

A photograph of a business meeting in progress. Several people in dark suits are gathered around a wooden table. Their hands are visible, some pointing at documents and others holding pens. The documents on the table feature various charts, including bar graphs, pie charts, and line graphs. The scene is lit with warm, golden light, likely from a window in the background. A large, semi-transparent blue geometric shape is overlaid on the top left and bottom right of the image.

FINTECH AND INVESTMENTS IN OSAKA, JAPAN

OSAKA GLOBAL FINANCE ONE-STOP SUPPORT CENTER

DECEMBER 2022

FINTECH TRENDS

The history of the Japanese fintech industry started in 2012 when the first cloud accounting systems and family bookkeeping applications were set up in Japan.

However, Japanese people seemed to get used to paying in cash and did not use cashless payment as much as the rest of the world. As a result, the pace of change in Japan was slow.



Global Preferences for Cashless Payment (in percent)

*The graph is created based upon data from Payments Japan.
Cashless roadmap 2022.

OTHER FACTORS THAT HAVE INFLUENCED THE FINTECH SYSTEM IN JAPAN

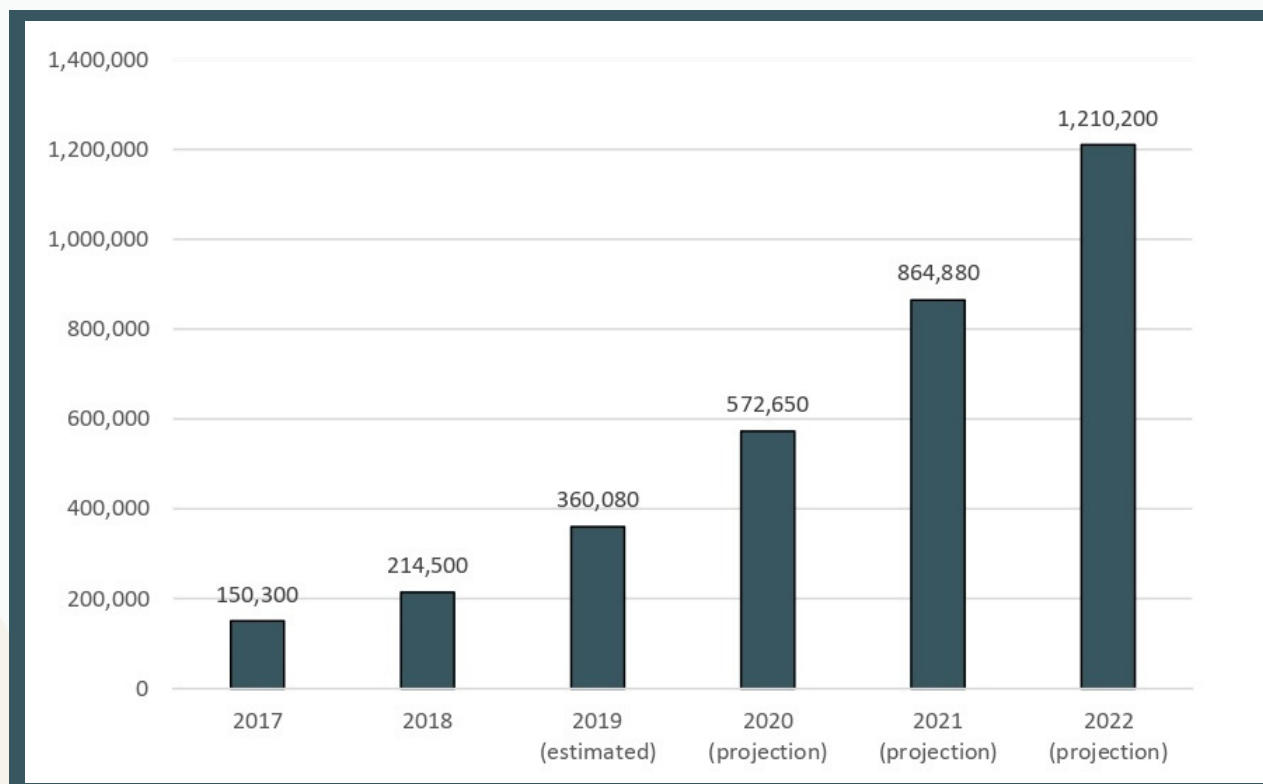
- The wide use of ATM machines.
- Few ATM machine problems.
- Counterfeit banknotes are rare.
- Simple credit card processing.
- Comparatively simple application process to get a loan, housing loan, etc
- Slow adoption of fintech services in Japan due to Japanese law.
- Japanese translation needs time.



CURRENT DEVELOPMENTS

Since around 2012, startups that offer new services as alternatives to conventional financial services have been emerging and bringing shockwaves to the financial sector.

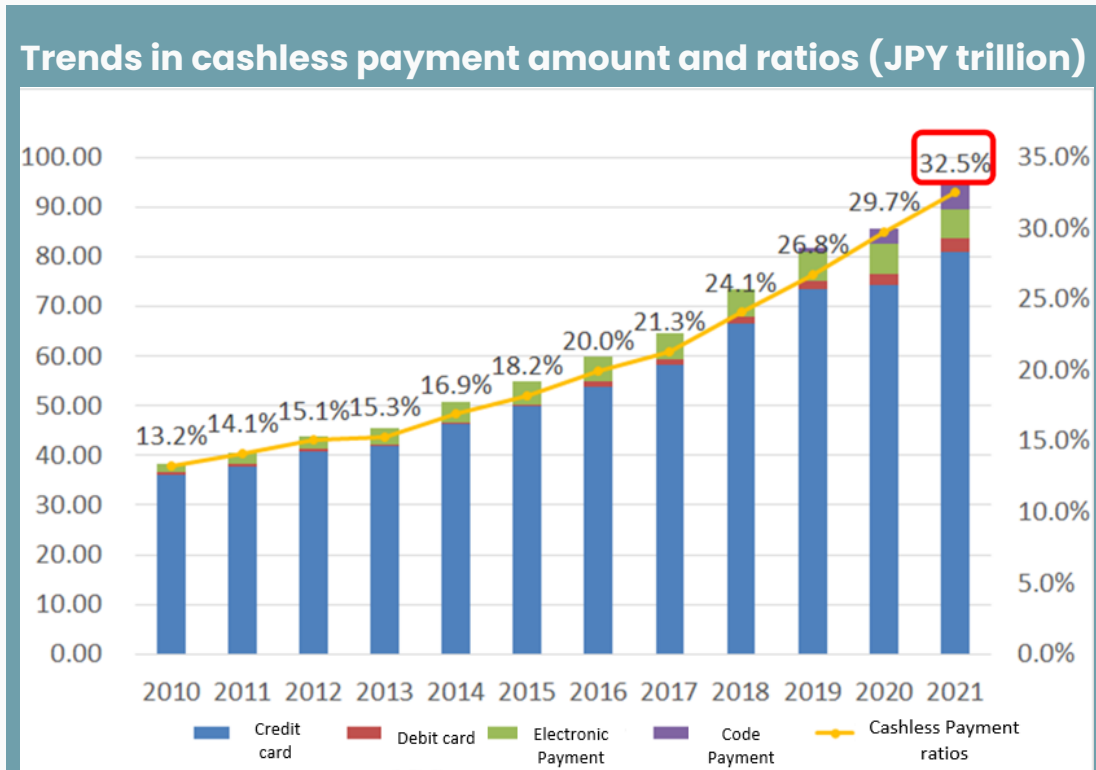
Initially, existing financial institutions such as banks and brokerages, wary that they would be robbed of their customers, viewed fintech companies as a threat, but changes to the law in 2016-17 saw various barriers lifted, and fintech firms began providing IT, their main strength, to banks, while banks, for their part, made their APIs public. As a result of such changes, banks and fintechs started working together, making it possible to offer customers even more convenient services, and this has spurred rapid growth in the fintech market.



Japanese Market Size Trends and Forecasts for Fintech Startups (JPY million)

*The graph is created based upon data from Yano Research Institute Ltd. (September 8, 2019). Press Release №2232 *Fintech Market in Japan: Key Research Findings*.

As a consequence of this trend, Japanese banks also became aware of customer needs that the fintechs had been satisfying, leading to innovations at banks, which had maintained the service model that has remained unchanged over the years.



Year	2015	2016	2017	2018	2019	2020	2021
Credit Card	16.5%	18.0%	19.2%	21.9%	24.0%	25.8%	27.7%
Debit Card	0.14%	0.30%	0.37%	0.44%	0.56%	0.75%	0.92%
Electronic Payment	1.5%	1.7%	1.7%	1.8%	1.9%	2.1%	2.0%
Code Payment	-	-	-	0.05%	0.31%	1.1%	1.8%
Total	18.2%	20.0%	21.3%	24.1%	26.8%	29.7%	32.5%

*The graph is created based upon data from Ministry of Economy, Trade and Industry (June 1, 2022).

News Release Cashless payment ratio in Japan 2021.

The COVID-19 pandemic had major ramifications for the fintech market as well. Consumers and store personnel tried to avoid infecting one another, and that caused a sharp increase in the need for and use of contactless payment services. As a result, cash transactions have decreased, while the use of credit cards and electronic money has risen.

BUSINESS DOMAINS OF JAPANESE FINTECH STARTUPS

Within Japan, fintech startups operate in 6 main business domains: fund procurement, settlement, trading, accounting support, money management for individuals, and asset management, and in the area of fund procurement, in particular, 4 types of technology are involved.

Business area	Technologies	Business model
Fund procurement	Transaction lending	Providing credits by using data that has not been used before
	Score lending	
	Crowdfunding	Methods of introduction and funding the projects that raise funds online
	Peer-to-peer lending	
Settlement	Blockchain	Crypto asset business
		Token ecosystem creation
	E-payment	Credit card payment, electronic money payment, smartphone application payment, etc.
Trading	Big data • AI	Forecasting of prices of financial instruments
Accounting Support	Big data	Accounting automation by using journal entry, etc., based on accounting patterns
Money Management for Individuals	Wearable devices	Checking an account balance, a purchase amount, etc., on wearable devices
	Big data • AI	Automatic distribution of receipt information, credit card details, etc.
Asset Management	AI (Robo-advisers)	Suggestions for investment behaviour such as asset allocation, accumulation, etc.

*The table is created based upon data from Policy Research Institute, Ministry of Finance (September, 2019). *Financial Review №4*, p.28.

CUSTOMERS OF FINTECH FIRMS

Among Japanese banks, there are the megabanks, which have branches all over the country, and regional banks, which are headquartered in regional cities and support regional economies by dealing chiefly with local SMEs. There are also trust banks and online-only banks.



Megabanks

- MUFG Bank
- Sumitomo Mitsui Banking Corporation
- Mizuho Bank

Regional banks are faced with serious problems such as low-interest rates, negative interest rates, declining birthrates, and aging populations, and now find themselves at a crossroads, with question marks over whether they will be able to continue pursuing traditional financial business going forward. That being said, regional banks are closely connected with their regions, which means that they have stronger ties with customers than the megabanks do, and understand the needs of their customers in detail. They are therefore in a strong position to offer fintech services.



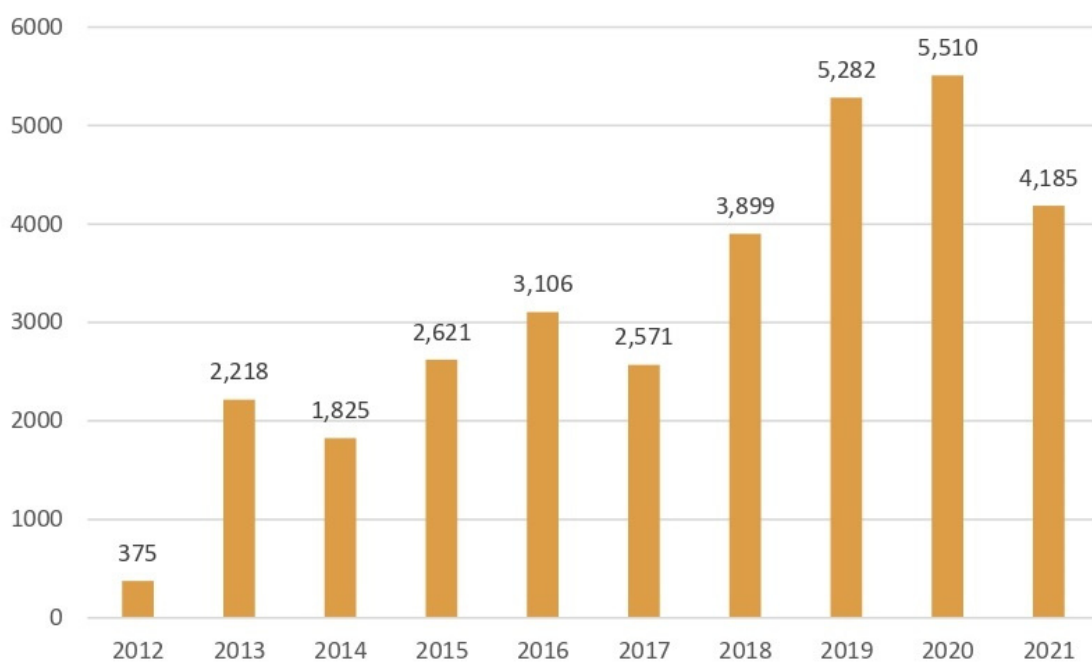
Regional banks

- Osaka Prefecture: Senshu Ikeda Bank, Kansai Mirai Bank
- Kyoto Prefecture: Bank of Kyoto
- Nara Prefecture: Nanto Bank
- Wakayama Prefecture: Kiyo Bank

Regional banks also need to make the finance-related administrative work performed by the companies, which are their customers, more efficient. If fintech is employed to digitalize financial and accounting processes, credit management will be easier for the banks, while companies will derive huge benefits in the form of enhanced productivity and efficiency.

POTENTIAL FOR INVESTMENT IN JAPANESE FINTECH FIRMS

Recent years have witnessed the appearance of various fintech startups in Japan, too, and as a result, venture capitalists in Japan and abroad are now choosing firms to invest in. Venture capitalists include independent firms, entities affiliated with financial institutions, and so on. University-affiliated venture capital firms are also investing aggressively.



**Annual Trends of Fund Raising Amount by Domestic VC
(JPY hundred million)**

*The graph is created based upon data from Japan Venture Capital Association (September 14, 2022).
Venture Capital Latest Trends Report 2021.

*The decline in fund establishment in 2021 was likely due to risk avoidance by institutional investors against a backdrop of falling stock prices in markets throughout the world as a result of rising interest rates, and also to a drop in the number of funds.

POTENTIAL FOR INVESTMENT IN OSAKA

EXPO 2025 OSAKA, KANSAI, JAPAN

Osaka will host a World Expo from April to October 2025. A fintech-based payment system is to be deployed, and a digital local currency is set to be issued, so it looks likely that the fintech market will expand at an even faster pace. As of 2022, four companies have already been selected to administer the cashless payment system and digital local currency service that will be utilized at Expo 2025 Osaka, Kansai, Japan.

DERIVATIVES TRADING NOW POSSIBLE EVEN ON NATIONAL HOLIDAYS

Since September 23, 2022, the Osaka Exchange, a financial instruments exchange that handles derivatives transactions in the market, has been open for trading on national holidays. This means that even if prices see large changes overseas on national holidays or during periods of consecutive holidays in Japan, investors do not lose the opportunity to invest, and are also able to swiftly respond to risks.

POTENTIAL FOR ENTRY INTO THE LIFE SCIENCE BUSINESS

The Kansai region is home to some of Japan's leading life science businesses. In the Saito area in the north of Osaka, in particular, there are numerous pharmaceutical companies and bio-ventures that have set up R&D centers, which often collaborate with the universities and research institutes situated nearby. The area is thus fast becoming an industrial cluster for the life science sector. In addition, the Kento (health city) area is being developed as a health and biomedical innovation hub centered on the National Cerebral and Cardiovascular Center. In Osaka, it is therefore possible to conduct business efficiently by, for example, investing in one or more of the many life science businesses that are clustered there.

STRONG SUPPORT



GUIDEBOOK

We provide an Investment Guidebook to help you set up your business



INFORMATION ABOUT SEMINARS

We provide information on seminars for foreign financial firms to facilitate business matching

Osaka Global Finance One-Stop Support Center responds to specialized inquiries such as licenses for operating financial businesses. We also advise on business and daily life matters, providing useful information to companies getting established in Osaka and to foreign people working in the companies. Let's grow your business together!



LEGAL SUPPORT

We provide information on English-speaking lawyers, CPAs, etc. versed in finance, and share information about rental property and international schools





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