
Trends in Individual Savings in the Age of the Big Bang

Hiromi Hayashi

Three months have passed since the enforcement of the revised Foreign Exchange Law, a front runner to Japan's Big Bang. On this occasion, attention is focused on the movement of individual financial assets of about 1,200 trillion yen. Based on currently available data, in this report we will look at recent trends in individual savings.

1. Trends in Individual Savings in the Period from January to May 1998

1) Outline

The Japan's Big Bang has gotten underway followed by the introduction of the revised Foreign Exchange Law in April 1998, and the promulgation of the "Financial System Reform Act" in June. This Act determines the flow of the overall financial system. Thus, the Japan's Big Bang has started to come into full effect. Here we will consider what trends are in the process of emerging in individual financial assets in this environment.

Looking at trends in individual savings in the period from January to May 1998, we can see the following features.

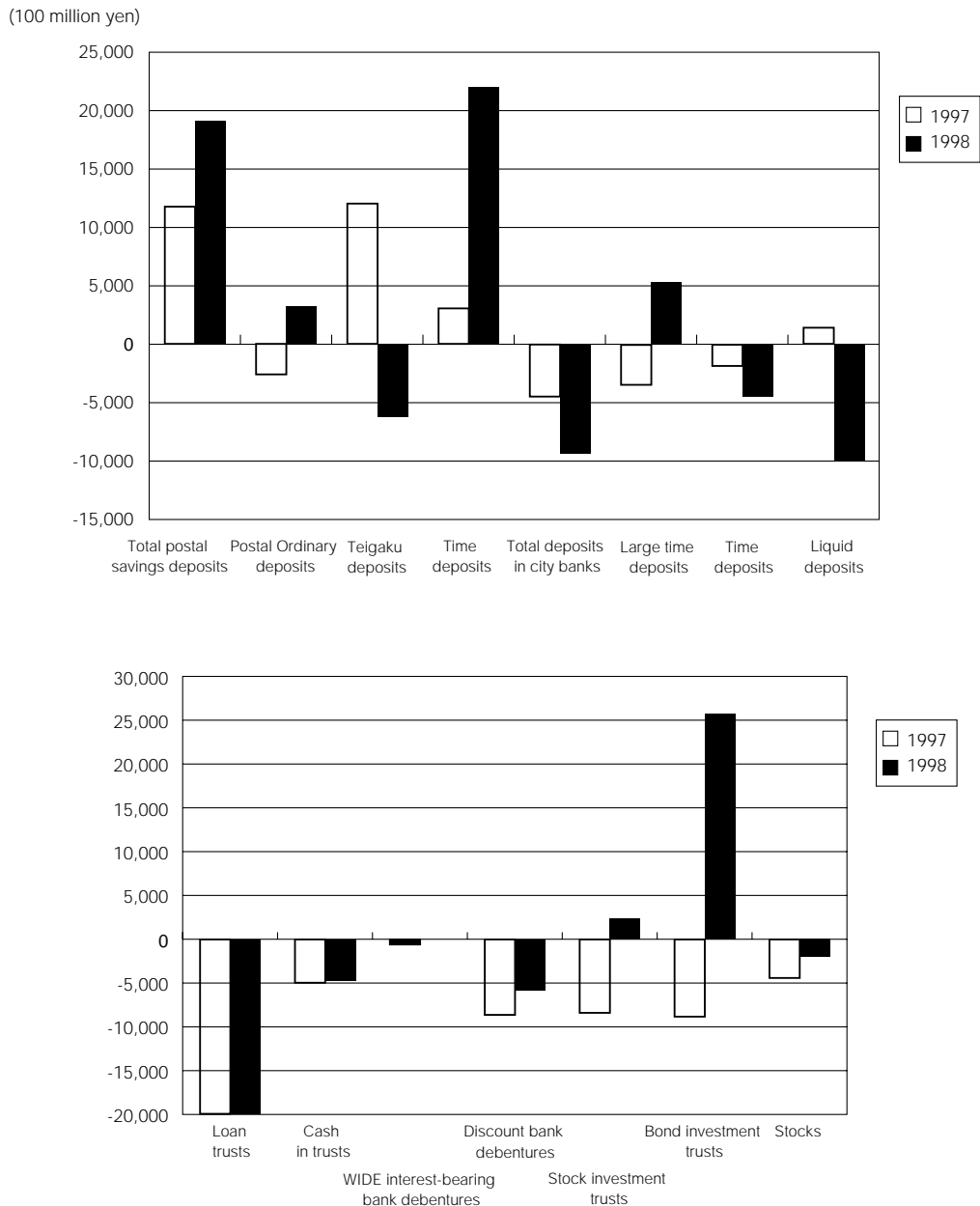
Firstly, in this period a massive amount of funds were absorbed by the postal savings and bond investment trusts. In the period from January to May, there were net increases in both postal savings (1,934.4 billion yen) and bond investment trusts (2,566.6 billion yen). The growth in the outstanding balances of both are way above those of others. Among these, the growth of postal time savings in 1998 is very marked, and funds to the amount of 2,232.9 billion yen flowed in the period from January to May.

Secondly, the traditional products of trust banks such as loan trusts and money in trusts have continued to show a massive net decrease trend in 1997 and 1998.

This means, in 1997 and 1998 funds flowed out from loan trusts (about 2 trillion yen) and money in trusts (about 500 billion yen). Looking at the outflow and inflow of funds on a quarterly basis, loan trusts started to show a net decrease trend from the fourth quarter of 1993, and in particular from the second quarter of 1997, every quarter over 1 trillion yen in funds has flowed out. Thus, this trend is accelerating.

Thirdly, the outflow of funds from traditional products handled by long-term credit banks such as WIDE interest-bearing bank debentures and discount bank debentures has continued in 1998.

Figure 1. Net Increase in Value of Financial Products Held by Individuals



Note: Net increase in the January to May period of 1997 and 1998
 Source: Nomura Research Institute

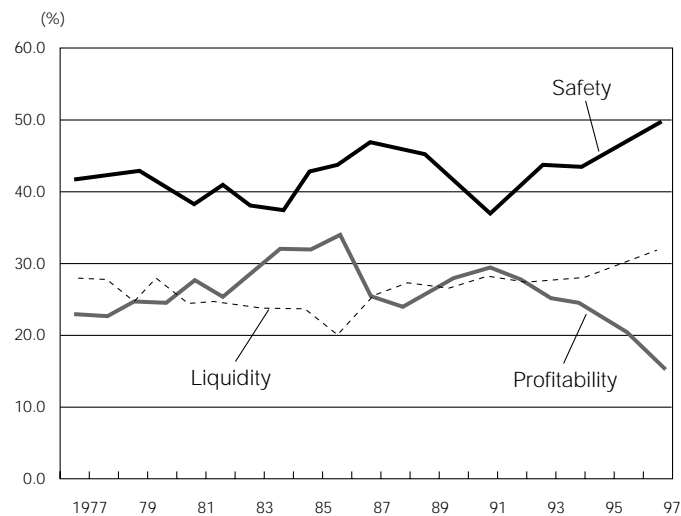
2) The Trend to Seek Safety Continues to Be Strong

In the background to the individual savings trend seen above, we can see the behavior pattern of Japanese when selecting asset holding methods and, as usual, the trend to select safety is strong. This is clearly seen in the fund flow structure in which postal savings are preferred to major city banks deposits, and bond investment trusts are preferred to stock investment trusts. In view of the fact that since last year there have been many failures of Japanese financial institutions and the climate surrounding Japan's financial situation continues to be unstable, the stance of placing emphasis on safety is easy to understand.

The degree of desire for safety can also be seen from "Opinion Survey on Financial Behavior"

(1997) which is carried out every year by the Central Council for Savings Information . According to this survey, the households using the “safety” standard amounted to 49.3% in 1997 which was the highest level ever reached for this index which has been compiled continuously since 1977. However, the number of households which select “profitability” only reached 15.3%, the lowest level since 1977. Due to the advances made in Big Bang, one would have expected the interest in profitability of individuals to increased. However, at the moment, there are no signs of this. In particular, the percentage of households which invest their savings with the aim of achieving capital gain is only 1.7% of the total. Almost all the households which set the standard of “profitability” adopt a savings behavior pattern based on income gain.

Figure 2. Standard for Selecting Type of Savings



Source: The Central Council for Savings Information (1997)

In addition, looking at the financial institutions with which people want to increase the weight of the savings transactions, the Post Office accounted for the highest percentage of 62.4%, and this was much higher than the second position institutes, the banks (36.1%).

Looking at a breakdown of individual financial assets (1,238.5376 trillion yen) outstanding (advanced figure) as of the end of March 1998, the share of cash equivalent stood at 58.1%. However, the share of risk assets such as trust funds, investment trusts , and securities amounted to only 16.1%.

Table 1. Outstanding of Individual Financial Assets in Japan

(Unit: 100 million yen, %)

	1980		1990		1996		1997		End of March 1998	
		Share		Share		Share		Share		Share
Individual financial assets	3,278,405	100	9,246,119	100	12,091,513	100	12,301,907	100	12,385,376	100
Cash equivalent	2,213,775	67.5	4,984,027	53.9	6,877,462	56.9	7,236,070	58.8	7,189,919	58.1
Trusts	206,695	6.3	645,488	7.0	768,702	6.4	729,754	5.9	723,972	5.8
Insurance	452,561	13.8	1,941,001	21.0	3,034,522	25.1	3,145,403	25.6	3,199,949	25.8
Securities	377,169	11.5	1,675,456	18.1	1,410,248	11.7	1,189,649	9.7	1,270,306	10.3
Government bonds	87,201	2.7	126,420	1.4	38,578	0.3	50,213	0.4	50,917	0.4
Public corporation bonds	28,032	0.9	30,487	0.3	26,193	0.2	27,946	0.2	28,380	0.2
Local government bonds	4,045	0.1	11,287	0.1	14,272	0.1	14,994	0.1	15,121	0.1
Bank debentures	123,290	3.8	234,865	2.5	206,465	1.7	169,307	1.4	165,669	1.3
Industrial bonds	17,577	0.5	53,846	0.6	68,113	0.6	51,127	0.4	44,970	0.4
Stocks	64,433	2.0	828,757	9.0	739,360	6.1	587,585	4.8	689,428	5.6
Securities investment trusts	51,961	1.6	389,794	4.2	317,267	2.6	288,477	2.3	275,821	2.2

Note: Data is of the end of December (Excluding 1998)

Source: Compiled from Bank of Japan data.

3) Increasing Interest in Profitable Fund Management

[As previously mentioned], in the area of postal savings, recently there is increasing interest in postal time savings (what is called New Teiki)

In the period from January to May 1998, the net increase amount rose by 7 times over the same period in the previous year. This product is similar to the Time Deposit (what is called “super Teiki”, deregulated interest rate time deposit) of private sector financial institutions such as city banks. However the amount outstanding of Super Teiki showed a net drop of 440.3 billion yen in the same period and is sluggish. Thus, there is a marked difference between this and that of the post office savings.

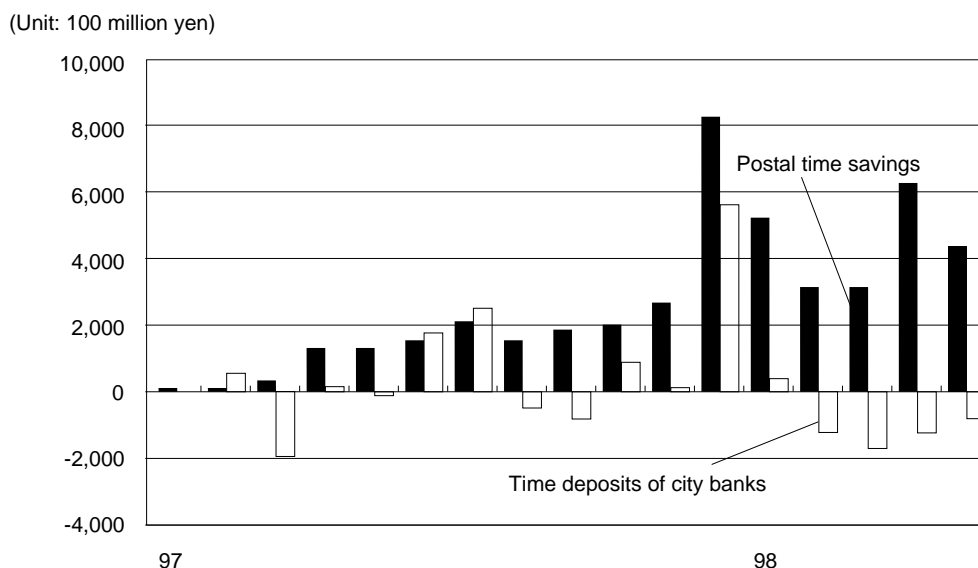
The background to this includes the fact that individuals are seeking safety in the selection of assets. In addition, the method of calculating interest on time savings adopts a system which is more favorable than that used by private sector financial institutions. That is to say, up to now, the amount of interest paid when closing an account was rounded up to one yen for one 100th of a yen (sen). Thus, time savings can be separated into small lots of 1,000, the minimum deposit, and if people repeatedly closed accounts, they were able to obtain a high interest rate. Currently, an interest rate on time savings (one month) of 0.3%¹ has been applied. Thus, from the day deposited, if the account is closed four days later, an interest rate of 1 sen is accumulated. Thus, one yen interest is paid to the customer.

The Ministry of Posts and Telecommunications considers this to be a problem area, and from May 6th, some of the regulations regarding postal savings have been revised to a calculation system where for an amount of 10 sen or over, they paid one yen interest. As a result, it has become impossible to gain large interest rates by repeatedly opening and closing accounts. However, if a person deposits 1,000 yen in a one-month time savings account (interest 0.3%), on maturity it accumulates 25 sen, and so one yen interest is added. Calculated over a year, it amounts to an interest rate of 1.2%. In addition, the taxation rate of 20% on interest is not applied because they discount amounts under one yen. In this current age of extremely low interest rates in Japan, postal time savings continue to be an attractive product to individual investors.

However, attention should be focused on the fact that is not a recent thing that the interest calculation method of the postal time savings accounts has been advantageous. In 1997, in particu-

lar in December, the bonus season, funds in excess of 800 billion yen flowed in one month. It is thought that a background factor to this is magazine articles in various finance magazines pointing out the advantageous interest rates on postal savings. In this prolonged period of ultra low interest rates, this is a fact proving that individuals have developed increased interest in advantageous methods of fund management (investment).

Figure 3. A Net Increase Continues to Prevail in Postal Time Savings - A Comparison with the Time Deposits [of City Banks]



Source: Nomura Research Institute

•Revision of the Method of Handling the Calculation of Interest During the Period Held on Time Savings at the Time of Closing an Account.

From May 6, 1998

Before revision : When there is a fractional figure of less than one sen, the fractional amount is discarded.

After revision : When there is a fractional figure of less than ten sen, the fractional amount is discarded.

2. Introduction of New Products Aimed at Individual Investors

As we have seen here, Japanese individual investors have adopted the stance of placing maximum priority on safety, and at the same time their interest in advantageous management of funds is increasing. Thus, there are changes emerging in savings trends. Reflecting this awareness of individual investors in their savings, the financial institutions, the supply side, are actively engaged in devising new products. From here on, this report will look at several new financial products which have emerged.

1 The interest rate is decided by the Ministry of Posts and Telecommunications based on market interest trends and the average interest rate of private sector financial institutions.

1) Products with Dividends Based on Performance

In view of the outflow of funds from traditional main products of trust banks such as “Big” and “Hit”, trust banks are rapidly introducing new products with dividends based on performance. These products with dividends based on performance have two aspects. One is that they guarantee the principal capital at maturity with the exception of “SHINRAI”, a product of Mitsubishi Trust and Banking. The other is that these products are also subject to the active management of the investors’ funds by the foreign financial institutions with which the Japanese trust banks have tie-ups. Thus, these are very attractive products for Japanese individual investors who place the utmost emphasis on the fact that the principal is backed by the banks. In reality, “FINE PLAY”, a product introduced by Sumitomo Trust and Banking was the first such money in trust sold which guarantees the principal capital. At the first offering, it attracted subscriptions of 19.2 billion yen and at the second offering, it attracted 14 billion yen. The percentage of new customers among these investors was close to 30%. These products have a life of from 5 to 7 years to maturity. One must exercise caution here as the principal is only guaranteed if held until maturity.

Table 2. The Introduction of Products with Dividends Based on Performance

	Product Name	Period Introduced	Tie-up Partner	Offering Unit - Minimum	Period	Reference
Sumitomo Trust & Banking	“FINE PLAY” (Yen denominated principal guaranteed)	December 1997	Citibank	From 500,000 yen/ 100,000 units	7 Years	About 50% of assets - actively invested About 50% of assets - in stable investments First offering(subscription) (Approx. 7,900 subscribers, 19.2 billion yen) Second offering(Approx. 5,900 subscribers, 14 billion yen)
Mitsui Trust & Banking	“PLASSA” (Yen denominated principal guaranteed)	April 1998	Societe Generale	From 500,000 yen/ 10,000 units	5 Years	About 20% of assets - actively invested About 80% of assets - in stable investments First offering (Over (Approx. 7,900 subscribers, 10,000 subscribers, approx. 16.7 billion yen)
Mitsubishi Trust & Banking	“SHINRAI”	June 1998	None	From 500,000 yen/ 10,000 units	5 Years	Middle Risk - Middle Return Three types of funds; 1) Stocks 20/Bonds 20, 2) Stocks 4, 3) US Stocks 20/US Bonds 20
Toyo Trust & Banking	“EDEL FUND” (US\$ denominated principal guaranteed)	July 1998	Deutsche Bank	From 1,000 US\$/ 1,000 units	6 Years	Investment management by Deutsche Bank
Daiwa Bank	“MY UNIT 80” (Yen denominated principal guaranteed)	Scheduled from first part of August 1998	Chase Manhattan Bank	From 1,000,000 yen/ 10,000 units	7 Years	
Yasuda Trust & Banking	“HIGH POWER 1” (US\$ denominated principal guaranteed)	Scheduled from October 1998	Goldman Sachs Asset Management	From US\$5,000	5 Years	80% will be in stable investment in Chase US\$ deposits. The remainder will be invested in stock worldwide. (Excluding Japanese stock)

Note: Chuo Trust & Banking is considering the introduction of a similar product.

Source : Nomura Research Institute

2) Foreign Currency Deposits

The Japanese banks are all seeking to expand their customer base by lowering the minimum foreign currency deposit level.

The outstanding amount of individual foreign currency deposits (including non-resident Yen deposits) at domestic banks at the end of March 1998 stood at 605.7 billion yen. This is a 30.8% increase over the same period in the previous year.

Table 3. The Outstanding Amount of Individual Foreign Currency Denominated Deposits

(Unit: 100 million yen, fold)

	95.3	96.3	97.3	98.3	(Compared to March 1995)
Less than 500,000 yen	165	159	163	194	1.2
Less than 1 million yen	181	151	158	189	1.0
Less than 3 million yen	464	513	563	700	1.5
Less than 5 million yen	299	326	376	470	1.6
Less than 10 million yen	356	413	508	705	2.0
Less than 30 million yen	500	616	802	1,146	2.3
Less than 50 million yen	199	209	254	349	1.8
Less than 100 million yen	264	289	346	463	1.8
Less than 300 million yen	257	354	483	692	2.7
300 million yen and over	705	811	978	1,149	1.6
Total	3,390	3,841	4,631	6,057	1.8

Note: Including Non-resident Yen deposits

Source: Compiled from data of the Bank of Japan.

However, attention should be focused on the fact that the increase rate varies depending on the amount invested. For example, as of March 1998, the outstanding balance of deposits in the 100 to 300 million yen range increased by 2.7 fold over the end of March 1995. However, the amount of deposits under 1 million yen was more or less at the same level as in March 1995.

3) Products Targeted at the Affluent

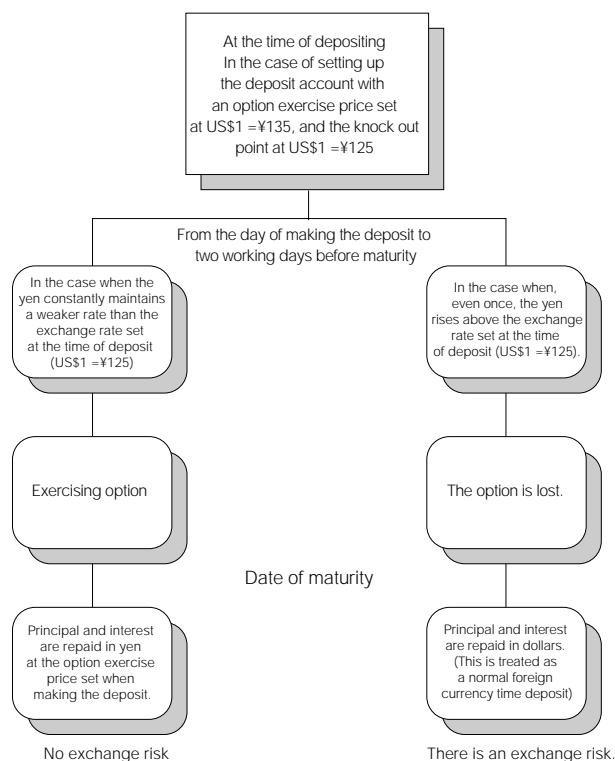
There is an active movement to introduce products targeted at individuals, particularly the affluent. Both domestic and foreign financial institutions are boosting their services aimed at the affluent². Here we will look at products which have attracted particular attention.

Foreign Currency Denominated Deposits with a Currency Option

Among the foreign currency denominated products aimed at the affluent, there is an active drive to provide foreign deposits with a currency option. In October 1997, Sakura Bank introduced "HYBRID", a foreign currency time deposit with a currency option ("Knock-out" option). Starting with this, Sumitomo Bank and Sanwa Bank also entered the arena. The main features of these foreign currency time deposits are as follows. First of all the "knock-out" point is set, and if a weak yen rate prevails all the time, the repayment of the principal and the interest is effected in yen, so this is what we call is a yen-based time deposit. However, if the yen appreciates even once to the knock-out point level, it has the same product features as an ordinary foreign currency denominated time deposit and it becomes subjected to exchange risks.

² For details, please refer to "Private Banking Focused in Japan" in the Summer 1998 number 2 of "Capital Research Journal"

Figure 4. Mechanism of Foreign Currency Denominated Time Deposits with Currency Options



Source: Nomura Research Institute

Foreign Investment Trusts with No Guarantee of Capital

From June, 15 securities firms such as Daiwa Securities started to sell “SUPER HEDGE FUND”, a US\$ denominated foreign investment trusts. This is managed as a hedge fund and aims for a high return. This is the first case of investing all funds in a hedge fund. The view that³ “there has been an increase in individual investors who can make decisions on their own responsibility” (According to Daiwa Securities) has emerged, and this had prepared the way for the sale of this kind of product. Products which invest in hedge funds have been limited to institutional investors and a few affluent investors. However, the key factor is to what extent the customer base can be increased through the introduction of this product.

3. The Foreign Financial Institutions Intensify Their Offensive

Conventionally in Japan, the foreign financial institutions specialized in wholesale operations. However, now they are actively pursuing retail operations. This can be seen as a movement in expectation of changes brought about in the individual financial assets of 1,200 trillion yen by Japan’s Big Bang.

From here on, we will look at the presence of the foreign financial institutions.

3 In the Asahi Newspaper of June 6, 1998.

Foreign Banks

The foreign financial institutions such as Citibank are increasing their offensive pressure in terms of aiming to capture Japanese individual customers. Looking at the amount of deposits (excluding the Non-resident yen deposits) in the branches of foreign banks in operation in Japan, in March 1998, this reached a high level of 8 trillion yen. This is an approximately two fold increase over the end of 1995.

Table 4. The Deposit Balance of Foreign Banks Operating in Japan

(Unit: 100 million yen)

	Deposits	Of which Non-resident yen deposits	Deposits excluding Non-resident deposits	Change
1987	19,173	3,086	16,087	
1988	25,579	3,842	21,737	5,650
1989	44,616	6,816	37,800	16,063
1990	52,668	10,292	42,376	4,576
1991	44,680	6,291	38,389	-3,987
1992	49,278	7,581	41,697	3,308
1993	44,307	5,312	38,995	-2,702
1994	42,284	6,846	35,438	-3,557
1995	52,982	12,806	40,176	4,738
1996	65,963	12,170	53,793	13,617
1997	89,885	16,402	73,483	19,690
1998 1	96,716	18,590	78,126	4,643
2	91,248	14,382	76,866	-1,260
3	94,008	12,443	81,565	4,699
4	84,425	11,405	73,020	-8,545

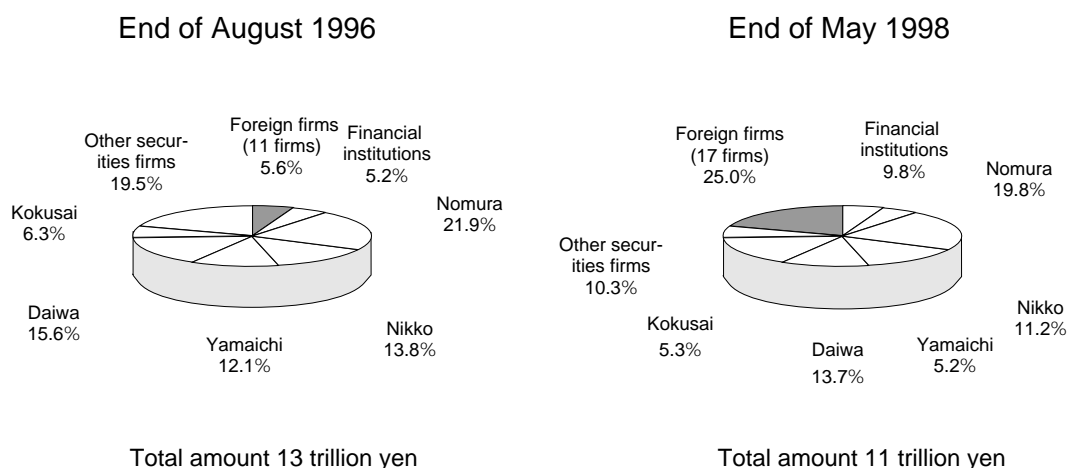
Source: Bank of Japan

Foreign Investment Trusts

Recently, there is a marked increase in the net assets of foreign management companies. However, the net assets of Japanese management companies are showing lackluster performance. This is particularly true of domestic management companies related to securities firms. Looking at the stock investment trust share on a net asset basis, this trend is definitely clear. At the end of August 1996, the overall share of foreign financial institutions stood at 5.5%. However by the end of May 1998, this had risen to 25.0%. Thus, the foreign financial institutions have intensified their offensive and reached the top position. Among these, the growth of Goldman Sachs Asset Management is particularly evident, growing from less than 380 billion yen in March 1998 to over 500 billion yen in May, just two months later. (Net asset basis)

In view of this offensive by the foreign financial institutions, Japan's securities firms, centering on the second tier firms, are showing an active move to improve their sales capabilities by boosting their handling of investment trusts of foreign asset management firms. For example, Yamatane Securities and Kankaku Securities have started to sell bond investment trusts with a monthly dividend managed by Putnam as a main product. In addition, from July, Yamatane Securities started to handle Putnam's stock investment trusts.

Figure 5. Stock Investment Trusts Share (Net Asset Basis)



Note 1 : NCG (joint venture of Nippon Credit Bank and Girtmore), and AMIC (The Mitsubishi Trust and Banking Group invested capital in Former AIG investment consultant) are treated as foreign financial institutions.
 Note 2 : As of March 1998, the Dai-ichi Kangyo Asahi Investment Trust has been treated as a financial institution.
 Source : Compiled by Nomura Research Institute from data of the Investment Trust Association

4. Future Outlook

In line with the full-scale implementation of Japan's Big Bang, the product line-up of the various financial institutions is in the process of being built up. In these circumstances, the financial asset selection behavior of individuals continues to show a strong bias towards safety. Nevertheless, we cannot overlook the aspect of an increasing degree of sensitivity in terms of interest and returns.

However, at the moment, the individual investors seek a good return only when the issue of safety, the supreme factor of concern, has been assured, and they have not reached the stage of high-risk, high-return investment based on the principle of taking responsibility for their own actions when seeking profitability.

Attention is focused on the future actions of Japan's individual investors in terms of whether they adopt a path of action of taking risk that are in accord with the returns or fail to move on from the asset selection action pattern of keeping risk at the minimum level.