

Business Briefing (Financial Segment)

Q1

In a harsher interest environment, have financial institutions allocated more IT investments to digital solutions? Please tell me about the current status of your clients' IT investments.

A1

The harsher the interest environment, the more severe the management environment, especially for banks. However, financial institutions are taking efficient approaches including cost reduction as much as possible for the existing areas and trying to take various approaches for new areas such as digital, rather than simply reducing investments in systems. As financial services are inherently strongly associated with digital solutions in a way, a financial institution that is reluctant to deal with digitalization will lose. Therefore, I think that financial institutions are trying to make investments in digital solutions in this severe environment.

Our clients, especially regional banks and Shinkin banks, take a very active approach to investments that would result in cost reduction and efficiency improvement. Since July 2017 when I was appointed to the current position, I have had direct dialogues with presidents of regional banks and Shinkin banks and have found that they had specific themes in mind they wished to pursue. They were very positive and showed me what they wanted to do using digital solutions and what they wanted to adopt from our proposals. If we try to meet their demands in a careful manner and make proposals that would improve the efficiency of financial institutions, the entire market would not shrink, I believe.

Q2

NTT DATA has the largest share in the existing business areas. Will you be able to win a large share in the digital area, too? Please tell me about the background behind which NTT DATA could win in the digital area.

A2

It is not limited to the financial industry, but a great number of players have entered the digital area and unexpected new services have emerged. I do not think that NTT DATA will be able to win in all areas, and we should aim it.

We will try to win only in the areas where we can utilize our strengths. In some cases, we may get a late start, but we will try to catch up with competitors and win a contract at any cost. The area in

which we want to be a winner is the area in which we can be a trusted financial IT platformer, as I explained earlier. We do not intend to win all contracts for services related to certain technologies and we do not care that other companies provide such services. However, for a major system that would be linked to a social platform or related new technologies, we will strongly stick to our belief, make a prior investment and have discussions with numerous clients to make our ideas more concrete.

I think that OpenCanvas, a platform that links start-ups and banks, and financial EDI are the areas where we can provide a platform trusted by the financial industry. We have already received some orders related to the areas and are implementing the solutions. I think that it will take some time to implement the blockchain technology and we will work with the government on this.

Q3

I think that your strength is in the areas related to inter-bank settlements. If FinTech has a destructive impact on the banking business, an inter-banking settlement not via a central system will become popular, which may weaken your strength. Do you think that FinTech might have a destructive impact on the banking business? What countermeasures do you have against the risk?

A3

I think that FinTech can be defined as a trend in which diversified players create new services by using new technologies. From talking with venture capitalists from the West Coast or Europe, I feel that things are no longer as simple as the forecast of a few years ago that FinTech will have a destructive impact. Although some destructive services such as Uber emerged, we have not seen an increase in such new services. One venture capitalist from the West Coast said that there is a stronger tendency to nurture start-ups together. I feel that venture capitals' approach has changed to the approach of positively sharing their own know-how about start-ups with companies like NTT DATA and raising start-ups together. We consider a start-up having new technologies as a partner, instead of being afraid of it. This tendency can be seen especially in Japan.

We see that financial institutions have changed their attitude toward start-ups. They are positive about working with us as a mediator to improve the efficiency of operations and reducing costs by utilizing start-ups' ideas and technologies. In the future, we will aim to solve issues and improve the efficiency of the whole society by providing new services.

Q4

What expectation do you have for your sales growth? Japan Post Bank has suspended a system upgrade, but I think that it will face the necessity of upgrading some years later. Also, I wonder if business for Resona will not grow further. Please tell me in which area you expect to grow further and the degree to which you expect the Financial Segment sales to increase.

A4

It is not true that Japan Post Bank has suspended IT investment. As scheduled, it has conducted a large-scale system upgrade in several steps and we successfully won a contract for the main system upgrade. As you pointed out, the bank is scheduled to upgrade a core-banking system some years later and it is internally discussing the way it should be 5 and 10 years later for the upgrade. We will aim to provide assistance and the most appropriate proposals for the bank.

Resona-related business has not peaked yet. In advance of the consolidation of three regional banks in Kansai: Kinki Osaka Bank, Kansai Urban Banking Corporation, and The Minato Bank, a final project of integrating systems of these three banks has been launched. As this is part of an outsourcing contract, sales will not be recorded at one time, but a considerable amount of investments will be placed in the project and we think that Resona-related business will increase in volume for the long term.

In addition, the life insurance and non-life insurance business has grown at a relatively high rate. NTT DATA has a strong showing in the life insurance business. Due to hurricanes and other factors, the non-insurance industry faces difficulties for the short term, but both the life insurance industry and non-life industry have made IT investment, especially in big data analysis and AI utilization, in a positive manner. We will aim to expand business in this area.

Previously, we did not work for mega-banks so frequently, but recently we have increasingly obtained business from them. The size of a mega-bank project is large. We will try to enter especially the digital area in which mega-banks have made investments in a positive manner, rather than the core banking area.

For example, when an Irish company that runs a business of multi-factor authentication using voice and face as well as fingerprints established a Japanese subsidiary, Polarify, NTT DATA and the SMBC group made a joint investment in the company. We are willing to work with mega-banks to launch a business in new areas.

Q5

Do you expect sales to continue to grow for a while?

A5

While the sales were and will be slightly decreased or increased for a single year, I think that we will be able to develop a business strategy on the assumption that sales would grow steadily on an average basis. Although each research company shows different results, IDC says that IT investment grows at a CAGR of about 1.1-1.5%. We aim to develop a business plan that will allow us to grow at a CAGR of 2-2.5% that is higher than the IDC's figure on average in the medium to long term.

Q6

In advance of the Tokyo Olympics, I think that cashless settlement will become popular. However, some people say that the settlement method will not be widely used due to the unique Japanese culture. What do you think about the penetration level? If the ratio of mobile settlement using a smartphone is higher, will the impact on NTT DATA be positive or negative?

A6

The government announced a policy to raise the ratio of cashless settlements to around 40% in advance of the Tokyo Olympics. The current ratio of credit card settlement is 15-20%, which is still a low level. Some say that as the use of a cashless settlement method depends on an individual's financial activities, the ratio will not increase unless people's financial activities are changed, and others say that the ratio will increase with the increased number of digital natives. While CAFIS is under the control of the Enterprise & Solutions Segment, from the perspective of a segment controlling the financial area, we can say that the ratio of cashless settlement will increase as CAFIS transactions have grown steadily and it is increasingly used at member stores. There is a possibility that settlement using a smartphone will increase because it is convenient. It depends on what methods are used for settlement, but as some are linked to the settlement methods we provide, the impact on our business will be positive.