

City Banks Move to Strengthen Retail Banking Strategies

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With the lifting of the ban on sales of investment trusts by banks in December 1998, all kinds of financial institutions are strengthening their asset-management type retail strategies with investment trusts as its core. This report will focus on the moves of city banks' (commercial banks operating nationwide are known in Japan as city banks) to strengthen their retail banking strategies.

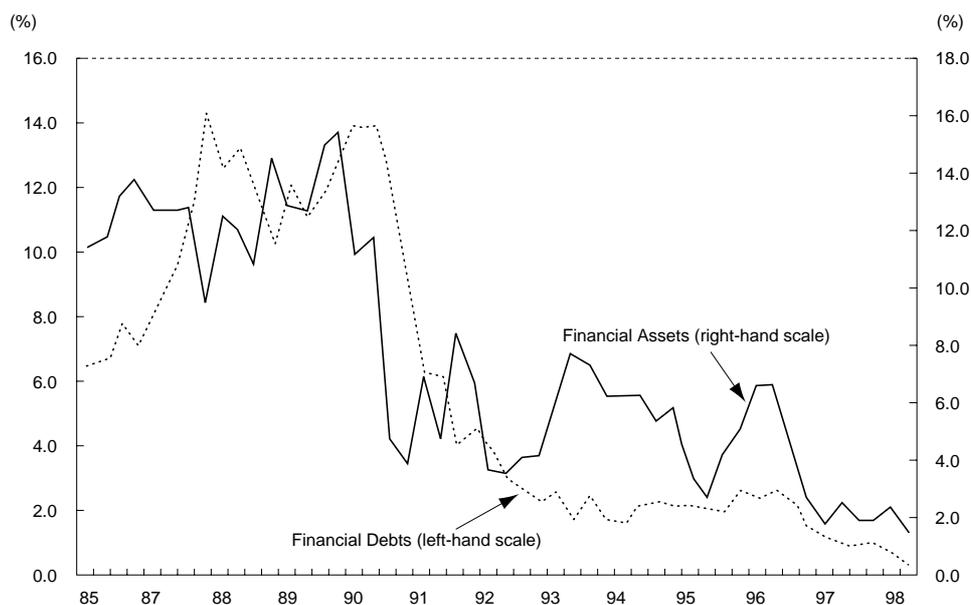
1. Recent Individuals' Behavior of Selecting Financial Assets

1) Slow Growth of "Active Savings"

As a recent trend in the selection of personal financial assets indicates, the growth of both financial assets and financial debts is slowing down.

During the second quarter of 1998, the balance of personal financial assets and debts increased by only 1.3% and 0.4%, respectively over a year before. Especially, the growth rate of personal financial debts has continued to decline since the bursting of Japan's bubble economy. (Figure 1)

Figure 1. Changes in the Balance of Personal Financial Assets and Debts

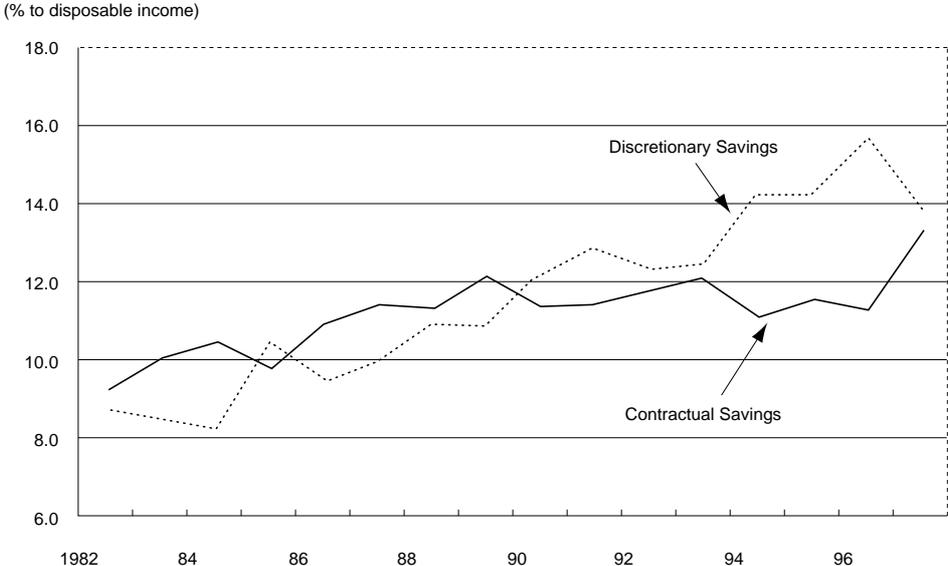


Note: Year-to-year percentages.

Source: Prepared by Nomura Research Institute based on Bank of Japan data.

The circumstances surrounding the future of Japan’s financial sector is unclear and many financial institutions are failing. Prolonged near-bottom interest rates also keep individuals from actively building up their financial assets. Many wise individuals appear to be intent on holding down the growth of their financial debts or repaying their borrowings. The household survey data based on the recent issue of the annual report on the family income and expenditure survey by the Management and Coordination Agency also show little signs of positive savings by workers’ households. The ratio of contractual savings (prescribed receipts and payments by the medium or long-term contracts, such as net increases in insurance premiums and net decreases in debts on property) to disposable income now stands at the highest level of 13.3% since 1982. On the other hand, the ratio of discretionary savings (net increases in savings and deposits, purchased securities, and net increases in assets) to disposable income is declining, rapidly narrowing the gap with the contractual savings ratio.

Figure 2. Disposal of Surpluses in Household Budget



Note 1: “Discretionary savings” = net increase in deposits and savings + purchased securities + net increase in assets.
 “Contractual savings” = net increase in insurance premium + net decrease in debts on property.
 Note 2: Household Budget surplus = disposable income - consumption spending

Source: Prepared by Nomura Research Institute based on statistical data of the Management and Coordination Agency.

2) Outflow of Savings from City Banks

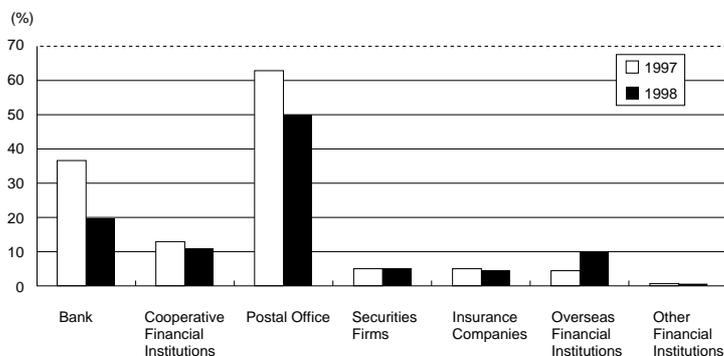
The trend of personal savings during the third quarter of 1998 is characterized by the outflow of funds from city banks into postal savings, especially time deposits. The balance of personal savings in six major banks dropped by ¥887.6 billion during this quarter, while postal savings and time deposits registered net gains of ¥408.2 billion and ¥1,408.2 billion, respectively.

The fact that individuals are shifting their money to postal savings’ time deposits is understandable and can be explained by the fact that Japan’s financial institutions remain surrounded by an adverse environment, as seen in the emerging debt problem of the Long Term Credit Bank of Japan.

The opinion survey on financial behavior conducted from late June to early July of 1998 shows that 52.5% of households cited “safety” as the top consideration in selecting financial assets. Thus,

the percentage has exceeded 50% for the first time since 1977. “Profitability” was cited by 14.9% of households, the lowest rate since 1977. It is noteworthy that the percentage of households which want to deposit their money in overseas financial institutions sharply rose from 4.1% in 1997 to 9.7% in 1998.

Figure 3. Financial Institutions With Which Households Would Prefer to Increase Their Transactions



Source: The Central Council for savings information

2. Retail Banking Strategies of the City Banks

In early October of 1998 when city banks were suffering from weak growth in savings, they held branch managers' meetings to work out business strategies for the second half of 1998. Many financial institutions such as banks, securities firms and insurance companies irrespective of sector are now preparing retail customer services strategies oriented toward asset management. From December 1998, the ban on the sale of investment trusts by banks per se will be lifted. In view of this, the city banks are also considering shifting the focus of their business from the traditional deposits to the safe custody of financial assets centering on investment trusts. This report will now focus on city banks' retail banking strategies.

1) The Expanding Point Service System

Many of the city banks are adopting and expanding the “point service” system, under which they offer services in proportion to the “points” determined by the amount of transactions with individual customers. This system was started by Dai-Ichi Kangyo Bank in August 1996, and this has been followed by Sanwa Bank in December 1997, Fuji Bank in March 1998 and Sumitomo Bank in June 1998. Customers' transactions with city banks such as automatic receipt of salaries paid in their accounts, deposits and savings, automatic payment of public utility charges, and housing loans, are all translated into “points” by items at the same bank branch. When these points reach a certain figure, they entitle the customers to preferential loan interests, free ATM service out of prescribed business hours, and discount charges on telephone banking payments. Generally, individual customers receive extra services in consideration of the balance of their savings in addition to their “points”.

Table 1. City Banks' "Point" Services (Points Awarded for Transactions Performed)

	Time of Introduction	Outline	Remarks
Dai-ichi Kangyo Bank	August 1996	According to their "points", customers can receive services in first, second and third stages. CD/ATM charges are free for second and third stages. The bank also offers "Young Stage" services to students aged 18 or over.	Users of this system exceeds 2 million.
Sanwa Bank	December 1997	Services for "over 50 points" differ from those for "over 100 points". Telephone banking is offered free of charge.	
Fuji Bank	March 1998	Services are available in three courses, Premium and Standard (shopping or travel). Monthly charges on this point service(including telephone banking fee)are ¥525 for Premium and ¥262 for Standard. ATM services are available free of charge out of business hours (after September 1998).	Users of this system exceeded 100,000 in early October 1998 and the number is projected to be over 300,000 by March 1999. The Bank has tied up with Cendant Japan.
Sumitomo Bank	June 1998	This system is limited to users of services such as salary payment, automatic payment of telephone charges and card loans and costs ¥1,050 a year.	
Sakura Bank	October 1998	Services are available in proportion to the balance of savings (three stages of over ¥3 million, over ¥1 million and over ¥300,000). ATM services are available free of charge out of business hours. Preferential interests are offered to Super Time Deposit in foreign currencies. 30% discount of charges on telephone banking.	Tied with JTB and Bankers Partner (a JTB affiliate).

Source: Prepared by Nomura Research Institute based on various data.

Table 2. An Example of Point Services ("Point Plus" of Sumitomo Bank)

Balance of Deposits	Preferential Interests		Preferential fee	
	"Super Time Deposit in Foreign Currencies"	"Personal Loans"	Telephone Banking Payment	Initial-Year Dues for "Sumitomo Card"
Over ¥3 million	+1.0%	-1.5%	30% off (between other banks and Sumitomo's main office and branches).	Fully exempt (¥1,250) for Classic Card, and half price (¥5,000 off) for Gold Card.
Over ¥1 million	+0.5%	-1.0%	30% off (between other banks and Sumitomo's main office and branches).	
Over ¥0.3 million	+0.2%	-0.5%		Fully exempt (¥1,250) for Classic Card.

Plus Common Services

- 1) Sumitomo ATM services are available free of charge out of business hours.
- 2) Exemption of automatic fixed deposit charges (¥50 per payment).
- 3) Inclusion in Sumitomo World Present points.

Source: Sumitomo Bank

The following factors form the backdrop to the city banks' strenuous promotion of the "Point Service"

First, the system of calculating customers' points by each branch separately encourages customers to concentrate their transactions on one branch, helping banks reduce administrative costs. According to a Tokyo area city bank's affiliate, the system also helps to reexamine inactive accounts, eliminate dormant customers and cut a few percentages off wages.

Second, integrating a customer's transactions in one branch of a bank's ensures efficient collection and management of customer information. Even though banks as the supplier of financial services are offering an asset management type services, Japanese customers are still hesitant about disclosing their assets, and the practice of disclosing financial information is not popular with Japanese customers. Under these circumstances, customer information can be gained more effectively by offering the "point service" rather than urging customers to provide the information on their attributes and financial transaction.

Third, the system helps stabilize banks' transaction with customers by encouraging them to keep integrated accounts for automatic depositing and payment. Once integrated accounts are set for both income and spending, it would impose a serious burden on customers to terminate transactions with that bank. For an individual customer to fully benefit from the bank's services, he/she has to expand his/her transaction as much as possible. The more the customer concentrates his/her transactions in one place, the more the termination of transactions will cost.

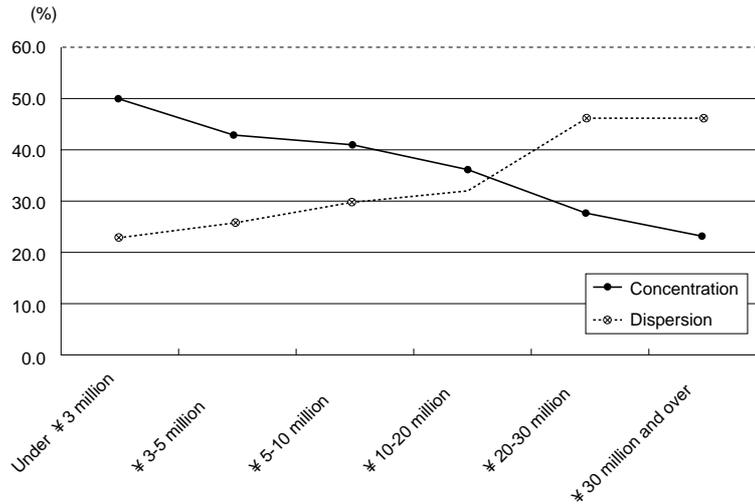
The point service system intended for individual customers meets their desire to use one financial institution if possible. The Japan Institute of Life Insurance conducted a survey on "the characteristics of financial assets held by households". Its findings released in late May 1998 also show that the number of household which hold financial assets up to ¥20 million and want to deal with one financial institution as far as possible, is larger than that of households in the same bracket which want to diversify their financial transactions to more than one financial institution. The findings also indicate that the number of households which have financial assets up to ¥20 million and do not want to spend much time in selecting financial products is higher than that of household willing to spend more time in selection.

Table 3. Attitudes toward Selection of Financial Products

	Financial assets	
	Under ¥20 million	¥20 million and over
(1) Attitude in dispersing financial transaction risks		
A: Diversification of financial transactions to many financial institutions	28.3	46.2
B: Concentration of financial transactions on one financial institution	41.5	25.4
Either or unknown	30.1	28.4
(2) Selection of financial products		
A: Prefer to spend a lot of time selecting financial products	25.7	41.3
B: Prefer not to spend a lot of time selecting financial products	37.0	27.8
Either or unknown	37.1	30.9

Source: The Japan Institute of Life insurance

Figure 4. Attitude in Dispersing Financial Transaction Risks



Source: The Japan Institute of Life insurance

2) Introduction of a New Type of Integrated Accounts

City banks are expected to accelerate the introduction of a new type of integrated account in the second half of 1998 to cope with securities companies' establishment of "comprehensive securities accounts". This is a part of the city banks' move to shift from the conventional strategy based on deposits to retail banking based on safe custody of financial assets. Currently only Daiwa Bank handles a "comprehensive asset management account", however not a few city banks plan to introduce this new type of integrated account from December 1998 onward.

Table 4. City Banks' New Type of Integrated Accounts

	Time of Introduction	Outline
"Asset Comprehensive Management Account" (Daiwa Bank)	April 1998	This is intended for integrated management of deposits, certificates and securities and real estate registration documents.
"Fuji Comprehensive Management Account (FMA)" (Fuji Bank)	December 1998	This will be a product that combines investment trusts with ordinary deposits, savings deposits, time deposits, foreign currency time deposits, gold or public bonds. This will be the city banks' first product including investment trusts.
"Comprehensive Financial Asset Management Account" (provisional name) (Sanwa Bank)	January 1999	This will be divided into a settlement and pool account and a management account. The bank has developed a new type Super NOW type ordinary deposit for upper income-bracket people.

Note: Sakura and Dai-Ichi Kangyo Banks also plan to introduce this type of integrated account in 1999.

Source: Prepared by Nomura Research Institute based on various data.

3) Telephone Banking and Internet Banking

City banks are endeavoring to launch such services as telephone banking and Internet banking as a part of their strategies to provide their individual customers with diversified and efficient channels. These banks are making strenuous efforts to improve and expand telephone banking by making this available 24 hours a day and by offering more services. Despite the expanded service, telephone banking charges are free or remain at the initial levels of introduction.

Internet banking was started by Sumitomo Bank in January 1997 under the name of “Personal Computer Banking”. In June 1998, the bank launched a new service “WEB Direct” and improved the service in terms of security and quality.

Asahi, Sanwa, Fuji and Sakura Banks also started Internet banking in September 1998. According to a survey conducted by Asahi Bank, 67% of the users of its Internet banking were satisfied saying “the service is available even out of business hours and thus convenient,” and 25% replied “it is convenient because it saves time and transportation expenses”. The combined percentage suggests a substantial degree of customer satisfaction.¹

Table 5. Outline of Telephone Banking

	Time of Introduction	Outline
Tokyo Mitsubishi Bank	Late in 1980s	•Charges are ¥1,000 a month
Sakura Bank	April 1998	•Free of charge
Dai-ichi Kangyo Bank	March 1998	•Available 24 hours. •Free of charge. •Time deposit in foreign currencies is possible.
Sanwa Bank	June 1997	•Available 24 hours at monthly. Accessible from portable phones and PHS. •Charge of ¥300 per month •Services for paying various charges are available (at no payment charges). •Foreign currency exchanges by ordering in advance (9:00-17:30).
Sumitomo Bank	June 1997	•Free of charge •Purchase of travelers' checks is possible
Fuji Bank	March 1998	•Free of charge •Payment when necessary is possible even without advance registration
Asahi Bank	June 1998	•Paying in and transfer are possible 24 hours a day (by advance notice) •Free of charge until March 1999
Tokai Bank	March 1998	•Available from 9:00 to 21:00 on weekdays and from 9:00 to 17:00 on weekends and holidays •Free of charge
Daiwa Bank	November 1997	•Available from 9:00 to 21:00

Source: Prepared by Nomura Research Institute based on various data.

1 Nikkei Kinyu Shinbun, Aug. 12, 1998, page 3.

3. Conclusion

As we have seen, city banks are rapidly shifting the focus in retail banking from diversification of products to selling a new type of integrated account that comprehensively manages various financial transactions including deposits. This is a new trend that has emerged with the steady progress of the Japanese version of financial big bang, together with the introduction of foreign currency-related products and other deposit products as well as the deployment of outlets for individual loans.

Postal savings time deposits that have absorbed huge amounts of personal funds will lose their advantages² from January 1999. Postal savings teigaku deposits which absorbed a lot of money in 1990-91 at high interest rates will mature en-masse in the years 2000-01. The course of individual funds after that is now a focus of attention.

2 For details, see “Trend in Individual Savings in the Age of the Big Bang” by Hiromi Hayashi, *Capital Research Journal*, Autumn 1998.