

FinTech Financial Inclusion

Financial Inclusion—The Essence of FinTech

We arranged for a discussion between Masakazu Masujima, a leading authority on FinTech, and President Aoi on the possibilities that will be unlocked by FinTech and financial inclusion at MARUI GROUP.

Masakazu Masujima

Partner, Mori Hamada & Matsumoto
Advisory Board Member,
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Hiroshi Aoi

President and Representative Director
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Masakazu Masujima



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Hiroshi Aoi



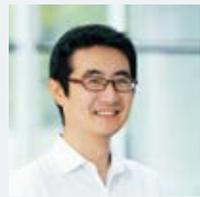
Financial Inclusion and Co-Creation

Aoi: “Financial inclusion is the essence of FinTech.”

Hearing those words from you, Mr. Masujima, in the spring of 2016 left a strong impression on me. Those words awakened me to the fact that FinTech is the path MARUI GROUP should pursue given our focus on inclusion. I also recall your mentioning that the financial crisis of 2008 led to the pursuit of this financial inclusion.

Masujima: Whether a company is in finance or in some other business, it cannot succeed without the support of a wide range of stakeholders. However, the type of financial businesses of the past only offered limited options, forcing consumers to choose from those available to them. This lack of scope led to Wall Street being dominated by the greed of such financial businesses, which began sacrificing the powerless for their own gain, pulling the trigger for the financial crisis of 2008. From the aftermath of the financial crisis emerged people that sought to provide financial services for those who had been excluded from such services previously. At that point, the needs that were present in society were able to be sufficiently met by the resources available, creating what could, in an overarching sense, be seen as the start of the financial inclusion trend.

Aoi: Prior to the financial crisis, there was a move to use financial engineering to create frameworks that would enable subprime individuals to purchase homes. However, these frameworks were hollow and lacked substance, like a sandcastle, triggering the financial crisis as they crumbled. Conversely, FinTech is backed by solid technologies and insight, giving it the necessary substance.



Masakazu Masujima

Partner, Mori Hamada & Matsumoto
Advisory Board Member, MARUI GROUP CO., LTD.

Mr. Masakazu Masujima graduated from the Faculty of Law at the University of Tokyo and from Columbia Law School. He has held positions at the Palo Alto office of Wilson Sonsini Goodrich & Rosati P.C., in the Supervisory Bureau of the Financial Services Agency, as a member of the Blockchain Study Group of the Ministry of Economy, Trade and Industry, and as a member of the Review Committee for the Sharing Economy of the National Strategy Office of Information and Communications Technology under the Cabinet Secretariat.

Masujima: You are exactly right. At that time, what people called “financial technology” was, in fact, nothing more than financial engineering and calculation. There was a logical backing to these “technologies,” but not a practical or real-world backing. Today, we have this backing in the form of data. The technologies of today enable us to constantly collect and monitor data.

Aoi: MARUI GROUP was founded in 1931. At that time, our business involved selling furniture through monthly installment payments, enabling younger generations to purchase these items on installment plans. When I think about it now, it seems as though this business could be seen as promoting a type of financial inclusion.

Masujima: That was a period in which industry was growing, meaning that individuals, particularly younger generations who had just joined the workforce, could not easily borrow money. At the same time, this was a period in which various goods and commodities were becoming available. The monthly installment payment system arose as a means of providing these items to people who wished to purchase them, but lacked the means. This system could thus be seen as embodying the philosophy of what we now call financial inclusion.

Aoi: Konosuke Matsushita, founder of Panasonic Corporation, spoke of what he called his “Tap Water Philosophy.” Basically, this philosophy stated that if electronics could be created at low costs, people would quickly come to use these products as readily as they use tap water. This process would free housewives from the hassle of doing laundry. At the time, a quality washing machine would be quite expensive. As such, it is said that the advent of installment payments and credit greatly aided in normalizing the sale of these items. Knowledge of MARUI GROUP’s contributions throughout history is a major source of motivation for me.

Masujima: It is my understanding that, for example, when a young adult that has moved from the country to the city, only living on a limited allowance from their parents, tries to pay with a credit card, Marui sales staff may caution them against overspending. In this, one can see that MARUI GROUP is attentive to its customers’ needs in the truest manner. I think it is spectacular how, rather than simply viewing customers as a source of profit, the Company has based its business on forging long-term relationships with young adults.

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Hiroshi Aoi



Aoi: That attitude is an important part of MARUI GROUP’s legacy. Among the words left by our founder, perhaps my favorite saying is that creditability should be built together with customers, rather than assigned to customers. I was moved when I first heard these words. Finance based on this idea of creating together is, with perhaps the exception of microfinance, almost nonexistent outside of MARUI GROUP, whether you look at Japan or even the entire world.

Value Created by Combining Data

Aoi: I find issue with the recent overemphasis of data. There is no doubt a lot of data, and there are some issues that can be resolved by analyzing big data using artificial intelligence. However, this reliance on data can lead to people being excluded from financial services. True inclusion is the process of creating data together, which equates to building creditability together. This process is fundamentally different from that of making one-sided decisions based purely on the data that has been collected.

Masujima: An interesting perspective can be taken with regard to data. This perspective relates to how data is not bound by the stereotypes that people impose on others. For example, people tend to group others into categories, such as “housewife” or “young businessman,” and make judgments on this basis, despite the fact that each individual is actually quite different. Product data can only give information on purchases made. Meanwhile, the full spectrum of financial data and non-financial data can tell us how the money to make a purchase was obtained, whether or not the purchaser had sufficient money at the

time, and other facts. When both financial data and non-financial data are combined, it becomes easier to determine what recommendations should be made to individual customers at a given time, and this is when data exhibits its true value.

Concern for the Future among Young Adults

Aoi: Awhile back, I was watching an interview with people that had just reached adulthood in which they were asked about their resolutions for that year, and the responses were quite shocking. The first respondent said “cutting back on spending”; the second replied “saving.” Currently, around 70% of young adults have come to harbor concerns regarding money. Not knowing exactly how to address these concerns, they tend to turn to conservation and saving. However, conservation and saving alone are not enough to alleviate such concerns or prepare for the future. In light of this situation, we have been looking for ways to provide services that help young adults accumulate assets in a manner that gives them a clear vision of their future. It is true that young adults may lack resources. However, if they accumulate assets gradually, they should be able to continue building upon their portfolios no matter how the market may fluctuate. This is an area we plan to focus on going forward.

Masujima: By analyzing Google search results, I learned that people tend to live the majority of their lives, from their 20s to their 70s, worried about money. I suspect this worry is a result of uncertainty for the future translating into monetary concerns. For this reason, I see a need for services that adapt to the circumstances of individual



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Masakazu Masujima

customers in real time. If a service could, for example, analyze a customer's current situation to project the patterns that their life may follow in the future, this service could transform concern for money into hope for the future. The support for asset accumulation that you speak of is one service with this potential. The benefits of asset accumulation include how it enables individuals to get a clearer vision of their future, thereby allowing them to live more fully in the present. In addition, I think it is possible to create services that entail working together with a customer, perhaps a car lover, to help them find support for purchasing a car without bankrupting themselves and then providing post-purchase lifestyle advice to this individual.

Co-Creation between Data and People

Aoi: The lifestyle advice you speak of refers to financial advisory services, if I am not mistaken. We have a desire to provide the younger generation with investment and asset management services, but we first must overcome the obstacle of finding a way to effectively solicit these services to such individuals. Jumping straight into investment may be a little bit overwhelming for some. For this reason, I think it would be simpler to ease these individuals into investment by grabbing their attention through providing knowledge about money or some other means of sparking their interest.

Masujima: Once a system has been developed, the costs will not change if it is supplied to one person or to one million people. In fact, it is better to provide this system to

one million people as this will yield more accurate and valuable data than offering it only to one. However, services cannot be provided by systems alone; it takes a combination of systems and people. When faced with a major decision, there are times when data alone will not be enough to encourage someone to commit to one option. In these cases, it is important to consult with someone and share information to get that final push to make a decision.

Aoi: One particularly interesting tidbit of information I learned when speaking with financial planner Aya Maeno was how Ms. Maeno always begins by asking her clients what exactly they want to accomplish. For example, if a certain customer is very fond of their pets, Ms. Maeno will advise them on ways to cut back on spending that do not detract from the funds they devote to their pets. In working to alleviate people's concerns regarding money, Ms. Maeno adopts an approach of helping them accomplish their true goals and live the lives they desire.

Masujima: I think that this approach is the essence of engagement. The same principle underlies MARUI GROUP's credit operations. If you provide a service that makes it apparent to customers that they are moving toward the future they desire, they will see no need to part ways with this service.

Aoi: There are countless ways in which data can be utilized, and the forms in which data and human interactions can be combined are equally vast. Accordingly, there is still a great deal of possibilities for us to explore in this area.

New Yardstick of Value Created by Virtual Currency

Masujima: The yardstick for the value of a company is generally considered to be its stock price. However, some have begun suggesting that this may not be the best measure, and virtual currency is presenting the possibility of a new yardstick. One form of value created by companies is social capital, and there is no guarantee that this type of value will be accurately reflected in a company's stock price. Accordingly, if a financial instrument that is capable of more accurately reflecting a company's value were to appear, there would be reason to consider using that instrument as the new yardstick.

Aoi: In the stock market of today, there is a great deal of interest in investment based on environmental, social, and governance concerns, and this trend itself is an indication of the rising influence of external factors on companies. Now, companies that are unable to effectively consider the interests of wider ranges of stakeholders will not be able to survive over the medium-to-long term. This trend is an extension of what you just mentioned about new yardsticks for value, and is a representation of how people are increasingly recognizing this as the path we must take.

Masujima: Virtual currency does not issue dividends, and you will not become any richer just by being in

possession of it. However, if everyone possesses this currency and desires to use it, the value of the currency will go up. Here, we see the possibility for the Company to create, say, "MARUI coins." If the number of people in possession of these coins rises, their value will increase as will the assets of the people holding them. In this manner, virtual currency can forge a connection with coin-holders that is even closer than the connection formed by making customers into shareholders. My vision for virtual currency is this kind of link formed through the financial service of coins.

Aoi: That is an amazing vision. This is the first time I have heard someone speak of virtual currency as a tool for building a sustainable system that will overcome the issues of capitalism to surpass this system. However, I suspect that not everyone involved with virtual currency shares your vision.

Masujima: Many people simply see virtual currency as a means of making money. Nonetheless, I believe that, if this vision for virtual currency were to become a reality, it would lead to the advent of a world in which any entity, be it a nonprofit organization, an individual, or a company, would be evaluated based on the value it provides to society, and in which its ongoing success will be contingent on this value. This would be the ultimate form of inclusion.

