

Special Feature: Dialog between customers and the President

Ideas from regional areas to energize society all around Japan. Taking on challenges to achieve mutual goals

A chance meeting at a pitch contest immediately led to a mutual understanding

Sato: The first time we came together was back in January 2018. I recall so clearly cheering on one of ITFOR's employees who had advanced as a finalist in the Okinawa block competition of a new business pitch contest. As a senior managing director of Fukuoka Bank at the time, you were serving on the judging panel, so I was so keen on exchanging business cards with you given how rarely such an opportunity to meet you would come by. You suggested that I should visit you at your bank, so we met again there at a later date.

Yokota: My first impression of you was your positive attitude as a person. I thought you were always beaming with smiles, and had a very frank and open relationship with your employees—you embodied the concept of “處人藹然” (shojinanzen: when interacting with others, try to make them feel at ease and calm) found in the “六然訓” phrases that I live by myself. We got along with each other instantly.

We had two things in common, the first being our outlook of the world, and the other was that we made our own presentations ourselves. These are two areas that I am very particular about, so I felt that we were very similar deep down.

Sato: What do you mean by our outlook of the world? Does that come from our frequent talks on topics like the fact that we had both visited Israel in the past?

Yokota: Yes, that's right. When I heard that you had business dealings with an IT manufacturer in Israel, and had also visited the embassy to get more information about the company, I was so impressed and felt that you were someone I could look up to.

Sato: Oh, stop... One thing that is true, though, is that do really insist on making my own presentations. This takes so much time, but it means I can do the presentation without referring to any script. I also remember that we talked often about the marathons you run. You mentioned that you took part in a 100-kilometer marathon and ran for 12 or 13 hours—and that if you had that amount of time, you could even go to Israel.

ITFOR taking part in Minna no Ginko development project as a partner for taking on challenges together

Yokota: We talked about so many things whenever you visited me in Fukuoka, and at first I felt that you were a friendly vendor, but I had the opportunity to learn more about ITFOR after you joined us as a development partner for the Minna no Ginko project. Our Fukuoka Financial Group

launched Minna no Ginko in May 2021 as the first digital bank in Japan. The bank was started from scratch by building a public cloud-based system, and we planned to begin a loan business the following year, so we asked ITFOR to cover the credit management system aspects.

Sato: After hearing that you were developing a nationwide digital bank, I am so happy that we were able to be part of it. While we did have a lot of experience with credit management systems, the fact that these loans were to be used by people the bank had never met before meant that we needed to completely change our way of thinking, which presented a major challenge. No doubt this represented an even bigger challenge for you, but we were overjoyed to take on such a challenge together.

Yokota: The reason why we developed Minna no Ginko was that, in addition to the structural challenges arising in the regional bank market at the time due to the declining birthrate and aging population, the term “fintech” emerged as a buzzword around 2015. In 2018, the term digital transformation, or DX—leveraging digital and data to spearhead

transformation of business models—was also viewed as the keyword for the competitive strategies being adopted by regional banks. While traditional banking services are quite familiar to seniors, such services are not regarded well by digital natives, and as such there was a growing sense of impending crisis among banks that if nothing was done to address this situation continued, other industries would begin making inroads into the market by harnessing fintech and start poaching younger generation customers.

Yet any attempts to try modernizing and migrating the legacy systems of traditional banks would take a tremendous amount of effort and time. Modifying the way channels and teller operations work was also deemed to be extremely demanding, given that some customers who only used the bank by visiting branches. So the idea we came up with was to develop a bank using backcasting, by looking toward the future of what the bank of tomorrow should be like. There was an intense sense of fear that regional banks would not be able to survive the looming age of digital revolution if they all took the same approach and simply provided additional services as an extension to their conventional services.

Sato: ITFOR has experience providing services to regional financial institutions and local governments, so we had a thorough understanding of the challenges faced by rural areas. With the growing number of young people moving to the Tokyo metropolitan area, and the assets that they are inheriting also flowing toward Tokyo, major corporations in different industries that were not originally banks ended up as the winners—this created a significant flow of funds from all 46 prefectures around Japan concentrating solely in Tokyo. In the face of such tendencies, Minna no Ginko is attempting to buck the trend. This is a trend that is absolutely necessary, and is also very exciting.

Yokota: I am so grateful that you understood what we are trying to achieve. While the base of the Fukuoka Financial Group is with regional banks in Fukuoka, Kumamoto and Nagasaki prefectures, funds are truly flowing to the capital. We need to find a way of somehow bringing this to and end. In essence, all the regional banks were thinking how they could focus on local production and local consumption of money.

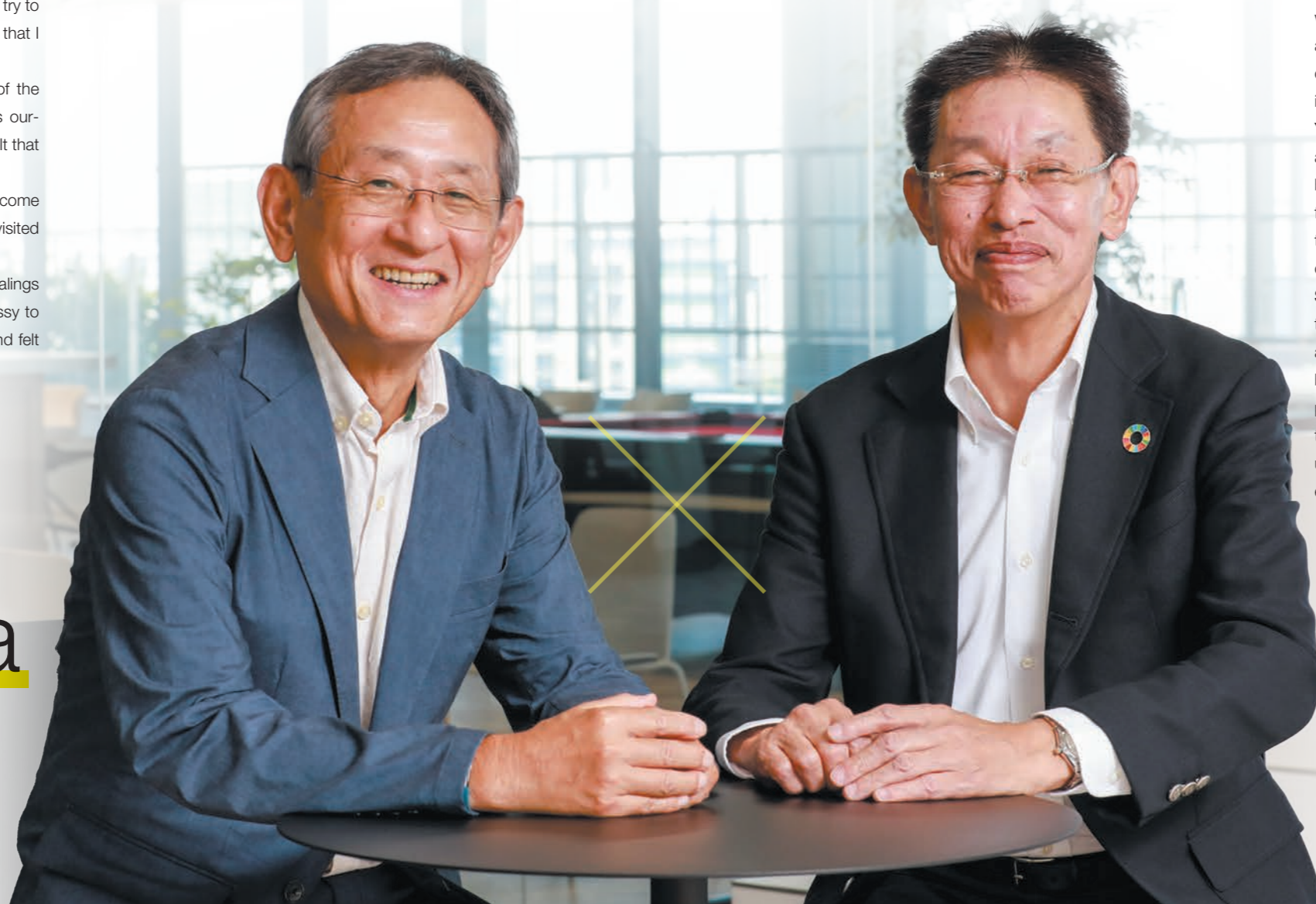
Sato: Restoring the movement of people and money to how they were takes an immense amount of power once they have started flowing. It is also very difficult to change the fundamental mindset of young people, but if the available services are clearly more convenient, it is the young people who will make use of them, regardless of which bank provides those services. I pondered how interesting it would be if money ended up concentrating in Kyushu without anyone realizing it, thanks to the efforts of the Fukuoka Financial Group.

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What Japan's first digital bank created, and what it linked up

Yokota: Minna no Ginko celebrated its third anniversary this year with over one million accounts, but 70% of account holders are customers under the age of 40. They comprise digital natives hailing from Hokkaido down to Okinawa Prefecture, in line with demographics, as we had initially envisioned.

Our customer base that had been almost exclusively in Kyushu has expanded nationwide, and we have broadened the domains that our Group operates in. The capabilities of our organization that were previously limited to banking services have also expanded to cover digital marketing and app development engineering. Further to this, we have now developed the organizational capability of working with our partners to build the API platform for creating the value of the customer experience we are seeking. The creation of a customer base has also resulted in value that will be able to generate future revenue, or the so-called franchise value.

Minna no Ginko currently has about 300 employees, with around 30% of them from the banking sector—the remainder have been hired from other sectors, with engineers making up about half of the total number.

Sato: It find it hard to believe that half of those working at the bank are system engineers. Having people with different backgrounds join in and openly express their opinions makes it much easier to lead to business opportunities. A number of regional banks have realized that they are no



Heading outbound from Fukuoka and working with newly acquired partners to create value for local regions

longer able to achieve what they want to do after continuing to cut back on the number of system engineers due following system integration—some are now urgently trying to get their engineers back.

Yokota: That's right. I visited one of the world's largest digital banks in 2017 and heard that they started outsourcing 80% of their systems in the year that Lehman Brothers collapsed, but then spent about 10 years returning everything back to their own development. When I witnessed how that bank had transformed into a digital bank through these steps, I realized that we definitely needed to bring development in-house, with our own engineers creating the service themselves to ensure a speedy process.

Sato: Your foresight has definitely become a case of best practice in Japan. When it comes to banking systems, naturally the whole premise is that there cannot be any failures, but it was one of the world's leading overseas financial institutions that was the first to redefine this. In 2017, we actually set out to create a sandbox system where we could do whatever we wanted, and even fail if need be. Financial institutions in the UK also implemented a similar approach for their cloud-based system infrastructure.

ITFOR also wanted to adopt a sandbox for our 12th floor head office here, but our company still has a stubborn attitude in that it wants to achieve everything at once, without any failures. We need to change this approach as we focus on future development and the way we look at about things.

Yokota: The concept of trying things quickly and failing while things are still small was certainly not an approach taken by banks, and the more we tried it, the more we found out that it is quite reasonable. Developing apps by adopting an agile approach inevitably results in bugs. Naturally we fix those bugs before releasing apps, but the issue lies when just how quickly we can address them. Another example is making changes immediately if customers are not responding as we expected or if it looks like they are making the wrong movements—this is one of the organizational capabilities that we have built up.

Sato: Smartphone apps are one of the reasons I actually wanted to become involved with Minna no Ginko. Around 70% of all bank transactions are now made via Internet banking—this rate is even higher among younger generations—but these transactions are being made using smartphones, rather than computers. Minna no Ginko already has many young customers using smartphones, so there is plenty of potential in the non-financial sector. I definitely want our company to be involved in this.

Yokota: For sure. Half of our employees are also system engineers, but I think we are still lacking with our own development capabilities. Just like ITFOR set regional revitalization as a goal of its medium-term management plan, it is people and the capabilities of human resources that set objectives like the first penguin concept or moonshot thinking.

The key lies with just how to hire and train as many talented people as possible. This remains an eternal challenge. Many of our engineers shared a similar purpose and vision as us, approaching us because we are “a bank doing exciting things,” and I feel the tremendous capabilities of those who joined us because of a shared purpose.

Sato: Exactly. I also hope to organize personnel exchanges, like inviting employees cultivated at Minna no Ginko.

Working with ITFOR aiming to revitalize local communities with a global perspective

Sato: One of the reasons making development with Minna no Ginko so easy is that the API is largely open and shared, and you are deeply committed to the philosophy of having an open API. This is simply not possible at other banks.

Yokota: I think there are probably three skill requirements needed for banks in the future. The first is engineering, and this means the bank is developing its own apps. Second is the skill of open banking for coordinating efforts with various partners via the API. And the third is being data-driven, which I feel is turning more to AI-driven these days. Based on these skill sets, I think our API platform is the most advanced banking API platform in Japan. We are able to operate in an open manner while also maintaining the level of security required in the UK and Europe. This is also why we are able to create a safe customer experience when it comes to BaaS (Banking as a Service). Furthermore, we are able to exchange data with ITFOR via the APIs, so I am sure we have a long future ahead working together.

Sato: The fact that we do not operate any actual branches means that no matter where our customers reside, they will receive the same level of service as in Tokyo or Fukuoka as long as they have a smartphone—an achievement that was unthinkable in the past. One of our business visions is “providing services anywhere in Japan without any differences,” and Minna no Ginko has already accomplished this.

Yokota: The service called Embedded Finance is already available in Europe and the U.S., and I also want to achieve this in Japan. For instance, I am referring to a bank that only provides services like directly debiting fees from a bank account when a user makes a payment on a major distribution e-commerce site, or automatically creating a loan if the user has no balance. As this is one platform where the bank is embedded in the processes making up the customer experience, our bank should be the first one approached by any type of businesses, regardless of size.

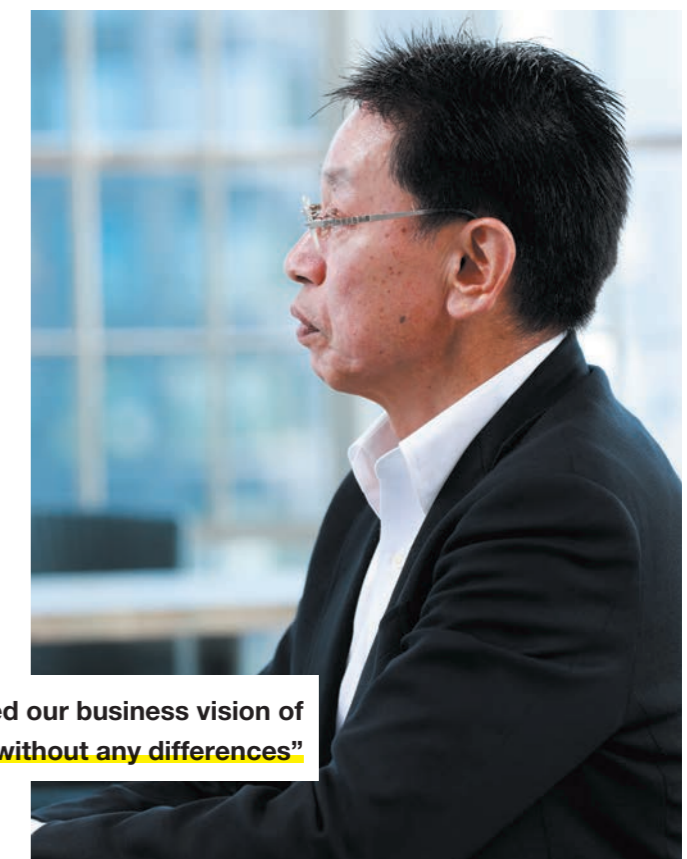
Sato: I also want our company to be involved in BaaS. More than just

being able to be integrated into the existing smartphone apps of financial institutions, if services like ride-sharing can also be booked and paid for via the Minna no Ginko app, it will become a app that plays an essential role in daily life.

Yokota: The fees for transactions can be very high when using credit cards or mobile payments, and those fees are becoming a significant issue when viewed across society as a whole. BaaS can be provided at a lower marginal cost so it can even be rolled out at regional retailers, which can help overcome such issues.

Our business domains now span all over Japan and will hopefully become global in the future, but from my hometown in Fukuoka, I am sending out the message about redesigning banking and finance, and redefining the form that banking will take on in the future. I would like to cast my gaze more and more outward, build up new partnerships, and then return to Fukuoka and link up with customers and partners in Fukuoka based on new relationships. There are many great materials and manufacturing companies throughout Japan, and if Minna no Ginko is able to entice new partners to local areas, there will likely be many new opportunities that arise.

Sato: If we are able to properly communicate our purpose in these regions and add value there, things will naturally begin moving, which will bring about a change in the flow of both people and money. While each of the 47 prefectures possess their own value on a regional basis, the fact is that these values are not well known or conveyed to others. As you mentioned, I think there are cases where you realize the value of the region only after leaving Fukuoka and heading outward. There is a tremendous amount of potential for the synergy generated by the value in different regions. I would love to play a role helping you create new value for such regions.



Minna no Ginko has already achieved our business vision of “providing services anywhere in Japan without any differences”