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Pandemic's impact on Japan's HNW class

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Executive Summary



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Even amid the COVID-19 pandemic, Japan's high-net-worth class has continued to grow, perpetuating a trend that dates back to Abenomics' inception. Among HNW business owners, attitudes toward business, consumption and asset management have diverged markedly, with some owners shifting into a defensive posture while others have become more aggressive. HNW individuals are increasingly in need of expert advice to navigate prevailing uncertainties.

Japan has 1.33mn HNW households with aggregate financial assets of ¥333tn

Japan's population of high-net-worth¹⁾ (HNW) households with at least ¥100mn of financial assets has recently been growing rapidly, increasing 60% to 1,327,000 over the eight years through 2019. Over the same timeframe, their net financial asset holdings grew 80% to ¥333tn, 21.4% of Japanese households' total net financial assets. This 21.4% of financial net worth is owned by a mere 2.5% of all households.

Growth in Japan's HNW class over the past decade is primarily attributable to Abenomics-driven economic expansion and asset price appreciation, particularly in equity and real estate markets. Other contributing factors include Corporate Japan's ongoing transition from seniority-based to performance-based compensation and a boom in IPOs and buyouts of startup companies.

Average household size continues to decrease in the wake of population shrinkage and slight growth in total households, reflecting Japan's low birthrate and aging population. Amid such an environment, recent rapid growth in the number of HNW households is drastically changing the class structure of Japanese society and impacting lifestyles, attitudes towards consumption, and saving and investment behavior.

NOTE

1) We define HNW as net financial asset holdings of ¥100-499mn and ultra-HNW as net financial asset holdings of ¥500mn or more. For brevity, we refer to both as HNW herein.

Pandemic-induced divergence in consumer/business sentiment among HWN business owners

How has HNW consumer behavior been affected by the COVID-19 pandemic? According to media reports, luxury good sales have remained brisk despite the pandemic, bolstered by equity market gains.

2) We mailed questionnaires to a sample of 20,000 business owners (chief executives who are also major shareholders) drawn from Teikoku Databank's TDB Company Profile Database. We received 1,520 valid responses, 305 of which were from respondents with at least ¥100mn of financial assets owned either individually or jointly with their spouse.

An NRI survey²⁾ of HNW business owners conducted in October and November of 2020 found that the respondents were split into two camps in terms of consumption behavior, with one group increasing spending during the pandemic and the other group turning frugal. For example, 41% of respondents reported shopping online more often than before the pandemic, 29% have splashed out on home improvements (e.g., remodeling, redecorating) to accommodate more time spent at home and 21% have increased their use of food delivery or meal prep services. In the other camp, 39% of respondents have dialed down their spending on luxury goods and services (see table).

In the aftermath of the Lehman bust and catastrophic March 2011 earthquake, HNW households uniformly cut back on consumption in response to the ensuing equity market drawdown and economic weakness. This time, by contrast, was different for at least two reasons. First, the equity market quickly bounced back from its March 2020 selloff by virtue of global fiscal mobilization. Second,

Changes made/experienced by HNW business owners in response to COVID-19 pandemic

	Business		Lifestyle/consumption		Management of personal assets	
1st	Cut costs	62%	Became more health-conscious	65%	Business's future has become more of a concern than personal assets relative to the past	53%
2nd	Expedited digitalization/IT usage	61%	More conversation/communication with family	51%	Came to prefer simple, transparent products over complex, opaque products	50%
3rd	Increased use of Internet/videoconferencing	50%	Socially distanced travel	47%	Started gathering information or studying more about economic outlook or investment products	47%
4th	Cultivated new sales channels/customers	50%	Spent more time reading books	47%	More concerned than previously about risk of capital losses on financial products	46%
5th	Reconfigured business portfolio	42%	Spent more time watching TV	45%	Realized personal knowledge of asset management is inadequate	46%
6th	Changed how employees work	37%	Shopped online more often	41%	Recognized need for reliable investment advisor	42%
7th	More inclined to proceed with business succession	33%	Increased smartphone/tablet usage	41%	Considered buying (bought) undervalued equities or investment trusts	37%
8th	More inclined to expand through M&A	21%	Cut spending on luxury goods/services	39%	Became more conscious of diversification or portfolio management	31%
9th	More inclined to downsize or divest operations	12%	Upgraded home (e.g., remodeled, redecorated) to accommodate more time spent at home	29%	Considered selling (sold) equities or investment trusts	27%
10th	—	—	Used food delivery/meal prep services more often	21%	Saw asset price downturn as good opportunity for business succession or distribution of assets to heirs	26%

Source: NRI Survey of HNW Business Owners

the pandemic has been economically benign or even beneficial for a subset of sectors/companies.

The survey responses indicate that the pandemic has also changed how business owners run their businesses, with some becoming more defensive through such means as cutting costs or reconfiguring business portfolios and others going on the offensive by, e.g., embracing videoconferencing or other digital technologies (see table).

Most notably, sizable minorities of respondents reported they have become more inclined to move forward on major decisions such as business succession (33%) and downsizing or divestment of operations (12%). While now may not be the best time for business succession given that share price appreciation means higher succession costs, the pandemic appears to have prompted elderly business owners to turn over the reins of management to the next generation in recognition that the current operating environment requires companies to play both offense and defense.

Digitalization and the ongoing shift toward more flexible work arrangements are irreversible trends that happened to be accelerated by the pandemic. Businesses that thrive in this new management environment will give rise to a new HNW cohort. Meanwhile, younger generations that inherit wealth will likewise join the ranks of the HNW class.

HNW individuals' growing need for expert advice

The pandemic has changed HNW individuals' attitudes with respect to asset management also. In our survey, 53% of respondents reported that, relative to the past, their businesses' future has become more of a concern than their personal assets and 50% reported an increased preference for simple, transparent investment products over complex, opaque ones. These findings are consistent with previous episodes of economic upheaval such as the GFC.

Additionally, the survey found that HNW business owners have become more motivated to gather information or seek expert advice on managing their assets, with 47% of respondents reporting they are gathering information or studying more than previously about the economic outlook or investment products, 46% reporting that they feel their personal knowledge of asset management is

inadequate and 42% acknowledging they need a reliable investment advisor.

Such a desire to make prudent decisions based on high-quality information in an environment of diverse individual circumstances, varied pandemic impacts and poor forward visibility seems to be driving demand for expert advice. While growing demand for advice presents an opportunity for financial institutions' private bankers, HNW customers' concerns and challenges are becoming more idiosyncratic and complex than ever before. Private bankers have to be able to provide solutions that address not only management of HNW customers' personal assets but also business and family matters. Financial expertise alone is unlikely to satisfy HNW customers. Bifurcation of the HNW class may winnow the ranks of private bankers and, in turn, lead to a shakeout of financial institutions in the private banking space over the medium/long term.

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