



Summary points from
**JFSA's Initiatives for User Oriented
Financial Services in a New Era**

Financial Services Policy: Assessments and Strategic Priorities 2019

Financial Services Agency

August 2019

JFSA's Initiatives for User Oriented Financial Services in a New Era

1. Finance Digitalization Strategy

- Pursuing data strategy for utilization and privacy protection
- Facilitating innovation by “FinTech Innovation Hub”
- Developing function-based, cross-sectoral financial regulations to promote various innovative financial services

2. Financial services to accommodate various needs

- Enhancing financial and digital literacy adjusted for the social environment and individual life plans and needs
- Realizing a virtuous circle of fund flow contributing to asset building of the ultimate beneficiaries
- Gaining more trust from various users such as elderly persons, persons with disabilities and disaster victims
- Taking initiatives on crypto-assets

3. Financial intermediation and stability

- Monitoring financial institutions for both effective financial intermediation and stability under a declining population and low-interest rate environment
- Engaging in dialogues with regional financial institutions on their corporate visions and business models
- Encouraging regional financial institutions to develop a sustainable business model by deregulation of their business scope and development of the core issues in improving their management and governance

The JFSA, as “Financial Nurturing Agency”, promotes 3 + 2 initiatives with due consideration to various users and beneficiaries of financial services, and makes people’s life better

+1 Contributing to global policy discussion and building a global network

- Tackling the issues raised at G20 Fukuoka, addressing market fragmentation and regulatory implications of financial innovation
- Strengthening cooperation with a wide range of countries and assisting Japanese financial institutions’ overseas business expansion

+2 Reforming the JFSA

- Improving the JFSA’s performance from financial service users’ perspective
- Vitalizing the JFSA itself through encouraging its staffs to take proactive initiatives
- Implementing a new supervisory approach based on JFSA’s theme-specific reports for dialogue with financial institutions

1. Finance Digitalization Strategy

■ Achievements by the JFSA in Business Year 2018:

- ✓ Launched “**FinTech Innovation Hub**” and gathered information through **interviews with FinTech 100 companies**, etc.
- ✓ Supported innovation by “**FinTech Support Desk**” and “**FinTech Proof-of-Concept Hub**”
- ✓ Strengthened international networks through “**FinTech Summit 2018**” and “**Blockchain Round-Table**”
- ✓ Developed infrastructure for information utilization by financial institutions

- **Data utilization is making a great change to the financial area, particularly digitalization in overseas through utilization of big data. International debate on data policy is rising. A new concept related to crypto-assets has also emerged.**

New Initiatives by the JFSA in five important areas

(1) Data strategy for utilization and privacy protection

- **Encouraging financial institutions' data project** such as “**information bank**”

(2) Innovation support

- Supporting various FinTech firms to create new financial services through enhancing information gathering and support by “**FinTech Innovation Hub**”

(3) Function-based, cross-sectoral financial regulations

- Developing regulatory frameworks based on functions and risks to respond to the digital transformation of financial services; **payment regulations with cross-sectoral and flexible structures, and cross-sectoral regulatory frameworks for financial intermediation**

(4) Digitalization of financial regulation and infrastructure

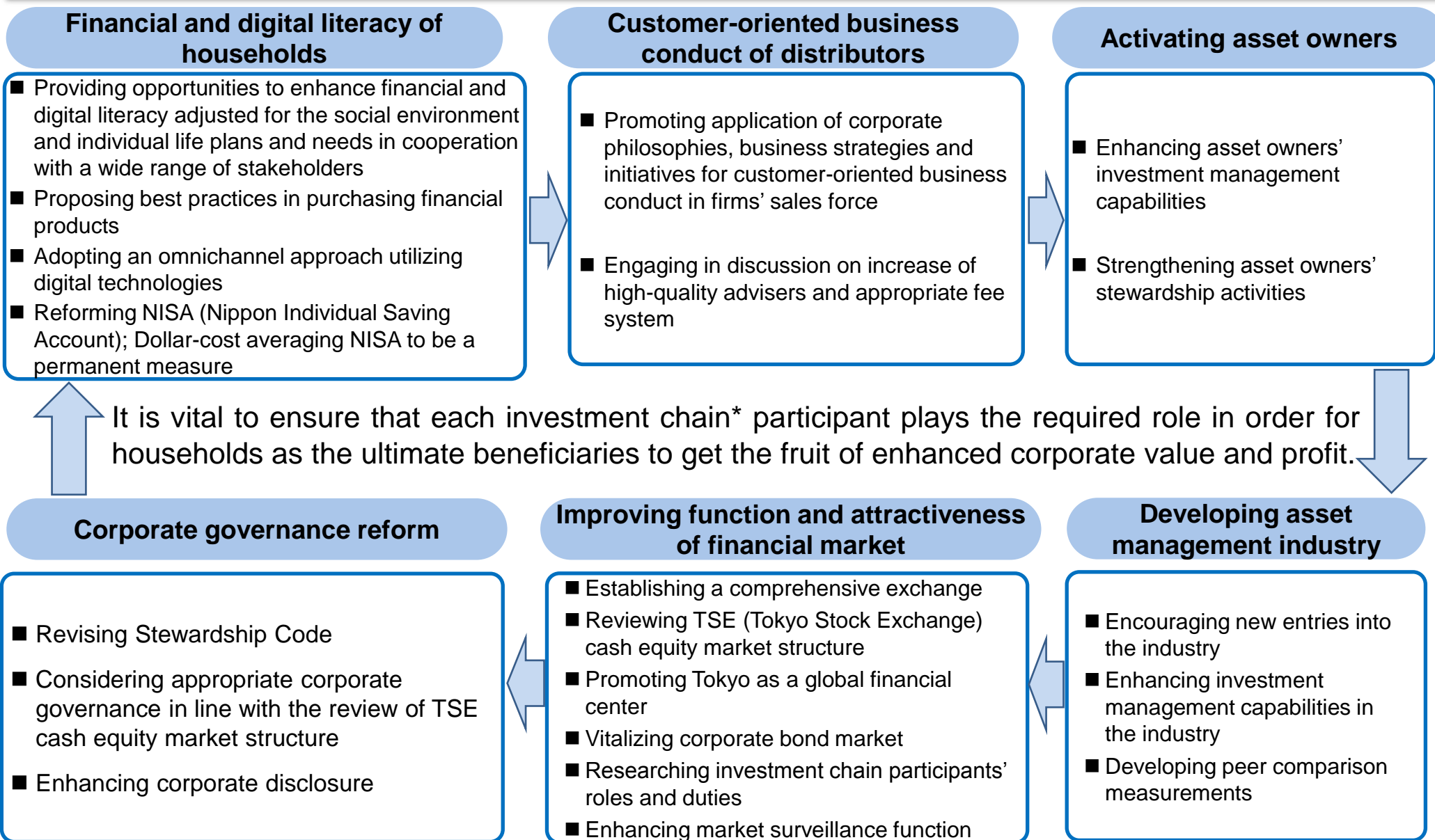
- Developing efficient financial regulation (**RegTech / SupTech Ecosystem**) and infrastructure through digitalization

(5) Global issues

- Ensuring cyber security and grasping the latest trends in technology such as blockchain; holding “**Governance Forum** (*tentative name*)” to discuss distributed financial systems with a multi-stakeholder approach, and considering **responses to a new concept related to crypto-assets**

2. Financial services to accommodate various needs

(1) Realizing a virtuous circle of fund flow contributing to asset building of the ultimate beneficiaries



* "Investment chain" refers to flow where customers and beneficiaries make investments, investee companies' value is enhanced, and then the fruits are returned to households through dividends etc.

2. Financial services to accommodate various needs

(2) Accommodating various users' needs and gaining more trust from users

(1) Accommodating various users' needs

- Promoting financial products/services and customer services accommodating various needs of **elderly persons**
- Encouraging financial institutions to **improve the convenience for persons with disabilities**
- Requesting financial institutions to take necessary measures to support natural disaster victims. Encouraging them to take care of victims based on the "Guidelines for Debt Consolidation on Natural Disasters" and to be well prepared under normal circumstance
- Encouraging financial institutions to implement further countermeasures against special fraud in the remittance area, and monitoring the progress of victim remediation by firms
- Countering against internet remittance fraud with due consideration to not undermining the convenience of internet transactions
- **Improving convenience for foreign users** and **preventing money laundering**

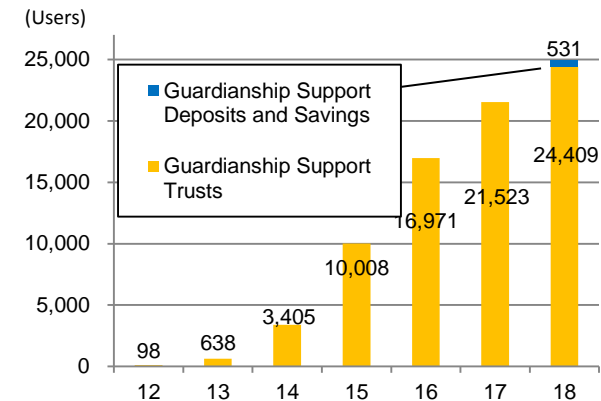
(2) Utilizing users' voices and enhancing firms' compliance risk management

- For early identification and assessment of firms' compliance risk, **enhancing the analysis of users' complaints** through utilizing IT, as well as analyzing a broad range of information about both domestic and overseas regulations and economy
- Engaging in dialogue with financial institutions on their management's attitude, internal control system and corporate culture, and **enhancing their compliance risk management that leads to higher corporate value**

(3) Taking initiatives on crypto-assets (virtual currencies)

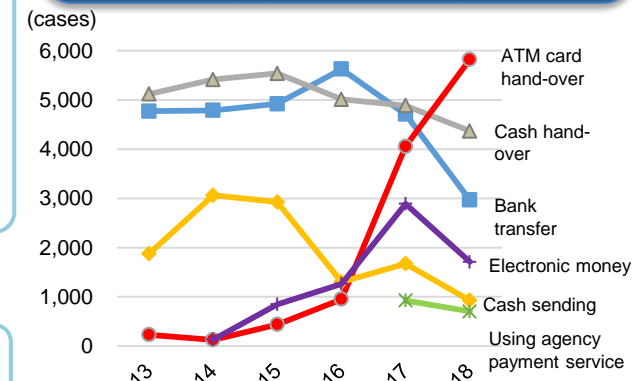
- Establishing a monitoring system and self-regulatory function for crypto-assets (virtual currencies), and facilitating **smooth implementation of the revised Payment Services Act** and other acts
- **Forward-looking monitoring** with due consideration to new development surrounding crypto-assets and **strengthening cooperation with foreign authorities**

Cumulative use of guardianship support trusts, etc.



(Source) Compiled by JFSA from the Supreme Court "Usage of Guardianship Support Trusts, etc."

Number of special fraud cases by type of delivery



* Recently, the number of cases has been rapidly increasing in which a criminal disguised as a police officer cheats victims out of their ATM cards and withdraws their deposits.

(Source) Compiled by JFSA from National Police Agency documents.

3. Financial intermediation and stability

- Japanese financial institutions are facing severe challenges in generating revenues under the low-interest rate environment. Also adding to their difficulties are the increasing competition through digitalization and shrinkage of the domestic market due to the declining population.
- Under the circumstances, the JFSA needs to appropriately monitor financial institutions in order to enhance their financial intermediation and secure financial stability.

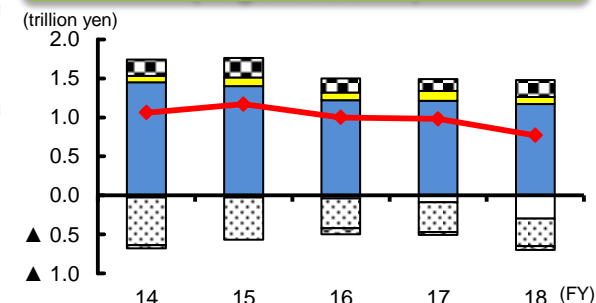
Regional financial institutions

- Whereas soundness is maintained, core net business profits (excluding gains and losses from cancellation of investment trusts) have continued to decline due to reduced lending margin. Current net profits have also continued to decline, partially exacerbated by a recent increase in credit costs.
- In particular, a modest increase in the credit cost ratio from FY 2017 needs close monitoring, though the ratio remains at a very low level compared to the past average.

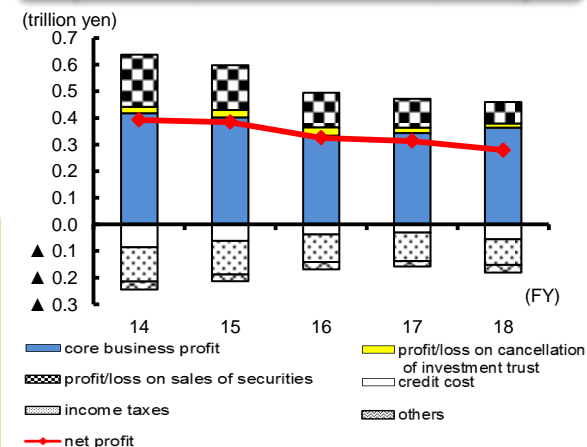
- In cooperation with the Local Finance Bureaus, holding dialogues with regional financial institutions and monitoring their business models – particularly, the business models' sustainability and their effect on financial intermediation
 - **Engaging in in-depth dialogues** with each level of personnel (CEO, executives, branch managers, sales staff members) and external directors, regarding PDCA of business strategies and plans under clear corporate visions. Ensuring **Psychological Safety*** in the dialogues
 - **Utilizing the Early Warning Mechanism** to regional financial institutions with concerns for securing long-term profitability and soundness.
- Implementing a policy package for supporting regional financial institutions to develop their sustainable business models; i) **deregulations on their business scope** (revising the 5% large shareholding limitation rule to revitalize regions) and ii) **development of “the Core Issues of the Management and Governance of Regional Financial Institutions”**

* **Psychological Safety**: Situation and atmosphere where everyone may speak out or take action without feeling anxious

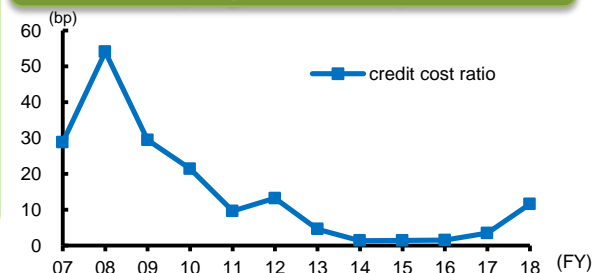
Financial results (Regional Banks)



Financial results (Shinkin Banks and Credit Unions)



Credit costs (Regional banks)



(Note) Credit cost ratio equals credit cost divided by loan balance
(Source) Financial Services Agency

+1.Contributing to global policy discussion and building a global network

(1) Tackling issues raised in G20 Fukuoka

Issues raised in G20 Fukuoka by Japan	Follow-up action
Global financial market fragmentation due to regulatory inconsistency and overlap among countries	Concrete measures to facilitate mutual recognition of regulations among countries , and to address jurisdictional ring-fencing of international banks' capital and liquidity
Regulatory implication from financial innovation	Dialogues among various stakeholders including authorities and engineers: multi stakeholder approach
Crypto-asset: Compiling a directory of regulators and a guidebook for supervision	Considering responses to a new concept related to crypto-assets

G20 High-level Seminar on Financial Innovation



GLOPAC visiting fellows during the training program at the GLOPAC with JFSA officials



(2) Building a global network and cross-border cooperation

- In addition to Japan-China financial cooperation and technical assistance for Myanmar, establishing and deepening cooperative relationships with a wide range of countries. Improving assistance given to Japanese financial institutions for their overseas activities
- Strengthening the quality of programs of the Global Financial Partnership Center (GLOPAC) in cooperation with universities, etc. in order to strengthen cooperative relationships with financial authorities from a medium- and long-term perspective

(3) Sustainable Development Goals (SDGs)

- Supporting companies' voluntary efforts to improve corporate disclosures aligned with the TCFD recommendations

+2. Reforming the JFSA

(1) Reforming the JFSA

- The JFSA will become a satisfying and fulfilling workplace where the staff can develop their career in order to improve the JFSA's performance from the perspective of financial service users
- ✓ Identifying issues in each bureau and division, **setting a reform target and visualizing progress toward the target**
- ✓ Promoting proactive initiatives by officials
 - **Voluntary efforts** to find and solve problems in the workplace to **vitalize the JFSA**
 - **FSA Academia**, providing officials with voluntary learning opportunities
 - **Open Policy Lab**, encouraging officials to proactively make new policy proposals
- ✓ **Promoting one-on-one meetings** to support officials' capacity building, including their dialogue skills
- ✓ Enhancing communication and cooperation with the Local Finance Bureaus



Open Policy Lab;
1st regional finance meeting
in March 2019

(2) Implementing new supervisory approaches

- Carrying out principle-based supervision with emphasis on dialogue with financial institutions and continuously improving the quality of the supervision

