Ten Percent of Firms Consider Introducing 401(k) Plans
— The Nissay Business Conditions Survey—

by the Economic and Industrial Research Group

Introduction

During its first year, the Japanese Big Bang enacted major reforms that have altered the financial landscape, including the Revised Foreign Exchange Law implemented in April 1998 and lifting of the ban on investment trust sales by banks and insurance in December. Foreign financial firms also made inroads into the Japanese market, while the entire industry restructured and realigned.

These changes also affected the relationship between companies and their financial institutions. To see how, Nippon Life Insurance Company and NLI Research Institute jointly conducted a survey from January to February of this year entitled, "Changes in Transactions Among Financial Institutions and Companies Since the Start of the Financial Big Bang." The survey also asked companies about their level of awareness of 401(k) plans. A total of 5,373 responded, most of which were second-tier and small and mid-sized companies from around the country. Here we describe their perspective on changes in how financial institutions do business, their stance toward financial institutions, and awareness of 401(k) plans.

1. Approaches by Financial Institutions

(1) One in Four Firms Approached to Buy Investment Trusts

One in four companies were approached by a bank or insurance company selling investment trusts: 17.0% were approached by a city bank, and another 6.8% by a regional or second-tier regional bank. Considering that the survey took place only two months after banks and insurance companies began selling investment trusts, it is apparent that the city banks are moving very aggressively to expand in this area (Table 1).

Table 1 Investment Trust Sales Efforts of Financial Institutions

Multiple response (%)

		City bank	Regional bank	Life & p/c insurance	Trust bank	Other	None
All industries		17.0	6.8	5.7	5.4	2.1	74.2
Manufacturing		18.2	7.6	5.9	5.9	2.5	72.9
Non-manufacturing		16.5	6.3	5.8	5.2	1.8	75.0
Size	Large co.	28.6	9.4	10.2	10.2	2.3	64.4
	2nd tier co.	21.7	8.4	6.3	8.1	2.3	68.6
	Small & med. sized co.	14.5	6.1	5.2	4.1	2.1	76.8

Notes: Regional banks include second-tier regional banks. Figures do not add up to 100 due to multiple responses.

By company size, the frequency of approach increased with company size, with 35.6% of large companies being approached. By region, approaches were most frequent in the Tokai, Kanto, and Kinki regions; particularly in the Kinki and Kanto regions, over 20% of the companies had been approached by city banks.

(2) Increasing Activity of Foreign Financial Firms

Over the past year, foreign financial institutions have increased their presence in Japan both directly as well as through partnerships with Japanese firms. Twenty percent of the respondents had been contacted in some form by foreign financial institutions in the past year.

Specifically, 10.5% of the companies were approached regarding sales of asset management products such as investment trusts, 7.4% were approached regarding life insurance products, and 6.1% regarding property/casualty insurance products (Table 2).

Table 2 Approaches by Foreign Financial Institutions

Multiple response (%)

		Investment products	Life insurance	P/C insurance	Loans	Other	None
All industries		10.5	7.4	6.1	2.7	1.8	80.2
Manufacturing		12.2	7.6	6.7	3.3	1.9	78.9
	Material	9.6	5.9	5.3	3.0	1.1	82.8
	Processing	13.6	8.5	7.4	3.4	2.3	76.9
Non-manufacturing		9.3	7.1	5.6	2.2	1.8	81.4
Size	Large co.	28.9	4.7	7.3	10.2	7.3	61.5
	2nd tier co.	15.0	5.5	4.2	2.9	1.9	78.8
	Small & med. co.	7.5	8.2	6.6	2.0	1.3	82.3

Note: Figures do not add up to 100 due to multiple responses.

By industry, approaches for all three product types were high in the process manufacturing sector. By company size, large companies were approached more frequently regarding asset management products, while smaller companies were approached regarding life insurance products. In addition, 10.2% of large companies were approached regarding loans.

By region, asset management products were most common in the Tokai region (12.4%) while life insurance products were most common in the Kinki region (8.9%).

In the future, foreign financial institutions are expected to further intensify their sales efforts centered around asset management and insurance products.

2. Changes in Transactions with Financial Institutions

(1) Over 10% of Companies are Transacting with More Banks

Approximately 30% of the companies reported changing business relationships with financial institutions over the past year. Specifically, 12.8% of the companies do business with more financial institutions, 12.1% have deepened ties with their financial institutions, and 8.0% have decreased the number of financial institutions (Table 3).

Table 3 Changes in Transactions with Financial Institutions in the Past Year

Multiple response (%)

		Increased no. of ties	Strengthened certain ties	Decreased no. of ties	Changed main bank	No change
All industries		12.8	12.1	8.0	1.9	71.4
Manufacturing		10.6	11.4	8.0	1.5	73.8
	Material	10.6	10.9	10.0	1.6	72.2
	Processing	10.6	11.7	7.0	1.5	74.6
Non-manufacturing		14.7	12.7	8.2	2.2	69.4
	Construction, facility	13.6	12.6	10.1	2.2	67.8
	Wholesale	12.4	12.2	9.0	2.5	70.7
	Retail	15.7	14.7	7.3	2.4	67.5
	Services	18.7	13.3	6.4	1.3	67.4
Size	Large co.	14.3	14.6	15.2	1.7	64.4
	2nd tier co.	13.2	12.4	7.9	1.3	71.8
	Small & med. sized co.	12.5	11.8	7.4	2.0	72.0

Note: Figures do not add up to 100 due to multiple responses.

By industry, the service industry was most active in increasing the number of financial institutions (18.7%), while the retail industry did most to deepen ties with its financial institutions (14.7%). By region, the most pronounced change by far occurred in Hokkaido, where over 60% of the companies changed how they do transactions with banks: 34.1% by changing their main bank, and 26.4% by doing business with more banks.

(2) 10% Are Currently Reviewing Banking Ties

While the majority (65.6%) of companies intend to maintain their present relationship with banks, we found that 11.1% want to deepen ties with certain financial institutions, and 9.5% want to consider changing their present banking relationships (Table 4).

Table 4 Intentions Regarding Future Transactions with Financial Institutions

Multiple response (%)

		OK as is	Strengthen specific ties	Reconsider present ties	Increase no. of ties	Decrease no. of ties	Reconsider main bank
All industries		65.6	11.1	9.5	5.9	5.6	1.5
Manufacturing		67.3	10.4	9.3	4.4	6.6	1.5
	Material	68.4	11.9	8.1	3.2	6.4	1.8
	Processing	66.6	9.6	9.9	5.0	6.6	1.4
Non-manufacturing		64.6	11.4	9.8	7.1	4.8	1.5
	Construction, facility	72.6	5.7	8.5	5.4	4.7	2.2
	Wholesale	65.9	10.7	10.0	5.4	5.7	1.9
	Retail	64.7	12.8	10.7	5.9	4.5	1.0
	Services	60.1	14.5	9.2	9.4	4.6	1.2
Size	Large co.	59.5	10.2	14.0	5.5	9.3	0.6
	2nd tier co.	64.6	11.3	11.1	4.4	6.9	1.3
	Small & med. sized co.	66.6	11.1	8.7	6.4	4.8	1.7

Note: Figures do not add up to 100 due to some multiple responses.

By industry, the service industry was most intent on deepening its banking ties (14.5%), and the retail industry on reconsidering present banking ties (10.7%).

By company size, a rather large portion of large companies (14.0%) wants to reconsider present banking ties. By region, Hokkaido was most intent on reviewing banking ties, and the Tohoku region on deepening ties with certain banks.

Thus we found that while companies have a strong desire to deepen ties with particular financial institutions, an equally large proportion of companies also want to increase the number of banks and review present relationships. These tendencies can attributed to the following factors:

- With banks continuing to take a tough lending stance, companies are transacting business with more banks in the short term.
- Under Big Bang, as banks approach companies more aggressively, companies are reconsidering their present banks or doing business with more banks to compare services.

Thus the Big Bang has not only altered what financial institutions offer companies, but is encouraging companies to respond by comparison-shopping for banks that best meet their needs.

3. Expected Results of Partnerships Among Financial Institutions

(1) Many Companies Anticipate Better Services Due to Competition

The start of the Big Bang has stimulated alliances between domestic financial institutions as well as with foreign financial institutions. When we asked companies what they expected from these activities, the most common response (41.7%) was an increase in competition and improvement in services. This was followed by the provision of diverse financial services including loans, deposits, insurance, and securities from the same financial institution (12.2%). Only 1.55 expected high-yielding investment products. In addition, 36.8% said they expected to see little change (Table 5).

Table 5 Expected Results of Alliances Between Financial Institutions

(%)

		Higher quality of services	Greater diversity of services	Better financing terms	High-yield financial products	Little or no change
All industries		41.7	12.2	6.3	1.5	36.8
Manufacturing		43.2	13.3	5.7	1.7	35.1
	Material	44.6	13.9	4.4	1.6	34.5
	Processing	42.5	12.9	6.4	1.7	35.5
Non-manufacturing		40.7	11.3	6.7	1.4	38.0
	Construction, facility	43.6	12.2	5.0	2.5	35.3
	Wholesale	41.6	11.2	5.5	1.4	39.4
	Retail	40.4	11.0	7.0	1.4	37.9
	Services	41.6	11.9	7.9	1.0	35.5
Size	Large	50.4	13.1	5.5	1.2	28.9
	2nd tier	42.2	12.9	7.0	1.3	35.5
	Small & med.	40.8	11.8	6.1	1.6	37.9

Note: Figures do not add up to 100 due to multiple responses.

By company size, the proportion of companies expecting improved financial services from competition and greater diversity of financial services increases with company size. By industry, over half of companies in information services, energy, printing/publishing expect improved financial services from competition.

It is interesting that while many companies expect the alliances and mergers among financial institutions to result in improved services, practically none of them expect to see high-yield investment products. This seems to reflect their awareness of the harsh investment climate.

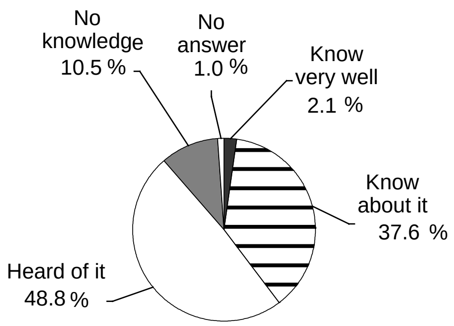
4. Awareness of 401(k) Type Plans

(1) 40% of Companies Know Rudiments of 401(k) Plans

We looked at the general level of awareness of 401(k) type plans, which are being introduced by a growing number of financial institutions and large companies.

Almost 40% of the companies had at least a basic understanding of the plan (2.1% were well informed, and 37.6% were familiar with the plan's basic features). Even considering the 10.5% who had never heard of the plan, second-tier and small and medium firms seem to be relatively aware of the plan (Figure 1).

Figure 1 Awareness of 401(k) Type Plan



However, the level of awareness increases markedly with company size, with 66.2% of large companies having at least a basic understanding. By region, companies in the Kanto and Kinki regions tend to have a higher awareness level.

(2) Expectation of Cost Containment

The most promising feature of the 401(k) type plan for companies is that "costs will not exceed initially determined level" (29.1%), followed by "employees are responsible for their own investment decisions" (12.7%; Table 6).

Table 6 Merits of 401(k) Type Plan

(%)

	Company's cost is contained	Employees are accountable for results	Expanded cost writeoff	Pension mobility	Don't need to determine benefits first	More tax deductions for employees	Don't know
All industries	29.1	12.7	5.1	4.4	4.1	0.9	37. 1
Manufacturing	31.2	12.9	5.0	4.6	4.6	0.8	34. 7
Non-manufacturing	27.9	12.8	5.2	4.5	3.8	1	38. 8

By company size, approximately 40% of large companies appreciate the cost limitation feature. On the other hand, this feature is mentioned less as company size decreases, with approximately 40% of small and medium companies responding that they don't know what the plan's merits are.

Among the firms who have at least a basic understanding of the plan, almost half pointed out the plan's cost containment merit (Table 7).

Table 7 Merits of 401(k) Type Plan (Part 2)

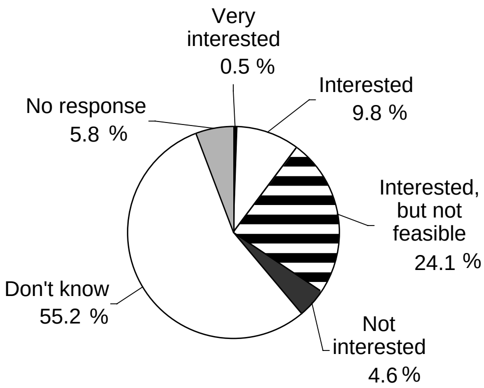
(%)

	Company's cost is contained	Employees are accountable for results	Don't need to determine benefits first	Expanded cost writeoff
Very familiar with	46.8	16.2	17.1	5.4
Somewhat familiar with	48.4	21.4	5.9	4.3
Have heard of	19.8	9.7	3.1	6.4
No knowledge of	2.5	1.1	0.4	2.8

(3) 10% Favor Introducing the Plan

Regarding corporate intentions to introduce a 401(k) type plan, 10.3% of the firms were positively inclined (definitely or highly interested). While over half the firms (55.2%) were still undecided, a relatively small minority of 4.6% opposes introducing the plan (Figure 2).

Figure 2 Intention to Introduce a 401(k) Type Plan



Among large companies, over 20% were positively inclined toward the plan. Manufacturing industries were more positively inclined than non-manufacturing industries. Positively inclined industries included electrical equipment and chemical industries in the manufacturing sector, and information services in the non-manufacturing sector. By region, many of the positively inclined companies were in the Kanto and Tokai regions, while fewer were in Hokkaido and the Chugoku region.

In addition, of the companies most familiar with the plan, 38.7% were optimistic about introducing the plan (definitely or highly interested). However, among the companies familiar with the plan's basic features, 37.5% were interested but pessimistic about the plan's introduction. We also found that the companies who appreciated the aspect that plan benefits need not be determined beforehand were most positively inclined toward the plan (Table 8).

Table 8 Intention to Introduce 401(k) Type Plan

(%)

		Definitely want to introduce	Seriously considering	Want to, but see difficulties	Don't want to introduce	Don't know
All industries		0.5	9.8	24.1	4.6	55.2
	Manufacturing	0.6	10.8	24.5	4.6	53.8
	Non-manufacturing	0.3	9.0	24.1	4.6	56.2
Size	Large	0.9	20.1	24.8	1.7	47.2
Size	2nd tier	0.2	13.0	26.0	3.0	53.2
Size	Small & med.	0.5	7.8	23.4	5.3	56.5
Familiarity	Very familiar with	3.6	35.1	26.1	9.9	25.2
Familiarity	Somewhat familiar	0.8	18.1	37.5	4.5	37.2
Familiarity	Have heard of	0.2	4.4	18.8	4.6	66.2
Familiarity	Not familiar with	0.0	0.5	2.8	3.7	79.9
Advantages	Fixed expenses	1.0	19.9	36.0	3.1	39.0
Advantages	Variable benefits	1.8	20.8	33.9	5.4	37.6
Advantages	Employee accountability	0.4	11.8	41.2	5.4	40.2
Advantages	Account mobility	0.8	15.5	37.7	4.6	40.6

Conclusion

Our survey found that one year after the start of the financial Big Bang, signs of change have gradually emerged in the relationship between companies and their financial institutions. As a result of deregulation in the sale of investment trusts and insurance products, many diverse firms in the financial industry including foreign firms are aggressively approaching companies, and these companies in turn are becoming more selective in choosing their financial services provider.

In addition, we found that corporate awareness of the 401(k) type plan was relatively high, and that the more familiar companies were with the plan's merits and features, the more inclined they were to introduce the plan in the future.

Description of the Nissay Business Conditions Survey

Survey period: Mid January to end of February, 1999
Number of companies responding: 5,373
Composition of companies: See tables below

Table 9 Breakdown by Company Size

	No. of companies	Composition (%)
Large company	343	6.4
2nd tier company	1,190	22.1
Small & med. co.	3,828	71.2
No answer/other	12	0.2
Total	5,373	100.0

Definitions: Large companies have over 1,000 employees, second-tier companies have 301 to 1,000 employees, and small and medium companies have 300 or less.

Table 10 Breakdown by Region

	No. of companies	Composition (%)
Hokkaido	91	1.7
Tohoku	333	6.2
Kanto	1,114	20.7
Koshinetsu/Hokuriku	536	10.0
Tokai	813	15.1
Kinki	1,263	23.5
Chugoku	410	7.6
Shikoku	178	3.3
Kyushu	498	9.3
No answer/other	137	2.5
Total	5,373	100.0