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個案分析：純網銀在台灣的發展與機會
—以樂天國際商業銀行為例

**Case Study: The Development and Opportunities of the
Internet-Only Bank in Taiwan – Take Rakuten
International Commercial Bank as an Example**

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中華民國一一〇年七月

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Abstract

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By

Anyan Tsai

Since 2016, the banking industry has started digital transformation and embedded fintech techniques into products and services. Some experts believe that Taiwan is overbanking. Therefore, banks are striving to develop their uniqueness and competitive advantages, hoping to make the business profitable and sustainable. Meanwhile, the Financial Supervisory Commission released related regulations to ensure the stability of the market.

In January 2021, the first Internet-only bank Rakuten International Commercial Bank officially opened. Why did its key shareholders Rakuten Inc. and IBF Financial Holdings decide to open a brand-new bank rather than doing business from the existing banks and confident to reach break-even within 3 years? Is Rakuten Bank's successful experience in Japan able to duplicate to a new market? What would be the challenges for its development?

This case study is figuring out the development and opportunity of the Internet-only banks in Taiwan by analyzing the banking industry, regulations, Rakuten Bank's business model, and potential threats. Eventually, providing a holistic view for people who's not familiar yet interested to know the story.

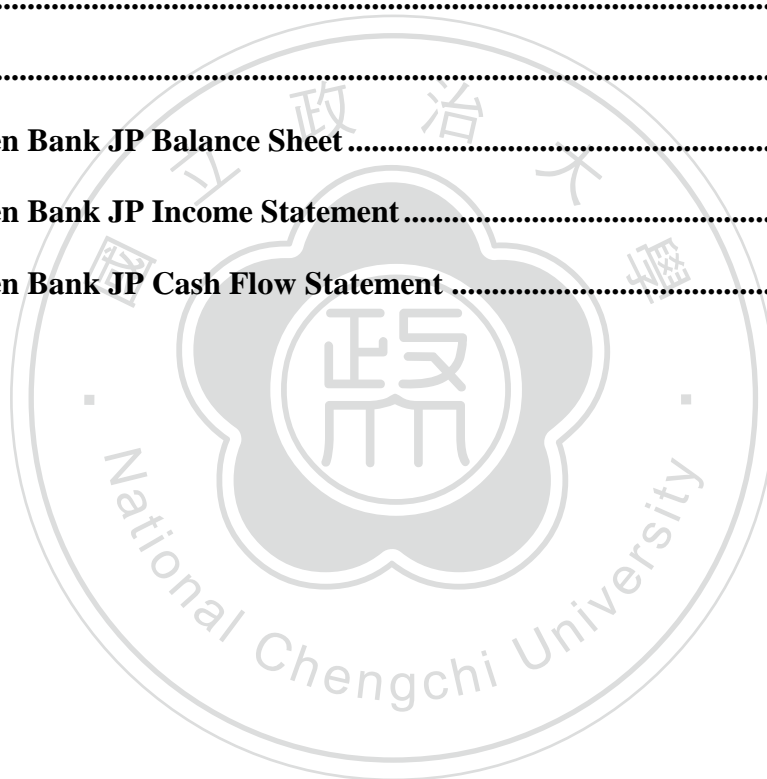
Keywords: Internet-only Bank, Digital Transformation, Rakuten International Commercial Bank, Digital Savings Account, Fintech, Open Banking, Ecosystem, Electronic Payment Institutions

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1. Chapter 1: Introduction and Motivation

1.1. Research Purpose and Motivation

This study is expected that through the development of Rakuten International Commercial Bank, we can explore the opportunities of Taiwan's Internet-only banks and eventually develop a distinctive financial ecosystem. Rakuten International Commercial Bank is the first Internet-only bank in Taiwan, which is a pioneer of the market. The combination of finance and technology will make financial services convenient in life. In this generation, almost everyone has a smartphone which breaks the limitations of time and space and allows users to access financial services throughout the year. This disruptive innovation is seen as a model of technology to serve mankind.

1.2. Research Questions and Limitations

- Question 1: With the development of financial technology, what kind of services can Internet-only banks provide?
- Question 2: What can Rakuten International Commercial Bank learn from the experience in Japan and apply it to Taiwanese users?
- Limitation1: Rakuten International Commercial Bank's financial report is not released to the public, and much data can only be obtained through press releases or interviews.
- Limitation 2: Regarding regulations, Internet-only banks have not yet been allowed to provide services to corporate clients. Therefore, the study could only analyze their consumer finance now. Look forward to seeing more humane services that can be integrated into the Internet-only banks' system in the future.

1.3. Research Method

This research adopts a case study method. The choice of the cases lies in their representativeness which provides in-depth information on research topics. The sources are mainly secondary data from case websites, financial data in public reports, media interviews, Financial Supervisory Commission, and relevant data searched on the Internet. By categorizing and analyzing the data, this research is expected to provide a systematic view to combine the theory with practice.

1.4. Research Structure

In addition to explaining the development of Internet-only banks in Taiwan, this study will also conduct research and analysis on the collected data, plus the development of the case company, hoping that it will be able to sort out the questions.

The research process is as follows:

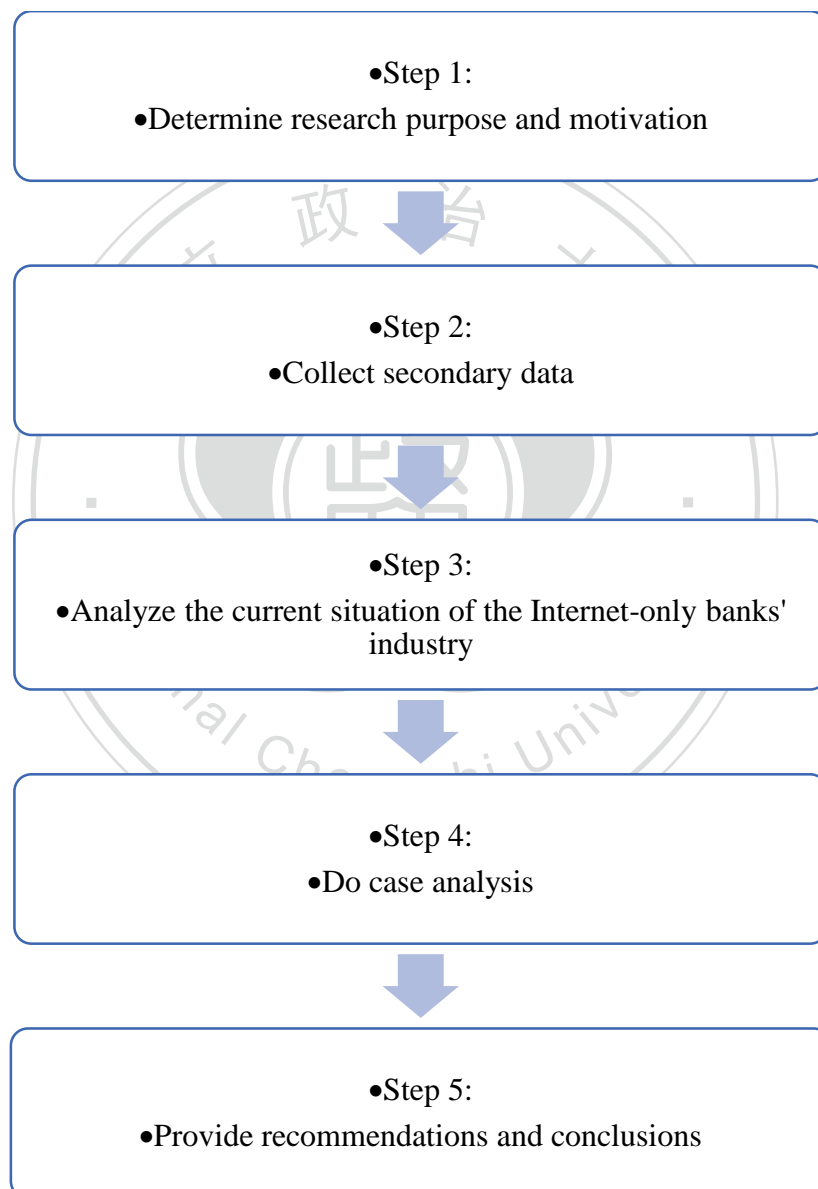


Figure 1 Structure of the Study

2. Chapter 2: Case Background Review

2.1. General Company Description

To understand more about the company that we select for this case study, table 1 shows the basic information and background of the Rakuten International Commercial Bank. Its shareholder structure is relatively simple, which can make the decision-making process more effective.

Table 1 Basic Information of Rakuten International Commercial Bank

Company Name	Rakuten International Commercial Bank Co., Ltd
Establish Date	May 18 th , 2020
Tax ID number	83794245
Address	11F., No. 433, Songjiang Rd., Zhongshan Dist., Taipei City
Chairman	Chien Ming-Jen
CEO	Saiki Kazuhiko
Capital	NT\$10 billion
Shareholder structure	Rakuten Bank (JP) 50% IBF Financial Holdings 49% Rakuten Card (JP) 1%

(Source: Department of Commerce, MOEA Website)

2.2. Company Chronology

In Global Views Monthly, Wei, Chi-Lin, chairman of IBF Financial Holdings, accepted an interview and shared the company establishment process with the public. To make it clear, this study organizes the events into table 2 as follows. The idea of opening a new bank was initiated by IBF Financial Holdings and then led by Rakuten Bank.

Table 2 Company Chronology of Rakuten International Commercial Bank

Time	Event
2016	Wei, Chi-Lin, chairman of IBF Financial Holdings, went to the FSC (Financial Supervisory Commission) for consultation, and someone suggested, “Industrial Bank of Taiwan will restructure as O-Bank, which is a digital bank. You might as well follow this path.” This conversation gave Mr. Wei a glimmer of light, and he answered, "I'm interested!"
2016-2017	Mr. Wei approached potential partners such as a leading E-commerce company and a high dividend technology company to launch the Internet-only bank in Taiwan together. However, none of them were interested in the business. Therefore, Mr. Wei looked for overseas partners and decided to ask Rakuten Bank (JP). Rakuten Bank (JP) didn't respond to Mr. Wei until two months later. After that, Rakuten Bank (JP) requested that it must be led by Rakuten. Mr. Wei agreed on the condition so the two parties took the first step in cooperation.
2017 Spring	Rakuten Bank (JP) consulted an information system vendor without notifying IBF Financial Holdings.
June, 2018	IBF Financial Holdings and Rakuten Bank (JP) sign a non-binding letter of intent.
Nov, 2018	After the FSC (Financial Supervisory Commission) opened the application for Internet-only banks, the two parties finally disclosed their partnership to the public.
July 30 th , 2019	Approved by the FSC (Financial Supervisory Commission) to establish an Internet-only bank.
May 18 th , 2020	Formally established the Rakuten International Commercial Bank.
Dec 8 th , 2020	Rakuten International Commercial Bank became the first Internet-only bank in Taiwan to obtain a business license issued by the FSC (Financial Supervisory Commission).
Jan 19 th , 2021	Grand open of Rakuten International Commercial Bank.

(Source: Global Views Monthly. Organized by the thesis author)

2.3. Company Preparation

Tsushi Go, the CIO of Rakuten International Commercial Bank, disclosed the preparation process of the company to the iThome media in December 2020. The company establishment can be divided into 4 stages. This study organizes the detail in table 3 as follows.

Table 3 Company Preparation of Rakuten International Commercial Bank

Stage	Status	Event
Stage 1	Preparation	After Rakuten Bank (JP) decided to cooperate with IBF Financial Holdings, the two parties agreed on the development direction. They evaluated the banking system whether importing from Japan or adopting in Taiwan. It would be the foundation of the business.
Stage 2	Organization Establishment	Assess the needs of talents and set up the recruitment plans.
Stage 3	Product Design and Function Clarification	Discuss the required functions with the consumer finance department, clarify the definition of each function and the purpose to be achieved.
Stage 4	System Development. Testing, Checking	In the system development part, the functions and systems must be passed in the environment for user acceptance testing (UAT).

(Source: iThome. Organized by the thesis author)

2.4. Definitions of Internet-only Bank

Internet-only banks in Taiwan are banks that only use the Internet or other forms of electronic communication channels to provide financial products and services to their customers. They don't have any physical branches to provide offline service and no physical bank books.

2.5. Definitions of the Online Bank and the Digital Saving Account

"Online bank" refers to the traditional bank. The online platform can be seen as an extension of physical branches, which can perform simple financial services such as transfers and balance inquiries. Some services are restricted by bank business hours and the online transaction amount has an upper limit.

"Digital savings account" is a traditional bank that responds to the competition of financial technology. Digital savings accounts do not have physical bank books, but they could have physical branches to offer offline service. The scope of services is identical with the traditional banks, and most services are carried out through the Internet. However, some services are restricted by bank business hours and the online transaction amount has an upper limit.

Conclusion: Different from traditional savings accounts, digital savings accounts and Internet-only banks do not have any bank books, which eliminates the need for paper and the operations are all online. Moreover, Internet-only banks can save a lot of labor costs and renting expense due to no physical branches. Therefore, Internet-only banks are willing to give higher interest rates to the customer to deposit.

3. Chapter 3: External Analysis and Identification of Opportunities and Threats

3.1. Environmental Analysis

This chapter is divided into four main sections, each of them will present the results relating to opportunities and threats.

3.1.1. Technology

Nowadays, people rely on the device and spend most of time on it. To capture customer's attention, the banks need to know their customers. The effective way is digitalizing the service and analyze the users' data. Data is the foundation for all the strategies in modern competition. How to build the financial ecosystem? According to the cases happening now, it can build through three ways: Banking as a Service, Banking as a Platform, and Open Banking.

Moreover, branch-based banking will be “dead” within five years according to a new report by the Economist Intelligence Unit (EIU) entitled “Branching out: can banks move from city centres to digital ecosystems?” on June 29, 2021.

The report incorporates data from over 300 senior global banking executives. Key findings include:

- 65% of bankers believe that the branch-based model will be “dead” within five years, up from 35% four years ago
- Four in five believe that banks will seek to differentiate on customer experience rather than products
- 47% expect their businesses to evolve into ecosystems over the next two years, partnering with both banking and non-banking third parties
- Two-thirds of banks see new technologies as the biggest driver of change for the next four years, up from 42% three years ago.

We can see in the global trend that we're moving to the age of Internet banks. Not only for optimizing the user experiences but also for enhancing the operational effectiveness.

3.1.2. Regulation

Considering the condition of Internet-only banks, the FSC (Financial Supervisory Commission) would monitor them from seven aspects including liquidity risk management, credit risk management, operational risk management, reputational risk management, corporate governance framework, market competition behavior, and consumer protection. A detailed explanation is shown in table 4.

Table 4 The Seven Monitoring Aspects for the Internet-only Banks by FSC

Aspect	Content	Detail
Aspect 1	Liquidity risk management	Internet-only banks should apply to the Central Deposit Insurance Company for deposit insurance. The financial management will supervise the Central Deposit Insurance Company to monitor changes in the total deposit balance and the distribution of deposit customer interest rates and require Internet-only banks to formulate emergency contingency plans.
Aspect 2	Credit risk management	Because Internet-only banks mainly use software to manage credit risks, it is necessary to strengthen information correctness checks, implement pre-lending credit review and post-lending management, and continue to refine the verification procedures of the credit rating system to ensure the design, process, and all relevant risk component estimates are correct and consistent.
Aspect 3	Operational risk management	To strengthen information security and personal data protection, the FSC stipulates that Internet-only banks need to go through a professional independent organization, and complete test "Measures for Financial Institutions' Information Security Evaluation of Computer Systems" and "The Operating Standards for Financial Institutions to Provide Mobile Device Applications" and attach at least one month's simulated business operation records, self-assessment of information

		security, personal data protection, and operation entrusted to others for processing. Within one year after opening, it must pass and obtain certifications such as information security standards (for example, ISO27001) and personal information protection standards (for example, BS10012, TPIPAS) as well.
Aspect 4	Reputation risk management	Internet-only banks must establish a crisis management mechanism for false or negative information.
Aspect 5	Corporate governance framework	Internet-only banks should shape a good corporate culture, strengthen the effectiveness of the board of directors, and implement information disclosure. Internet-only banks and major shareholders in the financial industry should avoid competition. Directors, supervisors, and managers should also comply with the "Bank responsible person should have qualifications, restrictions on part-time jobs and compliance matters" and other regulations to avoid conflicts of interest in business execution and other duties.
Aspect 6	Market competition behavior	Predatory competition in Internet-only banks is not allowed. The pricing of Internet-only bank products and services requires full consideration of various costs and reasonable profits. Unreasonable pricing should not hinder the order of the financial market. The board of directors should pass the pricing policy and establish an evaluation and review mechanism for the reasonableness of pricing. Include internal control and internal audit.
Aspect 7	Consumer protection	Internet-only banks shall provide customer service in accordance with the principle of fair hospitality in the financial service industry.

(Source: Financial Supervisory Commission)

3.1.3. ESG

Compared with the United States, top European companies incorporated Environment, Social and Corporate Governance into the company's core business management system for a long time. Some companies even put ESG into the corporate culture, such as Allianz Group's "ESG Integration Framework" published in 2016 explains the ESG management structure of investment and insurance businesses; Unilever also formulated a ten-year "sustainable living plan" based on ESG principles in 2010, and its sub-brands introduced the sustainable living grew their business faster than others by 69%.

Although Asia started later than Europe and America, in January 2021, the Korean Financial Services Commission (FSC) required listed companies to disclose ESG information from 2025. The Taiwan Financial Supervisory Commission also announced the "Corporate Governance 3.0 Blueprint for Sustainable Development" in 2020 and changed the current Corporate Social Responsibility (CSR) report to "Sustainability Report or ESG Report". Moreover, the targets for writing the report were expanded. It highlights the milestone of Taiwan's ESG management integration with the international community.

Since everyone has different viewpoints of "sustainability", ESG takes the environment (E), social (S), and corporate governance (G) as a further definition of a company's sustainability. On the one hand, it allows readers to quickly understand how to implement. For instance, the procurement department responsible for purchasing relates to environmental sustainability, the marketing & public relations department responsible for after-sales service relates to social care, and the audit and the law compliance department relates to corporate governance. On the other hand, the employees can also think about how to embed this spirit into the businesses.

3.2. Industry Analysis

Regarding industry analysis, we'll breakdown to industry development overview, industry structure, cost structure, and industry development trend. By doing so, we can see the opportunities and challenges in the banking industry.

3.2.1. Industry Development Overview

According to the statistic from the Central Bank of the Republic of China (CBC), there are 39 domestic banks in Taiwan by the end of April 2021. With a population of 23 million people, some experts believe that it's overbanking. Therefore, the FSC revised regulations to encourage mergers between the existed banks in 2018, hoping to integrate the players to a proper number.

Among the 39 domestic banks, 37 are traditional banks and 2 are Internet-only banks. 91.8% (34/37) of the traditional banks now provide a digital savings account to enrich the financial service. Follow this result, digitalization becomes an irresistible trend in the finance industry. The challenge to the virtual banks: Where are the customers from? How to make it profitable? What could be the competitive advantage to win the traditional bank?

With the joining of Internet-only banks in January 2021, the competition between banks has become more intense. We can see the total digital savings accounts from the domestic banks in table 5.

Table 5 Statistics of Digital Savings Accounts by March 2021

	Company Name	Total Digital Savings Accounts
004 臺銀	Bank of Taiwan	21,955
005 土銀	Land Bank of Taiwan	56,362
006 合庫銀	Taiwan Cooperative Bank	149,598
007 一銀	First Commercial Bank	550,234
008 華南銀	Hua Nan Commercial Bank	248,875
009 彰化銀	Chang Hwa Commercial Bank	195,415
011 上海銀	The Shanghai Commercial & Savings Bank	39,210
012 台北富邦銀	Taipei Fubon Commercial Bank	129,887

013 國泰世華銀	Cathay United Bank	1,123,745
016 高雄銀	Bank of Kaohsiung	3,364
017 兆豐商銀	Mega International Commercial Bank	102,235
021 花旗台灣	Citibank Taiwan	5,119
048 王道商銀	O-Bank	457,289
050 臺灣企銀	Taiwan Business Bank	11,898
052 渣打商銀	Standard Chartered Bank (Taiwan)	22,891
053 台中商銀	Taichung Commercial Bank	119
054 京城銀	King's Town Bank	5,540
081 滙豐(台灣)	HSBC Bank (Taiwan)	4,778
101 瑞興商銀	Taipei Star Bank	140
102 華泰銀	Hwatai Bank Ltd.	75
103 新光銀	Shin Kong Commercial Bank	29,915
108 陽信銀	Sunny Bank	2,559
118 板信商銀	Bank of Panhsin	20
803 聯邦銀	Union Bank of Taiwan	221,185
805 遠東銀	Far Eastern International Bank	61,588
806 元大銀	Yuanta Commercial Bank	1,492
807 永豐銀	Bank SinoPac	791,119
808 玉山銀	E.SUN Commercial Bank	129,154
809 凱基銀	KGI Bank	3,075

810 星展(台灣)	DBS Bank (Taiwan)	14,188
812 台新銀	Taishin International Bank	2,496,698
815 日盛銀	JihSun International Commercial Bank	142
816 安泰銀	Entie Commercial Bank	5,358
822 中信銀	CTBC Bank	360,601
Total accounts of traditioanl banks		7,245,823
Total number of traditional banks		34
Total accounts of Inernet-only banks		37,465
Total number of Internet-only banks		2
Total accounts of bnaks		7,283,288
Total number of banks		36

(Source: Financial Supervisory Commission)

According to table 5, the top five players in digital savings accounts are Taishin International Bank, Cathay United Bank, Bank SinoPac, First Commercial Bank, and O-Bank. They share 74% of the total digital savings accounts. Moreover, Taishin International Bank has almost twice as the second-place player do. We can see the statistic in table 6. It would be quite challenging for the newcomers to break the records. However, if they can find strategic partners rather than fighting alone, there still are opportunities since it's just the beginning. O-Bank is the first one trying to do the virtual bank. Several years after, more and more banks surpass it. Some people believe that it's because O-Bank is lack of company asset compared to others. We'll discuss this case in chapter 6.

Table 6 Top Five Digital Savings Account Players

Company Name	Company Equity (NT\$ Million)	Total Digital Accounts	Market share
Taishin International Bank	164,606	2,496,698	34%
Cathay United Bank	248,453	1,123,745	15%
Bank SinoPac	141,163	791,119	11%
First Commercial Bank	222,718	550,234	8%
O-Bank	36,090	457,289	6%
Total		5,419,085	74%

(Source: Financial Supervisory Commission and organized by the thesis author)

Conclusion: To catch up with the technology trend, traditional banks provide digital savings accounts and compete with Internet-only banks. However, most domestic banks provide similar services and discounts. It's hard to distinguish their differences. As a result, we see 36,905 accounts in Rakuten International Commercial Bank within 3 months from its grand open. This shows that customers are not satisfied with the current services and would like to try a new one.

3.2.2. Industry Structure

In this section, we use Porter's five forces analysis in table 7 to explore the industry's current competitors, potential competitors, suppliers, and consumers, as well as the threat of substitutes.

Table 7 Porter's Five Forces Analysis of Banking Industry

Threat of New Entrance	Electronic payment institutions (further explanation in section 3.4.2)
Threat of Substitutes	Fintech companies
Bargaining Power of Buyers (customers)	There are 39 domestic banks in the market and most of them are similar. The more similar suppliers compete, the stronger the bargaining power of buyers may have.
Bargaining Power of Suppliers (strategic partners)	To survive in the industry, banks may look for strategic partners to strengthen their products and service. For instance, the credit card service may work with the department stores. The bargaining power of suppliers is neutral since they need each other.
Rivalry Among Existing Competitors	Domestic banks.

(Source: Organized by the thesis author)

3.2.3. Industry Development Trend

Digitalization is the industry development trend. The reason behind is that domestic banks would like to provide a better service by knowing their customers. The way to know their customers without asking is analyzing the date and pattern from customers. Furthermore, building an ecosystem that customers need could activate the users and enhance the engagement.

In the future, financial services will be hidden behind the ecosystem and be as convenient as water and electricity. Financial behaviors are derived from purchasing behaviors. We can imagine the cash flow as the "blood" and the purchasing activity as the "muscle". The blood provides the oxygen and nutrients needed by the muscles, which will promote the booming economy.

From global perspective, open banking will be developed during or after digitalization. The core concept of Open Banking is "to promote cooperation and competition between traditional banks and financial technology companies through financial data security, and ultimately pursue the maximization of user and social benefits." Currently, the United Kingdom, Europe, Hong Kong, Singapore, Australia, and other regions are developing rapidly. Open Banking is a disruptive and innovative architecture. Not only does it have a lot of focus on the protection of consumer data, but also the intricate network between consumers and many banks can also be simplified. In addition, the current relationship between consumers and banks is about to reverse. Consumers no longer need to proactively reach banks to meet their needs. With the help of APIs, banks will go to consumers and provide personalized services and more diversified services. Product numbers will increase so that customers can use the most appropriate financial services. Eventually, it will promote the purpose of inclusive finance.

From FSC perspective, it also draws a 3-year roadmap to the banking industry. Table 8 indicates the future industrial trends in Taiwan.

Table 8 Capital Market Roadmap 2021-2023

Vision	-Fair, efficient, diverse, and internationalized capital market with focus on innovation and openness
2 Missions	-Enhance sound market development -Safeguard investors and maintain orderly markets
3 Trends	-Environmental, Social, and Corporate Governance (ESG) -Digital technologies -Aging society
4 Main Objectives	-Sustainable development -Financial inclusion -Enhanced competitiveness -Investor protection

5 Major Strategies	<ul style="list-style-type: none"> -Strengthen primary market functions to support real economic development -Activate the market and increase efficiency and liquidity -Attract domestic and foreign investment and improve international visibility -Boost functions and competitiveness of financial intermediaries - Encourage financial innovation and diversity
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(Source: Financial Supervisory Commission)

3.3. Customer Analysis

To learn more about the customers, this study breaks down the section to the target customer, the incentives to the customer, and the unsatisfied needs of the customer.

3.3.1. Target Customer

After opening for one month, the Rakuten International Commercial Bank management team accepted an interview and revealed part of the customer information as below. By collecting this information, we can see the features of people who may be interested in the innovation services.

Table 9 Target Customers of Rakuten International Commercial Bank

The number of openings	36,905 (by the end of April, 2021)
Age	30-50
Gender	the male customers were more than expected. It's probably because male is more open to the new stuff in general.
Customer Characteristics	Office workers, the client composition is not particularly young, and there are not too many high-asset clients.
Future Steps	<p>Next, cooperation with e-commerce and mobile payment will be launched to drive the growth of young customers.</p> <p>Moreover, hydropower and gas payment functions will be added, which is expected to attract more customers with high social and economic status to join.</p>

(Source: Business Next and organized by the thesis author)

3.3.2. The Incentives to the Customer

Rakuten International Commercial Bank connects the cross-border ecosystem through Rakuten Super Points. It also plans to launch a Taiwanese foreign currency digital savings account and a Taiwan-Japanese dual-currency ATM card, allowing users who travel to Japan can withdraw Japanese currency at an ATM through this ATM card.

With an ecosystem operating foundation, Rakuten International Commercial Bank makes good use of its ecosystem to acquire customers in the early stage. Rakuten International Commercial Bank plans to provide customers a single membership that can apply to the whole ecosystem so the customer can enjoy the service without registering many accounts. The attractive part to the customers is that people don't have to repeat the registration and login while using other services within the scope.

In addition, the core strategy of the ecosystem is "Rakuten Super Points". Customers accumulate the points by various services within the platforms. The points can be used in the Rakuten ecosystem. On the other hand, the existing customers in the ecosystem can also be directed to other services within the platform.

Moreover, to increase the accounts in Taiwan, Rakuten International Commercial Bank applied the MGM (Member Get Member) method. Once one person opens successfully, he/she can share a link or a code with friends. If friends do register through that provided link or code, both sides would receive NT\$100 as a reward. The advertisement is shown in figure 2.



Figure 2 The MGM Promotion from Rakuten International Commercial Bank
 (Source: Rakuten International Commercial Bank)

3.3.3. The Unsatisfied Needs of the Customers

The changes that smartphones bring to everyone's lives can be reflected in apps. Through the evolution of verification methods, financial services are more automatic, convenient, and safe. At present, users concern more about information security. Once customer trust is established, people will increasingly accept online deposits, consumption, financial management, loans, and enjoy the convenience of finance.

3.4. Competitor Analysis

In this sector, the study will dive into the existing competitors and potential competitors and see what's maybe the opportunity for Rakuten International Commercial Bank to survive. Taiwan's financial services are prosperous and convenient to reach. However, it still has room to improve and the room will be the new battlefield.




3.4.1. Existing Competitors

Due to the regulation, Rakuten can only do consumer finance at this moment. Its main competitors are other Internet-only banks and digital savings accounts. This part would focus on Internet-only banks rivals since they share more things in common at the beginning stage.

The FSC believes that in the application of inclusive finance and financial innovation, the three companies Line Bank, Next Bank, and Rakuten International Commercial Bank have their strengths. Therefore, the final scores given by the review committee were quite close and they all met the standards set by the FSC. As a result, the FSC give all of them a chance.

Owing to the fact that Internet-only banks do not have physical branches, to compete in the market, they must absorb customer groups that traditional banks have not paid attention to. For example, people living in suburban districts and people without enough credit information. Each of these three Internet-only banks must follow the expertise of their major shareholders and combine fintech innovation to produce brand-new operating models. So, it is possible to compete with the existing traditional banks. Table 10 shows the comparison of the three Internet-only bank in Taiwan.

Table 10 The Comparison of the Three Internet-only Banks in Taiwan

	<div>LINE Bank  LINE Bank</div>	<div>Next Bank  將來銀行 NEXT BANK</div>	<div>Rakuten International Commercial Bank  樂天國際銀行</div>
Target Customer	LINE community and ecosystem users. Many young people without enough credit record would be their potential customers.	With a telecommunications data foundation, the target customer segment is low-priority customers of traditional banks, customers without salary income certification, and	The blue-collar class from 35 to 50 years old, and the existing customer base of the Rakuten Inc.

		customers of small and micro enterprises.	
Shareholders' Structure	-LINE Financial Taiwan 49.9% -Taipei Fubon Commercial Bank 25.1% -CTBC Bank 5% -Standard Chartered Bank (Taiwan) Limited 5% -Union Bank of Taiwan 5% -Far EasTone Telecommunications 5% -Taiwan Mobile 5%	-Chunghwa Telecom 41.9% -Mega International Commercial Bank 25.1% -Shin Kong Group 14% -Chuan Lian Enterprise 9.9% -KGI Bank 7% -Trade-Van Information Services 2.1%	-Rakuten Bank (JP) 50% -IBF Financial Holdings 49% -Rakuten Card (JP) 1%

(Source: iThome and organized by the thesis author)

Conclusion: Although many of their customers are overlap with the existing domestic banks, they could still win the customers if they provide a better service and quality. It is easy to open a bank account in Taiwan, so the customer loyalty is usually low.

3.4.2. Potential Competitors

Some people believe that electronic payment institutions would be an emerging threat to Internet-only banks in Taiwan since they are seen as “micro Internet-only banks”. After the Act Governing Electronic Payment Institutions (電子支付機構管理條例) is passed, the functions of electronic payment institutions include (1) making or receiving payments of money for underlying transactions on one’s behalf, (2) receiving deposited money, (3) handling of domestic and foreign remittances in small amounts (which will be set by the FSC), and (4) handling the purchase and sale of foreign currencies.

According to statistics from the FSC, at the end of March 2021, the number of users of electronic payments exceeded 12.18 million. At the end of February 2021, it's estimated that 19.44 million adults over the age of 20. That is, 62.65% of adults use electronic payments.

At present, there are 5 companies focus on electronic payment and 23 companies are concurrent electronic payment. The number of users is 4.32 million at JKO Pay, followed by LINE Pay Money with a total of 3.41 million, and the third is E.SUN Bank with a total of 1.32 million. The detail is shown in table 11.

Table 11 Statistics of Electronic Payment Institutions by March 2021

Chinese Company Name	English Company Name	Number of Users
臺灣銀行	Bank of Taiwan	3,976
臺灣土地銀行	Land Bank of Taiwan	3,082
合作金庫商業銀行	Taiwan Cooperative Bank	6,364
第一商業銀行	First Commercial Bank	1,486
華南商業銀行	Hua Nan Commercial Bank	1,373
彰化商業銀行	Chang Hwa Commercial Bank	6,937
上海商業儲蓄銀行	The Shanghai Commercial & Savings Bank	1,185
台北富邦商業銀行	Taipei Fubon Commercial Bank	1,631
國泰世華商業銀行	Cathay United Bank	536

兆豐國際商業銀行	Mega International Commercial Bank	1,770
臺灣中小企業銀行	Taiwan Business Bank	1,842
臺灣新光商業銀行	Shin Kong Commercial Bank	459
陽信商業銀行	Sunny Bank	6,513
遠東國際商業銀行	Far Eastern International Bank	38
元大商業銀行	Yuanta Commercial Bank	1,385
永豐商業銀行	Bank SinoPac	428,401
玉山商業銀行	E.SUN Commercial Bank	1,321,142
台新國際商業銀行	Taishin International Bank	20,589
中國信託商業銀行	CTBC Bank	351,579
悠遊卡股份有限公司	EasyCard Corporation	967,532
一卡通票證股份有限公司	iPASS Corporation/ LINE Pay Money	3,414,469
愛金卡股份有限公司	icash Corporation	579,563
國際連股份有限公司	PChome Interpay	34,838
橘子支行動支付股份有限公司	GAMA Pay	312,486

街口電子支付股份有限公司	JKO Pay	4,326,134
歐付寶電子支付股份有限公司	O'Pay Electronic Payment	951,403
簡單行動支付股份有限公司	ezPay	51,779
中華郵政公司	Chunghwa Post	19,696
Total		12,818,188

(Source: Financial Supervisory Commission)

The latest threat case we can see is that the Pxmart (全聯) and FamilyMart Co Ltd (全家便利商店) gained Financial Supervisory Commission (FSC) approval to provide electronic payment services through subsidiaries on June 24, 2021.

PXPay Co Ltd (全支付) and All Win Co Ltd (全盈支付金融科技), which is 67 percent owned by FamilyMart, 18 percent owned by E.Sun Commercial Bank (玉山銀行) and 15 percent owned by Pi Mobile Technology Inc (拍付國際), were approved to establish the services.

The two firms fulfilled the requirements, including at least NT\$500 million in paid-in capital, would be allowed to offer a payment tool, and take deposits from service users and offer fund transfers between them.

Moreover, they could apply for additional applications in the future to provide services such as foreign currency accounts and vouchers. The electronic payment institutions overlap some frequent use services with the banks.

Conclusion: these electronic payment institutions have already accumulated a large number of customers. While launching on July 1st, 2021, the electronic payment institutions can provide saving accounts that might enhance the convenience for the customers. The three Internet-only banks are bound to compete straight, and they can only win with more attractive and innovative services.

4. Chapter 4: Internal Analysis and Assessment of Strengths and Weaknesses

4.1. Strategy Structure

In this section, we'll see this company in strategic partners and current strategy, aiming to find out its strengths and weakness.

4.1.1. Strategic Partners

Rakuten International Commercial Bank works with Pi Wallet to build the ecosystem in May 2021. It integrates the payment function of the Pi wallet into the Rakuten International Commercial Bank App. Users only need to open the Rakuten Bank App then they could use Pi Wallet in multiple channels including supermarkets, department stores, pharmacies, transportation, and online shopping. The payment will be directly deducted from the Rakuten International Commercial Bank account by tapping the wallet. The incentive to the customer is that they can get a discount.

The reason why Rakuten International Commercial Bank will cooperate with Pi Wallet is that the number of Pi Wallet users now exceeds one million, and the number of cooperative store channels exceeds 350,000, covering food, clothing, housing, transportation, and entertainment. For Rakuten International Commercial Bank, there is no need to build brand awareness of payment tools, and it can immediately have a huge number of users and a well-established cooperation channel.

4.1.2. Current Strategy

Through ecosystem operations, Rakuten International Commercial Bank can reduce the cost of acquiring customers. Meanwhile, through the cooperation of multiple industries, it can reach customer groups that they did not reach in the past. For instance, credit novices and student groups. Secondly, through the collection of data, marketing can be precise to the purpose of monetization. Finally, using data analysis to grasp customer preferences makes the experience more customized, and further consolidates customer loyalty. The further analysis is shown in table 12.

Table 12 Current Strategy of Rakuten International Commercial Bank

Product line and characteristics	<p>Credit card, Rakuten KOBO, Rakuten e-commerce, Rakuten Monkeys.</p> <p>Since Rakuten Inc. takes e-commerce and credit card business as its two core businesses in Taiwan, the areas cover credit cards, travel, e-commerce platforms, e-books, etc. In 2020, it officially took over the Lamigo baseball team and changed its name to "Rakuten Monkeys", which already has a basic ecosystem structure in Taiwan. It's just that, as the Internet-only banks with the largest market share in Japan, how Rakuten Inc. replicates successful experiences and transforms them into financial products that follow Taiwan's regulations is the key.</p> <p>In Japan, Rakuten Bank starts from the credit card business. And then, use the Rakuten Super Points to enhance the engagements and provide a reward to customers. Once customers get the reward, it will encourage them to purchase more often. This can help Rakuten Bank collect customer's credit and preferences. Eventually, Rakuten Bank has enough information to promote mortgages and earn from the interests.</p>
Target market segmentation and selection	<p>The blue-collar class from 35 to 50 years old</p> <p>Existing customer base of the Rakuten Inc. ecosystem</p>
Degree of vertical integration	<p>Mobile payment: Pi Wallet.</p> <p>In 2019, Rakuten Inc. signed a cooperation agreement with PChome. The two platforms allow the customer to exchange between P coins and Rakuten Super Points. In 2021, Rakuten International Commercial Bank works with Pi Wallet for the</p>

	<p>payment system. In the future, Rakuten International Commercial Bank will continue to cooperate with different industry players to expand the members in Taiwan's Rakuten ecosystem, so that people can access Rakuten-related services everywhere and use its financial services as the core connection. It has been proven that this kind of operation is feasible in Japan. Although the ecosystem in Taiwan might not be the same, the core concepts are similar.</p>
Relative scale and economies of scale	<p>E-commerce platform strategic partner: PChome.</p> <p>Rakuten Super Points do not limit where users must use them. Instead, they can flow through the entire Rakuten ecosystem as much as possible. Once the ecosystem is developed on a large scale, it means that the points could be more smoothly circulated. Due to the COVID-19, the cross-border effect of the Rakuten ecosystem has not been so obvious. When the borders are opened, there will be higher points circulation and connectivity between Taiwan and Japan.</p>
Geographic coverage	Taiwan and Japan
Competitive weapon	<p>Rakuten Super Points and Information Security Experience</p> <p>The Rakuten Super Point System is directly imported from Japan. This is a long-lived global information system. Rakuten International Commercial Bank will join the existing ecosystem. The Taiwan IT team is responsible for technical support and Taiwan/Japan points exchange. The exchange is in cooperation with Japan's Rakuten Inc. Rakuten Super Points are like a loyalty program to stick users in the ecosystem.</p>

	<p>Another know-how that will be imported from Japan is the information security experience. When the system was built, Rakuten Bank (JP) paid the most attention to system stability. Rakuten International Commercial Bank will have its information security supervisor, but it will learn from Japan's accumulated knowledge and technology.</p> <p>Japan's information security experience also includes the AI that detects abnormal network behaviors. In the past, Rakuten Bank (JP) aggregated a large number of customer actions, criminal behavior data, and even various information such as the time of online transactions, authorized device locations, etc., to train the AI model. It can track abnormal account activities through different combinations of conditions, which can be used throughout the day which is 24-hour uninterrupted monitoring.</p>
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4.2. Financial Performance Analysis

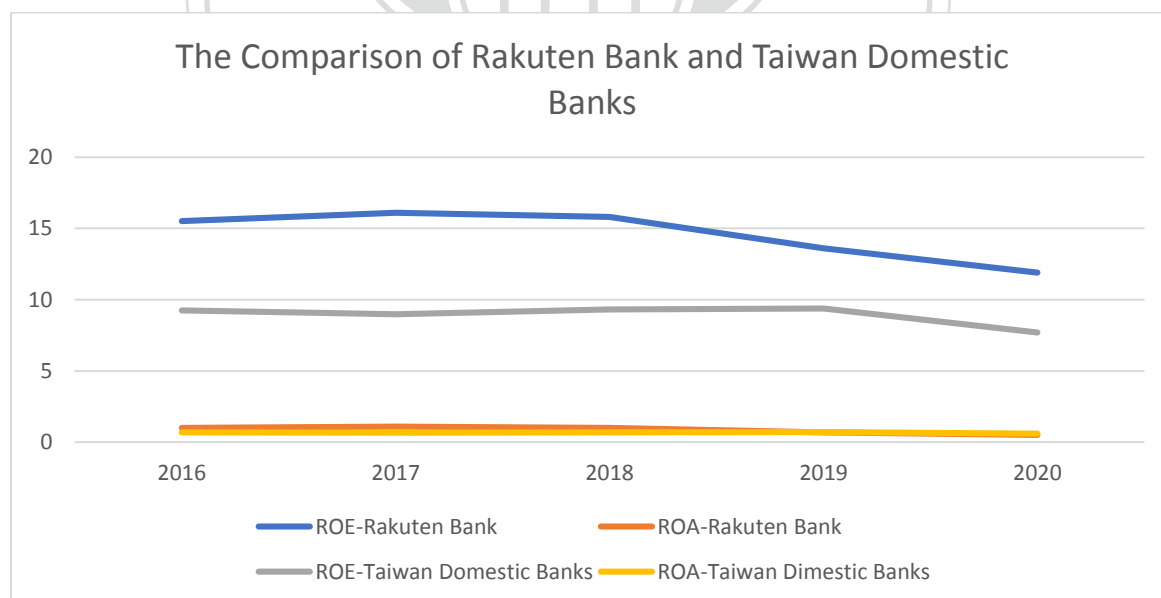
Since Rakuten International Commercial Bank haven't released their annual financial report, we use the data from Rakuten Bank (JP) as a prospect. In table 13, we can see that Rakuten Bank (JP) performs better than Taiwan Domestic Bank in ROE and performs closely with Taiwan Domestic Bank in ROA.

Table 13 The Financial Performance of Rakuten Bank and Taiwan Domestic Banks

	2016	2017	2018	2019	2020
ROE-Rakuten Bank	15.5	16.1	15.8	13.6	11.9
ROA-Rakuten Bank	1.0	1.1	1.0	0.7	0.5
EPS (yen)-Rakuten Bank	5,757	6,994	8,103	8,069	8,230
ROE-Taiwan Domestic Banks	9.24	8.97	9.31	9.38	7.7
ROA-Taiwan Domestic Banks	0.68	0.67	0.70	0.72	0.59

(Source: Rakuten Bank and Financial Supervisory Commission)

In figure 3, we notice that the ROE of both Rakuten Bank (JP) and Taiwan Domestic Banks dropped significantly from 2019. The reason behind might be the recession from COVID-19. The lockdown and other policies influent company's overall performance.

**Figure 3 The Comparison of Rakuten Bank and Taiwan Domestic Bank**

(Source: Rakuten Bank and organized by the thesis author)

For the investors, the EPS of Rakuten Bank (JP) grew fast from 2016-2018 and grew slower after 2018. The good news that we can see in figure 4 is that at least it's still a positive trend.

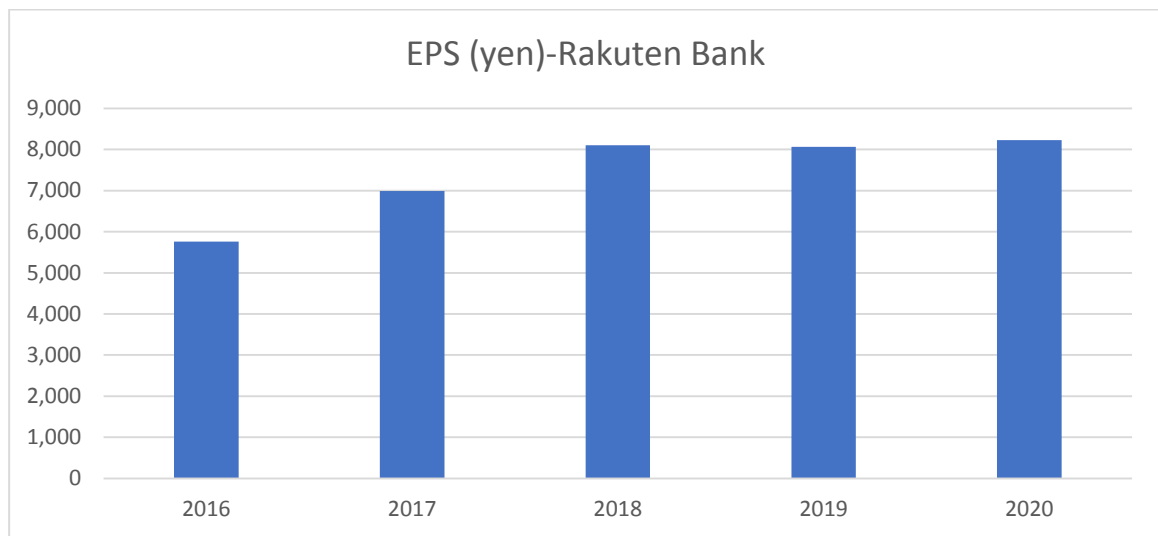


Figure 4 EPS of Rakuten Bank
(Source: Rakuten Bank and organized by the thesis author)

Conclusion: Consider the financial performance that Rakuten Bank (JP) has, it shows that there's room for Taiwan domestic banks to improve. We look forward to seeing the actual performance of Rakuten International Commercial Bank in the future so we can know how it is going to influence other domestic banks in Taiwan.

4.2.1. Financial Goals

Rakuten International Commercial Bank is expected to make profits within three years. It will first lay the foundation for consumer finance and then invest in corporate finance. The strength of its shareholder Rakuten Bank(JP) is consumer finance while the strength of its other shareholder IBF Financial Holdings is in corporate finance. The two sides complement each other and hope to create a new blueprint for Taiwan's finance. In the beginning, Rakuten Bank(JP) can support talents and experience, IBF Financial Holdings can support with the cash and knowledge of Taiwan's financial regulation and environment.

4.3. Organization and Management Policy Analysis

In this section, we will see the business philosophy, organizational structure, shareholder's structure, marketing policy, and human resource policy of the Rakuten International Commercial Bank.

4.3.1. Business Philosophy

Rakuten Bank (JP) has a joint venture with IBF Financial Holdings to establish Rakuten International Commercial Bank. They hope that the practical experience of Japan's Internet-only bank can be used to lead Taiwan's financial industry to a borderless and cross-regional international pattern in the future.

"Safety, confidence, and convenience" are the principles that Rakuten Bank (JP) adheres the most. Among them, safety and confidence are the basic considerations that people care about most when using Internet-only banks; therefore, Rakuten International Commercial Bank builds a solid foundation for these two cornerstones for users. People can use Rakuten International Commercial Bank's financial services with confidence. At the same time, it will implement the corporate philosophy of "innovating" to enhance the development of society and the quality of life and is committed to betting on financial innovation services to enhance Taiwan's Internet-only banking experience.

4.3.2. Organizational Structure

Management team: It a team with ten experts. There are seven Japanese executives in Rakuten International Commercial Bank all from Rakuten Bank (JP). The general manager is a Japanese information security and cybercrime prevention expert who is responsible for the overall business of the bank. The first-level supervisor is in charge of financial and corporate services, marketing business, business support, information systems, information security, and risk management, and can import the details of Japan's Internet-only banking business and information security risk control to Taiwan. The three Taiwanese supervisors are senior in Taiwan financial industry. They are in charge of internal audits, compliance with laws and regulations, and the use of funds to ensure that the operations of the bank meet the requirements of the competent authority for supervision and compliance with laws and regulations. The structure is shown in figure 5.

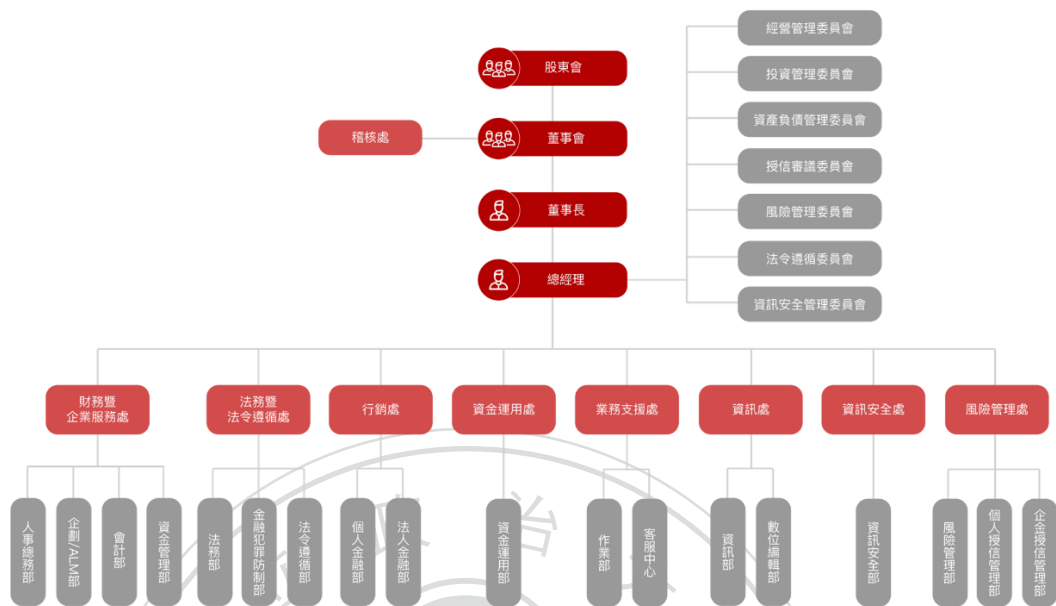


Figure 5 The Structure of the Organization
(Source: Rakuten International Commercial Bank)

4.3.3. Shareholder's Structure

The shareholders are relatively simple compared with the other two Internet-only banks in Taiwan. The pros are that the decision is easier to be made. The cons are that the synergy might be weaker to acquire the customers. The percentage of each shareholder is shown in figure 6.

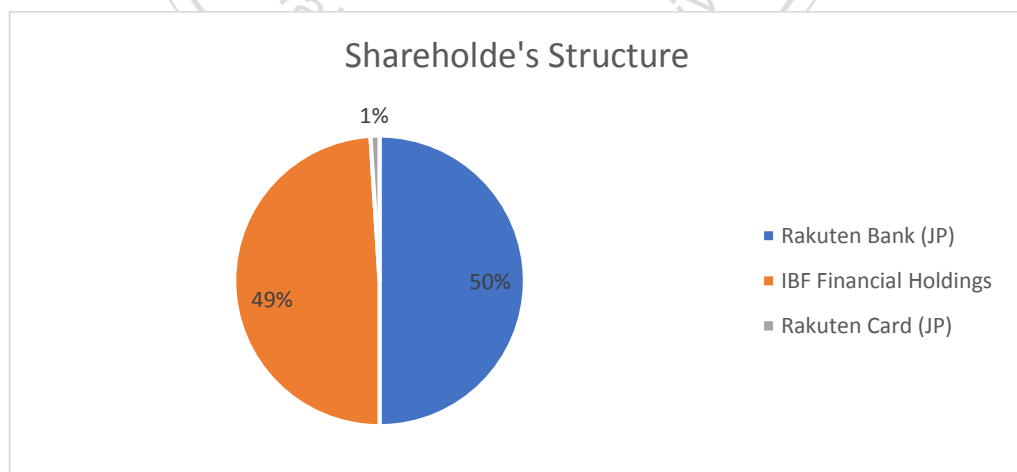


Figure 6 The Structure of the Shareholders
(Source: Organized by the thesis author)

4.3.4. Marketing Policy

The 4P (Product, Price, Place, Promotion) policy is as table 14 indicates:

Table 14 4P Policy from Rakuten International Commercial Bank

Product	Banking service that can connect with other services within the scope.
Price	High interest rate for deposit. The interest rate for deposit can be as high as 1 %. The interest rate of traditional bank is usually lower than 0.5%.
Place	Internet the Rakuten Eco-system
Promotion	Rakuten Monkeys, PChome Rakuten plans to import the Pi wallet into the Rakuten Monkeys Baseball Stadium this year. People can buy beer and snacks on their seats by turning on the bank app when watching games. No cash is needed.

(Source: Organized by the thesis author)

Conclusion: Internet-only bank is still a new model in Taiwan. Many regulations have not yet been designed. However, "opening" is the main direction. Subject to the regulations, Rakuten International Commercial Bank is willing to cooperate with insurance, securities companies and will do so. It will also cooperate with other large-scale e-commerce platforms, financial industry, local enterprises, and physical stores to promote a virtuous cycle of continuous activity in the ecosystem and create a mutual benefit and overall synergy.

4.3.5. Human Resource Policy

Rakuten International Commercial Bank focuses on IT talents to ensure the stability of the system and continues to recruit and develop manpower. To quickly establish a bank in Taiwan, Rakuten Bank (JP) invited Taiwan's IBM to cooperate and use the ready-made packaged financial system.

The candidates that Rakuten International Commercial Bank wants the most are IT talents with banking experience. This kind of talents have strong information security awareness and are more experienced in information security control and financial ethics.

4.4. Information System Strategy

On the first day of opening, the micro-service architecture was used to construct a large-scale system. Compared with the system burden of existing banks, the biggest advantage of an Internet-only bank is that it can rebuild a set of systems, and it is relatively easy to directly adopt new structures and technologies. Therefore, Rakuten Bank adopted a micro-service architecture from the beginning, dividing different business logic into several micro-services, and constructing a large-scale banking system by combining micro-services.

The advantage of the microservice architecture that Rakuten Bank values are that compared with the single architecture in the past, microservices have improved the system service level at the system maintenance level, and can flexibly expand service capabilities for microservices with heavy loads. When the system is upgraded, local microservices can also be upgraded to maintain the continuous provision of other services, instead of being limited to a single architecture that can only upgrade the overall service.

Not only that, but Rakuten Bank also values the advantages of microservices at the development level. After segmenting different microservices according to business logic, the business logic can be reflected in the code structure, and the development energy and development quality of the information unit can also be improved, so that Rakuten Bank can launch new products and services faster.

Even in the future product development and product optimization, Rakuten Bank also plans to use the agile development framework Scrum to manage the development of application systems after the bank is opened. Rakuten Bank revealed that in the early days of its establishment, its information team had a Scrum Master license and experienced players to join. Although Scrum has not been fully implemented, the agile spirit has begun to be incorporated into the daily work of application system development and management.

5. Chapter 5: Comprehensive Analysis for the Success of Rakuten Bank in Japan

Rakuten Bank is a great example to demonstrate the innovation of the banking service. The financial ecosystem and comprehensive services provide convenience for the users. Before M&A by Rakuten Inc., eBank suffered from high cost to approach new customers and no loan service to generate profits.

This case shows that the mindset should change. The bargaining power of buyers is not the same as in the good old days. When many bank choices pop up in the market, how to differentiate and create values for the customers becomes the new norm.

Rakuten Inc. acquired the newly created internet-only bank eBank eight years ago and formally established Rakuten Bank. In the past eight years, in addition to the number of users of Rakuten Bank almost doubled, the number of deposits and loans have also increased significantly by 170% and 500% respectively in 2018.

5.1. Fundamental Strategy Analysis

Fundamentally, Rakuten Bank build their brand through three keys data, membership, and communications. The figure 7 shows how Rakuten ecosystem looks like. It covers ten categories from Mobile, E-Commerce, Card & Payment, Banking, Securities, Insurance, Sports & Culture. Ads & Media, Digital Content, and Life & Leisure.



Figure 7 Rakuten Inc. Ecosystem
(Source: Rakuten International Commercial Bank)

The Rakuten Ecosystem has 99 million members in Japan, which is undoubtedly the biggest key to guide a large number of users to use Rakuten Bank and helping Bank lay the foundation. More importantly, in terms of operations, it also manages to avoid relying on specific large-scale customers. Rakuten Bank retains users and creates better profitability by providing a wide range of convenient services.

5.2. Competitive Strategy Analysis

There're six Internet-only banks in Japan, includes Japan Net Bank, Sony Bank, Rakuten Bank, Shumishin SBI Net Bank, Jibun Bank, and Daiwa Next Bank. Compared with other Internet-only banks in Japan, Rakuten Bank puts membership programs into the core of the business and creates an ecosystem to engage its customers, which builds a high entry barrier for others to compete. Its ecosystem is so complete that others can hardly compete.

The membership programs and ecosystem bring huge success to Rakuten Bank. By doing so, Rakuten Bank could analyze customer's credit and promote long-term products and services. As in figure 8, the mortgage increases by 564.1 billion yen from 2015 to 2020. (Note: The yellow bar is the commercial loan, the light red bar is the mortgage, the dark red bar is the credit card loan.)

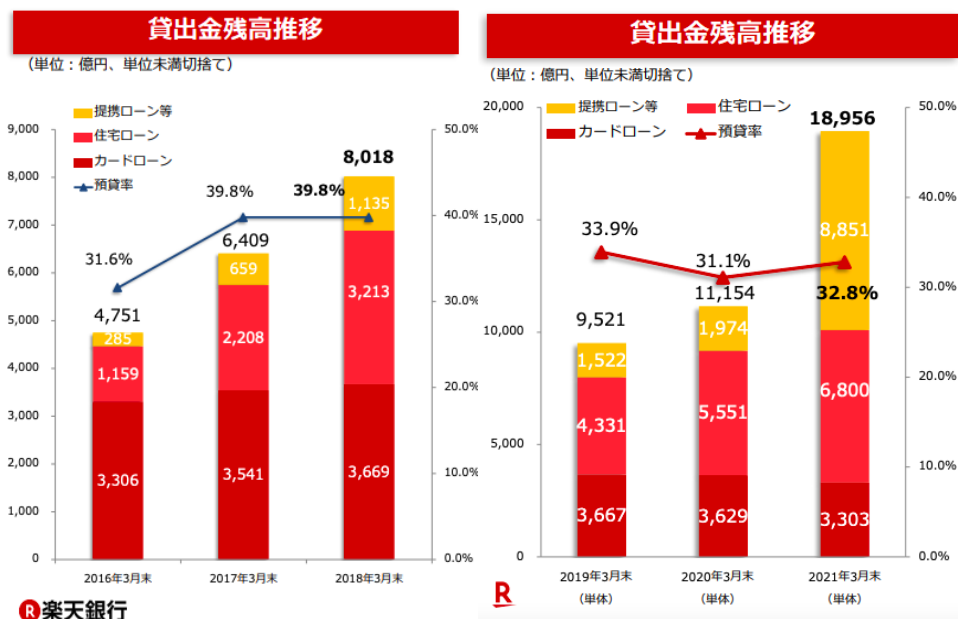


Figure 8 Rakuten Bank Loan
(Source: Rakuten Bank)

Compared with other traditional banks, Rakuten Bank doesn't have physical branches which saves it a lot from staff costs and rent expenses. Therefore, it could set a higher return to attract customers. Moreover, the customer could access the financial service anywhere so it benefits a lot for people who cannot visit the bank during business hours or those who live in suburban districts. On the other hand, it's easier for Rakuten Bank to analyze its customer because it could collect the users' data anytime when user is using. This is something difficult for physical banks to get.

Some traditional banks may start to think about digitalize their service. However, there will be challenges for them to transform. According to Deloitte Insights report, the finance institutions would be challenges from external factors and internal factors during the process to digitalize.

Externally, the challenges would from Investors' confidence, Database management between the regions, Fintech startups are not mature enough to work with finance institutes, and Regulation may not up to date. Internally, the challenges would from Talents to support fintech, Change management, Risk management, Short term goals are not aligned with long term goals, and Budget allocation. For Internet-only bank, the services are already online. It can plan all the functions ahead and won't have above troubles to transform and innovate.

5.3. Operational Strategy Analysis

5.3.1. Marketing Strategy

The convenience and the friendly services are their biggest marketing apart from the super points mechanism. Although half of the profits of traditional banks come from personal financial business, they still do not pay attention to individual customers. Even the promotion of organizations is given priority to members of corporate finance, which is big business.

Rakuten Bank is now Japan's largest Internet-only bank. However, in the beginning, only some young people who love technology were interested. It has successively launched innovative services to make customers understand that banking services can be more convenient.

For example, it takes at least 1 month to make a certificate of deposit in a traditional bank, but Rakuten Bank can provide a certificate of deposit of 1 to 2 weeks, which is the most traditional deposit, but the essence is completely different. The technology industry has a sense of technics and speed, but it does not have the concept of legal compliance and risk control that finance most values. Although traditional banks have this concept, they have an insufficient sense of speed and lack of innovation capabilities. Combine the strength from these two industries, fintech deliver safety and convenience to customers.

5.3.2. Acquisition Strategy

Rakuten Inc. started as an e-commerce platform in 1997. Several years later, it becomes a giant group with travel, finance, ebooks, sports teams, healthcare, etc. Several years later, it becomes a giant group with travel, finance, ebooks, sports teams, healthcare, etc. The key strategy behind is believed to be M&A. The remarkable part is that most of the units work well after M&A. It

shows that Rakuten Inc. has precise insights into the business and knows how to grow its potential.

In an earlier time, Rakuten Inc. acquired a securities company and a credit card company and was looking for bank service. Until 2008, it noticed that an Internet-only bank eBank suffered from two major problems which were the high cost of acquiring new users and lack of loan business during the Great Recession. It's Rakuten's great opportunity to fulfill its ambitions in financial service. Therefore, Rakuten Inc. acquire eBank in 2008 and renamed it Rakuten Bank. Solving two major problems from eBank, Rakuten Inc. allowed a company that encountered difficulties in its operations to survive. It is a company with 10 million users and total assets of 6.4 trillion yen in 2020.

5.3.3. Service Strategy

Regardless of whether it is a traditional bank or an online bank, a bank must have three elements to operate steadily: sufficient deposits, payment services, and loan services. The Rakuten Ecosystem is an important foundation of Rakuten Bank. In addition to Rakuten Bank, Rakuten Finance also includes Rakuten Payment and Edy e-wallet.

Rakuten Bank offers depositor discounts on its e-commerce platforms and affiliated companies' service, using the nature of the online platform to reduce operating costs and provide better services to attract customers. At the same time, it develops a wider range of online banking services, so that customers not only come for "discounts", but also come for the various services. Eventually, the customer would frequently use it and sticks to it.

5.3.4. Information Strategy

Rakuten provides users with the function of P2P transfer on Facebook. As long as the party who transfers the money has a Rakuten Bank account, there is no need to know the account details of the other party. The advantage of the online service is that it can cooperate with other Internet companies. In addition to convenience, it meets the needs and satisfies many Japanese customers.

6. Chapter 6: What Happens to O-Bank, the First Virtual Bank in Taiwan

6.1. Company Background

O-Bank, formerly named Industrial Bank of Taiwan, was founded in July 1999. It was restructured into a commercial bank in January 2017 and changed its name to O-Bank.

The target customer of O-Bank is a group of people who are living paycheck-to-paycheck. They may be college students who are still studying. In addition to working to earn pocket money, they still need to seek basic living expenses from their parents. It may also be a newcomer who just came to the society, and their basic salary income is not high. Every month, just paying the rent and basic living expenses leaves nothing in the bank account. This group of people is mostly regarded as marginal customers in the traditional banking system, with low credit ratings and difficult access to friendly services.

O-Bank's operating mobile finance has the following characteristics. The first is the compounding of financial products: from banking, insurance to securities, providing compounded "commoditized" financial services to create sustainable revenue.

O-Bank targeted those people who are living paycheck-to-paycheck, which helps it gradually introduce standardized financial products and reduce the sales risk. In particular, from finance to insurance, customers can be attracted by simpler and lower entry barriers. Once the number of customers increases, O-Bank can analyze possible investment and financial needs by the behavior of consumer groups. In addition, interest rate spreads, handling fees, insurance fees, and investment and financial services fees may not seem high, but they can create recurring income, improve financial services, and thereby increase the analytical value of the data.

6.2. Company Current Status

According to the regulation, the list of senior executives in O-Bank must release to the public. There were 19 senior executives at or above the deputy general level. Over the past year, a quarter of them has changed due to retirement or personal factors. Among them, there are many

chief executives and other key people. In April 2020, the chief executive officer in charge of consumer finance was changed again. This is the fourth chief executive officer in charge of O-Bank's consumer finance after the previous one who resigned in February 2019. What happens to O-Bank? Some experts believe that there are two main reasons behind.

- Obstacle 1: If you want to attract customers, you have to burn money. New banks with no deposits can hardly push their business.

Take the digital savings account leader Taishin Richart as an example. When it launched, people enjoyed a high interest rate of 1% for their demand deposit at one million NT dollar deposits, which was four times the usual level. Taishin Bank's general manager admitted that although Richart has more than one million accounts after five years of intensive cultivation, he is still unsure when Richart can make real profits. However, they have no other choice if they don't use high interest rates to attract customers at this moment.

- Obstacle 2: The target customer groups are not rich enough, which leads to low customer loyalty and high loan risk for digital savings accounts.

According to experts, most current customers who open digital savings accounts are the "digital nomads" who look for higher interest rates in demand deposit and are less loyal. In the beginning, many banks hoped to do credit loan business with higher interest after opening the digital savings account, but there are hidden risks in it such as people cannot pay back the loan in time.

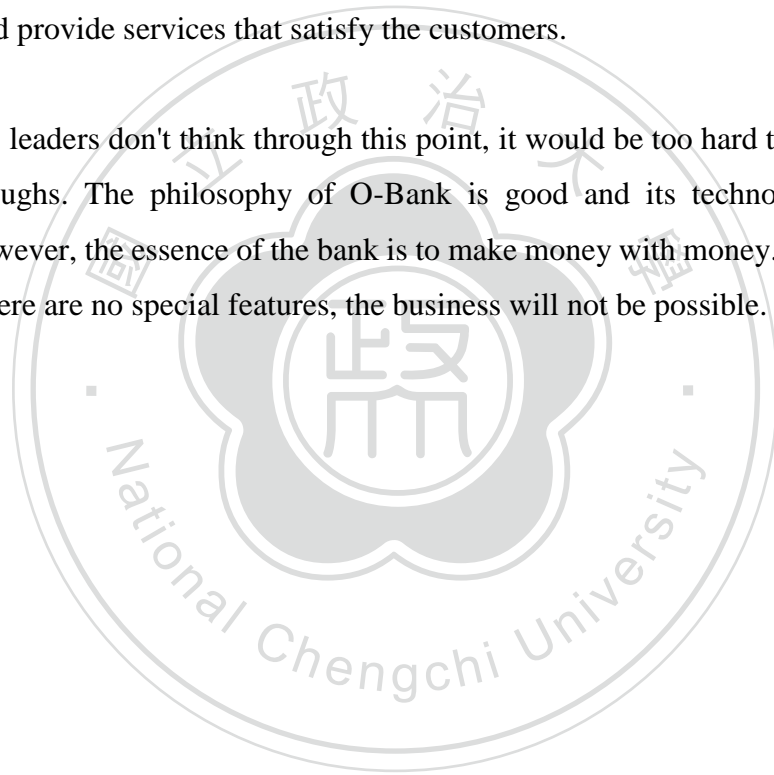
In November 2020, O-Bank announced at the investor conference that the target customer of the wealth management business has changed from new customers to existing corporate financial customers. O-Bank recognized that most digital savings account customers are "not rich enough" so it reforms the strategy. Now O-Bank targets the personal financial needs of enterprises owners.

Industry experts conclude that O-Bank has invested for four years, and it doesn't have enough money to do this business. For this reason, O-Bank has experienced three capital increases since its opening, expanding its capital to about 30 billion NT dollars. However, Taishin has nearly 200 billion NT dollars and Cathay United has around 250 billion NT dollars. They are not at the same level.

6.3. Conclusion

Digital is always just a tool, and the key lies in whether business leaders can make good use of its features and provide services that satisfy the customers.

If the business leaders don't think through this point, it would be too hard to make innovations and breakthroughs. The philosophy of O-Bank is good and its technology is considered advanced. However, the essence of the bank is to make money with money. If the money is not enough and there are no special features, the business will not be possible.



7. Chapter 7: Proposed Actions for Rakuten International Commercial Bank and Conclusion

After analyzing all the dimensions, strategies, business model, customer need, coemption, and current status, the study would like to propose actions for Rakuten International Commercial Bank's future outlook.

7.1. Identification of Key Points for the Proposed Actions

There are 4 points proposed for Rakuten International Commercial Bank, which are Invest Enough Money and Increase the Strategic Partners to Build Eco-system, Strengthen the Information Security, Connect Japanese Market and Taiwanese Market, and Deploy Open Banking in the Rakuten Eco-system.

- Point 1: Invest Enough Money and Increase the Strategic Partners to Build Eco-system
In the O-Bank experience, we realize that digitalization is not enough. Money is the key to sustain a bank. On the other hand, in Rakuten Bank(JP) experience, we see that the convenient and unique ecosystem can build customer's loyalty. As a result, the Rakuten International Commercial Bank should be aware of it and strengthen

Rakuten Inc. and Rakuten International Commercial Bank now have e-commerce platform, Internet-only bank, credit card, e-book KOBO, and baseball team Rakuten Monkeys. It also cooperates with PChome for its e-commerce platform and its payment system Pi Wallet. When the services become more diverse, the ecosystem could create the loyal system by the Rakuten Super Points. Eventually, it can create a similar or better system in Taiwan.

- Point 2: Strengthen the Information Security
It's almost zero tolerance for the hacking and criminal incidents in financial industry. Although people cannot see how heavy a company should invest in information security, once the accident happens, the reputation will crash immediately.
- Point 3: Connect Japanese Market and Taiwanese Market

In chapter 3 the Incentives to the Customer, we mentioned that Rakuten International Commercial Bank connects the cross-border ecosystem through Rakuten Super Points. Moreover, Taiwanese customers can withdraw Japanese Yuan through an ATM in Japan. Due to COVID-19, we cannot see the outcome of this strategy. It has its uniqueness compared to other domestic banks and it's good to highlight.

- Point 4: Deploy Open Banking in the Rakuten Eco-system

In chapter 3 the Industry Development Trend, we point out the open banking as a global trend. Taiwan is not yet fully deploying all the functions. Rakuten International Commercial Bank can pay attention to the government status and make good use of it to build the competitive advantage. The competition is getting fierce. Banks need to take the initiative rather than waiting the customer nowadays.

7.2. Determination of Strategic Direction

Next step, Rakuten International Commercial Bank may find its potential partner in the insurance company or securities company. These companies are in the financial industry that can share industrial know-how and provide one-stop service for customers. In addition, these potential partners had better have a technology background, so they can launch a stable and safe online system together. The point is to make the finance part complete and stable.

7.3. Theoretical Basis

The Japan experiences also completed the financial-service part in the early stage. After several years, it accrued enough cash to acquire other business units to fulfill its ecosystem. Rakuten International Commercial Bank may need to invest a huge amount of money in the beginning to maintain the service. It could increase bargaining power over the potential strategic partners while it gains more trust and recognition in the market.

7.4. Conclusion and Expected Contributions

To sum up, Taiwan is at the beginning of opening Internet-only banks. Although there are digital savings accounts from the traditional banks and electronic payment institutions to compete, Rakuten International Commercial Bank can stay flexible with its information

structure and innovate the service to a brand-new level as long as the regulation allows. It can not only satisfy the customers but also stimulate the traditional banks to transform.

The contribution of this case study is shedding a light for the people who are interested in Internet-only banks with a holistic view. Rakuten Bank shows a successful model in Japan. Perhaps it's not possible to duplicate the model to Taiwan, it can localize the service and use their advanced data analyzing skill to enhance the ecosystem to a better fit with Taiwanese users.



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9. Appendix

9.1. Rakuten Bank JP Balance Sheet

Fiscal year is January-December (Millions of yen)	2020	2019	2018	2017	2016
Department of Capital and Product 資産の部					
Current deposits 現金預け金	2,682,972	1,117,044	791,476	467,807	340,296
Bond lending transaction payment 債券貸借取引支払保証金	76,397	-	18,000	45,000	20,000
Receivables 買入金銭債権	1,529,040	1,289,340	1,043,414	844,278	686,195
Securities 有価証券	107,504	150,808	113,352	133,295	129,784
Loans 貸出金	1,895,656	1,115,493	952,178	801,841	640,966
Foreign exchange 外国為替	7,513	6,094	11,240	14,953	8,414
Other assets その他資産	160,020	153,872	56,297	36,289	40,074
Property, plant and equipment 有形固定資産	3,278	1,748	1,979	2,073	2,076

Buildings 建物	250	248	378	416	471
Other tangible fixed assets その他の有形固定資産	3,028	1,499	1,601	1,656	1,604
Intangible assets 無形固定資産	14,095	9,434	7,814	6,777	6,605
Software ソフトウェア	11,261	5,867	6,171	5,454	5,359
Software provisional accounts ソフトウェア仮勘定	2,700	3,398	1,438	1,084	971
Goodwill のれん	132	168	203	238	274
Other intangible assets その他の無形固定資産	0	0	0	0	0
Deferred tax assets 繰延税金資産	3,300	2,331	2,125	2,017	2,585
Payment acceptance 支払承諾見返	8,521	6,558	994	570	551
Reserve for bad loans 貸倒引当金	△ 1,460	△992	△1668	△1,393	△782
Total assets 資産の部合計	6,486,841	3,851,733	2,997,205	2,353,510	1,876,770
Negative Bonds Division 負債の部					
Deposit 預金	5,545,947	3,404,868	2,611,219	2,010,131	1,606,566

Borrowings 借用金	663,200	214,200	189,750	189,750	149,750
Foreign Exchange 外国為替	945	341	192	156	194
Other liabilities その他負債	79,828	77,002	64,747	37,966	21,510
Bonuses 賞与引当金	532	415	374	347	340
Bonuses for Executives 役員賞与引当金	3	3	3	3	2
Liabilities related to retirement benefits 退職給付に係る負債	806	428	121	-	-
Reserve for loss on sleep deposit refunds 睡眠預金払戻損失引当 金	27	22	71	19	8
Points deposit ポイント引当金	237	209	191	196	182
Payment acceptance 支払承諾	8,521	6,558	994	570	551
Total liabilities 負債の部合計	6,300,050	3,704,050	2,867,666	2,243,143	1,783,109
Net Asset Division 純資産の部					
Capital 資本金	25,954	25,954	25,954	25,954	25,954

Capital surplus 資本剰余金	2,468	2,468	2,468	2,468	2,468
Retained earnings 利益剰余金	138,982	119,746	100,786	81,747	65,313
Total shareholders' equity 株主資本合計	167,405	148,168	129,208	110,169	93,736
Other securities valuation difference その他有価証券評価差 額金	-271	123	504	71	-41
Deferred hedge gains (losses) 繰延ヘッジ損益	-626	-555	-175	125	-34
Exchange conversion adjustment account 為替換算調整勘定	1,508	-	-	-	-
Cumulative adjustments to retirement benefits 退職給付に係る調整累 計額	-42	-54	0	-	-
Total other comprehensive income その他の包括利益累計 額合計	568	-486	329	197	-75
Non-controlling shareholders interest 非支配株主持分	18,817	-	-	-	-
Total net assets 純資産の部合計	186,790	147,682	129,538	110,367	93,660

Total liabilities and net assets 負債及び純資産の部合計	6,486,841	3,851,733	2,997,205	2,353,510	1,876,770
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9.2. Rakuten Bank JP Income Statement

Fiscal year is January-December (Millions of yen)	2020	2019	2018	2017	2016
Ordinary income 経常収益	103,386	95,513	87,720	79,720	70,591
Proceeds from investment 資金運用収益	59,498	60,071	57,019	52,819	46,258
Interest on loans and bills discounted 貸出金利息	45,371	46,445	44,934	42,796	38,558
Interest dividends on securities 有価証券利息配当金	88	120	213	260	275
Call loan interest コールローン利息	2	6	3	8	0
Interest on bond lending transactions 債券貸借取引受入利息	16	0	0	-	0
Interest on deposits 預け金利息	-139	198	219	234	227
Other interest received その他の受入利息	14,158	13,300	11,648	9,520	7,195

Revenue from services transactions, etc. 役務取引等収益	38,368	29,544	25,339	22,386	20,775
Other business income その他業務収益	4,212	4,253	3,869	3,400	2,484
Other recurring income その他経常収益	483	917	858	584	488
Gain on return on bad loans 貸倒引当金戻入益	-	277	-	-	-
Gain on depreciable receivables 償却債権取立益	7	5	3	3	2
Other recurring income その他の経常収益	476	634	855	581	485
Trust fees 信託報酬	823	726	633	529	584
Recurring expenses 経常費用	75,804	68,238	60,390	56,060	51,507
Financing expenses 資金調達費用	3,551	2,907	2,410	1,992	2,034
Interest on deposits 預金利息	3,408	2,770	2,230	1,822	1,943
Call money interest コールマネー利息	-	-2	-10	-14	-9
Interest on borrowings 借入金利息	-	0	0	0	46
Other interest expense その他の支払利息	143	138	169	147	16

Expenses for services transactions, etc. 役務取引等費用	35,526	33,594	31,378	29,723	27,056
Other business expenses その他業務費用	7	-	21	-	145
Operating expenses 営業経費	35,810	31,513	25,881	23,484	21,738
Other recurring expenses その他経常費用	908	221	698	860	531
Reserve for bad loans 貸倒引当金繰入額	649	-	444	736	410
Other recurring expenses その他の経常費用	259	221	254	123	121
Ordinary interests 経常利益	27,581	27,275	27,329	23,660	19,083
Special interests 特別利益	90	-	-	2	6
Gains on asset removal obligations 資産除去債務取崩益	90	-	-	-	-
Extraordinary loss 特別損失	462	7	17	106	54
Loss on disposal of fixed assets 固定資産処分損	73	7	17	52	31
Head office relocation costs 本社移転費用	19	-	-	-	-

Other extraordinary losses その他の特別損失	369	-	-	54	17
Net income before income taxes 税金等調整前当期純利益	27,210	27,267	27,311	23,556	19,035
Corporate tax, inhabitant tax and business tax 法人税、住民税及び事業税	9,047	8,178	8,438	6,660	2,459
Adjustments to corporate taxes, etc. 法人税等調整額	-703	129	-165	462	3,049
Total corporate taxes 法人税等合計	8,344	8,307	8,272	7,122	5,508
Net income 当期純利益	18,866	18,960	19,039	16,433	13,526
Non-controlling Net loss attributable to shareholders 非支配株主に帰属する当期純損失	-471	-	-	-	-
Net income attributable to owners of parent 親会社株主に帰属する当期純利益	19,337	18,960	19,039	16,433	13,526

9.3. Rakuten Bank JP Cash Flow Statement

Fiscal year is January- December (Millions of yen)	2020	2019	2018	2017	2016
Cash flow from sales activities 営業活動によるキャッシュ・フロー					
Net income before adjustment of taxes, etc. 税金等調整前当期純利益	27,210	27,267	27,311	23,556	19,035
Depreciation and amortization 減価償却費	3,300	2,660	2,573	2,494	2,471
Amortization of goodwill のれん償却額	35	35	35	35	35
Change in reserve for bad debts 貸倒引当金の増減	468	-676	274	611	344
Increase or decrease in bonuses 賞与引当金の増減額	74	41	27	6	36
Increase or decrease in liabilities related to retirement benefits 退職給 付に係る負債の増減額	370	252	122	-	-
Increase or decrease in points ポイント引当金の増減額	28	18	-5	14	9

Change in reserve for loss on sleep deposit 睡眠預金払戻損失引当金 の増減	4	-48	52	10	2
Proceeds from investment 資金運用収益	-59,498	-60,071	-57,019	-52,819	-46,258
Financing expenses 資金調達費用	3,551	2,907	2,410	1,992	2,034
Gains (loss) (Δ) 有価証券関係損益(Δ)	-296	-259	-75	-	-53
Gain on disposal of fixed assets (profit) 固定資産処分損益(Δは益)	73	7	17	52	31
Net increase in loans 貸出金の純増減	-780,161	-163,314	-150,337	-160,874	-165,840
Net change in deposits 預金の純増減	2,140,895	793,649	601,087	403,564	105,386
Net change in borrowings 借入金の純増減	449,000	24,450	-	40,000	49,800
Net increase in deposits (excluding cash equivalents) 預け金(現金同等物を除く) の純増減	10,000	-10,000	10,000	-10,000	-
Net increase in call loans コールローン等の純増減	-	18,000	27,000	-25,000	-20,000
Net increase in bond lending transaction payment	-74,635	-	-	-	-

guarantee 債券貸借取引支 払保証金の純増減					
Net increase in foreign exchange (assets) (-) 外国為替(資産)の純増減	-1,418	5,145	3,713	-6,539	-5,287
Net change in foreign exchange (liabilities) 外国為替(負債)の純増減	603	149	35	-37	-72
Net increase in receivables 買入金銭債権の純増減	-239,806	-245,925	-199,136	-158,082	-137,652
Net increase in rights deposits 権利金保証金の純増減	-15,264	-82,480	-980	-	-
Proceeds from fund management 資金運用による収入	59,805	60,080	56,789	52,750	46,269
Expenditures from financing 資金調達による支出	-3,528	-2,900	-2,504	-2,232	-2,958
Others その他	-10,225	-378	7,950	17,371	-17,591
Sub total 小計	1,510,586	368,608	329,342	126,875	-170,261
Payment of corporate taxes , etc. 法人税等の支払額	-9,092	-10,960	-8,801	-2,787	-2,383
Cash flow from operating activities	1,501,494	357,648	320,541	124,087	-172,644

営業活動によるキャッシュ・フロー					
Cash flow from investment activities 投資活動によるキャッシュ・フロー					
Expenditures from acquisition of valuable securities 有価証券の取得による支出	-189,668	-283,846	-83,550	-108,125	-102,933
Proceeds from sale of securities 有価証券の売却による収入	50,361	38,995	20,146	-	31,172
Proceeds from redemption of securities 有価証券の償還による収入	182,297	206,970	83,972	104,589	123,477
Expenditure on acquisition of property, plant and equipment 有形固定資産の取得による支出	-1,491	-484	-307	-787	-615
Proceeds from sale of property, plant and equipment 有形固定資産の売却による収入	-	164	-	-	-

Expenditures on acquisition of intangible assets 無形固定資産の取得によ る支出	-3,943	-3,880	-3,133	-2,252	-2,667
Others その他	-6	-	-	-	-
Cash flow from investment activities 投資活動によるキャッシ ュ・フロー	37,548	-42,080	17,127	-6,576	48,433
Cash flow from financial activities 財務活動によるキャッシ ュ・フロー					
Cash flow from financial activities 財務活動によるキャッシ ュ・フロー	-	-	-4,000	-	-
Conversion difference between cash and cash equivalents 現金及び現金同等物に係 る換算差額	926	-	-	-	-
Cash and cash equivalents increased 現金及び現金同等物の増 減額	1,539,970	315,568	333,668	117,510	-124,211

Cash and cash equivalents 現金及び現金同等物の期 首残高	1,107,044	791,476	457,807	340,296	464,508
Increase in cash and cash equivalents associated with new consolidation 新規連 結に伴う現金及び現金同 等物の増加高	35,955	-	-	-	-
Cash and cash equivalents 現金及び現金同等物の期 末残高	2,682,969	1,107,044	791,476	457,807	340,296