

Anne Usher

## Sorting the Japanese Banks



DAVID C. HULME

James Fiorillo, known to know which bank to bank on.

In a town crowded with western financial analysts plugging their views, few voices rise above the din like James Fiorillo's. Nursing a broken hand from a recent out-of-bounds snowboarding trip to Whistler, Canada, the 38-year-old bachelor, a native of New York, reflects on how he differs from his peers. He decided, he says, upon joining Baring Securities Co. (now ING Baring Securities Co.) seven years ago, to take a macro view of the banking sector, instead of getting bogged down with individual reports. Merely struggling to explain to "nervous investors" the differences between one Japanese bank and another held little appeal.

"All these banks looked very much alike, and even when they made strategic thrusts, it was in lockstep—collusive behavior," says Fiorillo. "I thought that if I tried to predict where the fundamental health of the sector was going and what investor portfolio weighting should be, then I might add more value."

At the time, he was fresh off four years heading the Bank of New York's credit group in Tokyo. He held an MBA from a two-year Dartmouth program in Niigata prefecture. The Niigata experience, he says, left him semi-conversational in Japanese: able to get his point across if occasionally unable to maintain his usual animation and booming, rapid delivery. He believed that the catastrophic asset-quality problems of Japanese banks would have to be resolved according to patterns that were already familiar.

His thesis: In countries with banking problems as serious as Japan's, it is necessary for politicians to override the financial authorities because only politicians can ask the public to use funds to bail out the banking system. That happened in early 1998, when the government set up the Financial Supervisory Agency (FSA) and began cob-

bling together a plan to inject capital into the banks.

Analyst Fiorillo gained credibility at the time by quickly establishing a network among key politicians of the ruling Liberal Democratic Party (LDP), in order to gauge how serious they were about reform. His method? Cold calls.

"I'm real excited about what I do, and when I meet these guys I behave this way. They like it. And I basically was supportive of the politicians because I thought that Japan needed that shift of power," Fiorillo says. He visited the FSA and Financial Reconstruction Commission very early—much earlier, he claims, than any other banking analyst.

"Like everyone else, I was skeptical at first. A lot of these guys were from the Ministry of Finance. But as soon as they started showing they were credible, I started writing reports about it," he says.

His reports found their way into the *Financial Times* and the *Economist*, which improved his access to the two new government agencies. He now believes these same politicians have become "de-motivated" by barriers within the LDP.

"Politics is actually working against reform right now," Fiorillo says. "When you're not on their side, they'll be less honest with you."

His outlook changed when he learned through inside channels about the government's decision to delay deposit-insurance reform—a week before it was to be announced. An additional negative was the LDP's decision to ease the 8% capital-to-assets target for regional banks.

"Because their reform is slowing down, they may not build the competitive capability (and) fashion a sensible business plan in time to compete with foreigners and non-banks," he says. "Without pressure, the 65-year-old presidents are simply not the managers to lead these banks in the sort of dynamic, evolutionary period in banking that we're going through right now."

Fiorillo's manner is overwhelmingly energetic, a fact that may reflect his lifestyle. He's abed by 9:30 and rises at 4:30 to sneak in a daily workout. He doesn't like to drink, opting instead to hit the hills of Gunma prefecture on the winter weekends to search for deep powder in the back bowls of Tenjindaida. He won't repeat a heliboarding excursion to the Himalayas in India, however, because avalanche risk made it "way too dangerous." He is also the only foreigner on his local ice hockey team, a second sport he's abandoned for the summer in favor of motocross racing.

The Dusit Thien Dong Vietnamese restaurant near Ochanomizu is where one might track down Fiorillo after work.

"Atmosphere's tremendous, food's outrageous. And there's another great thing about it," he says. "No finance people in there." ■

Anne Usher is a Tokyo-based wire-service journalist and freelance writer.