

Japanese Financial Institutions Strive to Enhance Professional Employment

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1. Introduction

One year into the financial reforms known as the Big Bang, Japan's financial institutions are facing intense competition as traditional industry borders fade and foreign firms increase their presence. To meet the competition, they must bolster capabilities in areas that require professional expertise – investment management, financial product development, investment banking and risk management.

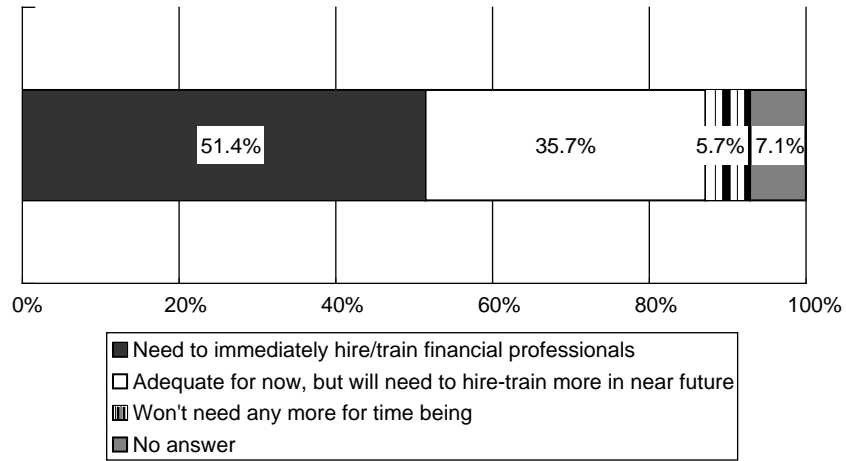
To grasp the rapidly changing conditions in the financial services industry, NLI Research Institute conducted a "Survey of Professional Personnel" among major financial institutions in Japan (including foreign firms with a presence in Japan), and received 70 responses. This paper describes their stance and strategies regarding the use of professionals, and notes differences between Japanese and foreign firms.¹

2. Strong Intention to Enhance Professional Personnel

Reflecting the major changes being brought on by Big Bang, as many as 90% of the financial institutions in the survey cited hiring and training and development (T&D) of professionals as an important issue. Among investment advisory firms, the response was unanimous at 100%.

Similarly, almost 90% of companies felt a strong need to hire or develop professionals either immediately (51.4%) or at some time in the future (35.7%; Figure 1).

Figure 1 Strong Demand for Professionals

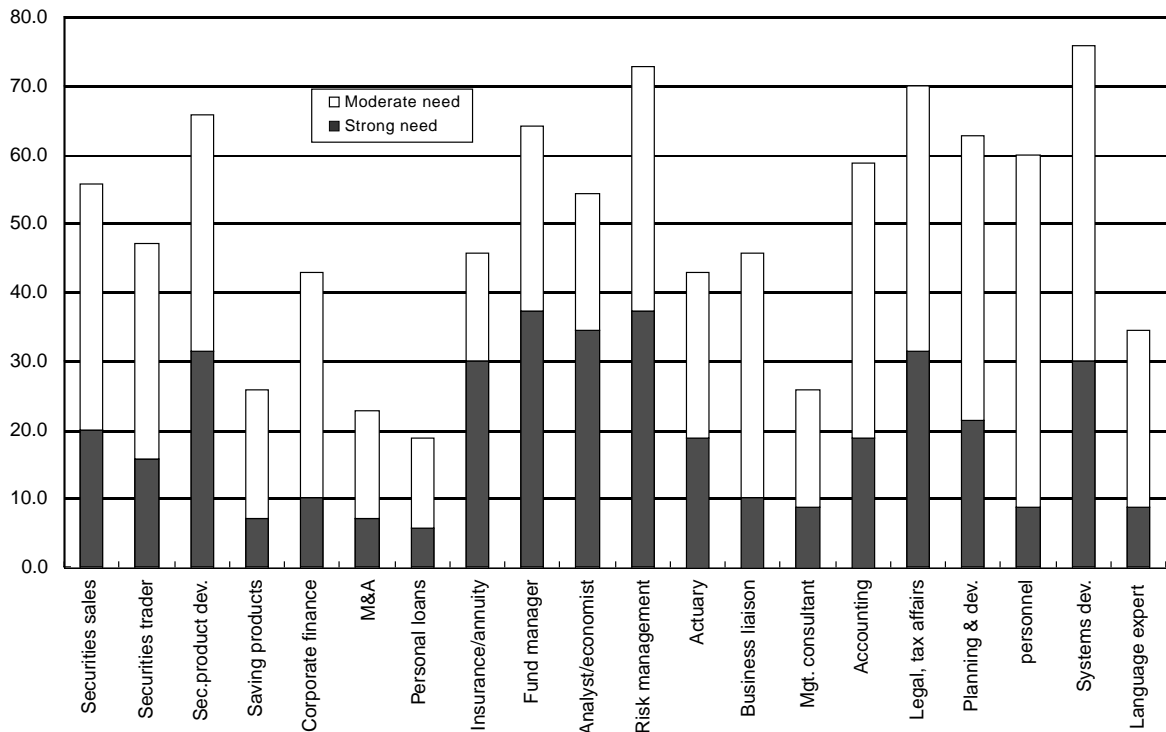


3. Japanese Firms Sense Strong Need for Front-Office Money Management Professionals

(1) Fund Manager, Systems Development, and Risk Management

By work category, the areas in which the need is strongest are for fund manager (37.1%), inspection and risk management expert (37.1%), and analyst/economist (34.3%). When "strong need" and "somewhat strong need" responses are combined, the most frequent responses are systems development (75.7%), inspection and risk management (72.9%), and legal and tax matters (70.0%). Thus we find that financial institutions have a strong demand for front-office personnel such as fund managers, analysts, and economists, as well as for specialized back-office personnel in systems development, risk management, and legal and tax matters (Figure 2).

Figure 2 Demand for Professionals by Area



On the other hand, over 60% cited either a "weak need" or "somewhat weak need" for personnel in the areas of personal loans, M&A, and savings products. This can be attributed to the fact that a relatively large proportion of firms already feels sufficient in personnel in these areas.

(2) Level of Sufficiency Differs Among Japanese and Foreign Firms

The degree of sufficiency regarding professional personnel ("adequate" plus "somewhat adequate" responses) is highest in the categories of corporate finance (62.9%), savings products (61.4%), and securities sales (58.6%). By capital affiliation, foreign firms are notably more satisfied than their Japanese counterparts with staffing in the categories of fund manager, analyst/economist, and securities sales. On the other hand, Japanese firms express greater satisfaction than foreign firms in the categories of savings products, securities trading, and personnel management. Overall, foreign financial firms appear to be better staffed regarding front-office professionals (Table 1).

Table 1 Level of Sufficiency by Position

	Savings products	Corporate finance	Securities sales	Securities trader	Fund manager	Analyst, economist	Personnel
Total	61.4	62.9	58.6	55.7	48.6	44.3	42.9
Japanese	71.2	63.5	57.7	55.8	44.2	38.5	50
Foreign	33.3	61.1	61.1	16.7	61.1	61.1	22.2

(Multiple response, %)

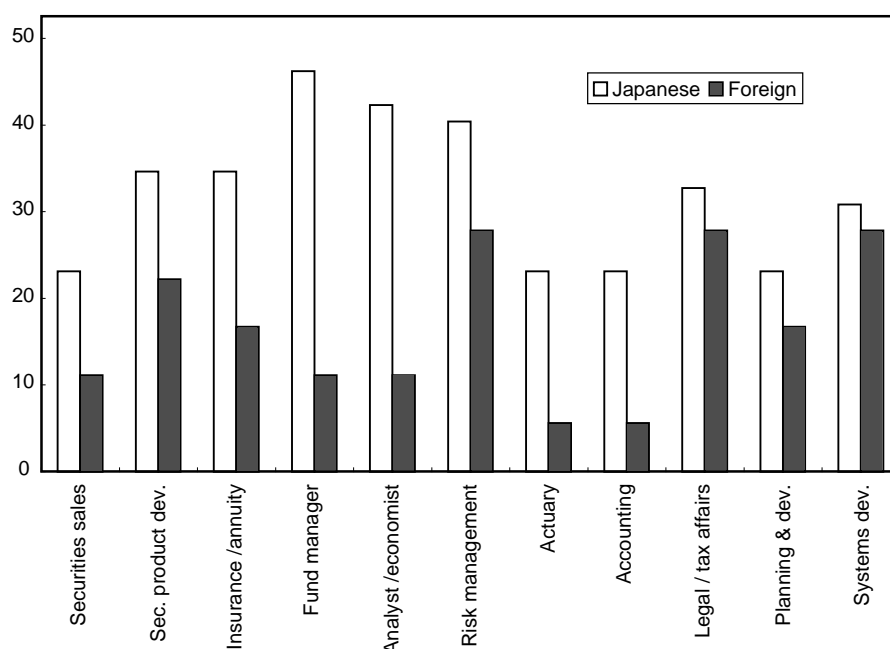
Note: "Adequate" and "somewhat adequate" responses are combined.

(3) Japanese Firms Rush to Bolster Fund Management and Securities Sales

We found large disparities in the perspectives of Japanese and foreign financial firms regarding the need for professionals. Overall, Japanese firms expressed a stronger need for professionals, particularly for the positions of fund manager, analyst & economist, inspection & risk management, and insurance and annuity products.

With regard to urgent personnel needs, Japanese firms cited fund manager, inspection and risk management, and systems development, while foreign firms cited securities product development, securities product sales, systems development. The most urgent needs among Japanese firms are in fund manager and securities product sales, and for foreign firms, development of securities products. None of the foreign firms said they urgently needed a fund manager or analyst/economist (Figure 3).

Figure 3 Professionals in Demand



4. Many Rely on In-house T&D for Personnel Needs

The proportion of financial institutions who fulfill their professional personnel needs in-house exceeds 50% in the areas of personnel & labor relations (60.0%), accounting (55.7%), legal & tax affairs (52.9%), and risk management (52.9%). However, at least 20% rely evenly on both outside hiring and T&D in the areas of system development, fund manager, and analyst & economist.

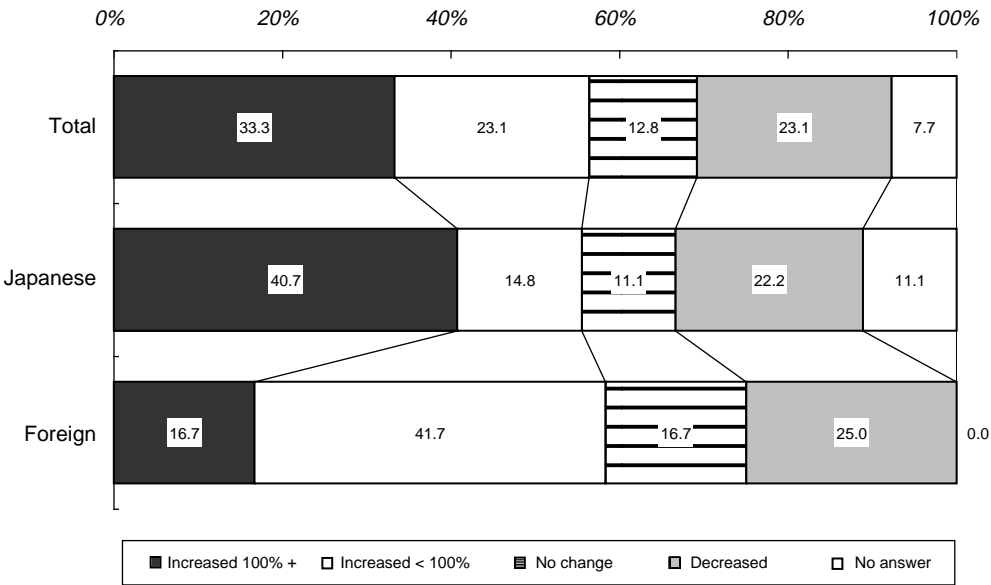
A pattern thus emerges in which back-office positions tend to be filled by personnel trained in-house, while positions in financial product development, money management, and market research are filled by outside hiring.

5. Growing Trend Toward Mid-Career Hiring

(1) One in 3 Companies Doubled Mid-Career Hiring in Past 5 years

Over the past five years, mid-career hiring has increased at 56.4% of the companies, and at least doubled at 33.3% of companies. Among Japanese financial institutions, mid-career hiring has at least doubled among 40.7% of the companies. On the other hand, 23.1% of companies reported a decrease in mid-career hiring over the same time period (Figure 4).

Figure 4 Increase in Mid-Career Hiring in the Past 5 Years



Furthermore, companies that conduct mid-career hiring are increasingly hiring younger persons (66.7%) and emphasizing work experience (79.5%). The range of occupations subject to mid-career hiring is being narrowed down overall (51.3%), but this is occurring mostly among Japanese companies (59.3%), as foreign companies are actually expanding the range (58.3%).

The most common reasons for mid-career hiring are "to acquire personnel for immediate use" (77.3%), followed by "to enter new business areas" (31.8%) and to expand present business areas" (31.8%). By industry, "to enter new business areas" was most often cited by banks, while investment advisories cited "to acquire personnel for immediate use."

(2) Over 90% Emphasize Work Experience and Motivation

With regard to mid-career hiring, qualifications cited as important or somewhat important include work experience (93.2%), motivation (93.2%), specialized skills (88.6%), and communication skills (88.6%). Qualifications that over half of the respondents thought unimportant or somewhat unimportant were overseas experience, education, and official skill certifications.

As many as 84.6% of foreign firms regard language skills as important, compared to only 29.0% of Japanese firms. On the other hand, only 15.4% of foreign firms regard official skill certifications as important, compared to 41.9% of Japanese firms (Table 2).

**Table 2 Qualifications Regarded as Important in Mid-Career Hiring
(Important + Somewhat Important)**

	Work experience	Motivation	Special skills	Communication skills	Computer skills	Age	Language skills	Official skill certification	Education	Experience abroad
Total	93.2	93.2	88.6	88.6	70.5	59.1	45.5	34.1	31.8	13.6
Japanese	93.5	93.5	87.1	87.1	71	61.3	29	41.9	22.6	9.7
Foreign	92.3	92.3	92.3	92.3	69.2	53.8	84.6	15.4	53.8	23.1

(3) Identical Treatment as Regular Employees

For their mid-career professionals, most companies have established identical work targets (88.6%) and work evaluation criteria (86.4%) as for regular employees. Thus while increasing mid-career hiring of professionals, few financial institutions are setting up separate work targets and evaluation criteria.

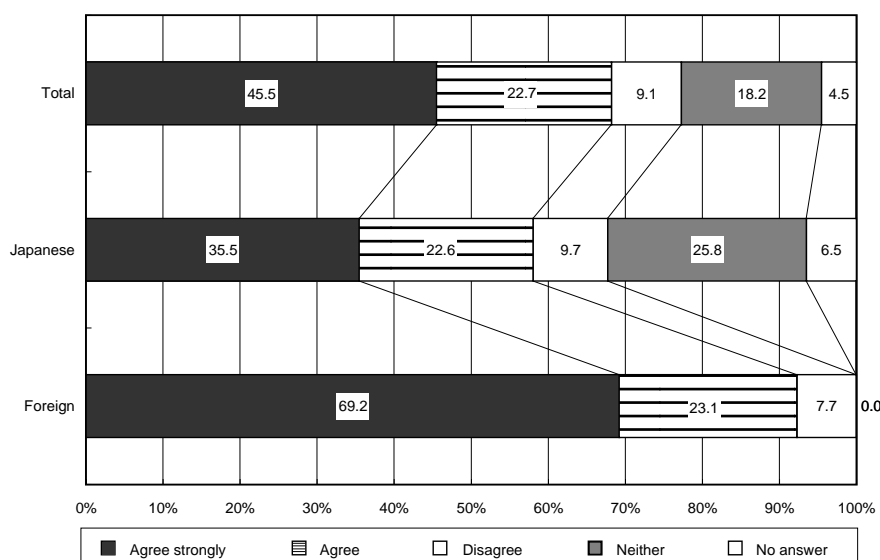
In addition, factors considered in determining initial ranking for newly hired mid-career professionals are specialized competence (38.6%), followed by achieving balance with regular workers (20.5%). However, specialized competence is emphasized much more among foreign firms (61.5%) than Japanese firms (29.0%), who place an equal emphasis on achieving balance with regular workers (25.8%).

6. Differing Views of the Mid-Career Labor Market

(1) Overall Positive Assessment of the Market

While only 2.3% agreed strongly to the statement, "recently hired mid-career employees are meeting our expectations," as many as 86.4% agreed to some extent, indicating that the overall assessment of Japan's mid-career labor market is positive. In addition, 58.1% of Japanese firms said that they "will pursue mid-career hiring on an ongoing basis" compared to 92.3% of foreign firms. One in four Japanese firms have not decided whether they would continue to do so on an ongoing basis (Figure 5).

Figure 5 "Will Continue Mid-Career Hiring on an Ongoing Basis"



(2) Japanese Firms Dissatisfied with Lack of Information

However, views of the mid-career labor market are divided, with over half of the respondents (52.3%) saying that the "mid-career labor market is underdeveloped and information on professionals is scarce." Japanese financial firms are more dissatisfied that foreign firms with conditions in the mid-career labor market and the quality of personnel (Figure 6). Regarding the statement, "Japan's mid-career labor market segment is small, and we cannot find the desired personnel," 23.1% of foreign firms agreed strongly or otherwise, compared to over half of Japanese firms (51.1%; Figure 7).

**Figure 6 "Mid-Career Labor Market is Underdeveloped;
Information on Professionals is Scarce"**

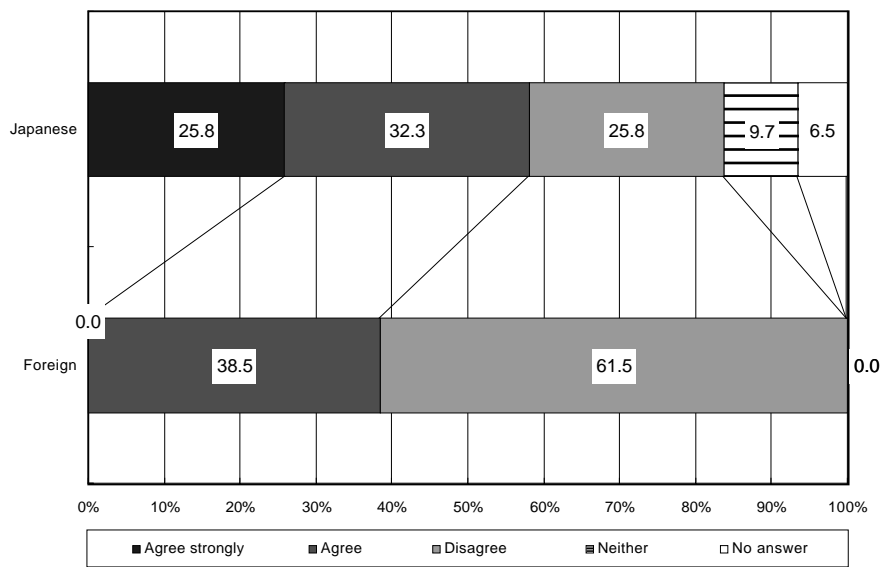
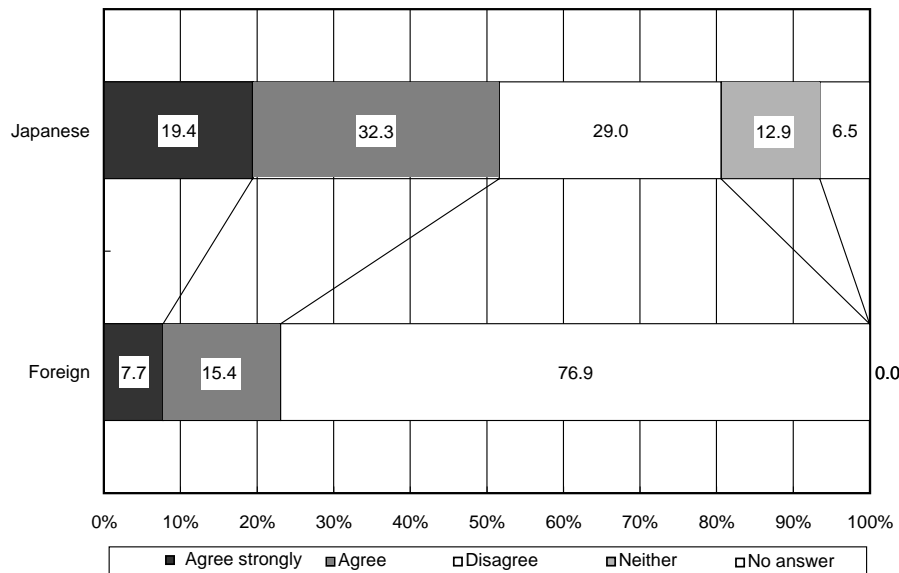


Figure 7 "Mid-Career Labor Market Segment is Small; Cannot Find Desired Personnel"



These results can be attributed to two factors: (1) competent personnel in the mid-career market are moving to foreign firms, and (2) a reflection of the disparity in mid-career hiring experience between Japanese and foreign firms. Nonetheless, more foreign firms (61.5%) than Japanese firms (38.7%) cite a high risk that employees hired in mid-career will leave their jobs, indicating that foreign firms suffer from a higher employee turnover rate.

(3) Foreign Firms Rely Heavily on Staffing Agencies

Opinions were also divided among Japanese and foreign firms regarding staffing agencies and head hunting firms. In response to the statement, "referrals from staffing agencies and head hunting firms are often disappointing and thus unreliable," most foreign firms disagreed (61.5%), while among Japanese firms only 12.9% disagreed, 51.3% neither agreed nor disagreed, and 29.0% agreed. This divergence of opinion can be attributed to the fact that foreign firms aggressively resort to staffing agencies and head hunting firms, while Japanese firms do not put much confidence in such businesses.

(4) Strong Expectations Regarding Deregulation of Staffing Businesses

With 61.4% of all respondents (76.9% of foreign firms) anticipating that deregulation of the staffing business will improve their access to desired personnel, there are strong expectations that employment-related deregulation will stimulate the mid-career labor market.

Our survey found a strong demand among Japanese financial institutions for professionals who can contribute immediately to performance such as fund managers, analysts, and economists. This finding is supported by the fact that over the past five years, over 40% of the Japanese firms surveyed have at least doubled their hiring of mid-career personnel. However, Japanese firms more dissatisfied than foreign firms regarding the lack of information in the mid-career labor market and the quality of available personnel.

Survey Outline

Sample: Major Japanese and foreign financial institutions located in Japan.

Method: Surveys were distributed and collected by mail.

Time period: May to June 1999

Number of valid responses: 70 companies (52 Japanese, 18 foreign)

Industry breakdown: Banks 37.1%; securities companies 17.1%; insurance companies 22.9%; investment advisory companies 12.9%; other 10.0%