

Summary points from the “Report on the development of regulations for financial institutions regarding data utilization” (published on January 16, 2019) by the Study Group on the Financial System under the Financial System Council, Japan

- The *Study Group on the Financial System* is an advisory body to the financial regulator in Japan, consisting of experts from law, economics, business, and users. It is exploring a regulatory framework that fits the future forms of financial services.
- This *Report* summarizes the discussion and recommendations regarding data utilization by traditional financial institutions.

1. Background

- With advances in information technology including the Internet and mobile devices, the amount of data available is exploding. The collection, storage, and analysis of data as well as provision to a third party (subject to consent of the person concerned as necessary) have become increasingly common in society as a whole.
- It is natural that all players would work on data utilization regardless of the type of entity such as non-financial companies, FinTech companies, and traditional financial institutions. However, current financial regulations in Japan strictly limit the scope of permissible business for banks, insurance companies, securities companies, and investment management companies. As a result, these financial institutions face challenges in providing data to a third party for compensation and might lag behind in data utilization.

2. Necessity of cross-sectoral review on data protection and utilization rules

- Ensuring appropriate protection and management of data continues to be important in the financial field.
- A variety of opinions was expressed in this *Study Group*:
 - Rules for data protection should be reviewed from the perspective of protecting personal data, in light of the increasing use of data in society.
 - In reviewing such rules, striking the right balance between protection and utilization of data is important.
- Cross-sectoral review on data protection and utilization rules is necessary.

3. Approach to regulations on the scope of permissible business for traditional financial institutions considering the increasing use of data in society

- In reviewing the regulations on the scope of permissible business, considering the purposes of the regulations (e.g. limiting the risks posed by non-core business to the soundness of banks) is necessary, and their thorough overhaul requires further discussions.
- At the same time, it is important for traditional financial institutions to adjust to changes in society as a whole.
 - In the short run, it is appropriate to allow banks, insurance companies, securities companies, and investment management companies to engage in the business of providing data held to a third party in a manner that relates to their core businesses.
- Banks may, upon prior authorization, make strategic investments in companies which will contribute to improved services by the banks (e.g. FinTech companies and companies operating an electronic commerce mall). As a result, banks, along with securities companies and investment management companies, may hold subsidiary companies engaging in a wide range of business relating to data utilization. Insurance companies, on the other hand, are not at this point allowed to hold such subsidiary companies.
 - It is appropriate to allow insurance companies to hold such subsidiary companies in light also of encouraging advanced insurance business or enhanced user convenience.