Diversified Banking Institutions Industry Overview
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Industry Overview

Japanese Diversified Banking Industry Made Up of Five Banks, with Three Megabank Groups Influential Not Only in Japan but Also Globally

According to the Japan Securities Dealers Association (JSDA), there are five banks currently recognised as city banks in Japan: Mizuho Bank (JPN), MUFG Bank (JPN), Sumitomo Mitsui Banking Corporation (JPN), Resona Bank (JPN), and Saitama Resona Bank (JPN [*]). This report will mainly focus on these five banks.

Note (*): It should be noted that definitions and classifications can differ. For example, the Financial Services Agency does not recognise Saitama Resona Bank as a city bank.

Generally speaking, Mitsubishi UFJ Financial Group (JPN: Mitsubishi UFJ FG), Mizuho Financial Group (JPN: Mizuho FG), and Sumitomo Mitsui Financial Group (JPN: SMFG) are often referred to as megabank groups. The influence of these three megabank groups spreads globally, and the Financial Stability Board (FSB), which supervises financial institutions worldwide, selected these three domestic groups amongst the 30 banks designated as Global Systemically Important Banks (G-SIBs). G-SIBs are required to reinforce their capital in the Basel III capital adequacy framework formed by the Basel Committee.

City Banks Grew into Diversified Banking Institutions Through Liberalisation and Deregulation in Financial Sector

Liberalisation and deregulation in the financial sector have caused the business scope of banks (banking groups) to expand in recent years. In particular, megabanks, which hold city banks as core affiliates, provide diversified financial services including commercial banking, securities, insurance, trust banking, and consumer finance. This expansion of services was promoted through revisions of laws and deregulation.

Such measures include the permission for banks to establish subsidiaries as securities firms and trust bank subsidiaries (based on the financial system reform enforced in 1993), approval for over-the-counter sales of mutual funds by banks (based on the financial system reform enacted in 1998), and permission for over-the-counter insurance sales from 2001 (in accordance with the revision on the Insurance Act in 2000). Subsidiaries, such as those handling securities and leases, previously managed by parent banks have been merged and reorganised in the process of consolidating city banks into the three megabanks.

Interest Income from Loans and Marketable Securities Accounts for Roughly 60% of Banks' Ordinary Income

The core business of a bank is financing, which is essentially gathering money (mainly as deposits) and lending it to customers, including companies and individuals. In Article 2 of Japan's Banking Act, banking is defined as the "acceptance of deposits or installment savings, as well as the lending of funds or the discounting of bills and notes" or "dealing in funds transfer transactions".

The sources of a bank's revenue can be largely grouped into the following four categories: 1) income from interest, 2) fees and commissions, 3) income from trading, and 4) other business income. A bank's "ordinary income" is calculated by adding "other ordinary income" to these four.

The total income (or loss) generated from these four main businesses is called the banks' "gross profits". Gross profits minus various expenses such as personnel costs and general allowance for credit losses are called net business profits. It is necessary to note the differences in the disclosure method in Japan and other countries when comparing banks in various countries: for example, "gross profit" for Japanese banks is generally disclosed as "operating income" in other countries.

Bank Performance Indicators

Gross Profits
+Net interest income (Income from Interest−Fundraising Costs)
+Net fees and commissions
+Net trading income
+Net other business income
Net Business Profits
△Expenses (personnel, property, taxes, etc.)
△Provision of general allowance for doubtful accounts

Source: JBA, "Banking Fundamentals"

Profit and Loss Structure of a Bank

Recurring Revenue	Main Content	Share (*)
1) Income from Interest	・Income generated from interests earned from lending activities. Loan interests contribute around 60–70% of a bank's interest income. ・Other items include interests and dividends on securities that the bank own.	60%
2) Fees and Commissions	・Income generated from the provision of various financial services. ・This includes bank charges for payments and remittance, as well as sales commissions for mutual funds and insurance, acceptance commission for bonds, and fees for arrangement of syndicated loans.	18%
3) Trading Income and Expense	・Trading income and expense are derived from transactions on securities and derivatives via the bank's trading account.	3%
4) Other Business Income and Expense	・Gains and losses generated from businesses other than the three given above. ・This includes gains and losses from foreign exchange transactions, as well as the disposal of government bonds.	12%
5) Other Ordinary Income	・Income generated from activities other than the bank's core business. ・This includes gains on reversal of allowance for doubtful accounts, recoveries of written-off claims, and gains on sales of shares.	12%

Source: Compiled by Japanese Bankers Association (JBA), "Banking Fundamentals", "Analysis of Financial Statements of All Banks"
Note (*): The breakdown is based on the ordinary income of city banks (non-consolidated) in FY2019.

Market Trends

About Half of Domestic Banks' Total Assets Accounted for by Three Megabank Groups

According to the JBA, the total assets of its 113 members amounted to approximately JPY 1,191 trillion in FY2019, of which the five city banks accounted for about JPY 670 trillion. Furthermore, the total assets of the three megabank groups (Mitsubishi UFJ, SMBC, and Mizuho Bank) accounted for approximately JPY 621 trillion, representing over 90% of the total assets held by city banks. The Japanese banking industry can be described as highly concentrated on the three megabank groups, which represent around half of the entire banking industry.

Source: JBA, "Analysis of Financial Statements of All Banks"
Note: There were six banks before the Mizuho Bank and Mizuho Corporate Bank consolidation in 2013.

Competitive Trends

Reorganisation Through M&As and Expansion of Group Companies Is Underway

This industry has experienced active reorganisation through M&As as well as restructuring within groups in recent years.

Major M&A Activities Amongst Megabank Groups

Bank	Year	Other Parties Involved	Summary
Mitsubishi UFJ FG	2008	Consumer finance company Acom (JPN)	Converted Acom into a consolidated subsidiary.
	2008	Morgan Stanley (USA)	Entered into a strategic capital alliance with Morgan Stanley.
	2010	Mitsubishi UFJ Morgan Stanley Securities (JPN)	Integrated the domestic business of Mitsubishi UFJ Securities (JPN) with the Investment Banking (IB) division of Morgan Stanley Securities (USA) and established joint venture
			Mitsubishi UFJ Morgan Stanley Securities.
	2013	Bank of Ayudhya (THA)	Converted Bank of Ayudhya into a consolidated subsidiary.
	2014	UnionBanCal	Integrated the US business of MUFG Bank with UnionBanCal.
	2018	PT Bank Danamon Indonesia (IDN)	Entered into a strategic capital alliance with PT Bank Danamon Indonesia.
Sumitomo Mitsui Financial Group	2009	Nikko Cordial Securities (JPN: currently SMBC Nikko Securities; was under the umbrella of Citigroup [USA])	Turned Nikko Cordial Securities into a wholly-owned subsidiary.
	2011	Credit card company Cedyna (JPN)	Turned Cedyna into a wholly-owned subsidiary.
	2012	Consumer finance company Promise (JPN: currently SMBC Consumer Finance)	Turned Promise into a wholly-owned subsidiary.
	2013	Societe Generale Bank & Trust (FRA: currently SMBC Trust Bank (JPN))	Turned Societe Generale Bank & Trust into a wholly-owned subsidiary.
	2016	Sumitomo Mitsui Asset Management (JPN: currently Sumitomo Mitsui DS Asset Management)	Converted Sumitomo Mitsui Asset Management into a consolidated subsidiary.
	2019	Sumitomo Mitsui Card (JPN)	Turned Sumitomo Mitsui Card into a wholly-owned subsidiary.
Mizuho FG	2013	Mizuho Investors Securities (JPN)	Mizuho Securities (JPN) merged with Mizuho Investors Securities.
	2013	Mizuho Bank (JPN)	Mizuho Corporate Bank (JPN) merged with Mizuho Bank.
	2019	Smartphone bank LINE Bank Preparatory Company (JPN)	Mizuho Bank and LINE Financial (JPN) jointly invested in the establishment of LINE Bank Preparatory Company (JPN).

Source: Compiled by Uzabase based on company filings.

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- City Banks Grew into Diversified Banking Institutions Through Liberalisation and Deregulation in Financial Sector
- Interest Income from Loans and Marketable Securities Accounts for Roughly 60% of Banks' Ordinary Income
- Leading Global Financial Institutions Engaging in FinTech

Market Trends
- About Half of Domestic Banks' Total Assets Accounted for by Three Megabank Groups
- Demand for Capital from Domestic Enterprises Has Been Weak in Recent Years, While Operations with Securities Are on the Rise
- Lending Is Core Business of Banks; Ultra-Low Interest Rates Including Negative Interest Rate Policies Impact Profits
- Loan Interest on Core Business Is Sluggish, but Revenue from Fees and Commissions Tends to Increase

Competitive Trends
- Reorganisation Through M&As and Expansion of Group Companies Is Underway
- Players Focusing on Non-Financial Businesses and Digitisation
- Mitsubishi UFJ Financial Group: Aiming to Achieve Growth Through Integrated Management of the Entire Group and Expanding Overseas Business
- Sumitomo Mitsui Financial Group: Aims to Strengthen Asset-Light Business and Expand Franchise in Asia
- Mizuho Financial Group: Plans to Reinforce Earning Power Within One Mizuho

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