

Financial Services in Japan toward a New Decade

MIYASHITA Ichiro

**State Minister of Cabinet Office (Economic and Fiscal Policy),
State Minister of Financial Services Agency, *Government of Japan***

European Financial Forum 2020, February 12th, 2020

(Introduction)

- It is a great pleasure to be at this fantastic forum today in my position as State Minister of Cabinet Office for financial services and economic and fiscal policy.
- More than 60 years have passed since the establishment of diplomatic relations between Japan and Ireland, and over that time, we have built a strong cooperative friendship. Last September, Minister of State Darcy kindly gave a speech at our FinTech Summit in Tokyo. Thank you, Minister.
- Last year, the Rugby World Cup was held in Japan, and about 25,000 Irish visitors helped to make the event a success. I would like to take this opportunity to express my gratitude.
At the game between Japan and Ireland, I was moved by the “no side” spirit of rugby, wherein once the game is over, both sides express their respect for one another. Both teams were able to advance to the final tournament, which I believe was a memorable event.

(Challenge)

- Today, I would like to talk about how financial services should be in the new decade by mentioning recent developments in Japan from the viewpoint of “preparing for the 2020s,” which is the main theme of this forum.
- Internationally, the environment surrounding finance is experiencing dynamic changes, including a prolonged low interest rate environment, technological innovation, and aging societies. The roles and business models of finance will need to change accordingly.
- In Japan, unlike the previous administration which restrained fiscal expenditures, the administration since 2012 has been implementing the three arrows of Abenomics, namely, “aggressive monetary policy,” “flexible fiscal policy,” and “growth strategy to stimulate private investment,” to overcome deflation.
- As a result, for example, in the past seven years, nominal GDP and corporate profits have reached a record high. A virtuous cycle of the economy has begun to steadily turn around.
- However, the inflation rate has remained at slightly less than 1%, and the extremely low interest rate policy has continued.

- Also, internal reserves of listed companies and the private sector's cash and deposits increase as corporate profits are being accumulated.
- It is necessary to pursue sustainable economic growth by enabling a recovery in the real economy through improving business conditions, raising wages, boosting consumption, and promoting new investment and R&D.
- In addition, it is important to support markets and the economy through stable capital inflows into the capital markets and to ensure that the public can also enjoy the fruits of economic growth.
- Today, I would like to talk about how we should respond to this challenge from four perspectives.

(Digitalization and Finance of Society as a Whole)

- First, I would like to discuss digitalization, the digital transformation of society as a whole, and FinTech. For example, we are already seeing new financing based on commercial data.
- From the perspective of evidence-based policy making, we should pursue the direction of accumulating and analyzing data

in both the public and private sectors.

- As one of our policies for this, the consumption tax rate in Japan was raised from 8% to 10% last year. At the same time, we have introduced a policy to promote cashless payments, under which if people purchase products from SMEs with a cashless payment service, they can receive 5% back on their purchase. Such a policy contributes to an increase in the cashless payment ratio and the data accumulation and use of settlement data.
- The promotion of FinTech and discussions on the opening of the API are also underway in Japan to support such moves. While there are still some issues between existing banks with legacy systems and FinTech companies, collaborations between the two are progressing.
- In addition, megabanks themselves have been looking for alliances with FinTech companies to create new businesses. For example, they are providing original digital payments services.
- As GAFA and other international platforms continue to develop, financial institutions are at a turning point. They might be able to act as a driving force for economic development again. Their *raison d'être* is being questioned.

- As digitalization is progressing, we need to ensure the transparency and fairness of not only financial markets, but also the digital market, and to promote fair and free competition. In Japan, we are working on rules for the digital market, such as increasing the transparency of transactions and protecting personal information, as well as the ideal form of business combinations given data monopolies.
- As for the issues raised by Libra, although the existing correspondent bank system is robust, it requires both time and costs. Therefore, there are moves to utilize blockchain and other new technologies to achieve immediate transactions and low costs. There is a major trend toward the digitalization of the economy, including the financial industry, and the joint research on digital currencies by the six central banks, including the Bank of Japan and the ECB, should be viewed in this broad context.
- Last year, under Japanese G20 presidency, we advocated the establishment of a multi-stakeholder governance framework for distributed ledger technology, including engineers, financial institutions, and experts from academia. This approach was reflected in the Leaders' Declaration at the G20 Osaka Summit.
- As initiatives utilizing FinTech are progressing worldwide, Japan is eager to actively participate in and lead discussions.

(Corporate Support and Finance)

- Second, I would like to talk about financial institutions' support to corporates. In Japan, where the population is shrinking and aging, business support and business succession for SMEs are becoming a major issue, particularly in rural areas.
- For this reason, the government has, for example, held an event as a matching platform for clients of regional financial institutions and those from large companies with specialized knowledge.
- In addition, to promote practices that do not rely on personal guarantees in financing, we have set forth guidelines so that we can advance business model-based or personnel-based financing. Especially, the practice of seeking personal guarantees from successors has become a major obstacle to securing successors. Therefore, a special guideline was developed to correct such practices last year.
- In addition, it is vital to expand the scope of Japanese companies' activities abroad by utilizing economic partnerships such as Japan-EU EPAs and TPP11. Some regional banks support the companies through e-commerce.

- Rather than merely waiting for a customer at a store or simply providing guarantees and collateral, the business model of financial institutions has to shift in the future. They need to work closely with their corporate clients to consider a business model, create a business, and respond to their needs for finance. Financial institutions capable of accommodating the changes and developing new business models will survive.

(Environment and Finance)

- Third, I would like to talk about climate change from the perspective of sustainable economic growth and finance..
- About two years ago, the FSB Task Force on Climate-related Financial Disclosure (TCFD) issued recommendations to encourage companies to voluntarily disclose the impact of climate change on financial conditions. Currently, more than 200 Japanese companies, the largest number in the world, endorse TCFD's recommendations. As a background to this increase, the TCFD Consortium was established as a private sector initiative. The consortium brings together companies and investors to discuss challenges and share leading practices to move ahead with corporate disclosure aligned with the TCFD recommendations.

- Through these developments, companies will be able to review their strategies, business models, and risk management, which will contribute to the sustainable growth of their businesses.

(Asset Building, Securities Markets and Finance)

- Finally, I would like to talk about asset building and securities markets. In a prolonged low interest rate environment and a society where people have a 100-year life expectancy, it is important to secure long-term, regular, diversified investments among the public and to support the market and economy through stable capital inflows into the securities markets, while at the same time ensuring that the public receives returns on economic growth.
- For this reason, we have developed “Individual Savings Account for Dollar-Cost Averaging,” called “Tsumitate NISA,” to promote long-term, regular, diversified investments by exempting taxes on profits from investments of up to €3,300 per year for 20 years. At the same time, in order to improve the financial literacy of the people, we are working with not only related organization such as the Bank of Japan, but also with educators to promote financial education.

- In Japan, we are reorganizing our market structure to create an attractive and easy-to-understand securities market that is capable of sustaining corporate growth and increasing corporate value. Specifically, we will divide the stock market into three categories: prime markets, standard markets and growth markets based on capitalization, liquidity, governance or growth potential.
- In addition, through the Corporate Governance Code, the Stewardship Code, and the Governance Code of the Audit Firm, we aim to create a highly transparent and reliable market in which individuals can invest with confidence.

(Conclusion)

- This year the Olympic and Paralympic Games will be held in Tokyo. I hope that many European visitors, including those from Ireland, will come to Japan and support the events. We're looking forward to welcoming you.
- Thank you very much.

(End)