

# FinTech Business Strategy Session

**February 13, 2020**

**Masayuki Hosaka / Koichi Nakamura**

**FinTech Group Company**

**Rakuten, Inc.**

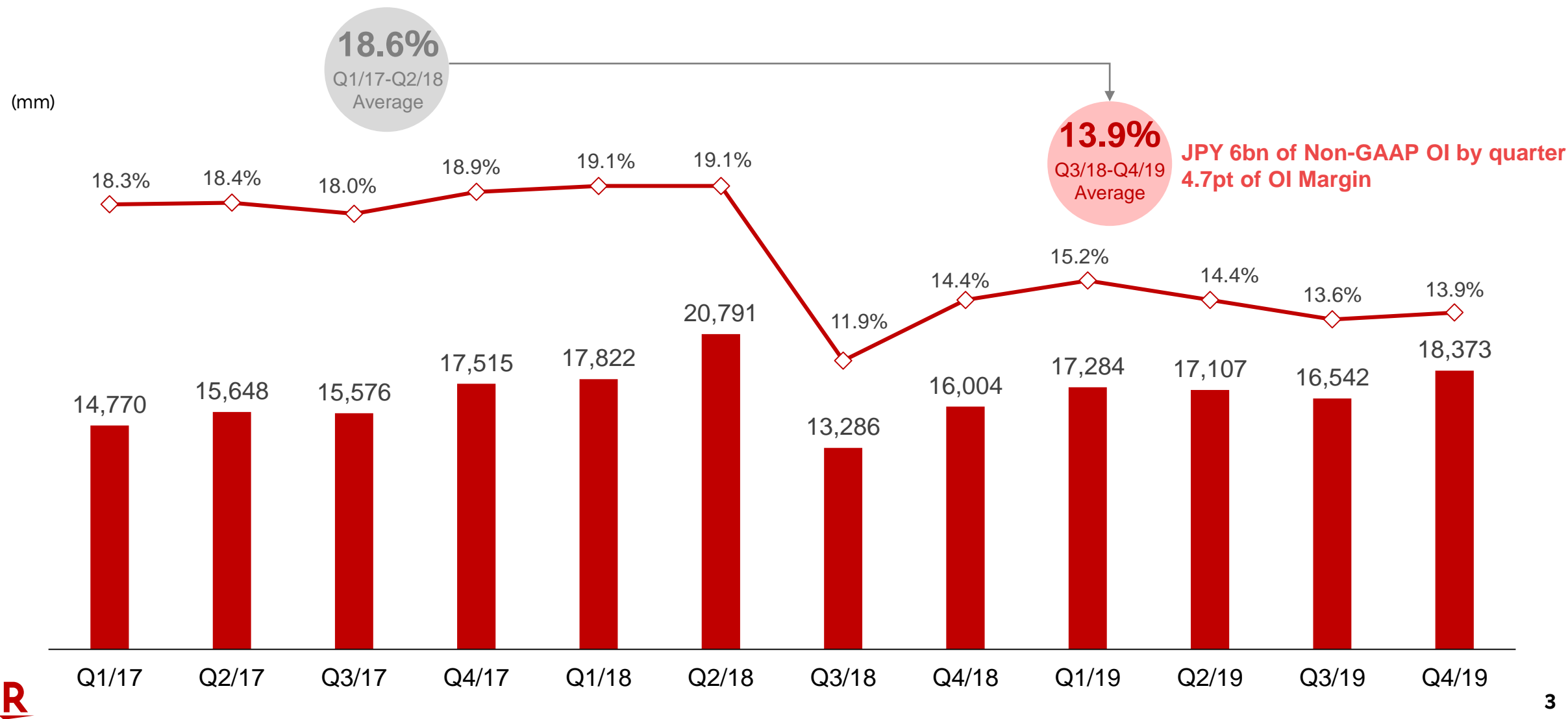


# What are required to FinTech Businesses

Stable profit growth while maintaining profitability

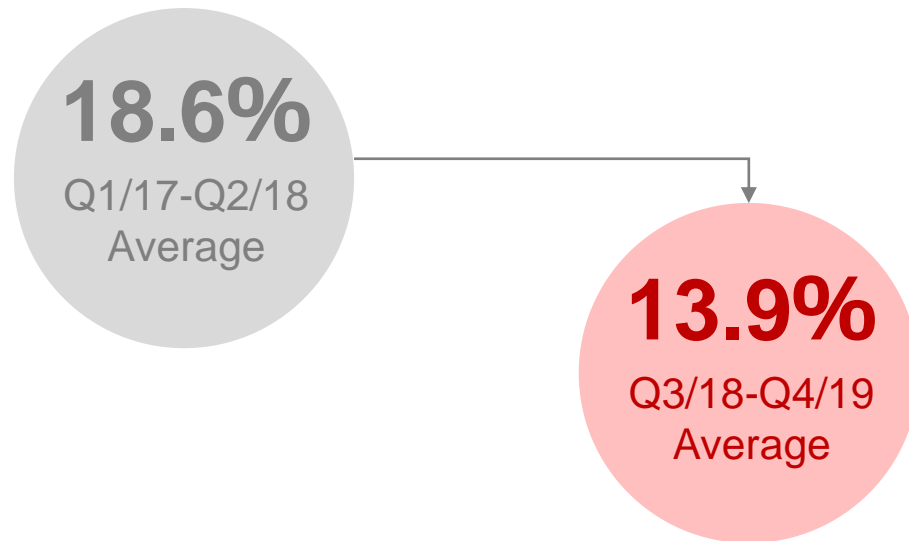
Make necessary investments in strategic area  
while maintaining financial discipline

# FinTech Segment Non-GAAP OI and OI Margin



# Reasons for OI margin decline after Q3/18

**Approx. 2/3 can be explained by these 3 reasons**



**Decline in Insurance Business  
mainly due to natural disasters  
including Typhoons**

**Decline in Securities Business  
due to change of financial  
market environment**

**Strategic expansion in  
Payment Business**

# Countermeasures / Initiatives for OI margin decline after Q3/18

**Decline in Insurance Business  
mainly due to natural disasters  
including Typhoons**

- ✓ Revised re-insurance policy
- ✓ Improving loss ratio by tightening underwriting standard
- ✓ Top line growth driven by ecosystem

**Decline in Securities Business  
due to change of financial  
market environment**

- ✓ Expansion of Asset Business  
Execute with a mid - long term view

**Strategic expansion in  
Payment Business**

- ✓ Continue necessary strategic investments while maintaining financial discipline  
Not seek for short term profit increases

# Card / Insurance Group Initiatives for Ecosystem Expansion (Achievements in 2019)

## July 2019

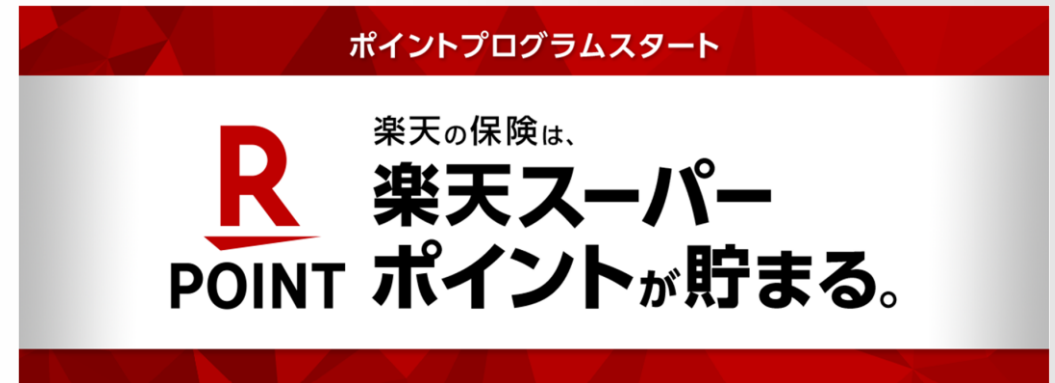
Rakuten Card Introduced SPU program of earning additional 1% point by paying insurance premiums with Rakuten Card

Promote Rakuten Card as main card by acquiring subscription type businesses such as payment of insurance premiums



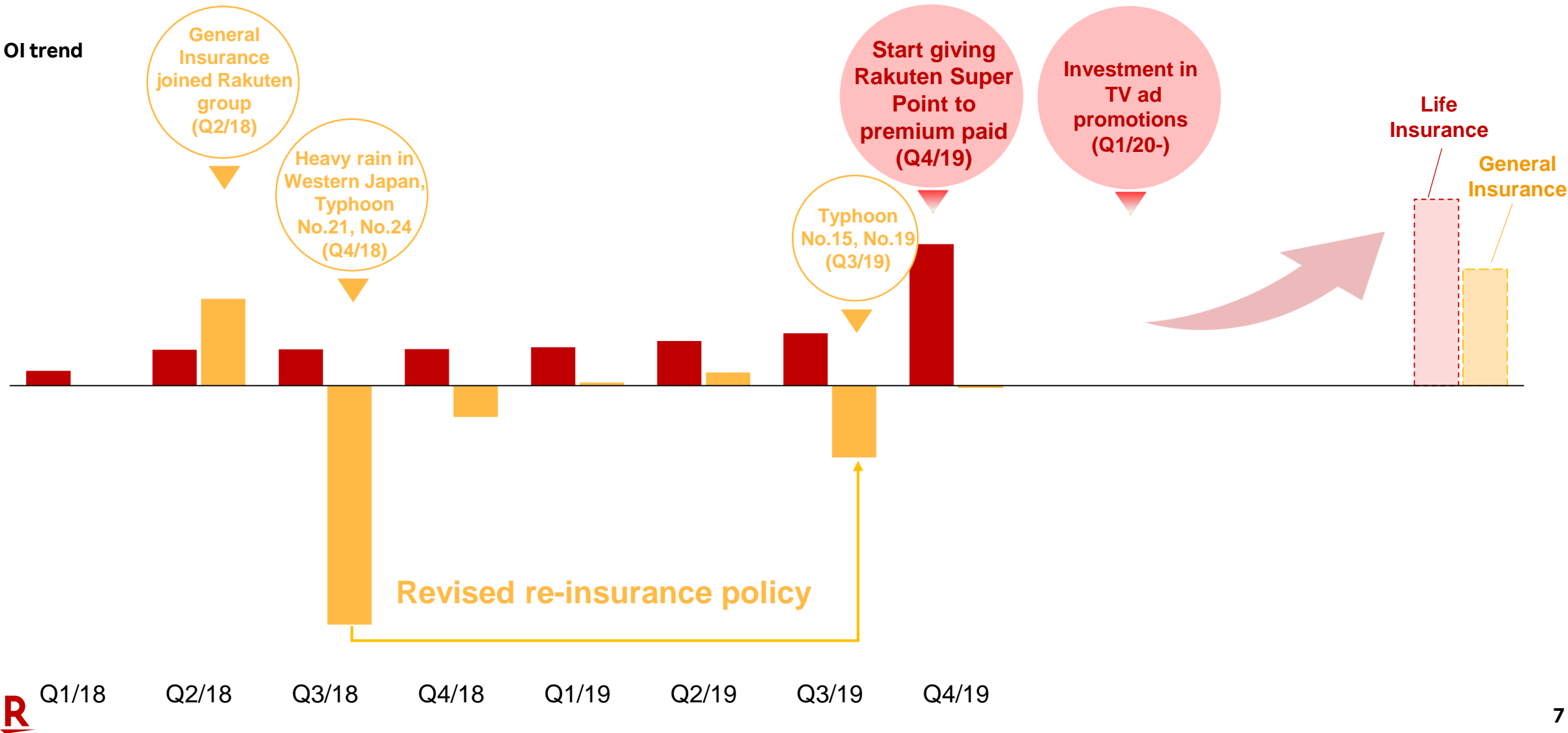
## December 2019

Reward 1% of Rakuten Super Point for premium paid when applied via internet by Rakuten ID



# Turn Around of Insurance Business

Life Insurance in profit expansion stage. Focus on turnaround of General Insurance



# Initiatives to Expand Asset Business (Achievements in 2018-19)

Joined SPU program, earning additional 1% point with Point investment (investment trust) at Rakuten Securities



Use Rakuten Super Point when investing in Japanese equities or investment trust



○ Jul/2018

○ Sep/ 2018

○ Oct/2018

○ Oct/2019



Joined SPU program  
Earn additional 1% point when shopping at Rakuten Ichiba, if Rakuten Card balance paid by Rakuten Bank account



Use Rakuten Card to invest in Accumulation Type Investment Trusts (earning 1% point of the value invested)



# BIG move towards Cashless

Facing historical turning point in Payment industry with the support from government

“Cashless Vision” by METI in 2018

Government targets ahead of

**40%**

cashless payment ratio by

**2025**



Big Chance for expanding Cashless  
market by more than

**double**

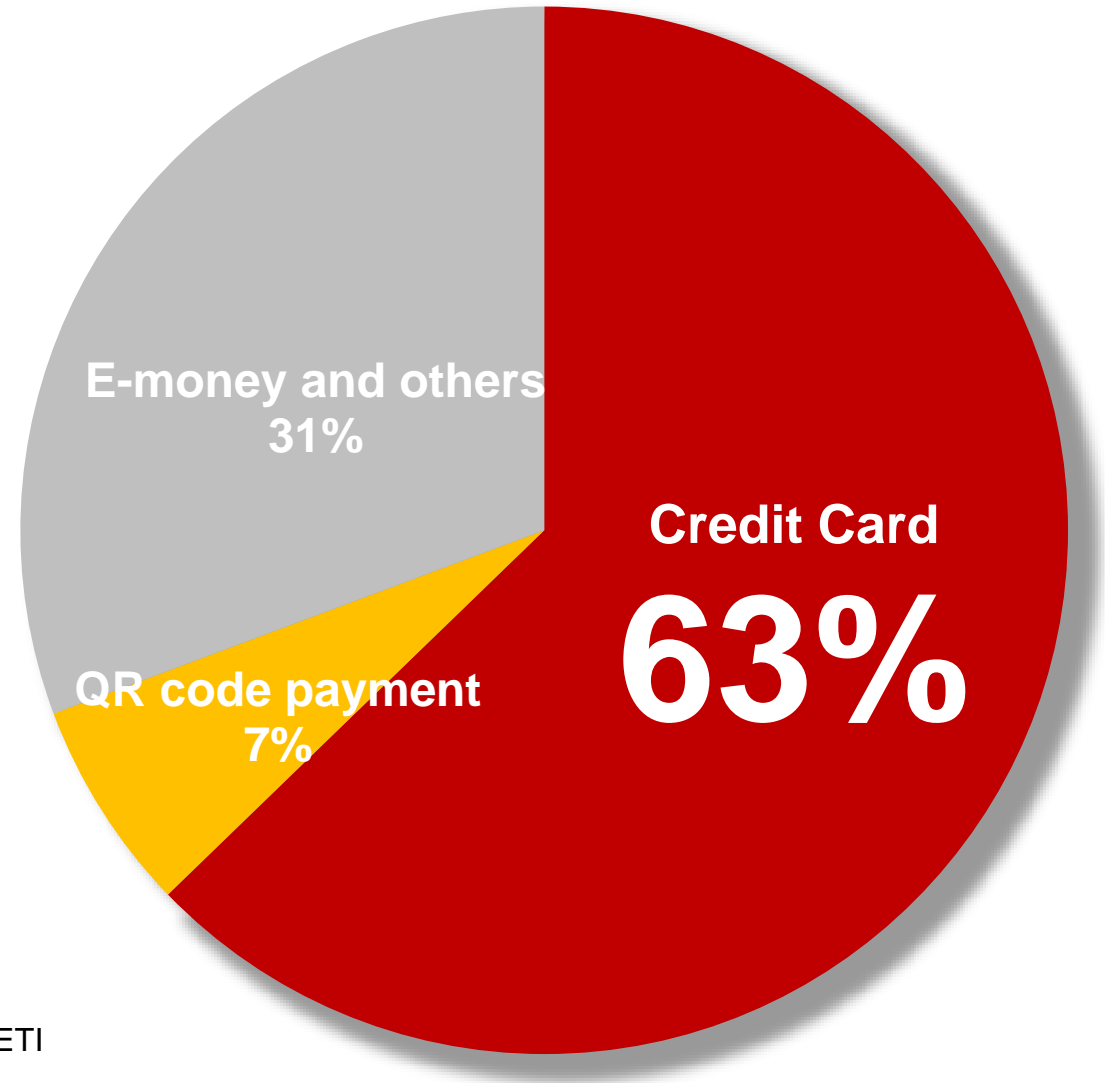
Point Reward Project for Consumers using  
Cashless Payment



Great chance for credit cards, QR payments and e-money, but not everyone enjoys

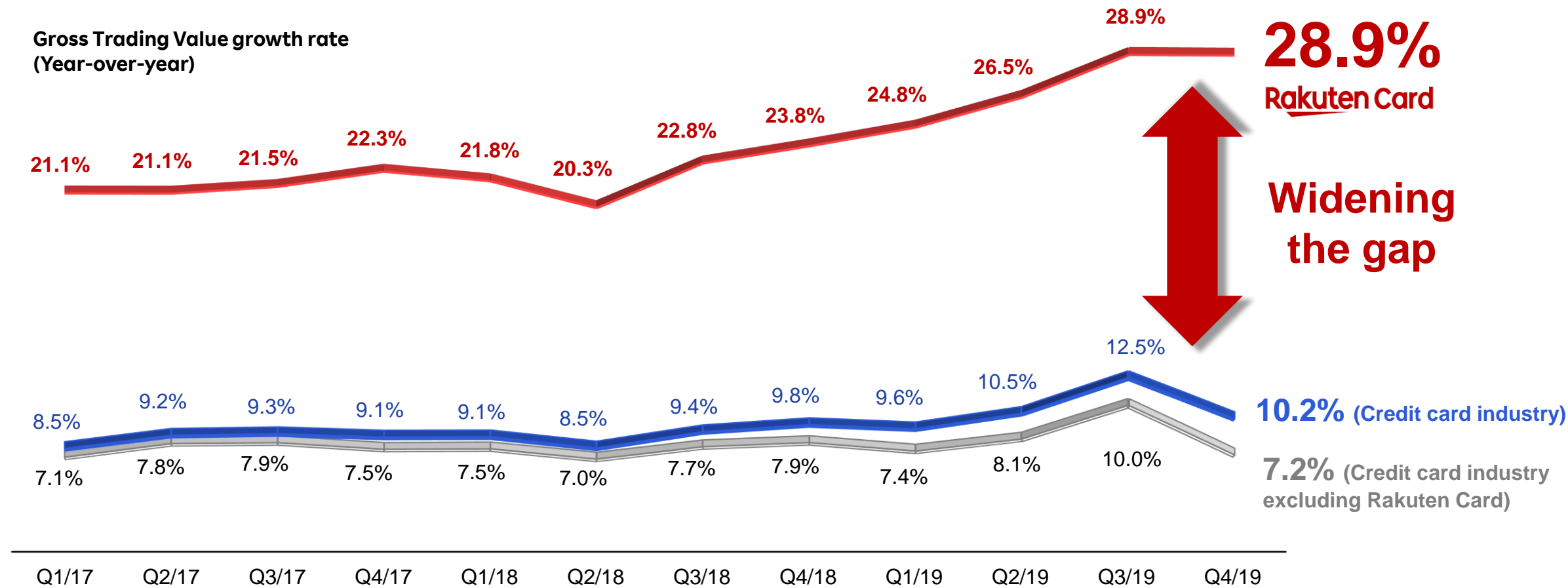
## Breakdown by Payment method in Point Reward Project

**Credit cards account  
for a large percentage  
but QR payment is small**



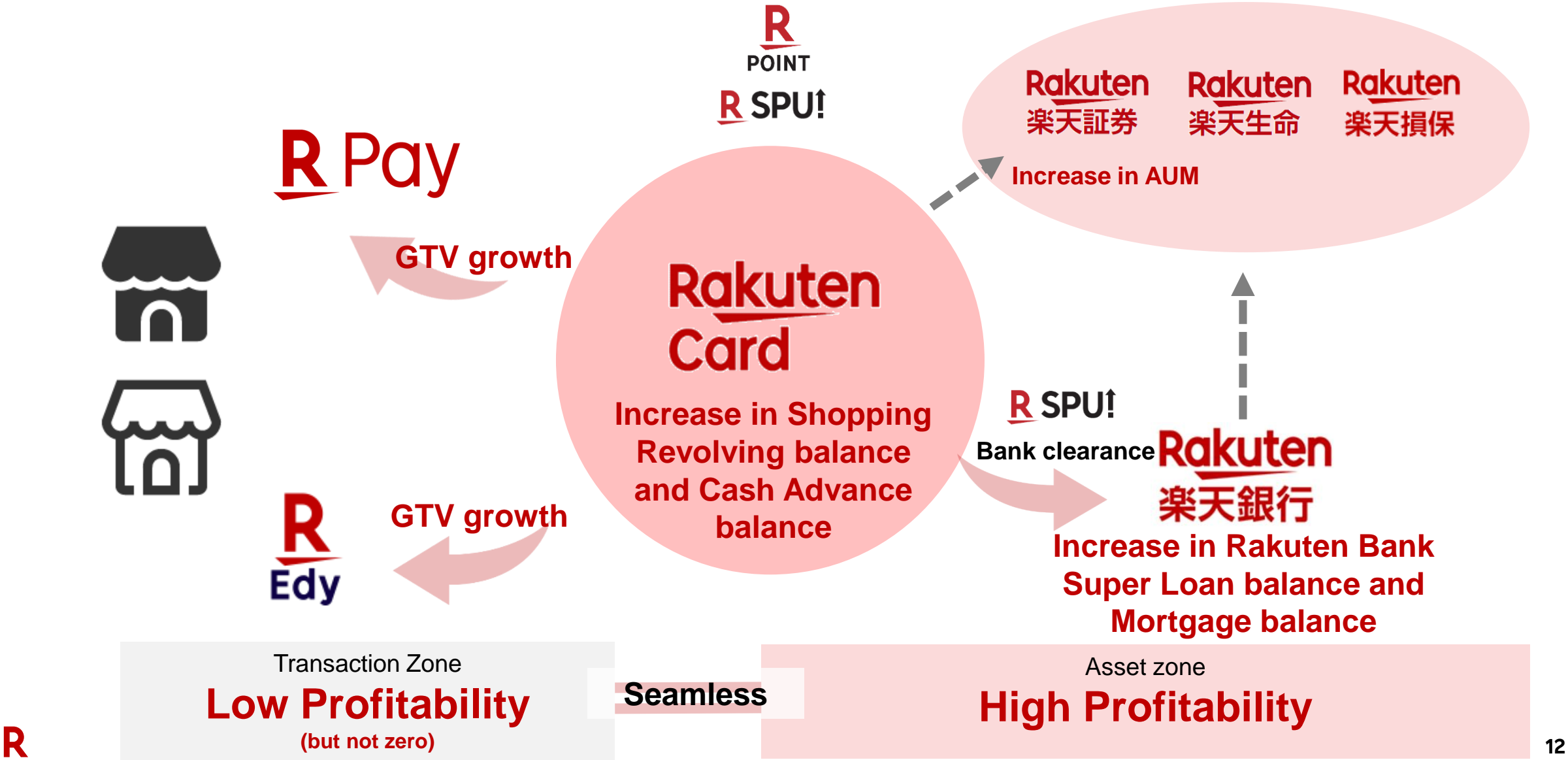
(Source) Point Reward Project for Consumers using Cashless Payment, METI

# Rakuten Card riding the big wave of cashless, but others not



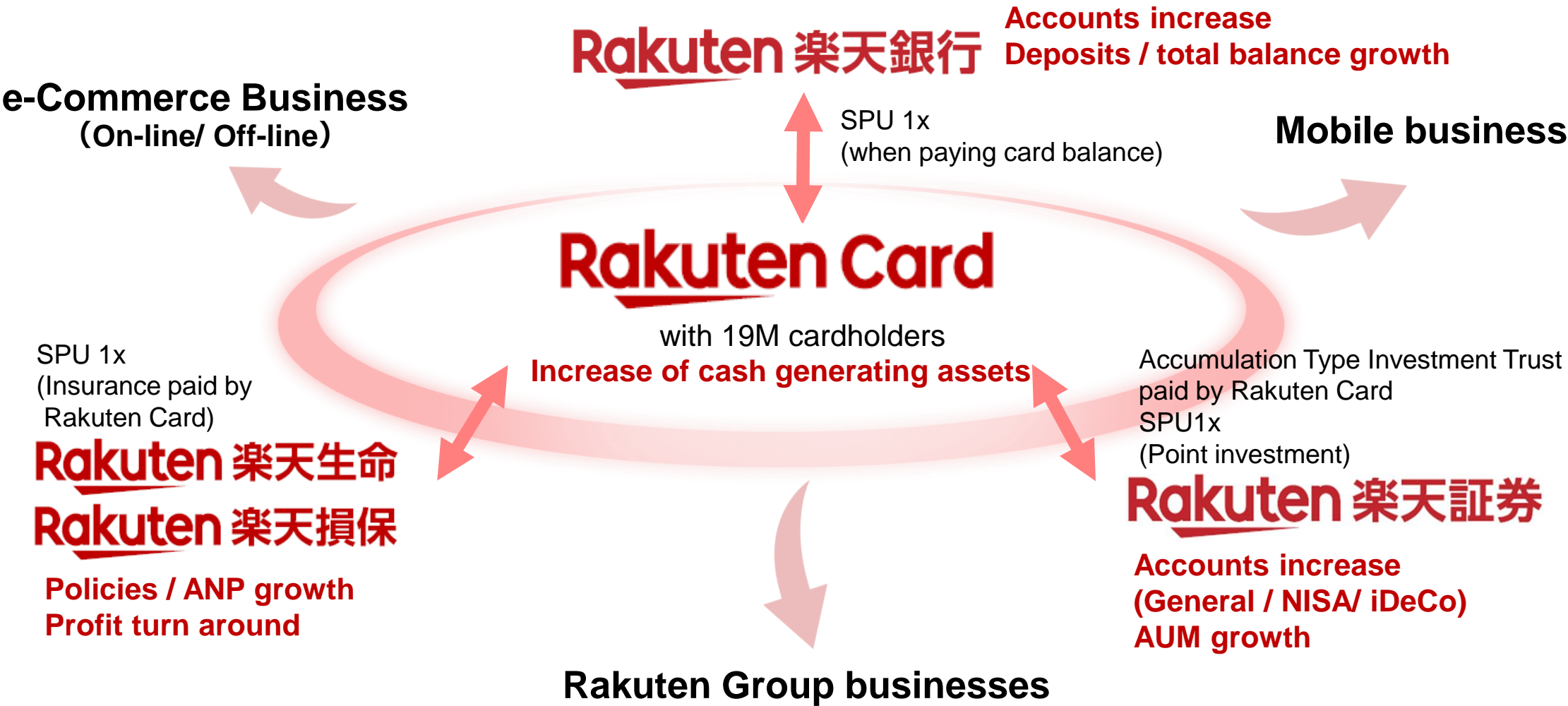
(Source) METI, Rakuten Card

# Monetize utilizing Full Line-up of Financial Functions



# Expanding Profitable Businesses with Rakuten Card as a Hub

Connecting the dots and accelerating the synergy of ecosystem



# Recap of Relation between Cashless and FinTech Businesses

The cashless trend is an opportunity for the FinTech business, but not all payment providers enjoy this trend

Currently, credit cards are at the center of cashless, and Rakuten Card continues to show high growth potential, and momentum is accelerating due to the penetration of cashless

In particular, there are many payment companies that are not sustainable in terms of profits, but Rakuten FinTech business is a sustainable model which collects commissions in the payment business

Although profitability in the payment business is low, Rakuten Card becomes a powerful hub, accumulating revolving credit and cashing balance in the card, and sending customers to profitable businesses such as banks, securities and insurance

Rakuten Card will play a central role in connecting the various functions (Dots) of the FinTech business, and connecting them also to e-Commerce business, mobile business, and other group businesses

# Rakuten Payment Strategy

**February 13, 2020**

**Rakuten Payment, Inc.**

**Koichi Nakamura**





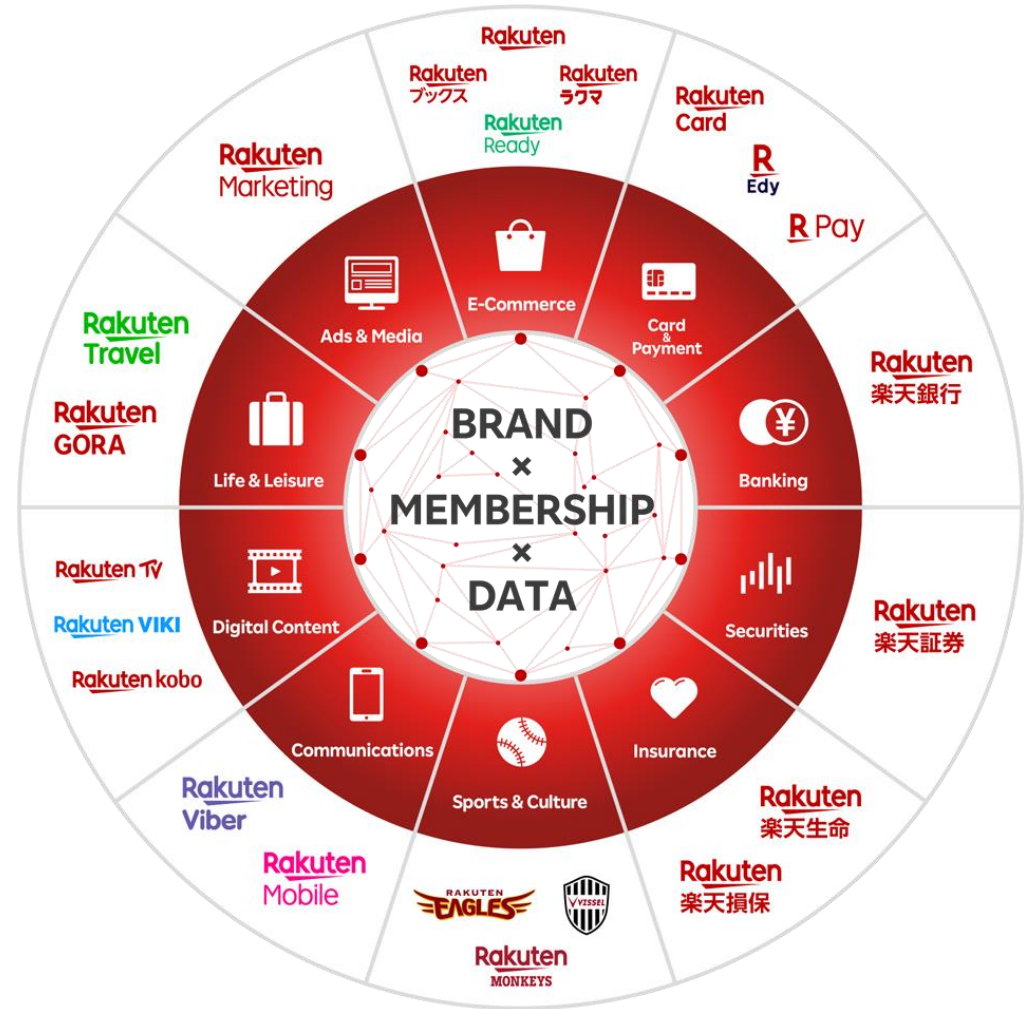
# Services provided by Rakuten Payment, Inc.

# Rakuten Payment

**R** Pay      **R** Edy      **R** POINT

**Rakuten**  
チェック

**Rakuten Wallet**





# Examples of Merchant Performance since the Government-led Cashless Policy and the Solutions provided by Rakuten Payment

# Contribution to merchants through Rakuten Edy high usage ratio

## Osaka-ya shop Case

Toyama: 38 merchants Ishikawa: 6 merchants ※Including Osaka-ya shop group

### ■ Issuance of Edy-Rakuten Point card

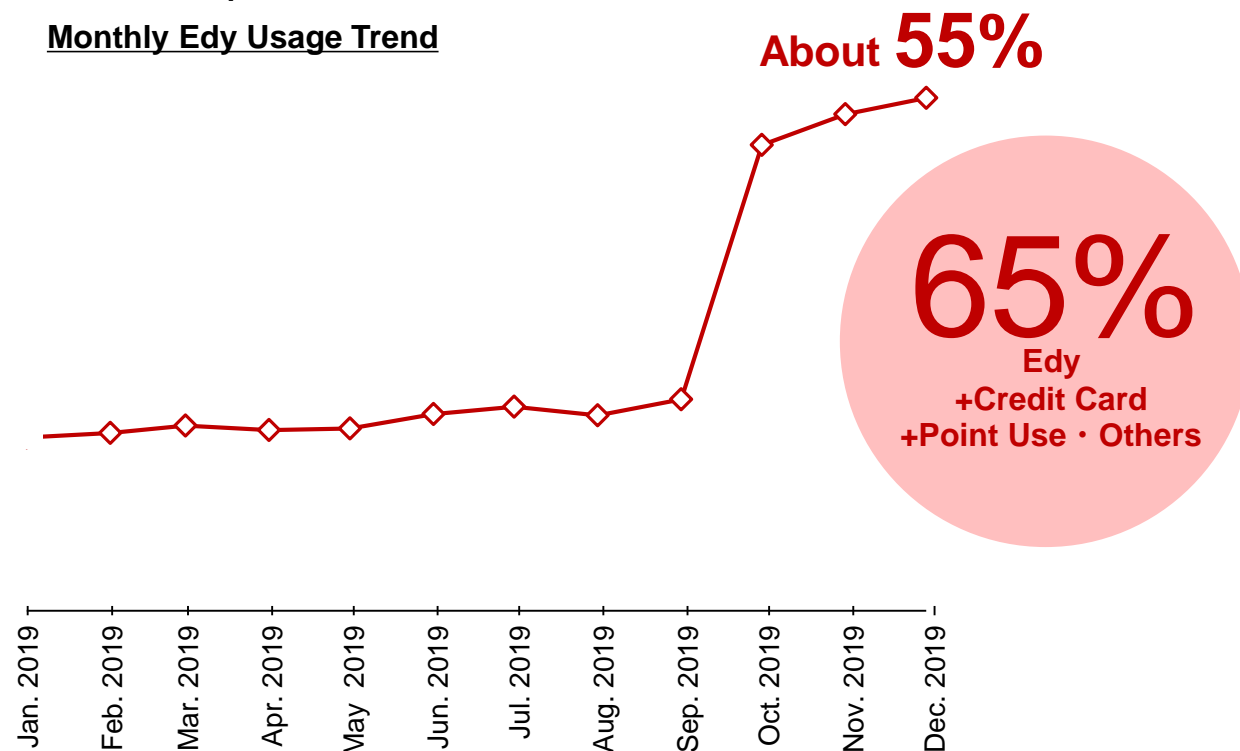


### ■ Gaining recognition through TV ads broadcasted on local channels



### ■ Government-led Cashless return policy pushed Edy usage ratio up to over 50%

#### Monthly Edy Usage Trend



# Merchants' benefits by increasing their cashless payment usage

Comments by Osaka-ya shop

Reduction of capital investment and labor costs  
from decrease in number of cash registers.

Prepared change decreased by half.

Cash delivery cost decreased at most by half.

# Cashless implementation examples and results



## Full cashless at the stadium



Register  
Prepare/  
Check out

Check-out  
Speed  
per hour\*

Before

about **30**min

After

about **5-10**min

Change preparation / Counting cash / Check out with register

Goods  
outs **768** check-

**845** check-outs

Food & Drink **167** check-outs

**191** check-outs

about 8-13 seconds quicker per check-out

\*Location : Rakuten Seimei Park Miyagi  
※Date : 25 May, 2019 ~ 26 May, 2019 compared to 2 June, 2018 ~ 3 June, 2018  
※Time : From an hour before the game start to the time game start.  
※Target settlements : Goods purchased at 20 registers of "Team Shop" and Food&Drink purchased at the 3 registers of "Mori no Kitchen"

## Full cashless at the merchants



Merchant A

Decreased the number of waiters  
by quarter at peak time.

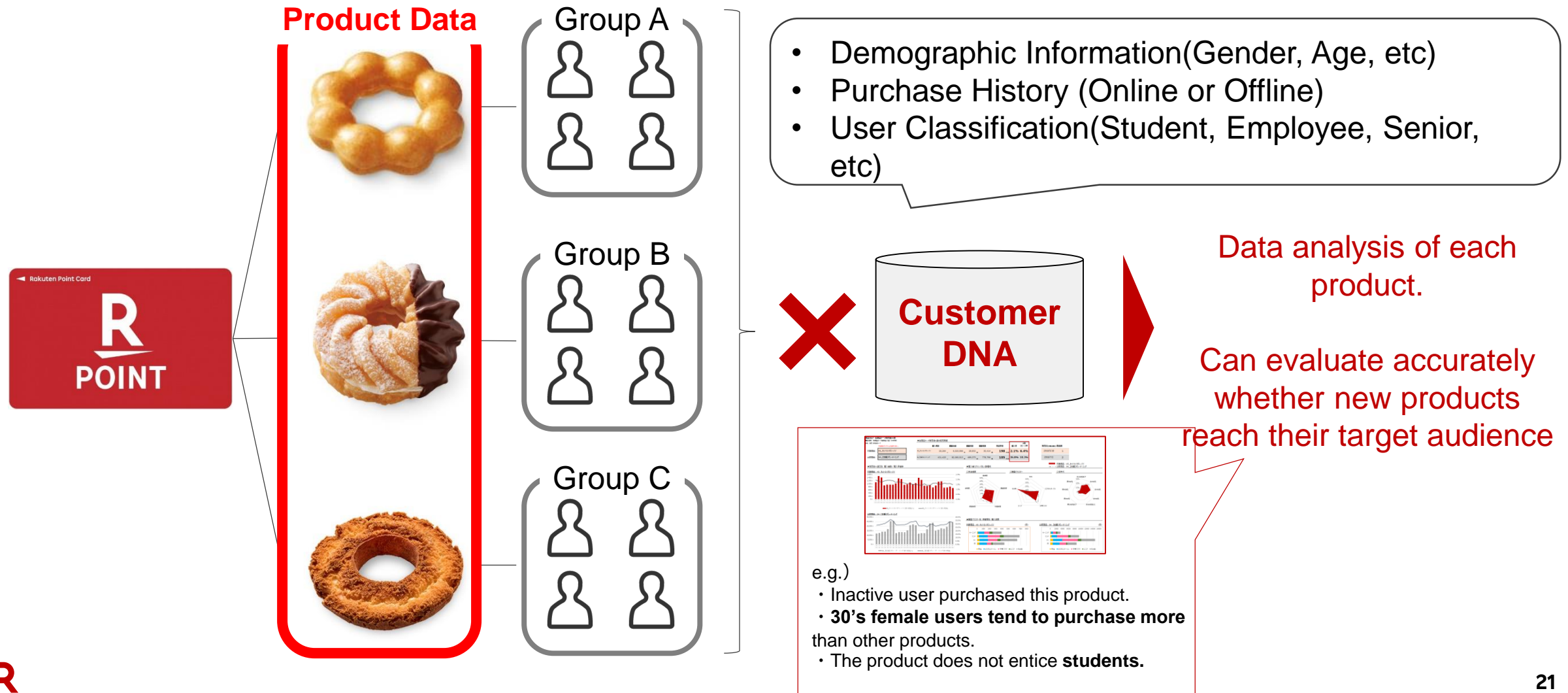


Merchant B

Due to improvement in time needed for  
check-out, store manager's have 12%  
more time to serve and cook

# Strength of Point Cards : Can be drilled down to SKU level information

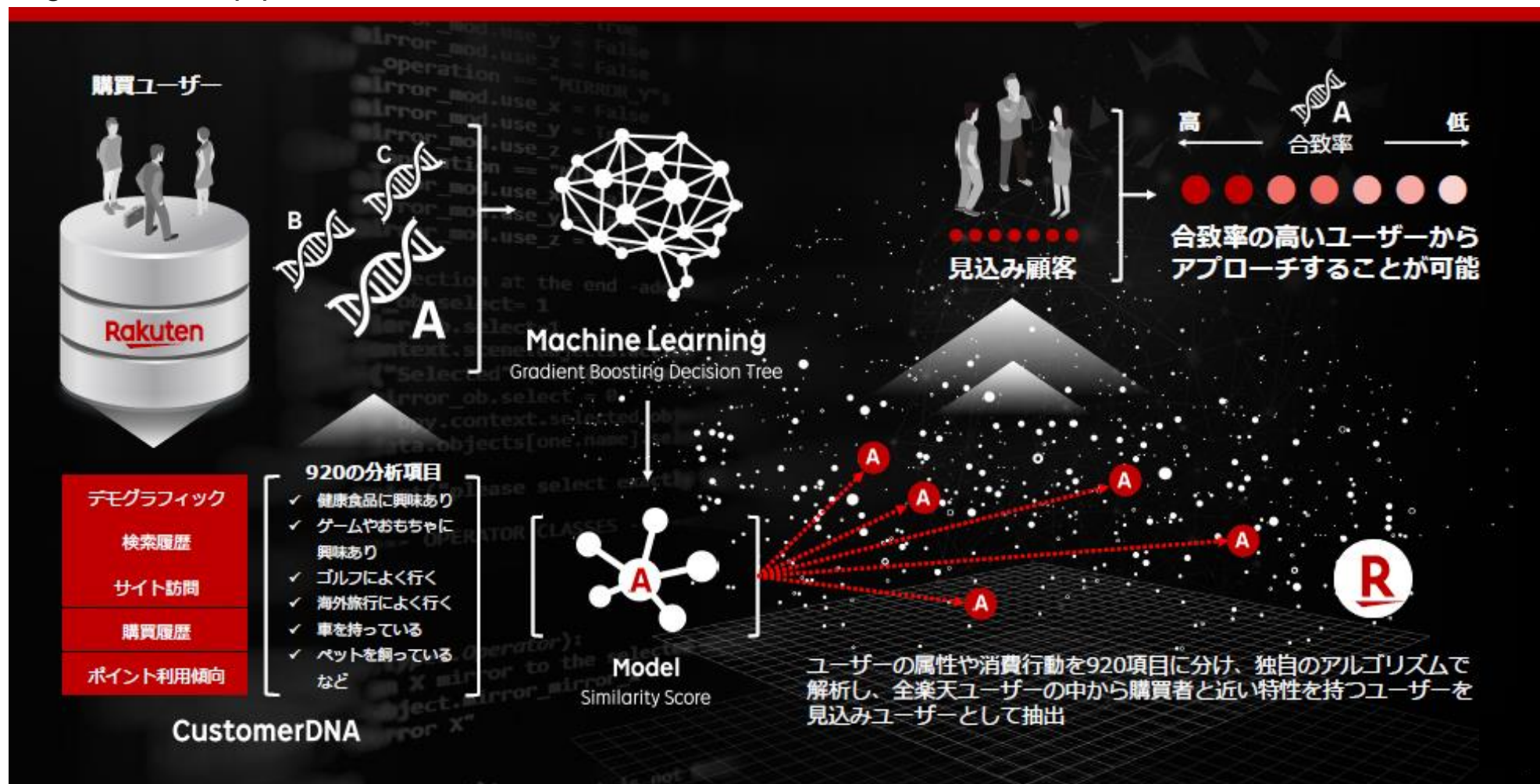
## Mister Donuts Case





# AI-enabled approach using Rakuten member data

- ✓ Using in-house developed targeting tool “Rakuten Alris”.
- ✓ By analyzing Rakuten group's big data, Rakuten Pay can group customers by multiple characteristics so that merchants are able to target and list up potential customers.



# Unrivalled Strengths of Rakuten

Multiple payment  
methods and an  
increasing cashless  
payment ratio

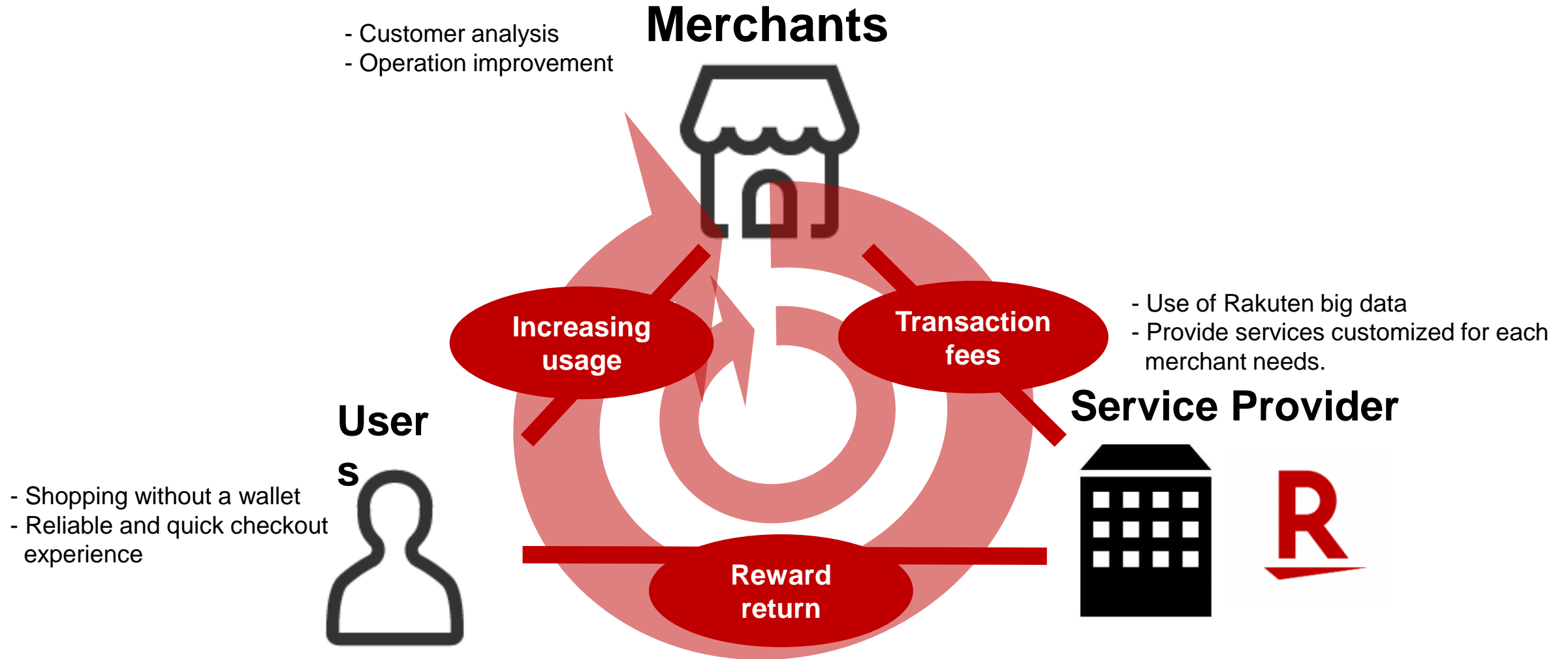
X

Deep analysis of  
Rakuten Point Card  
data

X

Analysis of massive  
Rakuten data using AI

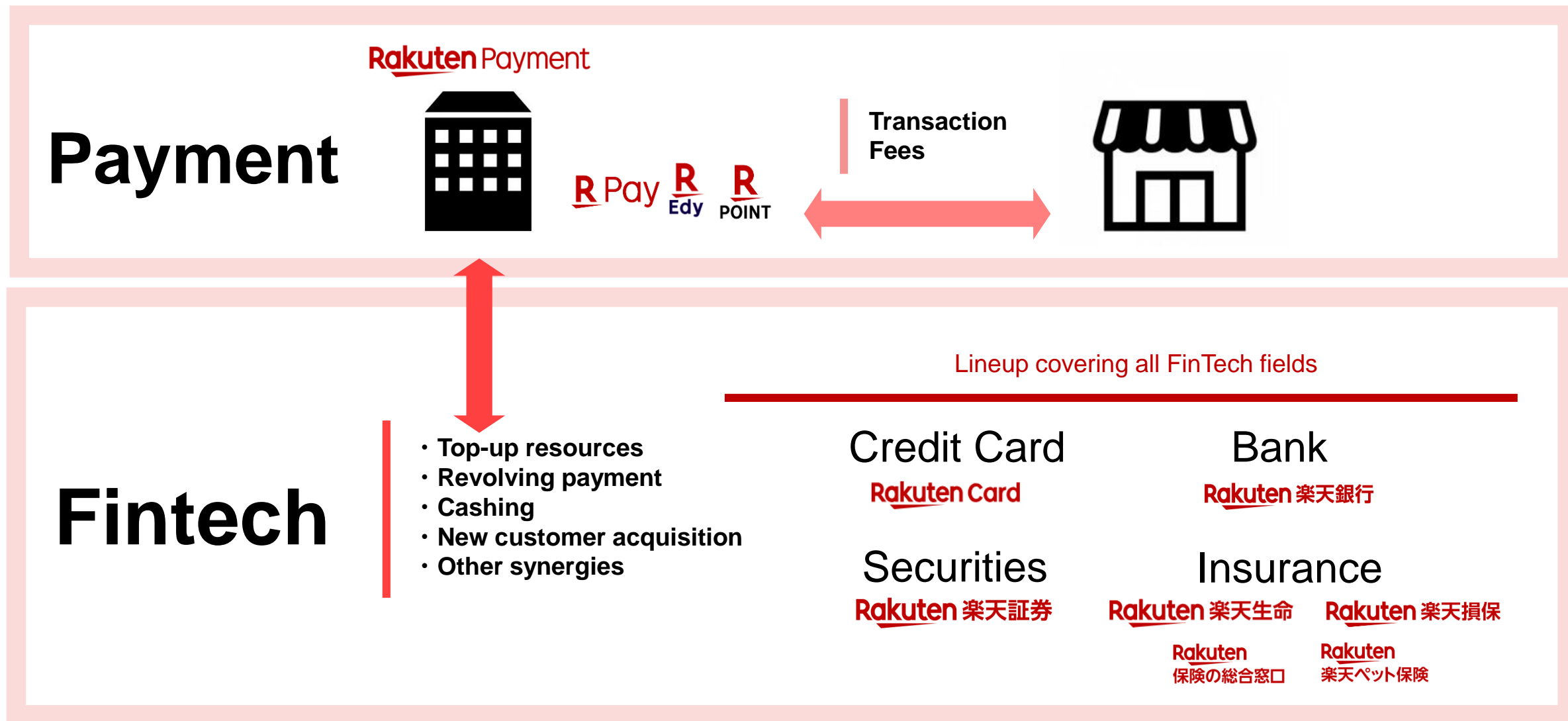
# Sustainable business model of Rakuten Pay with appropriate merchant transaction fees





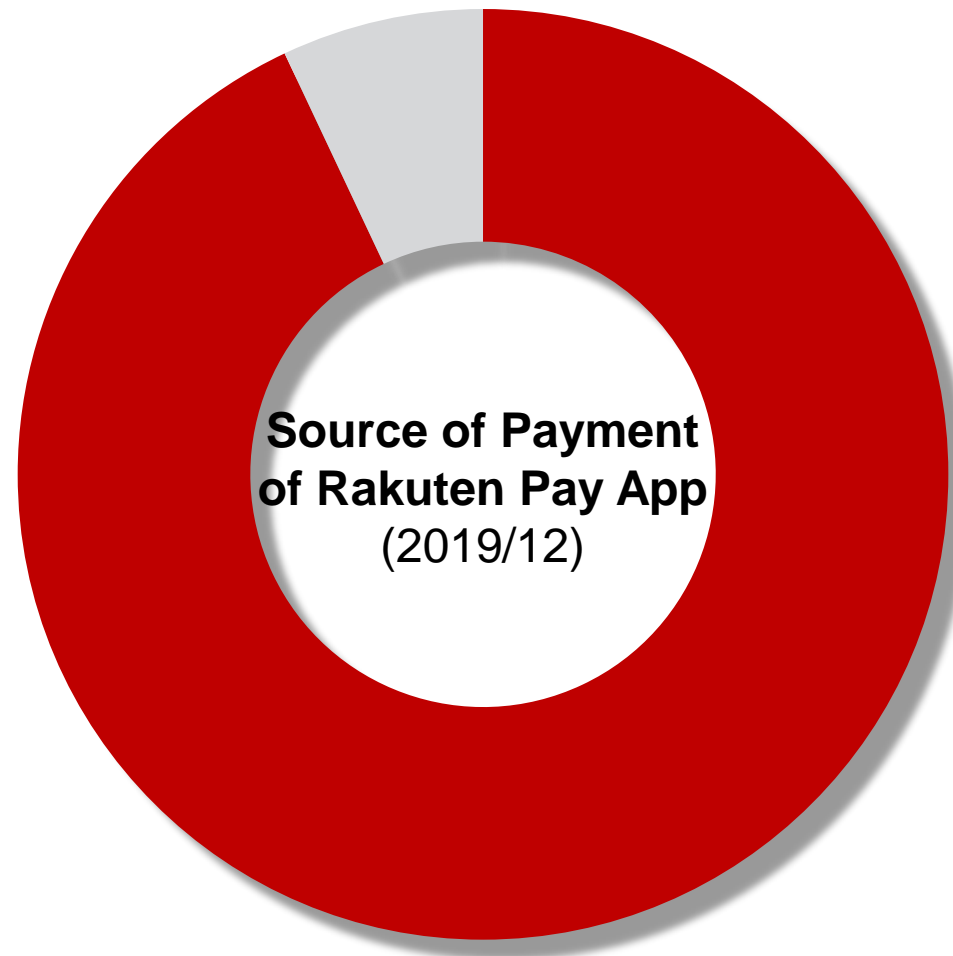
# Synergy between Rakuten Payment and other Rakuten Fintech services

In addition to transaction fees from merchants, profit from leveraging Rakuten Group Fintech assets



# Securing profits within Rakuten Group through Full Lineup of Services

- Synergy with Rakuten Card / Rakuten Bank / Rakuten Point
- Internalize margins within Rakuten Group

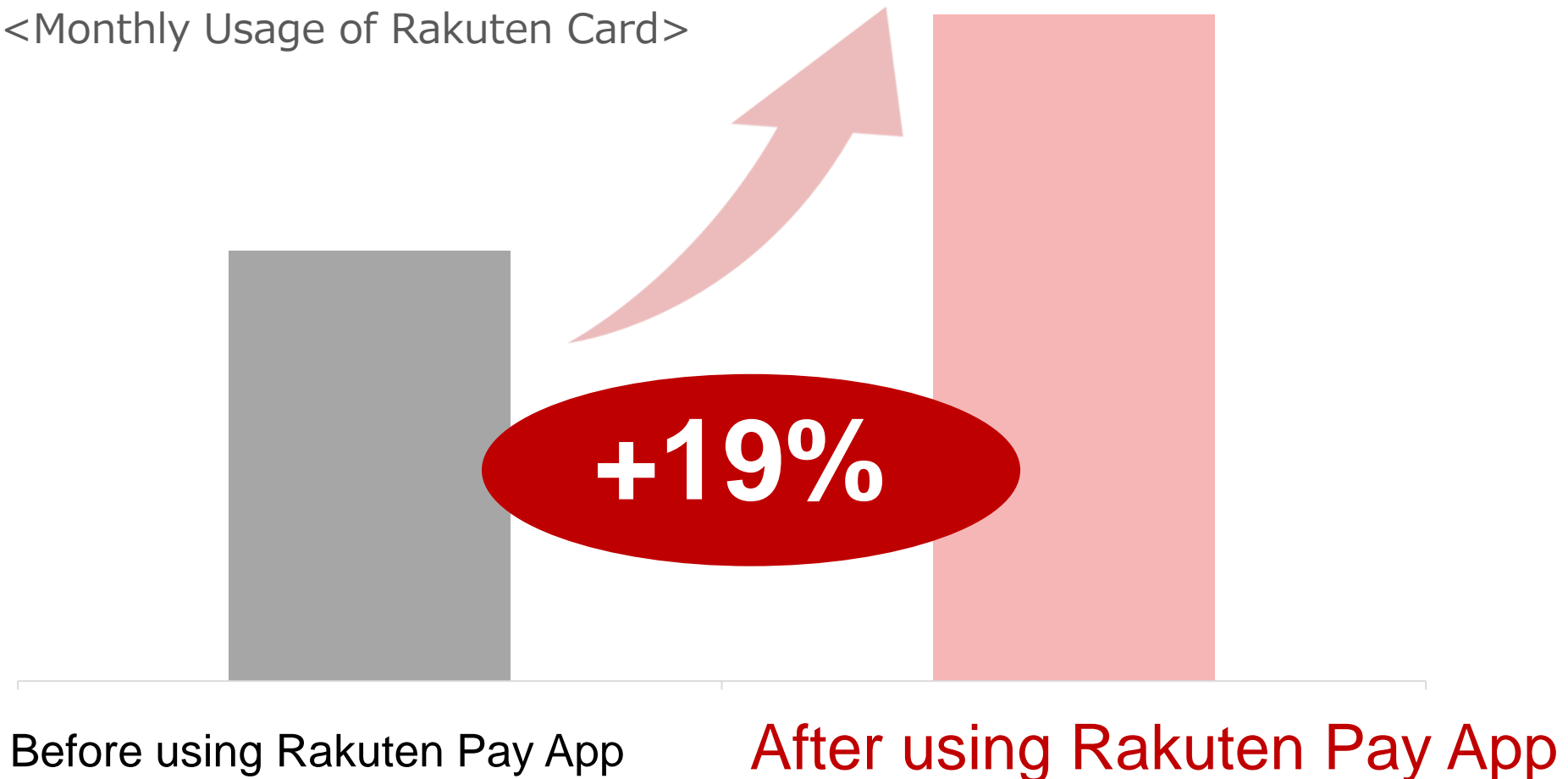


More than  
**90%**  
from Rakuten  
Group

# A Comprehensive Lineup bringing Mutual Profitability and Growth

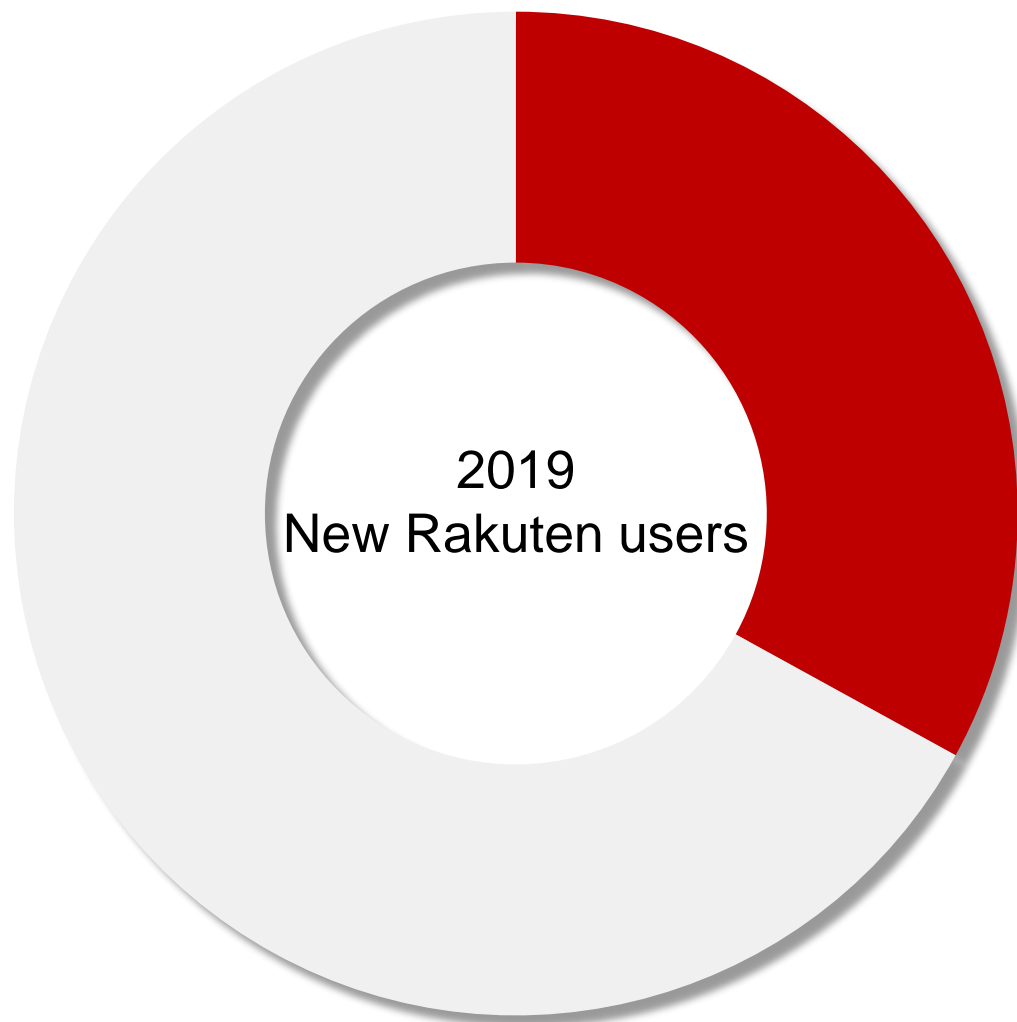
Monthly spending on Rakuten Card increases  
when Rakuten Card users use Rakuten Pay App

<Monthly Usage of Rakuten Card>



## Contribute to Acquisition of new Rakuten Users

Offline payment contributes to acquiring new Rakuten users



**About 30%**  
from Offline

**Start using  
Rakuten online services  
in addition to offline services**

# Review of user campaigns

# Rakuten Pay 5% point back campaign

## First

October 1, 2019-December 2, 2019

全員対象！10/1(火)スタート！

**全店舗対象**

期間中 **ずー5%** \ 楽天ペイアプリなら！ **っと**

要エントリー

**還元**

ポイントで払った分も還元対象！

## Second

January 1, 2020-March 2, 2020

Now

第2弾 ご声援にお応えして1/1 9:00スタート！

**全店舗対象**

期間中 **ずー5%** \ 楽天ペイアプリなら！ **っと**

要エントリー

**還元**

ポイントで払った分も還元対象！

## Two features of Rakuten Pay 5% point back campaign

### ✓ Simple Rules

As long as you have a Rakuten ID, you can receive point back.  
No need to confirm which merchant or payment source  
Designed simple and user-friendly campaign rules.

### ✓ Reward with Rakuten Point

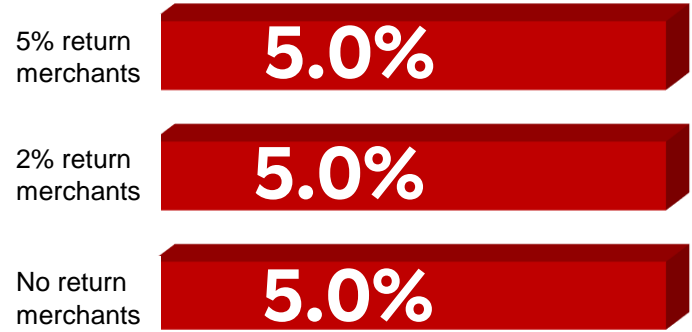
Providing Rakuten Points, No. 1 <sup>\*1</sup> in customer satisfaction  
which issues 320 billion points annually <sup>\*2</sup>.

\*1 : Research about points , Number of valid responses = 1,000 , Internet survey , October 2018 , Researcher : "Myvoicecom"

\*2 : As of January – December 2019.

# Comparison of Campaigns by Other Companies

**R Pay**

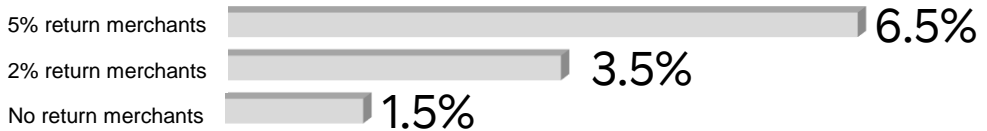


All Merchants

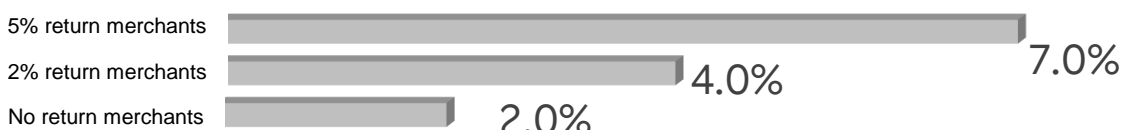
Same reward ratio

All Payment Sources

Company A



Company B



Company C



Company D



Not All Merchants

Not Same reward ratio

Not All Payment Sources

**R**



# Rakuten Pay Key Characteristic - “Easy to understand”

## VOC

Rakuten Pay’s point reward rate is 5% anywhere so it is easy to understand.

Rakuten Pay thinks of users first. It is easy to use and 5% reward rate anywhere is easy to understand.

I like Rakuten Pay because it is easy to understand for me.

Rakuten Pay Campaign is not high point return, but 5% return for a long term which others do not.

Rakuten Pay is attractive because of the long 5% campaign.

Among the multiple “Pay” apps, Rakuten Pay which started in 2016 is reliable.

## Media

Ranking of mobile payment App satisfaction by **parents**. \*1



Ranking of mobile payment App which **senior** have used \*2

## No.1 Rakuten Pay

\*1 “Kodomo Living”, Web Survey, December 25, 2019 – January 5, 2020

Survey Target : Sankei Living Official Website “Living Web” “あんふあんWeb” “ぎゅってweb” “City Living Web” users

Target Payment : au Pay ・ Origami Pay ・ QUICPay ・ d Barai ・ FamiPay ・ MerPay ・ PayPay ・ Mobile Suica and other transit IC cards ・ Mobile Waon ・ LINEPay ・ Rakuten Edy ・ Rakuten Pay

Area : Country-wide / Women with Children n=396pp, Men n=24ppl

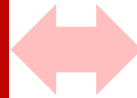
\*2 Halmek “Ikikata Jyozu Kenkyujyo”

Web Survey : age 55 – 79 Women , n=230ppl

# User Image of Rakuten Pay

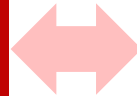


Simple UI/UX



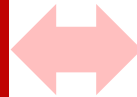
Complicated

Long term campaign



High point return campaign

Reliability



No Reliability

Marketing within  
Rakuten Group Services



Marketing using mass-media

# Rakuten Pay App received No.1 for User Satisfaction

Cashless Payments		Score
1位	Rakuten Pay	73.5
2位	PayPay	73.3
3位	MerPay	68.9



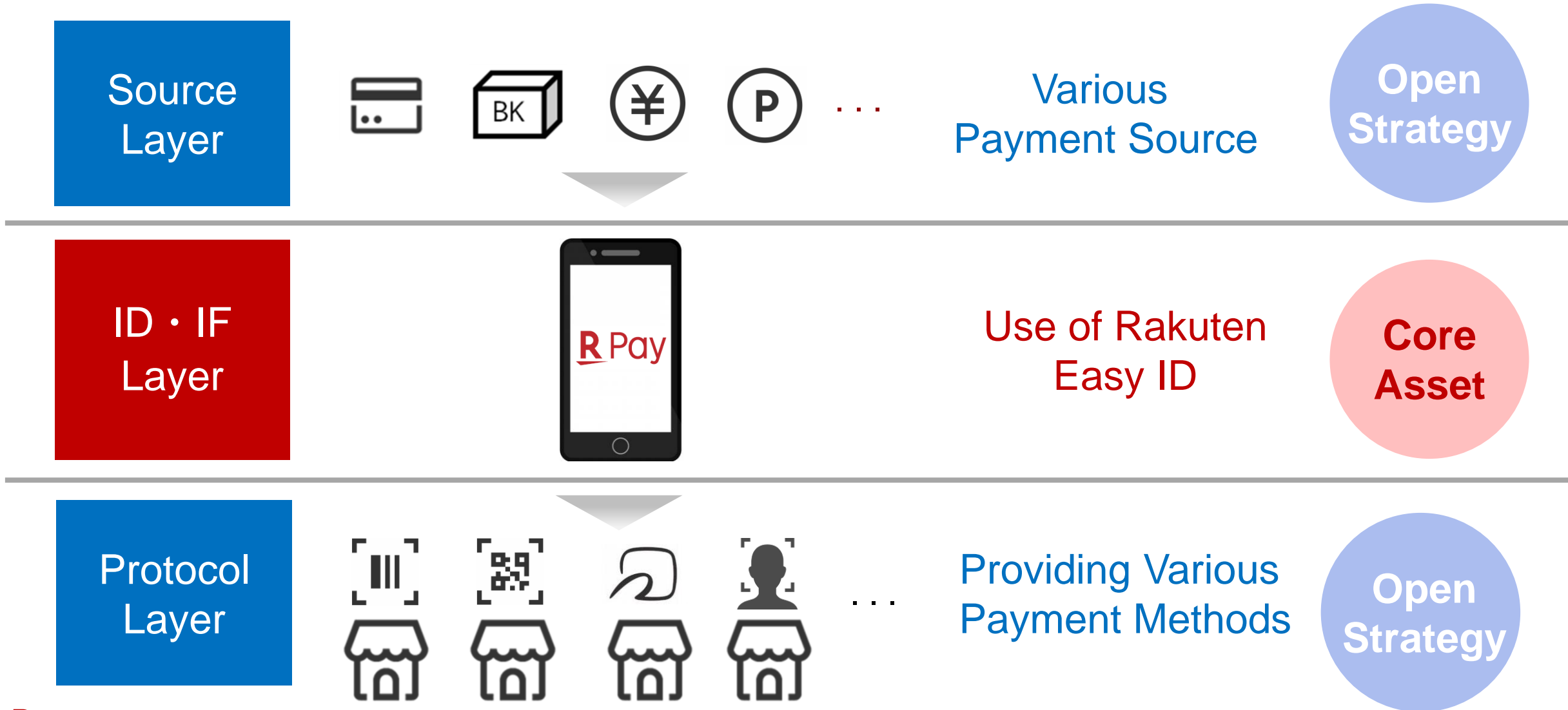
Cashless Payments				5 Companies / Brands		
	Expectations	Quality	Value	Satisfaction	Would Recommend	Loyalty
1	68.7 Rakuten Pay	71.4 Rakuten Pay	72.1 Rakuten Pay	73.5 Rakuten Pay	66.5 Rakuten Pay	71.7 PayPay
2	PayPay	PayPay	PayPay	73.3 PayPay	PayPay	Rakuten Pay
3	d Barai	d Barai	MerPay	68.9 MerPay	MerPay	d Barai



Rakuten Pay App won 5 out of 6 categories

# Core Strategy

# The 3 Layers of Payment Business Strategy



# Definition of Rakuten Pay

**“Rakuten Pay” is :  
a Settlement based on registration of Rakuten ID.\*  
Multiple funding sources and protocols.**

\*Excluding settlements which is not linked with Rakuten ID.

**Feature:  
Can earn and use Rakuten Point.\***

\*Must have applied for campaign to earn Rakuten Point.

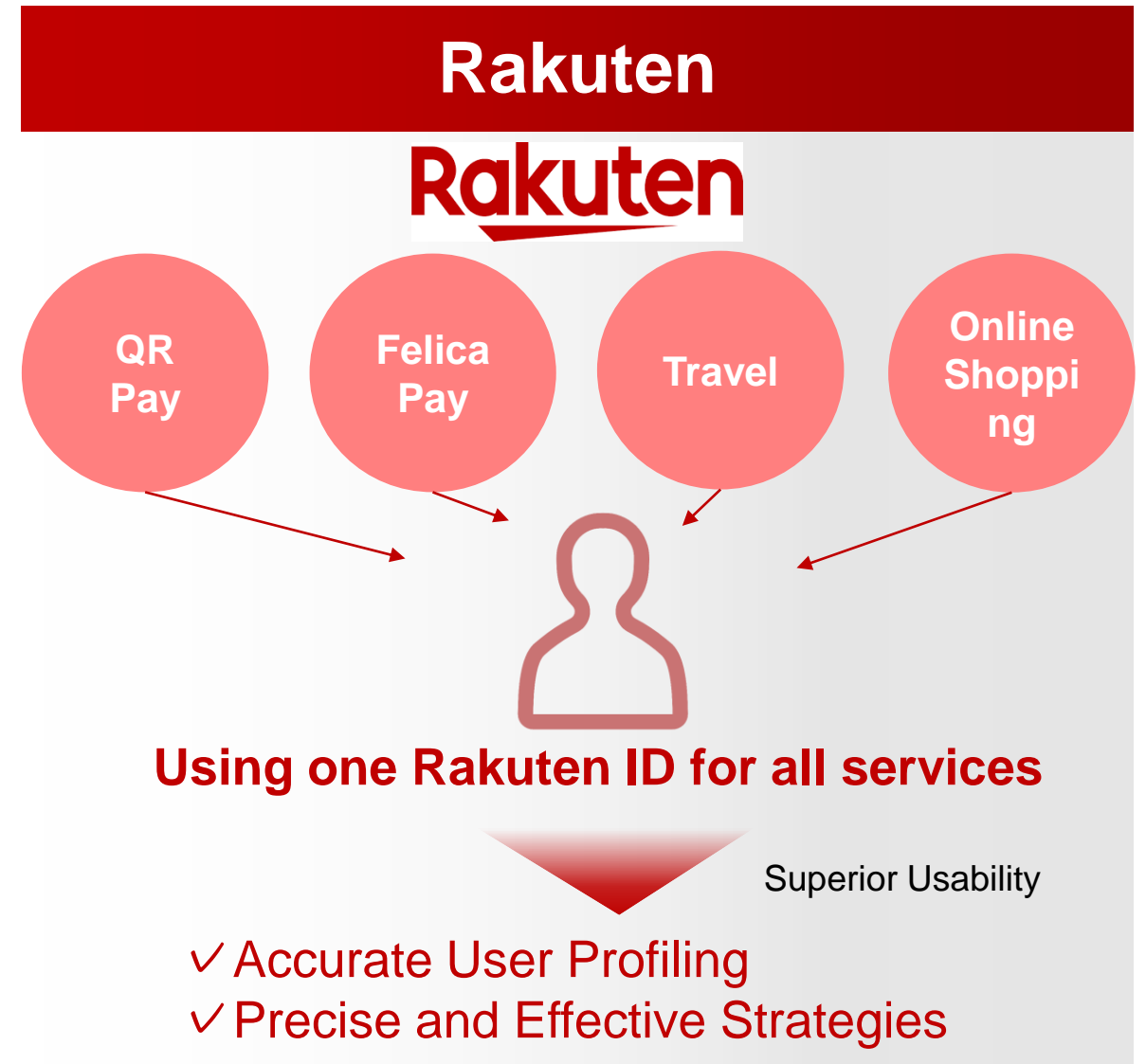
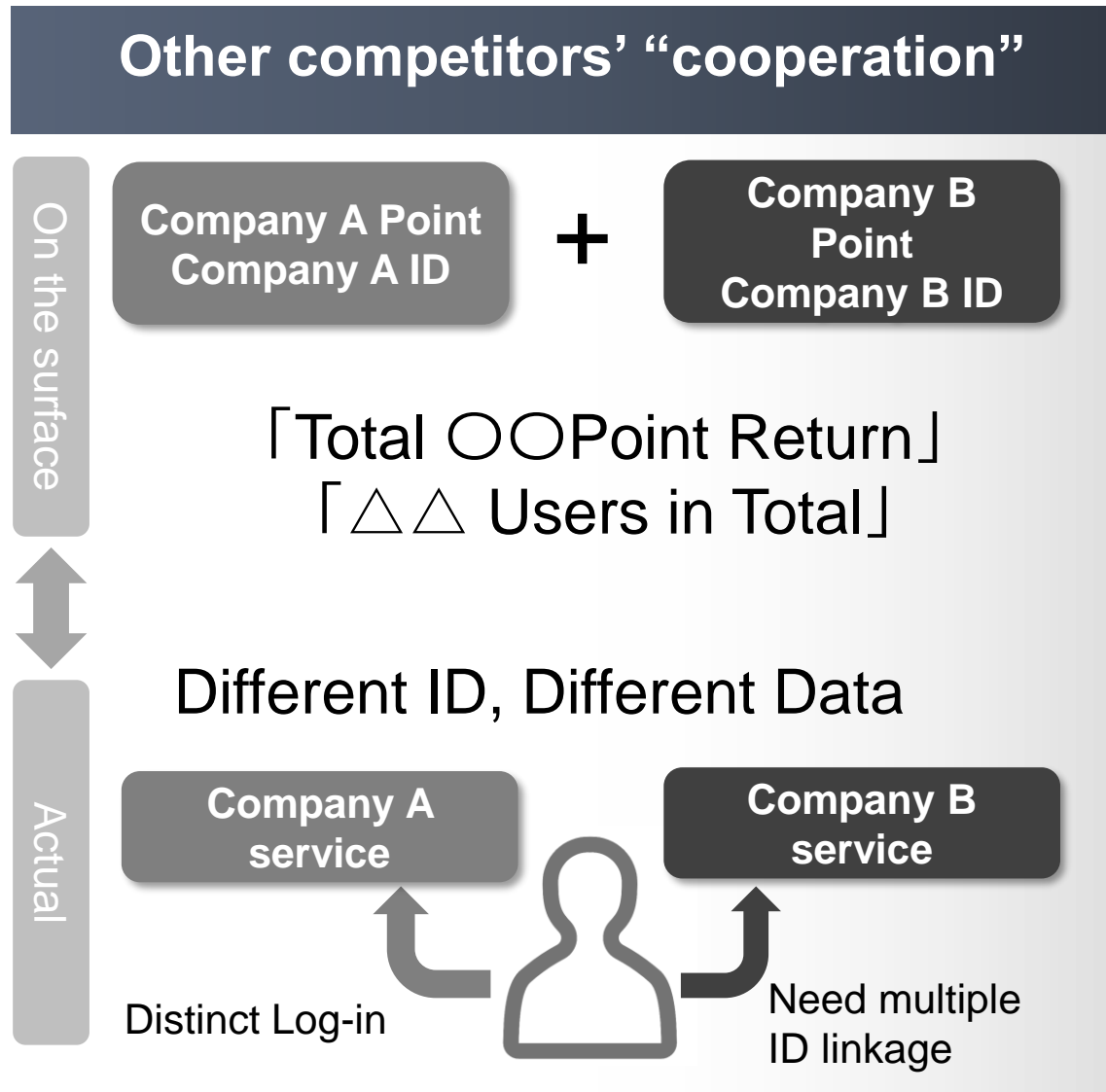
**Strategic Meaning :  
Provide customers simple, safe and secure settlement services and expand touch points  
both online and offline while capturing settlement information.**

# The Total Number of Rakuten Pay Users

**46** Million

(As of December, 2019)

# Truly valuable user data and superior usability





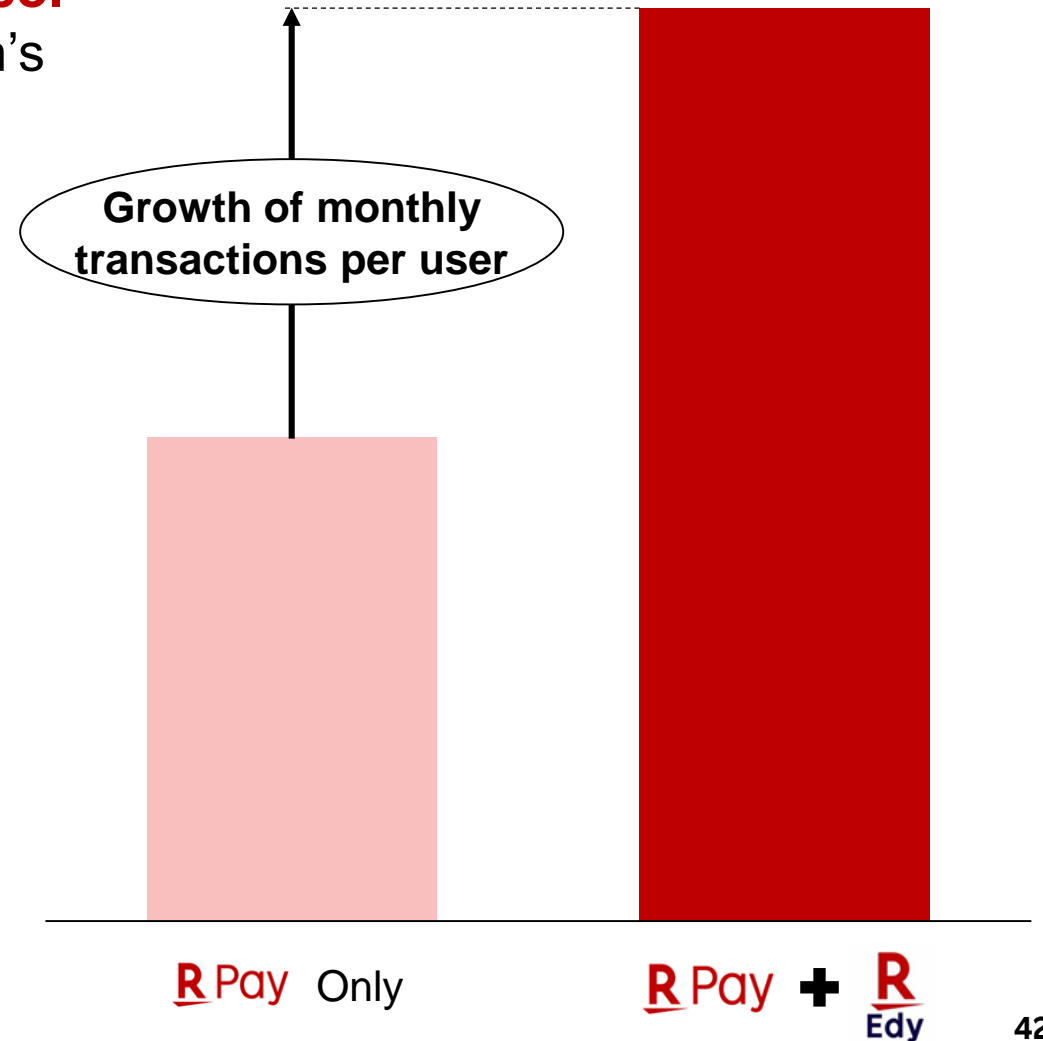
## Future Enhancements for 2020

# ① Implementation of Edy function in Rakuten Pay App (Feb 6<sup>th</sup>)



**Addition of protocol**  
following Rakuten's  
Core strategy

**Expecting Transaction Growth  
with Cross Use**



## ② Release of Suica function in Rakuten Pay App



**Addition of protocol**  
following Rakuten's  
Core strategy

- 1 Issuance of Suica within Rakuten Pay App
- 2 Suica top-up using Rakuten Card
- 3 Earn Rakuten Point at each Suica top-up

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(C)Chiharu Sakazaki/East Japan Railway Company/DENTSU

\*Suica is a registered trademark of East Japan Railway Company.

\*Suica Penguin is a character of Suica

\*Image is for illustration purposes.

## ② Rakuten Pay Suica compatibility with other transportation cards



\*Image is for illustration purposes.



PASMO

manaca

nimoca



\* "PiTaPa" is not eligible for mutual use for e-money

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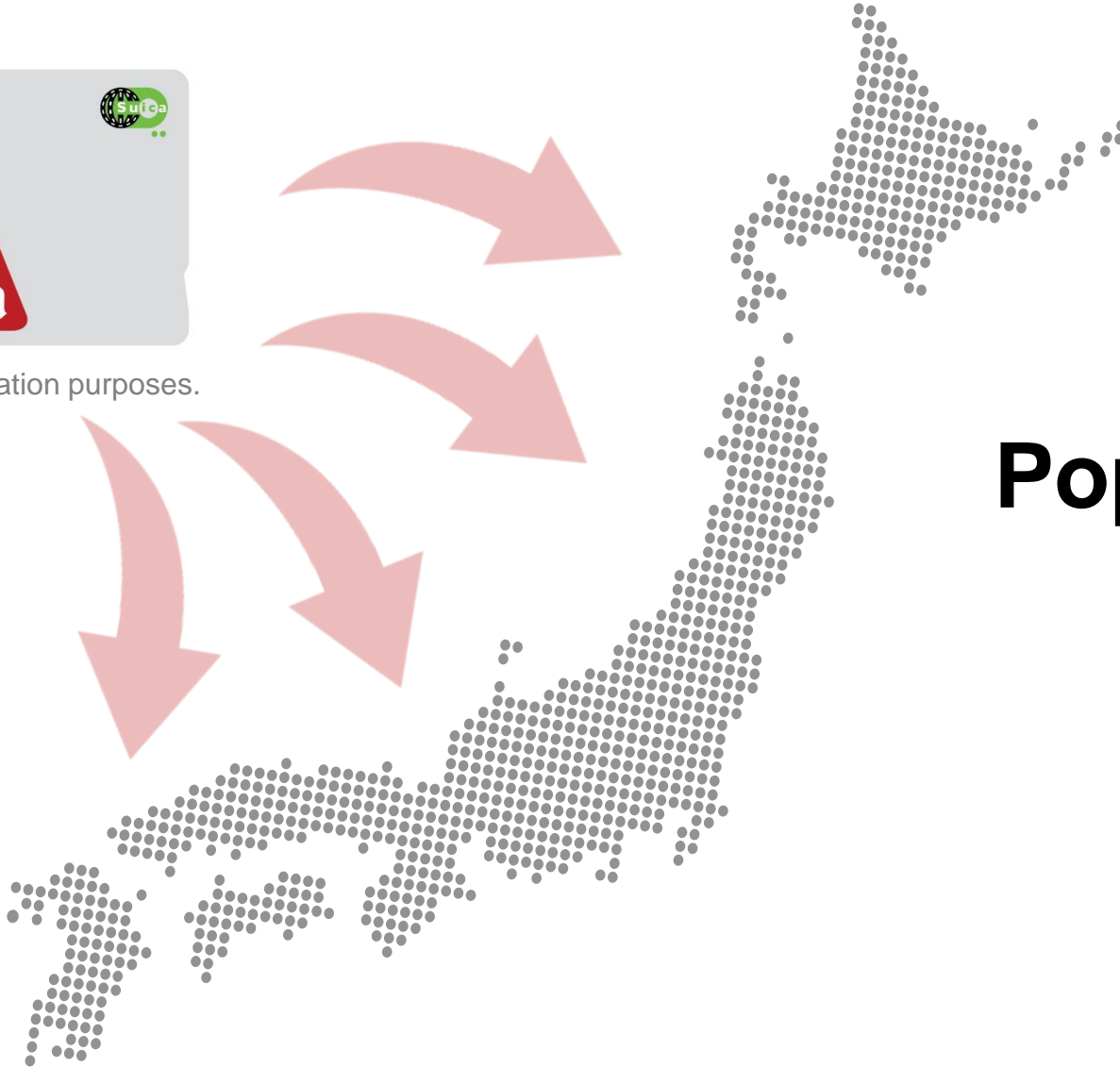
\*Suica is a registered trademark of East Japan Railway Company.

\*Suica Penguin is a character of Suica

## ② Rakuten Pay Suica compatibility with other transportation IC cards



\*Image is for illustration purposes.



**Population Coverage  
by Prefecture**

**94.8%**

## ② Railway is the mainstream of mobility in Japan

**Railway** is the biggest public transportation in Japan.

Annual rides per year※

about **25 Billion**



**Cooperation with taxi services**

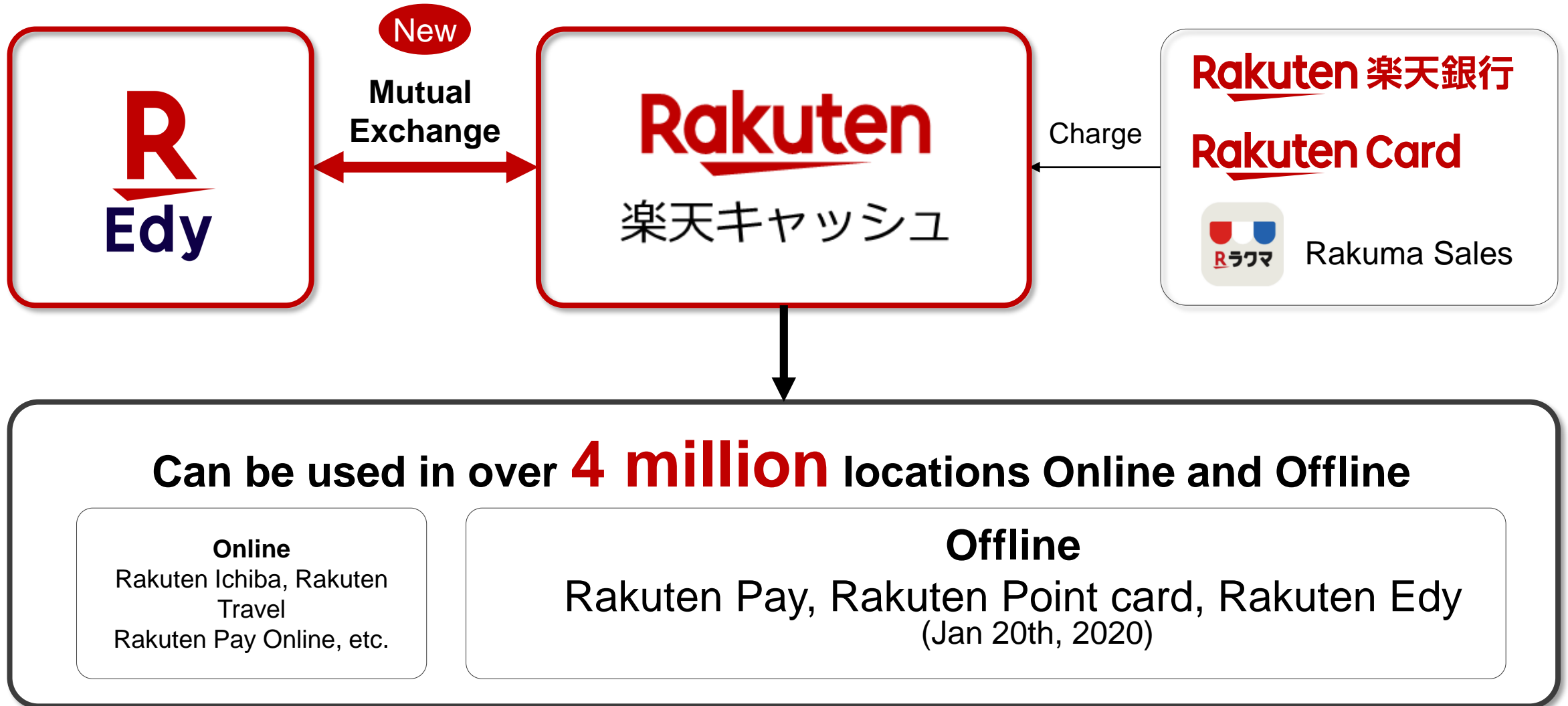
was the key of growth  
for mobile payment apps in  
developed countries  
such as China, Southeast Asia, etc.

about 1.5 Billion

**Railway**

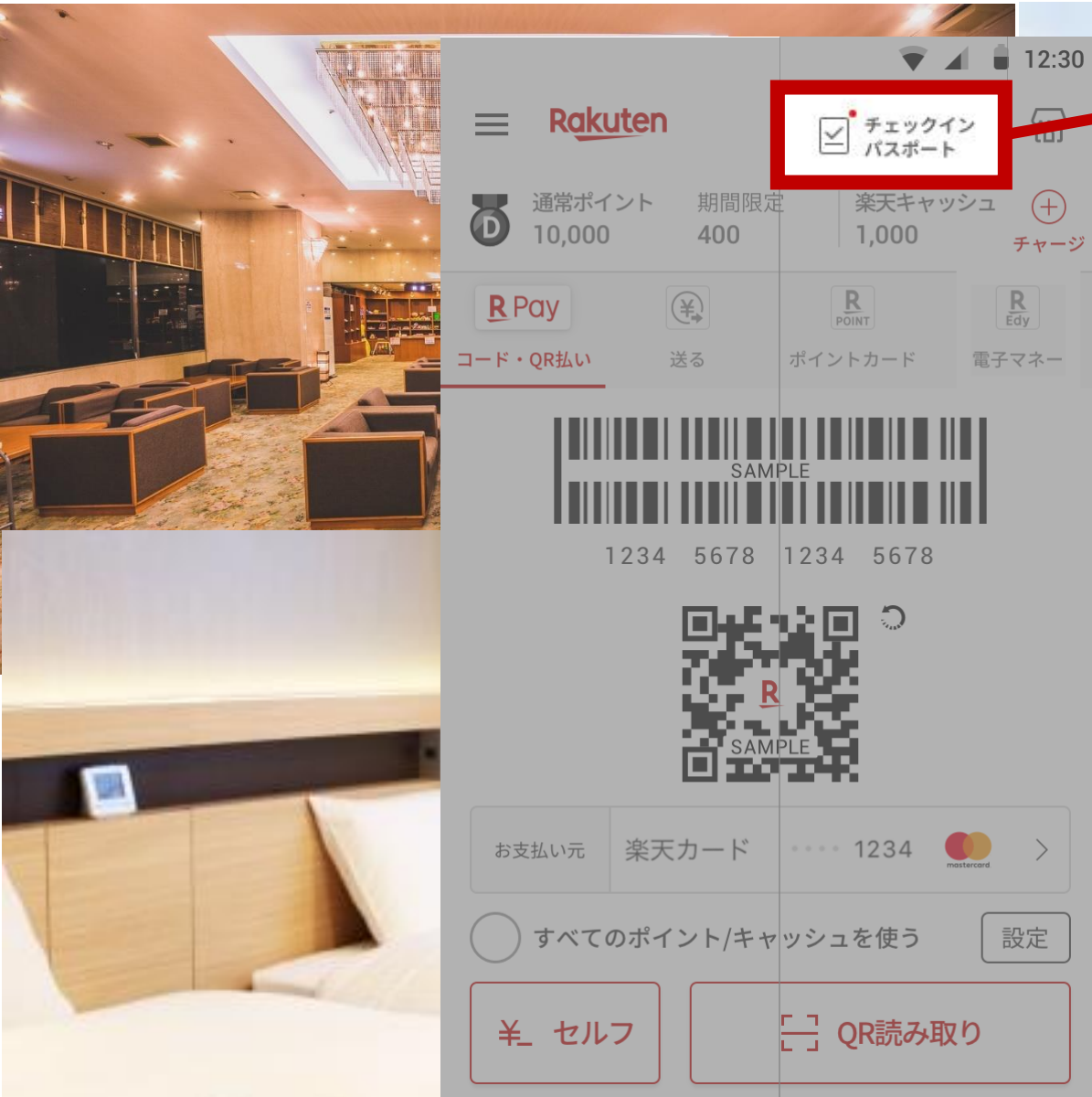
**Taxi**

### ③ Mutual exchange of Rakuten Edy and Rakuten Cash to be released this summer



## ④ Check-in Passport on Rakuten Pay App

- Rakuten Pay will become a '**Personal Authentication App**' by utilizing the strong assets of Rakuten



**R Pay**

Check-in



NO.1 in Japan (Online Reservation GTV)

× **Rakuten Travel**

Check-in the hotel

NO.1 in Japan (Online Reservation GTV)

× **Rakuten GORA**

Check-in the golf course



**Rakuten**