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**Regional banks' growing online sales  
of investment trusts**

The online channel accounts for a much larger share of investment trust sales at regional banks than at megabanks or brokerages. Many regional banks offer preferential sales commission rates to customers who purchase investment trusts online. Looking ahead, however, the key to regional banks' success as investment trust distributors may lie in differentiating themselves by combining online and staffed services. Regional banks must turn their attention to flexibly coordinating face-to-face and online sales systems posthaste.

For the past year or two, investment trust distributors have increasingly been placing increased priority on the Internet as a sales channel. Although some distributors previously provided online platforms for buying and selling investment trusts, they did not aggressively pursue sales expansion through the online channel. Since the recent financial crisis, however, regional banks in particular have been actively promoting investment trust sales via the Internet.

### Regional banks are shifting focus to the online sales channel

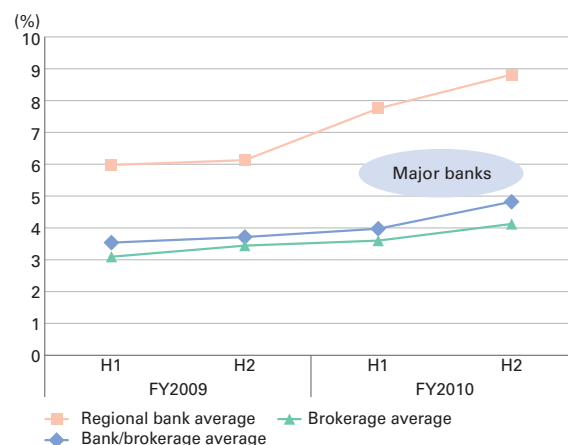
Online sales account for a larger share of investment trust sales among regional banks than among other financial institutions. Based on data published by the Japan Securities Dealers Association and other sources, we estimate that the online share of all distributors' aggregate investment trust sales averaged around 5% in the second half of fiscal 2010 (see exhibit). For brokerages, including online brokers, the average is 4%. At major banks, mainly megabanks and trust banks, online sales account for an estimated 6% of total investment trust sales. Regional banks, by contrast, have long had a high ratio of online sales to total sales and it has been rising since the start of fiscal 2010 in particular. Currently, the online channel accounts for roughly 9% of regional banks' aggregate investment trust sales. Moreover, the number of regional banks that sell investment trusts online is only 38 (as of March 2010). If we limit our sample to these 38 banks that actually sell investment trusts online, regional banks' online sales already account for an estimated 12% of their investment trust sales.

Among individual regional banks, the online channel accounts for over 20% of total investment trust sales at

several banks and over 40% at the top two ranked by online investment trust sales. At such banks, the Internet is a major sales channel on a par with the in-branch and housecall sales channels.

Even regional banks that have hitherto not offered investment trust transactions on their online banking platforms are starting to sell investment trusts online. In the first half of the current fiscal year alone, three regional banks newly commenced online sales of investment trusts. Several others are slated to follow suit in the fiscal second half. The number of regional banks that sell investment trusts as an online banking service looks likely to approach 50 by fiscal year-end.

Exhibit. Online share of investment trust sales  
(ex ETFs and money reserve funds)



Note: Data point for major banks (megabanks and trust banks) is an estimate based on interview survey responses.  
Source: NRI, based on data from Japan Securities Dealers Association and Kinzai / Quick Fund Databank

### Regional banks' objectives in the online sales channel

Why are regional banks embracing online investment trust sales ahead of megabanks, brokerages, and other types of financial institutions? One reason is to expand their online banking services. Strengthening online banking functions to maintain existing service levels is an aim of many regional banks, some of which are planning to downsize their branch networks and workforces.

Another aim is to capture new investment trust customers or inject fresh funds into investment trust accounts. Many regional banks have experienced little growth in numbers of investment trust accounts since fiscal 2008. Additionally, even when regional banks' investment trust sales have grown, the growth was accompanied by an offsetting increase in redemptions, resulting in no net growth in assets in investment trust accounts. To break through this impasse, some regional banks are looking to online investment trust sales as a means of giving customers broader opportunities to purchase investment trusts.

Another objective of online investment trust sales is to reduce clerical costs incurred at the time of sale. Customer disclosure requirements applicable to investment trust solicitations are becoming more demanding year after year. This trend imposes a growing burden on banks, particularly in the face-to-face sales channel. By promoting online sales, some regional banks hope to reduce clerical costs incurred at the time of sale<sup>1)</sup>. Additionally, regulatory authorities are starting to mandate better post-sale customer service for investment trust purchasers<sup>2)</sup>. Some regional banks presumably see the online channel as an efficient means to provide such service to many customers.

### Discounted sales commissions are gaining prevalence

Many regional banks offer preferential sales commission rates to customers that purchase investment trusts online, a practice that is uncommon among major banks and brokerages<sup>3)</sup>. These regional banks significantly discount online sales commissions relative to the commission rates

they charge customers who purchase through the in-branch or housecall sales channel. Such discounting was initiated as a temporary sales promotion by a few banks but has now become widespread among regional banks. As of September 2011, 90% of regional banks that sell investment trusts online offer sales commission discounts to online customers, with the discounts averaging 20–30%. Eight of these banks offer 50% discounts. In many cases, regional banks in geographic proximity to each other offer identical discounts, suggesting that they set their discounted commission rates in response to competitive conditions.

At the regional banks that offer 50% discounts, the online share of investment trust sales is on average nearly double the corresponding average for regional banks in aggregate. Discounting of online sales commissions is apparently conducive to sales growth to some extent.

However, discounting of sales commissions will not be effective forever, as even regional banks themselves are presumably aware. Continued discounting will adversely affect earnings even if the online share of investment trust sales remains high. While banks that offer large discounts on online sales commissions have achieved growth in online sales as noted above, their in-branch sales have decreased commensurately. Moreover, investment trust purchases are seldom funded with fresh money not previously invested in another investment trust. Growth in online sales is consequently not contributing to growth in assets in investment trust accounts at regional banks. As a result, regional banks are experiencing a decline in revenues from both sales commissions and account management fees paid by investment trust sponsors. Additionally, regional banks clearly cannot outcompete online banks and online brokers by merely discounting commission rates.

Regional banks are therefore likely to sooner or later cease competing on the basis of discounted online sales commissions and switch to a strategy of differentiating themselves by upgrading their service level. One idea is to pair online services with staffed support (e.g., advisory) services that have the potential to effectively drive growth in assets in investment trust accounts. According to a recent survey, many investment trust



purchasers, even online purchasers, would like access to investment advice<sup>4</sup>). Availability of such advisory services would very likely be a key factor in customers' selection of an investor trust vendor. Once at the stage of actually combining online and staffed support services, regional banks will have to effectively adopt rapidly evolving online technologies. Although the pace of technological change largely precludes advance preparations, close coordination between face-to-face and online sales systems will nonetheless be important. Regional banks should turn their attention to such coordination posthaste.

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### Note

- 1) Regional banks are increasingly switching to electronic documentation to reduce clerical costs.
- 2) For example, the Financial Services Agency's Fiscal 2011 Financial Product Dealer Supervision Guidelines (issued August 26, 2011) state that after-sale service is essential.
- 3) Major banks that do offer discounted sales commissions most prominently include Bank of Tokyo-Mitsubishi UFJ.
- 4) In an October 2011 survey of regional bank online investment trust customers conducted by Ma-Do magazine, 49% of respondents indicated that they would like to receive face-to-face advice even when purchasing investment trusts from a regional bank's online platform. The percentage was even higher among working-age respondents in particular.

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