Tokyo Metropolitan Government "Invest Tokyo" Support Program for Foreign Financial Companies

Japan Fintech Market Report

FinEity.Tekye

September 2022





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*Throughout this report, the currency rate is calculated at 134 JPY=1 USD (as of August 2022).



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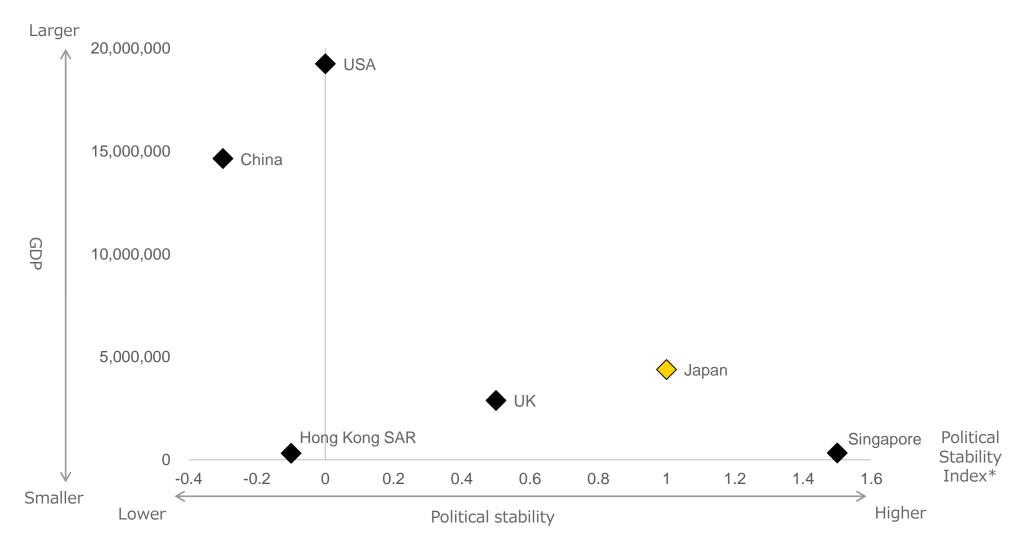
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*Throughout this report, the currency rate is calculated at 134 JPY=1 USD (as of August 2022).



1. Attractiveness of Japan market 1-1. Japan & Tokyo's Market Environment (1/2)

Japan is a promising investment market given the size of its economy (3rd largest globally) and high level of political stability.



EY

Sources: The World Bank, World Bank Open Data, Worldwide Governance Indicators, GDP (2022/6/15)

Page 3 *Political Stability measures perceptions (-2.5~2.5) of the likelihood of political instability and politically-motivated violence, including terrorism. Index value is calculated by the country's score on an aggregate indicator, in units of standard normal distribution.

1. Attractiveness of Japan market 1-1. Japan & Tokyo's Market Environment (2/2)

The Tokyo Metropolitan Area has a population of approx. 37.3 million. Also, the headquarters of Fortune Global 500 corporations are concentrated in this area.

Rank	Urban agglomeration	Population (million)
1	Tokyo	37.3
2	Delhi	32.1
3	Shanghai	28.5
4	Dhaka	22.5
5	Sao Paulo	22.4
6	Mexico City	22.1
7	Cairo	21.8
8	Beijing	21.3
9	Mumbai	21.0
10	Osaka	19.1

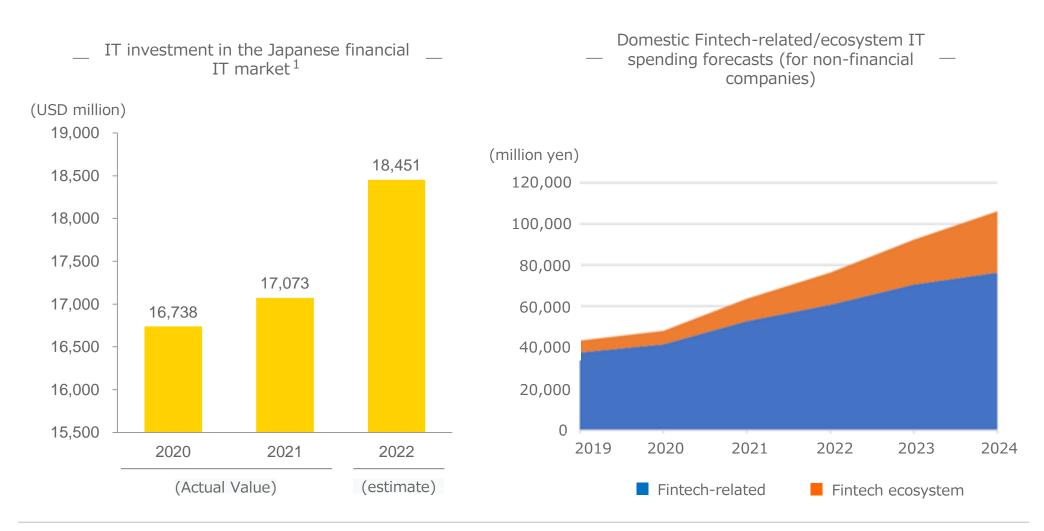
Megacity Population Ranking ¹ _____ (estimated for 2022) Number of Headquarters of Fortune _____ Global 500 Companies² (2021) _____

Rank	City	Number of Companies
1	Beijing	59
2	Tokyo	37
3	New York	16
4	London	15
5	Paris	13



1. Attractiveness of Japan market 1-2. Japanese Fintech Market (1/2)

Digital Transformation(DX) -driven IT investment is expanding within the Japanese financial IT market, centered on large financial institutions. Companies in other industries are also increasingly providing financial services, with their Fintech-related spending expected to exceed 100 billion JPY by 2024.



2. IDC, Domestic Fintech-related/ecosystem IT spending forecasts (for non-financial companies), viewed on August 5, 2022.

1. Attractiveness of Japan market 1-2. Japanese Fintech Market (2/2)

Japan is a leading country in various Fintech fields, including distributed ledger technology (DLT), blockchain, robo-advisory, personal financial management (PFM), and lending.



Fintech will play a key role in Japan's future digitization and is a central part of Tokyo's goal of becoming a global financial hub. To promote Fintech innovation in Japan, the Central Government's Growth Strategy Committee has set the following goals:

- Double the ratio of cashless payments to 40% by 2025⁴
- Grow the financial industry by JPY 2.2 trillion to JPY 25 trillion by 2025⁴
- Develop infrastructure that supports the fourth industrial revolution

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2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment ① Payment

Market environment

<u>Overview</u>

- Japan's cashless payment rate is high, with 54.4% of individual bank account withdrawals used for transfer payments¹
- The spread of prepaid transportation cards has driven the cashless transition in Japan, with 69.1% of households now holding electronic money, a 30% increase over ten years.²
- In addition to credit cards, the number of smaller transactions with contactless IC cards and QR code payments has been steadily increasing since 2018.³

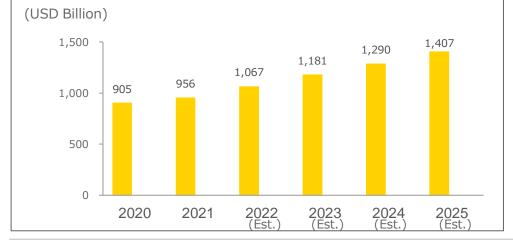
Market size

Page 7

• The consumer spending market: USD 2.1 trillion⁴ (2021)

(Ref) Cashless payment market size forecasts⁵

- Cashless payments: USD 956 billion (2021)
- Cashless payment ratio : 45.5% (2021)



Source:¹ Financial Services Agency. <u>Indicators for Cashless Payments</u>, Viewed on Aug 8, 2022 ² Ministry of Internal Affairs and Communications, household consumption survey, Viewed on

Sep 27, 2022 ³ Ministry of Economy, Trade and Industry. <u>Cashless Payments</u>, Viewed on Aug 8, 2022 ⁴ Cabinet Office. <u>The Consumer Spending Market</u>, Viewed on Aug 8, 2022

Major Fintech players

[Electronic Money] Rakuten Edy, AEON, JR East, Seven Card Service, NTT DOCOMO

[Credit Card, Debit Card] VISA, JCB, MasterCard, J-Debit

[**QR code payment**] PayPay, Amazon, NTT DOCOMO, LINE Pay

Case study 1 fincode by $\mathsf{GMO^6}$

- Online payment infrastructure for startups
- System enables smooth implementation of payment functions for startups utilizing various business models, including e-commerce, platforms, and subscriptions
- Launched in May 2022, GMO aims to deliver this service to 1,000 companies in in its first year



Case study 2 PayPay

- A mobile payment service allows money transfer between users and make payments at partner services and stores. Its usage rate is by far the highest among all mobile payment services in Japan.
- The service was launched in October 2018, and as of February 2021, merchant users in Japan have exceeded 3 million. The number of users has grown to over 35 million.

⁵ Yano Research Institute. <u>Conduct the Survey on the Domestic Cashless Market</u>, Apr 20, 2022
 ⁶ The Nikkei. <u>GMO, payment infrastructure for startups</u>, May 18, 2022

2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment ⁽²⁾ Loan

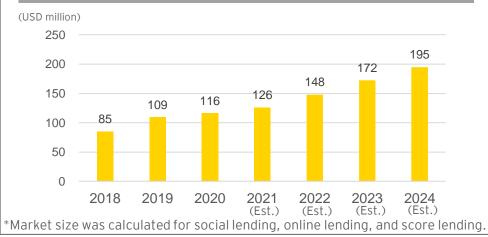
Market environment

<u>Overview</u>

- In addition to loans by financial institutions, loans using technologies such as scoring and transaction lending are increasing.
- For personal loans, rapid lending, based on AI scoring of various consumer data to assess current and future worthiness, has expanded.
- For corporate loans, methods such as transaction lending and social lending have been become popular for SMEs.

Market size

- Corporate loans: USD 193 billion (2021)¹
- Personal loans: USD 53 billion (2021)¹
- Market size of lending services: USD 116 million (2020)
- With high levels of corporate and personal loans, the lending service market is expanding



Lending Service market trends and forecasts²

Major Fintech players

[Loan service] J.Score, LINE Credit, Crezit, Altoa, Tranzax

[Scoring, information providing service] NTT DOCOMO, Yahoo Japan, freee, Money Forward

[Matching service] Bankers, Crowd Credit, loadstar capital, CAMPFIRE

Case study ① J.Score

- Utilizing AI technology to score customers' income, behavior, lifestyle, and other data, the company provides lending services based on these data with conditions matched to each customer.
- The service was launched in November 2016, and the number of users who acquired scores was estimated to exceed 1.15 million by February 2020.

J.Score

Case study 2 au Financial

- Provides mobile loan and payment services through its "au PAY smart-loan" application, which allows customers to loan and spend electronic money.
- The loan process can be conducted entirely over smartphone, with credit checks taking as little as 30 minutes.
- Launched in April 2019.



Source: 1 Financial Services Agency, <u>Loan balance for corporate and personal</u>, Mar. 31, 2021 2 Yano Research Institute, <u>Lending Service Market Size Trends and Forecasts</u>, Nov. 30, 2021 Other publicized information such as press releases by each company (as of May 24, 2021)

2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment ③ Investment/Asset management

Market environment	Major Fintech players
 Overview While personal financial assets tended to be kept as deposits and savings, there is a growing need for investment and asset formation due to financial concerns regarding life after retirement. Furthermore, the proliferation of the smartphone and apps has broadened investment and asset building options for young people, who were not part of the traditional customer base of financial institutions. 	 [Information providing service] Finatext, AlpacaDB, ZAISAN NET [Asset management service] Money Design, Wealth Navi, 8 Securities, One Tap BUY [Personal Finance Management] Moneytree, Money Forward, Zaim, Bear Tail, Smart idea
 Market size Japanese household financial assets: USD 16.5 trillion¹ (2021) The number of wealthy households (net financial assets of ¥100 million or more) in Japan is the second largest in the world (1.33 million households and net financial assets of USD 3.1 trillion²) (2019) The robo-advisory (discretionary investment) market is expected to reach 2.6 million accounts by 2023³ (Ref) The number of online securities trading accounts⁴ (1,000 accounts) 	 Case study ① Finatext Provides the platform "STREAM",⁵ where users can exchange real-time information about stocks. There are no conventional stock consignment fees in terms of the contact price for both spot/margin transactions. Greater interaction between novice and experienced investors creates new learning opportunities.
36,400 35,000 35,000 25,000 20,000 17,790 18,960 20,220 17,790 18,960 20,220 21,660 22,780 23,800 25,880 17,790 10,000 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 Sources: 1. BOJ, Flow of Funds Accounts Statistics 2021 Q4, March 17, 2022 2 Nemura Descarab Institute Name ra/area Desember 31, 2020	 Case study ② Money Design Provides the service "THEO", which allows customers to create and manage their asset portfolios Proposes the optimal customer-tailored portfolio from 231 model portfolios and allows for diversified investments in more than 11,000 stocks in 86 countries and regions. ① お金のデザイン MONEY DESIGN 3. Japan Securities Dealers Association, <u>Results of the Survey on Internet</u> Tending, Deagmber 9, 2021

2. Nomura Research Institute, <u>News release</u>, December 21, 2020

3. MDB Digital Search, <u>Robo-advisor market size and forecasts</u>, September 29, 2022

4. <u>STREAM</u>, provided by SMART+ Other publicized information such as press releases by each company (as of May 24, 2021)

Trading, December 8, 2021

2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment ④ Insurance

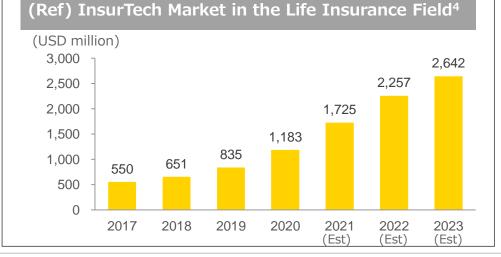
Market environment

<u>Overview</u>

- Japan's life insurance coverage rate is the world's highest at over 89% (2021),¹ ahead of the United States (80%) and United Kingdom (40%).²
- Further product development is underway in response to concerns regarding asset building after retirement.
- There is a focus on End-To-End marketing through digital channels and customized insurance products utilizing digital devices and healthcare data.

Market size

- Japan's life insurance market: USD 334.2 billion approx. (world's 2nd largest); non-life insurance market: USD 106.4 billion approx. (world's 4th largest) (2018)³
- Insurtech market: USD 1.18 billion (2020) and expected to expand to USD 2.64 billion by 2023.



Major Fintech players

[Providing information/consulting] Hoken No Madoguchi Group, Finplanet

[Soliciting and sales of insurance products] justInCase, PayPay Insurance, BrainCat

[Personal data linkage] FiNC Technology, Smart Drive, MinaCare, CureApp

[Insurance company support] Shift Technology, Brainpad

Case study ① FiNC Technologies

- Comprehensively analyzes personal data taking into account information such as generic test/health checkup results as well as lifestyle habits; provides proposals by healthcare specialists or AI about the best lifestyle improvement program
- The insurance companies collaborating with FiNC offer "personal insurance" based on app data provided by FiNC.
 FINC じ

Case study ② Shift Technology (ST)

- ST is a startup company founded in France in 2014.
- By utilizing AI technology to analyze vast amounts of data on past claim payments, ST can quickly and efficiently detect suspected fraudulent claims.
- Launched an industry-first fraudulent claims detection solution in April 2019

Sources: 1.Japan Institute of Life Insurance, 2018 [Nationwide Fact-finding Survey into Life Insurance], December, 2021



Shift

2.Excelike, <u>Life Insurance Coverage</u>, Aug 30, 2022 3.Swiss Re Institute, <u>World Insurance 2019</u>

4. Yano Research Institute, <u>Conduct the Survey on the Domestic InsurTech Market in the Life Insurance Field</u>, March 12, 2020 Other publicized information such as press releases by each company (as of April 15, 2020)

2. Expanding Business Opportunities for Fintech Companies

2-1. Market Trends by Fintech Segment (5) Digital Currency · Security Tokens · Blockchain

Market environment	Case study ① Bank of Japan		
 Overview Japan was one of the first countries in the world to develop laws for financial services using blockchain technology, including the handling of crypto asset exchange providers and security tokens. The crypto asset exchange providers are strengthening internal control across the industry in response to incidents of unauthorized leaks from the exchanges. Businesses other than the crypto-asset exchange are starting 	 The Bank of Japan does not have plans to issue a central bank digital currency (CBDC) as of March 2022. However, it will promote staged demonstration experiments to proactively respond to industry developments and ensure the stability and efficiency of the entire payments and settlement system. Proof-of-Concept Phase 2, in which various "peripheral functions" will be added to further verify feasibility, began in March 2022. 		
to implement initiatives such as demonstration tests for foreign remittance and trade using blockchain technology, as	Case study 2 Nomura Holdings		
 well as for security tokens. <u>Market size</u>¹ As of March 2022, total cash and margin trading value of Japanese crypto assets was approx. USD 23.4 billion - more than double the volume of crypto assets traded three years ago - while the number of user accounts was 5.86 million. 	 Boostry was established as a subsidiary in September 2019 to develop infrastructure to issue and manage security tokens. Launched underwriting and issuance of digital bonds in March 2020 - the first digital bonds offering in Japan. 		
Major Fintech players	Case study 3 Sekisui House · KDDI · Hitachi		
 [Crypto asset exchange service providers] bitFlyer, Coincheck, BITPoint, GMO Coin, QUOINE [Security token service providers] Securitize Japan, Boostry [Blockchain basic technology providers] bitFlyer, soramitsu, Scalar, LVC, Tech Frontier [Business operators using virtual currency for remittances] SBI Holdings 	 Conducted a joint verification in March 2019 to improve the convenience of rental contracts through inter-company information collaboration using blockchain technology. NEXCHAIN was started by Hitachi and 18 other companies in June 2020. Aims to create one-stop solutions combining data from different industries, including customers' personal data and financial and administrative service data. 		



2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment [©] Decentralized Finance (DeFi)

Market environment

Overview

- In June 2021, the Japan DeFi Alliance was launched to promote Defi in Japan, and is engaged in knowledge sharing, business matching, and policy advocacy activities.
- In July 2021, the Financial Services Agency (FSA) launched the "Study Group on Digital and Decentralized Finance." Comprised of government, business and other experts, it is discussing how to respond to DeFi developments.
- In addition, in June 2022 the FSA published a research report on DeFi as a joint study with QUNIE CORPORATION.

Market size

 TVL* of DeFi platforms as of June 2022 was USD 75.2 billion (highest was USD 252.6 billion in December 2021)

Major Fintech players

[Decentralized Exchanges (DEX)] Uniswap, PancakeSwap, SushiSwap [Lending Platform] BlockFi, NEXO, Cygnos, Compound [Aggregation] Pafin

* Total Locked Value of cryptographic assets (virtual currency) deposited using DeFi protocols

Case study 1) Techtec, Inc.¹ Established in January 2018 to provide start-up support and advisory services for Defi, NFT and other blockchain businesses. Tomohiro Tagami, CEO of TechTec, established the Japan Defi Alliance to promote and develop DeFi (see overview on the left-hand side), which is expected to enhance innovation in the financial industry. **Techtec** Japan DeFi Association Case study 2 InsureDAO² Defi insurance provider based in Singapore started by • Japanese founders InsureDAO's token INSURE listed on crypto asset • exchange MEXC Global in July 2022; it will now allow investors earning yields through ethereum-based DeFi protocols to receive damage insurance payments if they are victim to hacking InsureDAO Case study 3 Cygnos, Inc. Established in May 2020 to operate a crypto asset • lending service Allows users to rent out stablecoins such as Bitcoin, • Ethereum, USDC, etc. Since March 2021, users can receive monthly rents in Japanese yen for crypto asset lendina. **2** Cygnos



2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment ⑦ Open Banking/BaaS

Market environment

Open banking/BaaS (Banking as a Service)

- In 2018, Japan's Banking Act was amended, imposing an obligation on financial institutions, especially banks, to make efforts to implement open APIs. Domestic banks have utilized open APIs to accelerate open banking through payment services and household account bookkeeping apps, including through data collaboration with external entities.
- As of September 2020, 129 out of 135 Japanese banks have concluded agreements with Electronic Payment Service Providers.
- In addition, the BaaS market has become more active in recent years, with regional banks establishing new digital banks separate from their existing banking functions and neobanks being established by non-financial institutions to provide banking services online.

Major Fintech players

[Financial institutions]

Minna Bank Co., Ltd., SBI Sumishin Net Bank, Ltd., Shinsei Bank, Ltd., Rakuten Bank, Ltd., GMO Aozora Net Bank, Ltd., Resona Group

[Non-financial institutions]

Money Forward, Inc., Moneytree KK, freee K.K., GMO Payment Gateway, Inc., Zaim Inc., NTT DATA Corporation, Nomura Research Institute, Ltd.

Case study ① Money Forward

- Established in May 2012 to provide personal and corporate services for financial institutions, in addition to back-office SaaS for corporations and PFM services for individuals.
- Money Forward ME can be linked to 2,574 financial institutions and services (as of June 2022).



Case study 2 Minna Bank

- Established "Minna no Ginko," the first digital bank in Japan, under the umbrella of Fukuoka Financial Group in August 2019.
- Allows account opening, transfers, ATM deposits and withdrawals, etc. through smartphone

🔟 Minna no Ginko

Case study ③ Takashimaya NEOBANK

- In June 2022, Takashimaya, a major department store chain, launched the "Takashimaya NEOBANK" service using SBI Sumishin Net Bank's "NEOBANK®."
- Aims to attract younger customers through synergies between finance and retail businesses.





2. Expanding Business Opportunities for Fintech Companies 2-1. Market Trends by Fintech Segment [®] Identification, Personal Data Trust Bank

Market environment

Identification Verification

- In 2018, the Act on Prevention of Transfer of Criminal Proceeds was revised, enabling online verification of personal identification (e-KYC^{*1}).
- Specifically, it has become possible to use images of identification documents using mobile phone apps, information on IC chips, images of people, etc.
- Financial institutions view e-KYC as an effective way to improve customers' convenience and reduce high administrative costs.
- While identity verification procedures are becoming more widely used, security risks are also being addressed, such as the April 2020 revision limiting the documents that can be submitted during identity verification procedures.

Personal Data Trust Bank*2

- The 2017 amendment to the Act on the Protection of Personal Information eased restrictions on the usage of personal information and allowed for the distribution of data between businesses.
- Specifically, the amendment enabled management of information such as personal purchase/action history and health information; and to provide data to a third party based on a contract regarding data utilization.
- In 2018, the Personal Data Trust Bank Certification System was established. Since then, a number of major players from various industries such as finance, advertising, information and telecommunications have unveiled their plans to enter the personal data trust bank business. It is expected that a study on the next generation of data-driven business models will be conducted.

Main Fintech Players

[eKYC Service Providers]

Double Standard, TRUSTDOCK, DNP, Liquid, Polarify, Deep Percept

[Personal Data Trust Bank Market Entrants] Sumitomo Mitsui Trust Bank, FeliCa Pocket Marketing, Mitsubishi UFJ Trust and Banking, Mizuho FG, Softbank, DataSign, MY DATA INTELLIGENCE

Case study ① Digital KYC

- Since April 2019, NEC has launched its "Digital KYC" for financial institutions such as banks, securities, and Fintech business providers allowing for identification verification online.
- This service helps streamline operations and reduce risks through leveraging a facial recognition AI engine with the world's highest authentication accuracy and the proprietary identity theft prevention technology.

Case study ② DPRIME

- In March 2021, Mitsubishi UFJ Trust and Banking released "DPRIME", a personal data trust platform.
- The platform enables individuals to voluntarily store and manage personal data and receive compensation (money or services) for the provision of this data.



*1 Electronic Know Your Customer.

Sources: Other publicized information, such as company websites and press releases of (as of May 24, 2021)



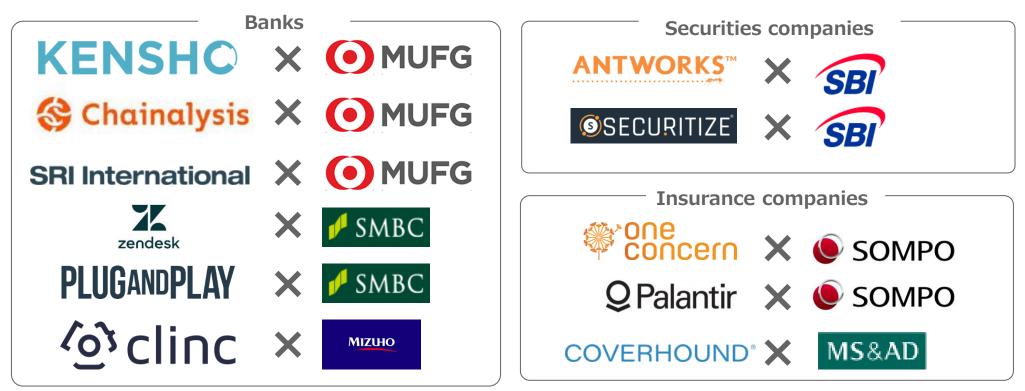
^{*2} Businesses that provide data to third parties (other businesses) after managing personal data based on contracts with individuals on data utilization, as well as validity evaluation on behalf of individuals based on individuals' instructions or pre-specified conditions.

2. Expanding Business Opportunities for Fintech Companies 2-2. Need for Collaboration with Fintech Companies

 Japanese companies are actively working with overseas Fintech companies on investment, capital alliances and verification tests.

<banks></banks>	Advance collaboration with settlement agencies through open API; business streamlining using AI and Chatbots; participation in blockchain consortiums; and establishment of accelerator programs
<securities firms=""></securities>	Streamline and develop existing securities businesses using Fintech; and accelerate digital securities development through utilization of security tokens
<insurance companies=""></insurance>	Collect health information using wearable devices; and promote the development of new products and services through digital marketing

Foreign Fintech companies or projects in collaboration with Japanese companies



Source: Created based on publicized information, such as the websites and press releases of each company (as of Sep. 2, 2022)

2. Expanding Business Opportunities for Fintech Companies 2-3. Successful Market Entry by Foreign Companies

> Numerous foreign companies have developed successful Fintech businesses in Japan.

RootAnt

Headquarter information

Company name: RootAnt Global Pte. Ltd. (Singapore) Summary: Fintech company launched in 2013 with business in Southeast Asia and China.

Business Overview

- Provides digital banking technology that enables banks and non-banking financial institutions to design new scenario-based financial products
- Pioneer in the formation of ecosystem supply chain finance models, enabling a sustainable economy through multi-tier finance

Initiatives in Japan

- Opened Tokyo Office in 2019
- Utilized TMG's "Invest Tokyo" program in FY2019
- Announced joint business development with a subsidiary of SBI Holdings in March 2021



Chainalysis Japan

Headquarter information

Company name: Chainalysis Inc. (US) Summary: A blockchain analytics company that provides compliance and investigative software to the world's leading banks, corporations and governments.

Business Overview

- Provides software for compliance management and tracking of crypto assets
- Utilizing the software above promotes the secure distribution of crypto assets

Initiatives in Japan

- Opened Tokyo Office in March 2020
- Utilized TMG's "Invest Tokyo" program in FY2019
- Signed sales partnership with Hitachi, Ltd. and SB C&S Corporation in December 2020



Source: Created based on the publicized information, such as the websites and press release of (as of May, 24, 2021)



3-1. Government Initiatives & Support for Fintech Market Development (1/5)

With Fintech as part of its national strategy, the government is implementing initiatives to develop market environments for economic growth and promote innovation to solve social issues.

Objective	Pre-reform Situation		After Implementation of Reforms	Related laws and regulations
Revision of cross- industry regulation system	Strict regulation system by industry Complicated license system and high costs to apply serve as a barrier for new entrants from other industries.	Under consideratio	Regulation system in accordance with functions to be provided Elimination of complex regulatory systems that act as barriers to new entrants and creation of fair competition conditions.	Banking Act, Money Lending Business Act, Financial Instruments and Exchange Act, Insurance Business Act, Payment Services Act
Facilitation of investment in Fintech companies	Strict regulations on investment Banks and insurance companies were prohibited from investing more than 5% and 10% of their capital respectively in other industries.	Act enforced	Relaxation of investment restrictions Both banks and insurance companies can make investments exceeding the regulatory cap.	Banking Act, Insurance Business Act
Promotion of information	Information utilized only in financial institutions Data utilization had not progressed due to the emphasis on personal information protection and security measures.	Act enforced	Use of Open API and personal data Enables data distribution between businesses to the extent permitted by the Act on the Protection of Personal Information, and accelerates the development of new services and information banks.	Banking Act, Insurance Business Act, Act on the Protection of Personal Information
utilization	Restricted Scope of Bank Operations The scope of a bank's business is limited to its own operations, such as deposits and loans, and other related operations.	Act enforced	Expansion of the scope of businesses contributing to digitization Sales of own applications and IT systems, data analysis, marketing, advertising, etc., can be conducted by banks.	
Promotion of online transactions	Identification verification by mail Opening an account online requires identity verification procedures by mail in addition to online registration.	Act enforced	Completion of identification verification online Identification verification can be completed online using a smartphone or apps.	Act on Prevention of Transfer of Criminal Proceeds

Sources: Created based on publicized information, such as the websites and press releases of Financial Services Agency (FSA), Ministry of Economy, Trade and Industry (METI) and Ministry of Internal Affairs and Communications (MIAC) (as of May 24, 2021)



3-1. Government Initiatives & Support for Fintech Market Development (2/5)

 Government is undertaking deregulation and re-examining each service area to promote Fintech innovation.

Service area	Amendments to laws	Government initiatives
Payment	Revision of the Payment Services Act Fund transfer business operators could send up to around 1 million yen (USD 7,463) ^{*1} , but from May 2021, with the approval of the Prime Minister, it will be possible to handle remittances in excess of 1 million yen (see details on p.26).	Rebate to consumers making cashless payments The government has been working on initiatives to increase the cashless payment ratio from 21.3% (2017) to 40% (2025) through implementing point programs and supporting SMEs to introduce cashless payment terminals.
Loan	Development of legal positioning for new investment methods Clarified that investment activities in social lending do not conflict with the Money Lending Business Act, with the "anonymization" and "pluralization" of borrowers no longer being necessary.	Support for SME fundraising To meet the capital needs of SMEs, the government is considering the introduction of a credit guarantee system using transactional lending, by revising the maximum interest rate under the Interest Rate Restriction Law.
Investment/ Asset management	Revision of the Financial Instruments and Exchange Act The launch of the "financial services intermediary business" as a one-stop provider for such products and services was decided in June 2020 (see details on p.28).	Asset Income Doubling Plan As part of the government's "Asset Income Doubling Plan", the NISA and iDeCo schemes are undergoing wide-ranging reforms, while the establishment of new mechanisms to encourage individuals to invest their financial assets are being considered.
Insurance	Revision of the Insurance Business Act To respond to the diversification of financial transactions in line with ICT advances, in June 2019 "information bank business" was added to the scope of insurance companies' businesses, enabling them to implement InsurTech initiatives utilizing healthcare data, vital information, etc.	Support for small-amount short-term insurance companies* In line with the P2P insurance demonstration experiment, the government passed an ordinance authorizing small-amount short- term insurance companies* to underwrite reinsurance.
Crypto assets	Revision of the Payment Services Act and Financial Instruments and Exchange Act One of the first attempts worldwide to establish regulations regarding internal control systems for crypto-asset exchangers and market trading rules for handling of security tokens.	Support for municipal governments' point systems To encourage the take up of central government-issued ID cards ("My Number Cards"), they are linked to municipal government point systems where individuals can use points stored on their cards to purchase local goods and services. Blockchain technology is used to manage system data.

Note: *Small-amount short-term insurance companies: Insurance companies of a certain scale (insurance amount limits are set within seven insurance categories) which only underwrite protection products up to a certain monetary amount and provide up to one-year of coverage (or up to two years in the second category).



Page 18 Sources: Created based on publicized information, such as the websites and press releases of the Financial Service Agency (FSA), Ministry of Economy, Trade and Industry (METI), Ministry of Internal Affairs and Communications (MIC) and Small and Medium Enterprise Agency (as of May 24, 2021)

3-1. Government Initiatives & Support for Fintech Market Development (3/5)

▶ Tokyo Metropolitan Government supports Fintech companies to promote and develop the industry.

Support by Tokyo Metropolitan Government (TMG)

- Subsidies for Business Establishment and Operation in Tokyo
- 1) Project for Temporary Office Allocation for Foreign Financial Companies and Human Resources Content: Office rent subsidy for temporary stay Support: Actual costs for office rent will be exempted up to USD 2,880 (386,000 yen)^{*1} per month. Actual initial costs will be exempted up to USD 1,850 (248,000 yen). **2** Overseas Financial Corporation Business Establishment Subsidy Program Content: Subsidy for the expenses for consultation with specialists or recruitment and initial costs of office setup. Support: Half of expenses subject to the subsidy up to USD 70k approx. (\Rightarrow 9.5 million yen) **3** Subsidy to Support Base of Operations of Overseas Financial Corporations Content: Subsidies for office rent, specialist consulting fees and purchase of equipment Support: Half of expenses subject to the subsidy up to USD 89k approx. (\Rightarrow 12 million yen) (4) Referral of offices with reduced rent Content: Introduction of properties in the Special Zone for Asian Headquarters with a 10% to 50% discount on rent **5** Subsidy for Innovation Support Project for Fintech Companies, etc. Content: (1) Subsidy for part of the expenses required for various business support services for Fintech companies that achieve good results in pitch events (2) Subsidy for part of the expenses required for holding matching events for Fintech companies and financial businesses (3) Subsidy for part of the expenses required for conducting verification for commercialization through collaboration between Fintech firms and financial businesses Support: (1) Up to 1 million yen per Fintech company eligible for support (2) Half of the expenses subject to the subsidy, up to 1 million yen per matching event
 - (3) 2/3 of the expenses subject to the subsidy, up to 3 million yen



3-1. Government Initiatives & Support for Fintech Market Development (4/5)

Support by Tokyo Metropolitan Government (continued)

Financial One-Stop Support Service *1

- Provides information and advice regarding financial regulations and required procedures such as registration and financial license acquisition.
- Supports business matching and other necessary procedures for establishment of the business in Tokyo.

• Tokyo Financial Award - Financial Innovation Category *2

• TMG grants prizes to businesses which provide and develop innovative products and services that meet the needs and challenges of Tokyo citizens and corporations.

Release of the "Asset Managers & Fintech Companies Registration Guidebook" *3

• Explains Japanese financial laws and regulations, application procedures for registration as a Financial Instruments Business operator, etc. in English.

Access to Tokyo

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• Consultation desks (located in London, Paris, San Francisco, and Singapore) gather information on and reach out to companies utilizing IoT and AI, with the aim of attracting them to establish an office in Tokyo

Business Development Center Tokyo

• Provides business and living support for foreign companies setting up business in Tokyo, including in relation to recruitment, funding, information regarding schools and daycare etc.

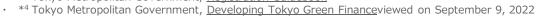
Green Finance Subsidy *4

- Subsidy for foreign Asset Managers and Fintech Companies involved in green finance to set up operations in Tokyo (max. USD 373 thousand for the first year)
- Source: Created based on the publicized information such as the press release and websites of TMG (as of Jul. 4, 2022)

** Tokyo Metropolitan Government, "Financial One-Stop Support Service"

*² Tokyo Metropolitan Government, "Financial Innovation Category and ESG Investment Category"







3-1. Government Initiatives & Support for Fintech Market Development (5/5)

 Central Government (Financial Services Agency) also supports Fintech companies to promote and develop the industry.

Support by Financial Services Agency

Support to promote Fintech

Page 21

1 Establishment of the Fintech Support Desk *1

- Established in December 2015 as a one-stop contact point for inquiries and exchange of information on Fintech
- Accepts a wide-range of inquiries on various matters in finance such as business plans, etc.

2 Establishment of the Fintech PoC (Proof-of-Concept) Hub

- Established in September 2017 to address concerns regarding the proliferation of demonstration experiments for Fintech companies and financial institutions
- Supports demonstration experiments on blockchain technology; KYC processes using biometric authentication; and confirmation of the sale and solicitation of financial products using AI scoring systems.

Holding of FIN/SUM (Fintech & Regtech Summit)

- Organizes FIN/SUM to explain to the global community current developments and opportunities related to Japanese Fintech
- Provided opportunities for networking and matching among Fintech companies and investors on a global scale





4. Market entry: Entity structures and licenses

4-1. Company Foundation Types and their Legal Positions (1/3)

▶ The legal requirements for companies in Japan differ according to their foundation type.

Different Company Types and their Legal Positions at the Time of Market Entry (excerpt)

Company type at the time of entry	Capital	Number of investors	Relationship with foreign companies	Liability of investors/ headquarters to creditors of the company	Regular general meeting of stakeholders (employees)	Transfer of equity holding	Availability of listing stocks (equity holding)
Representative Office	N,	/Α	An office in Japan to gather and provide information by an authorized agency of the foreign company Generally, no autonomous decision-making authority	No maximum amount	No need to hold the meeting	No equity holding	No equity holding
Branch	N,	/Α	An office in Japan to conduct business determined by an authorized agency of the foreign company Generally, no autonomous decision-making authority	No maximum amount	No need to hold the meeting	No equity holding	No equity holding
Subsidiary (Japanese corporation) joint-stock corporation (Kabushiki Kaisha)	1 yen (≒1 Penny) or more	1 investor or more	Legal entity separate from foreign company Foreign companies are liable as legally responsible investors for debts and liabilities arising	Up to the amount of investment	Need to hold the meeting annually	No restrictions in principle Articles of Incorporation ^{*1} often stipulate that approval of the board of directors or general meeting of shareholders is required for the transfer of shares	Available
Subsidiary (Japanese corporation) Limited liability company			from the activities of their subsidiaries		No need to hold the meeting unless specified in the articles of incorporation	In principle, the consent of all investors (employees) is required, but other provisions can be made in the articles of incorporation	Not available

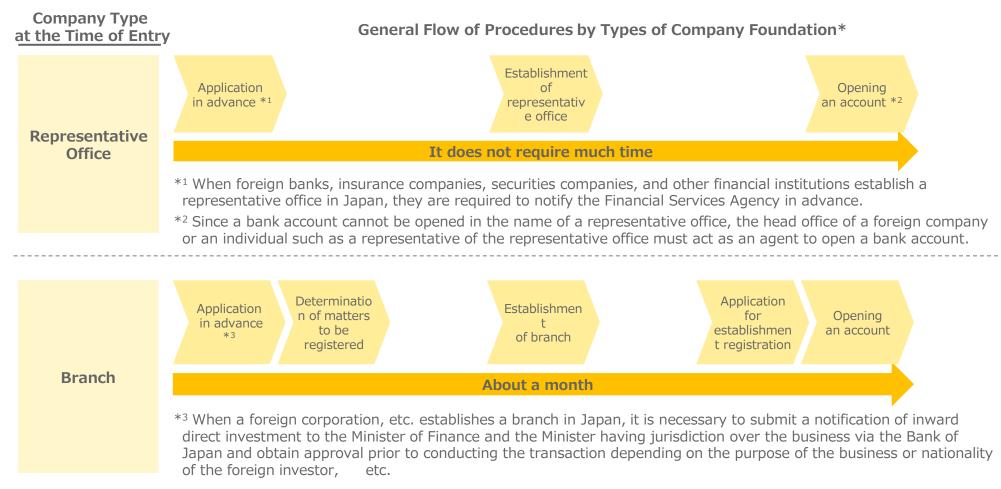
*1 Articles of Incorporation summarize the rules for establishing a company organization



4. Market entry: Entity structures and licenses

4-1. Company Foundation Types and their Legal Positions (2/3)

- When establishing a representative office for the purpose of gathering and providing information, there is no need to register the office under the Companies Act, and no need to notify the tax office as it is not subject to corporate income tax, making it a simpler procedure than establishing a branch office.
- Representative offices cannot carry out business activities but are useful as a preparatory stage before full-scale entry into a market.



* Note that the above is only a general flow, which may differ due to the scale, complexity or any other circumstances of the business

Sources: • JETRO, Laws & Regulations on Setting Up Business in Japan, Jul. 31 2018

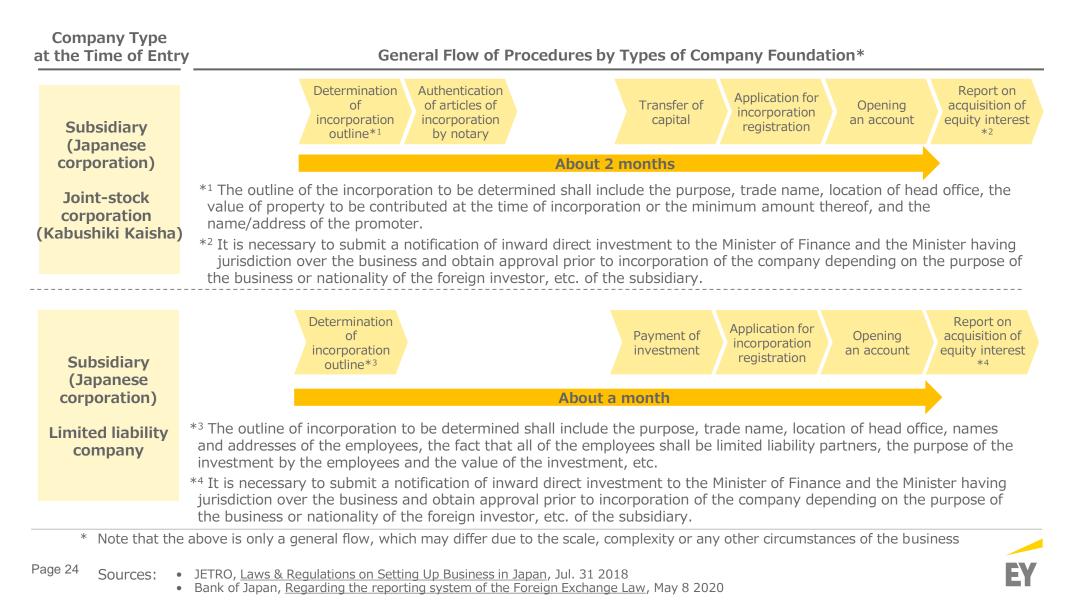
Page 23

Bank of Japan, <u>Regarding the reporting system of the Foreign Exchange Law</u>, May 8 2020

4. Market entry: Entity structures and licenses

4-1. Company Foundation Types and their Legal Positions (3/3)

- When establishing a Japanese corporation, it is necessary to select the type from those stipulated in the Companies Act, in accordance with the nature and purpose of the planned business activities.
- While joint-stock companies issue shares and can solicit investors, LLC is an equity company where each employee has the right to vote, enabling greater operational autonomy.



4. Market entry: Entity structures and licenses 4-2. Fintech Regulations

When doing business in Japan, it is necessary to pay attention to the applicable laws, regulations and licenses, depending on the services being provided

Segments	Services Subject to Regulations	Applicable Laws	Licenses
	Money transfer service	Payment Services Act/ Banking Act	Funds Transfer Service/Banking*3
Payment	Payment service	Payment Services Act/ Installment Sales Act/Banking Act	Funds Transfer Service *3/Credit purchase intermediary*4/Banking *3
	Information linkage service with bank accounts	Banking Act	Electronic Payment Services *3
	Financing/Loan	Money Lending Business Act	Money Lending Business *3
Loan	Lending platform	Money Lending Business Act/ Banking Act	Money Lending Business/Bank Agency Services *3
	Loan-based crowdfunding	Money Lending Business Act/Financial Instruments and Exchange Act	Money Lending Business/Financial Instruments Business * ³
	Sales, soliciting and underwriting of securities	Financial Instruments and Exchange Act	Financial Instruments Business *3
Investment/ Asset	Management of customers' assets	Financial Instruments and Exchange Act	Investment Management Business ^{*1} * ³
Manage- ment	Investment advisory	Financial Instruments and Exchange Act	Investment Advisory and Agency Services/ Financial Instruments Business * ³
	Investment-based crowdfunding	Financial Instruments and Exchange Act	Small-Amount Electronic Public Offering Service Providers ^{*2}
Insurance	Sales, soliciting and underwriting	Insurance Business Act	Insurance Business/Small Amount and Short- Term Insurance Business *3
21154141166	Agent services/brokerage	Insurance Business Act	Insurance Brokers/Insurance Agents *3
Crypto	Crypto assets exchange transactions	Payment Services Act	Crypto Assets Exchange Service *3
assets/ Security	Derivative transactions using crypto assets	Financial Instruments and Exchange Act	Financial Instruments Business *3
tokens	Transactions using security tokens	Financial Instruments and Exchange Act	Financial Instruments Business *3

*¹For sales/solicitation of funds to professional investors who are designated as Qualified Institutional Investors, financial institutions only need to submit a notification under Article 63, Paragraph 2 of the Financial Instruments and Exchange Act.

*²A licence for Type I Financial Instruments Businesses is required for the investment type; and a license for Type II Financial Instruments Business Operators is required for the fund equity investment type. If the amount of funds to be raised is USD 9.17 million (100 million yen) or more, or the contribution amount per person exceeds 4,587 USD (500,000 yen), the application of mitigation measures as a small electronic solicitation handling business is not possible



*3 Jurisdiction of Financial Services Agency *4 Jurisdiction of Ministry of Economy, Trade and Industry

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4. Market entry: Entity structures and licenses 4-3. Licenses Required by Fintech Segment 1 Payments

Services to provide		Required licenses	Example of Asset-related requirements	Applicable laws	
Money	Remittance of One Million Yen or Less	Type II Funds Transfer Service Providers Type III Funds Transfer Service Providers ^{*2}	The entity has necessary assets to carry out the fund transfer business properly and reliably *1	Payment Services Act	
Transfer Service	Remittance of One Million Yen or More	Type I Funds Transfer Service Providers * ²	The entity has necessary assets to carry out the fund transfer business properly and reliably *1	Payment Services Act	
		Banking *2	Minimum capital of 18 million USD (2.5 billion yen)	Banking Act	
	Prepaid Payment Instrument	Issuers of Prepaid Payment Instruments * ²	Safeguarding of assets with a minimum required amount of USD 89K (12 million yen) as security for providing funds transfer services	Payment Services Act	
Payment	Postpaid Payment Instrument (Issuing Companies)	Credit purchase intermediary ^{*3}	Comprehensive Credit Purchase Intermediaries: Minimum capital of USD 149k (20 million yen) and 90% of net assets Individual Credit Purchase Intermediaries: Minimum net assets of USD 373k (50 million yen)	Installment Sales Act	
Service	Postpaid Payment Instrument (Member Store Contractors)	Business operators to sign contracts for handling credit card numbers, etc. *3	None	Installment Sales Act	
	Debit Payment Instrument	Banking * ²	Minimum capital of 18 million USD (2.5 billion yen)	Banking Act	
Information link service	Acquisition of Bank Account Information	Electronic Payment Services *2	Net assets shall not be negative. (Regulations regarding conduct and an obligation to enter into individual contracts with banks are imposed.)	Banking Act	
with bank accounts	Payment Order to Bank Account	Electronic Payment Services *2	Net assets shall not be negative. (Regulations regarding conduct and an obligation to enter into individual contracts with banks are imposed.)	Banking Act	
	general standards for capita es and procedures.	I or net assets are required. Examined on	a case-by-case basis whether the company has the necessary assets according to	ts business	
Sources: Pa Page 26 It	aragraph 1, Article 14 and Para aragraph 1, Article 5 of the Bar	nking Act; and Article 3 of the Order for Enforce cle 33-2, and Item 2, Paragraph 1, Article 35 of v 24, 2021)	; and Article 6, 14 of the Order for Enforcement of the Payment Services Act (as of May 24, 202		

Article 52-61-5 of the Banking Act; and Paragraph 6, Article 34-64 of the Order for Enforcement of the Banking Act (as of June 1, 2020)

4. Market entry: Entity structures and licenses 4-3. Licenses Required by Fintech Segment ② Loans

Services to provide		Required licenses	Example of Asset-related requirements	Applicable laws
Finance/	Consumer Finance	Money Lending Business ^{*1}	Minimum net assets: USD 470k (63 million yen)	Money Lending Business Act
Loan	Business Operator Finance	Money Lending Business *1	Minimum net assets: USD 470k (63 million yen)	Money Lending Business Act
Lending Platform	Loan Intermediary	Money Lending Business *1	Minimum net assets: USD 470k (63 million yen)	Money Lending Business Act
	Bank Loan Intermediary	Bank Agency Services *1	Minimum net assets: USD 47k (6.3 million yen)	Banking Act
Loan-based Crowd- funding	Solicitation Of Contributions	Type II Financial Instruments Business *1	Minimum capital: USD 47k (6.3 million yen)	Financial Instruments and Exchange Act
	Lending Of Contributions	Money Lending Business *1	Minimum net assets: USD 470k (63 million yen)	Money Lending Business Act

*1 Jurisdiction of Financial Services Agency



EY

Paragraph 1, Article 52-38 of the Banking Act; and Paragraph 1, Article 34-36 of the Order for Enforcement of the Banking Act (as of May 24, 2021) Item 4, Paragraph 1, Article 29-4 of the Financial Instruments and Exchange Act; and Paragraph 1, Article 15-7 of the Order for Enforcement of the Financial Instruments and Exchange Act (as of May 24, 2021) (as of May 24, 2021)

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4. Market entry: Entity structures and licenses 4-3. Licenses Required by Fintech Segment ③ **Investment/Asset management**

Services to provide		Required licenses	Example of Asset-related requirements	Applicable laws
Sales, Soliciting and	Stocks/ Bonds, etc.	Type I Financial Instruments Businesses * ³	Minimum capital/Net assets: USD 470k (63 million yen)	Financial Instruments and Exchange Act
Underwriting of Securities	Interests in Collective Investment Schemes	Type II Financial Instruments Businesses * ³	Minimum capital: USD 89k (12 million yen)	Financial Instruments and Exchange Act
Management of Customers' Assets	-	Investment Management Business ^{*1 *3}	Minimum capital: USD 470k (63 million yen)	Financial Instruments and Exchange Act
Investment Advisory	Advisory for Institutional Investors	Investment Advisory and Agency Services * ³	Deposit of minimum guarantee of USD 47k (6.3 million yen)	Financial Instruments and Exchange Act
Investment- based	Equity Type*4	Type I Small Amount Electronic Public Offering Service Providers ^{*2} * ³	Minimum capital: USD 89k (12 million yen)	Financial Instruments and Exchange Act
Crowd- funding	Fund Equity Investment Type* ⁵	Type II Small Amount Electronic Public Offering Service Providers ^{*2} * ³	Minimum capital: USD 47k (6.3 million yen)	Financial Instruments and Exchange Act

*1Qualified Institutional Investors who conduct special business, only need to submit a notification under Article 63, Paragraph 2 of the Financial Instruments and Exchange Act.

*² If the amount of funds raised is 9.17 million USD (100 million yen) or more, or the contribution amount per person exceeds 4,587 USD (500,000 yen), a licence for Type I Financial Instruments Businesses is required.

*³ Jurisdiction of Financial Services Agency

*⁴ Equity-based crowdfunding allows contributors to become part-owners of a company by trading capital for equity shares. As equity owners, contributors receive a financial return on their investment and ultimately receive a share of the profits in the form of a dividend or distribution.

*⁵ A system in which financial contributions received from investors/donors are used to conduct businesses or investments, with the profits generated from those businesses or investments distributed to the investor/donors.

Sources: Items 4 and 5, Paragraph 1, Article 29-4 of the Financial Instruments and Exchange Act; and Items 4, 5, 6 and 8, Paragraph 1, Article 15-7 and Paragraph 1 Article 15-9 of the Order for Enforcement of the Financial Instruments and Exchange Act (as of May 24, 2021) Paragraphs 1 and 2, Article 31 of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instruments and Exchange Act; and Paragraph 2, Article 15-2 of the Order for Enforcement of the Financial Instrument of the Finan



8 (as of May 24, 2021)

4. Market entry: Entity structures and licenses 4-3. Licenses Required by Fintech Segment ④ Insurance

Services to provide		Required licenses	Example of Asset-related requirements	Applicable laws
Sales,	Insurance	Insurance Business ^{*2}	Minimum capital: USD 8.9 million (1.2 billion yen)	Insurance Business Act
Soliciting and Underwriting	Small Amount and Short-Term Insurance ^{*1}	Small Amount and Short-Term Insurance Business *2	Minimum capital: USD 89k (12 million yen)	Insurance Business Act
Agents/	Insurance Brokers (For Policyholders)	Insurance Brokers *2	Deposit of minimum guarantee of USD 186k (25 million yen)	Insurance Business Act
Brokerage	Insurance Agents (For Insurance Companies)	Insurance Agents *2	None	Insurance Business Act

*¹ The maximum insurance amounts are: 800,000 yen for medical insurance (hospitalization benefits, etc.); 3 million yen for death from illness; 6 million yen for death from injury; and 10 million yen for non-life insurance. Insurance periods are: one year for life and medical insurances; and two years for non-life insurance. *² Jurisdiction of Financial Services Agency



4. Market entry: Entity structures and licenses 4-3. Licenses Required by Fintech Segment (5) Crypto assets/Security tokens

Services to provide		Required licenses	Example of Asset-related requirements	Applicable laws			
	Crypto Assets Exchange Transactions	Crypto Assets Exchange Service ^{*1}	Minimum capital: USD 89k (12 million yen)	Payment Services Act			
	Derivative Transactions Using Crypto Assets	Type I Financial Instruments Businesses *1	Minimum capital/Net assets: USD 470k (63 million yen)	Financial Instruments and Exchange Act			
	Transactions Using Security Tokens	Type I & II Financial Instruments Businesses *1	Minimum capital/Net assets: USD 470k (63 million yen) Minimum capital: USD 89k (12 million yen)	Financial Instruments and Exchange Act			

*1Jurisdiction of Financial Services Agency

Sources: Item 4, Paragraph 1, Article 63-5 of the Payment Services Act; and Item 1, Paragraph 1, Article 9 of the Cabinet Office Order on Crypto assets Exchange Service Providers (as of May 24, 2021)





5. Latest Trends 5-1. Revision of the Banking Act, etc.

- Amendments to the Banking Act, etc., effective May 2021, have resulted in a review of regulations on the scope of banks' business operations, investment regulations, etc.
- > Expanded business scope of banks will expand the potential for collaboration with domestic banks as business partners.

		Revision	of regu	lations	governii	ng busir	<u>iess sco</u>	pe
	 On May 19, 2021, the "Act for Partial Revision of the Banking Act, etc. for the Purpose of Strengthening and 		Ba	nks	Companies providing sophisticated banking services companies			nt service anies
	Securing the Stability of Financial Functions in Response		Before After		Before After		Before After	
Outline	to Changes in Socioeconomic Conditions Caused by COVID-19, etc."* went into effect.	Sale of apps and systems	-	0	-	0	0	-
	 Amendments made to the Banking Act, Shinkin Bank Act, etc. to deregulate the scope of business operations, 	Data analysis/market _ing/advertising	-	0	-	0	0	-
	investment regulations, etc. for banks.	Temporary staffing	-	0	-	0	0	-
		Consulting/ matching	-	0	-	-	-	-
	 Banks continue to face a difficult business environment due to the declining working-age population, decreased demand for funds, and the entry of different industries into the financial industry, which requires banks to diversify their sources of revenue. Banks are expected to play a role in rebuilding the Japanese economy in the post-COVID-19 era, in response to companies' shift to non-face-to-face services, digitalization, and restructuring of the supply chain. 	Fintech	-	-	0	0	-	-
		Local trading companies	-	-	0	0	-	-
Back- ground		ATM maintenance and inspection	-	-	-	0	0	-
greana		Printing/ Bookbinding	-	-	-	-	0	0
		Automobile operation/mainte nance and inspection	_	-	-	-	0	0
Business opportu- nities for Fintech companies	 Creation of new businesses with banks Opportunities to form new partnerships with banks embark Expansion of the scope of possible investment from ba With the deregulation of investments in companies providing investments from banks can be expected. 	anks					unities f	or

Source: * Financial Services Agency, Explanatory materials for "Bill for Partial Revision of the Banking Act, etc. for the Purpose of Strengthening and Securing the Stability of Financial Functions in Response to Changes in Socioeconomic Conditions Caused by COVID-19, etc., March 2021

5. Latest Trends 5-2. Fraudulent withdrawals from the banking system

- In September 2020, fraudulent withdrawals occurred in payment services using account transfers provided by payment services providers.
- Banks and payment services providers need to strengthen authentication procedures, customer management, and fraud detection measures, for which Fintech companies are expected to provide more convenient services.

Outline	 In September 2020, a number of fraudulent withdrawals occurred at several banks through DOCOMO Account, the e-money payment service of NTT DOCOMO, a major telecommunications provider*1 The number of affected cases was 127 at 11 banks, totaling 28.5 million yen (as of October 2020)*2 As a result, the Financial Services Agency (FSA) requested payment services providers and banks to suspend new account connections and deposits when there are deficiencies in the identity verification measures for payment services that use transfers to and from bank accounts using smartphones.*3
Issues	 Weakness in identity verification measures at the time of providing e-money settlement services*4 Payment service providers did not verify the identity of service users because they were already verified customers of the banks. Many banks allowed account transfers using only account numbers and PINs. ⇒ With the victim's account number and PIN, a criminal could use an anonymous email address to impersonate the victim and conduct transactions.
Business opportu- nities for Fintech companies	 Increasing demand for authentication services When connecting an account with a payment service provider, banks require multi-factor authentication procedures using one-time passwords and phone numbers registered with the payment service provider, etc., in addition to the bank account PIN. When making a payment using a payment service, payment services providers need to go through the same multi-factor authentication procedures as banks, using one-time passwords, etc. Increasing demand for customer management and fraud detection services Payment service providers need to strengthen customer management measures (KYC), including verification at the time of transaction and monitoring.

Sources: *1 Financial Services Agency, Alert on fraudulent withdrawals using services such as smartphone payments, May 10, 2021

*3 Financial Services Agency, Response to fraudulent withdrawals through payment services of Fund Transfer Service providers (Request), May 10, 2021

*4 Ministry of Health, Labour and Welfare, Payment of wages to the accounts of Fund Transfer Service providers,

5. Latest Trends 5-3. FATF's 4th Round of Mutual Evaluations of Japan

- Japan was classified as an "Enhanced Follow-up Country" by the FATF's (Financial Action Task Force on Money Laundering) 4th Mutual Evaluation.
- Based on FATF's evaluation results, financial institutions, and other businesses may be required to implement customer management measures at the time of transaction by placing restrictions on financial transactions with countries/people of concern. As a result, increased business opportunities are expected for Fintech companies with capabilities in risk assessment and monitoring for mobile payments and crypto asset transactions.

Outline	 FATF disclosed the results of the 4th Round of Mutual Evaluations of Japan on August 30th, 2021. Japan failed to pass 11 items in the status of laws and regulations and 8 items in the validity assessment and was classified as a "Enhanced Follow-up Country".
Back- ground	 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 various legal reforms, including: Revised anti-money laundering laws and regulations, including 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 customer management measures on a continuous basis.
Business opportu- nities for Fintech companies	 Increased demand for services around verification at time of transaction and customer management measures Growing business opportunities for Fintech companies that can provide these services (regional banks and credit unions particularly prefer low-cost services.) Increased demand for risk assessment and monitoring services for mobile payments and crypto transactions Growing business opportunities for Fintech companies that can provide these services when providing financial services across multiple providers such as financial institutions, payment service providers and crypto trading

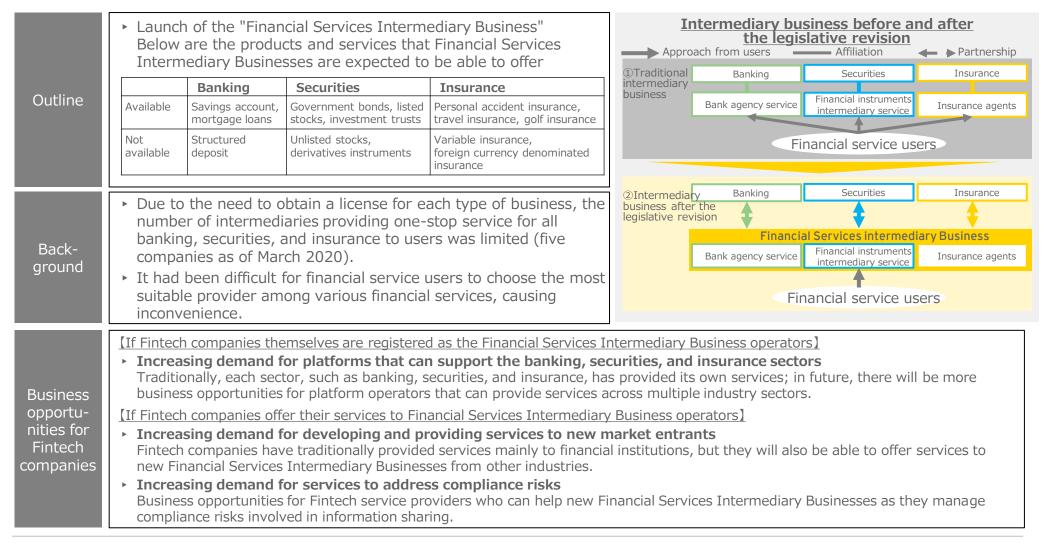
*2 KPMG, Results of the FATF Fourth Round of AML/CFT Mutual Evaluations with Japan is Released and Japan is Placed under Enhanced Follow-Up, October 6, 2021



Sources: *1 Ministry of Finance, *Concerning the Financial Action Task Force*, June 14, 2019

5. Latest Trends 5-4. Launch of the Financial Services Intermediary Business

- In June 2020, amendments to the law concerning the creation of intermediaries that can provide one-stop services in multiple industries (banking, securities, and insurance)*1 were enacted.
- Allowing intermediary businesses in banking, securities, and insurance with only a Financial Services Intermediary Business license will help expand customer services provided by Fintech companies.



Sources: 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

5. Latest Trends 5-5. Opening of the Zengin System to Funds Transfer Service providers (1/2)

- 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.
- This will allow Funds Transfer Service providers to transfer money without going through a bank, which is expected to reduce transaction costs, allow the flexible design and provision of payment systems, and expand the supply of services for small-amount payments.

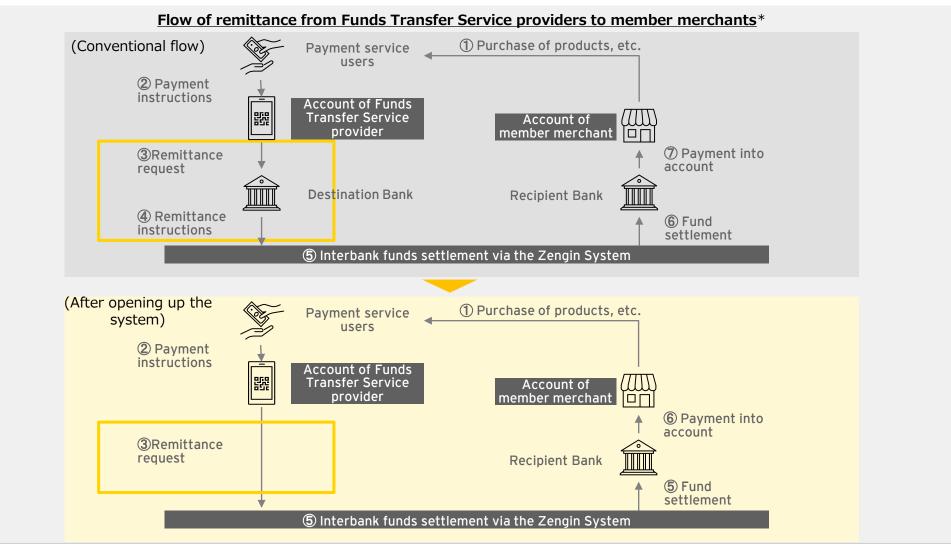
Outline	 JBA announced plans to open its Zengin system (a fund settlement system that relays remittances between different financial institutions) to Funds Transfer Service providers that offer smartphone-based money transfer services by the end of FY2022.*1 (Conventionally, participation was limited to depository institutions.) Features of the Zengin System A network in which almost all (more than 1,000) depository institutions in Japan participate High levels of security and reliability, with no online transaction stoppages during operation hours since the system was established in 1973
Changes	 When transferring a purchase payment from a payment service user to the account of a member merchant, Funds Transfer Service providers: Were required to pay a handling fee to the bank to request remittance instructions Possible to make remittance instructions directly to the payee's account via Zengin system instead of via the bank.
Business opportu- nities for Fintech companies	 Supply of services expanded for small-amount payments Along with a reduction in transaction fees, the flexible design and provision of payment systems (such as the ability to adopt various billing formats at any time), means an increasing number of Fintech companies are expected to provide small-amount payment services, such as small-amount stock investment and insurance purchases.

* Japanese Banks' Payment Clearing Network, Report of the Task Force on the Next Generation Funds Settlement System, viewed on May 17, 2021



5. Latest Trends 5-5. Opening of the Zengin System to Funds Transfer Service providers (2/2)

This will allow Funds Transfer Service providers to transfer money without going through a bank, which will reduce the cost per transaction and expand the supply of services for small-amount payments.



* Fair Trade Commission, <u>Report on the Fact-Finding Survey on Cashless Payments Using QR Codes</u>, viewed on May 17, 2021

5. Latest Trends 5-6. Reduction in bank-to-bank transfer fees (1/2)

- > Persistently high interbank fees were a challenge for improving financial services using fintech.
- Business opportunities for small-amount financial services are expected to expand due to the reduction in the cost of interbank payments per transaction.

Outline	 As of August 2022, 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. The Japanese Banks' Payment Clearing Network will launch a "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".)
Objectives	 Improve financial services using FinTech by reducing interbank fees to a more appropriate level Transfer fees between banks had remained unchanged for over 40 years and set at levels which exceeded actual processing costs High interbank fees were therefore a competition policy issue in in terms of improving financial services using FinTech
Business opportu- nities for Fintech companies	 Expanded supply of services offered by Funds Transfer Service providers and increased business opportunities through combination with account transfer functions The number of Fintech companies providing services for small-amount payments is expected to increase due to reduced fees per settlement. Specifically, business opportunities can be expected through the combination of small-amount financial services and account transfer functions, such as small-amount stock investments and insurance subscriptions.

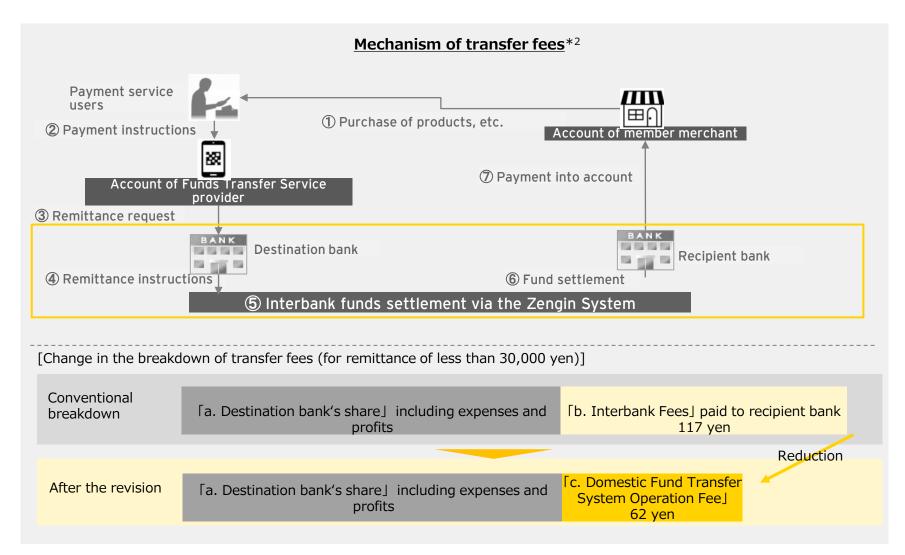
^{*1} Japanese Banks' Payment Clearing Network, Revision of Interbank Fees for Domestic Fund Transfer Transactions, viewed on May 17. 2021



^{*2} Fair Trade Commission, Report on the Fact-Finding Survey on Cashless Payments Using QR Codes, viewed on May 17, 2021

5. Latest Trends 5-6. Reduction in bank-to-bank transfer fees (2/2)

- The Japanese Banks' Payment Clearing Network announced the launch of a "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.
- > Interbank fees, which have remained high, have been reduced to a fee setting based on actual processing costs.

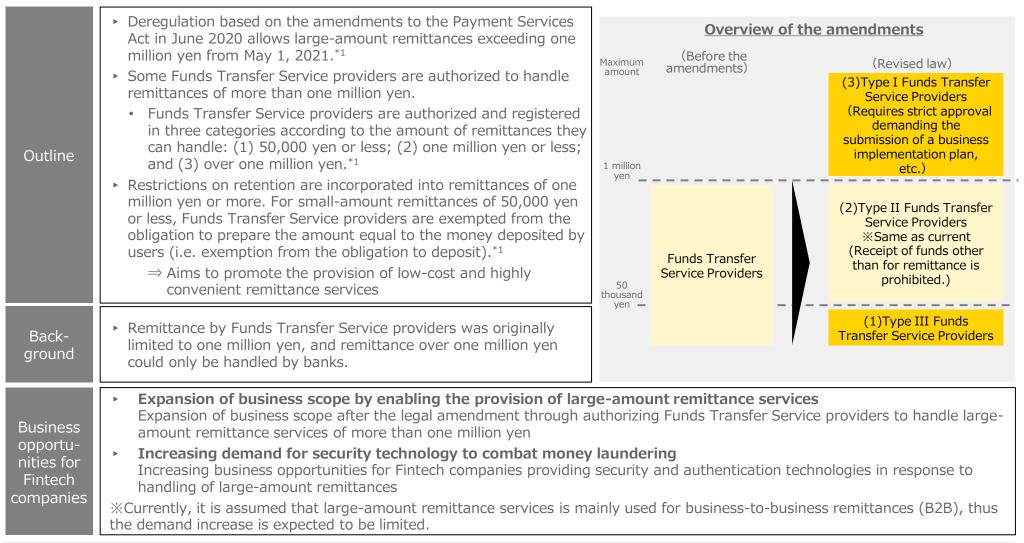


^{*1} Japanese Banks' Payment Clearing Network, <u>Revision of Interbank Fees for Domestic Fund Transfer Transactions</u>, viewed on May 17. 2021

*2 Fair Trade Commission, Report on the Fact-Finding Survey on Cashless Payments Using QR Codes, viewed on May 17, 2021

5. Latest Trends 5-7. Approval for large-amount remittances 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 remittances, which is expected to help expand settlement services.



Sources: *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 17, 2021 *2 Financial Services Agency, Results on public comment about Cabinet Order and Cabinet Office Ordinance on 2020 Payment Services Revision, May 17, 2021



5. Latest Trends 5-8. Expansion of BNPL (Buy Now Pay Later)

- The penetration of cashless payment systems and large acquisitions of Japanese startups by U.S. companies have raised awareness of BNPL in Japan.
- New market entry opportunities in Japan and increased demand for the latest technology associated with BNPL are expected to increase.

	 On September 8, 2021, PayPal, a major U.S. payment settlement company, announced the acquisition of Paidy, which 			BNPL providers in Japan
			Service	Description
Outline	 provides the BNPL service "Paidy" for 300 billion yen. Transaction volume in Japan is around 1 trillion yen, which is small compared to credit cards. However, stores that have 		GMO BNPL	Service provided by GMO Payment Services, allowing for real-time credit analysis.
	adopted this payment method are increasingly aware of its usefulness in expanding sales, and its use is expected to grow in future.*1		ATODENE	Operated by the JACCS Group, a major Japanese consumer credit company, and introduced by more than 16,000 mail-order and EC businesses.
	 A few years ago, ZOZOTOWN allowed users to delay payment of merchandise for up to two months, which led to an increase in the number of users, mainly among young people. However, the service came under criticism as a number of people fell into arrears.*2 		NP BNPL	A service operated by Net Protections, Inc., which also operates "AFTEE", a BNPL service, at its overseas locations.
Backgro -und			SCORE BNPL	Payment service provided by SCORE. Co., Ltd. (spun off from Nissen), allowing for payments at convenience stores and post offices using its payment app.
-una	 Today, however, the service is gaining popularity among both users and merchants due to its numerous advantages, such as 		KURONEKO BNPL	Service provided by Yamato Transport, a major logistics company.
	no service charge to users, as well as the improved accuracy of AI-based credit scoring.			y offers similar service offerings (shopping limit yen, payment deadline within 14 days, etc.)
Business opportu nities for Fintech	 Expected increase in opportunities for BNPL platform provid The BNPL market is expected to grow with the expansion of sma are assumed to be mainly young people who find it difficult to us cards. 	rtph	ione payment	ts and e-commerce usage. Target users
Fintech compani -es	 Growing demand for Fintech companies that provide AI-base In Japan, mail order companies and shipping companies are enter Fintech companies are anticipated to collaborate with new market 	ering	the market	and strengthening their businesses.

Sources: *1 Fintech Journal, BNPL (Pay Later) is So Popular Among Young People: Why? Is it Overconsumption or Economic Stimulus?- History provides the answer," viewed on June 27, 2022

Page 40 *2 Fintech Journal, 2022 is a Year of Upheaval: The 10 Biggest Trends in Fintech, viewed on June 27, 2022

5. Latest Trends 5-9. Security Tokens (STs)

- The government is focusing its efforts on the development of ST-related laws and the study of utilization measures, including amendments to the Financial Instruments and Exchange Act (FIEA) which took effect in 2020, and the "Growth Strategy Action Plan"^{*1} and "Priority Plan for the Realization of a Digital Society "*² approved by the Cabinet in 2021.
- Following the government efforts above, the private sector is accelerating ST-related businesses such as the establishment of digital exchanges and ST issuance and sales.

		Case Studies on STs in Japan
Outline	 Amendments to the FIEA clarified the position of STs under the FIEA by stipulating "electronically recorded transferable rights", "rights that must be indicated on securities", etc. In 2021, the Japanese government clearly stated its policy to utilize blockchain as a national strategy in its "Growth Strategy Action Plan". In addition, in its "Priority Plan for the Realization of a Digital Society", the government expressed interest in 	Osaka Digital Exchange*3 Established: April 1, 2021 Line of business: Operation of private trading system (PTS) for stocks Operation of security token exchange (planned) In March 2021, SBI Holdings, Inc. and Sumitomo Mitsui Financial Group, Inc. (SMBC Group) established Osaka Digital Exchange Co.,
Backgro- und	 blockchain technology and plans to consider introducing it to areas where a high level of reliability is required. Since around 2020, the government has been actively promoting the use of blockchain technology. In May 2021, LDP Diet members launched the "Diet Members Alliance for Blockchain Promotion" to promote NFT and other blockchain technologies and presented their proposals. 	Ltd. (ODX), which aims to operate a private trading system (PTS) to handle stocks and security tokens. Rokko Island DC Real Estate STO Fund*4 Building use: Warehouse Construction period: May 6, 2016 Issued price : 766 million yen Management period: About 5 years Mitsui Bussan Digital Asset Management, a member of the Mitsui & Co. group, publicly offered its first real estate STO fund. The company structured and manages this fund for individual investors. The fund went on sale on December 22, 2021, and was sold out on the same day, attracting more subscriptions than predicted.
Business opportu- nities for Fintech companies	 Expansion of ST-related businesses to increase in the future Both the public and private sectors are focusing on the use of S companies that issue digital securities combined with financial p provide efficient management services for digital securities. 	T technology. In future, demand will increase for

Sources: *1 Prime Minister's Office, Growth Strategy Action Plan, viewed on June 28, 2022

- *2 Digital Agency, Priority Plan for the Realization of a Digital Society, viewed on June 28, 2022
- *3 Official website of Osaka Digital Exchange Co., Ltd., viewed on June 28, 2022

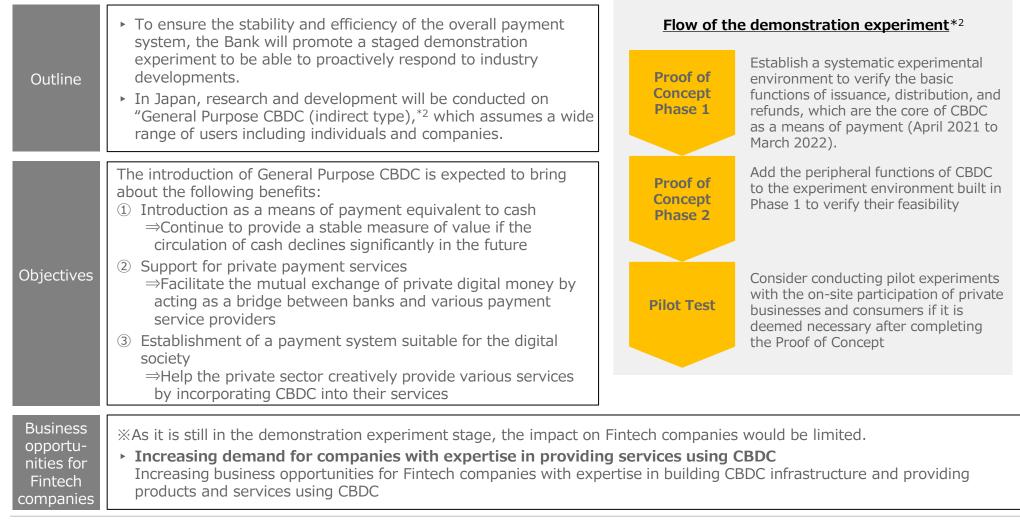
*⁴ Zenkoku Chintai Jutaku Shimbun, *Mitsui & Co. Group Raises 760 Million Yen in First Real Estate STO with Digital Securities*, viewed on June 27, 2022



5. Latest Trends

5-10. Start of demonstration experiment on Digital Currency

- On March 2022, the Bank of Japan launched a Central Bank Digital Currency (CBDC) demonstration experiment (Proof of Concept Phase 2).*1
- Being in the demonstration experiment stage, impact on Fintech companies would be limited. However, business opportunities may be available for Fintech companies offering solutions such as distributed ledger technology, which are utilized in the demonstration experiment.



^{*1} Bank of Japan, <u>The Bank of Japan's Approach to Central Bank Digital Currency</u>, May 10, 2021.

*² "General Purpose CBDC (indirect type)" is one of the main variants of CBDC which the central bank indirectly issues and distributes that can be utilized by a wide range of users, including individuals and private companies, through intermediary institutions such as private businesses.

Page 42 The other variant of CBDC is "wholesale CBDC", which is offered by the central bank to a limited number of counterparties for the primary purpose of settling large amounts of transactions between financial institutions.



5. Latest Trends

5-11. Start of demonstration experiment on P2P insurance (1/2)

- In line with the implementation of the P2P insurance demonstration experiment, a government ordinance authorizing smallamount short-term insurance companies* to underwrite reinsurance was promulgated and enforced.
- From 13 March 2020, only authorized companies are allowed to sell P2P insurance, but full-scale sale of P2P insurance is expected in the future.

Outline	 The Cabinet Order for Partial Amendment to the Order for Enforcement of the Act on Special Measures for Productivity Improvement was promulgated and enforced on July 5, 2019, in order to conduct a demonstration experiment on P2P insurance. Permits small-amount and short-term insurers to underwrite reinsurance (in cases where it is difficult for a policyholder group to cover the claim, the insurance company will pay the remaining amount in the capacity of a reinsurance company)*1 As a result of the demonstration experiment, Japan's first P2P cancer insurance policy, "Wari-Kan Insurance," was launched on January 28, 2020.*2 The number of policyholders is 3,471, and 12 insurance claims have been paid (as of May 2021).*3
Back- ground	 P2P insurance sales using smartphones or social networks are flourishing in other countries around the world. On the other hand, in Japan, the variety of insurance products is limited, and there are few insurance products that young people can easily purchase.
Business opportu- nities for Fintech companies	 Capturing opportunities for P2P insurance sales New insurance products can be offered if the demonstration experiment on P2P insurance progresses and full-scale marketing is approved. XAs of August 2022, legislation allowing the sale of P2P insurance is yet to be fully implemented; it will therefore take time before such products can be launched.

Note: *Small-amount short-term insurance companies: Insurance companies of a certain scale (insurance amount limits are set within seven insurance categories) which only underwrite protection products up to a certain monetary amount and provide up to one-year of coverage (or up to two years in the second category).



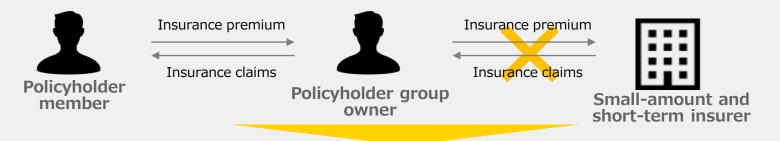
5. Latest Trends

5-11. Start of demonstration experiment on P2P insurance (2/2)

- Through a regulatory sandbox, special measures are being implemented to allow small-amount short-term insurance companies¹ to underwrite reinsurance, which they are unable to do under existing law.
- New technologies can be rapidly tested in an environment where existing regulations are not applied, which can lead to the implementation of new business models and regulatory reform.

Content of the Special Measures

Conventional insurance system:
 Small-amount and short-term insurers are **prohibited from underwriting reinsurance**.

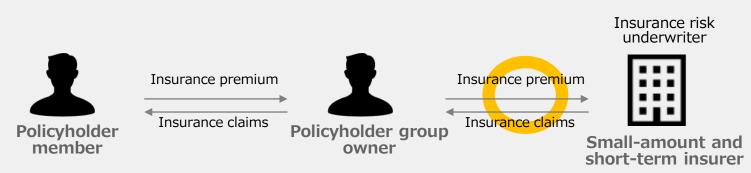


② P2P insurance after the sandbox application:

Need a risk underwriter for cases where it is difficult to for the policy group to cover insurance claims

→<u>Authorized small-amount short-term insurers to underwrite reinsurance</u>

 \rightarrow Small-amount and short-term insurers selling products underwrite risks.



Note: *Small-amount short-term insurance companies: Insurance companies of a certain scale (insurance amount limits are set within seven insurance categories) which only underwrite protection products up to a certain monetary amount and provide up to one-year of coverage (or up to two years in the second category).



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