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### SHINSEI BANK: HOW TO WIN WITH A NEW BUSINESS MODEL

Masamoto Yashiro

Chairman and CEO, Shinsei Bank, Ltd.

On September 22, 2004, the *Program on Alternative Investments*, under the leadership of the Center on Japanese Economy and Business and in cooperation with the Japan Business Association, presented “Shinsei Bank: How to Win with a New Business Model.”

Shinsei Bank, Ltd., previously the Long-Term Credit Bank of Japan (LTCB), was nationalized in October 1998. In March 2000, a consortium of foreign investors led by the U.S. private equity fund Ripplewood Holdings, acquired LTCB, and the bank made a fresh start as a private commercial bank and changed its name to Shinsei Bank. The bank was listed on the Tokyo Stock Exchange in February 2004. Mr. Yashiro began by detailing the emergence of Shinsei Bank and the transformation from traditional lending practices toward new, customer-oriented ventures such as retail and investment banking (with a focus on business solutions). The bank underwent startling changes in technology and cultural mindset, and perhaps, most importantly, in profitability.



Professor Hugh Patrick, director of the Center on Japanese Economy and Business, moderated the discussion following Mr. Yashiro's presentation. Excerpts of the evening's lively discussion are provided in this report.

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## SHINSEI BANK: HOW TO WIN WITH A NEW BUSINESS MODEL

September 22, 2004



### **MASAMOTO YASHIRO** Chairman and CEO, Shinsei Bank, Ltd.

Shinsei Bank, once known as Long-Term Credit Bank, was established in the 1950s. It was one of the three long-term credit banks in Japan, and it provided long-term funds for the reconstruction of the Japanese economy. After that, it made available important long-term credit to many industries in Japan.

During the bubble period there were two schools of thought. One was that LTCB should try to transform itself into more or less an investment type bank. The other was that it should copy the large Japanese banks by expanding the balance sheet size. At that time, it had a balance sheet of about \$200 billion. The bank lent a large amount of money mainly to three

sectors: retail, nonbanks, and the construction industry.

After the bubble burst around 1992, the bank continued to survive for about six years, and in 1998 it went bankrupt. It was nationalized temporarily in October 1998, and the government tried to sell the bank to anyone who wanted to buy it. Apparently, the government adviser, Goldman Sachs, talked to more than 70 institutions, including foreign institutions, and all the major Japanese bank and insurance companies. Nobody showed any interest in buying, except for one of the large French institutions and another group from Japan, Mitsui Chuo Trust Bank.

Tim Collins, Chris Flowers (who had retired by then from Goldman



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Sachs—he had been Global Head for Financial Institutions), and I were involved in the negotiations with the government, which lasted for one year. Finally, in March 2000 the bank was sold to an investor group known as LTCB Partners, which was founded by Ripplewood and J. C. Flowers. The new bank was renamed Shinsei Bank in June 2000. One of the advisers suggested at that time we should name it Renaissance Bank, but I said no. Shinsei means new birth, which is very close to Renaissance, but I thought the Japanese word would be better, because we can always be “newly born”—even after many years, we are still a new bank.

The bank was taken over on March 2. I vividly recall that in the first week of April, Sogo’s senior man-

agement people came to see us and asked us to forgive a large amount of money. I said, “What do you mean ‘forgive?’” I had never heard the word; I was not a banker (I spent 30 years with Exxon—today’s Exxon Mobil). Since 1974, I had been head of Exxon Japan, and then I went to Houston to run downstream operations for the Asia Pacific. “Loan forgiveness” was not in my vocabulary. I asked, “Why?” They said, “Well, because this is done in Japan.” I asked them how much they wanted forgiven. They said about ¥100 billion, \$1 billion out of the \$2 billion loan to them. I said, “absolutely not.”

The reason we had to reject this request was that when we looked at their plan, it would take 15 to 17 years to restructure. If you forgive

half the loan, the remaining portion still needs special supervision in the obligor category. It requires that we put aside an additional ¥30 billion, about \$300 million as a loss reserve for Sogo. The first year’s predicted profit, which we submitted to the government as a plan, was only ¥19.5 billion, but we had to set aside ¥30 billion. We would show a first-year loss of about ¥10 billion. That was the problem.

We then tried to reevaluate all of the assets of the balance sheet. We had people coming in from outside, including some from Citibank who worked with me and had come to us with the good graces of Citibank. I had an open agreement with John Reed at that time that I would not hire anybody from Citibank without its approval. One who joined us was

the manager of credit. He came, and we started looking at asset quality. We found that according to the government assessment of the total loan assets of ¥7.5 trillion, bad assets accounted for ¥1.9 trillion, or 25 percent.

After the government spent ¥3.6 trillion disposing of the assets, they still had ¥1.9 trillion, but that was not all. As a result of our reevaluation of asset quality, we found an additional ¥700 billion in bad assets, bringing the total to ¥2.6 trillion. In the subsequent three years, we found, because of the economic environment, we had to classify another ¥300 billion as bad assets. The bank's assets were really bad. We had to restructure.

First, we needed to clean up our balance sheet, but resolving the bad loan problem was only one of the two major tasks we had at hand. From day one, I felt very strongly that the business model we inherited from LTCB was not a good one. It had no future because it involved two very simple businesses: selling debentures (and some of the debentures were sold to people who did not want to be identified as owning them); and making loans to corporate customers, using funds collected from debenture buyers. That was the business model. Since the government started issuing medium-term government bonds and commercial

banks were also allowed to sell straight bonds, the LTCB debentures were no longer unique. This business had no future.

Lending money to Japanese corporate customers makes no profit whatsoever. We needed to change the business, and we thought that the emphasis had to be customer oriented and customer centric. We believed that there were three businesses we had to develop. The first was traditional lending, which is still the core of the bank, but we needed to move into new areas, one of which was retail banking. Retail banking was very important, because we needed to have a stable funding source. Retail bank customers never leave their bank if the bank has good quality of capital, as well as good service, which is very important. Also, once you start making money in the retail bank, you can continue to improve the margins steadily.

We also needed to devise corporate-side business solutions. As long as customers have problems of a financial nature and you are able to come up with solutions for those problems, you will be successful. We decided to move into investment banking-type activities. So we started hiring people from outside.

I should also talk a little about information technology. I remember vivid-



Masamoto Yashiro

ly, in May 2000, at one of the management committee meetings, asking the controllers if we made money last month, in April. The controller said, “we don’t know. We don’t count more than twice a year. That’s the practice in the bank.” I almost fell off my chair, because 40 years ago, when I was working as one of the department managers in an Exxon subsidiary, we started counting everything on a monthly basis, and we even looked at return on assets, and return on capital employed. Here we were in the year 2000, and the bank didn’t count on a monthly basis!

We had to revamp the entire technology of the bank. I went around the building and found many PCs lying idle on the floor, collecting dust. I asked, “What are these?” The head guy of IT said, “These are personal computers.” I asked him, “Where did you get them? How did you get them? Were they purchased,

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or are they on lease?" He said they were on a five-year lease from one of the Japanese hardware companies, and this was the fifth year. They were so slow that nobody was using them.

With a new head of IT, we changed the entire system in one year. He is Indian and spent 25 years with Citicorp in operations and technology. He and I wanted Shinsei to get into consumer business and also investment banking-type activities. We want to get into all kind of consumer products, not only yen-denominated, but also foreign currency and investment-type products such as mutual funds, life insurance products, and so on. We talked, as well, about what kind of distribution network we would establish for our consumer business. We discussed, among other things, ATM expansion, connecting Shinsei Bank ATMs to Postal Service, and establishing modern, high-speed ATMs of our own and call centers.

He started revamping the entire information system. It was a great success. We spent about 1/10th of what otherwise would have been required if we had followed Japanese bank practices.

I would like to talk about institutional banking in a little more in detail. We always consider the loan to be one of many products. If you look at Japanese banks, 85 percent of the profit comes from interest rate spreads; they say 15 percent of fee income, but fee income includes ATM charges. That's not a fee, to my mind. We should not charge customers ATM usage in the first place. We needed to change the business model, moving into areas where corporate customers have financial problems and offering solutions. Naturally, we went into securitization. Credit trading was very attractive, particularly when banks had bad loan problems and needed to get rid of distressed assets. If we bought at

the right price, we could make money. We bought one of the failed insurance companies, with a face value of ¥90 billion toward the end of 2000, at a price that made our bottom line ¥5 billion. That's one transaction.

Our bankers came up with non-recourse lending. This was very familiar from my days with Exxon. I was running Asia Pacific as the executive vice president of the region way back in the early 1980s. We borrowed money from major banks around the world, for instance, with Citibank as the manager, to build platforms in Malaysia. When the government ordered us not to continue production or to change the main framework of the crude production operations, we would give the platform to the banks. That's how we protected our interests. We did exactly the same thing as a bank to help customers. When we could not make a loan because the quality of the cus-

tomers' financial situation was poor, but they happened to have a very good project with good cash flow, we made a loan against that cash flow. If the project failed, we took it over. That's the kind of loan asset business we wanted to get into.

The bank's personnel manager showed me a list of senior managers and their backgrounds. Every one of them seemed to have had a two-year rotation assignment. They were generalists who knew a little bit about everything, but if you asked detailed questions, they didn't know anything about specifics. That's the way that Japanese managers develop. They make section head or department head, but they're not specialists in any particular area. We stopped that practice.

We needed to bring in outside people with a lot of experience and skills. When we took over the bank, it had 2,150 people. Today, we have 2,550 people. We increased employment by 400 full-time employees. I would say we lost or let go about 600. Overall, we hired 850 to 900 people. Every year we hire about 50 new graduates, including MBAs from U.S. universities. The mix of people is very different today. We don't care about what school they went to, what gender or ethnicity they are. What they can do is more important.

Today, we have about 100 non-Japanese in the bank.

We started retail banking in June 2001, more than one year after we took over the bank. We began from a zero base. Today we have 800,000 new accounts, which is very impressive. Every month, we get 25 to 30,000 new accounts. The amount of money we have collected from depositors is nearly ¥2 trillion and growing.

PowerSmart is a housing loan we offer that is very different from most of other housing loans available from Japanese banks, because you can pay whenever you happen to have cash or you can go back to the original schedule of the loan. It's very flexible.

We don't have a mainframe computer. We use Microsoft Windows as work stations. The beauty of this is that it's low cost and very flexible. We can change components as though they were children's Legos. We can start new products within a couple of months' time and we don't have to pay huge maintenance and modification fees. We have even created an IT center in India that is connected to our IT through the IP telephone videoconference system.

I used to have a video conference with Citibank in the early 1990s.

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Once every month, we had an Executive VP conference known as the "G-15." I had to go to an outside KD system, which cost us ¥400,000 per hour. Today, we have IP telephone internally and externally. If I want to call Professor Patrick at Columbia, it may cost the bank maybe ¥5 per minute. For a 60-minute conversation, we'll pay probably ¥300, or US\$3.00, instead of the huge amount we used to pay.

Today, I believe Shinsei Bank has the best MIS system in Japan, because

expenses allocate not only direct expenses, but indirect expenses too, for each product group and each customer group, in a matrix.

Horizontally and vertically, every month we know how much we're making and how much we've lost in any area. Also, we know incrementally how we're doing. That information is available to every manager. If anybody in the retail bank, even a person in one of the branches, wants to know, we make the information

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available. Everybody shares the information. If we're not giving them information, how can we ask them to do better?

Corporate governance is also different from other Japanese banks. We started with fifteen directors, four of whom were inside directors. Today, we have only two inside directors, and we also moved to a committee system in June of this year, after the general meeting with shareholders. Since we are a public company, we thought we should change to the committee system. There are three committees: the nomination committee, the compensation committee, and the audit committee. I am one of the members of the nomination committee, but I am not a member of the other two committees. The compensation and the audit committee are composed entirely of outside directors.

We have both foreign and Japanese outside directors. We have two executive corporate officers as directors: Thierry Porté (who used to head Morgan Stanley in Japan and is now vice-chairman of our bank directors) and me. The rest are Japanese directors and are very prominent people. Among the directors, there are two general partners, Tim Collins and Chris Flowers. The rest represent some of the investors, like Mellon

Bank and UBS America. We also have three outside advisers to the board, John Reed, Paul Volcker, and Vernon Jordan. Our corporate governance is excellent. We have five board meetings a year, generally, but recently we had two special board meetings during the month of August.

When we have a board meeting, I go to present the preboard review. Generally, by the time I finish, I've learned everything by heart. I've had to do it usually twice in Tokyo, because the board members can't get together at one time, in one place. Also, most of the foreign directors reside in the United States, so I present in the United States once and then again in Europe, since another director is European, Emilio Botin of Banco Santander Central Hispano.

We have tried to keep the board fully posted. Not only do we present the special agenda and the items that require board approval, but we also explain how the business is doing by having key people discuss business performance. At every board meeting, the CFO provides an overall picture of financial and other business results to the board members. I think they keep me on my toes as well, which is another good thing.



*One thing, at least, is clear: if you are making good money, you can afford to keep employees happy by paying competitive salaries and offering good bonuses commensurate with their performance.—Masamoto Yashiro*

What about corporate culture? The most important change that took place in the last four years was in the mindset of people working in the bank. Some people say, “We work for stakeholders,” but the term stakeholders tends to include everybody, and not everybody has the same interest. One thing, at least, is clear: if you are making good money, you can afford to keep employees happy by paying competitive salaries and offering good bonuses commensurate with their performance. I think making a profit is a good thing, but Japanese banks tend to be concerned more with size than with profitability. Even if you don’t have credit losses, even if there is zero cost for credit, Japanese banks make only 50 basis points on total assets, compared with 150 basis points in U.S. or European banks. Japanese banks’ profitability is only a third of what it should be. We should concentrate on improving performance and profitability; otherwise Japanese banks will not be able

to compete with the rest of the world.

We still had ¥1 trillion yen in bad assets on our balance sheet as of March 2002, but we did move down from ¥2.9 trillion in bad assets (at last month’s end) to ¥ 80 billion. About 98 percent was resolved. Plus, we have ¥150 billion in reserves, which is double the amount of bad loans.

We used to have 85 percent of revenue coming from interest rate spreads. Only 15 percent came through fees in the first year. In the last fiscal year, 54 percent came from commission fees, more so than from institutional banking, of course. Retail banking was not making money. The retail bank turnaround is very impressive. In 2002, we lost ¥5 billion. In 2003, we lost ¥0.9 billion. This year, we made double the annual budget target in four months. For retail banking, growth in assets under management is 2.5 trillion. That includes debentures.

PowerSmart housing loans are now growing at a monthly rate of about ¥20 billion. We started in earnest only a year ago, but we now have ¥140 billion in housing loans, and, I think, by the end of next March’s fiscal year, we will probably reach ¥230 to ¥240 billion.

Total revenue in 2003 was ¥124 billion, net income 66 billion. In 2002, we decided to invest excess cash in U.S. corporate bonds, which included Enron and a couple of other bad names. So we lost, but we have reduced U.S. corporate bond exposure from ¥450 billion to ¥50 billion or so.

ROA is okay at about 1.0 percent, but our target should be something like 1.5 percent in the next couple of years. ROE is 9.4 percent, but we have excessive cash and capital. When I went around for an IPO this past winter, I was criticized by a Japanese equity analyst that our revenue, particularly our interest





Hugh Patrick

income, was declining. That's the criticism. I get a completely different criticism from non-Japanese equity analysts and fund managers. They say, "You're not making use of your capital efficiently." I told the foreign analysts that we are looking for opportunities to buy assets, to buy companies. We did buy two in the last month: one is a large nonbank finance company, APLUS. The other is Showa Leasing, for which we are involved in exclusive negotiation.

The total Tier One capital ratio is 15 percent and Tier two is 21 percent, which will come down to 15 percent within the next couple of month, and that is reasonable. Some people ask, "What is your target?" We don't have any particular target, but I think that Tier One could be as low as 9 percent and Tier Two maybe 14 percent.

Our goal is to be the bank of choice for institutional/retail customers. Sustaining long-term growth in prof-

its is very important. I do not like to make money today and lose it next year; that's not the business we are in. We are in business for long-term, sustainable growth in profit. That's how I was taught in Exxon. I was not brought up in the banking industry. I never liked the ups and downs; I like stable, sustainable, long-term profit growth. We should have an insatiable appetite for profit growth. That is going to contribute to shareholder value, to society. We have to concentrate on profitability in order to do everything else we want to.

### Discussion

#### **HUGH PATRICK** Director, Center on Japanese Economy and Business

In the early years, you and Shinsei Bank were severely criticized and very unpopular with Japanese bankers and many regulators and the media. Why do you think that was the case, and how did you respond?

**Yashiro:** The problem in Japan is the relationship between particular corporate customers and banks. They have three different types of relationship, one of which is the lender-borrower relationships. The other is that most Japanese banks try to own 4.9 percent of many of their customers' shares. Third, because of that relationship, they tend to send key peo-

ple to run the company—not only the CFO but also sometimes the CEO. These three relationships conflict with one another. If you're a creditor, your interest is not identical to that of a shareholder. You want to charge as much as possible. You want to collect, while the customer wants not to repay.

Also, the CEO and the CFO from the bank generally tend to be senior people sent from the bank. Middle management people are trying to rectify problems or restructure customers when they go and talk to the CFO. Maybe they won't be able to have an effective conversation. These three different types of relationship continue. In fact, we had more than \$1 billion in loans to one of the retailers, most in short-term loans. We started a conversation, but they did not respond to our satisfaction. They kept talking about one restructuring plan after another, and a restructuring plan was not satisfactory from our point of view. Nor did we have the time or ability to get deeply involved with their restructuring plan. We said we'd like to have the short-term loan repaid on schedule, and they refused. I asked, "Can I talk to the president of the main bank?" Two days later the word came back: "Yes, you can talk."

I went to see four presidents of four banks. This is illustrative of the bank

relationship. The CEO of one large bank said, “Yashiro-san, they are doing their best. We should be supportive.” I told him that the bank owned that company, in fact, because there’s no value on its balance sheet. The net worth is zero or negative. Therefore, the bank owned the company, and we should really force it to do an accelerated restructuring, even replacing management and having a debt equity swap. The bank should take over. They said, “That’s too harsh. We cannot do that.”

The second person seemed to understand better what I was trying to say. He said, “If I were you, I would do it, but we are different.” Enough was said, so I went to the third bank. The third bank said, “Yashiro-san, you go ahead, we’ll follow you later.” The fourth person didn’t have any comment. That’s how Japanese banks handle things. It hasn’t changed. The customer is king. But they interpret customer and king incorrectly. If the customer’s management failed in running the company properly, in making a profit, in returning the loan, paying interest, and so on and so forth, why should you bail him out?

The government interferes, of course, by saying, “We cannot let 100,000 employees go out on the street.” Ten years ago, most

Japanese companies never thought they could let people go, particularly very senior Japanese. There is a very interesting example of how the mentality hasn’t changed much.

*I think we were criticized because we started behaving differently from what most Japanese expected from another Japanese. Government, on the other hand, never expected us to exercise our options.*

—Masamoto Yashiro

There are 700 or so subsidiaries of a very large electric machinery company—about four years ago, I was asked if I knew how many of them were making money. I said maybe 60 percent or so. I was told, “No, only one third.” Two-thirds have been losing money for years and years. I asked, “Why didn’t you get rid of them?” He said, “They are our

children. We cannot afford to get rid of the children.” There are safety nets of this kind, one after another.

I think we were criticized because we started behaving differently from what most Japanese expected from another Japanese. Government, on the other hand, never expected us to exercise our options. People say we are making money by exercising our cancellation right. If the quality of an asset deteriorated past a certain threshold, we can give the asset back to the government with the reserve received from government. We make no money, in fact, but we do have the losing venture removed from our balance sheet by giving the asset back to the government. I was called to the Diet four times, and I tried to explain. I did succeed, because I welcomed those questions not based on fact, but on what was said in the weekly magazines. It was a great opportunity for me to explain the facts in a rational manner.

At first, other banks did not like what we did, but now they’re doing exactly what we did three years ago, or going beyond us. We’ve been very careful, because we were given a business improvement order by FSA in September 2001, because we collected too harshly. If you talk to the customers once and try to collect, they are mad at you. If you go

there three times, four times, in the end they say, “Okay, since you come so many times asking us to do this, we’ll do it.” Finesse is very important. I think, being Japanese, I understand how the Japanese mind operates. We have changed our approach and we’ve been very successful since then. If you’re not criticized, you’re liked, but we are not interested in running in a popularity contest and losing money. That’s not our business.

**Q:** What do you think is the difference between successful restructuring and a failed restructuring? Is it lack of leadership, or lack of disclosure?

**Yashiro:** I think there are a couple of reasons Japanese restructuring has not succeeded as well as it should. Part of the reason is that most Japanese management probably hasn’t had the experience needed to restructure. As you know, the Japanese economy kept growing for many, many years until the bubble burst, so most people who are today in a management position are in their late 50s and early 60s. They started their career at age 23 or 24 in one company, and of their 35 years in business, probably 80 or 90 percent was spent at a time when the economy was growing very fast. You did not have to worry about profitability. Returns could stay low. They never

had to learn how to restructure. I went through many years with Exxon in which we had many ups and downs. We lost oil fields; in 1973, we lost upstream revenue completely

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—Masamoto Yashiro

from Venezuela and the Middle East. We had to restructure our business. Exxon is among the top performers despite these ups and downs, because it is very careful with what it does with its money.

Restructuring is not unique to the United States. You have to have thoroughly thought-out plans to deal

with your problems. It seems to me that the Japanese have one bad habit. If the leader in an industry starts doing something, everybody copies it. Because of our great success in the '60s, '70s, and '80s, we stopped thinking through the issues and have become intellectually lazy. People started to move before thinking things through. You cannot afford to do this now. If you come up with a well-thought-out plan, implementation is simple. If you start running with the pack thoughtlessly, the cost is heavy.

I’m going to retire soon, and at the IPO many people asked exactly when that would be. I said that one year after IPO is the generally accepted amount of time CEOs should stay. I started thinking about what I should be doing for the bank. In January, I began talking about this. We need to have a strategy, a plan, and a budget all in one package, by business. Corporate planning staff can serve as a sort of secretariat, but strategies, plans, and budgets have to be developed for each business. We started working on that. I think I have never taken so much time to get something done. We only finished this past week. It took almost eight months.

Most people in Japan, particularly chief executives, start by saying, “We

will be doubling our income over the next five years,” or “By the third year, we’ll make so much money,” and I think how to get there is not an important part of their thinking. To my mind, the financial result is an outcome, a lagging indicator. We don’t have to worry about the financial result, if strategies are properly executed.

It is important to develop a specific action plan and then a monitoring system, where we measure the key performance indicators, which include not only quantitative performance indicators but also qualitative performance indicators. We check that every quarter by business, by customer group, by product. I feel very good about it, because there are no surprises. We monitor and then make the necessary adjustments as we go. This is the discipline we need, and I am very, very pleased that this is done.

**Q:** Can you describe how your relations with the regulatory authorities evolved as you set out to run a bank in a different way from what had been done in Japan before?

**Yashiro:** *The Wall Street Journal* recorded my conversation with the top regulator, based on information I am afraid was leaked by our staff to the *Journal*. Because of this leak, that regulator became very difficult to

talk to, but then he was gone. The new management became much more willing to work with us. In fact, I have a policy: even if regulators do not like us, we’ll keep them informed.

The head of the supervisory bureau and the bank head generally don’t meet unless there are reasons to do so. I am doing my best to keep regulators very well informed of what we’re doing. If they have views, we will listen, but if we don’t agree and if we feel that it is important for us to stick to our own position, so long as it’s not against the regulations or law, we will not capitulate to pressure. We speak our mind, we state our position. We substantiate what we say with facts, and so on.

In the last two and a half to three years, our relationship with the regulators has been very, very good. We don’t try to build an intimate relationship. I’ve never had meals with any regulator.

**Q:** I have an impression that Shinsei Bank is very much focused on domestic banking. Can you give us a comparison of domestic with global in terms of profit and revenue?

**Yashiro:** Our non-Japanese revenue is not very large. We have a presence in Taiwan, in Korea, in Ger-



(left to right) David Weinstein, Masamoto Yashiro, Hugh Patrick, Mark Mason

many, and in the UK. In all those places we don’t have branches, but we have a representative office. We also have a representative office in New York.

With regard to revenue, our target is no more than 10 percent of revenue from non-Japan sources. I don’t think we have achieved that yet, but it will probably grow. In Taiwan and Korea, we bought distressed assets, two large ones in Taiwan and two medium-sized ones in Korea. We continue to look for opportunities to buy assets in those countries. In Germany, we’re trying to buy assets from German banks. In the UK, we bought Japan-based reinsurance companies. We can’t be global. When a domestic opportunity arises, we grab it. In asset acquisition activities, we are in competition with Goldman Sachs, Merrill Lynch, and Morgan Stanley, not with Japanese companies.

*We can't be global. When a domestic opportunity arises, we grab it.*

—Masamoto Yashiro

**Q:** According to your profile, you studied law and international relations; you didn't study business. Why did you succeed as a business person even so?

**Yashiro:** I went to an excellent business school—Exxon. Many people have asked me to compare Exxon and Citicorp. At Exxon, everything is so disciplined. Back in 1962, I became head of the planning department of Esso in Japan. I was doing mostly return on capital employed (today's MIS does that). For refinery projects, I would figure out our cash flow return, etc. Later on, I did value-added analysis.

In the early '70s, I was number two in Standard Oil's (New Jersey) corporate planning department. The head of corporate planning complained to me. He said Japan operations just keep investing in facilities, equipment, and refineries and are not returning any cash to the parents. I thought, "That's strange—why does

he complain when the companies are making money?" He was thinking that, on a cash flow basis, money is not coming back to shareholders, because the nonconsolidated joint venture refining company is paying, say, a 25 percent dividend, but it was 25 percent on the stock par value of ¥50, or ¥12.5. With a share market price of ¥1,000, that was only a 1.25 percent return. That's not good enough. Even in the early 1970s, we always talked about how to improve profitability, cash flow, and avoiding bank borrowing. All these things were done almost 40 years ago. Exxon was a very good school.

**Q:** What is your feeling about the closing of Citibank's private banking unit in Japan?

**Yashiro:** I would refrain from making any comments because I spent seven years with Citicorp. During my time the same problem happened. I took disciplinary action. I informed regulators the next day after I discov-

ered the problem, and I thought the problem was over. I will make one general comment: You have to be completely compliant with the laws and regulations. You do not second guess how their regulators would interpret them. You take a very strict line of interpretation. If you think you may be treading in dangerous waters, you give up your profit opportunities.

That I learned in Exxon. Ken Jensen was the chairman of Exxon in 1973, after the energy crisis. I was his executive assistant. He sent a letter to every employee around the world, 150,000 of them, saying that if making a profit in a particular way is going to violate laws and regulations, including conflict of interest or anti-monopoly laws, give up that opportunity. If anybody is trying to bypass laws and regulations, report them. If your boss doesn't listen, come to management. I think that's the way to run a business.

**Q:** How do you see, in five years' time, the Japanese bank industry? How do you see the position of Shinsei? What are the strongest and weakest points of Shinsei?

**Yashiro:** We have already reached the point where we now have a completely clean balance sheet. We should take on more risk in the coming months, but not stupidly. Return expectations should be relative to the risk we take.

It's very strange to me that even bankers don't understand that the interest you must charge to the customer is composed of three elements: funding cost, risk premium, and cost of capital. It's simple. Everybody knows that, but they don't charge accordingly. There are loan bank finance companies charging up to 29 percent. It's a no-man's-land from 5 to 15 percent. I don't understand that. If the banks start charging a profitable interest rate, the bank can make money, but lending money should not be the sole source of income, accounting for 80 percent of revenue, because the bank will lose its competitive power to capture the market. Corporate customers whose quality is better than the banks can raise funds more cheaply from the market.

Banks have to change this model. Shinsei Bank will continue to offer

solutions to customers. If the customer has certain needs, you satisfy those needs and do not charge where you can save expense, such as ATM charges. Since we have developed a low-cost interest structure, we don't have to charge for this. It costs us money, but we still don't charge. If you go to the bank and use the ATM, because the bank is closed, it still charges you for drawing your money over a weekend or at night. If you leave ¥100 million in a savings account in Japan, how much interest does the bank pay on that savings account? That's ¥1,000, with a government charge of ¥200, plus a tax of ¥300. If you get in a taxi, the price for the shortest distance is ¥660. Basically, you can't get back home with the interest you receive from your ¥100 million deposit!

**Patrick:** You retired from Exxon. You were very comfortable, and then you went to Citibank and had fun. You retired again, and my impression was you retired even more comfortably. As I understand it, your salary now is about the same as Japanese presidents of Japanese banks. Why did you accept this onerous, challenging, exciting position?

**Yashiro:** Maybe it was stupid. I never really decide myself what I do. I never chose occupations or profession myself. I thought I would try to

*It's very strange to me that even bankers don't understand that the interest you must charge to the customer is composed of three elements: funding cost, risk premium, and cost of capital.*

—Masamoto Yashiro

be a teacher, after Tokyo University Graduate School. In the second year I was trying to get a Ph.D., I was asked by today's Exxon to come to work. I thought I wanted to be a teacher, so I said, "No, I don't think so." Then, my wife said, "The gentleman who contacted you is still waiting. He keeps calling you. You should go back and talk."

When I retired from Exxon, during the '80s, Cliff Garvin was the chairman, and he said, "You'll be invited by many Japanese companies to join their board." I said, "No." He asked why. I said, "I am a threat to them

because I think differently. I don't like the way the companies are run, so nobody would invite me." That was true. Nobody invited me, but Harvard Business School and Citibank did. Again, I said, "What do I do?" My wife asked, "Are you going to teach at Harvard in Boston?" I said, "Yes, and I don't like to go back to the States after seven years in Houston. That's enough." She asked, "Where do you work, if you work for Citibank?" In Tokyo. She said, "That's it. That's what you should do." So, I did.

For this challenge, the ¥44 million is the annual salary compensation—

*I think you were a patriot, because as a Japanese, you saw how badly things were going in Japan and you felt that you could contribute by doing something.*

—Hugh Patrick

that's the total. Why did I take it? The money was not the object. I did not know the arrangement. When I went to work for Citibank, I was asked if I wanted to have a management contract. I said, "I don't care. If I like the work, I will work. If I don't, I'll quit." They asked about the compensation I was getting from Exxon, so I gave the details. Citibank gave me the same arrangement.

**Patrick:** I think you wanted to be a teacher.

**Yashiro:** Yes.

**Patrick:** And you wanted to teach the Japanese how a bank should be run. I think you were a patriot, because as a Japanese, you saw how badly things were going in Japan and you felt that you could contribute by doing something. I've always appreciated and respected that aspect of you. You probably would never admit it, which is why I have to say it, but I think that's important.

Thank you very much for taking the time to be with us today.



## 新生銀行:新しいビジネス・モデルで勝つ方法

新生銀行代表執行役会長兼社長

八城 政基氏

2004年9月22日、日本経済経営研究所はコロンビア・ビジネス・スクールの日本ビジネス協会との共催で、新生銀行代表執行役会長兼社長の八城政基氏を招いて、「新生銀行:新しいビジネス・モデルで勝つ方法」と題する講演会を開催しました。以下は八城氏の講演の抄訳です。

新生銀行の前身である日本長期信用銀行(旧長銀)は、1998年10月に国有化された。2000年3月、米国のプライベート・エクイティ・ファンドであるリップルウッド・ホールディングス率いる外国人投資家グループが、旧長銀を買収。旧長銀は「新生銀行」と改名し、民間の商業銀行としての新しい一歩を踏み出した。2004年2月には、東京証券取引所市場第一部に上場。

八城氏は講演冒頭において、新生銀行誕生の詳細と、従来の銀行貸出し業務からリテール・バンキングや(ビジネス・ソリューション提案を重視した)投資銀行業務等、新しい顧客中心の業務への転換について述べた。新生銀行は、テクノロジー、社員意識、そして最重要課題である収益性の各面において大きな変化を遂げた。円建てのみならず外貨建ても含めた様々な消費者向け商品が拡充され、投資信託や生命保険といった投資商品も増やされた。消費者の取り込みのために、ATM網も刷新、拡大が図られ、コール・センターも設置された。新生銀行の情報システムも抜本的なアップグレードがなされたが、それも従来型の最新の汎用大型コンピューターを購入するという手段ではなく、マイクロソフト・ウィンドウズのワークステーション導入により達成された。社内外両面におけるコミュニケーション・システムも同様に刷新され、大幅な経費削減効果を生み出した。

人事も同様に大きな変革を遂げた。新しい専門的能力を持つ経験者の雇用により、社員数は全体的には増加。新しい銀行が目指すところへの適応が困難だった社員は解雇、または自ら退職していった。コーポレートガバナンスも、従来の日本的慣習からの大きな飛躍が遂げられた分野である。新生銀行では委員会方式を採用しているが、取締役の圧倒的多数が社外取締役である。そして、社外取締役が取締役会の議題のみならず、業績に関しても常に掌握してられるよう、銀行側も配慮に努めている。商品および顧客グループ毎の業績モニタリング、および直接・間接経費のモニタリングに細心の注意が払われており、モニタリングにより得られた情報は、社員の業績良化への取り組み意欲を促すため、各支店に至る銀行全体に伝達、共有される。

新生銀行のモットーは収益性であり、自己満足のための規模の追求ではない。新生銀行は業績良化に注力したことにより、見事な再生を果たした。八城氏は、こうしたリストラクチャリングの才も、収益性を重視するエクソン社での長年の勤務経験があったからこそ、と言う。

新生銀行と政府関係当局との関係は必ずしも良好なだけではなかった。新生銀行は収益性重視のもと、旧長銀の遺産である、企業顧客との閉鎖的、過保護的関係を排除した。しかし、当局への情報開示を進めるという方針は、今では新生銀行に追随する日本の他銀行のモデルとなっている。

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