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Seeking a bigger role for the online investment trust sales channel

Hisashi Kaneko

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Nomura Research Institute, Ltd.

Executive Summary

Hisashi Kaneko

Senior Researcher

Financial Technology and
Market Research Department

Currently, 20% of investment trust investors buy and sell investment trusts online. Investment trust investors who use only the face-to-face channel for their investment trust transactions include many highly IT-literate individuals. Banks should cultivate online investment trust customers by first targeting such individuals. Such an approach should help expand their overall investment trust sales.

Many investment trust distributors, particularly banks, are heavily focusing on expanding sales through the online channel. A case in point is Japan Post Bank's recently launched online service for registered members. Additionally, the number of regional banks that sell investment trusts online has recently been rapidly increasing. These banks give preferential treatment to customers who use the online sales channel by charging lower commission rates than they do for in-branch transactions.

One reason that banks are focusing on the online channel for investment trust sales is to reduce administrative costs. Information disclosure requirements for investment trust sales solicitations are becoming more demanding every year. These requirements impose a particularly heavy burden on banks, many of which have a wide range of customers in terms of investment knowledge. Online sales platforms perform various functions, including ascertaining customers' investment preferences, checking product suitability, and verifying customers' understanding of products. The online channel is also widely seen as providing benefits such as elimination of paperwork required for face-to-face sales and prevention of clerical errors.

Largely because of such benefits, banks in particular have designated online investment trust sales as a strategic priority and have high hopes for the online sales channel. This article looks at online investment trust sales channel's popularity and discusses how banks with branch networks can increase usership of their online sales platforms.

Over 20% of investment trust investors already trade online

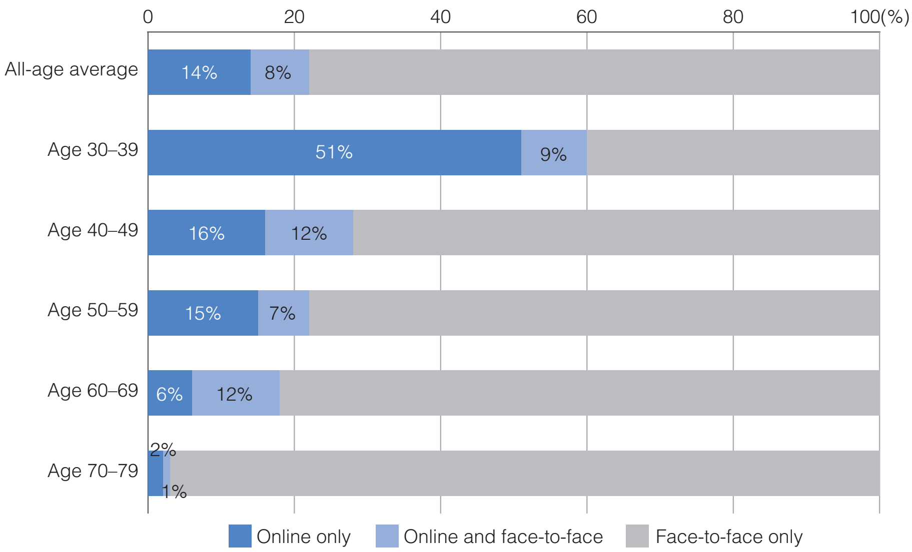
NOTE

1) The NRI Questionnaire Survey of 10,000 Consumers is a nationwide, door-to-door survey conducted triennially since 1997. In 2010, NRI initiated a financial edition of the survey that focuses on use of financial products and services. In August–September 2011, NRI conducted the 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition), a door-to-door survey of 4,484 18–79 year-old male and female residents of Greater Tokyo (Tokyo Metropolis and Saitama, Chiba and Kanagawa Prefectures), to supplement its triennial survey data series. The survey questions mainly pertained to the March 2011 earthquake's impact on financial behavior.

In the 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition)[1], conducted in Tokyo and three neighboring prefectures, some 20% (all-age average) of survey respondents who invest in investment trusts place orders to buy or sell investment trusts online (Exhibit 1). According to an industry organization's statistics, the online channel accounts for only a few percent of total investment trust sales in value terms. On this basis, there appears to be very few investors who buy and sell investment trusts online. However, the NRI survey data based on numbers of investors instead of monetary value reveal that investors who trade investment trusts online are no longer a rarity.

By age bracket, the percentage of survey respondents who use the Internet for investment trust transactions is higher among younger age groups. Nearly 30% of investors in the 40–49 age bracket and 60% in the 30–39 age bracket trade investment trusts online. Among investors under 60 years of age, the percentage of those who use the Internet to trade investment trusts has risen to 30%. Even in the 60–69 age bracket, nearly 20% of investors use the Internet to trade investment trusts. In the 70–79 age bracket, by contrast, hardly anyone trades investment trusts online, largely because some financial institutions limit online investment trust sales to customers under 70 years old.

Exhibit 1: Breakdown of investment trust investors by channel(s) used to buy/sell investment trust within previous six months



Source: 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition) (conducted August–September 2011)

Investors that trade investment trust online do not necessarily execute all of their investment trust transactions online. Many use the online channel for some transactions and the face-to-face channel for others. In the 60–69 age bracket, investors that use both channels for investment trust trades outnumber those that use only the online channel. In the 40–49 and 50–59 age groups also, many investors use both channels, albeit more so in the former than in the latter group.

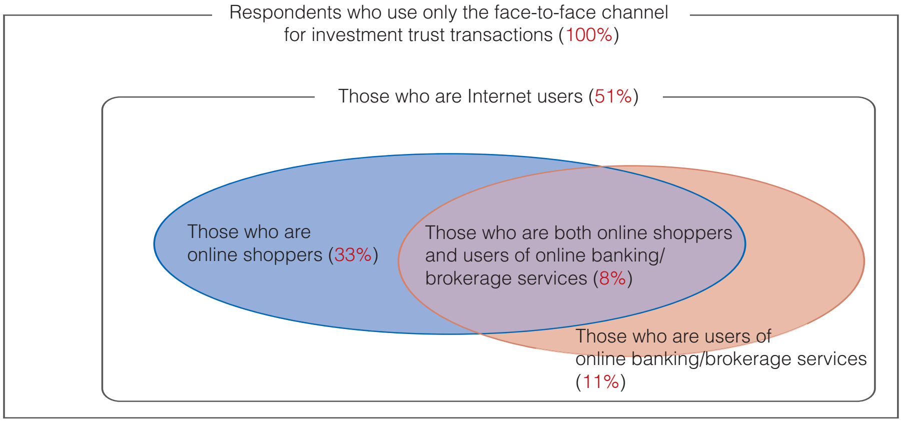
How to increase usership of online investment trust sales channel

For financial institutions with branch networks, one way to cultivate online investment trust customers is to place priority on expanding their investment trust customer base by targeting customers who have never purchased an investment trust. From an efficiency standpoint, however, a better approach is to target existing investment trust customers for sales solicitations. Investment experience is generally associated with a high degree of IT literacy[2]. This applies even to investors who exclusively use the face-to-face channel for their investment trust transactions. The aforementioned survey found that Internet users[3] account for only about 30% of all 60–69 year-olds but 50% of 60–69 year-olds who exclusively use the face-to-face channel for their investment trusts transactions (Exhibit 2). Additionally, one-third of these 60–69 year-olds who rely solely on the face-to-face channel use the Internet for shopping and over 10% of them are users of online banking or brokerage services. Both of these percentages are considerably

2) "Earthquake's impact on financial behavior and growth in 'digital seniors'" (Miyamoto, Hiroyuki; lakyara vol. 142, June 2012)

3) Defined as someone who uses the Internet at least weekly.

Exhibit 2: Internet usage among survey respondents who use only the face-to-face channel for investment trust transactions (60–69 age group)



Source: 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition) (conducted August–September 2011) higher for 60–69 year-old investment trust investors who trade investment trusts exclusively through the face-to-face channel than for 60–69 year-olds in general.

One way for banks to convert investment trust customers from the face-to-face channel to the online channel is to ascertain their Internet usage habits when selling them investment trust products through the face-to-face channel. This information would not only be useful for selecting customers likely to use the online channel for investment trust transactions, it would also enable banks to vary the content of their explanations of their online investment trust platforms to match customers' level of sophistication as an Internet user, thereby making the information readily understandable to the customer. After determining how Internet-savvy their customers are, banks could then group customers together by sophistication level and conduct seminars for each group. Such an approach should enable banks to cultivate online investment trust customers more efficiently.

When doing so, banks need not push customers to use only the online channel for the entire process from making investment decisions to placing orders. They should encourage customers to use both online and face-to-face services, such as by using the Internet to place orders after receiving face-to-face product explanations. Through such an approach, financial institutions with branch networks can maintain a competitive advantage over online-only rivals. Banks presumably have many customers who are both in favor of online services and also use the face-to-face channel, as the aforementioned survey results indicate. Sales solicitations aimed at converting such customers to the online channel would not only change banks' investment trust sales mix by channel, they also have the potential to reduce sales personnel's administrative workload, thereby giving them more time to make sales presentations to more customers, including new customers. In turn, they should also contribute to increasing banks' overall investment trust sales.

about NRI

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Inquiries to : Financial Technology and Market Research Department
Nomura Research Institute, Ltd.
Marunouchi Kitaguchi Bldg.
1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
E-mail : kyara@nri.co.jp

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