

The Origin of Prudential Supervision in Japanese Banking, 1857-1936

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As is well known, pre-war Japan had undergone rapid economic development. For creating modernization funds, the banking system was introduced from abroad with special reference to Euro-American system. Eventually, the Japanese banking came to be characterized as interlocking directorate system. In these circumstances, how the Japanese prudential supervision system had been formed? By tracing the birth process of prudential supervision in prewar Japan, we will contribute to clarify the characteristics of bank supervision in mid-developed countries. Specifically, the agenda is the following three points.

First, the institutional origins of Japanese prudential supervision. As the institutional model of Japanese modern banking was the U.S. National Banking system, the institutional model of Japanese bank examination system was the bank examination system by the U.S. Office of the Comptroller of the Currency (OCC). However, previous studies were hard to paint a precise picture of the bank examination by the OCC in the mid-19th century. We clarify this point by analyzing the historical materials of the bank examination in 1868 for the eighth national bank of New York.

Second, we focus on Alexander A. Shand — the Scottish coach for modernization of Japanese banking hired by Meiji government. Britain was famous as the principle of the commercial banking, but nonetheless, the contents of his teaching were quite different from the principle. Searching for the model of Shand's banking principle, we analyze the archival document of 1859 owned by University of Glasgow's Special Collections Department.

Third, the shaping process of prudential supervision in prewar Japan. Reflecting the immaturity of the bank management, the main role of the bank examination by the Ministry of Finance in the 1870s was guidance and coaching: distinction between deposit and capital, enhancement of corporate governance, compliance of rules, etc. The banking supervision at that time was still staying in the primitive stage. We trace the evolving process from the banking supervision into the prudential supervision, by especially focusing on the epoch-making reforms in 1915, 1927 and 1935.