

Financial Regulation in Japan: A Fifth Year Review of the Financial Services Agency

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1. Creation of FSA in Japan

On June 22, 1998, the Financial Supervisory Agency (old FSA), a predecessor of the Financial Services Agency, was established by separating financial supervisory functions from the Ministry of Finance (MOF). This was a monumental step for the Japanese authorities in splitting the powerful ministry. Following the enactment of the Financial Reconstruction Act of 1998, which provided a framework for dealing with insolvent banks, the Financial Reconstruction Commission (FRC) was established in December 1998. The FRC was placed under the Coordination Minister (later a part of the Cabinet Office) and the mandate of FRC was to give general directions to the old FSA. In July 2000, the old FSA was reorganized as the Financial Services Agency (FSA). After a brief transition period, the FRC was dissolved and its function was absorbed by the FSA in January 2001.

The Japanese FSA is an integrated supervision agency, in charge of supervision of most financial institutions, such as banks, securities firms, insurance companies, and smaller financial institutions. The coverage is slightly larger than what the MOF used to cover, including some of smaller institutions (credit cooperatives which used to be supervised by respective prefectural governments).

The old FSA was praised for its swift move to nationalize the Long-term Credit Bank of Japan (LTCB) and Nippon Credit Bank (NCB) in 1998, and successfully stabilized the precarious positions of Japanese banks. After capital injection of March 1999, the Japanese banks appeared to have regained its strength, or at least patched up weakness. Japan premium subsided in April 1999, and no banks failed from 1999 to 2001.

However, the weakness of Japanese banks emerged again in 2001. The crisis deepened as the stock prices sank further. The Japanese banks held a large portfolio of equities, and the decline in stock prices from mid-2001 to 2002 made equity portfolio in unrealized capital losses. When the capitals of Japanese banks were adjusted to reflect the unrealized losses, severe undercapitalization of most banks became obvious.

As of this writing (February 2003), the FSA is once again calling for the final resolution of non-performing loans and is pressuring the banks to re-capitalize before the end of the current accounting year (March 2003). Whether the FSA succeeds to solve the banking problem this time or once again comes short remains to be seen.

This paper studies the performance of the new financial regulatory structure in Japan, which is in its fifth year counting from the establishment of the old FSA (June 1998). Next section reviews the motivations behind the establishment of the new regulatory structure and identifies interesting organizational changes that the structure has gone through to date. Section 3 looks at the performance of the new regulatory institutions and examines if the organizational changes identified in Section 2 had any visible influence on the performance. Section 4 concludes.

2. Economic Rationales for Changes

The creation of the new financial regulatory structure was predominantly motivated by the political factors. The goal of many politicians was not so much to improve the system of financial regulation but to reduce the power of the MOF bureaucrats. Why the politicians suddenly decided to strip much power from the MOF is an interesting question, but we do not examine the question in details here.¹ Instead we consider some economic rationales that have been pointed out during the policy debate, although these economic rationales alone would not have been sufficient to get the political support for the change.

First, throughout the 1990s, the MOF repeatedly failed to handle the insolvencies and other problems in the financial sector. *Jusen* problem (1992-1996), the “two credit cooperatives” problem (1994-1995), the Hyogo bank failure as well as Kizu and Cosmo credit union failures (August 1995), and Daiwa Bank losses from a rogue trader and hiding losses in the New York (1995) all contributed to hurt the reputation of the MOF as a competent financial regulator.² It was argued that the problem lay in giving too much power to the MOF, both financial planning/legislative power and financial inspection/examination power. If the supervision framework is designed by the same people, tough actions against banks are unlikely to come, as it would suggest some faults in the initial design of policy.

Second, it was also argued that fiscal authority should not be in charge of the financial policy at the same time. As bank resolution has fiscal implications, the MOF had a tendency to forbear rather than to make the fiscal liability explicit by letting insolvent financial institutions fail. This was considered to be an important reason why the banking problem of the 1990s was allowed to grow to a monstrous size.

Third, the concentration of so much regulatory power at the MOF was believed to have led to serious corruption. Some MOF officials had been treated to wining, dining, and golfing by bankers for a long time. A series of gross scandals hit the Ministry in the mid-1990s. One of such scandals involved a MOF official taking a free trip to Hong Kong, paid for by an owner of a credit union that subsequently went bankrupt. The Ministry only imposed a slap-on-the-wrist sanction on this official. When investigated, many other corrupt behaviors of the MOF officials became exposed. The series of scandals was also important for turning public opinion against the MOF and making the break-up of the MOF even more politically attractive.

The MOF’s regulatory power was weakened in several ways. Separation of its financial supervisory role from the MOF was one of them. The Banking Bureau and the Securities Bureau, which were in charge of supervision of banks and securities houses respectively, were abolished and their jobs were transferred to the Financial Supervisory Agency (old FSA). The (old) FSA also absorbed majority of staff at local offices of the MOF whose jobs were inspection of local financial institutions. Additional inspection staff was hired to boost the examination capability

¹ Some political scientists studied why the politicians in the ruling coalition (most importantly the Liberal Democratic Party; LDP) wanted to break up the MOF. For example, Mabuchi (1997) argues that the relation between LDP and the MOF got contentious when non-LDP government led by Prime Minister Hosokawa was in power between 1993 and 1995. LDP found the MOF was too cooperative with the non-LDP government, and they decided to punish the MOF after they regained the power in 1995.

² See Cargill, Hutchison, and Ito (1997; Chapter 6, 2000; Chapter 2) and Hoshi and Kashyap (2001; Chapter 8) for details of these episodes.

of the old FSA, although many observers still expressed the concern that the size of inspection staff was too small.

The so-called “planning” function of the financial policy temporarily remained within the MOF. The planning function includes drafting various rules and regulations for the financial industries. Until the Financial Services Agency (new FSA) was established (July 2000), the planning function stayed in the newly created Financial Planning Bureau of the MOF.

Another institutional change that aimed to reduce the power of the MOF was the passage of the New Bank of Japan Act in 1997 (effective April 1998). Under the new law, the Bank of Japan was given legal independence from the MOF for the first time in its history. Governor’s tenure of 5 years would be guaranteed, and the monetary policy would be decided solely by the Monetary Policy Board where the government does not have any votes. Unlike many countries, where the central bank independence was legislated so that it can resist the government’s pressure to inflate the economy, the Bank of Japan was already successful in containing the inflation for the most of 1980s and 1990s even without formal independence. Granting legal independence to the Bank of Japan was another way to reduce the power of the MOF, which confirms the highly political nature of the change in Japanese financial regulation around this time.

The government also introduced a new law to curb the scandals by public officials not only at the MOF but in general. The National Public Service Ethics Act of 1999 severely restricted public officials’ socializing with interest groups. The rules against golden parachute (*amakudari*) were also tightened in 1998. The set of industries that an official cannot accept *amakudari* within two years after retirement was extended to cover all the industries under the Ministry’s supervision (rather than the industries that were supervised by the Bureau that the official worked last).

It is worth noting that the change of the financial regulatory structure in Japan was not motivated by the vision to create a single authority of financial supervision. Indeed the MOF already covered the various areas of financial industry ranging from banking business, securities business, to insurance business. Unlike the case in the United Kingdom, creation of a super regulator with comprehensive coverage of all the financial services was not an objective. As we discussed above, the primary objective was political. The politicians tried to reduce the power of the MOF by separating financial supervision from its other functions (budgeting, tax collection, etc.).

As a byproduct of the reform, however, the old FSA ended up having a broader coverage in financial supervision than the MOF. For example, agricultural cooperatives, which used to be supervised only by the Ministry of Agriculture, Forestry and Fishery (MAFF), were put under co-supervision of the FSA and the MAFF. Credit unions, which used to be supervised by prefectural governments, were moved under the FSA’s supervision after April 2000. Table 1 shows the change of the regulator for each type of financial supervisions that took place when the FSA was established in 1998.

The organization of the FSA also differed from the MOF in that the supervisory functions of various types of financial institutions are put under the same department (Department of Supervision). In the MOF, the functions resided separately in three bureaus (Banking Bureau, Securities Bureau, and Insurance Bureau). In theory, this reorganization should have made it easier for the FSA to supervise the financial services industry in a consolidated and coordinated way. Whether such a coordinated supervision happened in practice is an empirical question.

Another point that is worth mentioning in the transition from the MOF to the FSA is the separation of planning function and supervision function. From the inception of Financial Supervisory Agency (old FSA) in June 1998 to its reorganization into Financial Services Agency (FSA) in July 2000, the planning function was left behind with the MOF. Thus, the planning function and supervision function were clearly separated during the first two years of the new regulatory structure, but they were again housed under the same roof in the new FSA. As we argue more fully in the next section, such separation was actually beneficial. The old FSA (under FRC) was more aggressive in dealing with insolvent financial institutions than the new FSA has been. The transfer of planning function from the MOF to the FSA seems to have made the FSA more cautious against bank closures. The inspection and examination may become more tentative out of consideration of a possible embarrassment to the planning department (which sets the *ex ante* rules and regulation) that bank closures may cause.

3. Performance Review of Financial Services Agency

This section reviews the performance of the new financial regulatory structure in Japan in its first four and a half years. We are especially interested in how the institutional changes described above influenced the incentives of the financial regulators and their performance.

Assessing the performance of a financial regulatory structure is not straightforward. Fortunately for our purpose (and unfortunately for the Japanese economy), the Japanese financial regulator during the period that we examine faced a clear task of dealing with non-performing loans and near-insolvent banks. The problem existed when the Financial Supervisory Agency started in June 1998, when the Financial Reconstruction Commission was established in December 1998, when the Financial Supervisory Agency was restructured to create the Financial Services Agency (FSA) in July 2000, when the FSA absorbed the FRC in January 2001, and the problem still haunts the Japanese financial system today (February 2003). Thus, by examining how aggressively the financial regulator responded to the problem of insolvent banks in particular and non-performing loans more in general, we can review the performance of the Japanese financial regulator in the most important areas during this period.

Focusing solely on the bank supervision, however, would miss the possible effects of further consolidation of the financial regulation (even compared with the MOF) at the FSA. Thus, we also examine how the FSA handled the supervision of insurance companies, many of which have capital ties to major banks. Following the revision of Anti-Monopoly Act in 1997 and related legal changes that allowed financial holding companies in Japan, some of these financial groups have been reorganized as holding companies. By examining the FSA's

supervision of the insurance industry, we can study one aspect of the new financial regulatory framework's approach to the potential issues involving financial conglomerates.

3.1. Banking Regulation

First, we provide a narrative overview of the Japanese financial regulator's policy response to insolvent banks. Then, we examine quantitative measures that allow us to compare the performance over time.

When the Financial Supervisory Agency started, the Japanese banking was still in the crisis that was triggered by the failures of Hokkaido Takushoku Bank (one of the top 20 banks at the time) and Yamaichi Securities (one of the Big Four securities houses) in November 1997. The injection of public funds in March 1998 did not help, and the stock prices of major banks continued to fall. The first major task for the Financial Supervisory Agency was the "special inspection" of 19 major banks. The inspection of the Long-Term Credit Bank (LTCB) revealed that the bank's capital at the end of September 1998 was below the unrealized capital loss of the investment securities, making the bank virtually insolvent. Following the result, which was delivered to the bank on October 19, the bank applied for nationalization under the Financial Revitalization Act on October 23, 1998, the day the law was enacted.

The LTCB had more than 10 percent in Basle Capital Adequacy Ratio as of March 1998, according to self assessment. However, just six months later, it was found insolvent. This episode showed how lax the supervision regime was before March 1998, and that capital injection of March 1998 was carried out without examining asset and liability conditions of banks. Separating the supervision function from the MOF to create the (old) FSA seems to have been successful in this sense, although much of pressure to nationalize the LTCB came from the market where share prices had been sharply lowered.

The inspection of the Nippon Credit Bank (NCB) showed that the condition was even worse than the LTCB: as of the end of March 1998, when public subscription of new shares was orchestrated by the MOF in addition to public capital injection, NCB was already *de facto* insolvent. On December 13, 1998, the Financial Reconstruction Commission forced the nationalization of NCB, even though the NCB protested the decision. In dealing with the NCB, the new regulators at the FRC and the FSA clearly pointed out the problem of the rescue operation led by the MOF. Admitting failure of the past policy would have been very difficult without the institutional change to separating the financial supervision function from the MOF. Since the stock price movement of NCB had not predicted the demise of the bank, the FSA action was regarded as the clear assertion of FSA independence and decisiveness.

In 1999, the FRC moved to deal with insolvent regional banks. During the year, they closed five regional banks (Kokumin Bank on April 11, Kofuku Bank on May 21, Tokyo Sowa Bank on June 11, Namihaya Bank on August 7, and Niigata Chuo Bank on October 2) and put them under the receivership of the Deposit Insurance Corporation. The wave of closures of major banks, however, stopped here, although the problem of the Japanese banking sector was not considered to be over.

The change in policy coincided with the change of the leadership at FRC. The first chair of the FRC, Hakuo Yanagisawa, was widely credited as an effective leader, acting to strengthen the banking system. His leadership was considered to be uninfluenced by political considerations. Yanagisawa, however, was replaced in October 1999. In the final fourteen months of existence, the FRC had four chairs, with only one, Sadakazu Tanigaki, perceived to be politically neutral. The others have been seen as less serious about cleaning up the banking sector.³ During this period, FRC did not close any major banks.

When the new Financial Services Agency (FSA) took over the functions of the FRC in January 2001, Yanagisawa was brought back as the head of FSA. He called for “final resolution of non-performing loans” and announced that he would resume his task of reorganizing the banking sector. In September 2001, the FSA published their timeline to deal with the non-performing loans problem as a part of the “reform schedule” by the Koizumi Cabinet. The plan declared that the amount of non-performing loans would be halved in three years. A couple of insolvent banks were closed (Ishikawa Bank on December 28, 2001 and Chubu Bank on March 8, 2002). The FSA also conducted “special inspections” of major banks in March 2002, especially focusing on the quality of loans to largest borrowers. Although the special inspections revealed some under-reporting of and under-reservation against the non-performing loans, the FSA judged all major banks overall healthy.

To complete the “final resolution” of the non-performing loans problem, some started to argue for another round of public fund injection to major banks. Yanagisawa, however, rejected the idea on the ground that the major banks are all healthy and well capitalized. In August, the government, which suspected some major banks were undercapitalized and was more sympathetic to the idea of capital injection, replaced Yanagisawa with Heizo Takenaka, who was also the Minister of State for Economic and Fiscal Policy.

Takenaka moved quickly as soon as he was appointed as a minister in charge of the FSA. In the first week of October 2002, he talked tough, formed a project team with members who were regarded as having radical ideas of closing down large borrowers in financial trouble as well as the banks with a large amount of non-performing loans, and called for not allowing deferred tax credit toward the Basle capital adequacy ratio. However, the stock prices fell rapidly reacting to Takenaka’s talk, and the LDP politicians balked at the Takenaka plan. In the end, the report (Anti-deflation package) was put together at the end of October, but the content was significantly watered down.

Although Takenaka failed to establish a plan as tough as he wanted, the FSA under his leadership has been applying more pressure than before on the banks to deal with non-performing loans and re-capitalize themselves. The banks have been increasing its efforts to move non-performing loans off their books. Many banks are currently scrambling to raise new capital. Takenaka seems to be steering the FSA certainly toward desired direction.

Let us now turn to more quantitative evaluation of the FSA’s performance. Table 2 lists the bank closures from 1998 to 2002. The closures were concentrated during the first year of the

³ There had been leaks of their speeches and conversations that suggested the reluctant stance toward tough examinations.

FRC. After that, the FRC and the FSA became reluctant to close the banks although the problem in the banking sector continued. Even under Yanagisawa, who has the reputation of being serious about cleaning up the banking sector, the FSA managed to close down only two banks.

The concentration of bank closures during the period when the FRC was active is consistent with the idea that the separation of financial policy planning and financial supervision had an unintended (but favorable) outcome of making the FRC tough. Under this regime, the FRC was able to concentrate on cleaning up the banking sector *ex post* without worrying about being criticized for the failure of *ex ante* banking regulation. After the FRC was abolished and the FSA gained both policy planning function and supervision function, their *ex post* intervention may have become tentative once again.

Table 3 examines another aspect of *ex post* interventions by the Japanese financial regulator. The table shows the number of prompt corrective actions taken for each type of financial institutions in each year. Again we find there were more corrective actions when the Financial Supervisory Agency and the FRC were in charge than when the FSA was in charge. The incidences of prompt corrective actions declined after the (new) FSA was established.

One may argue that the apparent slow down of the *ex post* interventions can be explained by the success of the initial interventions and improvement of the financial conditions of the Japanese banks that followed. If this was the case, we would have observed continued efforts of the banks to deal with the non-performing loans even without bank closures. Figure 1 shows this was not the case. The non-performing loans actually increased more rapidly in fiscal 2000 and 2001, and the loan loss reserve ratio continued to decline. The slow down of bank closures and incidences of prompt corrective actions cannot be explained by the improved financial situations.

When Mr. Yanagisawa was brought back as a head of FSA in 2001, there was a high hope that he would resume a pro-active policy toward weak institutions. Many thought that banks would be asked to deal with nonperforming loans problem quickly and, if undercapitalized, another round of capital injection maybe carried out. However, Mr. Yanagisawa maintained from 2001 to September 2002 that banks were healthy enough that no capital injection would be needed. Until he was replaced at the end of September 2002, Mr. Yanagisawa did not force banks to act to reduce nonperforming loans.

In the reshuffle of cabinet at the end of September 2002, Mr. Takenaka replaced Mr. Yanagisawa, and started a new policy to force banks to recognize more nonperforming loans and deal with them. The non-performing loan figures for March 2003 will reveal how the banks have been responding to Takenaka's pressure so far.

3.2. Regulation of Insurance Companies

Dealing with insolvencies of banks was probably the most urgent task for the new financial regulatory institution, but it was not their only task. The FSA faced problems in insurance companies, securities companies and other financial institutions as well. Indeed the FSA had to deal with some insurance companies that became insolvent during this period. This subsection studies how the FSA handled the insolvencies and other problems of insurance

companies and securities houses. We will pay special attention to the question whether the consolidation of the financial regulation, which was further advanced under the new framework, helped the FSA come up with a comprehensive approach to financial conglomerates.

The first major regulatory change for the insurance companies after the establishment of FSA was the introduction of the prompt corrective action. The legal change took place in January 1999 and became effective as of April 1, 1999. When an insurance company's solvency margin falls below 200%, the FSA was now required to intervene and force the insurance company to submit a plan to improve the situation.

Unlike the bank deposits, which were 100% guaranteed with interest payment during this period, the insurance policies were not guaranteed. The policy holders of failed life insurance companies were to take reduction in their coverage (especially saving portion of the policies). Systemic risk, which is a serious problem for a bank failure, is not an issue for a failure of an insurance company. Thus, the rationale for prompt corrective action is less clear. The Japanese government, however, established the Insurance Policy Holders Protection Organization, which financially assists an insurance company that acquires a failed insurer or underwrite the policies of the failed insurer if nobody comes to the rescue, in December 1998 to help the policy holders of failed insurance companies. The prompt corrective action was introduced to limit the loss of the Insurance Policy Holders Protection Organization, which was funded by both the government and the insurance industry.

To date, a prompt corrective action was ordered to an insurance company only once. In February 2000, the (old) FSA's examination found that Taisho Life was *de facto* insolvent and required recapitalization through new share issues. The lack of prompt corrective actions during this period does not imply the Japanese insurance companies were financially healthy. On the contrary, many life insurance companies were suffering from the gap between the actual return on their assets and the high minimum returns (*yotei riritsu*) that they guaranteed in the late 1980s. As Table 4 shows, six life insurance companies and two casualty insurance companies failed after the prompt corrective action was introduced. With the exception of Taisho Life case, the FSA was not able to intervene before those companies failed.

Fukao (2003) argues that the major reason for the failure of supervision is found in the extreme lenient calculation of the solvency margins. For example, the net asset (numerator of the solvency margin) can include deferred tax asset and future expected profit, which are not allowed to include under the US regulation. The weights given to market risks (which influence the denominator of the solvency margin) are much lower than the weights specified in the US regulation. Moreover, the threshold for the intervention (200%) is lower than that in the US (250%).

The only case of prompt corrective action, ordered to Taisho Life Insurance, was not successful. It was not able to prevent Taisho Life from failing. Worse, it may have rather increased the cost to policy holders. Tokyo-based Claremont Capital Holding bought about 10.5 billion yen of new shares of Taisho Life and helped the recapitalization. In return, Yoshihiko Kokura, president of Claremont, became a managing director of Taisho Life. Kokura received about 26 billion yen from Taisho Life by selling "financial products" of Claremont until he was

arrested for financial fraud in August 2000. After all, the recapitalization attempt at Taisho Life ended up costing additional 8.5 billion yen (estimated amount being swindled) to policy holders.⁴

Many insurance companies now belong to financial holding companies, which also include banks, securities houses, and other financial institutions. One potential problem of a financial conglomerate is cross-shareholdings or double-gearings among the member financial institutions, which increase the amount of capital for each institution without increasing the amount of capital of the group as a whole. The FSA admitted the double-gearing was a serious problem in Japan and introduced the rules to limit that.⁵

Majority of life insurance companies in Japan are mutual, so they do not have formal cross-shareholdings with other financial institutions. Fukao (2003) finds, however, a substantial extent of *de facto* double-gearing between life insurance companies and Japanese banks. As of the end of March 2001, seven major life insurance companies collectively held 5.4 trillion yen of bank stocks and 5.1 trillion yen of bank subordinated debts. In return, the banks held 1 trillion yen of surplus notes (capital for a mutual company, roughly speaking) and 1.2 trillion yen of subordinated debts of the life insurance companies. (Fukao 2003). Although the FSA seems to be in an ideal position to point out the problem of such *de facto* double-gearing arrangement, the FSA has not done so.

4. Conclusion

The new framework for the financial regulation in Japan was established in June 1998 by separating the supervision and examination function from the MOF. The separation of the financial supervision from the MOF as the fiscal authority made it possible for the old FSA to close insolvent banks without worrying so much about making fiscal liability of banking problem explicit. Moreover, the old FSA did not have planning function of financial regulation. The separation of planning function and supervision function made the old FSA less hesitant in closing down insolvent financial institutions, because they did not have to worry about a possible embarrassment to those who designed the *ex ante* rules and regulation. Under the new FSA, which started in July 2000, both planning and supervision functions are housed in the same organization. This seems to have made the FSA more cautious about closing insolvent banks.

The FSA (both old and new) never seems to have tried aggressively to limit the failure of insurance companies. Prompt corrective action was ordered only on one occasion. Even in this case, the intervention was not successful in reducing the cost of the failure. Double-gearing between mutual life insurers and banks is a serious problem, but the FSA has not actively tried to limit the practice. In this sense, the FSA has not used its potential to be a comprehensive regulator of financial conglomerates.

Another point of consideration is whether it makes economic sense to have a politician as the head of the FSA. When a failure of a bank is expected to cause bankruptcy of large

⁴ According to “Appalling Reality of a Man Who Led Taisho Life into Bankruptcy” *Nikkei Business* (9/11/2000), the FSA knew the shady past of Kokura from the earlier cases he was involved, but did not give warning to Taisho Life.

⁵ See, for example, Financial Supervisory Agency (2000). *Kin'yū Kantoku-chō no Ichinen*, Chapter 14.

companies in a particular region, politicians from that region would put political pressure on the FSA to adopt forbearance policy. Whether the head of the FSA can resist such a pressure depends on strength of the person. Whether this is an economically optimal institutional arrangement should be examined in the future. The FSA under Takenaka, who is not a politician and would have little to lose politically, will be an interesting test case on this issue.

Japanese banks still face serious problems. Many of them are undercapitalized and some of them are considered to be *de facto* insolvent. Heated debates have been going on over the desirability of another round of capital injection, whether deposit guarantee should be continued, or under what conditions nationalization of banks should be carried out. Whether the FSA under the leadership of Heizo Takenaka is going to stand up to expectation will be closely examined.

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Table 1. Supervising Regulators for Japanese Financial Institutions

Financial institutions	Supervisor before 1998	Supervisor after 1998
City banks, Long-term credit banks, Trust banks, Regional banks, Tier II regional banks, <i>Shinkin</i> banks	MOF Banking Bureau	FSA
Life insurance companies, Casualty life insurance companies	MOF Insurance Bureau	FSA
Securities companies	MOF Securities Bureau	FSA
Credit unions*	Prefectures	FSA (after April 2000)
Labor cooperatives	Ministry of Labor	FSA and Ministry of Labor and Welfare
Agricultural cooperatives	Ministry of Agriculture, Forestry and Fishery	FSA and Ministry of Agriculture, Forestry and Fishery

Notes: * Credit unions that operated in more than one prefectures were under the supervision of the MOF before the change and put under the supervision of FSA when it started.

Table 2. Bank Closures: 1998-2002

Bank	Date
Long-Term Credit Bank of Japan	10/23/1998
Nippon Credit Bank	12/13/1998
Kokumin Bank	4/11/1999
Kofuku Bank	5/21/1999
Tokyo Sowa Bank	6/11/1999
Namihaya Bank	8/7/1999
Niigata Chuo Bank	10/2/1999
Ishikawa Bank	12/28/2001
Chubu Bank	3/8/2002

Sources: Financial Supervisory Agency Annual Report (1999, 2000 issues). Financial Services Agency Annual Report (2001, 2002 issues).

Table 3. Prompt Corrective Actions for Banks: 1998-2002

	7/98 to 6/99	7/99 to 6/00	7/00 to 6/01	7/01 to 6/02
Banks	5	1	1	2
Shinkin Banks	1	10	3	4
Credit Unions	11	20	17	8
Agricultural Cooperatives	1	1	0	1

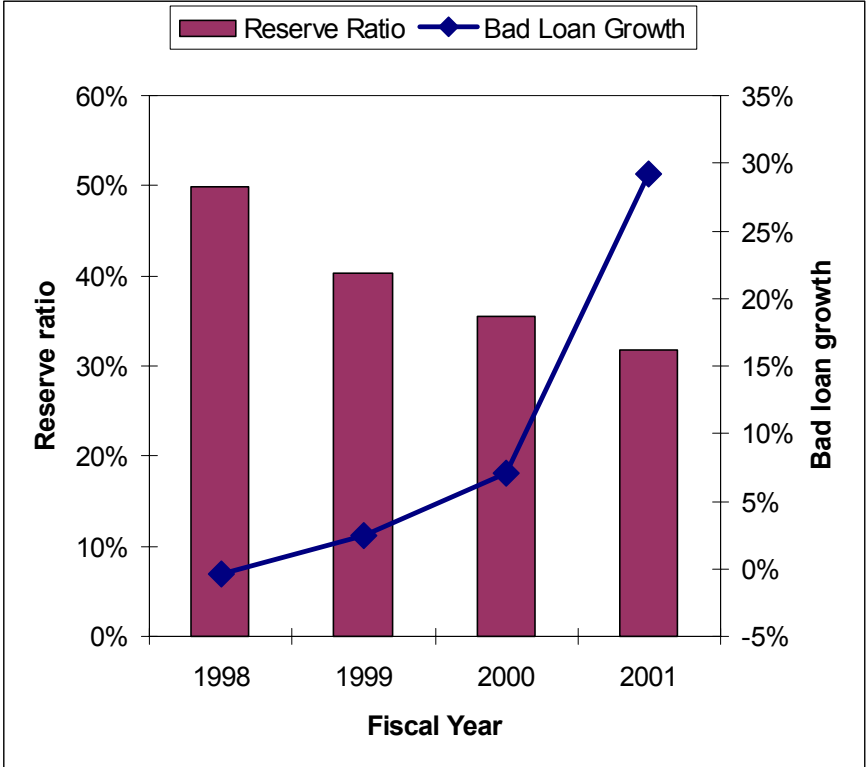
Sources: Financial Supervisory Agency Annual Report (1999, 2000 issues). Financial Services Agency Annual Report (2001, 2002 issues).

Table 4. Failures of Insurance Companies

Closed Insurance Company	Date
Nissan Life Insurance	4/25/1997
Toho Life Mutual Co.	6/5/1999
Dai-ichi Fire & Marine Insurance	5/1/2000
Dai-hyaku Life Insurance	6/1/2000
Taisho Life Insurance	8/29/2000
Chiyoda Life Insurance	10/9/2000
Kyoei Life Insurance	10/20/2000
Tokyo Life Insurance	3/23/2001
Taisei Fire & Marine Insurance	11/22/2001

Sources: *Nihon Keizai Shimbun*. Financial Supervisory Agency Annual Report (1999, 2000 issues). Financial Services Agency Annual Report (2001, 2002 issues).

Figure 1. Loan Loss Reserve Ratio and Growth of Non-Performing Loans for Japanese Banks: Fiscal 1998-2001



Note: Loan Loss Reserve Ratio is calculated as the amount of loan loss reserves at the end of the fiscal year divided by the amount of risk management loans at the end of the fiscal year.

Source: Financial Services Agency (2003). “The Status of Non-Performing Loans as of end-September 2002” Table 4 (Available at FSA web site: <http://www.fsa.go.jp/news/newse.html>)