PROFIT CRUNCH HITS JAPANESE BANKS

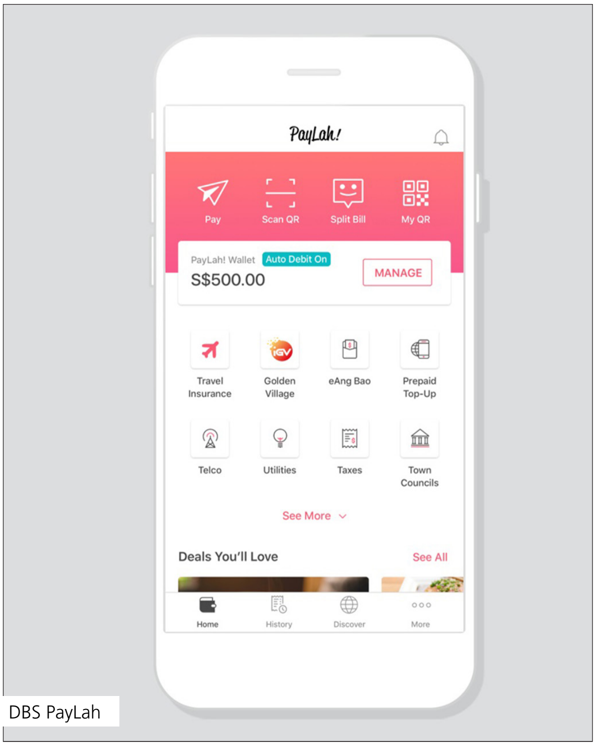
JAPAN

Mizuho Bank

When Mizuho Financial Group flagged that it is writing off a $6.1b (JPY680b) charge related to the restructuring of its retail banking business and losses from its securities portfolio, it reflected the heightened earnings pressure that even the country's megabanks could not escape. In the same vein, Mizuho slashed its net income forecast by 86% to just $718.48m (JPY80b) from the previously projected $5.12b (JPY570b) in what is an acknowledgment from the bank that the revenue from its weakening retail business is likely to trail behind the company's investment in the segment, according to Kaori Nishizawa, analyst at Fitch Ratings. The Japanese megabank also expects further losses from branches that are scheduled to be shut down as part of its overall cost containment and rationalisation strategy.

The picture isn't any rosier for Japan's other big banking players that have also been struggling with weak demand for loans as the country rapidly ages and elderly customers shift towards lower-risk products that are less profitable for banks. Indeed, Japan's system-wide net interest margin (NIM), a common measure of profitability, has been on a prolonged decline since the 2000's.

Unlike Mizuho, however, Mitsubishi UFJ Financial Group (MUFG) and Sumitomo Mitsui Financial Group (SMFG) already booked significant branch consolidation costs in the fiscal year ended March 2018. Overall, Japan's three megabanks have announced structural overhauls that will cut headcount by a combined 32,000 as they automate a number of operations. However, the digital pivot doesn't mean that banks are completely out of the woods as the process of migrating retail operations online may also deal a heavy blow to players who need to unlock enough revenue to cover the costs allocated to digisting their retail businesses.



DBS PayLah

In the land of e-wallets, cash remains king

SINGAPORE

Singapore should be one of the first countries in Asia to become a cashless society. After all, it has one of the highest mobile phone penetration rates in the world at 141% and mobile coverage is 100% so there is no excuse not to pay digitally. Even the government is behind the effort with an ambitious plan to ban cheques by 2025. So, with all the infrastructure, technology and laws in place, why is Singapore surprisingly resisting the move away from the cold hard stuff?

One reason, according to **Ivan Tan**, analyst at S&P, is that older Singaporeans just prefer cash, and that for some everyday purchases like food at hawker centres, people prefer the dollar. Yet, this alone may not explain why Singapore, and then possibly the rest of Asia, is not as ready to go as cash-free as places like Sweden, where cash in circulation represents just 2% of GDP compared to 10% in Singapore. "We believe the transition to a cashless society will be a gradual one given the ageing demographics in Singapore.


Anthony Chiam


Ivan Tan

On a behavioural basis, the older population segment is more resistant to change and will likely prefer traditional or bricks-and-mortar banking," Tan said.

Perhaps it is the good old *Kiasu* (fear of losing it all) attitude of Singaporeans, who may be more concerned with losing their cyber dollars. Security concerns when using mobile banking apps have grown to 41% in 2018 from 34% in the previous year across Gen Y, Gen X and Baby Boomers, noted **Anthony Chiam**, Regional Practice Leader, Global Business Intelligence - Asia & Australia at J.D. Power. Recent high-profile data breaches include that of the Singhealth, the national government healthcare agency. If one's health records can be hacked, how safe is an online bank account?

Perhaps another reason for the poor showing of digital payments is the sheer number of options available to consumers, which can end up being almost too much choice. Whereas China has WeChat and Alipay, Singapore has multiple mobile payment options, including NETSPay, DBS PayLah and GrabPay, amongst others, which only serves to confuse and possibly discourage consumers from going cashless and cause more pain for merchants that have to maintain multiple terminals and apps.

Chiam suggests that authorities could do more by culling the number of available options to surface the best possible payment alternatives. "Singapore could introduce stricter barriers to entry so that the mobile wallets on offer are in the best interest of the customers and are secure and of the highest quality," he proposed.

Singaporeans are also notorious bargain hunters, so retailers could also do their part by incentivising mobile wallet usage through discounts and cashback for smaller purchases, said Chiam. "It is all about value adding and improving a customer's experience and the key to doing that is also the most fundamental – it is to provide a high-quality, secure service that improves a customer's banking journey every step along the way and not just focuses on preaching to the converted and replacing one banking channel with another."