NRI

lakyara vol.265

Digital financial services in a lull

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12.June.2017

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Executive Summary

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Previously robust growth in online banking and other digital financial services has distinctly stalled. To further expand their usership, digital financial services must offer benefits beyond mere convenience and should be marketed through promotions tailored to customers' life stages.

Online banking usage is plateauing

Growth in online banking usage has stagnated[1]. After doubling from 9% in 2010 to 18% in 2013, the percentage of people who log into and use online banking services[2] nearly flat-lined at 21% in 2016. With the Bank of Japan expected to long maintain its negative interest rate policy, financial institutions face an imperative to improve their operating efficiency through greater utilization of automated channels. The core online banking channel, however, is not being used as much as anticipated (Exhibit 1). Additionally, online banking usage has stagnated across all age brackets. Between 2013 and 2016, the online banking usage rate did not increase by more than three percentage points in any age group except 50-59 year-olds.

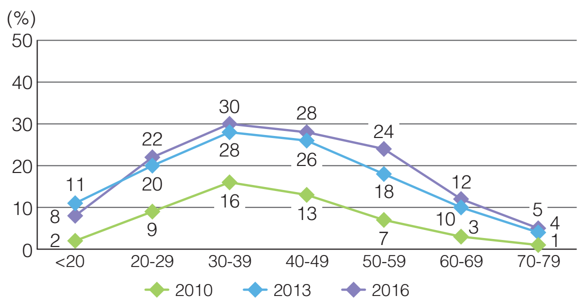
Meanwhile, six online-only banks' aggregate number of open accounts grew at a double-digit annualized rate from 11.51 million in 2013 to 15.53 million in 2016. Even at megabanks, regional banks and other banks with branch networks, online-accessible accounts are reportedly growing briskly, although aggregated data are not available.

NOTE

1) The data discussed herein is from NRI's triennial nationwide Survey of 10,000 Consumers (financial edition).

2) Defined as online services offered by not only online-only banks but also Japan Post Bank, megabanks and regional banks.

Exhibit 1: Online banking usage rates (by age bracket)



Source: NRI Survey of 10,000 Consumers (financial edition)

Online banking usage's stagnation even amid such robust growth in online-accessible bank accounts is due to many people never or only briefly using online banking services after opening online-accessible accounts.

3) Defined as banking, securities, insurance and other financial transactions conducted via the Internet or mobile phone.

Online banking is not the only digital financial service[3] experiencing stagnant usage. Online securities trading platforms' usage likewise remains largely unchanged from three years ago.

Consumers are motivated by reward points

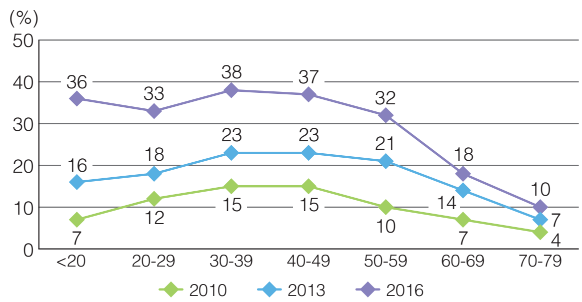
While digital financial services' usage is languishing, other financial services are seeing dramatic growth in usership. One example is use of e-money for shopping.

Growth in e-money usership is accelerating, with the percentage of people who use e-money at least semiannually increasing from 11% in 2010 to 18% in 2013 to 29% in 2016 (Exhibit 2). E-money is broadly used across all age groups from teens to the late middle-aged, all of which have high e-money usage rates. Teens' e-money usage rate in particular shot up more than 20 percentage points over the three years through 2016. E-money seems to have taken root as a mainstream payment modality for young consumers.

Such growth in e-money usage has been driven largely by growth in users of retailers' e-money brands like nanaco and WAON. In 2013, Japan's most widely used e-money brand was East Japan Railway's Suica, but it has since been eclipsed by both nanaco and WAON, respectively ranked first and second in 2016.

One key reason for the surging popularity of retailers' e-money brands is e-money cards' compatibility with retailers' reward point programs. Even excluding

Exhibit 2: E-money usage rates (by age bracket)



Source: NRI Survey of 10,000 Consumers (financial edition)

e-money, the percentage of consumers who use a means of payment that earns reward points nearly doubled from 21% in 2013 to 40% in 2016. Consumers are increasingly using credit cards with high points-reward rates as their most frequently used card. Reward points have become a crucial consideration for consumers when they select a means of payment.

Digital financial services and FinTech should be targeted primarily at 30-39 year-olds

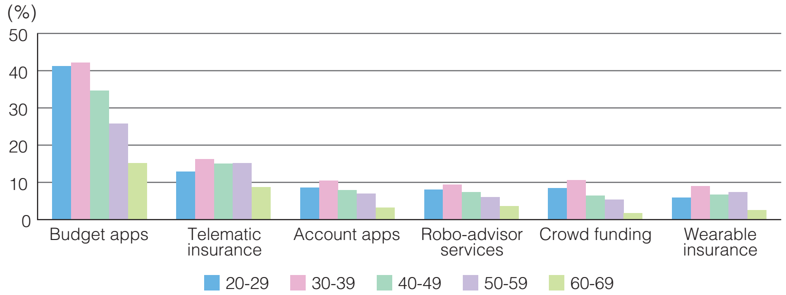
One hallmark of such digital/new financial services is that the age group that is most interested in them and uses them most is 30-39 year-olds. The online banking usage rate is highest among 30-39 year-olds while e-money's usage rate is highest among consumers in their 30s and 40s.

Interest in FinTech exhibits a similar pattern, with 30-39 year-olds expressing the highest degree of interest in nearly every type of FinTech services (Exhibit 3). The decade from age 30 through 39 tend to be marked by growing financial-service needs and keen receptivity to IT, both of which contribute to 30-somethings' high interest in and usage of FinTech and digital financial services.

In light of such, financial institutions should do two things to drive further growth in digital financial services. First, they should promote greater usage of their digital channels by not only expanding usership through convenience upgrades but also taking advantage of straightforward economic incentives such as reward points dispensed as a function of customers' digital-channel usage.

Second, they should target not only young adults new to the financial services marketplace but also consumers in their 30s with growing financial-service needs.

Exhibit 3: Interest in FinTech services (by age bracket)



Source: NRI Survey of 10,000 Consumers (financial edition)

Your 30s tend to be a time when your financial mindset is reshaped by major life events such as marriage and parenthood, but most financial institutions have no knowledge of such milestones in their customers' lives. They could rectify this knowledge deficit by, for example, investing in bidirectional communications with customers through such means as surveys or family information registries, or by offering insurance products at low prices to learn about customers' life events. Using information gleaned through such efforts, financial institutions would be well advised to conduct strategically timed promotions targeted primarily at customers in their 30s.

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