

# Profit and cost structure of Japanese banks

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## Table of Contents

- 1 Introduction
- 2 Profit structure of banks
  - (1) Revenue structure for FY 2019 and the first quarter of 2020.
  - (2) Fees and commissions of banks
- 3 The bank's cost structure
  - (1) Bank cost ratios
  - (2) Bank labour costs
- 4 Summary

## 1 Introduction

Japanese banks are inferior to their foreign counterparts in terms of profitability across a range of indicators. Whether looking at return on equities (ROE) or income and cost ratios, many Japanese banks are less profitable than their foreign counterparts. While it is not unusual for ROE to exceed 10% for European banks, the ROE of Japan's three megabanks is low: 5.8% for Mitsubishi UFJ, 7.4% for Sumitomo Mitsui and 1.3% for Mizuho. The income/cost ratio for the three megabanks is 60.5%, even for Sumitomo Mitsui, the lowest, and 70.5% for Mizuho, the highest.<sup>1)</sup> Japanese banks have been suffering from a deterioration in performance due to the recent negative interest rates and falling interest margins, in addition to their low profitability to begin with. Japanese banks are on the verge of falling into the red as their performance deteriorates due to the addition of recent negative interest rates and falling interest margins and income to their already low profitability.

The high cost structure of Japanese banks can be pointed to as a factor in their low profitability. Looking at the high cost structure, the main categories of bank overheads are likely

to be labour costs, property costs and system-related(digitalization) costs. Property costs are likely to include a wide variety of factors, but not a small number of branch-related costs. In addition, system-related cost is a significant cost factor, not only in the banking industry, but also in the financial and securities industry as a whole, which has become a computer-system industry. Not enough information on these costs is disclosed in banks' annual reports. However, the aim of this paper is to clarify the cost structure of banks as much as possible from the disclosed information.

Therefore, this paper first examines trends in bank results in the first quarter of FY2020, relative to 2019. Banks' gross operating income increased in FY 2019, helped by an improvement in the government bond market compared to FY 2018 and an increase in gains/losses on government bonds. However, looking at net interest income, which is the core of gross operating income, all city, regional banks and regional banks II saw a decline in profit. This is due to a contraction in the loan/deposit margin. Net fees and commissions, which are a component of gross operating income and account for around 20% of gross operating income, fell at all of the

city, regional and regional banks II. The growth of traditional commissions on deposits, loans and clearing has been sluggish, while new commissions on securities, investment trusts and insurance sales are still small. On the other hand, bank overheads cost, although controlled, remain high, with the overhead ratio (OHR) standing at 77% for regional banks II. The main drivers of bank overheads costs are labour costs, property costs and system-related costs. Relatively speaking, information on labour and branch-related cost is publicly available and can be analysed. However, information on system-related expenses is not publicly available and is difficult to analyse. However, system-related costs are seen as a major issue for banks, as the sharing of systems has been a major point of contention in recent mergers and acquisitions among regional banks.

## 2 Profit structure of banks

### (1) Revenue structure for FY 2019 and the first quarter of 2020

First, let's look at the revenue and profit indicators of banks in recent years. Table 1 shows the financial indicators of banks in FY2019. Gross operating profit, which corresponds to the gross profit of general companies, is the sum of net interest income, net fees and commissions, net gains on specific transactions and others. The total gross operating income of the five city banks was ¥4,732.6 billion in FY19, an increase of 6.1% on the previous year. On the other hand, the gross operating income of the 64 regional banks and 38 regional banks II remained largely unchanged.

Net interest income, which is a component of gross operating income, is mainly driven by the interest rate spread between deposits and loans, i.e. the deposit and loan margin. Needless to say, once again, the deposit interest rate is infinitely zero. On the other hand, lending rates are also at a level of 0.5-0.8%, as Graph 2 below shows. Although the interest rate on deposits, which is the funding rate, is close to zero, the lending rate is falling,

compressing margins. As a result, all city, regional and regional banks II have seen a decline in their net interest income.

Secondly, commission revenue received by banks, minus commission costs paid by banks, is commission income. As discussed below, commissions revenue currently accounts for 20-30% of banks' revenues, and commission income has become increasingly important. However, commissions from the sale of investment trusts and insurance, for example, have been sluggish, and across all types of banks, fees and commissions have declined.

Specific transaction profits are mainly trading profits. Specific transaction profits are concentrated in major banks (city banks). This profit at city banks was ¥420.3 billion in FY2019 (domestic and foreign combined), an increase of 121% on the previous year. Profit from other operations, which includes gains/losses on bond transactions, amounted to ¥753.9 billion (total of city, regional and regional banks II), as shown in Table 1. Compared to FY2018, gains/losses on bond transactions recovered in FY2019 due to improved bond market conditions.

The above total of net interest income, net fees and commissions, net gains on specific transactions and others is gross operating income. As already mentioned, although there was a slight increase in profit, it must be said that the factors are largely attributable to the recovery in the domestic and international bond markets, while net interest income and net fees and commissions have remained stagnant.

On the other hand, cost were ¥3,081 billion for city banks, ¥2,294 billion for regional banks and ¥609.7 billion for regional banks II, all showing slight declines. It is difficult to reduce labour costs rapidly, and reductions in branches and ATMs are not expected to be rapid. As a result, the OHR (overhead ratio, overhead cost divided by gross operating income) fell by 4.7 points to 65.1% at the city banks, while it fell by 0.8 points to 68.4% at the

Table 1 Financial Indicators of banks in FY2019

(100million yen,%)

**Gross operating profit**

	FY2019	change on previous year(100million)	change on previous year(%)
city banks (5)	47,326	2,732	6.1
regional banks (64)	33,517	180	0.5
regional banks II (38)	7,875	80	1

**Net interest income**

	FY2019	change on previous year(100million)	change on previous year(%)
city banks (5)	18,448	-2,434	-11.7
regional banks (64)	26,663	-819	-3
regional banks II (38)	6,659	-171	-2.5

**commission income**

	FY2019	change on previous year(100million)	change on previous year(%)
city banks (5)	8,010	-119	-1.5
regional banks (64)	4,269	-30	-0.7
regional banks II (38)	653	-19	-2.9

**Gain/loss on bond transactions**

	FY2019	change on previous year(100million)	change on previous year(%)
city banks (5)	6,752	7,408	—
regional banks (64)	614	823	—
regional banks II (38)	173	277	—

**Cost**

	FY2019	change on previous year(100million)	change on previous year(%)
city banks (5)	30,807	-305	-1
regional banks (64)	22,940	-166	-0.7
regional banks II (38)	6097	-90	-1.5

**OHR(Over head ratio)**

	FY2019(%)	FY2018(%)	change on previous year
city banks (5)	65.1	69.8	-4.7
regional banks (64)	68.4	69.2	-0.8
regional banks II (38)	77.4	79	-1.6

**Real net business profit**

	FY2019	change on previous year(100million)	change on previous year(%)
city banks (5)	16,519	3,037	22.5
regional banks (64)	10,577	346	3.4
regional banks II (38)	1,777	170	10.6

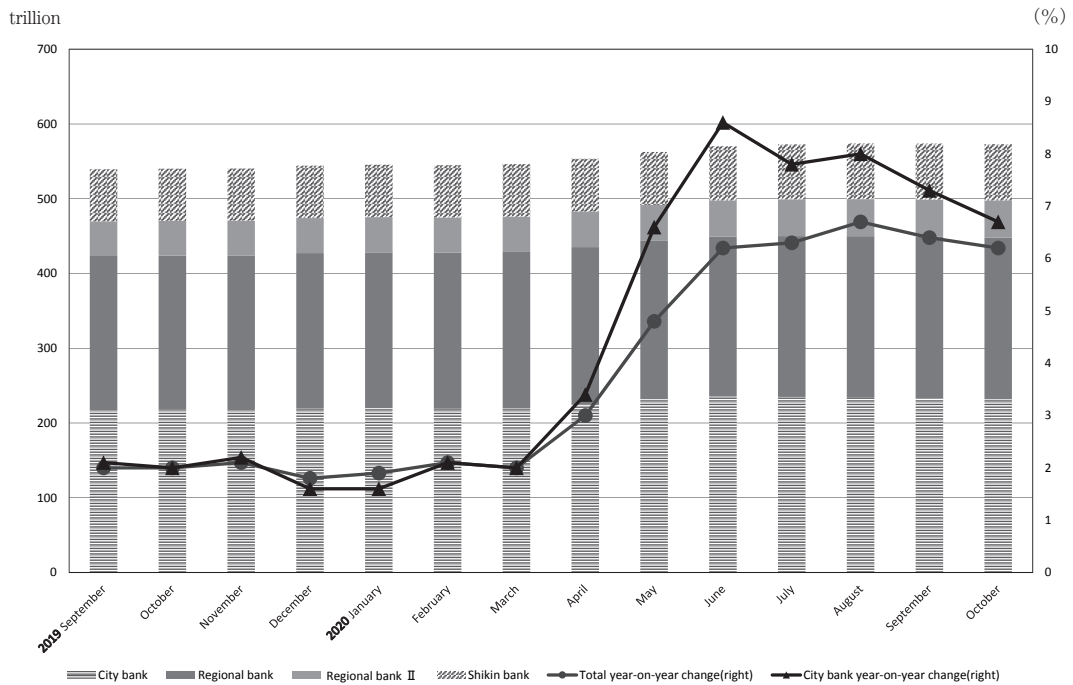
(source) Zenginkyo (National Bankers Association)(2019)

regional banks and by only 1.6 points to 77.4% at the regional banks II. Also of note, is that OHR is lowest for city banks and highest for regional banks II. This suggests that 'economies of scale' tend to work in OHR, and that it is relatively easy to reduce costs in city banks, but difficult to do so in regional banks II.

Real net business profit is gross business profit minus cost. The city banks recorded an increase of 22.5% to ¥1,651.9 billion, while the regional banks recorded an increase of only 3.4% to ¥34.6 billion. This is mainly due to the fact that the recovery in

the bond market contributed significantly to the increase in gains/losses on bond transactions at the city banks, whereas gains at the regional banks and regional banks II were smaller. Although gross operating profit increased, mainly at city banks, net interest income decreased in all bank categories, indicating a structural problem in the banking industry.

Since the start of 2020, the COVID-19 pandemic has led to a tight cash situation for companies and a sharp increase in demand for borrowing from banks.



(source) Bank of Japan

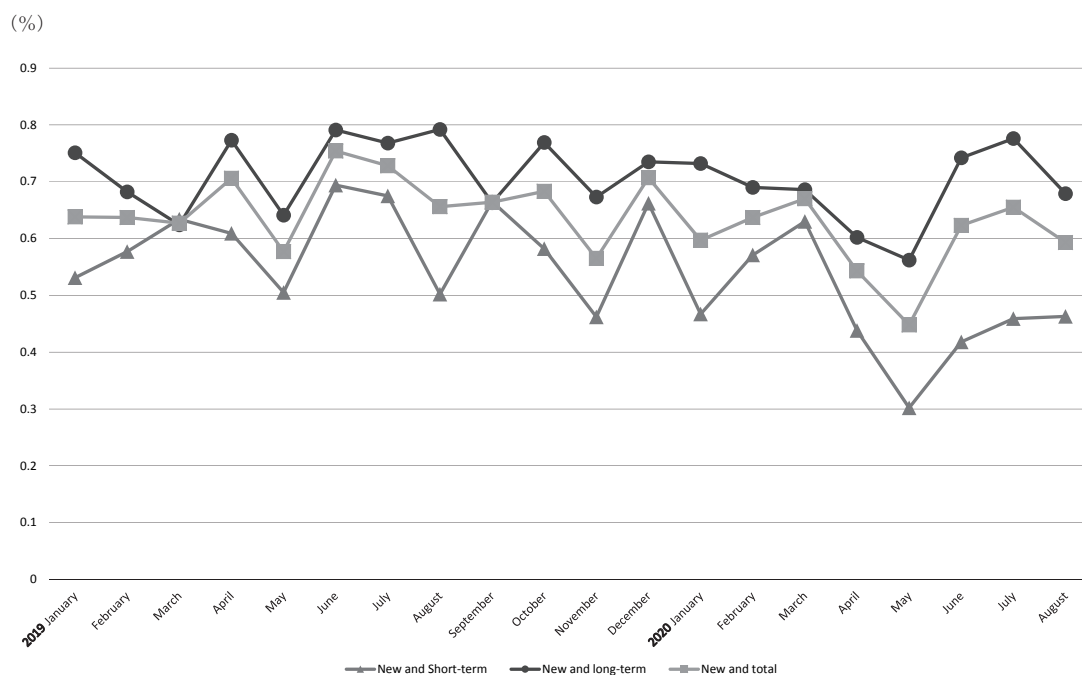
Graph 1 Loans outstanding, monthly average balance

Graph 1 shows lending trends (average monthly balance).<sup>2)</sup> According to this, the total outstanding loan balance of banks and shinkin bank (cooperative organization) has increased sharply since April 2020. The total outstanding loan balance of banks and shinkin bank increased from ¥539 trillion in September 2019 to ¥574 trillion in August 2020. The rate of increase in lending (year-on-year) is particularly high among city banks, increasing by 8.6% in June 2020 and again by 8% in August 2020. Bank lending has been increasing since April 2020, likely as companies have increased their demand for funds due to the decline in sales caused by the COVID-19.

The reason for the particularly high rate of increase among city banks appears to be that the impact of COVID-19 has been greater in large urban centres, particularly in the hospitality industry. However, since August 2020, outstanding bank lending has declined slightly and the rate of increase has also fallen, mainly due to a recovery in hospitality industry and retail sales, as the sense of

crisis over COVID-19 faded somewhat in summer 2020.

The problem is that despite an increase in bank lending, this is unlikely to lead to an increase in bank profits. Firstly, lending rates have not risen. Graph 2 shows the average interest rate on loan commitments. The new lending rate (short-term) rose to 0.63% in March 2020, but fell to 0.302% in May 2020 and to 0.463% in August 2020. The new lending rate (long-term) was 0.732% in January 2020, but fell to 0.562% in May 2020. It then rose to 0.776% in July 2020, but had fallen to 0.679% as of August. The new lending rate (overall) also fell to 0.448% in May, before rising to 0.655% in July, but fell to 0.593% in August. Despite an increase in bank lending, lending rates have not risen. A possible factor as to why this is the case is that banks are oriented towards quantitative expansion, executing loans at low interest rates in order to increase their interest income. By increasing lending quantitatively, they are seen as trying to compensate for lower interest rates and increase interest income.



(source) Bank of Japan

Graph 2 Average interest rate on loan commitments

Secondly, credit costs (general allowance for loan losses + disposal of non-performing loans) have increased, putting pressure on profits. Credit costs (on a consolidated basis) for the five major banks (Mitsubishi UFJ, Sumitomo Mitsui, Mizuho, Resona and Sumitomo Mitsui Trust) totalled ¥316.716 billion in Apr-Jun 2020, an increase of ¥306.7 billion year-on-year. In other words, credit costs of ¥60 billion per bank were recorded in FY2020, whereas almost no credit costs were recorded in the same period last year. The largest amount was recorded by Mitsubishi UFJFG, which recorded ¥145 billion. The five largest banks posted a combined net profit of ¥442.2 billion, down 47.7% year-on-year, mainly due to credit costs. On the other hand, the net profit of the 56 regional banks (on a non-consolidated basis) totalled ¥199.9 billion, down 9.8% year-on-year, while credit costs were ¥58.8 billion, an increase of ¥18.5 billion. The 38 regional banks II (on a non-consolidated basis) posted a combined net profit of ¥25.8 billion, down 5.2%, and credit costs of ¥11 billion, up ¥4.5 billion.<sup>3)</sup> Thus, while the increase

in lending due to the COVID-19 was the largest among city banks, the increase in credit costs was also the largest among city banks.

Thirdly, it is related to both the first and second points, credit guarantees by credit guarantee associations have increased rapidly. According to the National Federation of Credit Guarantee Associations, the number of guarantees approved increased from 45,875 in February 2020 to 319,527 in June 2020. In monetary terms, the amount increased from 586.6 billion to 5,841.7 billion over the same period. As a result, outstanding guaranteed liabilities increased from 20,474.2 billion in February 2020 to 35,723.3 billion in August 2020. Meanwhile, subrogation payments (total principal and interest) increased by 11% year-on-year to ¥25.7 billion in May 2020, but decreased by 21.1% to ¥23.2 billion in August 2020.<sup>4)</sup> In Graph 1, the outstanding loan balance increased by approximately ¥27 trillion between March and August 2020. In contrast, the increase in outstanding guaranteed liabilities over the same period was approximately ¥14 trillion.

Table 2 Revenue of Fees and Commissions

(million Yen, %)

	FY2016	FY2017	FY2018	FY2019
Mizuho FG	516,739(20)	519,488(18.1)	528,959(16.7)	540,691(16.3)
Mitsubishi UFJ FG	892,707(21)	903,457(21.1)	885,498(18.2)	899,136(16.8)
Sumitomo Mitsui FG	725,920(24)	632,125(20.2)	613,741(18.2)	614,134(17.7)
Resona HD	126,913(24.5)	130,739(25.7)	135,997(27.1)	132,860(25.5)
City Banks(Total)	2,302,792(21.9)	2,226,487(20.3)	2,207,161(18.3)	2,229,693(17.4)
Trust Banks(Total)	738,281(32.9)	750,097(30.9)	727,942(28.3)	704,157(27.2)
Regional Banks(Total)	864,215(16)	909,871(17.2)	912,409(17.8)	928,936(18.1)
Regional Banks II (Total)	197,783(14.4)	207,248(15.2)	199,831(16.2)	184,799(16.3)
All Banks(Total)	4,162,825(20.8)	4,156,649(20.2)	4,116,905(19.1)	4,120,966(18.5)

(Source) *Nikkin Report*, September 16, 2019, August 31, 2020

(footnote) % in brackets is compared with total revenue.

Banks are therefore increasing their lending, but obtaining credit guarantees on approximately half.

There are multiple patterns as to whether banks should make a general loan loss provision where there is a credit guarantee. First, there are two main categories: the Financial Inspection Manual-compliant method and the PD x LGD method. The former method is based on the manuals that correspond to FSA (Financial Service Agency) inspections, while the latter method is to make provisions based on loss and default rates where these can be measured. PD is the default rate and LGD is the loss rate. Many banks use the manual method based on the Financial Inspection Manual. Under this method, if a loan is classified as 'normal to cautionary', a general loan loss provision is made against the total amount of loans. Therefore, banks are required to make a general loan-loss provision even if they are guaranteed by credit guarantee associations.

To summarise, banks have increased lending in FY2020 amid the pandemic, but lending rates have not risen, accompanied by higher credit costs and credit guarantees, and profits have rather declined.

## (2) Fees and commission of banks

As seen in Table 1, the main source of banks' gross operating income is net interest income. Net interest income is based on deposit and loan margins, which have been declining in recent years.

In recent years, banks have therefore concentrated on net fees and commissions. In Table 1, income from fees and commissions is ¥801 billion for city banks, accounting for 17% of their net banking income. Commissions income, account for nearly 20% of banks' income.

Table 2 shows the revenues from fees and commissions of the major banks and others (in principle on a consolidated basis). Looking at the all banks (total), revenue from fees and commissions was ¥ 4,162.8 billion in FY2016, and will continue to be ¥ 4,121 billion in FY2019.

However, fees and commissions revenues as a percentage of ordinary revenues have generally remained at around 20%. By type of banks, the total for city banks (total) decreased from ¥2,302.8 billion to ¥ 2,229.7 billion, while that for regional banks (total) increased from ¥864.2 billion to ¥928.9 billion. One reason for the decrease among city banks is that, in the case of FY2019, securities-related business fees decreased by approximately ¥12 billion at Mizuho. Also, at SMBC, fees and commissions decreased by more than ¥100 billion from ¥725.9 billion in FY2016 to ¥614.1 billion in FY2019. This was due to a decrease of approximately ¥50 billion in securities-related business commissions, as well as a decrease of approximately ¥ 40 billion in mutual fund sales commissions.

Briefly expressed, the decline in city banks' fees

Table 3 Compositions of banks' fees and commissions (FY 2019)

(100 million, %)

	Total fees and commissions	Deposit/loan related fees	clearing fees	Securities related fees	sale of investment trust	sales of insurance
city banks	2,229,693	911,680(40.9)	443,950(19.9)	203,192(9.1)	24,139(1.1)	
regional banks	928,936	188,417(20.3)	143,713(15.5)	50,965(5.5)	18,436(2)	3,146(0.3)
regional banks II	184,799	43,211(23.4)	32,084(17.4)	10,794(5.8)	2,957(1.6)	2,550(1.4)
All Banks	4,120,966	1,201,685(29.2)	622,537(15.1)	309,241(7.5)	166,031(4)	5,696(0.1)

(Source) *Nikkin report*, August 31, 2020

(footnote) % in bracket is compared with total fees and commissions

and commissions was mainly due to a decrease in securities-related fees.<sup>5)</sup> On the other hand, regional banks saw an increase of more than ¥10 billion in deposit and loan fees in the same year. The following section looks at the details of banks' fees and commissions, including deposit and loan fees.

Table 3 shows the composition of banks' fees and commissions. Deposit- and loan-related fees account for 29.2% of total fees, or ¥4,121 billion on all bank basis. For city banks, they account for ¥911.7 billion, or 40.9%, and are the main source of banks' fees and commissions. Deposit- and loan-related commissions are dominated by CD/ATM-related commissions, which account for 30-40%, and account transfer-related commissions, which account for 40-50%. CD/ATM fees are for deposits and withdrawals, while account transfer fees are for direct debits, etc., and are the main source of banks' fees and commissions.

Fees from clearing, which are mainly transfer fees, account for 15.1% of the all banking base, as shown in Table 3, and for city banks they amount to about 20%. Deposit- and loan-related and clearing-related fees account for almost half of banks' fees and commissions, and define the trends in fees and commissions. As can be seen in Table 2, banks' fees and commissions have been sluggish, which can be attributed to the decline in deposit- and loan-related and clearing-related fees. In the context of the trend towards cashless transactions and fintech, banks' fees and commissions are likely to have been significantly affected by increased competition from LINE (Japanese platformer) and

other remittance providers. In the face of shrinking loan/deposit margins, banks have recently moved to increase transfer fees and other fees, but it is unclear whether this will lead to higher revenues. Consumers may move further towards using fintech providers.

Securities-related commissions are seen as a major factor in securities intermediation fees. These are commissions paid when a bank intermediates a customer order to a securities subsidiary in relation to financial products (e.g. securities) sold by the bank's subsidiary securities firm. There are also commissions when a bank introduces a customer order to a general securities company with which it has no capital relationship.

Other major commissions include commissions from the sale of investment trusts and insurance. However, on an all bank basis, commissions from the sale of investment trusts and insurance amount to ¥166 billion and ¥5.7 billion respectively, so their composition as commissions is not high. However, not many banks necessarily disclose their own sales commissions for investment trusts and insurance. This may explain the smaller commissions on sales of investment trusts and insurance. Banks that do disclose their investment trust sales commissions on an individual basis include Sumitomo Mitsui Banking Corporation, Mitsubishi UFJ Trust and Banking Corporation and Gunma Bank, with commissions of ¥24.1 billion, ¥120.5 billion and ¥2.2 billion, respectively. Banks that disclose the sum of investment trust sales commissions and insurance sales commissions include Fukuoka Bank (¥7.5

billion), Kiyo Bank (¥ 2.7 billion), Kyoto Bank (¥2.5 billion) and Shiga Bank (¥ 2.8 billion).

In addition, Shizuoka Bank and Shimizu Bank have fees of ¥26 billion and ¥3.8 billion respectively for leasing services. The Bank of the Ryukyus has ¥1.9 billion in fees for credit card services, and Saikyo Bank has JPY ¥ billion in fees for individual credit brokerage services. Chiba Bank has ¥ 300 million in trust-related commissions.<sup>6)</sup>

Corporate-related fees include syndicated loan-related fees, business matching and M&A intermediary fees, and internet banking fees, although these are seen as small in value.

Thus, banks are exploring new fees such as leasing and credit cards. However, at present, the main sources of fees and commissions are related deposit and loan and clearing, and the growth of these fees has been sluggish. Therefore, fees and commissions revenues themselves are sluggish.

### 3 The bank's cost structure

#### (1) Bank cost ratios

As pointed out at the beginning of this section, Japanese banks are not very profitable. A major reason for this is the high cost to income ratio. So what is the composition of cost? The author considers that the three main cost components are branch-related, personnel-related and system-related(digitalization) costs. Of these, system-related costs are difficult to analyse from banks' publicly available data. This is because they are not disclosed as a original cost item in the income statement or other documents, and are spread across a variety of cost items. Recently, bank transfer fees have been regarded as problematic by the Fair Trade Commission and others. However, it is not only bank transfer fees, but also payments by banks to system vendors such as NTT Data, including credit card payments, that are not small. In addition, when banks adopt what is known as systems collaboration, a group of companies such as NTT Data owns the computer-system equipment for the banks and

receives a contract to operate it from each bank. In such cases, they are included in the property costs of expenses, but the details are not disclosed, nor are they depreciation costs. As discussed below, system-related expenses are often included in 'Other' under operating expenses, but details are not available and cannot be analysed.

Recently, the Fair Trade Commission has published an investigation report in relation to cashless payments. In this case, deposit are transferred from the user's bank account to the user account of the cashless payment provider. In other words, the bank account and the cashless payment provider need to be connected in the computer-system. The bank's contract with the retail payment infrastructure provider is therefore intervened by CAFIS. According to the Japan Fair Trade Commission, more than 80% of the way banks connect with retail payment infrastructure providers involves CAFIS, an information and data communication system developed by NTT Data (then Nippon Telegraph and Telephone Corporation) in 1984 for credit card payment processing. Banks pay CAFIS (NTT Data) a data processing fee of several yen per transaction when they charge the retail payment infrastructure from their bank accounts via CAFIS.<sup>7)</sup>

In addition, banks also pay fees to NTT Data and others for general transfer fees. In the case of transfers between different banks, the transfers are made via Zengin(National Bank Association)-net, and NTT Data acts as Zengin-net, with both the paying bank and the receiving bank paying Zengin-net expenses to NTT Data.<sup>8)</sup> As mentioned above, banks pay substantial system-related fees to NTT Data, IBM Japan, Hitachi, Fujitsu and others, but the details of these payments are not disclosed and are unknown.

Therefore, the following section analyses the cost structure of banks, focusing on branches and staff, for which data are relatively publicly available. Table 4 shows the OHR of Japanese banks, where OHR



Table 4 OHR of Japanese Banks (FY 2018)

(million Yen, %)

	OHR	adjusted OHR	Expences	Gross operating income	Gain/loss on bond transactions
Mizuho	80.66(5.81)	73.32(-0.66)	867,184(-15244)	1,075,028(-103812)	-107,641
Mitsubishi UFJ	74.7(7.83)	76.52(9.14)	1,146,952(28171)	1,535,365(-137780)	36,487(23959)
Sumitomo Mitsui	58.14(1.37)	58.27(1.02)	811,533(781)	1,395,586 (-32338)	2,877(-8811)
Resona	62.14(0.78)	62.17(1.75)	211,240(-723)	339,916(-5549)	167(5491)
City bank total/average	69.76(4.45)	68.68(3.34)	311,214(13712)	4,459,430(-283127)	-70,061
Regional bank total/average	69.23(-0.74)	68.71(0.92)	2,267,232(-44084)	3,274,569(-27985)	-25,005
Regional bank II total/average	78.92(0.77)	78.14(1.09)	661,395(-9914)	838,000(-20967)	-8,415

(Source) *Nikkin Report*, July 1, 2019

(footnote) 1. OHR= Expenses ÷ Gross operating income Adjusted OHR=Expenses ÷ (Gross Operating income - Gains/losses on bond transaction) 2.Change in brackets is compared with FY 2017

stands for Overhead Ratio, an indicator of the cost ratio.

As indicated in the note to Table 4, OHR = Expenses / Gross operating income, adjusted OHR = Expenses / (Gross operating income - Gains/losses on bond transactions). According to this, the average for city banks is 69.76%, while Mizuho Bank has the highest OHR at 80.66% and SMBC the lowest at 58.14%. It is important to note that there is a difference of more than 20 percentage points in OHR among the same city banks. The banks' gross operating income includes gains/losses on bond transactions, which are easily affected by market fluctuations. Therefore, the adjusted OHR is calculated by dividing expenses by the denominator of gross operating income minus gains/losses on bond transactions. In terms of adjusted OHR, the average for city banks is still 62.17%, while Mizuho and SMBC are 73.32% and 58.27% respectively. Even when looking at the adjusted OHR, there is a difference of 15 percentage points between the two banks, showing that even within the same city bank there are significant differences in expense ratios.

Looking at regional banks, the average OHR for regional banks is 69.23%, while for regional banks II it is 78.92%, a difference of almost 10 percentage points. The adjusted OHR is also 68.71% for the regional banks and 78.14% for the regional banks II, again a difference of nearly 10 percentage

points. Compared to regional banks, regional banks II have higher cost ratios and lag behind in cost management.

Regional banks with OHRs above 90% include Michinoku Bank at 95.14%, Tsukuba Bank at 93.2%, Senshu Ikeda Bank at 96.52% and Saga Bank at 97.45%. Similarly, among regional banks II, Fukushima Bank has 95.09%, Daito Bank 91.5%, Tochigi Bank 91.89%, Shimane Bank 102.69% and Nagasaki Bank 96.66%.<sup>9)</sup> Regional and regional banks II with high OHR often overlap with the SBI's alliance of regional banks.

In September 2020, SBI entered into a capital tie-up with Shimane Bank, in which the group took a 34% stake. Since then, SBI has formed a series of tie-ups with regional banks, including Fukushima Bank (19.25% stake), Chikuhō Bank (Fukuoka, 3% stake), Shimizu Bank (Shizuoka, 3% stake). SBI(Soft Bank Investment)CEO, Mr.Kitao pointed out that the key to revitalising the regional banks with which it has formed partnerships lies in reducing computer-system costs and managing assets. The company is also aiming to use SBI's services to reduce fees for money transfers between individuals. SBI is also aiming to reduce the fees for money transfers between individuals using SBI's services. SBI was the largest shareholder of Daito bank with 17.14% of the voting rights in May.<sup>10)</sup> These developments by SBI suggest that regional and regional banks II are

Table 5 Number of Bank branches

	FY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
City Banks	Number of banks	6	6	6	6	6	6	6	5	5	5	5	5	5	5
	Domestic branches	1,922	1,962	1,972	1,990	2,003	2,010	2,020	2,026	2,037	2,044	2,043	2,048	2,053	2,063
	Domestic offices	424	397	391	373	372	381	381	371	695	681	640	660	579	540
	Domestic Total	2,346	2,359	2,363	2,363	2,375	2,391	2,401	2,397	2,732	2,725	2,683	2,708	2,632	2,603
Regional Banks	Number of banks	64	64	64	64	63	64	64	64	64	64	64	64	64	64
	Domestic branches	6,671	6,684	6,691	6,742	6,740	6,748	6,789	6,775	6,781	6,794	6,780	6,801	6,882	7,021
	Domestic offices	750	758	750	764	738	741	725	730	710	697	691	678	708	741
	Domestic Total	7,421	7,442	7,441	7,506	7,478	7,489	7,514	7,505	7,491	7,491	7,471	7,479	7,590	7,762
Regional banks II	Number of banks	46	45	44	42	42	42	41	41	41	41	41	41	40	38
	Domestic branches	3,090	3,070	3,063	2,957	2,946	2,939	2,893	2,889	2,895	2,898	2,896	2,905	2,823	2,685
	Domestic offices	184	182	190	192	192	189	168	164	162	157	152	147	143	127
	Domestic Total	3,274	3,252	3,253	3,149	3,138	3,128	3,061	3,053	3,057	3,055	3,048	3,052	2,966	2,812

(Source) Zenginkyo (National Bank Association), various issues

also seeing heavy expenditure on account systems and other costs.

Looking at the account systems of regional banks with high OHR, Michinoku Bank is a member of Hitachi Kyodo Systems' Banks'ware (Sanin Godo, Higo and three other banks), Tsukuba Bank is a member of Judankai (IBM system, seven banks), Ikeda Senshu Bank is a member of NTT Data Regional Banks Joint Centre (BeSTA, 14 banks), and Saga Bank is a member of BankVision by Nihon Unisys (10 banks). Among regional banks II, Fukushima Bank is a member of Tohoku Banking System, Daito Bank is a member of Hitachi's NEXTBASE (12 banks), Tochigi Bank is also a member of NEXTBASE, Shimane Bank is an IBM member and Nagasaki Bank is a member of NTT Data's SBK Joint Centre (6 banks). Chikuhō Bank is a member of Nihon Unisys BankVision.<sup>11)</sup> The costs of the respective banking systems are not disclosed, so it is unclear, but computer system costs are likely to be heavy.

The next section examines branch costs. Table 5 shows the number of bank branches. Firstly, in terms of the number of banks, the number of city banks was six until 2012, but has decreased to five since 2013. This is due to the merger of Mizuho Corporate Bank and Mizuho Bank in the Mizuho Group. Next, the number of head offices and branches of city banks in Japan increased from 1922 in 2006 to 2063

in 2019. However, the question remains whether this increase in the number of branches reflects the actual situation. This is because two branches are often nominally retained even when two or more branches are effectively merged into a single branch. This is seen as partly due to the fact that a certain amount of administrative costs are incurred in order to make a branch disappear. In the case of SMBC, a significant number of bank branches are intra-branch branches. For example, in Tokyo, the Nihonbashi East branch is located within the Tokyo Chuo branch and the Ningyocho branch is located within the Nihonbashi branch. The Kasumigaseki and Shinbashi branches are both located within the Hibiya branch. The Kamata West branch is located within the Kamata branch, the Senkawa branch within the Ikebukuro branch, the Itabashi branch within the Tokiwadai branch and the Hikawa-dai branch within the Nerima branch. In Yokohama City, the Yokohama Chuo branch is also located within the Yokohama branch. All of these branches are in effect a single branch, but nominally retain the former branches. If branches were abolished altogether, the paperwork involved in bank transfers would be seen as enormous, as branch numbers would have to be changed, and transfer errors would be more likely to occur.

The number of branch offices of city banks decreased from 424 in 2006 to 371 in 2013,

Table 6 Number of Bank Staff and number of staff per branch

		2006	2007	2008	2009	2010	2011	2012
City Banks	Number of bank(a)	6	6	6	6	6	6	6
	Number of staff(b)	84,695	86,826	91,142	94,613	94,000	92,859	91,808
	b ÷ a	14,115.8	14,471.0	15,190.3	15,768.8	15,666.7	15,476.5	15,301.3
	Number of branch(c)	2,346	2,359	2,363	2,363	2,375	2,391	2,401
	b ÷ c	36.1	36.8	38.6	40.0	39.6	38.8	38.2
Regional Banks	Number of bank(a)	64	64	64	64	63	64	64
	Number of staff(b)	124,911	126,634	129,498	132,692	133,413	132,888	132,428
	b ÷ a	1,951.7	1,978.7	2,023.4	2,073.3	2,117.7	2,076.4	2,069.2
	Number of branch(c)	7,421	7,442	7,441	7,506	7,478	7,489	7,514
	b ÷ c	16.8	17.0	17.4	17.7	17.8	17.7	17.6
Regional banks II	Number of bank(a)	46	45	44	42	42	42	41
	Number of staff(b)	47,840	48,194	49,054	48,555	47,916	47,395	45,984
	b ÷ a	1,040.0	1,071.0	1,114.9	1,156.1	1,140.9	1,128.5	1,121.6
	Number of branch(c)	3,274	3,252	3,253	3,149	3,138	3,128	3,061
	b ÷ c	14.6	14.8	15.1	15.4	15.3	15.2	15.0
		2013	2014	2015	2016	2017	2018	2019
City Banks	Number of bank(a)	5	5	5	5	5	5	5
	Number of staff(b)	91,101	93,416	95,107	97,601	97,837	95,922	92,826
	b ÷ a	18,220.2	18,683.2	19,021.4	19,520.2	19,567.4	19,184.4	18,565.2
	Number of branch(c)	2,397	2,732	2,725	2,683	2,708	2,632	2,603
	b ÷ c	38.0	34.2	34.9	36.4	36.1	36.4	35.7
Regional Banks	Number of bank(a)	64	64	64	64	64	64	64
	Number of staff(b)	131,623	130,818	130,788	130,944	130,509	130,101	128,977
	b ÷ a	2,056.6	2,044.0	2,043.6	2,046.0	2,039.2	2,032.8	2,015.3
	Number of branch(c)	7,505	7,491	7,491	7,471	7,479	7,590	7,762
	b ÷ c	17.5	17.5	17.5	17.5	17.5	17.1	16.6
Regional banks II	Number of bank(a)	41	41	41	41	41	40	38
	Number of staff(b)	45,253	44,889	44,825	44,790	44,344	41,734	37,682
	b ÷ a	1,103.7	1,094.9	1,093.3	1,092.4	1,081.6	1,043.4	991.6
	Number of branch(c)	3,053	3,057	3,055	3,048	3,052	2,966	2,812
	b ÷ c	14.8	14.7	14.7	14.7	14.5	14.1	13.4

(Source) Zenginkyo (National Bank Association), various issue

but increased to 695 in 2014. This was due to a sharp increase in the number of branch offices at SMBC, but also because the Corporate Sales Department was counted as a branch office from 2014. Subsequently, the number of branch offices at city banks decreased to 540 in 2019. At SMBC, the number of branch offices also fell from 475 at end-March 2015 to 350 at end-March 2020. Unlike branches, sub-branches are seen as easier to close, both in name and in reality, as there are no problems related to bank transfers. Due to these various factors, the number of branches of city banks increased from 2,346 in 2006 to 2,732 in 2014, before declining to 2,603 in 2019.

The number of regional banks has remained unchanged at 64 since 2006. This is because although there have been a number of tie-ups and mergers among regional banks, existing banks will continue to exist, e.g. through the holding company system. The number of branches of regional banks increased from 6671 in 2006 to 7021 in 2019. However, as in the case of city banks, the question remains whether this reflects the actual situation. It appears that in some cases, two branches continue to exist, even though the actual situation is one branch. This is to avoid the administrative costs associated with branch closures. In addition, the number of branches of regional banks decreased

Table 7 Component of Banks' operating costs (FY 2018)

(million Yen)

	operating expenses total	salary and allowance	retirement benefit costs	employee benefits
City Banks(3)	1,113,102	390,878	17,184	61,397
Regional Banks(48)	1,575,378	639,419	28,391	38,703
Regional banks II (35)	527,713	237,419	10,664	5,600
	depreciation and amortisation	land,building and machinery rent	advertising and publicity expenses	others
City Banks(3)	126,453	83,456	19,170	82,533
Regional Banks(48)	127,073	61,321	20,740	133,740
Regional banks II (35)	42,048	23,548	7,409	45,919

(Source) *Nikkin report*, September 30, 2019

from 750 in 2006 to 678 in 2017, but increased to 741 in 2019. As a result, the number of branches of regional banks increased from 7421 in 2006 to 7762 in 2019.

The number of regional banks II decreased from 46 in 2006 to 38 in 2019. The number of regional banks II has decreased by eight banks since 2006. The number of branches of regional banks II also decreased from 3090 in 2006 to 2685 in 2019. The number of branches decreased by 405, a decrease of 13%. The number of branch offices also decreased from 184 in 2006 to 127 in 2019. As a result, the number of branches of regional banks II decreased from 3274 in 2006 to 2812 in 2019. Compared with city and regional banks, the decline in the number of branches of regional banks II can be clearly seen. This is likely to be due to the more difficult business environment for regional banks II compared with city and regional banks.

Table6 shows the number of bank staff and other data. The number of staff in city banks increased from 84,695 in 2006 to 97,837 in 2017 and then decreased to 92,826 in 2019. The number of staff decreased by about 5,000 over the past two years. In terms of the number of staff per branch, the number exceeded 40 in 2009, but has been slowly declining since then and has been between 34 and 35 since 2014. The number of staff at regional banks increased from 124,911 in 2006 to 133,413 in 2010 and then declined to 128,977 in 2019. The number of staff per branch has not fluctuated

much, ranging between 16 and 17. The number of staff at regional banks II increased from 47,840 in 2006 to 49,054 in 2008 and then decreased to 37,682 in 2019. Compared to the peak, the number of employees decreased by 11,372, a decrease of 23.2%. The number of staff at regional banks II has also been significantly reduced, as has the number of branches. The number of staff per branch fell from 15.4 in 2009 to 13.4 in 2019. In general, it can be said that the number of staff has declined across all banks types, including city, regional and regional banks II.

We have looked at the three main drivers of bank costs: system-related expenses, branches and staff. With regard to system-related costs, the real picture cannot be ascertained as they are rarely published. As for branches, it is seen that the number of branches does not always represent the actual situation. However, we have been able to confirm that the number of staff has recently been rapidly declining.

Table7 looks at banks' operating costs(FY2018): for FY2018, total operating costs for the 89 banks covered (3 city banks, 48 regional banks and 35 regional banks II) were ¥3,569.1 billion, a decrease of ¥91.4 billion compared to the same period last year. By breakdown, all nine categories decreased. In particular, salaries and allowances and advertising expenses decreased for the third consecutive year since 2016.<sup>12)</sup> Total operating costs of 3 city banks were ¥1113.1 billion, a decrease of 560 million

Table 8 The cost structure of SMBC

(million yen)

	FY2017	FY2018	FY2019
salary and allowance	291,592	290,697	284,749
retirement benefit costs	-1,526	-5,231	-5,815
employee benefits	45,896	45,131	45,664
depreciation and amortisation	101,753	103,972	104,452
land, building and machinery rent	60,697	59,018	55,662
building and repair expenses	7,124	7,414	6,290
supplies expenses	5,083	4,540	3,853
water supply utility expenses	5,252	5,252	5,073
travel expenses	5,509	6,061	5,778
communication expenses	7,229	6,923	6,187
advertising and publicity expenses	14,689	14,376	16,053
tax and public dues	48,843	48,117	50,214
deposit insurance premium	30,804	30,723	31,578
others	187,801	194,536	198,309
total	810,752	811,533	808,052

(Source) Sumitomo Mitsui banking corporation disclosure magazin , various issue

compared to the same period last year. Salaries and allowances, retirement benefit costs and employee benefits, all of which are personnel cost factors, totalled ¥469.5 billion, accounting for 42.2% of total expenses, but decreased by ¥9.26 billion year-on-year.

However, this was a decrease of ¥9.26 billion compared to the previous year. It is undeniable that labour costs are a central factor in overhead costs. Depreciation and amortisation includes software and other computer system-related fixed assets, but also includes the company's own branch buildings. Land, building and machinery rent includes non-branch buildings, but the total of depreciation and land, building and machinery rent is ¥209.9 billion, accounting for 18.9% of total costs. This is an increase of approximately ¥500 million, but is higher than in the same period of the previous year. Advertising and publicity expenses totalled ¥19.2 billion for the three city banks, an increase of about ¥0.8 billion.

In the case of regional banks, salaries and allowances, retirement benefit costs and benefits totaled 706.5 billion yen, or 44.8% of total expenses. This is a decrease of approximately 39 billion yen, mainly in salaries and allowances. Regional banks

also have a higher personnel cost ratio in their expenses than city banks. Depreciation and land and building machinery rent totalled ¥188.4 billion, or 12% of total expenses. Depreciation fell by approximately ¥2.7 billion and land, building and machinery rent by approximately ¥270 million, resulting in a total decrease of approximately ¥3 billion. At the regional bank II, total personnel-related costs amounted to ¥253.6 billion, a decrease of approximately ¥18 billion year-on-year. Depreciation and amortisation costs totalled ¥42 billion and land and building machinery rent ¥23.5 billion, an increase of about ¥65.6 billion year-on-year.

In total, operating costs of the three types of bank (city, regional and regional banks II) fell by ¥91.5 billion year-on-year, of which personnel-related costs fell by approximately ¥72 billion, with personnel costs being the main area of cost-cutting efforts. However, a problem with Table 7 is the absence of computer system-related costs as an operating costs item. As already pointed out, this is due to the fact that computer system-related costs are included in depreciation and amortisation, etc., as well as the fact that disclosure varies from bank to bank.

This can be gauged by approaching the cost

Table 9 The Average annual salary of banks

(1000Yen, age, year)

	average annual salary			average age		average length of service
	FY2019	FY2018	change	FY2019	FY2019	
Mizuho FG	9,679	9,111	568	40.6		16.3
Mitsubishi UFJFG	11,227	10,675	552	42.7		16.6
Sumitomo Mitsui FG	11,576	11,551	25	39.8		15.6
Resona HD	9,191	8,917	274	46.1		18.1
Mizuho bank	7,358	7,372	-14	38.2		14.3
Mitsubishi UFJ bank	7,744	7,715	29	39.6		15.2
Mitsui Sumitomo bank	8,286	8,203	83	37.3		14
average city banks	7,692	7,649	43	38.5		14.6
Mebuki FG	11,574	10,718	856	49.6		24.9
Tokyo Kiraboshi FG	9,465	10,198	-733	43.3		19
Concordia FG	10,423	10,803	-380	42.5		11.1
Gunma bank	7,024	7,094	-70	40.5		17.1
Chiba bank	7,347	7,290	57	38.6		15.5
Sizuoka bank	7,363	7,461	-98	38.4		16.3
average regional banks	6,400	6,379	21	39.2		15.7
average regional bank II	5,891	5,949	-58	39.8		16

(Source) *Nikkin report*, July 13,2020

(footnote) This includes bonus, but excludes holding company. This is weighted average, based on the number of staff.

structure of individual banks. Table8 shows the operating cost structure of SMBC. In FY2020, 'Others' accounted for ¥198.3 billion, or 24.5% of total operating costs. The problem is the content of 'Other', which appears to include not a small amount of computer system-related costs: payments to system vendors such as NTT Data are seen as commissions, which are not recorded under other costs items in the costs and are included in 'Other'.

Banking computer systems largely comprise business systems, information systems and administrative systems. Business systems include account systems, money and securities systems and international systems. The account systems are the backbone of a financial institution and are responsible for processing deposits, clearing, lending and other operations, etc. Since the late 1990s, system sharing has progressed, particularly among regional banks, and currently around 80% of regional banks have shared systems.<sup>13)</sup> In addition, the systems for funds and securities include transaction support systems related to funds and securities operations, and the systems for international operations include systems related

to foreign exchange operations. Business systems cover a wide range of operations as described above. However, as has been discussed, banks' computer system-related expenditure is not publicly disclosed and the actual picture is unclear.

## (2) Bank labour costs

On the other hand, information on bank labour costs is relatively well publicised. However, the actual situation regarding branch is still unclear, as one branch may in effect serve as several branches.

Table9 shows the average annual salaries of individual banks. As noted in the notes to Table9, bonuses are included but are weighted averages based on the number of employees. It also does not include holding companies. In general, holding companies have higher salary levels, so excluding holding companies results in lower salary levels. The higher salary levels of holding companies are seen as largely due to the fact that they are administrative units and have a higher average age. In the case of Sumitomo Mitsui Trust Holdings, the average age is 51.3 years (FY2020) and the average annual salary is ¥12.01 million (FY2020), compared to ¥13.04

million in March of the previous year. In the case of Resona Holdings, the average age is also 46.1 years and the average annual salary is 9.19 million yen (FY2020).

Table9 shows that the average annual salary of city banks was 7.69 million in FY2020, an increase of around ¥40 000 compared to 7.65 million in FY 2019. However, this is seen as a result of an increase in average age. The average age of the average city bank has increased from 37.7 years (FY2019) to 38.5 years (FY2020). In recent years, city banks have curbed the number of new graduates hired, and the average age tends to rise. In the case of city banks, the average age tends to be higher in the Financial Group (FG) and lower in the bank itself. Even in the case of Mizuho, the average age at the FG is 9.68 million yen (FY2020), compared to 7.36 million yen at the bank (FY2020). This is due to the higher average age of employees in FG and the fact that salaries in trust banks (which are included in FG) are generally higher than those in banks.

Looking at trust banks, Mizuho Trust & Banking has the highest salary, at ¥8.6 million (FY2020), followed by Mitsubishi UFJ trust Bank at ¥ 8.5 million (same). The average trust bank salary is ¥7.85 million (same), which is ¥160,000 higher than the city bank average of ¥7.69 million.

Individually, the highest salaries are at Mitsui Sumitomo, at 11.58 million yen (FY2020) at Mitsui Sumitomo FG and ¥8.29 million (FY2020) at Mitsui Sumitomo Banking Corporation. The average age of employees at Mitsubishi UFJFG is 42.7 years, while at Mitsui Sumitomo FG it is 39.8 years, indicating that despite being younger, the salary level at Mitsui Sumitomo is higher. Also, as already seen in Table4, the OHR (cost to revenue ratio) is significantly lower at Mitsui Sumitomo, at 58.14%, compared to 74.7% at Mitsubishi UFJ. This indicates that Mitsui Sumitomo has a good cost performance ratio. As shown in Table10, when looking at the number of employees, Mitsui Sumitomo has 27,957 employees, the lowest among the three major city banks.

Including non-regular employees, the bank also has the lowest total number of employees at 35,705. Mitsui Sumitomo appears to have been successful in staffing its workforce, with a high salary level per employee and a small number of employees.

The average salary of regional banks was ¥6.4 million in FY2020, compared with ¥6.38 million in FY 2019, an increase of around ¥20 000. However, this is also seen as a result of an increase in average age. On average, the regional banks are approximately ¥1.3 million below the city bank average. Individually, Mebuki FG and Concordia FG have average salaries of ¥11.57 million and ¥10.42 million respectively, which are at the level of city banks. However, the average age of employees at these regional banks is higher than at other regional banks, particularly at Mebuki FG, which is 49.6 years old. In addition to curbing the recruitment of new graduates, many of them appear to be from the so-called 'bubble' generation that joined the banks around 1990. On the other hand, at Gunma, Chiba and Shizuoka banks, salaries are all in the ¥7 million range. At regional banks II, the salary level is even lower, at ¥5.89 million, about ¥500,000 lower than the regional bank average. In terms of average age, there is little difference between the regional and regional banks II.

Table10 shows the number of employees and temporary employees (contracted and temporary employees) at banks. Firstly, the number of employees decreased at both city, regional and regional banks II. The number of employees at city banks was 97,763, down 3,235 on the previous year; at regional banks, 89,295, down 2,109; and at regional banks II, 25,681, down 644. While natural attrition is associated with retirement, the number of new hires is also likely to have been curtailed, reducing the number of employees.

Individually, Mizuho has reduced its workforce by 1,082 people to 28,909, Mitsubishi UFJ by 1,338 people to 32,186 and Mitsui Sumitomo by 525 people to 27,957. All are rapidly reducing their workforces.

Table 10 The ratio of temporary employees (FY2019)

(% , real number)

	The ratio of temporary employees	number of full-time employees	contracted and temporary employees	total number of employees
Mizuho	24.3(-1)	28,909(-1082)	9,308(-892)	38,217(-1974)
Mitsubishi UFJ	26.8(-0.6)	32,186(-1338)	11,801(-880)	43,987(-2218)
Mitsui Sumitomo	21.7(-0.5)	27,957(-525)	7,748(-397)	35,705(-922)
average city bank	25.4(-0.7)	97,763(-3235)	33,303(-2417)	131,066(-5652)
Kyoto	10.2(0)	3,378(-45)	384(-7)	3,762(-52)
Chiba	37.7(0.3)	3,886(-74)	2,361(-5)	6,247(-79)
Fukuoka	25.7(0.9)	3,570(-148)	1,235(11)	4,805(-137)
average regional bank	30.2(-0.3)	89,295(-2109)	38,796(-1573)	128,091(-3682)
Hokuyo	37.2(0.2)	2,770(-99)	1,645(-42)	4,415(-141)
average regional bank II	26.6(0.1)	25,681(-644)	9,336(-161)	35,017(-805)

(Source) *Nikkin report*, July 27,2020

(footnote) number in brackets is compared with previous FY.

However, the traditional business model of Japanese banks is considered to have been a multi-branch, multi-person business model, and as a result, their employee numbers are likely to be higher than those of European commercial banks. Among regional banks, the number of employees has also decreased in Kyoto, Chiba and Fukuoka regional banks.

The banking industry as a whole also has a high ratio of temporary employees. The ratio of temporary employees (non-consolidated) was 25.4% at city banks, 30.2% at regional banks and 26.6% at regional banks II. The number of temporary and casual employees decreased by 2,417 to 33,303 at the city banks and by 1,573 to 38,796 at the regional banks. However, even so, one in four employees at city banks and one in three at regional banks is a temporary employee. Japanese banks have traditionally been slow to digitalise their operations and have mainly operated face-to-face, so it is likely that they have had a large number of employees working at the branch counter and also handling back-office paperwork by manpower. Among regional banks, the ratio of temporary employees is high, at 29.7% on average, but looking at individual banks, Chiba Bank has a high ratio of 36.5%. Even among regional banks II, the ratio is 39.9% at North Pacific Bank.

The banking industry is believed to have kept costs under control by limiting the number of

employees and increasing the proportion of temporary employees. However, the premise behind this is thought to have been the business model of opening many branches and offices and face-to-face sales by employees. Today's banks suggest that this business model has reached a turning point.

#### 4 Summary

This paper examines trends in banks' results in the first quarter of FY2020, in the light of the banks' results in FY 2019. Banks' gross operating income increased in FY 2019, helped by an improvement in the government bond market compared to FY 2018 and an increase in gains/losses on government bonds. However, looking at net interest income, which is the core of gross operating income, all city, regional and regional banks II saw a decline in profit. This is due to a contraction in the loan/deposit margin. With the COVID-19, bank lending has increased rapidly since April 2020, but lending rates have not risen and credit costs, such as loan loss provisions, have increased, rather putting pressure on bank profits.

Profit from fees and commissions, which is a component of gross operating income and accounts for around 20% of gross operating income, declined at all city, regional and regional banks II. The growth of core commissions on deposits, loans and clearing was sluggish, and new commissions on securities,



investment trusts and insurance sales were still small.

On the other hand, banks' overheads, although controlled, remain high, with an overhead ratio (OHR) of 77% for regional banks II. The main drivers of bank overheads are labour costs, property costs and computer system-related costs. Relatively speaking, information on labour and branch-related costs is publicly available and can be analysed. Nevertheless, the actual situation regarding bank branches is not clear, as they are nominally retained even after consolidation.

In addition, information on computer system-related costs is not publicly available and is difficult to analyse. However, system-related costs are seen as a major issue for banks, as joint systems have been a major point of contention in the recent mergers and acquisitions of regional banks.

#### Note.)

- (1) Jun Shirota, "The development of cashless banking and its impact on bank management - with a focus on Finland and the Netherlands", *The Review of Economics*, Vol. 51, No. 3, Mar 2020, p. 42.
- (2) <https://www.boj.or.jp/statistics/dl/depo/kashi/index.htm/>
- (3) See *Nikkin Report*, 10, 24 and 31 August 2020; five of the 102 regional banks (Fukushima, Tokyo Star, East Japan, Hyakujushi and Nagasaki) reported losses in their financial results for the period April-June 2020. Tokyo Star Bank recorded a loss of ¥1.1 billion due to credit costs 18 times higher than in the same period of the previous year. Fifty-six other banks recorded a decline in profits. Lenders' performance deteriorated in COVID-19, and loan-loss provisions increased. *Hokkaido Shinbun*, 21 August 2020.
- (4) [https://www.zenshinoren.or.jp/document/hosho\\_jisseki.pdf](https://www.zenshinoren.or.jp/document/hosho_jisseki.pdf)  
The Hokkaido Credit Guarantee Association saw a 4.9-fold increase in the number of guarantees granted in the period April-June 2020, to 32,475, and an 8.8-fold increase in value, to ¥638,196 million, following the start in May of the new Corona-related financing by the Hokkaido Government, which eliminates guarantee fees and interest for three years. Subrogation payments are also decreasing, but this is reportedly due to banks and others agreeing to changes in loan terms and conditions. *Hokkaido Shinbun*, 14 July 2020.
- (5) SMBC is the only city bank that publishes its mutual fund sales charges.
- (6) *Nikkin Report*, 31 August 2020, all for the financial year 2019.
- (7) Fair Trade Commission, *Report on Investigation into the Actual Conditions of Cashless Payments Using QR Codes*, etc. April 2020, p. 17.
- (8) Furthermore, according to the Fair Trade Commission, interbank fees (fees received by the banks themselves) for transfers do not exist abroad. *Ibid*, p. 56. For more information on banks and system vendors, see Fair Trade Commission, *Report on the Actual Conditions of Household Account Bookkeeping Services*, April 2020.
- (9) See *Nikkin Report*, 1 July 2019.
- (10) <https://www.asahi.com/articles/ASN7833C6N73ULFA00J.html> Shimizu Bank's OHR is 86.99% and Chikuho Bank's is similarly high at 83.83%.
- (11) See *Nikkin Material Annual Report*, 2019 edition. See *White Paper on Financial Information Systems*, 2018 edition, Zaikei Shoho.
- (12) The circumstances that led to these three banks being the three city banks are seen to be due to the fact that only three of the city banks publish a breakdown of their operating costs.
- (13) See *White Paper on Financial Information Systems*, 2018 Edition, Zaikei Shoho, p. 146.