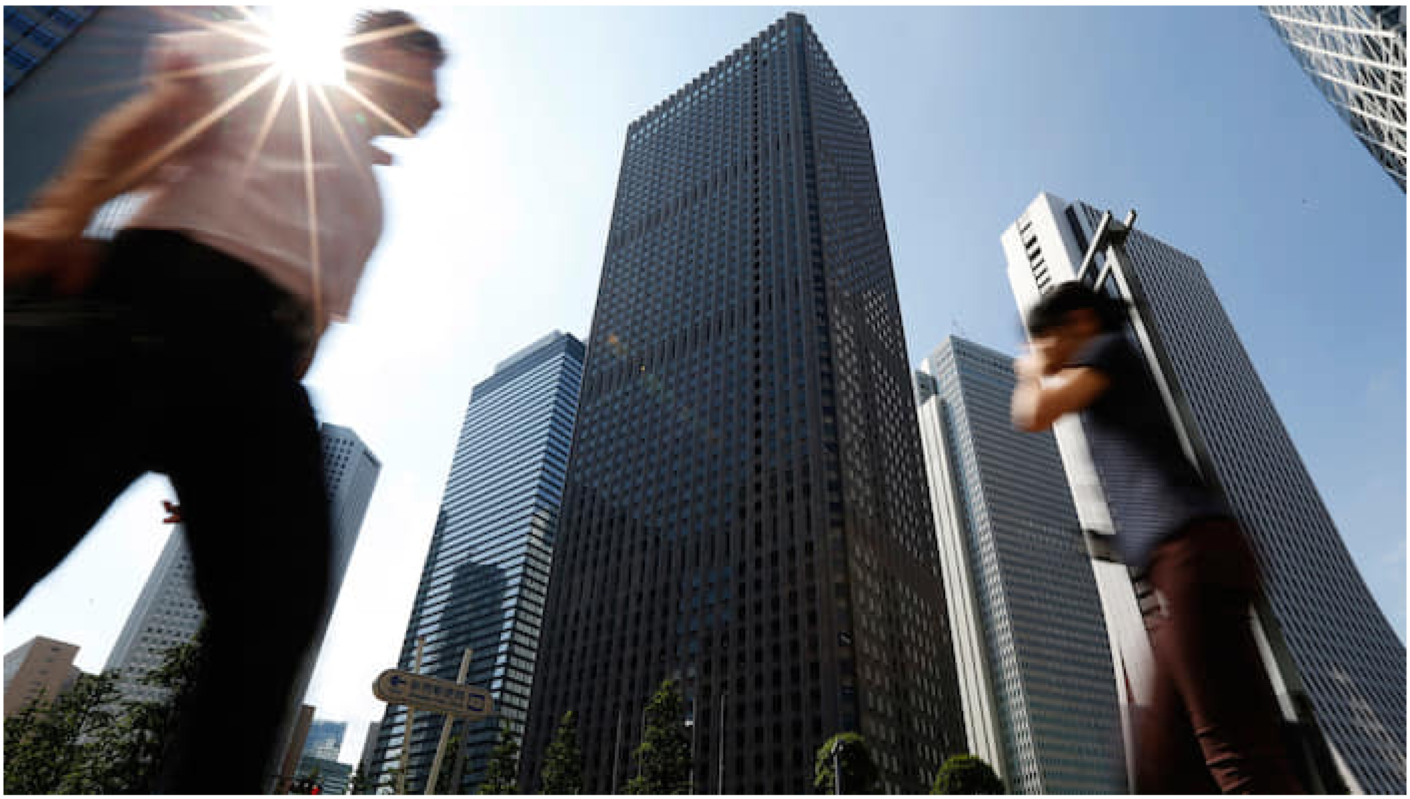
Fintech

Japan banks target fintech start-ups after law change

Change to 5% ownership cap part of national effort to push financial technology



SEPTEMBER 24, 2016 by: **Tom Braithwaite** and **Robin Harding** in Tokyo

Japan's biggest banks are looking to pour hundreds of millions of dollars into fintech start-ups (http://www.ft.com/fastft/2016/09/01/japans-big-banks-to-boost-financial-tech-sharing-with-saudi-aramco/) after the abolition of a law that prevented them from owning more than 5 per cent of a technology company.

The changes are part of a national effort to push financial technology, highlighting fears in Tokyo that Silicon Valley could decimate Japan's banking sector as it did the country's mobile phone industry.

"Japanese institutions are concerned that a Google Bank or Facebook Bank will conquer Japan," said Naoyuki Iwashita, head of the FinTech Centre at the Bank of Japan.

It means that Japan could become a big new source of funding for start-ups, especially in Asia, that are experimenting with technologies such as blockchain or artificial intelligence.

Yasuhiro Sato, chief executive of Mizuho (http://markets.ft.com/data/equities/tearsheet/summary?s=jp:8411), told a conference in Tokyo last week that Japanese banks had been constrained by regulators wanting to preserve old, but tried-and-tested, IT systems.

"I think [regulators], especially the Japanese Financial Services Agency, are now changing their thoughts on that," he told the FinSum conference, organised by the FSA and Nikkei, owner of the Financial Times.

The change in the law means banks can ignore a 5 per cent limit (http://asia.nikkei.com/Business/Trends/Japan-moves-to-spur-growth-in-fintech-sector) on stakes in non-financial companies if their purpose is to apply information technology to finance.

The FSA is considering a further legal change (http://asia.nikkei.com/Politics-Economy/Economy/Japan-to-revise-law-to-boost-fintech-market) that would make it easier for fintech companies to engage in regulated financial activities. "In order to obtain more technological advances from outside participants," said Mr Sato. "That's the reason why the banking law will now quite likely be changing."

Mizuho established a presence in Silicon Valley three years ago and this year added an innovation-focused office in New York. Mr Sato said the rule changes would accelerate that. "We have created a specific team, which is the innovation product team, to make significant investment in venture companies. We are sending many many persons to the US."

Rakuten (http://markets.ft.com/data/equities/tearsheet/summary?s=jp:4755), the Japanese ecommerce group, has launched a $100m fund to invest in fintech companies and SBI Holdings, a financial group, raised a ¥30bn ($299m) fintech venture fund earlier this year.

Other global banks have opened outposts in California. BBVA, the Spanish bank, is one of the most aggressive, acquiring Simple, an Oregon-based digital lender in 2014, and investing in Prosper, the San Francisco-based peer-to-peer platform. It also set up a venture capital company, Propel Ventures, to pursue investments in other start-ups.

In Japan, the push to nurture homegrown fintech ventures and for banks to go abroad in search of technology to acquire, is linked to admiration and unease about the way the US has been able to build sizeable fintech companies. Among private "unicorns", Stripe, the payments company, is valued at $5bn, while SoFi, the alternative lender, is valued at $4bn and has an investment from Japan's SoftBank.

Among public companies, LendingClub, the marketplace lender, is among the most prominent, even though it has latterly suffered from self-inflicted problems.

Taro Aso, deputy prime minister, suggested that some of the same spirit needed to be instilled in Tokyo. “We have revised the Banking Act and, through the revision, people in banks, in business suits work together with young people in T-shirts and jeans. They work together and the combination of this gives rise to new things.”

He added: “The financial ministry which used to regulate the industry must now nurture the industry. We are making efforts towards this end. We haven’t done enough but with this new policy we have greatly changed our thinking in approaching the issues.”
