



Panel II
Sharing Best Practices on Financial Technology

Koichi Ishikura

Director & Chief Officer for International Affairs & Research
Japan Securities Dealers Association

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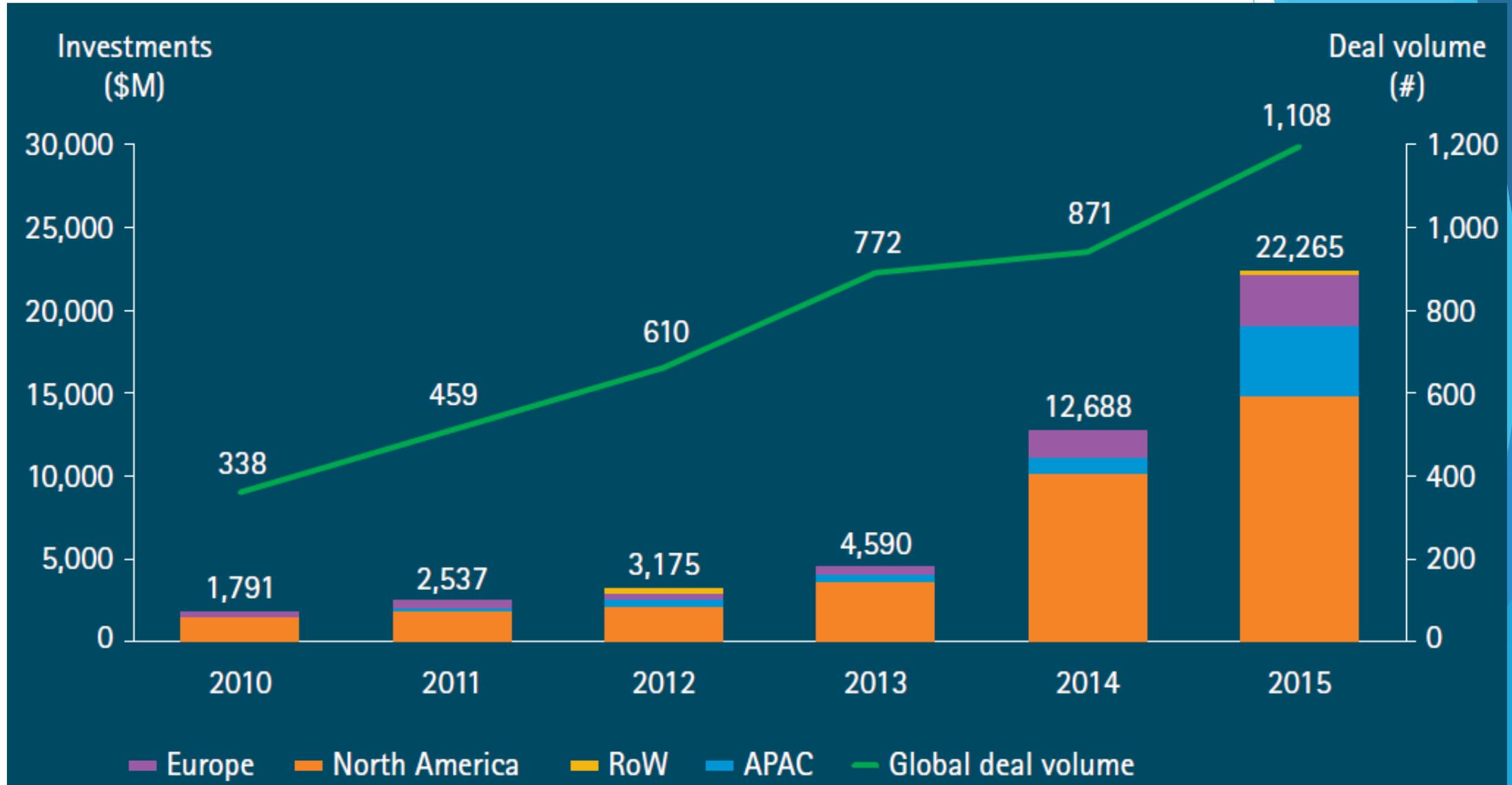
* This presentation represents the presenter's own views, and not necessarily those of JSDA

Worldwide and Asia-Pacific landscape of FinTech

The value of global FinTech investment is growing rapidly.

- ▶ Global FinTech investment in 2015 grew by 75% to 22.3 billion dollars. North America still accounts for the major part, but Europe and the Asia-Pacific region show remarkable growth.
- ▶ Asia-Pacific investment in FinTech more than quadrupled in 2015 to 4.3 billion. It is now the second biggest region accounting for almost 20% of the world total. In Asia-Pacific, China has the largest share, 45%, and India 38%.
- ▶ In terms of business category, 78% of Asia-Pacific investment in FinTech targets the banking industry, 9% to wealth and asset management, and 1% to the insurance sector.
- ▶ Functionality-wise, payment is the most popular FinTech investment segment in Asia-Pacific, accounting for 38% of the total.

Global Fintech Financing Activity(2010-2015)



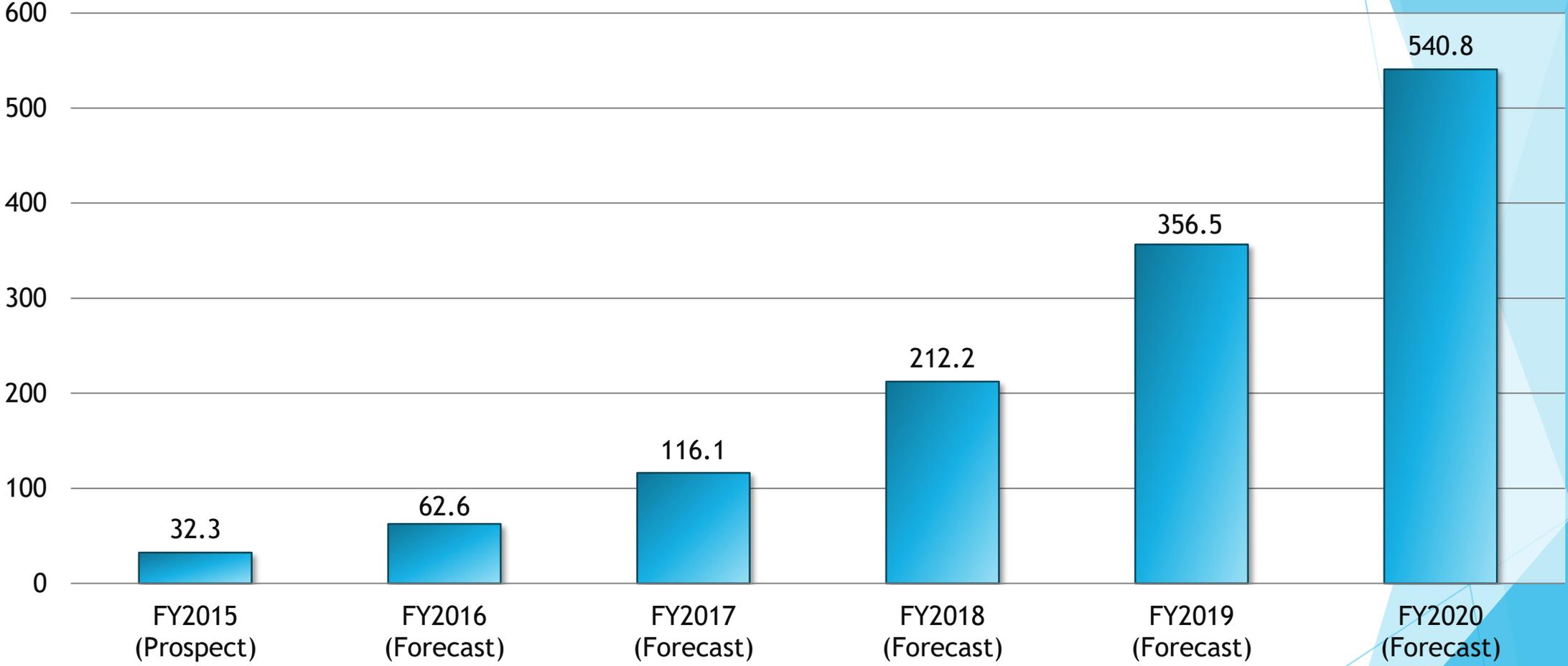
Source: Accenture analysis on CB Insights data

FinTech overview in Japan (1)

- ▶ Japan's investment in FinTech in 2015 was 65 million dollars, increasing by 20% from 54 million dollars in 2014.
- ▶ The size of FinTech business in Japan shown by the sales of FinTech ventures rapidly expanded and reached some 32 million dollars in fiscal 2015 and is projected to reach 540 million dollars by fiscal 2020.

Market scale of FinTech venture business in Japan

(Million USD)



Notes:

- 1. The market size is based on the sales of FinTech ventures.
- 2. The figure for FY2015 indicates the prospect, and that for FY2016 and beyond indicate the forecast.
- 3. At 105 yen to the dollar

Source: Yano Research Institute

Fintech Overview in Japan (2)

▶ Emerging services in securities business

- 1) Personal Financial Management (PFM): e.g.  Money Forward
- 2) Robo-advice: e.g.  お金のデザイン
MONEY DESIGN
- 3) Securities trading through smartphone application: e.g.  One Tap BUY
- 4) Crowdfunding: e.g.  Japan Cloud Capital
株式会社日本クラウドキャピタル
- 5) Distributed ledger technology (blockchain):
Proof of concepts tests by JPX

▶ Other emerging services

- 1) Payment and remittance: e.g.  LINE Pay  Coiney  Apple Pay
- 2) Virtual currency: Mitsubishi Tokyo UFJ Bank's plan using DLT
- 3) Business support: e.g.  MFクラウド  free
- 4) Insurance (InsTech): e.g.  ソニー損保 (Sony Assurance)

▶ Industries' responses

1) Megabanks, major securities firms and online securities firms:

Researching and developing new services themselves as well as collaborating with FinTech startups.

2) Open API (Application Programming Interface):

Expected to be a tool for financial institutions to provide more efficient services with collaboration among different financial institutions and software providers.

⇒ Japanese Bankers Association set up a study group on Open API in November 2016 to develop industry standards for applying API among banks.

3) JSDA organized a survey group in May 2016 to study the implications of FinTech for the securities industry.

Fintech overview in Japan (4)

▶ Government authorities' responses

- 1) Government authorities including FSA, METI and BOJ are deliberating and taking measures to enhance financial innovation through FinTech.
- 2) Two important legislative actions related to FinTech were taken in May 2016.
 - The Banking Act was revised to facilitate investment by banks in IT companies.
 - The Payment Services Act was revised to improve the legal environment for virtual currency like bitcoin.
- 3) MOF and FSA are considering issuing an interpretation that the 8% consumption tax is not levied when purchasing virtual currency like bitcoin, acknowledging such currency as a means of payment.

▶ What FinTech implies for the future?

1) Promoting asset building by individuals:

FinTech may lower the barriers to start investment and serve as a trigger to shift individuals' financial assets from bank deposits to investment products.

2) Impact on existing financial businesses:

FinTech is expected to trigger and accelerate the unbundling of existing financial businesses and the subsequent re-bundling with non-financial businesses.

3) Contribution to growth strategy

Innovative financial services driven by FinTech are expected to serve as the impetus to activate Japan's economy and financial markets through improved user convenience, reduced transaction costs and higher productivity.

4) Regulatory implication

It is essential to strike a balance between the traditional regulatory objectives and deregulation to promote FinTech.

▶ Environment surrounding FinTech in Japan:

Why FinTech investment and business in Japan are not large in comparison with the size of its economy?

- 1) Low business entry/exit rates
- 2) Few complaints regarding payment services
- 3) Weak demand for lending services
- 4) Financial inclusion cannot be a driving force for FinTech

Comparison between Japan and FinTech leading jurisdictions: scale of economy, business entry/exit

	US 	UK 	Germany 	Finland 	Singapore 	Japan 
Fintech investments (Million USD) (Y/Y Growth) Ratio to the US	12,212 +21%	974 +53%	770 +843%	65 +1,891%	69 +663%	65 +20%
Scale of economy GDP 2014 (Billion USD)	17,348	2,989	3,868	272	308	4,605
Business entry rate*₁ Business exit rate*₂	9.3% 10.3%	14.1% 9.7%	8.5% 8.1%	8.5% 7.7%	31.7% 21.0%	4.8% 4.0%

Notes:

1. Number of newly inaugurated companies / Number of existing companies
2. Number of closed companies / Number of existing companies

Comparison between Japan and FinTech leading jurisdictions: spending on financial IT

	US 	UK 	Germany 	Finland 	Singapore 	Japan 
Fintech investments (Million USD) (Y/Y Growth)	12,212 +21%	974 +53%	770 +843%	65 +1,891%	69 +663%	65 +20%
Ratio to the US		8.0%	6.3%	0.5%	0.6%	0.5%
Spending on Financial IT (Billion USD)	101	24	11	1	2	27
Banking (Million USD)	49,640	11,098	5,471	541	1,400	15,955
Securities (Million USD)	25,791	6,168	2,466	186	235	4,926
Insurance (Million USD)	26,332	7,048	2,957	348	508	6,066

Global regulatory responses (IOSCO)

▶ **IOSCO's Report: Securities Markets Risk Outlook, 2016**

IOSCO issued its annual report, “Securities Markets Risk Outlook, 2016” in March this year. The report summarizes the current status of FinTech innovations and “digital disruptions”, and describes the benefits and risks emerging from the changes brought about by technological revolution.

▶ **Ongoing works at IOSCO committees**

IOSCO committees are reviewing the development of FinTech and digital disruption as well as their impact and regulatory implications.

- Committee on Emerging Risks (CER)
- Committee 3 (C3: market intermediaries)
- Committee 8 (C8: retail investor protection)
- Affiliate Members Consultative Committee (AMCC)

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