

NRI

Characteristics of Japan's HNW class

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Executive Summary



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Japanese financial institutions are accelerating a push to reposition high-margin wealth management businesses as a core driver in the retail asset management growth. Success in wealth management requires a strategy encompassing the idiosyncrasies of Japan's HNW class and their asset holdings.

Japanese financial institutions are ramping up their wealth management businesses

Japan's high-net-worth (HNW) class is growing both population- and asset-wise¹⁾. Against such a backdrop, Japanese financial institutions are increasingly prioritizing wealth management, together with digitalization of mass-market services, to drive earnings growth.

The three Japanese megabanks are focusing on providing more value to HNW customers by reorganizing and strengthening coordination among their groups' banking, trust banking and securities units. Mitsubishi UFJ Financial Group (MUFG) aims to increase its wealth management business's gross profit 30% to ¥239bn over the three years through FY2023 under its current medium-term business plan. Nomura Securities has placed the HNW demographic at the heart of its retail growth strategy. It announced it will assign 4,800 of its 5,000 financial advisors to serving HNW clients. SBI Securities announced in June 2023 that it formed a new team to build a wealth management business. Its HNW initiatives include a joint venture with KKR.

Success in the wealth management business requires an understanding of the distinctive characteristics of Japanese HNW households' assets. Through our analysis based largely on NRI survey data, we have identified three key points that differentiate the Japanese wealth management market from its Western counterparts.

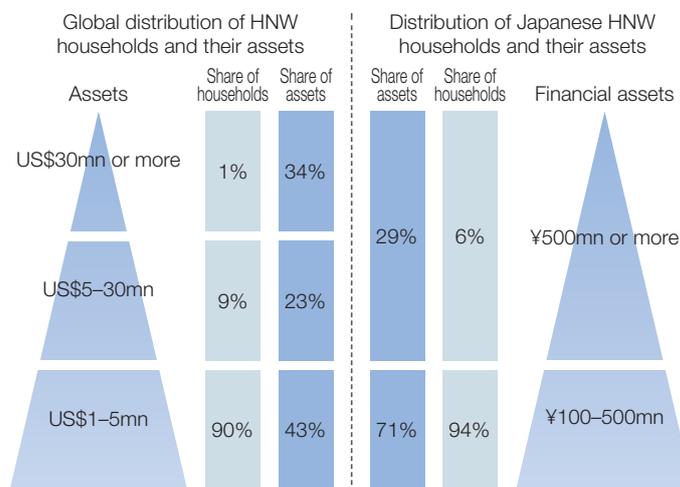
(1) HNW households are one digit less wealthy in Japan than globally

For our analysis, we set the wealth threshold for inclusion in Japan's HNW class

NOTE

1) NRI's HNW class estimates (2022)
https://www.nri.com/jp/news/newsrelease/1st/2023/cc/0301_1 (in Japanese)

Figure 1. Distribution of HNW class's total assets



Source: NRI estimates (2021), Capgemini's *World Wealth Report 2022*

at ¥100mn of financial assets. 29% of Japanese HNW households have financial assets of ¥500mn or more.

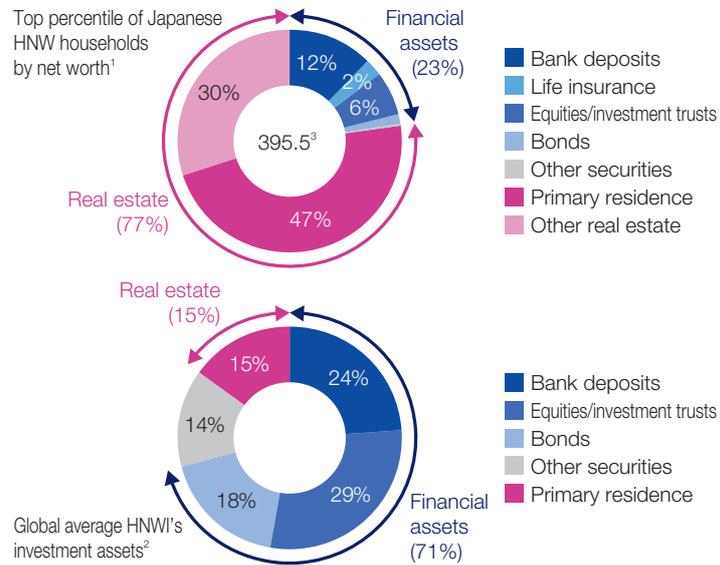
In the global wealth management market, 57% of households have over US\$5mn of investment assets and 34% have over US\$30mn (Figure 1). Therefore, individualized service (e.g., family office arrangements) is feasible in the global wealth management market with such a high concentration of wealth in the hands of ultra-HNW households.

By contrast, in Japan, where 70% of HNW households have financial assets of less than ¥500mn, financial institutions have to be able to serve HNW clients cost-efficiently. Japanese financial institutions therefore mostly offer services that are standardized to some extent.

(2) Real estate accounts for outsized share of assets

The most distinctive characteristic of Japanese HNW households' asset portfolios is large allocations to real estate. Within the top percentile of Japanese HNW households by asset holdings, total assets per household average around ¥400mn, 77% of which is real estate (Figure 2). Moreover, investment real estate, including non-primary residences, accounts for 30% (¥120mn) of their assets on average, four times as much as financial risk assets (e.g., equities, bonds, investment trusts), which average only about ¥30mn. Globally, real estate only accounts for 15% of HNW households' total assets, in comparison

Figure 2. Composition of HNW class's assets



1. Households with net assets (net financial assets + real estate) of at least ¥224.31mn (n=510)
 2. HNW is defined as investment assets of US\$1mn or more
 3. Average net assets in millions of yen
 Source: NRI, based on Japanese Ministry of Internal Affairs and Communications' 2019 National Survey of Family Income, Consumption and Wealth and Capgemini's World Wealth Report 2022

to which Japanese HNW households' real estate allocation is astronomical. This comparison highlights how much the wealthy in Japan differ from their global peers in terms of asset allocation preferences.

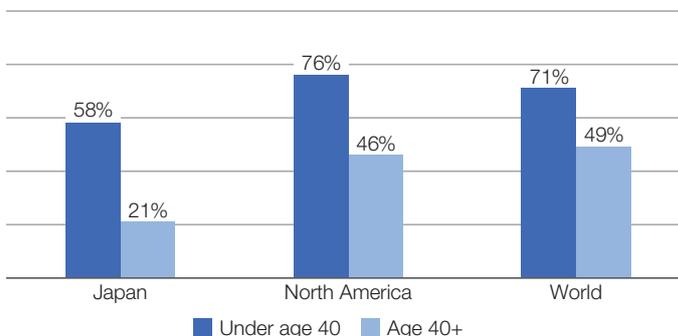
Japanese financial institutions seem to be quite cognizant of HNW clients' lopsided real estate allocations. Some are emphasizing real estate in their wealth management strategies. MUFG, for example, is pursuing a wealth management strategy that largely revolves around a real estate business with an estate planning orientation. In Japan, offering comprehensive solutions that tap into financial groups' broad capabilities, such as offering credit lines secured by illiquid real estate, will be the key to success in the HNW market.

(3) Conservative investment mentality

While awareness of ESG and the UN's Sustainable Development Goals is on the rise globally, Japan's HNW class does not yet have much interest in such matters in an investment context. Among Japanese HNW investors over age 40 in particular, only 21% place importance on ESG investing. On a global basis, the corresponding percentage is 49%, more than twice as high (Figure 3). Additionally, 71% of HNW households globally have invested in digital assets²⁾ versus 0% of

2) Capgemini, World Wealth Report 2022

Figure 3. Percentage of HNW (≥ US\$1mn of investment assets) class that cares about ESG when investing



Source: NRI, based on Capgemini's World Wealth Report 2022

3) NRI, 2022 Questionnaire Survey of 10,000 Consumers (Financial Edition)

Japanese households with financial assets of at least ¥100mn and a mere 2% of Japanese households with financial assets of at least ¥50mn³⁾. This huge gap partly reflects that a higher percentage of HNW individuals are retired in Japan than globally. Another factor is that Japanese have a deeply rooted preference for traditional investment products.

In need of wealth management strategies tailored to Japanese market

When HSBC and Citigroup were pursuing expansion of their wealth management businesses in Japan, they failed to adapt their services to such Japanese idiosyncrasies. They both ended up exiting the Japanese wealth management market in the early 2010s. Foreign wealth management firms have been unable to apply to Japan their formulae for success in their respective home markets. To succeed in Japan, global wealth management firms must tailor their leading-edge products, expertise and tools to the Japanese market and develop new business models that resonate with Japan's HNW class.

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