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Expansion of NISA in Japan: Seniors Actively Utilising Financial Assets

- With the expansion of NISA (Nippon Individual Savings Account), the number of accounts opened and the amount of purchases have significantly increased from January to June this year. Particularly, the number of accounts opened has risen among those in their 50s and 60s, with substantial new purchases in the Growth NISA investment quota. The expansion of NISA has prompted seniors to consider utilising their financial assets. Japanese domestic stocks accounted for 41% of the total purchase amount.
- The proliferation of smartphones and the enhanced services provided by securities companies are also seen as factors encouraging individual investment in securities. Although Japanese individuals are said to be risk-averse, they took risks in real estate to build assets until the 1980s. As Japan's economy heads towards inflation, it is expected that more individuals will allocate funds to securities to maintain their real purchasing power.

Despite being considered risk-averse, Japanese individuals have been increasing their investment in securities in recent years. The annual inflow into equity investment trusts was JPY 10.98 trillion in 2021, JPY 8.21 trillion in 2022, and JPY 7.53 trillion in 2023 (excluding the Bank of Japan's ETF purchases), reaching JPY 12.89 trillion by August 2024 (Exhibit 1). The number of individual shareholders has been increasing since 2014, reaching 74.45 million in fiscal 2023 (Exhibit 2). While individual investors would previously sell off significantly when stock prices rose, the sell-off amount has been relatively small since 2021. This report will first review the trends in NISA, which was expanded in January this year, and then discuss the likelihood of continued individual investment in securities.

Exhibit 1: Expansion of Inflows into Publicly Offered Equity Investment Trusts

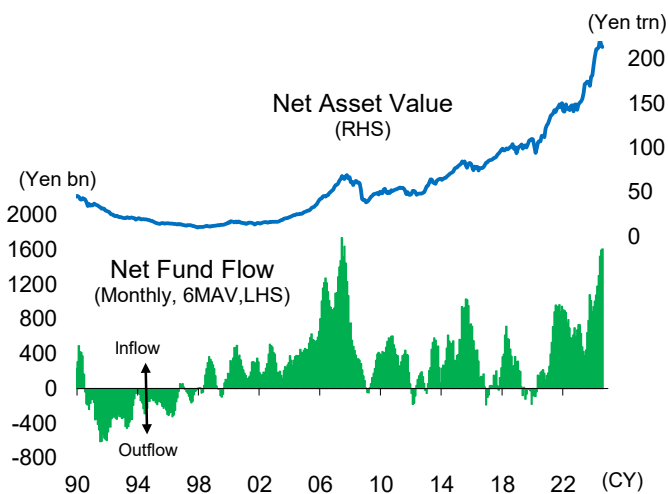
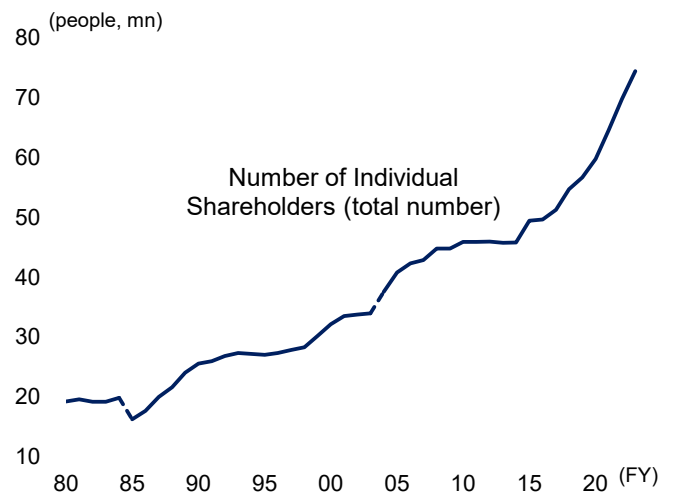


Exhibit 2: Acceleration of Increase in the Number of Individual Shareholders



Note: Net inflows are inflow less cancellation and redemption amounts (excluding BOJ ETF purchase); 6 month average; data as of Aug. 2024.
Source: Investment Trusts Association, Japan, MUFG: Trust Bank

Note: Figures are cumulative total number of shareholders; data as of FY2023.
Source: TSE, MUFG: Trust Bank

Status of Account Openings and New Purchases After NISA Expansion

NISA, a tax-free small investment system where capital gains and dividends are tax-exempt, was launched in 2014 and expanded and made permanent from January 2024 (Exhibit 3). The account opening period for NISA has been made permanent, and the tax-free holding period has been made indefinite. Additionally, the annual investment limit has been increased, with the general NISA quota rising from JPY 1.2 million to JPY 2.4 million (Growth NISA quota), and the Tsumitate NISA quota increasing from JPY 400,000 to JPY 1.2 million, with a total tax-free holding limit of JPY 18 million. Unlike before, benefits can be enjoyed even if investments are made again after selling within the tax-free holding limit. NISA has become a highly convenient system supporting long-term individual investment.

Exhibit 3: NISA Scheme to Contribute to Long-term Investment

New Schemes		Old Schemes	
	Tsumitate NISA	Used together	Growth NISA
Annual limits	JPY 1,200,000		JPY 2,400,000
Period of tax exemption	indefinite		indefinite
Lifetime investment limits (Total)	JPY 18,000,000 ※Managed using book value balance (recyclable)		
			JPY 12,000,000
Account opening period	Permanent		Permanent
Investment options	Investment trusts suitable for long-term accumulation		Listed stocks, investment trusts, etc.
Target age	18 and over		18 and over
Relationship with the current system	Investments through end-2023 will be subject to the current taxation scheme (i.e. new taxation rules will not apply).		

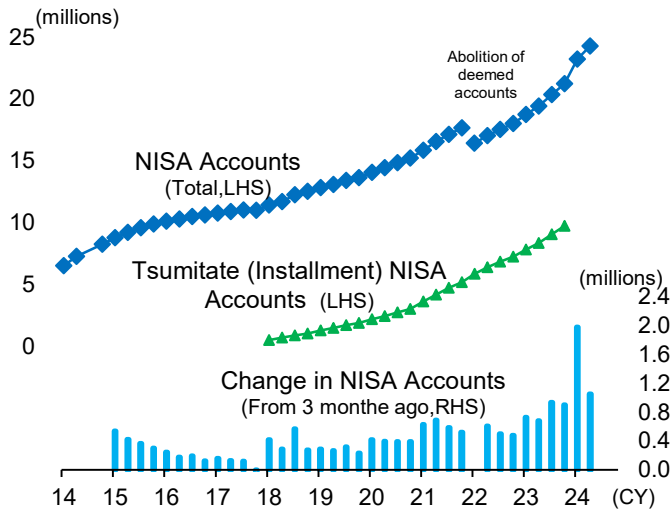
Old Schemes		Old Schemes	
	Tsumitate NISA (Founded in 2018)	Choice	General NISA (Founded in 2014)
Annual limits	JPY 400,000		JPY 1,200,000
Period of tax exemption	20 years		5 years
Lifetime investment limits	JPY 8,000,000		JPY 6,000,000
Account opening period	Until 2023		Until 2023
Investment options	Investment trusts suitable for long-term accumulation		Listed stocks, investment trusts, etc.
Target age	18 and over		18 and over

Source: FSA, MUFG: Trust Bank

Following the expansion of NISA, individual funds are flowing into securities investment. The number of NISA accounts increased by 3.03 million from the beginning of the year to 24.28 million (as of June, across all financial institutions, Exhibit 4), and the amount of NISA purchases has significantly increased, reaching approximately JPY 7.9 trillion in the Growth investment quota and JPY 2.2 trillion in the Tsumitate investment quota. Although the rise in stock prices also had an impact, the net selling amount of individual cash transactions and the redemption amount of equity investment trusts increased by 54.2% and 41.4% year-on-year, respectively, in the cumulative total from January to June. While there are many cases of switching from existing taxable accounts, it is believed that there are also a considerable number of individuals who invested in securities for the first time.

Looking at the usage status of the top 10 securities companies from January to August this year, the amount of NISA purchases was approximately JPY 7.1 trillion in the Growth investment quota (about 4.5 times year-on-year) and JPY 2.4 trillion in the Tsumitate investment quota (about 3.1 times year-on-year). In the Growth investment quota, stocks accounted for 59% and investment trusts for 41%, with domestic stocks (including ETFs and REITs) making up 92% and foreign stocks 8%. Domestic stocks accounted for 41% of the total NISA purchase amount (Exhibit 5). Among the top 10 stocks in the Growth investment quota, 9 were domestic stocks and 1 was a foreign stock. This is somewhat surprising, as many market participants had expected individual funds to flow into foreign stocks via NISA until last year.

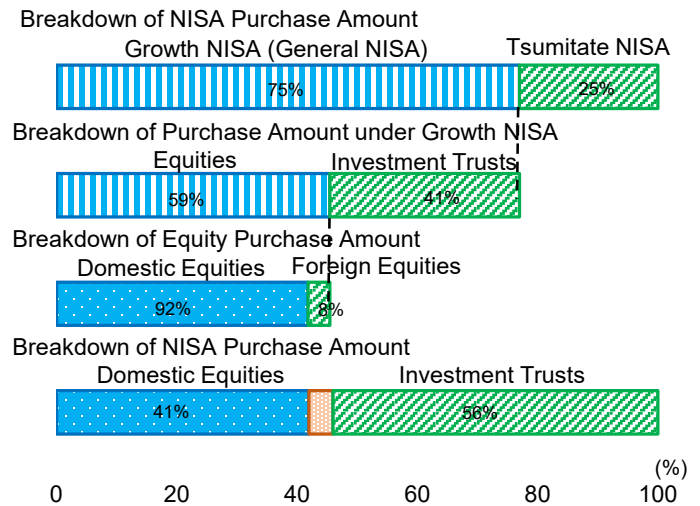
Exhibit 4: Number of NISA Accounts has Increased



Note: Accounts opened before the introduction of the My Number system and whose tax-free holding period had expired were abolished in January 2022; data as of June 2024.

Source: FSA, MUFG: Trust Bank

Exhibit 5: Breakdown of NISA Purchase Amounts



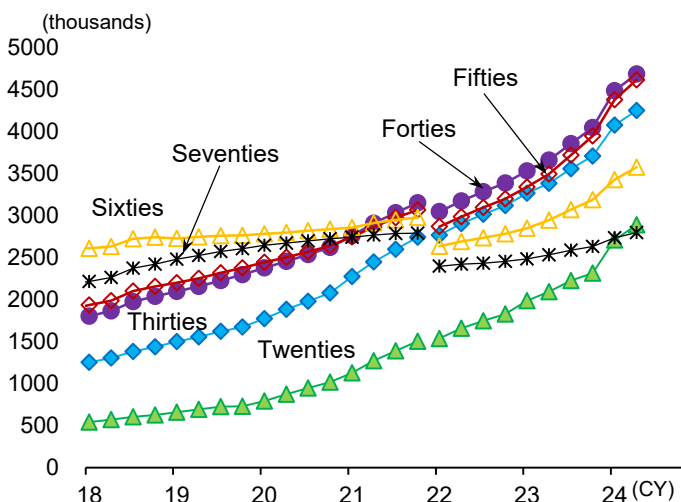
Note: Universe is the 10 major securities companies; "Domestic Equities" includes ETFs and REITs; accumulative purchase amount from January to August in 2024.

Source: Japan Security Dealers Association, MUFG: Trust Bank

Differences Between Young and Senior Individual Investors

Notably, the number of NISA accounts opened by those in their 50s and 60s has increased. By generation, since the start of Tsumitate NISA in 2018, the rate of increase in the number of accounts has been higher among younger generations, but from January to June 2024, the increase rates for those in their 50s and 60s were 16.9% and 12.1%, respectively, comparable to those in their 30s and 40s (14.6% and 15.7%, respectively, across all financial institutions, Exhibit 6). The new purchase amounts by generation in the Growth investment quota reached JPY 1.64 trillion and JPY 1.63 trillion (20.7% and 20.6% of the total) for those in their 50s and 60s, respectively, while in the Tsumitate investment quota, those in their 30s and 40s surpassed them with JPY 555 billion and JPY 558 billion (25.0% and 25.2% of the total, respectively, Exhibit 7), respectively. While there are large differences among individuals, it is believed that seniors who already have financial assets utilised the NISA Growth investment quota to allocate part of their assets to stocks and investment trusts to enjoy tax benefits.

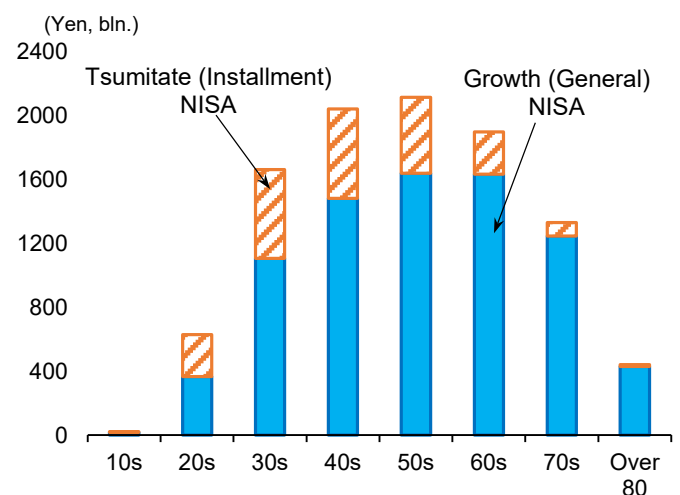
Exhibit 6: Number of NISA Accounts by Age Group



Note: Accounts opened before the introduction of the My Number system and whose tax-free holding period had expired were abolished in January 2022; data as of June 2024.

Source: FSA, MUFG: Trust Bank

Exhibit 7: Purchase Amounts by Age Group in NISA



Note: Accumulative purchase amount from January to June in 2024.

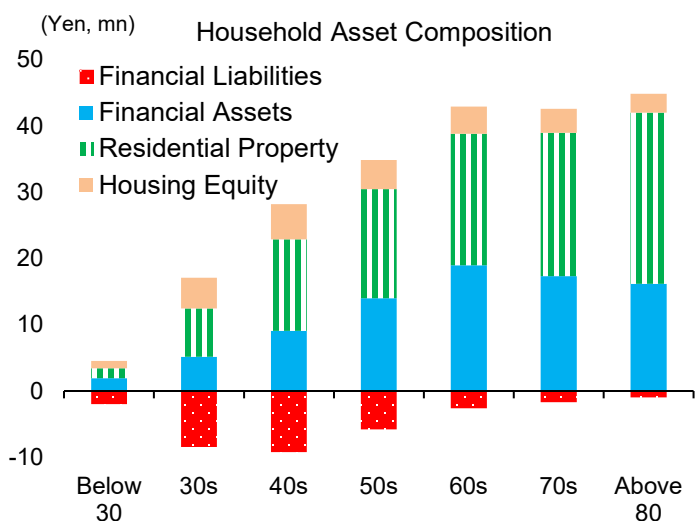
Source: FSA, MUFG: Trust Bank

Individual investors are diverse. When considering securities investment, it is necessary to recognize the differences between younger generations who are in the asset formation stage and seniors who are in the asset utilization stage. Looking at the household asset composition by age, many households in their 30s and 40s have mortgage loans, with significant liabilities for acquiring housing and land. As age increases, land assets rise while liabilities significantly decrease. Financial assets, mainly deposits and savings, increase with age, peaking in the 60s (Exhibit 8).

For younger generations, the primary purpose of securities investment is asset formation, and in recent years, there has been a significant investment in foreign stock funds using Tsumitate NISA. On the other hand, seniors have already accumulated financial assets, and their utilization is important in securities investment. It is believed that they invest not only in stock funds but also in individual stocks.

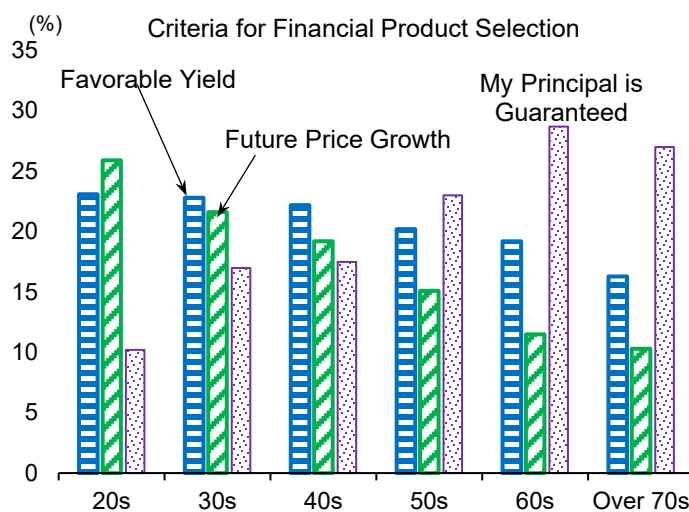
Additionally, the criteria for selecting financial products differ by generation. Younger generations prioritize profitability, such as "yield" and "expected future appreciation," while seniors prioritize safety, such as "principal guarantee" (Exhibit 9). Younger generations emphasize "expected future appreciation" within profitability, while seniors relatively emphasize "yield." Among the top 10 stocks purchased in NISA accounts, 6 have dividend yields of 3% or higher. It can be said that individuals invested in Japanese stocks with high dividend yields. This is likely due to the purchases made by those in their 50s and 60s in the Growth investment quota. The expansion of NISA has prompted seniors to become more active in investing in stocks and investment trusts.

Exhibit 8: Decrease in Liabilities and Increase in Financial Assets for Seniors



Note: Universe is all households; data as of 2019.
Source: MIC, MUFG: Trust Bank

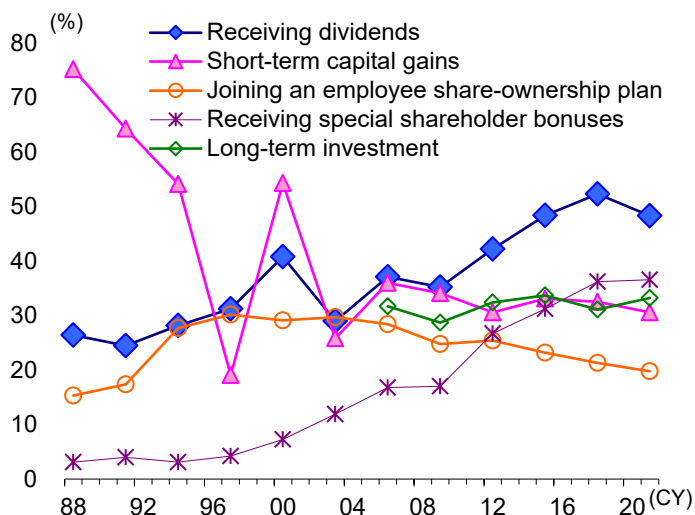
Exhibit 9: Younger Generations Emphasize Capital Gain, Seniors Emphasize Yield



Note: Universe is households with financial assets; there are three other options in the survey, such as "Easy to cash in"; data as of 2023.
Source: Central Council for Financial Services Information, MUFG: Trust Bank

Individuals place importance on income gains. In recent years, the most common reason for individual investors to purchase stocks has been "to receive dividend yields" (according to the "National Survey on Securities Investment", Exhibit 10). This trend is particularly strong among seniors. In Japan, where low interest rates have continued, dividends have surpassed interest as a source of household financial income since 2012 (Exhibit 11). Many US target-date funds are also designed to increase the allocation of high-dividend-yield stocks around retirement age to aim for income gains.

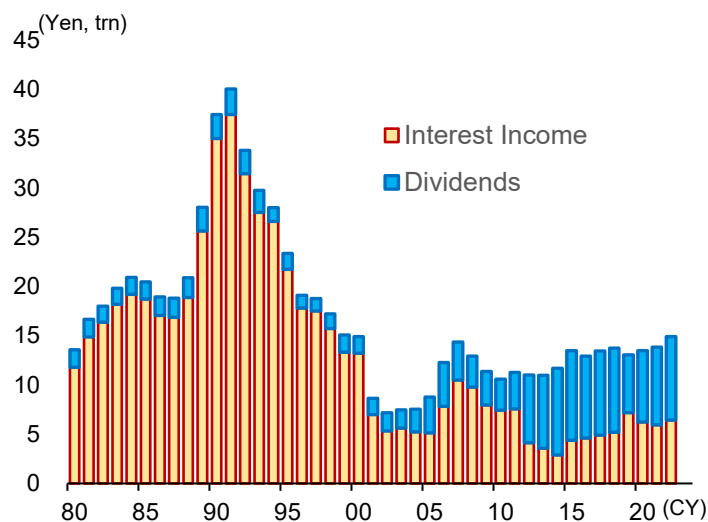
Exhibit 10: Dividends as the Primary Reason for Stock Purchases



Note: The five most popular (of nine in total) responses for reasons for purchasing stocks; previous surveys had slightly different choices; multiple choices allowed; data as of 2021.

Source: Japan Security Dealers Association, MUFG: Trust Bank

Exhibit 11: Dividends Exceeding Interest Income in Household Financial Income



Note: Data as of 2022.

Source: Cabinet Office, MUFG: Trust Bank

Enhancement of Infrastructure Supporting Securities Investment

The background to the inflow of individual funds into securities includes not only the expansion of NISA but also the enhancement of infrastructure supporting investment.

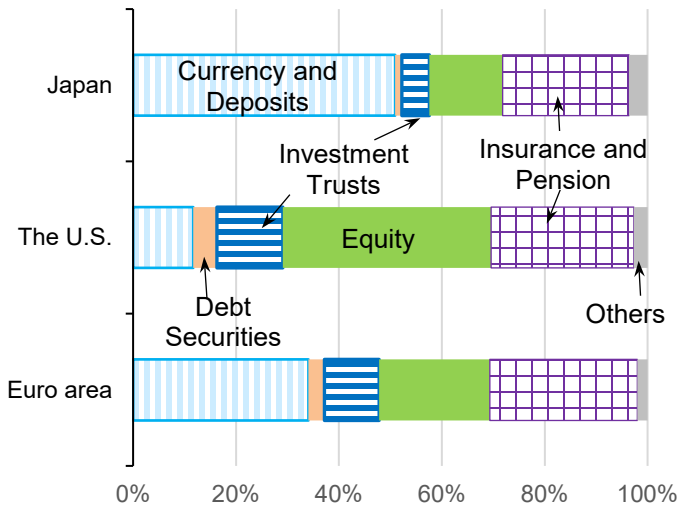
The proportion of stocks and investment trusts in Japanese household financial assets is lower compared to the US and Europe (Exhibit 12). Looking at the ownership status of financial products, while the proportion of individuals holding deposits and savings is 92.2%, the proportions of those holding stocks and investment trusts are gradually increasing but remain at 13.6% and 10.8%, respectively (2021, "National Survey on Securities Investments"). Regarding the reasons for not purchasing stocks, the highest proportion of responses was "not interested in stocks" at 55.1%, but significant proportions also cited "not having enough knowledge yet" and "the purchase process seems complicated" at 27.2% and 13.1%, respectively (Exhibit 13).

Among individuals who answered "not having enough knowledge yet," 24.5% said they have no intention of purchasing stocks at the moment, while 66.2% said they would like to purchase them at some point, although the timing is undecided. The lack of investment education and the complexity of purchase procedures are also cited as factors contributing to the low level of securities investment.

However, with the widespread use of smartphones, the development of apps, mainly by online securities companies, has progressed, enhancing the convenience of transactions using smartphones. The proportion of responses indicating "mainly using smartphones for transactions" has gradually increased, reaching 23.1% in 2023 (Exhibit 14). This proportion is particularly high among those in their 20s and 30s, accounting for 47.7%. The expansion of internet transactions is driven by the importance of costs such as fees. Major online securities companies, SBI Securities and Rakuten Securities, have led the way in reducing transaction fees, making domestic stock trading fees free.

Additionally, with the spread of smartphones and the enhancement of services, it has become easier to gather information on securities investment through the internet. Securities companies provide free access to information vendors and quarterly reports if an account is opened, and they have enhanced charting and screening functions. Individuals can easily obtain investment-related information through the internet and books.

Exhibit 12: High Proportion of Cash and Deposits in Japanese Household Financial Assets



Note: Data as of Mar. 2024.
Source: BOJ, MUFG: Trust Bank

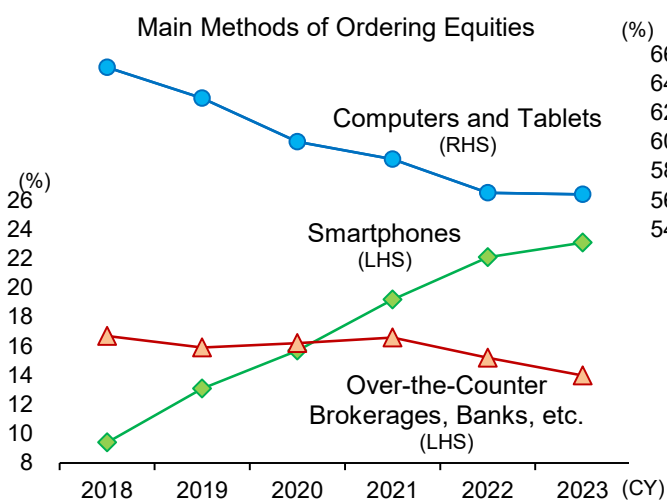
Exhibit 13: Reasons for Not Purchasing Stocks



Note: Survey of people with no experience in stock ownership; the eight most popular answers out of twelve; multiple choices allowed; data as of 2021.
Source: Japan Security Dealers Association, MUFG: Trust Bank

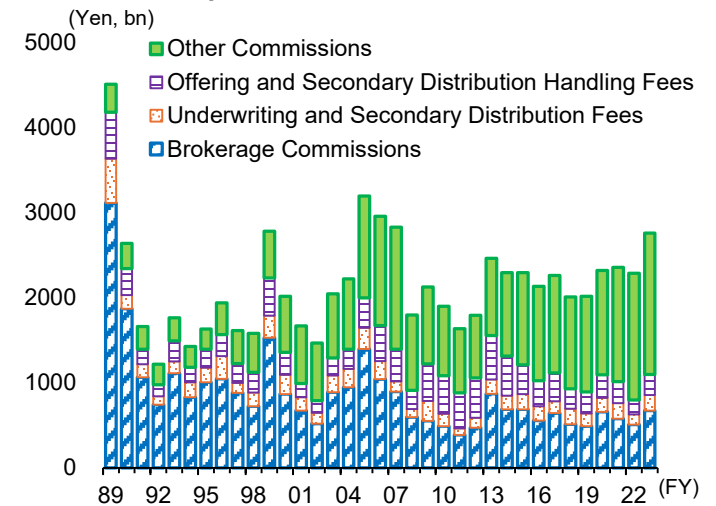
There have also been changes in the sales approach of securities companies. Looking at the breakdown of commission income, "brokerage commissions" from stocks and other securities amounted to JPY 675 billion in FY2023, down from over 60% in the early 1990s to 24.5% (Exhibit 15). In the past, securities companies' revenue depended on commission fees from individual investors' short-term stock trading, but in recent years, with the liberalisation of fees and the rise of online securities companies, commission fees have decreased. On the other hand, "other commission income," which includes trustee fees from beneficiary securities and investment trusts, and wrap-related income, increased to JPY 1.66 trillion in FY2023, accounting for 60.2% of commission income. The revenue structure has shifted from a "flow-based" model to a "stock-based" model targeting a broader range of individuals. While challenges remain, securities companies are aiming to establish a sales system suitable for individuals engaging in long-term securities investment.

Exhibit 14: Increase in Stock Orders via Smartphones



Note: Survey is conducted on the internet; there are two other options, such as "Company Shareholding"; data as of July 2023.
Source: Japan Security Dealers Association, MUFG: Trust Bank

Exhibit 15: Decrease in Brokerage Commission at Securities Companies



Note: Other commissions include trustee compensation for investment trusts, revenue related to fund wraps, revenue related to M&A and etc.; data as of FY2023.
Source: Japan Security Dealers Association, MUFG: Trust Bank

Are Individual Investors Risk-Averse?

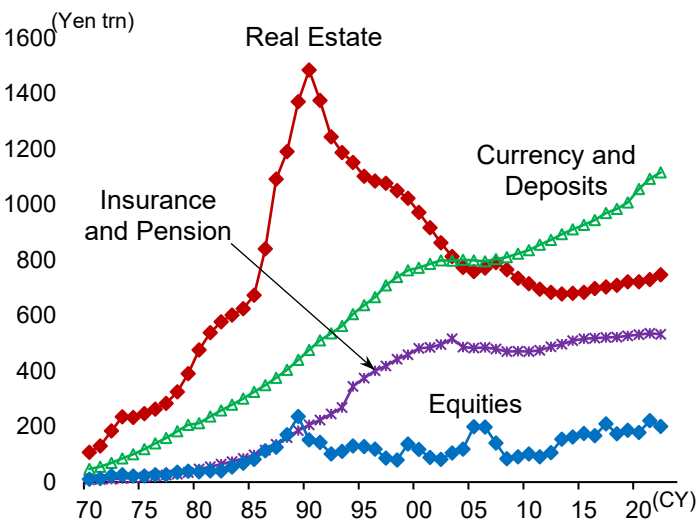
It should not be overlooked that Japanese individuals are not necessarily risk-averse.

In Japan, individuals took risks and built assets through residential real estate until the 1980s. According to the National Accounts, in 1990, land owned by households amounted to JPY 1,485 trillion, accounting for 54.3% of total assets, including financial assets (Exhibit 16). Cash and deposits and stocks amounted to JPY 476 trillion and JPY 152 trillion, respectively, accounting for 17.4% and 5.6% of total assets. Considering the need to secure liquidity, the proportion of cash and deposits was not excessively high (the peak of stocks was JPY 236.8 trillion at the end of 1989).

Tax and housing policies also play a significant role. In the valuation method for inheritance tax, real estate is clearly more advantageous than securities. Financial assets, including stocks, are generally valued at market price, while real estate is valued at 80% of market price, and the special provision for small reduces the taxable amount by 80%.

Additionally, holding assets in deposits and savings was a rational decision. Fixed deposit interest rates generally exceeded the consumer price inflation rate from the 1980s to the 2010s (Exhibit 17). While there is a strong impression that deposit interest rates were kept low to supply funds to companies through indirect finance, in reality, inflation was suppressed, resulting in positive real interest rates for an extended period. Holding deposits and savings was not a mistake if the goal was to maintain purchasing power. Furthermore, under the "Maruyuu" system, established in 1963 to encourage and protect savings, deposits and savings were advantageous assets (the system was abolished in principle in 2006).

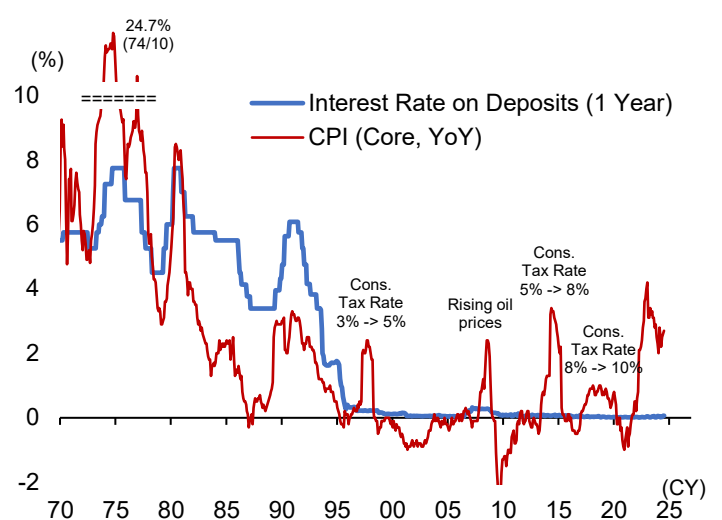
Exhibit 16: Asset Formation by Individuals in Real Estate through the 1980s



Note: Equities based on market values; data as of 2022.

Source: Cabinet Office, MUFG: Trust Bank

Exhibit 17: Deposit Interest Rates have been Higher Consumer Price Inflation from 1980s to 2000s



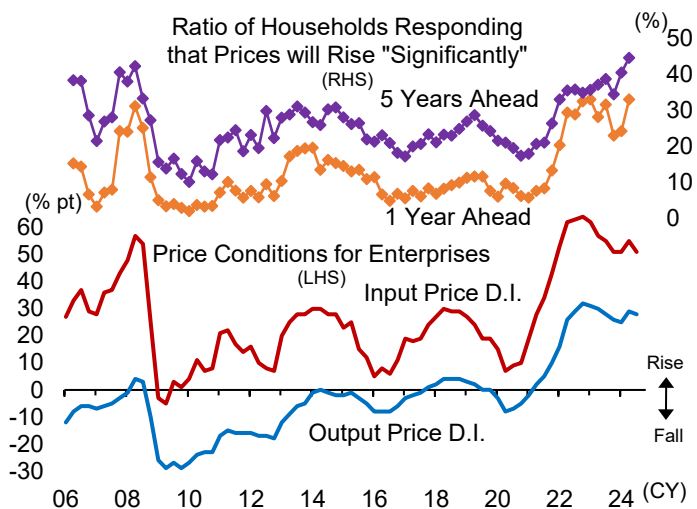
Note: CPI is the YoY change in core CPI (excl. fresh food); data as of July 2024.

Source: BOJ, Ministry of Internal Affairs and Communications, MUFG: Trust Bank

In the 1990s, as Japan fell into a deflationary economy, holding financial assets in cash and deposits allowed individuals to maintain their purchasing power. Amid concerns about the management stability of financial institutions due to the expansion of non-performing loans, "principal guaranteed" became an important criterion for selecting financial assets. In this environment, the emphasis on cash and deposits became mainstream.

However, inflation is now becoming a concern. The proportion of households expecting prices to rise significantly in five years reached 44.6%, the highest since the survey began in 2006 (Exhibit 18). The wage increase rate in this year's Spring Labour Offensive was 5.1% year-on-year, the highest since 1991 (Exhibit 19). As the possibility of inflation accompanied by wage increases becoming established in Japan increases, it will be difficult to maintain purchasing power with deposit interest rates at around 0.06%. If inflation persists in the Japanese economy, individuals are likely to allocate more financial assets to securities than before.

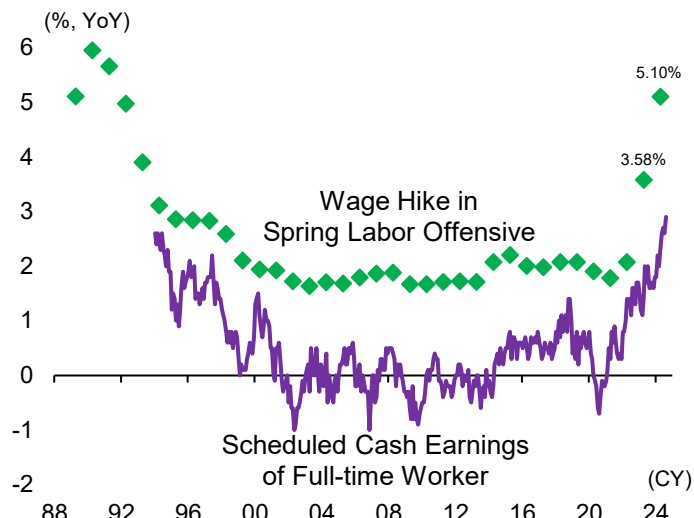
Exhibit 18: Households Expect Inflation



Note: Outlook for prices by household are based on "Opinion Survey on the General Public's Views and Behavior"; input and output price DI are based on TANKAN survey's all enterprises; data as of June 2024.

Source: BOJ, MUFG: Trust Bank

Exhibit 19: Wage Growth of Full-time Workers



Note: Wage growth includes regular salary increases; scheduled cash earnings are based on businesses with 5 or more employees; data as of July 2024.

Source: JTUC-RENGO, MIC, MUFG: Trust Bank

Individual Funds Flowing into Securities Investment

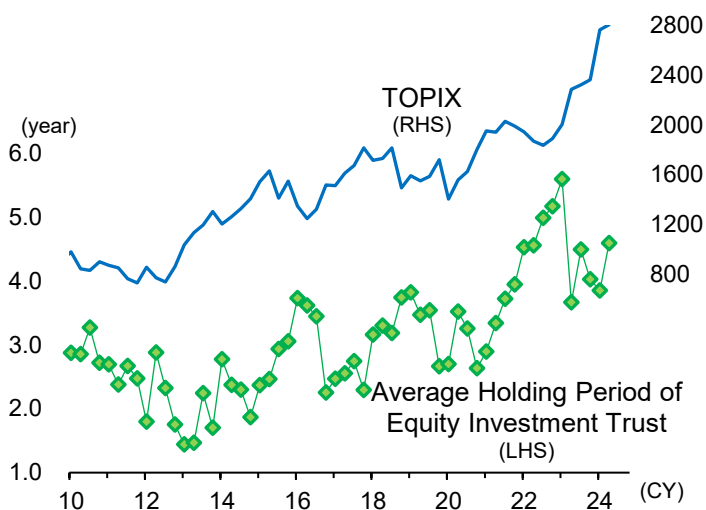
As evidence of the establishment of long-term investment, the lengthening of the holding period for equity investment trusts is noteworthy. The average holding period, calculated by dividing the redemption and maturity amounts by the initial asset balance, was less than two years in 2013, but exceeded five years in 2022 and was 4.6 years in June 2024 (Exhibit 20). In the past, when stock prices rose, there was an increase in the sale of appreciated funds and the purchase of new funds, leading to simultaneous increases in setting up and redeeming funds, shortening the holding period for equity investment trusts. However, since 2020, even when stock prices have risen, the redemption of existing funds has not increased significantly, and the holding period has lengthened.

Of course, successful experience is important in establishing securities investment. Looking back at the 1990s in the US, the introduction of retirement pensions such as 401(k) plans and the long-term rise in stock prices contributed to the expansion of securities investments (Exhibit 21). The key to continued inflows of individual funds into Japanese stocks is the sustained growth of corporate earnings and rising stock prices. Considering the end of deflation in the Japanese economy and improvements in corporate governance, it is judged that Japanese stocks are likely to enter a long-term upward trend, despite cyclical adjustments.

Securities investment is often discussed based on the life cycle hypothesis. According to this hypothesis, individuals save and invest to build assets during their youth and middle age when labour income increases, and consume these assets after retirement to maintain a constant level of consumption throughout their lives. Therefore, it was said that individual funds are less likely to flow into risk assets in an ageing society. However, in reality, few individuals completely deplete their assets. While there are significant individual differences, both in Japan and the US, older individuals tend to retain financial assets.

As Japan transitions from a deflationary to an inflationary economy, the utilisation of financial assets by seniors, along with asset building by younger generations, is an extremely important issue. The expansion of NISA is expected to prompt seniors to seriously consider utilising their financial assets and to support the expansion of individual securities investment.

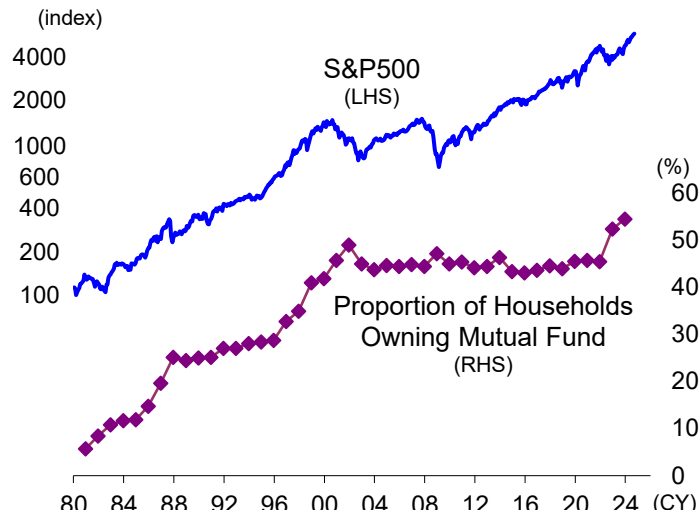
Exhibit 20: Holding Periods of Investment Trusts are Getting Longer



Note: Data based on publicly offered equity investment trusts (excluding ETFs); the holding period is based on the sum of cancellation and redemption amounts relative to the 12-month average of net assets; data as of June 2024.

Source: Investment Trusts Association, MUFG: Trust Bank

Exhibit 21: Proportion of Households Owning Mutual Funds Increased Significantly in the 1990s in the U.S.



Note: The Survey was fielded on Knowledge Panel, a probability-based online panel designed to be representative of the US population since 2022; data as of 2023.

Source: ICI, MUFG: Trust Bank

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