

The results of monitoring customer-oriented business conduct of investment trust distributors (Summary)

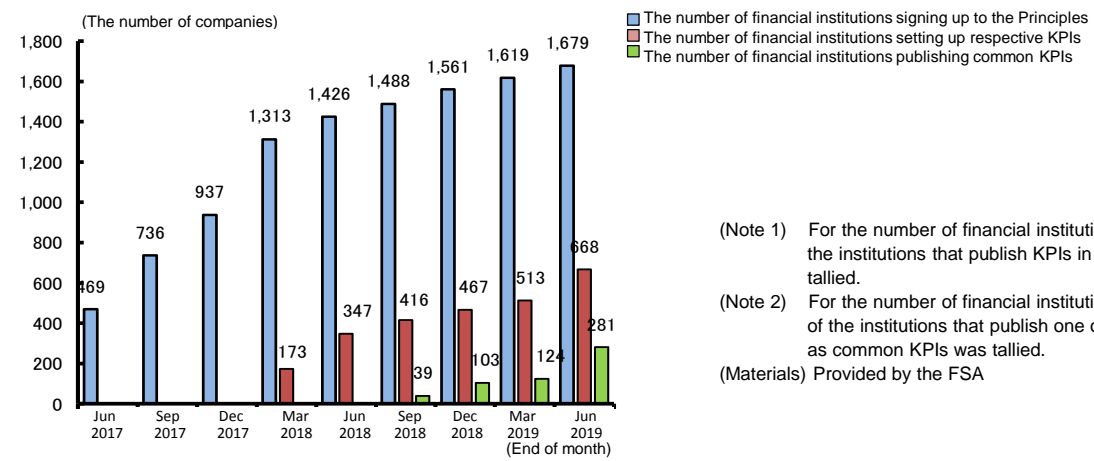
August 28, 2019
Financial Services Agency



1. Promote the visualization of financial institutions' initiatives to establish customer-oriented business conduct

- **Published the “Principles for Customer-Oriented Business Conduct” (hereinafter referred to as “the Principles”) in March 2017** to encourage financial institutions to compete in providing high-quality, customer-oriented financial products and services.
- Also **encouraged financial institutions adopting “the Principles” to develop and publicize “Policy” and “respective KPIs (Key Performance Indicators)”** which are for the objective assessment of embeddedness of their “policy”.
 - ➔ As of the end of June 2019, 1,679 financial institutions have publicized their “policy” and 668 institutions have published the “respective KPIs.”
- **Published in June 2018, the comparable “common KPIs” (three indicators such as ratio of customers by gain/loss on investment performance, etc.)** that measure long-term return proportional to risk/cost, to encourage investment trust distributors to publish their performance.
 - ➔ As of the end of June 2019, 281 investment trust distributors have published the “common KPIs.”
- Promoted establishment of customer-oriented business conduct by publicizing good practices of the policy and the KPIs developed by each financial institution.
 - ➔ While there are **cases where the policies are regularly reviewed, and KPIs with relevant information are published in chronological order**. There are also **cases where there is a lack of attitude to fully understand the essence of the “the Principles” and to practice them. For example, some distributors published their policy to which only minor word changes from “the Principles”.**

The number of financial institutions that adopted “the Principles” and the number of institutions that published respective KPIs and common KPIs



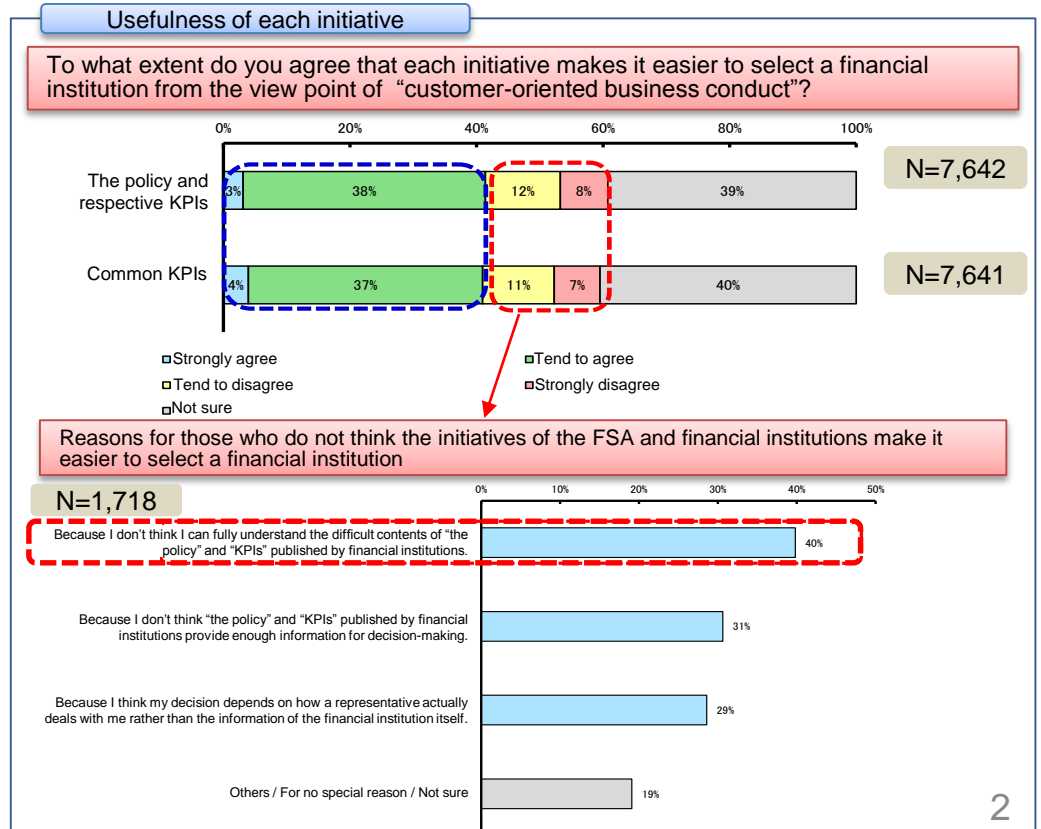
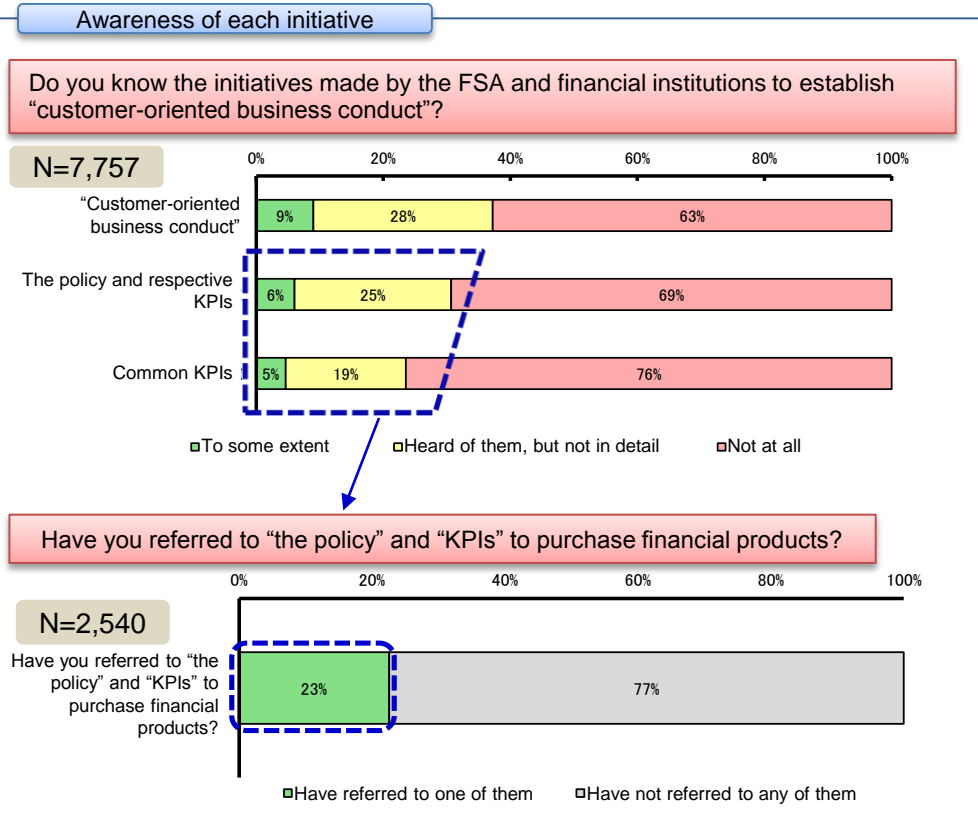
(Note 1) For the number of financial institutions that set up “respective KPIs”, the number of the institutions that publish KPIs in their policy and during its implementation was tallied.

(Note 2) For the number of financial institutions that published the “common KPIs”, the number of the institutions that publish one or more of the three indicators that are considered as common KPIs was tallied.

(Materials) Provided by the FSA

2. Confirm the level of customer awareness and feedback on the initiatives made by the FSA and financial institutions

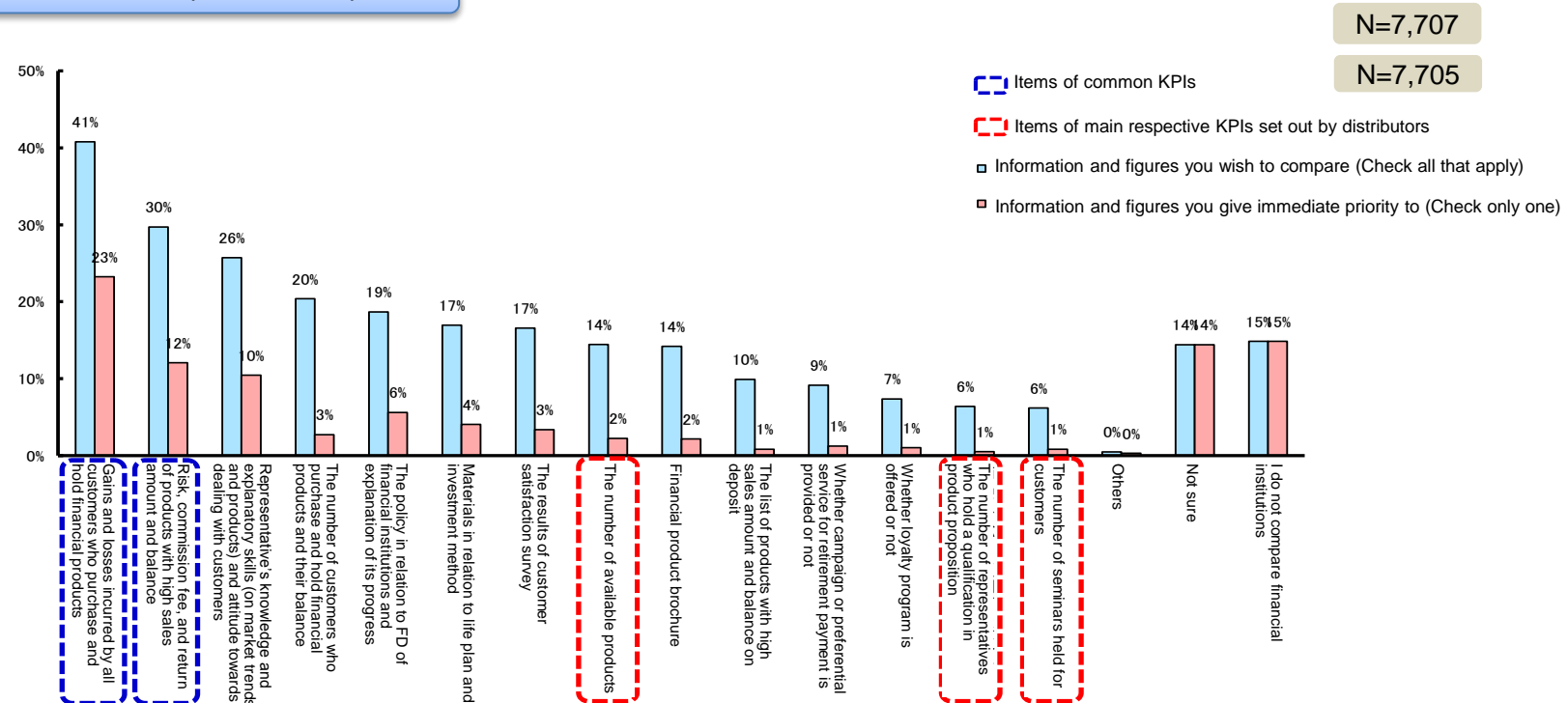
- Recognizing the need to verify whether the initiatives made by the FSA and financial institutions properly reach customers, the FSA conducted a customer survey and published the results of analysis.
- **Around 30% of total customers are aware of the initiatives, whereas only 20% of customers who are aware of the initiatives refers to them when purchasing financial products such as investment trusts.**
- **40% of respondents stated that publishing the policy and KPIs makes it easier to select a financial institution from the view point of “customer-oriented business conduct,” whereas the biggest reason for those who do not think so was because “the contents of the policy and KPIs are difficult.”**



2. Confirm the level of customer awareness and feedback on the initiatives made by the FSA and financial institutions

- **High on the list of information customers wish to compare are “gains and losses on investment trusts by all customers” and “risk, cost, and return of main products in terms of balance of assets under management”, which are similar to the “common KPIs.”**
- On the other hand, **customers have low interest in “the number of products in line up,” “the number of seminars held for customers,” and “the number of qualification holders such as FP”** which are largely published as respective KPIs.
- **Some information provided by financial institutions as respective KPIs are not relevant to customer needs.**
- On the basis of the results of the survey, the FSA will encourage financial institutions to **provide meaningful information based on customer needs** as well as **courteous explanation** which will contribute to raise awareness of the initiatives for customer-oriented business conduct.

Useful information to compare financial products



3. Grasp the current status of the customer-oriented business conduct implemented by distributors (qualitative analysis)

■ Overall trend

On the whole, senior management and headquarters are more active in establishment of customer-oriented business conduct, but the extent of their initiatives varies among distributors. It also varies among offices and individuals.

1) Measures to improve sales forces' understanding of and customer awareness of the policy, etc.

- Some initiatives are being made, such as briefing by senior management directly to employees about importance of the policies, and visualizing KPIs by office and by salespersons, whereas providing information on their initiatives to customers is not so active.

2) Utilize customer and employee survey results

- Reflecting the results of customer survey in performance evaluation, and based on the result of the employees survey, reviewing commission rates for performance evaluation to remove bias for sales of products with high commission rates.

3) Review the performance evaluation system and set up an award program

- Some initiatives are being made: introduction (or raising the evaluation weighting) of items for performance evaluation such as increase in assets under management and contribution to expansion of base of customers who are building wealth (e.g. increase in the number of installment-type investment), removing revenue targets, and setting out an award program to recognize salespersons who are well-practiced customer-oriented business conduct.

4) Improve consulting

- Although training is provided to sales forces to enable them to develop a wide range of specialized knowledge and skills, there is a gap in knowledge and skills among them. On this background, it is not ensured that proposals of diversified investment are made taking into account customers' investment purpose and asset portfolio.

5) Improve information provision to customers

- A limited number of distributors provide information with the list of comparable products (such as investment trusts, bonds, and cash-value insurance) on their sales. Disclosure of comparative information on commission fees for cash-value insurance products in the list of their products are also limited.

3. Grasp the current status of the customer-oriented business conduct implemented by distributors (quantitative analysis)

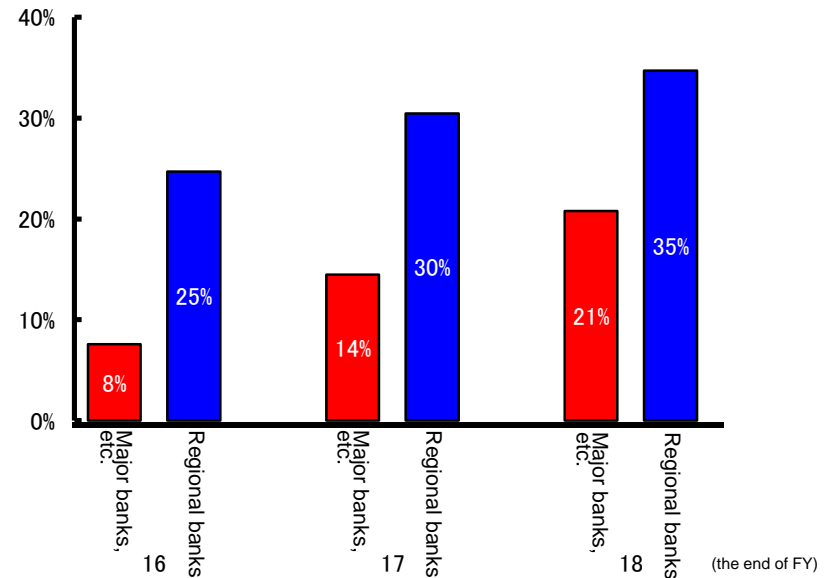
- **A longer average holding period** suggests **signs of improvement in the dependence on churn** for investment trust sales. **The percentage of customers who hold installment-type investment trusts continues to increase**, indicating that an installment-type investment culture is nearly established.

Trends in average holding period
(by business category)



- (Note 1) Data from 9 major banks, 20 regional banks, 7 leading securities companies, and 5 online securities companies was aggregated.
 (Note 2) For banks, on a combined basis of their own sales and sales through brokers. For securities companies, on a company-wide basis.
 (Note 3) Average holding period = (balance at the end of the previous fiscal year + balance at the end of fiscal year) / 2 / (annual cancellation amount + redemption amount)
 (Materials) Provided by The FSA

Trends in the percentage of customers holding installment-type investment trusts to the number of customers holding investment trusts

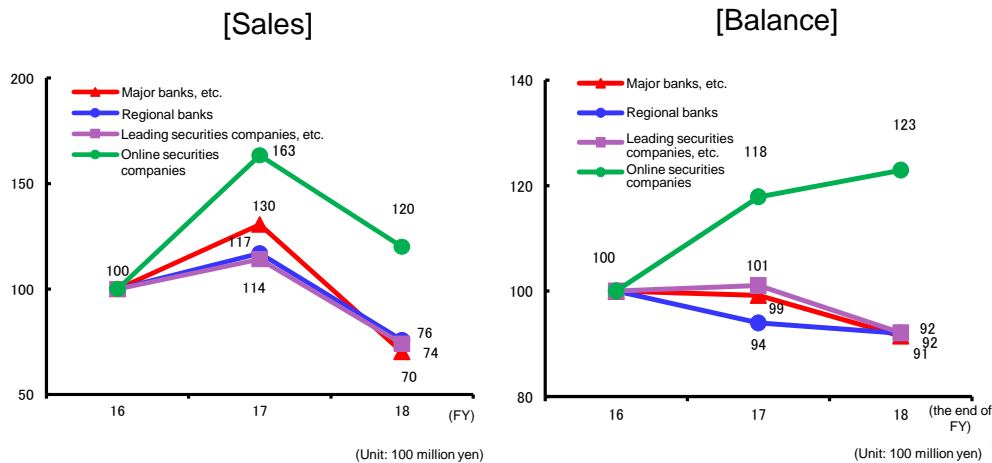


- (Note 1) Data from 5 major banks and 17 regional banks was aggregated.
 (Note 2) On a self-distributed basis
 (Note 3) Target at individual customers with balance as of the end of each fiscal year
 (Materials) Provided by the FSA

3. Grasp the current status of the customer-oriented business conduct implemented by distributors (quantitative analysis)

- While major banks and regional banks are faced with **sluggish growth in the sales and the balance of investment trusts**, both the sales and the balance of foreign currency-denominated single premium policies are increasing significantly. **For this type of fast-growing product**, it is required to: **understand the suitability - whether it meets the customer needs; provide a clear description of the product as well as adequate information such as gains and losses on investment after it is sold.**

Trends in sales and balance of investment trusts (vs. the end of FY2016)



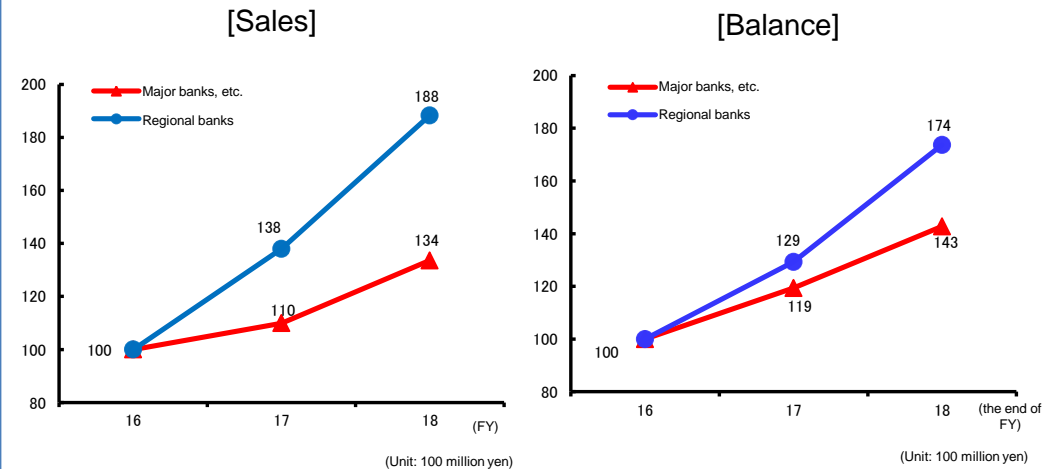
	2016	2017	2018
Major banks, etc.	38,722	50,524	27,152
Regional banks	17,206	20,116	13,026
Leading securities companies, etc.	85,119	97,059	63,019
Online securities companies	8,333	13,609	9,998

(Note 1) Data from 9 major banks, 20 regional banks, 7 leading securities companies, and 4 online securities companies was aggregated.
 (Note 2) For banks, on a combined basis of their own sales, sales through brokers, and referral sales.
 (Note 3) Index numbers calculated by taking the value of the end of FY2016 as 100
 (Materials) Provided by the FSA

	2016	2017	2018
Major banks, etc.	121,350	120,386	111,030
Regional banks	46,554	43,750	42,712
Leading securities companies, etc.	215,783	218,047	198,691
Online securities companies	18,775	22,126	23,076

(Note 1) Data from 9 major banks, 18 regional banks, 7 leading securities companies, and 4 online securities companies was aggregated.
 (Note 2) For banks, on a combined basis of their own sales, sales through brokers, and referral sales.
 (Note 3) Index numbers calculated by taking the value of the end of FY2016 as 100
 (Materials) Provided by the FSA

Trends in sales and balance of foreign currency-denominated single premium policies (vs. the end of FY2016)



	2016	2017	2018
Major banks, etc.	11,044	12,137	14,752
Regional banks	5,353	7,386	10,070

(Note 1) Data from 9 major banks and 20 regional banks was aggregated.
 (Note 2) Index numbers calculated by taking the value of FY2016 as 100
 (Materials) Provided by the FSA

	2016	2017	2018
Major banks, etc.	50,739	60,556	72,407
Regional banks	18,588	24,026	32,273

(Note 1) Data from 9 major banks and 18 regional banks was aggregated.
 (Note 2) Index numbers calculated by taking the value of the end of FY2016 as 100
 (Materials) Provided by the FSA

<Measures to be taken >

- The FSA will continue to **promote initiatives for the “visualization” by financial institutions** and **utilize the good practices** of their initiatives obtained through monitoring of financial institutions **and the results of the analysis of customer survey for dialogue with financial institutions.**