

banks that have had access to large pools of low-cost deposit funds.⁹⁶ Canadian banks must turn to the money markets to acquire funds, at substantially higher cost. Second, the largest Japanese companies -- the ones Canadian banks would most like to lend to, given their stability -- have either not required much bank funding or have traditionally turned to their *keiretsu* banks.⁹⁷ Canadian banks have developed some Japanese corporate clients, but they are "second-tier" companies, not affiliated with an industrial group. The risk attached to such loans is somewhat higher.

Much of the Canadian bank lending has been by referral from major Japanese banks. Typically, the spreads on such loans are low, and the Japanese bank providing the referral expects the favour returned by the Canadian bank for business in Canada or elsewhere.

5.2 Insurance Companies

Foreign life and non-life insurance companies command very small shares of the Japanese market.⁹⁸ While the Insurance Business Law of 1939 and the Law Concerning Foreign Insurers of 1949 present no discriminatory barriers (beyond a requirement that foreign insurers only sell products already sold elsewhere) to foreign insurance companies, there are a number of other obstacles that impede their growth.⁹⁹

According to Semkow, the cartel-like structure of the Japanese insurance market has eliminated price competition, with both insurance premiums and dividends subject to agreements between firms.¹⁰⁰ With little price or quality competition,

⁹⁶ The deregulation of interest rates in Japan has alleviated this problem somewhat. As deposit interest rates have risen, the implicit subsidy to Japanese banks (in the form of cheap sources of funds) has disappeared.

⁹⁷ An argument could be made that any bank entering a new foreign market, including the Canadian market, would face this problem of not having access to the most preferred corporate clients. Indeed, there are relationships between Canadian firms and Canadian banks, but they are not nearly as strong in practice as those in Japan.

⁹⁸ In 1990, foreign life insurance companies received 2.0% of premium income. Non-life insurance companies received 3.6% of premium income. See B.W. Semkow, *op. cit.*, p. 384.

⁹⁹ The Insurance Business Law of 1939 is Law Number 41 of 1939. The Law Concerning Foreign Insurers of 1949 is Law Number 184 of 1949.

¹⁰⁰ See B.W. Semkow, *op. cit.*, p. 387.