Lifting of Ban on Sales of Investment Trusts by Japanese Banks

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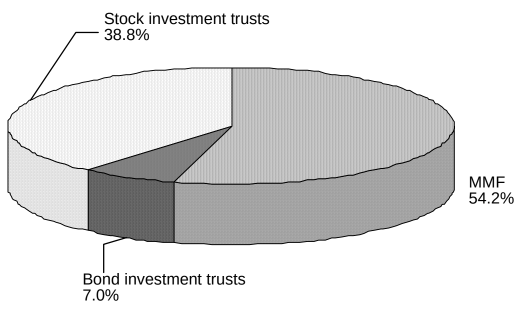
The ban on sales of investment trusts by banks and life insurers was lifted on December 1 1998. Sales of investment trusts by banks amounted to 199.3 billion yen (excluding foreign investment trusts) as of the end of December. [*1]

1. Investment Trust Sales by Banks in Japan

The ban was lifted on the sales of investment trusts by financial institutions such as banks and life and non-life insurance firms on 1 December 1998. During the month of December, the amount of investment trusts sold through banks amounted to 199.3 billion yen. 54.2% was made up of sales of MMFs, stock investment trusts accounted for 38.8%, and bond investment trust funds for 7.0%. The share of investment trusts sold by banks amounted to only about 0.5% of the total net asset value, 42.74 trillion yen as of the end of December.

The share of MMF sold by banks was much higher than that sold by all channels,33.4% as of the end of December, reaching the 30% level for the first time ever. This fact tells us that the customers purchasing investment trusts through banks place much more emphasis on safety than customers who use other channels such as securities companies.

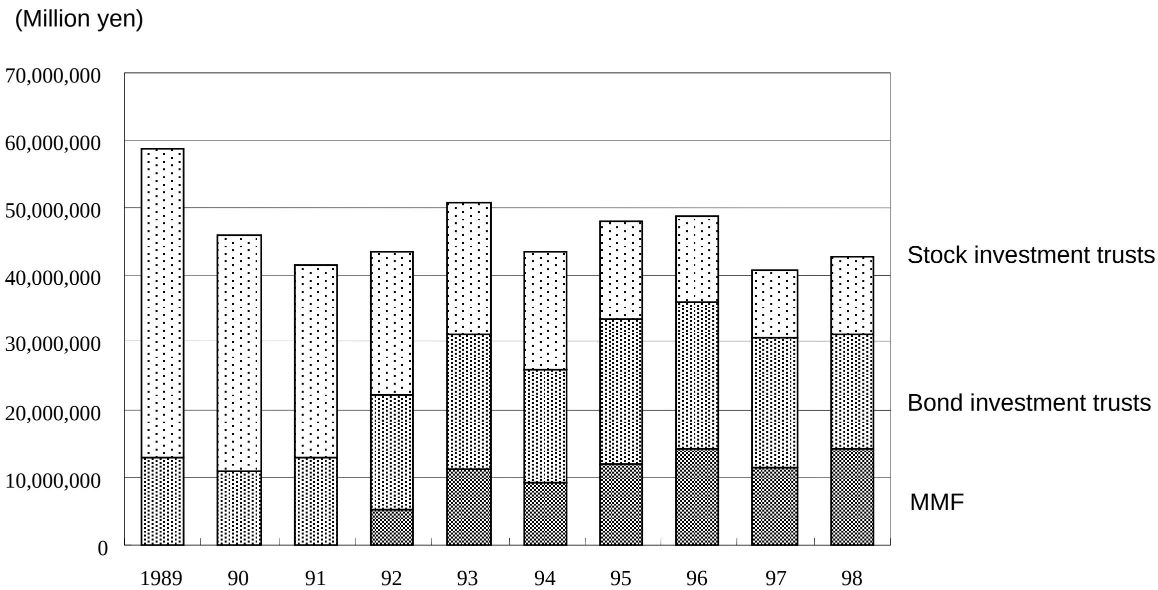
Figure 1 Sales of Investment Trusts by Banks (December 1998)



Note : Figures are for 42 asset management firms out of the 52
Source: Compiled by Nomura Research Institute based on data from the Investment Trust Association.

*1 Figures are for 42 asset management firms out of the 52 (Interview survey conducted by the Investment Trust Association)

Figure 2　The Investment Trust Market in Japan



Source: Compiled by Nomura Research Institute based on data from the Investment Trust Association.

Before lifting the ban on the sales of investment trusts by banks, banks were permitted to engage in the investment trust business by lending out space in banks to investment trusts firms since December 1997.　Attention was focussed on this sale of investment trusts using loaned out space in banks as a first step to the sales of investment trusts by the banks themselves.　However, this system of lending out space only amounted to about 19.67 billion yen (stock investment trusts amounted to 12.72 billion yen and bond investment trusts to 6.95 billion yen)[*2] in outstanding investment trusts (As of the end of September 1998).　This only amounted to 0.046% of the net asset value of investment trusts in total (42.48 trillion yen as of the end of September 1998).　Some people feel that the only success achieved by this system of lending out sales space for investment trusts in banks was that it demonstrated that merely having sales staff posted at the bank does not result in sales of investment trusts.[*3]

Looking at a survey conducted on the desire to use investment trusts, when asked it they intended to buy investment trusts, some 70% of households replied that "They don't even intend to consider buying them" or "no knowledge of or no opinion on them".　Thus, the sale of investment trusts using space in banks has apparently not been successful in stimulating the interest of investors.

Table 1　Intention to Use Investment Trusts

(%)

	Already using	Would like to use	Considering use	Might think about using them depending on how things go	No intention of using them	No knowledge of or no opinion on them
Ordinary people	6	1	4	19	49	21
High income bracket	28	2	10	20	20	19

Source: "Second Financial Big Bang Survey on General Public" conducted by Dentsu Inc.

*2 "Full-scale Sales of Investment Trusts Are Close" *NIKKIN,* November 6, 1998 by The Japan Financial News

*3 *Sankei Newspaper,* November 25, 1998

The ban on the sale of investment trusts by the financial institutions was lifted in such situation. Many financial institutions began to engage in the investment trust sales spontaneously. The forecasts figures for assets published by some banks tell us that a lot of banks placed great expectations on the growth of the investment trust market. Many movements of the tie-ups among financial institutions announced from 1998 on were centered on investment trusts, and there is an evident movement to engage in asset management types of sales with investment trusts as the core element in retail sales.

Table 2　Investment Trust Sales of the Japanese Banks

		Forecast for asset size in investment trusts	Number of investment trusts handled	Number of branches involved (Those with dedicated counters)
Sakura	The bank deals with the largest number of products. The bank recommends diversification of risks by combining two or more types of investment trusts.	About 1 trillion yen within 3 years	24	478(70)
Dai-Ichi Kangyo	A sales system limited to the products of its affiliated investment trusts firms.	From 700 billion to 1 trillion yen within 3 years	5	347(70)
Fuji	The bank also handles an integrated asset management account, and this allows an understanding of the market price and total return on all assets such as investment trusts, bonds and gold, etc.	About 600 billion yen within 3 years	19	290(75)
Sumitomo	Like Sakura, bank deals with the largest number of products.　The target is fixed on the segment beginning to raise　assets size for their old age.	?	24	284(72)
Tokyo-Mitsubishi	Initially, the target is fixed on the individual affluent segment.	No figures for investment trusts alone	11	313(49)
Asahi	The target towards all types of individuals.	?	12	342(270)
Tokai	A sales system limited to the products of its affiliated investment trusts firms.　It is strongly engaged in asset management type sales by waiving commissions on subscription and sales.	?	10	269(35)
Daiwa	It is implementing investment trusts as one aspect of private banking operations.	About 250 billion yen by the end of March 2000.	11	195(34)
Mitsui Trust & Banking	It has established a dedicated investment trust center at Shinjuku Tokyo.　20 specialists are employed here and investment seminars are held every day.　At other branches, 5 investment trusts are handled.	?	10	56(3)

Source: Compiled by Nomura Research Institute based on data from various press data sources.

It seems to us that the banks would like to concentrate the assets of its customers on its own bank including investments trusts by recommending “one-stop shopping” and so improving convenience to customers.

Through the point service systems[*4] introduced from the end of 1997 to 1998, the nationwide commercial banks (city banks) achieved a certain degree of success in terms of concentrating the transaction flow of individuals such as income flows including incoming salary and pension payments and expenditures such as the automatic outgoing payment of utility bills all at one particular branch of the bank concerned. These point systems awarded points for the type of

*4 For details, see: "City Banks Move to Strengthen Retail Banking Strategies" by Hiromi Hayashi, *Capital Research Journal,* Winter 1998 transaction such as incoming payment of salary and automatic outgoing payment of utility bills. Based on the number of points accumulated, the customer receives special such services as free use of ATMs and preferential loan interest rates. In addition to this flow of income and expenditures, the banks also appear to be striving to bring in financial assets (stock) including risk products such as investment trusts.

Surveys show that in the case of households with assets of up to 20 million yen, those who would like to integrate their financial transactions with one financial institutions as far as possible outnumber the households which do not and prefer to use several different financial institutes.[*5] Thus, it can be said that this series of moves on the part of the banks matches up well with the needs of individual investors.

However, in view of the nature of banks the sale of a risk product like investment trusts requires caution.

The Securities Dealers Association of Japan has reformed "Rules Regarding Employees Handling Securities" (Fair Practices Rule No. 8) to include rules on clarifying the rights of external sales staff and the obligation to undergo retraining by external sales staff undertaking sales of investment trusts. The association has also reformed "Rules on inviting investment applicable to members of the association and rules on handling customers"(Fair Practices Rule No. 9) and its bylaws. The reforms include making it compulsory to distribute a beneficiary securities explanation when there is no obligation to distribute a prospectus when undertaking the sale of investment trusts. In addition, detailed measures are laid out to prevent confusion and misunderstandings between deposits and investment trusts. That is to say, it is compulsory for the banks etc. to provide adequate explanations to customers by distributing written documents stating that investment trusts are not deposits, they are not covered by the deposit insurance scheme and the principal is not guaranteed.

Based on this series of voluntary applied regulations, the banks have set up regulations on the sale of investment trusts within their own organizations. These regulations include prohibitions on sales such as (1) depending on the customer's financial situation, avoiding investing the entire amount of a customer's assets in investment trusts, (2) in principle, not selling investment trusts to people who are legally minors, (3) it is forbidden to combine investment trusts with loans, (4) in the case of selling complicated products to the elderly, the salesman should not be alone and should be accompanied by a senior official. In addition, some banks have also laid down other regulations such as (1) when purchasing or canceling (selling) investment trusts the holder of the investment trusts must go to the bank in person, (2) when purchasing investment trusts, the customer must be in the bank by 14:00 at the latest (this assumes that it will take an hour to explain the investment trust products). However, some people feel the regulations are too severe. The banks are facing the necessity of reviewing their retail strategies. However, the banks are all going through a process of trial and error regarding the investment products on which the bans have been lifted and the newly introduced investment products.

Basically, the banks themselves should decide on whether they wish to introduce new services based on the circumstances of each bank and the actual needs of their customers. However, it cannot be denied that in the case of Japan, all the banks rushed into the business of selling investment trusts as soon as the ban on banks per se selling these products was lifted as one aspect of the enforcement of the Financial System Reform Law. This is a very different situation to that

*5 "Features of Household Financial Asset Holdings", by The Japan Institute of Life insurance, May 1998 in the US where a shift occurred from bank deposits to MMFs and therefore, the banks in US really made strenuous efforts to sell investment trusts. (There was (is) an upper limit on interest paid on deposits in line with regulation Q)

In Japan, it does not appear that a shift in funds has occurred from individual savings deposits to investment trusts. Thus, there is no cogent reason for the banks to simultaneously engage in the sale of investment trusts from December 1.

2. Conclusion

Up to now, in Japan the people purchasing investment trusts have mostly been elderly and affluent. This is very different to the situation in the US where the main stream of purchasers is the bracket between 35 to 44 years old. In the US this age bracket tends to purchase mutual funds with the object of augmenting the funds they will live on after retirement.

Taking this into consideration, as Japan is a country where the number of elderly people will increase rapidly, the foundations for the emergence of an extensive customer base wishing to purchase investment trusts are in place.

However, the example of the US clearly shows that when comparing the customers who purchase investment trusts through banks to those who use other channels, the people who use banks are those who place high priority on avoiding risks. Naturally, the performance achieved in managing funds is very important, but the trust people place in the banks selling the investment trusts is very probably a major factor in the sale of these investment trusts.

Many of Japan's financial institutions have failed, and anxiety about the financial situation will not go away. Thus, there is an evident movement underway for people to place their assets in what they perceive as safe havens in the form of safe financial institutions even if they offer exactly the same deposit products as other financial institutions. In April 2001, a rule will come into place where the assets of a depositor in any particular bank will only be insured up to a limit of 10 million yen. Thus, although it is important to develop new customers by introducing new products, there is a far more urgent task to be performed. That is achieving a recovery in the trust people place in financial institutions.