

New Normal for Companies and Society Amid the COVID-19 Pandemic

The global COVID-19 pandemic is causing massive change the likes of which we have not seen before. This upheaval has given rise to the concept of a Great Reset, which would signify the start of a new chapter for our economy.

MARUI GROUP President Hiroshi Aoi sat down with Taejun Shin, who was selected to be a Young Global Leader 2018 by the World Economic Forum, to discuss what should be the new normal for companies and society after this Great Reset.

Resilience of Microfinance Industry

Aoi: You announced a scenario analysis pertaining to the COVID-19 pandemic back in March 2020. It was amazing how you were able to accurately assess and analyze the situation and create a forecast scenario back at that time. How did you go about doing this?

Shin: I turned my ear to the experts I trusted to have the information I needed. First, I talked to infectious disease specialists and read their reports to form an estimate about how long the current situation would continue.

Then, I spoke with economists and business operators and considered what actions should be taken. So far, almost everything has progressed in line with the scenario I envisioned, which is an incredibly lucky turn of events from the perspective of management.

Aoi: I see. I am surprised to hear that you spoke with infectious disease specialists first, as opposed to economists. It would appear that your approach toward gathering information differs from that of other people.

Shin: I figured it would be pointless to talk to economists before they had time to formulate their own projections. I am involved in the World Economic Forum and various other organizations, and I am constantly reading English-language materials from around the world. Accordingly, I was able to guess, to a certain degree, what the key points regarding this issue would be. Also, it would appear that I am strong under pressure. In February and March 2020, while other start-ups around the world were wrought with concern, I was hurriedly preparing projections.

Aoi: Being strong under pressure is a common trait among entrepreneurs. What were you most concerned about back in February and March?

Shin: My first priority was to secure three years' worth of capital. I was somehow able to procure an additional ¥2.0 billion during the first month, but this period was wrought with anxiety. I guess the pressure brought out my true strength.

Aoi: I also suspect that you had concern for the credit risks of

the local people you were financing through your business.

Shin: The traditional customers for microfinance services are generally not affected by natural disasters or other disruptions. In Japan, supermarkets and convenience stores were not significantly impacted when the government issued its state of emergency declaration. Similarly, microfinance customers tend to operate businesses providing items indispensable to daily life in their respective economic spheres, and I therefore figured that they would be fine. However, the lockdowns were an unprecedented occurrence, and the outlook was initially quite opaque accordingly.

Aoi: People who have been in microfinance for a long time, of course, understand how to think about their customer base and risks, but these matters are difficult to comprehend for laypeople.

Shin: You are right. One of our directors is a world-renowned microfinance researcher. At a meeting shortly after the start of the pandemic, I remember them saying that we had nothing to worry about because microfinance was a resilient industry.

Interpersonal Connections Prerequisite to the Meaningfulness of Data

Aoi: We had a similar episode at MARUI GROUP. At the financial results briefing for the fiscal year ended March 31, 2020, investors voiced concern that, as our customer base was relatively young, we were at risk of many of these customers defaulting on their accounts. This concern was based on the preconception that younger people are inherently riskier and that low-income individuals have less creditability. The fact of the matter, however, is that the ratio of delinquent debt for customers in their 20s and 30s is slightly lower than that for customers in their 40s and 50s. Under Japan's state of emergency declaration, people could not leave their homes much, meaning that they had less opportunities to spend money. However, even under these circumstances, we predicted that younger people would be unable to live without borrowing money. MARUI GROUP's business takes place in a corner of the financial sector that differs





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Taejun Shin

Co-Founder, Representative Director & CEO
Gojo & Company, Inc.

Born in Tokyo in 1981, Taejun Shin worked in private equity investment at Morgan Stanley Capital K.K. and Unison Capital, Inc., for eight years before co-founding Gojo & Company, Inc., in 2014. At this company, he is responsible for corporate management, fund procurement, investment, and other areas of general operation. While working in the financial sector, Shin founded Living in Peace in 2007 (he retired from the position of director of this organization in 2017). Through Living in Peace, he conducted microfinance surveys and support and offered aid to children receiving social welfare and to refugees in Japan. He has graduated from the School of Law at Korea University and the Graduate School of Finance, Accounting and Law at Waseda University and has also been chosen as one of the Global Shapers of the World Economic Forum.

from conventional businesses. This experience thus made me aware of the need to further promote understanding of this fact.

Shin: Japan tends to evaluate people primarily based on how long they have been at a company, and this view can make younger people seem risky.

Aoi: Seeking to assign credit ratings based on outward characteristics is a bad habit of the traditional financial sector. Younger people generally only lack income and assets because they are still young, and that situation will thus change with time. The idea that younger people lack creditability is an oversimplification. Creditability is not something to be bestowed on people; it is something to be built together with them over a long period of time. That is an approach to finance that I hope to spread.

Shin: That is the reason why, in the microfinancing field, we also start with low amounts. As we have no past transaction histories to go by, we start by basing finance on interpersonal relations, such as extending finance to associates of the village mayor. We realize that there are a lot of people who are unable to receive financing due to outward characteristics. Accordingly, we look to build trust through a cycle of financing and repayment over an extended period.

Aoi: If you watch someone over time, data will begin to take on meaning through their actions. It is only when combined with such intangible factors as interpersonal relationships that data can exhibit its true meaning.

Undefeatable Desire to Gather

Aoi: The COVID-19 pandemic led to the theme of the 2021 World Economic Forum summit to be set as “The Great Reset.” It can therefore be expected that many things will or must change. How do you view this situation, Mr. Shin?

Shin: That is a difficult question. When the Plague spread during the Middle Ages, there were some areas where theaters were shut down for a decade. However, even after the disease had claimed the lives of one-third of the population, these theaters still eventually reopened their doors. I see this as indicative of people's undefeatable desire to gather. This inherent desire to gather and engage with other people is strong, and I suspect there are some areas that will not change as a result. Conversely, I anticipate that even large, very traditional companies will embrace change to improve efficiency through means such as holding all meetings online.

Aoi: The spread of digital transformation should allow pretty much everything to be done online. One cannot help but wonder what exactly will remain purely in the offline sector. We might consider how attendance at outdoor events has continued to grow over the past decade. What is your view on the meaningfulness of offline engagements?

Shin: Currently, digital technologies can only stimulate two of our five senses: sight and hearing. We cannot experience smell, touch, or taste through online undertakings. Personally, I have attended the FUJI ROCK FESTIVAL, an outdoor music event, for nine straight years. There are two reasons why I attend. The first is that, as people, I think we are only able to fully immerse ourselves in something when given a space in which to do so. The second is that I am able to immediately share my likes with other people. Until digital technologies are able to stimulate our senses of smell and touch, offline engagements will continue to have their purpose.

Aoi: Being truly moved by something and sharing the experience requires our five senses and a physical dimension. Offline venues might be ideal for fulfilling this need.

Shin: I think the microfinance sector is currently in the best place it will be for the next decade. I am confident that we will not see the emergence of a strain of microfinance in which everything is digitized and there are no interactions between real people. At the moment, one-third of people in developing countries are illiterate. The same goes for our customer base. For this reason, we cannot simply tell a customer to go download a smartphone app; they need someone to sit down next to them and explain things. What microfinance needs are services that effectively combine the value that only people can provide with the processes for which technological substitutes exist.

Aoi: That is an interesting take. We cannot rely on technology for everything, but if we do everything by hand, we will not be able to stay in business. What we need to do is find the best way to combine the two.

New Economy and Society to be Shaped by Future Generations

Aoi: The COVID-19 pandemic could be said to have given us a chance to reset our current society. If start-up companies and future generations take the lead going forward, I think we can shape a new economy and society.

Shin: I anticipate that we will be seeing changes that have been needed previously but have not yet occurred. These changes, however, cannot be achieved purely by start-ups; we will need help from larger companies.

Aoi: I hope to help build a world in which there is no need to separate one's hobbies from one's work. In this world, it will be possible for what you love to become your job and for that to become a feasible business if you can connect with a fan base around the world via the internet. If we can build such a world, it will no doubt help countless people realize self-actualization. Large companies in Japan tend to feel strongly that they need to drive innovation themselves. For this reason, it is not uncommon for their open innovation efforts to end in investment and fail to produce anything substantive.

Shin: It is true that there are few companies that are able to effectively engage in open innovation. At Gojo & Company, we are looking to transform ourselves into a tech company. To this end, we invested in other tech companies and had the management of those companies help us conduct interviews when we sought to recruit a chief technology officer. Changes in a company are driven by changes in its people. Recognizing this, we invested in finding human resources that existed outside of the networks for our current staff.

Aoi: That story makes things easy to understand. We began

investing in start-up companies four years ago. From this experience, I realized that the divide between large companies and start-up companies is even more clear than I had imagined. It took some time before we were able to fully enter into the start-up community.

Shin: Empathy is essential to providing customers with quality services, and also, I believe, to the co-creation management of MARUI GROUP advocates, and is therefore imperative to the prosperity of companies. One's empathy is linked to their experiences and imagination. There is a lot we can learn from experience. I think it is important to share experiences with the people whom we do business with. For this reason, I have stayed at the houses of customers in developing countries and at child welfare institutions in Japan. There is a lot of valuable insight to be gained in this manner.

Aoi: Imagination is, of course, important. But I think it is the real tactile aspects of experiences—the sights, smells, touch, how people breathe, the temperature—that really make an experience stick.



Parts of this conversation that were not included in this report are available on MARUI GROUP's community site (Japanese only).
www.to-mare.com/tf/

In this world, it will be possible for what you love to become your job and for that to become a feasible business if you can connect with a fan base around the world via the internet.

Hiroshi Aoi

