

breathe in(novation)

UNCOVER INNOVATIONS THAT MATTER



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A FUTURE ON THE BLOCKCHAIN



MUFG (Mitsubishi UFJ Financial Group) is one of the world's leading financial groups headquartered in Tokyo and with a global network with over 2,500 locations and over 170,000 employees. MUFG reported gross profits of 3,964 billion yen in the fiscal year 2021.

Masakazu Osawa has held key roles in Corporate Banking, M&A, and Retail Banking since joining the company in 1991. He was appointed Head of Digital Transformation Division in 2017, where he has been responsible for leading MUFG's digital transformation strategy. In 2020, he was promoted to Group Chief Digital Transformation Officer (CDTO).

Which innovations have had the biggest impact on the financial services sector in recent years?

— One major innovation is the use of AI and machine learning to analyze non-financial data traditionally not owned by financial institutions. For instance, Mitsubishi UFJ Financial Group (MUFG) has been working with the strategic partner, Grab, the leading “superapp” of Southeast Asia, which provides delivery, mobility, and financial services. Grab analyzes daily transaction data that accumulates on their platform such as the number of orders and daily income of drivers and food merchants as well as spending propensity of those who use the Grab app, thereby developing sophisticated credit decision-making tools. In our collaboration with Grab aimed at providing next-generation financial services, we can now provide credit to customers who had not been well served with financial services, such as Grab drivers and food merchants, by taking advantage of the increased visibility on potential borrowers on the back of those data and analyses. We combine those non-financial and behavioral data with our own expertise in a traditional way of credit assessment, making a stronger credit assessment to meet financial needs. In Japan, we also utilize non-financial data to deliver new solutions to small and medium-sized enterprises (SMEs) through an online factoring business working with Money Forward.



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How could bitcoin and blockchain transform the financial services sector?

— There are many use cases for which blockchain offers significant advantages. For instance, going forward, blockchain will continue to offer remittances and settlements at a lower cost than that offered by existing mechanisms.

We have several blockchain initiatives currently under way. For instance, Progmat is a security-token issuance and management platform that utilizes distributed ledger technology promoted by Mitsubishi UFJ Trust and Banking Corporation. Progmat started its business by issuing and circulating tokenized trust beneficiary interests of residences in Shibuya [one of the major wards in Tokyo, the Japanese capital] in the form of public offering financial instruments. I have no doubt that many more diverse assets can be tokenized in the future.

Tokenization of non-financial assets will also accelerate. NFTs (non-fungible tokens), for instance, have enormous potential and we shall monitor their development closely. For Bitcoin, however, scarcity is the root of the price, and its value is not stable. Therefore, we feel that it might not become a payment tool that everyone can use.

"Blockchain will continue to offer remittances and settlements at a lower cost than that offered by existing mechanisms."



What are the biggest challenges that financial services firms face in scaling innovation initiatives?



Regulation poses the most significant challenge to innovation.

— Regulation poses the most significant challenge to innovation. Owing to deregulation in Japan, financial institutions are able to participate in operations beyond the original remit of the financial sector. However, financial institutions have traditionally established structures and business models. Integrating new payment models using digital currencies is challenging.

In addition, regulations typically tend to be applied in the new world, and for innovative new service, it becomes necessary for the major players in the finance sector to communicate and lead to a change in such regulations. Organizations need to develop what I call “ambidexterity,” where they intensify the focus on core business, while continuing to challenge themselves to innovate. It is necessary to achieve both of these goals in a well-balanced manner, while, never losing sight of the end-goal: serving our customers.

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INNOVATION @ MUFG

MUFG is investing in and collaborating with startups. How successful is the open innovation model when working with startups?

— MUFG's open innovation aims to break away from self-reliance, bringing in new ideas and technologies from external sources and, through that, delivering new value to customers. We are constantly looking out for potential startup partners, for collaboration and strategic investment.

MUFG set up Global Innovation Teams in Silicon Valley in 2014 and Singapore in 2016, looking for opportunities to collaborate on new technologies and create new business models.

In 2015, we launched the MUFG Digital Accelerator, the first accelerator program within Japanese banks. The Accelerator symbolizes our open-innovation mindset, and is now one of the leading accelerator programs in the Japanese financial sector. Until today, five batches were held with the participation of 31 startups from Japan and overseas, and the 6th batch is



Executive Conversations

coming soon in this Autumn. The program has successfully commercialized multiple cases. In 2019, we launched Biz LENDING, our online lending service for SMEs. Biz LENDING was the fruit of collaboration with Credit Engine, a startup that participated in the 3rd batch of the program. Also, multiple startups from previous batches collaborated with us on our new asset-management platform Money Canvas, which we launched in 2021.

In 2016, we began investing strategically in startups. Through MUFG Innovation Partners (MUIP), the corporate venture capital of MUFG established in 2019, we have invested in over 30 startups in Japan and overseas.

As a good example, in 2020 we have launched Mars Growth Capital, a Singapore-based joint venture with Israel's Fintech company Liquidity Capital, which MUIP invested in. The company has already increased the total fund size to USD 500MM, and by leveraging the advanced AI credit model they provide its financing to overseas startups that traditional banks have difficulties in extending credit to.

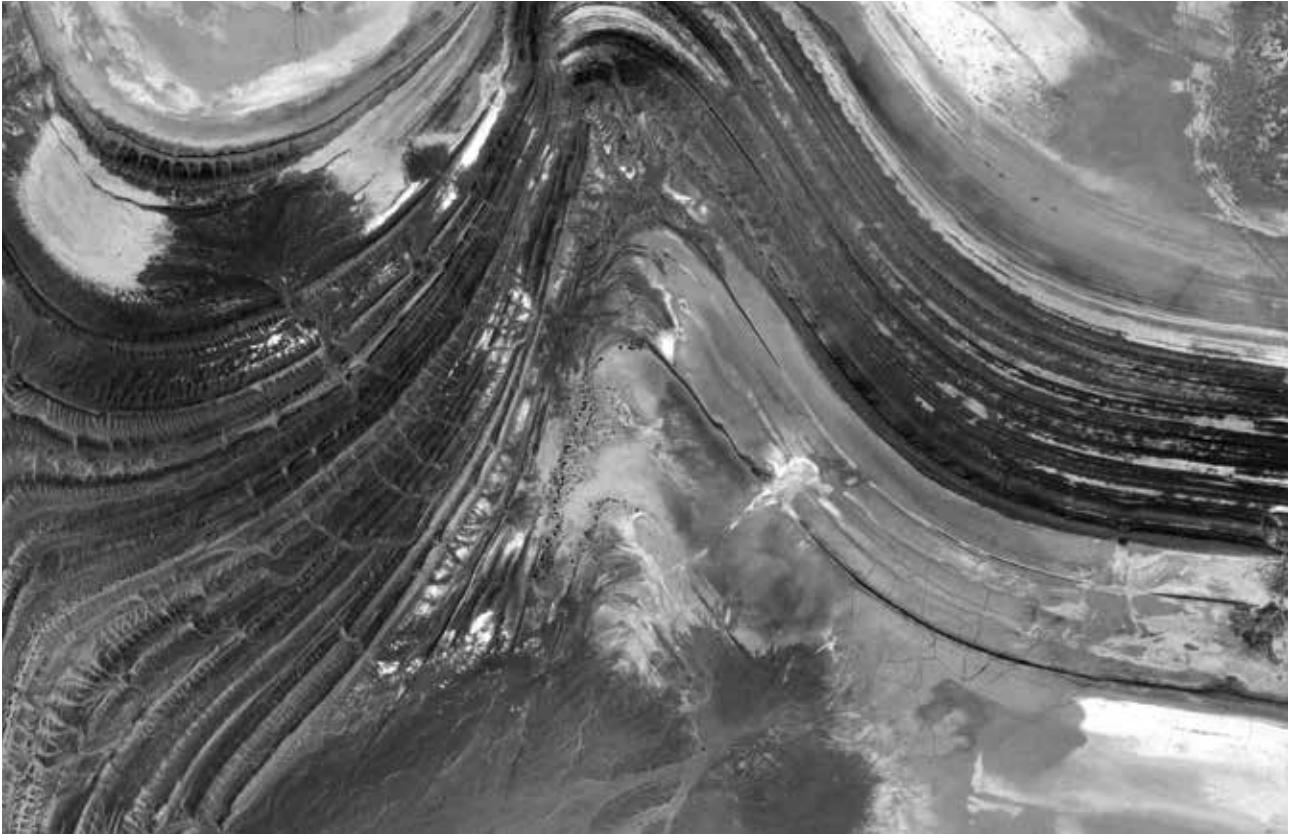
Could you elaborate on MUFG's plans for a stablecoin platform?

— Our stablecoin¹ platform Progmatic Coin (PC) will launch in 2023 following adjustments to meet regulatory changes. Conceptually, it is similar to the Japanese security-token scheme utilizing trust funds to fix and guarantee the valuation at PC1:JPY1. The initial use case is for the deliver versus payment [DvP; the guaranteed transfer of securities only after payment] settlement of secondary trade for the security tokens, and subsequently for any digital assets as the next step. We are in a position to drive the digital-asset markets in reducing its trading cost compared with any Fiat currency and lowering counter-party risks due to the implementation of T+0 trade.

How do you promote a culture of innovation across the organization?

— I believe that innovation should come from “trained” corporate culture of clarifying customer persona, digging deep into the customer's needs and issues, and to providing value and services to the customers as a solution.

1. A stablecoin is a cryptocurrency that is pegged to a fiat currency such as the US Dollar. Details to depend on the legal grounds in each country. MUFG's platform is based on the rules and regulations in Japan.



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In order to change internal culture, it is important that organizational leadership communicates continuously with the workforce, allowing real-time recognition and evaluation of challenges at all levels. It is also important to encourage employees to innovate by expanding existing team structures, creating avenues such as Spark X, our in-house incubation program, and adapting the internal staffing system in order to give them a wide range of experiences.

FUTURE OUTLOOK

Which technology will have the most impact on society in the next five years?

— Web 3.0 is an interesting area that will continue to evolve.

Currently, financial institutions are largely centralized and have nurtured platforms and relations with administrators. SWIFT [the international payments system] is a typical example of this: with the protection of the central administrator, it was used as a significant part of the sanction-based response to Russia's invasion of Ukraine. Web 3.0 is based on DAO [decentralized autonomous organization], and the question is, how do we ensure trust in a world without administrators? It's an interesting question.

Web2.0 focused on embedded finance under the control of large technology organizations such as Google, Apple, Meta(Facebook) and Amazon. With Web3.0, there is a real possibility of universal decentralization. This promises big changes across sectors, not just for financial services.

I also find the metaverse interesting. In Japan alone, I think there are more than 10 million people who cannot go outside freely due to various circumstances. The metaverse has the potential to benefit many of them. Currently, VR devices are heavy and unsuitable for general use, but I believe innovation will soon find a solution to that, making them accessible to a much wider range of consumers.



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