Study Group on the Integration of Industry, Finance and IT (Study Group on FinTech) to be held.

The Ministry of Economy, Trade and Industry will hold a Study Group on the Integration of Industry, Finance and IT (Study Group on FinTech) to discuss in a comprehensive manner the possibility that innovative financial services using technologies including IoT technology, big data and artificial intelligence will generate new industries and significantly change the manner in which corporate finance is provided, in order to examine and review political challenges and related measures.

1. Background

In recent years, a number of venture companies that provide innovative financial services using software technology, which is a field known as “FinTech”, have appeared and companies other than traditional financial institutions such as retailers, are seen providing new financial services.

This is due to the fact that technological innovation including IoT technology, big data and artificial intelligence have significantly changed the relationship between finance and industry, and the need for new, previously unheard-of financial services have been emerging. The Industrial Structure Council newly established the New Industry Structure Study Group, which has just begun discussing this potential transformation of the structure of industry.

The Study Group on the Integration of Industry, Finance and IT (Study Group on FinTech) will be convened in order to discuss, by examining global trends, the mechanisms which bring about this innovation which integrates industry, finance and IT, new industries, and the flow of capital, as well as to examine and review political challenges and related measures.

2. Participants in the study group and topics for discussion

(1) Participants:
• In order to develop a comprehensive understanding of the current situation and circumstances surrounding the field through a dialogue among a variety of players and experts concerned with FinTech and analyze from diverse perspectives, the list of participants is not fixed, but participants will be invited according to the needs of each topic (omnibus form).
See the attached sheet for the participants in the first and second meetings.

(2) Topics:

- The subject of each meeting will be determined flexibly according to discussions since points at issue, hypotheses and problems are treated through discussion and dialogues at the study group. For example, currently, we may expect the following topics to be discussed: however we assume that these may change according to the progress of discussions.

(Examples of potential topics)

(1) Will FinTech generate new industries in Japan?

- Domestic and international trends, noteworthy fields, main players, and development potential in the future
- Progressive approach in the retail field including settlement, money transfers, etc., and impact on the existing financial services and infrastructure.

(2) What kinds of opportunities and threats will be generated with the rise of FinTech?

- Tension and cooperation between new players and existing financial institutions, possibility of building a new ecosystem in cooperation with venture companies, and development of environment
- Changes in the concept of what an appropriate balance between convenience and information security and privacy are, and development of an environment with this in mind
- Deployment of financial services overseas, a resulting increase in the number of users (financial inclusion), and impact on the financial infrastructure of Asia and other regions.

(3) How will FinTech change the way in which funding is arranged by companies?

- Impact on funding by global companies (automation and standardization of credit examination and rating function, diffusion of high frequency trading in financial markets, visualization of the global financial situation, etc.)
- Impact on the funding by local companies, small to medium-sized companies (diversification of funding means through crowd funding, commercial finances, etc., sophistication of financial management, etc.)
(4) Will FinTech change household asset building/allocation, currently biased to savings and deposits, or will it increase the supply of risk capital?

(5) How will risk management including insurance change when the way risks and information are managed change, due to IoT technology, big data and artificial intelligence?
   - Shift to high functionality of automobiles, housing and buildings, and risk management
   - Use of medical information/genetic information and health risk management, etc.

3. Schedules in the future
(1) Date and time of the meeting
   - First meeting: October 6 (Tue.), 2015 / 15:00 – 17:00
   - Second meeting: October 16 (Fri.), 2015 / 13:00 – 15:00
     × It is planned that meetings will be held 2 to 3 times monthly. Subsequent schedules will be announced on the website.

(2) Topic to be discussed (plan)
   - First and second meetings: Will FinTech generate new industries in Japan?
     × The same topic will be discussed at the first and second meetings but with different participants.

Release date
October 6, 2015

Division in charge
Industrial Finance Division, Economic and Industrial Policy Bureau
Study Group on the Integration of Industry, Finance and IT (Study Group on FinTech)

List of the participants in the first meeting

Nobuhisa Abe, Incubation Project Team General Manager, Mizuho Financial Group, Inc.

Naoyuki Iwashita, Head of Center for Advanced Financial Technology, Financial System and Bank Examination Department, Bank of Japan

Tatsunori Onitake, Retail Business Planning Office Marketing Team Manager, ORIX Corporation

Ryoji Kashiwagi, Financial IT Marketing Department Senior Researcher, Nomura Research Institute, Ltd.

Kiyosi Kano, Senior Expert, Public Business Planning Division, NEC Corporation

Daisuke Sasaki, CEO & Co-founder, freee k.k.

Toshio Taki, Board of Director, Head of Fintech Institute Money Forward, Inc.

Masaki Negishi, General Manager, Business Strategy Group, Credit Card Division Internet Business Division

Syunsuke Hayashi, Business Producer, Dream Incubator Inc.

Takafumi Murakami, Managing Director, Accenture Strategy, Accenture Japan Ltd.

Rumi Yamazaki, COO, Zaim Inc.

Masaru Yoshioka, Senior Executive Officer, Management Department of Strategic Business Innovation Partners Division, GMO Payment Gateway Inc.
(Moderator)
Yasuyuki Ogyu, Director, Deloitte Tohmatsu Consulting LLC

(Observer)
Satoru Ishida, Director, Policy and Legal Division, Planning and Coordination Bureau, Financial Services Agency

Norio Sato, Director for Credit System, Planning and Coordination Bureau, Financial Service Agency

(Secretariat)
Industrial Finance Division, Economic and Industrial Policy Bureau, METI

Study Group on the Integration of Industry, Finance and IT (Study Group on FinTech)

List of the participants in the second meeting

Noriko Annen, Director, Government Relations, Legal Counsel, PayPal Pte. Ltd. (Tokyo Branch)

Hisanori Ogawa, Senior Researcher, Nomura Research & Advisory Co., Ltd.

Mitsuhiko Ogihara, Head of Business development for SPIKE, Metaps inc.

Yasuyuki Ogyu, Director, Deloitte Tohmatsu Consulting LLC

Yuzo Kano, Co-Founder and CEO, bitFlyer, Inc. / Representative Director, Japan Authority of Digital Assets (JADA)

Nao Kitazawa, Director, COO, Money Design. Inc.,

Naoko Samata, Founder, CEO, Coiney Inc.
Masatomo Nakajima, Business Planning General Manager, Sompo Japan Nipponkoa Insurance Inc,

Takeshi Hirano, Executive Officer, Corporate Strategy, Japan Exchange Group, Inc.

Norifumi Yoshimoto, General Manager FinTech Business Planning Dept, SBI Sumishin Net Bank, Ltd.

(Observer)

Norio Sato, Director for Credit System, Planning and Coordination Bureau, Financial Service Agency

Motoyuki Yufu, Deputy Director-General of the Planning and Coordination Bureau, Financial Service Agency

(Secretariat)

Industrial Finance Division, Economic and Industrial Policy Bureau, METI
Minutes for 1st 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. Nationality
   
   ○ It was shown an opinion that improvement in digital literacy is required for development of Fintech industry.
   
   · New services provided by venture companies are suppressed by low popularity of online banking, which are prerequisites for those services.
   
   · Low digital literacy may discourage Japanese banks’ investment on Fintech.
   
   ii. Funding Environment
   
   ○ It was shown an opinion that investment on Japanese venture companies are active, however, their deal size are relatively low. Though this is favorable for companies in their early stages, companies that need funding in large scales face challenges in Japan.
   
   iii. Relationship between venture companies and incumbent financial institutions
   
   ○ It was pointed out that poor flexibility in information systems of Japanese financial institutions prevents cooperation with venture companies since Japanese financial institutions invested aggressively on their information systems during 1990s, when the commercial internet did not appeared.
   
   ○ It was shown an opinion that existing leading companies should have understanding and cooperation mind in order to boost FinTech industry.
   
   · Leading companies in US such as Disney and Nike play roles of accelerators with offering their own assets, and as a result ecosystem to incubate venture companies works well.
   
   · It is important for leading companies in Japan to set up an environment that allows “Leap before you look”, apart from existing business.
   
   iv. Share and linkage of data
   
   ○ It was shown a view that innovative services can be made through promoting data share among different companies.
   
   · Data share will contribute in various activities in business. Some potential examples are streamlining accounting operations, refining credit examination in banks, and sophisticated sales marketing.
   
   · Singapore government promotes Smart Nation project, attempting to collect and utilize various data nationally, which are models to be emulated in Japan.
   
   ○ It was shown an opinion that connecting data in financial institutions with those in other companies will benefit both parties.
   
   · In UK, entities including FSA and FCA are now trying to improve environment for data linkage, for example, formulation of guidelines on API for bank data.

(イ) Future promising business area, prominent companies
It was shown a view that block chain and artificial intelligence will contribute to efficiency of business operation in financial institutions.

- Block chain may reduce maintenance cost of information system. AI may be effective in compliance field.

It was shown a view on potential contribution to regional vitalization.

- For example, crowd funding may produce new industry through assisting companies that were unable to fund without it.

(💡) Important point in overseas Fintech

- It was shown a view that strong commitment to UI and UX is key success factor of leading Fintech companies.

  - Remarkable growth of Uber and airBnB are derived from strong commitment to UI and UX. Japanese companies should emulate this. For example, Japanese companies cannot open bank account via internet. This reveals necessity of intensive improvement in UI and UX.

(💡) Points to be discussed by government and industry

- It was shown a view that building consensus on how to store and utilize personal data among concerning parties including consumers.

  - Consumers have anxiety when they provide their financial data. Such distrust prevents spread of venture companies’ services.

- It was shown an opinion that guidelines should be established on data sharing.

  - There are many services forced to give up entering in to market even though they are technically feasible, due to lack of clear criteria on data sharing.

- It was shown an opinion that systematic assistance is required that encourage Japanese venture companies to operate in overseas.

  - Since Japanese venture companies are domestic oriented compared to those in overseas, it systematic assistance is required that encourage Japanese venture companies to raise capital and to develop customer base in overseas.
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.
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 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.
  - However, cross-sectional regulation will be comprehensive, and will not be as specific as separate regulation. As a result, operating companies should execute accurate, dynamic and analytical monitoring, assess risks and manage them according to level of their magnitude as complementary measure. Also, voluntary rules established by the industry wide association and operating companies are required as further complementary measure.
  - For example, at present concerns in reputation and money laundering remain in bitcoin trading. The whole financial industry together with authority is expected to overcome such problems jointly.

Fintech’s usage in the field of payment which links to consumption

- 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.

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