banks have experienced balance sheet problems, which are being reflected in their credit ratings.[16]

Currently, the official estimate of bad loans for JFIs is about 40 trillion yen (approximately US $395 billion). Even using these official figures, which are considered to be underestimated, the percentage of bad loans to total lending is higher now than during the worst part of the savings and loans crisis in the U.S..[17] Moreover, calculations based on the disclosure of specific institutions yield figures for total bad loans as somewhere between *60 and 100 trillion yen*, much higher than the 40 trillion yen official estimate.

...And Problems in the Insurance Industry

In addition to the problems in the banking industry, the extent of problems in the life insurance industry has recently come to light. The return on assets (ROA) within the insurance industry has fallen below that which had been guaranteed on life and annuity policies. The financial state of this industry, however, is even less transparent than that of the banking industry since companies are almost exclusively mutually owned (not publicly traded) and independent audits are, therefore, unavailable. Although problems with the insurance industry are less well-publicized than those with banks, the likelihood that the Japanese government will have to spend public funds to bail out these companies is thought to be higher. Because of their ownership structure, weak insurance companies cannot simply be merged with stronger ones, as has been done with the failing Japanese banks.

There is a real danger that insurance companies will sustain substantial losses on existing policies which would jeopardize their capital bases. Although insurance companies could avoid this by lowering the return on new policies and using profits to cover the losses on existing policies, deregulation of the insurance industry has increased competition from new entrants who do not need to cover previous losses

[16]In August, Moody's Investors Service ranked two major banks, judged on their ability to survive without outside assistance, in its lowest category, and a number of other Japanese banks in its second-lowest category. (See D. Ostrom, *Japan's Bad-Loan Problem: The Search For An Exit,* Japan Economic Institute Report No. 44A, p. 7.) Recently, Moody's announced that it had lowered the long-term senior debt ratings of two different large Japanese banks because they were carrying high volumes of problem assets and would require several more years to restore their balance sheets. (See *Financial Times,* January 24, 1996, p. 19.)

[17]D. Ostrom, *op. cit.*, p. 5.