

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

July/22, 2020
Financial Services Agency



1. Past initiatives by the FSA and issues (Summary of the monitoring results) [1]

In order to promote people's shift from "savings" to "asset building," the FSA **developed and publicized the "Principles for Customer-Oriented Business Conduct" (hereinafter referred to as "the Principles") in March 2017**. Since then, the FSA has endeavored to (i) **promote the visualization of the initiatives being made by financial institutions** that have adopted "the Principles", (ii) **promote initiatives through talks with investment trust distributors**, and (iii) grasp the reality of customer evaluations concerning initiatives by the FSA and financial institutions. Major points for the 2019 business year are as follows.



1. Monitoring results

(1) Systems for the sale of foreign-currency-denominated insurance products, etc.

- While the FSA has been carrying out the abovementioned measures, the sale of foreign-currency-denominated insurance products, which are relatively high-risk products, increased sharply in the 2018 business year, and related complaints also increased. Accordingly, the FSA monitored financial institutions' sales systems mainly for such insurance products.
- As a result, the FSA recognized some good practices regarding **distributors' performance evaluation systems not granting excessive incentives for the sale of such insurance products and distributors' practices of providing information that enable customers to make comparisons with similar financial instruments**. On the other hand, various problems were found in many distributors, and **the differences among the various distributors' initiatives was found to be expanding**. In some cases, distributors sold such insurance products by only emphasizing their superiority in interest rates without formulating any specific sales policy or deciding on targeted customers, and ended up receiving **complaints from customers alleging that they had been led to misunderstand the products as simple deposits**. Such cases are problematic also from the perspective of customer protection.
- With regard to **distributors that have been promoting customer-oriented business conduct upon selling investment trusts, etc.**, the analysis of their profits reveals decreases in sales amounts accompanying restrictions on churning and declines in sales charge rates, which suggests that **their initiatives have yet to lead to profit increases in the short term**. **Under such circumstances, it is necessary for distributors to continue investment in human resources development from a long-term perspective in order to further enhance salespersons' skills to make suggestions based on customers' life plans**.
- The differences in distributors' initiatives observed in their operations, such as the sale of foreign-currency-denominated insurance products, are not only caused by their sales capacity but **are assumed to reflect each distributor's business stance concerning long-term profits and investment, etc. in this field**.

1. Past initiatives by the FSA and issues (Summary of the monitoring results) [2]

(2) Visualization of the initiatives being made by financial institutions and customer trends

- Regarding the status of how financial institutions' initiatives were made visible, it was confirmed that in the 2018 business year, **the number of financial institutions that have adopted “the Principles” increased**, but there were many cases where financial institutions did not have an intention to broadly disseminate “the Principles” among personnel engaging in sales activities.
- Therefore, the FSA changed its policy for publication of financial institutions on its website in the 2019 business year to only list up financial institutions that also publish their achievements. As a result, **some financial institutions began to disclose their future directions and the goals they aim to achieve and reviewed their KPIs (Key Performance Indicators), thereby trying to transmit information on their initiatives and achievements to customers in an easy-to-understand manner, but such moves are still limited**. In the meantime, the number of customers of online securities companies, which do not have the conventional function of making investment suggestions, is increasing.
- As the background, it is presumed that people do not generally accept as being common the series of financial behavior that a customer compares multiple companies based on the abovementioned information on companies' achievements and selects a company, then, the selected company makes suggestions in consideration of the customer's life style and based on targeted customers of respective financial instruments, and the customer him/herself makes comparisons among similar financial instruments and finally decides to purchase one.
- Therefore, **companies need to improve their information to be more comparable and helpful for customers, and the FSA also needs to strengthen PR activities targeting customers, so that financial institutions' initiatives for the visualization will surely facilitate the abovementioned changes in customers' financial behavior**.

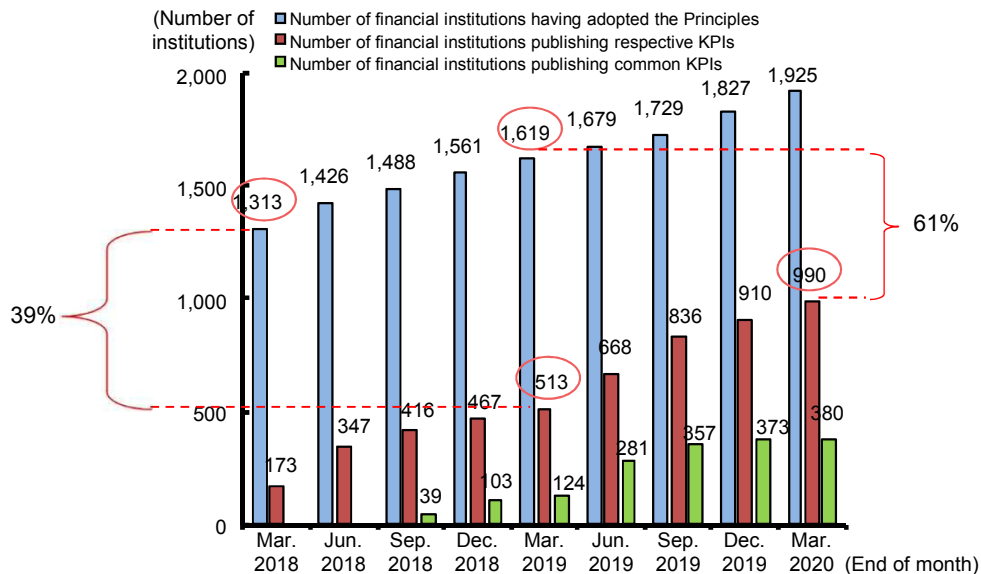
2. Measures to be taken

- Based on the situations described above, the FSA needs to further strengthen measures both for talks with financial institutions and encouragement of customers, while taking into account deliberations by the Working Group on Financial Markets under the Financial System Council.
- **The FSA will examine foreign-currency-denominated insurance products also from the perspective of customer protection, and verify their sales trends and the status of complaints from customers, as needed**. Additionally, the FSA will have talks with financial institutions to **have them improve their performance evaluation systems to enhance salespersons' skills to make suggestions based on customers' life plans, as well as their human resources development, production lineups, means for information provision, and profitability of new business models (sales charge systems)**.
- The FSA will **promote the visualization of the initiatives being made by financial institutions and improve the comparability among financial institutions**, and at the same time will **provide information to raise people's interest** in such forms as publication of best practices and holding of events in connection with financial education programs. The FSA will **verify the effect of such initiatives by financial institutions and the FSA through a customer survey**.

2. Visualization of financial institutions' initiatives for customer-oriented business conduct

- Financial institutions that have adopted the "Principles for Customer-Oriented Business Conduct" are steadily increasing.
- In light of **the situation where many financial institutions did not disclose their achievements and it was suspected that merely adopting "the Principles" became their final goal**, the FSA changed its policy for publication of financial institutions on its website in the 2019 business year to **only list up financial institutions that also publish their achievements**. As a result, **the percentage of financial institutions that disclose their achievements increased from 39% as of March 2019 to 61% as of March 2020**.
- Nevertheless, financial institutions' policies for achieving the Principles are often only conceptual and **their moves to devise means to provide information on their initiatives and achievements to customers in an easy-to-understand manner are still limited**.

Number of financial institutions that adopted "the Principles" and number of institutions that published respective KPIs and common KPIs



(Note 1) The number of financial institutions publishing respective KPIs is the tabulated number of institutions that published KPIs in their policy during its implementation.

(Note 2) The number of financial institutions publishing common KPIs is the tabulated number of institutions that published one or more of the three indicators that are considered as common KPIs.

(Note 3) It is generally supposed that achievements become clear after a lapse of one year after adopting "the Principles". Accordingly, the percentage of institutions that published their achievements at that point in time is considered as an evaluation indicator.

(Source) Financial Services Agency

[Good practice of specifically presenting own policy]

< Ichiyoshi Securities >

The company internally and externally clarifies its policy of not dealing in complicated financial instruments or those not suited for medium- to long-term asset building even if they sell well, and endeavors to disseminate customer-oriented business conduct among salespersons.

[Good practice of showing the effectiveness, etc. of long-term diversified investment]

< Regional banks, etc. >

They calculate the customer ratio per gain/loss on investments, which is one of the common KPIs, separately for customers making long-term investment, customers holding hybrid funds, and customers making installment-type investment, and publish such data as achievement indicators linked to their own sales policy.

3. Grasp the reality of the customer-oriented business conduct implemented by distributors [1]

Process of making suggestions

- As distributors **do not have any portfolio for diversified investment models**, which serves as a basis for enhancing salespersons' skills to make suggestions on long-term diversified investment, specific suggestions are left to each salesperson's ability and sense.
- **There are many cases where salespersons** do not make suggestions for the entirety of customers' assets but **recommend and sell specific financial instruments, such as foreign-currency-denominated insurance products, only for part of the assets sorted as those to be left as a bequest.**

[Good practice of having reformed the process of making suggestions]

< The Bank of Fukuoka >

The bank originally formulated model portfolios according to customer attributes, and salespersons make suggestions for diversified investment based on those portfolios.

The bank has established an internal rule to judge the suitability of financial instruments for respective customers not solely for each instrument but based on the risk of the relevant portfolio as a whole before making suggestions to customers.

Performance evaluation

- **The trend to increase the weight on the balance of deposited assets and other data concerning the customer base**, not only placing importance on revenue, has been established.
- It has become common to evaluate revenue from investment trusts uniformly irrespective of sales charge rates of respective financial instruments.
- On the other hand, **there are categories of financial instruments (such as foreign-currency-denominated insurance products) whose revenue are highly evaluated**, and **a trend of prioritizing the transactions of such financial instruments** is observed.

Human resources development

- Some distributors are fostering personnel to enhance consulting services to help customers design their life plans, while **others have failed to provide sufficient training to their salespersons and leave them to only sell individual financial instruments. The differences among distributors and among salespersons are thus expanding.**
- It is important to clarify medium- to long-term career plans for salespersons and foster them accordingly, and take actions to eliminate differences in skills and levels of suggestions among salespersons.

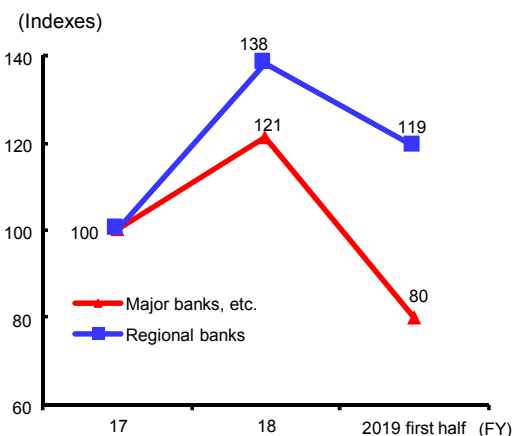
3. Grasp the reality of the customer-oriented business conduct implemented by distributors [2]

Foreign-currency-denominated insurance products

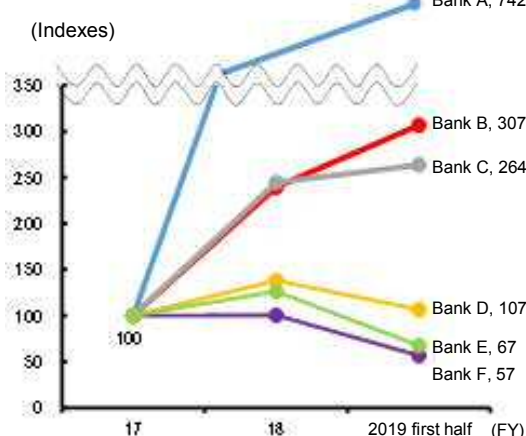
- Since FY2019, foreign-currency-denominated insurance products have relatively lost their advantage due to declines in interest rates on foreign currencies. Many distributors face decreases in the sales amounts of foreign-currency-denominated insurance products but some have increased their sales amounts until recently.
- The percentage of the sales amounts of foreign-currency-denominated insurance products among the total sales amounts of single premium policies has been **at a level of 80% for major banks, etc. and at a level of 90% for regional banks.**
- In the meantime, although the number is small, **some distributors show significant declines in the percentage of foreign-currency-denominated insurance products**, which is supposed to have been **caused by the fact that the sale of foreign-currency-denominated insurance products and that of yen-denominated insurance products have come to be treated almost the same in performance evaluation.**
- **Problems** were found in **the development of performance evaluation systems, clarification of targeted customers, confirmation of suitability for long-term investment period, and proper provision of information including a comparison of investment efficiency with other similar financial instruments**, such as bonds and investment trusts.

Trends in sales amounts of foreign currency-denominated single premium policies

[By business category]



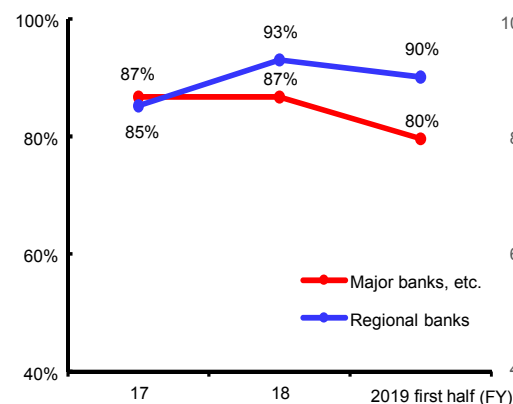
[By company]



(Note 1) Data from 9 major banks, etc. and 27 regional banks (26 regional banks due to a business merger for the first half of FY2019) was aggregated.
 (2) Indexes were calculated by taking the value for FY2017 as 100. For the first half of FY2019, the value was doubled to obtain an annualized value.
 (Source) Financial Services Agency

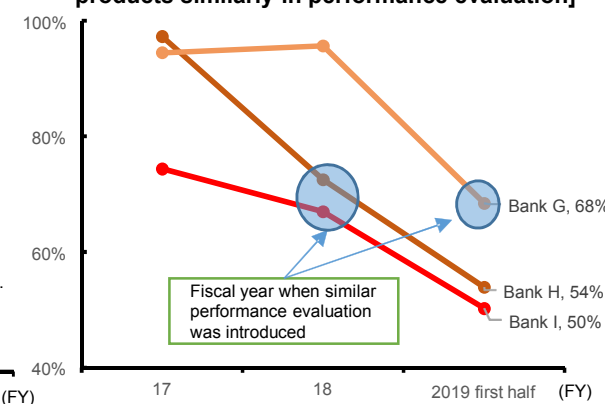
Trends in percentages accounted for by sales amounts of foreign currency-denominated single premium policies

[By business category]



(Note 1) Data from 9 major banks, etc. and 27 regional banks (26 regional banks due to a business merger for the first half of FY2019) was aggregated.
 (Note 2) Percentages accounted for by sales amounts of foreign-currency-denominated insurance products among the total sales amounts of single premium policies
 (Note 3) On a self-distributed basis
 (Source) Financial Services Agency

[Distributors that treat the sale of foreign-currency-denominated insurance products and that of yen-denominated insurance products similarly in performance evaluation]



(Note 1) Percentages accounted for by sales amounts of foreign-currency-denominated insurance products among the total sales amounts of single premium policies
 (Note 2) On a self-distributed basis
 (Source) Financial Services Agency

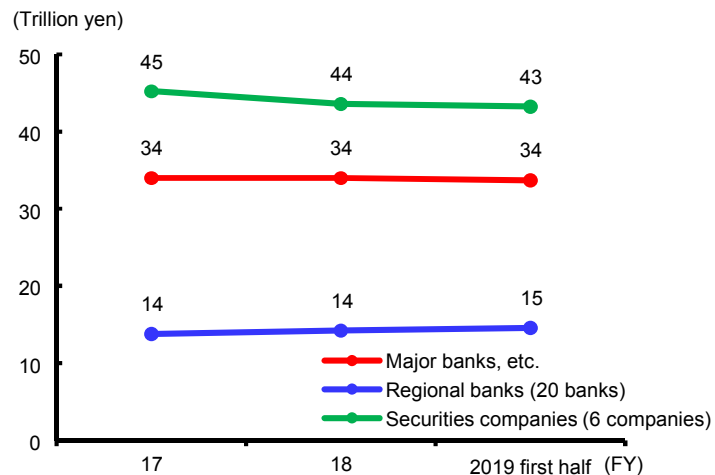
4. Status of sale of risk-involving financial instruments [1]

Trends in balances of deposited risk-involving financial instruments

- The balance of deposited risk-involving financial instruments has been almost unchanged as a whole.
- When breaking down related transactions, single premium insurance products (most of which were foreign-currency-denominated) and bonds increased both for the three mega bank groups and regional banks.
- While a shift from investment trusts, which are considered to be effective for long-term diversified investment, to other financial instruments is observed, it is necessary to examine whether such shift is a result of financial institutions' initiatives to make suggestions based on a portfolio in consideration of each customer's life plan, etc.

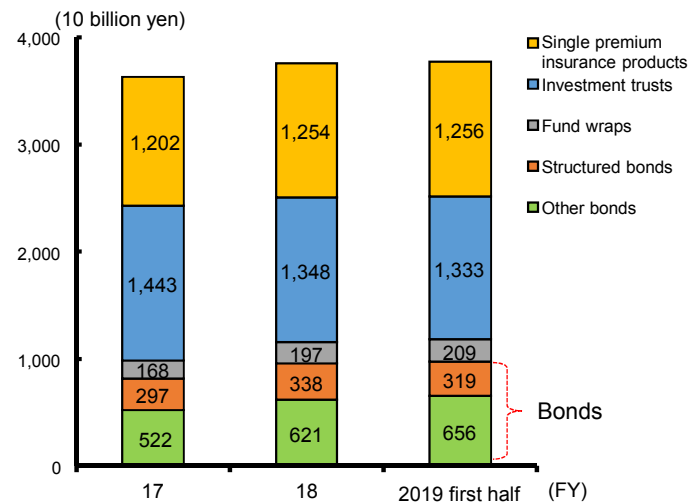
Balances of deposited risk-involving financial instruments

[By business category]



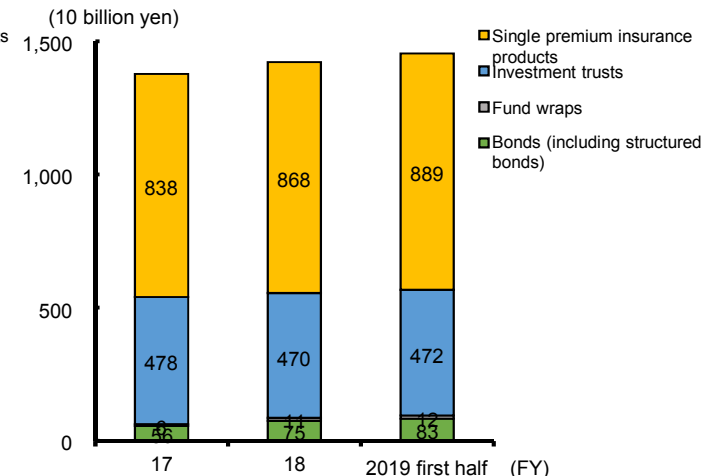
(Note 1) Data from 8 major banks, etc., 21 regional banks (20 regional banks due to a business merger for the first half of FY2019), and 6 securities companies, from which valid responses were obtained, was aggregated.
 (Note 2) For banks, on a combined basis of their own sales, sales through brokers, and referral sales
 (Note 3) Risk-involving financial instruments here refer to single premium insurance products, investment trusts, and bonds.
 (Source) Financial Services Agency

[Three mega bank groups]



(Note) Data from 5 banks and 4 securities companies out of the three mega bank groups' data was aggregated.
 (Source) Financial Services Agency

[Regional banks]



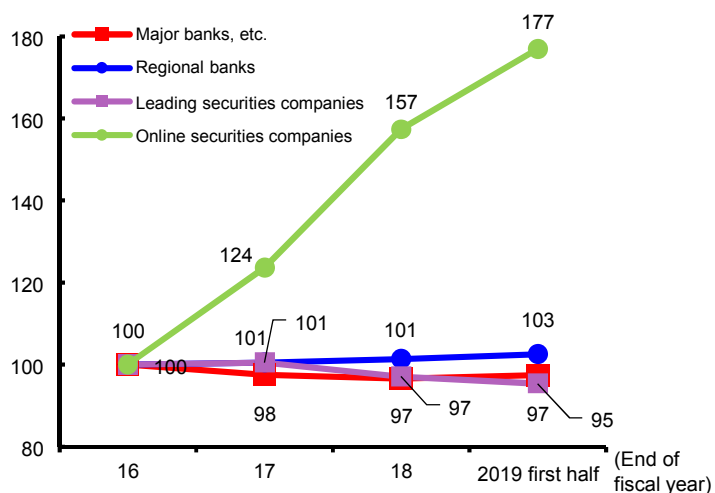
(Note 1) Data from 21 regional banks (20 regional banks due to a business merger for the first half of FY2019), from which valid responses were obtained, was aggregated.
 (Note 2) On a combined basis of their own sales, sales through brokers, and referral sales
 (Source) Financial Services Agency

4. Status of sale of risk-involving financial instruments [2]

Expansion of customer base

- Online securities companies are significantly increasing customers holding investment trusts.
- Looking at customers of online securities companies who hold risk-involving financial instruments by age bracket, those in their 30s to 50s, who are most actively building assets, are the largest in number. On the contrary, customers of banks and leading securities companies are mostly elderly people over 60.
- To increase assets for investment is a common issue for all generations, but online securities companies, which do not employ conventional face-to-face transaction means, have come to satisfy diversified investment needs of customers in age brackets active in asset building. In light of such fact, **it may become important in business management for banks and leading securities companies to analyze customer awareness in order to ascertain factors causing an increase of customers of online securities companies, make initiatives for digitalization, strengthen sales channels, and explore new needs of customers in those age brackets.**

Trends in number of customers holding investment trusts



(Note 1) Data from 9 major banks, etc., 25 regional banks (24 regional banks due to a business merger for the first half of FY2019), 7 leading securities companies and 4 online securities companies was aggregated.

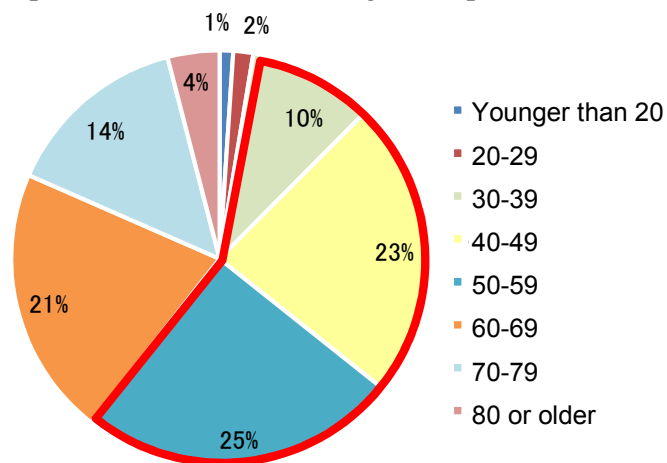
(Note 2) For investment trusts for banks, on a self-distributed basis

(Note 3) Targeting individual customers holding any investment trusts as of the end of fiscal years; Indexes were calculated by taking the value of the end of FY2016 as 100.

(Source) Financial Services Agency

Percentage of customers holding risk-involving financial instruments by age

[Online securities companies]



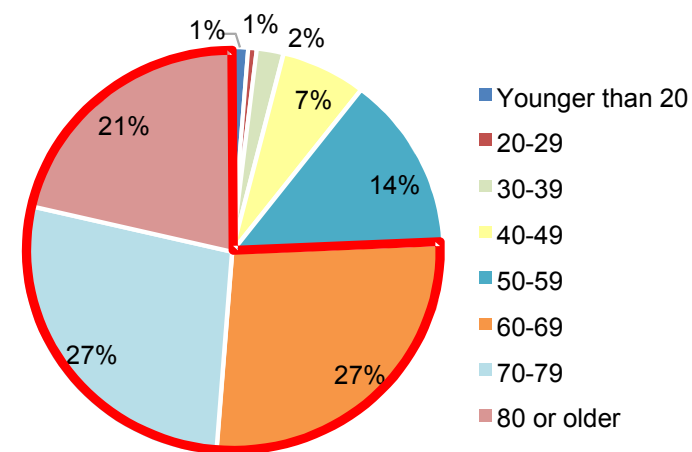
(Note 1) Data from 4 online securities companies was aggregated.

(Note 2) First half of FY2019

(Note 3) "Risk-involving financial instruments" here refers to investment trusts, fund wraps, domestic ETF, MRF, MMF shares in foreign currency, structured bonds, foreign currency-denominated bonds, other bonds, cash value insurance products, and others (Japanese public bonds, etc.).

(Source) Financial Services Agency

[Banks]



(Note 1) Data from 9 major banks, etc. and 19 regional banks was aggregated.

(Note 2) First half of FY2019

(Note 3) "Risk-involving financial instruments" here refers to cash value insurance products, investment trusts, fund wraps, structured bonds, other bonds, shares, and structured deposits.

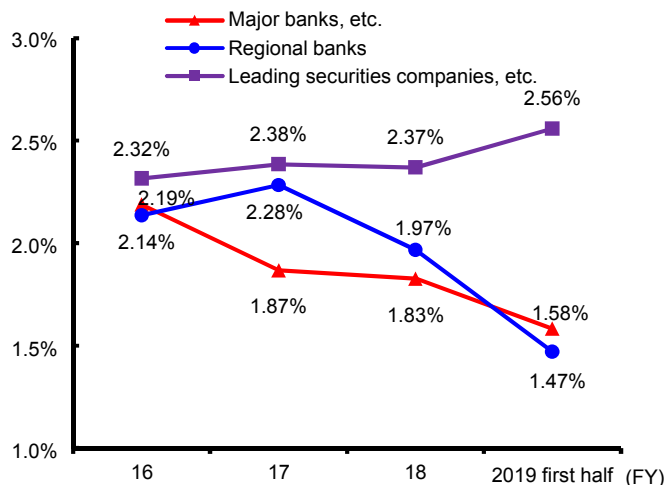
(Source) Financial Services Agency

4. Status of sale of risk-involving financial instruments [3]

Trends in sales charge rates

- Average sales charge rates for investment trusts have been declining for banks in recent years, while a moderate upward trend has been observed for leading securities companies partly because they sell a large number of complicated financial instruments for which they need to provide meticulous explanations to customers.
- Although we cannot evaluate financial institutions only with the levels of their charges, the FSA will continuously monitor each distributor's initiatives and explanations provided to customers in order to examine whether their charges are commensurate with their services.
- Banks' sales charge rates by sales channel are generally higher for sales through agents (insurance) and referral sales (investment trusts and bonds) than their own sales (investment trusts).
- As various investment products increasingly emerge, it is necessary to provide information in an easy-to-understand manner so that customers can easily compare multiple similar financial instruments and services.

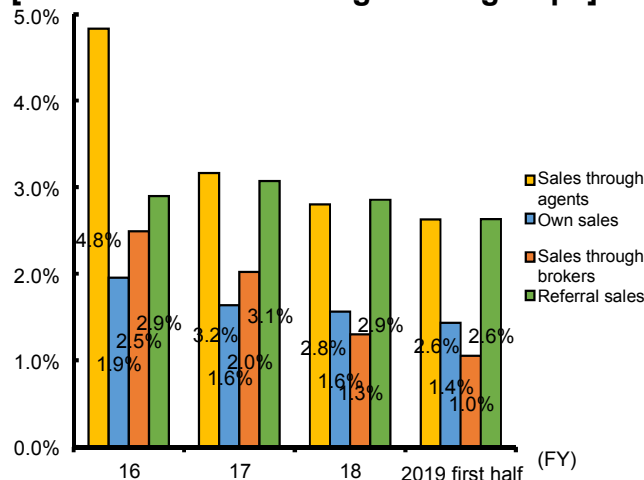
Trends in average sales charge rates for investment trusts



(Note 1) Data from 9 major banks, etc., 20 regional banks (26 regional banks for the first half of FY2019), and 5 leading securities companies was aggregated.
 (Note 2) For financial instruments sold by banks, on a combined basis of their own sales and sales through brokers
 (Note 3) Sales charge rates include tax.
 (Note 4) Figures are weighted averages.
 (Source) Financial Services Agency

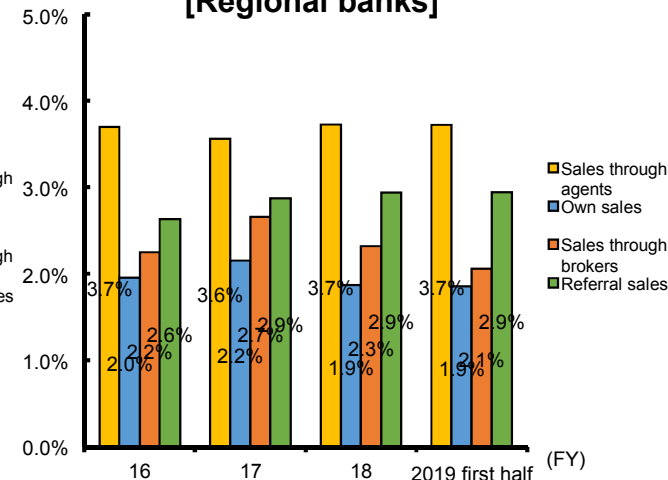
Trends in sales charge rates by sales channel

[Banks of the three mega bank groups]



(Note 1) Data from 5 banks holding group securities companies is aggregated.
 (Note 2) For sales through agents, data for the sale of single premium insurance products is aggregated. For own sales, data for the sale of investment trusts is aggregated. For sales through brokers and referral sales, data for the sale of investment trusts and bonds is aggregated.
 (Source) Financial Services Agency

[Regional banks]



(Note 1) Data from 16 banks holding group securities companies is aggregated.
 (Note 2) For sales through agents, data for the sale of single premium insurance products is aggregated. For own sales, data for the sale of investment trusts is aggregated. For sales through brokers and referral sales, data for the sale of investment trusts and bonds is aggregated.
 (Source) Financial Services Agency

5. Fee Structure to achieve customer-oriented business conduct

- It is important for distributors to recommend and sell financial instruments best suited to each customer, and there may be cases where not selling certain instruments would be beneficial to them. However, many distributors adopt a sales amount-based or commission-based charge system on the premise of selling individual financial instruments, and the interests of salespersons and customers do not always coincide.
- With the aim of resolving this problem, the FSA conducted hearings with experts regarding the effectiveness and feasibility of a shift of sales charge systems from commission-based ones (based on the time of the sale) to fee-based ones (based on the balance of deposited assets). Some pointed out that a fee-based charge system may prevent conflicts of interest between customers and salespersons and restrict salespersons' conduct that is not customer-oriented, while others pointed out that it would be realistic to make a shift in stages as a certain amount of time is required for fostering specialists and changing profit-making structures.

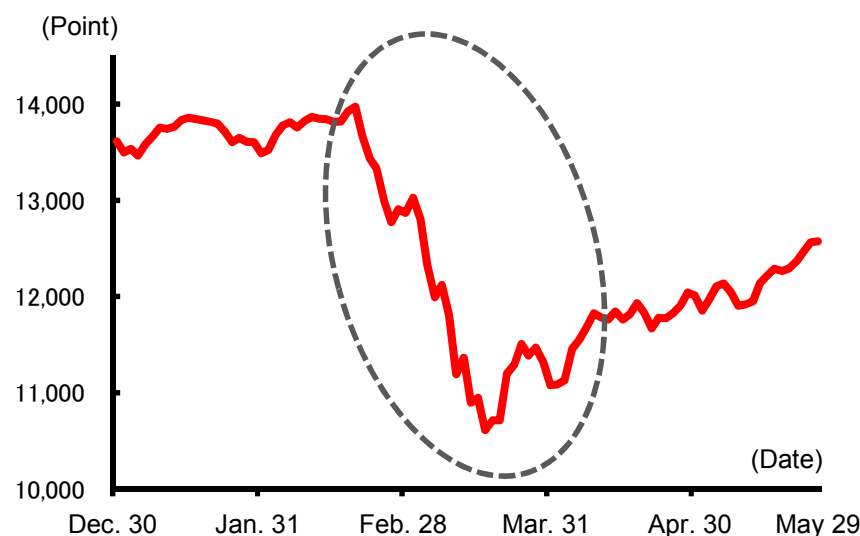
[Measures to be taken]

- The FSA considers it necessary to continue discussing with distributors, etc. regarding how to balance customer-oriented business conduct and sustainable business growth so as to ensure that distributors endeavor to pursue customers' interests of increasing their assets through investment.

6. Measures to be taken

- Due to the spread of the COVID-19 infection, financial markets have been significantly fluctuating since early 2020. Financial institutions are required to encourage customers to act calmly under such circumstances and **should make initiatives to have them understand the effectiveness of long-term, installment-type, diversified investment aiming to secure stable gains, instead of speculative investment taking advantage of unstable markets with the aim of obtaining short-term gains.**
- The FSA will further strengthen its initiative to enhance people's financial literacy and asset building, in collaboration with related parties, but **distributors are also expected to provide explanations to customers sufficiently in ordinary communication and upon making suggestions on investment.**
- The FSA will continue monitoring distributors **from the perspective of whether they are providing customer-oriented high quality services and pursuing customers' best interests,** and will encourage their improvements through talks.

Trends in price indexes for Japanese open-end stock investment trusts
(December 30, 2019 - May 29, 2020)



(Note 1) Daily investment profit rate indexes showing the trends of all Japanese open-end stock investment trusts (excluding ETF)
(Note 2) Calculated by multiplying daily profit rates by taking the value of March 31, 1997, as 10,000 points
(Source) Prepared by the FSA based on materials of The Mitsubishi Asset Brains Company, Limited