Report on the Follow-up Survey on Fintech-based Services

March 2023

公正取引委員会
Japan Fair Trade Commission

Purpose and background of the Survey

- In recent years, an increasing number of *fintech** companies have entered the financial sector, where services have mainly been provided by banks.
  - → In April 2020, the Japan Fair Trade Commission (JFTC) announced the results of the two fact-finding surveys it conducted in the cashless sector in the form of two reports entitled "Survey on Household Accounting Services" (hereinafter "Report on *Household Accounting Services***") and "Survey on Cashless Payments with QR Code and Barcode" (hereinafter "Code Payments Report"), both of which are collectively referred to as the "previous reports."

* Fintech, a portmanteau of *finance and technology*, refers to new financial services created by combining information technology with financial services.
** Household account services includes accounting services for SMEs.

- The JFTC believes that since the publication of the previous reports, user convenience has been improved in terms of both bank access for electronic payment service providers (EPSPs) and transaction practices related to interbank fees, mainly due to the efforts of stakeholders.
- This time, the JFTC conducted this follow-up survey to further improve the competitive environment in the field of fintech-based services, thereby encouraging innovation and enhancing user convenience.

Report on Household Accounting Services

Recommendation 1: Secure EPSP access to banks

Code Payment Report

Recommendation 2: Set Appropriate retail payment infrastructure fees and use read-write APIs
Recommendation 3: Review transaction practices in relation to interbank fees
Recommendation 4: Strengthen the governance structure of Zengin-Net and ensure transparency of transactions
Recommendation 5: Explore ways to open up access to the fund payment system to fund transfer service providers (FTSPs)

Period, Method and Target of survey

- Period: March 2022 – February 2023
- Paper-based survey (May 2022) and interview survey

Target	Paper-based survey
EPSPs	102 providers (of which 50 responded)
FTSPs	83 providers (of which 46 responded)
Banks	134 banks (of which 120 responded)

Target	Interview survey
EPSPs	7 providers
FTSPs	5 providers
Banks	12 banks
Industry association	4 associations
Retail payment infrastructure providers	5 providers
Experts	3 experts
Authorities and industry associations in other countries	6 organizations

Recommendation 1: Secure EPSPs access to banks

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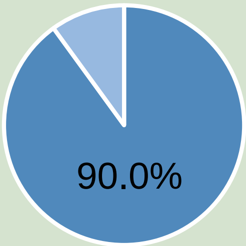
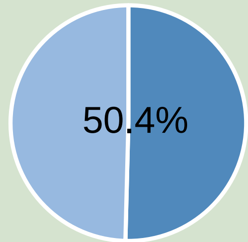
Status of Transactions in Household Accounting Services

Percentage of EPSPs that have signed an *account information reading contract** with 80% or more of the banks which they have negotiated



Percentage of banks that have an account information reading contract with 10 or more EPSPs
(As of the end of September 2020)

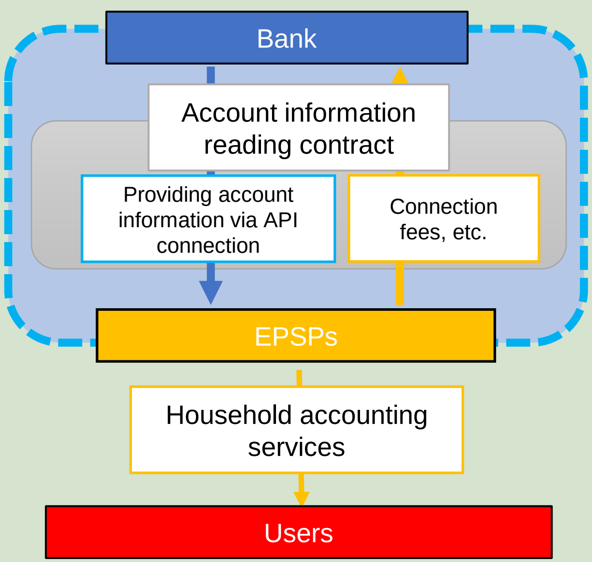


Source: Compiled by the JFTC from material of the Financial Services Agency

- The amendment to the Banking Act stipulates that account information, which is essential for providing household accounting services, be obtained via an API connection in principle.
- To obtain account information held by a bank, EPSPs must enter into an EPS contract with the bank.
- 90% of the EPSPs responded that they had successfully concluded an account information reading contract with 80% or more of the banks with which they had negotiated.

* *An account information reading* contract refers to an EPS contract that an EPSP offering household accounting services signs with a bank.

Terms of Account Information Reading Contracts between Banks and EPSPs

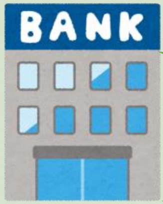


- Account information reading contracts between banks and EPSPs are often subject to annual renewal.
- Read-only API connection fees paid by EPSPs to banks vary from bank to bank. Some banks charge no or reduced fees for business strategy reasons..
- Some banks and EPSPs have renegotiated contract terms. As a result, some banks have increased read-only API connection fees, but some EPSPs believe that they have failed to provide specific reasons.
- Read-only API connection fees are determined by disparate negotiations between banks and EPSPs. It is difficult for EPSPs to assess whether the read-only API connection fees they pay are unfairly higher than those paid by their competitors.

Recommendation 1: Secure EPSPs access to banks

Terms of Account Information Reading Contracts between Banks and EPSPs (excerpts from respondent responses)

- On read-only API connection fees paid by EPSPs to banks



We do not charge for read-only API connections to work more closely with EPSPs for greater convenience and better services for users. —Bank A

We regard read-only API connection fees as compensation for the services we provide for EPSPs. Based on this recognition, we consider the initial costs to be a service launch fee. Likewise, we view the pay-as-you-go cost as a consideration for accessing our system via a read-only API connection. —Bank B

- On renegotiations of contract terms

Contact persons at banks change quickly. Some of them ask for renegotiation of contract terms without considering the concept of open banking as required by the amended Banking Act. —EPSP A

We signed a provisional account information reading contract with some EPSPs before agreeing on detailed financial terms because the deadline set by the amended Banking Act was approaching We often had to accept the terms of such provisional contracts demanded by EPSPs. We now regularly renegotiate such terms. —Bank C

- On the pricing of read-only API connection fees

More than half of the banks adopt the pay-as-you-go system for read-only API connection fees. Under such a pricing system, we can only collect the data held by the banks a few times a month at best. This frequency may be adequate for household accounting services, but it is inadequate for corporate accounting services. —EPSP B

- On the situation regarding the terms of read-only API connections

Some banks charge higher fees for read-only API connections when we try to provide other banks with the account information we receive from them. —EPSP C

EPSPs have no way to determine if they are being treated unfairly. This raises the important issue of how to enforce the non-discriminatory provisions of the Banking Act. —EPSP D

Secure EPSPs Access to Account Information

Consideration in light of Competition Policies

- The survey has confirmed that EPSPs for household accounting services largely have access to account information.
- Open access to various information via read-only API connections is likely to facilitate the development of new services, encourage the entry of new market entrants and improve user convenience. It is thus important to ensure that savings accounts and other types of information held by banks are widely used, while addressing security issues.
- Banks should preferably expand, as needed, the scope of information that can be accessed via read-only API connection, taking into account user needs and their own costs (e.g., adding information on mortgages, foreign currency deposits).

Renegotiating the Terms of Account Information Reading Contracts

Consideration in light of the AMA

- A bank with a superior bargaining position over an EPSP may violate the Antimonopoly Act (AMA) if it renegotiates the terms of contract in such a way that it is unfairly disadvantaged, taking into account normal business practices (abuse of a superior bargaining position).

Consideration in light of Competition Policies

- In order to avoid violating the AMA with respect to EPSPs, banks that intend to change the terms of transaction that may be against their interests, such as increasing read-only API connection fees, should preferably provide adequate explanations.
- In order to facilitate innovation, improve user convenience and encourage new market entrants in the field of household accounting services, banks should preferably develop a standard pricing structure for their read-only API connection fees, to the extent that it ensure the stability and sustainability of their business. The idea is to make it easier for EPSPs to estimate the amount of read-only API connection fees they will pay to banks. Upon request from EPSPs, banks should preferably explain the rational behind the applicable read-only API connection fees.

Terms of Read-only API Connection

Consideration in light of the AMA

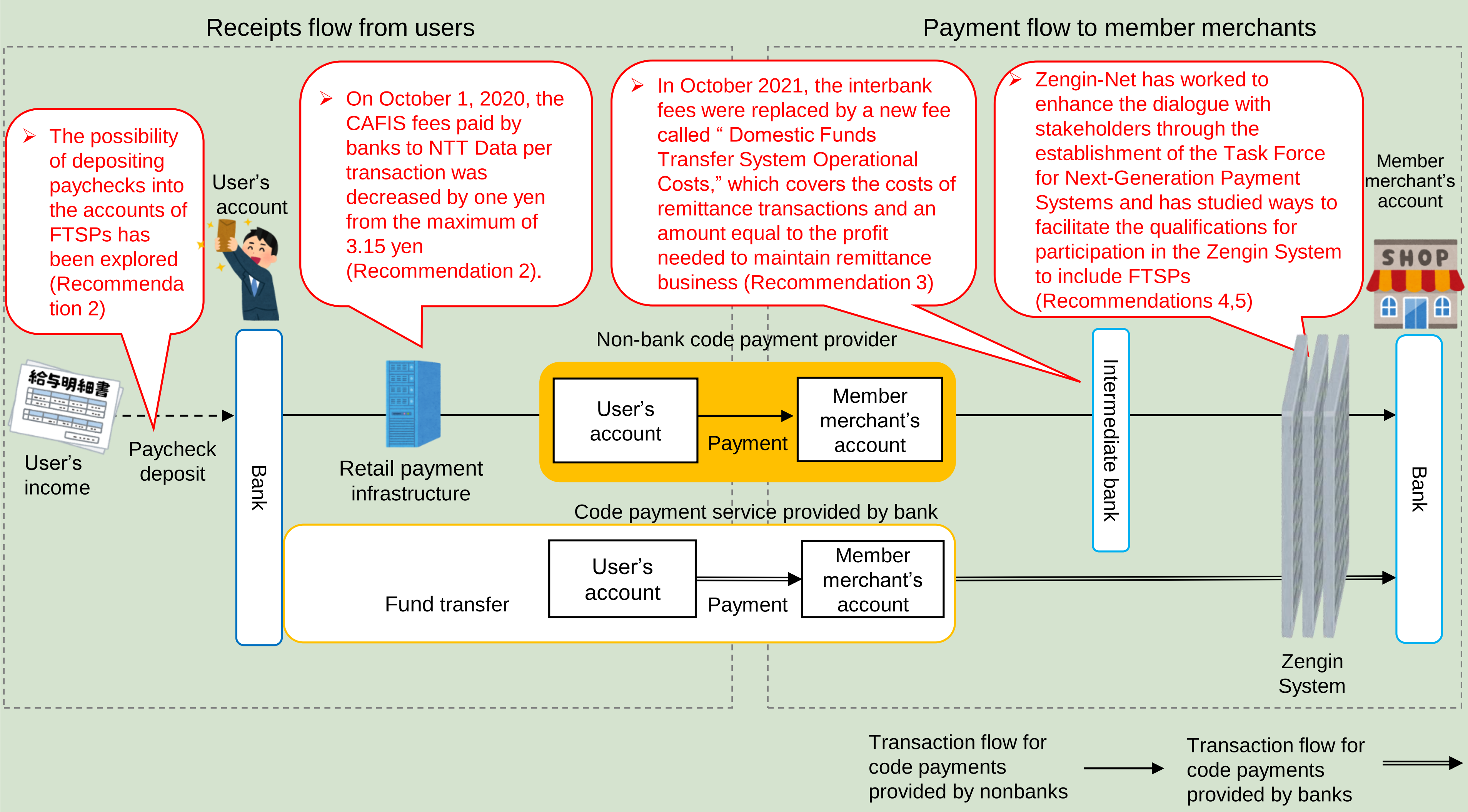
- A bank that offers household accounting services itself and has a strong position in the market could violate the AMA if it refuses to deal with EPSPs, raises connection charges to a level that can be construed as an effective refusal of transaction with them, restricts the handling of information it receives from them, or takes any other similar action as a means of achieving a goal that is prohibited by the AMA, such as foreclosing competitors from the market (refusal to trade, interference with a competitor’s transactions).

- A bank that does not offer household accounting services but has a strong position in the market could also violate the AMA if it, without reasonable grounds, unfairly discriminates against certain EPSPs with respect to the price of the same service or other terms of transaction, such as requiring them to connection read-only APIs at a higher cost than other EPSPs or restricting the use of information obtained from them (discriminatory consideration, discriminatory treatment on trade terms).

Consideration in light of Competition Policies

- It is appropriate for the relevant ministries and agencies to monitor the situation on an ongoing basis to ensure that there is no unfairly discriminatory treatment.

User and member merchant cash flow (reflecting changes in the industry climate since previous surveys)

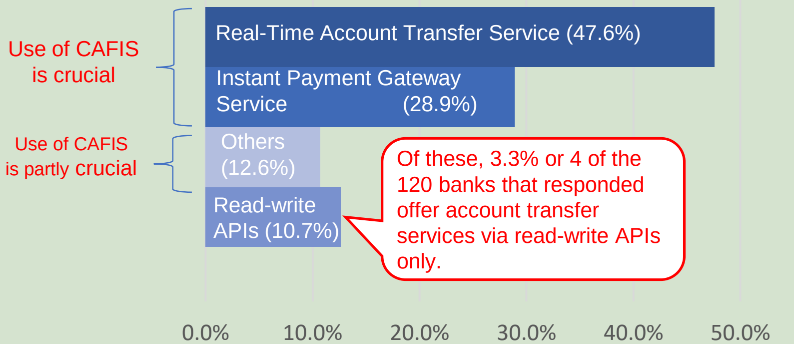


Recommendation 2: Set appropriate Price Retail Payment Infrastructure Fees and Use Read-write APIs

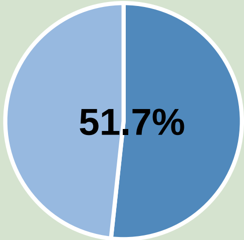
Receipts flow from users (account charging and other transactions)

Pricing of retail payment infrastructure fees

Type of connection to the accounting system in use



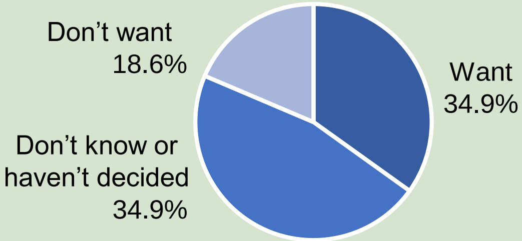
Percentage of banks that have already implemented read-write APIs



- Retail payment infrastructure services include the Real-Time Account Transfer Service and the Instant Payment Gateway Service, as well as services that have become available since the previous surveys, such as the Instant Account Payment Service and Bank Pay. As it stands, however, CAFIS remains de facto essential infrastructure.
- In October 2020, CAFIS fees were reduced. However, this reduction did not always translate into a reduction in the connection fees charged by banks to non-bank code payment providers. The main reason for this was an increase in both anti-money laundering (AML) costs and security costs.
- More than half of the banks that responded said they had already implemented read-write APIs, which has increased competitive pressure on CAFIS. Yet no significant progress has been made in read-write API connectivity for two major reasons. First, there is a lack of consistent specifications for read-write APIs across banks. Second, the read-write APIs that banks have implemented often do not meet the functionality needs of non-bank code payment providers.

Paycheck deposits to FTSPs Account

Shares of FTSPs who want users' paychecks to be deposited into their accounts and others



- On November 28, 2022, the government issued the Ministerial Order Partially Amending the Ordinance for Enforcement of the Labor Standards Act, which allows for users' paycheck to be deposited into the account of FTSPs. The Ministerial Order will take effect on April 1, 2023.

Receipts flow from users (excerpts from respondent responses)

- On connection fees charged by banks to non-bank code payment providers

Reduced CAFIS fees help us reduce costs, but the total amount of increase in AML and monitoring costs is largely equal to the amount of the reduction. This makes it difficult to reduce connection fees. The costs of maintaining the payment infrastructure, especially AML costs, is increasing as if to offset the reduction in CAFIS fees. —Bank D

We pass on all the entire CAFIS fees reduction to non-bank code payment providers in order to promote digitalization and facilitate cashless payments. (Bank E)

- On how much read-write APIs are needed and introduced

A certain bank offered us a discount equal to the discount in CAFIS fees. No other banks made such an offer. —Non-bank Code Payment Provider A

- On paycheck deposits to FTSPs Account

The specifications of read-write APIs are not always consistent across banks. Without some kind of unification, non-bank code payment providers would have to bear a significant burden when making read-write API connections. —Bank F

Read-write APIs may entail lower development costs than CAFIS. If a one-time development based on this technology makes it possible to connect to two or more banks, we could reduce the development period. —Non-bank Code Payment Provider B

The elimination of charging process allows us to reduce the amount of costs we pay to banking institutions. —FTSP A

Regulatory authorities are supposed to review possible problems in two-years' time. Such a review should examine whether the rules are really wanted by users. —Industry Association A

Consideration in light of Competition Policies

<Pricing of retail payment infrastructure fees>

- In October 2020, NTT Data reduced CAFIS fees per transaction by one yen from the maximum of 3.15 yen, as the volume of account charging via CAFIS was increasing.
- Non-bank code payment providers who want to switch their retail payment infrastructure from CAFIS will have to bear high initial costs, including system development costs. As it stands, CAFIS effectively remains a de facto essential infrastructure.
  - ⇒ Reduced CAFIS fees can be seen as a contribution to the promotion of cashless payments.
  - ⇒ Meanwhile, some banks have yet to reduce connection fees they charge to non-bank code payment providers by the amount of the CAFIS fees reduction. This is largely due to the increases in AML and security costs incurred by banks. Non-bank code payment providers believe that banks do not adequately explain the costs incurred by banks in connection with account fees and other transactions.
  - ⇒ If a bank is to reflect the costs it incurs in transactions with non-bank code payment providers in the connection fees them, it should preferably explain to them the grounds rationale for charging connection fees.

<Effective use of read-write APIs>

- There is a need for read-write APIs, as they allow for lower development costs than CAFIS. Yet read-write API connections are not widely used for two major reasons. First, the specifications of read-write APIs are not uniform. Second, the features of read-write APIs that banks have in place are not always consistent with what non-bank code payment providers want.
  - ⇒ Various measures should preferably be taken to rectify the situation by relevant organization. These include (1) establishing a forum to unify the specifications of read-write APIs; (2) disclosing the set of read-write APIs that banks themselves have in place; (3) specifying the division responsible for read-write API connections at each bank; (4) identifying what non-bank code payment and other providers want out of read-write APIs; and (5) developing and using a mechanism to the needs for read-write APIs with those of non-bank code payment and other providers.

<Paycheck deposits to FTSPs Account>

- When the Ministerial Order amending the Ordinance for Enforcement of the Labor Standards Act comes into effect on April 1, 2023, and allows for the deposit of paycheck into the account of FTSPs, this will have a positive impact on improving user convenience.
  - ⇒ It is desirable for non-bank code payment providers to consider, as needed, what can be done to ensure interoperability while taking into account user needs

Note: When it becomes possible to deposit paychecks into the account of FTSP, challenges may arise, such as the slow entry of FTSPs into the market, unless there is a level playing field where banks offering code payment services and non-bank code payment providers compete on an equal footing despite differences in the regulatory framework between banks and FTSPs.

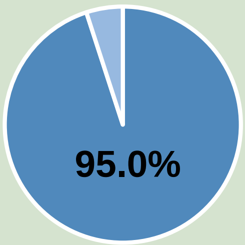
- ⇒ It is appropriate for the relevant ministries and agencies to assess the needs of users who wish to deposit their paychecks into the accounts of FTSPs and work to resolve any problems that may arise. The JFTC continues to monitor the situation.

Payment flow to member merchants (deposit transfer transactions)

Interbank fees and “*Domestic Funds Transfer System Operational Costs”*

	Interbank fees (Until Sep. 2021)		“Fund transfer operational costs” (From Oct. 2021)
Less than ¥30,000	¥117 (tax excluded)	Reduced to a single fee	¥62 (tax excluded)
¥30,000 or more	¥162 (tax excluded)		

Percentage of banks that have reduced transfer fees due to the creation of “Domestic Funds Transfer System Operational Costs”

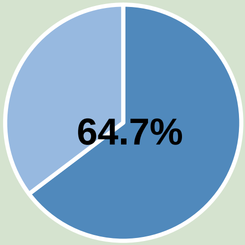


No. of banks that have reduced transfer fees by transfer option and discount range

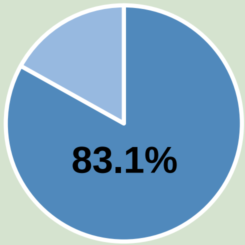
	IB	ATM	At window
Fewer than ¥10	1	2	3
¥10 or more and fewer than ¥50	0	0	0
¥50 or more	75	35	40
Other	36	70	64

- On October 1, 2021, Zengin-Net replaced interbank fees with “Domestic Funds Transfer System Operational Costs,” a fee of 62 yen per transfer, of which 50 yen reflect the cost incurred by the receiving bank and the remaining 12 yen correspond to the profit of the fund transfer business.
- The survey shows that most banks have reduced their transfer fees. It also suggests that the discounts reflect the differences between interbank fees and “Domestic Funds Transfer System Operational Costs.”

Percentage of banks charging different transfer fees depending on the amount transferred



Percentage of banks stating that they charge different transfer fees because they keep the different transfer fees as they were when interbank fees were applied



- Keeping, without careful consideration, the different fees intact from the time when interbank fees were in place can keep transfer fees high and prevent non-bank code payment providers and others from reducing disbursement costs.

Consideration in light of Competition Policies

- Banks that, without reasonable grounds, maintain different transfer fees as a continuation of the practice when interbank fees were applied should explore the possibility of changing this practice, while giving due consideration to the implications of standardizing transfer fees, including the cost of system remediation and the impact on their customers.

Actions toward strengthening the governance structure of Zengin-Net and ensure transparency of transactions

- Zengin-Net established the Task Force for the Next-Generation Payment Systems.
- The JFTC concludes that Zengin-Net is committed to a number of actions, including (1) improving dialogue with various stakeholders; (2) improving information dissemination through external communication of such information as the cost of funds transfer transactions per transfer, the method and practices of sharing the cost of participation in the Zengin System, the amount of “Domestic Funds Transfer System Operational Costs,” and how it is calculated; and (3) strengthening cooperation with participants in the Zengin System.

Consideration in light of Competition Policies

- The JFTC hopes that Zengin-Net will continue its efforts to maintain its governance structure and ensure the transparency of the transaction for which it provides the infrastructure.

Recommendation 5: Explore ways to open up access to the fund payment system to fund transfer service providers (FTSPs)

Exploring ways to open up access to the fund payment system to FTSPs

- The Task Force for the Next-Generation Payment Systems discussed and decided to make institutional and systemic improvements with the main purpose of easing the qualifications for participation in the Zengin System to include FTSPs. This decision was announced on September 15, 2022. The qualifications for participation were relaxed on October 7, 2022.
- In January 2023, Zengin Net announced its policy to develop API gateway connections to be launched during 2025 and 2026. According to the policy, all participants, including banks, will in principle bear the cost burden of API gateway connectivity based on the number of settlements.

Consideration in light of Competition Policies

- The JFTC concludes that Zengin-Net’s actions will lead to greater interoperability as well as a level playing field where banks and non-bank code payment providers compete on an equal footing. The JFTC assesses that Zengin-Net’s actions promote competition among code payment providers.
- Zengin-Net should preferably continue to reconsider the mode of operation as necessary to enhance convenience while ensuring both the safety of the payment system and a level playing field where banks and FTSPs compete on an equal footing.
- The JFTC hopes that Zengin-Net will continue to explore ways to allow FTSPs to participate in the Zengin System in light of the planned launch of a connection method that based on an API gateway.
- The JFTC will continue to monitor the situation.

Institutional Arrangements and Transactional Practices Around Open Banking in Other Countries

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Countries/regions	Description
EU 	● The Payment Services Directive 2 (PSD2), adopted in November 2015, provides a regulatory framework for payment services – including transactions between banks and fintech companies to obtain account information – within the European Economic Area (EEA). ● Under PSD2, banks must not restrict or discriminate against payment service providers (PSPs) that access account information at the request of users, including account information service providers (AISPs) and payment initiation service providers (PISPs). Nor may they require PSPs pay for such access.
UK 	● In February 2017, the UK's Competition and Markets Authority issued an order requiring nine major banks to adopt common standards for open APIs, thereby opening up the information they hold on personal and business current accounts to third-party providers (TPPs) free of charge. ● The order requires the nine banks to set up a self-funded Open Banking Implementation Entity (OBIE) to develop technical standards for open APIs and data formats and formulating guidelines on how to implement Strong Customer Authentication (SCA), among other measures.
Australia 	● In July 2020, Australia introduced the Consumer Data Right (CDR), which allows consumers to access and control data about them and to better compare and switch between different products and services, under the Competition and Consumer Act, the enforcement of which is the responsibility of the Australian Competition and Consumer Commission. ● Data holders who hold consumer data are required tp provide an online service where they make such data available free of charge and in accordance with API standards when requested to so by consumers or by accredited data recipients who have been requested to do so by consumers.
US 	● The US does not have a regulatory framework that directly restricts TPP's access to bank accounts. ● In the US, connections between banks and TPPs are primarily facilitated by fintech companies called "data aggregators" that act as intermediaries. Data aggregators contract with banks and TPPs to provide an environment for seamless connections between them via APIs. ● Progress is being made in the development of technical standards for access to financial data in the Financial Data Exchange (FDX).

Insights from Institutional arrangements and transaction practices abroad

- ➢ In some of these countries, the right of consumers to access their own data is clarified in law, based on the idea that consumer themselves have the right to ownership of their data.
- ➢ In addition, they have established a framework for smooth communication between banks and fintech companies to improve cooperation between them.
  - ⇒ This contributes to creation and promotion of innovations in the Fintech sector.
  - ⇒ It is highly recommended to consider actions to be taken by learning from the institutional arrangements in these countries, as described in this report.

Conclusion

Future Initiatives of the JFTC

- In Japan, the number of users of household accounting services, as well as code payment amounts, is growing and is likely to continue to grow. The importance of ensuring fair and free competition in markets for household accounting services and cashless payments such as code payments will also increase.
- The JFTC hopes that, in light of this report, banks, EPSPs, non-bank code payment providers, and other businesses involved will continue to make pro-competitive efforts to better serve the interests of consumer.
- For its part, the JFTC will continue to monitor transactions between banks and EPSPs and between banks and non-bank code payment providers. It will also conduct further follow-up to make recommendations from a competition policy perspective. In addition, the JFTC will continue to strictly and appropriately deal with any possible violation of the Antimonopoly Act, although no such cases were found in the survey.