Minutes for 2nd Meeting of Fintech Study Group

1. Financial Industry Structure

   ① New industry, new services

   （1）Overview

   （ア）Environments and challenges on Japanese Fintech business

   i. Type of Fintech business in Japan

   ○ There was an opinion that Fintech companies will increase in regulated industries in the future.

   ・ At present, venture companies mainly emerged in industries where no large scale capital is required and entry barriers are low, such as information service. In the future, a shift to regulated industries such as asset management and consumer loan is predicted.

   ii. Financial institution's initiative

   ○ The situation was pointed out that in Japan financial institutions' investment inclines to fields where results are promised.

   ・ Overseas financial institutions have started working on Artificial Intelligence (AI) and blockchain already. For example, R3, a US based blockchain venture, has started the study on building interbank system, cooperating with 22 major banks in the world. Financial institution in Japan should invest in fields which are expected to grow in the future, even though some risk may exist.

   （イ）Future promising business area

   ○ There was an opinion that blockchain will have enormous impact on the whole financial industry.

   ・ It was said that blockchain technology is able to cut financial institutions' cost to 1/10~1/100, and even fintech companies will be affected as a result.

   ・ The impact of blockchain is huge. Its importance is similar to the emergence of Internet and Google.

   ・ At present, when regulation is modified, the cost of changing and maintaining the system is high. Cost reduction by using blockchain technology is welcomed.

   ○ On the other hand, challenges on blockchain's evolution were also pointed out.

   ・ The main characteristic of blockchain is distributed processing. On the contrary, centralized processing has merit provide liquidity. Merits and demerits should both be taken in to consideration when discussing application of blockchain.

   ・ The improvement of throughput is a challenge for the spread of blockchain.

   ・ When quantum computer is put into usage in the future, safety of blockchain is a concern.

   ○ There was an opinion that besides blockchain, big data by using AI is a promising technology.

   ・ Deep learning, the core technology of AI, is the technology which supports big data. Financial institutions' competitiveness will be heavily depending on how much they are able to take advantage of this technology.

(ウ) Points to be discussed by government and industry

○ There was an opinion that regulation is the biggest barrier for venture business's development.

· For example, in the field of fund transfer, if the maximum amount stipulated by The Act on Settlement is abolished, venture companies could expand their business in fields such as offering B2B remittance service. As in this case, regulation and compliance are big barriers for venture companies.

○ There was an opinion that cross-sectional regulation and complementary measure should be made.

· If regulations are segmented for each type of business, regulatory arbitrage will occur. For example, companies will offer services similar to regulated services in the business types which are unregulated. Similar business should be regulated similarly by way of comprehensive regulation..

· However, cross-sectional regulation will be comprehensive and may not be as detailed as segmented regulation. Therefore,operating companies should conduct , rigid, dynamic and analytical monitoring, assess risks and manage them according to the level of risk   as complementary measures. Also, self-regulated rules, voluntarily established by the industry association and operating companies should be adopted as further complementary measures, but not the detailed regulations.

· For example, at present concerns in reputation and money laundering remain in bitcoin trading. The joint efforts of whole financial industry together with authority is expected to overcome such problems . If regulations for each type of business are made separately, arbitrage will occur. For example, companies will offer service similar to regulated services in the shape of different business types which are not regulated. Similar service should be comprehensively regulated.

（２）Fintech's usage in the field of payment which links to consumption

(ア) The profitability of payment business

○ There was an opinion that even payment business alone can bring sustainable profit.

· Initial cost for payment service is declining nowadays. As a result, even if top line declines, sustainable profit can be ensured when a certain scale is realized due to low cost.

○ There was an opinion that although profitability of payment business alone is low, many businesses can be developed based on payment.

· In XOOM which was merged by PayPal, for the most part of margin gained was used for marketing. As in XOOM's example, for payment business, winning the position as a standard service is fundamental, and lots of investment is required in order to achieve that.

· Profitability of payment business alone is low. However, based on data gained through payment transactions, offering business such as consumer loan to those who cannot be credited from banks, compensation program against fraud, marketing support based on users' behavior in the internet can be expected.

（3）Fintech's short-term and mid-to-long term impact on traditional financial service and infrastructure

- ○ For venture companies, service can be delivered without passing through existing infrastructure

  - ・ In the case of entering into the fields of deposit and remittance, cost will be very high if relying on existing infrastructure such as ZENGIN System, so it will be difficult to make a business for venture companies. Hence, building their own infrastructure is effective.

- ○ There was an opinion that insurance will be greatly impacted by Fintech

  - ・ If information is widely shared, the value of grasping risk which is currently done by insurance company will decline. As a result, traditional insurance industry possibly be impacted greatly.

END