

Minutes for 6th Meeting of FinTech Study Group

1. Date and Time: 2015 December 4, Friday, 10:00am – 11:45am
2. Place: British Embassy Tokyo
3. Agendas:
 - ① Opening Remarks (UK Trade and Investment)
 - ② Presentation (Financial Conduct Authority)
 - ③ Presentation (Ministry of Economy, Trade and Industry)
 - ④ Free Discussion
4. Remarks

O We are delighted to have 6th meeting of FinTech study group led by METI. Today we have policy makers and FinTech companies in both countries and hope we have good discussion. First, we would like to have presentations by regulators in UK and Japan.

O Project Innovate, which went live in FCA in 2014, is looking to encourage innovation and promote competition. We need to recognize that FinTech is growing in UK and to find better way to deliver effective products to consumers. As a regulator, we have to understand benefits and risks in FinTech, and have to keep pace with this development. In Innovation Hub, we provide direct support to companies that are eligible. Also, we exploit intelligence of FinTech community to determine whether we are going the right way or need to change policies.

So far, we made some policy changes.

Themed weeks are created, where various players such as startups, big firms come together to discuss to identify key issues. The first round was run on robo advice.

RegTech is our principle to deploy our objectives by using new technology. For example, delivery of information to us and analytics on them are expected to be improved, resulting effective regulations.

Use of the cloud relates data security issues. For months, FCA has trying to make it easier for companies to establish how they might use it in a safe and compliant way.

Data protection and data privacy are key issues in digital and mobile solutions. To encourage competition, regulators need to address these issues.

Regulatory Sand box is the biggest policy change. It is creating safe space to test new business based on innovative ideas. FCA's options are restricted authorization, no action letters, and individual guidance.

In Project innovate, we need more process changes and policy changes. The first point is to help new market entrants. Since they develop their business in an agile way, regulators also have to act fast during the duty such as authorization and assessing risks. The second point is international engagement. We need track global standard because FinTech firms and customers are global.

The last is support for incumbent institutions. Making big firms to be pro-innovate will benefit both customers and FinTech industry.

O So far, we held 5 meetings of FinTech study group. However, this is the first time to discuss from international perspective, having participants from non-Japanese companies.

Name of this meeting "Study Group on the Integration of Industry, Finance and IT" shows our intention that we will focus on emergence of FinTech from industry perspective, not limiting to the financial sector.

This study group was launched as a subgroup of New Industry Structure Study Group, a part of Industrial Structure Council, where potential change and possible policy of the

industry structure are discussed.

We established this study group in a different manner from usual ones held by Japanese government. One feature is that participants are not fixed and appropriate experts are invited depending on the topic to each meeting.

Another feature is on topics of the meetings. As well as participants, topics are not predetermined. For example, on 3rd meeting, we discussed potential utility of financial data such as transaction data on EC which arose through discussion in the 1st meeting. My role is to lead industry finance division and new business division. Therefore, we are in good position to initiate discussion in this space, and we are pleased to have discussion from an international viewpoint today.

○ In the robo adviser industry, big players entered and services are getting commoditized to some extent. So new technology is evolving every day. On the other hand, registration of laws takes time. How do UK policy makers incorporate with new technology?

○ No action letter have potentially effectiveness to establish efficient market. Regulatory uncertainty is big concern for FinTech companies that might prevent them from deploying new technologies. Sand box will be key to manage issues that firms are facing. For example, in robo advice service, there might be intervention by some independent, qualified individuals to determine the outcome is appropriate before you execute new algorithms.

We consider stress testing based on numbers of scenarios would also be effective to review the outcome of new services.

○ In Japan, laws stipulate principle and interpretation of them are left to companies. To what extent does the government provide interpretation of regulations in UK?

○ We also take the same approach as Japan FSA, that is to say, principle based and judgement based.

To remove regulatory uncertainty, Innovation Hub provide informal steer in order to put early stage businesses on the right track. To do this, FCA has experts who have experience and legal background. It helps firms move forward.

○ Before the launch of Sand box, did UK startups have difficulties in communicating with regulatory authorities? Some say that it is a quite difficult work to acquire no action letters in Japan.

○ No action letter is a big step for us as certain conditions should be met. Only if you are moving to the spaces where no one else is moving to, and your business has great potential benefit to consumers, we will proceed our process.

○ In UK, small payment institutions can easily get authority, which enable them to access banks. In financial service industry, being compliant to regulation is important. This is not the case in other industry.

○ Because regulation approach should be different depending on the size of the company, we are trying to be proportion to the risks and benefits to consumers.

○ There are some opinions inside FSA that it should broaden contact points to enhance communications with startups.

○ We would like to hear about the balance between innovation and regulation from industry perspective.

○ Financial regulation requires cross government initiative, and a number of departments are involved as Ministry of Treasury and Prime minister's Office as well as UKTI. In the process, we are focusing on business outcome.

○ Our company provides international payment, where many regulations concern as anti-money laundering. When we launched our business, we recognized that regulation was a big hurdle. So we talked FCA through Innovate finance, FinTech industry

organization. FCA was positive to our business and was willing to engage. The biggest problem we faced was in banks.

Banks set volume limit that exclude transactions of small amount since banks regard small payment as worthless. Banks require very high standard of compliance to avoid possible sanctions by FCA. In this sense, banks are bigger regulator than FCA.

How would FCA encourage big banks to align with new services?

○ Access to banks is key issue. We are on a process of research project on how small companies meet anti-money laundering requirements. We think technology will give solutions for this issue. However, it is under commercial decision of each bank.

○ This is a worldwide problem. I do not think this will be solved in a short term. What I hope is that entrance of challenger banks with high risk appetite like Silicon Valley Bank into this market will solve this problem.

○ How the big banks cope with new FinTech in UK?

○ Competitors to big banks are big banks. For example, though Santander and Barclays set up FinTech fund and run acceleration program, their interest are on new way of approaching customers rather than creating new business. On the contrary, FinTech companies are trying to reinventing new business. FinTech is not the core business for banks.

○ In Japan, online banking penetration in SMEs is around 20%. One of the reasons is its fee charged monthly (approximately \$20/month). Another is inconvenient web pages of online banking that are filled with disclaimers. What is the situation in UK?

○ The problem to be improved for SMEs lies in access to banking services rather access to banks. For example, marketplace funding like Funding Circle in SME financing outside of banking system has emerged but they are still in process to get a presence. The government not only assists these businesses by making it easier for new entrants to come into this market, but also is dedicated in education to SMEs so that more companies can reach lending facilities.

○ Difference between UK banks and Japanese banks is consumers expectation. In Japan, banks' trouble in IT system is sensationally broadcasted whereas it is ordinary in UK.

○ Japanese banks are still obedient to FSA while it changed its regulatory approach. Japanese consumers are super demanding.

○ Consumers are demanding everywhere. The main difference is that Japanese companies and regulators react excessively because they are intensively concerned about consumers' reaction.

○ That is because politicians, who govern FSA, are under consumers' strong pressure.

○ In Bitcoin cross border transactions, it is difficult to determine the location where the transaction are executed. Our company pays consumption tax of 8% as a Japanese company, whereas foreign companies escape taxation even though they provide similar service to Japanese consumers. This is unfair and need to be resolved.

○ We also have same issue in EU since electronic service is difficult to capture its substantial location. For this we are trying to improve scrutinizing consumer behavior, to make registration more accessible, to run campaign of compliance and so on.

○ In my recognition, one of the success factors of FCA is that ultimate mission of Innovation Hub to protect consumers through competition. What do you think about the ideal way for FSA?

○ Both parties take different measures reflecting different legal structure. The objectives of FCA are consumer protection and promote innovation. We need to enhance our

capability to analyzing what is happening in FinTech industry to the objectives.

○ In UK, HM Treasury takes an initiative to utilize open data backed by banks' API. This would enhance competition among banks and provide more choices to consumers.

○ Since this trend is a big movement and transformative, it is a matter of politics rather than regulators.

○ This is not a companies' problem but a consumers' problem. This way enables to deal with politics. If the industry shows what the problem is, then the government can react.

○ We are willing to deepen today's discussion further and to reflect the contents to policy making.

○ We are going to keep exploring opportunity and problems through round tables with various parties.

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