How Japanese Companies are Responding to Financial Sector Restructuring
— The Nissay Business Conditions Survey (August 2001)

by the Business Conditions Survey Analysis Team
Economic and Industrial Research Group

Introduction

Against the backdrop of the bad loan problem and severe economic environment, financial institutions are pursuing efforts to regain their health including massive industry-wide restructuring. The changes are thought to be significantly impacting their business relationships with companies.

In view of these developments, the latest Nissay Business Conditions Survey conducted in August (jointly by Nippon Life Insurance and NLI Research Institute, with 3,406 valid response from companies nationwide) focuses on the changing relationship between financial institutions and business companies.

According to the results, companies are most worried whether financial restructuring will lead to higher loan interest rates. In addition, the majority of companies hope that financial institutions will not change loan conditions. Companies are thus concerned about whether financing will remain stable after the financial sector is reorganized. Moreover, compared to the previous survey (in February), more companies who changed their financial institutions cited the consolidation of financial institutions and decreased confidence in their financial institutions as reasons, revealing that the deteriorating health of financial institutions and restructuring have affected their selection of financial institutions.

1. Companies' Key Concerns: Higher Loan Rates, Tougher Disclosure Requirements

Overall, with regard to how they will be affected by financial restructuring, companies are most concerned about higher loan interest rates (34.4%), followed by tougher disclosure needs (28.3%) and restricted credit lines (20.2%). On the other hand, 38.7% see no change (Figure 1).

By industry, concern regarding restricted credit lines is particularly high in textiles & apparel (36.8%); concern regarding higher loan rates is strong in warehousing and harbor transportation (48.2%) and personal services (48.0%); concern about the sale of company stock by financial institutions is high in restaurant (28.6%) and textiles & apparel (26.3%); and concern about tougher disclosure needs is keen in mining, oil & coal products, and glass & ceramics (39.7%).

When companies were classified by their main financial institution, we found that restricted credit lines are of greatest concern to companies who do business with long-term credit banks and trust banks (41.7%), followed by of those using Shinkin banks (credit banks) and credit unions (35.7%); in comparison, 18.1% of city bank customers share this concern. Similarly, concern about higher loan rates is stronger among customers of long-term credit banks and trust banks (46.7%) and Shinkin banks and credit unions (37.5%) than of city banks (33.0%).

Figure 1 Companies' Concerns Regarding the Effects of Financial Restructuring

(%)

	Restricted credit lines	Higher lending rate	Shares being sold by bank	More rigorous disclosure	Less business cooperation	No changes
All industries	20.2	34.4	15.1	28.3	7.6	38.7
Selected industries						
Mining, oil & coal, glass & ceramics	14.3	38.1	9.5	39.7	4.8	36.5
Textiles & apparel	36.8	38.6	26.3	21.1	10.5	26.3
Warehousing & harbor transport.	22.4	48.2	11.4	28.9	7.9	36.4
Restaurant	26.2	47.6	28.6	28.6	14.3	14.3
Specialized services	27.0	18.9	13.5	35.1	5.4	48.6
Personal services	22.7	48.0	10.7	34.7	12.0	26.7
Electric power & gas	9.8	43.9	22.0	26.8	14.6	34.1
Company size						
Large	10.1	30.8	41.4	20.3	9.3	36.7
2nd tier	17.5	31.9	25.1	27.9	9	34.6
Small & medium	22.2	35.7	8.6	29.2	6.9	40.5
Main financial institution						
City bank	18.1	33.0	18.2	27.9	8.2	39.7
Regional bank	20.9	35.4	11.0	29.4	7.2	38.7
Shinkin bank/credit union	35.7	37.5	8.9	26.8	3.6	37.5
Long-term credit bank/trust bank	41.7	46.7	20.0	21.7	13.3	15.0
Government affiliated institution	30.3	40.4	14.6	29.2	3.4	34.8

Notes: Numbers may not add up to 100 due to incomplete or multiple responses. Unless otherwise noted, regional banks include second-tier regional banks.

2. One-Fourth of Companies Respond to Restart of the "Payoff System"

When the "payoff system" is restarted in April 2002, deposits held at failed financial institutions will no longer be fully protected. We asked companies whether they are taking any measures in preparation.

While over 70% of companies are not taking any specific measures, we found that 2.1% are already taking measures, and 24.5% are considering doing so. Thus at least one in four companies is either implementing measures or in the process of doing so (Figure 2).

By industry, the proportion of companies with a proactive stance (those taking measures and those considering doing so) is highest in electric power, gas, and water (39.0%), followed by communication (35.7%) and foods (33.9%).

By company size, we found that the forward-looking stance is correlated with company size: 43.5% of large companies share this stance, compared to 29.6% of second-tier companies and 23.8% of small and mid-sized companies.

Understandably, by main financial institution, the restart of the payoff system is of keener interest to customers of financial segments that have experienced major failures in the past. Thus 40.0% of the customers of long-term credit banks and trust banks have adopted a proactive stance, which is much higher than the overall average of 26.6%. By region, companies in Hokkaido (35.6%) are considerably more active than in the rest of the nation, presumably because of the failure of a major bank in the region.

Figure 2 Has Your Company Prepared for the Restart of the Payoff System?

(%)

	Yes	Under study	No
All industries	2.1	24.5	72.1
Selected industries			
Non-ferrous metals, metal products	0.7	21.2	78.1
Foods	3.4	30.5	64.9
Transport equipment	1.4	18.1	80.4
Printing, publishing	3.8	15.1	79.2
Communication	0.0	35.7	64.3
Real estate	0.0	19.7	78.7
Electric power & gas, water	0.0	39.0	58.5
Company size			
Large	3.4	40.1	56.5
2nd tier	2.2	27.4	69.9
Small & medium	2.0	21.8	74.5
Main financial institution			
City bank	2.5	24.6	72.1
Regional bank	1.9	24.4	72.0
Shinkin bank/credit union	0.0	19.6	80.4
Long-term credit bank/trust bank	1.7	38.3	60.0
Government affiliated institution	1.1	19.1	78.7

	Yes	Under study	No
Nationwide	2.1	24.5	72.1
By region			
Hokkaido	2.7	32.9	61.6
Tohoku	0.8	18.8	79.1
Kanto	2.5	24.8	72.3
Koshinetsu/Tohoku	2.6	24.5	70.9
Tokai	2.0	26.5	70.9
Kinki	2.3	24.4	71.1
Chugoku	2.0	19.5	77.8
Shikoku	1.5	26.9	68.5
Kyushu	0.9	28.1	70.1

Note: Numbers may not add up to 100 due to incomplete responses.

3. Increases in Banking Relationships Offset Decreases

The overwhelming proportion of companies (83.2%) report no changes, present or planned, in the financial institutions they deal with. However, of the rest, an equal proportion of companies are (or will be) dealing with more financial institutions (7.6%) as with less (7.2%; Figure 3).

By industry, the largest margin of increase (percentage of companies dealing with more financial institutions minus those dealing with fewer) is in the restaurant industry (9.6 percentage-points), followed by specialized services (8.1 percentage-points) and information services (6.9 percentage-points). On the other hand, the largest margin of decrease is in utilities (-7.4 percentage-points), followed by electrical machinery (-4.1 percentage-points).

By company size, large companies are dealing with fewer financial institutions (-6.4 percentage-points), while second-tier and small and medium-sized companies are dealing with more. By region, we found significant margins of increase in Shikoku (5.4 percentage-points) and Chugoku (3.0 percentage-points), and a significant margin of decrease in Kyushu (-2.1 percentage-points).

We found no significant trends by main financial institution. However, the proportion of companies reporting no change is relatively high among customers of government-affiliated financial institutions (86.5%) and regional banks (85.9%), compared to Shinkin banks and credit unions (78.6%). This suggests that main bank relationships with Shinkin banks and credit unions lack some stability.

Figure 3 Changes in Banking Relationships

(%)

	More finan. inst.	Fewer finan. inst.	New main finan. inst.	No change
All industries	7.6	7.2	0.9	83.2
Selected industries				
Electrical machinery	6.5	10.6	0.6	80.0
Printing, publishing	13.2	7.5	0.0	75.5
Restaurant	16.7	7.1	0.0	73.8
Information services	11.0	4.1	2.7	82.2
Specialized services	8.1	0.0	5.4	86.5
Personal services	9.3	2.7	0.0	86.7
Electric power & gas, water	2.4	9.8	0.0	87.8
Company size				
Large	4.6	11.0	0.4	83.5
2nd tier	8.3	6.8	0.9	83.2
Small & medium	7.7	6.8	1.0	83.2
Main financial institution				
City bank	8.4	8.3	1.0	81.8
Regional bank	6.7	5.3	0.7	85.9
Shinkin bank/credit union	8.9	10.7	1.8	78.6
Long-term credit bank/trust bank	10.0	8.3	0.0	81.7
Govt. affiliated institution	6.7	5.6	1.1	86.5

	More finan. inst.	Fewer finan. inst.	New main finan. inst.	No change
Nationwide	7.6	7.2	0.9	83.2
By region				
Hokkaido	8.2	6.8	1.4	83.6
Tohoku	5.4	5.4	1.3	86.2
Kanto	7.7	9.8	0.8	81.2
Koshinetsu/Tohoku	5.2	4.9	0.6	87.6
Tokai	7.4	7.2	0.7	84.5
Kinki	9.5	7.4	0.9	81.1
Chugoku	7.7	4.7	0.3	86.9
Shikoku	9.2	3.8	0.0	79.2
Kyushu	4.8	6.9	3.0	84.8

Note: Numbers may not add up to 100 due to incomplete responses.

4. Consolidation & Credit Problems of Banks Affect Choice of Financial Institution

The primary reasons companies have changed their financial institutions are because of more favorable loan conditions (46.0%) and to facilitate financing (45.4%). These two factors are particularly pronounced in personal services and information services. Financial consolidation is cited as an important factor in electric power, gas and water utilities (60.0%), as well as chemicals (57.7%) and steel (50.0%; Figure 4).

By main financial institution, the consolidation factor is correlated with the extent of restructuring of the particular financial segment: 63.6% of customers of long-term credit banks and trust banks, and as much as 39.4% for those of city banks. On the other hand, consolidation is a minor factor among companies who deal with regional banks (21.2%) and Shinkin banks and credit unions (25.0%). Facilitation of financing is relatively pronounced among customers of Shinkin banks and credit unions (58.3%) and long-term credit banks and trust banks (44.0%), and less so with respect to those of city banks (44.0%) and regional banks (46.7%).

Compared to the previous survey (February 2001), we noted a greater emphasis overall on financial consolidation (rising from 24.5% to 33.4%) and credit instability (rising from 5.3% to 13.7%). This suggests that the deteriorating health of financial institutions and the accompanying restructuring of financial segments are increasingly affecting actual banking relationships.

In addition, the emphasis on financial consolidation and credit instability tends to be correlated with company size: 57.9% and 26.3% among large companies respectively, compared to 38.0% and 13.1% of second-tier companies, and 29.3% and 12.7% of small and medium-sized companies. This tendency was also confirmed in the previous survey.

Figure 4 Reasons for Altering Relationships with Financial Institutions

(%)

	Better financing terms	Smoother financing	Effective negotia-tion	Enhance own rating	Consolida-tion of finan. inst.	Poor rating of finan. inst.	No changes
All industries	46.0	45.4	8.4	11.6	33.4	13.7	4.7
Selected industries							
Steel products	30.0	20.0	10.0	0.0	50.0	10.0	0.0
Chemicals	23.1	46.2	7.7	7.7	57.7	19.2	3.8
Communication	25.0	25.0	25.0	25.0	0.0	0.0	50.0
Restaurant	40.0	60.0	20.0	10.0	10.0	40.0	0.0
Specialized services	53.8	53.8	7.7	30.8	23.1	7.7	0.0
Personal services	66.7	77.8	0.0	11.1	11.1	11.1	0.0
Electric power & gas	0.0	40.0	20.0	0.0	60.0	20.0	20.0
Company size							
Large	34.2	23.7	2.6	5.3	57.9	26.3	5.3
2nd tier	37.2	53.3	9.5	13.9	38.0	13.1	2.2
Small & medium	50.4	44.5	8.7	11.5	29.3	12.7	5.6
Main financial institution							
City bank	43.7	44.0	5.5	8.3	39.4	13.8	4.3
Regional bank	49.1	46.7	14.5	19.4	21.2	15.2	6.1
Shinkin bank/credit union	41.7	58.3	25.0	8.3	25.0	8.3	0.0
L-t credit bank/trust bank	54.5	54.5	0.0	0.0	63.6	9.1	0.0
Govt. affiliated institution	58.3	66.7	0.0	16.7	16.7	0.0	0.0

Previous survey (for reference)

All industries	50	44.8	7.8	4.9	24.5	5.3	N.A.
Company size							
Large	39.7	24.4	9.0	1.3	48.7	10.3	N.A.
2nd tier	47.3	44.0	10.2	5.8	26.9	3.6	N.A.
Small & medium	52.4	47.6	6.7	5.0	20.9	5.4	N.A.

Note: Numbers may not add up to 100 due to incomplete or multiple responses.

5. Majority of Companies Hope Loan Conditions Will Remain Unchanged

What companies seek most from financial institutions are the same loan conditions as present (56.7%), followed by business cooperation such as introduction of new customers (36.1%; Figure 5).

By industry, the expectation of unchanged loan conditions is strongest in mining, oil & coal products, and glass & ceramics (68.3%), followed by retail (65.3%) and steel products (63.5%). The emphasis on business cooperation is strongest in construction and installation (68.7%), followed by specialized services (56.8%) and information services (50.7%).

We noted a correlation between company size and expectations for diversified financial services such as banking, securities, and insurance: large companies (34.2%), second-tier companies (27.5), and small & medium-sized companies (18.6%).

By main financial institution, companies have different expectations for financial services. The continuation of present loan conditions (amount and interest rate) is sought most strongly by customers of long-term credit banks and trust banks (80.0%) and Shinkin banks and credit unions (69.6%), and less so by those of regional banks (57.8%) and city banks (55.1%). We also found that while approximately 20% of all companies have expectations for diversified financial services, this expectation is much lower among customers of Shinkin banks and credit unions (10.7%).

Figure 5 Expectations Regarding Financial Institutions

(%)

	Business consulting	Asset mgt. advice	Other financial services	Business cooperation	Same loan terms as before	None
All industries	29.0	16.8	21.9	36.1	56.7	10.9
Selected industries						
Mining, oil & coal, glass & ceramics	22.2	12.7	22.2	30.2	68.3	12.7
Steel	21.2	13.5	13.5	38.5	63.5	11.5
Chemicals	36.3	14.8	25.3	20.3	56.0	13.2
Construction, installation	19.1	14.3	15.2	68.7	49.6	10.0
Retail	28.3	11.8	20.6	31.9	65.2	12.4
Information services	27.4	15.1	24.7	50.7	47.9	11.0
Specialized services	27.0	18.9	27.0	56.8	48.6	5.4
Company size						
Large	32.9	16.9	34.2	33.8	53.6	7.6
2nd tier	33.2	16.5	27.5	37.3	53.8	8.0
Small & medium	27.1	17.0	18.6	36.0	58.0	12.1
Main financial institution						
City bank	28.8	16.2	23.9	35.8	55.1	11.6
Regional bank	29.7	17.6	19.6	37.7	57.8	9.9
Shinkin bank/credit union	26.8	25.0	10.7	26.8	69.6	10.7
Long-term credit bank/trust bank	33.3	11.7	21.7	31.7	80.0	6.7
Govt. affiliated institution	28.1	14.6	20.2	37.1	60.7	10.1

Note: Numbers may not add up to 100 due to incomplete or multiple responses.

Figure 6 The Nissay Business Conditions Survey

Survey date: August 2001
No. of valid responses: 3,406 companies

1. By company size

	No. of companies	Percentage
Large	237	7.0
2nd tier	853	25.0
Small & medium	2,298	67.5
No answer	18	0.5
Total	3,406	100.0

2. By region

	No. of companies	Percentage
Hokkaido	73	2.1
Tohoku	239	7.0
Kanto	797	23.4
Koshinetsu/Hokuriku	347	10.2
Tokai	457	13.4
Kinki	766	22.5
Chugoku	297	8.7
Shikoku	130	3.8
Kyushu	231	6.8
No answer/other	69	2.0
Total	3,406	100.0