
The Japanese Securities Companies Engage in Full-scale On-line Trading Services

Sadakazu Osaki

In the US, the on-line brokers are showing rapid growth. These firms use computer networks such as the Internet to provide trading functions in stock, etc. In Japan, in view of the deregulation of stock trading brokerage commissions expected by the end of 1999, many securities companies are moving towards providing on-line trading service in the same way as these US on-line brokers.

1. On-line Trading Services Provided by Japanese Securities Firms

On August 31, 1998, three so-called Second-tier securities firms (Okasan Securities, New Japan Securities and Wako Securities) commenced trading services through the Internet. On September 7, Towa Securities, which is an affiliated company of the Sanwa Bank, followed suit. This brought the number of securities firms in Japan providing on-line trading services through the Internet and other computer networks to 19. As of September last year, there were only five securities firms providing such services. Thus, the number of on-line brokers in Japan has increased more than three-fold in one year.

The basic on-line services which can be utilized are as follows: the placing of trading orders for stock, the purchase and cancellation of instruments such as the medium-term government bond fund (Chukoku Fund), the MMF (Money Management Fund) and other open-ended bond investment trust funds. (Chart 1)

Some companies offer foreign bonds and foreign investment trust funds, products that involve currency risks. In view of the weak yen trend that has prevailed over the past few years, individual investors have also entered this area. High-risk transactions such as stock margin transactions, stock index futures trading and option trading have become possible in some cases. Many companies provide information such as real-time stock price data and chart data, essential for on-line trading. In some cases, the user can view reports of analysts and investment information newsletters.

When compared to the on-line trading services provided in the US, those provided by Japanese securities firm have the following features.¹

¹ For further information on trends in the area of US Internet brokers, please consult a book titled "Internet Finance" by Sadakazu Osaki, published by Nihon Keizai Shimbun, Inc.

(1) Price Competition Is Not Very Intense

The Internet brokers in the US providing on-line trading services are discount brokers who offer a deep discount on the stock trading brokerage commissions. Most of them are trying to increase their market share by offering fixed low priced commissions such as 10 to 15 dollars per trade. Among the lowest is Suretrade, a subsidiary of a discount broker Quick & Reilly and charges only 7.95 dollars per trade for market orders, and Lindner Funds which offers 7 dollars per trade deep discount brokerage service in association with FarSight.

However, in the case of Japan where commissions for listed securities have not yet been fully deregulated, in spite of the fact that the customers using on-line trading systems will have to input the order themselves, they are charged the same rate as when they place an ordinary order through a salesperson. To be sure, in the case of OTC stock issues which are not subjected to a fixed commission system, some firms are offering discounts. Indeed, in the case of on-line trading in Japan, there are quite a few cases when the customer must pay a fee to use Internet based services or to purchase real-time price information.

Until the full deregulation of brokerage commission rates at the end of 1999, there will be no full-scale price competition in terms of on-line trading in Japan. In fact, the main features used to attract customers are the range of products offered, the ease of use of the system and a system in place to respond to questions or requests for advice from customers.

(2) Stress Is Placed on Security Aspects

The Internet is an open system to which computers worldwide are connected, and there are no central host computer or system supervisors. Thus, there may be dangers existing in terms of security problems emerging such as a person pretending to be someone else, information leakage and unauthorized access or viruses.

In the US, where the use of Internet brokers is common practice, generally speaking, measure to deal with these problems are as follows: SSL, a code system, is incorporated in standard browser software such as Netscape Navigator and MS Internet Explorer. In addition, powerful firewalls have been built to prevent unauthorized access to the databases of securities companies. As of the present time, there have been no reports of major security related problems in the area of Internet trading. In view of this, there is not much movement underway to create more advanced security measures.²

However, in Japan, great interest has been focused on the security aspects of the Internet from the outset. Consequently, there are many securities firms that adopt a cautious approach to providing on-line services. When providing such services, the securities firms have adopted a stance of maintaining a keen awareness of security problems. Nomura Securities, for instance, allows access to their service via commercial on-line networks, Niftyserve and Biglobe, which is a controlled closed network. As noted above, on August 31, 1998, three major securities firms, Okasan Securities, New Japan Securities and Wako Securities, commenced trading services through the Internet.

² Ameritrade is a leading Internet broker, and from September this firm commenced a service for the confirmation of contacts via e-mail. This service utilizes coding and electronic signature verification.
Web Finance, September 7, 1998

They use the same kind of validation system as is used in the validation of credit cards or Internet banking services.

If such advanced security measures are in place, the customers can use on-line trading services with confidence. However, this does require additional effort on the part of the users. For example, users have to join a new commercial on-line network or they have to install verification software in their PCs. Particularly in the case of services that incorporate a validation system, the users have to access the network from a computer installed with the verification software in order to be able to carry out order placement and checking their account status. This means that they lose the major merit of Internet trading which is being able to gain access at anytime anywhere if they have use of a PC and a phone line.

(3) Differences in Strategic Operational Positioning

In the US, trading services using on-line facilities such as the Internet are positioned as being able to provide lower cost services with more advanced features than the conventional sales office response or telephone response at call centers. On-line trading services are businesses that place the emphasis on profitability. In spite of intense competition and price breaking measures, many of the major Internet brokers are increasing the accounts they serve and achieving profits of scale, and so generating a level of profits.

However, the on-line trading services of Japanese securities firms are still at the infant stage. Even in the case of well established firms, the number of trading accounts amounts to a few thousand, or at most about 14 thousand. This is a very different situation to that of the US where in September 1998 E-Trade achieved over 500,000 trading accounts.

In Japan, brokerage commissions have not yet been fully deregulated, and the stock market is sluggish. Thus, a sharp increase in turnover cannot be expected. Consequently, in Japan, emphasis is placed on the following advantages of on-line trading services. Orders can be placed during the night or on holidays when the sales offices are closed. The customer does not have to put up with the salesman's sales pitch. Thus, in some cases, these on-line trading services are positioned as a value-added service to existing customers.

Of course, many securities firms are aware of the merits of their on-line trading services which allow them to approach regions and customer groups that they could not previously reach with their office networks. However, they do not consider these services to be independent business operations affording a source of profit.

In Japan, households using PCs number about 3 million, and the number of Internet users including those who access from offices amounts to about 10 million. Thus, the potential of on-line trading is great. In reality, the investors are very interested in these services. For example, in the case of Imagawa Securities, a firm that is placing emphasis on Internet trading, in August they had about 2.8 million hits on their web site. However, in order to sustain this high level of interest, efforts in terms of constant upgrading of information and the introduction of new services are essential. It is a fact that they have to continue with these investments without giving consideration to short-term profitability.

As mentioned above, the on-line trading services are positioned as supplementary services or one option available to customers in Japan. In view of this, the top and major securities firms,

which will not offer discount brokerage services after the full liberalization of commissions, are actively providing on-line trading services. Although they regard research information of their financial analysts and investment advice of their sales persons as important services for differentiating themselves from discount brokers, they are not hesitating to provide Internet services as another option for investors who prefer not to talk to the sales persons. This is completely different from the situation in the US where Merrill Lynch and other full service brokers are very reluctant to offer trading facilities over the Internet.

**Table 1. On-line Trading Services Provided by Japanese Securities Firms
(As of September 1998)**

Date of Commencement	Company & Service Name	Products Handled	Features of Service, etc.
Apr-96	Daiwa Securities "Home Trade"	Stock, Mini Stock, MMF, Medium-term Government Securities Fund, US MMF	Provision of comments by Daiwa Research Institute of first section stocks on TSE and performance forecast data.
Jul-96	Nikko Securities "Home Trade One-Internet"	Stock, Mini Stock, CB, MMF, Medium-term Government Securities Fund	For some customers, the basic service is provided free.
Jan-97	Imagawa Securities "WEBBROKER"	Stock(including foreign stock), Mini Stock, MMF, Medium-term Government Securities Fund, other Investment Trust Funds(including foreign investment trust funds), Government Bonds, Bonds	The firm provides a constant supply of market information through its"Market Door-to-Door"service. It has an access point on AOL Japan.
Jan-97	Nomura Securities "Nomura Home Trade"	Stock, Mini Stock, CB, Listed Gov. Bonds,MMF,Medium-team Government Securities Fund, US MMF, other Investment Trust Funds	Access limited to commercial on-line(Nifty-Serve/Big Lobe).
Jul-97	Marusan Securities "Internet Home Trade"	Stock, CB, Medium-term Government Securities Fund	A 50% discount is offered on OTC trading commissions on contracts of 5 million yen or over.
Oct-97	Yutaka Securities "Yutaka Securities Home Trading System"	Stock, MMF, Medium-term Government Securities Fund, Foreign Securities	A 50% discount is offered on OTC trading commissions.
Nov-97	Utsumiya Securities "Utsumiya Securities Internet Trading"	Stock, MMF, Medium-term Government Securities Fund	Provision of a report by Sawakami Investment Advisor. A 50% discount is offered on OTC trading commissions.
Dec-97	Misawaya Securities "Misawaya Securities Internet Home Trade"	Stock, Mini Stock, CB, MMF, Medium-term Government Securities Fund, Government Bonds, Bonds	A 50% discount is offered on OTC trading commissions. The firm intends to expand services to include order placement on holidays, handling of margin trading.
Feb-98	Cosmo Securities "COSMO Internet Home Trade"	Stock, CB, Medium-term Government Securities Fund, Bond Investment Trust Funds	Intends to start handling MMF trading.
Feb-98	Tokai Maruman Securities "Tokai Maruman Securities Communications Trading"	Stock(including foreign stock), CB, MMF, Medium-term Government Securities Fund	Provides analysis report on Chubu Region firms.
Feb-98	Maruhachi Securities "Maruhachi Home Trade"	Stock(including margin trading), Mini Stock, CB, MMF, Medium-term Government Securities Fund, other Investment Trust Funds, Foreign Securities, Nikkei 225 Option, Individual Stock Option	A 60% discount is offered on OTC trading commissions. Commission on contracts for 50 million listed stocks or over is fixed at 272,500. Input to the in-company system manually from the web site server.

Apr-98	Meiko Securities "Meiko Securities Communications Trading"	Stock, Mini Stock, CB, MMF, Medium-term Government Securities Fund, other Investment Trust Funds(including foreign investment trust funds). Bonds(including foreign bonds)	Provides quotation prices on non listed and non registered stocks.
May-98	Matsui Securities "Netstock"	Stock(including margin trading)	A 50% discount is offered on OTC trading commissions.
May-98	Dai-ichi Securities "Dai-ichi Home Trade Club" Iwai Securities	Stock, MMF, Medium-term Government Securities Fund	No fee charged for basic utilization and safe deposit account management.
Aug-98	"Iwai Net"	Stock, MMF, Medium-term Government Securities Fund	A 50% discount is offered on OTC trading commissions.
Aug-98	Okasan Securities "Okasan Home Trade Zaitaku-Zanmai"	Stock, CB, Medium-term Government Securities Fund, Bond Investment Trust Funds(only cancellation), Stock Investment Trust	Uses the SECE verification system.
Aug-98	New Japan Securities "Internet Home Trade"	Stock, CB, Medium-term Government Securities Fund, other Investment Trust Funds	Uses the SECE verification system.
Aug-98	Wako Securities "Wako Home Trade"	Stock, CB, Medium-term Government Securities Fund, other Investment Trust Funds	Uses the SECE verification system.
Sep-98	Towa Securities "Internet Home Trade"	Stock, Mini Stock, MMF, Medium-term Government Securities Fund, other Investment Trust Funds, Foreign Bonds	Market comments, information on the trading of various securities firms.

Note 1: In addition, Hiraoka Securities provides an order acceptance service by e-mail

Note 2: This includes placing orders by e-mail in the products handled column of on-line trading chart

Source: Compiled by Nomura Research Institute based on the Bloomberg survey of September 14 and various corporate web sites

2. Future Outlook

The on-line trading services provided by Japan's securities firms cannot be said to have adequately taken root as yet. However, recently, there are many cases of the subject of on-line trading being featured in newspapers and money magazines for retail investors, etc. Thus, although the Japanese stock market has not yet emerged from the doldrums, even so many general investors are increasingly developing interest in this area.

It is expected that many firms will enter this sector in view of the expected advent of a full-scale era of Internet brokers after the complete deregulation of brokerage commissions. In addition, competition will intensify in the existing services. As the US experience shows, on-line trading services are relatively easy to get on track if this is just a case of providing a service. However, in order to carve out a reasonable share and generate profits, a considerable amount of funds must be invested in advertising & publicity and system development.

In Japan, it is expected that a bipolar situation will evolve. The firms which provide advanced, comprehensive on-line trading services will attract the attention of investors. However, services offered as a sideline will be unpopular with investors.

After the complete deregulation of brokerage commissions, it may well be that some of the securities firms currently offering on-line trading services in Japan will be transformed into full-scale Internet discount brokers offering major cuts in commission rates. Firms such as Imagawa

Securities currently stressing their Internet services are likely candidates.

In addition, foreign firms are entering the Japanese market in strength. For example, in June 1998, E-Trade Securities established a joint venture named E-Trade KK in a venture with Softbank, a major Japanese software sales agent. In October, this JV purchased whole shares of Osawa Securities, a small firm operating out of Saitama Prefecture and a member of TSE in a move to established full-scale operations. DLJ Direct has also announced a plan of setting up a joint venture with Sumitomo Bank and IJJ, a Internet service provider.

There are still some rumors that other major foreign Internet brokers are considering entering the Japanese market. In the US, the Internet brokers have completed the first stage in their evolution, namely the price competition, and the sector is about to undergo a realignment process. However, in Japan the situation is very different. Here, full-scale competition in the area of on-line trading services provided by securities firms is just getting underway.