Fund Trends in the Household Sector from 2011

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Summary and conclusion

1. Over a several year period from H2 FY2010, we expect the household sector to gain access to a large quantity of funds and to look for a stable place to put them. These funds will come from the maturation of Teigaku (fixed amount) savings accounts at Japan Post Bank and the redemption of JGBs for individual investors. Two more sources of funds to households, neither of which is limited to the next several years, are retirement payouts and inheritances. All of these sources combined should result in approximately ¥70 trillion annually either entering or becoming newly accessible to the household sector, and these funds will be in need of a new, stable parking spot. In this paper, we examine the nature of these funds and where they reside.

2. The amount of new financial assets flowing into the household sector over the past 10 years has been limited, and overall totals had effectively reached a peak. This makes it that much more important for financial institutions to attract the new funds flowing to households. We think one effective way to attract these funds is to design and market products helpful in the asset selection process that the owners of these funds must go through.

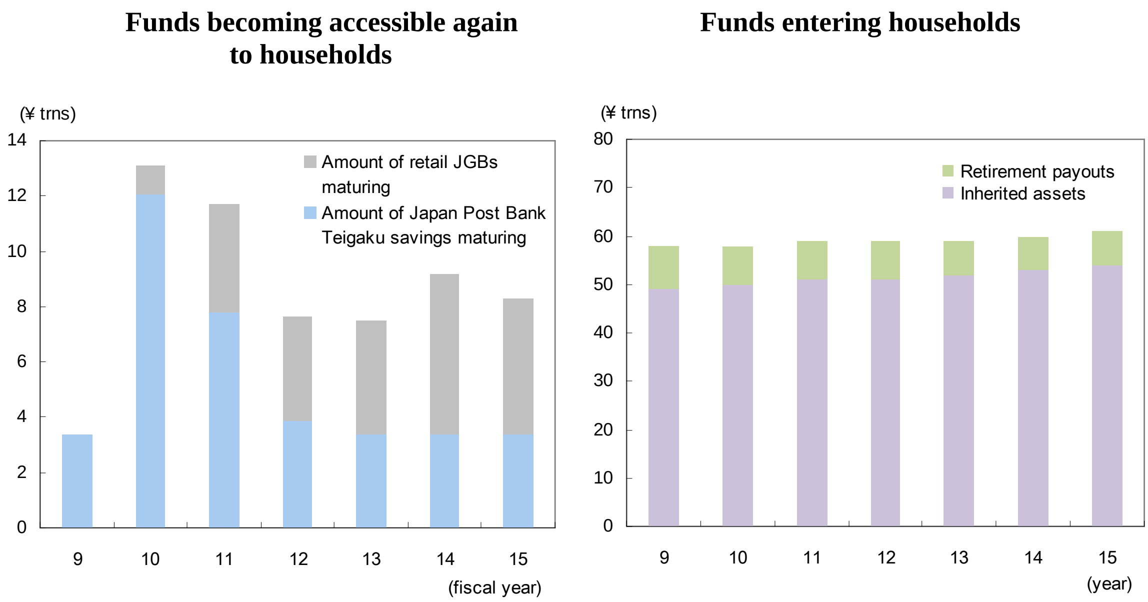
3. We also think it important to focus on meeting the needs of investors in or around their 60s, given that the ownership of these funds will be concentrated in that generation. For example, Japan has yet to see the emergence of a financial institution that can satisfy this age cohort by addressing concerns related to financial planning. Another approach likely to be effective in attracting these assets would be, after ensuring sound management, offering a more complete lineup of financial products and services that meet a range of risk/return characteristics, while also devising ways, including through consulting, to deliver these products and services, thereby winning the confidence of this generation as a suitable financial institution for them to keep their funds in.

I. Large quantity of funds becoming accessible to households

Over a several year period from H2 FY2010, we expect the household sector to gain access to a large quantity of funds and to look for a stable place to put them, because the maturation of Teigaku (fixed amount) savings accounts at Japan Post Bank and the redemption of JGBs for individual investors will be putting funds back into the hands of households (Figure 1). Two more sources of funds to households, neither of which is limited to the next several years, are retirement payouts and inheritances. All of these sources combined should result in approximately ¥70 trillion annually either entering or becoming newly accessible to the household sector, and these funds will be in need of a new, stable parking spot.

In this paper, we examine the nature of these funds and where they reside.

Figure 1: Funds entering or becoming accessible again to households



Source: Nomura Institute of Capital Markets Research, based on various data sources

II. Japan Post Bank Teigaku savings approaching maturity

1. The nature of these funds

A large amount of time deposits, primarily Teigaku savings accounts with a 10-year term, will be maturing in FY2010 and FY2011 (Figure 2). The maturation of these accounts, concentrated in H2 FY2010 and FY2011, appears likely to result in households regaining access to approximately ¥20 trillion in funds.

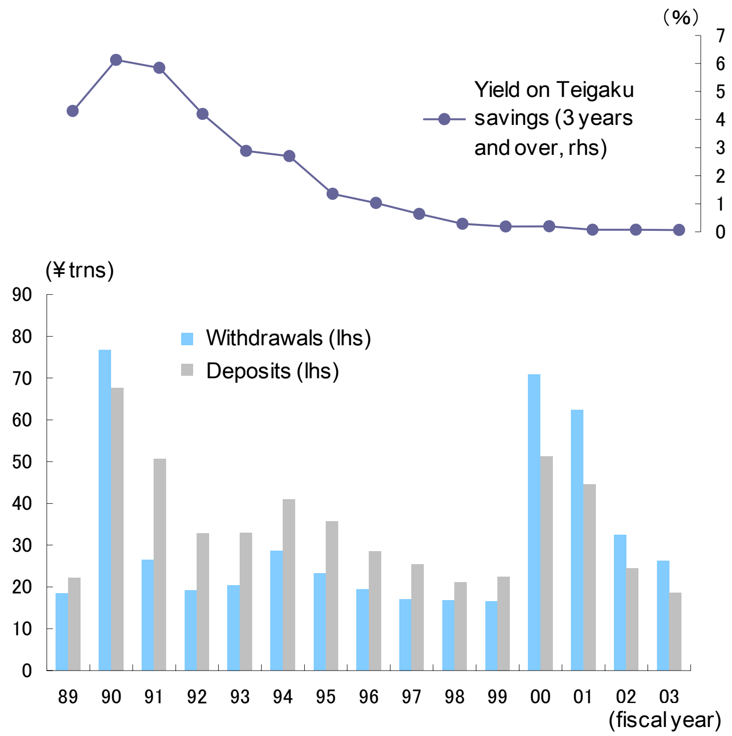
Figure 2: Teigaku savings accounts outstanding by remaining maturity (as of end-FY 2009)

Remaining maturity	Amount (¥millions)	Share
Less than 1 year	12,053,682	13%
1 year to less than 3 years	11,694,645	13%
3 years to less than 5 years	6,804,781	7%
5 years to less than 7 years	13,488,943	15%
7 years or longer	46,849,371	52%
Total	90,891,422	100%

Note: Includes amount outstanding by remaining maturity for both Teigaku savings accounts and special savings deposits (which are the fixed amount postal savings established prior to privatization). Those special savings deposits were transferred over from the Management Organization for Postal Saving and Postal Life Insurance and are the postal savings accounts taken over by that organization from Japan Post. Teigaku savings account for approximately 80% of time deposits.

Source: Nomura Institute of Capital Markets Research, based on data from Japan Post Bank

Figure 3: Teigaku savings accounts and their yields over time



Note: Teigaku savings yields shown are averages for the fiscal year

Source: Nomura Institute of Capital Markets Research, based on data from Japan Post Bank

Teigaku savings accounts now coming due were initially deposited in FY2000 and FY2001[1], when the accounts initially opened in FY1990 and FY1991 reached maturity. Because of the large difference in interest rates between FY1990 (6%) and

[1] Household funds were initially attracted in large numbers to Teigaku savings in April 1980, when the yield on those accounts was raised from 7.25% to 8%. The maximum amount that could be deposited was incrementally raised between 1988 and 1991 from ¥5 million to ¥10 million, and during the wave of maturities in FY1990 and FY1991, the majority of the funds were redeposited in Teigaku savings because it was possible to deposit both the principal and interest without exceeding the limit.

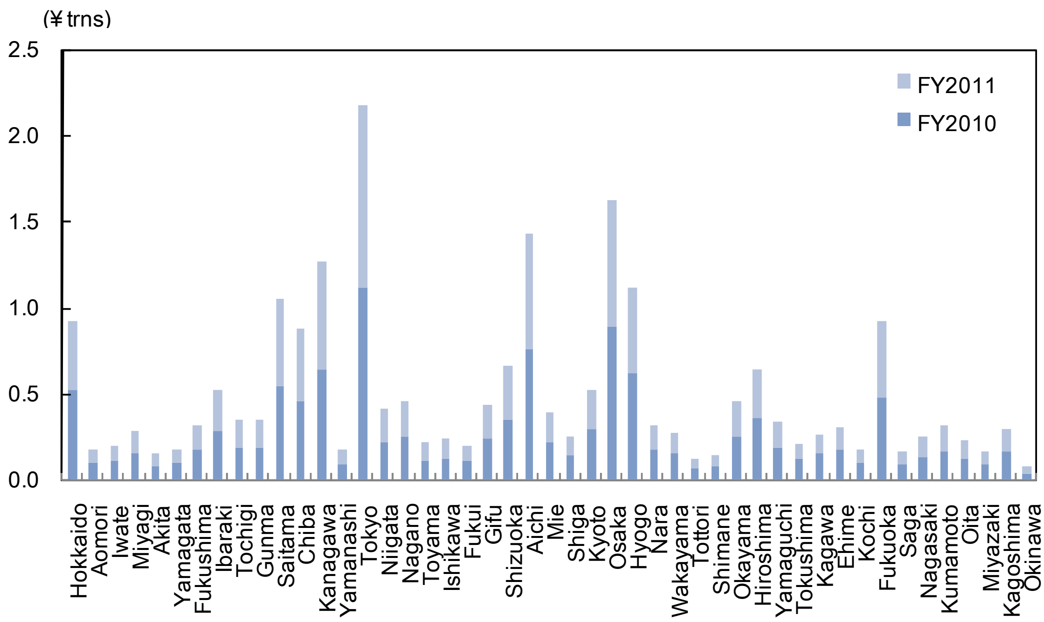
FY2000 (down to 0.2%, see Figure 3), Japan Post was also worried about an exodus of deposits in 2000.

In fact, data on Teigaku savings withdrawals and deposits in FY2001–02 showed withdrawals of ¥71 trillion and deposits of ¥51 trillion (a 72% deposit to withdrawal ratio) in FY2001 and withdrawals of ¥62 trillion and deposits of ¥44 trillion (71%) in FY2002. A news article published at the time noted that the amount of withdrawals included withholding tax on interest and amounts exceeding the maximum of ¥10 million, and after excluding these the percentage of eligible deposits that were redeposited (into fixed amount, fixed term, and regular savings accounts) over the two-year period was 79.8%[2].

2. Where the funds are

Japan Post Bank's published data does not include information on the geographical distribution of holders of Teigaku savings accounts that mature in FY2010-11, so we estimate this using the geographical breakdown of Teigaku savings deposits made in FY2000-01, assuming the same proportion held until maturity for all regions. The results are shown in Figure 4.

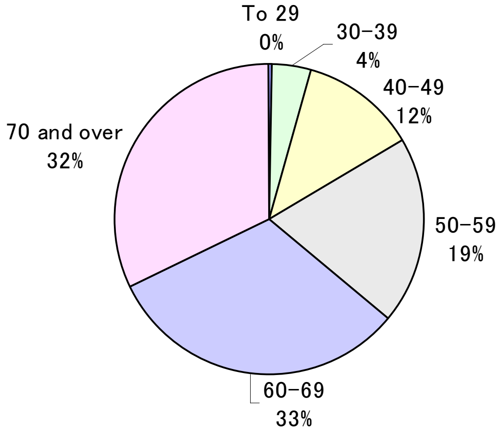
Figure 4: Amount of Teigaku savings accounts maturing by prefecture (FY 2010-11)



Note: We assume that the proportion of deposits held to maturity is the same for both years and for all prefectures.
Source: Nomura Institute of Capital Markets Research, based on data from Japan Post Bank

2 "Postal savings balances show net decline of ¥14.36 trillion in FY2001, a second straight year of decline," Japan Financial News, 5 April 2002 (in Japanese).

Figure 5: Generational breakdown of time deposit holders at Japan Post Bank



Source: Nomura Institute of Capital Markets Research, based on Ministry of Internal Affairs and Communications data

Japan Post Bank does not publish any data on the generational distribution of its Teigaku savings accounts, either. There is data on the generational breakdown of time deposits, however, as shown in Figure 5, and we think that the distribution across age groups for Teigaku savings accounts maturing in FY2010-11 is probably either the same or even more heavily weighted toward older generations, given the length of the term.

III. Large quantity of JGBs for individual investors starting to mature

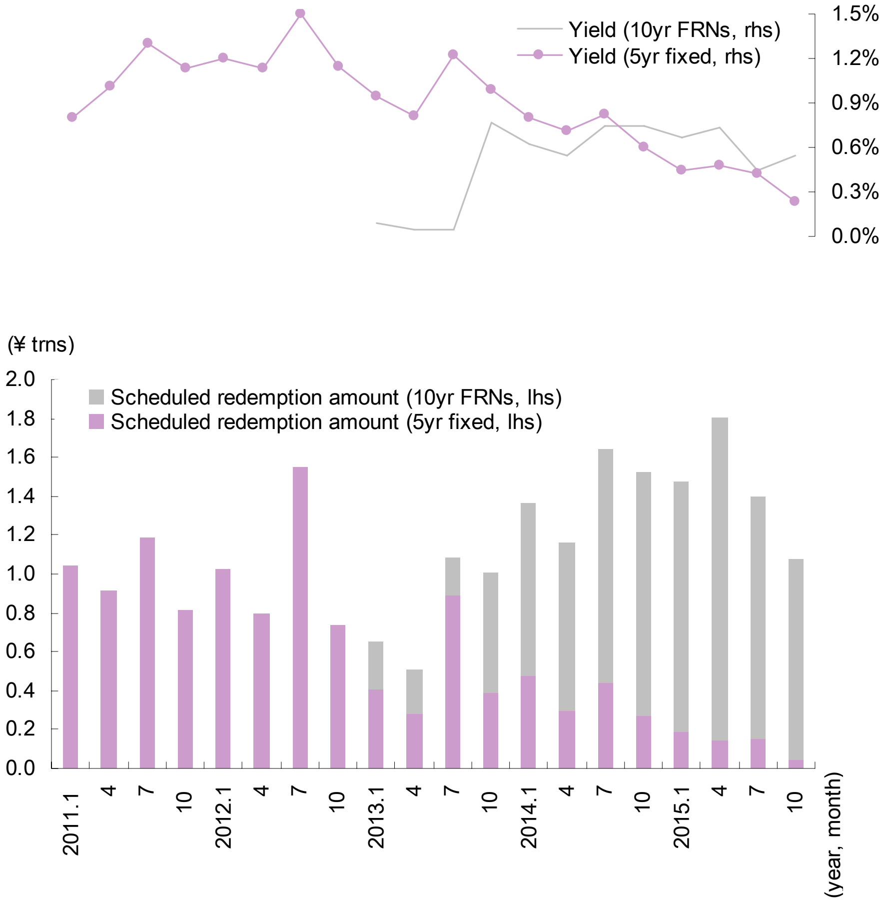
1. The nature of these funds

JGBs for individual investors (retail JGBs) will start maturing in January 2011 (Figure 6). The first 10-year retail floating rate note (FRN) was issued in March 2003, and the first 5-year retail fixed-coupon JGB was issued in January 2006. It is the 5yr fixed-coupon retail JGBs issued in 2006 that will start maturing in 2011, at the rate of roughly ¥1 trillion of redemptions every three months from January 2011 until October 2012. On top of this, redemptions of 10-year retail FRNs begin in 2013.

2. Where the funds are

The Ministry of Finance does not publish data on the geographical distribution of investors in retail JGBs. Nevertheless, because regional financial institutions play an important role in marketing retail JGBs along with their nationwide counterparts, the breakdown of sales figures by local financial institution could serve as a proxy for geographical distribution (Figure 7). In fact, since 2007 local financial institutions have played an increasingly important role in marketing retail JGBs, particularly those with a 5-year fixed coupon.

Figure 6: Scheduled redemptions and yields of retail JGBs



Note: The yields shown for the 10-year FRNs are initial yields. The scheduled redemption figure is calculated by subtracting the amount already redeemed from the issuance amount, and reflects that amount already redeemed as of 28 October 2010. The 10-year FRN maturing in March 2013 is counted under January 2013 redemptions.
Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance data.

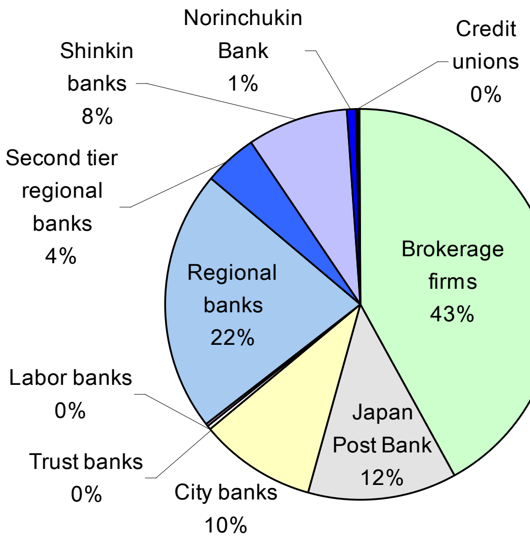
In addition, the Ministry of Finance publishes information that includes some rough data on generational distribution. That data shows that the age cohort with the most ownership of retail JGBs is 60–69, followed by 50–59 and then 70–79. The age cohort with the highest per capita ownership is 70–79.

IV. Retirement payouts and inheritances

1. The nature of these funds

Looking first at retirement payouts, all of Japan's 6.6 million baby boomers (born in 1947–49) are now in their 60s, and the post baby boomers will soon be lining up to receive their payouts. The average retirement payout for a college graduate is ¥20.26 million, and that for a high school graduate ¥16.06 million (the average across

Figure 7: Breakdown of retail JGB sales by institution (March 2003–January 2007)



Leading regional financial institutions by amount sold (March 2003 November–January 2007)

Rank	Name of financial institution	Amount of sales (¥ bns)	Rank	Name of financial institution	Amount of sales (¥ bns)
1	Chugoku Bank	3,333	13	Keiyo Bank	1,544
2	Bank of Yokohama	2,674	14	Joyo Bank	1,379
3	Hiroshima Bank	2,282	15	Kagoshima Bank	1,375
4	Fukuoka Bank	2,276	16	Musashino Bank	1,349
5	Hokuriku Bank	2,107	17	Shikoku Bank	1,327
6	Shizuoka Bank	2,077	18	Daishi Bank	1,302
7	Ogaki Kyoritsu Bank	2,002	19	Miyazaki Bank	1,300
8	Hachijuni Bank	1,990	20	Ashikaga Bank	1,279
9	Hyakugo Bank	1,716	21	Gunma Bank	1,170
10	Juroku Bank	1,596	22	Saitamaken Shinkin Bank	1,120
11	Yamaguchi Bank	1,521	23	77 Bank	1,062
12	Bank of Nagoya	1,590	24	Awa Bank	1,054
			25	Iyo Bank	1,029

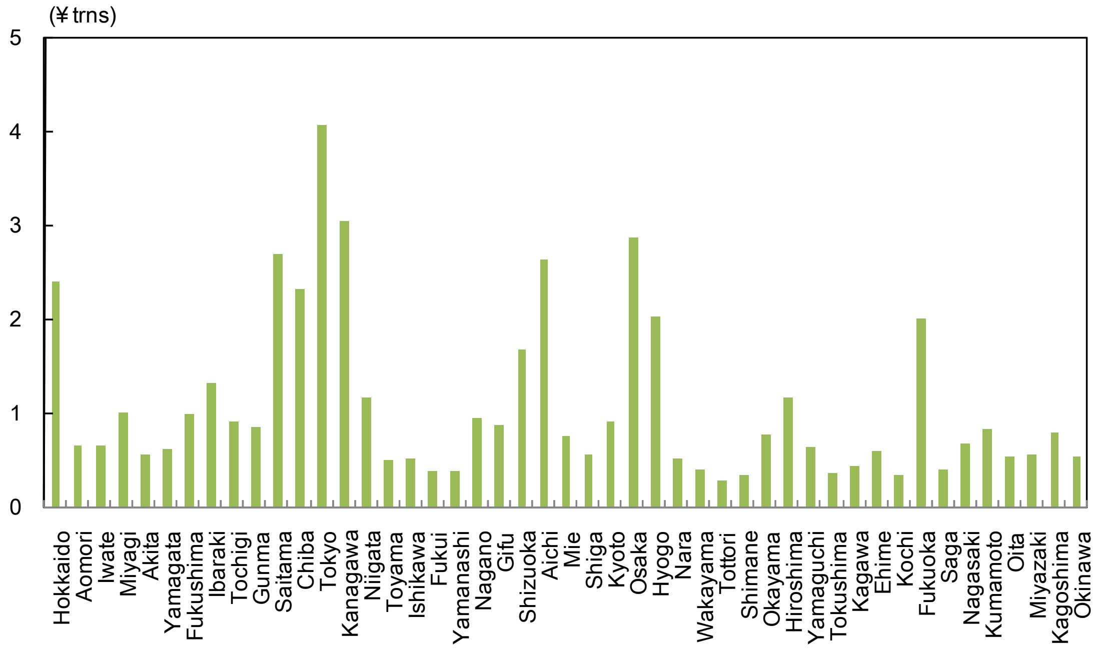
Note: The top-selling regional financial institutions are regional banks, second-tier regional banks, and shinkin banks with sales of at least ¥100 billion.
Source: Nomura Institute of Capital Markets Research, based on Ministry of Finance data.

management, administrative, and technical positions)[3], and this comes to total each year of approximately ¥9 trillion.

Looking next at inheritances, although these funds do not represent a new addition to the household sector overall, the ownership of the funds changes from one household to another. We conservatively estimate that inheritances total ¥50 trillion

3 These figures come from the 2008 General Survey on Working Conditions from the Ministry of Health, Labor, and Welfare.

Figure 8: Retirement payout by prefecture (2011–15)



Source: Nomura Institute of Capital Markets Research, based on data from the Ministry of Internal Affairs and Communications and the Ministry of Health, Labor, and Welfare

annually. This amount includes real assets, which are included in the total because of the possibility that those assets will be sold upon change of ownership.

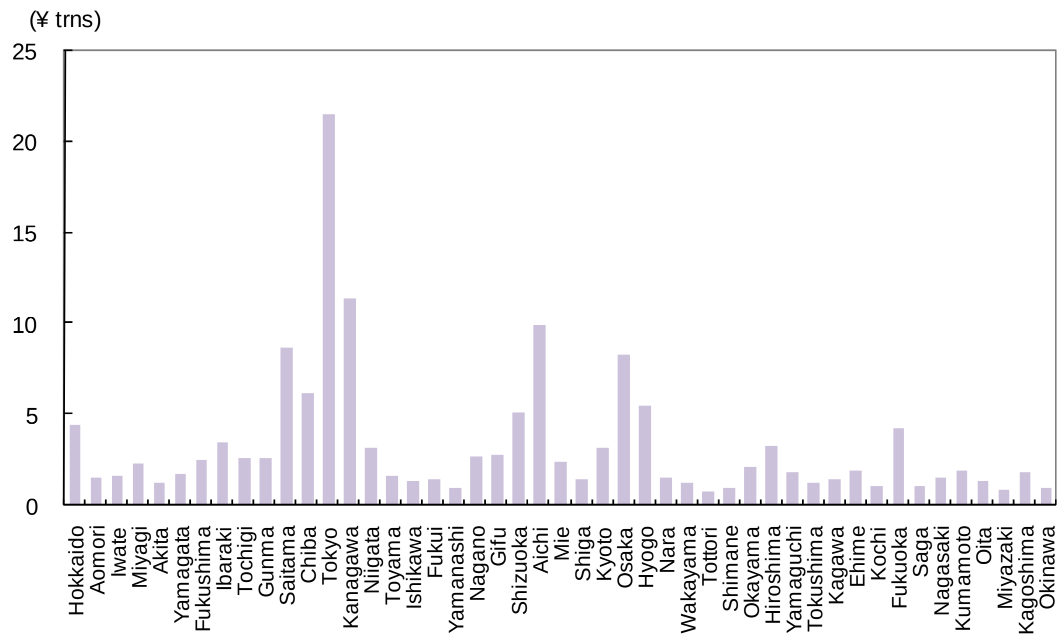
2. Where the funds are

Although there is no published data on the geographical distribution of individuals receiving retirement payouts, Figure 8 shows the results of our estimates based on (1) the number of people approaching age 60 who are employed and thus expected to get a retirement payout[4], (2) the educational breakdown of that generation, (3) the average years of service by educational level of that generation, and (4) the retirement payout by educational level and years of service. Please keep two factors in mind, however. First, because we use nationwide averages for our calculations, these estimates may be low for individuals in major cities and high for individuals in regional areas. Second, the number of companies that revise their retirement payout plans and benefit levels may increase in the future[5].

4 These estimates assume that all of the individuals surveyed are employed at a company with a retirement plan.

5 According to the 2009 General Survey on Working Conditions from the Ministry of Health, Labor, and Welfare, 14% of all firms revised their lump sum retirement system over the past three years, and another 14% plan such a revision over the next three years. In each of those two groups of firms, 24% answered (with multiple answers possible) that they would change their method of calculating the basic amount.

Figure 9: Inheritance amount by prefecture (2011–15)



Note: Inheritance amounts are assigned to the prefecture of origin.
Source: Nomura Institute of Capital Markets Research, based on various data sources

There is no published data on the geographical distribution of individuals receiving inheritances, and we have estimated this based on the number of heirs and the amount of household assets, as shown in Figure 9.

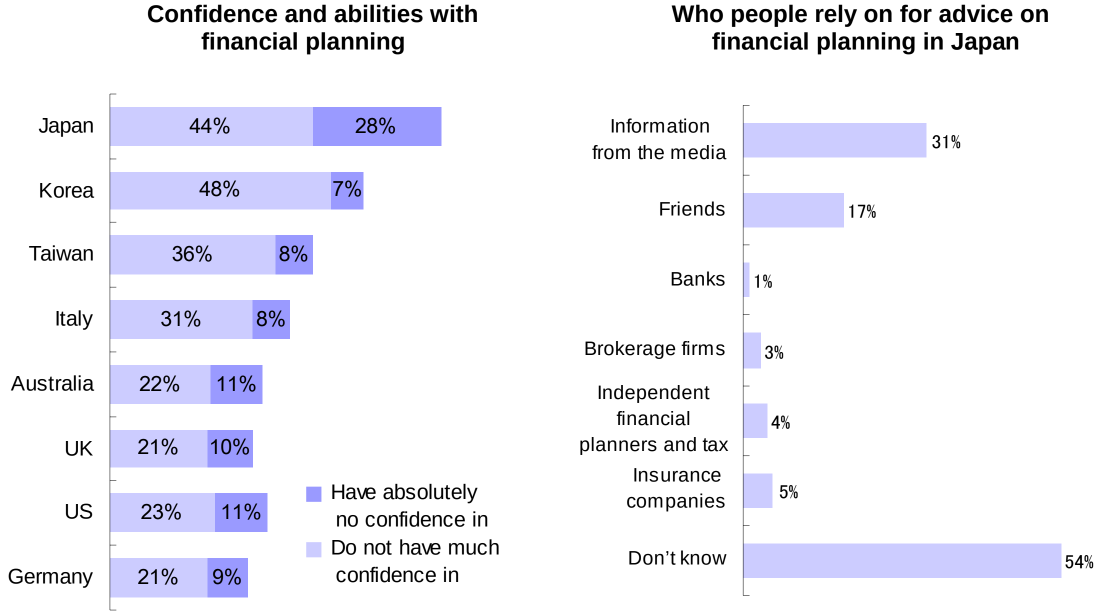
In addition, our assumption on the generational distribution of individuals receiving inheritances is that those individuals are concentrated in the 50–59 and 60–69 age brackets, around the same stage in life that retirement payouts are received.

V. To attract these funds

Hence the next several years should see a major flow of funds back into the hands of households. Overall financial assets in the household sector have had few new inflows over the past 10 years and have effectively been topped out. This makes attracting the new funds flowing into households that much more important for financial institutions.

The nature of these funds can be broadly described as follows. Of the Teigaku savings accounts at Japan Post Bank that are maturing, the funds that have not been withdrawn and are still there at maturity appear to be particularly oriented toward safety. In contrast, redemptions from JGBs for individual investors, although safety oriented, are also more demanding of return. Because in both cases the whereabouts

Figure 10: Confidence and abilities with financial planning



Note: Survey taken in summer 2008 of 750 males aged 45 and over in each of nine countries/regions (US, UK, Germany, Spain, Italy, Japan, Korea, Taiwan, and Australia), a total of 6750 individuals surveyed. Multiple answers were allowed.
Source: Nomura Institute of Capital Markets Research, based on The Hartford's International Retirement Index survey

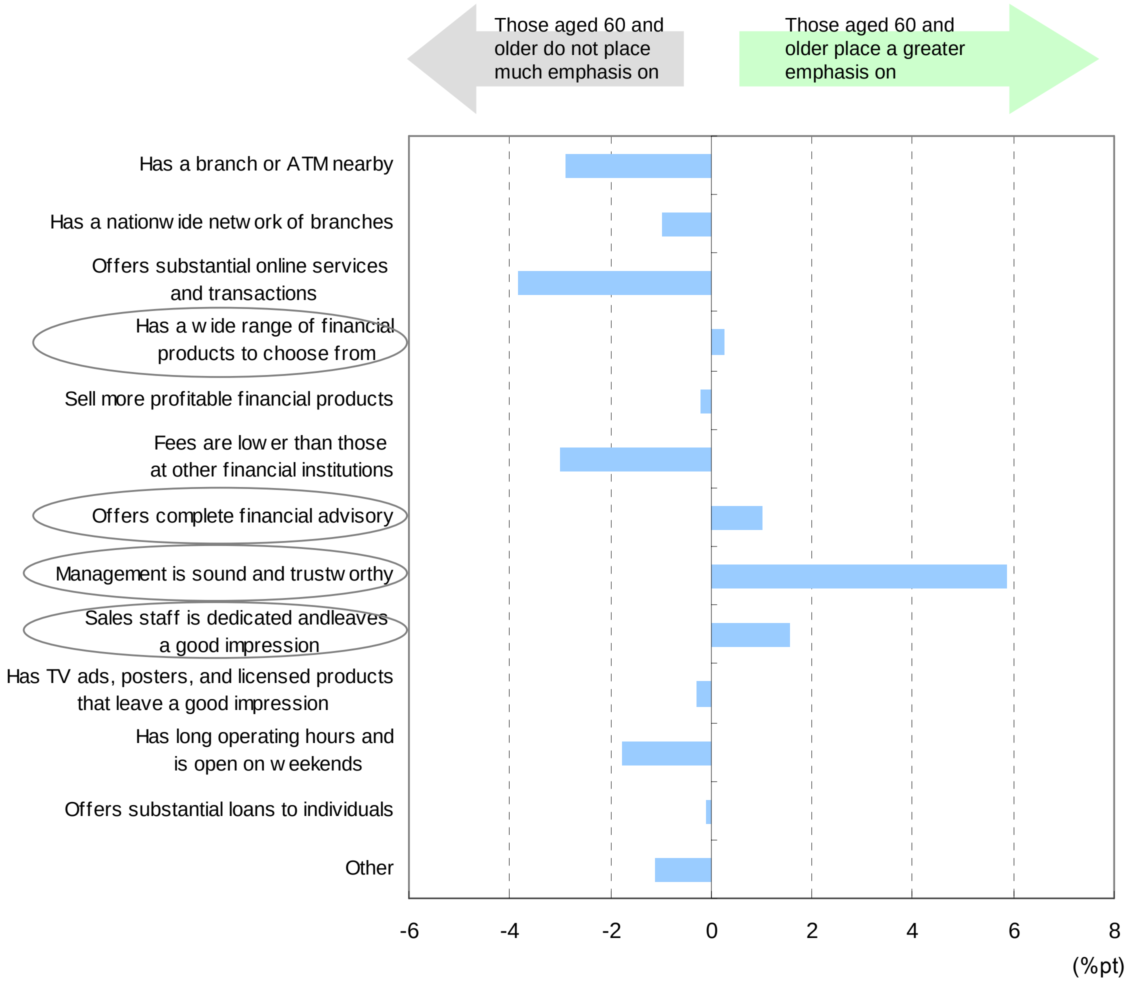
of the funds was initially determined by their owner, the asset allocation role is likely to be unchanged.

Both retirement payouts and inheritances are new funds that have not yet been allocated by their new owners. Consequently, the decision as to how to allocate the assets is likely to differ depending on the owner of the funds. Surveys indicate that recipients of retirement payouts tend to use half the payout for repaying debt and consumption and put the other half in deposit accounts and asset management accounts. In contrast, there appears to be few constraints on the use of that portion of inheritances for which the timing and amounts are uncertain and thus difficult to allocate ahead of time.

We think one effective way to attract these funds is to keep in mind the specific characteristics of each source of funds in order to design and market products specifically geared to those characteristics as well as to the asset allocation process that each will be subject to.

We also think it important to focus on meeting the needs of investors in or around their 60s, given that the ownership of these funds will be concentrated in that generation. For example, a much higher percentage of individuals in Japan lack confidence in their knowledge of and capabilities in financial planning than is the case

Figure 11: Standards for selecting financial institutions: differences between those aged 60 and older and the average for all generations



Note: Survey is of households with two or more people. Figures show the number of positive responses for those aged 60 and over less the average number of positive responses from all generations.

Source: Nomura Institute of Capital Markets Research, based on the Central Council for Financial Services Information's Opinion Survey on Household's Financial Behavior (2010)

in other countries, and not knowing who to consult with on financial planning, they have relied heavily on information from the media (Figure 10). Japan has yet to see the emergence of a financial institution that can satisfy this age cohort by addressing these worries over financial planning.

On the other hand, when choosing a financial institution, this generation appears to be especially concerned (compared with other generations) with the soundness and trustworthiness of the institution's management, citing as important the dedication of and overall impression given by the sales staff, the ability of its financial advisors to provide consultation, and the presence of a strong lineup of financial products to choose from (Figure 11).

Another approach likely to be effective in attracting these assets would be, by ensuring sound management, offering a more complete lineup of financial products and services that meet a range of risk/return characteristics, while also devising ways, including through offering consultation on a financial plan that ensures a fruitful post-retirement lifestyle, to deliver these products and services, thereby winning the confidence of this generation that they are the right financial institution for them to keep their funds with.