

# Why Japanese regional banks must enter the advertising business

Takao Matsumoto  
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## Executive Summary



**Takao Matsumoto**

General Manager

Marketing Science Consulting  
Department

*Japanese banks are now able to enter the advertising business pursuant to a 2021 Banking Act amendment. Although advertising may seem far afield from banking, banks have some big advantages as advertising media. Meanwhile, advertising is a promising new revenue source for banks. Additionally, advertising can play an integral role in regional revitalization. It is an activity that truly captures the essence of banks' mission to support local businesses.*

### Four reasons banks should enter advertising business

Japanese banks were granted regulatory permission to enter the advertising business by a 2021 amendment to the Banking Act. The advertising business's main players are media providers and agencies. The former provide advertising media to advertisers, utilizing their own internal resources. The latter earn commissions by acting as intermediaries between advertisers and advertising media. While advertising may seem to have little if any connection to banking, entering the advertising business, particularly as media providers, actually makes a lot of sense for banks for the following reasons.

**1. Banks' appeal as advertising media:** One key attribute of advertising media is reach (size of the audience reached by a medium). The absolute number of people a bank can reach may be small, but percentage reach within a given geographic area is more important than absolute reach. Many Japanese regional banks command dominant market shares in the regions they respectively serve. Another respect in which regional banks stand out from other sectors is reliability, a crucial quality for advertising media. From advertisers' perspective, banks offer enormously attractive ad placement opportunities. Advertisers are also enthused about banks' unrivaled ability to micro-target advertisements at consumers by virtue of their accurate data on customers' demographics and banking transactions.

**2. Exogenous changes:** In the wake of cookieless<sup>1)</sup> digital advertising's advent, mediafication of resources of companies with customer profile databases (e.g., mobile telecom carriers, airlines) has become a hot topic in the advertising

#### NOTE

1) From a personal information protection standpoint, regulators have been restricting websites from collecting information through cookies that retain a record of visitors' browsing history. Where collecting cookie data is prohibited, websites can no longer track individual users' visit frequency, login information or ad history, making it difficult for companies to efficiently identify website visitors highly interested in their products/services.

world. Advertisers are bullish on banks in particular, given banks' overwhelming advantage over other sectors in terms of audience coverage and neutrality. Another advantage of banks is that they have few rivals in the space they would occupy in the media ecosystem. There are currently hardly any other low-cost, locally focused advertising media. Additionally, banks' reach extends to young consumers also. Such advantages are extremely valuable.

**3. Utilization of internal resources:** Banks already have relationships with many companies, enabling them to utilize their existing corporate channels for selling advertising. Their ability to access advertisers without going through advertising agencies is a major profitability advantage. Moreover, banks have the potential to not only sell advertising but also expand into consulting services by increasing their points of contact with customers. Such services might include assisting customers with data-driven marketing and development of new products/services.

**4. Negligible downside risk:** In the financial services sector, launching a new business usually entails a large investment. To become an advertising media provider, however, banks would not need to develop any new IT systems. They could set up the business independent of their existing systems. They consequently can minimize their initial investment by utilizing external resources such as BPO. The same applies to human resources also. Banks can launch an advertising business with minimal staffing. In sum, they can get a digital advertising business up and running swiftly. Once they do, they can expand the business as needed in accord with their strategic plan and individual circumstances.

In addition to the benefits to banks mentioned above, banks' entry into the advertising media business will likely be more beneficial to advertisers than generally anticipated. Banks should become established media players within the next decade or less.

### Specific steps when entering advertising business

There are some specifics that banks should address when entering the advertising media business. The advantage accruing from utilization of banks' internal data has already been mentioned. Before delineating target advertising audiences, banks must formulate hypotheses and repeatedly analyze and test them while envisioning what types of advertisers would use their advertising media.

Also important is media design, an in-depth process that involves figuring out where and how to display advertising so it captures bank customers' attention without being off-putting. For example, when using smartphone apps, signage or ATM screens as advertising media, banks have to decide where, how large and how frequently to display/rotate ads and what types of advertising content are acceptable. This design process's outcome affects inventory (the amount of advertising slots to be sold) and, in turn, revenue. Banks should therefore adopt a flexible approach rather than gravitating to a preordained outcome.

Next, screening also is important. Every bank must set its own rules for credit screening of advertisers and also make plans in advance for screening creative content, such as by engaging the services of an external provider. Other advertising tasks that banks have never previously had to deal with in their core business include deciding how to obtain consent, setting up a channel for responding to customer feedback and preparing advertising effectiveness reports. While banks can of course do everything internally, they should pursue operational efficiency by judiciously utilizing external services such as BPO.

### **Banks' public-service mission**

The paramount reason why banks should enter the advertising business is regional revitalization. Banking is all about supporting local companies. By appropriately delivering information about local businesses to local residents through advertising, banks can not only spread awareness of many under-publicized products and services but also help businesses recruit workers by increasing their name recognition.

Advertising via banks can assist not only local businesses but also municipalities. Many municipalities have to disseminate a variety of information to specific local residents who need it, including information about public subsidies, emergency preparedness and healthcare. Incumbent advertising media, however, are expensive and lack the granular reach required to do the job.

What if banks fulfilled this role as highly reliable media backed by accurate demographic information? They could provide information of great value to both municipalities and their account holders. Such a service would transcend mere advertising and lead to banks helping to foster vibrant local communities by supporting companies, residents and municipalities as information hubs.

## The sole key to success

The advertising media business does not require much initial investment and has very low barriers to entry. If banks keep their advertising rates low and offer advertising options tailored to local companies' needs, they should be able to attract many advertisers. Given the large number of potential advertisers among SMEs, the advertising business would likely be amply profitable for banks. Such being the case, the sole key to success is banks' willingness to embrace one new challenge.

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Inquiries to : Financial Market & Digital Business 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

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