

Scripts: Group Organizational Strategy (Productivity Reform)

I am Hirasawa, head of the group organizational strategy for the Shinsei Bank Group.

I will explain productivity reform in this session.

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- The productivity reform of the Shinsei Bank Group has reached at the third stage.
- At this stage, the key phrase is "Enhance and Leverage our capabilities."
- The Shinsei Bank Group has been implementing productivity reforms in earnest since the Third Medium-Term Management Plan, which covers the period from FY2016 to FY2018.

- First stage is Reducing Expenses and Workload.

We started with integration of back-office departments, reduction of indirect non-personnel expenses, and reform of the operational efficiency.

These are cost cutting initiatives.

- The second stage is to improve earnings structure.

We reviewed unprofitable offices, product and services through structural reforms including earnings structure of the business.

We reviewed and revised ATM fees program in this stage.

- Now, what is being done in the third stage? It is to enhance and leverage our capabilities.

This means maximizing our organizational capabilities and resources (human capital), as well as their potential.

- The keyword for this stage is "adapt to changes in environment."

Recently, the environment surrounding the Shinsei Bank Group is undergoing major changes.

The labor shortage is becoming more severe and operations are becoming increasingly complex. At the same time, advances in digital technologies are creating an environment that can compensate for this shortage.

The Shinsei Bank Group also wants to further increase productivity by actively incorporating the digital technologies.

- What is created is a "Strong business management system."

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I would like to explain three specific measures for productivity reforms that we are currently implementing.

- Branch Optimization
- Cost Structure Reforms
- Operational Innovations

These three points are the specific measures.

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- With regards to optimization of the branch channel, this can be broadly divided into two categories.
- The first is the unmanned Lake ALSA branch, and in other word, Lake ALSA's digital shift strategy.
- Another is the manned branch of Shinsei Bank.

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- Please let me elaborate our digital shift strategies for the Lake ALSA.
- The lifestyles of our customers have been changing dramatically over the past few years.
- As an example, smartphones have become indispensable in everyday life.
- These digital-native customers account for an important share of Lake's customers.
- The Lake ALSA enhances the provision of products tailored to customer lifestyles, through the Web.
- The customers can complete the entire process from application to contract on the Web. In addition, it is now possible for them to carry out transactions without a cash card.
- Through these activities, we have created an environment that enables us to provide customers with money quickly when they need it, which is an important point for customers.
- Our digital shift strategy is to provide value that meets the lifestyles of our customers, especially smartphones, so that they can choose from.
- But this is not enough.
- We are taking measures to improve customer convenience through the use of the Web, but we need to make our customers more aware of it.
- Real meaning of "Awareness" is to bring the customers the feelings such as "I like it" when using it.
- For this reason, we have introduced non-interest-bearing products for only applications on the Web, and are implementing other measures that enable customers to choose from not only convenience but also product features.

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- If the digital shift strategy advances and the level of awareness and Web usage improves further, the value of the unmanned branches will become low.
- Looking ahead, we will review our branch channel strategy to identify the timing at which Web usage will drastically increase at once, and review the ideal format of the unmanned branch.
- At the same time, we are shifting our resources to the enhancement of our Web channels in order to further improve customer convenience.

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- Next, I will explain the manned branches of Shinsei Bank.
- On January 30, we announced closure of the Sendai and Hiroshima branches at the end of July and also plans to create a five-area coverage structure.
- However, we will continue to maintain a framework that can respond to customers nationwide.
- This may cause some people to worry about declines in services. No worries.
- Banks have two businesses for Individual Business and Institutional Business. Let's explain each of them.

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- Internet banking for Individual Business is progressing. Customers can do business without going to the branches. We will continue to build a framework that is highly convenient for customers.
- Of course, some people choose their products carefully through face-to-face services and careful communication. There are relatively many such customers in major metropolitan areas.
- We will increase the number of consulting staff and increase the number of consulting booths that provide asset management consultations to these customers in order to respond accurately to their needs.

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- Next is the business for Institutional Business.
- We will cease operating bases in Sendai and Hiroshima, but as you know the

transportation network is steadily developing.

- It does not take time to transport from Tokyo to Tohoku and from Osaka to Hiroshima.
- On the other hand, Sapporo and Fukuoka, where growth is expected in the future, take time from Tokyo and Osaka will remain as a base.
- By leaving a nation-wide signage, we will continue to maintain contact with local customers.
- The five-area structure, comprising the Tokyo metropolitan area, Osaka area, and Nagoya area, plus Sapporo and Fukuoka, will serve as a physical base for communication with customers as a complete branch channel.
- At the same time, we are shifting our employees to growth areas, such as structured finance, while placing them in major metropolitan areas by improving the efficiency of our offices.

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- The second specific measure relates to the implementation of Cost Structure Reforms.
- Among the reforms initiatives, we are focusing on cost structure reforms in the IT field.
- As I mentioned at the beginning, cost structure reform itself has already started in the first stage.
- However, we were unable to fully implement the structural reforms in the IT sector.
- Because we were focusing on upgrading the accounting system at that time.
- Expenses in the IT field are considerable for the Group as a whole. This is an area that must be launched.
- Last year, we completed the renewal of the accounting system, which was a factor behind the delayed launch.
- The location of the Shinsei Bank Group's data center is shown in the map of the next page.

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- The Group as a whole has eight data centers nationwide.
- We have here identified a significant opportunity for cost structure reforms.

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- On a company-wide basis, there are roughly two bases in each of the companies, including backup centers while there are eight such centers for the Group-wide basis.
- Another is the change in need for physical space as technology evolves.

- These centers are a warehouse of physical servers, so to speak.
- Shinsei Bank has moved ahead of its competitors in shifting from a host computer to a client server.
- This initiative was revolutionary in financial industry in 2000.
- But 20 years after the initiative, the peak of this physical server has become a pile of the fixed costs.
- There are thousands of physical servers in the Group as a whole. Space, electricity, maintenance personnel..
- In addition, it was a factor that prevented the smooth deployment of IT in response to flexible changes in business.
- With the advancement of technology, we have created an environment where we can build systems that differ from those in the past.
- We will begin full-scale structural reforms in the IT field.

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- We are currently working on two main areas.
- One area is the consolidation of data centers.
- As a precondition for this, we will develop full-scale and group-wide use of the cloud IT.
- As a result, it is not necessary to keep physical servers.
- This implies space of the data centers can also be squeezed, and the eight data centers can be consolidated into as many as two centers, including the back-ups.
- Another area is the integration of the Group's IT operations.
- With the consolidation of data centers, the maintenance and operation of systems can be consolidated.

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- There are three main objectives for implementing such initiatives.
- The first objective is optimization of costs.
- Second objective is to improve the efficiency of system development.
- By leveraging various architectures on the cloud IT system, we can efficiently advance development.
- Finally, the third objective is to strengthen collaboration among the entire Group regarding IT.
- This enables the Group to promote integrated IT design and operations, enabling the

efficient coordination of IT across the Group.

- The reform of the IT cost structure will go beyond simply reforming expenses. We will aim for management system that is not based on individual companies but based on the Group as a whole. This is capable only for Shinsei Bank Group.

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- Finally, the third specific measure is Operational Innovations.
- In this section, we explain our efforts in two areas: Business Process and Operations Digitization , and Working Environment Reform.

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- The first is Business Process and Operations Digitization.
- The digitization has been progressing with tremendous speed, and there are many things that we can do this year that we couldn't do last year.
- In addition, the lower installation costs have created a room to use digital technologies in operations that had formerly been postponed.
- Through these tools, we are exploring the possibilities of digitization from all perspectives.
- Specific initiatives will be described later, we have set up a task force to examine new technologies for digitalization and their effectiveness constantly.
- We believe that expanding the scope of utilization will lead to greater convenience for both customers and employees.
- In addition, we will shift our human resources to the operation areas where only human can carry out, thereby increasing the added value of our overall operations.

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- This slide shows the main uses of digital technology.
- RPA is a tool that allows people to register with software in advance and perform tasks automatically.
- Until now, the entire Group has been able to automate 100K hours of work.
- In addition, it creates added value by ensuring customer service time for customers who require responses from branch staff.
- The following are the IVR, PD, and chatbots in the call center.
- IVR is an automatic voice response system, and PD is a system that improves efficiency.

By leveraging these functions, we can reduce the workload in call center operations.

- This reduces the number of operators and helps to reduce call center space.
- In APLUS and Lake operations, we use a reminder telephone system by using an efficient telephone system, we are able to communicate with more customers.
- E-ordering system enables online and automated shopping-credit contract-related operations at APLUS.
- With the introduction of e-order, we were able to reduce the workload of APLUS by 240K hours, but at the same time we were able to reduce the operational burden on franchisees and customers.
- The above is a commitment to digitization of business processes and operations.

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- Next, I will explain Working Environment Reform.
- This refers to the creation of a comfortable working environment, which includes initiatives to improve the environment as a tangible aspect and the human resource system as an intangible aspect.
- First, there are three main points to be addressed regarding "initiatives to improve the environment." Please look at the upper left part.
- One is the utilization of ICT tools. We are introducing communication tools such as high-performance PCs, chats, and VCs.
- Second, to organize the mobile environment. We are promoting the introduction of laptop PCs and the improvement of wireless environments so that PCs can be used anywhere.
- Third, effective use of office space. We reduced paper storage space by promoting paperless operations throughout our stores.

The space created by this initiative is being used to consolidate the offices of the Nihonbashi Muromachi Building. In January 2020, the headquarters of Showa Leasing, which was in Korakuen, was relocated to the Nihonbashi Muromachi Building.

We have also begun utilizing satellite offices.

- Next, regarding the human resource system. Please look at the upper right part.
- The Shinsei Bank Group is the first in the financial industry to take the initiative in creating a personnel system that can respond to diverse working styles.
- The first is work-at-home. Until last autumn, we had allowed employees to work from home up to 2 days a week, but we abolished this upper limit to respond more flexibly to employees' working styles.
- Second, staggered work hours for each employees.

- The third is the permission on side businesses. This was the first initiative of a major bank in April 2018. We recognize the diversity of working styles of our employees and believe that this approach is effective from the perspective of securing human resources.
- Through efforts to improve the environment and the personnel system, we will seek to "create an environment where employees can work from home and outside the office" and "facilitate smoother communication regardless of the location."
- You may ask what the goals of these.
- Answer is simple; we must respond to the individual lifestyles of our employees.
- Eliminating restrictions on employees' work will enable them to make full use of their capabilities. I would like to aim for this by reforming the working environment.

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- So far, we have explained the three measures we are taking.
- We believe there are three key points for each of these measures.
First, we must optimize the limited management resources of the Group.
Second, it is necessary to utilize the digital technologies that have recently evolved.
Third is to be responsive to the increasing momentum for operational efficiency.
- The characteristics of the Shinsei Bank Group enable to function these in a fully effective manner.
- The characteristics are "Flexibility and speed," "No restrains," and "Group-integrated management."
- We are not as large as megabanks in terms of size, but we have competitive advantage in flexibility and swiftness.
- In addition, the Group has a full lineup of financial functions, enabling the Group to respond flexibly as a whole.
- The Shinsei Bank Group does not belong to any specific capital affiliation and does not need to have a presence in a specific region, as is the case with regional financial institutions.
- The ability to concentrate management resources on responding to customer needs is an advantage for us.
- "Group-integrated management" means that group management is not necessarily led by banks, but is based on the characteristics of each group company. At the same time, a unified decision-making system has been established within the group.
- In April 2016, the Group's corporate functions were integrated into the Group headquarters. In April 2019, we integrated our businesses from a customer-centric perspective and integrated them into Institutional Business Unit and Individual Business Unit.

- While fully leveraging the strengths of the Shinsei Bank Group, we will steadily implement measures aimed at improving productivity over the medium to long term, thereby realizing “enhance and leverage our capabilities”.

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- Finally, we will present quantitative targets.
- Over the 3-year period of this medium-term management strategy, we will achieve an improvement effect of JPY 6 billion.
- During the previous 3 years of the Third Medium-Term Management Plan, we achieved an improvement of JPY 8 billion. Under this Medium-Term Strategy, we will add the measures described above to generate additional improvement effects.
- In FY2019, we expect projects effects which will be in line with our initial expectations.

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- Today's summary is illustrated in this page.
- This concludes presentation about productivity reforms. Thank you.