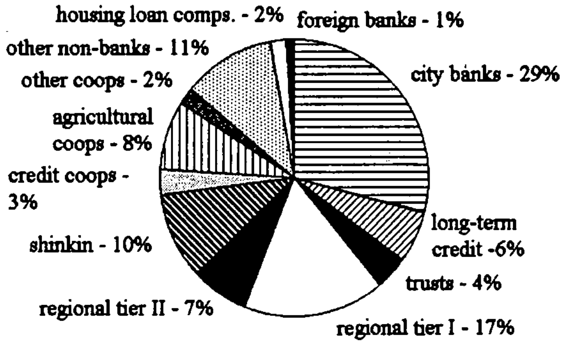
been revealed to be anything but prudential; they were unconventional at best, corrupt and, sometimes, illegal.[5] An opaque reporting regime delayed the discovery of the weakness of failing institutions as well as of fraudulent activities. In addition, the preoccupation with size and market share exhibited by Japanese companies was not confined to non-financial firms; it extended to financial institutions, leaving less room for concern for more conservative (and real) measures of success, such as return on assets.[6]

Not All Banks Are Created Equal

First, it must be understood that not all JFIs are equal or in an equal amount of financial trouble. There are different types of JFIs and, although all have been affected by the bursting of the bubble economy and falling real estate prices, only some are in danger of failing. In general, the smaller and more specialized institutions are the most vulnerable, but even the larger banks are not without their problems, financial and legal.

Relative Size of JFIs
(loans as a % of total loans)



Source: OECD

The largest of the JFIs are the <u>city banks</u> (or major banks) which account for 29 per cent of total loans made by private financial institutions. Although the ratio of

---

[5]See *The Economist,* January 27th-February 1st, pp. 63-4 for general problems of poor management and regulatory practices.

[6]Loans are *assets* to banks, so to increase loans was to increase the prestigious size and market share of the financial institution. In addition, many JFIs extended loans which exceeded 100 per cent of the underlying value of the collateral, based on the assumption that real estate prices would continue to increase. (H. Asai, S.Tazaki, et al, "The End of the Post War Banking System?", in *Tokyo Business Today,* November 1995, p.9.)