



Overview of the policy agenda 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

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

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3. Financial intermediation and stability

1. Finance Digitalization Strategy (i)

(1) Data strategy for utilization and privacy protection

■ Promoting data utilization with careful consideration of protecting personal information

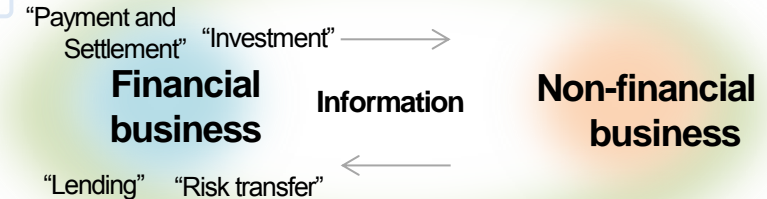
- **Encouraging financial institutions' data projects, such as "information bank,"** in order to **provide advanced services**
- **Protecting customers' interests in terms of privacy and others.** Promoting initiatives aligned with digitalization, such as **support for private business to implement innovative customer identification**
- **Developing a utilization framework for information** other than personal one based on the concept of **Data Free Flow with Trust**, **carefully considering personal information protection**, while **international data policies for free, safe and secure data distribution develop**

(2) Innovation support

■ Supporting various players aiming to create new financial services

- Enhancing information gathering and support by **FinTech Innovation Hub, etc.**
- Promoting innovation support by **FinTech Support Desk and FinTech Proof-of-Concept Hub** through (i) **strengthening dispatch of information regarding the FinTech-related legal framework** and (ii) **conducting on-site consultation by JFSA staff** and information exchange with FinTech startups **inside and outside the JFSA**
- **Promoting initiatives that utilize open architectures.** Under the initiative of **open API**, (i) **holding joint briefings and consultations** to encourage contracts between financial institutions and electronic payment services providers, (ii) **investigating contract status** between them, and **publishing the result as necessary**, and (iii) promoting open innovation through their collaboration and cooperation

A Large impact of data on financial business models

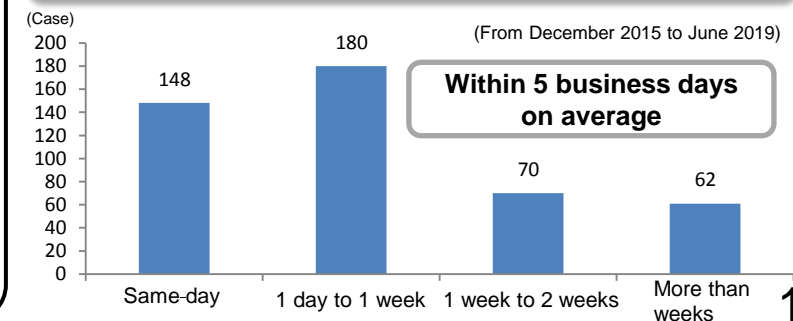


Interaction with FinTech startups (From Meetup with JFSA)



(Source) GoodWay

Response period for consultations that have been completed at FinTech Support Desk

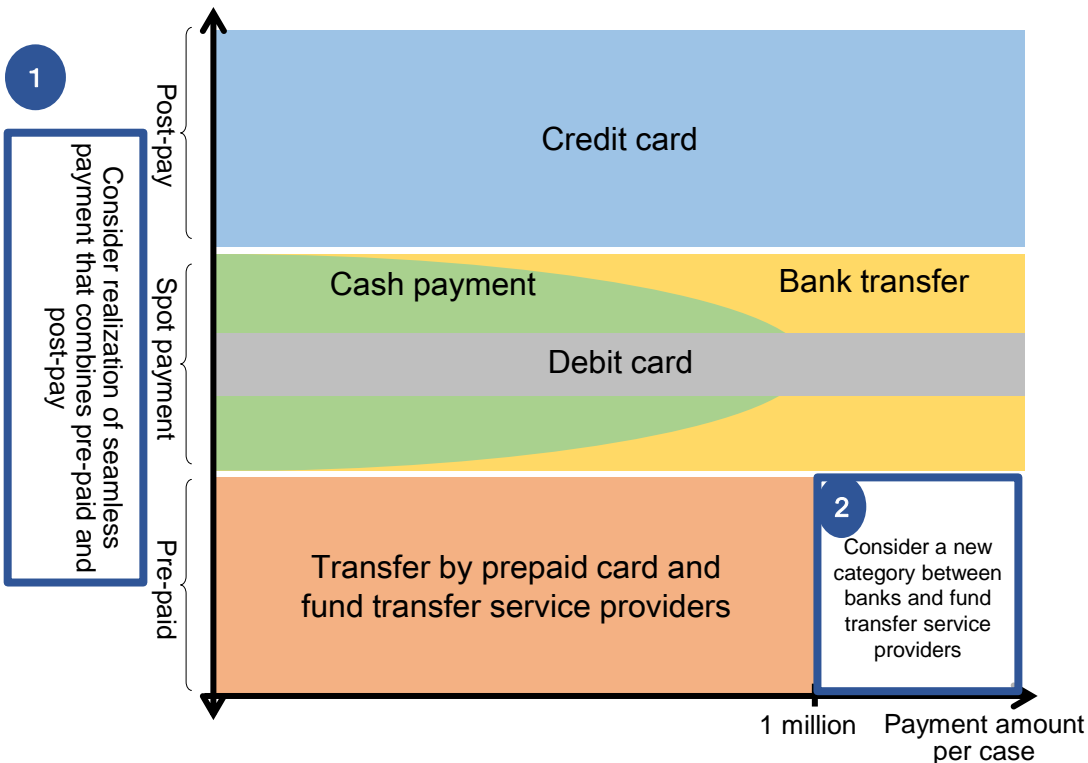


(3) Function-based, cross-sectoral financial regulations

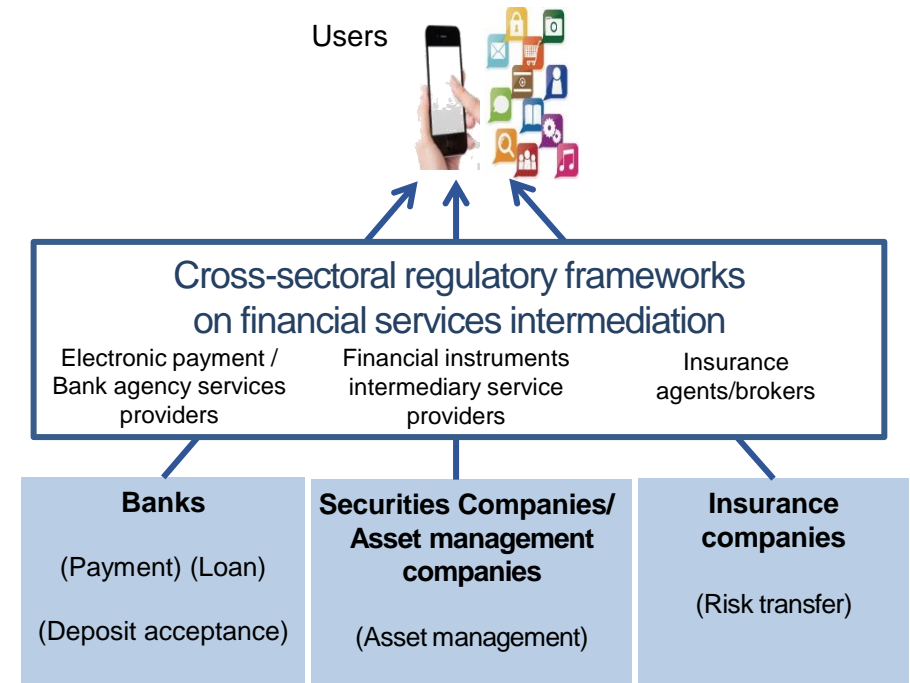
■ In order to respond to the digital transformation of financial services, developing regulatory frameworks into more function-based and cross-sectoral ones

- **Realizing flexible and convenient cash-less payment methods** by developing a **cross-sectoral and flexible regulatory framework on payment fields**
- **Realizing a convenient one-stop channel** by developing **cross-sectoral regulatory frameworks for financial intermediation**

Cross-sectoral and flexible regulatory frameworks for payment fields



Cross-sectoral regulatory frameworks on financial services intermediation



(Source) Excerpts from the materials submitted by Finance Minister Aso in the Council on Investments for the Future (February 13, 2019)

1. Finance Digitalization Strategy (iii)

(4) Digitalization of financial regulation and infrastructure

■ Developing efficient financial regulation and infrastructure through digitalization

- Working on the **RegTech/SupTech Ecosystem** through inviting ideas from financial institutions and conducting a proof-of-concept experiment in cooperation with financial institutions
- **Sophisticating corporate finance and payment processes** from upstream to downstream; (i) **promoting the use of the Zengin EDI system**, which enables inclusion of commercial distribution information on payment information, (ii) **digitizing bill/check functions**, and (iii) **digitizing tax/public money acceptance/payment**

(5) Global issues

■ Ensuring cyber security and grasping the latest trends in technology such as blockchain

- Holding **Governance Forum (tentative name)**, in which a wide range of stakeholders including regulators, engineers, and academics have discussions on governance issues of decentralized financial systems using blockchains with a multi-stakeholder approach, in light of discussions at the **"G20 High-Level Seminar on Financial Innovation"**
- Disseminating the progress of FinTech in Japan by organizing **"Fintech Summit"** and **strengthening frameworks for cooperation with foreign authorities on FinTech**
- **Considering responses to a new concept** related to crypto-assets
- **Strengthening a cyber security management system** including outsourcing

Concept for RegTech / SupTech ecosystem

Effectiveness	Internal management of financial institutions and enhancement of financial monitoring by supervisor
Efficiency	Lower cost of financial institutions' management and regulatory reporting and system for financial institutions and supervisor
Flexibility (Connectivity)	Can respond to player in new technologies and non-financial fields
Timeliness (Real-time)	Participants grasp information in real time
Interactivity (Data sharing)	Shared by participants rather than a one-way system for reporting
Simplicity	Developed into an agile simple system, not a conventional heavy and long-term developing system
Confidentiality	Ensure confidentiality of shared information

G20 High-level Seminar on Financial Innovation (June 8th 2019 in Fukuoka)



(Source) GoodWay

2. Financial services to accommodate various needs

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

(1) Financial and digital literacy / Long-term, installment and diversified investment

- **“G20 Fukuoka Policy Priority on Aging and Financial Inclusion,”** which Japan presided over, pointed out **the importance of financial and digital literacy** in light of the increased digitalization, lifetime financial planning, and the prevention of financial fraud.
- It is important to **comprehensively improve the environment so that households’ financial and digital literacy can be strengthened** to enable individuals to properly select financial services that meet **various needs according to their life stages**.
- While **Dollar-Cost Averaging NISA**, which is working to promote long-term, installment, and diversified investments, **has gained more users**, there are also opinions that there is no opportunity to fully understand the system or its significance.

- Looking ahead to the implementation of the new junior high school / high school study guidelines, (i) **developing and disseminating practical teaching materials and supplementary teaching materials**, and (ii) dispatching lecturers to teacher training courses at universities
- Taking measures more effectively to improve financial literacy such as school visits by officers, seminars, and the creation of teaching materials **in cooperation with related organizations**
- Proposing to users of financial services the **best practices, which are helpful in purchasing financial products**
- **Adopting an omnichannel approach** to a wide range of people; **utilizing digital technologies** and providing opportunities for **investment through financial products purchase by loyalty program points and small change**
- **To make NISA / Dollar-Cost Averaging NISA a permanent measure**, discussing with stakeholders

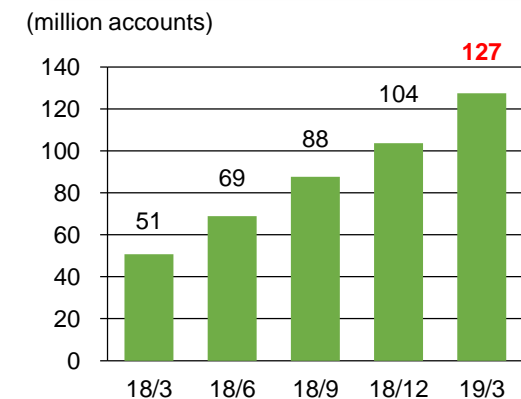
School Visits



Number of school visits (in the last program year)

School visits	66 (Universities: 29; High schools: 23; Junior high schools: 11; Elementary schools: 2; Special support: 1)
Dispatched lecturers	99 (total)

Number of Dollar-Cost Averaging NISA accounts



(Source) JFSA

2. Financial services to accommodate various needs

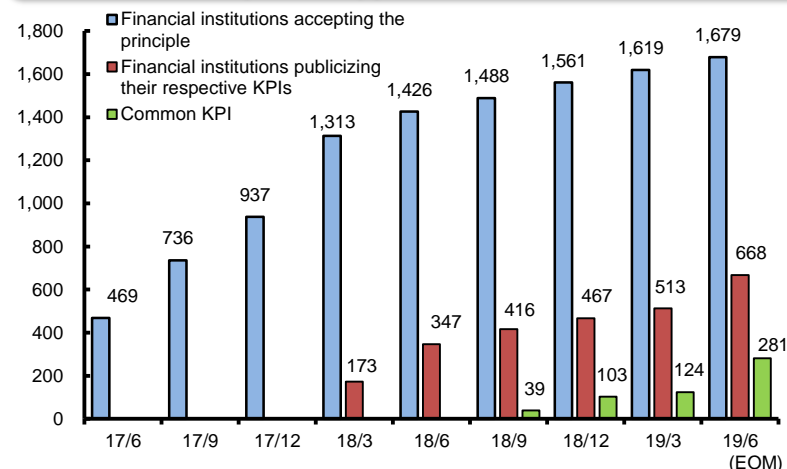
(1) Realizing a virtuous circle of fund flow contributing to asset building of the ultimate beneficiaries(ii)

(2) Customer-oriented business conduct of distributors

- Although the number of financial institutions adopting the “Principles for customer-oriented business conduct” has increased, there are some cases in which they **lack an attitude to fully understand the essence of the “Principles” and to practice them.**
- Although there is some improvement in the firms’ initiatives to review the performance evaluation system and enhance customer consulting, **the depth of those initiatives varies among the firms.**
- While sales of investment trusts at banks have declined significantly, **sales of foreign currency denominated single premium insurance have been increasing rapidly.**
- Customer surveys show **the importance of providing courteous explanation** about initiatives by financial institutions.

- **Conducting dialogue with management teams of financial institutions** to see how they (i) **incorporate the idea of the “Principles” in their corporate philosophies**, (ii) **develop their business strategies**, and (iii) **apply them in firms’ sale forces**
- **Monitoring on customer advice** in the firms’ sales forces and **the management by the firms’ headquarters regarding the products that sell well**, such as foreign currencies denominated insurances
- **Visualizing financial institutions’ initiatives** such as publishing time series analysis of the common comparable KPIs with a view to further disseminating the firms’ initiatives
- **Engaging in discussion with financial institutions** about **developing high-quality advisers** and a **fee system** which motivates them to be customer-oriented

Financial institutions accepting the “Principles for Customer-Oriented Business Conduct” and publicizing their respective approaches and KPIs

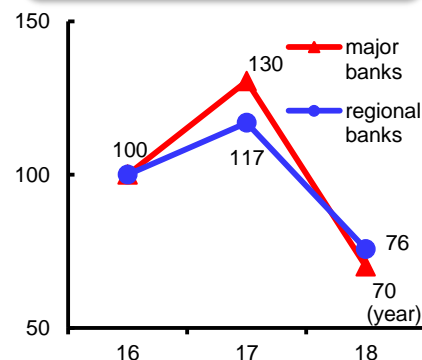


(Note 1) “Financial institutions publicizing their respective KPIs” refers to institutions developing their respective directions and approaches publicizing KPIs which show status of implementation.

(Note 2) “Common KPI” is the total number of institutions that have published one or more of the three common KPIs.

(Source) JFSA

Sales of investment trusts at banks



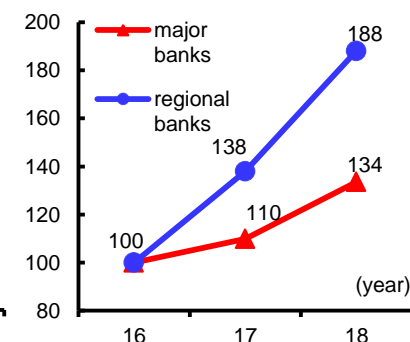
(Note 1) 9 major banks and 20 regional banks.

(Note 2) Figures include intermediary and referral.

(Note 3) Indexed based on FY2016 as 100.

(Source) JFSA

Sales of foreign currency denominated single premium insurance at banks



(Note 1) 9 major banks and 20 regional banks.

(Note 2) Indexed based on FY2016 as 100.

(Source) JFSA

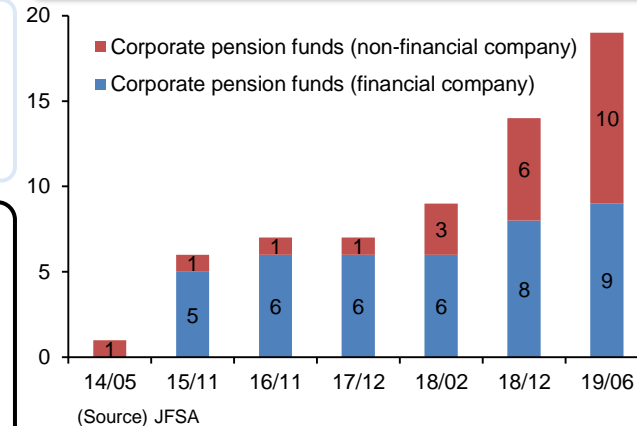
2. Financial services to accommodate various needs

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

(3) Activating asset owners

- Towards a virtuous cycle of funds, **the functioning by asset owners** which have a role to engage and monitor the asset managers is important.
 - More **corporate pension funds** have accepted **the Stewardship Code**.
- Enhancing investment management capabilities of corporate pension funds by strengthening **cooperation with various stakeholders** (including the business sector) and engaging with the companies.
 - Supporting stewardship activities of **corporate pension funds** while promoting **the companies'** understanding of stewardship activities

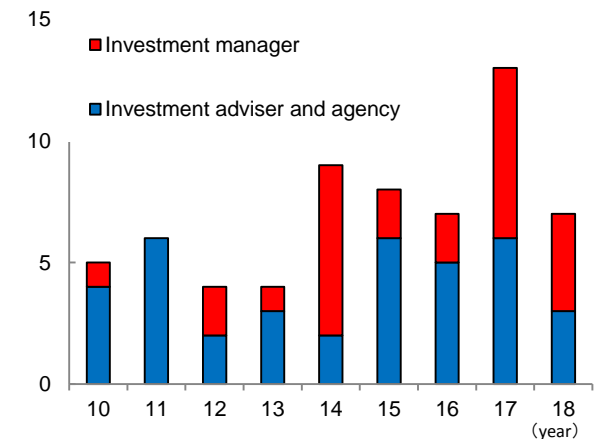
Number of corporate pension funds accepting the Stewardship Code



(4) Developing asset management industry

- Developing the industry is important for **vitalizing capital markets and providing long-term personal asset management services**.
 - For investment managers, it is necessary to earn customer trust based on **better investment performances relative to their peers** together with **strengthening their soundness**.
- **Promoting competition** through facilitating new entries into Japanese asset management industry and **visualizing firm's investment capabilities**
 - Through dialogue with the firms, clarifying their investment philosophies to achieve it. Enhancing **investment management capabilities in the industry** in consideration of the advanced practices of foreign asset management companies

Number of foreign firms which newly entered the industry



(Note) The number of foreign firms who have registered as investment managers or investment advisory/agents and newly joined the Japan Investment Advisors Association according to the provisions of the Financial Instruments and Exchange Act
 (Source) Compiled by JFSA, from the Japan Investment Advisors Association

2. Financial services to accommodate various needs

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

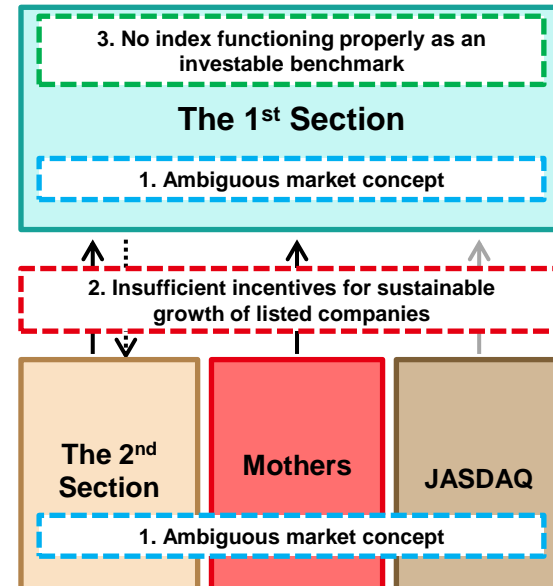
(5) Improving functioning and attractiveness of financial market

- Considering measures in order to make financial and capital markets more efficient and attractive
- Establishing a **comprehensive exchange** in the first half of FY2020
- Reviewing **Tokyo Stock Exchange (TSE) cash equity market structure** in order to enhance **the sustainable growth of corporate value of listed companies and the development of start-up companies**
- Enhancing the status of **Tokyo** as a **global financial center**
- Conducting research on **the development of a market where various corporate bonds are issued**
- Conducting surveys regarding **the roles and duties of participants in the investment chain**, including **the fiduciary responsibility**, while referring to the situation in other countries
- For comprehensive, agile and in-depth market surveillance, considering **utilization of IT (SupTech)** and **improvement of market surveillance methods**

(6) Corporate governance reform

- It is important to make the reform substantial such as deepening **investors' understanding of companies** and promoting their constructive dialogue.
- **Enhancement of corporate disclosure** is important from the perspective of promoting constructive dialogue between investors and companies and **improving corporate management and value**.
- **Revising Stewardship Code to deepen dialogue between companies and investors**
- Based on **the review of the TSE cash equity market structure**, considering **the appropriate governance for each market concept**, such as the composition of the board of directors in line with global standards
- **Enhancing narrative information including management strategies** in annual securities reports through especially **encouraging company managers**

Issues of TSE cash equity market structure



(Source) Tokyo Stock Exchange, Inc.

ICGN Annual General Meeting (July 16-18th 2019 In Tokyo)



(Note) International Corporate Governance Network 7

2. Financial services to accommodate various needs

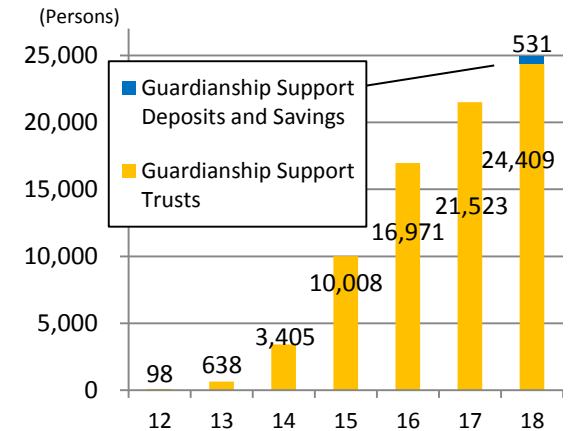
(2) Accommodating various users' needs and gaining more trust from users(i)

(1) Supporting elderly persons and persons with disabilities

- In Japan, aging will accelerate in the future, which makes support for wealth management and life design of elderly persons more important.
- Financial institutions should take necessary and reasonable measures to eliminate social obstacles of persons with disabilities so as to respect their rights and interests.

- Supporting the development of various financial products and services for the elderly and dementia, including guardianship support deposits, dementia supporters, and customer services taking into account elderly customers' circumstances such as responding to the withdrawal of deposits flexibly in various circumstances
- Encouraging financial institutions to improve their facilities and take initiatives at the operational level to support persons with disabilities

Cumulative use of guardianship support trusts, etc.



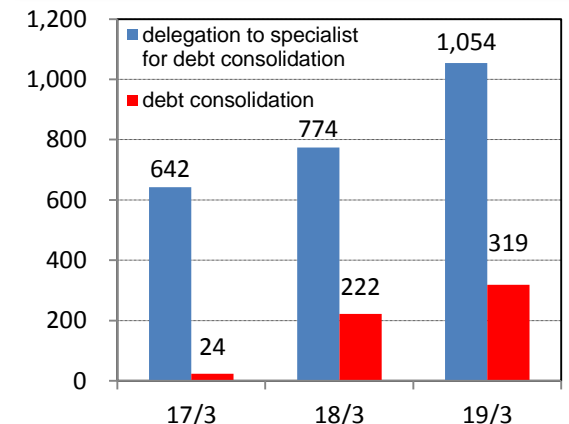
(Source) Compiled by JFSA from the Supreme Court "Usage of Guardianship Support Trusts, etc".

(2) Supporting victims of natural disasters such as earthquakes

- When a large-scale disaster occurs, it is important to request that financial institutions take "financial services support measures", as well as encourage them to provide other relevant support in line with the needs of the victims.

- Being well prepared under normal circumstances through the dissemination of the Guidelines for Debt Consolidation after a Natural Disaster
- In the event of a disaster, responding appropriately, for example, making a request for "financial services support measures" to related financial institutions, in close contact with related organizations. Encouraging financial institutions to support victims meticulously for recovery and reconstruction, based on the Guidelines for Debt Consolidation after a Natural Disaster

Utilization of Guidelines for Debt Consolidation after a Natural Disaster



(Note) Cumulative total
(Source) Compiled by JFSA, from the organization for debt consolidation guidelines for victims of the Great East Japan Earthquake and natural disasters

2. Financial services to accommodate various needs

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

(3) Supporting foreign users

- Regarding the use of deposits and overseas remittances, in addition to improving convenience for foreign users, measures against money laundering are necessary.

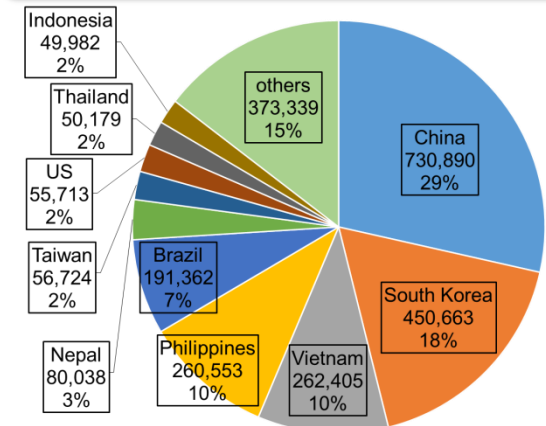
- In order to facilitate use of deposits and overseas remittances for foreign users, (i) encouraging multilingual support at financial institutions and (ii) disseminating information to foreign users and institutions accepting them in Japan through brochures about financial services and crime alerts
- As for the measures against money laundering, (i) encouraging financial institutions to enhance appropriate and continuous customer management for foreign users through customer identification by residence card, and (ii) providing information to foreign customers to prevent their use of unlicensed/unregistered financial institutions' services

(4) Preventing fraud and troubles related to financial services

- Techniques of remittance fraud are becoming more sophisticated, and special fraud remains at a high level in terms of both the number of recognized cases and the amount of financial damage.
- As new payment services including those via smartphones have become widespread, new types of fraudulent transactions also occur.

- Encouraging financial institutions to further implement measures against special fraud including remittance scams. Monitoring the progress of victim remediation by financial institutions
- Encouraging financial institutions to address new types of internet remittance fraud while not undermining convenience of internet transactions

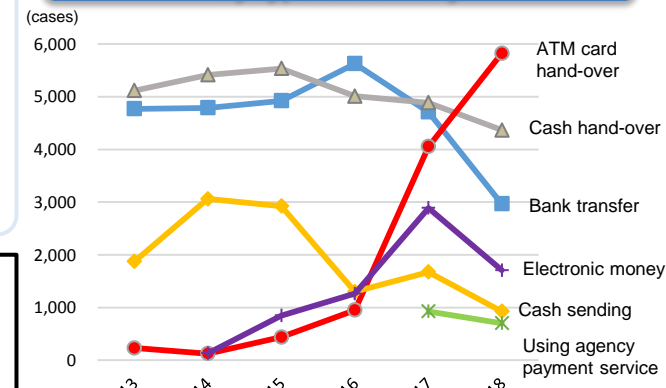
Number of foreign residents by nationality and region as of March 2018



Languages supported by JFSA pamphlets

- Simple Japanese/English/Chinese/Korean/Vietnamese
- Tagalog/Portuguese/Nepalese/Thai
- Malay/Spanish/Burmese/Khmer/Mongolian

Number of special fraud cases by type of delivery



(Note) 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.

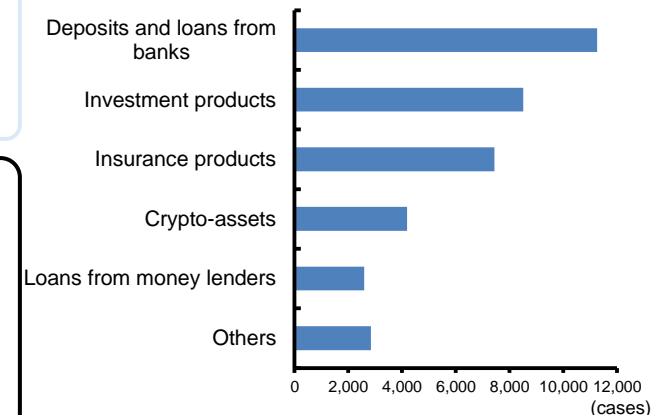
2. Financial services to accommodate various needs

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

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

- To encourage financial institutions to conduct business operations that ensure legal compliance, customer protection and market integrity, it is necessary for JFSA to gather and analyze a broad range of information and assess their impact on financial institutions' business and 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 dialogues 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**

Complaints and inquiries received by JFSA's Counseling Office for Financial Services Users

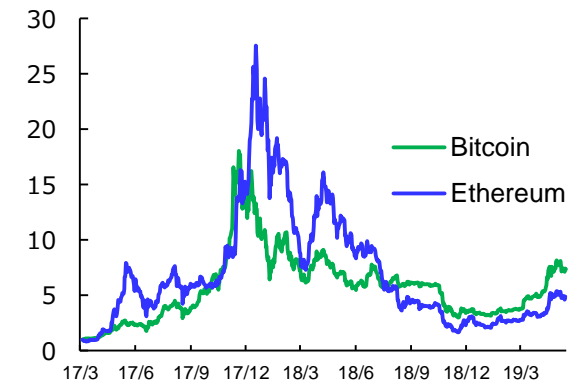


(Note) from April 2018 to March 2019
(Source) JFSA

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

- It is important for crypto-assets exchange service providers to build a flexible risk management systems that respond to the environment changes including loss of crypto-assets incidents and investments by listed and overseas companies in exchange service providers.
- It is important to find a balance between innovation and customer protection, bearing in mind that enhancing trust of the relevant business through ensuring customer protection is necessary for innovation.
- For **smooth implementation of the revised Payment Services Act** and other acts, amending related ordinances and guidelines, and establishing a monitoring system and self-regulatory function for crypto-assets
- With due consideration to new development surrounding crypto-assets, implementing **forward-looking monitoring** and **strengthening cooperation with foreign authorities**

Prices of major crypto-assets



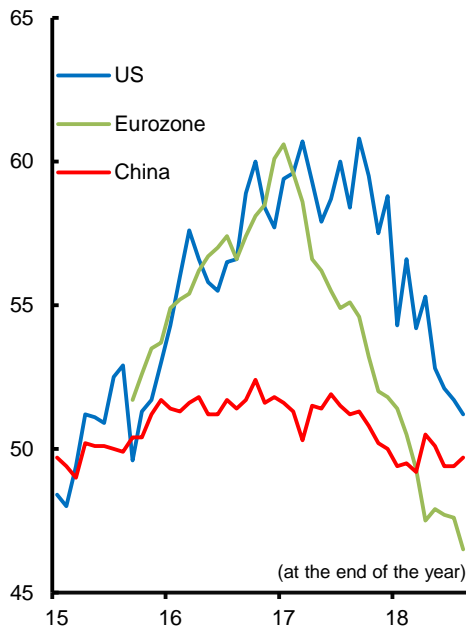
(Note) Indexed based on April 1 in 2017 as 1.
(Source) Compiled from CoinMarketCap (<https://coinmarketcap.com>) by JFSA.

3. Financial intermediation and stability (i)

(1) Trends of domestic and foreign economies and financial markets / Current state of domestic financial system

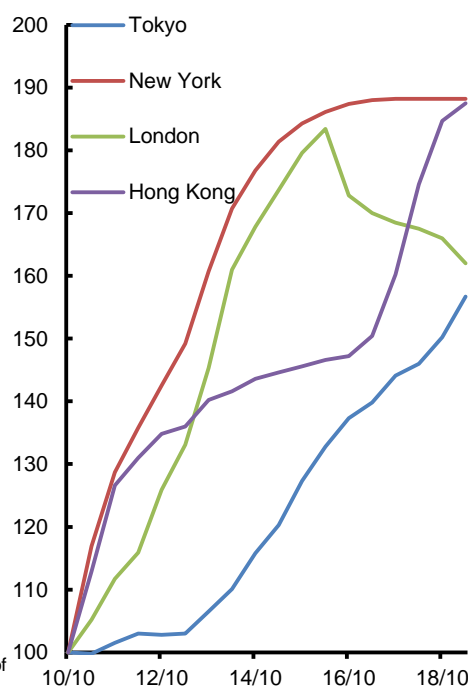
- While domestic and foreign economies are recovering at a moderate pace, there is increasing uncertainty due to situations in Europe and trade tension. Close attention should be paid to the market trend of risk assets, which are exposed to developments of the global economy and investors searching for higher yield due to the prolonged monetary accommodation.
- The Japanese financial system is stable as a whole. However, under the low-interest rate environment, the profitability of banks has declined and banks are showing the tendency to seek profit opportunities by expansion of overseas operations or loans on real estate. When the credit cycle shifts to a downturn in the future, the credit costs may rise and profitability could fall further.

Manufacturing industry PMI in major countries



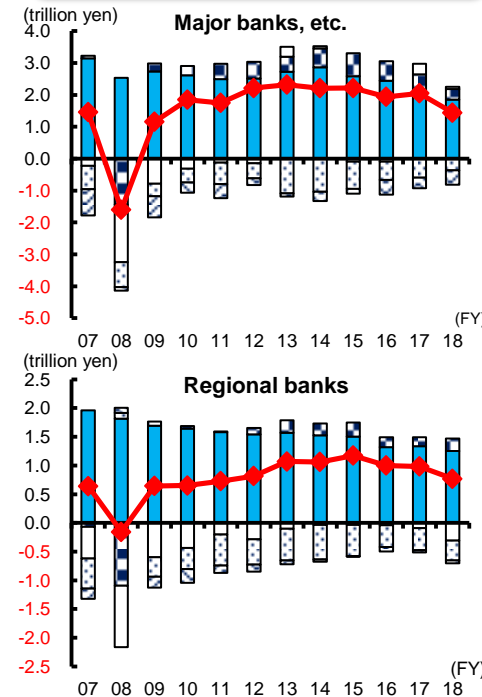
(Note 1) PMI (Purchasing Managers' Index) is an index of business sentiment based on a questionnaire survey of purchasing managers. Above 50 shows improvement, while below 50 shows deterioration.
 (Note 2) ISM manufacturing business sentiment index in the US, Markit manufacturing PMI in the Euro area, and manufacturing PMI from the National Bureau of Statistics and China Federation of Logistics and Purchasing.
 (Source) Bloomberg

Real estate value of commercial office property



(Note) Indexed based on October 1 in 2010 as 100.
 (Source) Japan Real Estate Institute

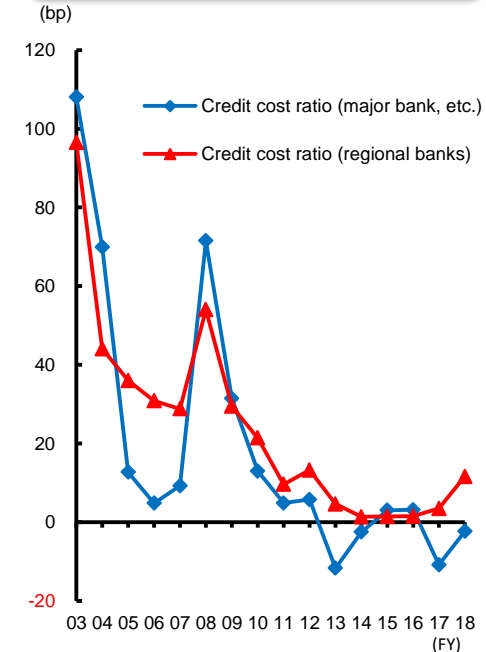
Financial results of banks



Legend:
 Others (grey bar), Corporate income taxes (grey bar), Credit cost (white bar), Profit/loss on sales of securities (white bar), Core business profit (blue bar), Net profit (red line)

(Note) Excluding merged banks' data
 (Source) JFSA

Credit cost ratio



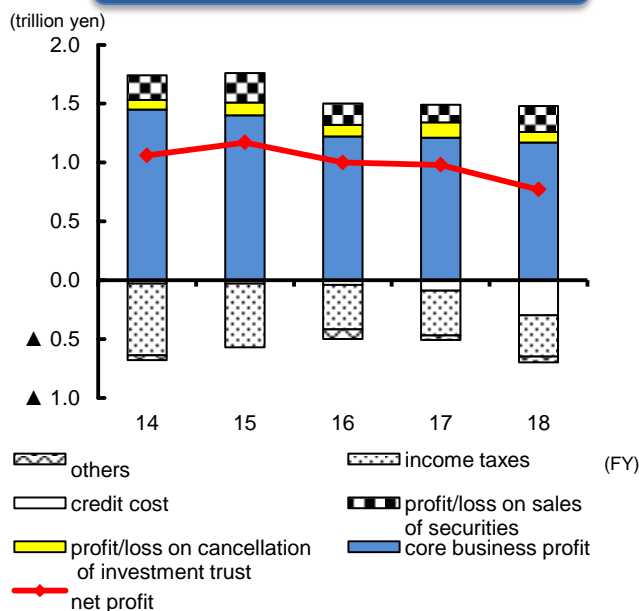
(Note 1) Excluding merged banks' data
 (Note 2) Credit cost ratio equals credit cost divided by loan balance.
 (Source) JFSA

3. Financial intermediation and stability (ii)

(2) Regional Financial Institutions : business environment

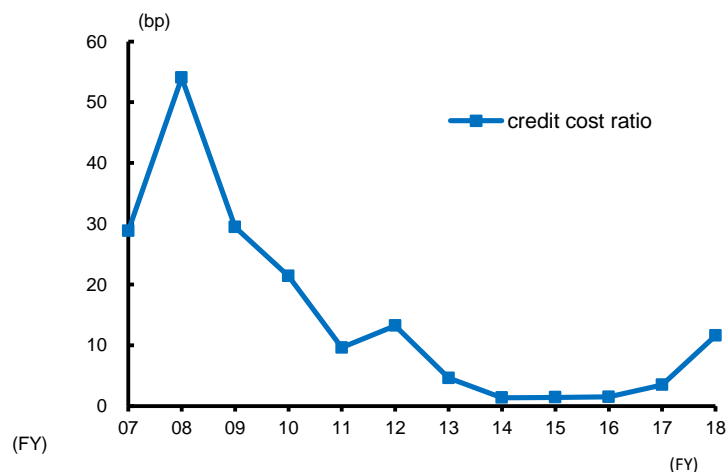
- The financial results of regional banks show that their core net business profits (excluding gains and losses from cancellation of investment trusts) have continued to decline due to reduced lending margin. Their net profits have also continued to decline, partially exacerbated by the recent increase in credit costs.
- Although the credit cost ratio remains at a very low level compared to the past average as the economy slowly recovers, its modest increase from FY 2017 needs close monitoring.
- Given that approximately 40% of government and municipal bonds owned by regional banks will be redeemed within the next three years, each bank's risk-taking vis-à-vis its financial and risk-control capability should be monitored.
- With the Early Warning Mechanism, the JFSA will encourage regional financial institutions with concerns for securing long-term profitability and soundness to take early actions for improving their management and businesses.

Financial results



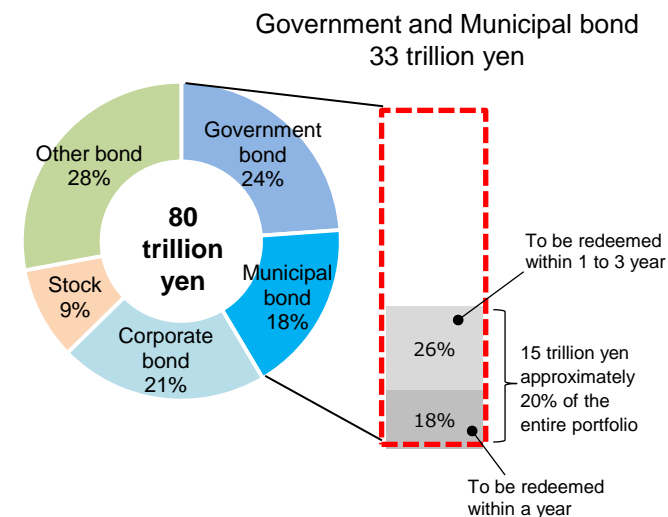
(Note) Excluding merged banks' data
(Source) JFSA

Credit costs



(Note 1) Excluding merged banks' data
 (Note 2) Credit cost ratio: *Credit costs divided by loan*
 (Source) JFSA

Securities Investments



(Source) Banks' reports to the JFSA

3. Financial intermediation and stability (iii)

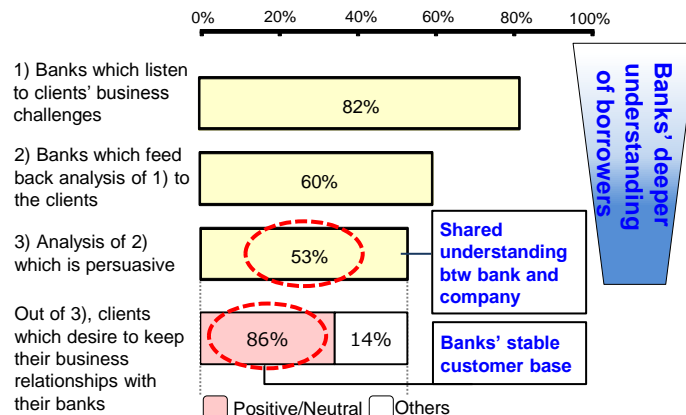
(2) Regional Financial Institutions: financial intermediation

- Progress has been made in strengthening financial intermediation function. According to the JFSA's Corporate Survey (FY2018), 53% of the surveyed companies are satisfied with business analyses and feedbacks provided by regional financial institutions. The Benchmark Indicators on Financial Intermediation also indicate that, compared to the past, banks make more lending decisions based on borrowers' business prospects (rather than based solely on borrowers' financial statements).
- 86% of the abovementioned companies strongly hope to keep business relationships with their financial institutions, indicating that financial institutions may secure their stable customer base by listening to clients' business issues and creating shared understanding with their clients.
- While several companies would like services other than loans from financial institutions*, about 30% of the surveyed companies actually received a proposal on business support from financial institutions (in contrast, about 60% received a loan proposal). Regional financial institutions are expected to understand clients' needs and provide appropriate services accommodating those needs.

* Out of the companies that have not needed loans in the past year, over 70% answered that they would like to receive services other than loans.

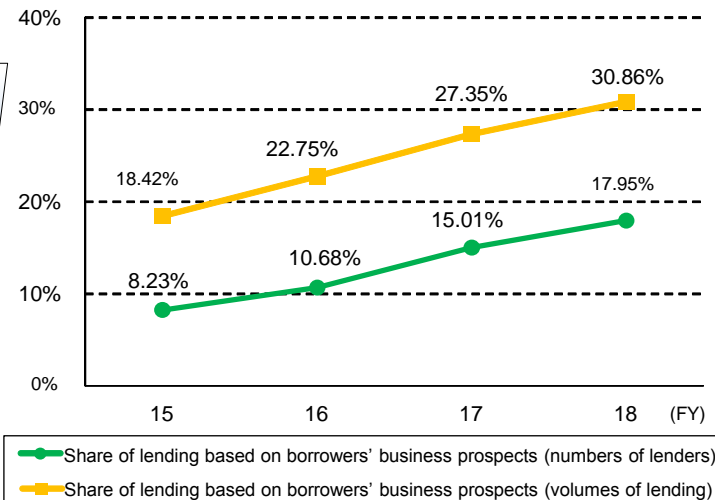
Financing based on customer's business prospect

Corporate Survey (FY2018)



(Note) Answers on their main bank (n = 8,057)
(Source) JFSA

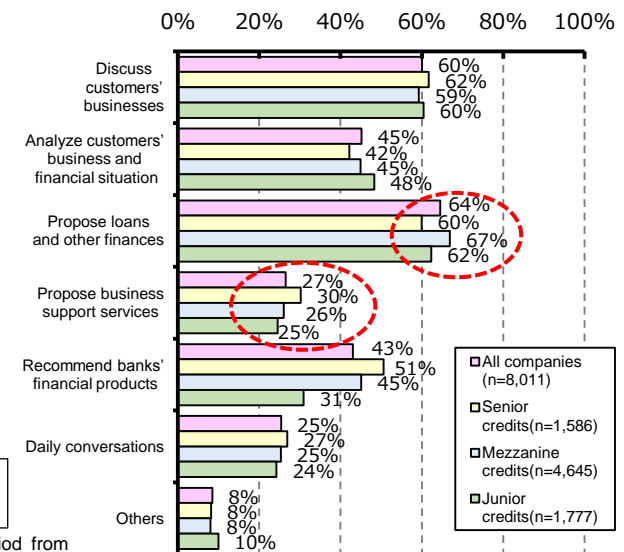
Benchmark Indicators on Financial Intermediation: share of financing based on customer's business prospect



(Note) Totals for regional banks of which figures can be identified during all the period from FY2016 to FY2019 (n = 88).
(Source) JFSA

Addressing customers' needs

Q. What did banks' personnel do when visiting your company (past year)? [multiple answers]



(Note) Answer about main bank
(Source) JFSA

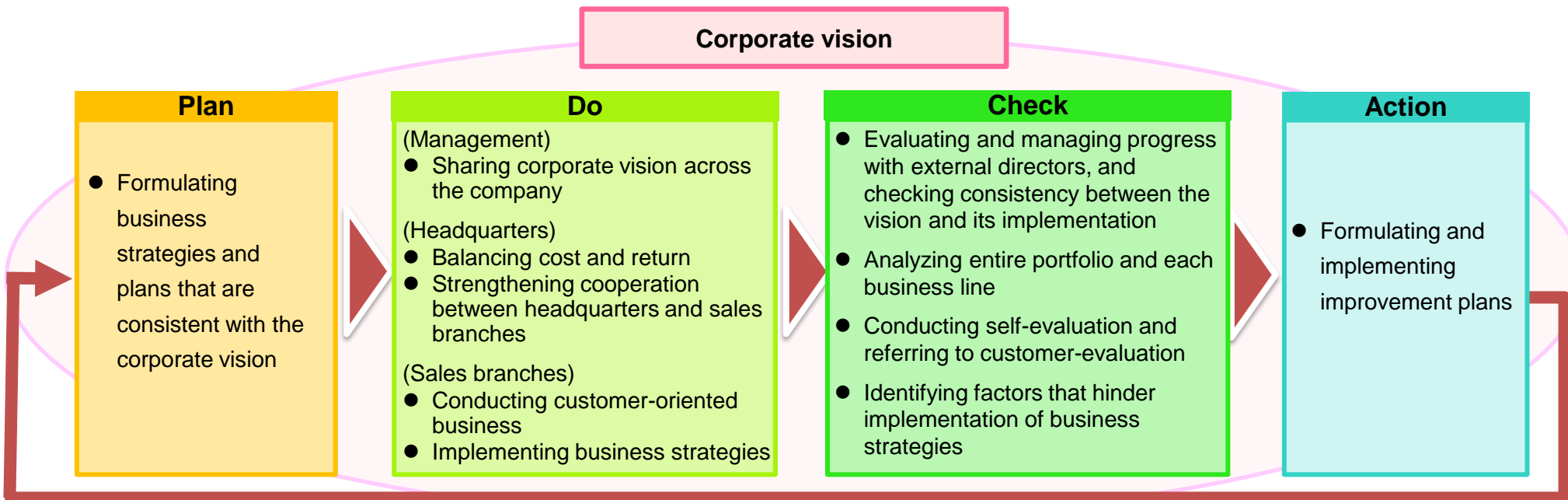
(2) Regional Financial Institutions: actions and challenges

- Regional financial institutions need to **ensure stable revenue base and soundness into the future and perform effective financial intermediation, thereby contributing to enhancing regional companies' productivity and the development of the regional economy.**
- For this purpose, it is **essential for regional financial institutions' top management to establish clear corporate visions, formulate and steadily implement business strategies, and practice PDCA.**

- Engaging in open-minded dialogues with **each level of bank personnel (CEO, executives, branch managers, sales staff members) and external directors**, while ensuring **Psychological Safety***

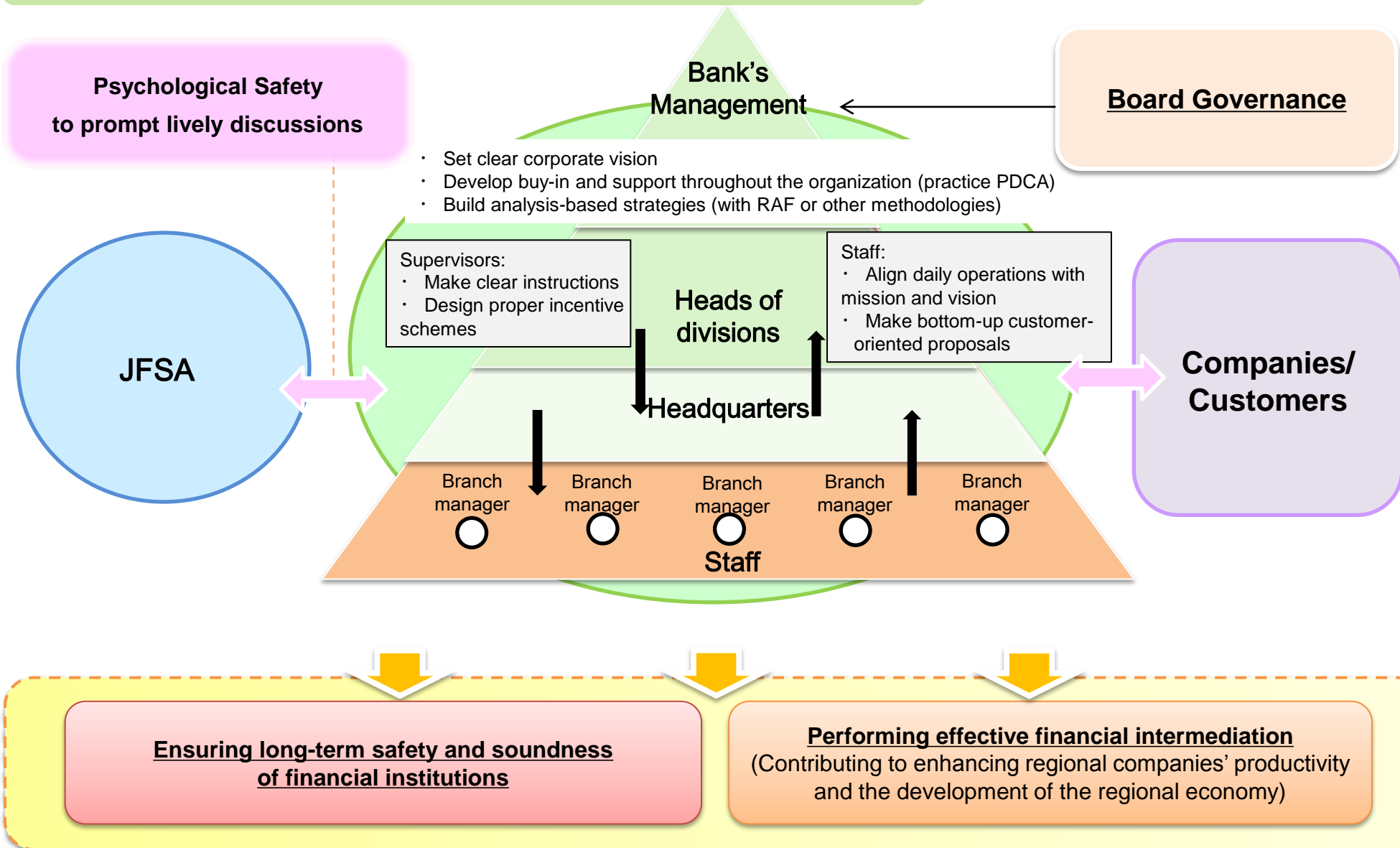
* Psychological Safety: Situation or atmosphere where anyone may speak out or take action without feeling anxious

Management of regional financial institutions for building a sustainable business model



3. Financial intermediation and stability (v)

(2) Regional Financial Institutions: dialogue with customers and JFSA



(2) Policy package by the JFSA on the development of the sustainable business models of regional financial institutions

Competition Policy

- To maintain services of regional banks as local infrastructure and revitalize local economies and industries, **cooperating with relevant ministries for enacting an act on special measures** for regional banks' exemption from application of the Anti-Monopoly Act, based on the Japanese government's *Action Plan of the Growth Strategy*

Deregulation of banks' activities including their scope-of-business

- To encourage financial institutions to improve the productivity of local companies, **deregulating banks' scope-of-business, such as restrictions on investment ratio ("5% rule") in relation to regional revitalization and smooth business succession of local companies**
- **Revising Supervisory Guidelines, with respect to job rotation within financial institutions**, which encourages banks' human resource development and high-quality customer-oriented services by flexibly allocating human resources while reducing compliance risk
- **Revising capital adequacy regulation on double gearing** (restriction on banks' investments in other banks), which exempts banks' investments contributing to the effective and ongoing financial intermediary function of regional banks

"Guidelines on Business Owners' Personal Guarantee"

- To promote smooth business succession, **developing additional special provisions of "Guidelines on Business Owners' Personal Guarantee" focusing on business owners' succession, and developing financial intermediation KPIs ("Ratio of guarantee demanded at the point of business succession", "Ratio of loans independent of guarantee by business owners among new loans")**

Incentivizing financial institutions

- **Considering in collaboration with stakeholders about the appropriate deposit insurance rates**, with a view of its function as incentivizing financial institutions to ensure their long-term soundness

Enhancing the Governance of Regional Financial Institutions

- **Developing "the Core Issues of the Management and Governance of Regional Financial Institutions," so as to enhance in-depth and specific dialogue with banks' management and external directors**, as well as encourage discussion within financial institutions

Dialogue with financial institutions on sustainable business model

- **Engaging in in-depth dialogues** with each level of bank personnel and external directors, regarding implementation of business strategies and PDCA practices under a clear corporate vision, while **ensuring Psychological Safety**

(3) Major banking groups

- With the aim of widening and diversifying revenue bases, major banking groups have expanded overseas business operations and collaboration among the group companies, which causes them to take **more diverse and complicated risks**.

Strengthening monitoring

- Implementing a **horizontal review** across banking groups with the same review standards
- **Verifying various risks** of each financial institution **in a comprehensive manner**
- **Understanding changes in risks in a timely manner** through dialogue with banks' management and external directors
- Making more frequent global **on-site visits** and **close discussion with foreign authorities**
- **Engaging in dialogue with a management team** to find the root causes of their managerial issues

Monitoring focus

I. Establishment of group-based and global-based governance systems

① Governance at overseas bases ② Collaboration of group companies (banks, trust banks, securities companies, etc.) and the role of the holding company ③ Effectiveness of the “three lines of defense” (e.g. effectiveness of financing examination and internal audit, securing and developing human resources) ④ Development of Risk Appetite Framework (RAF) and ensuring its effectiveness

II. Response to the conversion of credit cycles

① Risk management of leveraged loans/CLO investments ② Management of credit risk concentration (large-borrower and industry concentration (especially real estate and energy industry)), ③ Appropriate allowance based on expected losses ④ Utilization and development of stress tests

III. Change in business models and development of risk management

① Risk management of foreign currency liquidity, such as securing liquid assets in preparation for a stressed environment and sustainable control of foreign currency denominated balance sheets ② Risk management for expansion of risk-taking areas ③ Risk management for expansion of trust operations ④ Reduction of cross-shareholdings ⑤ Digitalization and IT risk management ⑥ AML/cyber security ⑦ SDGs

3. Financial intermediation and stability (viii)

(4) Insurance companies

[Ensuring customer-oriented business conduct]

- It is important for the firms' sale forces to understand the customers' needs, propose appropriate insurance products to customers, and make them understand the products by adequate explanation.
 - * Complaints about foreign-currency-denominated insurance have increased, mainly due to a lack of customers' full understanding of the products.

- In the licensing process, strengthening the check of concepts of the insurance products and expected customers as well as solicitation system
- Conducting comprehensive monitoring of discussions and initiatives at the firms' management level

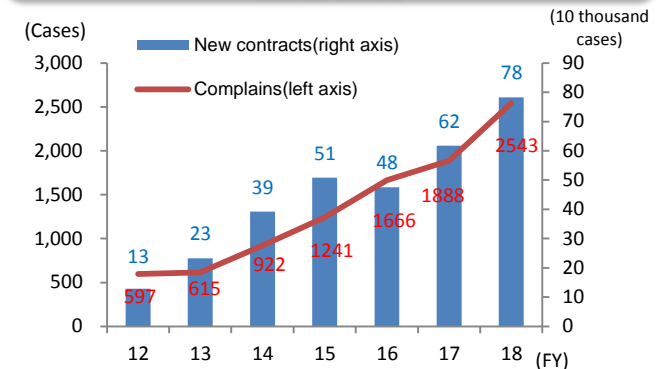
[Developing sustainable business models]

- Customers' needs for insurance change as medical and nursing care costs associated with population aging increase and digitalization develops. Relevant risks also change due to intensified natural disasters. It is important for the firms to respond to these changes.
- Developing risk management systems of insurance companies in line with changing risks arising from natural disasters, considering the frequent large-scale typhoons and windstorms in recent years
- Enhancing monitoring of the firms through discussion at the study group on a new economic-based solvency regulation

[Facilitating corporate governance]

- In order to solve the issues above, adequate corporate governance on overall business operations is necessary.
- Monitoring whether the board of directors has in-depth discussion in the process of important management decisions
- In particular, monitoring governance of overseas subsidiaries

New contracts and complaints of foreign-currency-denominated insurance



(Source) Compiled by the JFSA, from the Life Insurance Association of Japan

Insurance claims paid for typhoons and windstorms (since 1970)

Rank	Disaster	Number of payments	Insurance claims paid
1	Typhoon No. 21 in 2018	857,284	¥ 1,067.8 billion
2	Typhoon No. 19 in 1991	607,324	¥ 568.0 billion
3	Typhoon No. 18 in 2004	427,954	¥ 387.4 billion
4	Snowfall in February 2014	326,591	¥ 322.4 billion
5	Typhoon No. 18 in 1999	306,359	¥ 314.7 billion
6	Typhoon No. 24 in 2018	412,707	¥ 306.1 billion
7	Heavy rain in July 2018	55,320	¥ 195.6 billion
8	Typhoon No. 15 in 2015	225,523	¥ 164.2 billion
9	Typhoon No. 7 in 1998	181,278	¥ 159.9 billion
10	Typhoon No. 23 in 2004	144,364	¥ 138.0 billion

(Note) As of the end of March 2019

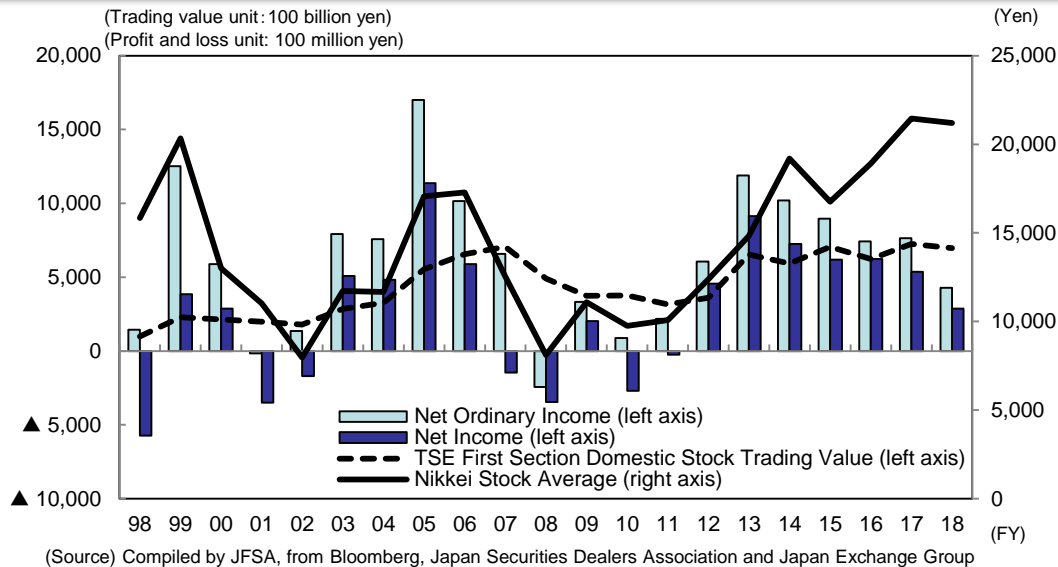
(Source) Compiled by the JFSA, from the General Insurance Association of Japan

3. Financial intermediation and stability (ix)

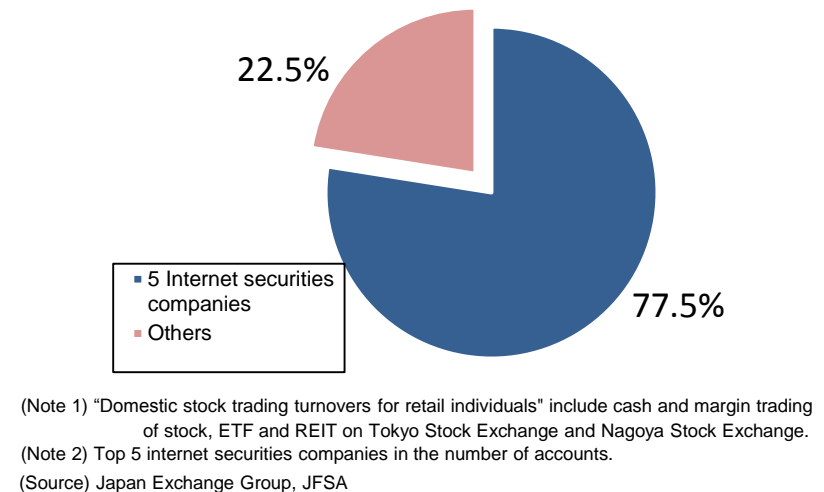
(5) Securities companies

- Given the current harsh business environment, the challenges for the securities companies are to build **stable revenue sources and financial capacities** which are not depending on market and economic trends and not focusing on flow revenues such as brokerage commissions.
- The business environment surrounding securities companies is changing through the aging of customers and the diversification of transaction channels associated with the digitalization. Given these circumstances, it is important for the firms to build **sustainable business models** through shifting to a strategy with emphasis on revenue from building customer assets, utilizing FinTech, and collaborating with other regional companies, rather than depending on the existing sales system.
- To function as a market gatekeeper, it is important for securities companies to build an **effective compliance structure** in line with the objectives of laws and regulations.

Financial results of securities companies,
Nikkei stock average, and TSE first section trading value



Share of 5 internet securities companies in
domestic stock trading turnovers for retail
individuals (FY2018)



Conducting in-depth dialogue with management regarding **appropriate corporate governance**, including initiatives for the following issues

- Building a sustainable business model responding to changes in the business environment
- Establishing principle-based effective compliance structure and customer-oriented operational structure

3. Financial intermediation and stability (x)

(6) Foreign financial institutions

- While foreign financial institutions are transforming firm-wide strategies and business models according to business environment changes such as digitalization, their bases in Japan aim to maintain and increase profits by capturing customer needs more effectively. In these circumstances, they are expected to ensure sound internal control systems.
 - Considering the implementation of TLAC international frameworks for orderly resolution of G-SIBs, it is imperative for supervisory authorities to incorporate new resolution frameworks.
- Understanding the change of the risk in Japanese entities due to the business model shifting, and monitoring firms' governance and internal control including compliance and risk management. Ordering the firms to improve their governance and internal control if deficiencies are detected
 - Strengthening crisis management capability of authorities and G-SIBs by cooperating more closely with foreign authorities

(7) Funds transfer service providers

- Since funds transfer service providers' scales and business models are very diverse, their internal control systems and risk profiles are also different. As the use of cashless payments spreads further and the number of foreign users increases in the future, entries of new providers, development of new services and big changes in risks are expected.
 - In order to ensure that the services are appropriately provided and users are protected, it is important to further encourage providers to enhance business management and internal control systems which will enable them to respond to changes in the business environment and risks in a timely manner.
- Analyzing the providers' business models and usage by foreigners. Monitoring with a risk-based approach taking into account new business development and changes in risks
 - Strengthening monitoring and dialogue with the providers for enhancement of their internal control systems particularly in the area of the maintenance management of remittance funds, IT system risk management, and AML/CFT with due consideration to each provider's size and characteristics