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# Wealth Management in Japan

**Everlasting Mirage or the  
Turning of the Tide?**

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## EXECUTIVE SUMMARY

Japan has a large savings pool, but only a small portion of this is professionally managed. This and myriad of societal and financial consequences are well acknowledged. The problem is made more acute by people living longer in retirement. In this context, there is an urgent need and an opportunity for wealth management models that cater to a broader Japanese population.

Our customer survey covering ~3,600 respondents across a range of age, affluence, life stage, behaviors, employment backgrounds, and investment attitudes, pointed towards eight distinct customer segments that should be receptive to the best wealth-management offerings. Although five of these groups represented existing investors, three are what we call “attractive non-investors” (i.e., those who are waiting on the sidelines for the right proposition and conditions to re-enter the market). Each segment has substantive investment assets (long term) and needs that go beyond financial products. Thus, many people are receptive to advice and are willing to pay for it.

To capture this business, companies should think less about products and more about their customers. Firms should tackle the challenge of financial literacy head-on and give customers the confidence to stay invested. Companies must also shift towards goal-oriented and lifestyle-based approaches and recognize that these things change over time. Advice plays a critical role in enabling these changes, and we recognize that it can take different forms, including digital ones. Furthermore, there is presently an untapped opportunity to leverage digital to better engage customers and deflect extraneous costs away from business models. Lastly, we recognize that businesses often cannot do this on their own. The winning organizations will be those that work with local governments, employers, and regulators to help support societal objectives around financial literacy to create an environment that nurtures wealth creation.

We believe there is no shortage of players (extant and new) that can credibly offer a customer-focused wealth-management service. As their management teams start thinking about this, they should ask themselves six key questions:

- Who will be our customers and what is our unique proposition (i.e., why will customers give us their business)?
- How will we respond to the six fundamental requirements of a customer-centric wealth-management business?
- What is the role of digital in this new business model?
- How can we use existing distribution to access customers, and is that enough?
- How do we efficiently source products?
- How can we meet our societal responsibility to drive financial literacy?

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## CONTEXT - GROWTH, SHOCKS, AND TIMING OF CHANGE

The history of wealth accumulation in Japan is well documented and goes back several decades. It includes significant investments into real estate and stock markets. The Japanese economy weathered the market crash of the early 90's (the "lost decade") as the liquidity crunch worked itself through the system. It survived the impacts of the Lehman crisis and has maintained a sustainable recovery ever since, apart from being blunted by the impacts of the COVID-19 pandemic. While the situation continues to evolve, the short-to-medium-term economic impacts are already becoming clear (e.g., *subdued business activity, reduced factory output, slowdown in personal consumption, significant reduction in tourism-related spending, increasing partial and full unemployment, sales staff unable to interface customers, and sustained strain on businesses' cash flows*). There is no doubt that this will have an impact on wealth creation both now and in the future. However, the shortfall in retirement funding and the underlying need for wealth creation has not gone away because of the COVID-19 crisis.

Through these ups and downs, two constants have remained. One is the high level of cash-based savings and the limited focus on asset growth amongst Japanese citizens. In a deflationary, risk-averse environment, this course of action makes perfect sense. The second is the role employers and the government play in providing a retirement safety net. However, a perfect storm of demographic and market factors means that Japan must re-examine how its citizens think about retirement.

**First**, life expectancy has steadily increased, but retirement age and wages have not quite kept pace. Consequently, citizens need to fund longer retirement periods.

**Second**, aging population dynamics have resulted in an increasingly smaller working population, placing acute pressure on government finances and the ability to provide a social safety net for the Japanese populace.

**Third**, the steady migration, particularly of younger people, from rural areas to major metropolitan areas (e.g., Tokyo and Osaka) is further concentrating wealth in a few areas while depleting that of outlying regions.

**Fourth**, employment practices are changing. The concept of "jobs for life" has steadily eroded, and younger generations are more open to changing careers. Although this provides broadened experience, it does limit their ability to build assets within a single employer-sponsored pension scheme.

**Fifth**, on a net basis, the value gained by Japanese financial service customers has been limited. The fees and commissions charged to customers are higher than those in other markets. However, the performance is comparable. Customers see little value in handing their assets over to someone else when the price is so high.

**Sixth**, financial products in Japan are largely "pushed," meaning that there is very little pull through demand, and there is a limited focus on educating customers about long-term choices and impacts. The result is that customers face the risk of being matched with products that may not suit their needs.

Given the acute retirement-income challenge and the limited customer-oriented offerings available in the market, the question has to be asked, "is there an opportunity to solve the retirement income problem for Japanese citizens?" Our belief is that "yes," this is possible through a wealth-management model that (1) meets the needs of customers, (2) provides new opportunities for incumbent financial services players, (3) enables employers to meet their social obligations, and (4) is nurtured by long-sighted government policy.

## THE CUSTOMER-ORIENTED WEALTH OPPORTUNITY

Over the past decade, the Japanese government and regulators have taken measures to make wealth management more accessible to a broader set of customers. Programs like the Nippon Individual Savings Account (NISA) and the government-recommended contribution schemes offered by larger employers are steps in the right direction. However, much remains to be done to improve access and participation. More recently, the FSA's publication on the JPY20m savings gap was an explicit admission of the impending retirement funding shortfall, and the start of an important dialog among the government, financial institutions, and consumers. Furthermore, 55% of our survey respondents\*1 indicated they had or expected to receive a large inheritance in addition to wealth creation. Therefore, the wealth-management industry in Japan needs to actively solve for the intergenerational wealth transfer problem. Add in the large portion of savings that remain cash based, and the customer-oriented wealth opportunity in Japan is substantial.

First, we must understand who the future wealth customer will be. Beyond simple demographic and affluence-based segmentations, we consider broader life-stage needs and commensurate approaches to managing wealth. Based on our survey, we identified eight broad segments of the Japan market with three comprising attractive non-investing customer groups that could be tempted with the right proposition:

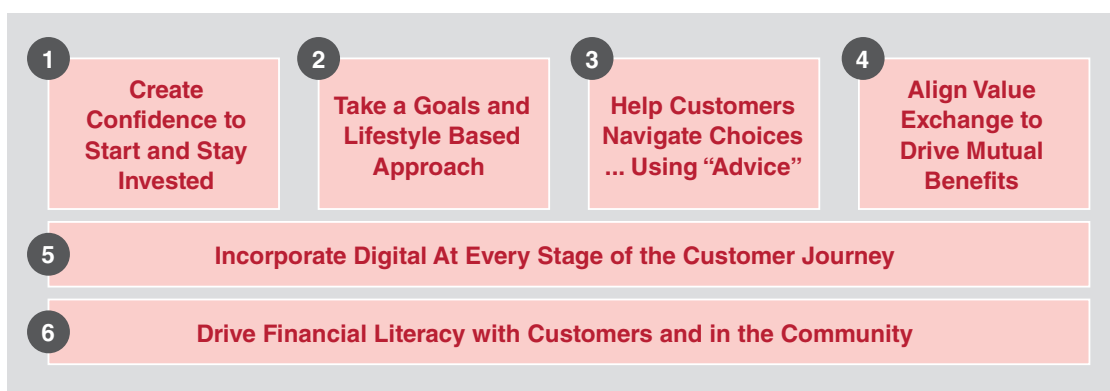
### EXHIBIT

#### Japan Wealth Management Customer Personas

Existing Investors	<b>Recently Married young couple (30~40s)</b> <b>Kenji, Makiko Yoshida</b> Kenji works at manufacturer, Makiko works at local municipal office. Annual Income: 5~10 million Asset: 5~10 million <ul style="list-style-type: none"> <li>"We know nothing about investment now, but we really should start thinking about that for our children, house buying and old age."</li> <li>"We surely want to talk to advisers but how can we afford that?"</li> <li>"I prefer an easier way to communicate with advisers like websites or e-mails."</li> </ul>	<b>Married Couple with children (40~50s)</b> <b>Takao, Yoshie Tanaka</b> Takao works at listed company, Yoshie works part-time. They have two kids in high school. Annual Income: 10~20 million Asset: 5~10 million <ul style="list-style-type: none"> <li>"We started doing investments after marriage for family expenditures. Now we are able to have a good family life plan and knowledge about our own assets."</li> <li>"I don't think we should review asset management too frequently, maybe once in 3~4 years is enough."</li> </ul>	<b>Married but after child independence (50~60s)</b> <b>Yoshiro, Hanako Sato</b> Yoshiro is a company officer, Hanako is a full-time housewife. Annual Income: 10 million~ Asset: 10 million~ <ul style="list-style-type: none"> <li>"Investment is my hobby and I enjoy the process to make money from surplus."</li> <li>"I would like advisers to provide professional information to help my decision."</li> <li>"If Google or other IT companies enter this industry, it will be fun to try."</li> </ul>	<b>Low-income Pre-retiree (60s)</b> <b>Masashi, Yukie Takahashi</b> Masashi will retire after two years, and Yukie is already a full-time housewife. Annual Income: 3~6 million Asset: 20~50 million <ul style="list-style-type: none"> <li>"We decided to find an adviser to prepare for life after retirement."</li> <li>"Smartphones and PCs are too complicated, so it's best to meet face-to-face."</li> <li>"We don't think we can figure out everything, so you don't have to report small changes after investment."</li> </ul>	<b>High-income Pre-retiree (60~70s)</b> <b>Namihei, Fune Yamada</b> Namihei is a hired company president, Fune is a full-time housewife from wealthy family. Annual Income: 10 million~ Asset: 50 million~ <ul style="list-style-type: none"> <li>"Bequest for children is more important because we already have enough money for ourselves."</li> <li>"I'm not familiar with digital things or IT companies."</li> <li>"We are interested in asking our advisers if he/she has enough professional knowledge."</li> </ul>
	<b>Aged Single Men (50~60s)</b> <b>Jiro Suzuki</b> Jiro works in the service industry. Annual Income: 5~10 million Asset: 30 million <ul style="list-style-type: none"> <li>"I did investment before following my friends' advice, but I couldn't make a profit."</li> <li>"I'm not confident in my own opinion and I don't think paying for advice is effective either."</li> <li>"However, if I start investment again, I think I will completely rely on advisers."</li> </ul>	<b>Cash sufficient but time limited (50~60s)</b> <b>Osamu, Iori Terada</b> Osamu is a doctor and running a clinic. Annual Income: 10 million Asset: 20~50 million <ul style="list-style-type: none"> <li>"We have been interested in investment but had no time to think about it before, so we think advisers can help us a lot."</li> <li>"Actually, we already have savings for life after retirement. At the same time, we also have vague anxiety such as if the savings is enough."</li> </ul>	<b>Risk-averse married couple (40s)</b> <b>Yuta, Minoru Ito</b> Have a child in public elementary school. Annual Income: 5~10 million Asset: less than 10 million <ul style="list-style-type: none"> <li>"We thought about investing before, but gave up because my wife said that the risk is too much."</li> <li>"I will think about investment again if our money is surplus but not now. Maybe a retirement allowance is a good chance."</li> </ul>		
	Currency: JPY				
	Source : PwC Strategy&, Personas represent aggregation of data plus insights from interviews to "typical" customers conducted by Strategy& and that all the names are not actual people.				
	*1: PwC Strategy& Customer Wealth Survey - conducted March 2020 with a sample of ~3,600 respondents covering investors and non-investors, age groups ranging from 20 to 80, with representation across employment categories, geographic spread across Japan, and affluence.				

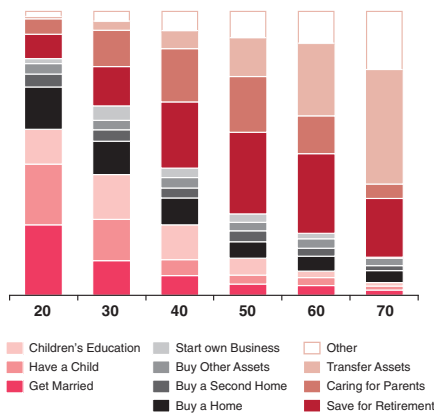
It is worth noting an additional group that does not appear in the above categorization: one is important from a societal perspective. Changing growth patterns and increasing inequality have created a growing group of citizens who feel “left behind”. Effectively, they are financial refugees. They find it difficult to draw a steady income stream, have few assets to fall back on, face difficulties accessing traditional financial providers, and are especially vulnerable for the retirement challenges of a long life. The opportunity here is for industry players to work with public sector bodies to develop solutions that cater to the unique needs of this group.

We see the wealth-management industry in Japan evolving from being an ultra-high/high net-worth-focused business with a few global players to one that caters to the needs of a broader demographic (beyond just selling mutual funds). Successful ones will be those that take a customer-centric approach and focus their efforts on six areas:



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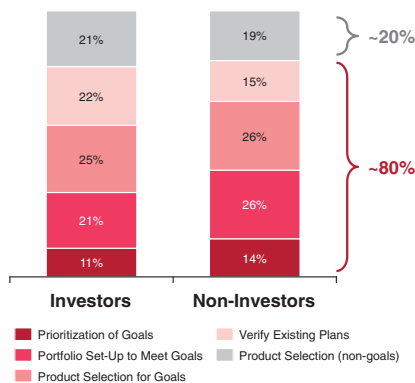
**Take a Goals and Lifestyle Based Approach**



The Japan market is product oriented with thousands of products, each focused on the “hot” trend of that time. The successful wealth manager will **adopt a goals and life-stage-oriented approach**. Our research indicates that customers are worried about life-stage-oriented problems and that some of these endure across age groups: saving for retirement, caring for parents, and transferring assets. However, 87% of respondents did not know how much money they needed to meet those goals. Successful managers will be those with solutions that help customers understand how much they need to save to meet their goals and then develop a plan to do so. Some of these solutions might well include non-financial services (e.g., aged care, small business advice).

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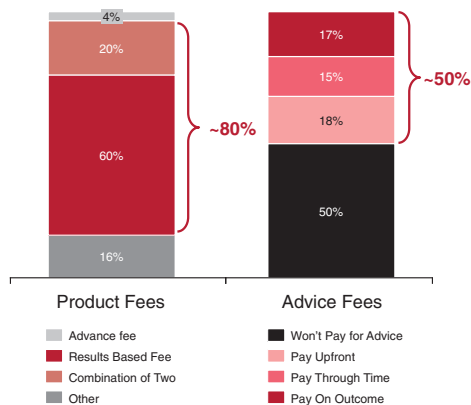
**Help Customers Navigate Choices ... Using “Advice”**



Sales in Japan traditionally focus on product features, but **successful managers must incorporate a range of advice into their solutions**. Amongst our respondents, ~50% of investors and ~24% of non-investors indicated a willingness to seek advice regarding their finances. Amongst this group, ~80% wanted advice relevant to their life goals, not about product selection. This requires advice to be delivered in a variety of ways beyond agents and financial planners to using digital tools, algorithms to monitor progress and periodic remote consultations.

4

**Align Value Exchange to Drive Mutual Benefits**

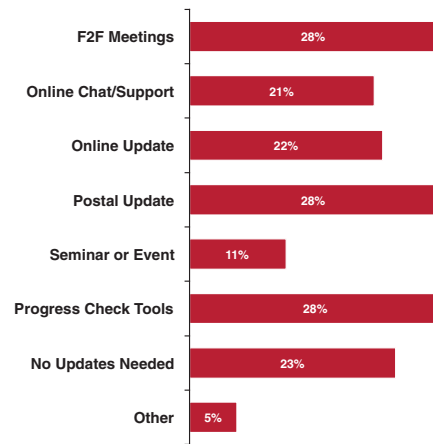


The Japan market features high fees and commissions, and these are often decoupled from customer outcomes. Customer sentiment, however, suggests that **future-value exchange models must orient on mutually beneficial outcomes**. Most customers (60%) seek fees aligned to investment outcomes. Amongst those willing to pay for advice, a plurality seek to tie payments to investment outcomes and horizons. This suggests that customers are willing to pay for advice if it is offered in different ways and is clearly linked to value. More fundamentally, successful players will need to reimagine their business models to shift away from relying on product fees and sales loading.



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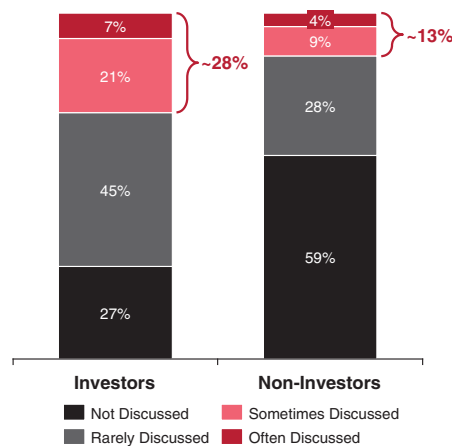
**Incorporate Digital At Every Stage of the Customer Journey**



Key to ensuring customers remain invested is maintaining regular communications with them. Customers, however, prefer to be contacted through a variety of channels, many of which **require substantial digital capabilities**. Additionally, our data tell us that different customers have varying expectations of how frequently they would like to hear from their wealth managers. Fewer than 20% of customers sought monthly updates, and more than 45% were satisfied with not being contacted for 3 months or longer. Successful wealth managers must understand the preferences of their customers and design a model that leverages digital venues at every stage of the journey to maintain engagement, and minimize the cost associated with doing so.

6

**Drive Financial Literacy with Customers and in the Community**



To achieve a marked shift in wealth-management attitudes, **financial literacy and the discussions underpinning it must increase**. Fewer than 30% of investors and 15% of non-investors engaged in regular financial discussions. When those discussions occurred, they were overwhelmingly with family, friends and colleagues. On one hand, this leads to greater anecdotal information that wealth managers should proactively address. On the other hand, this is an important decision-making process that provides an opportunity for wealth managers who can build trust (i.e., a referral model). In either case, those who proactively drive the financial literacy dialog will be better placed to succeed.

Our analysis shows that there are distinct and attractive customer segments that have unmet wealth-management needs. This highlights the evolving attitudes of non-product related elements of wealth-management models: consumers with access and willingness to pay for advice, those with changing attitudes towards digital collaboration, and those who rely on personal networks for decision making. Clearly, there are underlying systemic issues related to financial literacy, market participation, and equity, which will require collaboration between private and public sectors to drive a long-term solution. In the next section, we explore the actions different players should take to succeed in a changing market.

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## WHAT SHOULD BUSINESSES DO?

The Japanese financial system is not lacking structural challenges. The large banks have seen a steady erosion in income and profitability driven by a secular decrease in personal and corporate lending. Regional banks have the added challenge of declining populations (i.e., customers) and low economic growth in the areas they service. Insurers are profitable, but top-line growth has stagnated for the past several years. Asset managers are a few steps removed from the customer and, as a result, fail to capture the value found at the distribution end of the value chain. All are capital intensive and likely to remain so, given how regulations are evolving. We can now add the intensified pressure of a post-COVID accelerated low-rate environment.

Wealth-management offerings present firms with opportunities to strengthen their businesses by building upon existing customer relationships and to increase their return on equity by shifting into adjacencies with lower capital imposts.

**For insurers** – by leveraging their latent agent force and building on the protection-related conversations many of their best agents are already having with customers. Indeed, the protection + wealth customer conversation is highly symbiotic and is one that is more consistent in more mature wealth markets globally (e.g., Germany, Australia, Hong Kong, the UK) Achieving this will require re-skilling the agent force to enable financial planning-type conversations.

**For banks** – by focusing on the whole of life (and particularly retirement) conversations with customers incorporating lending, tax advice, and liquidity solutions. Depending on the customer focus, this may even extend to intergenerational wealth solutions. Achieving this will require significant investment in new capabilities and retraining the bank teller force.

**For regional banks** – the opportunity to leverage their outsized share of the local wallet to position themselves as advisors to and long-term custodians of the societies they serve. For them, this might include evolving small business advice propositions, providing guidance on intergenerational wealth transfers, and retraining staff.

**For securities firms** – the opportunity to leverage existing distributions and a technically knowledgeable salesforce. This is significant, but they must tackle two main issues. First, they should identify sales staff that rely on customer connections (vs. commission streams) to sustain their business and develop initial plans around them whilst re-skilling others. Second, they should form service-oriented partnerships (e.g., tax, legal) to support a broader range of customer needs.

**For asset managers** – the opportunity to leverage digital and direct models to get closer to the customer and capture greater value. While they will need to develop (or buy) these digital and packaging capabilities, they can benefit from an existing product shelf that can be adapted and leveraged.

**For non-financial services players** – the opportunity to leverage strong, existing customer relationships to deliver financial services in a much more digitally enabled way. The most logical candidates are the large technology platforms, and this trend is well advanced in markets such as China. Indeed, in our customer survey, 73% had little or no hesitation in turning to technology companies for wealth needs, and ~85% indicated they would trust the advice provided by such players\*<sup>1</sup>.

The participation of industry players alone is insufficient to create a thriving wealth management market. Two key non-industry stakeholder groups have an outsized role to play in shaping societal attitudes towards wealth accumulation, saving for retirement, and financial literacy - Japanese employers, and the government (down to the local level).

Japanese employers have long acknowledged their social obligations to their staff. This underpins the labor market wherein most people have traditionally had jobs for life. However, obligations to employees typically stop when they retire, usually at age 60. Additionally, there are limited efforts to instill financial literacy prior to that. A proposition wherein employers partner with wealth-management providers to educate workforces about building wealth is missing in most workplaces. This becomes increasingly critical, given the known demographic challenges and the extended retirement age.

Practical steps employers can take include:

- Partnering with wealth-management providers to improve financial literacy among staffs (i.e., a corollary to the various Kempo-related activities aimed at improving health).
- Making a “managing your money” session part of the induction for all new university graduates and lateral hires (i.e as part of the onboarding process).
- Using behavioral economics to nudge staff to build their wealth, such as by suggesting that they contribute a slightly higher amounts into the firm-sponsored plan when they receive bonuses.
- Partnering with and providing staff-discounted access to a range of financial advice, stopping short of recommending a specific provider.

In parallel, we believe that the government has a critical role to play in fostering a wealth-management industry not only to benefit its citizens, but to also form a pragmatic approach of reducing the pressures on the public purse. The government’s role must be far-sighted and more than just regulatory- and oversight-focused.

**First**, the government must create an environment wherein participants can innovate around wealth-management offerings, which include incentives to attract domestic and overseas players and gentle policy nudges. **Second**, it must support policies that drive demand for wealth-management products and make it easier for younger people to enter the market, such as by expanding NISA and promoting supplementary defined contribution schemes (similar to 401k in the US or superannuation in Australia). **Third**, a long-term view towards financial literacy is required: one that starts with educating students in high school and continues in different fashions through their careers, including seminars at ward offices across the country. **Fourth**, the regulator should create an environment wherein an advice-based industry can develop – setting standards, establishing the field as a profession with qualifications, and encouraging investments into robo-advice methods that reduce the risk of mis-selling are all ways in which this can be accomplished.

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## WHERE TO FROM HERE?

The question that has always plagued Japan is why so much wealth exists in cash, and will citizens ever switch out of cash into asset classes that will grow in value over time. We believe this occurs in large part because of the lack of contemporary, customer oriented wealth management solutions. A renewed look at establishing a wealth management sector can drive significant societal and private benefits:

- Improved ability for citizens to adequately fund their retirement through a focus on asset accumulation (gradually reducing the public pension burden).
- Improved tax and advice strategies that enable inter-generational wealth transfer without sacrificing retirement security or leaking as “wasted assets”.
- Alternative approach to fund infrastructure investments and generate cash distributions without reaching into the public purse.
- Diversifying the business of financial services companies.

We believe there is no shortage of players – existing and new ones – who could credibly pursue a customer focused wealth management business . As they start thinking about this, they should ask themselves five key questions:

- Who will be our customers and what is our unique proposition – i.e. why will customers give us their business?
- How will we respond to the 6 fundamental requirements of a customer centric wealth management business?
- What is the role of digital in this new business model?
- How will we use existing distribution to access customers?.. Is this sufficient?
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