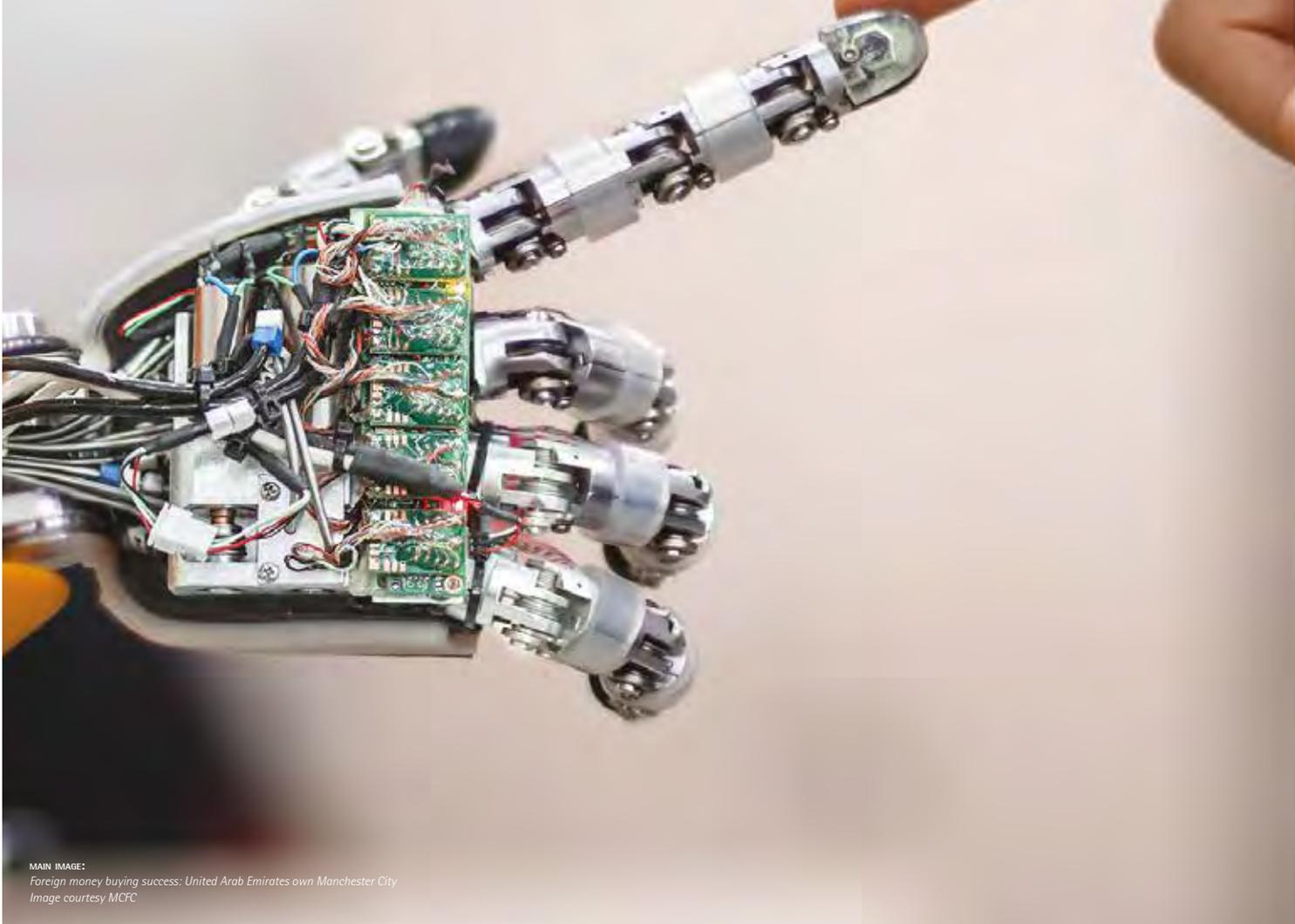


# BANK ADVISOR VERSUS BANK ROBOT: HOW FINTECH CAN DOVETAIL THE TWO

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A CEMS student project at Nomura Securities takes us into the world of Fintech, banking robots and beyond



MAIN IMAGE:  
*Foreign money buying success: United Arab Emirates own Manchester City*  
Image courtesy MCFC



In spring 2016, a group of CEMS students at Keio University were given the opportunity to work on a business project with Nomura Securities, Japan's largest investment bank and brokerage firm. The assignment was to deliver a business proposal centered on the topic of Fintech. As little as four months later, Nomura securities launched 'Robo Advisor', a groundbreaking new service developed around a major breakthrough in computer technology. Robo Advisor provides automated, goal-based asset management advisory services to retail investors in Japan, proposing model portfolios based on investors' answers to a series of questions designed to understand their financial situation and goals. The added value for investors is that they have the option to immediately access fund offerings based on these model portfolios. Cool technology – but does it mean the end of the human interface in our banks?

#### **Of opening hours and interaction: robot versus bank clerk**

The word 'robot' might scare a few of us. There are nice ones like Astro Boy or Pepper in Japan, but there are also the nasty ones we are used to seeing in the Hollywood productions. We tend to remember the latter – machines which always seem to grow super intelligent through a technological quirk during development and which then inherit an unpleasant habit of wanting to enslave the human world.

Rest assured: the Robo Advisor is not actually a physical robot but a sophisticated software package used via digital devices such as our personal computers, the web, and smartphones. Robo-advisors are digital platforms – possessing robotic technologies – which provide asset allocation recommendations. However, they do indeed perform tasks that were previously carried

out by humans, from collecting client information such as their financial situation and risk appetite to providing asset allocation guidance.

So why do we need such an innovation when most banks and brokerages are within a mile of every customer, and especially given the core competencies of establishments that may include quality human service? An initial answer lies in opening hours: retail branches of financial institutions in Japan are generally open from 9 a.m. to 5 p.m., or until 3 p.m. in the case of a bank. However, with the diversifying lifestyles of customers, there are many people now unable to visit branches during these traditional hours. It is significant that robo-advisors are positioned as a touchpoint with these customers. Moreover, the opportunities represented by robo-advisors are widening and they are also beginning to be used as a sales support tool. So there is still room for the human.

#### **It may get physical**

Japan is a pioneer in many fields and when it embraces new technologies, the country seems to have the knack of being able to create feelings, empathy and relationships between man and machine. Physical robots such as Pepper are a good example: they are charming, have almost human-like qualities, and are being accepted as touchpoints, especially among the younger generation. For the moment, Nomura has chosen to add touchpoint and adviser functions to digital devices such as tablets and smartphones rather than adopting something in the form of a robot. But the physical robot scenario might well see the day in a not-too-far-off future. Indeed, there may come a time when each household has a robot that, in addition to supporting daily life, also offers financial services.



For the moment, there are two types of robo-advisors available on the market. The first type – as employed by Nomura Securities – performs up to asset allocation, as well as buying and selling of securities products in cases where customers hold an account. The other type can be used from the moment a user opens an account right up to sales transactions. In Japan, the first type is the most prevalent, mostly due to the low level of financial literacy in the country compared to the US.

Generally, use of touchpoints with the younger generation has increased – though when analyzing its Robo Advisor users, Nomura noticed that it was also being used by people in their sixties and seventies, meaning that the service is something that can be used across generations. This may in part be due to the development phase behind the digital service which included ensuring that people from other industries who were not familiar with financial services were involved in the design process. Moreover, assistance was also sought from the people behind the smartphone services for retailers such as MUJI and UNIQLO, as well as calling upon illustrators to back up the service with a unique and very different visual communication from that usually employed by the institution. Robo Advisor and its success will surely undergo further analysis in the future, and if it doesn't actually find a physical presence within branches or in shopping malls, it will benefit from the singular feature of all digital products – it is relatively easy to improve.

*“Fintech and the increasing use of Blockchain and bitcoins will ultimately show people that they can benefit from technology in their daily lives. It will also see the perceived distance between general users and the financial sector – something that ordinary folks see as complicated and only for the rich – reduced”*

#### **From robo-advisor to Fintech: will they transform financial institutions?**

The advent of Fintech looks likely to provoke changes in how finance operates and how it is structured. One of the clearest of these is that Fintech will help automate administrative operations, allowing businesses to significantly improve productivity. Secondly, the true meaning of innovation will be realized when things that users previously felt were inconvenient are improved gradually. This is true of virtual currency and Blockchain which, in the future, may present the possibility that users utilize the platform of a bank or a service of a financial institution before they even realize it.

Fintech also seems to be shifting the ball-game in terms of the players on the field. Developments in China are a clear example, where non-financial, e-commerce companies are attracting huge investment as they begin to offer financial services hitherto only offered by banks. In the case of Japan, where developments

have been slow due to stringent regulations, regulators are now beginning to show an understanding of the possibilities offered by Fintech. But although this points to major transformations looking likely in the near future, it is less a question of seeing new, non-financial entrants on the market than linking partners via virtual currency and Open Application Program Interfaces (OAPI) to increase the level of satisfaction for customers who go between partners.

However, clear-cut decisions cannot be made in the world of finance only from the perspective of profits. Until now, customers have been conscious of physically visiting branches in order to use services and it is probable that this mindset will weaken in the coming years. When this happens, the strengths and weaknesses of each individual service will become clear, leading to the bottom line that it is the uniqueness each financial institution has fostered in its bouquet of services which will prove decisive for their respective success or failure.

### Fintech and the ageing society: technology knows no age

Japan is a developed country with a high average life-expectancy, and how it responds to this and whether it will continue to evolve methods applicable to an ageing society is something closely observed around the world. Healthcare and insurance systems are important, but living longer increases expenditure. Coupled with the distinctly Japanese phenomenon of accumulating large amounts of savings deposited in banks, the question of how to financially secure a long life with one's assets is a major proposition that has come to the forefront. Could Fintech provide a win-win?

The feeling is that Fintech will provide financial services in Japan with an age of unequalled development. Not only will digital touchpoints provide easier, user-friendly solutions, the methods of delivering information will also change dramatically. If banks can share customer traffic with other industries, it may be possible to analyse customer behavior using AI and respond to their needs more efficiently. Looking further down the road, the points system operated by various shops and convenience stores that incentivizes customers, stores purchasing power within an electronic card and generates daily information on consumer behavior patterns, may well provide the trigger for shifting from a so-called saving accounts mentality to an asset management mindset. In other words, customers will feel that they can gain something through asset management instead of leaving money in a bank which does not lead to higher yields.

Fintech and the increasing use of Blockchain and bitcoins will ultimately show people that they can benefit from technology in their daily lives. It will also see the perceived distance between general users and the financial sector – something that ordinary folks see as complicated and only for the rich – reduced. But there is a still long way to go before Fintech accelerates the change. An example? An overseas visitor to Japan would nowadays find it difficult if they didn't have a small amount of cash in their pocket – even in Tokyo. But there is an opportunity – and not very far down the track – the Tokyo 2020 Olympics which many see as a starting block for Japan's mass utilization of Fintech.



AUTHOR PHOTOS ABOVE:  
Mr. Shinichi Mizuno (left)  
Professor Masa Inakage (right)

**NOMURA**

 Keio University

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#### ABOUT NOMURA HOLDINGS, INC.

Nomura is an Asia-headquartered financial services group with an integrated global network spanning over 30 countries. By connecting markets East & West, Nomura services the needs of individuals, institutions, corporates and governments through its three business divisions: Retail, Asset Management, and Wholesale (Global Markets and Investment Banking). Founded in 1925, the firm is built on a tradition of disciplined entrepreneurship, serving clients with creative solutions and considered thought leadership. <http://www.nomuraholdings.com/company/outline/>

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#### ABOUT KEIO UNIVERSITY

Established in 1858 by Yukichi Fukuzawa as a small school of Western learning, Keio has a history as Japan's very first private institution of higher learning. Over 150 years since its founding, Keio has thrived under its founder's motto of jitsugaku, or empirical science, as it continues to transform Japan as a modern nation through contributions to education, research, and medicine. <https://www.keio.ac.jp>