

# Introduction

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This document was created to help companies understand Japanese financial market trends. It explains major topics in recent years, including related legislative amendments, regarding “Deposits/Withdrawals”, “Payments”, “Asset management”, “Insurance”, “Financing”, and other themes in the Japanese financial markets.

We do not intend to encourage you to apply for the Tokyo Financial Award (Financial Innovation Category) in accordance with the contents of this document. In addition, there is no special evaluation for such applications during the examination.

## **Deposits/Withdrawals**

1. Opening of the Zengin System to the Funds Transfer Service providers
2. Reduction of bank-to-bank transfer fees
3. Approval for large-amount remittance exceeding one million yen

## **Payments**

1. Promotion of JPQR, a unified standard for QR code payment
2. Obligation of proper management of credit card numbers, etc.
3. Formulation of guidelines for linking accounts with Funds Transfer Service providers, etc.
4. Development of systems for investor/user protection and clarification of rules regarding crypto assets

## **Asset Management**

1. Start of transactions of security tokens on a legal basis
2. Amendment of NISA (Nippon Individual Savings Account (Japanese version ISA))

## **Insurance**

1. Expanding supply of health promotion insurance
2. Expanding supply of telematics insurance

## **Financing**

1. Expansion and troubles of social lending
2. Expansion of the supply of financial products using AI scoring

## **Others (Financial Service as a whole)**

1. Launch of the Financial Services Intermediary Business
2. FATF's 4th Round of Mutual Evaluations of Japan
3. Relaxation of restrictions on investment by insurance companies and banks in other industries
4. Launch of the "Regulatory Sandbox System"

# Deposits/Withdrawals

## 1. Opening of the Zengin System to the Funds Transfer Service providers

- ▶ The Japanese Bankers Association (JBA) announced its plans to expand eligibility for participation in the Zengin system to Funds Transfer Service providers by the end of FY2022.

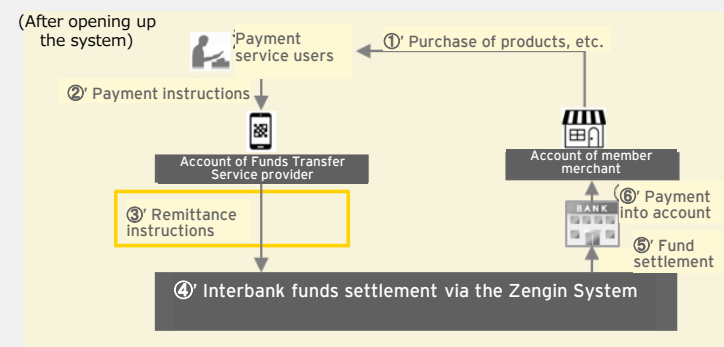
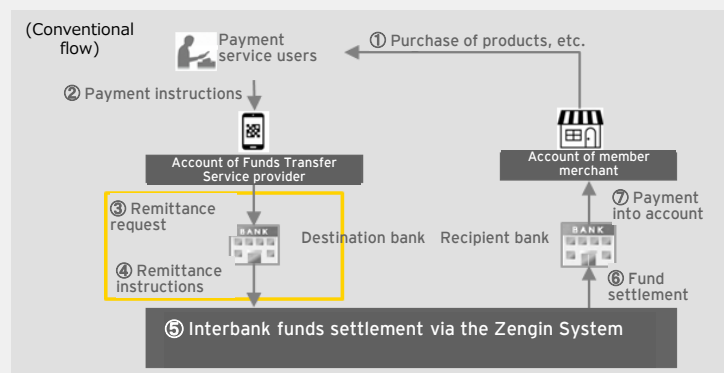
### Outline

- ▶ The Japanese Bankers Association (JBA) announced plans to open its Zengin system (a fund settlement system that relays remittance between different financial institutions) to Funds Transfer Service providers that offer smartphone-based money transfer services by the end of FY2022.\*1  
(Conventionally, the participation was limited only to depository institutions.)
- ▶ Features of the Zengin System
  - A network in which almost all, more than 1,000, depository institutions in Japan participate
  - High level of security and reliability, with no online transaction stoppages during operation hours since the system started in 1973

### Back-ground

- ▶ When transferring a purchase payment of payment service user to the account of a member merchant, Funds Transfer Service providers:
  - It was required to pay a handling fee to the bank to request remittance instructions (③④)
  - It will be possible to make remittance instructions directly to payee's account via Zengin system instead of via the bank (③').

### Flow of remittance from Funds Transfer Service providers to member merchants\*2



\*1 Japanese Banks' Payment Clearing Network, [Report of the Task Force on the Next Generation Funds Settlement System](#), Viewed on May 17, 2021

\*2 Fair Trade Commission, [Report on the Fact-Finding Survey on Cashless Payments Using QR Codes](#), Viewed on May 17, 2021

# Deposits/Withdrawals

## 2. Reduction of bank-to-bank transfer fees

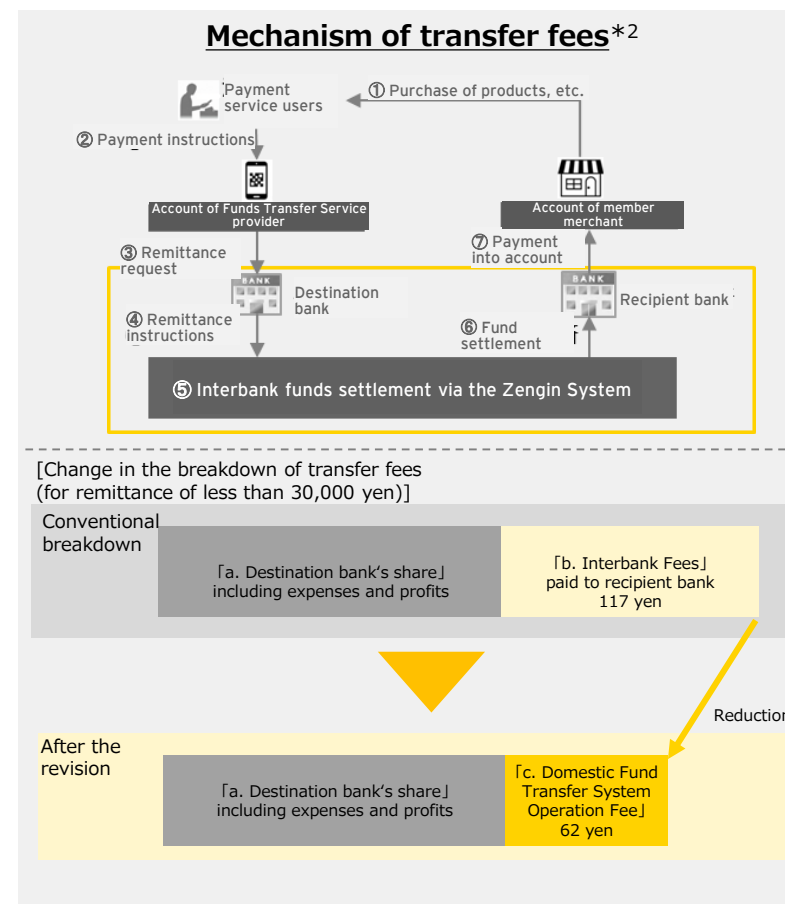
- ▶ The Japanese Banks' Payment Clearing Network announced to launch "Domestic Fund Transfer System Operation Fee" in place of the existing "Interbank Fees" and to reduce the fee to a flat rate of 62 yen from October 1, 2021.

**Outline**

- ▶ Currently, for each interbank transaction, the funds transfer service provider is charged a transfer fee, which is the sum of the "a. Destination bank's share" and the "b. Interbank fee" paid to the recipient bank.
- ▶ Japanese Banks' Payment Clearing Network will launch "c. Domestic Fund Transfer System Operation Fee" in place of "b. Interbank Fees" on October 1, 2021.\*1
  - At the time of interbank settlement, a destination bank pays a flat rate of 62 yen to the recipient bank as an operating cost (expenses, profit, etc.) (Conventionally, 117 yen for remittance of fewer than 30,000 yen and 162 yen for remittance of 30,000 yen or more have been paid as "b. Interbank fees.")

**Back-ground**

- ▶ Reduction to a reasonable level that appropriately reflects the costs required for recipient banks to process domestic fund transfer transactions such as deposits in the recipient's account
  - The total cost of the destination bank and the recipient bank per transaction will be only a few yen on average.



\*1 Japanese Banks' Payment Clearing Network, [Revision of Interbank Fees for Domestic Fund Transfer Transactions](#), Viewed on May 17, 2021

\*2 Fair Trade Commission, [Report on the Fact-Finding Survey on Cashless Payments Using QR Codes](#), Viewed on May 17, 2021

# Deposits/Withdrawals

## 3. Approval for large-amount remittance exceeding one million yen

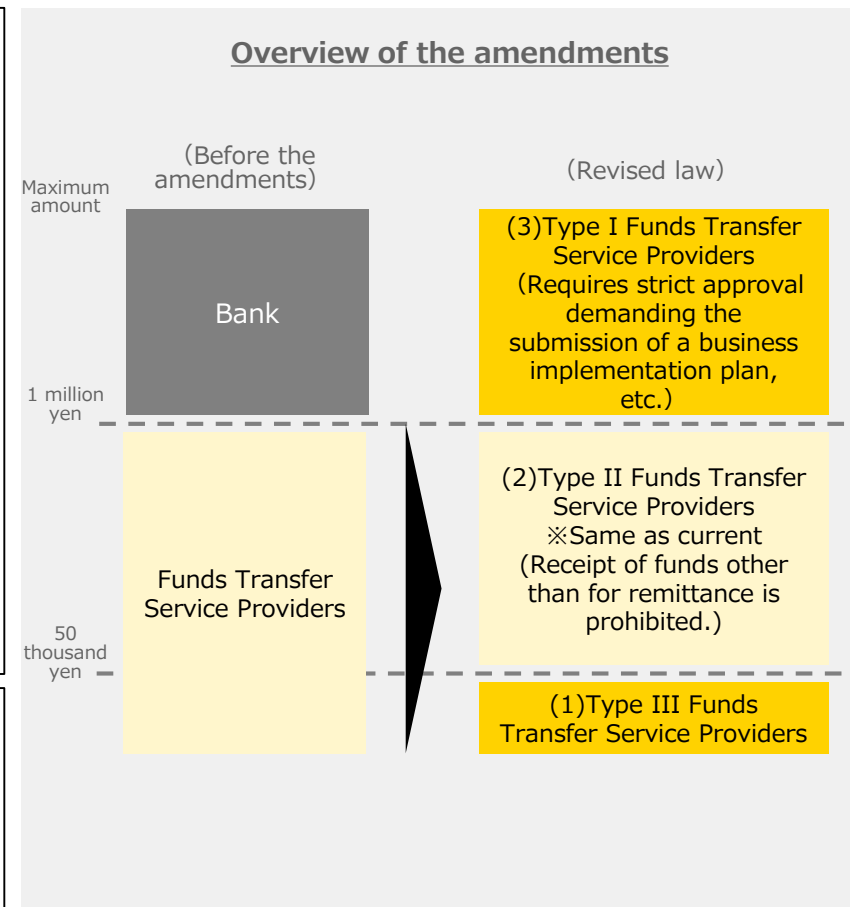
- ▶ Amendments to the Payment Services Act in June 2020 authorized Funds Transfer providers to handle large-amount remittance exceeding one million yen.
- ▶ This enables Funds Transfer Service providers to tap into remittance services for corporate customers making large-amount remittance, which is expected to help expand settlement services for remittance.

**Outline**

- ▶ Deregulation based on the amendments to the Payment Services Act in June 2020 allows large-amount remittance exceeding one million yen from May 1, 2021\*<sup>1</sup>.
- ▶ Some Funds Transfer Service providers are authorized to handle remittance of more than one million yen.
  - Funds Transfer Service providers are authorized and registered in three categories according to the amount of remittance they can handle: (1) 50,000 yen or less; (2) one million yen or less; and (3) over one million yen\*<sup>1</sup>.
- ▶ Restrictions on retention are incorporated into remittance of one million yen or more. For small-amount remittance of 50,000 yen or less, Funds Transfer Service providers are exempted from the obligation to prepare the amount equal to the money deposited by users (exemption from the obligation to deposit)\*<sup>1</sup>.
  - ⇒ Aims to promote the provision of low-cost and highly convenient remittance services

**Back-ground**

- ▶ Remittance by Funds Transfer Service providers was originally limited to one million yen, and remittance over one million yen could only be handled by banks.



\*<sup>1</sup> Financial Services Agency, *Act on the Partial Revision of the Act on sales of financial instruments for improving the convenience and protection of financial service users*, May, 10, 2021

\*<sup>2</sup> Financial Services Agency, *Results on public comment about Cabinet Order and Cabinet Office Ordinance on 2020 Payment Services Revision*, May, 17, 2021

# Payments

## 1.Promotion of JPQR, a unified standard for QR code payment

- ▶ Amid the rapid expansion of the QR code payment market in Japan in recent years, there is a concern that the confusion among stores and consumers may arise due to the proliferation of QR code payment standards.
- ▶ In order to resolve and prevent such confusion, the Payments Japan Association, a general incorporated association, formulated JPQR, a unified standard for QR code payment in 2019, and has been promoting dissemination activities in cooperation with the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry.

**Outline**

- ▶ The Payments Japan Association, a general incorporated association, has been working on the establishment of unified technical specifications for QR code payment, and has formulated various guidelines since March 2019, promoting dissemination activities in cooperation with the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry.\*1
- ▶ In this standard, the top six most used QR code payment services\*2 in Japan as well as payment services of Chinese payment providers are participating.
- ▶ As of March 2021, approx.12,000 stores and organizations nationwide have adopted this standard.\*1

**Background**

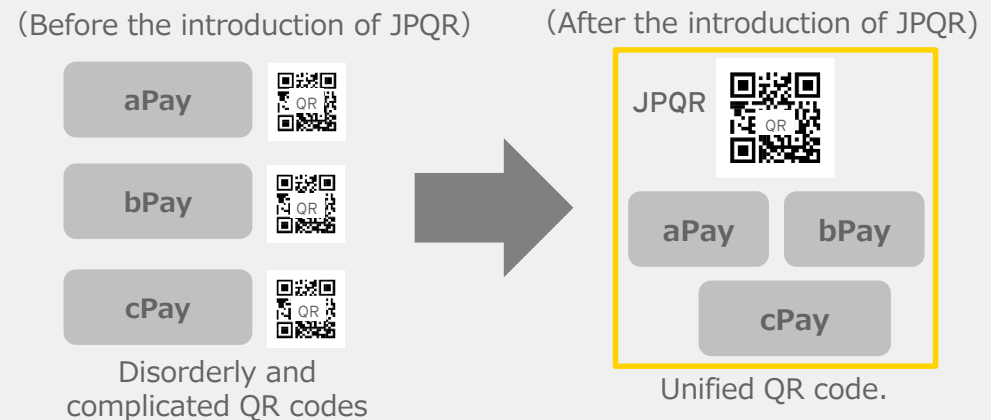
- ▶ In Japan, the "multi-acquiring system" is the mainstream for international-brand credit/debit/prepaid cards, and multiple local brands are in disarray.\*3
- ▶ In the QR code payment market as well, with the rapid expansion of the market in recent years\*4, there are many brands of payment services that can be used in stores, and there were concerns that this would cause confusion for both stores that introduce the service and consumers. Against this backdrop, the development of a unified standard was called for.

**Trends in the ratio of each payment method to cashless payments in Japan\*4**

	2018	2019
Credit cards	90.9%	89.6%
Debit cards	1.83%	2.09%
Electronic money	7.47%	7.09%
QR code	0.21%	1.16%

The amount of money spent on QR code payments (excluding credit card use, credit card charges, etc.) grew **about six fold** from 2018 to 2019.\*4

**Image of JPQR\*5**



\*1 The Payments Japan Association, [About JPQRQR](#), Viewed on Jun. 15, 2021

\*2 Infcurion, [Status of Cashless Payment in Japan: Payment Trends Survey 2020](#), Jun. 11, 2020

\*3 Ministry of Economy, Trade and Industry, [Cashless Vision](#), Apr. 2018

\*4 Ministry of Economy, Trade and Industry (METI), [Review of the First Discussion, Cashless Payment Ratio in Japan, and Disclosure by Payment Providers and the National Government](#), Jun. 23, 2020

\*5 Ministry of Internal Affairs and Communications, [2020 White Paper on Information and Communications](#), Dec. 2020

# Payments

## 2. Obligation of proper management of credit card numbers, etc.

- ▶ The revised installment sales law came into effect in June 2018, and the revised law requires member stores that handle credit cards to take "proper management of credit card numbers, etc." and "prevention of unauthorized use of credit card numbers."
- ▶ Also, the amendment in April 2021 obliged businesses that handle a large number of credit card numbers in their payment system to properly manage credit card numbers.

### Outline

- ▶ From June 2018, member stores that handle credit cards are obliged to non-retain card information, comply with PCI DSS (Payment Card Industry Data security Standard), and install IC card compatible terminals.
- ▶ From June 2020, the range of businesses that are obliged to properly manage credit card numbers has expanded.\*<sup>1</sup>
  - ▶ Under the old law, payment agents, code payment businesses, EC mall businesses, etc. were not subject to the obligation to properly manage credit card numbers even if they handle a large number of credit card numbers.
  - ▶ In the revised law, in order to strengthen the protection of credit card information, payment agents, code payment businesses, EC mall businesses, and businesses that undertake the handling of large numbers of credit card numbers through payment systems are designated as credit card number handling companies that are obliged to properly manage credit card numbers.

### Back-ground

- ▶ Due to the development of cashless payment systems in recent years, the number of member stores and payment agents that handle credit cards, as well as payment businesses such as QR codes and EC mall businesses is increasing.
- ▶ As the number of businesses that provide prepaid, immediate, and postpaid payment methods coexisting is increasing, unauthorized access to terminals and websites may cause the greatest damage to credit card payments with no restrictions on the charge balance.\*<sup>2</sup>
- ▶ Large-scale card number leaks and fraudulent use accidents occurred frequently due to unauthorized access to these businesses.\*<sup>2</sup>

### Businesses that are obliged to properly manage credit card numbers\*<sup>3</sup>

- Credit Card Purchase Intermediary (No.1)
- Sellers related to credit card, etc. purchase intermediary and service providers related to credit card, etc. purchase intermediary (No.2)
- Broker for Third-Party Payments (No.3)
- Businesses that provide advance payments to member stores on behalf of a Broker for Third-Party Payments (No.4)
- Businesses that provide a service to allows users to purchase products, etc. without having to enter their credit card numbers, etc. in the future by using the credit card numbers, etc. provided by the users (No.5)
- Businesses that are entrusted with the management of credit card numbers, etc. for the settlement services provided by the businesses of No.5 (No.6)
- Businesses that provide credit card numbers, etc. to Brokers for Third-Party Payments for deferred payment settlement (No.7)

\*<sup>1</sup> Ministry of Economy, Trade and Industry, [Outline and FAQ of Installments Sales Act](#)

\*<sup>2</sup> National Consumer Affairs Center of Japan, [Revisions to the Installment Sales Act and Future Issues with the Evolution of Payment Technology](#)

\*<sup>3</sup> e-GOV Law and ordinance search, [Installments Sales Act](#)

# Payments

## 3. Formulation of guidelines for linking accounts with Funds Transfer Service providers, etc.

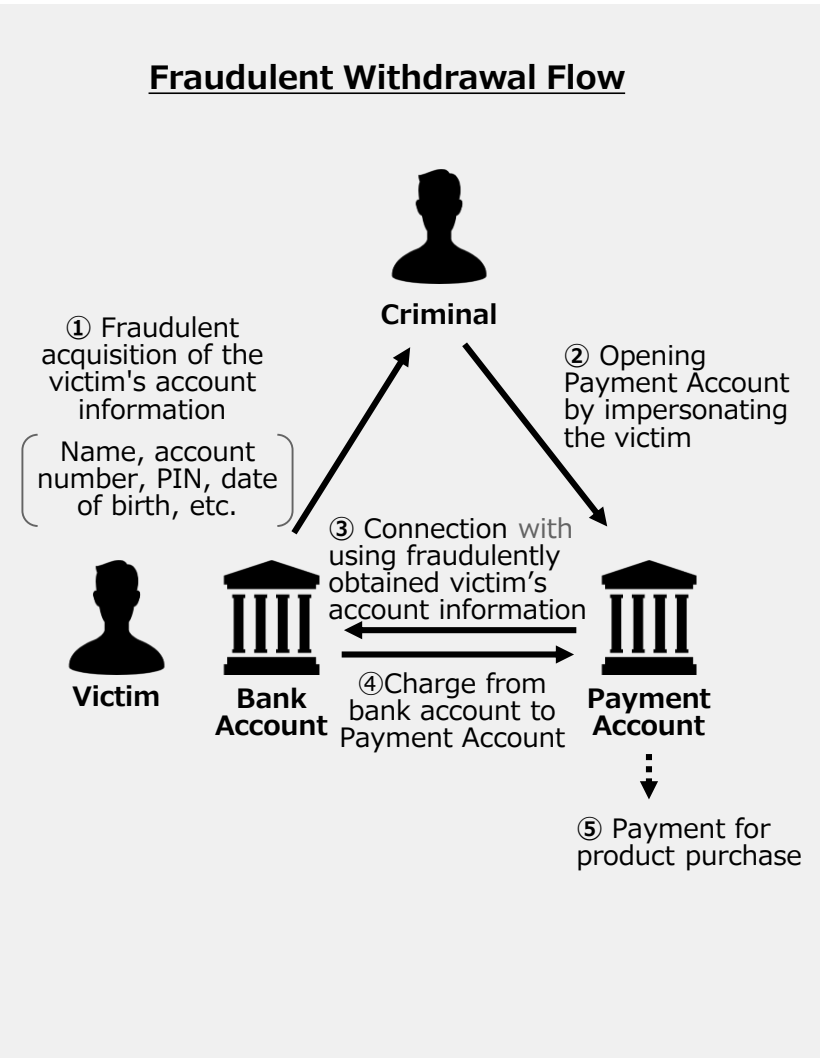
- ▶ In response to the many cases of fraudulent withdrawals of bank deposits using electronic payment services, the Japanese Bankers Association (JBA) formulated the "Guidelines on Account Linkage with Funds Transfer Service Providers" in November 2020, calling on banks and funds transfer service providers to strengthen their security systems.

**Outline**

- ▶ In November 2020, the JBA released the "Guidelines for Account Linkage with Funds Transfer Service Providers,"\*1 which outlines the concept and examples of how banks can provide payment services in cooperation with funds transfer service providers.
- ▶ The guidelines require banks, in cooperation with funds transfer service providers, to implement the following: (1) security qualification screening; (2) multi-factor authentication when service users link their bank accounts with payment services (a robust authentication procedure that combines multiple authentication methods such as one-time passwords in addition to Internet banking login passwords, etc.); (3) establishment of a monitoring system for fraud detection; (4) preliminary arrangements for victim response and guarantee; and (5) preliminary arrangements for initial response in the event of fraudulent use.

**Back-ground**

- ▶ In September 2020, a number of fraudulent withdrawals occurred at several banks through the electronic money payment service provided by Company A, which is a major telecommunications provider.\*2 The number of affected cases was 127 at 11 banks, totaling 28.5 million yen (as of October 2020).
- ▶ Similar incidents have been confirmed for other electronic payment services as well, with a total of 136 cases of damage totaling 21.5 million yen (as of September 2020) being confirmed for accounts at Bank B, which was linked to the services of a total of seven companies, including Company A.
- ▶ The series of fraudulent withdrawals brought to light the inadequacy of the security systems of banks and Funds Transfer Service providers in linking electronic payment services and bank accounts.



\*1 Japanese Bankers Association, [Guidelines for Linking Accounts with Funds Transfer Service Providers](#), Nov. 30, 2020

\*2 Financial Services Agency, [Alert on Fraudulent Withdrawals Using Smartphone Payment Service, etc.](#), Sep. 8, 2020



# Payments

## 4. Development of systems for investor/user protection and clarification of rules regarding crypto assets

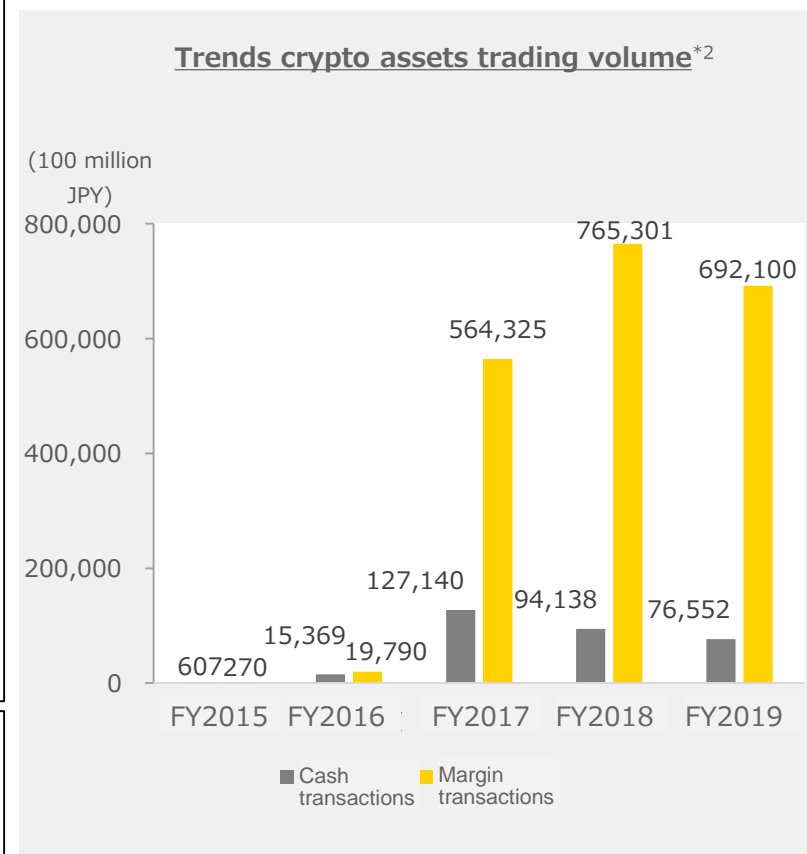
- In Japan, Crypto Asset Exchange Service operators are required to be registered under the Payment Services Act. As a result of the amendments to this Act, regulations such as the introduction of a registration system, identity verification, and segregated asset management have been imposed on Crypto Asset Management Services since May 2020. In addition, in the crypto asset exchange service, the obligation to protect users' assets, such as the requirement to trust the money deposited by users, has been strengthened.

**Outline**

- ▶ The Payment Services Act, amended in May 2019, came into effect on May 1, 2020 to stipulate the followings.\*1
  - Definition of crypto assets: Changed the legal name from "virtual currency" to "crypto asset" in light of international trends.
  - Strengthening of regulations on crypto asset management business: Required registration as a crypto asset exchange service provider and verification of customers' identity.
  - Notification of changes in business activities: Established a system to require exchange service providers to make a prior notification when changing crypto assets they handle to check for problems in advance.
  - Restrictions on advertising and solicitation: Prohibit false representations and hype by exchange service providers, as well as advertising and solicitation that encourages speculation
  - Segregated asset management: Required exchangers to manage customers' crypto assets in a reliable manner (e.g., cold wallets).
  - Priority right to repayment of crypto assets: Established provisions for the priority return of crypto assets to customers in the event of the insolvency of the exchanger

**Back-ground**

- ▶ Amid the expansion of trading in crypto assets, the following problems have been pointed out.\*1
  - Leakage of customers' crypto assets
  - Speculation of crypto assets
  - Rapid expansion of business scale, but inadequate systems in place for exchange service providers
  - Easy to be used for money laundering



\*1 Financial Services Agency, *Institutional Development Related to Crypto Assets (Virtual Currencies)*, Apr. 7, 2021

\*2 Japan Virtual and Crypto Assets Exchange Association, *Annual Report on Crypto Asset Trading (FY2019)*, Nov. 20, 2020

# Asset Management

## 1. Start of transactions of security tokens on a legal basis

- The amendments to the Financial Instruments and Exchange Act in May 2020 clarified the legal definition of security tokens and the regulations for security token trading. This has enabled investors and issuers to trade security tokens on a legal basis.
- Since the burden of disclosure of security tokens varies greatly depending on which securities they are classified as, their merchantability needs to be carefully considered when issuing and trading them.

Outline	<ul style="list-style-type: none"> <li>▶ The Financial Instruments and Exchange Act, as amended in May 2019, comes into effect on May 1, 2020.</li> <li>▶ The enforcement of this Act has introduced the concept of "electronically recorded transferable rights" and clarified the scope of tokens with the right to receive revenue sharing that are subject to the revised Financial Instruments and Exchange Act.               <ul style="list-style-type: none"> <li>• The amended act defines that security tokens are, in principle, the paragraph (1) securities (stocks, government bonds, corporate bonds, etc.) and only Type I Financial Instruments Business Operators*<sup>1</sup> are allowed to handle them.</li> <li>• The amended act also has allowed security tokens to be treated as the paragraph (2) securities (trust beneficiary rights, limited liability company memberships, collective investment scheme interests, etc.), to which relatively relaxed regulations apply, taking into account their liquidity and other circumstances; and enabled both Type I and Type II Financial Instruments Business Operators*<sup>1</sup> to handle them.</li> </ul> </li> </ul>	<u>Content of application of disclosure regulations</u>	
Back-ground	<ul style="list-style-type: none"> <li>▶ Since the legal definition of security tokens and the handling and regulations associated with them had not been clarified, the following problems had been pointed out.*<sup>2</sup> <ul style="list-style-type: none"> <li>• Margin transactions, which account for about 80 percent of domestic transactions of crypto assets, are currently not subject to regulations.</li> <li>• There is a concern that security tokens may become targets of speculation.</li> <li>• With regard to the act of companies, etc. issuing tokens electronically using blockchain technology, etc. to raise funds from investors (STO, ICO), there are concerns about an increase in incidents based on fraud or sloppy planning and the risk of outflows.</li> </ul> </li> </ul>	— Securities subject to solicitation —	— Content of disclosure regulations* —
		<b>The paragraph (1) securities</b> (stocks, government bonds, corporate bonds, etc.)	<b>【Public offering】</b> <ol style="list-style-type: none"> <li>Submission of securities registration statement</li> <li>Preparation of prospectus, etc.</li> <li>Continuous disclosure of securities reports, etc.</li> </ol> <b>【Private offering】</b> <ol style="list-style-type: none"> <li>Issuance of notice (Resale restrictions)</li> </ol>
		<b>The paragraph (2) securities</b> (trust beneficiary rights, limited liability company memberships, collective investment scheme interests, etc.)	<b>【Securities investment fund】</b> The same content as the public offering or private offering of the paragraph (1) securities  <b>【Business funds】</b> Nothing in particular

\*Securities with an issue amount of less than 100 million yen are exempt from disclosure.

\*<sup>1</sup> Type I Financial Instruments Business: This refers to trading of securities (excluding deemed securities), over-the-counter derivatives transactions, etc., underwriting business, operation of private trading systems, and management of securities, etc.; and is mainly operated by securities companies.  
 Type II Financial Instruments Business: This refers to self-subscription of collective investment schemes, trading of deemed securities, etc., market derivatives trading (excluding securities), etc.; and is mainly operated by self-subscribed funds.  
 (Reference: Nomura Securities, *Financial Instruments and Exchange Business* in "Glossary of Securities Terms", Viewed on Jun. 18, 2021

\*<sup>2</sup> Financial Services Agency, *Institutional Development Related to Crypto Assets (Virtual Currencies)*, Apr. 7, 2021

# Asset management

## 2. Amendment of NISA (Nippon Individual Savings Account (Japanese version ISA))

- ▶ NISA is a tax incentive system for individual investors introduced in January 2014, which aims to "support for stable asset formation of households" and "supply of growth funds".
- ▶ Since the current general NISA has an investable period of up to 2023, it has been decided to review and extend the system. From 2024, small-amount savings and diversified investment within the "NISA account (tax-exempt account)" will be further promoted.

Outline	<ul style="list-style-type: none"> <li>▶ "NISA (Japanese version of ISA)" is a tax-exempt system for those who begin investing from a small amount, which started in January 2014.</li> <li>▶ When investing in financial products, a tax of about 20% is usually levied on gains on sales and dividends. However, with "NISA accounts (tax-exempt accounts)", profits obtained from financial products purchased within a certain amount each year are tax-exempt. *1</li> <li>▶ The current general NISA will end its investable period in 2023. For the five years from 2024, the system will be revised to the following two-layer structure. ), Separate tax-exempt investment can be made(2nd layer) if money is reserved under NISA (1st layer) *2             <ul style="list-style-type: none"> <li>• 1st layer: 200,000 yen of annual reserve investment limit for certain publicly offered stock investment trusts suitable for reserve and diversified investment</li> <li>• Second layer: 1.02 million yen of annual free investment limit for listed stocks, publicly offered stock investment trusts, etc.</li> </ul> </li> </ul>
Back-ground	<ul style="list-style-type: none"> <li>▶ The purpose is to promote reserving from a small amount and diversified investment in order to promote "support for stable asset formation of households" and "supply of growth funds".</li> </ul>

### Current NISA system\*1

	General NISA	Tsumitate (accumulation) NISA
<b>Target users</b>	Residents of Japan over 20 years old (As of January 1st of the year of opening an account)	
<b>Tax-exempt subject</b>	Dividends, distributions, gains on investments in stocks and investment trusts, etc.	Distributions and return on investments in certain investment trusts
<b>Number of accounts that can be opened</b>	1 account per person	
<b>Tax-exempt investment limit</b>	The maximum annual new investment amount is 1.2 million yen (tax exempt investment limit is up to 6 million yen)	The maximum annual new investment amount is 0.4 million yen (tax exempt investment limit is up to 8 million yen in 20 years)
<b>Tax exemption period</b>	Up to 5 years	Up to 20 years
<b>Investable period</b>	2014 to 2023	2018 to 2037
<b>Investment target products</b>	Stocks, investment trusts, etc.	Certain investment trusts suitable for long-term savings and diversified investment

\*In the NISA system, either "General NISA" or "Tsumitate (accumulation) NISA" should be selected.

\*1 Financial Services Agency, [What is NISA?](#), Viewed on Jun. 13, 2021

\*2 Financial Services Agency, [Tax Reform for 2020](#), Dec.2019

# Insurance

## 1. Expanding supply of health promotion insurance

- ▶ Health promotion insurance is a type of insurance that offers discounts or refunds on premiums depending on the health status of the policyholders and efforts to improve their health.
- ▶ In recent years, life insurance companies have been strengthening the development and sales of health promotion insurance products.

Outline	<ul style="list-style-type: none"> <li>▶ In Japan, health promotion insurance is centered on insurance products that offer discounts based on health checkup results or exercise habits.*<sup>1</sup></li> <li>▶ In recent years, an increasing number of life insurance companies have begun to focus on health promotion insurance.             <ul style="list-style-type: none"> <li>▶ Company B's product, which was launched in July 2018, had about 880,000 policies in force as of the end of September 2020. When policyholders report their health status, medical checkup results, exercise status, and other information via smartphone or PC, points are awarded according to the status of their health promotion activities, and premiums change (30 percent discount to 10 percent increase) depending on the points earned.</li> <li>▶ Company C developed an insurance product for companies that calculates premiums based on the results of employee health checkups. This company partnered with and asks a data handling Company D to compile statistics on the health checkup figures of all employees. The insurance premiums can be reduced up to 10 percent for a company with 500 employees.</li> </ul> </li> </ul>
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Back-ground	<ul style="list-style-type: none"> <li>▶ Due to the decline in the working population, the amount of life insurance policies in force has been declining year by year.</li> <li>▶ In order to increase premium income and at the same time reduce the amount of insurance claims paid, life insurance companies want to enclose more healthy subscribers who are less likely to receive insurance benefits. If policyholders' information can be analyzed as big data and the correlation between the number of steps taken per day/exercise habits and the incidence of disease can be found, insurance underwriting and assessment can be made more sophisticated than at present.</li> </ul>
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### Life insurance companies are strengthening health promotion insurance

Company name	Description
Company A	Plans to switch all personal insurance products to health promotion type by FY2025 in principle
Company B	Expanded health promotion insurance, bringing the percentage of mainstay products with health promotion insurance to approx. 60 percent
Frich Co.,Ltd. (Tokyo Financial Award 2019 winning company)	Launched a group insurance policy that discounts premiums based on the analysis of employees' health data for corporate products
justInCase Co., Ltd. (Tokyo Financial Award 2018 winning company)	Developed a medical insurance policy that sets premiums based on the number of steps and weight

# Insurance

## 2. Expanding supply of telematics insurance

- ▶ Since 2017, Japanese non-life insurance companies have expanded their supply of telematics insurance \*1. However, in the automobile insurance market, the scale of telematics insurance is not yet large.

Outline	<ul style="list-style-type: none"> <li>▶ Since 2017, major Japanese insurance companies have started offering telematics insurance. Insurance premium discount programs based on driving behavior are offered using in-vehicle devices. In 2020, insurance products compatible with mobile apps were also launched.</li> <li>▶ In the global automobile insurance market size of approx. 76.8 trillion yen, the Japanese market size is 5.3 trillion yen (2019).<sup>*2</sup> Although the supply of telematics insurance by non-life insurance companies is expanding, telematics insurance has not yet fully penetrated the Japanese automobile insurance market.</li> </ul>
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Back-ground	<ul style="list-style-type: none"> <li>▶ Telematics insurance is becoming more widespread in Western countries. On the other hand, in Japan, telematics product development has not been actively carried out because a grading system has been established in which the application of "grades / insurance premiums" changes according to the accident history.</li> <li>▶ Even if you have a history of safe driving, the premium is often high when you first sign up for car insurance.</li> <li>▶ However, in response to recent innovations in digital technology and a study meeting at the Ministry of Land, Infrastructure, Transport and Tourism in 2014, research on effective utilization methods of telematics technology is progressing in Japan as well.</li> <li>▶ In recent years, the number of young users who do not own a car and use a rental car or car sharing service is increasing.</li> </ul>
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<b>Non-life insurance companies have started operating telematics insurance</b>				
Company	Start time	Summary	# of contracts	Device
Company A	2020	<ul style="list-style-type: none"> <li>• Accident risk is calculated by collecting driving characteristic data measured using a smartphone app and using a prediction model created based on Company A's accident data.</li> <li>• Cash back up to 30% of insurance premiums to drivers with low accident risk.</li> </ul>	N/A *New service	Mobile application / in-vehicle device
Company B	2018	<ul style="list-style-type: none"> <li>• Obtain driving data from Automobile maker D's connected car and apply insurance premium discounts according to monthly mileage and driver characteristics (overspeed, sudden acceleration, sudden braking, etc.)</li> <li>• By utilizing driving data such as driving trajectory and behavior when an accident occurs, insurance companies will be able to make accurate and objective accident assessments, and insured persons will be able to reduce the burden of insurance claim procedures (Add to service from 2020)</li> </ul>	25,000 (As of Nov. 2019)	In-vehicle device
Company C	2017	<ul style="list-style-type: none"> <li>• When the device detects a strong impact, the insurance company automatically accepts the accident and contacts the fire department depending on the situation.</li> <li>• After receiving data from the drive recorder, AI analyzes the accident situation and the responsibility ratio of the people involved in the accident</li> </ul>	180,000 (As of Nov. 2018)	In-vehicle device

\*1 Telematics insurance is a type of automobile insurance that uses telematics to obtain and analyze driving information on each driver, such as driving distance and driving characteristics, and calculates insurance premiums based on this information. "Telematics" refers to the provision of information services in real time by combining a communication system with a mobile device such as an automobile.

\*2 The General Insurance Association of Japan, [Non-life insurance in Japan-Factbook2020](#)

# Financing

## 1. Expansion and troubles of social lending

- The market for social lending has been expanding with its high yield as a backdrop. However, some companies have been making false or misleading representations to investors on their online offering screens and have been found to have problems with investor protection. The FSA has taken administrative action against these companies and issued warnings to investors.

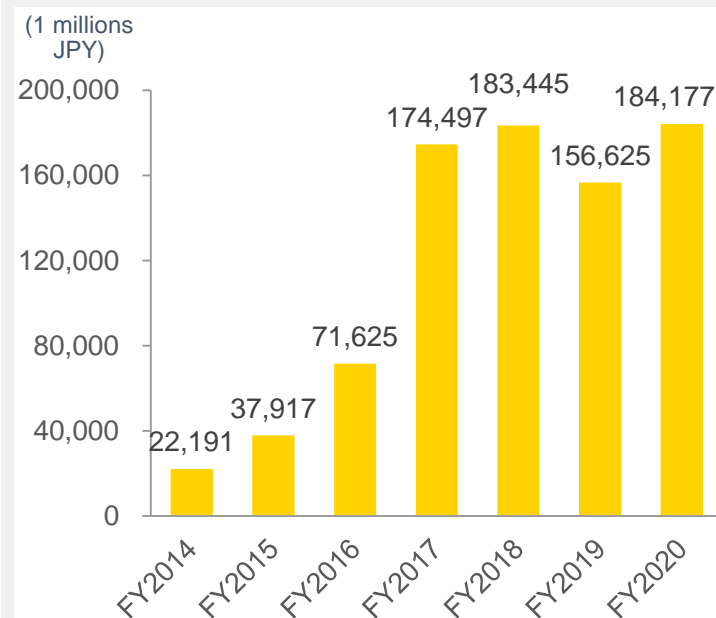
### Outline

- ▶ The market for social lending has been expanding due to its high yields.
- ▶ On the other hand, the FSA has taken administrative measures against some social lending intermediaries, such as revocation of registration and business suspension orders, due to the recognized problems of such intermediaries for their investor protection.\*1
- ▶ In addition, the FSA has issued the following warnings to investors regarding social lending.\*1
  - Offering, etc. by companies that are not registered as a Type II Financial Instruments Business Operator is likely to be a fraudulent business practice. (Social lending companies are required to be registered as a Type II Financial Instruments Business Operator because they fall under the business of offering or handling private offering of fund interests, which is regulated by the Financial Instruments and Exchange Act from the viewpoint of investors.
  - It is necessary to determine the creditworthiness of the firm even if it is a registered firm, and to make an investment decision after fully understanding the content of the transaction.
  - Investors need to make investment decisions based on the information disclosed to them and the investment risk associated with the high yield.

### Background

- ▶ The market size has expanded driven by investors who find the yield of social lending more attractive compared to the dividend yield of companies listed on the first section of the Tokyo Stock Exchange (monthly simple average yield of 1.72 percent to 2.08 percent from June 2020 to May 2021\*2).
- ▶ The background behind the administrative actions and warnings by the FSA includes the occurrence of the following problems attributable to soliciting companies.\*1
  - False or misleading representations are being made to investors.
  - The use of funds is different from what was explained to investors.
  - Management systems have not been in place to confirm the actual business status of investee companies or to ascertain the use of funds.

### Trends in the size of domestic social lending market\*3 \*4



※Data for FY2014 and FY2015 are obtained from "2018 Domestic Crowdfunding Market Trends", and data for subsequent years are obtained from "2021 Domestic Crowdfunding Market Trends" by Yano Research Institute.

\*1 Financial Services Agency, [Beware of Investing in Social Lending](#), Viewed on Jun. 18, 2021

\*2 Japan Exchange Group, Inc., [Other Statistical Data](#), Viewed on Jun. 18, 2021

\*3 Yano Research Institute, [2018 Domestic Crowdfunding Market Trends](#), Nov. 6, 2018

\*4 Yano Research Institute, [2021 Domestic Crowdfunding Market Trends](#), May 28, 2021



# Financing

## 2. Expansion of the supply of financial products using AI scoring

- ▶ Japanese megabanks, major regional banks, etc., are offering loan programs using credit management through AI screening, and some financial institutions and non-financial businesses are providing AI scoring services for individual customers.

Outline	<ul style="list-style-type: none"> <li>▶ Japanese megabanks, major regional banks, etc., are offering services for corporate customers that use AI to make credit decisions based on deposit and withdrawal data, etc., and make loan transactions. In the past, a company related to cloud accounting software provided online financing using AI, but the service is currently suspended.</li> <li>▶ Some financial institutions and non-financial businesses are strengthening the supply of AI scoring service for individual customers through using AI technology to score each customer's income status, behavior, lifestyle, and other data; and offering lending services that suits each customer based on these scores.</li> </ul>
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Back-ground	<ul style="list-style-type: none"> <li>▶ Historically, credit operations have been carried out by collecting information, building credit models, using scores calculated from the models, and finally making decisions by human beings. Financial institutions are now promoting the use of FinTech to streamline their operations, and credit services, which are the core business of banks, are now one of the targets.</li> <li>▶ The commercialization of information banking is underway, in which businesses with access to a wide variety of personal information process and provide information to meet the financial needs and creditworthiness of a diverse range of consumers.</li> </ul>
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### AI scoring service for individual customers\*1

Company	Launch of service	Outline
Company A	Sep.2017	<ul style="list-style-type: none"> <li>• Perform AI scoring of individuals based on attributes, such as age and gender, as well as information on work, lifestyle, housing, borrowing status at other companies, character, lifestyle, etc.</li> <li>• Based on the above scoring results, the company provides loan services for individual customers and rewards services for members.</li> <li>• As of November 2019, the number of score holders has exceeded one million.</li> </ul>
Company B	Apr.2018	<ul style="list-style-type: none"> <li>• Developed proprietary AI based on machine learning, utilizing statistical customer data of group companies and open data on the web, to provide services to predict and calculate individual customers' needs for purchasing financial products and services, as well as their risk of delinquency and default.</li> </ul>
Company C	Aug.2019	<ul style="list-style-type: none"> <li>• Provide a scoring service using the company's big data in the loan service D for the company's line users.</li> <li>• This is a system that analyzes big data such as the usage of various services obtained through the company's wide-ranging business development, and automatically calculates a credit score for each user, which is then used for screening by financial institutions.</li> </ul>

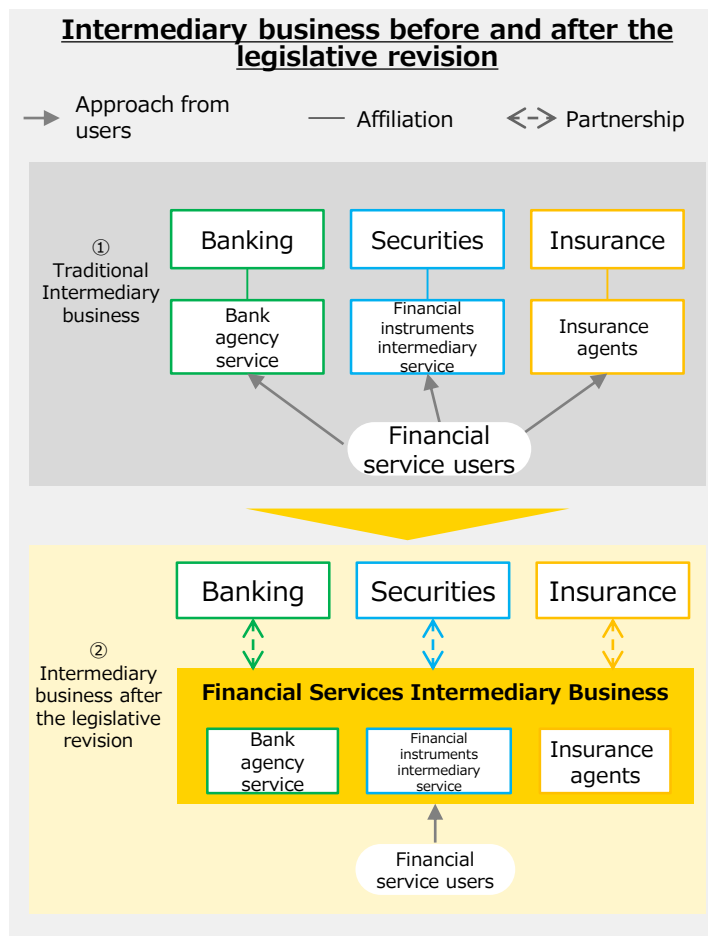
\*1Ministry of Internal Affairs and Communications, [Expansion of scoring services](#), Viewed on Jun. 18, 2021

# Others (Financial Service as a whole)

## 1. Launch of the Financial Services Intermediary Business

- ▶ In June 2020, amendments to the law concerning the creation of intermediaries that can provide one-stop service in multiple industries (banking, securities, and insurance) \*1 were enacted. (Set to take effect from the fall of 2021 to the spring of 2022.)
- ▶ Allowing intermediary business in all areas of banking, securities, and insurance with only a license of Financial Services Intermediary Business will help expand customer services provided by FinTech companies.

Outline	<ul style="list-style-type: none"> <li>▶ Launch of the "Financial Services Intermediary Business" The "Financial Services Intermediary Business" refers to the intermediary business that, with a single registration (license), provides a one-stop service for a wide variety of products and services offered in more than one industry sector and by many financial institutions.</li> <li>▶ Products and services that the Financial Services Intermediary Business is expected to be able to offer</li> </ul>			
		<b>Banking</b>	<b>Securities</b>	<b>Insurance</b>
	Available	Savings account, Mortgage loans	Government bonds, Listed stocks, Investment trusts	Personal accident insurance, Travel insurance, Golf insurance
Not available	Structured deposit	Unlisted stocks, Derivatives instruments	Variable insurance, Foreign currency denominated insurance	
Back-ground	<ul style="list-style-type: none"> <li>▶ Due to the need to obtain a license for each type of business, the number of intermediaries providing one-stop service for all banking, securities, and insurance to users was limited (Five companies as of March 2020).</li> <li>▶ It has been difficult for financial service users to choose the most suitable one among various financial services, forcing them to experience inconvenience.</li> </ul>			



\*1 Financial Services Agency, Act on the Partial Revision of the Act on sales of financial instruments for improving the convenience and protection of financial service users, May, 10, 2021



# Others (Financial Service as a whole)

## 2. FATF's 4th Round of Mutual Evaluations of Japan

- ▶ Around August 2021, the Financial Action Task Force on Money Laundering (FATF)\*1, which promotes international cooperation in anti-money laundering, is set to disclose the results of the 4th Round of Mutual Evaluations of Japan.
- ▶ Depending on the evaluation results, financial institutions, crypto asset exchangers, and other businesses may be required to implement more sophisticated verification and customer management measures at the time of transactions.

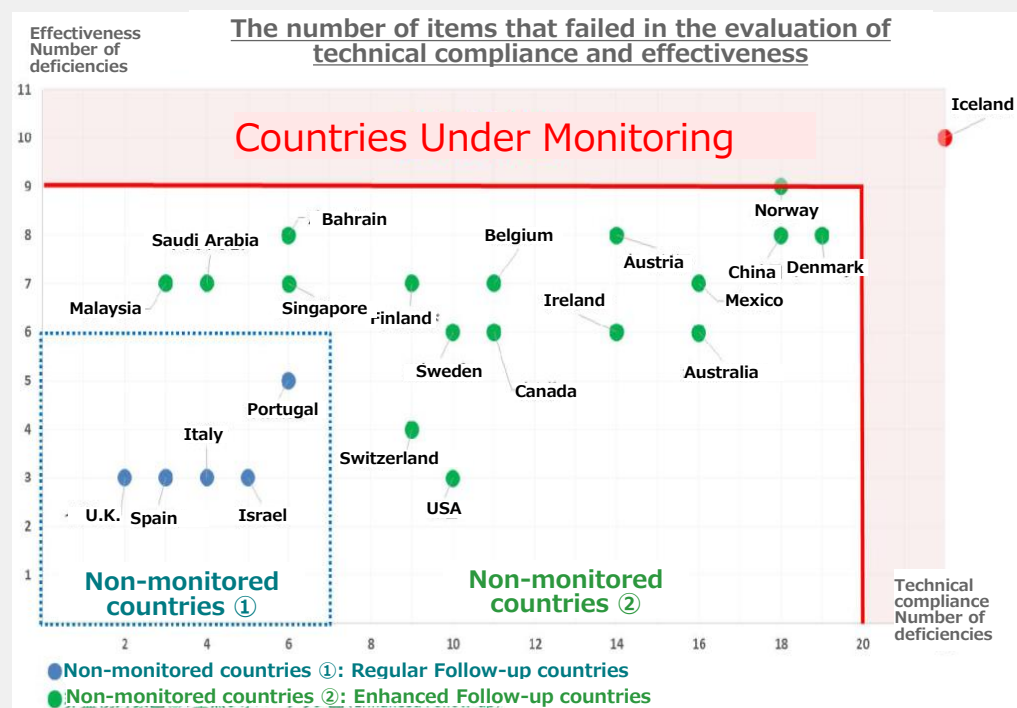
### Outline

- ▶ The FATF is scheduled to disclose the results of the 4th Round of Mutual Evaluations of Japan around August 2021. (The on-site evaluation was conducted in October ~ November 2019.)
- ▶ The FATF conducted the 4th round of mutual evaluations targeting 23 FATF member countries\*2, but the evaluation results remain very severe with only 5 regular follow-up countries being assessed as meeting the FATF standards.

### Background

- ▶ In response to the 3rd round of mutual evaluations of Japan in 2008, which rated Japan as requiring improvement in 25 out of 49 items, Japan implemented legal reforms.
  - Revised anti-money laundering laws and regulations, including the Act on Punishment of Financing to Offences of Public Intimidation and the Act on Prevention of Transfer of Criminal Proceeds.\*2
  - The above amendments made it mandatory for financial institutions and other business operators to take measures such as thorough verification at the time of transactions and customer management measures on a continuous basis.

### Results of the FATF member countries subject to the 4th Round of Mutual Evaluations \*2



\*1 Financial Action Task Force on Money Laundering (FATF), [Website of the FATF](#), Viewed on May 10, 2021

\*2 Ministry of Finance, [Concerning the Financial Action Task Force](#), Jun. 14, 2019

# Others (Financial Service as a whole)

## 3. Relaxation of restrictions on investment by insurance companies and banks in other industries

- Deregulation of investments by insurance companies and banks in other industries continues due to amendments to the Insurance Business Act and the Banking Act.

### Outline

- The enactment of the revised Insurance Business Act in April 2020 enabled insurance companies to invest in IT companies, etc. related to the insurance business to hold 100 percent of their voting rights.\*<sup>1</sup>
- The enactment of the revised Banking Act in May 2021 eased restrictions on banks' investments in venture business companies, turnaround companies, business succession companies, and community revitalization companies through specialized investment firms. As a result, banks can now invest in in community revitalization companies to hold up to 100 percent of their voting rights.\*<sup>2</sup>
  - Amendments to the same effect will be made for shinkin banks, credit cooperatives, insurance companies, etc., according to their respective characteristics and systems.

### Back-ground

- In January 2019, the Financial System Council, hosted by the Financial Services Agency, issued a report on the following points regarding the regulation of the business scope of traditional financial institutions in light of social progress in the information utilization.\*<sup>3</sup>
  - It is appropriate to consider reviewing the regulations on the scope of business of banks, insurance companies, Type I Financial Instruments Business Operators, etc., which have strict restrictions on the scope of business, in order to create an environment that enables them to appropriately respond to changes in society as a whole.
  - For the time being, it is appropriate to allow banks, insurance companies, and Type I Financial Instruments Business Operators to engage in the business of providing information held by them to third parties, which is in some way related to their core business.
  - In addition, unlike banks and Type I Financial Instruments Business Operators, insurance companies are not allowed to have subsidiaries that can engage in a wide range of businesses related to the information utilization. Therefore, with the aim of sophisticating the insurance business and enhancing user convenience, it would be appropriate to allow insurance companies to own companies, which are equivalent to advanced banking service companies (i.e., companies that engage in businesses that are expected to contribute to the sophistication of the banking business and enhancement of user convenience through the use of information and communication technology and other technologies), as their subsidiaries.
- In December 2020, the Financial System Council, hosted by the Financial Services Agency, issued the following report on the regulations of investment in venture business companies.\*<sup>4</sup>
  - The requirements for venture business companies that can be invested in by banks and banking groups include being unlisted, not having been established for a certain period of time, and meeting numerical criteria such as the number of full-time researchers.
  - Deregulation of the requirements for venture business companies is worth consideration with a view to supporting the development of a wide range of new business fields in various business categories through investment by banks and banking groups.

\*<sup>1</sup> Financial Services Agency, [Bill related to the Financial Services Agency at the 198th Diet Session](#), Viewed on Jun. 18, 2021

\*<sup>2</sup> Financial Services Agency, [Bill related to the Financial Services Agency at the 204th Diet Session](#), Viewed on Jun. 18, 2021

\*<sup>3</sup> Financial Services Agency, [Study Group on Financial System of the Financial System Council, "Summary of the report on the development of systems for information utilization by financial institutions](#), Jan.16, 2019

\*<sup>4</sup> Financial Services Agency, [Financial System Council, Release of the Report of the Working Group on Banking Systems, etc.](#), Dec. 22, 2020

## Others (Financial Service as a whole)

### 4. Launch of the "Regulatory Sandbox System"

- ▶ The Japanese government introduced a regulatory sandbox system in 2018 to promote the practical application of innovative technologies and business models.
- ▶ In the financial sector, demonstration experiments on crypto asset trading, P2P insurance, etc. using this system are underway, promoting regulatory reforms.

Outline	<ul style="list-style-type: none"> <li>▶ With the enforcement of the Act on Special Measures for Productivity Improvement in June 2018, the Japanese government established a "regulatory sandbox system" to promote the practical application of innovative technologies and business models in projects related to various industrial fields, such as FinTech, healthcare, and mobility.</li> <li>▶ Under this system, when the practical application of a new technology or the implementation of a new business model is difficult due to existing regulations, a demonstration is conducted with the approval of the regulatory authority, and the information and data obtained from the demonstration is used to lead to a review of the regulations.*<sup>1</sup></li> <li>▶ In the financial sector as well, demonstration experiments on crypto asset trading, P2P insurance, etc. have been launched using this system.*<sup>2</sup></li> </ul>
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Back-ground	<ul style="list-style-type: none"> <li>▶ Prior to the introduction of this system, regulators were unable to embark on regulatory reforms without proof of the necessary data, etc., and businesses were unable to conduct trial and error due to the existing regulations, making it impossible to obtain the necessary data for regulatory reforms.*<sup>3</sup></li> <li>▶ The purpose of introducing this system is to achieve sustainable economic growth while securing international competitiveness by rapidly commercializing innovative technologies and business models and creating innovative products and services without interruption, thereby dramatically increasing productivity.*<sup>3</sup></li> </ul>
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#### Examples of demonstration experiments in the financial sector using the "Regulatory Sandbox System"\*<sup>2</sup>

Applicants	Content of demonstration experiments	Date of approval
Company A	Creation of a trading environment that enables immediate trading of crypto assets among virtual currency exchangers	Jan. 18, 2019
justInCase Co., Ltd. (Tokyo Financial Award 2018 winning company)	Development of insurance that collects premiums in the event of accidents	Jul. 5, 2019
Frich Co.,Ltd. (Tokyo Financial Award 2019 winning company)	Development of a system that enables the provision of insurance for sharing insurance risks and payments equally among peers using social media	Mar. 13, 2020
		Apr. 2, 2021 (Changes to the demonstration experiment plans)

\*<sup>1</sup> Prime Minister's Office of Japan, [Regulatory Sandbox System](#), Viewed on Jun. 16, 2021

\*<sup>2</sup> Financial Services Agency, [About the Regulatory Sandbox System](#), Viewed on Jun. 16, 2021

\*<sup>3</sup> Prime Minister's Office of Japan, [Concerning the Technology Demonstration System \(Project-type Sandbox\)](#), Viewed on Jun. 16, 2021