

# Seeking Co-Existence & Co-Prosperity with Customers

## – Developing Megabanks Comparable with US, European Rivals –

Interviewer: *Iguchi Shinsuke*

**M**AJOR Japanese commercial banks have quickly restored their profitability after a long period spent dealing with non-performing loans (NPLs). The combined consolidated net profits posted by Japan's six major banking groups topped the ¥3 trillion mark in FY 2005. The financial sector's recovery will lead to an improvement of the Japanese economy as a whole. Recently, however, criticism has been voiced that the banks are making excessive profits and not rewarding customers sufficiently. Kuroyanagi Nobuo, Chairman of the Japanese Bankers Association (JBA), who is also President of the Bank of Tokyo-Mitsubishi UFJ (BTMU), discusses how the Japanese banking industry will cope with the various challenges it faces.

**Major Japanese banks have improved their earnings performance, but customers are not satisfied with the continuing low level of deposit interest rates.**

**Kuroyanagi:** In a difficult economic environment, Japanese banks have so far been preoccupied with the rather backward-looking issue of whether they can survive and dispose of huge amounts of NPLs. As Japanese banks consolidated their branches after their mergers, there has been some decline in customer convenience. As the banks also reduced their workforces sharply, customers might have felt a deterioration in services. Now that the Japanese financial industry as a whole has overcome these issues and is reshaping itself, some latent dissatisfaction is appearing. I believe that customers want convenience, and services from banks that will steadily increase their assets. I know some people say that deposit interest rates are low. But I think many Japanese people understand it is not simply that interest rates are low but that the Japanese economy has not yet fully recovered, despite the recent lifting of the quantitative monetary easing policy, and that we have still not reached the stage where interest rates go up across the board.

**Sustainable Return of Profit to Customers Eyed**



**How do you view the criticism that banks are posting excessive profits?**

**Kuroyanagi:** Much of the net profit posted by Mitsubishi UFJ Financial Group (MUFG) in FY 2005 was non-recurring gains. Excluding these, I would like people to consider the Group's profit level against the background that the number of banks has decreased after a series of mergers, that Japan's gross domestic product (GDP) is the second largest in the world, and that Japanese banks face intense competition with foreign financial institutions. But we must also sincerely listen to the criticism that we are making excessive profits. In this era of globalization, we must make every effort to meet two competing goals – requests from overseas investors that we should become a

Group that is comparable with European and US financial institutions, and a requirement to win support from our customers as a domestic Group. I think the business environment is becoming even tougher.

**I understand that BTMU has implemented free-of-charge money transfers via automated teller machines among its head office and branches.**

**Kuroyanagi:** We were able to establish a well-balanced domestic branch network through the merger of Bank of Tokyo-Mitsubishi and UFJ Bank. But the merged bank has yet to fully integrate its computer systems, which is inconvenient for many customers. We must pass the fruits of the merger on to customers as much as possible, and gain their understanding that the bank is making its own efforts to do so. At the same time, we will manage the bank in an effort to meet expectations that the bank will shine globally, and also act such that we do not invite criticism. Sustainability must be the keyword. We are not being reactive, rather we must run a sustainable business that will maintain profitability as well as rewarding customers, while carefully considering each step that we take.

**Postal Savings Bank "Should Be Reduced in Scale"**

### How is the banking industry responding to the shift from savings to investment?

**Kuroyanagi:** Interest rates have been kept low for a long time, and in the past few years customers have increasingly put their money in investment products whose risks can be controlled. During this period I do not think customers have in general suffered losses through the purchase of products recommended by banks, but investment does not mean that investors never fail to chalk up profits. Before customers purchase such products the financial industry must give them full briefings that are matched to their needs to gain their understanding of those products. This corresponds to the background behind the parliamentary debate on the proposed Financial Products and Transactions Law. This does not mean that banks will implement anything immediately after rules are decided. Banks must look into the background behind the enactment of the proposed law, think what they should do, and react actively. I think it is important for banks to pursue co-existence and co-prosperity with customers, not just pursue a profit-first policy.

**Japan Post's privatization process is set to begin in October 2007 when a postal savings bank with outstanding deposits of ¥200 trillion will be established. What does the banking industry think about this?**

**Kuroyanagi:** The JBA has maintained a consistent position about that. Now that Japan's economy has matured we believe that considering the circulation of funds for Japan's industry this large state-controlled flow would be better controlled by a market-based mechanism. Our basic idea is that the postal savings system should be reduced in scale and should compete on an equal footing with the private sector. This has been our view regardless of who the chairman of the JBA is.

**In the field of consumer finance, the problem of heavily indebted people has become a serious social issue. Consumer finance companies have come under fire for charging high interest rates – the so-called gray-zone interest rates – that exceed the upper limit of 15-20% per annum under the Interest Limitation Law, but are still below the ceiling of 29% under the Investment Deposit and Interest Rate Law.**

**Kuroyanagi:** Discussions should be conducted to reach a resolution that would help consumers increase their sense of safety and trust. To achieve this more thorough discussions must be conducted and I believe there is a consensus to establish a framework in which anybody can use consumer finance without anxiety. I think the real issue is how to appropriately respond to consumer requirements, not simply an issue that can be solved with an emotional call for a lower upper limit. The consumer finance business exists in the US financial industry too, and all major financial institutions are participating. I understand that major consumer finance firm ACOM (with which MUFG has a business alliance) has a fully adequate legal compliance mechanism and as one aspect of our alliance we ensure that we can confirm this.

## Responding to Financial Needs from Asia

**Japanese megabanks are set to promote overseas business activities. How does BTMU plan to promote its overseas operations?**



**Kuroyanagi:** We expect that as living standards rise for people in densely populated Asia, their financial needs will expand accordingly. Japanese businesses have established their presence in Asian countries, so we will develop our business strategy based on such customers. We are not currently in a position to invest several billions of dollars at once, as leading banks in the United States and Europe do. However this does not mean we will do nothing, rather that we will develop in our own way.

**When can BTMU fully integrate its computer systems? Some industry watchers say it will be difficult to meet the target date of the end of 2008.**

**Kuroyanagi:** No project is easy to accomplish on schedule. Yet we must avoid imposing a schedule that invites disruption through being too tight. This is not an easy task but we are determined to accomplish it. **JS**

Editor's note: The law on Financial Products and Transactions was enacted on June 7.

Iguchi Shinsuke is a reporter for the Economic News Section of Kyodo News.