms were unevenly distributed in geography, and the most economically advantaged provinces and municipalities had the majority of platforms. Such rapid expansion was termed “barbaric growth” in media reports, and was the same as the title of a book describing troubled pathways to success of Chinese businesses in the private sector (Feng, 2012).

The unprecedented surge of the P2P lending market is attributable to several factors. The first was the market’s need for alternative financing channels. The traditional financial sector in China is characterized by repression and a preference for state-owned enterprises (SOEs), leaving small businesses and individuals insufficient access to bank financing, so that they relied heavily on private lending. P2P lending offered ample opportunities for small- and medium-sized enterprises (SMEs) to meet capitalization needs, as well as for investors, who had few options to profit from their capital (Huang, 2018). Second, the government’s initiative in Internet financing and Fintech constituted an important driving force for the thriving P2P lending market. Third, the rapid expansion of the P2P lending market was facilitated by the unprecedented development of digitalized finance and the Internet in China.

The *barbaric growth* of the industry reached a turning point in 2016. As Fig. 1 shows, the number of operating platforms fell from its peak of 3,464 in 2015 to 343 in 2019. There were two major waves of failures. The first took place in 2016, marked by the Ezubao Ponzi scandal, in which those controlling the firm looted approximately \$7.3 billion from about 900,000 investors (Xinhua, 2017b). In the same year, the authorities launched a massive campaign to regulate Internet finance and combat illicit activities. The ensuing crackdown was accompanied by a second wave of failures in the middle of 2018 (Zhang, 2019). With more stringent

regulation, a top-down crackdown of P2P lending malpractices, and a national deleveraging (debt reduction) campaign, the P2P lending industry witnessed the failure of hundreds of firms amid the second wave.

Social consequences

The collapse of the online lending industry caused millions of individual investors to lose billions of dollars. Outstanding loans totaled approximately \$115 billion at the beginning of 2021 (Wang, 2021). In addition to young and middle-aged mainstream investors who suffered large losses in their substantial and aggressive investments, retirees, generally inexperienced in wealth management, were also victimized by online financial fraud schemes (Xinhua, 2017a). Moreover, the P2P lending market crash also caused widespread psychological and social problems, including mental stress and disruptions of family plans. In one especially tragic instance, seeing a P2P lending firm fleeing, a female investor committed suicide by hanging herself (Bloomberg, 2018). Many investors lost their life savings, which they had intended to use to purchase properties and pay school tuition and medical bills. The massive failures in the industry also led to scattered public grievances and protests (Bloomberg, 2018).

Regulatory campaign against fraud and misconduct

As platforms initially proliferated, the market experienced a de facto regulation-free window (Huang, 2018; Yu & Shen, 2019). The first official regulatory document was issued in July 2015 (Yu & Shen, 2019). The enactment of the central regulatory document, *Interim Measures for the Administration of the Business Activities of Peer-to-Peer Lending Information Intermediaries (Interim Measures)* in August 2016, signaled that the P2P lending industry entered “a regulated era”. The *Interim Measures*, together with supplementary regulations on recordation, deposition, and disclosure, created a “One + Three” regulatory system of P2P online lending (Yu & Shen, 2019). The *Interim Measures* defined platforms as strictly “information intermediaries” that exchanged information and matched lenders and borrowers, and required platforms to register with local regulatory authorities, comply with investment limits set by the *Interim Measures*, and fulfill disclosure requirements (Huang, 2018). Subsequent policies required that P2P lending firms scale down their platforms, as well as synchronously upload real-time operational data.⁴

In alignment with this regulatory initiative, China’s criminal justice system was mobilized to arrest and convict swindlers and lawbreakers. Judicial interpretive guidelines were issued to provide further guidance for adjudication of related cases. In 2019

⁴ *Opinions on Classified Disposal and Risk Prevention of Online Lending Intermediary and Notice of Initiating Real-Time Access to Operational Data of Online Lending Information Intermediary* by the Leading Group Office for Special Rectification of Internet Financial Risks and the Leading Group Office for Special Rectification of P2P Online Lending Risks.

alone, Shanghai arrested 2,229 suspects and prosecuted 3,013 offenders for committing P2P-lending-related crimes (Wang & Wang, 2020). From June 2018 to February 2019, the police investigated 380 platforms, froze over \$1.53 billion in assets, and arrested more than 60 suspects overseas (Zhang, 2019). Those found guilty of fraud were punished with higher incarceration rates and longer sentences (SPC, 2019).

The crackdown campaign, combined with tightened regulatory supervision and increased public awareness of potential risks, was followed by further contraction of the industry. With out-of-control credit and fraud risks, regulators demanded that all P2P lending platforms exit the industry. The number of P2P lenders declined to zero in mid-November 2020, marking the closure of the market, despite a total of more than ten thousand platforms having originally been launched (Guo, 2020).

P2P lending fraud in China

Fraud as a main contributor to the crash

There is ample evidence that the collapse of the Chinese P2P lending market was a consequence of rampant misconduct and fraud. Despite a small number of relatively legitimate businesses such as Lufax, fraud was the main risk in the P2P lending sector (Shen, 2016). According to a PBOC researcher, “[i]n tandem with the rapid growth, China’s internet finance industry is afflicted with Ponzi schemes and some companies deviate from their main business to seek hefty profits” (Xinhua, 2017a). Eighty percent of firms did not separate investor funds from corporate operating capital, and such endemic financial malpractice caused liquidity problems that significantly contributed to the failures of many firms (Cho, 2019). In a speech, the former mayor of Chongqing stated that China’s P2P lending was essentially illegal usury in the name of Internet finance, resulting in more than hundreds of billion dollars in uncollectible loans (Q. Huang, 2019). By mid-2016, 43.1% of the P2P lending firms were problem platforms: some absconded with investors’ money, some violated the thresholds of financial product purchases and investor eligibility, and others were involved in self-financing and Ponzi schemes (CBRC, 2016). The number of problem platforms almost doubled in 2019: 6141 platforms had been labeled as either problematic or had already closed (see Table 1). Several local financial regulatory bureaus reported that no P2P lending platforms in their jurisdictions were able to pass the official compliance examination, likely indicating widespread illegality across regions (Hu, 2019; Pan, 2019).

Widespread fraudulent practices ultimately led to unbearable risks for market participants. Initially, firms served merely as information brokers, channeling lenders and borrowers. As the market flourished, the overwhelming majority of P2P lending platforms soon overstepped their role as information intermediaries and delivered a range of unlicensed and risky financial services. Many firms operated as quasi-financial institutions, issuing credit despite their disproportionately low capacity to assume the corresponding risks in doing so (CBRC, 2016). Aggressive financing allowed controllers’ looting of the companies, which were turned into personal ATM machines, resembling the collective embezzlement and control fraud

Table 1 P2P lending platform failures (Source: WDZJ)

Year	Problem and closed platforms (cumulative)	Investors involved (1000)	Outstanding loans involved (dollars bn)
2013	94	16	0.25
2014	395	63	1.05
2015	1686	272	2.57
2016	3407	454	4.07
2017	4130	576	5.1
2018	5409	2154	27.09
2019	6141	3600 (estimated)	49.95

This table was adapted and updated from an early version reported in an article where the same data source was used (see Ding et al., 2021)

documented in the U.S. S&L crisis (Black, 2005; Calavita et al., 1997b). Fraudulent practices perverted the original P2P lending business model from its intermediary business design. Anonymity and a heavy reliance on Internet services increased the spread of fraudulent practices (Shen, 2016).

P2P lending fraud and malpractice

The *barbaric growth* of the P2P lending market was associated with diverse fraudulent practices. Fraudsters had to be capable of stealing or obtaining legitimate entities as vehicles to cover their unlawful practices (Peng et al., 2021). To avoid detection, offenders intentionally designed covert and complicated schemes utilizing novel concepts and strategies of finance that were too intricate for individual investors to discern. The crimes were further complicated by involving financial institutions, e-commerce, tourism, vehicle loans, and student lending, among other services. Aggressive conspiracies sought to rely on the idea of being “too big to fail.” Perpetrators increased the false trustworthiness of their platforms by way of: (1) celebrity endorsements; (2) organizing forums and obtaining social awards; (3) collaborating with SOEs and publicly listed companies; (4) falsely advertising their compliance with regulatory requirements; (5) delivering false advertisements in popular media; and (6) promoting products through banks in order to mislead investors (Tan, 2019).

Two major issues came to light in the midst of the enforcement crackdown campaign: organized crime and malicious default (“逃废债”). With the infiltration of P2P lending into different social spheres, traditional criminal organizations utilized the online lending market to prey on college students (Wang et al., 2021). Organized crimes committed through P2P lending primarily included trap loans (“套路贷”), loan sharking, physical violence, and blackmail. In some cases, organized criminals caused the gendered victimization of female borrowers using nude photos or forced prostitution as P2P loan collateral (Xinhua, 2017a). Over-crediting also led to rampant malicious defaults; by the end of 2020, the city of Shenzhen alone reported

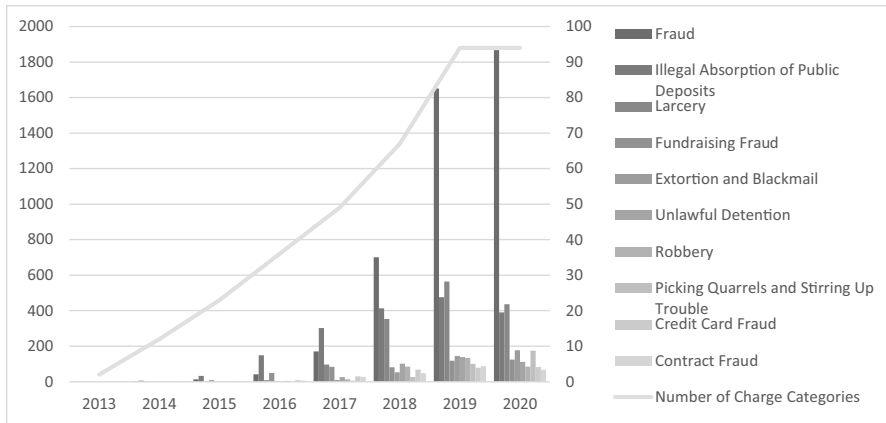


Fig. 2 P2P-lending-related criminal charges by year (Top 10) (Source: PKU Law). Case data were retrieved using the key terms “P2P” and “Online Lending” with case type “Criminal Case” from PKU Law

over 15,000 individuals and 300 companies associated with online lending as “dishonest persons” whose economic activities would be significantly restrained.⁵

Figure 2 reports the 10 most frequently filed charges of P2P-lending-related crimes by year. It shows that: (1) only a few P2P-lending-related crimes were reported early on; (2) crimes surged drastically between 2013 and 2020; (3) an increase in the number of legal charge categories corresponded to greater sophistication, complexity, and expansion of P2P-lending-related offenses; and (4) fraud, larceny, and illegal fundraising (illegal absorption of public deposits and fundraising fraud) made up the majority of P2P lending crimes.

Table 2 summarizes specific schemes and associated techniques involved in P2P lending crimes. While loan scams committed by borrowers were prevalent in the absence of an efficacious credit system, the most consequential schemes were those in which platforms preyed on investors. Many of the techniques found in P2P lending fraud cases were similar to those discovered in U.S. crises (Calavita et al., 1997b; Nguyen & Pontell, 2010).

P2P lending platform fraud: two cases

Two P2P lending platform scams in particular represent the largest and most impactful fraudulent schemes across different phases of the development of P2P lending. The Ezubao scam was a traditional pyramid-Ponzi scheme in which the firm’s officers intentionally looted investors’ funds. The second case, Lianbi Finance, demonstrates how illegal fundraising emerged and was carefully orchestrated during the

⁵ Data was retrieved from the official website of the Shenzhen Internet Finance Association <http://www.szifa.org.cn/index.aspx>.

Table 2 P2P lending crime type summary

Perpetrator	Scheme	Technique and Example
Platforms	Ponzi schemes	misrepresentation, looting, embezzlement, straw borrower
	Hit-and-run schemes	
	Illegal fundraising	
	Unlicensed or illegal financial services	
	Technological lawbreaking	
Borrowers	Loan sharks	self-financing, fund pooling, illegal asset securitization usury, prohibited investment, credit enhancement (illegal guarantees), no third-party escrow, loan restructuring, unauthorized wealth management, illegal credit lending identity theft, illegal transaction of data predatory lending, trap loans, unlawful detention, violent debt collection, blackmailing, racketeering, money laundering cooking books, credit card fraud, contract fraud, insurance fraud, false litigation, forgery concealing assets to avoid repayment, faking bankruptcy, destroying books repeated applications, nominee loans, straw borrowers, identity forgery forgery, credit card fraud, contract fraud, insurance fraud, occupational embezzlement selling private information, misrepresentation, false advertisement, false endorsement
	Organized crimes	
	Cover-ups	
	Malicious default	
	Loan scams	
Other Parties	Repayment-driven crimes	
	Identity theft Misstatement	

time at which P2P lending became increasingly interwoven with other economic activities.

The Ezubao(e租宝) Ponzi scheme

The Ezubao Ponzi scam, the first collapse of a giant P2P lending platform, was one of the largest Ponzi schemes in Chinese history. It ended with severe punishments for Ning Ding (Ding), the former chairman of Anhui Yucheng Holdings Group that launched Ezubao, and his brother, a senior officer in the firm, both of whom were sentenced to life imprisonment. Twenty-five others associated with the company were convicted and received prison sentences.

Ding, the mastermind behind the Ezubao scam, was a vocational school dropout. Although his family business was modestly successful, Ding was more ambitious and aimed to “get rich overnight” by working in the financial industry. In 2014, Ding established the Yucheng Group and launched the Ezubao platform.

A number of classic criminal techniques were found in the Ezubao case. As the flagship grassroots financing platform, Ezubao allowed persons to invest as little as one RMB, and offered a much higher annual return than banks—between 9% and 14.6% (Zhao, 2015). Ding was fully aware of ways to make Ezubao “too big to fail” by gaining the public’s trust, and spent much of the collected funds on false advertising in order to do so. The company was featured on numerous TV channels, including spots that aired right before the main evening news bulletins of the state-run television station (Zhao, 2015). The company sponsored the online broadcast of the National People’s Congress, and held its annual meeting and banquet in Beijing’s Great Hall of the People. Ding frequently attended public events as a recognized guest speaker and was interviewed by mainstream news agencies as a successful entrepreneur. To reinforce the charade, Ding even asked his employees to squander their collected funds on luxury brands. These highly visible signs of success misled the public into believing that Ezubao was a reliable and trustworthy company.

In reality, a classic pyramid scheme existed behind this mirage of successful entrepreneurship, where funds were collected from new investors to pay the principal and interest owed to earlier investors. The company designed complex financial products to raise funds for sham equipment leasing projects (Gough, 2016b). According to a former executive, “95 percent of Ezubao’s investment projects were fake” (Caixin, 2016). The bogus projects were “straw borrowers,”—shell and acquired companies controlled by the Yucheng Group. Information about purported borrowers was purchased by the Group for \$121.6 million and later used to fabricate projects on the platform. As in many other P2P lending scams, poor data privacy laws and enforcement allowed for the purchase of personal information on the black market.

In stark contrast to Ezubao’s intentionally over-complex product structures were unsophisticated and inexperienced victims. In addition to urban residents, others in rural areas who were victims of the scam were often recruited offline by sales agents. Investors’ funds were exploited mainly by Ding, his family, and other top executives. For instance, Ding spent \$150 million on luxury gifts and \$121.6 million on payroll

in November 2015 alone (Gough, 2016a). He also bought his chief executive a villa in Singapore and a 1.83-million-dollar pink diamond ring (Gough, 2016b).

The police opened an investigation in 2015 when they noticed abnormalities in Yucheng's operational performance (Caixin, 2016). The Beijing No. 1 Intermediate People's Court ruled that both Yucheng and Ding were guilty of fundraising fraud and other crimes. The enforcement agency eventually recovered almost \$305 million in illegal gains, with victims receiving about 35% of their lost investments.

The Lianbi e-commerce trick

Lianbi Finance (Lianbi) was among the "Big Four" P2P lending platforms in the second wave of the crash, all of which ended with closings and criminal investigations. The Lianbi fraud involved collected funds of \$12.7 billion, costing 1.1 million investors about \$2 billion (Zhu, 2021b). Aside from its size, this case gained major attention due to its association with China's e-commerce giant JD.com, a publicly traded company on Nasdaq. Lianbi took advantage of consumer finance and online shopping in order to advance a tech start-up venture. After the fraud was uncovered, investors gathered at JD.com's headquarter demanding a return of their money.

The central figure in the scheme was Guoping Gu (Gu), the controller of Phicomm, a leading tech company dealing in telecommunications equipment. Its flagship product, routers, became the key item in Lianbi's financial conspiracy. In 2016, Phicomm and Lianbi launched a "0 RMB Purchase" promotion on different e-commerce platforms (Beijing News, 2018). Customers who participated paid \$61 for the most basic Phicomm router. When they received the product it included a "K code", along with instructions directing them to the Lianbi app and website where they could enter the code in order to obtain a \$61 credit in their accounts.

By accepting the promotion consumers became entrapped in a conspiracy designed to lure them into investing more money for supposed high returns, purchasing additional financial products sold by Lianbi, or purportedly saving more by buying other refund-eligible products. Lianbi was able to attract large numbers of victims within a relatively short period of time due to Phicomm's collaboration with JD.com in the promotion. During JD.com's 2018 online shopping festival, Phicomm had record-high sales of 722,000 electronic products (Beijing News, 2018). The day after the festival, however, investors found that they were unable to access their accounts on Lianbi. In response to investor complaints, the Shanghai Songjiang Public Security Bureau immediately began an investigation. Gu and Lianbi's legal representative both fled the country, but were apprehended and returned to China shortly thereafter.

The Lianbi scam was a hybrid of a Ponzi scheme and a self-financing fraud partially driven by Gu's tech start-up craze on Phicomm. Gu had been a successful entrepreneur with a long start-up history, including a company in Silicon Valley in 2007. Branding Phicomm as a "New Economy" enterprise, Gu expanded the company to technological frontiers ranging from cloud computing to smart life, each having a substantial financing demand (Zhu, 2021b). Gu's ambitious plan to backdoor list Phicomm on the stock market went awry in 2016, and he was barred from entering the securities market in 2017 for malpractice (Zhu, 2021a). The booming P2P lending industry turned out to be an ideal channel for Gu to seek financing, and

he used it to create the phony “0 RMB Purchase” promotion. As a result of these activities, Phicomm’s declining revenues in 2016 were immediately reversed to the extent that it was able to sponsor a Victoria Secret show and two marathon games in 2017 (Beijing News, 2018).

Lianbi, Phicomm, and the borrowing companies on the Lianbi platform were all controlled by Gu and his fellows. Similar to Ding in the Ezubao case, Gu launched a variety of financial products on Lianbi based on assets and projects of shell companies he controlled (Zhu, 2021b). The funds collected were used for investor repayments, operating fees, and payments for goods and debts (Zhu, 2021a). Notably, more than 15% of Phicomm’s shares were indirectly controlled by a local SOE (Zhu, 2021a). In the aftermath of the scandal, Lianbi was among the top priority cases supervised by the Ministry of Public Security and the SPP. The Shanghai No.1 Intermediate People’s Court convicted Gu and sentenced him to life imprisonment (Zhu, 2021b).

China’s P2P lending frauds: a criminological comparison with the U.S.

Lax regulation

Since the 1980s, there has been a global trend toward financial liberalization. Subsequent crises that have severely affected both domestic and global economies were found to be associated with governments’ loosened reins on the financial industry. In the U.S., the Reagan administration instituted deregulatory policies in response to thrift industry losses that began in the 1970s (Calavita et al., 1997a). Policymakers dismantled most of the regulatory infrastructure that had kept the thrift industry in check (Pontell & Calavita, 1993). In 1980, the Depository Institutions Deregulation and Monetary Control Act allowed federally chartered thrifts to make commercial real estate and consumer loans and to purchase corporate debt instruments. The Act freed thrifts from geographic limitations, and authorized the issuance of credit cards by thrift institutions (Pontell & Calavita, 1993). The law raised the maximum federal insurance on each deposit from \$40,000 to \$100,000. Industry regulators also eliminated a 5% limit on brokered deposits which not only allowed for the transfer of huge amounts of money from pension funds and other sources, but also for illegal kickbacks in order to attract them. Finally, individual entrepreneurs were allowed to own and operate federally insured savings and loans (Pontell & Calavita, 1993). “Deregulation ... set the stage for the explosive growth of these institutions as well as the epidemic of financial fraud that accompanied that growth ... shielding thrift offenders from regulatory scrutiny” (Calavita et al., 1997a, p. 169, 174).

In less than a decade, the U.S. government pushed deregulatory processes on the entire financial market. The best policy was believed to rely on the self-regulating mechanisms of the free market (Pontell & Calavita, 1993), which “stripped away key safeguards” (FCIC, 2011, p. xviii). Lax regulation and the accompanying lack of external controls that accounted for the potential for fraud created a crime-facilitative environment by offering increased opportunities for offending (Needleman & Needleman, 1979). By the time of the 2008 mortgage crisis which created

a worldwide economic disaster, “[d]eregulation in the banking industry driven by neoclassical policies has circumvented legal and social constraints, ethics, and accountability in a period of subprime lending expansion where increased government supervision and oversight was paramount” (Nguyen & Pontell, 2010, p. 607).

China had a repressive financial policy that generally outlawed private fundraising (Shen, 2020). To support financial inclusion and invigorate private economy, the PBOC acknowledged the significance of Internet finance as a means of channeling funds to SMEs and underserved individuals, stating that “the services [were] filling an innovation gap left by traditional financial institutions, and should be encouraged” (Xinhua, 2013). Subsequent official reports reiterated the significance of promoting inclusive finance (Li, 2014, 2015). The government refrained from intervention in this sector in order to allow industry to grow quickly by providing ready access to credit to underserved parts of the economy (Yu & Shen, 2019).

As systematic regulation of private financing was absent due to financial repression (Peng et al., 2021), the P2P lending industry was free from regulatory oversight (Shen, 2020). The loosely monitored regulatory environment allowing for the *quick growth* of the Chinese P2P lending market also created an increase in opportunities to engage in financial crime that was ferociously exploited by fraudsters (Jiang, 2014). Chaotic private lending malpractice grew exponentially through a “superficial appearance of legitimacy” (Benson & Simpson, 2018) of inclusive finance (Tan, 2019). Earlier underground financing and usury could now operate through the purportedly legitimate vehicle of P2P lending (Q. Huang, 2019). An unregulated market put Gresham’s Law into play; initially legitimate firms now had to play dirty in order to survive the unruly competition created by bad apples. Attempts to rely on industrial autonomy and soft laws were not nearly enough to rein in the *barbaric growth* created by this environment. Moreover, the lack of supervision resulted in even those who were barred from the formal financial market, like Gu, finding no barriers to exploiting the P2P lending sector. Tens of billions flowed into unregulated and untested investment projects (Shen, 2016). This resulted in the market being rife with issues involving liquidation, run-offs, shut-downs, and loan sharks (Shen, 2016, 2020).

At the same time, the Internet finance campaign steered speculative investors desiring higher returns to the lucrative market. Intermediate fraud forms were quickly diffused through social networks and impersonal methods by both lawbreakers and victims (Baker & Faulkner, 2003). The public’s trust in P2P lending was further bolstered when funds from SOEs, banks, and publicly listed companies were channeled into the industry.

The quick abandonment of traditional financial institutions disrupted established social ties that facilitated financial transactions in conventional settings. In a temporary regulatory vacuum, the failure of legitimate financial service providers to organize the market shaped a P2P lending environment that was highly conducive to fraud. Taking advantage of these “structural holes” (Burt, 1992), entrepreneurial criminals managed to exploit ordinary investors until regulatory governance and customary practices became normative (Tillman & Indergaard, 1999).

Financialization

Another major structural condition that contributed to the P2P meltdown is financialization, which characterizes an economy in which firms shift their focus from profits to stock values, and corporate power is increasingly concentrated in senior executives and business professionals (Tillman, 2009). Financialization of major business practices has given rise to a new regime of cultural values and norms (Ho, 2009). At the same time, it has significantly altered the structure of economic institutions and spawned new opportunities for white-collar crime.

The U.S. economy has been fundamentally “financialized” since the 1970s. Finance capitalism led America into an age of what has been termed *psychopathic wealth*, characterized by impatient wealth-seeking, intense selfishness, and a lack of human empathy (Rosoff et al., 2018). The S&L debacle in the U.S. was a consequence of a financialized economy, as “the qualitatively different ‘production’ process in finance capitalism [...] generate[d] new forms of corporate crime in response to new sets of organizational pressures” (Calavita & Pontell, 1991, p. 96). Thrift looting in the S&L crisis “had nothing to do with production or manufacturing but instead entailed the manipulation of money” (Calavita et al., 1997b, p. 20).

Likewise, many financial crimes leading to the U.S. mortgage crisis in 2008 were inherently driven by finance capitalism. This crisis was the result of the over-financialized housing market, associated with over-issued mortgage loans. Investment banks approved high-risk and poor-quality mortgages, underwrote and sold risky securities to the public, and designed complex financial products that created severe market risks (Barak, 2012). Suspicious activity reports grew 40-fold from 1996 to 2009, and the losses resulting from fraud between 2005 and 2007 amounted to \$112 billion (FCIC, 2011). In the aftermath of the crisis, however, some of the biggest financial firms in the industry were bailed out at taxpayers’ expense.

Financialization, both institutionally and culturally, facilitated the fraud and lawbreaking that contributed to the crash of China’s P2P online lending industry. Following the unleashed expansion of credit, China’s leverage ratio has been much higher than in the U.S. (Shen, 2020). P2P lending promoted the burgeoning of micro-loans that carried enormous credit and liquidity risks. The over-financialization of economic activities via P2P lending was evidenced by the industry’s expansion to a wide range of sectors, including consumer financing, student loans, and cryptocurrency investments, among others.

The financialized economy fell short of sustaining the commercial mode of P2P lending. Funds on lending platforms had been “largely channeled into the property market and energy-guzzling industries other than the real economy” (Shen, 2016, p. 206). On the one hand, platforms initially had to attract funds by promising unrealistically high returns; on the other hand, few businesses were able to keep generating such yields in the real economy. Later, tightened regulation put additional pressure on the sustainability of these loans (Yu & Shen, 2019).

The diffusion of the P2P lending criminality was also characterized by Silicon-Valley style start-up entrepreneurialism in the Fintech boom. The start-up craze incentivized “entrepreneur criminals” of P2P lending to promote their businesses by assuming unbearable risks and compromising compliance. The story of Lianbi

in particular portrays the alienation of start-up entrepreneurial ambition in the name of the New Economy and technological inclusion. The P2P lending boom allured overseas-educated young graduates and business gurus, whose criminality was both learned from, and disseminated through interpersonal business interactions in the start-up mania, exemplifying Edwin Sutherland's (1947) theory of differential association. As both Ding and Gu's experiences reveal, white-collar criminality could easily be triggered in a financialized society in which people aspired to make fortunes overnight.

The P2P lending crisis demonstrates the extent to which social norms and business ethics were degraded such that laws could easily be broken in order to enrich business owners and insiders. The dissemination of a deviant culture in a financialized economy, facilitated by advertisements endorsed by pundits, celebrities, and well-known e-commerce platforms (such as JD.com in the *Lianbi* case), helped legitimize P2P lending platforms. After the market collapsed, these trust-earners were not held criminally accountable for false endorsements; in fact, only a few apologized and returned their commissions after receiving widespread public condemnation.

Chinese P2P lending conspirators were no different from American thrift looters who had used funds to finance lavish lifestyles. Having millions of dollars of investor funds under their control allowed managers to siphon off money from institutions and then run off. To escape law enforcement, some used ill-gotten gains to immigrate to other countries.

System capacity and non-issue making

System capacity and non-issue making have been identified as structural constraints on enforcement against white-collar crime. In the U.S., the state's role in securing capital accumulation necessarily confines its role in prosecuting white-collar crime to the extent that criminal enforcement has ended up ignoring major crime in the financial sector (Pontell et al., 2014). During the S&L crisis, intensive lobbying efforts by the thrift industry on lawmakers allowed for "conflicting responsibilities" of authorities in both promoting and regulating savings and loans, reducing the government's imposition of reasonable oversight of financial institutions (Calavita & Pontell, 1990). The dominant "free market" economic ideology produced a fraud-trivializing narrative, holding that there was a lack of evidence of deliberate fraud by executives (Pontell et al., 2014).

Related to this trivialization of fraud, the lack of elite prosecution of pervasive fraudulent acts in financial debacles is also attributable to system incapacity. The relatively low rates of prosecution of cases of thrift fraud were due to caseload pressures and limited organizational resources, giving rise to selective indictments of only high-cost and high-profile cases (Tillman et al., 1996). The same phenomenon was found and further exacerbated in the 2008 economic debacle, as executives and managers escaped punishment due to trivialization and downward criminalization targeting low-ranked employees by local enforcement agencies (Pontell et al., 2014).

System incapacity and non-issue making can also be seen in responses to white-collar crime in China's P2P lending market. The exponential growth of the industry

challenged the government's capacity to implement a gradual approach to regulating these non-traditional financial institutions. Insufficient resources and inconsistent standards structurally handicapped the oversight of P2P lending. The detection, investigation, and indictment of P2P lending fraud, which was largely characterized by complex schemes, demanded significant fiscal and technical resources. Most importantly, the risk of P2P lending fraud was significantly increased in a cyber environment where billion-dollar crimes could be orchestrated to victimize millions of investors in a short period (Q. Huang, 2019). Sporadic local enforcement actions, the reliance on industry self-governance and third-party custodians, and ineffective laws that did not account for the potential for massive fraud proved insufficient in curbing rampant lawbreaking. The *barbaric growth* of large numbers of P2P platforms made ordinary monitoring protocols useless. PBOC and CBRC were so overburdened in attempting to control the burgeoning informal finance sector that they eventually passed a substantial amount of regulatory responsibilities to local governments, but "provincial regulators essentially froze" in the absence of expertise or standards (Leng & Tham, 2019). Local regulatory agencies were also considerably understaffed and under-resourced to effectively monitor online lending practices, and relied on the firms themselves to report financial data. The tension between the *barbaric growth* of P2P lending and the limited capacity of financial regulators allowed for unprecedented levels of fraud in the industry.

System incapacity was associated with the problem of non-issue making. The official doctrine of economic growth motivated local enforcement agencies to trivialize fraud at the first sign. In view of the early surge of defaults and shutdowns of P2P platforms, banking watchdogs and other agencies issued warnings of the risks associated with P2P lending, along with cautionary messages from commentators and scholars. Despite a major consensus on the need for regulation, there were debates over how to oversee the P2P lending sector. The bureaucratic process of policymaking was outpaced by the market's rapid growth (Yang, 2014). At the same time, most local law enforcement agencies applied reactive policing; in the instance of Chongqing's proactive enforcement, local regulatory agencies merely demanded that non-compliant P2P firms self-correct and provide refunds when they detected illegal fundraising (Yang & Wang, 2014). Regulatory non-issue making can be attributed to: (1) early neglect in regulating P2P lending due to its small size; (2) the unclear distribution of oversight responsibilities across different regulatory agencies (particularly between CBRC and PBOC); and (3) regulators' unwillingness to take actions counter to the national inclusive finance initiative (Yang, 2014; Yang & Wang, 2014).

Ensuing tightened regulation and massive government crackdowns on P2P lending reflect the regulatory paradox of economic activities in China—"yiguan jiusi, yifang jiuluan" (Zhou, 1992), meaning literally that "control causes no vigor and relaxation causes chaos." More broadly, it indicates the systemic difficulties for government to react quickly and precisely in the early known phases of market crises caused by massive fraud that had grown unrecognized until that time. The Chinese government attempted to strike a balance between steady economic growth under a policy of financial liberalization, and stability that did not put financial resources at unnecessarily high risk (Barberis & Arner, 2016). Once regulators became aware that the elevated financial risks associated with P2P lending substantively threatened

the financial market order and social stability, they immediately changed policies in order to reduce risk. The government's harsh criminalization of financial misconduct was an attempt to soothe investors' anger and relieve social unrest. The crackdown on the industry produced visible symbols of the state's efforts to react to transgressions and to shore up its legitimacy (Calavita & Pontell, 1994).

Summary

Previous studies of white-collar crime have reported that such offending in China is, in many respects, similar to that in America and Europe (Lu & Gunnison, 2003). China's P2P lending market meltdown demonstrates similarities in the role that white-collar crime plays in financial market crashes in both China and the U.S., and how such debacles are characterized by conflicting political-economic interests and institutional paradoxes. Many of the structural conditions that facilitated white-collar and corporate illegalities in the U.S. that led to major crises were also observed in the Chinese context.

Nonetheless, there are a few notable differences. Unlike the 2008 subprime mortgage crisis which included almost all major financial institutions in the U.S., P2P lending was part of China's informal economy, and represented a smaller proportion of the financial market. Many offenders were not elites. The unequal criminalization of financial crimes in the U.S.—including the exceedingly rare enforcement against Wall Street elites in 2008 vs. prosecutions of lower-level crimes—poses a stark contrast to the sweeping criminalization of perpetrators in China, including some highly reputable business magnates. Also, unlike the U.S. where intense lobbying affects policy, the actions of the Chinese government are not directly influenced by the financial industry. The Internet and cybercrime were major features of P2P lending offenses and demonstrated the ability of new financial crime to victimize on a massive scale. In addition, China's lax regulation of P2P lending was due largely to government inexperience in a new sector of the economy coupled with policies designed to grow Internet finance, whereas the U.S. federal government's loosening of specific regulatory rules in both the S&L and 2008 financial crises reflected neoliberal policies initially adopted by the Reagan Administration. The P2P lending decline shared more similarities with the S&L crisis than with the 2008 subprime mortgage debacle in terms of the gravity, the status of culprits, and legal responses.

As a rising economic superpower, China faces institutional challenges of social management in its course of modernization. Historical evidence suggests that corporate scandals and public outrage lead to new "tough" regulations, but as time passes and the public's attention is diverted, regulatory restrictions and criminal accountability are again diminished (Ramirez, 2016). Rather than relying on a policy-oriented model of harsh campaign-style enforcement in coping with white-collar criminality, this study suggests that China may be well-served by further modernizing its financial monitoring and compliance systems through the promotion of both the rule of law and proactive enforcement in order to prevent future white-collar crime waves that can possibly lead to major financial crises.

Conclusion

Financial crimes present in China's P2P online lending ultimately led to a dramatic market failure. The findings from this study show that: (1) the massive failures of P2P lending firms in China caused widespread and severe economic and social consequences; (2) fraud was the main contributor to the collapse of the industry; (3) a plethora of fraud techniques were extensively used in P2P lending; and (4) lax regulation, financialization, and system capacity and non-issue making, identified as contributing to the crimes in the U.S. S&L and 2008 subprime mortgage crises, constituted underlying structural conditions conducive to white-collar criminality in China's online lending market.

The findings of the study corroborate the conclusions in previous studies that white collar crime and its consequences in China do not differ greatly from those found in the U.S. and other countries (e.g., Ghazi-Tehrani & Pontell, 2015). As in previous comparative research on white-collar crime, this study demonstrates the applicability of theories accounting for the structural dynamics underlying financial crimes in countries with different governmental regimes. In fact, "the differences are largely a matter of degree" (Ghazi-Tehrani & Pontell, 2015, p. 259).

As China continues its economic and social development, especially in light of rapid technological advances, white-collar offending that takes on more complicated forms will emerge as a challenge to the state's governance. The results of this study suggest that China should empower its financial regulatory departments, establish a comprehensive compliance system, and undertake proactive and consistent enforcement rather than react with periodic but harsh criminalization campaigns, which have only temporary effects and tend to exhaust government resources while leaving private companies and investors vulnerable to additional losses. The evidence presented here suggests that recognizing the potential for serious and endemic fraud and malpractice in financial markets is a necessary and central first step in formulating effective regulatory policies to prevent future crises. Additional comparative research on fraud in both developed and developing countries that further elaborates and specifies the results found here regarding regulation, white-collar crime, and their roles in creating major market crashes and crises can foster more effective policy measures that may prevent them from occurring in the future.

Funding The work was supported by the 2019–2020 Graduate Student Research Grant by the University of California, Irvine Long U.S.-China Institute.

Data availability The data that support the findings of this study are available from the corresponding author upon request.

Declarations

Conflicts of interest The authors declare they have no financial interests.

Human and animal rights This article does not contain any studies with human participants or animals performed by the authors.

Open Access This article is licensed under a Creative Commons Attribution 4.0 International License, which permits use, sharing, adaptation, distribution and reproduction in any medium or format, as long as you give appropriate credit to the original author(s) and the source, provide a link to the Creative Commons licence, and indicate if changes were made. The images or other third party material in this article are included in the article's Creative Commons licence, unless indicated otherwise in a credit line to the material. If material is not included in the article's Creative Commons licence and your intended use is not permitted by statutory regulation or exceeds the permitted use, you will need to obtain permission directly from the copyright holder. To view a copy of this licence, visit <http://creativecommons.org/licenses/by/4.0/>.

References

- Association of Certified Fraud Examiners. (2018). *Report to the nations: 2018 Global study on occupational fraud and abuse*. <https://s3-us-west-2.amazonaws.com/acfepublic/2018-report-to-the-nations.pdf>. Accessed 1 August 2020.
- Baker, W. E., & Faulkner, R. R. (2003). Diffusion of fraud: Intermediate economic crime and investor dynamics. *Criminology*, 41(4), 1173–1206.
- Barak, G. (2012). *Theft of a nation: Wall Street looting and federal regulatory colluding*. Rowman & Littlefield Publishers.
- Barberis, J., & Arner, D. W. (2016). Fintech in China: From shadow banking to P2P lending. In P. Tasca, T. Aste, L. Pelizzon & N. Perony. (Eds.), *Banking beyond banks and money*. (pp. 69–96). Springer.
- Beijing News (2018). Phicomm “0 RMB Purchase” bundling financial management Consumers’ hundreds of millions of funds trapped (斐讯“0元购”捆绑理财 买家数亿资金被套). *Beijing News*. <https://www.chinanews.com.cn/cj/2018/07-16/8567595.shtml>. Accessed 22 February 2022.
- Benson, M. L., & Simpson, S. S. (2018). *Understanding white-collar crime: An opportunity perspective*. Routledge.
- Black, W. K. (2005). “Control frauds” as financial super-predators: How “pathogens” make financial markets inefficient. *The Journal of Socio-Economics*, 34(6), 734–755.
- Bloomberg (2018). How China’s peer-to-peer lending crash is destroying lives. *Bloomberg*. <https://www.bloomberg.com/news/articles/2018-10-02/peer-to-peer-lending-crash-in-china-leads-to-suicide-and-protest>. Accessed 15 May 2020.
- Burt, R. (1992). *Structural holes: The social structure of competition*. Harvard University Press.
- Caixin (2016). Police: Ezubao illegally raised 50 billion RMB (警方: e租宝非法集资500亿). *Caixin*. <http://china.caixin.com/2016-01-31/100905624.html>. Accessed 20 May 2020.
- Calavita, K., & Pontell, H. N. (1990). “Heads I win, tails you lose”: Deregulation, crime, and crisis in the savings and loan industry. *Crime & Delinquency*, 36(3), 309–341.
- Calavita, K., & Pontell, H. N. (1991). “Other’s people’s money” revisited: Collective embezzlement in the savings and loan and insurance industries. *Social Problems*, 38(1), 94–112.
- Calavita, K., & Pontell, H. N. (1994). The state and white-collar crime: Saving the savings and loans. *Law and Society Review*, 28(2), 297–324.
- Calavita, K., Pontell, H. N., & Tillman, R. (1997a). *Big money crime: Fraud and politics in the savings and loan crisis*. University of California Press.
- Calavita, K., Tillman, R., & Pontell, H. N. (1997b). The savings and loan debacle, financial crime, and the state. *Annual Review of Sociology*, 23(1), 19–38.
- CBRC. (2016). Answering reporters’ questions as to the Interim Measures on Administration of the Business Activities of Peer-to-Peer Lending Information Intermediaries (《网络借贷信息中介机构业务活动管理暂行办法》 答记者问). *CBIRC*. http://www.gov.cn/xinwen/2016-08/24/content_5102030.htm. Accessed 12 January 2022.
- Cheng, H. (2012). Cheap capitalism: A sociological study of food crime in China. *The British Journal of Criminology*, 52(2), 254–273.
- Cheng, H. (2016). *Financial crime in China: Developments, sanctions, and the systemic spread of corruption*. Springer.
- Cheng, H., & Ma, L. (2009). White collar crime and the criminal justice system: Government response to bank fraud and corruption in China. *Journal of Financial Crime*, 16(2), 166–179.

- Cheng, H., & Friedrichs, D. O. (2013). White-collar and corporate crime in China. In L. Cao, I. Y. Sun, & B. Heberton (Eds.), *The routledge handbook of Chinese criminology* (pp. 238–250). Routledge.
- Cho, Y. (2019). China's peer-to-peer lenders fight for survival. *Nikkei Asia*. <https://asia.nikkei.com/Business/Business-trends/China-s-peer-to-peer-lenders-fight-for-survival2>. Accessed 1 May 2020.
- Crenson, M. (1971). *The un-politics of air pollution: A study of non-decisionmaking in the cities*. Johns Hopkins University Press.
- Ding, C., Kavuri, A. S., & Milne, A. (2021). Lessons from the rise and fall of Chinese peer-to-peer lending. *Journal of Banking Regulation*, 22(2), 133–143.
- Feng, L. (2012). *Barbaric growth (Chinese)*. CITIC Press.
- FCIC. (2011). Financial crisis inquiry commission report. <https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf>. Accessed 12 January 2022.
- Fligstein, N., & Roehrkasse, A. F. (2016). The causes of fraud in the financial crisis of 2007 to 2009: Evidence from the mortgage-backed securities industry. *American Sociological Review*, 81(4), 617–643.
- Friedrichs, D. O. (2013). Wall Street: Crime never sleeps. In S. Will, S. Handelman, & D. Brotherton (Eds.), *How they got away with it: White collar criminals and the financial meltdown* (pp. 3–25). Columbia University Press.
- Geis, G. (1991). The case study method in sociological criminology. In J. R. Feagin, A. M. Orum, & G. Sjoberg (Eds.), *A case for the case study* (pp. 200–223). University of North Carolina Press.
- Ghazi-Tehrani, A. K., Pushkarna, N., Shen, P., Geis, G., & Pontell, H. N. (2013). White-collar and corporate crime in China: A comparative analysis of enforcement capacity and non-issue making. *Crime, Law and Social Change*, 60(3), 241–260.
- Ghazi-Tehrani, A. K., & Pontell, H. N. (2015). Corporate crime and state legitimacy: The 2008 Chinese melamine milk scandal. *Crime, Law and Social Change*, 63(5), 247–267.
- Ghazi-Tehrani, A. K., & Pontell, H. N. (2019). Corruption in the United States and China: Codes of conduct vs. crackdowns. *Crime, Law and Social Change*, 73(1), 1–20.
- Ghazi-Tehrani, A. K., & Pontell, H. N. (2022). *Wayward dragon: White-collar and corporate crime in China*. Springer.
- Goetz, B. (1997). Organization as class bias in local law enforcement: Arson-for-profit as a nonissue. *Law & Society Review*, 31(3), 557–588.
- Gough, N. (2016a). Online lender Ezubao took \$7.6 billion in Ponzi scheme, China says. *The New York Times*. <https://www.nytimes.com/2016/02/02/business/dealbook/ezubao-china-fraud.html>. Accessed 10 August 2020.
- Gough, N. (2016b). Ponzi scheme in China gained credibility from state media. *The New York Times*. <https://www.nytimes.com/2016/02/06/business/dealbook/alleged-china-ponzi-scheme-ezubao.html>. Accessed 21 May 2020.
- Guo, S. (2020). Development, challenge, and supervision of fintech (金融科技发展, 挑战与监管). *CRIBC*. <https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=947694&itemId=915&generaltype=0>. Accessed 30 June 2021.
- Ho, K. (2009). *Liquidated: An ethnography of Wall Street*. Duke University Press.
- Hu, F. (2019). Another province encountered “wipe-out”! No (firm) passing acceptance examination, 1200 (firms) voluntarily closing businesses (又一省P2P遭“团灭”!无一家通过验收, 年内已1200家主动停业). *STCN*. <http://news.stcn.com/2019/11/17/15498715.shtml>. Accessed 10 January 2022.
- Hulme, M. K., & Wright, C. (2006). Internet based social lending: Past, present and future. *Social Futures Observatory*, 11, 1–115.
- Huang, R. H. (2018). Online P2P lending and regulatory responses in China: Opportunities and challenges. *European Business Organization Law Review*, 19(1), 63–92.
- Huang, Q. (2019). Huang Qifan: Internet finance systems shall not violate basic characteristics of finance. *China Business Network*. <https://www.yicai.com/news/100216902.html>. Accessed 21 January 2022.
- Jiang, X. (2014). China steps up crackdown on illegal fundraising. *China Daily*. http://www.china-daily.com.cn/cndy/2014-04/22/content_17451935.htm. Accessed June 20 2020.
- Kawasaki, T. (2019). Review of comparative studies on white-collar and corporate crime. In M. L. Rorie (Ed.), *The handbook of white-collar crime* (pp. 437–447). Wiley.
- Leng, C., & Tham E. (2019). In China, P2P insiders say regulatory shortcomings have choked industry. *Reuters*. <https://www.reuters.com/article/us-china-p2p-regulation-analysis-idUSKCN1VR055>. Accessed 5 July 2020.

- Li, K. (2014). Report on the work of the government (2014). http://english.www.gov.cn/archive/publications/2014/08/23/content_281474982987826.htm. Accessed 30 May 2020.
- Li, K. (2015). Report on the Work of the Government (2015). http://english.www.gov.cn/archive/publications/2015/03/05/content_281475066179954.htm. Accessed 30 May 2020.
- Lu, H., & Gunnison, E. (2003). Power, corruption, and the legal process in China. *International Criminal Justice Review*, 13(1), 28–49.
- McGrath, J. (2019). Why do good people do bad things: Multi-level analysis of individual, organizational, and structural causes of white-collar crime. *Seattle University Law Review*, 43(2), 525–554.
- McGrath, J. (2020). ‘Walk softly and carry no stick’: Culture, opportunity and irresponsible risk-taking in the Irish banking sector. *European Journal of Criminology*, 17(1), 86–105.
- National Bureau of Statistics of China (2020). National Data. <http://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0S0B&sj=2018>. Accessed 16 Jan 2020.
- National Center for Victims of Crime (2016). Financial crime (report). https://www.ncjrs.gov/ovc_archives/ncvrv/2016/content/section-6/PDF/2016NCVrw_6_FinancialCrime-508.pdf. Accessed 1 March 2020.
- Needleman, M. L., & Needleman, C. (1979). Organizational crime: Two models of criminogenesis. *The Sociological Quarterly*, 20(4), 517–528.
- Nguyen, T. H., & Pontell, H. N. (2010). Mortgage origination fraud and the global economic crisis: A criminological analysis. *Criminology and Public Policy*, 9(3), 591–612.
- Pan, T. (2019). Guangzhou issued a letter reminding P2P online lending risks: No platforms passed compliance examination, lenders should assume risks (广州发函提示P2P网贷风险: 无平台通过合规验收 出借人自担风险). *National Business Daily*. <http://www.nbd.com.cn/articles/2019-08-29/1367033.html>. Accessed 1 February 2020.
- Peng, X., Cheng, L., & Gong, M. (2021). Measuring public-involving economic crime: A case study in Beijing, China. *International Journal of Law, Crime and Justice*, 65, 100465.
- Pickett, K. S., & Pickett, J. M. (2002). *Financial crime investigation and control*. Wiley.
- Pontell, H. N. (1984). *A capacity to punish: The ecology of crime and punishment*. Indiana University Press.
- Pontell, H. N. (2005). White-collar crime or just risky business? The role of fraud in major financial debacles. *Crime, Law and Social Change*, 42(4–5), 309–324.
- Pontell, H. N., Black, W. K., & Geis, G. (2014). Too big to fail, too powerful to jail? On the absence of criminal prosecutions after the 2008 financial meltdown. *Crime, Law and Social Change*, 61(1), 1–13.
- Pontell, H. N., & Calavita, K. (1993). The savings and loan industry. *Crime and Justice*, 18, 203–246.
- Pontell, H. N., Calavita, K., & Tillman, R. (1994). Corporate crime and criminal justice system capacity: Government response to financial institution fraud. *Justice Quarterly*, 11(3), 383–410.
- Pontell, H. N., Ghazi-Tehrani, A. K., & Burton, B. (2019). White-collar and corporate crime in China. In M. L. Rorie (Ed.), *The handbook of white-collar crime* (pp. 347–362). Wiley.
- Ramirez, M. K. (2016). Oversight and rule making as political conflict. In S. R. Van Slyke, M. L. Benson, & F. T. Cullen (Eds.), *The Oxford handbook of white-collar crime* (pp. 479–502). Oxford University Press.
- Reurink, A. (2018). Finance Crime. In *Oxford Research Encyclopedia of Criminology and Criminal Justice*. <https://oxfordre.com/criminology/view/https://doi.org/10.1093/acrefore/9780190264079.001.0001/acrefore-9780190264079-e-272>. Accessed 1 August 2020.
- Rosoff, S. M., Pontell, H. N., & Tillman, R. H. (2018). *Profit without honor: White-collar crime and the looting of America*. Pearson.
- Ryder, N. (2011). *Financial crime in the 21st century: Law and policy*. Edward Elgar Publishing.
- Shen, W. (2016). *Shadow banking in China: Risk, regulation and policy*. Edward Elgar Publishing.
- Shen, W. (2020). *Conceptualizing the regulatory thicket: China’s financial markets after the global financial crisis*. Routledge.
- SPC. (2019). Highlights of adjudication of illegal-funding cases by People’s court (人民法院审理非法集资刑事案件情况). <http://www.court.gov.cn/zixun-xiangqing-141322.html>. Accessed 2 May 2020.
- Sutherland, E. H. (1947). *Principles of criminology* (3rd edition). Lippincott.
- Tan, J. (2019, November 24). P2P crime features revealed by SPP research office: celebrity endorsement deceitfully gaining trust (最高检研究室揭P2P犯罪特点: 请名人站台造势骗取信任). *The Paper*. https://www.thepaper.cn/newsDetail_forward_5044532. Accessed 12 June 2021.

- Tillman, R. (2009). Reputations and corporate malfeasance: Collusive networks in financial statement fraud. *Crime, Law and Social Change*, 51(3–4), 365–382.
- Tillman, R., Calavita, K., & Pontell, H. N. (1996). Criminalizing white-collar misconduct. *Crime, Law and Social Change*, 26(1), 53–76.
- Tillman, R. H., & Indergaard, M. L. (1999). Field of schemes: Health insurance fraud in the small business sector. *Social Problems*, 46(4), 572–590.
- Tillman, R.H., & Indergaard, M. L. (2005). *Pump and dump: The rancid rules of the new economy*. Rutgers University Press.
- Tillman, R. H., & Pontell, H. N. (1995). Organizations and fraud in the savings and loan industry. *Social Forces*, 73(4), 1439–1463.
- Tillman, R. H., Pontell, H. N., & Black, W. K. (2017). *Financial crime and crises in the era of false profits*. Oxford University Press.
- Van Rooij, B. (2012). The People's regulation: Citizens and implementation of law in China. *Columbia Journal of Asian Law*, 25, 116–179.
- Vaughan, D. (2007). Beyond macro-and micro-levels of analysis, organizations, and the cultural fix. In H. N. Pontell & G. Geis (Eds.), *International handbook of white-collar and corporate crime* (pp. 3–24). Springer.
- Wang, C. (2021). Records of CBIRC and State Council Information Office answering questions in press conference (银保监会国新办新闻发布会问答实录). *CBIRC*. <https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1014557&itemId=915&generalType=0>. Accessed 12 January 2022.
- Wang, P., Su, M., & Wang, J. (2021). Organized crime in cyberspace: How traditional organized criminal groups exploit the online peer-to-peer lending market in China. *The British Journal of Criminology*, 61(2), 303–324.
- Wang, X., & Wang, H. (2020, January 17). 3013 people were prosecuted for P2P crimes (3013人因涉嫌P2P犯罪被公诉). *Shanghai Observer*. <https://www.jfdaily.com/news/detail?id=201639>. Accessed 30 July 2020.
- Xinhua (2013). Pleasant internet and big banks. *Xinhua*. http://www.chinadaily.com.cn/business/2013-12/20/content_17187322.htm. Accessed 30 June 2020.
- Xinhua (2017a). China's internet finance thrives as fraud fades. *Xinhua*. https://www.chinadaily.com.cn/business/2017-04/20/content_29008537.htm. Accessed 20 June 2020.
- Xinhua (2017b). 26 on trial over China P2P fraud. *Xinhua*. http://www.chinadaily.com.cn/business/2017-04/28/content_29125729.htm. Accessed 12 January 2022.
- Yang, L. (2014). Internet finance regulatory distribution PBOC in charge of P2P (互联网金融监管分工P2P将由银监会负责). *Caixin*. <https://finance.caixin.com/2014-03-11/100649821.html>
- Yang, L., & Wang, S. (2014). How to regulate P2P? (如何监管P2P?). *Caixin Weekly*. <https://magazine.caixin.com/2014-04-11/100663749.html>. Accessed 10 January 2022.
- Yu, T., & Shen, W. (2019). Funds sharing regulation in the context of the sharing economy: Understanding the logic of China's P2P lending regulation. *Computer Law & Security Review*, 35(1), 42–58.
- Zhang, S. (2019). China arrests 62 suspects abroad, \$1.5 billion seized in P2P crackdown. *Reuters*. <https://www.reuters.com/article/uk-china-debt-p2p-idUKKCN1Q70V2>. Accessed 28 June 2021.
- Zhao, C. (2015). Ezubao suddenly investigated: A mysterious company (被“突查”的e租宝: 一家“谜”一样的公司). *China Daily*. http://caijing.chinadaily.com.cn/2015-12/07/content_22643829.htm. Accessed 20 June 2020.
- Zhou, X. (1992). On political cycles in contemporary China (论一放就死 一管就乱). In X. Zhou (Ed.), *State and society in contemporary China* (当代中国的国家与社会关系) (pp. 149–169). Guiguang Press.
- Zhu, L. (2021a). 'Lianbi Finance' illegal fundraising case on trial, Accused of causing 12 billion (RMB) loss to investors (联璧金融“非法集资案开庭 被控造成受害人损失超120亿). *Caixin*. <https://finance.caixin.com/2021-02-07/101661431.html>. Accessed 25 June 2021.
- Zhu, L. (2021b). 'Lianbi Finance' illegal fundraising case causing losses of 12.5 billion RMB, Gu Guoping sentenced life in the first-instance trial (“联璧金融”非法集资案造窟窿125亿余元 顾国平一审被判无期). *Caixin*. <https://finance.caixin.com/2021-12-09/101815671.html>. Accessed 8 January 2022.