What Aspects of the Insurance Industry Will Be Changed by FinTech?

Financial innovations engendered by artificial intelligence (AI) and Big Data

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Public Interest Incorporated Foundation

Oriental Life Insurance Cultural Development Center

Tokyo, Japan

「FinTech は保険業界の「何」を変えるのか？」英語版出版に寄せて

今回このような機会を公益財団法人アジア生命保険振興センターより頂き大変光栄です。財団の皆さんに改めて御礼申し上げます。

現在は、テクノロジーの進歩があまりに早く、テクノロジーを活用した変革は業界を問わず行われていますが、日本の保険業界ではまだまだ、対応は不十分と言える状況だと考えています。詳細は本編に譲りますが、主な論点として特に、メインフレームを中心として巨大かつ複雑なシステムがその障害の一つです。更にもうひとつあるとすれば、長い保険業界の歴史の中で、硬直化した日本の保険業界の変化を受け入れる事に対する保守性に原因があると言えるかと思います。今回、日本の状況を世界に向けて発信することで、他の国からのアイデアやフィードバックを頂けるとしたら、保険業界に色々な形で携わってきた私としては、非常に嬉しく考えております。

思えば、私は保険業界に色々な形（保険会社の人間として、或いは経営コンサルタントとして）で携わって参りました。その間、色々な経験をし、使わせて頂いた予算は 3 桁億円になるといっても過言ではないです。残念ながら、私が携わったプロジェクト全てが成功した訳ではないです。保険業界は多額の投資を私にして、私を育ててくれたと考えており、私は業界全体に残りのキャリアで恩返しをしていきたいと考えて日々、色々な挑戦を続けております。

書籍の中でも取り上げていますが、業界全体の仕組みのプラットフォーム化（特に競争をする必要が無い手続きの領域）は業界全体の効率を上げていく一つの施策であり、サービスを受ける顧客から考えても嬉しいことしかないテーマです。このテーマは単独の保険会社が対応できない構造的な課題であり、業界全体を結束させるリーダーシップが必要だと考えています。私が経営している会社では、この複雑かつ利権が絡む問題を解決するには、経営理念を持って望むしか無いと考えております。詳しくは書籍を確認して頂けると幸いですが、本当の意味で顧客志向で業界から尊敬を得る存在とならない限り不可能であり、業界のリーダーの皆さんから考えて頂きたいと思っております。当社の挑戦についても、ご確認頂き世界の皆さんから賛同頂けるようなら筆者冥利につきます。

最後に、私が日本の保険業界にメッセージとして伝えていますガンジーの言葉を

“Be the change you want to see in the world”

見たいと思う世界の変化にあなた自身がなりなさい

パクテラコンサルティングジャパン

代表取締役社長

藤井 秀樹

On the occasion of publishing the English language version of *What Aspects of the Insurance Industry Will Be Changed by FinTech?*

I would like to thank Oriental Life Insurance Cultural Development Center today for giving me an opportunity to present at an honorary occasion. I would like to thank everyone in the foundation sincerely.

The rapid development of technology in recent years has revolutionized companies in various fields; however, the Japanese insurance industry still has plenty of room for development. There are multiple reasons that contribute to the complication of the problem, but one of the main problems is that the foundation of the system lies on a tangled plus large system that the insurance company has implemented when it first originated in Japan. In addition to this problem, the insurance field in Japan has been protective of the established method thus made it difficult to revolutionize accordingly. Throughout this event, we will be able to present the Japanese insurance situation to different nations, where constructive criticism and approaches can be made, which will develop the Japanese insurance industry. As a person who has been part of the insurance industry for a long time, I am delighted with this opportunity.

Reflecting in my past, I have been part of the insurance industry in numerous opportunities (as an employee at an insurance company, management consultant for insurance firm). Throughout this opportunity, I have handled multiple insurance cases, resulting with more than 10 billion yen in budget. Unfortunately, though not all the projects I have been part of have been a complete success. With all the investment that the insurance industry devoted to my career, I would like to return the favor, by investing my remaining career into revolutionizing the insurance industry.

The proposed plan is written in the book but, the establishment of a platform in the whole insurance industry will create efficiency throughout the whole service and the clients will be introduced to an effortless system. Currently, the insurance companies are competing upon the registration service, which should be completely erased with the establishment of a platform. In order to place the platform, we need the contribution of the entire insurance industry, thus requiring a dominant leadership. At my company, when we deal

with complicated issues, employees are reminded with the vision that the company has, since this will shape the perspective that the clients have for us. To remain at the leadership position, we need respect and trust from our clients, and we will provide the best solution to revolutionize the whole industry. We appreciate all the clients and everyone who has helped us on the journey to revolutionize the industry and read the book I have written.

Lastly, I would like to leave a message to the Japanese insurance industry with the quote from Gandhi.
“Be the change you want to see in the world”

Hideki Fujii
President & Chief Executive Officer
Pactera Consulting Japan

この度、有難くも公益財団法人アジア生命保険振興センターよりこのような機会を頂戴いたしました。大変光栄であり、身の引き締まる思いでございます。はじめに、今回の翻訳・出版に携わっていただいたすべての方に感謝申し上げます。

「Fintech」に関連するサービスは本書を執筆した約 2 年前と比較して格段に多くなり、エンドユーザーとして具体的な価値を享受できるまでになりました。また、当社としても、Fintech を活用した新たな決済サービスの立ち上げ等、Fintech 関連のプロジェクトに携わっており、今後も当領域のコンサルティングニーズは拡大していくと期待しています。

その点、Fintech を活用した日本の保険業界の変革というのはまだまだ進んでおらず、その分今後の変革の余地は大きいといえます。保険業界におけるデジタル技術の活用と革新が進むことで、エンドユーザーが享受する価値は格段に高まります。そのうえで、保険会社各社が守るべきデータとその責任も大きくなります。

「デジタル技術による顧客提供価値の拡大」と、「セキュリティ技術による守るべき情報の保護」の両輪を実現することの重要性について、読者の皆さんに伝われば幸いです。それを実現するためのパートナーとして、当社も更に成長していきたいと考えております。

デジタルアーツコンサルティング株式会社
代表取締役社長
松本 忠雄

I would like to thank Oriental Life Insurance Cultural Development Center for giving me this kind of opportunity. It is an honorary experience and motivates me to excel in my future works. I would also like to thank the publisher and the translator who have been part of the process as well.

First, I would like to point out that the number of books and articles on FinTech has been increasing in the past two years, which suggests that the end users are willing to learn the precise details and the value of the technology. Our company has been utilizing the latest FinTech in payment services as well as participating in the latest FinTech projects, and it is likely that our corporation will grow in this field.

Although we have been managing FinTech for a while now, the Japanese Insurance industry has not dealt with much change yet, which implies that it is open for a revolutionary growth. With the digitalization of the insurance industry, the end user will be obtaining more valuable information than before. However, the growth of technology implies that the insurance companies will need to tighten control of their client's information.

With this book, I would like to inform the readers that "Digitalization will grant clients to access valuable information" and "With Security technology, valuable information will be encrypted". Our company will strive to achieve the future where FinTech is fully adopted in the insurance field, and provide an excellent partnership for our clients.

Tadao Matsumoto
CEO
Digital Arts Consulting Inc.

Foreword

For readers who aspire to become world-changing consultants

Nothing beats the *insurance industry* for sheer excitement!!

Are you familiar with the term *FinTech*?

It is a portmanteau formed by combining the words *finance* and *technology*. If you break this down further, however, you get the following:

FinTech = Finance x [Big Data + Artificial Intelligence (AI)]

The exponential expansion of server capacity has enabled huge amounts of very complex data to be amassed and analyzed. This is what is meant by Big Data. By combining this with artificial intelligence (AI), which consists in part of multi-layered neural networks, computers are now able to essentially emulate human beings in their way to learn from past examples and make their own judgements accordingly.

What sort of chemical reactions will occur when computer technology is linked with finance?

The world will change. This is what I truly believe.

This is because finance is the lifeblood of every economic activity being carried out in the world today. No economy would exist without finance. The economy, in turn, constitutes life itself for each one of us and is more or less connected to the entire globe. For example, when the financial crisis originating in the United States with the Lehman Shock occurred, financial markets around the world as well as economic activities themselves underwent significant stagnation.

Finance is integrated with computer technology in such a way that we are seeing the nascent beginnings of a new financial domain known as *FinTech*. It goes without saying that this development is spreading not just within Japan but also worldwide to affect an inexhaustibly large number of fields, including social lending (services that facilitate online intermediation for the lending and borrowing of money), cryptocurrency, personal finance management (PFM), crowd-funding, robot advisors, and payment and settlement functions. As one

of these fields, *insurance* is set to change significantly in the years to come.

While the particulars of this statement will also be explored later in this book, it is enough for the moment to say that no field is as untouched by FinTech as insurance. This is because any attempt to introduce FinTech to this industry will be met head-on by very fierce forces of resistance.

Core systems that are deeply tied to insurance-related clerical work utilize elements of design that are old that it would be appropriate to describe these elements in legacy terms. If we were to incorporate FinTech into these old systems, clerical work would become instantly streamlined and management costs would be dramatically reduced. However, these old systems remain in use in a coddled state.

This is not because there is a sense that change would be wasteful and reckless. Instead, this situation can be primarily explained by the fact that the adoption of FinTech would engender massive changes to existing organizations, frameworks, operations, and systems and there are large numbers of people who still feel hesitant about what these changes might entail.

Thus, it is not possible to have this current state of affairs significantly altered by just those who are on the inside of the insurance industry. Therefore, consultants and third parties are required to solve the problem.

At present, I am seeking to challenge myself by introducing FinTech to the world of insurance and transform not just the core systems, but also sales, marketing, and other related areas. Success in this endeavor will have enormous economic effects.

According to *FY2015 National Field Survey on Life Insurance* conducted by the Japan Institute of Life Insurance, nearly 90 percent of Japanese people have taken out life insurance policies as a household. While you might think that the market is nearly saturated and that it is inconceivable that there is much more room to earn further substantial sums of revenue in the future, this is simply not the case. The adoption of FinTech will help eliminate the wastefulness of past practices and thereby generate exceedingly substantial earnings.

In contrast to banks that are no longer able to accrue earnings due to the existence of negative interest rates and securities firms whose earnings have become considerably unstable due to fluctuating share prices, the insurance

industry still has room to generate substantial earnings on a stable basis.

If this is something that cannot be described as a business opportunity, how then should it be described? It would not be an overstatement that the case to suggest that the *FinTech revolution* is emerging for the sake of the insurance industry. Nothing could make us happier as professionals than to know that we as management consultants can play an active part in this revolution.

For this book, I teamed up with co-author Tadao Matsumoto, CEO of Digital Arts Consulting, to talk about work, ways of engaging in work, dreams, and other such topics and explore, from multiple angles, how we might go about changing the world by harnessing the key focus of our business: *insurance and FinTech*.

If you are the sort of person who wants to try doing something new, there is no doubt that you will enjoy what we are attempting to accomplish in our epic project. Won't you join us in changing the world?

Hideki Fujii
President & Chief Executive Officer
Pactera Consulting Japan Co., Ltd.

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Introduction
Digital society and the insurance business

Every type of information in the world is undergoing digitalization

What is the first thing you think of when you hear the word *digital*?

Watches and music are probably what comes to mind first and foremost for those who lived through the time of transition from analog to digital.

Watches went from being analog items based on mechanical workings to digital pieces of electronically-structured equipment.

Music went from consisting of analog records to electronic media in the form of compact discs.

Speaking of music media, the downloading of content is now a mainstream means of acquiring music; even compact discs are becoming a relic of old media.

Thus, digitalization refers to the process of converting all forms of information being handled in the world today into digital signals.

Human beings are organisms that adapt to the environment in which they find themselves. While many people are probably not aware of it, this situation is something that could not have been imagined previously.

For example, try to recall how things were three decades ago in the 1980s. While networks as the predecessors of the Internet were being operated on a highly limited experimental basis, they were not yet commercially available. The Internet was first introduced commercially to the public in the United States in the latter half of the 1980s.

How did people work back then?

Employees' attendance was managed with the use of time cards and time recorders. You would insert a paper time card into a slot of the time recorder to have the time at which you either arrived at or left work stamped onto it. People in charge of human resources at that time would look over each time card for the entire work force of the company and calculate overtime as well as pension contribution amounts and social insurance premiums.

As long as a given employee remained with the company, all of his or her past time cards would have had to be stored somewhere. Since a time card was

replaced with a new one each month, the bigger the workforce, the greater the concern such as securing a place where the cards can be kept.

The same thing can also be said about written contracts and various other types of written documents.

There were vast amounts of paper items referred to as documents, including documents relating to labor agreements concluded by the company and each employee, written contracts concluded by and between companies, lists of actual and potential clients, and presentation materials produced in order to obtain new contract signings. When you realize that these types of documents also needed to be stored somewhere, it becomes clear that difficulties on a physical level would emerge under these circumstances.

In addition, these vast amounts of documents were all prepared or filled out by hand. Workers with neat handwriting might have been tasked with only making clean copies of documents, while others who were good with their hands might have been assigned only to jobs involving the drawing of graphs and figures as part of the production of presentation materials.

Documents and presentation materials prepared in this way were all carried by hand and exchanged through direct face-to-face interactions with representatives of clients, vendors, and suppliers.

The task of simply creating a one-page document and submitting it to a supplier or client took a very long time and a lot of trouble to complete.

Streamlining achieved through digitalization

In contrast, how can the present be described?

While there is no doubt that there exist some companies that continue to track and manage employee attendance with the use of time cards and time recorders, soon enough time cards and time recorders are rendered completely unnecessary.

By having every employee retain a personal computer and smartphone, it will be possible to ascertain with data where each employee is at the moment and what work each employee is performing at all times. Neither paper time cards nor locations for their storage will be needed any longer.

Every type of contract document and client list is being digitalized. These days, contracts and other documents are being exchanged through email.

There will be no longer any concerns over the locations where paper documents are stored or physically carry paper documents from one location to another. Also rendered superfluous are employees who specialize only in filling out documents with neat handwriting or in preparing presentation materials.

By eliminating paper and digitalizing everything, every facet of operations is streamlined. Companies will be able to store documents efficiently, and also preparation time and document handling time are reduced.

Since labor efficiency is improved in a digitalized society, concerns over the instability of labor do in fact emerge.

Many jobs that were essential in the eighties were redundant.

For instance, employees who specialized in drawing up documents with neat handwriting or producing graphs and charts for presentation materials are no longer needed to carry out such tasks, thanks to the appearance of various types of computer software that can perform these jobs instead.

If we look to the future, we can expect that this trend will accelerate further, thanks to the adoption of artificial intelligence in every field of work.

The Industrial Revolution promoted efficiency gains in terms of physical labor. Artificial intelligence and other forms of digitalization will accelerate efficiency gains for intellectual labor. Consequently, most forms of clerical work being performed today will be considered unnecessary. The impact of digitalization on the concept of working is exceedingly large.

The two streams of financial digitalization

Allow me to speak with a little more focus on certain topics. As mentioned briefly in the introduction of this book, digitalization will continue apace even in the field of finance. FinTech is the embodiment of this trend.

We believe that there are, broadly speaking, two streams of digitalization in the world of finance.

The first entails the emergence of new financial businesses attributable to digitalization. Social lending schemes to mediate the lending and borrowing of money online is one such example of this stream.

Under the conventional framework of finance, banks and other financial institutions capable of functioning as financial mediators serve as

intermediaries. They collect funds from a large cross-section of society, simultaneously screening parties to whom money could be lent, and issuing loans to parties.

In contrast, social lending schemes made possible by FinTech allow investors who wish to put their money to work to directly issue loans to those who wish to borrow money.

Service companies that engage in social lending schemes assess the credit ratings of those who wish to borrow money and provide this information to investors. Upon checking a given party's credit rating, an investor will determine whether the party is one from whom a return commensurate with risks to be assumed by the investor can be obtained and provide funds accordingly.

The role of financial institutions is to function as financial intermediaries.

It is not always going to be the case that money is something that someone who wants to use it will sufficiently have on hand. At the same time, there are people who wish to put extra money that they have on hand to good, meaningful use.

A financial institution is an entity that will serve as an intermediary between these two types of persons.

A financial institution will lend money that has been deposited with the financial institution by the general public to someone constituting the former and retain money deposited with it by someone constituting the latter by promising to repay the principal with added interest after the passage of a certain period of time. In lending to someone constituting the former, a financial institution will naturally have that person promise to repay borrowed money with added interest after the passage of a certain period of time.

Focus is placed on the creditworthiness of financial institutions serving as intermediaries in order to ensure that such intermediary functions continue to be smoothly performed.

Therefore, a financial institution will refrain from lending to a high-risk would-be borrower in order to maintain its own creditworthiness.

What if we could directly bring lenders and borrowers together by bypassing financial institutions altogether? Is this even possible?

If we had to identify any glaring issue with such a possible arrangement, it

can be summed up by asking whether potential lenders are able to properly assess the credit risks posed by potential borrowers. Financial institutions at the very least possess the ability to determine the creditworthiness of those to whom they lend money, thanks to their many years of experience.

In other words, this approach is not feasible unless there is a function for accurately conveying to the lender information on the credit risk posed by a borrower.

In this connection, a solution can finally be found in the emergence of FinTech.

In a society of digitalization, everything—not just paper-based data—is converted into digital data. For example, the existence of credit information associated with a particular individual will render it easy to determine whether that person has ever been in arrears. Other types of information that will be treated as data for assessing the creditworthiness of that person include information contained in SNS posts and settlement information provided by settlement agents and EC operators.

By analyzing such examples of Big Data, a borrower will be subject to a credit examination and rated for the ability to repay amounts borrowed. At the same time, a lender will compare rating information and provide a loan when the lender determines that a return commensurate with risks to be taken can be obtained. This is what is meant by social lending.

Social lending can be described as a service for performing lending functions normally carried out by banks. In this way, we expect to see more and more services that work by enabling the low-cost use of activities currently performed by financial institutions. This trend should spread beyond the field of lending to affect various other areas, including asset investments and the management of settlement operations and assets.

Digitalization and platforms

While the segregation of functions normally performed by existing financial institutions and the provision of new services at low costs are also part of the flow of processes associated with FinTech, FinTech will also cause significant changes to existing financial institutions.

Most conspicuously, the culture of *paper* will likely disappear. This is

another substantial development achieved by the digitalization of finance.

As stated earlier, paper documents in a world that is undergoing digitalization are being rapidly replaced by digital data. Nevertheless, the *cult of paper* remains deeply rooted in the world of finance, such that one can encounter plenty of cases in which paper documents are exchanged in various different settings.

For example, procedures for opening an account with an online bank are becoming increasingly paperless in recent years. If you wish to open an account with an online bank to take out a home mortgage, however, no paperless option is available. Instead, you still have to fill out required fields on a paper form and submit it by post once it has been completed.

The custom of asking for paper documents will continue. This might be something that is geared to a certain extent towards older clients. For even online insurance companies, any materials that are requested will typically be delivered in paper form several days later.

When a financial institution sells a new product or registers with or notifies a supervisory authority, paper documents need to be submitted.

The imposition of inconveniences caused by a culture of paper that refuses to die can still be seen here and there.

While we will go into more details later, an example of this is the continued use of paper forms for account transfers undertaken when taking out an insurance policy through an independent agency (an agency which deals with products of multiple insurance companies). Indeed, differences in formatting among insurance companies make it all that much more troublesome for those who have to fill out these forms.

For instance, let us assume that company A provides ordinary life insurance, company B provides health insurance, and company C provides automobile insurance. If you select insurance companies offering the most favorable conditions according to the scope of coverage sought and therefore simply wish to enroll in plans with different companies, you will need to fill out required fields on three different account transfer forms. Since the format differs according to company, you will find yourself additionally required to carry out troublesome procedures.

Nevertheless, even this sort of scenario will likely become fully digitalized. If full digitalization is undertaken and the same platform is adopted (operating

environment), you should expect to carry out procedures at a single stroke.

What constitutes high value-added services in a digital society?

If digitalization proceeds under these conditions, it should be possible to streamline operations for companies across various different sections. However, this is not always going to benefit companies.

While rationalization will be occurring, the question of how companies should absorb surplus workers will naturally arise. This issue is a serious one that will be affecting not just insurance companies but also many other enterprises. If more than half of any given office is rendered superfluous, there is the risk that companies will be laying off large numbers of their employees.

Thus, a company must establish new sections and systems to enable higher value-added services to be conceived and employees rendered superfluous by rationalization achieved through digitalization to be shifted.

It would certainly help if employees were to do more than simply comply with company requests to transfer to sections that have been newly established in this manner. Employees should be actively taking the initiative to conceive of new products and services and demonstrating enough enthusiasm to help establish new sections.

In other words, the way in which each employee works will undergo huge changes, thanks to digitalization.

Make no mistake, work that can be digitalized will continue to be automated to eliminate the need for manual labor in such areas. If we look at the insurance industry, we see that digitalization will be fully applied to reviews conducted for the underwriting and payment of insurance, the provision of advice for the selection of insurance plans optimized for each potential client, and much more.

At the same time, there is also work that cannot be digitalized.

In terms of insurance, we believe that, while it will become possible to employ AI-based robot advisors to assist with the selecting the insurance policies. This is an area of work that might not be very conducive to the use of robot advisors if more personal client information is to be elicited in the future.

High value-added services in a digital society are a term that refers to services in areas where such digitalization is difficult to implement very

effectively. For a business person working in the years to come, the provision of high value-added services will become an important skill to wield.

Chapter 1 The unknown other side of the insurance industry

Do you know your own insurance agent?

We believe that, in all probability, most Japanese have taken out a life-insurance policy.

These days, occupational sales arranged through collaborations with companies and government offices have seemingly disappeared. Around twenty years ago, however, it was normal to see a typical sales go something like this: someone graduates from school and joins a company as a new employee, whereupon he or she would be taken aside and told, "Since you're now a working member of society, you ought to take out some life insurance." The senior colleague would then recommend an insurance agent he or she knows, and the new employee would simply sign whatever policy was reasonably offered.

There were also cases in which, whenever a bank or securities firm was involved, a quid-pro-quo arrangement might be made, whereby an official with the bank or securities firm would ask an insurance agent to deposit money or purchase an investment trust. In return, the official would agree to refer new employees to the insurance agent.

Figure 1 / More than 80% of both men and women are enrolled in life-insurance policies

[Life-insurance participation rates]

Source: FY2016 "Survey concerning life security matters", Japan Institute of Life Insurance

Consequently, Japan boasts one of the world's highest rates of life-insurance enrollment in the world. Even now, more than eighty percent of the population are enrolled in some form of life insurance policy. In fact, if you are reading this book, you have almost certainly purchased some form of life-insurance product (whole-life insurance, medical-care insurance, or annuity insurance) yourself.

While you can see how pervasive life insurance is in Japan, it is also a fact that life-insurance operations have been carried out in a highly sloppy manner. Many of you, no doubt, understand what we are saying here.

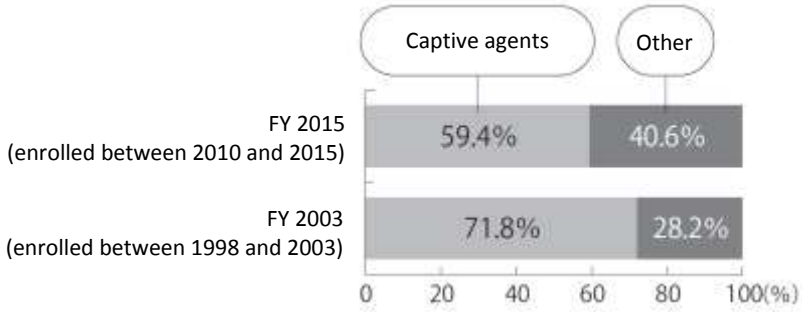
A typical example consists of the scenario we outlined earlier in which someone is advised by a senior colleague upon joining a company to take out a life-insurance policy. Next thing you know it, that person has concluded a contract for life insurance. If you once found yourself in this position, you might have been told by the insurance salesperson, "I selected a plan that is most suitable for you, one that will hardly be onerous at all."

More likely than not, such a statement is at least partly sincere and would have been spoken out of the goodness of the insurance agent's heart. Chances are, however, that you are almost entirely unaware of the details of the insurance policy in which you are enrolled. You probably have this vague sense that "oh, if I die, an insurance payment in the amount of thirty million yen will be paid out. My parents are currently listed as the beneficiaries but I'll just have my spouse become the beneficiary when I eventually get married."

My guess, however, is that there are many details that should be known by you as a policyholder but about which you are currently clueless. Examples consist of the following: the exclusions in your policy, whether you are able to cancel prior to the expiration of the insurance term, whether you are able to receive a surrender value upon cancellation, the timing at which insurance money can be received, and whether there are any special provisions that might apply during hospitalization. There are a surprisingly high number of people who have taken out insurance policies without having a clear understanding with respect to most of these key issues.

Figure 2 / In terms of sales channels, captive agents continue to account for approximately 60% of all insurance policy sales

[What is the channel through which you took out your insurance policy?]



Source: FY2015 "National Field Survey on Life Insurance", Japan Institute of Life Insurance

A certain questionnaire-type survey was previously conducted with questions posed to people who were enrolled in an insurance plan, regardless of whether that plan was for life insurance or for non-life insurance. One of the questions asked, "With which insurance company have you taken out automobile insurance?" If someone is in any way familiar with insurance, you would think he or she would answer by saying something like "*so-and-so* Non-Life Insurance". However, many responded by giving the name of a major life-insurance company instead.

This illustrates the extent to which so many people have taken out insurance policies with a passive attitude.

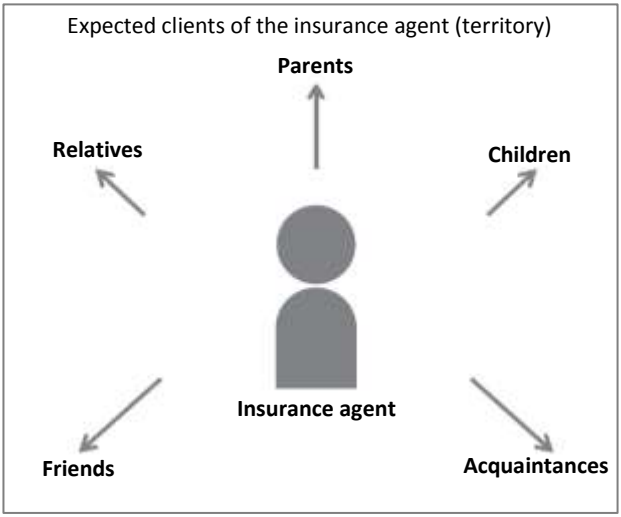
Structural issues affecting the selling of insurance

Why has this state of affairs emerged in this manner?

It is because insurance agents who until now have played a key role in the selling of insurance policies and especially life-insurance policies strove to sell their own *character* before actually selling insurance plans.

If someone is thinking about taking out some insurance, the process of selling an insurance policy should ideally go as follows: the agent properly proceeds to ascertain through a question-and-answer process the family composition of the prospective client and the prospective client's life plan and other relevant details and then recommends an insurance policy that confers a suitable amount of security in accordance with the provided answers.

Figure 3 / An insurance agent sells insurance policies through personal relationships



When selling an insurance policy, however, it is exceedingly difficult to listen to everything the client wants and carefully explain the contents of the agreement, including with respect to exclusions included in policy provisions and other parts of the contract. Although this is not impossible to do, the reality is that there are hardly any insurance agents out there who are thoroughly familiar with the details of the policies they offer.

Thus, rather than sell with a primary emphasis on the specifications of insurance policies, an insurance agent will draw attention to his or her own character and come to believe that selling insurance policies through personal connections is easier. In fact, this way of selling insurance policies became normalized in the insurance industry after the Second World War.

Unfortunately, however, insurance policies concluded in this way, that is, through an emphasis on the personal connections between policyholders and insurance agents, could give rise to several issues in terms of the selling of insurance policies

For instance, let us assume that you are now fifty years old and that you took out a life-insurance policy in your twenties. Thirty years later, can you say that you know who is in charge of your life-insurance policy?

It is likely that there are very few cases in which the same person who was in charge of your policy at the time you enrolled has remained in charge of

your policy three decades later. Presuming that your case is a typical case, do you know who is currently in charge of your policy?

Normally, one would not in fact know the answer to this question. Upon resigning, a given person in charge will try to hand off files to another person in charge. However, the new person in charge will have no personal connection whatsoever to the clients of the former person in charge, which means that no effort will be made to call these clients, let alone pay them a visit at their homes. This situation invariably unfolds in this way, since personal connections are such an integral part of how life insurance is sold.

As a result, the fact that there are many insurance policies that puts in people in charge of unknown holders make it a structural issue plaguing in the insurance industry.

To illustrate, when an insured person is hospitalized and it becomes necessary to carry out procedures to receive hospitalization benefits, whom should this person contact?

The original person in charge no longer works at the insurance company, and the current person in charge is someone you do not know. You try to read the policy provisions stated in the insurance policy pamphlet but realize that it is impossible to decipher what is written unless you happen to be a member of the insurance industry. You then resign yourself to the fact that you have to call the insurance company's service center yourself and take some troublesome steps to find the answers you are seeking to obtain.

There are even examples of people who end up calling a different insurance company when they inquire about the contents of their policies. Over the past decade in particular, the insurance industry has been undergoing restructuring, such that people in many cases are unable to remember which companies originally underwrote their policies.

While one should still not have any problems of this sort if a major domestic insurance company is involved, the reality is that your typical policyholder will have almost no idea of what is going on when it comes to a foreign-affiliated insurance company. We have actually witnessed cases in which, even though the insurance policies of foreign insurance company A differ completely from the insurance policies offered by foreign insurance company B, holders of policies underwritten by company A will frequently call company B for clarification concerning their policies.

Awareness of *marketing* is lacking in the insurance industry as a whole!

Much of this tragicomedy is conventionally prevented if an insurance company seeks to properly engage in marketing efforts. However, the desire to engage in marketing is largely missing throughout the entire insurance industry.

Insurance companies customarily believe that "marketing is something that is to be left in discretion of insurance agents." Each insurance agent has its own sales territory and will engage in marketing on his or her own within his or her own territory, such that insurance companies themselves tend to avoid any involvement in marketing efforts.

Moreover, the marketing that is undertaken by agents is highly removed from the true essence of *marketing*. Frankly speaking, an agent will be making a list of prospective clients upon joining an insurance company. This list will constitute that agent's *market*, and the agent will thereafter be tasked with interacting with each of these prospective clients and either concluding contracts with prospective clients with whom contracts can be concluded or never again interacting with prospective clients who are unlikely to enroll in a new policy despite whatever substantial efforts might be undertaken by the agent.

Consequently, once an agent converts his or her own prospective clients into actual clients, there is no longer any advancement made by the agent. After sales efforts are applied to all people—including relatives and friends—forcibly listed as prospective clients in the beginning, an agent will remove the names of persons who are unlikely to sign up for a new policy from his or her list and try once again to convince all other remaining prospective clients to become actual clients. When these steps have been completed, there is nothing further to do.

A hardworking agent might be able to conclude agreements with up to a hundred clients. It is said that only about three percent of all agents are capable of going beyond this limit.

In other words, most agents quit within a few years. It would be a rare instance if, after nearly thirty years has passed since you first took out an insurance policy, the same insurance agent with whom you signed your agreement is still in charge of your file.

Therefore, the number of clients who are not aware of the identity of the person in charge of their file continues to rise.

Is it too harsh to describe insurance companies as *organizations that appear to be least committed to the notion that clients are to be treated with respect*?

A system that has not changed for over five decades is on the brink of collapse.

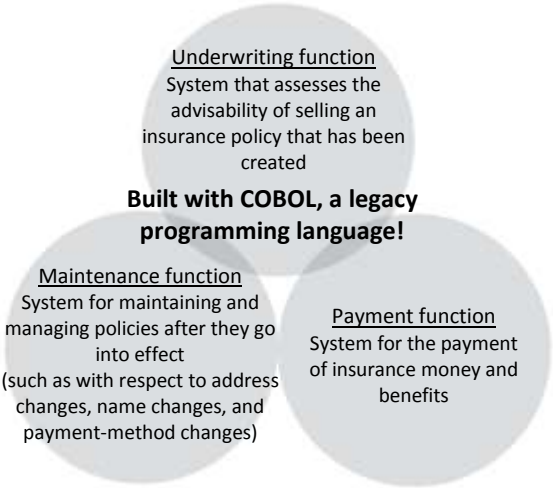
Insurance companies are also beset by internal issues; a prime example is the system where the client information is managed.

The system used by insurance companies is based on the COBOL programming language, which might be familiar to those with a computer programming background. As mentioned earlier, COBOL is a legacy programming language first introduced more than half a century ago in 1959. This language remains in use by insurance companies.

Insurance companies feel compelled to continue using such an old programming language because insurance policies are in effect over extremely long periods of time.

For example, where insurance coverage is in effect until the insured person dies as in the case of a whole-life insurance policy, the term of the agreement will be up to 99 years. Since such a system is one that is meant to manage long-term insurance policies, it would not be out-of-place to see a system from over fifty years ago still running.

Figure 4 / Three functions desired in the system in use in the insurance industry



This is becoming a significant issue in the insurance industry. The systems in use need to be subject to regular maintenance and any new systematic feature or scheme that comes along must be incorporated into these systems.

Since such old and massive systems are being operated, young engineers who attempt to undertake maintenance work in recent years are often unable to understand ancient code written decades earlier.

The systems in use by insurance companies broadly fulfill three different functions.

The first is *underwriting.* This function determines whether or not it would be advisable to sell an insurance policy that has been created.

The second is the *maintenance function*, whereby a system is used to maintain and manage a policy from the time it is put into effect to the time the insured person dies.

The third is the *payment function* for the payment of insurance money and benefits.

The above three functions are basic functions required of the systems in use by insurance companies. A failure to properly maintain these systems will impede the day-to-day operations of an insurance company.

Despite the fact that these systems are so important, the state in which system operations are substantially affected by such factors as an inability to understand the underlying code persists.

I can't receive my insurance money!?

It is a fact that a negative impact is already being felt in practice.

For example, a process known as *aggregation* is carried out as part of the *underwriting function*. This is a risk mechanism utilized by insurance companies to control risk by assisting to determine, for any given client, the extent to which risks are acceptable when selling insurance at the time a policy is underwritten.

In such a case, you will need to call up a name. To illustrate, a certain insurance company has to determine whether or not an individual by the name of *Fujii* is enrolled in another insurance policy by entering the date of birth, phonetic reading of the name of the person, and sex to call up the individual in question. In some cases, a completely different individual with the same family and given names, date of birth, and sex will be found and deemed to be the

same person. In such a scenario, it is not possible to accurately identify the given individual.

A significant issue also affects the *payment function.* In other words, the payment of insurance money—which is the most essential aspect of insurance—is also being impeded under the current system.

There are three stakeholders when it comes to life insurance: the *policyholder*, who constitutes the contracting party; the *insured person*, who constitutes the covered party; and the *beneficiary*, who constitutes the intended recipient of insurance money.

Typically, the head of a household will be both the policyholder and insured person, and the spouse will be the beneficiary. If we add other family members or siblings to this list of stakeholders, client management becomes more complicated, such that there is a risk that the payment of insurance money when the problem that arises cannot be carried out smoothly.

For example, insurance is sometimes used as an inheritance tax measure by wealthy people who possess valuable inherited property. In some such cases, you might have up to around ten designated beneficiaries, including sons, grandchildren, and great-grandchildren. When signing such a policy, not all the relevant details—such as the addresses of beneficiaries—are properly determined in every case.

To top it off, any change in the address of a beneficiary would never be tracked by an insurance company. The current address of a policyholder is an important detail to be kept in an up-to-date state by an insurance company, since premiums need to be properly obtained. In contrast, details regarding beneficiaries are essentially of no concern since an insurance company only needs to pay them insurance money.

If nothing else, with the system in use today, it is difficult to properly manage the addresses of and all other pertinent details concerning beneficiaries.

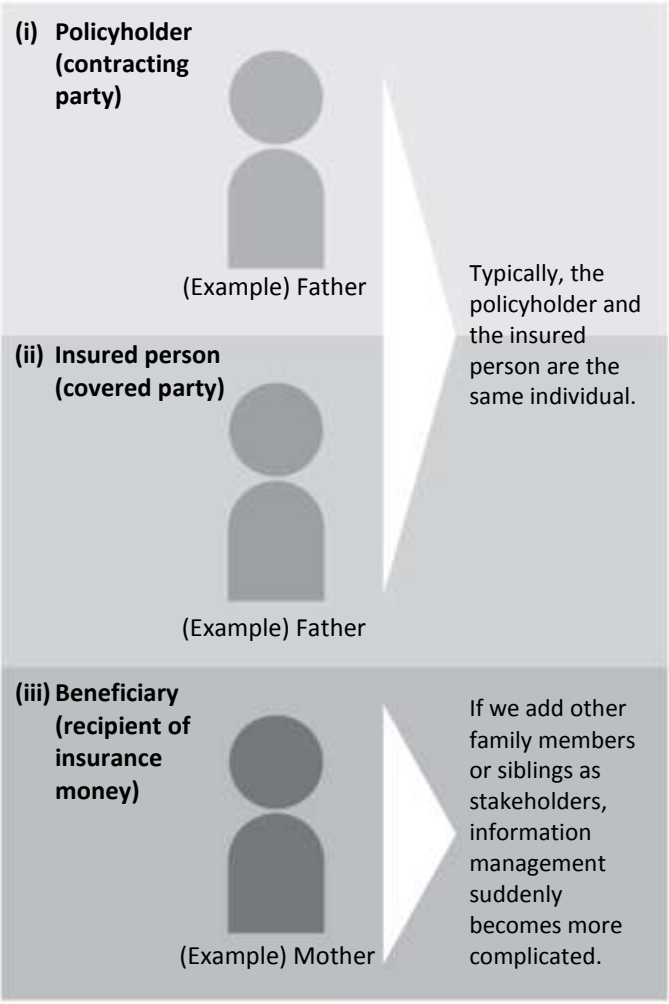
This is also quite disadvantageous for those to whom insurance money is paid.

If someone were to enroll in an insurance plan without notifying the beneficiary and soon thereafter dies, what would happen?

Unless a declaration is made by the beneficiary, no procedures for the payment of insurance money would be undertaken. Moreover, if the beneficiary, without knowing that he or she has been designated a beneficiary under an insurance policy, were to move without notifying the insurance company of a

change in his or her address, it is conceivable that the beneficiary would no longer be able to receive the insurance money to which he or she is entitled in some cases.

Figure 5 / Three stakeholders with respect to life insurance



In order to help improve this situation to whatever degree possible, it will be necessary to harness FinTech to make significant changes to the old, massive systems still in place at and operated by insurance companies.

Numerous complications caused by changes to sales channels

Insurance sales channels have undergone huge changes in recent years.

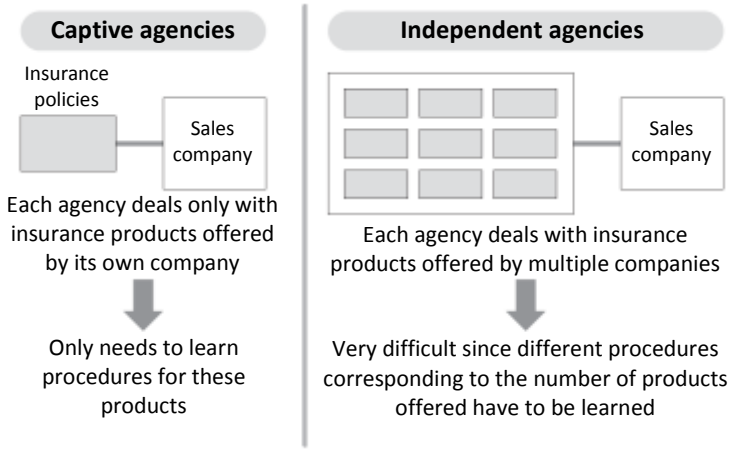
Up until recently, insurance policies were normally sold by *captive agents*. To illustrate, an agent belonging to Company A would deal only with insurance policies offered by Company A. In recent years, however, insurance policies are increasingly being sold through *independent agencies*. An independent agency refers to an insurance agency that deals with the products of multiple insurance companies.

If you have ever walked around town, you might have noticed signs on which it is written "Insurance ○○○" or "○○○ Clinic." These are in reference to independent agencies.

Their influence is steadily growing. In recent years, independent agencies collectively known as the Big Four have expanded their network of offices to over a thousand locations nationwide. The ratio of captive agencies to independent agencies in terms of sales stood at 65% to 35% in 2016. The share of the market attributable to independent agencies will surely increase gradually in the years to come.

These changes to sales channels have been causing clients, independent agencies, and insurance companies to encounter new problems unique to each of these parties.

Figure 6 / Differences between *captive agencies* and *independent agencies*



Let us first examine issues from the point of view of clients.

An independent agency can deal with the policies of multiple insurance companies if agreements are concluded with these companies.

Incidentally, there are a total of 92 companies— 41 life-insurance companies and 51 non-life-insurance companies—engaged in sales activities within Japan (as of October 3, 2016). Described as the largest collection of independent agencies in the country, Hoken no Madoguchi is a corporate group comprising a total of 41 companies— 25 life-insurance companies and 16 non-life-insurance companies—as of 2016.

If a given individual were to constitute a client who has taken out policies offered by only a single one of these companies, there would not be much in the way of difficulties. However, if a given individual were to, for example, take out a life-insurance policy offered by Company A, medical-care insurance policy offered by Company B, and annuity insurance policy offered by Company C, procedures would need to be carried out three times.

Indeed, after the application forms have been completed, required fields in the transfer forms for the bank accounts from which insurance premiums will be deducted will need to be entered. The details to be entered are exceedingly particular. If a given client is to fill out such forms three times, it would impose a huge burden on him or her at the time these policies are being taken out. Naturally, the time required to complete the necessary procedures is also lengthened.

Likewise, this imposes a considerable burden on insurance agencies as well. Unable to undertake three different types of procedures in one go, these agencies are seeing an explosive increase in the amount of paperwork they have to complete. Moreover, since the formats for account transfer forms and other such procedures are not uniform, agencies must learn how to carry out dozens of different types of procedures.

Many new insurance products are introduced all the time and new employees are joining the industry. Each time, the methods by which procedures are to be carried out must be learned from scratch. Bewilderment arises in the field and many errors of a clerical processing nature actually occur.

In order to keep these errors to a minimum, insurance companies make available instructors to guide salespersons at insurance agencies. A certain major foreign-affiliated insurance company is said to employ a force of about a thousand such instructors of this type alone within Japan. Think for a moment

about how much this must cost in labor terms. The cost is certainly enormous. This is the sort of issue affecting insurance companies as well.

Now then, what do you suppose would happen if no account transfer forms were procedurally required?

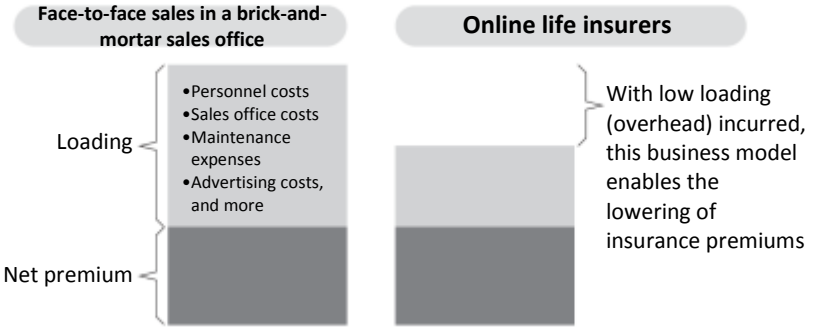
Clients would be alleviated of stress in this respect and insurance agencies would no longer need to learn dozens of different types of procedures. With account transfer forms, it is easy to make mistakes in filling them out and affixing seals. If such forms were to be eliminated, insurance companies could reduce the number of instructors they employ by a significant amount and produce considerable cost savings.

It is believed that the key to making these benefits a reality likely resides in *FinTech.*

Emergence of a new approach as seen in the online selling of insurance

In addition to independent agencies, the selling of insurance online was regarded as a prospective sales channel for insurance policies.

Figure 7 / Business model for online life insurers



Lifenet Insurance Company emerged in 2008 as the first example of this sales approach taken in Japan and has grown to the point where its shares are set to be listed.

Internet-only insurance companies do not necessarily possess brick-and-mortar offices as do existing life insurance companies and are also associated with small workforces in the minds of observers. After all, they are known as *online companies.*

Thus, sales promotional campaigns targeting young families who might have wanted to take out life insurance policies but who felt that they were unable to sign agreements due to high premiums were undertaken.

This approach was successful and initially allowed the number of policyholders to grow in leaps and bounds.

If we take a look at the number of life insurance policies underwritten by Lifenet Insurance Company, we see that there were 5,116 policies as of the end of March 2008. Growth occurred from the following fiscal year as follows.

End of March, fiscal year 2009: 23,506 policies (359.46% year-on-year increase)
End of March, fiscal year 2010: 63,188 policies (168.82% year-on-year increase)
End of March, fiscal year 2011: 118,040 policies (86.81% year-on-year increase)
End of March, fiscal year 2012: 169,312 policies (43.44% year-on-year increase)
End of March, fiscal year 2013: 202,963 policies (19.88% year-on-year increase)
End of March, fiscal year 2014: 215,403 policies (6.13% year-on-year increase)
End of March, fiscal year 2015: 225,534 policies (4.70% year-on-year increase)

What do you think? These numbers have clearly plateaued.

In the beginning, the online selling of policies by insurance companies was a very novel concept. People who were so-called *early adopters*, who were sensitive to trends and gathered information on their own, steadily took out such policies at that time. Thus, astounding triple-digit year-on-year growth figures were recorded until the end of March in fiscal year 2010. It was at this point in time when the rate of growth in terms of the number of policyholders peaked.

Incidentally, the number of new policyholders as expressed on a time-series basis is as follows:

End of March 2012: 60,725
End of March 2013: 60,685 (0.06% year-on-year decrease)
End of March 2014: 46,237 (23.80% year-on-year decrease)
End of March 2015: 27,982 (39.48% year-on-year decrease)
End of March 2016: 25,150 (10.12% year-on-year decrease)

When Lifenet Insurance Company first appeared on the scene, there were

many people who readily accepted the concept of providing life-insurance policies at cheap premium online and took out new policies accordingly. Once the pool of early adopters was exhausted, however, we see that further growth ceased and that the number of new policyholders plunged.

Limits to online life insurers

So why then did this trend suddenly peak?

In an article posted on the Toyo Keizai Online website on May 23, 2015, Chairman Haruaki Deguchi of Lifenet Insurance Company explained why he believed that the number of new policies was on the decline as follows: "Because persons working for existing life insurance companies were on the ground and checking on people's safety back when the Great East Japan Earthquake struck, the sense that life insurance should be bought from clerical staffs rather than online sites was heightened."

This is undoubtedly one of the reasons for the peak of the trend. However, one can conceive of a number of possible factors behind the incompatibility of life-insurance products with online sales.

In the first place, there are prospective clients with whom an agreement cannot be arrived at fully via just the Internet.

Young people may very well be capable of concluding an insurance agreement online without much in the way of resistance to this idea. In contrast, once you reach a certain age, the purchase of an expensive product like insurance is met by some with resistance to the notion of concluding a contract only through online channels.

Secondly, it is difficult in particular for Internet-only life-insurance companies who have entered the market late to raise their profile.

No matter how much they strive to engage in acts of publicity through Facebook and Twitter, the information they wish to share with prospective clients will not spread as long as prospective clients are not seeking to obtain such information for themselves.

In this connection, an insurance company employing numerous insurance agents is capable of engaging in door-to-door sales, an approach that incurs costs but that nevertheless allows prospective clients to be reached. In fact, while most insurance agents do not last long since they rely on attaining sales through personal connections, an insurance company will be able to raise its

profile as long as its sales force is constantly being replenished with new insurance agents.

The biggest factor behind the plateauing of online insurance companies is the fact that insurance premiums did not become as cheap as many people were expecting.

When online insurance companies first appeared on the scene, consumers felt that insurance premiums must be low since policies were being sold online. Insurance companies probably harnessed this point as an advantage to their business model and endeavored to expand their own market share accordingly.

As described above, however, their profile as insurance companies did not rise much at all. No matter how much Facebook, Twitter, and other examples of social networking services are utilized, there is a limit to the extent to which a company's profile can be raised. Consumers were not aware that these companies could elevate their profile among consumers by simply engaging in marketing efforts online.

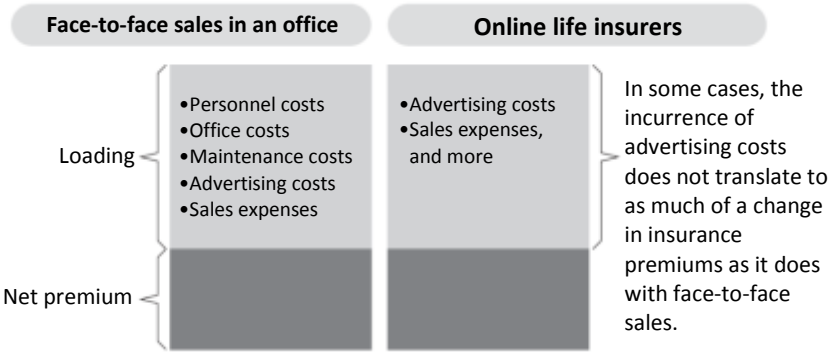
Consequently, these companies were compelled to wage advertising campaigns via television commercials, newspapers, magazines, and other traditional media options.

Unfortunately, such an approach to advertising incurs massive costs. Let us examine the advertising costs incurred by Lifenet Insurance Company as noted in their financial statements:

April 1, 2010, to March 31, 2011: 1.290 billion yen
April 1, 2011, to March 31, 2012: 1.963 billion yen
April 1, 2012, to March 31, 2013: 2.542 billion yen
April 1, 2013, to March 31, 2014: 1.595 billion yen
April 1, 2014, to March 31, 2015: 1.258 billion yen
April 1, 2015, to March 31, 2016: 0.838 billion yen

While advertising expenses did finally decline significantly during the fiscal term that ended in March 2016, a whopping 2.542 billion yen in advertising costs was incurred in the fiscal year that ended in March 2013.
As long as such substantial amounts are spent in order to raise a company's profile, it will be difficult to offer cheap insurance through low-cost operations to as many consumers as possible.

Figure 8 / Online life insurance incurs a high advertising costs



Of course, 2.5 billion yen or so in advertising costs can be easily absorbed if your ordinary revenue is as large as it is for major life insurance companies. It is, however, a major burden to bear for a company whose operational scale is like that of Lifenet Insurance Company these days. The Lifenet Insurance Company's ordinary revenue is 9.387 billion yen for the fiscal term that ended in March 2016. In contrast, the ordinary revenue of any major domestic life insurance company reaches several trillion yen per year.

You may think that the lack of physical office space and a workforce of insurance agents enable low-cost operations and lower premiums, but the spending of this much money on advertising costs causes this logical edifice to crumble to the ground.

While it is true that premiums are set lower for policyholders than they are by major life insurance companies for the same level of coverage under the same set of conditions, there are cases in which premiums for insurance policies sold by independent agencies are in fact set to a lower level. Thus, it can no longer be categorically stated that insurance premiums will be low because a given policy is being offered by an Internet-only company.

What will become of online insurance companies?

It is likely that the situation will worsen if nothing changes. Thus, a breakthrough will need to be found somewhere. For example, Lifenet Insurance Company formed a partnership with KDDI[1] and introduced a new

[1] KDDI is a Japanese major telecommunication provider, which operates a mobile carrier under the brand name *au*.

product known as *au life insurance* in April 2016.

In this way, the fate of online insurance companies will be determined by the success with which never-before-seen services can be conceived and launched through ties formed with enterprises in other industries.

The rising power of independent agencies

As noted earlier, Internet-only insurance companies are suffering from having hit a ceiling both in terms of the amount of policies in force and the number of new policyholders. Despite the fact that ours is now an internet-driven society, the selling of insurance products continues to be dominated by a model in which policies are sold through human beings.

Simultaneously, channels for selling polices physically includes different possible ways. For example, insurance can be exclusively tied to one company and these agents are known as *salesladies.* There are also independent agencies that handle multiple insurance products from different companies. The two different channels account for 65% and 35% of the market in 2016.

Agencies that are exclusively tied to a single company conform to a traditional method of sales associated with Japanese life-insurance companies. Insurance agents known as *salesladies* have been playing a key role in supporting this method over the years.

The first life-insurance company to be founded in Japan was Nittō Hosei Company, which was granted a license to operate in 1880. The oldest extant life-insurance company is Meiji Life Insurance Company, which was established in 1881.

Having insurance products sold by *salesladies* who would peddle insurance products was a practice that began after the end of the Second World War, when life-insurance companies supposedly offered women who lost their husbands on the battlefield an opportunity to work and earn enough to cover living expenses. Incidentally, there were 229,668 salespersons registered with the Financial Services Agency in this industry as of the end of March 2016.

At one time, up to 450,000 *salesladies* were employed in Japan. The collapse of the bubble economy and an economy that struggled to grow made it difficult to secure new policyholders and caused the number of *salesladies* to decline throughout the 1990s. Consequently, their number has fallen to less than half of what it was at its peak. Nevertheless, there are still 220,000

salesladies in the industry today.

Independent agencies, on the other hand are, as mentioned earlier, a type of insurance agency that handles the insurance policies of two or more companies.

The ban on this sales channel was lifted in 1996, such that it has not been around for very long. Its potency, however, is growing with each passing year. It was indicated above that single-company exclusive agencies and independent agencies accounted for sixty-five percent and thirty-five percent of the market, respectively. The likelihood is that this ratio will invert in just a few years.

The biggest factor behind expectations that the power relationship between single-company exclusive agencies and independent agencies will invert over the next several years is the fact that the selling of insurance through occupational sales is becoming incredibly difficult.

Previously, one would have expected to see a constant stream of sales ladies enter a given office, place pamphlets on employees' desks, and engage in sales activities. Nowadays though, security measures have been tightened everywhere, such that occupational sales of this type cannot be undertaken for the most part.

The leaking of corporate information has become a substantial problem, one that we will touch on later in the second half of this book. For this reason alone, the information security system in companies will become increasingly strict. Under such circumstances, *salesladies* are becoming increasingly subject to constraints on their actions, as a result of which single-company exclusive agencies cannot help but diminish their ability to engage in sales. In particular, it is possible that the number of new clients will decrease sharply.

What clients require of insurance is also becoming increasingly diversified and segmentalized. The type of client who takes out an insurance policy to obtain whole-life insurance or other first-sector insurance coverage with a domestic insurance company but takes out insurance policies to obtain medical-care insurance or other third-sector insurance coverage with a foreign-affiliated insurance company is also increasing in number.

Even if a client who has taken out a life-insurance policy with a single-company exclusive agency tied to a domestic company seeks to take out an additional policy to obtain medical-care insurance coverage, the single-company exclusive agency will, despite any desire to recommend a medical-care insurance policy offered by a foreign-affiliated insurance company, advise

the client that they cannot help the client since they do not offer such a policy. Naturally, the client's needs in such a case cannot be satisfied, which invariably results in the loss of a sales opportunity. We believe that joint types of insurance agencies will increase in number for this reason as well.

A huge turning point ushered in by amendments to the Insurance Business Act

In May 2016, the revised Insurance Business Act went into effect. This amended statute will likely constitute a huge turning point for the insurance industry.

What changed specifically?

The biggest point is the establishment of an obligation to ascertain the intent of each client. Does this mean that insurance companies previously engaged in sales while ignoring the intent of each client?

While this is a highly subtle matter, we believe that, in most cases, insurance products are sold after the intent of the client has been verified to a certain degree.

However, since persons in charge of sales at insurance agencies are also human beings, it would be natural for them to desire to sell insurance products that net them as much money in commissions as possible. In this situation, an agency will, after listening to what a client wants, engage in actions that may not exactly be self-serving but that nevertheless consist of providing recommendations of insurance products with high commissions for any number of plausible reasons.

In response, the Financial Services Agency adopted a rule mandating the ascertainment of intent, by which a written document capable of proving that an insurance product was offered according to the ascertained intent of the client, that the contents thereof were explained properly, and that an insurance product consistent with the intent of the client was thereby sold must be retained.

In addition, the Financial Services Agency requires that agencies disclose commissions earned by agencies for the selling of insurance.

In the case of an investment trust, the commission is paid at the time a client purchases the investment trust from the financial institution, and the trust fee is deducted daily as long as the investment trust is held by the client.

In contrast, the costs to be borne by the client purchasing an insurance product were not expressly indicated.

In other words, even if a high-cost insurance product was recommended to a client, there was no way for the client to know if he or she was being made to pay high commissions.

Agencies, on the other hand, were largely recommending insurance products for which high commissions could be imposed on clients. Consequently, the recommending of insurance products that were inconsistent with the intent of clients by agencies was a widespread practice.

Optimizing the way in which commissions are disclosed and sales are undertaken

The requirement to have such fees disclosed shook up banks in particular. This was because, with commissions for insurance sold at bank counters not having been indicated previously, banks were able to earn large amounts of commissions from the selling of savings-based insurance policies especially in comparison with investment trusts and other such products.

What made it possible for insurance to be sold at bank counters was the financial Big Bang that was pushed forth by the Hashimoto administration in 1998.

The financial Big Bang ushered in amendments to the Foreign Exchange Control Act as well as a sudden lowering of previously hard barriers separating different sectors—banking, securities, and insurance—from one another. One example of the outcome of this process can be seen in the selling of insurance products at bank counters.

The passage of a number of statutory amendments paved the way for the selling of insurance at bank counters from April 2001. While only group credit life insurance relating to housing loans was handled initially, the handling of individual annuity insurance and property accumulation-type insurance policies was permitted beginning in October 2002. The types of insurance handled at bank counters continued to expand, with single-premium whole-life insurance, lump-sum endowment insurance, short-term level-payment endowment insurance, indemnity insurance for individuals, and other types of insurance policies permitted to be sold from December 2005, and term insurance, level-payment whole-life insurance, long-term level payment endowment insurance,

medical and nursing-care insurance, automobile insurance, and other types of insurance policies permitted to be sold from December 2007.

There is a reason why banks came to proactively sell insurance products in this way.

The banking business is based primarily on loans and deposits. In other words, funds received through deposits are loaned to companies and individuals to generate a profit margin. The collapse of the bubble economy in the eighties, however, caused Japan to suffer from a long-term deflationary economy and economic stagnation throughout the nineties and the first decade of this century. In addition, the capacity of banks to earn a profit from their loans and deposits business declined precipitously, thanks to super-low interest rates that have even led to the emergence of today's negative interest rates.

Of course, this meant that banks had to find other sources of revenue. It was at just this time that the ban on the selling of investment trusts and insurance products at bank counters was lifted.

When we look ahead, we can surmise that banks will continue to aggressively promote such commission-based business opportunities.

While we cannot know for how much longer super-low interest rates will persist, it is unlikely that this state of affairs will simply come to an end anytime soon.

With respect to banks' loans and deposits business, the Japanese population will continue to decline, which means that domestic demand for loans, as seen from a macro-economic perspective, will be forced to shrink. No prospects for significant improvements are in the forecast.

When you think about these matters thusly, banks will likely continue to press forward with the handling of financial instruments, such as investment trusts and insurance policies, that allow them to earn commissions. Incidentally, it is said that commission rates for *specific insurance products*—such as variable annuity insurance and foreign currency-denominated insurance plans—actively offered by banks are typically higher than they are for investment trusts.

Moreover, the fact that these commission rates are hidden from the perspective of clients is a problem. Given the Financial Services Agency's current focus on proactively optimizing the selling of investment trusts, it is only natural that this is an area in which the Financial Services Agency has decided to implement drastic measures.

The end of the selling of insurance at the convenience of agencies

In this sense, directives issued by the Financial Services Agency to verify clients' intent and disclose commissions and fees charged by agencies will likely help optimize the selling of insurance products. Even more than the checking of intent, the disclosure of commissions will result in banks and other insurance agencies no longer primarily selling insurance products with high commissions that are to their own benefit and should cause insurance products with coverage that is, in a very real sense, necessary and appropriate for clients to be sold instead.

In terms of the optimization of sales, it should also be noted that onsite examinations are now being conducted by the Financial Services Agency not just at insurance companies but also at insurance agencies.

Examinations administered to insurance companies by the Financial Services Agency used to be consistently administered only to insurance companies themselves. Their scope, however, will be spreading to also encompass insurance agencies. In one sense, insurance agencies were previously placed under the protection provided by insurance companies, which served as their shields. An upswelling of criticism from various corners affect to the effect that products were being sold with an over-emphasis on commissions emerged to such an extent that the Financial Services Agency could no longer overlook this issue. We will now see the Financial Services Agency begin to conduct examinations at insurance agencies directly.

Naturally, there is a need for insurance agencies to prepare for examinations to be conducted by the Financial Services Agency by, of course, optimizing the sales process as well as by retaining pertinent materials as proof thereof, properly managing client information, and otherwise constructing a new compliance framework.

While some insurance agencies have indicated that they believe the sector will be subject to culling as a result of the latest statutory amendments, clients should welcome these amendments for helping reduce cases in which insurance products with high commissions that are favorable to insurance agencies continue to be furiously recommended to clients.

Chapter 2 FinTech will save the insurance industry

FinTech has arrived!

These past few years, the term *FinTech* has become a veritable buzzword (a term that appears to be important at first glance but is in fact somewhat ambiguous in terms of its definition and meaning).

As touched on at the beginning of this book, *FinTech* is a portmanteau that blends the words *finance* and *technology* together. It consists of a new form of finance that is emerging through the incorporation of technological developments consisting of artificial intelligence (AI) and Big Data into the area of *finance*.

Let us provide a number of simple examples.

If we look at household accounts, we see that people used to diligently save receipts, record monthly disbursements in detail with a pen and paper notebook, and calculate total amounts of income and spending with a calculator to determine whether they were in the black or red.

However, we believe that it is quite common for people to lack perseverance, such that they can suddenly lose the will to continue to maintain their household accounts when they lose their receipts or forget to record a day or two of activities along the way. While other methods of managing household accounts on a screen based on the use of Excel or other examples of spreadsheet programs later emerged as alternatives to the paper-based approach to this task, people still had to enter the information themselves, which meant that they were forced to be assiduous in order to make the task of maintaining household accounts a habit.

Thanks to FinTech, however, anyone can automatically manage their income, spending, assets, and liabilities in maintaining their household accounts.

Household account platforms linked with banks, security firms, insurance companies, asset-management companies, and other such enterprises not only automatically calculate the aggregate market value of held assets, but also digitalize amounts stated in receipts photographed using the camera function included in smartphones for direct incorporation into the expenditure column of the user's household accounts.

In addition, analytical tools are also provided to determine average values

of spending by households with similarly aged members, income levels, and structure and identify which spending items are higher (or lower) than average.

FinTech will knock the bottom out of the established business model

Household accounts are not the only thing that has evolved thanks to FinTech. Having been the exclusive province of banks to date, loans will also be possible to make in a manner that bypasses banks.

Under the conventional framework of finance, banks collect money in the form of deposits made by an unspecified large number of people and lend this money to companies and other parties that wish to borrow money. In this way, an equilibrium of supply and demand for money is achieved.

These days, however, online platforms (operating environments) are available to match applicants wishing to borrow money with those who would like to lend money. In some cases, various types of data analysis are performed by the platform to determine and rate the level of borrower safety and risk.

This kind of scheme is known as *social lending* or *crowdfunding.*

FinTech has also entered the field of asset management. Traditionally, asset management was carried out by having a human being assess future economic conditions and corporate performance and determine which assets to invest in and the amounts to be invested in such assets. In the future, however, robots will take over the task of making such determinations. These robots will be known as *robot advisors.* After details concerning your held assets, household structure, and risk tolerance are inputted, a robot advisor will calculate optimal solutions for your asset-management needs.

Household account platforms, social lending, and robot advisors are all rising stars in the FinTech galaxy.

Various other forms of FinTech innovations, such as cryptocurrency based on the use of blockchain technology (a system for obtaining highly reliable agreements through mutual monitoring with the use of a distributed computing network) also exist, but they have only just begun to scratch the surface in terms of viability for our purposes.

It is true that FinTech is shaking up the existing financial industry to its core. However, FinTech, which has been garnering much attention in the public eye, has thus far only rendered conventional financial functions just a little more intelligent.

This is why innovations linked to FinTech—whether we are talking about household account platforms, social lending, or robot advisors—cannot be perceived as being powerful enough to at least potentially function as alternatives to modern banks and security firms.

By harnessing FinTech, however, one financial sector certainly possesses the potential to thoroughly disrupt its business model from its very foundation. This sector is the world of *insurance.*

Online life insurers are not the same thing as FinTech

Online life insurance company, whereby insurance policies are sold via the Internet, has been around for about a decade.

The trailblazers for this field consist of Lifenet Insurance Company and AXA Direct Life Insurance, both of which began sales operations in 2008. This sector, which began with just two companies that offered online life insurance products, subsequently became swamped with new entrants. Today, nine companies, some but not all of which are online-only, compete ruthlessly for sales of online life-insurance policies.

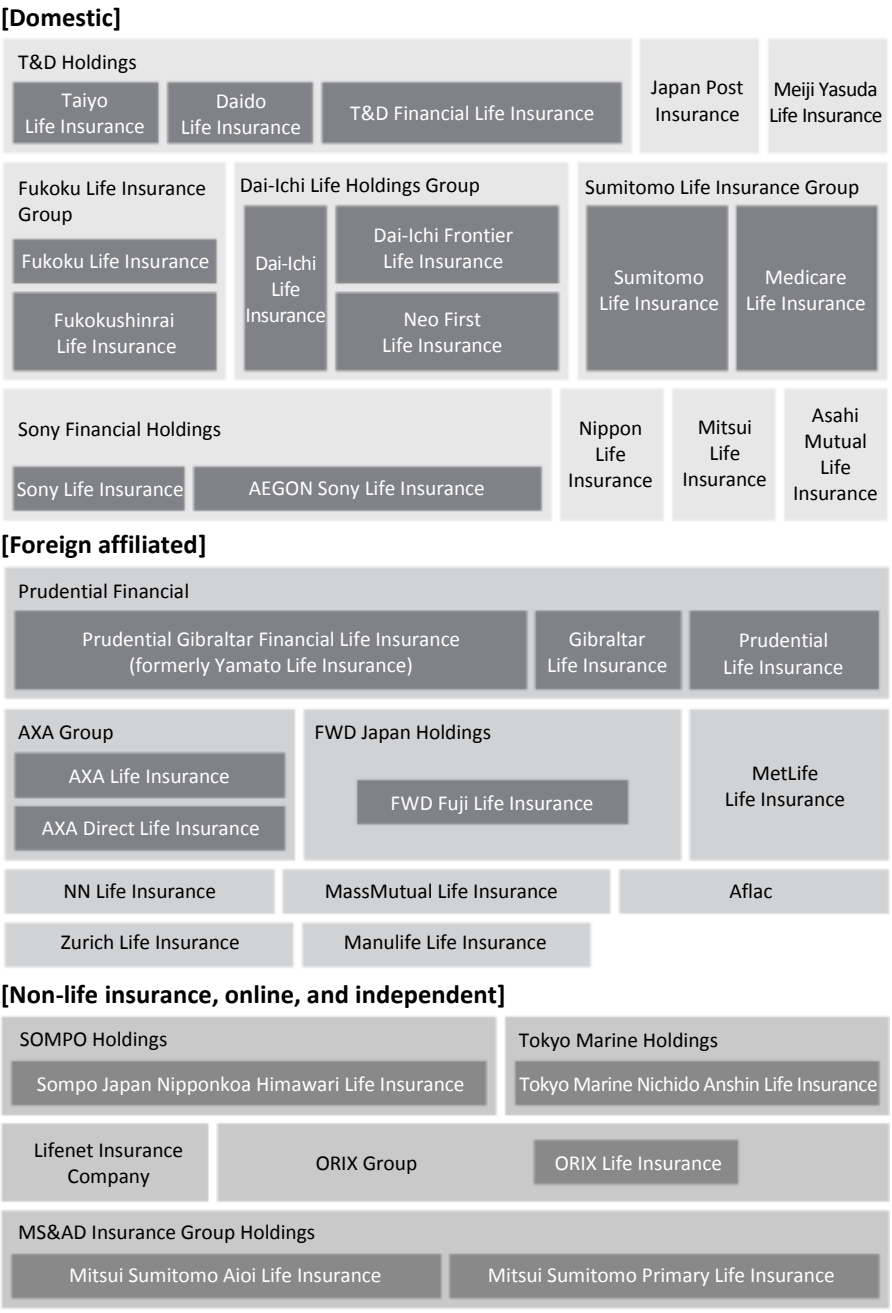
While such forms of online life insurers could be seen as examples of FinTech in the sense that they combine Internet technology with the operations of insurance companies, they all represent nothing more than the replacement of existing insurance companies with the Internet.

When you come right down to it, we are at the level of FinTech 1.0, which is at the same level as that of online banks and online securities firms.

For online life insurance companies, the lack of offices and salespersons necessitates contract procedures whereby the client has to directly visit the insurance company's website and fill out required fields. While these steps can be bothersome to clients, the fact that management costs can be kept low allows for an advantage in the form of premiums cheaper than those of insurance policies sold through salespersons.

For insurance companies, however, FinTech 1.0 did not offer any sort of revolutionary force sufficient to shake up the entire industry. Existing insurance companies simply did not see it as any kind of credible threat to their way of doing business.

Figure 9 / Life insurance: industry distribution map



Accordingly, even traditional insurance companies without exception came to subscribe to the notion of selling insurance via the Internet. If we cut to the chase, we can proclaim that an online life insurance company was not a true example of FinTech.

However, we aspire to achieve a world in which FinTech is deeply intertwined with insurance. Such a world should cause the insurance industry to undergo an evolutionary process that will be revolutionary.

This is probably a project whose implementation is disagreeable to those members of the insurance industry who do not wish to see the status quo altered. That progress is elusive despite the fact that technology to make this happen already exists can be explained by the unmistakeable existence of people and parties who would suffer if this project were to bear fruit.

The concept of a unified platform for the insurance industry

So, what are we trying to change in the present?

The answer has already been presented in the preceding chapter: to transition from old systems that are both byzantine and massive to a unified platform for the insurance industry.

The systems that are currently being used by many insurance companies do not just differ from one insurance company to another in terms of specifications. It is also no easy matter to simply modify some basic specifications, since a legacy programming language known as COBOL is used by these systems. Programmers capable of understanding COBOL and dealing with these systems can hardly be found these days among the young. If programmers continue to age, it is possible that we will no longer be able to change the specifications of these massive, sluggish systems. This, in turn, could cause instability and rock the management of insurance companies to their core.

As mentioned above, the systems in use by insurance companies broadly fulfill three different functions. Let us quickly go over them again.

The first step is underwriting. This function determines whether or not it would be advisable to sell an insurance policy that has been created. To put it differently, insurance companies must determine whether it is acceptable to accept client risks through insurance policies.

The next step is the maintenance function, a function for managing policies.

Policies need to be maintained and managed until the client dies or the insurance policy is terminated. In the case of life insurance in particular, the long-term nature of the policy means that it is exceedingly important to maintain and manage policies.

The third step is the payment function for the payment of insurance money by the insurance company to clients.

The above three functions are the primary functions of the systems in use by insurance companies. Not only do the specifications of these systems differ from one insurance company to the next, but there is even the risk that it might not be possible to smoothly maintain these systems, given their age and massive size. It is hoped that the magnitude of the risks posed by these systems to the management of insurance companies is understood.

Irrespective of the presence of such a huge potential risk, the adoption of a unified platform is not going smoothly. This is because adoption threatens to cause certain people in the industry to lose their jobs.

There are two types of people in an insurance company. Those who belong to sales sections or departments will wholeheartedly agree with the adoption of a unified platform, since it would allow them to streamline their own work. In contrast, those who belong to system sections or departments will give voice to various arguments against adoption. At this point, those who first agreed with adoption will ultimately back down due to their lack of detailed familiarity with the systems on which their operations rely.

Thus, the adoption of a unified platform is progressing at a snail's pace despite being technically feasible.

Begin by linking the data of all insurance companies together

What exactly is meant by a *unified platform*?

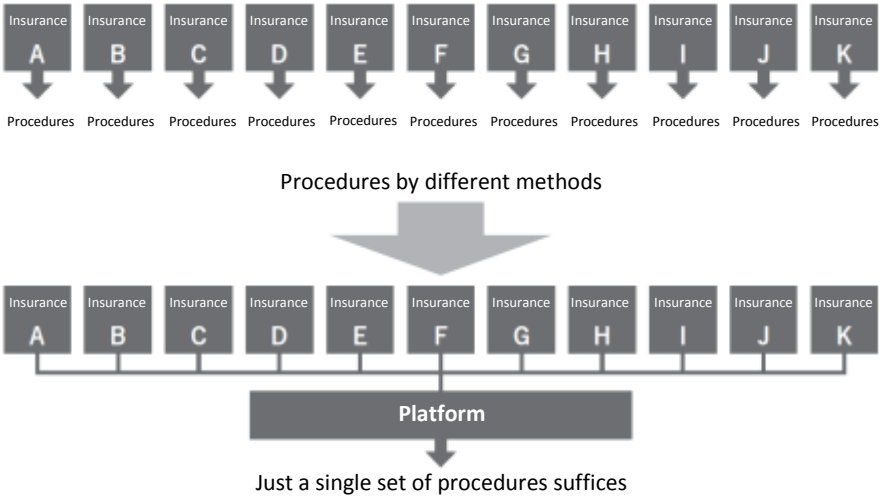
People in charge of product development at insurance companies are always seeking to create insurance policies that are as good as they can possibly be. This is the correct stance to take. Nevertheless, office workers likewise seek to formulate better office procedures.

Creating an identification process that does not burden clients and is easy to understand is not bad; however, the identification process differs from one insurance company to the next. No matter how optimal office procedures may be, it will simply not be to the benefit of clients if there are as many different

types of procedures as there are insurance companies. If there are 92 insurance companies in Japan, there might be a slew of procedures numbering 92 different sets in all. For clients faced with the need to actually undertake all of these procedures, this constitutes a huge burden.

What we are proposing is that someone takes the lead in unifying the systems necessary for different procedures for the insurance industry as a whole. What we are thus talking about is the concept of a unified platform for the insurance industry.

Figure 10 / Linking data with a unified platform



The creation of a unified platform given the current state of the insurance industry is thought to be quite a difficult challenge. As stated earlier, this is because of the possibility that objections will be raised.

Therefore, the development of a platform that is truly unified will take some time.

This does not mean, however, that the option to do nothing can be chosen. To reiterate yet again, the existing massive COBOL-based system is reaching its limits. In addition, given the rising power of independent agencies in sales channels for insurance and the complexity of office procedures, there is a need to create a scheme to enable the submission of insurance enrollment applications based on a unified format.

In this connection, perhaps it would be a good idea to at least begin by

establishing connections among data possessed by insurance companies.

Strong leadership is what is needed to achieve success

Specifically speaking, we are talking about a scheme that would allow client information possessed by each insurance company to be shared with other insurance companies once inputted into a common database.

There is no need to entertain concerns that an insurance company might have about the advisability of allowing other insurance companies to access client information in its possession. This is because client information required for name identification purposes is already accessible through a database used by the entire insurance industry.

For example, let us say that Person A visits an insurance agency and indicates that she would like to take out an insurance policy. At this time, this insurance agency will look up the state of enrollments at its own insurance company and other insurance companies based on the use of name-identification data in order to verify that Person A has not already taken out a similar insurance policy in the past.

The process is conducted because there are rules in place that prohibit taking out insurance policies that aggregates the provided sum over a certain amount of coverage, or in the case of medical-care insurance, over a certain amount of daily benefits.

Therefore, name-identification actions based on the name, date of birth, and sex of an individual will be carried out to examine the state of enrollment in other insurance policies.

Since such a scheme is already being operated, it should not be too difficult to link the data possessed by different insurance companies. This is the first step that can be taken toward putting together a unified platform and is seen in my plan as the most realistic idea that can be presently implemented.

Of course, we would like to eventually see a unified platform become a reality. When can we see this happen?

Given the political factors that play a big part in this issue, a unified platform might be unveiled next year or in five years. Since the technical elements are already in place, it is now up to the insurance industry to move forward with a view to seeing a unified platform finally come to pass.

Once a unified platform is launched, it will be possible—as with account-

transfer forms—to digitalize the clerical documents that used to be subject to paper-based management.

The issue here is that the format of account-transfer forms changes from one insurance company to another. As long as the format of account-transfer forms differs according to insurance company, there would be no point in having a unified platform.

Incidentally, there are no provisions anywhere that stipulate that account-transfer forms used by insurance companies should be formatted a certain way. This state of affairs exists only because each insurance company has processed their paperwork to date based on the use of their own format and because the prospect of making changes to the status quo is too much trouble. Thus, someone needs to step up and exercise strong leadership in saying, "Since this would be for the benefit of our clients, let's all sit down and create a common format."

If insurance companies were to create a common format for account transfers and mount it on a unified platform, there would no longer be a need for account-transfer forms, and the inconvenience attributed to account-transfer forms that differ in terms of format from one insurance company to another as borne by insurance agencies would be eliminated in one fell swoop.

Will FinTech increase the ranks of the unemployed?

While the advantages of introducing FinTech to the insurance industry can also be found elsewhere, let us for now contemplate just how serious the matters of concern tied to the adoption of FinTech as expressed by members of society are.

If account-transfer forms are digitalized, you might first wonder what will become of those who have been dealing with the paperwork for account-transfer forms up to now.

As with anyone who simply dealt with paperwork in the office that deals with policy department in insurance companies, their jobs such as giving guidance to insurance agencies on paperwork and other clerical function are at a risk of losing their jobs.

For example, let us say that there are about a thousand instructors working for the Japanese subsidiary of a major foreign insurance company. In the event that a unified platform is launched, industry observers believe that 30 percent

of such employees would be rendered superfluous.

The concern that employees might be displaced by the adoption of FinTech is not limited just to areas relating to digitalization.

While we will go into this in greater detail later, we will say for now that, in addition to the digitalization of all sorts of clerical procedures, the use of artificial intelligence (AI) will attract attention in connection with FinTech.

Briefly put, AI is technology that will draw the most attention in the years to come. With AI, computers will be able to read various patterns and make decisions and judgements in a manner similar to what can be achieved with the human brain.

The fact is that it is highly likely that AI can function very effectively in the field of insurance.

If an insurance company were to delegate the sort of decision-making that used to require human intervention to AI, then manpower needs could decline significantly in any sections affected by this move.

According to an analytical report issued by the World Economic Forum held in Davos, Switzerland in January 2016 (commonly referred to simply as "Davos"), the rise of robots and AI will result in the loss of approximately 5.1 million jobs over the next five years in 15 countries and regions worldwide.

As you can expect from the report, there is the risk that the more AI and other aspects of FinTech are adopted, the greater the number of people who will lose their jobs even in the insurance industry.

Yet, we believe that the spread of FinTech will not necessarily lead to an immediate increase in the ranks of the unemployed. This is because the population of Japan will rapidly decline.

The Japanese population peaked in 2008, when it stood at approximately 128.08 million people.

However, this country's population is currently decreasing. According to estimated figures calculated by the National Institute of Population and Social Security Research, the population will decrease to 124.10 million people in 2020 and to 116.618 million people in 2030. In 2050, the population will cross the 100 million people threshold and decline to 97.076 million people. In 2060, it is expected to fall below 90 million people to 86.737 million people.

If the population declines, it goes without saying that the size of the labor force will also shrink rapidly. According to estimated figures provided by the National Institute of Population and Social Security Research, people between

twenty and sixty-four years of age peaked in terms of population size when this bracket accounted for 62.7 percent of the total population in 1995. This figure went down to 56.0 percent in 2015 and is expected to decline to 47.3 percent in 2060.

Since the size of the labor force is shrinking, it will be important to determine how we can make laborsaving and efficient gains. When the issues are also seen in terms of these large changes in the social structure, it is clear that FinTech will be hugely relevant for the insurance industry.

If we are to protect the safety of the core systems in place at insurance companies while the population of the country shrinks, we can at least say that the task of maintaining the old, massive systems that are currently being used by insurance companies is a challenging one. Since the ranks of engineers still familiar with COBOL are growing ever thinner as these engineers continue to age, maintenance itself will eventually become very problematic indeed.

The wild card for solving these issues is integration with FinTech. To elaborate, we even believe that, unless the insurance industry harnesses the power of FinTech, it will be rendered incapable of dealing with an aging society beset by a declining birth rate.

What can be done to mitigate the weakening of the Japanese economy in the face of an aging society and a declining birth rate? This is a huge matter that must be fully confronted not just by the consulting sector but also by the entire country.

The possibility of combining FinTech with the insurance industry as can be seen in past examples

As mentioned earlier, FinTech has begun to be utilized in various financial areas in Japan as well. In addition to household account applications, social lending functions, robot advisory services, and cryptocurrency, different financial services are emerging, albeit not yet on a very large scale. As we have explained thus far, FinTech is also expected to infiltrate the field of insurance in the years to come.

Overseas, the term *InsurTech* (which combines *insurance* with *technology*) has been coined to describe the incorporation of FinTech into the area of insurance. There are also signs that new services will also be unveiled in the future. Let us take a brief look at how we might see FinTech make gains in the

area of insurance, including with respect to not just life insurance, but also non-life (damage) insurance.

First, non-life insurance has traditionally consisted primarily of what is known as *risk subdivision-type automobile insurance*, whereby the risk that a driver will be involved in an automobile accident is precisely calculated according to his or her attributes. Specifically, risk is calculated based on the following nine items:

(i) Age
(ii) Sex
(iii) Driving history
(iv) Whether the automobile is to be used for commercial, personal, or other purposes
(v) Yearly distance driven and other conditions of automobile use
(vi) Region
(vii) Automobile model
(viii) Whether the automobile is equipped with safety features
(ix) Number of automobiles owned

More specifically, the younger the driver, the greater the risk that the driver will drive recklessly and thereby cause an accident. The more kilometers a driver drives in a year, the greater the risk that the driver will be involved in an accident to the extent that there are more opportunities being taken to drive an automobile. In this way, statistical data is used to determine the risk that an accident will be encountered. The premium to be charged will be set accordingly.

However, since there are also young people who drive carefully, some argue that you cannot paint all young people with the same brush in declaring that the risk that a young person will get himself or herself involved in an accident through reckless driving is high. Naturally, if you were to enroll such a person in a risk subdivision-type automobile insurance policy, it is possible that premiums that do not reflect that person's careful driving style will be set.

In this connection, insurance companies are looking to FinTech and studying the feasibility of automobile insurance policies for which the premium would be determined by installing a certain device in the automobile to be driven. Various types of information—such as information indicating the

way in which the driver steps on the accelerator and brake and the speed at which the automobile is driven—are uploaded to the cloud to enable analysis of the driver's driving skill, according to which the premium would then be set. This type of automobile insurance policy is spreading in the West.

With life insurance as well, there are moves to promote the development of new products and services through the adoption of FinTech.

For example, if a DNA analysis reveals that there is a large risk that a person will develop a serious illness, premiums can be set to a high level. On the other hand, if there is a low risk that an individual will suffer from any kind of illness that will incur large medical care expenditures in the future, then policies with insurance premiums that are set low to reflect this knowledge will likely be offered.

Oscar Health Insurance, a company selling medical-care insurance online in the United States, sells insurance and also refers specialists operating practices near the home of each policyholder, manages each policyholder's history of prescription medicine and history of house calls made, and facilitates the issuance of prescriptions for generic drugs. This company retains a huge database of medical services provided to individuals, on the basis of which various services required for the management of personal health are slated to be developed and released in the future.

There is also a scheme known as *P2P insurance*. Also referred to as *social insurance*, policyholders all contribute small amounts of funds to a pool of money. In the event that a small amount of insurance money is to be paid, it will be paid out of this pool of money. Any large amount of insurance money exceeding a certain threshold determined in advance is to be paid by an outside insurance company.

P2P means *peer to peer*. In other words, persons wishing to enroll in an insurance plan can come together online and engage in cooperative actions whereby money is mutually contributed. It is fair to say that this concept gives rise to a business model that could not have come into being without the emergence of Internet technology.

There are other examples, including micro-insurance policies that can be easily purchased via one's smartphone, insurance companies that managed to improve their bottom line by adopting artificial intelligence for all aspects of their day-to-day operations, and the ability to undertake all sorts of procedures required to conclude an insurance policy by voice using voice-authentication

technology.

With respect to the means by which personal authentication can be performed, we have authentication technology based on voice as well as authentication technology based on fingerprints. There are also developments aimed at improving security in connection with insurance.

Services based on the use of blockchain technology might also become common in the future. A blockchain is a distributed computing network and constitutes a system for obtaining highly reliable agreements through mutual monitoring.

For example, you needed to go through a bank in the past when you wanted to exchange money. This is because banks were seen as playing a valuable role as an outside party that both sides in a transaction could trust whenever money was to be exchanged.

In contrast, blockchains enable the exchange of money directly between parties despite the absence of a third-party institution like a bank.

Bitcoin and other cryptocurrencies operate based on the use of this scheme. With Bitcoin, information indicating how many bitcoins are held in whose wallets is distributed around the world through blockchains. It is truly a very public system, such that if anyone were to try to use more Bitcoins than he or she owns, someone else would certainly call foul and prevent that person from engaging in any further transactions.

While there are no services at present that would allow a client to pay for premiums with Bitcoin, new services will doubtlessly emerge to allow for this action to be taken with Bitcoins and other forms of cryptocurrencies once cryptocurrency is implemented in the future for commercial applications.

Chapter 3 How will AI change insurance?

The third-generation AI boom as made possible by deep learning

If the impact of FinTech on the insurance industry is to be considered, the existence of AI is something that cannot be ignored.

AI is short for *artificial intelligence.* While AI is often associated with cutting-edge technology, the fact is that artificial intelligence these days corresponds to the third generation of this phenomenon, which, in turn, means that there was a first generation and second generation of AI in the past.

The first generation of AI was launched at a conference held at Dartmouth College in the United States in 1956. This is when the term *artificial intelligence (AI)* was conceived.

The first generation of artificial intelligence was truly simple and was developed to provide answers through the performance of high school-level algebraic calculations according to rules determined in advance. In addition, ELIZA was an AI robot who could converse with human beings. ELIZA was the basis for Siri, a voice-based assistant feature included in modern-day iPhones. However, ELIZA does not actually understand the contents of her conversations. She is merely providing answers thought to be the most suitable, in line with patterns that were given to her ahead of time.

Ultimately, the first generation of artificial intelligence was a far from real *intelligence*. The field of AI then settled down to a long winter characterized by a lack of any real evolution.

The second generation of AI was spearheaded primarily by *expert systems* that became widespread between 1980 and 1987.

These expert systems consist of two parts: an *inference engine* and a *knowledge base.* The inference engine uses the knowledge base to make inferences. The knowledge of experts is translated into rules and loaded into computers. Various problems can be solved according to an approach whereby the computer will make a certain determination if certain conditions are satisfied by the observed data.

This remained, however, a far cry from functions essential for the constitution of real intelligence, whereby a being will consider matters on its own and generate knowledge accordingly. Thus it was that the second generation of AI settled down to another winter of stalled progress.

The third generation of AI blossomed with *deep learning*, which emerged in 2010. Deep learning refers to machine-learning algorithms that allow for learning that approximates what the human brain can accomplish by way of augmenting hierarchies of neural networks (an approach to computerized information processing modeled on neural pathways in human beings).

Figure 11 / Third generation of AI made possible by deep learning

- **First generation (from around 1956)**
  Emergence of intelligent computers that operate according to given rules. Can play chess and prove mathematical theorems.
- **Second generation (from around 1980)**
  Determinations can be made by computers known as expert systems, thanks to an engine for which expert knowledge has been translated into rules.
- **Third generation (from around 2010)**
  Appearance of deep learning. Highly precise learning approximating the human brain is possible; calculation speeds have also improved dramatically.

By achieving this dramatic improvement in computer calculation speeds and significantly enhancing the environment for the usage of Big Data, the limits reached by AI up to the second generation, when computers exhibiting AI were not yet able to think for themselves, were overcome at a stroke.

Numerous practical experiments have been conducted to determine the extent to which third-generation AI excels. Media exposure has allowed the results of these experiments to become widely known.

There is a computer program named AlphaGo. Developed by Google DeepMind, this program defeated a top-class professional *go* player in October 2015.

While IBM's Deep Blue defeated a world-champion chess player in 1997, it was felt that it would be much more difficult to defeat a professional *go* player due to the far greater number of possible moves than there are in chess.

Nevertheless, the day on which a computer beat a human being at this game finally arrived.

This was truly an emblematic event.

We had all been thinking of computers as simply something that could perform calculations faster than human beings were capable of. None of us could have imagined that the day would come when computers could demonstrate the same level of intelligence as we ourselves possess.

What functions will be replaced by AI?

The appearance of third-generation AI, as characterized by computers that can learn and make determinations on their own, will probably significantly change the way we engage in our work.

Even in the insurance industry, which is the focus of this book, the adoption of AI in the near future will cause everything from back-office operations to sales to undergo dramatic changes.

What sorts of large changes will be visited by AI upon the insurance industry?

For example, for the underwriting of policyholder risks, there are experts known as actuaries who calculate, with a command of statistics and other tools, the probabilities that future uncertain risks, such as death or an accident, will occur. For operations involving a change of address or name identification, people who specialize in these areas will be placed in charge of relevant duties.

The question of whether humans will be replaced by AI for the performance of these operations will be looked at closely in the insurance industry in the years to come.

People are currently skeptical as to whether such work can be fully delegated to computers and whether AI has evolved technically to such an extent that AI can displace the manual labor that has been traditionally carried out for such operations. Thus, resistance remains strong in the industry.

It is likely, however, that displacement will eventually happen.

In the world of AI, the concept of the *singularity* argues for the arrival of an age in which technology will evolve with a sudden burst of speed to see the level of intelligence demonstrated by AI surpass that of human beings.

In 2045, it is expected that the computing power of a thousand-dollar personal computer will be ten billion times greater than the human brain. When

that time comes, the landscape of the world in which we live will undergo a sea change.

It should be noted that such a time is not in the distant future. In 2045, those who are just embarking on their careers will be in their fifties and working at the frontlines of their companies. In this sense, there is no doubt that the insurance industry will see some very interesting business opportunities unfold due to an expected transformation in the landscape as wrought by artificial intelligence.

Given these considerations, ongoing developments suggest that we have no choice but to accept that human beings performing actuarial jobs and various back office-related jobs will eventually be replaced by artificial intelligence.

Big Data will cause the insurance industry to undergo major reforms

Along with AI, Big Data represents a huge shift in technology, one on which the insurance industry must focus.

The term *Big Data* itself has existed for some time now. It is only in the past few years, however, that this concept has drawn attention. The backdrop for this is the dissemination of the notion of *data mining*, which involves the statistical analysis of large volumes of data, the extraction of frequently occurring patterns and classes, and the linking of the results of these steps with buying behavior and marketing.

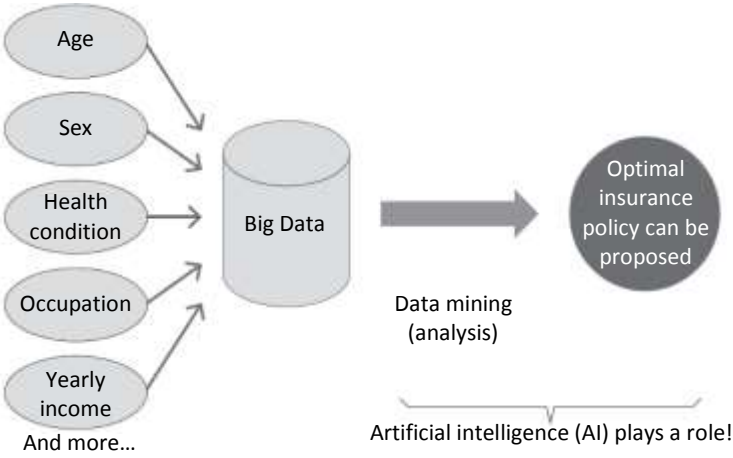
No matter how much a company is committed to carrying out data mining, nothing will function without essential data. If the amount of source data at the time that analysis is conducted is low, any frequently occurring patterns that are extracted will likely lack in universality.

In order to raise, even if only slightly, the precision of the results generated by data mining, you will first need to collect huge amounts of data from various different sources and amass this data in a large-capacity server. This is what is constituted by Big Data.

A high-speed computing system to enable the extraction of frequently occurring patterns from Big Data will also be needed.

These technologies have finally come together to allow the realization of an environment in which Big Data-based data mining can be undertaken with greater precision. Consequently, interest in Big Data is also rising.

Figure 12 / Data mining based on the use of Big Data



As with AI, Big Data also has the potential to significantly affect the insurance industry because these companies that are in possession of massive amounts of data will be capable of operating an insurance firm.

For example, Rakuten is Japan's biggest enterprise in the field of e-commerce. They possess massive amounts of customer data corresponding to consumers who purchase items from Rakuten each day. In addition, the purchasing history of each customer is fully retained in a database. The analysis of this example of Big Data allows for the selling of insurance products offered by Rakuten Life Insurance or the provision of loans to individuals by Rakuten.

Under these conditions, even a company that operates in a sector that differs completely from finance can enter the world of finance as long as it possesses huge amounts of customer data. While it goes without saying that there are issues of permission and authorization to consider, we can at least say that it is technically feasible, by a large margin, for a company with as much personal information as Rakuten possesses to develop financial business operations.

In what ways will the insurance industry change when companies that do not traditionally belong to the insurance industry and that possess large amounts of customer data and data on purchasing actions that are completely unfamiliar to insurance companies enter the insurance business?

Of course, existing insurance companies will hardly just sit back and

passively watch these other companies make a foray into their sector. It is entirely conceivable that insurance companies will attempt, for now, to sell insurance products by joining hands with, for example, mail-order companies that manage the types of data that they themselves do not possess.

The emergence of Big Data will change the way insurance is sold

The use of Big Data will also give rise to significant changes in terms of the cultivation of those who sell insurance products.

Those who have been successful at selling insurance products up to now have in part achieved this success thanks to their experience and gut feelings.

Their past experience may include examples of methods that they believed worked in given situations. On the other hand, it is doubtless that those who have successfully sold insurance products in the past might also have been unsure about some matters but nevertheless went with their gut instincts, which, in turn, helped produce positive outcomes. As long as positive outcomes are actually obtained, one can conclude that an action, even one that stems from intuition, is probabilistically the correct one to take.

The problem comes when it is time to ask what a completely new person without any experience selling insurance products or an unsuccessful salesperson who lacks the intuition required for sales can do to sell insurance products. This is not an issue that is limited to insurance products. It is conceivable that a salesperson with a poor record of sales will have adopted, over time, an incorrect approach to sales without ever having realized that this process was happening.

This is where the opportunity for using Big Data and AI exists.

In effect, we will impart the knowledge possessed by salespersons with excellent sales track records to AI. We will then have AI provide sales advice in terms of the sales method that should be carried out for a given type of client under given circumstances. If this helps to increase sales, then the cost of training new salespersons should decline considerably.

Let me convey a story we once heard.

When a certain salesperson was still a fresh rookie, he sought to catch up to a colleague of his who was very successful. To this end, he copied every move made by a senior salesperson who was the top salesperson in his office.

He copied his senior colleague so well and thoroughly—by doing

everything from reading the same newspapers and journals, watching the same television programming, arriving at the office at the same time, taking the same course of action after work, visiting clients and observing how to put on a sales pitch, and adjusting his manner of speech and the speed at which he spoke to match that of his senior colleague—that he might very well have been described as a clone of the person he was emulating.

Consequently, this salesperson's efforts bore fruit and he managed to catch up to his senior colleague in terms of sales performance in no time at all.

If the behavioral patterns common to truly successful salespersons were similarly converted into Big Data and extracted through data mining, a salesperson would be able to visit a client and engage in sales as if he or she were accompanied by a top-level salesperson at all times.

Will consulting companies take the initiative in selling insurance!?

In looking at things from a somewhat different perspective, it is believed that new sales opportunities for the selling of insurance will emerge as IT has evolved to such an advanced level.

A major issue presently affecting the selling of insurance is the growing inability to engage in occupational sales.

Once upon a time, it went without saying that a salesperson working for an insurance company would visit the office of a company during the lunch hour and engage in sales in hopes of getting a few employees at the company to take out insurance policies. This practice is what we refer to as occupational sales.

However, it is almost impossible to find cases in which this approach to sales is allowed these days. This is because, thanks to advancements in IT, most companies have come to regard the leakage of information to outside parties as a significant management risk.

Consequently, salespersons belonging to insurance companies are no longer able to engage in occupational sales. New approaches to the selling of insurance products are thus needed.

What is conceivable in this connection is a new approach whereby insurance products are sold by consulting companies like ours.

This is because, while a salesperson belonging to an insurance company cannot enter the premises of a company, consultants like us are given free access to such places as long as we are interacting with a given company on a

daily basis. Therefore, if a consultant were to sell an insurance policy providing a certain level of coverage for a low premium amount on a group basis, it would be possible to secure clients for insurance products through an approach that differs from what has been conventionally applied.

For a consultant like me, this approach allows me to go beyond just giving my opinion on the management policies and strategies of an insurance company from a third-party perspective as has been the practice in the past. It also allows me to truly commit myself to the business itself of an insurance company.

It is possible that, as the age of AI picks up steam, it will be consulting companies that possess a stronger initiative than anyone else when it comes to the business of selling insurance products. Up until now, the very idea of having a consulting company sell insurance products was simply inconceivable by the norms followed in the industry. As AI, Big Data, and FinTech gain ground, however, this idea is becoming more and more feasible.

To what extent will AI-driven automation occur?

As AI continues to encroach on the operations of insurance companies, we ask ourselves: to what extent will the automation of the insurance business occur?

Underwriting assessment-related operations are probably a better match with AI than anything else in this field. Underwriting assessments are carried out to determine whether the company can provide insurance coverage to a given client and to figure out whether a client is seeking to enroll in a policy with the intent to commit insurance fraud.

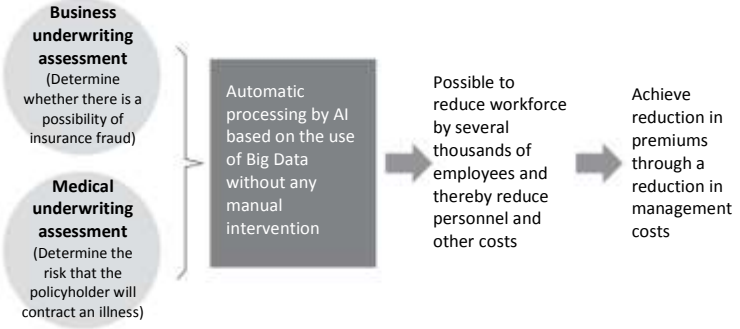
There are two types of underwriting assessments: business underwriting assessments and medical underwriting assessments.

For a business underwriting assessment, the company endeavors to figure out whether there is a risk of insurance fraud based on various pieces of client information, such as the income of the policy-concluding client. For example, if a person with an annual income of five million yen wishes to take out a 200 million-yen insurance policy, the person in charge of conducting the underwriting assessment might sense that there is something suspicious about this file. This is because the amount of insurance money involved is too high for this income level.

If you were to take out an insurance policy that provides a high level of coverage in terms of the insurance money to be paid out, the insurance premiums would naturally be high as well. If a household with an annual income of five million yen wishes to take out a 200 million-yen insurance policy, the monthly premiums alone would put a serious damper on their lifestyle. To nevertheless attempt to take out a 200 million-yen insurance policy would be flagged as irrational.

There is also a method for determining whether the amount of insurance money is appropriate based on the address of the client. If income levels differ between a person living in Tokyo and a person living in the countryside, lifestyles between the two will also differ. Thus, since the appropriate level of insurance money—in the sense that insurance money for someone living in Tokyo should be a certain amount while insurance money for someone living in the countryside should be another certain amount—can be determined based on past data, the possibility that insurance fraud is at play can be determined accordingly.

Figure 13 / Illustrating how AI-driven automation can reduce costs and time



A medical underwriting assessment is performed to determine the risk that the policyholder might become sick. There are a number of parameters that help to determine, for example, if the blood sugar level is high, blood pressure is high, and the gamma-GTP level is acceptable. After checking these values, you can determine whether or not the client is seeking to enroll in an insurance plan while hiding the risk that he or she might become ill.

If an individual enrolls in an insurance policy by concealing the fact that he or she is sick—and not just sick but suffering from a life-threatening

condition—and subsequently dies after hardly paying any premiums at all, the insurance company will end up sustaining huge losses. Thus, a medical underwriting assessment is conducted to prevent insurance fraud from occurring.

If each individual policyholder's health condition were to be checked by a physician before a determination is made, however, the processing of applications would grind to a halt. Therefore, people known as *medical underwriters* determine, based on their experience and intuition, whether it would be fine to allow prospective clients to take out insurance policies.

In this way, determinations have been made up to now for both business underwriting assessments and medical underwriting assessments through a reliance on the experience and intuition of underwriters. Fundamentally speaking, it is possible to fully replace these elements with AI.

AI-driven automation will conceivably evolve not just for assessments conducted for the underwriting of policies, but also for investigations conducted for payment operations.

At any rate, those who plot to engage in insurance fraud will work out various schemes to achieve their ends. For example, they might try to fabricate medical certificates or make bogus requests in collaboration with a doctor or attempt to make a suicide look like an accident.

Of course, a suicide would come under a contractual exclusion of insurance liability. Consequently, no insurance money would need to be paid. However, there are sometimes cases in which an individual who has racked up huge debts will seek to have insurance money paid out to his family even if it were to require him to commit suicide. Thus, the determination as to whether a death was a suicide or caused by a different factor is exceedingly important and can be difficult to nail down correctly.

A given death will be investigated by an insurance investigator, who will determine whether or not there are reasonable grounds for paying insurance money in accordance with his or her own past experience and intuition. In this area as well, it should be possible to adopt AI and make determinations as to the propriety of paying insurance money without having to get insurance investigators to play a role as they presently do.

AI can also be utilized for operations.

As mentioned earlier, the massive old systems in use by insurance companies are in truly dire straits, such that the industry will eventually need to

aspire to make a unified platform a reality.

However, since it will still take a lot of time to bring about this end goal, existing systems must continue to be maintained. Nevertheless, it is incumbent that we acknowledge the reality that the number of people able to perform maintenance work is gradually declining. In connection with this, AI-based maintenance should be undertaken.

Since current systems have become entirely too big, nobody has any idea of how the upgrading of a certain part will affect other parts of a given system. While there may be programmers who are capable of providing clarity with respect to impact in some cases, most of them have retired by now without having passed on their know-how to younger programmers.

Accordingly, it would be ideal to have AI learn in minute detail what parts will be affected by the upgrading of any given part.

This would allow the upkeep of systems that have been maintained, thanks to the experience and intuition of human beings to be carried out without the intervention of human beings. And because this is AI we are talking about, there would no possibility of having to deal with memory whose caliber may sometimes be dubious.

Insurance premiums will also go down thanks to AI

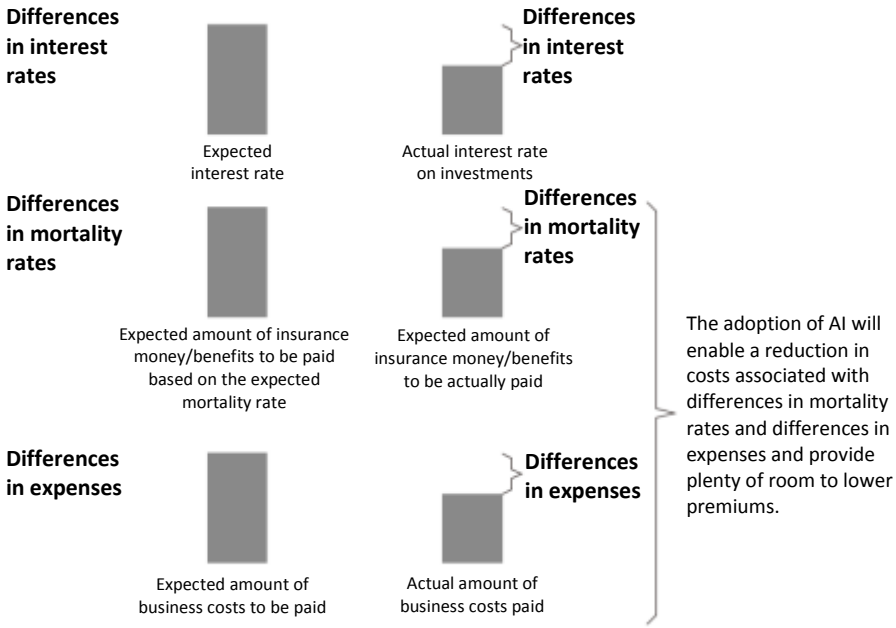
Such examples of AI-driven automation will naturally result in the displacement of employees who have previously been involved in such work by AI.

In this connection, this will give rise to a significant reduction in personnel costs.

If we are talking about insurance assessments, for example, then we should note that a certain major insurance company employs several thousand people for just underwriting-related operations. If these employees were displaced by AI, then it follows that the insurance company would benefit from a huge reduction in costs.

When it comes to payment operations as well, significant personnel costs are also incurred since insurance investigators expend considerable time and energy on figuring out whether insurance fraud applies in any given case. If AI-based investigations could be automated, personnel costs in this area too could be drastically reduced.

Figure 14 / A life insurance company's core profits derive from *differences in interest rates*, *differences in mortality rates*, and *differences in expenses*



The same can be said with respect to the adoption of AI for the maintenance of operations that we touched on last.

The core profits of a life insurance company derive from *differences in interest rates*, *differences in mortality rates*, and *differences in expenses*.

Differences in interest rates refers to the difference between the expected interest rate and the actual yield on investments. *Differences in mortality rates* refers to the difference between the expected amount of insurance money and benefits to be paid based on the expected mortality rate and the actual amount of insurance money and benefits paid. *Differences in expenses* refers to the difference between the expected amount of business costs to be paid based on the expected business cost rate and the actual amount of business costs paid.

As explained earlier, the adoption of AI should enable a significant reduction in costs associated with differences in mortality rates and differences in expenses. For an insurance company, this will permit exceptionally large cost reduction effects to be realized.

The advantages here do not accrue to insurance companies alone. If insurance company costs decrease, benefits can also be reaped by insurance policyholders. In other words, room to lower premiums will be provided to the extent that costs go down.

From sales with a personal touch to sales entailing the ascertainment of life plans

If AI continues to infiltrate the insurance industry, the sales approach used by insurance companies will also undergo significant changes.

In particular, sales that are undertaken through people have long taken the form whereby a salesperson repeatedly visits a client, makes himself or herself a familiar figure with the client, leaves a mountain of pamphlets and business cards behind with the client, gets the client to express interest in what the salesperson is selling, and finally has the client engage in a first-time transaction. This sort of traditional approach to sales involving grit and mettle will surely lose its meaning over time. Instead, the ability to communicate with people at a clearly high level will likely come to be in demand.

What I mean is that the time when product selection will be almost entirely done by AI is arriving. When that time arrives, what would a human salesperson be tasked with doing? I feel that he or she should listen carefully to each client to figure out how the client wishes to live.

I'm making sufficient money. When this is bequeathed to my children, I'd like to leave it in the form of cash as much as possible.

I operate a company as a sole proprietor. I'd like to vest my children with the right of management as soon as possible and would like to draft a financial plan that would need to be implemented when that time comes.

I'm a building owner, which means that most of my assets are in real estate. I'm asking you to consider a method of bequeathing what I own as much as possible without depleting these assets.

In these ways, there are all sorts of money-related concerns that people have. The greater the amount of assets held by a client, the greater the level of seriousness of these concerns.

The most ideal insurance product is to be selected according to each client's life plan. The selling of insurance will henceforth be focused on ascertaining each client's life plan. The selection of the most ideal insurance product in

each case will then be undertaken by AI.

Value proposals that can be made precisely because they are made by human beings

An explanation of the concept of a unified platform for the insurance industry was made in the preceding chapter. We hope that the various benefits to be accrued to both the insurance industry and to clients by the realization of this vision are clear.

In this book, this concept of a unified platform is described with a primary focus on the insurance industry. In the future, we would like to expand this concept to encompass not just the insurance industry but also other financial sectors.

Up to now, there have been various information barriers separating the insurance industry, banking industry, securities industry, and real estate industry from one another, such that there were few connections among these various sectors. Proper connections will gradually form over time thanks to FinTech.

In the area of household account platforms, banks, securities firms, credit card companies, asset management companies, and others have already come together through shared platforms to enable the comprehensive management of incoming and outgoing flows of funds in personal household accounts. In the future, data will be structurally organized and data contained in various databases will undergo Big Data analyses. Evolution will proceed to the point where optimal insurance products will be selected and proposed by AI.

To have insurance products selected and proposed by AI is especially effective for insurance agencies.

For insurance as well, there will continue to be increased segregation between insurance companies that design and create insurance products and insurance agencies that sell insurance products created by insurance companies. This is a trend that I believe is to be expected.

As part of this trend, insurance agencies deal with products offered by many different insurance companies. Thus, there is a limit to how much product knowledge can be learned by any single staff member of an insurance agency. Without product knowledge, it would not be possible to grasp why a given client wishes to purchase an insurance policy or the needs of a given

client.

Therefore, it would be better to adopt AI and rely on AI for specific product selections and recommendations, given that the speed of information processing by AI is expected to be far greater than that of human beings in the future.

On the other hand, the task of engaging in more human conversations with clients than are being engaged in now in order to skillfully figure out each client's future life plans should be the most important task to be carried out by salespersons. To this end, insurance company salespersons themselves will need to refine their own human nature.

In broadly surveying the future of the insurance industry and other financial sectors, we see that some people have expressed concerns over the possibility that the rapid growth of IT, AI, Big Data, FinTech, and other such developments could cause the displacement of people. Rather than the rapid loss of jobs, however, it is more likely that we will see rising demand for people in other areas.

In the first place, FinTech has grown to this point in part due to the way in which those who lost their jobs due to successive restructuring actions taken by financial institutions in the wake of the 2008 Lehman Shock managed to harness their ingenuity in other ways.

Likewise, even if the evolution of FinTech were to result in the loss of jobs in the financial industry in the future, the newly unemployed would likely be sufficiently reabsorbed through reassignment to new financial sectors.

Chapter 4 How digitalization will change the links between insurance and clients

An insurance industry that is finally facing a turning point

In May 2016, the revised Insurance Business Act went into effect.

This revised statute stipulates a number of rules that must be properly observed whenever an independent agency sells an insurance product to a client.

First, whenever an insurance agency sells an insurance product to a client, the agency is required to ascertain the client's intent.

Of course, the selling of insurance in a manner that ignores the needs of the client should be strictly avoided. While insurance agencies that sell in such a manner have never been allowed to operate in such a way, the latest version of the Insurance Business Act mandates the ascertainment of each client's intent.

Accordingly, the checking of client intent, which had been largely disregarded in the past, will henceforth be strictly carried out in writing and by other means.

Once the intent of a client has been ascertained, an agency is then also obligated to present numerous insurance products in line with the client's intent. In addition, an agency is also required to properly explain why these insurance products were recommended.

Since an insurance agency is also a business, it is natural to expect that it will try as much as possible to sell products tied to high levels of sales commission. However, by mandating the provision of a proper explanation to each client as to why given insurance products are being recommended, insurance products with commissions that are unreasonable for satisfying client needs became harder for even insurance agencies to sell.

Incidentally, it is also possible that insurance products sold at bank counters will become subject to an obligation to disclose sales commission amounts. This remains a matter under ongoing discussions and debate.

With these amendments, the Financial Services Agency has begun to sound the alarm on the process by which insurance products were not always sold with a focus on the needs of clients.

A reality characterized by more and more insurance options and rising premium revenue

The insurance industry is riding a wave of extremely massive structural changes that go beyond these amendments that have been made to the Insurance Business Act. As mentioned earlier, Japanese society has finally entered a full-scale phase of depopulation.

Population estimates provided by the United Nations suggest that Japan's population, which currently stands at 120-something million people, will someday—albeit not too soon—drop below ninety million people.

A population decline also means that there will be fewer people who pay insurance premiums to insurance companies. Naturally, premium income earned by insurance companies will decline.

An even bigger problem will be the depletion of prospective client lists.

The traditional approach to selling insurance, which involves reaping large numbers of prospective clients, will gradually fail to remain valid as the population shrinks. Moreover, the practice of purchasing lists of prospective clients from list brokers has also become increasingly difficult to undertake.

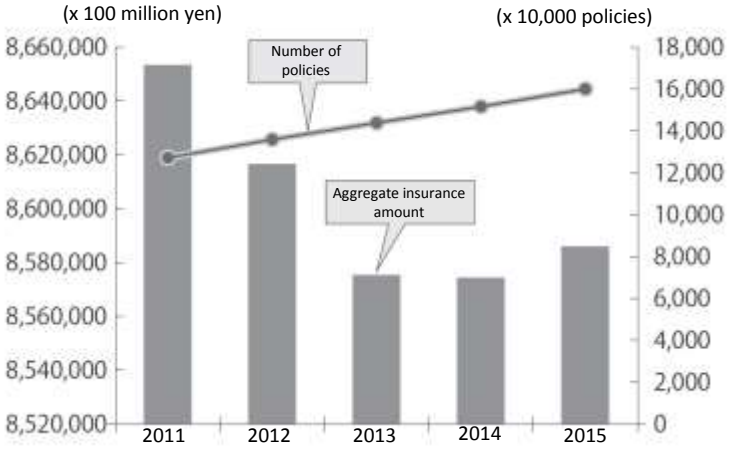
Up to now, seminar operators would frequently advertise and hold free consultation events complete with money-related seminars in collaboration with insurance agencies, convince several dozen participants to converge at a rented venue in which a positive atmosphere could be created, hold free consultation events on insurance while giving lectures, and seek to induce participants to sign up for new insurance policies at these free consultation events. Such events are akin to the selling of lists of prospective clients.

However, it is expected that the Financial Services Agency will keep a stricter eye on things, such that insurance agencies will find it harder to acquire prospective client lists through such free seminars. Thus, a new approach needs to be conceived.

In this connection, insurance companies and independent agencies are trying to figure out how they can raise their clients' *wallet share*.

Wallet share is a marketing term indicating how much of a customer's cost for a given product goes to a specific company. In terms of the insurance industry, the wallet share is the ratio, expressed in percentage terms, of premiums paid by a client to company A, for example, to total premiums paid by the same client yearly.

Figure 15 / Individual insurance policies are rising both in terms of insurance amount and number of policies



Source) Life Insurance Association of Japan, *Life Insurance Trends for 2016*

Let us assume that you pay 400,000 yen per year in insurance premiums, of which 200,000 yen is paid to company A. Company A in this case has a fifty percent wallet share.

To increase your wallet share, you need to ask how you can get clients to increase payments of premiums to your own company out of the amount they allocate to the payment of insurance premiums.

If it becomes unlikely that the insurance market as a whole will expand, each insurance company will have no choice but to endeavor to figure out how to get clients to purchase more of their own products in order to increase their own slice of a pie that is not getting any bigger.

It is perhaps for this reason that more and more insurance options are being offered these days. If we look at the statistics, we see that the amount of insurance premiums per policy is declining but that overall revenues from insurance premiums are rising. In other words, the number of insurance policies in effect is actually increasing. This likely indicates the extent to which insurance options are increasing in number.

Conceivable reasons for this include the appearance of insurance options to cover risks that have newly emerged due to societal changes and the introduction of insurance policies that are now available to those who had

previously been unable to take out such insurance policies.

Mobile phone insurance is a typical example of the former.

With mobile phone insurance, you could be insured for an unlimited number of mobile phone repairs costing up to 100,000 yen in value per year if you were to pay, for example, 700 yen per month in premiums.

There are probably many people who have dropped their smartphones and cracked their screens and who were later required to pay a higher-than-expected amount to repair their units.

Insurance was thus developed to meet the needs of such people. It was conceived precisely because of the introduction of smartphones to the world.

Relaxed underwriting standards-type insurance, limited disclosure-type insurance, no-disclosure-type insurance, and guaranteed-issue-type insurance are examples of the latter. These types of insurance can be taken out by people who might have suffered a serious illness in the past or by people who are currently ill. The fact that there are more insurance options that can be taken out by people who would have been rejected in the past is one that also constitutes a factor behind the increase in the number of insurance policies that are presently in effect.

In addition, various kinds of elaborately planned insurance options have also popped up, such as one in which the purchase of a drink in a plastic bottle or can sold out of a vending machine comes with an automobile insurance policy good for one day only or a golf insurance policy.

The insurance industry consists of companies that are seeking to raise their clients' wallet share by designing all sorts of new insurance policies to cover these various types of risks. In brief, these companies are trying to cultivate clients bit by bit with an eye on long-term trends.

While it is important to increase the odds of converting prospective clients into actual clients, a consideration of the current sales environment in the insurance industry suggests that it is also important to try to raise the wallet share of existing clients (existing policyholders) by targeting them with initiatives.

Understanding existing policyholders is a point of departure in digital marketing

In order to raise the wallet share of existing policyholders and promote the

selling of insurance products, you will need to understand existing policyholders. To this end, *digital marketing* is a tool that needs to be implemented on a full-scale basis by the insurance industry.

As explained in Chapter 1, insurance companies simply did not possess any thought of engaging in marketing on their own. Marketing was fully delegated to insurance agents assigned the central role of selling insurance products.

These days, however, this state of affairs is untenable.

For most companies today, security in different respects has become tightened in order to avoid the risk of leaking information to outside parties. For this reason, insurance agents can no longer visit the offices of companies during the lunch hour to urge people to sign up for insurance policies as they used to in the past.

And as explained earlier, it is undeniable that there will be fewer clients signing new insurance policies given the shrinking population of the country, dwindling client lists, and the depletion of lists of prospective clients.

In the face of such circumstances, it is imperative that insurance companies consider *marketing* with a serious attitude.

As IT becomes more advanced, it will be *digital marketing* that will constitute the means by which all sorts of digital media and devices will be used for this purpose.

What exactly is digital marketing?

The question that always arises whenever the topic of digital marketing is broached is: *What is the difference between* web marketing *and* digital marketing*?*

In the IT world, there are a number of concepts that are referred to by different labels but that are believed to be essentially the same thing.

For example, *Big Data analysis* is not much different from what we used to refer to as *data mining.* With this assumption kept in mind, let us consider what is meant by *digital marketing.*

First, let us examine how *digital marketing* differs from *web marketing.* Most times, any reference to *web marketing* is a reference to marketing that is focused solely on the Internet.

Figure 16 / Digital marketing and web marketing

In other words, web marketing typically entails the following types of actions: engaging in search engine optimization (SEO) to promote increased numbers of visits to a company's website (measures designed to increase online visibility in terms of search result rankings on a search website like Google or Yahoo!), ordering listing ads and banner ads for placement on websites, taking measurements of the number of website visitors who proceed to engage in actual purchasing actions, and more.

In these cases, web marketing primarily consists of deploying promotion campaigns and inducing purchasing actions on the part of consumers in an online sphere.

In contrast, the concept of *digital marketing* is also broadly deployed in areas beyond just the Internet.

In other words, *digital marketing* consists of such initiatives as the following actions, which are undertaken in order to increase traffic (data volume) to e-commerce sites (sites that sell goods and services online): deploying company or brand sites and community sites in parallel; attempting to guide consumers to e-commerce sites by harnessing Facebook, Twitter, and other social-networking services; producing and sending email magazines containing the latest in information on bargains and sales to email addresses registered by clients; providing applications that can be used not just with

personal computers but also with smartphones and tablets; and issuing points and coupons for the promotion of sales.

The concept also entails the accumulation of data concerning purchasing actions carried out by clients who have purchased items through e-commerce sites and the analyzing of purchasing actions that can be linked with future consumption.

The deployment of a broad range of marketing tools based on the use of all digital-related media and devices in such cases constitutes the core notion of digital marketing.

For companies that have brick-and-mortar outlets, *omni-channel* is an important way of thinking to aid in the formulation of a marketing strategy.

Omni-channel is a marketing tool for increasing points of contact with clients using not just web-centered digital marketing but also television, magazines, newspapers, and other existing forms of media; digital synergy (networked electronic signboards installed outdoors, at outlets, on transportation vehicles, and elsewhere); the Internet, social-networking services, brick-and-mortar stores; and other channels.

As terms that have been explained above, *Web marketing*, *digital marketing*, and *omni-channel* are not concepts that are independent of one another. I personally believe that all present-day marketing falls under the category of *digital marketing*. In other words, it is my belief that *marketing IS digital marketing.*

Think about it carefully. In this day and age, no matter what marketing tool is applied, nothing will come of the implementation of any action that is constituted without reliance on digital power.

These days, the pairing of digital marketing and AI is also proceeding steadily, such that even marketing ideas that had not been previously entertained are being studied.

For instance, there are places where large Aurora Vision screens have been set up on the street. Advertising videos and other types of footage are constantly being shown on these screens. No doubt you have had moments when you were waiting for someone and you then found yourself glancing involuntarily at what was being shown up on one of these screens.

Imagine that there is a camera mounted behind each Aurora Vision screen to film, from behind the unit, the throngs of people who are watching what is being shown on the front of the screen.

This camera records all viewers watching the images being shown on the Aurora Vision screen. AI is harnessed to categorize these viewers in detail by determining, for example, the sex and age bracket of and clothing worn by each viewer. The system engages in a comprehensive process of analysis to determine who is watching what, the duration of such actions, and more.

This and other modern marketing tools cannot remain isolated from digital. Therefore, as noted above, marketing is equivalent to digital marketing and marketing without digital is inconceivable.

A new way of acquiring clients through the use of FinTech

Earlier, we indicated that insurance companies should utilize digital marketing in order to understand their existing policyholders.

Let us elaborate on this statement.

Insurance companies have not attached much importance to their relationship with existing policyholders up to now. An ongoing approach to sales by which salespersons would ceaselessly hunt for new clients one after another was the biggest factor behind this state of affairs.

However, this approach is now impossible to take. Of course, there are a very low number of insurance agents—as it were, charismatic insurance agents—who are capable of taking this approach but most are incapable of taking things that far. Their sales results gradually fall as new policies become increasingly difficult to secure, and they eventually leave their jobs.

Most clients enroll in an insurance plan due to a personal connection. Once the salesperson who was in charge of a client's file at the time the client takes out a policy resigns, a new salesperson will take over the file. In this case, there will typically be little contact established or maintained between the new salesperson and the clients of his or her predecessor.

A not insignificant number of clients too forget that they once took out an insurance policy. Despite the fact that insurance is often described as the second-most expensive purchase in a person's life after a home, it often becomes an invisible feature of life in no time at all.

Of course, this is not something that troubles insurance companies. As long as a client's bank account does not change, a change in his or her address or telephone number will not prevent premiums from being collected.

Consequently, the relationship between a client and his or her insurance

company gradually becomes distant and a given policy will come to be placed in the charge of someone unknown.

Deepening relationships with existing policyholders is akin to eliminating these kinds of policies. Essential to this aim is the establishment of an environment in which communications can be maintained with existing policyholders. An insurance company will need to provide various types of information to and otherwise communicate with existing policyholders.

There is in fact awareness of this need in the insurance industry, such that the practice of collecting email addresses of clients has been spreading across the insurance industry in recent years.

The reinforcement of relationships with existing policyholders can be further promoted by utilizing FinTech.

One method for this purpose that the insurance industry has begun studying entails the effective use of clients' bank accounts. This is because an examination of the status of transactions through bank accounts can reveal much about a person's life and allows the first step towards getting to know a client to be taken.

It is in this context that FinTech can emerge and play a role.

If FinTech were used to combine account information possessed by banks with client information possessed by insurance companies, the volume of information itself would increase, and marketing based on the results of this process would further promote a greater understanding of clients. By analyzing the state of transactions through bank accounts, you could develop a better picture of the ideal approach to take in dealing with a given client at a given stage of life.

In fact, a project to link banks with insurance companies by way of the development of an application that enables real-time settlement through banks has begun to be rolled out.

There are a number of different methods by which someone who has taken out an insurance policy can pay premiums for the first time.

The first method consists of payment with cash. This is the easiest method to undertake. Cash is received from the client and a receipt is issued to complete the transaction.

The second method consists of settlement using a credit card. With this method, on-the-spot settlement can be carried out using a credit card reader. Alternatively, premiums can also be paid online.

The third method consists of transferring the required funds into a bank account. A transfer is carried out once the required fields on a given form are filled out and preparations for a transfer with a bank account have been made.

Among these options, bank account transfers currently pose procedural difficulties. For example, let us assume that a client born on June 30 indicates a desire to pay insurance premiums for the first time with a bank account transfer, since he will be taking out an insurance policy on June 20.

However, banking procedures take up quite a bit of time to carry out. If it is not possible to complete transfer procedures until July, the client would be inconvenienced in this case. That said, if the client becomes a year older on June 30, his premiums could rise as of his birthday.

Accordingly, this project could help by developing an application to link bank accounts with insurance companies and thereby creating a scheme to enable prompt settlement procedures to be undertaken.

Completion of this endeavor would clearly prevent a situation in which the bank transfer in question is delayed to thereby cause premiums to be paid by the client to rise.

Of course, this would not constitute a simple settlement application. Instead, it would bring together information on the client residing in his bank account to allow for the state of assets held currently by the client to be ascertained, on the basis of which optimal insurance products could then be recommended and new asset-formation proposals could then be made.

As mentioned earlier, if a unified platform were to encompass not just the insurance industry but also banks, security firms, and other types of financial institutions, then paper-based interactions accounting for contractual deficiencies could be eliminated, and the proactive provision of information to clients could also be facilitated. In this sense, this would constitute a highly progressive initiative.

If this initiative were to be actually launched, it should be possible to harness the latest marketing tools and trigger the proactive cultivation of clients in the insurance industry, a sector that has traditionally eschewed any hint of marketing in the past.

FinTech is essential for ascertaining the needs of current policyholders

Allow me to reiterate: it is absolutely essential for the insurance industry

going forward that existing policyholders are not ignored and that they are instead engaged with constantly. This is because the pool of clients that take out new insurance policies will likely continue to shrink in size.

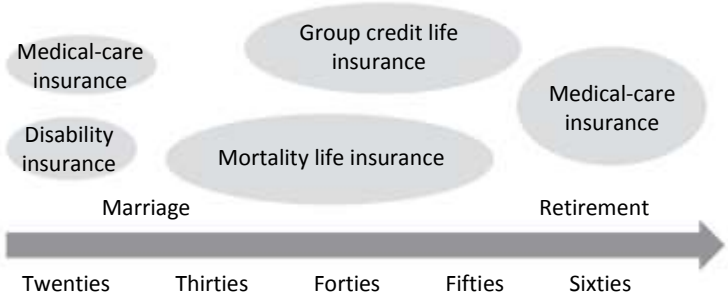
In particular, people in their twenties are highly disinclined to taking out new insurance policies due to their aversion to incurring costs. Thus, one cannot expect that new company employees will be taking out insurance policies as they once used to do. Consequently, insurance companies will be forced to primarily target existing policyholders who are thinking about switching insurance policies.

It is here that there are in fact a number of potential opportunities.

For example, a prospective client does not need to be enrolled in a red-carpet insurance policy to cover contingencies involving death while he or she is still single, since there are no dependents to worry about. Therefore, it would be sufficient for such a person to enroll in a medical-care insurance policy or disability (income-replacement) insurance policy.

However, once you get married and have kids, you will need to enroll in a more substantial insurance plan that provides a proper death benefit in anticipation of any possible negative consequences that might happen to you.

Figure 17 / Required coverage changes according to your life stage



However, when someone purchases his or her own home, he or she will typically enroll in a group credit life insurance policy at the same time that a mortgage is taken out. In this case, since insurance money from the group credit life insurance policy would be used to repay the outstanding balance of the mortgage in the event that the policyholder dies, the arrangement is substantively equivalent to enrollment in a mortality life insurance policy. For this reason, one option that can be taken is diminution of the death coverage

portion of the life insurance policy in which the client had been enrolled to that point in time.

If you were to then get older, retire from your company, and end up spending less time and money on raising children, generous death benefits would no longer be necessary. It would be sufficient from this time forth to be enrolled in a medical-care insurance policy that could be used to cover healthcare costs incurred in the event that you fall ill.

In this way, the coverage you will need varies according to your life stage. Therefore, if needs are properly identified, it will be easier to urge existing policyholders to switch and advise that they enroll in whatever insurance policies they need at any given time. Such an approach is what will be required in order to sell insurance.

In order to ascertain the needs of existing policyholders, FinTech will also be an essential element of the selling of insurance in the years to come.

Improving maintenance operations through digital marketing

The effects and aims of digital marketing fundamentally consist of the conversion of prospective clients into actual clients through continuous efforts to provide a variety of information to prospective clients and the raising of existing clients' wallet share.

In order to allow the effects of digital marketing to be generated more quickly, however, digital marketing should be utilized for *maintenance* operations. In the insurance industry, *maintenance* refers to the accommodation of name changes and changes in conditions after a policy is concluded, responses to inquiries, and more.

The *persistency rate* and *incidence rate* are important factors for surmising the impact that maintenance operations have on performance. The ability to lower the incidence rate at the same time the client retention rate is increased will significantly bolster the company's overall bottom line.

A total of 151.73 million life-insurance policies have been taken out by individuals as of fiscal year 2014. Given that this means that an enormous amount of client data has been accumulated, the aim is to utilize such data as data for digital marketing and obtain specific effects.

For example, the *persistency rate* is the inverse of the *surrender rate*. Data on people who have previously canceled their policies before they expired

should be extracted and subjected to an analysis to determine the circumstances behind such cancellations. Doing so would reveal that some people canceled for reasons that suggest that cancellation was the right course of action to take and that there are also a significant number of people whose policies were lapsed.

The latter type of person consists of clients who can no longer withdraw money to pay for premiums from their bank accounts. This is because, if an insurance company were unable to withdraw insurance premiums from a bank account within a certain period of time, the insurance policy in question would be handled as if it were canceled in accordance with its contents.

With respect to clients whose policies are lapsed because of this inability to withdraw amounts from their bank accounts, there is likely, based on an examination of trends in terms of account information and different types of transactions, a considerable number of clients out there whose policies can be maintained just by reviewing the timing of salary and other cash receipts and the payment of insurance premiums and other cash disbursements and by sending a single email message to notify of any account balance shortage.

The realization of this sort of approach requires the development of a profile of clients who are highly likely to cancel. The precision with which existing clients can be ranked in terms of the rate of cancellation will be increased by also taking bank account transactional information into account along with data that have been traditionally considered (such as the attributes of canceling policyholders, the policies in which they are enrolled, and the insurance premiums they are paying) to expand the range of measures that can be taken.

This will allow the persistency rate to dramatically rise and insurance companies' bottom line to improve in no time at all.

Transforming potential clients into actual clients through linkage with a DMP

Up to this point in this book, we have written about the use of digital marketing directed at existing policyholders. However, the fundamental question we must ask of digital marketing is, as expected: *How can we cultivate prospective clients and convert them into actual clients?*

As mentioned already, however, this is no easy task. Needless to say, this is

because information on prospective clients is generally insufficient.

Figure 18 / Digital marketing based on the use of consumer data

While the conversion of prospective clients into actual clients is something that everyone hopes to accomplish, it represents a huge challenge to insurance companies given how highly difficult it is to secure policy signings when there is so little information with which these companies can work.

In this connection, insurance companies are seeking to integrate with DMPs that collect information.

DMP refers to *data management platforms*, which are enterprises that collect and store public information. Advertising agencies are perhaps a typical example of this concept.

Since an advertising agency is a marketer, it would possess huge amounts of consumer data sufficient to enable a picture of clients in this world to be drawn. By integrating with a DMP, a means of approaching prospective clients will emerge.

By combining what has previously constituted a truly vague picture of clients with detailed consumer data possessed by DMPs, it will become easier to formulate hypothetical models that peg behavioral attributes to persons with attributes similar to those of a given consumer and that then lay out the actions that are likely to be taken.

You have probably already seen the results of such digital marketing on various websites with your own eyes.

For example, let us say that you have been searching for shoes. When you then visit a completely unrelated site, an advertising banner for shoes is displayed for some reason. This example can be described as one form of digital marketing.

Insurance products are no different. If we digitally analyze consumer behavior and daily lifestyle patterns inferred from web-viewing trends and have website banners displayed in a way that is tailored to each individual, it is possible to help induce subsequent consumer behavior.

It is here, however, that a challenge in a very real sense is posed. Can the posting of ads in this manner actually help induce purchasing behavior?

No matter how much an insurance company understands its clients, it will be completely meaningless if such understanding does not give rise to purchasing behavior. In other words, while an insurance company works to understand its clients, it is necessary to evoke a desire to purchase insurance products in the minds of clients.

Unless efforts are made to determine just what will cause the purchasing intention to be formed, it is unlikely that results will be obtained no matter how much digital marketing is implemented.

What is important for this issue is the question of *who* will engage in selling insurance products.

Presently, we have gone as far as figuring out the kinds of insurance products that should be proposed to a given type of client and the approach that should be taken in making such proposals.

However, real digital marketing also necessitates the concurrent application of this approach to the determination of the type of person who should be assigned to engage in sales activities. Failure to take this additional step will prevent new clients from being effectively captured.

This is because human beings do not act as logically as one might expect.

In the world of marketing, all measures that are expected to work well are logically elicited before being implemented, but this can sometimes end in failure. A measure put together logically might still end in failure either because the underlying logic was incorrect or because human beings unexpectedly fail to act in logical ways at times. Most times, the latter explanation—the unexpected failure of human beings to act in logical ways—is the one that will be true in a given case.

If we were to apply this discussion to the selling of insurance and assume that everyone thinks logically and acts accordingly, we could take this idea to its logical conclusion and argue that the selling of insurance should be delegated to robots.

Of course, while this is something that is being pursued in a project at the

moment, the fact that, as pointed out earlier, people do not all think logically means that, as expected, there is scope for asserting that sales must remain a task left to human beings to perform.

If we therefore endeavor to convert prospective clients into actual clients properly within this context, it will be necessary to develop a framework for reliably matching salespersons with prospective clients by analyzing matters properly to determine *what type of person should be made to engage in sales directed at each type of prospective client, in order to successfully lead to the conclusion of new policies*.

If all this can be achieved, then one would expect that digital marketing will also perform effectively.

Sales can be streamlined with digital marketing

By adopting FinTech, the break-even point corresponding to each policy for insurance companies becomes evident.

For example, let us say that an insurance policy with monthly premiums of 5,000 yen has been taken out by a client. The yearly premium amount equals 60,000 yen (5,000 yen x twelve months). What is important here is to note that this 60,000 yen amount does not fully constitute profit for the insurance company.

It is likely that nearly half of this amount goes to cover sales promotion costs. You will also need to account for various other costs, including those attributed to the difference between the estimated costs and actual costs of business, and those attributed to the difference between the actual mortality rate and estimated mortality rate that arise in connection with insurance money claims made when clients die.

If we tally the costs required for the composition of insurance in this way, we see that the insurance company is initially in a loss position at the time a client takes out an insurance policy. In the course of the ongoing payments of premiums over time, these various costs become extinguished, and the break-even point is cleared before you know it. From that point forth, the insurance company will earn a profit.

Thus, what is more important than anything else for an insurance company is the extent to which a client who has taken out an insurance policy is willing to continue keeping his or her policy in effect.

For insurance companies, nothing constitutes more crucial information than the information about the profit that the company makes if a given client takes out an insurance policy and keeps it in effect for a number of years. The understanding of this information is key for the growth of the insurance company. If the client is still a prospective client at this stage, there is nothing that could make an insurance company happier. *What is the probability that this prospective client can be converted into an actual client? And about how much profit can we earn from this client?* These questions can be assumed in advance.

These numbers can be more accurately estimated by utilizing FinTech. Specifically, Big Data is harnessed to estimate these numbers based on examples corresponding to other clients with similar attributes. Estimated numbers are unlikely to differ significantly from actual numbers since they will have been provided by Big Data.

If this can be realized, it is expected that the method by which insurance companies and insurance agencies engage in sales will be extensively transformed.

The traditional way in which insurance used to be sold typically entailed the selling of insurance based on three factors: effort, grit, and a fighting spirit. However, this way of selling insurance generated too much waste. For the most part, nobody can look at a list of prospective clients and determine which prospective clients can be converted into actual clients and the probability with which a conversion can occur.

However, an insurance agent is taught that where there is a will, there is a way, and therefore seeks to simply have his or her own face known to prospective clients and believes that the greater the number of business cards that are stacked up, the greater is the possibility that prospective clients can be converted into actual clients. Thus, there is no interest in insurance at all. Indeed, 99 percent of prospective clients could never be converted into actual clients. The sole concern of these agents is to prostrate themselves and visit prospective clients. To be frank, this is no different from any other form of resource waste.

If the population were to shrink, the number of people involved in the selling of insurance would also go down. To nevertheless promote an approach to sales based on the conventional values of *effort*, *grit*, and a *fighting spirit* is to eventually cause the selling of insurance to come to a standstill.

Therefore, the adoption of digital marketing is necessary.

The benefits of digital marketing as seen from the perspective of clients

At the same time, what are the advantages for clients that are to be obtained as digital marketing gains ground?

First, a reduction in costs is an obvious advantage.

The contract rate should go up to the extent that optimal proposals can be made with ideal timing by engaging in digital marketing. Since operations can continue to be pursued without generating waste, costs traditionally incurred for sales will decrease dramatically for insurance companies.

If this were to happen, commission charges and other fees incurred when a client purchases insurance could come down.

One can expect to see non-insurance policy services upgraded as well.

It is also easy to grasp the concept of being able to enroll in insurance plans cheaply in terms of economic rationality. There is no doubt that this is something that will please clients who wish to take out insurance. Moreover, clients will now also focus on the contents of services that are provided.

This is because, in the case of insurance, it is rather difficult to go ahead and differentiate among products themselves. For a domestic insurance company in particular, product differentiation may lead to a shrinkage of the company's own market share.

For an insurance company to differentiate itself from other companies on the basis of products alone, it would have no other choice but to narrow the range of risks it covers and hone the products it offers in order to lower insurance premiums. This was also the strategy that was implemented by foreign-affiliated insurance companies when they made a foray into the Japanese market.

For domestic insurance companies, however, the implementation of this strategy is no simple affair. In this connection, more than a few insurance companies will likely think about trying to differentiate themselves in non-product areas.

In other words, the upgrading of services in areas outside the scope of insurance policies will take on greater significance in the insurance market among those who are battling to survive.

Using FinTech to also expand services beyond the scope of insurance products

Amid these developments, it is expected that the use of FinTech in the insurance industry will expand.

FinTech can be utilized, for example, in areas outside of insurance policies to provide optimal advice for the formation of assets. You can go further by asking whether such advice obtained in this way should be given by human beings or by harnessing robot advisors to do the work for you.

In conclusion, with the rise of FinTech in society, it will bring an end to the competition that was created among enterprises in different financial sectors fostered in part by the presence of sectoral barriers that have insurance companies dealing with insurance policies, banks dealing with deposits, and securities firms dealing with investment trusts.

From now on, insurance companies, banks, and securities firms will provide goods and services to clients while cooperating with one another through the use of FinTech.

This in turn will definitely be beneficial to clients.

For example, let us look at this in terms of a collaboration between an insurance company and a bank. It is conceivable that the optimization of insurance policies linked with group credit life insurance plans will be proposed together with mortgages to clients who purchase homes.

When real estate is purchased in a way that involves a mortgage, the bank will typically have the homeowner enroll in a group credit life insurance policy in order to prevent surviving family members from becoming destitute as a result of an inability to repay the mortgage in the event that the borrower dies.

As mentioned earlier, however, group credit life insurance is a form of mortality life insurance. Therefore, if a person already enrolled in a mortality life insurance policy takes out a group credit life insurance policy, it would mean that he or she is redundantly covered by mortality life insurance. This is extremely irrational in terms of household finances as well.

This is why it will become possible to advise a client who is enrolled in a group credit life insurance plan to, for example, reduce the amount of mortality life insurance coverage he or she already has and enroll in a medical-care insurance policy with the amount that he or she saves as a result of this action. This is undeniably advantageous for the client.

In focusing on the insurance industry, we expect that changes will involve more than just collaborations with other financial sectors. This is because insurance companies put premiums received from clients to use by investing in the shares of various different business enterprises in Japan.

By partnering with enterprises and organizations in non-financial industries, it will be possible to generate new businesses. Put differently, it might be more accurate to say that insurance companies capable of doing this will be the ones that will survive in the years to come.

The leading edge of insurance sales is an area that is undergoing huge changes due to the adoption of robot advisors

For the insurance industry, the ideal form of digital marketing is thought to consist of robot advisors.

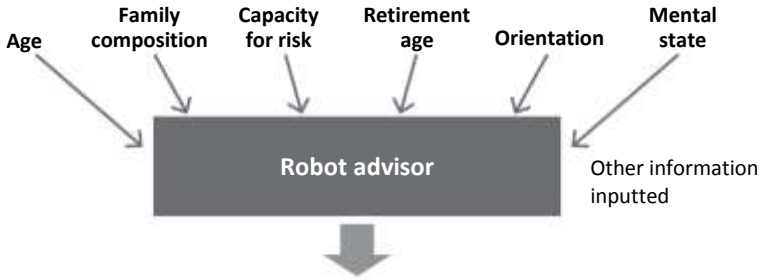
Robot advisors were originally adopted in the asset-management field and were designed to automatically create portfolios believed to be ideal for a given situation once certain details, including your own age, family composition, capacity for risk, age of planned retirement, preference with respect to whether you wish to obtain a steady cash flow, preference with respect to the handling of losses that are incurred, and responses to various other questions of this nature, were inputted.

We believe that it is entirely possible to adopt a similar scheme for insurance.

Rather, if anything, we even believe that it is necessary for insurance companies to adopt robot advisors precisely because they are insurance companies. This is because an insurance policy agreement—and this would be apparent if you read the provisions thereof—outlines contractual conditions that are so highly detailed that there is a risk that you might find yourself in a problematic situation wherein your claim for insurance money might not be accepted if there has been a violation of any of these conditions.

Since these contractual conditions are unduly prescribed in detail, the reality is that there are very few people—whether they belong to agencies or consist of salespersons or call center representatives—who fully understand these contractual conditions.

Figure 19 / Robot advisors operating in the field of asset management



➔ **Could it not be possible to also adopt this scheme for the selling of insurance policies?**

When it comes to independent agencies that handle the products of multiple insurance companies, it is even more unlikely in reality that the contents of contractual provisions that differ from one insurance company to another will be fully understood.

Occasionally, you might have a policyholder who wishes to change the beneficiary under his policy from, for example, his own wife to a grandchild. The fact is that the range of persons, including family members, who can be designated a beneficiary is specifically set forth in the contractual conditions of an insurance policy. It is almost a certainty that there is no insurance agency out there that is fully and perfectly familiar with such contractual conditions.

However, it would be exceedingly convenient if all of these contractual conditions were to be digitalized and if there were a robot advisor that could appropriately make a determination in response to any given request by a client with the use of AI. In addition, such a state of affairs would preclude the need for an insurance salesperson to be occupied with minor routine matters on a constant basis.

To the extent that robot advisors are adopted, it would allow for the dedication of more time to engage in communications required to deepen client relationships.

Chapter 5 Aiming to develop a secure IT platform

An era in which information leaks are directly tied to management crises

The term *cybersecurity* became well-established with the enactment of a statute known as the Basic Act on Cybersecurity in November 2014.
Through this statute, the following three points are especially required of companies:

(i) Information should be safely managed;
(ii) Managed information systems and networks should be maintained in a highly reliable state;
(iii) Measures required for this purpose shall be appropriately maintained and managed.

Anything that could cause a defect or failure in terms of any of the above three points to occur and have some sort of negative impact on company management is defined as a *cybersecurity risk.*

Figure 20 / Information leaks are a threat to information security

Rank	Top ten threats to information security 2016 (in the case of organizations)
First	Information outflow caused by a targeted attack
Second	Information leak caused by internal fraud and any suspension of business caused thereby
Third	Theft of personal information from an online service
Fourth	Service suspension caused by a denial-of-service attack
Fifth	Website alteration
Sixth	Increased abuse of vulnerabilities revealed through the disclosure of information on vulnerability countermeasures
Seventh	Fraud and extortion through the use of ransomware
Eighth	Illicit use of online banking or credit card information
Ninth	Unauthorized accessing (login) of an online service
Tenth	Information leak caused by negligence

Source: *Top ten information security threats 2016*, IPA

Why are cybersecurity risks directly linked to managed risks?
In December 2015, the Information-technology Promotion Agency of Japan

(IPA) and the Ministry of Economy, Trade and Industry released the Cybersecurity Management Guidelines, which sets forth definitions that indicate that the appropriateness of risk countermeasures taken by business operators and management accountability should be called into question by society whenever personal information or secrets are leaked as a result of a cyberattack and damage of some sort is thereby caused to society.

I apologize for the use of data that are slightly old here but do you know how many cases of information leakage occurred in 2014?

In looking only at companies listed with the first section of the Tokyo Stock Exchange, there were 1,858 companies listed on this exchange as of the end of 2014. Forty-four of these companies confirmed that information leaks had occurred. While this represents only 2.18 percent of all companies listed on this exchange, the aggregate number of incidents of information leakage is quite high.

Incidents of personal information leaks from January to December 2013 as reported by the Japan Network Security Association are as follows:

Number of persons affected by information leaks:	9,252,305
Number of incidents involving information leaks:	1,388 (including companies not listed in the first section of the Tokyo Stock Exchange)
Total amount of assumed damages:	143,871,840,000 yen
Average amount of assumed damages per incident:	109,260,000 yen
Average amount of assumed damages per person:	27,701 yen

In this way, the overall number of victims of information leaks easily exceeds nine million. The average amount of assumed damages per incident is 109,260,000 yen. It should be noted, however, that this is just the average amount.

In an incident involving the leakage of personal information at Benesse Corporation[2] that was exposed on July 9, 2014, up to 35,040,000 pieces of personal information were found to have been released. The disclosed information consisted of data on members held by Benesse Corporation and included such details pertaining to children and guardians as the name, address, telephone number, sex, and date of birth of each.

[2] Benesse Corporation is Japan's leading educational support services provider.

Of course, the victims of this incident consisted of individuals registered as members of Benesse Corporation. At the same time, however, the monetary losses sustained by Benesse Corporation itself were huge.

On July 31 2015, Benesse Corporation announced that the company had lost 940,000 members in one year and that total membership, which was once as high as 4,200,000 members, had declined to 2,710,000 members by April 2015 due to the impact of this incident.

If we look at consolidated performance numbers, we see that sales amounted to 466,399 million yen for the fiscal year that ended in March 2014 but had decreased to 444,190 million yen for the fiscal year that ended in March 2016. Current net income went from positive 19,930 million yen for the fiscal year that ended in March 2014 to negative 10,750 million yen for the fiscal year that ended in March 2015. The company continued to operate in the red during the fiscal year that ended in March 2016. The current net income for that fiscal year was negative 8,211 million yen.

This incident was one that demonstrated how an incident involving an information leak could not only cause a serious loss of societal trust, but also inflict severe damage on management for both the leaking party (in this case Benesse), and the contractor whose actions constituted the primary factor behind the incident.

Unfortunately, there are quite a few cases in which a company's security measures are behind the curve. This is because companies are concerned about their return on investment.

It is true that the costs incurred for security measures do not directly generate revenue. Thus, the prospect of spending 100 million yen on security measures is something that causes companies to hesitate.

As you can see from an example of the Benesse Corporation case that we looked at earlier, however, mismanagement of this issue could cause a company to sustain losses in excess of 20 billion yen. One hundred million yen as the cost of security measures should not be considered a high price to pay.

Information leaks are one type of cybersecurity incident. Now is the time for many companies to ponder the fact that they are a risk that could seriously affect the management of a company to a great degree.

This is how information leaks occur

By what process does an information leakage occur? We would like to explain matters with respect to this question while referring to a number of different case examples.

【Case example】 Targeted attacks

Targeted attacks consist primarily of email-based attacks. While one might typically think of *spam mail* as an example of this type of attack, targeted email refers not to junk email sent for advertising purposes, but to email with attachments or URL links that, if clicked, would activate a virus hidden in advance and cause damage in the form of information theft via whatever network to which the infected computer is connected.

Furthermore, increasing numbers of exceedingly sophisticated examples of this have emerged in recent years. While most blatant examples of spam mail can be prevented from being received with the use of email filtering software, targeted mail designed to menace companies are being produced these days in such a way that they can fool filtering software and avoid being recognized as possibly dubious email to recipients.

For example, major travel agency JTB announced in June 2016 the leakage of personal information relating to approximately 7,930,000 files.

As part of a typical targeted attack, the email address of an actual company with which JTB engaged in business was spoofed to send a fake PDF file of a purported copy of an airline ticket to JTB. Sure enough, a virus was contained in this attached file. The computer used to open this file was then immediately infected. Once this virus was activated, a command-and-control server began issuing instructions to servers and computers, resulting in the siphoning off of information.

Personal information on approximately 7,930,000 people – consisting of names, dates of birth, email addresses, postal addresses, telephone numbers, and more – was leaked in this case. In addition, passport numbers belonging to 4,300 people were also leaked.

While the identities of the perpetrators remain unknown, it is entirely plausible that a rival company concocted this criminal scheme. This is because the leakage of client information would cause the level of trust in that company to instantly waver.

There are also frequent cases involving a sophisticated method by which invitations to a party are sent out via email with the URL of the venue contained in the body of the message. Upon double-clicking this URL, the recipient of the email is directed to a completely different website from one purportedly showing a map of the establishment. With this action, the recipient's computer will be infected with a virus.

【Case example】 Shadow IT

Shadow IT refers to the act of freely using one's own personal smartphone, computer, device, or cloud-service account at work without obtaining the permission of the employer. Using Facebook, Twitter, Google Drive, or other such services for one's work without obtaining the permission of the employer is also considered an example of shadow IT.

For example, there are probably people who, intending to bring unfinished work home to complete, have sent work files to their home computers via a cloud-storage service or email. This is exceedingly risky.

If, for whatever reason, your home computer is infected with malware that causes data to be externally leaked, there may be cases in which the contents of work files end up being leaked to outside parties.

There are also cases in which a personal device used to examine materials belonging to the company is then misplaced. For companies that utilize a cloud-based solution provided by Office 365, Google, or other such option, the risks associated with this vector are high.

If a misplaced device is picked up by a person having malicious intent, the data contained in the device could be subject to misuse or abuse. If the leaked data relate to confidential matters concerning the company, the company's management strategy could be severely affected. If the leaked data relate to personal information, the company will be liable for issuing apologies and compensation for damages to a large number of individual clients.

Common tactics that are used involve the doxing of prominent figures by a stranger who makes their acquaintance during his or her professional duties and writes or uploads their personal information to Twitter and Facebook. In 2015, a receptionist at a certain establishment told her family about meeting celebrities and actors who visited the establishment at which she worked. Her family members posted these anecdotes to Twitter and caused personal information belonging to these prominent people to be spread online.

These problems highlight the poor literacy of employees and reveals that there is, of course, a problem in terms of people posting work details and information learned through the performance of work to Twitter and Facebook as well as a problem in terms of a network environment that allows social networking services to be accessed during work hours.

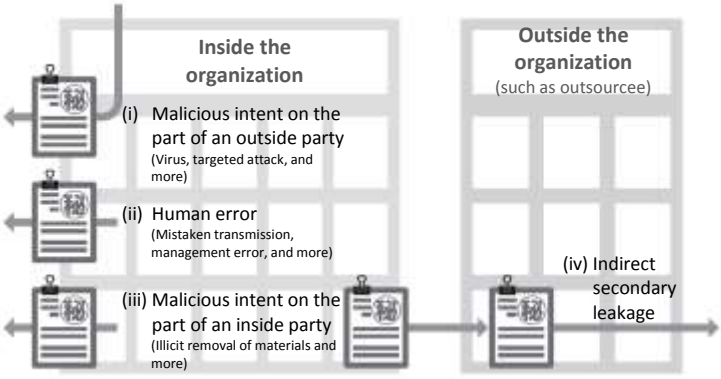
【Case example】 Human design errors

Hundreds or thousands of servers that enable Internet services and other commercial services offered by companies to be run and services that enable internal operational systems (such as email, file-sharing, and accounting systems) to be run are set up at data centers and are operated twenty-four hours a day, 365 days a year.

Numerous computers are set up to access and perform work on data center servers. By establishing a remote connection to these computers, these computers can serve as a foothold for engaging in work whenever an emergency situation occurs. If these work computers are connected to the Internet, the risk of infection by a virus through this vector emerges.

These work computers should fundamentally be segregated from the Internet. If, however, a design error allows these computers to be connected to the Internet, an opening is created for infection by a virus through the malicious accessing of these computers by an outside party. With a foothold thus gained, data center servers can then be accessed.

Figure 21 / Four main pathways to information leakage



These sorts of security risks likewise apply to computers used for factory-control purposes. If such a computer is connected to the Internet, infection by a virus is enabled. This situation could then lead to an operational failure.

Fundamentally speaking, a factory's control systems and their administrative computers are typically disconnected from the Internet. In some cases, however, these systems are connected to the Internet due to a design error or work performed incorrectly at the time these systems were being set up. In these cases, these systems would be subject to a targeted attack that could impede factory operations.

If this sort of scenario were to unfold at a food-processing factory with malice, even food terrorism could conceivably occur. Even if the situation does not become affected to this extent, the manufacturer would sustain huge losses if, for example, recipes were altered to prevent products from being released to the market. Such a company would be brought to its knees if it ended up making, for instance, salty chocolate.

Thus, technology used for factory purposes is referred to collectively as operations technology (OT). The risks described here have not yet been brought to light but they certainly represent potential problems in a factory setting.

The latest security measures for preventing information leaks

What measures should you take to combat these sorts of information leaks?

For a targeted attack, the perpetrator will somehow find an opening to infiltrate a system, set up an exit route, and then access the system again to steal data.

Thus, the first step to be taken is to put up a firewall or implement an IDS or IPS network security feature to prevent intrusion at the infiltration stage (*entry measure*).

Let us assume that the attacker is still somehow able to find a security hole and makes his way into the network. The infiltrator must then be prevented from leaving by having an *exit measure* implemented. This is because it will not be possible for information to be leaked if the infiltrator has no way of leaving the network.

For an infiltrator, the easiest exit route to take is the same route by which he or she gained entry in the first place. The current thinking on exit measures is

informed, however, by the thought that the traffic (data volume) at the time an infiltrator is leaving often differs from the traffic that can be generated through operations, such that an infiltrator would be unable to secure an exit route if only rules setting forth routes to be taken to proceed from an internal network to the Internet were permitted.

Having taken this thinking seriously, one simplified measure that is being gradually adopted is *network separation.* Initiatives to promote the rapid adoption of this measure are being implemented by local governments dealing with the Individual Number Card system[3]. Many companies in the financial industry are also pursuing studies on this measure.

Network separation is literally the act of configuring internal systems by physically separating systems that operate while handling important information from systems that engage in operations while connected to the Internet. It is believed that this approach significantly reduces the security risk posed by intruders who encroach from an Internet environment.

The adoption of this approach will likely be further promoted as an entry measure and an exit measure.

At the same time, it is also important to implement an internal measure in addition to entry and exit measures. This measure is required to prevent indirect secondary leaks attributable to human errors, internal fraud, and outside stakeholders.

Generally speaking, if file data containing a given piece of information are created and handed over to Person A, information management is rendered impossible since there would be no way to tell if Person A has handed over this information to Person B or if Person A has modified this information himself. The same can be said even if, for example, a password is applied only when the data are given or received if, in such a case, the password is cracked.

There is a security risk in terms of the leakage of information from an internal source.

To deal with this risk, a scheme can be implemented to determine in advance the authorization granted by the owner of each piece of information to persons who can access this information, persons who can print this information, and persons who can edit this information, and to ascertain to whom this information can be delivered and the identities of persons who have

[3] The system went into effect to improve social infrastructure. Individual numbers are used for administrative procedures in the area of social security, taxation and disaster responses.

accessed and edited this information. When Person C, who has been granted no such authorization and is thus an unauthorized accessing party, attempts to access this information, the information in question can also be deleted from places immediately accessible to Person C.

By adopting this scheme, the leakage of information constituting a valuable asset can be prevented.

In this way, a company can accommodate cyber-security risks that are becoming increasingly sophisticated by keeping on top of trends in terms of security measures that are inclusive of entry, exit, and internal measures and configuring its own systems through a precise approach to coordination.

The accommodation of cybersecurity risks is required of all companies competing in a modern business market and helps to ensure a company's continued survival and the maintenance of a company's competitive edge.

Will the IoT lead to information leaks!?

The term *Internet of Things (IoT)* has come to be used in a variety of different settings.

This term captures the notion that connections are increasingly being made among things via the Internet.

For instance, you can use your own smartphone to check whether the door of your home is locked, determine the location of your vehicle in a large parking lot, remotely turn your home's air conditioner or lighting on or off, or monitor the hot water in your bathtub, all via the Internet.

These systems are already being operated in the real world to allow some people the chance to reap the benefits of the IoT.

As various items become connected to the Internet in this way, however, more points through which infiltrators can gain access open up to raise the risk of malfunctions and information leaks occurring.

For example, what would happen if your smartphone were infected by a virus?

Smartphones are currently linked to all sorts of home appliances and bank accounts. Cars are no exception, such that we are seeing an evolution in terms of the range of items that can be connected to the Internet.

In 2015, however, the vulnerabilities inherent in this setup were disclosed in an announcement that indicated that, if an onboard vehicular system were

hijacked, an infiltrator could use a smartphone to remotely adjust the speed of the car, lock or unlock car doors, or turn the wipers on or off.

If automated driving becomes widespread and the operating system is exploited, a potentially fatal traffic accident is conceivable. Traffic problems occurred previously, where the viral infected traffic lights malfunctioned resulting in major trouble in the US.

Linkages confer advantages by allowing data volumes to increase and companies to do what they want to do more quickly and precisely. On the flip side, linkages provide more opportunities for outside parties to launch viral attacks. The same can be said of the financial industry.

If a unified platform based on the use of FinTech can be developed to connect insurance companies, banks, securities firms, and clients to one another, points of connection among these parties will also increase in number. The risk of outside attacks could increase commensurately.

Heightened security measures made possible by the evolution of AI

The fact that the risk of sustaining an outside attack through connections is increasing is a matter of concern. However, efficient and effective measures to deal with outside attacks and internal fraud can conceivably be realized by utilizing AI for information security.

Whatever system is in place is made to learn a white list (list of conditions for permitting acceptance) through deep learning.

A white list likely contains, for example, information on communications that is generated through normal operations. If such permitted communications are listed, communications not included in the list can be blocked to make irregular communications impossible.

If AI is utilized effectively in this way, it will be possible to automate, concurrent with the identification of intruders as being abnormal, the sending of commands to block communications at required points and take the proper responses in the event an intrusion takes place. Consequently, even if new attacks were to occur, it is expected that they would be dealt with immediately to enable more robust information security to be established.

With conventional security and antivirus measures, measures are taken after a system is exposed to a new threat of attacks. This process repeats with the emergence of each new threat. Improvements are thus fully made through

manual intervention.

If AI evolves, however, it should be possible to have security and antivirus measures taken with much greater speed than can be taken by humans. AI is expected to play a huge role not just in the area of information-based marketing, but also in the area of security-related matters.

Security measures in the insurance industry

According to information security guidelines put out by the Organisation for Economic Co-Operation and Development (OECD), information security is defined as consisting of the following three elements:

C: confidentiality
I: integrity
A: availability

These three elements are collectively known by their respective initials: CIA. The meaning of each is as outlined below:

(i) Confidentiality: Only people authorized to access information can see this information; people not granted authorization are unable to browse or otherwise access this information.
(ii) Integrity: Information is correct and has not been subjected to tampering.
(iii) Availability: People authorized to access information can always access this information whenever necessary.

Among these elements, *confidentiality* was especially stressed as being important under the conventional approach taken for information security. In other words, the safety of information was maintained by ensuring that it was not removed or released.

From around 2014, however, a series of targeted attacks caused incidents of corporate information leaks to trend upwards. Whether there was a need for a paradigm shift in the area of information security thus came to be considered.

In other words, we began to examine a new paradigm for information security premised on the idea that information is not always for internal use only.

The risks of sales channel changes and information leaks

Broadly categorized, sales channels in the insurance industry consist of three types: sales by captive agents, sales by professional consultants working for independent agencies, and online sales.

The channel corresponding to online sales appears to have nearly run its course, such that insurance products that can be sold online are unlikely to undergo much growth in terms of market share in the future. This means that either sales by captive agents or sales by professional consultants working for independent agencies will grow instead.

In light of what we have been seeing in recent years, captive agents will likely gradually lose their share of the market as they lose ground to professional consultants working for independent agencies. Therefore, a business model for which it is assumed that independent agencies will be playing a key role will need to be considered.

Thus, the need to adopt a unified platform will rise in part in order to free salespersons at independent agencies handling the insurance products of multiple insurance companies from having to trouble themselves with the on-site production of documents. This also applies to information security.

When a person in charge of sales at an insurance agency deals with a client, he or she might sometimes have client information sent to him or her by the insurance company. This will then be entered into the system before operations are carried out. Discrepancies in terms of information security-related literacy are a problem.

For an insurance company, an information leak that actually occurs as described in an earlier example could cause the Financial Services Agency to immediately issue an order to suspend operations.

If the leakage of client information causes an order to suspend operations to be issued, an insurance company could find itself locked out of global financial markets, since the financial industry is one that is built on a foundation of trust. The leakage of client information is truly fatal in this context.

Accordingly, financial institutions – of which insurance companies can be considered an example – are pursuing and implementing information security-related initiatives that are relatively more advanced than they are in other industries.

For example, the ban on bringing mobile phones into offices has been commonly implemented as a shadow IT measure for many years now. A system of *data-less computers*, whereby information is fully saved on company servers such that no data is retained in computer terminals themselves, has also been proactively adopted.

For these reasons, the risk of an information leak from an insurance company itself can be described as being low.

What should be a matter of concern are the security measures in place at insurance agencies. This issue is possibly the biggest bottleneck to be overcome when it comes to ensuring information security in the insurance industry.

This is because IT literacy is not very high at all in more than a few insurance agencies.

When it comes to insurance agencies, many companies that are not listed in the first place have been directed by the Financial Services Agency since around 2013 to develop an organizational framework and information-management framework (including systems) in accordance with amendments to the Insurance Business Act.

Specifically, these agencies have been given minute directions on various different points. For example, they are to have a physical office in actual existence and formulate operational rules, including those that are applicable to information storage locations. For many insurance agencies, proper compliance can be challenging in one way or another. Thus, IT literacy must be presently described as being at a low level.

Since salespersons engaged in such operations handle client information, the risk of an information leakage should be regarded as being considerably high.

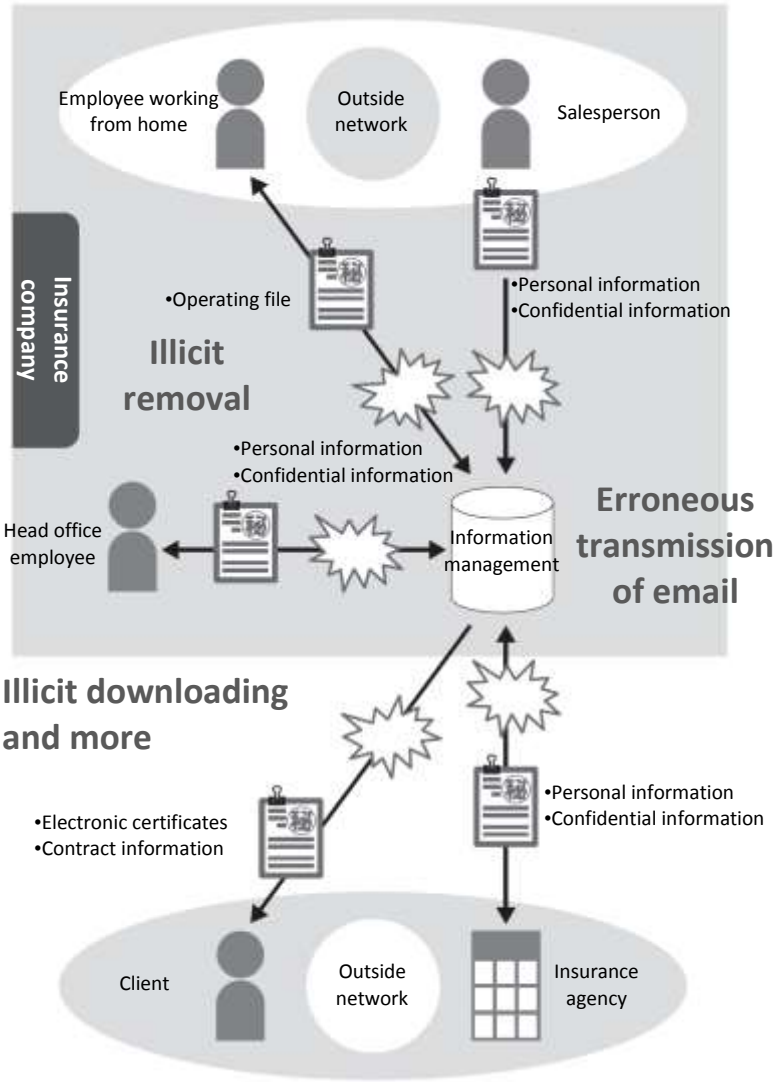
In addition, insurance companies themselves cannot control what happens to client information after it has been provided to an insurance agency.

Accordingly, information security in the insurance industry requires an examination of what should be done to enable the confidentiality and integrity of information to be secured on the assumption that information will be released in this way to outside parties.

Specifically, a framework enabling an insurance company to control information that it manages even after this information is provided to an insurance agency shall be established.

For example, let us say that an insurance company sends Ms. A at an insurance agency a file containing client information. Naturally, Ms. A can open this file.

Figure 22 / Examples of security risks in the insurance industry



Let us then say that Ms. A attempts to send this information to Mr. B, an

acquaintance who works in the same industry. If, rather than being able to open this file, Mr. B is met with a reality under which the data sent by Ms. A were to physically disappear, then the risk of an information leak would decline dramatically.

Figure 23 / Controlling a data file that has been mistakenly released to an outside party

We believe that the insurance industry should apply this level of information security to itself.

In the above case, the owner of the client information in question is the insurance company. Even if this client information were sent by Ms. A at the insurance agency, Ms. A would not be able to control this information. Control over this client information would be retained by the insurance company.

If such an information security system were to become widespread, client information would become highly secure in the insurance industry.

The possibilities of cyber insurance

In hopes of improving the speed of business and operational efficiency, many companies are proactively utilizing cloud services and relocating their systems away from conventional on-site environments. (Information systems have traditionally been held and operated on each company's own premises.)

These actions also represent a considerable business opportunity for insurance companies.

The issue that always comes up whenever a company looks into adopting cloud services is security. In particular, financial institutions tended to be averse to the idea of saving data in the cloud given the properties of the information they handle.

This is because financial institutions have comprehensively regarded the security level of *cloud services* to be low due to concerns over information leaks and, in the case of the cloud, concerns over the fact that data are retained in data centers situated outside of Japan, uncertainty as to which countries host such data, and the relatively low operating rate and other metrics of service level corresponding to cloud services compared to on-site environments.

In this connection, *cyber insurance* was introduced as a means of providing coverage against the various risks associated with the adoption of cloud services.

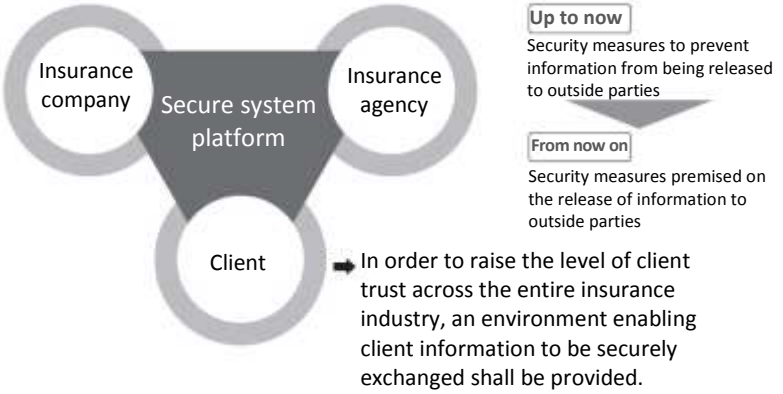
Specifically, this kind of insurance covers the costs of any follow-up response and recovery efforts undertaken by a company whenever a cyberattack or other form of security violation occurs.

The scheme is one in which an insurance company assesses the level of security, including with respect to solutions for supplementing security as a cloud-related issue, and in which the insurance company will indemnify a

policyholder if an information leakage or any other example of a security incident occurs.

As mentioned earlier, the use of AI as a security measure to counter cyberattacks that are growing more and more sophisticated all the time will conceivably allow effective, efficient schemes to be developed. Nevertheless, it should be noted that no risk can be completely eliminated. In this connection, the use of this kind of cyber insurance will allow the security risks to which a company is exposed (= management risks) to approach zero without limit.

Figure 24 / Developing an environment in which client information can be securely exchanged



Companies that utilize cloud services and take out cyber insurance policies in tandem are in fact gradually increasing in number.

We have taken a look at the insurance industry from the standpoint of the provision of coverage under cyber insurance plans. By redirecting our focus on the insurance industry in terms of the handling of information and the operating of businesses, it can be said that the pursuit of business by way of the utilization of cloud services and the development of a secure environment in this context is an urgent matter.

Specifically, cloud services will be utilized to streamline the routine exchanging of information with insurance agencies and other stakeholders and reform operations and systems, including those that relate to sales marketing, systems for specifications and application forms, and at-home work.

An information management system under which security measures are

implemented will be established, and a scheme enabling information to be continuously controlled even after it is no longer in the possession of its owner will be created.

The development of this platform is more important than anything else for the business of insurance in the FinTech era.

Dialog 1

Tsukasa Sato President & COO
Pasona Inc.

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Hideki Fujii President & Chief Executive Officer
Pactera Consulting Japan Co., Ltd.

Dialog

How digitalization will change the future and the way we work

Tsukasa Sato
(President & COO
Pasona Inc.)

Hideki Fujii
(President & Chief Executive Officer
Pactera Consulting Japan Co., Ltd.)

Photograph by Fumishige Ogata

What kind of future will we be able to see when the integration of FinTech with insurance is realized?

It may be possible to determine the answer to this question by perusing examples found in other industries where digitalization has already made gains.

By also taking into account initiatives undertaken by leading companies in the area of comprehensive services concerning human resources, we will explore the new future and ways of working that digitalization will bring about in great detail through a conversation with Tsukasa Sato, President and COO of Pasona Inc.

What going paperless will mean to business

Fujii / In recent years, the term *digitalization* has come to be frequently invoked not only in the realm of business but also in our day-to-day lives.

However, I get the sense that most people don't have a really good idea of what *digitalization* means when they hear references made to this term.

For example, you might see people who, despite processing information of all sorts with a personal computer, insist on working with paper rather than data by printing out inputted information. For some reason, these people do their utmost to talk about the future of digitalization. There are probably quite a few people who feel similarly ill at ease.

Pasona Inc., the company for which you are working as President and COO, has no doubt been exposed to many different kinds of business settings through its involvement in the dispatching of large numbers of workers as a leader among manpower providers. In this connection, I would like to discuss the significance of digitalization for businesses.

Sato / I personally define *digitalization* as "the act of applying a digital approach to everything from start to finish." The digital approach enables the processing of a far greater volume of data than the analog approach of the past. This is possible by retaining and reproducing every piece of information through the conversion of this information fully into combinations of zeros and ones.

Since all records can be digitalized, the conventional paper-based approach to processing information is rendered completely unnecessary. In other words, digitalization is equivalent to the notion of going paperless.

Fujii / The same can be said of the insurance industry. You will invariably run into various situations – not just in the insurance industry but also in the financial industry as a whole – where something has to be filled out by hand.

For instance, when a client goes to an independent agency and applies for an insurance policy, the policyholder will be asked to fill out an account-transfer form as part of the procedures for transferring insurance premiums from the client's bank account. These transfer forms differ from one insurance company to the next. Naturally, it takes time and effort to manage these forms. If, however, these forms could be entirely processed on a digital basis by rendering them paperless, operations would be instantly streamlined for both the insurance agency and the insurance company.

Unfortunately, there has not been much progress on this point. Thus, the difficulties that need to be overcome arise from this state of affairs. Perhaps we should then look at the extent to which digitalization has made gains in the personnel-dispatching industry.

Sato / At my company, all data – including client data – can be seen digitally. Written contracts and interactions with clients are all fully digitalized and managed through a cloud service. Of course, the same applies to communications with expert staff members (dispatched staff members).

By digitalizing all interactions, interactions based on the use of the same data set in the cloud can be undertaken from anywhere thanks to an omni-channel tool. In other words, the worldview whereby all communications – including single pages of a contract – within a company are digitalized is the ultimate example of digitalization.

Fujii / By pursuing digitalization, what will change significantly?

Sato / I expect that the way in which each employee works will change to a huge extent. For example, my company lends iPhones to its employees. This allows us to ascertain what each employee is doing as part of his or her job and where he or she is situated at any given time.

In this case, an employee could, for example, stay at home to work and would not have to come into the office. This is quite amazing. If everything could be digitalized, we would be able to not only reduce paperwork by a wide margin, but also pursue the diversification of working styles.

For example, imagine that a person working in Tokyo has a parent – either a father or mother – living alone in his rural hometown. And if nursing care is required, the individual faced with a huge turning point in his own life. Most

people in this situation would quit their job, move back to the countryside to live near their parent, and attempt to both take care of their parent and work at the same time.

Unfortunately, it would not be surprising if someone who moves to the countryside consequently finds it difficult to secure employment. Despite being content with having returned home, an individual in this situation might not easily be able to find a job for which he can leverage his previous career experience.

However, if digitalization enables all data to be exchanged through personal computers and smartphones used by individuals, then it should be possible for duties to be smoothly performed via data communications even if you live in a small remote village. In other words, you can still keep your job even if you move to the countryside.

Even if you don't live in a rural location, a person primarily engaged in at-home work will be able to eliminate the time required to commute back and forth between his home and his place of work. In other words, a workstyle that is indifferent to where one is physically situated (teleworking) will conceivably become more popular as a way in which people work in a society that is undergoing digitalization.

And while the way in which people work will change significantly in this way, I am focused on the impact this will have on employee evaluations.

If all duties and operations can essentially become subject to a teleworking approach, raising the level of output quality should become more emphasized in terms of evaluation standards than the process by which duties are performed. It is expected that productivity too would naturally improve.

Fujii / On the other hand, I'm sure there are also areas in which digitalization is harder to promote.

Sato / That is correct. Digitalization can be blocked to some degree in certain statutorily-regulated industries for example. A typical example is the financial industry.

Fujii / You're right. Insurance companies are, broadly speaking, part of the financial industry, and some official documents must be paper-based.

The financial industry is subject to the governing authority of the Financial Services Agency. Before a new financial instrument is released to the public, it must undergo a check conducted by the Financial Services Agency. The documents to be submitted at that time are all paper-based. If you were to

simply send documents in digital form to the Financial Services Agency along with an email asking politely for a decision on the matter at hand, you will not be deemed to have carried out the official steps required for the given process. A formal document must be a paper-based document to which the seal of the company has been affixed.

As long as this culture does not change, digitalization in the financial industry will not proceed with relative ease.

Sato / So it is against this backdrop that you are seeking to press forward with digitalization in the insurance industry, aren't you?

Fujii / Yes. While the elimination of paper is, of course, also very important for the insurance industry as we go forward, I believe that we can truly press forward with automation in various different respects in the insurance industry.

Using robot advisors, it is sufficiently possible to present a client with immediate recommendations on which insurance products would be ideal for enrollment. Before we get to that point, however, there are many parts that can be automated.

For instance, when a client takes out an insurance policy, an examination is conducted to determine whether the client is attempting to take out a policy without revealing that he has a medical condition. This process takes about a week to complete. In another example, the payment of insurance money entails an investigation to determine whether the reason for the claim in question is valid. This process can typically take about a month to finish.

Insurance policies can be made considerably more convenient for clients just by automating these processes.

Despite such client-oriented efforts on our part, seeing such initiatives come to proper fruition is rather difficult in the insurance industry. While this can in part be explained by the fact that we are a bit out of our depth, we must recognize that the industry as a whole will not be able to catch up to the digitalization wave no matter how much time passes unless it first transforms itself in a big way. There is a very real risk that ours will become a financial business plagued by the Galapagos effect.

Sato / This appears to be a significant issue.

How people work in a digital society

Fujii / Digitalization does not only bring about positive results. There are also

negative aspects associated with digitalization. For example, labor…. This topic has already been discussed by people coming from different perspectives in all sorts of different forums.

For example, Professor Michael A. Osborne, while engaging in research on AI and other related topics at Oxford University, wrote a paper in which he concluded that various jobs – including persons in charge of lending at banks, sports referees and umpires, real estate brokers, restaurant hosts and hostesses, insurance examiners, telephone operators, persons in charge of the administration of wages and benefits, and cashiers – will disappear and that approximately forty-seven percent of all jobs in the United States will become automated.

A report issued by the World Economic Forum on January 19, 2016, asserts that the rise of robots and AI will lead to the loss of jobs for approximately 5.1 million people across fifteen countries and regions worldwide in the next five years.

With respect to the digitalization of insurance as well, it should be noted that significant time and a large number of personnel are allocated in order to conduct examinations whenever a client enrolls in an insurance plan or investigations whenever insurance money is claimed. If these processes were to be fully carried out by AI, many people at every single insurance company would end up losing their jobs.

Some people believe that this is why such threatened workers orchestrate opposition to this trend and prevent digitalization in this field from gaining much ground.

How do you feel about the intersection of digitalization and people's jobs?

Sato / The effective jobs-to-applicants ratio stood at 1.38 in September 2016. The effective jobs-to-applicants ratio is equal to the effective number of jobs available divided by the effective number of people looking for work. Simply put, it is a ratio equal to the number of jobs available divided by the number of persons who would like to work. If the ratio is at one, then there is a state of balance between the number of jobs available and the number of people looking for employment. If this ratio were to rise to about 1.2 or 1.3, then it would mean that the number of available jobs is greater than the number of job seekers, in which case the labor market is favorable to those looking for work.

As mentioned previously, it was recently determined that this ratio equals

1.38, which is certainly favorable for people who are looking for work.

That said, 1.38 is a figure that applies generally to the entire labor force across all industries. The jobs-to-applicants ratio by occupation varies. The way that we regard this variation is very important.

For example, the jobs-to-applicants ratio for some occupations that relate to IT or for which a high level of business skills is otherwise required can sometimes exceed two. In contrast, the jobs-to-applicants decreases to about 0.4 for simple clerical positions. In other words, there are many people who would like to engage in such jobs, such that it can be quite difficult to find a clerical position no matter how hard you engage in the job-hunting process.

Moreover, Japan is currently beset by a shrinking population, which means that it is exceedingly difficult to optimally allocate human resources. Indeed, society may even find itself in a situation where it will not be possible to allocate enough people to jobs that truly need to be performed.

For this reason, AI and other such technologies will become necessary.

By using digital technology, jobs that cannot be performed by humans can be done by machines. In other cases, simple clerical work can be left to AI and other such technologies to allow people who have been engaging primarily in simple tasks to upgrade their skills for the performance of more sophisticated work.

For instance, imagine there is a company with a call center at which 100 people are working. The jobs of thirty of these people can be replaced by technology to allow them to learn more advanced skills. These people will then be assigned to different added-value positions or positions in which creativity is demanded.

This approach will enable those whose jobs were replaced by technology to avoid having to become unemployed.

Fujii / When it comes to AI and other such technologies, the focus is frequently placed on just the efficiency gains to be had, as a result of which people are inclined to obsess over whatever negative image is formed in their minds of these technologies in terms of the employment-related issues that are likely to arise. It is, however, important to think about matters that go beyond such efficiency gains.

While digitalization has hardly made any progress in the insurance industry, we would like to cultivate *data scientists* and increase the ranks of optimizable personnel.

Sato / We would also like to get in on the action as it were. There is presently a mismatch between demand and supply in the market, due in part to the failure of education and training to keep up with levels of need.

Fujii / I believe that the term *data scientist* first gained widespread traction in around 2007. Thus, the position is still a new one and its contents will likely continue to be defined with greater precision in the years to come. If the position is regarded as one to be filled by someone who "performs work to analyze large volumes of data and incorporate findings into feasible business strategies," then it is undeniable that there is a shortage of people who would be qualified for this position in Japan today.

The United States, however, is five years ahead of Japan, at least when it comes to IT-related fields. Thus, I believe there is presently the option of inviting some data scientists working in the United States to relocate to Japan. What do you think of this proposal?

Sato / While there is probably not much of a discrepancy between Japan and the United States in terms of the underlying technology, the real differences reside in how the technology is used.

While it seems that very few transactions in the United States now involve the exchanging of paper-based contracts, paper is still used in a variety of different contexts in Japan. If highly skilled workers in the United States are to be brought over to Japan to work, there will be a need to accommodate all of these sorts of different forms in detail before proceeding.

In other words, rather than accept that interactions built on the use of paper-based documents are undertaken in Japan as well, changes will need to be implemented to ensure that all interactions are fully carried out on a digital basis. No progress can be achieved as long as no efforts at unifying this aspect are made.

At Pasona, we have a huge workforce of experts working for us. For the last three, four years, we have been applying business process re-engineering (BPR) to all work flows. Specifically, we have sought to categorize what we work with as either data or software. We then endeavor to have our software updated and the contents of our data analyzed and optimized.

Fujii / While only a part of the insurance industry has undergone digitalization, any attempt to apply a Big Data approach will hardly yield any results as long as a paper culture remains alive.

In going back to the subject at hand, even business operators invariably

focus on the job losses that would be caused by digitalization and are reluctant to digitalize the flow of operations. Thus, there is a need to change people's thinking to get them to instead understand that digitalization will give rise to new ways of working.

Sato / I agree. I mentioned earlier that digitalization will change the system by which employees are evaluated. However, it will also likely have a big impact on personnel matters as well.

For example, when hiring someone, you select that person based on certain reasons, do you not? Since you can fully digitalize these reasons and retain the results of this process accordingly, you can compare the reasons that were applicable at the time a person was hired to his or her current performance five years or so later. This helps not only to evaluate persons who are hired, but also to evaluate those who hire such persons.

In addition, the potential that digitalization represents is also huge in terms of the collection and use of data required for the management of health for the employees. Interest in the health and productivity management among Japanese companies is also rising.

Fujii / That's right. At any company whose employees lead unhealthy lives and tend to get sick easily, it is unlikely that performance can be improved to a satisfactory level. In the years to come, management that also takes this into account might become important.

If a system that can determine whether a given employee can work in a healthy state can be constituted by bringing together each employee's approach to work in a company, personnel data, and other internal variables, you will also be able to harness digitalization for the management of health.

Sato / In any case, Japan lags behind the United States when it comes to the ways in which IT is used. This is probably due in large part to the thinking in Japan that a mistake or error is wrong. This way of thinking can be seen in the area of IT as well as in other fields. Thus, people here tend to get flustered when they are attempt to test or try something new.

In contrast, people in the United States sometimes take things too far. If they try and fail, they simply go back to the drawing board. Even if people in both countries ultimately end up where they respectively began, you might expect to see Japanese people become mired in the status quo without trying to shake things up and Americans tossed and turned in all directions before having to start over again.

If you had to identify something that was a major point of difference, it would be the *value of experience.* You just have to be willing to try different things and be prepared to start over whenever you fail at a particular endeavor. Americans who repeatedly undertake this process in various directions gradually build up experience. The gap in this respect is quite large. By increasing this value of experience, its application will come to be beneficial.

Fujii / In our discussion up to this point, I have come to understand that the ways in which businesses operate will change significantly if the paperless approach is increasingly adopted due to digitalization.

In the insurance industry, the preference for paper is strong within the Financial Services Agency. Even when a digitalization tool in the form of the Internet is used to conclude an insurance policy through an online insurance company, you should expect to encounter a strange reality in that paper-based agreements are mandated. However, this too will eventually undergo a shift to a paperless approach, no doubt.

Sato / I agree. The paperless approach will eventually gain ground since partial amendments to such statutes as the Labor Standards Act are enabling this change.

Nevertheless, even if the paperless approach is applied to operational flows for which paper is currently used, nobody believes that work being performed by people will be immediately displaced by AI and that automation will be implemented overnight. These sorts of things need to proceed progressively. Even if current clerical work were to be automated, employees actually performing such clerical work would need to help build a new automating system until such a system could be launched. Thus, it is simply implausible that current clerical positions would be rendered suddenly redundant.

Therefore, since there is still time before those who are presently engaged in clerical work need to be insecure about losing their jobs due to increased digitalization, they should think about prioritizing the acquisition of skills for work that will become needed as digitalization gains more and more traction in the industry.

Human power that is demanded precisely because our society is a digital one

Fujii / Can digital systems and human beings exist in a state of harmony?

Sato / Yes, I believe they can. The relationship between the two is one that is mutually *inclusive* ("and") rather than mutually *exclusive* ("or").

For instance, Airbnb is quite popular now, isn't it? It's a service that allows users to offer or secure private residences that are temporarily taking in lodgers. The number of positions whose duties involve the taking of photographs to be posted on sites for people leasing lodging facilities and private homes is increasing.

How should we regard the fact that there are more and more openings for such an analog-heavy job involving the taking of photographs for a new business that has emerged thanks to the growth of a technology-driven community in Airbnb? I think we should understand that this is where the key to a style of work that will be required to prevail in the digital era resides.

Some people believe that the appearance of Pepper[4] the robot will partly render superfluous the position of receptionist. If Pepper continues to be adopted to perform the work of company receptionists throughout society, human receptionists might, on the contrary, come to be better appreciated.

In this way, the emergence of technology will not lead to the displacement of all jobs performed by human beings. I believe that it is more than sufficiently possible for digital systems and human beings to exist in a state of harmony depending on how we proceed.

While the fear over people losing their jobs to machines may become more widespread as technology continues to evolve and IT, AI, and digitalization encroach upon the realm of human employment, I don't believe that this fear will actually transpire.

Fujii / As digitalization makes gains, can you draw a picture of what kinds of workers will be able to survive?

Sato / I don't believe that we can definitely say that so-and-so kinds of workers and so-and-so kinds of companies will be able to survive. However, those people who can work constantly to prepare for the future on the assumption that what they are doing today may not be around tomorrow are well positioned to succeed even as digitalization continues to advance.

In the age of digitalization, the pace of change will increase. Thus, it is completely conceivable that what you are doing now will suddenly become obsolete or that a competitor will emerge to release a better product or service.

[4] Pepper is an AI humanoid robot manufactured and sold to the public by Softbank. Pepper can recognize human emotions.

Therefore, you would be advised to refrain from thinking that what you are doing now is correct or will make you money.

Your current operations can lose their competitive edge overnight. You must therefore take on new challenges at all times and consistently seek to provide society with new added values. I believe that this degree of adaptive flexibility is the condition that must be met for people to survive professionally in a digital society.

As mentioned earlier, being wrong is okay. The biggest mistake you can make is to avoid making any moves at all out of a fear of failure. You simply have to try.

If you then fail, your own experience value will have increased. Just try anything and be prepared to repeatedly fail. With each failure, you go back to the beginning. By undertaking this process over and over again, you will gradually come to understand what is constituted by an optimal product or service.

You will also need to be able to deal with matters even without a manual. This is something that I want young people in particular to understand. When you get to be about as old as I am, you find yourself needing a manual whenever you use something new.

Yet, whether you are using an iPhone or a social-networking service like Instagram or Facebook, no manual can be found anywhere. In other words, if you want to use such new digital devices or applications, you need to have the sort of sensitivity that enables you to engage in intuitive usage without ever referring to a manual.

It is important for a company to establish an environment in which young people in possession of such sensitivity can keep on offering counsel and suggestions to the company. Failure to do so will prevent the company from changing. Companies must recognize that employees who have been with the company for no more than three years to date are intuitively capable of using social-networking services and that older employees may not be able to do so without referring to manuals.

Fujii / I believe that it's likely that robots will come to perform quite a lot of work in place of human beings. When we ponder what human beings should do in this context, we will probably conceive of some interesting ideas and revert to the kind of *human power* that can be put into action.

Sato / You're right. After all, what makes us human is the ability to come up

with new solutions.

Fujii / In looking just at Japanese people, I believe that it is important to cultivate a tolerance for change. It is to this extent that Japanese people today are weak in the face of change. Even if the world becomes highly convenient for people as digitalization continues, everyone refrains from doing anything because information security will become an issue, and sustaining their current job will become difficult.

As we saw when the Individual Number Card system was introduced, people are overly wary of security matters in a way that is puzzling to me. Of course, security is important. However, concerns over this issue in Japan are excessive. This attitude will impede the natural course of evolution in this area.

Sato / From my own perspective gained over many years of living in the United States, I do wonder whether it might not be better for Japan to retain this approach. The country possesses the world's most advanced technologies, which in turn allows society as a whole to operate remarkably well.

In the United States, Trump emerged on the scene and caused a whirlwind to rage for nearly a year during the campaign to elect the forty-fifth president of the country. At the end of the day, overwhelming favorite Hillary Clinton lost to her opponent. This sort of thing almost never happens in Japan. That this kind of phenomenon occurs is something that makes America both better and worse.

If I had to identify a shortcoming associated with Japan, however, I would say that it is the inability of Japanese people to recognize the ways in which their country is exceptional. If this shortcoming could be ameliorated, I believe that Japan can change more dynamically in the years to come.

Fujii / And you can't necessarily say that a methodology that works overseas can be applied in Japan without modification. While some might say that Japanese people tend to be averse to change, venture companies are constantly being cultivated. If Japanese people really hated change, you would not expect to see any venture companies.

For myself, I would love to work with anyone who knows what he or she wanted to do, who is highly motivated, and who is bold enough to continue to push forward in his or her endeavors.

Sato / It's been about nine years since I arrived here in Japan. Until about four years ago, I was firmly under the impression that Japan was a country that would not change. In the last four years, however, various examples of change

have emerged in this country. One example is, as you mentioned earlier, the emergence of one venture company after another on the scene.

I believe that Japan is beginning to steer itself onto the right track. This has been made possible thanks to structural reforms facilitated through the gradual addition of people who have learned the ropes in business settings for foreign companies to the ranks of upper management at Japanese companies. I believe that this has allowed the pace of change to increase.

Digital marketing is an example of a word-of-mouth culture

Fujii / Digitalization will change the operational flow of business and the ways in which people work. Moreover, while the impact of digitalization on work in general will be extremely large given the changes that will affect the standards by which employees are evaluated, digitalization will also affect the strategies by which products and services are sold and, indeed, the entire field of marketing. What are your thoughts on this topic?

Sato / The distance between consumers and companies will likely change. Up to now, marketing has been undertaken in accordance with the *voices of customers*. This seems like an obvious principle, one that involves collecting as much feedback from customers as possible for use in the development of goods and services.

The coming age, however, will see marketing undertaken in accordance with the *voices of friends.* In other words, word-of-mouth communications among close acquaintances and friends will affect sales of goods and services.

You can try thinking about this in terms of your own perspective. You probably have around thirty to sixty people with whom you are close. If any one of these close friends or acquaintances were to say something like “That was delicious,” “That movie was fun,” or “This product is user-friendly,” then he or she would be exerting some sort of influence on the buying behavior of others in his or her circle.

Thus, marketing in the age of the *voices-of-friends* principle will turn on how effectively word of mouth can be utilized.

This is why many companies have been attempting to deploy digital marketing programs based on the use of Twitter, Facebook, Line, or other such social networking services in recent years. In the years to come, we will probably see new products and services developed in accordance with posts

made by people on various social networking sites.

Is marketing based on the use of social networking services being practiced in the insurance industry?

Fujii / The insurance industry has definitely gotten off to a late start. This is because insurance products remain subject to strict monitoring by the Financial Services Agency, such that new products cannot be released without first being approved by this body.

For example, there is a product known as *risk subdivision-type insurance.* For automobile insurance, the premium and discount rates for the premium to be paid are determined in accordance with the given *class*, whereupon the premium to be paid is calculated accordingly. For risk subdivision-type insurance, the premium to be paid can be further broken down according to nine different standards: the driver's age, the driver's gender, the driver's driving history, the purpose of automobile use, the state of automobile use, the driver's region, the automobile classification, whether the automobile is outfitted with safety devices, and the number of automobiles owned by the driver.

This is an accepted form of insurance when it comes to automobile insurance but not for life insurance. The elimination of such a particular restriction will increase the degree of freedom that can be applied to the designing of products and services and allow the voices of friends to be taken into account in the process of developing new products that meet more specific client needs.

Sato / It appears that finance in Japan is still subject to many restrictions. What is the situation like in the United States?

Fujii / I believe that the situation is quite progressive overseas.

Sato / Do you have any specific examples?

Fujii / When you cross *insurance* and *technology* overseas, you get something that is referred to as *InsureTech.* Various different insurance services have emerged in this category.

For example, *telematics insurance* is a system under which all sudden braking actions, sudden start actions, sudden lane-change actions, and other such incidents are recorded using measuring instruments installed on the vehicle and under which premium rates are then determined according to the driver's driving profile. The calculation of premiums based on the use of Big Data for automobiles can be described as the perfect example of what can be

achieved through the fusion of FinTech and insurance that has been undertaken in recent years.

There is also a type of life insurance that works by assessing the state of health of the policyholder with the use of a wearable terminal. A policyholder who is determined to be leading a healthy lifestyle will be issued tickets granting him or her the right to receive various forms of medical treatment as an incentive.

A product known as *P2P insurance* has also emerged.

For this type of insurance, the scheme involves the creation of a group – for example, of family members or colleagues at work – and premiums would be paid on a pooled basis. If an event for which a small amount of insurance money can be claimed occurs, a portion of the pooled money would be used. If, however, an event for which a large amount of insurance money exceeding the amount of money that has been pooled occurs, the excess amount claimed would be settled through the payment of insurance money by an outside insurance company.

Sato / I see. Despite still being constrained by restrictions imposed by the Financial Services Agency, the Japanese insurance industry will invariably become liberated if FinTech and insurance are merged together and advancements in digitalization are achieved. The process by which digitalization will be promoted serves as the driving force behind efforts to overcome conventional wisdom in this industry and allow new products and services to be brought forth.

Fujii / I agree. Thank you very much for sharing your thoughts with me today.

Dialog 2

Conversations with the authors

Tadao Matsumoto — CEO, Digital Arts Consulting Inc.

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Hideki Fujii — President & Chief Executive Officer, Pactera Consulting Japan Co., Ltd.

Dialog

New trends in FinTech. What kind of consultant will significantly change the insurance industry?

Hideki Fujii
President & Chief Executive Officer
Pactera Consulting Japan Co., Ltd.

Tadao Matsumoto
CEO
Digital Arts Consulting Inc.

Photograph by Hideji Umetani

Hideki Fujii is forty-five years old.

Tadao Matsumoto is thirty years old.

Easily a generation apart in terms of a typical corporate structure, these two management consultants have begun a project to significantly change the outdated insurance industry.

FinTech x insurance = ???

What is the response to be derived from this formula? Indeed, what caused people to conceive of the idea of merging FinTech with insurance in the first place?

Let us seek answers to these questions through a conversation between both authors of this book.

Theme / Background of both authors
This is how we defined our own place in the consulting industry.

Personal interactions are important in developing a workforce of winners

Fujii / Broadly speaking, I have been involved in three areas to date. The first was IT. My career began when I joined a major domestic think tank.

When you think of think tanks, you probably ostensibly think of the work they do conducting macroeconomic and financial market analyses, making policy declarations, and carrying out research for individual companies. In fact, however, their biggest source of revenue might lie in the field of IT, which includes system-development work and other such functions.

In the year before I graduated from university, Microsoft released Windows 95. I became interested in the field of IT and decided to enter the world of system development. My second career was as a management consultant while my third will be tied to an insurance company.

Matsumoto / For me, it's been eight years since I graduated from university. *(Note: this conversation was held in 2016.)* I've been building up my career in the consulting industry ever since my graduation.

I've always wanted to help companies solve their problems and contribute to the growth of companies that I call my clients and aspired to become a consultant who could provide support in the area of strategy. For the first two and a half years, I was engaged in work in the field of IT. I backed up

corporate activities by making various proposals. For example, I might point out the need to apply certain specifications to email servers or file servers as a company worked on expanding the scale of its business. Or I might suggest that a data model and system for achieving such a model should be constructed a certain way to have a management accounting system utilized more effectively.

Since I really wanted to engage in consultations in the area of strategy, however, I continued to submit field transfer requests while performing my day-to-day tasks.

Fujii / But wasn't it quite difficult to become a strategic consultant?

Matsumoto / Yes, it was. As you are aware, it's a field that's highly merit-based for those who work in it. Thus, I worked hard at that time to make my superiors, who held the power to shuffle personnel, understand that I was highly qualified in a professional sense on the basis of my own merit and to earn their trust.

That said, it's not an easy job to crack. After I started working, it was a real struggle until I managed to snag a job in my desired field. Since the job itself is also quite hard, you are required to have the physical and mental tenacity to be able to work not only overtime, but also overnight at times for the benefit of your clients. Thus, you have to really enjoy being a consultant, and you have to be extremely motivated to work in your chosen field. These are absolute conditions that must be fulfilled if you aspire to be a consultant.

Fujii / When we first met, you had already developed the look of someone who was clearly a strategic consultant. *(Laughs)* What prompted you to switch from being an IT consultant to a strategic consultant?

Matsumoto / I have to say that I switched because of my boss. I had a boss who was from a strategic consulting firm. He's the one who gave me a boost and helped mold me into the consultant that I am today.

The first consulting firm I joined was a Japanese consulting firm. I worked there for five years and spent the last two and a half years with them fulfilling duties as a strategic consultant. In the last half year of my time working in the strategic field, I met you when you were a COO for a certain life insurance company back then.

The difficulties and joys of dealing with an organization (as related by a CEO who stepped down from his position out of weariness at seeing eighty percent of his work consumed by meetings)

Fujii / If I were to talk about my career to date, it would get a bit complicated. *(Laughs)*

At first, I belonged to a major domestic think tank. I then worked for two foreign-affiliated consulting firms before joining a foreign-affiliated insurance company. This company underwent a number of name changes and corporate acquisitions, during which time I was transferred to a given insurance company. This company was in turn bought out by another entity, which purchased a foreign-affiliated insurance company to which I belonged for several months. I subsequently made my way to another foreign-affiliated insurance company, where I worked for a year and a half.

Through these twists and turns, I found myself at a certain life insurance company where I met you. I was able to survey the entire company from my vantage point as a COO.

This was the first time I was able to survey an entire company from such a position and take up a post as a board member in the company. I amassed quite a bit of positive experiences, but – and I suppose this is just something that arises from my own personality – I eventually felt the urge once again to take up a new challenge. *(Laughs)* I submitted my letter of resignation from this company after ten months working there and signed up to work for a foreign-affiliated accounting consulting firm.

Matsumoto / After you resigned from a certain life insurance company, you established an insurance team at a foreign-affiliated accounting consulting firm. It was at this time that you contacted me and invited me to join you.

I was able to work together with you for about a year and a half. To be honest, I felt propped up just by the fact that the team was led by you. For this reason, I wanted to test myself to find out just how much I could do on my own and found employment with a different foreign-affiliated consulting firm.

Fujii / I chose that foreign-affiliated accounting consulting firm because I thought I would be able to perform my job with freedom, given that it was relatively new among the four big accounting firms in existence at that time. It was after I joined the firm that I realized that it was quite a politically-charged organization.

The culture was one in which people felt that consultants should simply stick to consultancy-related tasks and in which territory was fiercely protected. There was an implicit understanding that you had to pay your respects to anyone when performing tasks that intersected his or her sphere of influence.

While I was able to immediately produce results with respect to insurance and become a top executive in the finance division, factional fighting began immediately. It was then that, while feeling disillusioned about this situation, I was invited to come join Pactera. It is for this company that I am currently working.

Theme / Changing jobs

Changing companies is not the same thing as changing jobs. Find a job and change jobs in order to customize your own career.

Is changing jobs in the consulting industry the same thing as a personnel shuffle?

Fujii / Honestly, I have zero resistance to the idea of changing jobs. *(Laughs)* The major domestic think tank that I joined as a new employee is now a huge enterprise, but I have never once thought of committing myself to lifelong employment.

I chose that company because I felt that IT would be important given the prevailing societal trends and believed that they offered me the quickest and easiest route to studying this topic.

My career goal is to run a business on my own and to create an organization where I can freely do what I want. In this context, repeatedly changing jobs is a process by which I can pursue my goal while remaining true to what I aspire to become. Where necessary, it is simply a process of changing companies.

Matsumoto / When changing jobs, one might be invited to do so by a headhunter. Have you ever had such an experience?

Fujii / Only in the form of a referral. I've been contacted by a headhunter but I have never actually changed jobs in accordance with conditions presented by a headhunter.

What's interesting is that, despite repeatedly changing jobs as many times as I have in my life, the right company appeared at the right time or I've been given proper guidance by someone at the right time in each and every case. I

reckon that it is likely that I subconsciously took actions in line with my desire to create, as quickly as possible, an environment in which I could do what I want pursuant to the goal I set for myself.

The consulting industry is an industry in which people steadily transfer from one place to another within the same sector. Even if someone changes companies, his or her tasks will not change to any significant degree. Thus, I believe that many people believe that changing jobs is something akin to a personnel transfer.

In my case, I went from the IT sector to the world of consulting. I joined an insurance company along the way and returned to the consulting sector. In this way, my career has been somewhat different from the careers of other consultants. My thoughts on changing jobs, however, are the same as those of other consultants. Not surprisingly, I feel that changing jobs is rather like undergoing a personnel transfer.

Consultancy can be likened to a business managing television personalities in that a job change in this field will give you more leverage for opening up paths

Matsumoto / What do you keep in mind when you change jobs?
Fujii / What I am about to say is actually true. Each time I change jobs, the level of discretion I enjoy is raised. I am currently employed as a company president. Therefore, I need to be mindful of the strategies of our parent company and other group companies, but I am otherwise essentially free to do what I want. In essence, my goal is to become independent. This is because I want to possess full discretionary powers for myself.
Incidentally, why did you want to work as a strategic consultant?
Matsumoto / Just like you, I wanted to go into business for myself. In other words, this entailed becoming a company president. When I sought to work alongside more company presidents, I felt that this probably involved working as a strategic consultant. Thus, I persisted in requesting jobs that allow me to engage in strategic work.

However, I knew that it would be difficult to do this with my capabilities at the time. For the first two and a half years then, I strove to firmly deliver results through work that was assigned to me and reach a position in which I could express myself and have myself heard properly within the company.

I somehow delivered these results and was given my opportunities. I was asked to partake in a consulting project to ameliorate operations. This project was supposed to lead to strategic openings down the line. Let's just say that it all felt like a struggle to the death. I worked hard to define the value that my job and my own existence provided to others and endeavored to take advantage of the opportunities that lay within my grasp.

Fujii / At this point of your life, you've changed your job many times to date but have you ever had any resistance to the idea of changing jobs?

Matsumoto / Since I've never had a job outside of the consulting industry, changing companies feels a lot like personnel transfers, as you mentioned earlier. For this reason, I've never been opposed to the idea of changing jobs or companies.

There are two reasons why I have repeatedly changed jobs up to this point in my life.

The first is to assess where I currently stand.

For example, let us say that you are working as a manager for a certain consulting firm. To be evaluated in this position is to be judged by your superiors, colleagues, and subordinates in the company to which you belong. Changing jobs can be meaningful in that it would allow you to find out whether you can be evaluated similarly once you leave your company and seek a position elsewhere.

The other reason is to further assess my field and change jobs for personal growth, in order to move from where I currently stand to somewhere else where I might be better positioned to meet my goals.

In one sense, consulting can be likened to a business managing television personalities in that being evaluated by people is a huge part of this field. Therefore, changing jobs is necessary to assess your own strengths as demonstrated independently of any association with a company and to objectively identify any shortcomings that may impede the attainment of the goals you wish to fulfill next.

An intense desire to run a business is necessary in carrying out the duties of a company president

Fujii / I come from a full-time farming household. Because my parents are self-employed, they are, in a sense, living freely. Of course, they engage in

farming as an occupation, but they find time to go to nearby rivers and the ocean to fish when they are in the mood. As their child, I see them as free spirits.

Thus, I could not see myself leading a life for which I would have to engage in certain determined tasks during certain determined hours for a large company as a member of its workforce.

For this reason, I felt, if anything, a strong urge to operate a business. It's true that I am currently working as a company employee, but I retain a strong sense that I am studying for the purpose of eventually running my own business. It may be a radical way of thinking, but I don't think it's an exaggeration to say that I was put here on this earth to run a business.

Why did you want to run your own business?

Matsumoto / My family was typical in that it was led by a salaried corporate employee, but we weren't all that well-off. My desire to run my own business can probably be primarily attributed to this aspect of my background.

This might be a truly simple way of looking at things, but I pondered what I needed to do to make money and came to the conclusion that company presidents probably make lots of money. What's more, if a business I launched were to be recognized and valued by society, then my company could continue to grow into something big.

Consequently, I too would profit in such a situation. I've had this way of thinking ever since I was a child.

I understand now that society is not that simple. Nevertheless, I believe that my childhood thoughts continued to hold sway in some part of my brain until I eventually became appointed to the position of company president.

Thus, I aspired to become a strategic consultant after considering what I needed to do to engage in work within the innermost circle of a company president.

Fujii / So you found employment eight years ago (*editor's note: it is currently 2016*) – so that would make it 2008. That was when the Lehman Shock occurred. At the same time, numerous Internet companies emerged both in Japan and overseas. Were you also influenced by what was happening back then?

Matsumoto / Back then, venture companies appeared to be more dynamic than large companies. Since I felt a greater bond of kinship with entrepreneurs – in particular those in the Internet sector, I believe that the events that were

unfolding then influenced me greatly.

Theme / The joy of working
How should we face our work?

Wanting to create an organization in which people can be excited about working under a philosophy of *knowledge, fondness*, and *enjoyment*

Fujii / *Why do you work?* This is an element of the managerial creed adopted by Pactera Consulting Japan, the company that I serve as its representative. I like to think that this question is being posed as a way to encourage people to work in order to enjoy life.

Thus, we embrace a philosophy of *knowledge, fondness, and enjoyment.*

A job first entails the acquisition of skills (knowledge). This will allow you to master your job. As you repeatedly work hard to perform your job, you will gradually come to like your job (fondness). Moreover, while it is important to like your job, the ability to enjoy your work is an even more powerful factor (enjoyment).

The philosophy of *knowledge, fondness, and enjoyment* is one that appears in the Analects of Confucius. If you could create an organization that manages to fulfill this philosophy, there is no doubt that working for such an organization would be wonderful indeed. It is for this reason that I seek to enjoy my work. It is on this basis that I hope to see the members of the organization I create be capable of enjoying their own work. This will, in turn, make work even more fun.

To describe this as a *hobby* might rub some people the wrong way but it is my desire to create an organization in which people will be able to work as if they are pursuing their favorite passions. To this end, I have gathered together colleagues with whom I can work in a joyful manner at Pactera Consulting Japan.

Matsumoto / It's been only eight years since I started working, but, in part due to my many years of working for the consulting industry, I believe that everything I do no matter how far I get should be for the benefit of clients.

For example, let us say that the company you join as a consultant is a major enterprise teetering on the brink of bankruptcy with an operating profit margin of one percent. In hopes of turning things around, you have to work out some

measures. Since you don't really have a year to conceive of such measures, you are required to propose convincing measures to the president of the company in just one or two months. You find yourself working so hard you hardly have any time to even sleep. I believe that you will then be wondering once again why it is that you work.

If you are just working for your own benefit, you will probably cut corners at some point. However, if your client is a large company with a workforce of several tens of thousands of employees and the fate of these employees rests on the quality of measures that are being studied with your help in your role as a consultant, then you will need to be fully committed to conducting yourself for the benefit of your client.

Of course, since consultants are essentially high-income earners, a consultant is liable to think of himself or herself as an outsider and might be tempted to work for his or her own benefit. However, if you think about it very seriously and at a very fundamental level, I believe that this is not the kind of job you can continue to engage in for very long if you fail to work while firmly maintaining a client-focused orientation.

The joy of working comes from love and money!

Fujii / As you might expect, work is not something that you can continue to engage in if there is no joy in it somewhere. As you mentioned earlier, the notion that you are working for your clients is possibly appreciated by your clients and might be a source of delight for your clients.

Matsumoto / That's true. What is it about work that makes you happy?

Fujii / I work for two different goals. The first is to work with *heart and soul.* I must deal with both myself and my clients at all times with a wholehearted attitude and in good faith.

The second is to *become aware only through practice.* This is one of the propositions of neo-Confucianism in China, according to which knowledge and practice are inseparable actions that arise from the ability to judge between good and evil and between right and wrong.

Simply put, this is a notion that stresses the value of studying hard to generate actual results. I believe that this is an exceedingly important quality for a consultant to possess. By engaging in work with this mindset, you will find yourself adhering to the aforementioned philosophy of *knowledge,*

fondness, and enjoyment and should be able to better enjoy your work.

What I have recently come to believe is also important is *love.*

An organization brimming with love. You might be reading this and wondering, "What the heck is this?" Nevertheless, it is very important. In brief, persons belonging to a given organization should help one another out. In addition, an organization should offer to help its clients. Behind every act of assistance, love for the intended recipient of the assistance is required in my opinion.

Leaving aside the question of how we can get love to permeate organizations, the successful creation of an organization that is brimming with love would represent a truly wonderful achievement. If such an organization were also fully capable of making money, the joy of working would be felt by consultants and the head of the organization alike. This would represent nothing less than the essence of *love and money.*

Matsumoto / That's really interesting!

Fujii / When it comes to *love and money*, it is really important to strike the right balance between love and money. To create such an organization, I have been carrying out an extensive process of trial and error over and over again. Thus, if I were asked to explain what it means to enjoy one's work, I would respond by indicating that it is the process of trial and error that is carried out with a view to creating an organization capable of making *love and money* a reality.

In the consulting industry, there is a real problem. For example, if you asked some young employees working at a consulting firm if managers are people that can be respected from the point of view of these young employees, most would probably say, "No," and proceed to explain that, in their view, "Managers essentially treat us like we are disposable."

On the other hand, if you were to ask managers if they believe that their subordinates are effective employees, then eight or nine out of ten managers would say, "No," and then demand to be provided with better subordinates. But hold on… If you were to then ask these managers if they defend and protect their subordinates, they would probably say something like, "There's no way I would defend and protect such subordinates." This is the consulting world in a nutshell.

Since consulting firms attract only the best and the brightest in terms of educational background, there is no shortage of immodesty among the

workforce. This accounts for the occurrence of truly peculiar conflicts.

Since consulting firms are a collection of exceptional talent, managers tend to believe that their subordinates will simply develop on their own. In other words, subordinates are not meant to be the recipients of feelings of affection. As a result, even subordinates who are recent graduates are often seen as rivals by managers. Thus, this is something that I would like to change.

Converting one's circle of colleagues with whom relationships have been formed through projects into a significant asset

Matsumoto / Can you strike a proper balance between *love* and *money*?

Fujii / In a word, I do wonder if it's possible to develop a money-making scheme under which love for the organization is promoted. For example, is it possible to develop a scheme that provides greater incentives for those in managerial positions to defend and protect their subordinates?

To be honest, I don't have anything yet that is functional, but I would like to make this a goal. It sounds extremely difficult as a concept for the development of an organization, but nothing easy is fun. It's really only enjoyable when the challenge is difficult, as they say.

So where do you find the joy in working?

Matsumoto / I can point out three sources of joy in working.

The first is the attainment of a goal.

Since a project is constituted when you have a goal, the attainment of the goal in question is important.

Of course, there will also be times when you won't be able to attain the goal at hand. You will still be paid as a consultant even if the goal is not attained, but it is at these times that you are overcome by a feeling of impotence. To illustrate, let's say that you spend three months on a project that ultimately results in failure. It's great that you receive payment for business services rendered, but, not surprisingly, you will be left wondering if there was any point in working so furiously for three months.

At the end of the day, I believe that there can be no joy in working unless you meet some kind of identified target or goal.

The second is any opportunity for increasing the ranks of friends and colleagues.

I always have friends and colleagues with whom I associate through good

times and bad, but they aren't always going to be working for the same company, since anyone who works in this industry will be constantly changing jobs. Nevertheless, I still regard members with whom I once struggled on the same project as friends and colleagues, even if we are now employed by different companies. This can be said with respect to not just other consultants, but also client-side people with whom I have previously collaborated.

Since problems are ultimately solved not by consultants working alone but through work that we as consultants perform together with client-side members, these client-side members also become friends and colleagues, in a sense, as part of an ever-widening circle. This is truly a remarkable source of gratification and something that I see as being an asset that I personally own.

Fujii / And what is the third source?

Matsumoto / I'd say that I also embrace the joy in working whenever I make new discoveries.

To begin with, since I can address new problems all the time, I simply don't declare something to be the optimal solution to a given problem. It is precisely for this reason that a consultant will continue to make new discoveries if he or she goes all out and earnestly engages in new problems. I believe that this gives rise to joy in working.

Theme / How to overcome setbacks and barriers
What skills are needed to resolve significant issues?

When a project costing several tens of billions of yen is postponed or aborted prior to completion

Fujii / You mentioned that some goals can be attained while others cannot. It's true that, if you've been working for many years as a consultant, you will have run into various walls along the way.

In my case, as I indicated earlier, my parents are farmers, which means that they are essentially pretty laid-back people. They don't have the same temperament as people of Mediterranean heritage but they definitely exhibit a real "easy come, easy go" attitude.

This is why, if I'm being honest with you, I can't take things too seriously. It's true that you might run into a few walls while you work. However, if you take a big-picture approach, you might find that most issues constitute nothing

more than exceptionally small problems affecting groups within a given business enterprise.

Also, seeing something from a different perspective could cause something to be seen in a very different light, depending on the skills of the given consultant.

In my own experience, the more critical a certain juncture is or the more difficult a certain situation is, the greater is the opportunity that is presented. Thus, I try to regard crises optimistically as opportunities.

Matsumoto / I'm the opposite. It is precisely when a project looks like it's not going so well that you should be demonstrating renewed vigor and grit. However, you should ultimately maintain an attitude of sincerity when you get to the very end.

There aren't many projects that go exactly according to plan. I can understand why a client might want to direct their anger at consultants when a project they've been working on as a matter of survival fails.

Thus, by demonstrating sincerity in your efforts to get as close to 100 percent as possible even when perfection is not possible, you will be able to somehow overcome whatever walls you encounter.

Incidentally, what sorts of critical junctures have you come across to date?

Fujii / Let me give an example while redacting the name of the company so as not to inconvenience a number of different parties. There is a project involving system integration for an insurance company. This project, which nobody in the industry believes will ever be completed, is currently ongoing.

I'm not personally involved in this project, but I was involved in a similar project many years ago. For this project, a certain consulting firm boasted that it could meet the given objectives in a year. I was added to the project team as a project manager partway through the term for this project.

Unfortunately, however, a comprehensive look at this project revealed that there was just no way that it could be completed in a year. In the end, we endeavored to supplement the budget for this project, which initially stood, on the assumption that it would take a year to complete, at approximately ten billion yen, with twenty billion yen in additional funds and secure a two-year extension. With the occurrence of the Lehman Shock in 2008, this project was ultimately canceled.

This was a project that was begun without properly studying the various potential risks that would have been exposed as obvious if specific points had

been logically considered from the outset. Regardless, while the consulting firm that boasted that this project could be completed in a year deserves to be blamed, the plan that was originally put forth by the consultant in this case was backed by many people. Anyone voicing concerns or objections was subject to merciless bashing.

At that time, I engaged in underhanded dealings to recruit opponents as allies and managed to extend the project term. Suffice it to say that it was just a really bad project.

What is important is determining how you can offer added value that only you can provide

Matsumoto / On the other hand, some projects must surely have gone well.
Fujii / Some projects, despite being likewise difficult, also wrapped up in a year. At such times, a top-down management approach was thoroughly applied, which means that top management was properly committed to completely eliminating internal politics from the mix.
Ultimately, the biggest factor behind the failure of system-integration projects is the fact that so much focus is being placed by everyone on internal politics.

For example, let's say that we are trying to merge Company A's system with Company B's system. Naturally, both companies want something different. While the goal is to make bold cuts through this process of integration, neither side is willing to concede. If system integration is to take place, you will need to properly determine the extent to which actions will be taken by defining the *scope* of such actions. Since the scope of actions to be taken will vary according to internal politics, the key to success lies in your ability to manage this and other pertinent matters.

Now if you were to attempt everything, you would most likely end in failure. While this might, in one sense, be considered unfortunate, a consultant will make more money the more the scope of his or her project expands. Each time discussions are held, both sides will produce various documents in hopes of determining why different things are possible or not possible. Every time this process is undertaken, the consultant will earn fees.
Matsumoto / This might very well be a negative aspect of consultants, but it is for this very reason that I am constantly aspiring to establish a consulting firm that can provide new added values without being affected by this negative aspect.

Theme / About projects in which we are currently engaged
Why are we currently focused on the idea of combining FinTech with the insurance industry?

Two highly specialized companies form a team in hopes of changing traditional society

Fujii / The operations that we are engaged in can be broadly divided into three areas.

The first is consulting. Now, I might call it consulting, but it's really nothing more than a foot in the door, beyond which I want to focus on how we can establish businesses that offer something extra.

For example, we are currently endeavoring to operate an insurance agency and establish a platform for the insurance industry by taking advantage of insurance consulting as our foot in the door.

Second, while we overwhelmingly seek to become the leading consulting firm in the insurance industry, we will nevertheless be establishing other pillars that we believe are also important.

For instance, consulting that would place us smack dab in the middle of manufacturing operations would be impossible, given our lack of track record or personnel in this area. However, let us say that we were to propose a review of the insurance system as operated by the human resources department of a manufacturing enterprise. We would then certainly believe that we are better than any other consulting firm in this respect.

In this way, we seek to break into other industries by basing our services on a foundation constituted by insurance.

The third is venture capital.

We picture ourselves having consultants attached to pre-listed companies where they will engage in hands-on investment activities while assisting with the listing process.

Matsumoto / We are primarily engaged in the consulting business, and the product-sales business but are thinking about establishing an insurance business as well.

Our consulting business is made up of two service operations. For the first one, we provide a security-consulting service while utilizing the assets of Digital Arts, our parent company. The other broadly consists of an IT

consulting service whereby everything from the formulation of business strategies to support for corporate reorganization through digitalization for the realization of such business strategies are undertaken for clients. We deal with many cases of digitalization – especially in the field of marketing – based on the use of IT solutions.

The product-sales business is the other business in which we are engaged. This business mainly involves the selling of security-related products. For the insurance business we are slated to establish, we are thinking about dealing with cyber insurance policies.

To begin with, not only is security-related consulting itself exceedingly rare, but security manufacturers typically engage in consulting activities while promoting sales of their own proprietary products. In contrast, we may have our own company name in Digital Arts, but we engage in consulting activities from a neutral position and are thinking about going in a direction in which we will also be dealing with the products of companies other than Digital Arts.

In the medium term, we wish to proactively develop security-related consulting services for global companies by taking advantage of the global offices of Digital Arts, which are situated in Singapore, London, and Silicon Valley. Ultimately, our goal is to go public.

Fujii / In our case, we are considering a model that commits us to investing in companies and taking them public rather than going public ourselves. Consequently, we will be earning revenues and also acquiring human resources. There are many different kinds of consulting firms. As far as I know, there isn't a single consulting firm that is currently trying to create such opportunities.

Matsumoto / In order to promote the growth of a company, it is important to ensure that your company can be trusted and accepted by clients. To this end, we will of course engage in a consulting business and product-sales business as well as a business involving the handling of cyber insurance, but we are also thinking about developing other businesses.

In this sense, we would like to work with those who wish to establish their own businesses.

Fujii / Moreover, the Chinese market will also come into our field of view. Since Pactera is a Chinese-affiliated company, our circumstances will give us easy access to this market. It goes without saying that China is a market that is growing at an exceptional rate.

While the Chinese economy is not posting double-digit growth figures as it once did in the past, rates of growth that are clearly higher than they are in Japan and elsewhere continue to be maintained. The ranks of the wealthy are huge. Thus, I'd like to create a scheme by which quality Japanese goods can be selected and sold to wealthy consumers in China.

At the same time, Chinese merchandise can be brought to Japan and sold here. At any rate, our positioning as a company that is capable of taking advantage of the human networks and infrastructure found in high-growth China can also be considered a competitive advantage for us.

Theme / With what kinds of people would you like to work?
People who can engage in exciting work and those who cannot.

Those who can survive in the future will be those who can create jobs that do not currently exist

Matsumoto / Both your Pactera Consulting Japan and my Digital Arts Consulting are relatively new firms in the consulting industry. We are both at the stage where we will be adding to our respective workforces. What kinds of employees are you looking to hire?

Fujii / Not surprisingly, we want to create a unique kind of business model that is without precedent among conventional consulting firms. In this connection, we want to hire people who are not bound by the norms of the consulting industry as this industry has conventionally existed to date.

As I mentioned earlier, there are an exceedingly large number of people working in the consulting industry who do what they do for themselves as non-team players. Among these people are many who, despite becoming quite successful, are quite willing to accept that something is just fine as long as they themselves are fine at the end of the day. While I believe that this is a trend that is particular to the consulting industry, I don't want to see my own company become such an organization.

Since the prevailing theme is *love & money*, I'd like to create an organization that, first of all, makes money and that also exudes love in a way that will have former employees thankful for having worked for this company. I'm looking for the kinds of people that can help me properly realize this theme.

To this end, what is important is the ability to respect others. Since this is

an industry populated with self-centered people, this will take a lot of time. Nevertheless, this is what I would like to change.

In addition, since I would also like to set up a new organization, I welcome anyone capable of joining me in reaching my goal of *love & money*. On the other hand, I'd rather not have anyone who has successfully made his or her way through an existing consulting firm. This is how much I am committed to certain ideas for creating my own organization.

Matsumoto / In terms that relate to our businesses, I believe that people who are highly interested in marketing are ideal, such that those who aspire to cultivate their own businesses are, not surprisingly, perfect for what we are considering.

Since those who will be joining will constitute founding members, they will be given a chance to create everything themselves. Services to be provided to clients are one aspect of a business we seek to develop from scratch.

Moreover, as we aim to go public, stock options and other economic benefits can also be enjoyed. I hope to attract people who can help pursue these future plans together with me.

Fujii / Indeed, the field in which we are attempting to take on a challenge is the outdated insurance industry. There remain many tasks for us to perform. If we can successfully carry out these tasks one by one, we will be blessed by amazing business opportunities down the road. Ours is truly exciting work, is it not?

Matsumoto / I agree completely. Let's work together.

[About the authors]

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Upon graduating from the Faculty of Engineering at the University of Tokyo, Fujii joined the Nomura Research Institute in 1996. Subsequent to serving stints with Gemini Consulting Japan (currently PwC's Strategy&) in 2000 and AIG, Prudential Life Insurance, and MetLife Alico Life Insurance in 2002, Fujii took up the post of COO of the Japanese offices of Zurich Life Insurance Company, Ltd. In 2013, he assumed the post of President & Chief Executive Officer of Pactera Consulting Japan after working for EY Advisory while working on almost every conceivable type of project affecting the insurance industry and aiming to understand and resolve issues affecting the industry.

Tadao Matsumoto

Upon graduating from Soka University in 2008, Matsumoto gained experience carrying out IT consulting duties at a Japanese consulting firm before becoming engaged in projects for the formulation of marketing strategies for food manufacturers, telecommunications carriers, and life insurance companies. He subsequently spent time working for two foreign-affiliated accounting consulting firms and was then involved in the formulation of management strategies and business and marketing strategies and projects for the digitalization of operations primarily for the insurance industry. In 2016, Matsumoto took up the post of CEO of Digital Arts Consulting Inc.

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