LANDSCAPING THE JAPANESE FINTECH ECOSYSTEM

Produced by FinTech TWIN$ - April 2016
Executive summary

This FinTech series aims to analyse and compare FinTech ecosystems across Asia-Pacific.

**TWIN$’ mandate**

**Tech**
We think that technology is eroding the bulkwalls of the financial services industry, just as it did in areas such as transport (Uber) or hospitality (AirBnB).

**World**
We map the FinTech ecosystems of Asian Pacific countries: India, Myanmar, Thailand, Hong Kong, Japan, Singapore, Australia...

**Investing in alternative**
We connect with entrepreneurs, incubators, angels, banks and regulators to give you a clear picture of FinTech ecosystems in Asia Pacific.

**Finance$**
We want to empower innovative game changers and alternative business models in payment, lending, equity crowdfunding, wealth management, digital currencies, big data & analytics. We pay particular attention to the traditional financial players and the way they can disrupt the ‘disruptors’.

**TWIN$’ approach**

**TWIN$’ methodology**

We ranked FinTech ecosystems based on 5 elements which, we believe, are necessary for a FinTech ecosystem to flourish:

**Talent**
We think 3 types of talent are necessary for a FinTech ecosystem to emerge: 1) Financial talent, measured by the capacity of the country to be a global financial hub and attract ex-banking talent toward alternative FinTech careers 2) Tech talent, or the amount of engineers and world-class IT companies, and 3) Entrepreneurial talent and a domestic culture that encourage innovation.

**Wealth**
To develop and scale up, start-ups need access to capital. FinTech ecosystems can be funded through: 1) Venture capital funds and private equity shops 2) Incubators and accelerators 3) Corporate FinTech funds, from banks or IT players, and 4) The government, which may directly finance start-ups (seed funds, interest-free grants) or indirectly provide financial support to venture capital, incubators, or banks.

**Inadequacy in the FS market**
We believe FinTech start-ups are more likely to grow when there is a gap between the banking offer and the demand. For instance, banks might struggle to cover the whole country, thus allowing room for FinTech solutions, such as mobile banking, to emerge.

**Network**
Networking is essential for a FinTech ecosystem to scale up as a regional or global hub. This implies, for instance: 1) technology hubs (clusters), where entrepreneurs, banks, IT players, VC, students, and regulatory bodies, with similar business objectives, can connect 2) Mentors, who provide advisory services to entrepreneurs from the early stages of idea generation through commercialisation. Mentors can also be instrumental in lobbying for financial or regulatory measures 3) FinTech events promoting the industry and connecting the dots.

**Supervision**
Governments can influence many aspects of the ecosystem, including easing business regulations (product registration, licence, IPO requirements), lowering taxes, creating FinTech funds and co-working spaces, providing legal advice or promoting the ecosystem abroad.
Why FinTech matters in Japan?

Two kinds of ‘Sumos’ might fight for the Tokyo 2020 (FinTech) Olympics: the Japanese ‘Megabanks’ on one side, and ‘tech giants’ on the other side. While legal barriers and cultural conservativeness still prevent Mitsubishi UFJ, Mizuho and Sumitomo from embracing FinTech innovation, tech giants such as NTT Data or IBM are racing for partnerships with FinTech start-ups. Interestingly in Japan, they are also the ones deciding on banks’ IT strategy.

Still at an early stage, a FinTech ecosystem has started to burgeon in Japan: start-ups such as Money Forward or Freee, banks, IT players, universities and the Japanese FSA are organising themselves to compete within the global FinTech market. The recent governmental incentives towards FinTech and the introduction of negative interest rates might provide a boost to the FinTech industry. Yet, before becoming an Asian FinTech hub, Japan still has to overcome its regulatory burden and its cultural conservativeness.

Within the global competition for the ‘FinTech Olympics’, can Japan regain its entrepreneurial spirit and become a FinTech hub?
A giant banking industry...

• With about 408 banks, the Japanese banking market is worth GBP 120.2B in ordinary income and GBP 7.2T in total asset.
• Japan is the 2nd largest financial market in the OCDE with over USD 16 trillion worth of personal financial assets.
• Thanks to their strong balance sheets and expertise, the 3 ‘Megabanks’ - Mitsubishi UFJ, SMBC and Mizuho - have successfully ventured into new fee-businesses and geographies to diversify revenue sources.

... Struggling to innovate for further growth

Yet, IT investments by Japanese financial groups have historically stagnated around 3%, a level well below their global peers. This can partly be explained by the lack of support towards innovation from senior management, and, most importantly, by the legal limitation on banks’ IT investments.

The Banking Act prevents Japanese banks from having an other 5% stake in a non-finance-based company, limiting them from investing heavily in FinTech start-ups.

Banking market size and main players

Banking market size and main players

<table>
<thead>
<tr>
<th>Trust bank</th>
<th>Major financial group*&lt;sup&gt;5&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sumitomo Mitsui Trust</td>
<td>Mitsubishi UFJ</td>
</tr>
<tr>
<td>- OI: GBP6.5 B</td>
<td>- OI: GBP28.4 B</td>
</tr>
<tr>
<td>- TA: GBP22.6 B</td>
<td>- TA: GBP 1415.0 B</td>
</tr>
<tr>
<td>Local bank</td>
<td>Sumitomo Mitsui</td>
</tr>
<tr>
<td>The Bank of Yokohama</td>
<td>- OI: GBP1.6 B</td>
</tr>
<tr>
<td>- TA: GBP76.8 B</td>
<td>- TA: GBP 885.5 B</td>
</tr>
<tr>
<td>Other bank</td>
<td>Mizuho</td>
</tr>
<tr>
<td>Aeon BANK</td>
<td>- OI: GBP0.6 B</td>
</tr>
<tr>
<td>- TA: GBP12.8 B</td>
<td>- TA: GBP963.8 B</td>
</tr>
<tr>
<td>Internet bank</td>
<td>Resona</td>
</tr>
<tr>
<td>SBI Sumishin Net Bank</td>
<td>- OI: GBP0.3 B</td>
</tr>
<tr>
<td>- TA: GBP18.0 B</td>
<td>- TA: GBP245.1 B</td>
</tr>
<tr>
<td>Shinkin bank</td>
<td>Shinkin bank</td>
</tr>
<tr>
<td>Kyoto Chuo Shinkin Bank</td>
<td>- OI: GBP0.4 B</td>
</tr>
</tbody>
</table>

... Yet, recently, banks have started to look at FinTech

Banks are installing teams to innovate in their Omni-channel banking service, foster the utilisation of big data, improve security and incubate FinTech start-ups.

Recent banking initiatives toward FinTech

- MUFG recently created a digital innovation division, launched FinTech challenge 2015 and MUFG FinTech Accelerator, which is Japan’s first accelerator program delivered by a Japanese bank.

- Collaborated with NEC and Japan Research Institute for O2O service. Launched in January 2016 an Innovation Department devoted to FinTech

- Mizuho

- Launched an incubation team to realize Omni channel and develop new businesses
# Japanese FinTech specificities

Japan’s macro-economic specificities have deep consequences for both traditional banks and FinTech start-ups.

<table>
<thead>
<tr>
<th>Japanese specificities</th>
<th>Insights for banks</th>
<th>Insights for FinTech start-ups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deflation</strong></td>
<td>Saturated lending market</td>
<td>Rise of Cross-border P2P Lending</td>
</tr>
<tr>
<td>Japan’s economy has been experiencing deflation for almost 20 years, resulting in less customer demand for loans.</td>
<td>Due to a decreasing demand, excess liquidity/assets and a pressure on interest rate, the lending business has become less profitable.</td>
<td>The domestic P2P Lending market is saturated, yet, there are large opportunities for cross-border P2P lending platforms. Regional banks could partner with cross-border P2P platforms to expand their lending business overseas.</td>
</tr>
<tr>
<td><strong>Surplus of assets</strong></td>
<td>Overseas expansion</td>
<td>Opportunities for capital alliance with Japanese banks</td>
</tr>
<tr>
<td>With over USD 16 trillion worth of personal financial assets, Japan has the 2nd largest financial market in the OECD.</td>
<td>Consequently, banks have been investing their financial surplus overseas. In 2015, Japan outpaced China as the most active cross-border acquiror in Asia Pacific.</td>
<td>Japan might become a pool of funds for Asian start-ups. Japanese banks have a stronger competitive advantage in Asia now that European peers have to shrink their balance sheets due to European uncertainty and Basel 3.</td>
</tr>
<tr>
<td><strong>Negative interest rate</strong></td>
<td>Banks investing in FinTech</td>
<td>Lower cost of capital</td>
</tr>
<tr>
<td>Since January 2016, the Central Bank has imposed a negative interest rate on deposits from commercial banks, essentially charging them for parking excess funds.</td>
<td>Japanese banking groups will more proactively invest in FinTech.</td>
<td>While money should flow from banks and IT players, start-ups will finance themselves more easily.</td>
</tr>
<tr>
<td><strong>Barrier to banks’ IT investment</strong></td>
<td>Competition between ‘big banks’ and ‘big Tech’</td>
<td>Rise of PFM and robot advisors</td>
</tr>
<tr>
<td>The Japanese Financial Services Agency (JFSA) has started to discuss revisions of the Banking Act to enable banks to invest in IT ventures such as e-commerce, or online payment.</td>
<td></td>
<td>‘Household Budget Management’ and ‘Automated Advisory Service’ are increasing in popularity.</td>
</tr>
<tr>
<td><strong>Empowerment of IT players</strong></td>
<td>Focus on asset management</td>
<td></td>
</tr>
<tr>
<td>Japan has Asia’s 2nd largest e-commerce market. Technology providers (IBM, NTT Data), e-commerce giants (Rakuten) and Telcos (NTT DoCoMo) have been quicker to cooperate with FinTech Start-ups</td>
<td>Increasing fee-based income through investment products to target high-net-worth individuals become a banking priority.</td>
<td></td>
</tr>
<tr>
<td><strong>A saving culture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan is in a unique situation whereby over 52% of personal assets are composed of cash and deposits, with 0% interest.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Less risk averse</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Traditionally, Japanese have been really conservative. Yet, recently, investors have become less risk averse and are looking for diversifying their holdings.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government push toward FinTech</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Government is promoting personal investments and has introduced a tax incentive program (Nippon Individual Saving Account, NISA), while legalising equity-based crowdfunding.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
3 - The Japanese FinTech ecosystem: a new-born raised with the best standards (1/3)

- Japanese FinTech ventures

Peering with the West: There are about 130 FinTech start-ups in Japan, most of which are Japanese adaptations of western successful start-ups. In Dec. 2015, Japan welcomed the recent ‘FinTech Is GREAT Trade Mission to Tokyo’, which brought the UK’s biggest FinTech start-ups to share their knowledge.

Crypto-currencies / Blockchain
- coincheck
- smartcoin
- bitFlyer
- BTCBOX
- mijin

Payment / Settlement
- Money Forward
- Coinbase
- ROYAL GATE

PFM / SAAS
- Square
- Mint
- A-SaaS

Payment / Settlement
- Coinbase
- A-SaaS

PFM / SAAS
- Square
- Mint

Payment / Settlement
- Coinbase
- A-SaaS

A rise in FinTech investments: Although relatively small compared to the UK and the US, many venture capitalists in Japan and abroad have started to invest in FinTech ventures in Japan. Investment volume in 2014 is £36.6 million with a significant growth of CAGR +106%.

A lack of entrepreneurship mind-set: Yet, Japan has the 2nd lowest level of early entrepreneurial activity in the world and none of Japan’s start-ups number among the world’s 145 ‘unicorns’ or those valued at more than $1 billion (China and the US are home to 22 and 92 respectively).

‘Japanese people are afraid about failure in business’ Mr. Hokabe, manager of Nikkei FinTech News.
3 - The Japanese FinTech ecosystem: a new-born raised with the best standards (2/3)

• **Major IT vendors**

IT vendors play a major role within the Japanese FinTech ecosystem. Contrary to banks, IT players share the same tech culture as FinTech start-ups, and have been quicker to partner or incubate them.

  - **IBM**
    IBM BlueHub is an accelerator program to support entrepreneurs, developers and students in Japan. The program provides shared workspaces, access to mentors & IBM technology. The program supports venture companies in FinTech but also in HealthTech, EdTech etc.

  - **NTT DATA**
    NTT DATA recently announced that it will provide a regional bank, Shizuoka bank, with Japan’s first open-API link service, a service connecting FinTech to banks, from April, 2016. NTT Data will collaborate with FinTech ventures like Money Forward and Freee. 

    ‘**NTT Data is very open to innovation, they find and incubate start-ups and embed them into banks**’
    Tatsuto Fujii – Open Innovation manager, Bank of Tokyo-Mitsubishi UFJ

• **FinTech funds**

  - **SBI**
    Created in December 2015, SBI’s fund aims to raise Y30bn from investors including telecoms group SoftBank, regional banks and others, which would be the largest domestic fund focused on FinTech start-ups.

  - **Rakuten**
    Launched in November 2015, the Rakuten FinTech Fund (US$100 million) targets foreign companies (US and Europe) and builds on the success of previous FinTech investments made by Rakuten, including Currency Cloud, WePay and Bitnet.

• **The Financial Service Agency (FSA) and the Japanese Government (DIET)**

  - **FSA**
    The FSA is easing regulations for FinTech investments by banks and has started to discuss revisions to the Banking Act, which prevented bank groups from having IT subsidiaries. The FSA is also looking at amendment of the Financial Products Trading Act to allow equity crowdfunding.

  - **DIET**
    The DIET is promoting personal investment and has introduced a tax exemption program, NISA (Nippon Individual Saving Account), similar to the ISA program in Britain.

• **Research and Media**

  - **Nikkei**

    Since the launch of a cross-divisional FinTech Committee in April 2015, Nomura has focused on promoting FinTech events and researches, through the Nomura Research Institute (NRI). In December 2015, Nomura Holding also established a Financial Innovation Office.
3 - The Japanese FinTech ecosystem: a new-born raised with the best standards (3/3)

- FinTech associations and events

More recently, the FinTech ecosystem has been organising itself with 2 associations: the FinTech association and the FinoLab.

Created in October 1st, 2015, ‘The FinTech association is a group of 40 to 50 small FinTech companies. They do gathering and organize meet-up events’ Toshio Taki, COO of Money Forward.

Launched in February, 2016, the FinoLab is Japan’s First FinTech laboratory. Built on the model of Level 39, in the UK, the venue brings together technology solution providers (ISID), MITSUBISHI ESTATE, Dentsu, and the ‘Finovators’, a group of industry experts including lawyers, investors, entrepreneur and finance-professionals, with the aim of supporting and accelerating FinTech start-ups

‘Finovators do gathering but also political lobbying. It is a bunch of senior people with a strong voice in the political sphere, a bit like Innovate Finance in the UK’. Toshio Taki, COO of Money Forward.

- Universities

As part of a broader strategy to grow companies out of university labs, Tokyo has invested 100 billion yen (around $826 million) in 4 major public universities: Kyoto, Osaka, Tohoku and Tokyo
4 - Main FinTech areas: payment/transfer, PFM, and blockchain leading the way

- **Payment / Transfer**

Japan has Asia’s 2nd largest e-commerce market but payment methods are fragmented with still a strong preference for cash. Japanese e-commerce retailers are looking for payment and transfer solutions, especially with the approach of the 2020 Tokyo Olympics which may inject momentum in the FinTech industry.

In March 2015, Rakuten, Japan’s largest online retail firm, engaged with Bitnet for Bitcoin payment in its e-commerce platform. Bitnet provides solutions to move money effortlessly and safely between customers and merchants, among which payment with digital currencies, digital asset management, blockchain consulting and B2B cross-border remittance.

**Rakuten**

**Bitnet**

- **Personal Finance Management (PFM)**

Japan has the 2nd largest financial market with over USD 16 trillion worth of personal financial assets, 52% of which is held in cash. There is a huge potential for personal finance products as the Japanese tend to hold cash and assets in abundance. Yet, the PFM market is still relatively immature because people are very risk averse, as a result of a unique culture of savings coupled with a negative interest rate environment. Still, FinTech in the ‘Household Budget management’ and the ‘automated advisory services’ areas are gaining popularity.

Money Forward provides online personal accounting solutions that enable individuals to better manage their daily expenses. With about 3 millions users, Money Forward can automatically integrates data from more than 2,500 institutions. The app has been elected #1 Finance app at Google Play/iTunes App Store.

‘Japan might be the largest robot advisor in the world’, Toshio Taki, COO of Money Forward.

**Money Forward**

- **Blockchain and crypto-currency**

Tech Bureau is the parent company behind the Japanese Bitcoin Exchange Zaif. From December 2015 to June 2016, Tech Bureau will provide an open beta program of ‘Mijin CloudChain’, a private blockchain PaaS of its existing platform ‘mijin’, for free. The Mijin CloudChain beta has already received applications from 167 institutions from 15 countries.
5 - Conclusion: Toward an insular FinTech hub?

Talents
- Financial talents: 3 ‘Megabanks’.
- Tech talents: home of global-scale technology giants.
- No entrepreneurial talent: Japan has the 2nd lowest level of early entrepreneurial activity in the world.
- No exodus of banking talents: Japanese banks could keep the damage at a minimum during the last financial crisis and there has not been an exodus of banking talent to alternative FinTech careers.

Wealth
- 2nd largest financial market with over USD 16 trillion worth of personal financial assets
- FinTech investment in 2014: GBP 36.6 million, with a growth of CAGR at 106%.

Inadequacy in the banking industry
With an IT ratio stuck under 2.5-3.5% of net income, Japanese banks struggle to innovate. Collaborating with FinTech could be a solution.
Overall, the banking industry is efficient and there are low incentives for Japanese risk-averse customers to switch to FinTech services.

References
This study is the result of extensive research on the web and interviews with Japanese FinTech leaders, among which:

Successful entrepreneurs
- Taki Toshio, COO of Money Forward
- Tomoyuki Sugiymama, CEO of Crowdcredit
- Masataka Nakamura, Country Director at Positive Planet Finance
- Eric Chung, CEO of Vungle

Banks
- Tatsuto Fujii, and Satoshi Tateyama, Digital Innovation Department, Head of the MUFG FinTech Accelerator

Mentors / Incubators
- Mitchell Murata, VC at Black Pearl Partners Limited and mentor for StartupBootCamp Japan
- Taki Toshio, Finovator at the FinoLab

Media / Research
- Mr Hokabe, Nikkei Business, FinTech News
- Hidetatsu Oh, Nomura Asset Management