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Earthquake's impact on financial behavior and growth in “digital seniors”

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Executive Summary

This article is the first in a four-part series on structural changes in Japanese's financial mindset and behavior based on analysis of data from NRI Questionnaire Surveys of 10,000 Consumers[1]. It discusses the need for more financial services that reflect renewed recognition of the importance of interpersonal safety nets and meet new advisory needs that have arisen in response to last year's earthquake and medium-term structural changes in Japanese society.

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Familial and community ties had been strengthening even before the earthquake

The catastrophic earthquake that struck northeastern Japan in March 2011 is said to have strengthened Japanese people's sense of community.

An NRI survey[2] conducted in Greater Tokyo after the earthquake (referred to below as the "2011 survey") found that roughly half of the respondents had donated money to disaster relief in the quake-stricken area or were preferentially purchasing goods made in the area. Additionally, the percentage of respondents that had decided to better inform family members about their asset holdings and the percentage that had recently checked their property and casualty insurance coverage or claims payment terms had both increased to around 30%[3].

These changes did not occur suddenly after the earthquake. A steady strengthening of relationships among family and community members had been observed even before the earthquake. For example, according to a nationwide survey conducted triennially by NRI (Questionnaire Survey of 10,000 Consumers; see note 1), the percentage of Japanese living within a one-hour radius of their parents increased from 46% in 2000 to 51% in 2009[4]. Such parents and children who live near each other build strong emotional and economic bonds through activities such as dining or shopping together on weekends, sharing use of family vehicles, jointly raising grandchildren, and tending to each other's' healthcare needs.

Additionally, Japanese attitudes toward relationships with neighbors have also

NOTE

1) The NRI Questionnaire Survey of 10,000 Consumers is a nationwide, door-to-door survey of 15–69 year-old males and females conducted triennially since 1997. To date, it has been conducted in 1997, 2000, 2003, 2006 and 2009. Each time, a sample of over 10,000 valid responses was collected. Since 2010, NRI has initiated a financial edition of the survey that focuses on use of financial products and services.

2) 2011 NRI Questionnaire Survey of 10,000 Consumers (Financial Edition): In August–September 2011, NRI conducted a door-to-door survey of 4,484 18–79 year-old male and female residents of Greater Tokyo (Tokyo Metropolis and Saitama, Chiba and Kanagawa Prefectures) to supplement its triennial survey data series. The survey questions mainly pertained to the March 2011 earthquake's impact on financial behavior.

3) Percentages of respondents that had donated money, begun preferentially purchasing goods from the disaster area, decided to better inform family members of their asset holdings, or checked their property and casualty insurance coverage or claims payment terms were generally higher among senior citizens that are frequent Internet users and senior citizens. In other words, so-called digital seniors are a demographic segment in which financial mindsets and behavior have changed substantially in response to the earthquake.

4) This survey question is applicable only to married respondents with at least one living parent.

been gradually changing. The percentage of survey respondents that agreed that "it is best that neighbors not interfere with each other, unless the other party is creating a nuisance" has surprisingly decreased steadily over the past decade. People's willingness to help each other has increased in response to the national crisis that ensued from the earthquake.

These trends are arguably rooted in Japan's two decades of economic stagnation and a loss of trust in public organizations and institutions as evidenced by distrust in politics and "bureaucrat bashing[5)]." Growing unease and the realization that the government cannot be relied on has led to people becoming more self-reliant and willing to help each other. In short, the earthquake has had more than a transitory impact. It should be regarded as a catalyst that has sparked ongoing structural changes in consumers' mindset and behavior.

5) In NRI Questionnaire Surveys of 10,000 Consumers, percentages of respondents that trust the police, school teachers, the Postal Service, postal workers, national civil servants, politicians, etc., are in a steady downtrend.

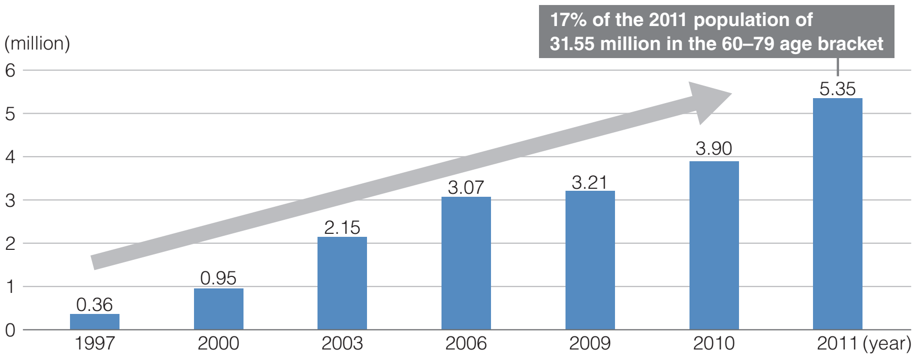
Burgeoning "digital senior" population now exceeds 5 million

Another noteworthy structural change over the past decade is growth in the so-called digital senior[6)] population, which now exceeds 5 million (see exhibit). Digital seniors are rapidly increasing in tandem with growth in the elderly population and IT's growing prevalence among senior citizens. Their number is projected to continue increasing by several hundred thousand per year. Digital seniors possess money (assets), time, and IT literacy, making them attractive but shrewd consumers.

6) We define digital seniors as 60–79 year-olds that use a PC to access the Internet on a near-daily basis.

One point that bears particular emphasis is that digital seniors are extremely active

Exhibit: Estimated digital senior population



Source: NRI Questionnaire Survey of 10,000 Consumers (1997, 2000, 2003, 2006, 2009, 2010, 2011) and Ministry of Internal Affairs and Communications' Population Estimates

7) Investment experience means that the respondent has previously invested in stocks, bonds, investment trusts, etc.

8) We define analog seniors as 60–79 year-olds that are not digital seniors. Analog seniors include both seniors who do not use the Internet and seniors who use the Internet less frequently than every other day on average.

financially. For example, over 60% of digital seniors have investment experience[7], versus a little over 30% of analog seniors[8]. The 2011 survey reveals that digital seniors have more financial assets than analog seniors and tend to be more actively engaged in financial matters (e.g., they are more proactive in gathering information on financial products). These factors likely account for the much of the difference in investment experience rates between digital and analog seniors. Digital seniors are likewise more inclined than their analog counterparts to use non-investment financial products or services and utilize new sales channels such as online platforms and insurance shops.

In light of such, the ability to win the loyalty of Internet-savvy digital seniors could become a key to success in retail financial services.

Demand for new advisory services emerging amid information deluge

Companies tend to assume that all they need to do to satisfy Internet-savvy consumers is to provide an inexpensive online channel. It is true that online banks and brokerages that predominantly serve younger consumers have achieved growth with an online channel alone. Online-only financial institutions generally do not provide advisory services. They operate on the assumption that customers are responsible for their own decisions.

However, advisory services are strongly in demand among digital seniors. In our 2011 survey, 35% of digital-senior respondents reported that they want access to expert opinions and advice on financial matters, versus only 26% of analog-senior respondents. These data suggest that amid the current information deluge, new demand for advisory services to help with everything from sifting through voluminous information to making decisions has emerged in the digital-senior demographic.

Innovative financial services in response to strengthening of familial ties and demand for new advisory services

Financial institutions are starting to develop financial products and services in response to strengthening of familial ties and demand for new advisory services.

A case in point is Mitsubishi UFJ Trust and Banking Corporation, which has started to market trusts that allow the trustor to withdraw funds for monthly living expenses and emergency expenditures and, after the trustor's death, enable the trustor's heirs to continue withdrawing funds for living expenses. By simultaneously accommodating both trustors' financial needs during their lifetime and their heirs' day-to-day financial needs after the trustor's death, these trusts are truly a financial product that capitalizes on strengthening of familial bonds.

Another example is Sony Assurance, a direct marketer of property and casualty insurance that has realized a high-touch customer service model with an auto insurance claims settlement service that pairs customers with a dedicated customer service specialist. In the event of an accident, the customer's assigned customer service specialist handles the entire process of settling the claim. Sony Assurance pledges that its customer service specialists will respond to customer inquiries and accident claim filings within three hours. Additionally, its online service center provides every customer with their own individual communication board, where they can post messages or questions to, and read replies from, their assigned customer service specialist.

These trends suggest that post-earthquake retail financial services businesses are evolving in the direction of bundling products and utilizing increasingly sophisticated IT channels to efficiently provide high-value-added products and services to customers seeking individualized solutions to their complex needs.

about NRI

Nomura Research Institute, Ltd. (“NRI”, TYO: 4307) is an independent, global IT solutions and consulting services provider with annual sales of 335.5 billion yen as of FY ended March 2012. With front-to-back support for the buy- and sell-side, NRI’s tradition of innovation has positioned them as a trusted international market leader. Leveraging NRI’s global consulting business, NRI is able to provide innovative financial IT solutions for investment banks, asset managers, banks and insurance providers. For more information, visit www.nri.com.

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