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Why are risk-sharing rules uncertain? A sociological study of local financial governance

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Abstract

This article discusses the uncertainty of risk-sharing rules in local financial governance. That is, when the formal risk-sharing rules of financial transactions are agreed upon in advance, actual operations are uncertain. First, the institutional contradiction at the macro-level is an important structural source of the uncertain rules at the micro-level. Second, institutional contradictions endow actors with conflicting bases of legitimacy and driving forces of interest, which induces games of norms and interests among investors, local governments, and intermediaries with regard to risk-sharing rules and leads to the competitive pattern of varied risk-sharing rules. Last, the combination of multiple legitimacy claims and multiple mechanisms of power competition leads to uncertainty in the risk-sharing rules of actual operations.

Keywords: Risk-sharing rules, Uncertainty, Institutional contradiction, Double game, Tug-of-war mechanism

Introduction

Uncertainty in risk-sharing rules can often be observed in local financial governance in contemporary China. Risk-sharing rules refer to the rules formed by the interaction among government departments, intermediaries, investors, and financiers with regard to who shares the risks of financial transactions, how they are shared, and the basis for such sharing. Uncertainty means that the risk-sharing rules formally agreed upon by the subjects fluctuate in actual operations. Before entering into agreements, government departments usually repeatedly declare that investment involves risks and investors must bear their own investment risks, intermediaries typically inform investors of such risks in detail, and investors generally sign formal "self-bearing investment risk" contracts with intermediaries.

However, when the borrower falls behind or fails to fulfill contractual obligations, investors often breach the contract, requiring intermediaries or the government to share the risk. In the face of various investor demands, the government can sometimes adhere to the risk-bearing rules of the contract but will sometimes not enforce the risk-sharing rules or even become directly involved in sharing the risk. As for intermediaries, sometimes they can avoid involvement; nonetheless, sometimes they must share the risk or even make "implicit guarantees." Consequently, different local financial governance risk-sharing rules are often applied in different contexts. How can these seemingly contradictory phenomena be explained? Why is there uncertainty about risk-sharing rules? This research explores three questions: Where does the uncertainty of risk-sharing originate? How do these uncertain operating rules compete with each other? What is the mechanism of rule fluctuation?

Discussion on implicit guarantees in finance

Implicit guarantees are common in China's financial sectors and are regarded as the "unspoken rule" or even as an unbreakable "myth" in some industries. So-called implicit guarantees can be defined as follows: "when funds are at risk and financial products may default or fail to achieve the expected return, commercial banks, trusts, or insurance institutions guarantee the return of financial products by seeking third-party institutions to take over, pay with their own funds, or give investors monetary compensation in order to maintain their reputation as issuers or channels" (Financial Stability Analysis Group of the People's Bank of China 2014: 129).

Relevant studies in finance have analyzed the causes of implicit guarantees, their potential impacts, and the necessity of suspending implicit guarantees (Wu 2014; Zou 2014; Li and Fan 2014; Nie 2017). Scholars have pointed out that investors' insufficient awareness of risk, regulators' desire to maintain financial and social stability, and financial institutions' motivations to maintain credibility and obtain higher regulatory ratings are important reasons for the existence of implicit guarantees in the long term. Implicit guarantees are distortions of market transaction rules and are not conducive to the soundness of market operations, which must urgently be suspended.

The study of implicit guarantees in finance is insufficient to explain the complex phenomenon we observe. First, implicit guarantees are only one manifestation of the uncertainty of risk-sharing rules: In reality, not all intermediaries will make implicit guarantees, and an intermediary will not "underwrite" the investor in all cases. The existing studies seldom analyze the conditions under which implicit guarantees occur. Second, the existing studies rarely discuss the implicit or explicit role of the government in implicit guarantees; it is difficult to identify the interactive processes and behavior logics around risk-sharing between the government and financial market players (intermediaries and investors), and it is especially difficult to determine why the government sometimes shares the risk. Third, a holistic perspective is lacking in the existing studies, and they do not reveal the underlying mechanisms of rule uncertainty in broader social or institutional contexts. In fact, from the perspective of the sociology of finance (Cetina and Preda 2012), the formal rules agreed upon by individual agents are deeply embedded in the institutional structures formed by laws, polities, and social perceptions of financial governance.

Sociological studies on the phenomenon of rule uncertainty

Although risk-sharing in financial governance is less studied in sociology,[1] sociologists have paid attention to rule uncertainty. As Cao (2008: 211) puts it, one of the basic features of contemporary Chinese society is that "on the definition of rights and interests, stable and unified rules have not been fully formed, and the rules often vary or are replaced depending on people, situations, and forces." However, the more fundamental theory of institutional change generally does not directly provide an appropriate explanation for this phenomenon. This is because the theory of institutional change focuses on the problem of change from one institutional arrangement to another (Davis and North 2014; Lin 2014; March et al. 2005) rather than on the uncertainty of institutional arrangements. Specifically, it discusses the ephemeral variation of rules rather than the coeval competition of rules. It focuses on the stable transition from one consensus rule to another consensus rule rather than the reciprocal fluctuation between non-consensus rules. Even defining rules as game equilibria (Aoki 2001), the institutional change theory also pays more attention to the cause of the rule being determined or the mechanism by which equilibrium can be generated from an evolutionary perspective. For example, the theory holds that the cultural background, concepts, and knowledge shared by game participants enable their certain behavior conventions to form spontaneously (Schelling 1960; Sugden 1989). However, it has given less attention to the reasons underlying rule uncertainty or the mechanisms of equilibrium fluctuation.

There are, of course, theoretical resources in the tradition of the institutional theory that are relevant to the analysis of rule uncertainty. These include three main areas. One area concerns the relationship between rule making and rule enforcement. Studies have focused on the deviation of rule enforcement from rule making, such as variant enforcement (Wang et al. 1997), selective enforcement (O'Brien and Li 1999), and fluctuating enforcement (Chen and Zhang 2015), with explanations surrounding high enforcement costs, enforcer's interest preferences, incomplete rules, and insufficient applicability. However, such studies concern the manner or intensity of enforcement of a given rule, but they are not able to explain the existence of competing rules and the oscillation between rules. In addition, they focus on analyzing the behavior of rule enforcers rather than the interaction mechanisms between relevant subjects.

The second area concerns the relationship between formal rules and informal rules. Studies have pointed out the differences, competition, and matching relationships between formal and informal rules, emphasizing that informal rules are prevalent and affect the operation of formal rules (North 2008). In particular, the phenomenon of competing rules in transitional societies has been identified in the sociology of law research involving topics of the origin of multiple rules and the fundamental role of the social perception in the formation of rules (Zhang 2014). However, such studies do not provide systematic answers to why a certain informal rule exists, why formal rules cannot be identified, and what the mechanism of rule oscillation is when the two conflict.

[1] One author of this paper has discussed the issue of risk-sharing and its rule uncertainty (Xiang 2017, 2020). Although the selected empirical cases are from the field of financial governance, the theoretical discussions are mainly focused on the field of market governance in general, and they are not targeted to present a more systematic and in-depth explanatory framework.

The third area is the relationship between institutional arrangements and institutional structure. Some studies have constructed the analytical framework of "macro-institutional structure-actors and their micro-institutional interaction-arrangement," emphasizing that changes in micro-level institutional arrangement originate from the joint influence of multiple institutional logics in the macro-institutional structure (Zhou and Ai 2010), which is very significant. However, this does not answer the question of the relationships among multiple logics at the macro-level and the mechanisms that can influence rule uncertainty at the micro-level.

The empirical study that is most relevant to this research is the work of Zhang (2003) on the uncertainty of land-use rules. She observes that most land disputes in rural Chinese society focus on the issue of how to allocate the economic interests generated by land use and that different subjects in the dispute often endorse different allocation rules, leaving the actual functioning of land-use rules in a state of uncertainty. Zhang's research shows that since the respective scopes and principles of law and politics are not separated, no legal system contains the principle of certainty and qualified legitimacy claims, leading to competition among multiple land-use rules. As a result, the process of determining land-use rules does not follow the principle of legal measurement but instead follows the principle of politics of interests, turning rule enforcement into rule selection that politicizes legal events. Multiple rules are claimed to have sources of legitimacy and are selectively used in practice through power competition; therefore, participants' changing interests and power cause the rules to appear uncertain. Zhang's study inspires our study. Fundamentally, the macro-level rule uncertainty originates from the institutional structure at the macro-level. Essentially, the core of rule uncertainty lies in the politicization of legal events. Mechanically, the parties' normative and interest interactions directly shape the rules' actual state.

However, Zhang's findings are still insufficient to explain the concerned phenomenon addressed by this research. First, Zhang's emphasis on the undifferentiated structure of politics and law, which leads to multiple competing rules, is intended to show that the parties do not reach a consensus on the rules ex ante, so they politicize legal events ex post. However, the risk-bearing rule is formally agreed upon by multiple parties ex ante, yet the investor can still breach the contract ex post. The breach is often successful, and the legal process is still politicized. Therefore, it is necessary to ask the following: Why do the legal and political relationships remain indistinguishable after the fact when there is an ex ante consensus, and what is the logic behind it?

Second, whereas Zhang's article does not focus on the role of the government in rule uncertainty, the government in this article is a central actor in the phenomenon of concern. Zhang focuses more on the horizontal competition among various social actors but less on the vertical dimension of government–society relations. The uncertainty of risk-sharing rules, on the other hand, is not only an issue of horizontal competition among market players but also touches on a deeper level of government–society relations. Third, Zhang emphasizes the impact of power differences among the subjects involved in the uncertainty of the rules but fails to reveal the specific tug-of-war mechanisms that lead to rule changes. To address the questions that existing studies have had difficulty answering, this article attempts to synthesize existing theoretical resources and provide an analytical framework to explain the prevalent rule uncertainty phenomenon.

Analytical framework

Drawing on the framework of neo-institutionalism (Powell and DiMaggio 1991; Masahiko Aoki 2001), this article examines risk-sharing rules at the micro-level in the institutional structure at the macro-level. It uses game analysis among the major actors to bridge the macro- and micro-levels. By constructing an analytical framework of "institutional contradiction—double game—tug-of-war mechanism," the article examines how the macro-institutional structure affects the uncertainty of micro-rules through the perceptions and behaviors of actors.

Institutional contradictions

The new institutionalism suggests that stable and repetitive micro-phenomena are often rooted in the macro-institutional structure, which is an institutional system composed of multiple institutions that may provide different incentives or place different constraints on actors (Zhou and Ai 2010). Therefore, interinstitutional relationships become an important starting point for understanding micro-phenomena. Interinstitutional relations include various forms, such as connection, synergy, and contradiction, which may have different impacts on micro-phenomena.

This article argues that institutional contradictions at the macro-level are the structural source of rule uncertainty at the micro-level.[2] Institutional contradictions refer to a certain degree of tension, friction, or conflict between the main dimensions of the macro-institutional structure (e.g., markets, laws, bureaucratic systems, social perceptions, and authority institutions) (Friedland and Alford 1991; Seo and Douglas Creed 2002; Lounsbury 2007; Thornton and Ocasio 2008). Institutional contradictions include a variety of manifestations, such as the operation of one system being impeded by another or two systems with opposite incentives for actors in the same scenario. It is important to note that there are at least three important characteristics of institutional contradictions: (1) Institutional contradiction is universal; (2) contradictions between institutions are relative to a particular problem and are not immutable; and (3) the scope, extent, and timing of the role of institutional contradictions are related to the corresponding scenario.

In contexts where actors agree on formal rules ex ante, macro-level institutional contradictions affect the uncertainty of ex post rule operation through both the actors' "ideological and material interests" (Scott 2010). At the ideological level, institutional contradictions affect not only actors' cultural perceptions of what rules are taken for granted but also actors' recognition of the conformity of other actors' actions to social norms or established rules, giving them legitimacy to compete with each other as well as the corresponding discursive tools. In other words, whether the actors want to maintain or change the initial rules, they can find legitimacy justifications in institutional contradictions.

Institutional contradictions may drive different actors into a competition at the level of material interests. Because the interests presupposed under one regime can be affected by another regime, institutional contradictions simultaneously contain potential

[2] In this paper, there is a subtle difference between the concepts of institutions and rules, with the former referring to macro-level institutional logic (Zhou and Ai 2010) and the latter referring to micro-level specific rules such as the risk-sharing rules studied in this paper.

incentives for different actors to maintain or change the initial rules. When the initial rules do not satisfy their interests, actors are incentivized to change the rules. The strength of this incentive varies from case to case, depending on the cost and benefit of the actor to change the rule; the lower the cost or the higher the benefit, the more likely the actor will be to challenge the initial rule. Through the mechanism of both ideology and material interests, the initial rules supported by one system may face competition from other rules due to institutional contradictions, and the oscillation between rules gains momentum.

Institutional contradictions are particularly evident in the rapid transformation of Chinese society. Social transformation involves a comprehensive, multilevel, and large-scale change in institutional structure, with new institutions gradually taking shape, while old institutions still exist. Additionally, there are differences in the rate of change in different institutions, and there are usually tensions, frictions, and even conflicts between institutions. For example, on the one hand, marketization, legalization, and section-based technical governance are gradually becoming a trend of transformation (Qu et al. 2009). On the other hand, many aspects of the authoritarian system, ideologies, and norms (Zhou 2003, 2011) are relatively stable. For governance issues such as sharing risks after financial disputes arise, these institutions may have different connotations from mismatched or contradictory operational logic. Under certain scenarios, institutional contradictions will inevitably act on formally agreed-upon risk-bearing rules through the perceptions and interests of investors, intermediaries, local governments, and other actors and drive ex post rule uncertainty. In the case of local financial governance, there are at least three dimensions of institutional contradictions (Xiang 2017) that impact the uncertainty of risk-sharing rules.

The first dimension is market transformation and the deficiency of the legal system. Markets function in a certain legal system, but market transformation often occurs in an institutional environment with a lack of laws in various fields in China (Dixit 2004),[3] especially in the financial field. With the financialization of contemporary society, innovations in financial instruments have emerged, and the scope of financial transactions has gradually expanded and become increasingly complex. Even traditional private lending has gradually moved from personalized to impersonal transactions, from offline to online, while the absence of laws has almost become the norm.

Under the contradiction between market transformation and the absence of laws, it is difficult to resolve all types of risk in financial transactions through legal channels. Effective contract enforcement or risk mitigation mechanisms are especially lacking, so investors usually seek alternative mechanisms. Turning to intermediaries or governments for a problem resolution is an important strategy for investors. Particularly when the government is involved in a case ex ante, investors are more likely to ask the government to resolve issues that should have been resolved through legal processes. However, this option can be a challenge to the risk-bearing rules in finance.

The second dimension is technical governance and authoritarian systems. Numerous studies have shown that local governments face the dual institutional pressure of seeking

[3] In this paper, the meaning of legal deficiency is broad including the lack of legal provisions, the vagueness of the legal provisions, and the high cost of legal processes.

economic governance and maintaining social stability in China's top-down government system (Rong et al. 1998; Zhou 2008, 2014; Cao 2011, 2014; He and Wang 2012; Lv 2013), which reflects the different goals assigned to local governments by the two institutional logics of technical governance in the bureaucratic system and risk control in the authoritarian system. While technical governance emphasizes performance, standardization, and rules, authoritarian institutions prioritize power order and security and stability among all goals. Specifically, in the financial sector, local governments seek to regulate the development of financial markets to enhance their performance but are also responsible for dealing with financial risks, maintaining social stability, and minimizing their potential political risks.[4]

In reality, the paradox is that the two institutional logics incentivize local governments in opposite directions on some issues. The strong incentive to seek economic governance gives the government the impulse to intervene in the market ex ante, while the high risk of maintaining social stability leads the government to distance itself from the market as much as possible. As a result, the government often intervenes in the market through innovative institutional arrangements (e.g., establishing financial plazas or service centers and developing financial organizations) and using government credit or public resources to promote the development of regulated financial transactions. At the same time, the government constructs "firewalls" through organizational choices and risk-bearing rules to separate itself from financial transactions. This makes it easy to form a hybrid governance structure.

This separation of "name" and "reality" gives the government legitimacy to adhere to risk-bearing rules ex post but provides investors with ambiguous signals ex ante (Zhang 2010), which lends legitimacy to investors to violate risk-bearing rules afterward. From the perspective of economic governance alone, the government should adhere to the risk-bearing rule by law to ensure the efficiency and order of the market ex post, and investors should follow the agreed-upon rules. However, from the perspective of social stability, the government may acquiesce to or even accept risk-sharing rules to reduce or control the incidents affecting the social stability caused by financial disputes. As a result, the government may swing between "rigidity" and "flexibility," often choosing whether to intervene in disputes and change rules based on the magnitude of potential political risks. This behavioral logic may induce investors to expect that they may default successfully and lead to actual default behavior.

The third dimension is the contract principle and the concept of "officialdom-people (guan-min 官-民)." Local financial governance is also related to two ideological systems regarding "guan-min (官-民)" relations, one of which is rooted in the Confucian ideological tradition of the "family-state" and the "paternalist" tradition of the planned economy (Qiu and Xu 2004), while the other is reflected in the influence of legal principles and contractualism (Xiang 2017). The two ideological systems coexist, but they act on different people or situations in contemporary China's rapidly changing society. The two ideological systems contradict each other with regard to the government's role in resolving

[4] In this paper, political risk refers to the uncertainty of loss in terms of political and social stability of the jurisdiction or political performance of officials due to popular discontent, petitions, or protests faced by local governments (Cao 2011; Xiang 2020).

Table 1 Comparisons of the two types of risk-sharing rules

The subject	Rule of Risk	Who shares the risk	Implementation procedure	Legitimacy	Institutional Basis
Investors	Risk-sharing	Government, intermediaries	Government mobilization	Government role	Norms, Perceptions
Government, Intermediary	Risk-bearing	Investors	Court decisions	Contractual terms	Legal principles

market disputes. According to the ideology of legal principles and contractualism, financial disputes must be resolved through legal procedures based on legal principles, and investors expect "limited liability" from the government. Based on the ideology of "guan-min (官-民)" relations and paternalism, financial disputes can be resolved by government officials through governmental mobilization, and investors expect "unlimited liability" from the government. The former is the ideological basis of the risk-bearing rule, while the latter provides conceptual support for the risk-sharing rule.

In short, the three institutional contradictions have distinct influences, and, in reality, they often intertwine or even reinforce each other.[5] The three pairs of institutional contradictions allow the risk-bearing and risk-sharing rules to coexist in local financial governance. However, although institutional contradictions produce a situation where the two rules coexist and compete, they do not determine the actual state of the rules.

Double games

When an actor tries to change a rule formally agreed upon under a contradictory system, a game involving rules is played between the parties. This game process includes both a game of interest and a game of norms (Liu 2011). The game of interest starts when the parties choose the corresponding interaction strategy to fight for their respective interests. The game of norms refers to when one party binds the other party to the rules they claim to have been acknowledged to improve their own bargaining power. Combining the game of interest and the game of norms means that each party may strategically apply (i.e., not based on consensus or internalization) the corresponding norms or rules to gain an advantage for itself.

Specifically, once investors try to change the risk-bearing rules, local governments and intermediaries are faced with whether to accept the rule change in financial governance. The three parties will then begin a game of rules. Usually, investors will stick to the risk-sharing rule, and local governments and intermediaries will stick to the risk-bearing rule. As shown in Table 1, the differences between the two rules are reflected in the different subjects in the game, implementation procedures, legitimacy, and corresponding

[5] For example, when local governments choose to intervene in the financial market *ex ante* and adhere to the risk-bearing rule *ex post* under the institutional pressure of economic governance, the incentive and ability of investors to change the risk-bearing rule based on the lack of law and the perception of the government and the people will be stronger because at this time, investors have a higher legitimacy to ask the government to share the risk; i.e., the government intervenes in the financial market *ex ante* and is supposed to share joint liability *ex post*. However, at this time, investors may strategically use the discursive tools of "guan-min (官-民)" relations to place government officials in the position of "parental officials" and at the same time imply that the government should be jointly liable, thus expressing the dual connotation of pleading that the government step in and that the government has obligations to step in. In this case, the government will be more likely to turn to social stability considerations and will be more likely to accept the risk-sharing rules.

institutional bases upon which each party insists, with the first two aspects being the claims of interest and the latter two aspects the basis for such claims. The game of risk-sharing rules includes both the game of interest and the game of norms, in which the equilibrium of interest game is the premise and foundation of the equilibrium of risk-sharing rules game.[6]

The risk-bearing and risk-sharing rules have different implications for subjects' interests and legitimacy. Risk-bearing means that investors resolve financial disputes through court procedures, the uncertainty of the losses is borne by the investors, the legality is based on the formal contract ex ante, and the corresponding institutional basis is founded on legal principles. Risk-sharing means that investors resolve financial disputes through government mobilization procedures and that the uncertainty of loss is shared directly or indirectly by local governments and intermediaries. The legitimacy of risk-sharing is based on the governmental role that regarded by investors perceive ex ante or ex post, and its corresponding institutional basis is social norms or cultural perceptions.

Therefore, how does the game usually play out between the parties? To facilitate the analysis, we construct an ideal game of risk-sharing rules.

Game subject

As shown in Fig. 1, A represents investors, B intermediaries, C financiers, P local governments, and O stands for public service platforms such as financial plazas or service centers promoted by local governments.[7] The solid lines indicate the relationship between the main players of the game of risk-sharing rules, and the dashed lines indicate the peripheral parts of the game.[8]

Recall that the original position is to be modeled as a natural device that evolved to help us coordinate equilibria in some of the games we play.

Strategies of the parties

As shown in Fig. 2, we simplify the complex game process between A, B, and P into a three-stage game in succession for the convenience of analysis. The game is usually first played between A and B (first stage), followed by between A and P (second stage), and then between P and B (third stage). The strategies of each party in the game are discussed below in order. Notably, this study does not assign a value to the costs and benefits of each strategy combination but simply lists the possible strategy combinations and indicates the risk-sharing outcomes that they may imply.

In the first stage, the game is between the investor and the intermediary, where A's strategy set is either to insist or not to insist that B shares the risk. When A chooses not

[6] Binmore (2003: 55) points out that "Indeed, the game of morals is nothing more than a coordination device for selecting one of the equilibria in the game of life. The notion that the game of life and the game of morals go hand in hand has good justification for the way rational human societies operate. It is the rules of the game of life that determine whether a particular pattern of behavior can exist. For a social contract to be viable, it must be an equilibrium of a game of life. But there are many such equilibria, and to choose one, we generally consider that we are engaged in a game of morals, and thus choose the 'fair' equilibrium in the game of life." The game of norms and the game of interests in this paper are close to what Binmore wrote about the game of morals and the game of life.

[7] Such public service platforms sometimes represent the way in which local governments are associated with financial markets ex ante, which sometimes does not apply in reality.

[8] This is demonstrated by the fact that, first, O is a specific setting for financial governance by the government, which does not have a risk-sharing capability and whose actions usually reflect the behavioral logic of P. Second, the risk-sharing issue of concern in this paper arises only after C defaults, so it is not in the game.

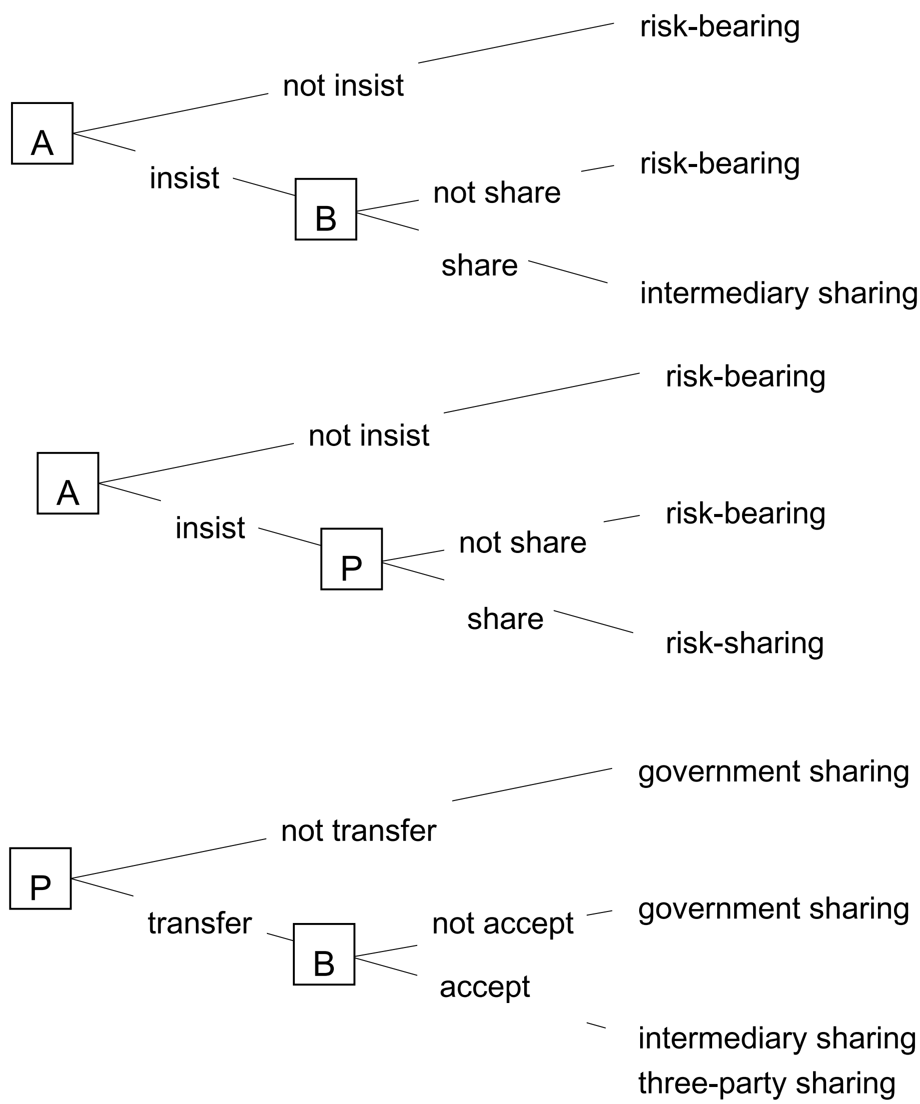

Fig. 1 The game of risk-sharing rules

to insist, the result is risk-bearing; when A chooses to insist, B's strategy includes either sharing or non-sharing, and when B chooses not to share the risk, the game between A and P will be triggered, which is the focus of this study.[9]

The game is between the investor and the government in the second stage. A's set of strategies is to insist or not to insist that P shares the risk. When A chooses not to insist, the result is risk-bearing. When A chooses to insist, P's strategy includes sharing and non-sharing. Non-sharing involves attempting to avoid risk-sharing and adhere to the risk-bearing rule; sharing involves accepting the risk-sharing rule.

[9] In the first stage of the game, there are three cases that do not fall within the scope of this paper: First, the investor does not ask the intermediary to share the risk and takes the risk himself; second, the investor asks the intermediary to share the risk, and the intermediary is willing to share the risk as a result; third, the investor asks the intermediary to share the risk, the intermediary refuses, and, as a result, the investor takes the risk himself.

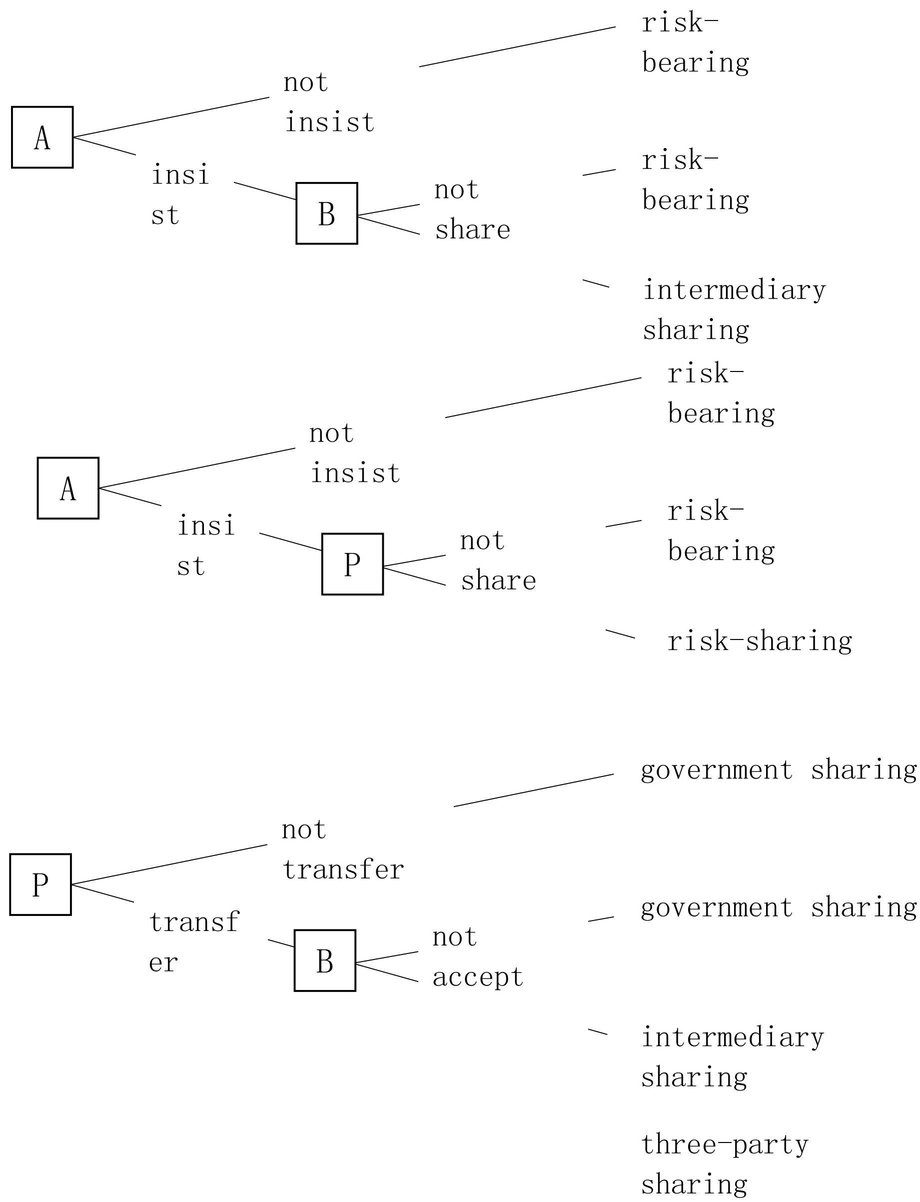

Fig. 2 The game path of risk-sharing rules

In the third stage, the game is between the government and intermediaries. When P accepts the risk-sharing rules, there are two strategies, i.e., whether to transfer the risk to B or not. If not, P shares the risk by itself; if it does, it involves the choice of B. B also has two response strategies. One is not to accept the risk transfer so that only P shares the risk; one is to accept the risk transfer, including two scenarios in which they accept the full risk transfer, or they accept partial risk transfer so that B shares the risk or the three parties share the risk.

Game results

As shown in Fig. 2, there may be a variety of equilibrium states of the game, and these strategy combinations imply different actual states of risk-sharing rules, including four main categories: In the first, the investor bears the risk; in the second, the local government shares the risk; in the third, the intermediary shares the risk; and in the fourth, the local government and the intermediary jointly share the risk for the investor, i.e., three-party sharing.[10]

In local financial governance in contemporary China, the strategic choices of all parties in the game are context-specific and based on cost–benefit trade-offs. If the investor does not insist that the government intervenes to resolve the dispute, it will have to face the risk alone, so the cost for the government to adhere to the risk-bearing rule is almost zero. If the investor insists that the government intervenes, the cost is mainly the time and effort required to negotiate with government departments, and the possible benefit is the risk-sharing by the government or intermediaries. For the government, the cost of risk-sharing is the cost of mobilizing public resources, and the cost of transferring risk is the cost of mobilizing private resources. In the face of the government's risk transfer, the cost for intermediaries to accept is the corresponding risk-sharing cost; the cost for intermediaries to refuse is the possible loss of government support in the future.

Tug-of-war mechanism

When there are multiple equilibria in the game of rules, what factors determine the actual state of the rules? This article argues that the state of the rules depends on multiple games of tug-of-war over power among the actors. Based on the various game strategies discussed above, this article proposes three types of tug-of-war mechanisms related to whether the government chooses to change the rules, transfer the risk, and participate in sharing the risk.

Risk transfer mechanism

The tug-of-war mechanism that affects the game between investors and local governments is the risk transfer mechanism. In this article, risk transfer refers to the transfer of the economic risks faced by investors to the potential political risks faced by local governments (Xiang 2020). All things being equal, the more ex ante involvement of the local government in the financial market, the greater its correlation to investors' risk losses, the more legitimate it will be for the investors to seek government solutions ex post, and the greater the possibility of risk transfer. When investors try to change the risk-sharing rule through petitions and other means, their game of rules between investors and the government has moved out of the realm of the economy so that the potential political risk will be a constraint faced by the government; the government must then decide whether to change the risk-sharing rule based on the intensity of the risk transfer.

[10] Different subjects share the risk in different ways. The government mainly share by the mobilization of public resources such as pushing the courts to speed up the case processing. The intermediaries share by advancing funds to repay loans and compensating for losses.

Table 2 Three pairs of mechanisms and the state of risk-sharing rules

Rule status	Risk-bearing		Risk-sharing	
	The lender risk-bearing	Government sharing	Intermediacy sharing	Three-party sharing
Mechanism type				
Bureaucratic Mobilization	−	+	−	+
Resource Dependency	−	−	+	+
Risk Transfer	−	+	+	+

Resource dependency mechanism

When local governments accept the risk-sharing rule, they may transfer the risk to intermediaries. The tug-of-war mechanism that affects the game between government and intermediaries is the resource dependence mechanism (Pfeffer and Salancik 1978). Usually, intermediaries depend on the resources of local governments. Moreover, the higher the uncertainty of the environment in which the intermediary operates, the fewer alternative sources of resource supply it has, or the longer the relationship with the government, the more it depends on government resources; the degree of dependence on government resources tends to vary among intermediaries. Therefore, the game between the government and intermediaries depends on their resource dependence, and the government can often transfer the risk to intermediaries with higher dependence.

Bureaucratic mobilization mechanism

Local governments' risk-sharing capacity becomes very important when they cannot transfer risks or can only transfer some risks. However, the local government is not always a whole closely integrated by all departments, and it is not always easy for individual departments to mobilize resources. The tug-of-war mechanism, which affects the game between a specific government department and other departments or the public sector, is the bureaucratic mobilization mechanism. The bureaucratic mobilization mechanism means that government departments mobilize public resources from relevant sections of the bureaucratic system to share the risk for investors by, for example, drawing the attention of key local party leaders and government leaders. The strength of bureaucratic mobilization is influenced by factors such as the allocation of leadership attention (Lian 2015), the power allocation, and interest connections between sectors. In general, the stronger the bureaucratic mobilization, the higher the likelihood that government departments will participate in risk-sharing.

In reality, the three mechanisms do not exist in isolation but act together to shape the risk-sharing rule, and different combinations of them have different effects on the actual state of the rule. As shown in Table 2, we classify the strengths of the three mechanisms. ("+" indicates stronger, and "−" indicates weaker.) We find that the different strengths of the three mechanisms correspond to the common scenarios of risk-sharing rules.

When all three mechanisms play a weak role, the operation is usually a risk-bearing rule. When all three mechanisms play a strong role, the actual state of the rule is usually that of three-party risk-sharing. When the risk transfer mechanism is stronger, the resource dependence mechanism is weaker, and the bureaucratic mobilization mechanism is stronger, the actual state of the rule is usually government risk-sharing. When the risk transfer mechanism is stronger, the bureaucratic mobilization mechanism is weaker, and the resource dependence mechanism is stronger, the actual state of the rule is that intermediaries share the risk.[11]

Research methodology and case background

This article discusses the uncertainty of risk-sharing rules based on the developmental process of a private lending service center (hereinafter referred to as the "service center") in City Y. The service center was established in 2012 as an institutional innovation of the government to promote local financial governance after the private financial crisis in City Y in 2011, and it aims to regulate the development of the private financing market.

The idea of the Y municipal government is to promote the establishment of the service center as a public service platform by introducing P2P financing information service intermediaries[12] and supporting organizations to attract private lending parties to the service center for transactions. In this way, the service center will record the transaction information, which is conducive to solving the problem of "two more and two difficulties"[13] and helps regulate and monitor the private financing market.

Nevertheless, the City Y government did not directly set up and operate the service center. Both the physical and online platforms of the service center are operated by City Y Private Lending Registration Service Co., Ltd.[14] P2P intermediaries and supporting services (such as notary offices and law firms) provide paid services such as loan matching, contract notarization, and legal consultation for both the supply and demand sides of funds on the platform. The platform mainly provides public services such as information dissemination, consultation, and registration. According to this organizational structure, the government seems to separate itself from the service center and lending risk, but it does not work in practice. The risk-sharing rules initially set by the City Y government and the service center can fluctuate in practice. A director of the financial office in the District Z of City Y spoke of the uncertainty of risk-sharing rules as a relatively common phenomenon, even for those not involved with the service centers.

As an institutional innovation in local financial governance, service centers happen to be at the intersection of local governments and private financial markets, which provides a good opportunity to study the uncertainty of risk-sharing rules and their mechanism. From 2012 to 2018, we conducted a longitudinal study of the service centers, with six fieldworks, using participant observation, in-depth interviews, and documents to collect detailed information on the development history of service centers. We paid special

[11] The strength of the three mechanisms may be influenced by some of the same underlying factors. These factors include the scale of the potential financial risk, the spillover effects of financial risk, and the local government's perception of the risk of social instability.

[12] In 2012, "P2P network lending" in China did not yet have a unified name, and the City Y government called such institutions "financing information service intermediaries" in their documents, meaning the direct lending of individuals from intermediaries who charge information service fees.

[13] "Two more and two more difficulties" refers to the difficulty for the abundant private funds to be invested and the difficulty for the many micro-enterprises to be funded.

[14] The company was established by a number of member enterprises and persons of the Federation of Industry and Commerce in the District Z of City Y.

attention to the behavioral patterns, modes of expression, and dynamics of the interactions among government departments, service centers, intermediaries, and investors around risk-sharing rules.

Institutional contradictions

Service centers are rooted in the institutional structure of the private financial sector in China. The contradictions embedded in such institutional structures form the basis for the uncertainty of risk-sharing rules in the operation of service centers.

First, there is a contradiction between the expansion of market transactions and highly deficient laws. On the one hand, the scope of private lending transactions has expanded from traditional acquaintance lending and offline transactions to a wider range of stranger lending through online platforms, with new forms of online platforms surging rapidly, which brings about more risks.[15] On the other hand, laws regarding private finance are highly deficient (Chen 2008), and it is difficult to enforce a large number of private finance contracts effectively. First, China's private finance has long been in a gray area of law, lacking a sound legal basis and a clear regulatory authority. Before 2016, P2P platforms were in the "three no's" stage nationwide: no entry threshold, no industry standard, and no regulation (Huang 2012). Once the operation problems of intermediaries lead to risks of loss, it is difficult for lenders to clarify their responsibilities and legally obtain compensation in time. Second, the time cost of legal operation is high. Resolving private lending disputes through law often takes a long time, and after the outbreak of the civil financial crisis in City Y, the local financial judicial system was under more pressure, with a typical lending dispute taking as long as two years from filing and trial to final execution. It has encouraged lenders to seek solutions outside of the law.[16]

Second, local governments have twofold pressure from financial governance innovation and local risk control. Under the overlapping financial management system of the central and local governments (Huang 2018), local governments need to explore innovative institutional arrangements for financial governance and develop local financial organizations, serve both the supply and demand of private funds, and regulate the private finance market. It is also necessary for local governments to take responsibility for local risk control, maintain social stability, prevent local financial crises as the bottom line, and play the role of a firefighter in cases where financial risks are transformed into social risks or even political risks.[17]

In fact, before establishing the service center in 2012, the Y municipal government was already aware of this twofold institutional pressure, but they needed to explore innovations in local financial governance. Creating the service center was one of the few options in the context of the outbreak of the private financial crisis and the establishment of the pilot financial reform zone at that time. For this reason, they were compelled

[15] Internet lending was introduced to China in 2006 and expanded rapidly after 2010, with many intermediary platforms developing complex business models online and offline involving a variety of products such as credit loans, home mortgages, and vehicle mortgages.

[16] In the case of secondary housing mortgages, for example, lenders may lose their money entirely if housing prices fall significantly within two years.

[17] Some financial law scholars point out that achieving a balance between service and management and between financial development and risk disposal is a major test for local governments and that "local financial management departments cannot be both athletes and referees" (Huang Zhen, 2018: 45).

to rush the process of establishing the service center. In the early stages of the service center's development, the financial office of District Z in City Y held weekly meetings at the service center to discuss how to innovate the business of on-site trading, focusing on various potential risks and their possible social impact.

Third, there is a contradiction between the formalization of financial contracts and the public's expectation of government responsibility. It is a top-down requirement of the government system for local financial governance to regulate the development of private finance. The original idea of the service center was precisely to promote the standardization and transparency of private lending through standardized contracts, standard transaction procedures, and strict registration, which would enhance the effectiveness of dispute resolution and risk disposal by law through the formulation and implementation of risk-bearing rules agreed upon by all parties. However, as pointed out by the officials of the City Y government and the head of the finance office in their initial discussions with experts about the feasibility of the service center, the public's expectation of government responsibility is deeply rooted. When they encounter difficult disputes, they will habitually seek resolution from the government. Even for financial disputes that do not happen on site, it is common for investors to seek help from the government. Therefore, if the government promotes the establishment of a service center, they will be even more likely to be involved in private lending disputes.

Double game

Risk-bearing: the parties' ex ante agreement

The City Y government has always emphasized the risk-bearing rule based on the background discussed above. The service center also publicly declares that it is not responsible for bad debts, and they provide risk tips to lenders (see the following documents). Intermediaries will ask lenders to make risk-bearing statements on the risk-tip document. And lenders will make a clear commitment to bear risks on the risk-tip document and sign it before closing.

Risk-Tip Document

I. Borrowing and lending instructions: borrowing and lending are risky and done at your own risk.
II. Lenders require the following information about the borrower: (1) family situation, work situation, property situation, income situation; (2) credit situation, such as according to the credit report of the People's Bank of China and the intermediary's credit evaluation of the borrower; (3) borrowing purposes, repayment sources; and (4) collateral situation.
III. Lenders require the following information about the intermediary: (1) the business process, service content, risk control means, and fees of the intermediary; (2) the responsibility of the intermediary (i.e., matching information for the lending and borrowing parties and consulting services and coordinating between all parties).
IV. Lenders require information about the responsibilities of the service center: The service center only does the formal registration and filing work for the business and does not assume any risk.

According to the regulations, the lender must copy the following: "I have read all the risk tips, fully understand the information about the borrower and the intermediary, am willing to comply with all provisions of the contract, and voluntarily assume all the risks arising from this lending." (Please copy)

Lender's signature:

Date:

In addition, the lender is required to sign a customer statement prior to the transaction, and the intermediary is required to sign an intermediary statement form with the service center.[18] In short, both the government and the service center try to bind the lender's behaviors ex post through these layers of formal agreements before the transaction.

Risk-sharing: default of lenders ex post

In the actual operation of the service center, however, the lender, aware of the high legal cost, will often breach the ex ante risk-bearing agreement and ask the intermediary or the government to share the risk when the borrower's payment is late, or they disappear. How can lenders justify their defaults? The following is from a lender's conversation with the authors:

> *I'm in a bad mood now, and I just want my money back. We trusted the center a lot. When people engage in these privately, we do not dare to do it … but this is led by the government. The city government and the provincial government support this, so we put our life savings here … we resort to the government first. It's better that they can solve it, and we believe that the government can do it.*
>
> *Regarding petition, if I don't get the money returned, we will do it; we are sure to petition; how can he not return our money and we not petition? … the intermediary causes a problem, not the government. We are here to ask the government to help us solve this thing … we only knew that the government was leading, so we thought it was the government, and then I learned that the center is at the core, but it was when we had made the transaction … I don't care as long as the money is returned to me. (Interview information: 20130807)*

This conversation is typical among many lenders seeking solutions from the service center or the government and shows the various discursive strategies of lenders in playing the normative game with the service center or the government (Xiang 2020). First, a lender tries to eliminate the contract by tracing the premise of contracting. The lender emphasizes that the contract resulted from its trust in the service center, which is closely related to the government, thus highlighting the government's responsibility to resolve disputes. Second, the lender denies knowledge of the corporate nature of the service center before the transaction by blurring the timeline of information acquirement to stress the connection between the government and the lending transaction. Third, by

[18] The customer statement is a statement provided by the lender to the service center that he or she is aware of the borrower's relevant credit information. The intermediary statement is the commitment of the intermediary to the service center; that is, the intermediary is engaged only in coordination but not guarantees or risk-sharing. There is no relationship between the intermediary's consulting services and the service center, and the service center is not responsible for the actions of the intermediary.

indicating the possibility of petitioning for rights, the lender urges the government to compromise. The lender expresses a request to the government and implies a possible risk to the government to urge the government to step in and solve the problem. In short, lenders seek legitimacy for their default by making arguments outside the contract. Such legitimacy claims have a strong impact, especially when the intermediary's behavior is flawed.

Competition in rules: from the game of norms to the game of interests

Two competing rules emerge after lenders default on their prior agreements: risk-bearing and risk-sharing. Government departments, service centers, and intermediaries will require lenders to bear their risks and insist on legal procedures to deal with disputes. In contrast, lenders will insist that intermediaries, service centers, or government departments share risks and use government mobilization procedures to resolve disputes. The legitimacy of the former is based on legal principles, while the latter's legitimacy is based on social norms.

The competition of rules is reflected in the game process among lenders, intermediaries, and government departments. Usually, the lender will first ask the intermediary to share the risk, and after being refused by the intermediary, the lender will petition the service center, district financial office, or even the city financial office and the petition bureau. Since the service center is a nonprofit platform for the facilitation of government public services, it has no actual risk-sharing ability, and the key to the game is the government's response.

The research found that the responses of city and county governments varied in different scenarios. When the government had to intervene in a dispute, it usually first considered letting the intermediary share the risk, and only after the intermediary refused would the government consider sharing the risk directly. Therefore, the actual risk-sharing rules in different lending dispute resolution processes may be different in the same service center, and there are various scenarios such as risk-bearing, government sharing, and intermediary sharing. The risk-sharing rules show uncertainty.

Risk-bearing or risk-sharing?

What determines the mechanism of risk-sharing? The author aims to trace the development of the service center to show the states of risk-sharing rules at different stages and the influential factors behind them. Overall, the six-year development of the service center can be summarized into three phases, namely, the flourishing phase, the wandering phase, and the transition phase. The explicit rule was the risk-bearing rule during this period, but there were differences in the actual operating risk-sharing rules in different phases.

Flourishing phase

The flourishing phase of service center development was from April 2012 to June 2013. During this phase, the main leaders of the municipal party committee attached great importance to the center's work, with strong support from various government departments, courts, and banks and great social attention. At that time, there were nine intermediaries in the service center, which attracted a large number of borrowers and lenders, and the volume of transactions increased rapidly, with many off-site intermediaries hoping to move in. By the second half of 2012, lending risks began to emerge. Although the financial offices and service centers at district and city levels always emphasized the risk-bearing rule, the rule changed when the risk occurred.

The emergence of risk transformation Six months after the establishment of the service center, the first batch of lending contracts expired and began to show overdue defaults, and gradually, the lending risks rose. These risks were concentrated in the business of two intermediaries (referred to as Xinxing Loans and Dingsheng Loans).[19] Taking Xinxing Loans as an example, according to the aggregated information from the financial service office, the scale of risks arising from the lending transactions brokered by this intermediary is described below.

> *Xinxing Loans Economic Information Consulting Co., Ltd… has received many complaints. The main cause of the complaints is that 30% of the total loan matches made by Xinxing Loans are overdue, resulting in a risk that cannot be resolved. In April 2013, Xinxing Loans applied to the center to withdraw. During the period of operation, Xinxing Loans filed a total of 95 businesses (amounting to 48.22 million yuan), but 64 businesses (amounting to 30.97 million yuan) were to be closed, of which 26 businesses (amounting to 13.22 million yuan) expired without being processed (Documentary information, 2013).*

The situation of Dingsheng Loans is similar to that of Xinxing Loans. Many risks emerged in the matchmaking business, mainly due to many loopholes in the risk control in the early stage. When late defaults appeared, the lenders demanded that the intermediaries were responsible. However, the intermediaries insisted on the risk-bearing rule and advocated a legal solution to the problem. The cost of a legal resolution was high, and the lenders petitioned the service center or the government to solve the problem, and some lenders were emotional and persistent, posing a potential political risk to the government. In the face of these lending disputes, the government expected intermediaries to share some of the risks.

Exit of intermediaries The success of risk transfer from the government to intermediaries depends on the extent of the intermediary's dependence on government resources. In general, intermediaries are dependent on government resources, especially the legitimacy and market status conferred by service centers on intermediaries; however, the degree of dependence varies across intermediaries and requires a trade-off between costs and benefits. Given the degree of resource dependence, the likelihood of receiving a government risk transfer decreases when the size of the risk increases.

Both Xinxing Loans and Dingsheng Loans were unwilling to accept government risk transfer even when there were obvious vulnerabilities in their businesses, and both consistently adhered to the risk-bearing rule and preferred to withdraw from the service center. Their responses caused the government's risk transfer strategy to fail. Following is a statement from one of Xinxing Loans' businesspeople about why they chose to withdraw from the service center.

[19] The names of the intermediaries in this article have been anonymized to follow academic practice.

> *Xinxing Loans adhered to the law while the center took the negotiating route … what happens after a problem arises? The center called us intermediaries over to see if there was a fraud. The district financial office hosted a coordination meeting and said they would coordinate, but there was no further action. Then, they called back and let us intermediaries pay in advance. Our boss quit because of this. Why did we have to pay? The financial office let us pay; in fact, the financial office aimed to maintain stability in fear of greater chaos. Letting us pad the full amount of losses was too unreasonable. We were furious right away. We would rather not pay and see them in court … later, we withdrew. (Interview information: 20140804)*

Of course, it is the choice of both the intermediary and the government that Xinxing Loans and Dingsheng Loans left the service center. Such intermediaries will create a large number of problems for the government and may also create more risks in the future. With the withdrawal of the two intermediaries, many outstanding businesses and risks are left to the service center and the government, and the government's risk-sharing ability becomes critical.

Bureaucratic mobilization At this stage, the main leaders of the municipal party committee hosted multiple special coordination meetings at the service center, and the heads of the relevant municipal departments attended the meetings. The municipal party secretary asked for a study on how to vitalize transactions and hoped that the courts, banks, housing management, car management, notary, and other departments would actively cooperate with the risk management.[20] It was under the attention of the municipal party secretary that the mobilization capacity of the financial service office was greatly improved.[21]

Due to the greater bureaucratic mobilization efforts, some lending disputes were resolved through expedited court procedures when intermediaries such as Xinxing Loans refused to share the risk. However, not all lending disputes can be resolved by the government, and many disputes are still at the lender's own risk. The government's response strategy to lenders' claims is influenced by the degree of risk transformation. In the first stage of service center development, the risk-bearing rules are not defined, and risk-bearing and risk-sharing (shared by the government) situations coexist.

Wandering phase

The period from June 2013 to the end of 2015 was a wandering phase in the development of the service center. During this phase, the main leaders of the municipal party committee were changed, the new leaders did not quite approve the service center, and support from government departments, courts, and banks rapidly weakened. There were entries and withdrawals of intermediaries in the field, and there was a wait-and-see attitude toward the service center. At the same time, when loan defaults came one after another,

[20] For the minutes of the relevant thematic coordination meetings, see "Special Report on the Meeting of the Steering Group for the Registration and Service of Private Lending in City Y. "

[21] Since 2001, financial offices have been established in various regions. Usually, the financial offices have very limited ability to integrate resources in the government system. However, in the early stage of service center operation, the finance service office was able to coordinate all parties to solve problems because of the high priority of the municipal leaders.

the intermediaries insisted on risk-bearing, and lenders often petitioned. Under heavy pressure, the finance service office and the service center hesitated to change the mode of operation. The service center believed that the intermediary is an important source of risk and that the exit cost is low, leaving too much pressure on the service center and the government, so there is an urgent need to change the established risk-bearing rules.

The frequent occurrence of risk transformation The outlying problems of Xinxing Loans and Dingsheng Loans had not yet been solved, other overdue defaults emerged one after another, and most lenders asked the service center or financial office to solve the problem. Many of these defaults were related to the intermediary's risk control failures. However, the intermediary was unwilling to take responsibility afterward and even suggested the lenders petition the service center and the finance service office. It is exerted strong pressure of risk transformation on the government. The head of the service center recounted this dilemma.

> *Lenders are supposed to bear their own risk. Rules are never changed. Only now there are petitioners every day, and I have no way to restrain them. Moreover, the intermediary has a kind of trouble … do you know what extent the intermediary staff gets to? … the most dramatic ones personally bring customers to my side to make trouble … if I have no way to restrain them, I would rather die. Come to us, come several times, then the manager slammed his hand on the table and said, "you can go to sue us if you think we have a responsibility" … many people want to get the money back. If they don't get it back on the petition, they will come here. The manager said to them, if they don't approve, then they should go to the finance office (Interview information: 20140812).*

The many problems of intermediaries are an important reason why service centers seek to change the risk-sharing rule. The interconnectedness among the government, service centers, and intermediaries induces a continuous risk transformation, causing the risk to constantly shift between the three, which is a key element that gives rise to rule changes.

Weakening of government mobilization Another important factor that gave rise to the change in risk-sharing rules was the change in leadership in the municipal party committee and the many changes within the government system that came with it. The person in charge of the finance office described the following:

> *The new secretary came to the service center and took a look at it, and said, "You are a product of transition." At that time, the finance office and the manager, they understood as soon as they heard it. Various departments want to withdraw, and even the Human Bank credit system almost withdrew … now the biggest problem [is] not what you say but the focus of the government. The secretary used to come to the special meeting four times … now the top leaders do not approve us, what else [can we] do, we are now mainly busy with the stock market reform (Interview information: 20140728).*

The changing attitudes of government departments and others reflected the mobilization mechanism. The change in leadership attention, which affects the shift in government focus, causes the finance service office to be less concerned about the service center and the cooperation of other related departments to be much weaker. This affects the public resources of the service center and the willingness and ability of the government to share the risk.

Resource dependence of intermediaries In September 2013, the service center explicitly changed its risk-sharing rules. First, the intermediaries were required to leave a deposit for the service center; second, they were required to sign a commitment letter, which mainly addressed prior risk control and post-risk-sharing.

> *Business risk management and resolution, to ensure that the operation follows industry rules, in the face of the operation, such as unqualified lending or mishandling the negative impact of the center or causing lenders' losses, the company is willing to bear 10% of the losses as compensation. In principle, this account should be paid by the company. If the company cannot pay with this commitment letter, the center will pay in advance. The company will pay back within three business days. The deposit amount is determined according to the volume of business and the number of nonperforming loans ... if the company violates the provisions, it is willing to use the deposit as payment (Article 6 of the Letter of Commitment, 2013).*

Intermediaries initially opposed the change in attitude of service centers regarding risk-sharing rules. However, in the subsequent games, different intermediaries made different choices. An intermediary businessperson who exited the service center provided the following account.

> *Previously, the center blocked the application of an intermediary for some time. In the face of 10% of the risk, the intermediaries signed a commitment letter. This reinforced our determination to expand ... intermediaries are opposed to 10%, but the center stopped the backend, [and] the previous information is still on the backend. They must pay, they cannot avoid the payment, [and] each intermediary must pay 400,000 into the center, [which is] called the deposit ... [in the case of an] exit, all cases have to end safely ... if we pay, we can stay as well. We cannot accept this 10%, and we don't think it is reasonable because there is no particular impact on our business volume (Interview information: 20140803).*

Although most intermediaries did not approve the 10% risk-sharing requirement, they chose differently because of their different resource dependencies. The intermediary above was a local agency in City Y with a long-standing market base and other resources, so it was able to exit; the intermediaries that did not exit were either branches of foreign intermediaries in Y or had just been established and were relatively more influenced by government resources.

Although the service center developed risk-sharing rules at this stage, they were rarely implemented and were used more as a constraint on intermediaries. The subtleties are reflected in the following: First, the service center only signed bilateral contracts with intermediaries and did not disclose this rule to both lenders and borrowers to avoid inducing more risk transformation; second, after the occurrence of risks, the service center rarely enforced compensation but required intermediaries to cooperate with risk resolution. The person in charge of the service center spoke of the reduction of risk transmitted to the service center and the government after the intermediary signed a commitment letter and posted a deposit. That person also dealt with the problem by facilitating negotiations between the lending and borrowing parties, facilitating acquaintances in the court, and even directly paying the principal and interest in advance. In short, the risk-sharing rules in practice are closely related to the extent to which lenders initiate risk transformation, and situations exist where lenders share their own risk or intermediaries share the risk.

Transformation phase

The transition phase in the development of the service center was from the end of 2015 to the present. In this phase, the City Y government further reduced the importance of the service center, especially by 2017. The service center was no longer listed as an annual assessment task of the district financial office, and the support of other government departments and banks to the service center further waned. The service center began a transformation mode, that is, to focus on the registration and filing services of private lending in City Y. The center gradually retired the intermediaries in the service center, retaining only a very small number of intermediaries, and the volume of transactions in the field shrunk to almost zero. Although there were few new lending risks at this stage, there were many leftover disputes, and the situation of lenders petitioning the service center and the finance service office still existed. The willingness and ability of financial service offices and service centers to expedite the dispute resolution by mobilizing public resources such as the courts were greatly reduced. Therefore, service centers require intermediaries to cooperate with lenders to solve lending disputes before retrieving deposits. Some intermediaries chose to cooperate with the process and wait until the dispute was finalized before retrieving the deposit; others chose to use the deposit to share part of the lender's risk but no longer cooperated with the subsequent resolution. Following is the relevant narrative from the head of the service center.

> *We also have an online business here … In 2015, the Supreme Court issued a judicial interpretation. This type of business was called buying a house, but actually private lending was (overturned) … we included the Rongsu loan (intermediary name) and did a lot of this type of business. The business finally formed a tide of defaults … at that time, only Rongsu loan underwriting; other agents are not underwriting … if you are not underwriting, we can only ask you to leave the service center … when these intermediaries moved in, they have hundreds of thousands of deposits here. Then we told them … [be] sure to resolve your things before I can return the deposit to you … they slowly resolved but [was] unwilling to pay, then surely the customer (lender) will have a reaction, so that service center held seven to eight coordination meetings… there was an intermediary who said, you (service center) simply (ask) me to share the deposit to everyone, after that, I do not care about this matter, you resolve it by yourself, the others (lenders) agree, they resolve by themselves, all*

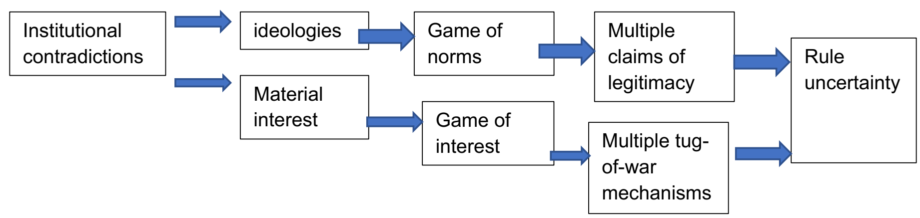

Fig. 3 Causes and mechanisms of rule uncertainty

> *signed. If you do not agree, he (intermediary) said I take care of the aftermath, but I also do not stay in the service center … when you (intermediary) all finished taking care of the defaults, the deposit will go back to you, this you must be able to resolve, or he (lender) will also come as well (Interview information: 20180111).*

As shown above, risk-sharing rules remain uncertain during the service center's transition phase. The changes in risk-sharing rules in this phase are mainly influenced by the risk transformation mechanism and resource dependency mechanism, and the role of mobilization is minimal, so there are rare situations where the government shares the risk. Specifically, although the service center had developed a deposit system in the previous stage, it did not force the intermediaries to compensate under the pressure of lenders but used it to motivate the intermediaries to make every effort to participate in risk management; the different reliance of the intermediaries on the service center in terms of the deposit caused them to participate in the risk-sharing of lenders in different ways and to various degrees.

Conclusions and discussion

This article investigates the uncertainty of the risk-sharing rules prevalent in contemporary Chinese local financial governance. Although the risk-sharing rules are unanimously accepted by local governments, intermediaries, and investors ex ante, the actual rules that operate ex post often fluctuate between risk-bearing and risk-sharing rules, showing uncertainty. Therefore, this article seeks to construct an analytical framework of the "institutional contradiction—double game—tug-of-war mechanism" and use it to interpret the changes in risk-sharing rules during the development of private lending service centers in City Y.

As shown in Fig. 3, the study finds that the macro-level institutional contradiction is the structural root of rule uncertainty at the micro-level. The institutional contradiction influences micro-actors both ideologically and materially, granting them conflicting legitimacy and interests and inducing games of norms and interests among different actors, which leads to a pattern of rule competition. Compared with the game of norms, the game of interests has a decisive influence on the outcome of rule competition. The rules in action appear to be uncertain due to the combination of various legitimacy roots and tug-of-war mechanisms in different times, spaces, and situations.

The macro-level institutional contradictions are mainly reflected in three dimensions: market transformation and legal deficiency, technical governance and authoritarian institutions, contractual principles and "Guan-min" (官民) perceptions of local financial governance in contemporary China. They give investors, local governments, and intermediaries competing drives and legitimacy justifications on the issue of risk-sharing. Investors tend to insist on risk-sharing rules ex post, while local governments and intermediaries adhere to the risk-bearing rule. Thus, the three parties engage in a game of rules. In the game process, multiple legitimacy claims (contractual legitimacy based on legal principles, normative legitimacy based on the government's market role, and perceptional legitimacy based on the concept of "Guan-min") and multiple tug-of-war mechanisms (risk transfer mechanism, resource dependency mechanism, and bureaucratic mobilization mechanism) jointly influence the actual states of risk-sharing rules, bringing about a fluctuation between the risk-bearing rule and the risk-sharing rule. They also lead to various scenarios such as risk-sharing by lenders, risk-sharing by government, risk-sharing by intermediaries, and risk-sharing by three parties.

Unlike the theory of implicit guarantees in finance, this article focuses on the uncertainty of risk-sharing rules, which exemplifies a unique sociological perspective that combines structural and mechanistic analysis to explain complex financial phenomena. From a sociological perspective, micro-financial phenomena are embedded in macro-institutional structures involving complex relationships among various institutions such as markets, laws, polities, bureaucratic systems, and ideologies. This perspective can improve our understanding of micro-financial phenomena by locating and analyzing the patterns of relationships among these core institutional dimensions and their mechanisms. On the one hand, structural analysis enables us to look beyond the financial phenomena of a specific time and place to reveal the diverse outcomes based on the structure. This article shows that implicit guarantees are essentially the extreme state of risk-sharing by intermediacies, which is only one manifestation of the uncertainty of risk-sharing rules alongside many other forms such as government sharing.

On the other hand, mechanism analysis helps us understand the formation and occurrence of the conditions underlying specific financial phenomena. This article shows that the phenomenon of implicit guarantees is usually more likely to occur when the role of risk transfer and resource dependence mechanisms is stronger, and the role of bureaucratic mobilization mechanisms is weaker.

The phenomenon of rule uncertainty is common and may involve multiple aspects and different factors and mechanisms, which requires a careful discussion based on a fundamental theory. For example, both Zhang Jing's (2003) study and our research focus on the rule uncertainty phenomenon, but we emphasize different types of phenomena. In Zhang's article, the uncertainty of land-use rules arises from the premise that the parties have not formed a consensus ex ante, while in this research, the uncertainty of risk-sharing rules arises from scenarios in which the parties have reached formal contracts beforehand. Because of this, the two articles emphasize different structural reasons. Zhang emphasizes the macro-level institutional structure of undifferentiated politics and law, while this article emphasizes the macro-level contradictory institutional structure. Only by clarifying the different types of rule uncertainty, identifying the preconditions, and sorting their macro-roots and micro-mechanism, can we answer why rules are indeterminate in a more comprehensive and in-depth manner.

Abbreviations

"Guan-min" (官民)	The relationship between government officials and ordinary people and the corresponding concept cognition
Tug-of-war	Power competition between different actors

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Author contributions
JX carried out the case study and drafted the manuscript. ZQ and XZ added some important empirical materials and participated in the manuscript drafting and modification. All authors read and approved the final manuscript.

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Availability of data and materials
If readers are interested in case materials, they can contact the authors.

Declarations

Competing interests
I declare that this paper has no competing interests.

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