

Digital Strategy

Main Q&A

Q :What are your plans for monetizing cashless settlement?

A :First, we intend to secure a stable revenue stream by making our platform available to users. Second, we will capture ever more commissions by increasing the number of merchants using our services. We will also consider utilizing data gleaned via the platform to develop data businesses. In short, we are not positioning ourselves as simple contact points with customers. Rather, we are pursuing various possibilities to secure profit.

Q :I would like to hear your views on on-line data lending. What's the difference between the on-line data lending and conventional lending based on a credit scoring system? Please also share your opinion on on-line data lending's likelihood of success in Japan.

A :Model-based screening system for the conventional lending performed disappointingly due largely to its dependence on financial statements that at times fail to present an accurate picture of the potential borrower. Hence, in some cases, a bank was not able to properly assess the credit of the borrowers.

In contrast, our on-line data lending services will scrutinize cash flows to and from bank accounts. This data is quite objective. Although to date we as a bank have not been so efficient in approaching to small-sized companies, the new lending system may better position us to reach out to this customer segment. Once this system is a proven success, we will benefit from abundant opportunities in a blue ocean market.

Moreover, we believe that assisting domestic SMEs in their pursuit of growth will eventually contribute to Japan's national growth strategies.

Q :Please elaborate on the thinking leading to the "Powered by MUFG" concept featured on page 16 of the presentation material. Could you also tell us about MUFG's competitive advantages over existing platform operators and major tech companies?

A :A large number of customers have bank accounts with MUFG, which is recognized as a major player in the payment business. This is the base from which our strength derives. In other words, it means we gain trust from customers.

Other promising business models employing this concept include an alliance between

MUFG, which is equipped with a range of know-how in the payment business, and external partners boasting strength in online payment. This type of alliance will help create payment services that although unconventional are fully in conformity with prevailing network security standards. For example, customers can use “coin” with confidence when they are “Powered by MUFG.” At the same time, business partners may be allowed to use MUFG’s platform to issue “colored coins” serving as currencies particularly relevant to their own business arena. As such, we expect that under this concept, we can engage in successful collaboration with external business partners.

Q :MUFG’s top management seems to be strongly committed to promoting digitalization. However, is it really succeeding in changing its corporate culture? In particular, we would like to hear about the current status of the Bank. What changes have you actually seen or expect to see in the near future? Also, what challenges are you facing?

A :Honestly speaking, we have a long way to go in terms of changing our corporate culture and nurturing human resources. Specifically, the Bank is facing the dilemma of simultaneously satisfying the need for improved customer convenience while maintaining robust security and compliance. That being said, we have seen some changes steadily taking hold. For example, each business group has overhauled its strategies by incorporating a viewpoint of digitalization.

Moreover, under the IT mentorship system we introduced two years ago, young staff members are allocated in pairs to serve under executives whom they in turn mentor in the area of IT literacy. While the executives benefit from the younger employees’ insight into IT-assisted information collection, the young appointees are able to closely observe and learn about how executives think and handle their duties. These and other efforts are ongoing, but we are still only halfway through the process of changing our culture and employee mindset and removing organizational boundaries.

Q :I would like you to elaborate on the chart featured in page 7 of the presentation material. How does MUFG intend to increase net operating profits via its various initiatives? Have there been any revisions to the initial forecast announced when the medium-term business plan (MTBP) was being formulated? Also, do you think that the effects of MUFG’s initiatives will emerge in accordance with the projected timetable?

A :Estimates regarding increases in net operating profits are backed by detailed business plans formulated by each business group.

Among business groups, the Retail & Commercial Banking Business Group is expected to make the largest contribution. Meanwhile, the Global Markets Business Group is engaged in and accelerating a number of initiatives. Furthermore, similar efforts are now

under way on various fronts at our overseas partner banks. The pace at which progress has been made in these initiatives has been faster than expected. We will disclose the status of progress periodically on such occasions as financial results announcements. However, we forecast that initiatives in new business fields, including the establishment of "New Payment Network" and the "coin", require longer time spans before they begin positively affecting profit.

Q :I would like to hear more about the IT investment strategy discussed on page 32 of the presentation material. Please identify the differences between the strategic investment scheduled in the current MTBP and that executed under the previous one. Also, how do you verify the effects of investment?

A :The IT investment budget for the current MTBP is 1.4 times more than that of the last MTBP and represents an increase of nearly ¥300 billion. In particular, the volume of digitalization and other forward-looking strategic investments is significantly larger than under the previous MTBP.

At the same time, various processes are in place to verify the investment effect from the inception of each project. We also maintain a firm grip by monitoring ROI. Whenever a project is found to be failing to progress as expected, we place it under even more rigorous monitoring to periodically assess whether or not to withdraw from it.

Q :It seems to me that the Global Open Network has a significant advantage. If MUFG were to capture a dominating share in this field, how much would it contribute to the profit?

A :We believe that there is certain possibility that MUFG could dominate this field. If we were to dominate the market, we can eventually expect considerable profit. However, as we are also aware that various types of risk may emerge in the course of operating a platform, we will need to take care and manage those risks.

Moreover, when an IoT era would arrive in the future, we forecast that transactional data will be transferred via a variety of mobile devices, resulting in exponential growth in the volume of transactions handled via the network. If that is the case, we may have to reconsider whether we can keep the conventional volume-based fee table, which may well be altered in line with customer receptivity and societal changes.

Q :Japan has in place relatively stringent legal regulations on the use of personal information. Although these regulations are expected to relax somewhat, to what extent do you think MUFG will be able to utilize personal information gleaned via settlement, deposit and other services?

A : As far as data gleaned via banking is concerned, we expect that current regulations on the utilization of this data will be relaxed and intend to pay close attention to future legal revisions.

Q : Under your digital strategies, what external entities do you identify as posing threats? What are your plans for countering these threats?

A : Absolutely, platforms run by BigTechs like GAFAs are one threat. However, such companies are making entries into the settlement field with the aim of acquiring the data handled in the course of settlement rather than directly profiting from settlement itself. Even though we will face them in the same battleground, their objectives are slightly different from ours.

In addition to our existing customer networks, we boast strengths in compliance, anti-money laundering and data security, all of which are essential to handling settlement services. Taking full advantage of these strengths, we are determined to earn customers' support for our services. Consumers are wise enough to discern and reject services that may expose them to even slightest risk. Therefore, maintaining MUFG's longstanding customer trust is a matter of particular importance.

We also believe that, in the course of making entries into our field, the aforementioned platformers will be called upon to live up to compliance and security requirements that are as stringent as those applied to banks. The cost of satisfying these requirements will not be insignificant. In sum, their approach to regulatory compliance will be one of pivotal factors affecting future competition in the settlement field.

Q : What is the legal positioning of MUFG coins?

A : Currently, we intend to position operations associated with the "coin" as exchange transactions services as defined under the Banking Act.

Right now, cryptocurrencies like bitcoin are coming under increasing public scrutiny. We are paying close attention to various discussions now under way with regard to these currencies. Meanwhile, major overseas exchange service providers are tending to focus on stable coins. We aim to eventually re-position our MUFG coin as a digital currency once clarifying the difference from cryptocurrencies, which have a lot of speculative significance.

Q : Could you provide details regarding MUFG's IT architecture strategy as featured on page 34 of the presentation material? Do you intend to utilize internal APIs as interfaces connecting the Bank's accounting systems and customer channels?

A : We have already established data link functions to connect APIs from customer interfaces by upgrading existing internal APIs of SOA* linkage. This allows us to take a more flexible approach in changing customer interface.

The underlying idea is that we intend to take advantage of API technologies as they provide us with a broader range of options for connection, and eliminate the need of renovating the whole system. We believe that pushing ahead with initiatives, not only for customer interfaces but for the system as a whole, will help us secure preparedness for the emergence of a new digital society.

*Service Oriented Architecture

Q : I would like to ask some questions about the Global Open Network. Given the size of strategic investment budget set aside by MUFG, are you truly confident regarding the Company's advantages over major international competitors that handle other open networks encompassing large regions? Don't you think you have to invest more? Also, what authorization methods are you planning to adopt for this network?

A : Global Open Network has an intention to expand into and provide services in countries around the world. To achieve this end, a variety type of alliances can be considered.

Although some people may doubt the sufficiency of our investment budget, we currently estimate the completion of this network hardly requires considerable investment. As it employs blockchain technologies, this network can be operated without a large number of dedicated servers or backup data centers in place in preparation for disaster. Furthermore, we are positioned to utilize Akamai's intelligent edge platform capable of reaching out to customers around the globe. In addition, we intend to develop some parts of the authorization system ourselves.

Q : What are your views on QR code settlement? If this settlement method were to become more popular than your projections indicate, for example, if national standards like those sponsored by the Singaporean government became commonplace, what impact do you think MUFG might experience in terms of the implementation of its settlement business strategies?

A : If the existing J-Debit platform supported by a number of financial institutions was made available to operate QR code settlement, up to 1,300 domestic banks would be able to provide people all across Japan with smartphone settlement services without the need for costly additional investment. If this scenario comes into play, we would also like to lower commissions to be paid by merchants. This would help popularize QR code settlement.

Currently, discussions are being held by working group among banks to determine how to promote QR code settlement. Our plans call for incorporating this method into MUFG

Wallet. Once QR code is proven success, it may help us enjoy significant growth.

Q :I have heard that some major U.S. banks employ a number of engineers and that sometimes they account for 20% to 30% of the total headcount. In comparison with these banks, what is the status of MUFG's resources for IT system development?

A :The most notable difference between MUFG and these U.S. banks lies in whether the IT system each uses is developed in-house or externally. Although MUFG is equipped with a dedicated systems division and around 3,000 domestic employees charged with systems development, these resources are not sufficient to meet all of our development needs. In fact, we have commissioned some business partners to take on a portion of systems development projects. This approach is commonplace in Japan and helps us smoothly utilize external specialists whenever necessary.

In contrast, European and U.S. banks, which in general had previously relied on outsourcing, recently switched their focus to in-house development. One of factors enabling this change is, we believe, the labor market structure that is unique to these regions. They tend to hire employees on an as-needed basis for each project. Meanwhile, MUFG signs contracts with its business partners for each project. Nonetheless, it could be argued that these two approaches, in reality, hardly make any difference.

However, MUFG is currently developing a variety of systems associated with UI/UX. Development of this kind requires agility. Although we intended to greenlight business partners only after the system requirements were well defined, in the meantime focusing on playing an oversight role in the development process, this approach may soon become irrelevant. We are in fact aware of the difficulties we would face should we fail to increase the number of in-house specialists engaging in development.

With this in mind, we took some concrete steps. For example, Japan Digital Design directly hires engineers so that it can quickly develop one prototype after another.

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