

Shinsei IR Day

Innovation of Customer Experience Value – Data Strategy of Shinsei Bank Group

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Slide 1: Shinsei Bank Group's data strategy (cover page)

My presentation will cover the Analytics Unit's activities. Specifically, I will talk about an integrated Group-wide customer database we are building as a platform to support the Shinsei Bank Group's data strategy. I will also present examples of Shinsei Financial's initiatives to give you more insight into this database and what it will enable us to do.

Slide 2: Lake ALSA

The Lake brand has evolved over the years from "*Honbono Lake*" to "*Shinsei Bank Card Loan – Lake (Shinsei Bank Lake)*" to "*Lake ALSA*," which we unveiled last week. The brand's customer experience also has changed within the context of our relationship with customers.

Honobono Lake coincided with the analog era, when we used mass marketing, mostly TV commercials, and staffed branches to attract customers and even our credit-rating and collection processes were mostly manual.

In response to an amendment of the Money Lending Business Act, we subsequently closed down staffed branches and opened unstaffed outlets to compensate for deterioration in profitability. We also improved efficiency by centralizing operations and we upgraded our credit-rating and collection processes by utilizing statistical credit scoring models.

With *Lake ALSA*, the third-generation *Lake* brand, we will focus on how we can innovate by using digital technologies. As the digital era continues to unfold, customer experience and our points of contact with customers will change substantially.

The YUI Platform (marked with an "A" on the slide) is an integrated Group-wide customer database that supports our digital strategy. On the marketing ("B") front, how we connect with customers in providing financial services will change in response to changes in our points of contact with customers as we increasingly embrace digital technologies. In credit-rating and collection processes ("C"), adoption of AI will enable us to convert know-how into formal knowledge in addition to fine-tuning the credit rating process. In operations ("D"), our contacts with customers have become unidirectional since we centralized customer service in call centers. We need to determine how to restore two-way communication and then rebuild our processes using leading-edge technologies.

Slide 3: YUI Platform

The name YUI comes from a Japanese word that means something like "collaboration." Because the Shinsei Bank Group was formed through acquisitions, Group companies differ in their respective

origins. We intend to aggregate every company's data and know-how and share them among all of our businesses.

While the Shinsei Bank Group has about 10 million customers (Shinsei Bank has 3 million, APLUS FINANCIAL 6 million and Shinsei Financial 1 million), each company's customers have different attributes. By aggregating customer data into a single database that enables the data to be shared among Group companies, we believe the data's utility value will increase. Once we can gain a more comprehensive understanding of the Shinsei Bank Group's overall transaction flows, we will promote one-stop shopping for financial services by bundling multiple products instead of selling them individually. Additionally, by using the YUI Platform, we will be able to reduce advertising, credit-screening and other costs. We will share the cost savings with customers through such means as reducing fees or charging lower interest rates. We will thus be able to offer products that provide more added value to customers.

Slide 4: Innovate Business with Digital Technology and Acquire New Customers

We will not change our basic strategy of maintaining Lake's already accrued brand value as a major brand on a par with Acom, Promise and Aiful.

Meanwhile, we will vigorously pursue a strategy of utilizing digital technologies to acquire customers in latent markets within a changing competitive environment, thereby opening up a new frontier.

Our approach to utilizing digital technologies has two focal points. The first is upgrading digital marketing, credit-rating and collection through use of AI technologies. The second is cost optimization through low-cost operations.

The Group's main operating entity will change from Shinsei Bank to Shinsei Financial. We expect this change to be accompanied by changes in our cost structure also. To develop a more robust profit structure, we aim to further reduce costs through such means as robotic automation.

Slide 5: Branding and Marketing Concept of *Lake ALSA*

ALSA is an acronym that expresses the new value we aim to provide through *Lake ALSA* on top of the *Lake* brand's existing value. Of the four forms of new value, our top priority is Agility. We are committed to practicing agile management.

The ways in which we plan to functionally upgrade *Lake* include a new card-less withdrawal/repayment service accessible through Seven Bank ATMs. We plan to launch this service in May 2018. This autumn, we plan to launch a service that will be able to transfer loan proceeds to customers' bank accounts 24 hours a day. Once these services become available, they will offer customers more convenient access to our card loans.

Our over 700 unstaffed outlets' role as a point of contact with customers will also change as we increasingly deploy digital technologies. We will continue to respond to unprofitable branches with

remedial action as warranted. Additionally, we think physically visible advertising, including online ads and transit ads, will become more important amid our digital shift. We accordingly plan to use a variety of marketing strategies.

In terms of Web APIs (Application Programming Interfaces), we plan to isolate user interfaces from core systems and radically redesign online application processes from the customer's perspective with the aim of avoiding customers from exiting the application process midstream. We will also proactively utilize the YUI Platform to shift our marketing methods and media away from conventional omnidirectional mass marketing toward marketing targeted at specific customer segments. We will also identify more customer segments in which we can gain competitive advantage with niche strategies. To do so, we plan to establish a new Digital Marketing Division in April 2018 to execute such marketing initiatives.

Slide 6: Upgrading Credit Rating and Collection Procedures with AI Scoring

In credit-rating and collection processes, use of AI will pay-off straightaway. We are already starting to use AI in several areas. We expect such AI-enabled initiatives to accelerate once the YUI Platform is fully up and running. Hybrid credit scoring will involve continued use of existing logit (logistic regression) models in parallel with AI scoring. Analytical models based on historical data will likely experience a decrease in reproducibility at some point in the future if the economic environment changes substantially. We will therefore complement our logit models with AI scoring. Because AI models can accommodate unstructured data in various forms, including video, audio and text, we will be able to feed larger volumes of information into our models. Another advantage of AI models is that they can detect nonlinear characteristics. These features of AI models will improve our credit decision-making capabilities, but we will still continue to use existing logit models from the standpoint of objectively ensuring data analyses' transparency.

We expect use of unstructured data to strengthen our collection operations also. We have formed a cross-organizational task force that is working on using the YUI Platform's data for collection purposes.

Slide 7: Digitalization of Human Expertise

Another area in which we plan to use AI technology is conversion of tacit knowledge—specifically, credit review expertise cultivated by veteran employees through long years of hands-on work experience into formal knowledge. We are working on an initiative that will enable such expertise to be utilized cross-organizationally instead of being confined within a single entity.

We are also working on AI-based fraud control initiatives, including one that will issue suspicious activity alerts upon detecting data patterns indicative of impropriety. We expect to be able to utilize such controls not only in Japan but also overseas (e.g., in Vietnam) once we have localized them.

Slide 8: Phases of Robotization with Robotic Process Automation (RPA)

Robotics is highly compatible with card loan business operations. We have already robotically automated 19 selected business processes as a pilot program that has demonstrated we can reduce human workloads by 50%. We intend to progressively expand such automation across our operations. However, given robotics' potential to turn business processes into black boxes, we will simplify our processes before robotically automating them.

Additionally, robotic automation requires effective human controls. If data are accurately input with RPA, no double-checking is needed, but we are working on incorporating audit trails into processes to enable retrospective data audits. Given the difficulty of flexibly employing temporary workers, we intend to robotically automate simple business processes as much as possible.

In closing, I would like to say a bit more about the **YUI Platform on Slide 3**.

The bottom of the slide says, "AI keeps learning through continuous utilization and acquisition of the new data." Needless to say, we are not building an integrated Group-wide database just for the sake of doing so. The key point is how our Group companies can provide products and services that meet customers' true needs by mutually utilizing the database as a platform that supports the Shinsei Bank Group's data strategy. We aim to provide new experiential value to customers and develop the YUI Platform with a spirit of collaboration (*yu*) with the aim of maximizing customer lifetime value.