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Bank of Japan

Integrating Finance and Technology for New Growth Opportunities

Remarks at the FIN/SUM 2019

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(English translation based on the Japanese original)

Introduction

I am delighted to be given this opportunity to speak to you at the FIN/SUM 2019.

The main theme of this year's FIN/SUM is "new sources of growth." The key to raising economic growth is to stimulate potential needs and further provide goods and services for which people are willing to pay. According to Schumpeter, firms need to make innovation that leads to the introduction of a new good and the opening of a new market. In recent years, there has been a growing interest in FinTech. It has been driven by the dramatic evolution of information technology, but this is not the only factor. Financial services that did not exist before have been created by information technology. As these services have been met with high demand by the public and have begun to transform the way of living, FinTech is drawing more attention.

Typical examples include financial services using smartphones. Smartphones are palm-sized computers that enable cashless payments and internet banking services. However, they are not just a payment tool. Integrating payment functions with digital marketing and search functions helps create new demands, improving the convenience of services. Smartphones enable us to pay train fares, pick up and pay for taxis, and search for and purchase goods. Incorporating payment tools into a range of commercial services provides new added value.

The Role of the Banker

Schumpeter is well known for highlighting the importance of innovation for economic growth in his book, *The Theory of Economic Development*. He also mentions the role of the "banker" in economic development.

The process of "creative destruction," as defined by Schumpeter, begins with an attempt by visionary entrepreneurs to innovate. Namely, they do so through the introduction of a new good, the introduction of a new method of production, the opening of a new market, the conquest of a new source of supply of raw materials, and the carrying out of a new organization of any industry. The banker then evaluates entrepreneurs' potential and provide finance to support their innovations, which facilitates economic development. The banker searches for entrepreneurs who can create innovative businesses and select

the most promising ones. Competition among bankers to find skillful entrepreneurs contributes to improvements in the efficiency of their operations, thereby increasing their profits. Such behavior of the banker helps achieve efficient resource allocation from a macroeconomic perspective, which endogenously enhances economic growth.

The banker discussed here is not confined only to the literal meaning of a banker. They include investors such as venture capitalists who have an eye for assessing the businesses and risks of startups. The role of capital markets, including stock and corporate debt markets, would also be considered as the banker in a broad sense. Moreover, FinTech firms have begun to partly play the role of what Schumpeter calls a "banker" in recent years. Let me explain in more detail.

Taking Advantage of Corporate Payments and Commercial Information

As discussed, a range of commercial and financial services are now provided in an integrated manner with smartphones. Commercial and financial functions are closely linked and inseparable; this has not changed since the olden days. As banks used to provide credit mainly by discounting commercial bills, lending services were essentially incorporated into commercial businesses. That is, banks engaged in payment services with access to commercial information, which enabled them to provide credit efficiently to the economy. Given payment information is derived from commercial information, the latter is more fundamental than the former. Clients' commercial information is the key to better assessing their creditworthiness.

In other words, ensuring access to fundamental commercial information enables even nonbanks to gain a competitive advantage in information production, and perform financial intermediation functions. Indeed, FinTech firms, including accounting software vendors, have started accumulating corporate commercial and payment information in recent years. A chronic labor shortage in Japan has facilitated the introduction of accounting software in the corporate sector to streamline the bookkeeping process. With clients' consent, FinTech firms such as accounting software vendors can access granular payment and commercial information in an efficient and instant manner. In addition, artificial intelligence and machine learning technologies help analyze data to assess clients' creditworthiness. A wider access to clients'

commercial and payment information by FinTech firms has led to the recent expansion of transaction lending businesses.

Schumpeter describes innovation as "new combinations" in his original book. FinTech firms have literally achieved a "new combination" as "entrepreneurs" by incorporating accounting information processing, and credit information production, to provide transaction lending services. This new combination helps establish efficient lending frameworks that reduce costs for credit assessment, shorten screening processes, and improve the performance of credit risk models.

In the meantime, meeting the demand for loans from clients is a challenge for some FinTech firms that do not have sufficient funding sources. In this regard, financial institutions can cooperate with FinTech firms by providing funding. This helps financial institutions ensure new growth opportunities by finding new clients with whom no business deal was previously made because of the profitability of the deal. These initiatives also bring opportunities for startups and small and medium-sized enterprises (SMEs) with insufficient collateral and guarantee capacity to expand their businesses. If FinTech firms and financial institutions -- which have a comparative advantage in information production and fund provision respectively -- work together to play the role of the "banker," that could result in better financial services. This would be a good example of new growth opportunities within the context of financial intermediation.

Conclusion

The Bank of Japan established the FinTech Center to facilitate the development of FinTech in 2016, the year when the FIN/SUM first took place. The topic of corporate payments and commercial data utilization, for example, has been discussed with a wide range of experts at our FinTech Forum as well and we have released the insights and perspectives gained from the discussion on our website. The Bank will continue to make efforts so that better financial services and the creation of new businesses will lead to economic growth.

In this year's FIN/SUM, we welcome a rich variety of participants, including those from the financial and technology sectors. I sincerely hope that interactions between the

participants will lead to "new sources of growth" -- which is the theme of this year's FIN/SUM.

Thank you for your attention.