

# Japan's FinTech Vision

## First Comprehensive Policy Recommendations

**Industrial Finance Division**

**Economic and Industrial Policy Bureau**

**Ministry of Economy, Trade and Industry**



# FinTech:

## “New Finance” to Support the “Fourth Industrial Revolution” (I)

**FinTech is triggering dramatic changes in all economic activity associated with**

- (1) the form and**
- (2) flow of money,**
- (3) perceptions of credit and risk, and**
- (4) financial service providers.**

New competitive environments driven by the Internet of things (IoT) and artificial intelligence (AI) are transforming the economic behavior of people and industries, **demanding an overhaul in the way money is handled.**

Around the world, **competition to promote FinTech innovations is intensifying.**

This background has shaped the Japanese Government’s commitment to supporting FinTech in recent years.

# FinTech:

## “New Finance” to Support the Fourth Industrial Revolution (II)

The Ministry of Economy, Trade and Industry (METI) **is looking beyond the conventional practices of financial service providers**, to consider how FinTech can best serve individuals and companies.

METI has drafted a **comprehensive range of policy initiatives to nurture innovative FinTech services and create a dynamic market environment aimed at attracting entrepreneurs and companies** from around the world.

# 1. Overview of Japan's plans

## Lay the groundwork for FinTech

- ◆ Develop rules and processes to enable individuals to manage and use their own personal data

## Facilitate the smooth flow of money

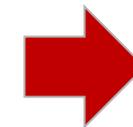
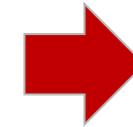
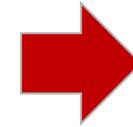
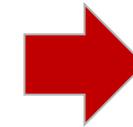
- ◆ Build a framework that enables fully digital personal identification
- ◆ Promote the adoption of open application programming interfaces (APIs) by banks and credit card companies
- ◆ Promote the use of blockchain technology

## Promote the use of FinTech among SMEs

- ◆ Promote the use of cloud services for back-office operations and internet banking
- ◆ Support electronic data exchange (EDI) connections between finance and commerce
- ◆ Improve cash conversion efficiency across whole supply chains

## Create regulatory framework to promote innovation

- ◆ Trial a “regulatory sandbox” to promote innovation and experimentation
- ◆ Regulatory reform designed to promote FinTech innovations
- ◆ Build globally competitive FinTech hubs



Generate  
innovative  
FinTech  
services

# 1-1. Lay the groundwork for FinTech

- Japan will develop a supportive **environment for data sharing** and promote **cashless payments**.

## Policy Recommendations

- ◆ **Develop rules and processes to enable individuals to manage and use their own personal data**
- ◆ **Facilitate data sharing within corporate groups and between companies**
- ◆ **Promote cashless payments and digital payment verification**
  - Adopt a cashless payment ratio for policy benchmarking
  - Conduct trials of electronic receipts and individual-driven data
- ◆ **Develop security measures featuring the latest technological innovations**
  - Promote IC compatibility for card payment terminals

## 1-2. Facilitate the flow of money (I)

- Japan will develop a **fully digital personal identification process**, the key to FinTech.
- Japan will realize **fully digital administrative processes through e-government initiatives** (administrative data disclosure and data federation).

### Policy Recommendations

#### ◆ Establish fully digital personal identification system

- Leverage the data reading features of the “Individual Number Card” and expand application of the data
- Conduct a study of remote personal identification methods and criteria

#### ◆ Digitalize administrative processes and develop easy-to-use platforms to provide information on administrative processes

- Launch a corporate portal site to share information about administrative processes across all ministries
- Build a new platform to support ventures (provisional) and open APIs

#### ◆ Open access to administrative data

- Identify priority areas and draft set of guidelines
- Open access to data in priority areas based on the Basic Act on the Advancement of Utilizing Public and Private Sector Data (period of intensive focus through to 2020)

## 1-3. Facilitate the flow of money (II)

- Japan will develop **fully digitalized financial services** by promoting **open APIs** and leveraging **blockchain technology**.

### Policy Recommendations

#### ◆ **Promote the adoption of open APIs by banks**

- In May 2017, a bill to amend a section of the Banking Act related to the treatment of intermediary service providers for banking settlements was passed in the Diet

#### ◆ **Promote the adoption of APIs by credit card companies**

- Establish technical standards and take necessary policy measures to promote API cooperation between credit card and FinTech companies

#### ◆ **Set contract terms and prices for the opening of APIs and clarify required security protocols**

#### ◆ **Promote the use of blockchain technology**

- Align with international standards and promote test trials

# 1-4. Promote the use of FinTech among SMEs (I)

- Reform back-office operations to improve SME's productivity and management capabilities.

## Policy Recommendations

### ◆ Promote the use of cloud services for back-office operations

- Adopt the “diffusion rate of cloud services in back-office operations” as a policy benchmark
- Encourage the introduction of cloud services

### ◆ Deepen understanding of the uses and benefits of FinTech among SMEs

- Support SMEs in introducing FinTech-capable IT tools
- Demonstrate positive examples of FinTech application and benefits

### ◆ Promote the use of internet banking by corporations

- Conduct surveys on corporate use of internet banking services

### ◆ Promote EDI connectivity between finance and commerce

- Promote the standardization of EDI between finance and commerce as well as the adoption of EDI systems
- Launch pilot programs for inter-company EDI connectivity across industries

## 1-5. Promote the use of FinTech among SMEs (II)

- Japan will strengthen **SME funding capabilities and cash management** by promoting the introduction of innovative FinTech services.

### Policy Recommendations

#### ◆ **Promote innovative funding methods through the use of FinTech**

- Develop a Japan-version regulatory sandbox (details to follow)

#### ◆ **Improve cash conversion efficiency across whole supply chains**

- Adopt the “supply chain cash conversion cycle (SCCC)” as a policy benchmark to gauge and verify the positive impact of FinTech on SME profitability

## 1-6. Create regulatory framework to promote innovation (I)

- Japan will trial a “**regulatory sandbox**” to promote innovation and experimentation.

### Policy Recommendations

#### ◆ Trial a “regulatory sandbox” to promote innovation and experimentation

- Establish a framework to promote new challenges (Japan-version regulatory sandbox) under the Council on Investments for the Future.

#### ◆ Four basic principles of the “sandbox”

- (i) Administrative organizations, service providers and users should agree on testing methods and evaluation criteria for experimental services, as well as clarify scope and trial period.
- (ii) Business administrators and operators should understand that the regulatory environment remains a work-in-progress, and not limit services to those that are novel or meet a specific market need.
- (iii) Service providers should be mindful of monitoring and feedback capabilities available in the sandbox environment, fully leveraging FinTech’s advanced data analysis and management.
- (iv) Trial evaluations should guide regulatory reforms.

## 1-7. Create regulatory framework to promote innovation (II)

- Japan also plans a review of its legal & regulatory framework as part of efforts to promote innovation in FinTech and maximize user benefits.

### Policy Recommendations

#### ◆ Regulatory reform designed to promote FinTech innovations

- Develop a regulatory framework that promotes innovation while safeguarding consumers and maintaining a fair competitive environment
  - (i) Stay technology neutral to accommodate technological innovations
  - (ii) Adopt risk-based approach
  - (iii) Encourage new market entrants
  - (iv) Promote voluntary private-sector initiatives
  - (v) Create mechanism for incorporating learnings from the “sandbox” trial
- ✓ Develop rules and guidelines based on the Revised Installment Sales Act
- ✓ Conduct a study on the legal system related to payments and settlements
- ✓ Support regulatory reforms and standardization (IoT Acceleration Lab)
- ✓ Leverage RegTech to regulate and supervise effectively and efficiently

## 1-8. Create regulatory framework to promote innovation (III)

- Japan aims to establish globally competitive FinTech hubs.
- Japan will explore a range of ways to cultivate a labor pool equipped to support the development of a FinTech sector.

### Policy Recommendations

#### ◆ Build globally competitive FinTech hubs

- ✓ Develop a FinTech hub in Tokyo, leveraging the city's status as a global financial center
- ✓ Utilize Special Zone designation for financial services to build FinTech hub cities across Japan

#### ◆ Cultivate a labor pool equipped to support FinTech

- ✓ Policy measures proposed by the Council for Promotion of Human Resource Development in the Fourth Industrial Revolution including training for groups such as those changing careers, reentering the workforce and freelance workers.

## 2. Three Key Goal Indicators

- These policy measures are designed to transform household finances and dramatically improve SME profitability. To continuously track and test the impact of FinTech policy measures, METI has set **three Key Goal Indicators (KGIs)**.

### KGIs

### Details



#### Cashless payment ratio

\*The percentage of digital currency, debit and credit card payments within total payments



#### Adoption of cloud services for SME back-office operations (finance, accounting)

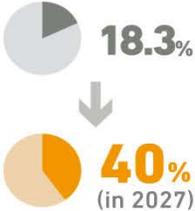
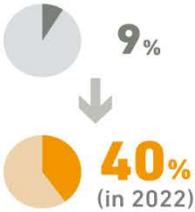
\*The percentage of SMEs using cloud services for back-office operations (finance, accounting)



#### Supply chain cash conversion cycle

\*Length of a supply chain's cash conversion cycle (total turnover period of inventory, receivables and payables)

## 2-1. Target Outcomes

KGI	TARGET	BENEFITS
<p><b>Cashless payment ratio</b></p>	  <p>18.3%</p> <p>↓</p> <p>40% (in 2027)</p>	<ul style="list-style-type: none"> <li>• Greater convenience for visitors to Japan</li> <li>• New business opportunities linked to cashless payments</li> </ul>
<p><b>Adoption of cloud services for SME back-office operations (finance, accounting)</b></p>	  <p>9%</p> <p>↓</p> <p>40% (in 2022)</p>	<ul style="list-style-type: none"> <li>• New business opportunities for Japanese venture companies and SMEs within cloud service-related sectors</li> <li>• Expand the number of Japanese companies able to attract investments and business partnerships</li> </ul>
<p><b>Supply chain cash conversion cycle</b></p>	 <p><b>SCCC</b> <b>5%↑</b> <b>improve</b> (in 2020)</p>	<ul style="list-style-type: none"> <li>• Financing and cash management gains to generate new business opportunities for ventures and SMEs</li> <li>• Expand the number of Japanese companies able to attract investments and business partnerships</li> </ul>