

PAYMENT & TRANSFER SERVICES

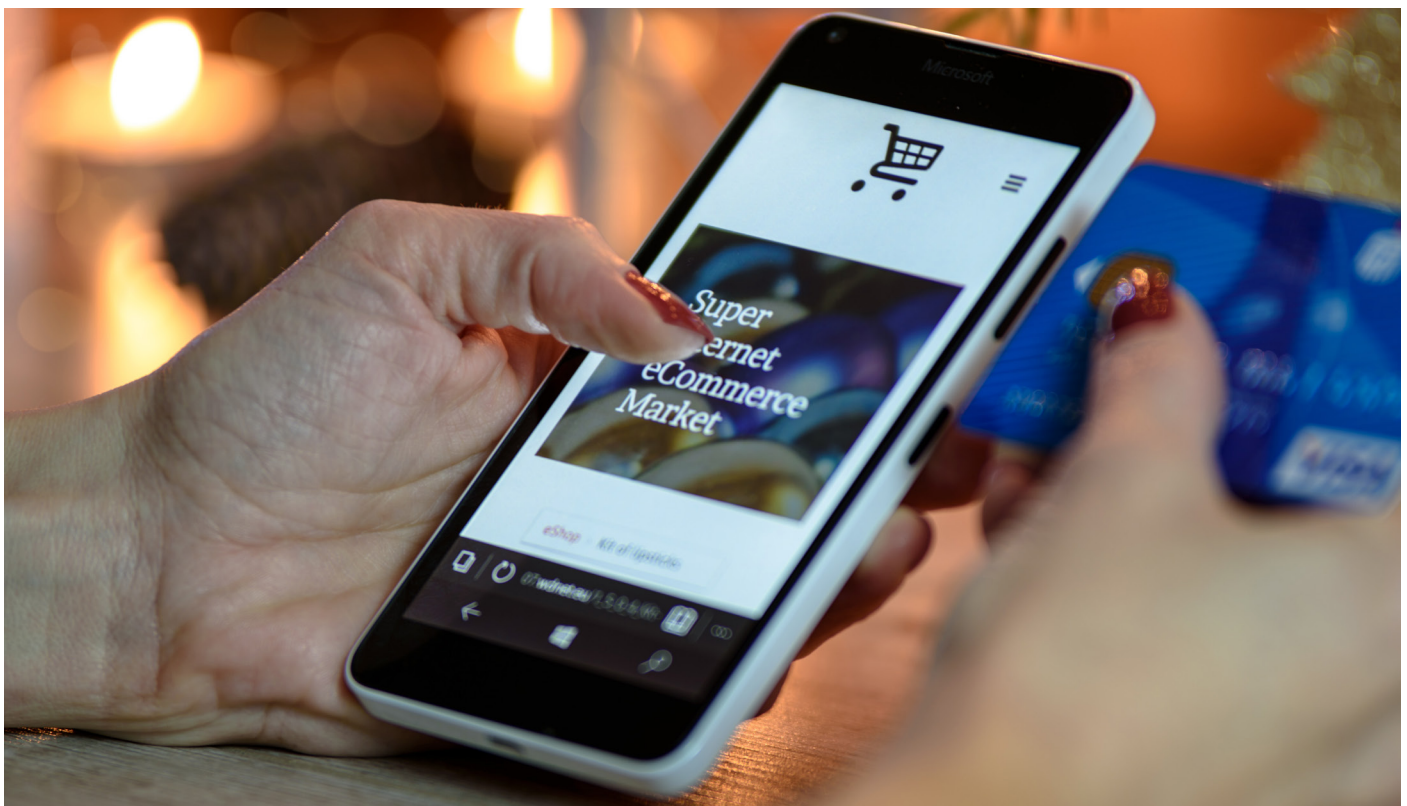
The EU-Japan EPA outlines bilateral and multilateral regulatory cooperation with the objective of reinforcing global financial stability, efficient markets, and protection of investors, depositors, and fiduciaries. The EPA's cooperation covers all areas of financial services. This affects EU companies throughout the financial sector and financial services industry.

1. PAYMENT AND TRANSFER SERVICES OVERVIEW

Globally, internet and mobile communications payments have given rise to the development of cross-border electronic payment systems, that supports the US\$5.4 trillion per day global foreign exchange markets.

While the payment and transfer services market is extremely diverse, ranging from online transfer services to

card-based payment systems and alternative payment systems (such as online banking e-payment systems), it is also a key segment of contact between start-ups and SMEs and established industry players, as well as a market where IT and telecom firms are seeking opportunities to challenge traditional financial institutions, providing ample opportunities for joint ventures and complementary relationships.



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EU-Japan EPA **FACTSHEET**

Payment & Transfer Services

SECTORAL-LEVEL B2B ELECTRONIC PAYMENTS, RETAIL TO SUPPLIERS (IN \$ MILLIONS)^[1]

RETAILER TYPE/ REGION	GROCERY MICRO	GROCERY SMALL	GROCERY MEDIUM	NON-GROCERY MICRO	NON-GROCERY SMALL	NON-GROCERY MEDIUM	TOTAL MSMRs
High income: OECD	390.546	524.173	830.169	466.788	662.825	673.874	3.528.375
Europe & Central Asia	64.888	103.375	137.455	53.662	164.329	164.870	688.579
East Asia & Pacific	156.562	101.988	441.633	114.700	315.163	357.823	1.487.870
Latin America & Caribbean	68.598	76.729	119.073	43.192	142.321	155.190	605.103
Middle East & North Africa	12.833	21.732	60.781	13.789	33.547	62.204	204.885
South Asia	14.150	41.495	121.808	16.018	62.709	145.766	401.946
Sub-Saharan Africa	5.239	21.328	82.027	8.803	28.833	44.576	190.807

According to the World Economic Forum's 2016 report on electronic payment adoption, electronic payment is set to have substantial impact on world markets. This is particularly the case in the Asia-Pacific region, where nearly a third of the world's payments by SME retailers occur, but only 31% of these payments are in electronic form (compared to 46% for Europe and Central Asia, as well as Latin American and the Caribbean). In principle this indicates the substantial growth and displacement potential of the growth of electronic payment technologies and infrastructure going forward



[1] World Bank Data (World Bank Group, 2016)

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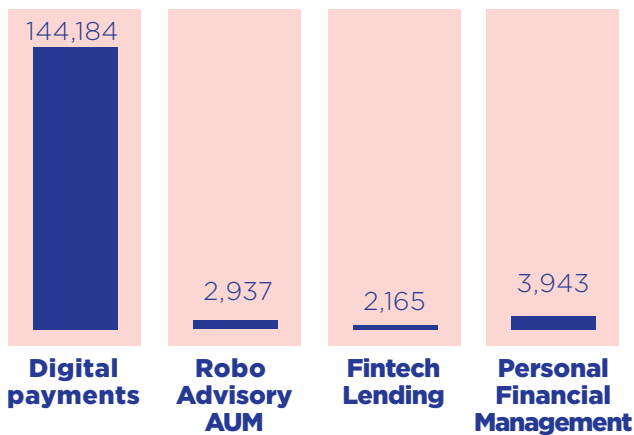


2. PAYMENT AND TRANSFER SERVICES IN JAPAN

As it currently stands, 2018 Statista data establishes payment services are the largest individual segment of the fintech industry in Japan, outweighing the other segments of the fintech industry by a large margin.

SCALE OF JAPAN'S FINTECH INDUSTRY, BY SEGMENT^[2]

Japan's Fintech Segment Sizes 2018 (in EUR millions)



Moreover, given that the Japanese market is particularly prone to disruption by the fintech industry (according to 2016 UBS research), the payment and transfer services market in Japan is likely to see aggressive growth during the next decade.

2.1 REGULATORY LANDSCAPE IN JAPAN

- Prior to 2010, only banks and licensed depository institutions were allowed to provide money transfer services.
- The 2010 Payment Services Act, non-financial institutions were allowed to offer money-transfer services up to a maximum of 1 Million JPY. In order to provide transfer services, firms must be registered as funds transfer service providers and are subject to FSA regulations. Overall, this means growth and diversification of the digital payments competitive landscape, to include a wider range of small-scale market participants.
- In 2017, the Banking Act was amended to define Electronic Payment Intermediate Services (EPIS) as businesses that either as intermediaries, electronically delivering a depositor's instructions to its bank to transfer funds between accounts. This establishes a legal framework for EPIS providers to collaborate with financial institutions in order to provide services to consumers.



[2] Statista Data

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3. EU-JAPAN EPA AND TRADE IN SERVICES

3.1 COVERAGE OF THE PAYMENT AND TRANSFER SERVICE MARKET:

- **8.59 a (ii) (A)** establishes acceptance of deposits and other repayable funds from the public as “banking and other financial services” for the purposes of the EPA.
- **8.59 a (ii) (D)** establishes all payment and money transmission services, including credit, charge and debit cards, travelers’ cheques and bankers drafts as “banking and other financial services” for the purposes of the EPA.
- **8.59 a (ii) (J and K)** establishes settlement and clearing services, as well as transfer of financial information for financial assets as “banking and other financial services” for the purposes of the EPA.

3.2 WHAT THIS COVERAGE PROVIDES:

- **EPA 8.8** protects EU SMEs against discrimination by regulators while **EPA 8.62** protects against discrimination concerning self-regulatory organisation membership, privileges or advantages. EU-based payment-service and transfer-service providers will be able to operate in the host-country market on equal footing with local providers.
- **EPA 8.63** protects information transfers and processing of financial information needed the conduct of the ordinary business of a financial service supplier.
- **EPA 8.73** protects software source code against forcible disclosure, but establishes that disclosure may become part of procurements or negotiated contracts. This allows payment-service and transfer-service providers to offer services and enter into joint-ventures, while sharing software code at their discretion.
- **EPA 9.2** protects the free movement of capital and of transactions (which can be temporarily interfered with during times of external financial difficulties). This will make cross-border possibly as instantaneous as domestic transactions, by removing regulatory transaction bottlenecks.
- **EPA 14.32** and **14.33** provide the means to protect against the unregistered use of intellectual property. This will allow payments systems providers to protect themselves against product and service cloning by local competitors.
- **EPA 14.36** establishes definitions and protections for trade secrets, as well as authorised secret-holders, while **14.50** provides for civil judicial procedures to defend trade secrets.

3.3 CHALLENGES

While the EU-Japan EPA offers EU financial-sector businesses more opportunities to participate in Japan’s financial market landscape. EU SMEs should take into consideration that other factors, such as cultural, linguistic, and regulatory barriers will need to be addressed in order to take full advantage of the EU-Japan EPA.

While new financial services to the Japanese market cannot be impeded by regulators on novelty grounds, regulators can still require authorisation, refuse on prudential grounds, or determine the judicial form under which the financial service can be supplied. EU SMEs in the business of supplying new financial services should still expect regulatory oversight.

Likewise, Japanese SMEs can still be subject to regulatory authorisation, licensing requirements, macroprudential regulation, and competition policy regulations and thresholds.

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MORE INFORMATION

EU-Japan EPA's **main text and annexes** can be found on European Commission's DG Trade website:
<http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684>

EU-Japan EPA's Chapter on **financial services** is also available on the European Commission's DG Trade website:
http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157228.pdf#page=281

Annex 8-A on **financial services regulation** is also available on the European Commission's DG Trade website:
http://trade.ec.europa.eu/doclib/docs/2018/august/tradoc_157232.pdf#page=1



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