

NRI Finds Financial Literacy is Needed to Use FinTech and New Financial Services

—NRI conducts “Third Questionnaire Survey of 10,000 Japanese Consumers -Financial Edition”—

Tokyo, December 15, 2016 - Nomura Research Institute, Ltd. (NRI), a leading provider of consulting services and IT system solutions, conducted a door-to-door survey of 10,000 consumers “Third Questionnaire Survey of 10,000 Japanese Consumers – Financial Edition” (number of respondents: 10,070) aged 18-79 across Japan in August – September 2016 (the “Survey”), in which respondents were asked about their financial awareness and activities.

The main results of the Survey are as follow.

- Usage of points-based payment, e-money, and online banking is on the rise
- Less than 10% consumer show interests in many of FinTech services
- FinTech adoption will grow as consumer concerns are addressed and clunky processes are improved
- Improving consumers’ financial literacy is crucial for popularization and promotion of new financial services and FinTech services

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About NRI

NRI is a leading global provider of IT system solutions and consulting services, including management consulting, system integration, and IT management and solutions for financial, manufacturing, retail and service industries. Clients partner with NRI to expand businesses, design corporate structures and create new business strategies. NRI has 10,000 employees in 35 offices globally and reports annual sales above \$3.7 billion. For more information, visit <https://www.nri.com/global/>

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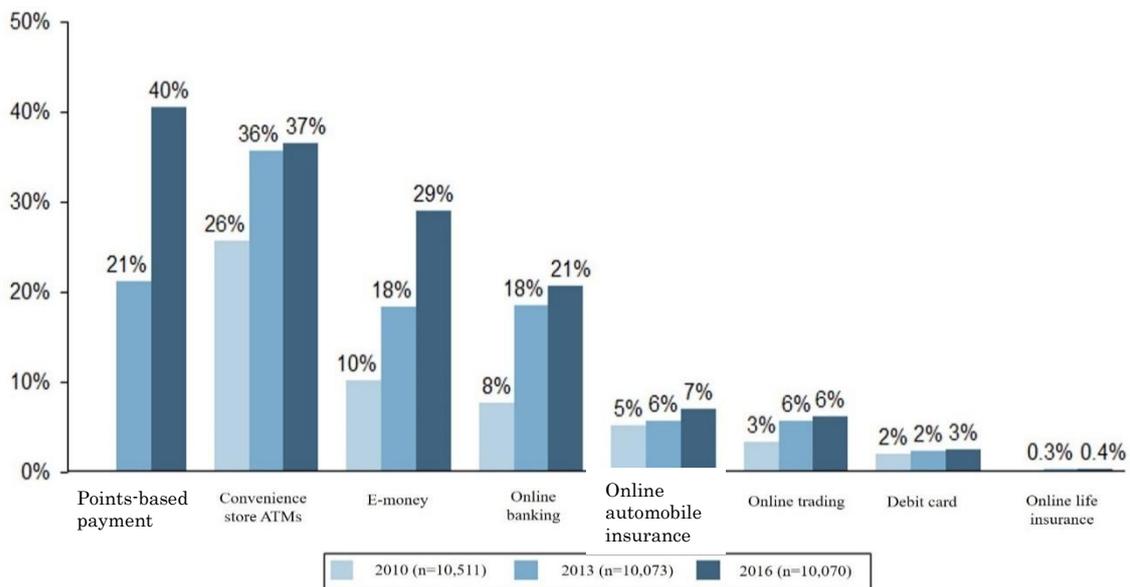
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■ **Usage of points-based payment, e-money, and online banking is on the rise**

The Survey measured changes in consumers’ use of new financial services which started coming into wider use from around the year 2000.

Looking at the changes between 2013 and 2016, not only did points-based payment increase sharply from 21% to 40%, but the use of e-money also rose from 18% to 29%, and online banking grew from 18% to 21% (Figure 1). With more consumers using their earned points for convenience store and supermarket shopping and using e-money loaded on their IC cards, new payment services are rapidly growing and becoming more common in people’s everyday lives.

Figure 1: Usage of New Financial Services and Changes in the Usage (Multiple Answers: 2010, 2013, 2016)



About the Items:

- Percentages for points-based payment, e-money, and debit cards represent regular users (2016 figures reflect usage during the previous half-year)
- Percentages for convenience store ATMs represent persons who use this service once per month or more
- Percentages for online banking and online trading represent respondents who said they log in to use the service
- Percentages for online automobile insurance represent persons who are currently covered by online insurance companies
- Percentages for online life insurance represent persons who have most recently enrolled with online insurance companies

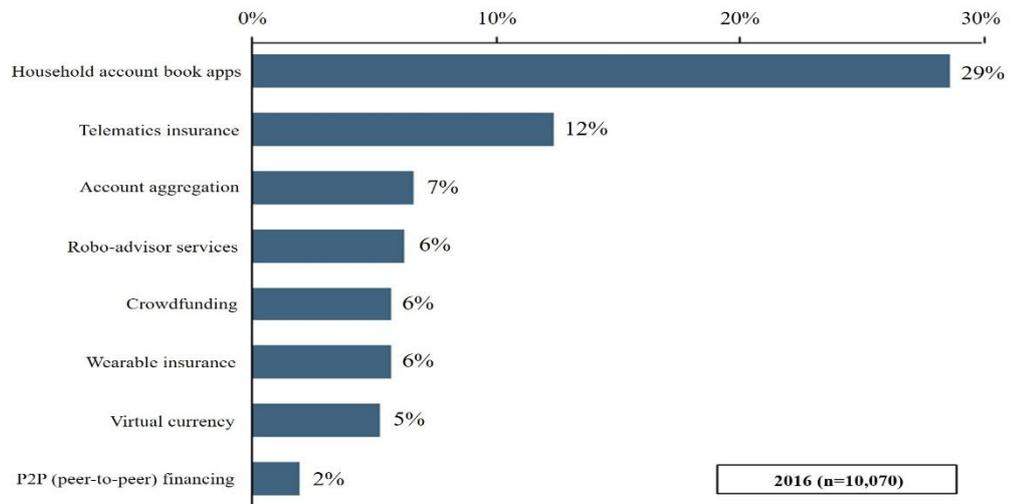
(Note) For 2010, points-based payment and online life insurance were not among the available options, and therefore they are not shown in the graph.

By contrast, the use of convenience store ATMs grew to nearly 40%, but this rate of increase has peaked. In addition, usage of online automobile insurance, online trading, debit card, and online life insurance services remained under 10%, showing either slight increases or no change at all. The results revealed that the spread of these new financial services varies considerably depending on the service.

■ **Consumer interests in many FinTech services remain less than 10%**

The Survey also reviewed the level of consumer interests in major FinTech services. With regard to the top two service items, the Survey found that interest in personal finance applications was at 29%, while that in telematics insurance—automobile insurance where the premiums are set based on driving data obtained from on-board equipment—came in at 12% (Figure 2). Consumer interests in other FinTech services remained under 10%.

Figure 2: Consumer Interest in Main FinTech Services (Multiple Answers)



About FinTech Services:

- Personal account applications: personal finance applications or personal financial management software available on smartphones
- Telematics insurance: automobile insurance where premiums are set according to driving data obtained from on-board equipment
- Account aggregation: a service that displays the balances and other information in accounts with multiple financial institutions
- Robo-advisor services: a service which provides automated investment diagnoses and investment options by answering clients’ questions online, as opposed to asset management advice from a financial representative or consultant
- Crowdfunding: the financing of persons or organizations by a large number of contributors via the internet etc.
- Wearable insurance: life insurance where the premiums are set based on the user’s health data which is collected from wearable terminals
- Virtual currency: payment methods such as Bitcoin which do not involve a central bank and are not backed by tangible assets
- P2P financing: an interpersonal loan intermediary service conducted through the internet etc.

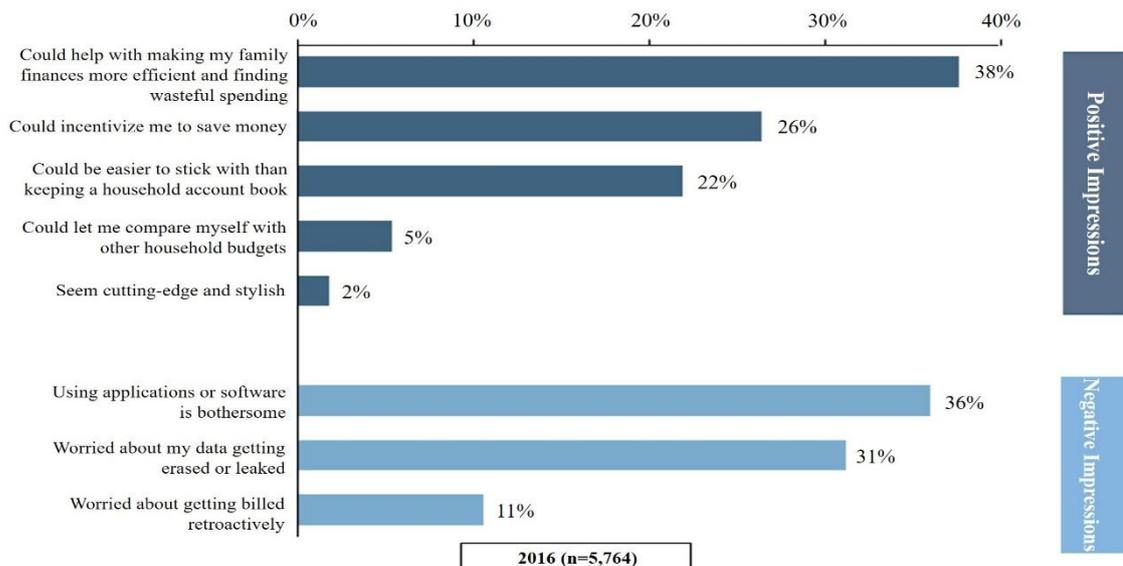
(Note) Levels of interest reflect the total percentages of respondents who said they either have used the service, are interested, or somewhat interested in using the service. (Except for “robo-advisor”, as the Survey did not ask respondents on their experience using robo-advisor services, the figure for this service reflects the total of respondents who described themselves as “interested” or “somewhat interested” only.)

■ FinTech adoption will grow as consumer concerns are addressed and clunky processes are improved

Among the FinTech services covered in the Survey, personal finance applications attracted the highest level of interest. When we inquired into consumers’ impressions of these apps—specifically, the eight expressions depicted in Figure 3—some 37% of respondents answered that none of them matched their impressions. On robo-advisor services, 58% of respondents said that none of the ten expressions shown in Figure 4 applicable to them. This shows that there are still many people who have no impression whatsoever about the major FinTech services, and raising consumers’ awareness about the nature of the services is a top priority.

When persons with some impression of personal finance applications were grouped together, not only positive impressions, but also negative impressions accounted for certain percentages. 36% said they felt that using applications or software was bothersome, while 31% said they were worried about their data getting erased or leaked, demonstrating that some psychological hurdles remain with regard to complicated operations and security related anxieties (Figure 3).

Figure 3: Consumers’ Impressions of Personal finance applications (Multiple Answers)

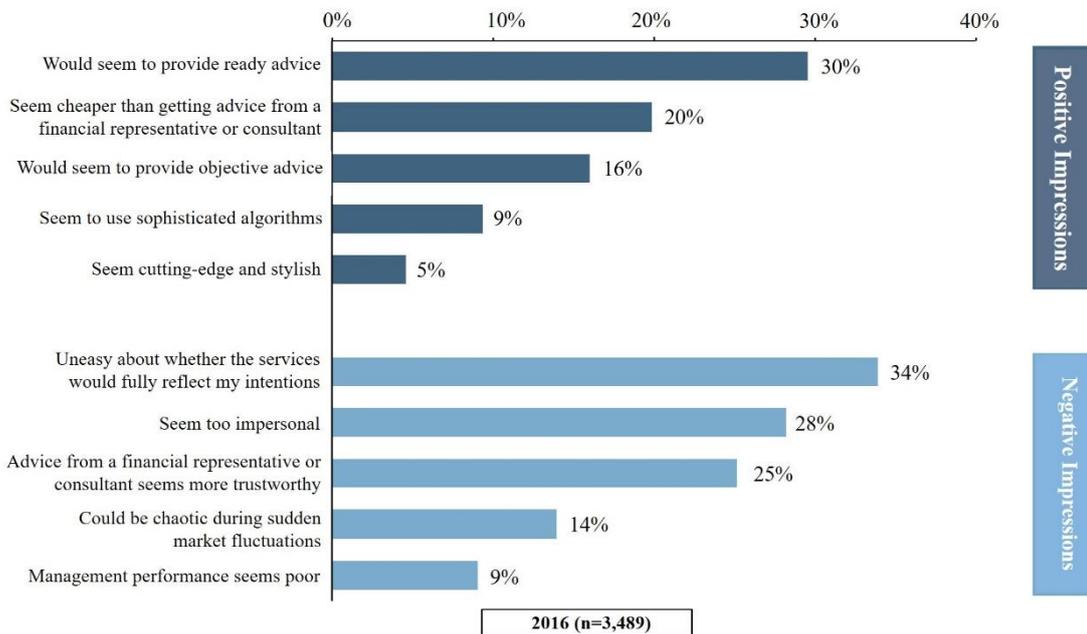


(Note) Persons covered in the tabulation were those with some impressions of personal finance applications.

Similarly, among respondents who said they had negative impressions of robo-advisor services, 34% answered that they were uneasy about whether the services would fully reflect their intentions, while 28% said the services seemed too impersonal, and 25% replied that they felt advice from financial representatives or consultants would be more trustworthy (Figure 4).

We consider that the key to popularizing FinTech services lies not only in raising consumers’ awareness, but also in eliminating any psychological barriers they have to new services.

Figure 4: Consumers' Impressions of Robo-Advisor Services (Multiple Answers)



(Note) Persons covered in the tabulation were those with some impressions of robo-advisor services.

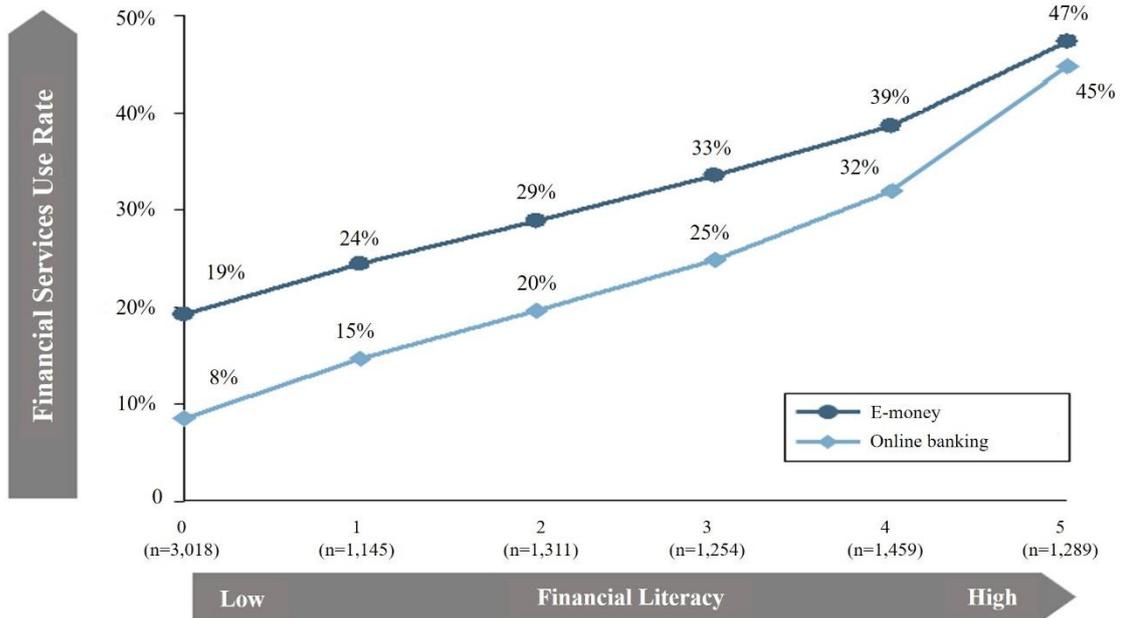
■ **Improving consumers' financial literacy will be crucial for popularization and promotion of new financial services and FinTech services**

The Survey also inquired into consumers' financial literacy—that is, their ability to accurately comprehend and independently judge finance-related knowledge and information, including such areas as compound interest, inflation, risk vs. return, and diversification.

There is a strong correlation between the ratio of correct answers to these questions (i.e. the respondents' levels of financial literacy) and their usage of new financial services and interest in FinTech services. For instance, the higher one's financial literacy is, the higher one's rate of usage of new financial services such as online banking or e-money is (Figure 5). The only areas where this trend was not visible were convenience store ATMs and online life insurance.

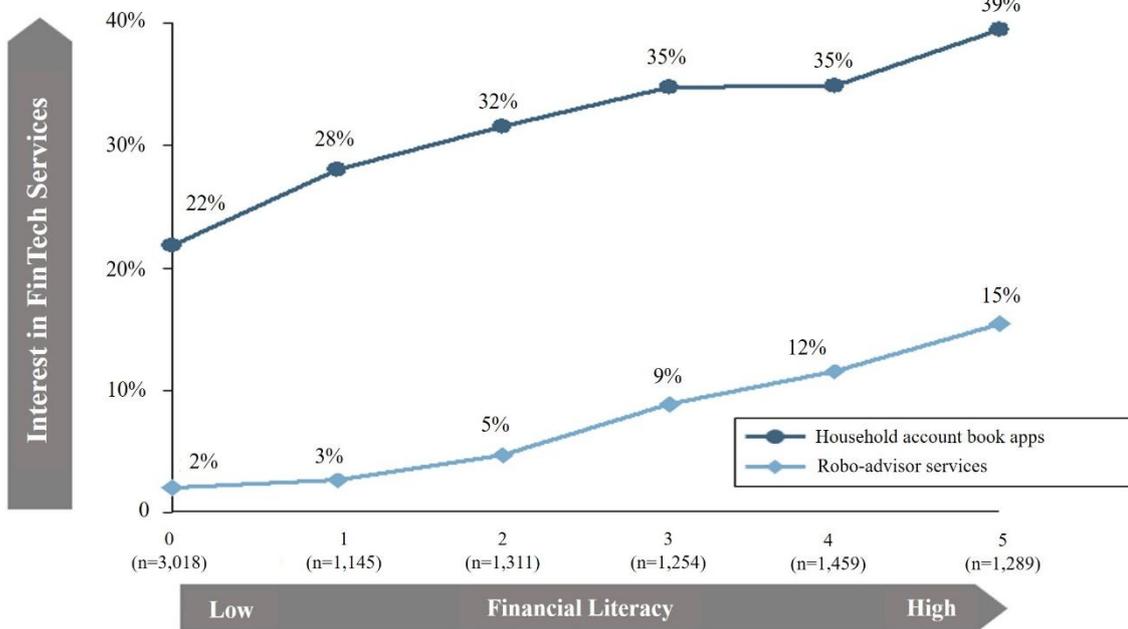
Likewise, those with higher financial literacy have higher levels of interests in personal finance applications, robo-advisor services, and other FinTech services (Figure 6). This trend was apparent for all of the FinTech services included in the questionnaire.

Figure 5: Correlation Between Financial Literacy and Use Rate of New Financial Services



(Note) Financial literacy scores were evaluated according to how many of the five questions were answered correctly. Figures exclude those who declined to answer.

Figure 6: Correlation Between Financial Literacy and Interest in FinTech Services



(Note) Financial literacy scores were evaluated according to how many of the five questions were answered correctly. Figures exclude those who declined to answer.

Raising financial literacy requires an effort for long term, but such effort must enhance consumers' use of new financial services and their level of interest in FinTech services.

References

■ Outline of NRI's Survey of 10,000 Consumers (Financial Edition)

Survey Subjects and Participants

Men and women from 18 to 79 years old in the whole country of Japan (The number of survey participants: 10,511 in 2010, 10,073 in 2013, 10,070 in 2016).

In 2013 and 2016, NRI conducted door-to-door visit survey. The respondents were selected randomly from each area consisting of 11 regional divisions and 5 population scale divisions, which the 2010 national census defined in proportion to the number of people by gender and age.

In 2010 NRI conducted survey based on basic resident register as of March 2009. The number of respondents were defined by the number of locations and the number of people by gender and age. The method was the same as executed in 2013 and 2016.

Survey Method

Door-to-door survey (questionnaires distributed and collected via house calls)

Survey Period

2010 survey: November - December 2010;

2013 survey: August – September 2013;

2016 survey: August – September 2016

■ Main Survey Items

① Payments:

Payment methods used, owned credit cards or e-money, channels for withdrawing cash, and register cash-outs

② Life insurance:

Life insurance policies and reasons for choice of policies, outlines of recently joined insurance policies, and channels used

③ Automobile insurance:

Automobile insurance enrollment status, reasons for choosing current automobile insurance, history of making insurance claims, intent to remain enrolled, and channels used

④ Loans:

History of taking out housing loans, reasons for choosing lenders, intent to refinance, history of taking out unsecured loans, history of making overpayment claims

⑤ Savings and investments:

Financial institutions where respondents have accounts, main financial institutions and reasons for choosing them, percentage of assets entrusted to main financial institutions, current usage of NISA (Nippon individual savings account) or junior NISA transaction channels with main financial institutions, sales behavior of main financial institutions, and investment styles

⑥ Retirement and inheritance:

Current preparation and planning for retirement life or inheritance, management of assets at time of inheritance

⑦ Management of personal finances / other:

Personal finance management, finance-related discussions between the couple, owned financial assets, financial awareness, current usage of FinTech, impact of negative interest rates, financial literacy, internet usage, application and smartphone usage, and any membership organizations to which respondents belong