



# Japan RegTech Adoption 2018 Survey Report

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Tokyo, Japan

 @WeAreRegTech



# Introduction

The on-going digital revolution has been drastically transforming the Financial Services Industry. The Risk and Compliance function has been no exception to this trend. Indeed, over the past years, many new solutions and services leveraging modern digital technologies have been proposed by innovative companies across the globe. These new services and solutions designed to help solve the most salient risk and compliance challenges faced by the industry are representative of the trend called RegTech (**REG**ulatory X **TECH**nology).

As part of its Japan chapter activities, the International RegTech Association has decided to conduct a domestic survey aimed at evaluating the level of acceptance and adoption of innovative RegTech solutions and services.

As IRTA Japan, we would like to take this opportunity to thank here all the survey respondents who have taken the time to answer our many questions, Goodway K.K. and JTB Communication Design, Inc. who have allowed us to run the survey at their events, as well as our survey lead partners in Japan: encognize G.K. and Greenberg Traurig Tokyo Law offices.

We, IRTA, truly hope that you will find this report insightful for your RegTech initiatives in Japan.

Bruno Abrioux  
IRTA Executive Board Member and Japan Representative

# Survey methodology

The IRTA Japan survey was conducted through a paper questionnaire distributed in Japanese language at two major industry events in Japan:

- the Japan AML Conference 2018 organized by Goodway K.K. on February 16<sup>th</sup> : <https://goodway.co.jp/fip/htdocs/event/aml2018/> (Japanese only)
- the 19<sup>th</sup> Annual Japan International Banking & Securities System Forum 2018 organized by JTB Communication Design, Inc. on February 28<sup>th</sup> : <http://info.gmac.jp/jibsis/2018/eng>

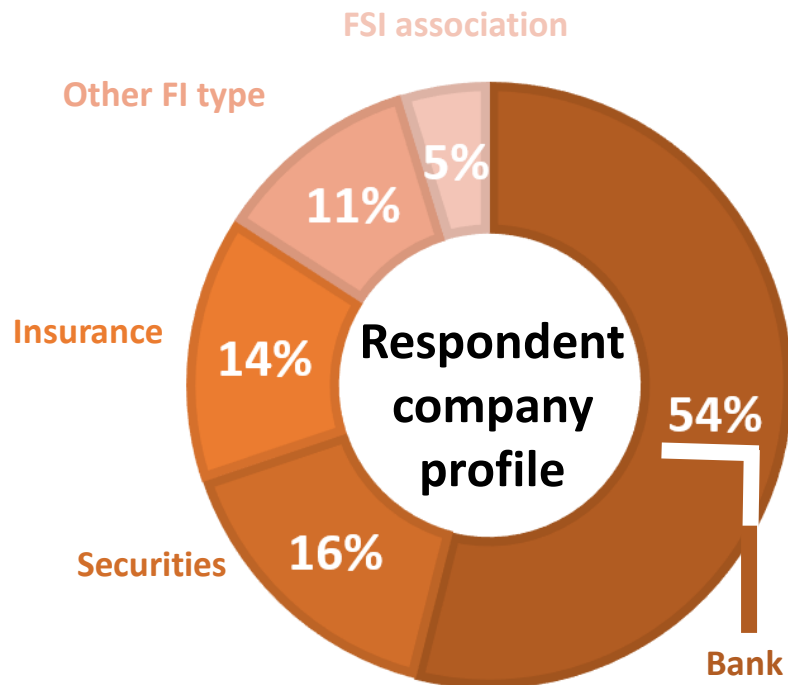
More than 80 professionals have responded to the survey over the course of the two events.

In order to reflect the direct needs and challenges faced by the Japanese Financial Services Industry, only answers from Financial Institutions or Financial Industry Associations have been retained. Responses from Technology Vendors, Consulting Firms, RegTech providers, as well as largely incomplete surveys (less than 50% of the survey being filled) have been discarded.

Following the filtering process based on the above criteria, 63 out of the 80 collected questionnaires have been validated and retained.

Since there were occurrences where valid respondents could not answer specific questions from the survey, each section of this report provides a clear indication of how many valid answers were counted for the point being discussed. Obviously, this number varies based on the respondents' level of contribution to the survey.

# Survey Demographics: Respondents' Company Profile



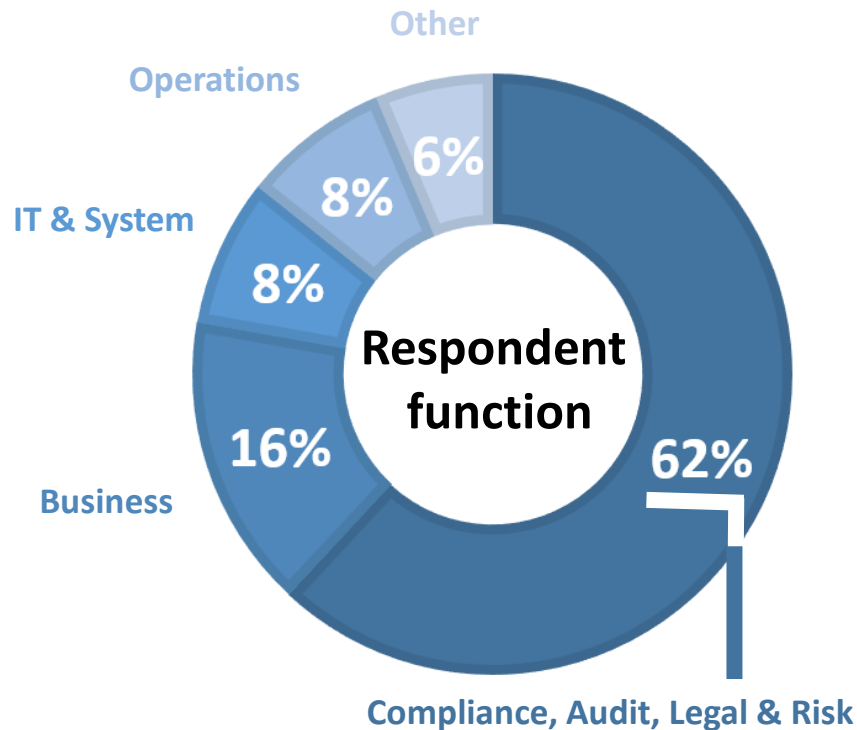
More than half of the respondents to the survey (54%) have announced working for banks.

Therefore, while reading this report, it is important to keep in mind that the perspectives shared during the survey are surely more representative of the Japanese banks' concerns than the ones from other financial institutions like securities firms, insurance companies or asset managers.

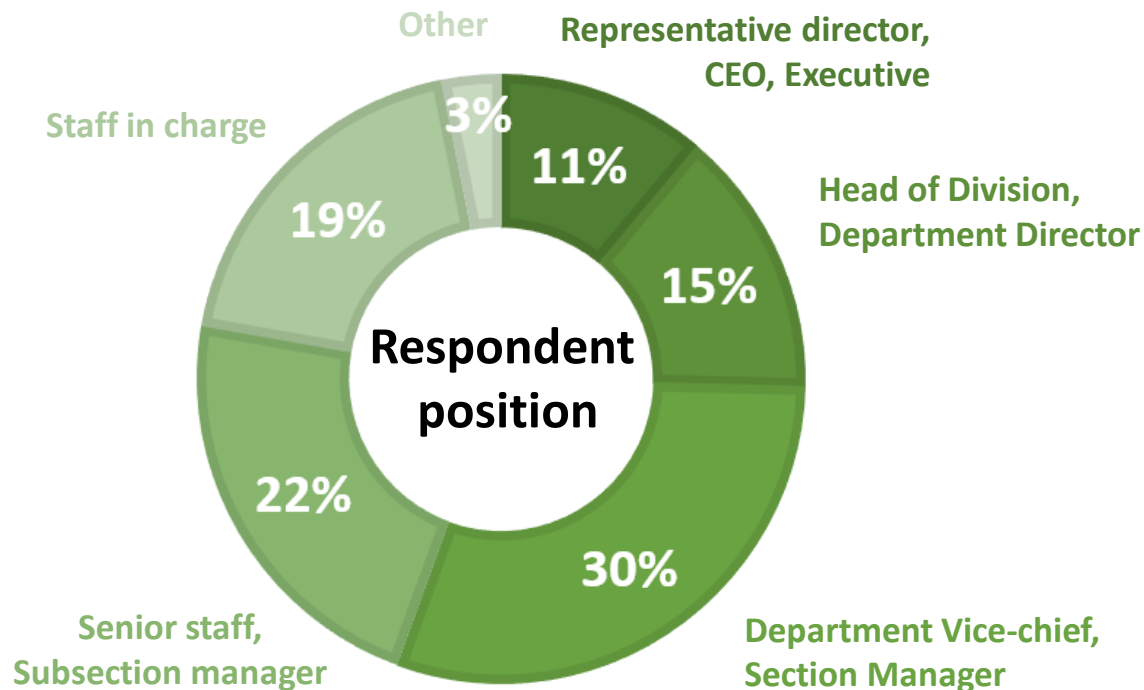
# Survey Demographics: Respondents' Function

Close to two thirds of the respondents (62%) are working directly in the Compliance, Audit, Legal or Risk function while respondents from the IT & System function represent only 8%.

Consequently, more than an IT-focused perspective on Regulatory Technologies, this report strongly represents views on how Financial Institutions' professionals from the Regulatory Compliance and Risk functions expect to address their direct challenges and the extent to which they think that RegTech solutions and services can help address these challenges.



# Survey Demographics: Respondents' Position



More than three quarters of the respondents (78%) have management or leadership responsibilities in their function, with around one quarter of all respondents (26%) being in Executive or Senior Management positions.

The content of this report is thus more representative of the management opinions on Regulatory Compliance and Regulatory Technologies matters than being the voice from staff directly experiencing the current processes and technologies through their daily activities.

Anti-Money Laundering and Combating the Financing of Terrorism

54%

New regulation identification and related impact analysis

37%

Risk management and stress testing

35%

Client on-boarding and Know Your Customer

29%

Data protection compliance

25%

Regulatory Reporting

24%

Conduct monitoring

19%

Trading Rules

11%

Compliance

## Risk & Compliance focus FY2018

*Percentage over 63 valid respondents*

[see comments next page](#)

*up to 3 answers per respondent implying  
cumulated percentage above 100%*

# FY2018 focus: AML and CFT far ahead any other topics

With more than half of the respondents (54%) choosing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) as one of their top 3 focus area for FY2018, it is clear that Financial Institutions in Japan will devote a large part of their resources and their budget to address this area of concerns above any others.

Notwithstanding a possible survey bias with half of the respondents attending a Japan event dedicated to AML, this particular sensitivity around AML and CFT can surely find its roots in two factors:

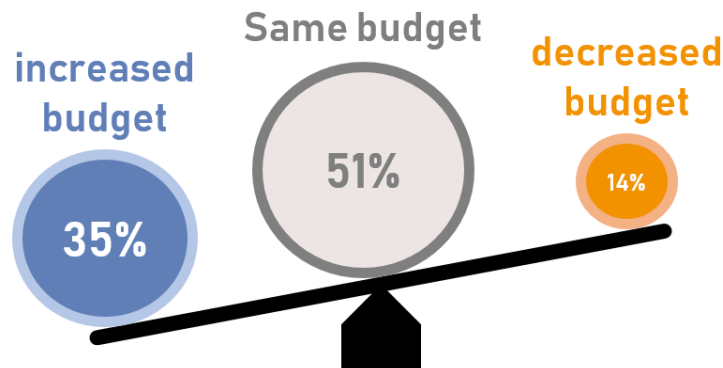
- 1) on February 6, 2018, the Japan FSA published [the finalized “Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism”](#) and [the finalized amendments to the “Comprehensive Guidelines for Supervision of Major Banks, etc.”](#). These guidelines require Financial Institutions to develop a “Risk-based approach” against AML and CFT: Financial Institutions are expected to own the process of identifying, evaluating and mitigating the AML and CFT risks associated with their products or services.
- 2) the coming mutual evaluation of the Financial Action Task Force (FATF) scheduled in the later part of 2019 for Japan.

The second largest concern (37%) refers to the identification of new regulations and respective impact analysis, highlighting that the pressure due to the pace and extent of recent domestic and global regulatory reforms remain strong. Moreover, the Japan FSA is contemplating changing their supervisory approach from a “rule-based” one to a “principle-based” one, potentially abolishing the current Inspection Manual in favor of a forward-looking and dialogue based supervision. This would require Financial Institution to set-up their compliance regime in a more proactive manner.

Under such on-going regulatory pressure, 35% of respondents have confirmed that their Risk and Compliance budget was actually increased for FY2018 in comparison to FY2017.

## FY2018 Risk & Compliance budget (versus FY2017)

*Percentage over 45 valid respondents*

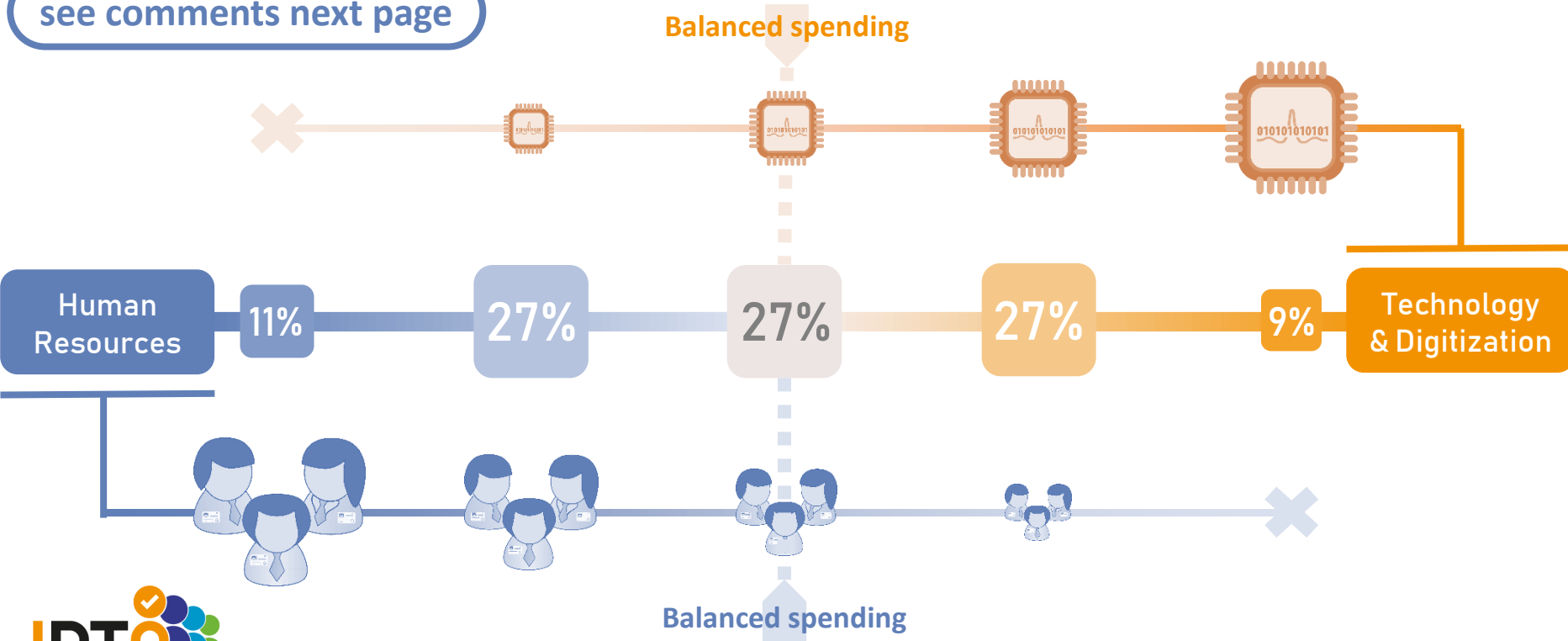




# FY2018 Risk & Compliance budget spending strategy

Percentage over 45 valid respondents

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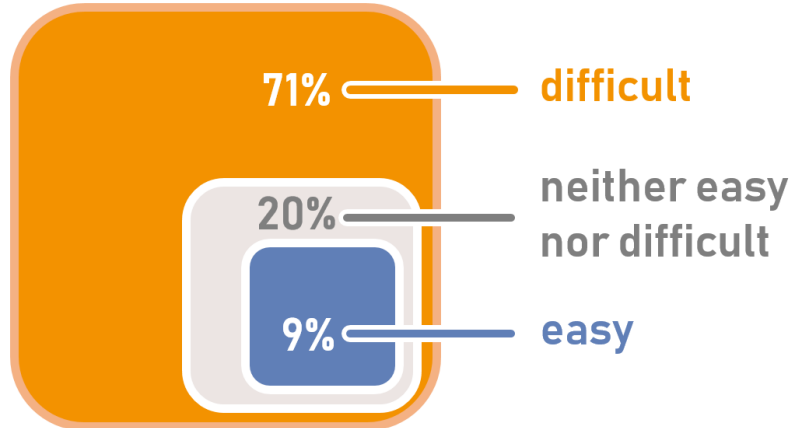


# FY2018 Risk & Compliance Budget: spending divergences

When asking whether the spending strategy for the Risk & Compliance Budget allocated to FY2018 would focus more on human resources or on technology and digitization of the function, a close-to-perfect balance was struck. 27% of the respondents plan to use the budget in a balanced manner.

## Finding qualified resources within budget

*Percentage over 49 valid respondents*



While 38% of the respondents have indicated that they would spend their budget more on human resources than technology (11% spending mostly on human resources), 36% have taken the exact opposite approach of focusing on technology and digitization (9% spending mostly on technology and digitalization).

The underlying reason for such a balance could be threefold:

- 1) Japanese firms have a long tradition to rely on manual compliance processes,
- 2) RegTech innovation in Japan has been lagging behind compared to the rest of the world. While there are a number of factors explaining this situation, the current information collection approach from regulators as well as the lack of initiatives aimed at encouraging and supporting RegTech innovation (access to sandboxes, RegTech-focused incubation or acceleration programs...) are surely two factors strongly impacting the domestic development of RegTech .
- 3) only 33% of respondents have confirmed that their company had put RegTech as part of their company digital strategy.

From a labor market realistic perspective though, and beyond the discussion of a potential scalability issue when relying on human resources, Financial Institutions looking at hiring additional qualified resources to address their Risk & Compliance needs may anyway struggle in doing so. This may lead them to reconsider their initial spending strategy and increase technology adoption.

# Top 5 RegTech adoption challenges

Percentage over 55 valid respondents

*up to 3 answers per respondent implying  
cumulated percentage above 100%*



[see comments next page](#)

# RegTech adoption: beyond the strategy, a trust question

Concerns about adopting RegTech solutions are fairly distributed over a number of reasons. As top challenge when considering on-boarding new RegTech solutions lays the digital strategy question for 40% of the respondents. Increasing the number of bespoke solutions to address the various challenges of the risk and compliance function is not perceived as a sound approach, unless the firm has clarified its technology strategy.

## Top 3 criteria for RegTech solution selection

Percentage over 62 valid respondents

up to 3 answers per respondent



Beyond a lack of solution information, three other concerns out of the top five point to the lack of trust:

- 1) mistrust in digital technologies,
- 2) concerns about cyber-risks involving company's sensitive data
- 3) fear of losing control over the compliance process when engaging with RegTech vendors.

This trust issue is confirmed when asking respondents about RegTech solution selection criteria: while the solution maturity bottoms at 18%, vendor credibility tops at 61%, far above the solution usability (fit to purpose, ease of integration with current systems and processes) and the solution reliability or flexibility.

An additional survey question on vendor engagement model has confirmed this point. When asked about working directly with emerging RegTech ventures as opposed to working with existing partners (vendor, system integrator, consulting firm) on the introduction of new RegTech services, all respondents without exception have opted for the latter answer. In other words, respondents prefer to engage with existing, trusted partners to adopt innovative RegTech solutions, rather than building a relationship with an emerging RegTech venture.

# Defining RegTech Utility Services

Over the past years, the financial services industry has seen an increase in number of available utility services covering diverse aspect of the financial institution business cycle.

Utility services can be defined as a multiparty cooperation to answer common requirements in a mutually beneficial spirit. For example, in order to address a given regulatory requirement common to all parties, several Financial Institutions can create a consortium, possibly involving Regulators as well, then decide to build a shared platform on their own or with the help of RegTech vendors and Consulting Firms and appoint an operator to run it and maintain it.

Utility services can come in many different shapes, leveraging various technologies. Governance regimes for utility services can also be of a diverse nature. Utility services can run in a centralized model where information is aggregated around one centrally shared platform or in a decentralized way where information is distributed among the various entities involved in the utility itself, as in the case of Distributed Ledger Technology based utilities for instance.

The next session of this report focuses on the possible benefits and design requirement for RegTech utility services.



TOP 2

# Expected Actors for Utility Services

Number of valid respondents limited to 30



BOTTOM 2

Governmental Regulator  
Other SRO or Industry Body

Owner

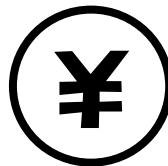


Consulting firm  
Technology Vendor / System Integrator

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Financial Sponsor

Financial Institutions Consortium  
Industry Body (other)

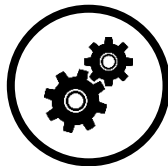


SRO and Industry Association  
Governmental Body (non-regulator)

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Operator

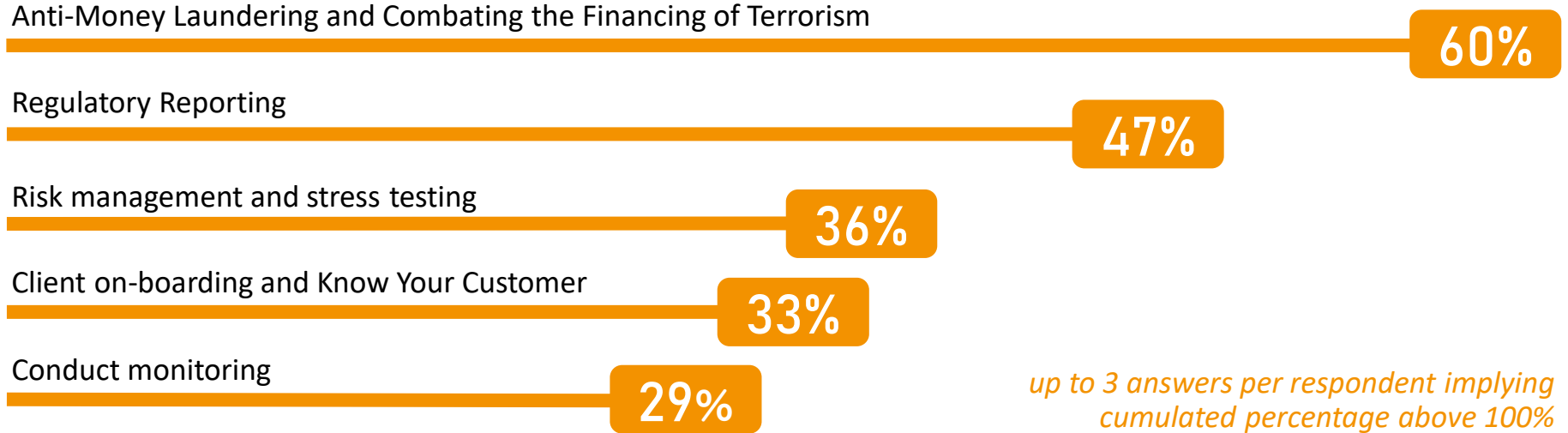
Technology Vendor / System integrator  
Consulting firm



Governmental Regulator  
Governmental Body (non-regulator)

# Utility Services expected benefits: top 5 areas

Percentage over 55 valid respondents



[see comments next page](#)

# RegTech Utility Services: the way forward?

60% of the respondents have identified the possible benefits of RegTech Utility Services in helping them address challenges in relation to AML and CFT. This figure could reflect the angst of financial institutions in being ready for the 2019 FATF mutual evaluation. It could also emphasize the need for industry-wide solutions and services in order to answer the shift to a “risk-based” approach to AML and CFT newly required by the Japan FSA (see explanations on page 8).

The next biggest anticipated benefit of utility services points to the regulatory reporting function. With an increased expectation on regulatory reports (frequency, accuracy, granularity) and no value-add to the business, reporting appears indeed a strong candidate for financial institutions to join forces and tackle many requirements in a holistic manner for the industry.

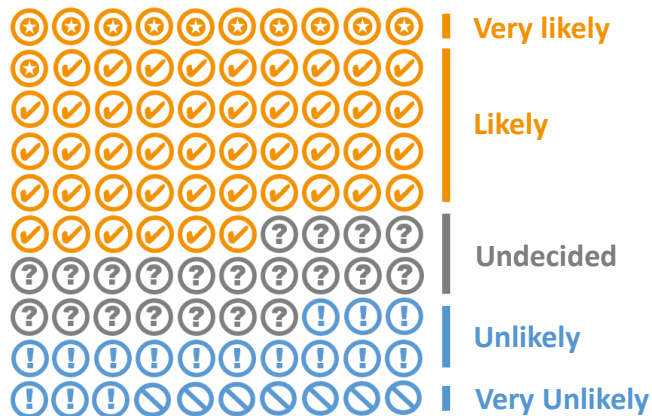
With a growing global trend of regulators looking at leveraging digital technologies as well for their supervisory needs, a trend dubbed SupTech (Supervisory Technology), there is here a strong interest for financial institutions to engage with regulators and find ways to improve the reporting function in a mutually beneficial approach. Although limited to only 30 respondents, Regulators and SROs are actually foreseen as the best bodies to own utility services, while RegTech Vendors, Technology Providers and Consulting Firms come as a natural response to the requirement of operating and maintaining such utilities.

It is also interesting to note here that “Client On-Boarding and Know Your Customer” is positioned at the fourth rank. As client on-boarding and KYC is a part (or initial step) of AML under Japanese law (Act on Prevention of Transfer of Criminal Proceeds), this data point surely reinforces the high interest on services related to AML and CFT as a whole. The recent public announcement of Japan FSA and the Japan National Police Agency discussing an adjustment of the current requirements in terms of KYC with an objective to support electronic on-boarding will surely contribute to raise further the industry interest for such services.

More than half of the respondents (56%) say they are ready to use RegTech Utility Services if made available.

## Utility Services adoption intention

Percentage over 55 valid respondents





# Conclusion remarks

Considering the survey responses being essentially drawn from the banking segment of the financial services industry and from professionals working directly in the Compliance, Audit, Legal or Risk function, it is little surprise to see Anti-Money Laundering and Combating the Financing of Terrorism as the top focus for the Fiscal Year 2018. This priority clearly reflects the needs for Japanese banks to adequately and thoroughly prepare for the 2019 FATF mutual evaluation combined with the shift to a risk-based approach pushed by the domestic regulators. Indeed, The Japan FSA has made it clear that Financial Institutions must own the AML/CFT mechanisms by taking the lead on proactively building plans to identify, evaluate and mitigate their risks on an on-going basis, based on their product and services offering. The expectation is to have financial firms' executive management drive the AML and CFT matters and commit sufficient resources to it, be it through human capital or technological investment. While having relevant policies in place at the level of the "three lines of defence" (1<sup>st</sup> line being the business level, 2<sup>nd</sup> line being the Risk & Compliance level and 3<sup>rd</sup> line being the Internal Audit level) is an initial fundamental step, this is not sufficient in itself if not associated with proper execution and on-going reviews aimed at identifying corrective measures and improvement actions.

Additionally, the fact that the focus on capturing and understanding the on-going regulatory reforms remains high in the financial institutions' priority list shows that the regulatory pressure has not yet decreased for Japanese firms. With the Japan FSA working on a revision of their Basic Policy on Inspection and Supervision that would abolish the current Inspection Manual and move to forward-looking and dialogue based supervision, many Financial Institutions will indeed have to adjust accordingly their compliance methodology. As a matter of fact, Financial Institutions in Japan have traditionally used the Inspection Manual as check list for their regulatory and compliance regime to date. But, if the Inspection Manual is abolished and the Japan FSA's supervisory approach changes, they will have to set up their compliance regime more proactively on a principle-based way or for best-practice driven.

While these pressing needs have urged many institutions to increase their budget allocated to the risk and compliance function, the survey also reveals that investment strategies are balanced between firms focusing on human resources, institutions looking at digitization and technology and the ones taking a mixed approach. With qualified Risk and Compliance professionals becoming scarce and more expensive resources, it is though expected to see some of the domestic institutions progressively shift their strategic approach to RegTech solutions and services, contrary to their initial plan.

Embracing Regulatory Technologies for the Japanese institutions does not go without any challenges though. First, the survey highlights that trust should be built further between emerging RegTech providers and financial institutions: trust in the digital technologies, trust in their security and resiliency and trust in the provider itself. Increasing RegTech adoption in Japan will probably require a two-side effort. On one hand, successful RegTech providers in Japan are expected to be the one who can build confidence showing strong solution credits, probably by identifying local, reliable, trustful partners that can accompany them along their journey with the bank. On the other hand, domestic financial institutions should be encouraged to increase their innovation-readiness by deploying RegTech strategies that reward for taking measured, educated risks in adopting emerging RegTech solutions.

Moreover, the survey result emphasizes the need for financial institutions to clearly define a RegTech digital strategy to maximize the benefit of RegTech and avoid the pitfall of making the current risk and compliance process even more complex with the adoption of multiple bespoke solutions. To that extent, Utility Services look appealing to survey respondents. Indeed, such services allow them to address industry common challenges in a holistic manner, sharing the risks, the costs and the benefits with other peers and selected, trusted utility partners. The survey also emphasizes that respondents are ready to engage with domestic Regulators and SROs on these type of services.

At IRTA, we can only encourage and support an open discussion between all participants of the Japanese Financial Services Industry: the regulators, the entities they regulate and the RegTech solution and services providers, to find ways to improve the regulatory risk and compliance function in a mutually beneficial approach for all parties.

# About the International RegTech Association

The International RegTech Association (IRTA) is a truly global organization (NPO) committed to ease and accelerate the evolution of the RegTech industry, by facilitating integration, collaboration and innovation of all stakeholders, within the Financial Services sector. IRTA intends to provide a global, collaborative, eco-system for further innovation and deployment of RegTech solutions, to provide professional education and certifications on RegTech and to define, deliver a set of Standards to adopt RegTech into a Financial Institution.

Visit us at <https://regtechassociation.org/about>

# About the survey lead partners

Survey lead, data analysis and report creation activities were performed by IRTA founding members in Japan, encognize G.K. and Greenberg Traurig Tokyo Law offices, on behalf of the International RegTech Association.



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# Join us and shape the future of RegTech



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