lakyara vol.321

Smartphones are reshaping investment behavior

Makoto Nakagawa

10.Jun.2020

Nomura Research Institute, Ltd.

Executive Summary

Makoto Nakagawa
Principal
Finance Consulting Department

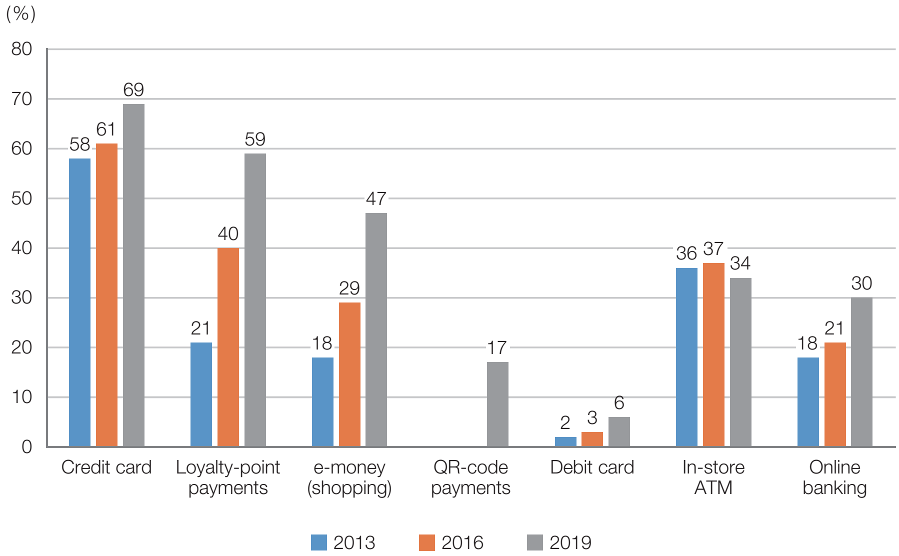
Use of automated financial services such as mobile payment apps and online banking has been growing in recent years. An NRI survey found that smartphones are catalyzing changes in investment behavior also, mainly among investors younger than 50. In response to such changes, financial institutions would be well-advised to adopt business models designed to capture smartphone users as long-term customers.

Major growth in smart payments over past three years

Last September, we conducted a nationwide hand-delivered/collected survey of some 10,000 consumers aged 18-89 on financial attitudes and behavior. The survey was our fourth in a triennial series dating back to 2010. Despite online surveys' current ubiquity, we opted to use an old-fashioned analog survey in the aim of fully elucidating the Japanese public's financial attitudes and behavior, both of which are closely linked with IT usage.

The subject on which analog and online survey results tend to diverge most is payments, particularly cashless payment usage. Our latest survey found that

Exhibit 1. Automated financial service usage rates among survey respondents (2013-19)



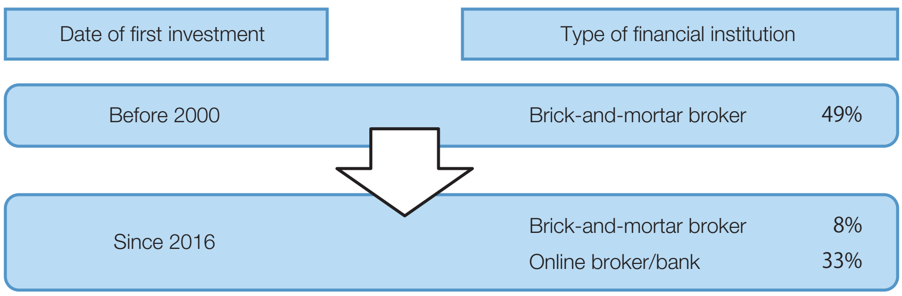
Source: NRI Survey of 10,000 Consumers (Financial Edition) cashless payments have been rapidly gaining prevalence throughout Japan. Over the three years between our previous survey in 2016 and the latest one, loyalty-point and e-money payments increased substantially. The percentage of NRI survey respondents who use mobile QR-code payment apps, which have become widely available since last year, jumped from nil to nearly 20% between 2016 and 2019, driven by younger respondents, particularly those highly sensitive to loyalty-point incentives. Additionally, the percentage of survey respondents who use online banking increased to 30%, up substantially from 2016 in the wake of growth in smartphone users.

Such cashless and automated financial services with the highest growth rates are app-based services such as mobile telecom carriers' smartphone payment services and Apple Pay services. In the case of online banking, banks' core automated service, the increase in usership between 2016 and 2019 was driven entirely by smartphone users (the percentage of respondents who bank online via computer remained unchanged). The smartphone is becoming an essential financial service delivery channel since 2016.

Mobile Internet is breeding a new generation of investors

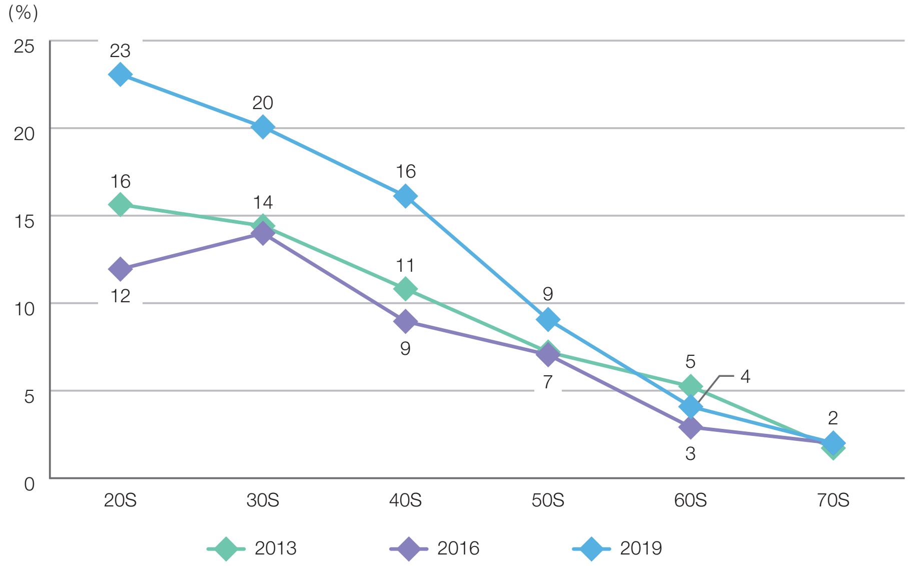
Another major change identified by our latest survey is a big increase in people who have started investing in financial assets for the first time or are interested in doing so. Some 80% of the respondents who invested for the first time during the preceding three years were between the ages of 20 and 49. Growth in this younger, Internet-savvy demographic has drastically reshaped the investment landscape. One-third of respondents who invested for the first time within the

Exhibit 2. Type of financial institution where survey respondents first invested, by time period



Source: NRI Survey of 10,000 Consumers (Financial Edition)

Exhibit 3. Percentages of survey respondents with no prior investment experience who are interested in investing



Source: NRI Survey of 10,000 Consumers (Financial Edition)

previous three years did so through an online broker or online-only bank while only a small minority did so through a brick-and-mortar broker.

Meanwhile, respondents with no investment experience have become much more interested in investing, particularly in age brackets younger than 50. Non-investors aged 20-49 expressed significantly more interest in loyalty-point investment programs and long-term NISAs (Nippon Individual Savings Accounts) with monthly contributions than their older counterparts did. Government policies, new services and financial industry initiatives seem to have succeeded in piquing interest in investing.

Developing new business models is an urgent imperative

In sum, smartphones are catalyzing major changes such as increased use of cashless payments, growing interest in investing and more people starting to invest for the first time. However, mobile payment apps charge low fees and young novice investors generally have little money to invest. Financial institutions consequently may find that expanding their payment or investment services or usership thereof is more operationally burdensome than beneficial if they provide the services solely by means of conventional business models and/or channel strategies.

Given the low profits earned from mobile app users, financial institutions obviously must cut costs by automating. It is important for them to also compensate for thin short-term margins by earning durable profits through retention of mobile app users as long-term customers.

One prerequisite to long-term customer retention is to provide appropriate information and advice to customers. In the investment space, one hallmark of people who start to invest via mobile apps is that they tend to proactively gather information from social media in addition to whatever information they get from financial institutions. Before providing information to customers who have already obtained some information elsewhere, it is important for financial institutions to gauge how well-informed the customer is and cogently present accurate information that is of value to the customer. Financial institutions should also steer clear of sales pitches and advice that involves information asymmetries. To do so, they would be well-advised to adopt new customer modeling frameworks from an information standpoint.

A second key is actively partnering with other companies to swiftly roll out services that the financial institution is unable to cost-effectively provide on its own. To expedite such expansion, financial institutions should look into decentralizing their management decision-making by granting front-line business units discretionary authority to form external alliances subject to certain predetermined constraints.

about NRI

Founded in 1965, Nomura Research Institute (NRI) is a leading global provider of system solutions and consulting services with annual sales above $4.8 billion. NRI offers clients holistic support of all aspects of operations from back- to front-office, with NRI's research expertise and innovative solutions as well as understanding of operational challenges faced by financial services firms. The clients include broker-dealers, asset managers, banks and insurance providers. NRI has its offices globally including New York, London, Tokyo, Hong Kong and Singapore, and over 13,000 employees.

For more information, visit https://www.nri.com/en

Inquiries to : Financial Market & Innovation Research Department
Nomura Research Institute, Ltd.
Otemachi Financial City Grand Cube,
1-9-2 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
E-mail : kyara@nri.co.jp

https://www.nri.com/en/knowledge/publication/fis/lakyara/