

OPEN BANKING TRENDS IN JAPAN

Background

Japan has a complex and fragmented financial services system, with no single institution dominating all product categories. Furthermore there has always been strict regulations which make it hard for banks to interact with new and innovative FinTech businesses. The move towards open banking¹ over the past two years is fundamentally changing the banking sector and creating new opportunities for new players in the process.

The Revision of the Banking Act came into effect in June 2018, requiring Japanese banks to develop systems for the introduction of open APIs (application programming interfaces) within two years.

The FSA (Financial Services Agency) announced the following policies: "Strengthen planning ability and dealing with FinTech including market supervision", "Prompt banks to vie with each other in providing good services for customers and pursue the best practice", "Promote transparency of bank's initiative to enable customers to choose banks".

Following this trend, Japanese megabanks and local domestic banks have also been promoting the development of open banking.

The trend towards open banking is already creating new opportunities for both domestic and international market entrants. While market entry opportunities have expanded with improvement to the API introduction system under the Revision of the Banking Act, companies need to register and comply with regulations. The tables to the right give an indication of the requirements of entry into this sector.

API-RELATED REGULATIONS (REVISION OF THE BANKING ACT)

ENTRY OPPORTUNITIES

Expansion of opportunities as more APIs are introduced by banks.

Promotion of API introduction by banks

- Duty to strive to prepare for API introduction (Article 11)
- Duty to publicise policy on cooperation with API companies (Article 10)

Promotion of contract conclusion between banks and API companies

- Duty to publicise contract conclusion with API companies and set standard
- Prohibition of unjust discrimination against API companies

Clarification of bank agency²

- Clarification of the criteria for bank agency makes it possible to estimate the eligibility of API companies for bank agency (Banking Act guideline 2-2)

BARRIERS/NOTES

API companies are obliged to meet requirements and comply with regulations.

Registration system for API companies

- A financial basis upon which to perform API business properly
- System preparation to perform API business properly
- Establish a representative in Japan
- Not received any disposal or the fixed period has passed following receipt of a disposal (Article 52-61-2)

Act regulation of API companies

- Provide users with information (Article 52-61-8)
- Take information safety management measures (Article 52-14-17)
- Duty of good faith (Article 52-9)
- Report and keep documents (Articles 12-13)
- Duty to publicise contract conclusion/contents with banks (Articles 52-10-11). Contract contents are below:
 - To share liability between banks and API companies
 - To take safety management measures for user information

NOTES FOR FOREIGN COMPANIES

Need to note restrictions on foreign investment and privacy protection*.

Foreign Exchange and Foreign Trade Control Law (Regulation on foreign investment)

- Advance notification of inward direct investment that does not correspond to "inward direct investment without procedures" (Article 26)
 - Stock acquisition of unlisted companies
 - More than 10% stock acquisition of listed companies (Note: To be set at more than 1% in 2020 through the Revision of Foreign Exchange and Foreign Trade Control Law)
- Investment of certain business including information communication service (Article 27-1)

Personal Information Protection Law

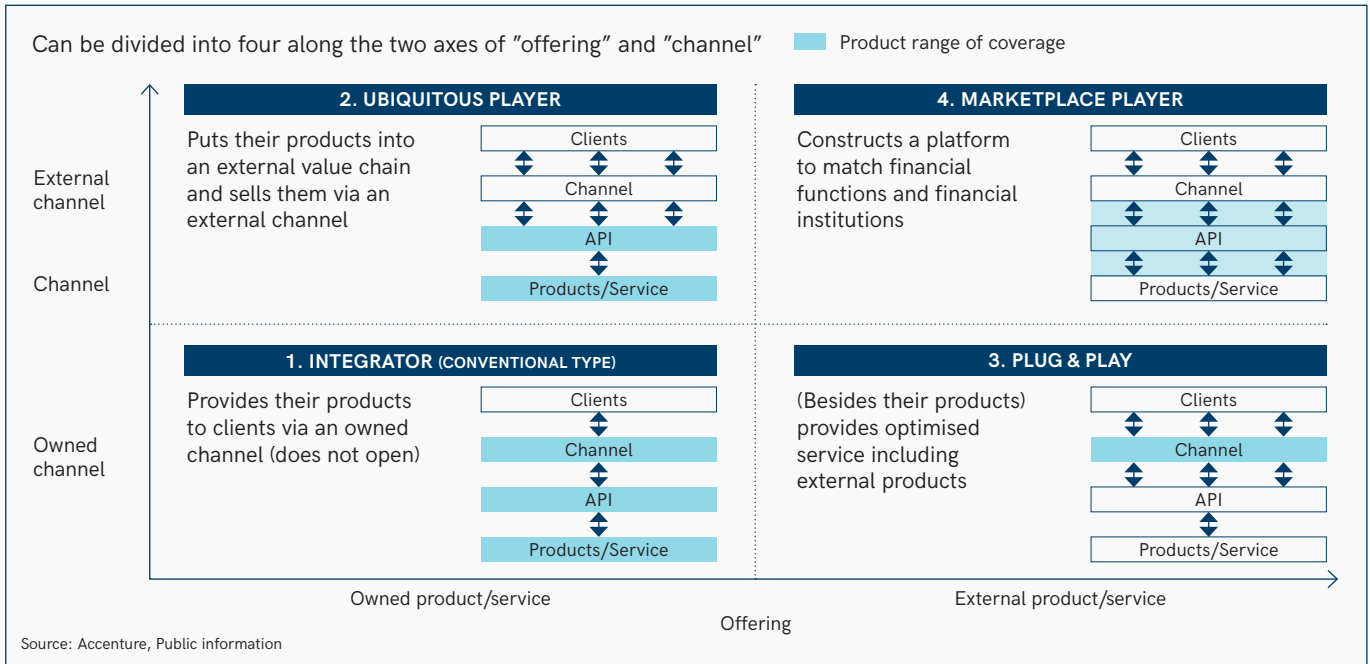
- Clarification of the purpose of personal information usage (Article 15-1)
- Take safety management measures with respect to personal information (Article 20)
- Obtain consent to privacy for providing the third party with personal information (Article 23), (If personal information is provided to a foreign third party, the following apply (Article 24))
 - Proper system preparation of foreign third party
 - Third party must be in a country authorised by the Personal Information Protection Commission
- Corresponds to request for disclosure (Article 28)

1 Open banking is the consensual sharing of data with third parties by financial institutions via open APIs to encourage competition and innovation. 2 Included in electronic payment agency under the Banking Act. If corresponding to bank agency, admission has to be acquired and restrictions will be imposed on any side business. *If contracts are concluded with other consumers, the Consumer Contract Act must be noted.

Anticipated trends in Open Banking

Following the trends in open banking, the options for Japanese banks in terms of transitioning to open banking include: "2. Ubiquitous player", "3. Plug & play", and "4. Marketplace player" as per the table below.

Positioning under open banking



Repositioning by Japanese banks

Megabanks are expanding their services to provide cost savings for SMEs and local domestic banks are expanding their service line-up for customers.

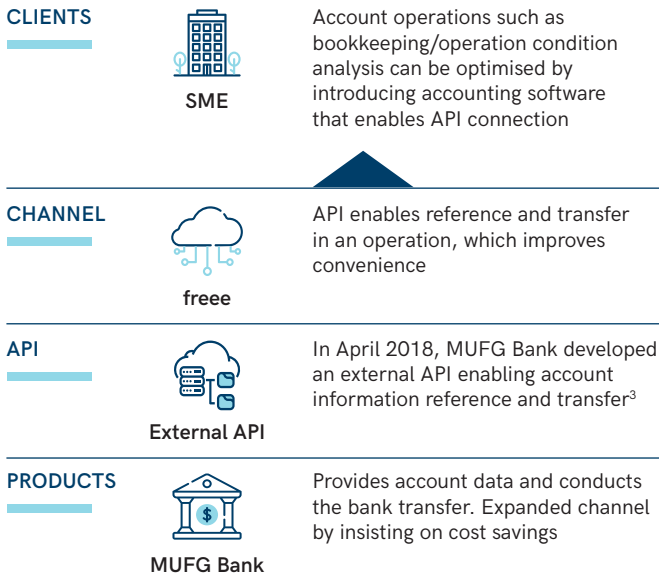
Some early examples of transitions include the shift by MUFG from 1 to 2 as per the table above.

MUFG Bank has developed an external API that enables them to see/update their product (bank account).

MUFG has also contributed to improving account operation through cooperation with a cloud account software company.

Example of a megabank

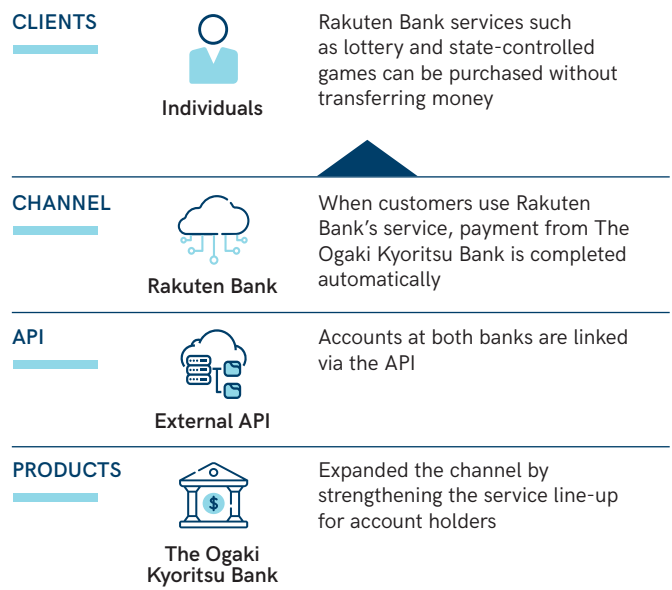
MUFG Bank contributed to accounting-cost savings for SMEs with an API connection to the "free" cloud software company.



Similarly, a local domestic bank, Ogaki Kyoritsu, has developed an external API to enable transfer using their product (bank account). They have also expanded their service line-up so that account holders can use additional services via cooperation with Rakuten Bank.

Example of local banks

The Ogaki Kyoritsu Bank cooperated with net bank "Rakuten Bank" on an API and constructed a service enabling the services of both banks to be used.



Source: Public information

3 <https://developer.portal.bk.mufg.jp/>

The readiness/preparedness of various banks for open banking

The table below gives an indication of the different types of banking institutions in Japan. Note that megabanks come under the category of "city banks".

Segmentation of banks in Japan

Private financial institutions	All banks	Commercial banks	City banks
			Local banks
			The Second Association of Local Banks
			Foreign banks in Japan
	Long-term financial institutions	Long-term credit banks	
		Trust banks	
	Cooperative-type financial institutions	Shinkin banks/Shinkumi banks/Labor banks/JA/JF	
Cooperative-type central organisations	Shinkin Central Bank/Norinchukin Bank/Shoko Chukin Bank		

According to the table below, the Credit Federation of Agricultural Cooperatives, JA (Japan Agriculture) and Tokyo Bank have been evaluated as being particularly active in open banking.

Evaluation of open API readiness / preparedness¹

BUSINESS CATEGORY	AVERAGE OF EVALUATION POINTS	DISPERSION OF EVALUATION POINTS
CFAC ²	32	0
JA	32	0
City banks	31.6	2.9
Local banks	20.8	6.6
Others	19	9.9
Norinchukin Banks	18	0
The Second Local Banks	16.9	7.1
Shinkin Banks	14	2.2
CFFC ³	14	0
JF	13.6	2.2
The Roukinren Banks	12	0
Labor banks	12	0
Shoko Chukin Banks	10	0
Trust banks	4.7	7.9
Shinkumi banks	3	5.4
Foreign banks	0	0

Notes	30-	20-29	10-19	1-9
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¹ Summarized by transforming the open API readiness / preparedness into points for each bank and the following four categories of reference type: individuals/updated type for individuals/reference type for business/updated type for business. The higher the points score, the better prepared the bank's API. ² Credit Federation of Agricultural Cooperatives. ³ Credit Federation of Fishery Cooperatives
Source: Financial Services Agency

Entry opportunities for open banking in Japan

Depending on the status of banks, there are entry opportunities for foreign businesses "providing API infrastructure" or "providing services through API".

Providing API infrastructure: General functional/non-functional requirements

In terms of functional requirements, interface specifications, session management and transaction management are significant areas where solutions are required. In terms of non-functional requirements, authentication management, operation management and traffic management are necessary.

Providing API infrastructure: Monetisation

There are four possible ways to monetise the API infrastructure: "free provision model", "charge model", "commission-based model" and "indirect sales model".

MODEL	CHARGING METHOD
Free provision model	Provide a free web API to application developers to support the development of high-quality applications
Charge model	Charge for API usage
Commission-based model	Charge for the application using the API. Charge for every user transaction
Indirect sales model	Earn sales revenue through applications

Providing services through API

As an example, SBI Sumishin Net Bank aims to enter the market by making proposals that contribute to UX improvement for banks such as SBI Sumishin Net Bank that are actively using API.

Source: Expert interview, public information

The open banking environment in Japan is changing rapidly. This is a summary of information sourced through JETRO reports. If you are interested in investing or commencing business in Japan in this sector seek the latest updates on the trends and regulations through JETRO and original sources.

JETRO Tokyo publishes online statistics and reports on the [JETRO website](#).

You will find a range of information on the JETRO website to assist you with setting up an office in Japan. Or if you meet the Invest Japan program criteria, you may be eligible for consultations with industry experts.

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