



FinTech for Asset Management in Japan

Key takeaways from the industry survey

Japan Electronic Trading Conference 2018

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October 2018

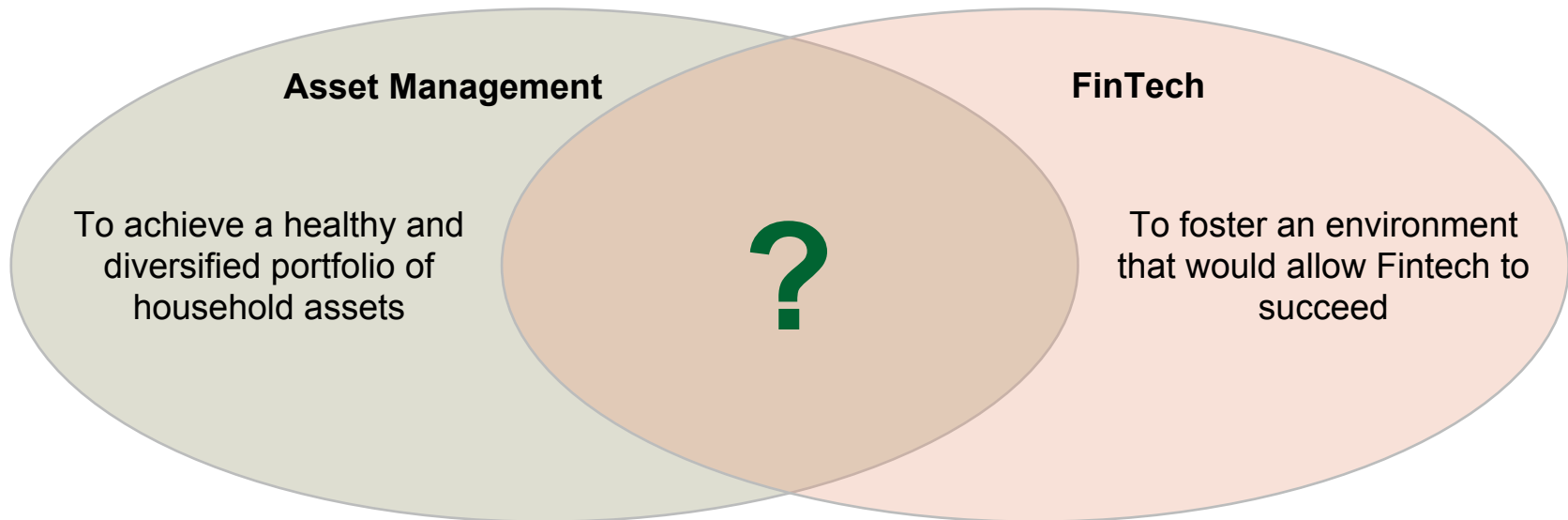


Background

- The advisory panel for Global Financial City: Tokyo hosted by Tokyo Governor Yuriko Koike and chaired by Andy Saito defined asset management and FinTech as growth drivers
- Although FinTech is highly publicized, the intersection of asset management and FinTech is NOT well understood
- FinTech is largely known for B2C and P2P payment and settlement, but NOT for asset management
- JIAM launched a demo center for asset management-oriented FinTech solutions named JIAM FinTech Square
- JIAM conducted a survey to understand and assess:
 - Japan-based asset managers' expectations for FinTech
 - Key obstacles by Japan-based asset managers to adopt FinTech
 - How to modernize the entire investment value chain utilizing FinTech in Japan

What is the intersection of AM and FinTech?

Global Financial City: Tokyo's Priorities



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JIAM FinTech Square



- Showcasing ~20 asset management-oriented FinTech solutions from various countries
- Evaluated ~200 global asset management FinTech solutions
- Located next to the Tokyo Stock Exchange
- Sponsored by Asset Management One, Sumitomo Mitsui Asset Management (SMAM), KPMG, NEX, Long Hash, JPX and Heiwa Real Estate

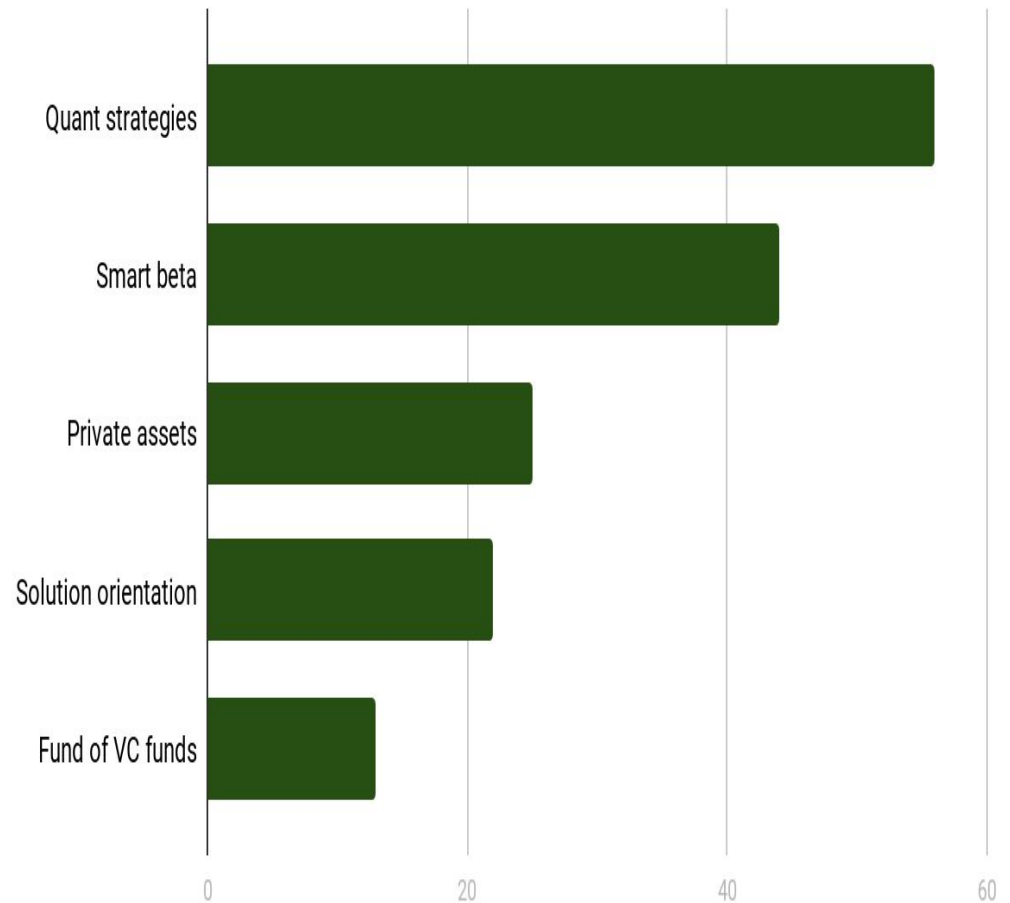
20 survey participants as of September 21, 2018

	Major Asset Management Firms	Boutique/ Independent Asset Management Firms
With Trust & Banking Functions	5	N/A
Without Trust & Banking Functions	6	9

Product focus going forward

- ~55% focusing on **alternative data enabled quant strategies**
- ~45% focusing on low cost **smart beta** funds instead of actively managed funds seeking alpha
- ~25% focusing on **private assets** (e.g. infrastructure)
- Over 20% are trying to be **solution oriented** as opposed to product push
- ~10% are focusing on **fund of VC funds**
- ~80% believe actively managed funds will be increasingly challenged to scale

Product focus going forward (%)

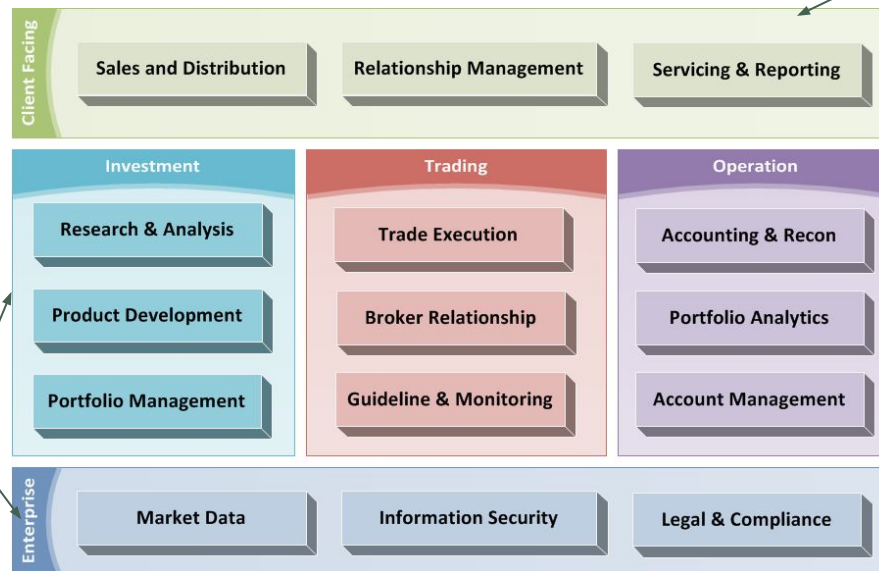


Survey participants believe in FinTechs more for cost reduction than alpha generation (1/2)

~45% trying to reduce **fund distribution costs** using advanced technologies

Over 1/3 view **Robo Advisors** as **product distribution tools** in Japan

~90% view **manual client reporting** to be **intensive** especially for **large Japanese asset owners** that are largely **paper based**



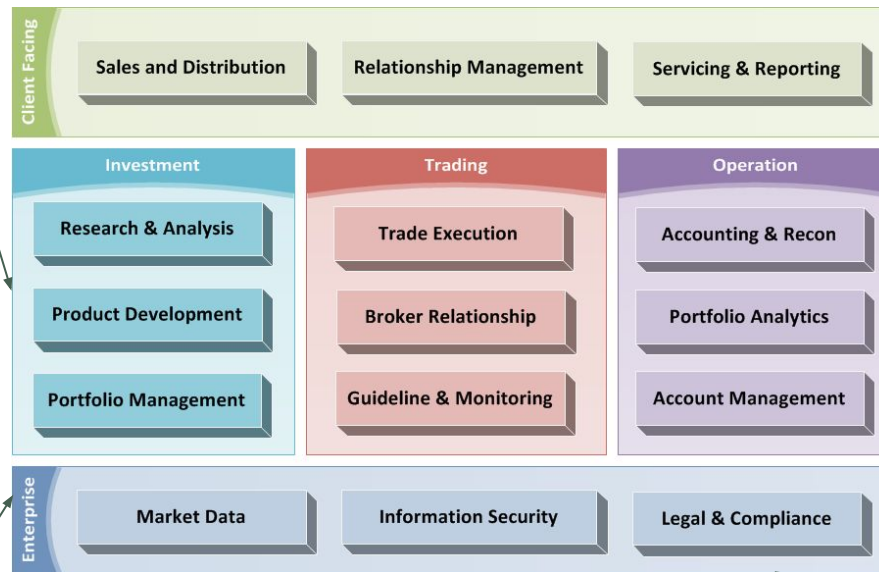
~55% exploring use of **alternative data sets** (e.g. satellite imagery, weather patterns, credit card transactions, web traffic and social media sentiment); however, at this point alternative data is **too expensive** for **limited coverage** to justify the performance enhancement for each fund

~90% view **dual NAV calculation and 1 yen reconciliation** have almost no value added to investors, i.e. a major disadvantage for Japan-based asset managers

Survey participants believe in FinTech more for cost reduction than alpha generation (2/2)

~45% interested in FinTech as a **talent pool** than FinTech products per se

~70% are aware that the capability of **AI for investment is overrated, AI won't be useful unless clean alternative data** becomes affordable



~45% think **AI** can be useful for **verification** of comments vis-a-vis charts and simple client inquiry response

~70% view **index tracking** as labor intensive and not necessarily meaningful for ultimate investors; thus, trying to automate this process using technologies

~55% believe that **regulators** should adopt **RegTech** rather than asset managers (e.g. open API for auditing, utilization of secured chat as opposed to emails, licensing application and fund approval workflow management)

Client reporting and large Japanese IT vendors

- ~90% believe reporting data standardization and cloud-based portals will make the Japanese asset management industry significantly more competitive
- On average, 50-75% of client reports are manually created (on the other hand, regulatory reports are highly standardized)
- On average, 30-40% of total FTEs are dedicated to client reporting
- ~55% say numerous EUC reporting tools are developed by employees. Their employees are refusing to give up on these tools

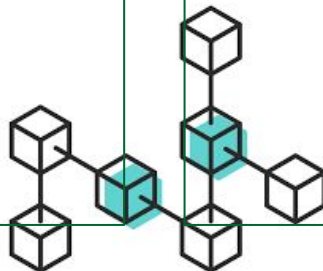
- ~50% trying to detach themselves from large IT vendors to maintain sufficient bargaining power, although this effort has been highly challenging but worth trying
- ~20% introduced to FinTech by IT vendors, they found nothing useful yet. They would like to directly interact with FinTech co's



Blockchain and tokenization

- ~50% believe that blockchain will be useful for efficiency gains only if adopted through **the end- to-end investment value chain**
- They think that the above-listed needs to be led by the **regulator or industry associations**, not by each company

- ~80% staying away from **cryptocurrencies**
- ~40% think **tokenization of private assets** may eventually become accessible by investors
- ~20% think cryptocurrencies can eventually be part of **multi-asset strategies**



Key challenges for the next few years

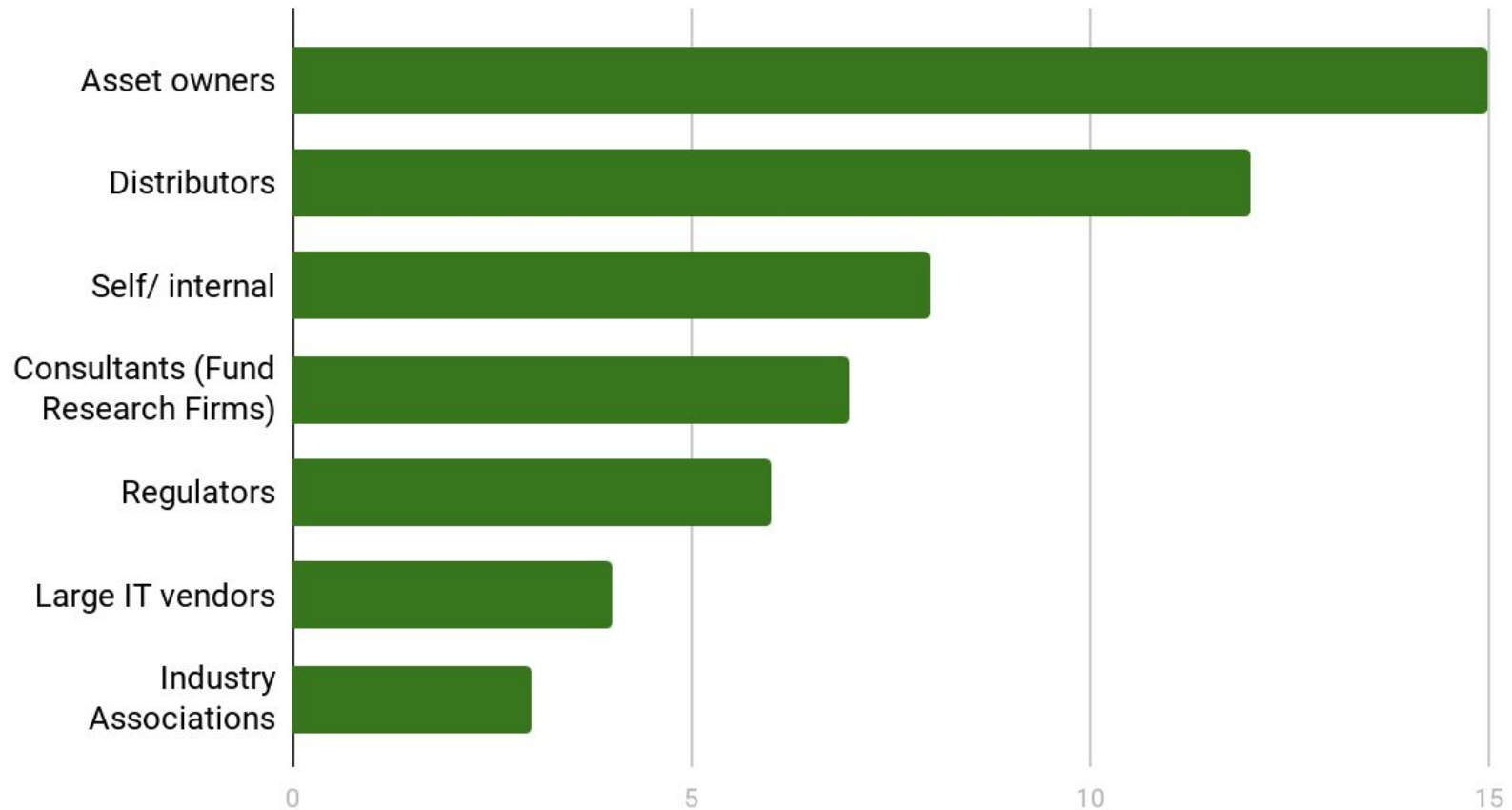
- All participants believe that pressure will increase to **lower management fees** for asset managers
- All participants believe that regulations will continue to be burdensome for the asset management industry (e.g., MiFID II)
- ~45% think that **internal resistance** is the largest obstacle to adopt advanced technologies, such as FinTech. FinTech engineers are expected to **inspire** employees of large financial institutions
- No one believes that technological advancement will be highly disruptive (i.e. underlying technologies of FinTech not necessarily new); however, **cost and quality of big data** will be more challenging

Expectations for JIAM

- Over 70% expect JIAM to **positively influence industry stakeholders** (e.g. regulators, asset owners, distributors, industry associations, consultants)
- ~50% expect JIAM to **objectively introduce** asset management-oriented FinTech solutions (no other place like JIAM FinTech Square)
- ~30% expect JIAM to provide an **alternative data lab/ playground**
- ~20% expect JIAM to inspire and educate **retail investors**

Who are the bottlenecks to modernize the asset management ecosystem in Japan/ Tokyo?

Who are the bottlenecks? (N=20, multiple answers)



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