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Did investing really grow in prevalence while everyone was staying home during the pandemic?

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Executive Summary

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We often hear that more people have been investing in the markets during the pandemic because most everyone is spending more time at home. In actuality, however, the investor population's growth rate remains sluggish. Innovative policy action will be required to further popularize investing.

What to make of sharp increase in accounts at major online brokerages?

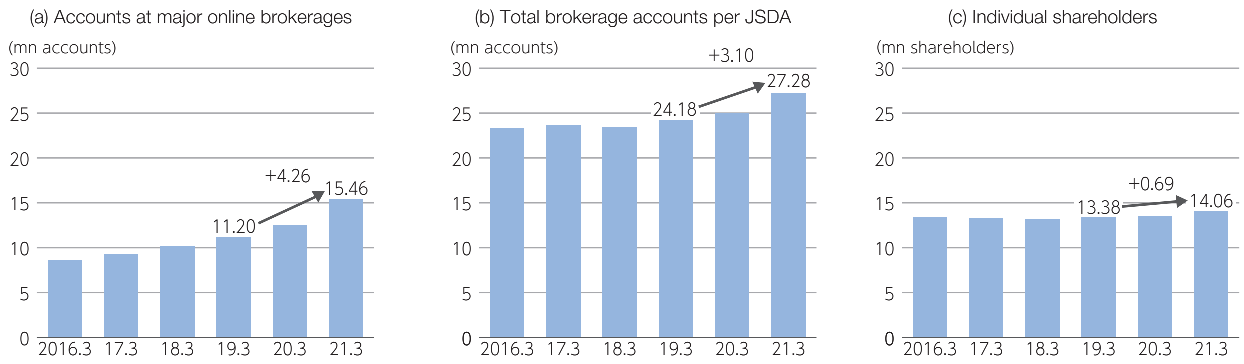
One notable financial market development amid the pandemic is growth in online trading among mostly younger people. The media have reported extensively on big increases in new account openings and growth in the retail investor class, but are these trends really driving growth in retail investing and expansion of markets? A deep dive into pertinent data suggests not.

Comparing numbers of open accounts reported by online brokers (graph (a) next page) with industry-wide totals of brokerage accounts published by the Japan Securities Dealers Association (JSDA; graph (b)), we find that the five major online brokers collectively reported a hefty 4.26 million increase in open accounts between the pre-pandemic date of March 31, 2019, and March 31, 2021, whereas JSDA data reported an increase of only 3.10 million over the same timeframe.

The discrepancy between the two numbers is attributable to different definitions of "account." The JSDA defines an account as one in which custodied securities are held (active accounts). Most online brokers, by contrast, count all open securities accounts, including ones that have not been used since being opened (inactive accounts).

We accordingly surmise that while online brokerage accounts are undeniably increasing, a sizable percentage of the incremental accounts are inactive. Online brokers track new account openings as a KPI, as one might guess from their promotional campaigns offering incentives to open a new account. In doing so, however, they do not distinguish between active and inactive accounts. I do not mean to criticize such practices by online brokers or deny their effectiveness.

Brokerage accounts and individual shareholders



Note: Major online brokerages are SBI Securities, Rakuten Securities, Matsui Securities, au Kabucom Securities and Monex Securities. Monex Securities counts only active accounts.

Source: NRI, based on brokerage disclosures, JSDA's Composite Balance Sheet of Regular Members and Number of Customer Accounts, etc. and JASDEC's monthly statistics

Rather, my point is that it is specious to conclude that growth in new account openings alone means that more people overall are investing or building wealth.

Lackluster growth in investor population as measured by number of individual shareholders

In terms of whether the market as a whole is growing, in contrast to the 3.10 million increase in active brokerage accounts reported by JSDA for the two years through March 31, 2021, the Japan Securities Depository Center (JASDEC) reported that the number of individual shareholders increased by only 690,000 over the same timeframe (graph (c)). The divergence between the two implies that individuals are increasingly opening accounts at multiple brokerages.

Overall, the retail investor headcount is not only growing more slowly than the number of active brokerage accounts, it totals only 14 million, not much more than 10% of Japan's population. Such use of shareholders as a proxy for investors due to data constraints could be criticized because the shareholder headcount does not include people who do not own equities directly but own equity investment trusts. According to the BOJ's flow-of-funds statistics, individuals were in fact net buyers of investment trusts by a ¥3.3 trillion margin in FY20, the first year since FY15 in which they bought more investment trusts than they sold. In isolation, this data point could be interpreted as evidence of a broadening of investment trust ownership but other data again cast doubt on such a conclusion.

According to Japan Investment Trusts Association (JITA) survey data, the percentage of survey respondents who own investment trusts increased modestly, from 22.3% to 23.4%, between 2019 and 2020[1]. Although the survey is a sampling survey, not as rigorous as JASDEC's shareholder headcount, it is reasonable to conclude that the net inflow of retail investor assets into investment trusts reported in the BOJ's flow-of-funds statistics was mostly attributable to experienced investors adding to their investment trust holdings.

NOTE

1) These data points cited are from the JITA's 2019 and 2020 Questionnaire Survey on Investment Trusts. The 2020 survey was conducted in November 2020 and therefore presumably reflects the pandemic's effects. Nomura Asset Management also regularly surveys the public on attitudes toward investment trusts. In its 2020 survey, 11.9% of respondents owned investment trusts, up from 11.6% in 2019. The two surveys' roughly 10-percentage-point difference in the investment trust ownership rate is presumably attributable to differences in their respective samples' demographics.

Innovative policy ideas needed

I previously proposed the idea of a universal basic account, a digital account that would function solely as repository for securities (not a trading account). The accounts would be opened in the name of all Japanese citizens to routinely expose the everyone to stocks and investment trusts[2]. If such infrastructure existed, people would be able to naturally experience holding securities in the context of their everyday lives.

2) See Takehana, Katsutoshi, *Democratizing securities ownership with a universal basic account* (https://www.nri.com/en/knowledge/publication/fis/lakyara/lst/2020/11/01). In a 2021 paper published (in Japanese) in the Japan Securities Research Institute's *Securities Review*, Sadakazu Osaki recommended that the Japanese government foster an environment where as many citizens as possible can benefit from economic growth through securities ownership and mentioned universal basic accounts as one potential way to do so.

Growth in securities ownership was underwhelming even during the Abenomics era, when the securities industry benefited from a confluence of three tailwinds: equity market appreciation, the advent of new tax-advantaged investment vehicles (NISAs, iDeCo accounts) and the emergence of new FinTech services. The situation has not changed much even during the pandemic. I proposed the universal basic account concept out of a belief that although conventional policy approaches like preferential tax treatment and financial education are valuable, innovative approaches also are needed. I hope to draw renewed attention to the investor population's still sluggish growth rate and prompt more active discussion of policy responses.

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