

Going Beyond Guarantee for SMEs

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日本政策金融公庫

JAPAN FINANCE CORPORATION

Contents

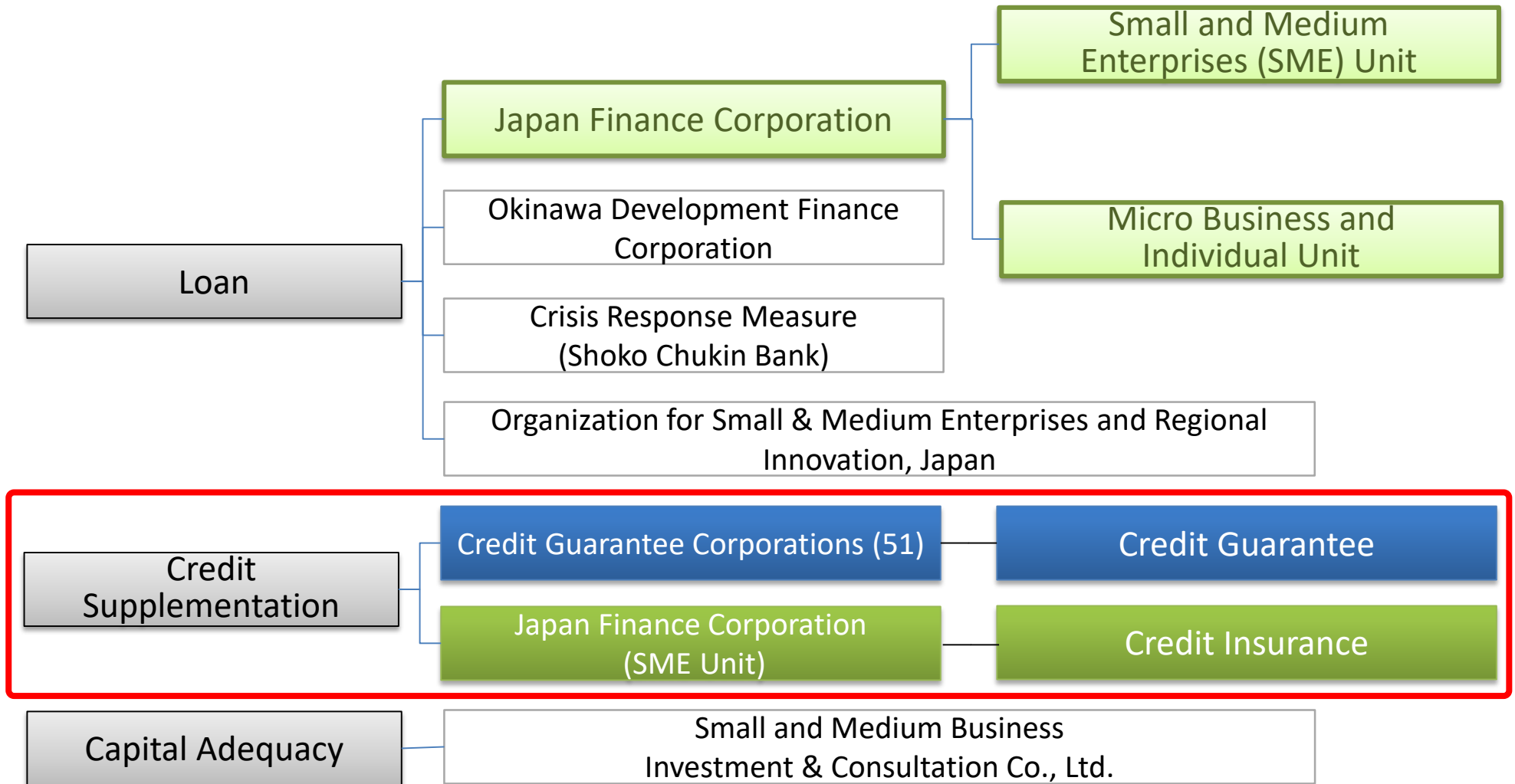
- | | |
|--|-------------|
| 1 Current situation of Credit Supplementation System in Japan | P.2 |
| 2 Toward further enhancement of Credit Supplementation System | P.15 |



Present

1 Current situation of Credit Supplementation System in Japan

Japan's SME Policy and Credit Supplementation System



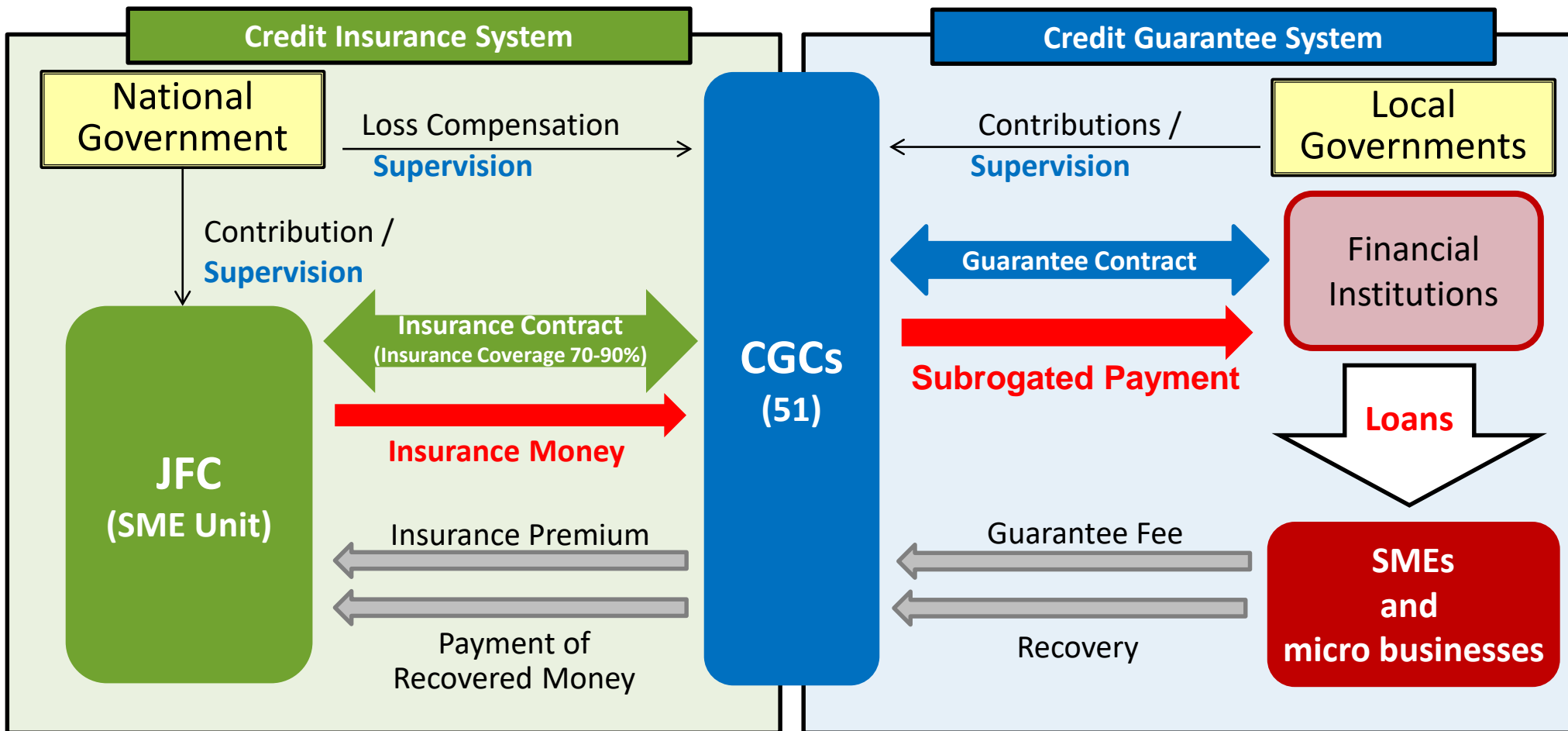
(Note1) Japan Finance Corporation was established and is 100%-owned by the central government.

(Note2) 51 Credit Guarantee Corporations (CGCs) located throughout Japan are regulated by the “Credit Guarantee Corporation Law” and their establishment is solely licensed by the central government.

(Source) Small and Medium Enterprise Agency, “Comprehensive SME Policy (FY2015)”.

Structure of Credit Supplementation System

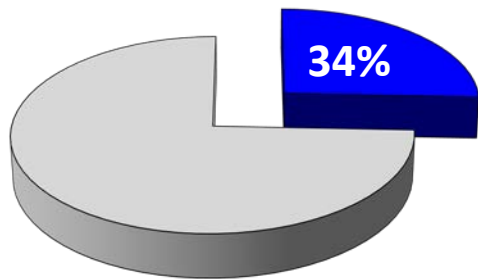
- The Credit Guarantee System operated by CGCs, which is a public institution, act as a guarantor when SMEs and micro businesses obtain loans from financial institutions or when raising funds from financial institutions by issuing corporate bonds.
- The Credit Insurance System operated by JFC covers the credit guarantee risk that CGC bears by insurance and strongly backs up the Credit Guarantee System.



Characteristics of Credit Supplementation System

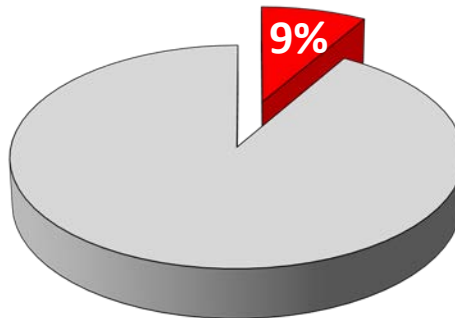
- 34% of all SMEs in Japan utilize the Credit Supplementation System (1.31 million SMEs out of 3.80 million total SMEs).
- Outstanding loans to SMEs guaranteed by CGCs amounted to 23 trillion yen.
- The Credit Supplementation System contributes to the management stability of SMEs and micro businesses, and to their growth and prosperity by facilitating the smooth flow of funds (74% of the outstanding amounts of insurance is insurance to companies with 20 employees or less).

**Guarantee Utilization Ratio
[Number of SMEs]
(FY 2016)**



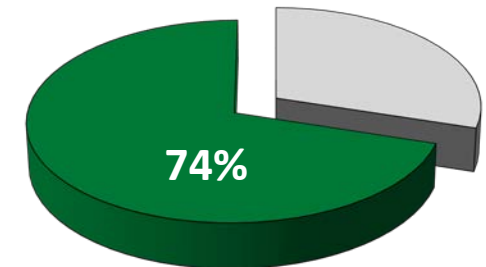
Number of guaranteed SMEs: 1.31million
Total number of SMEs: 3.80 million

**Guarantee Utilization Ratio
[Amount]
(FY 2016)**



Outstanding guaranteed liabilities: 23trillion JPY
Outstanding loans to SMEs : 258 trillion JPY

**Outstanding Amounts of Insurance by
Number of Employees
(FY 2016)**



20 employees or less: 17 trillion JPY

The Purpose and Role of the Credit Supplementation System

Purpose

Facilitate smooth flow of funds to SMEs



Role

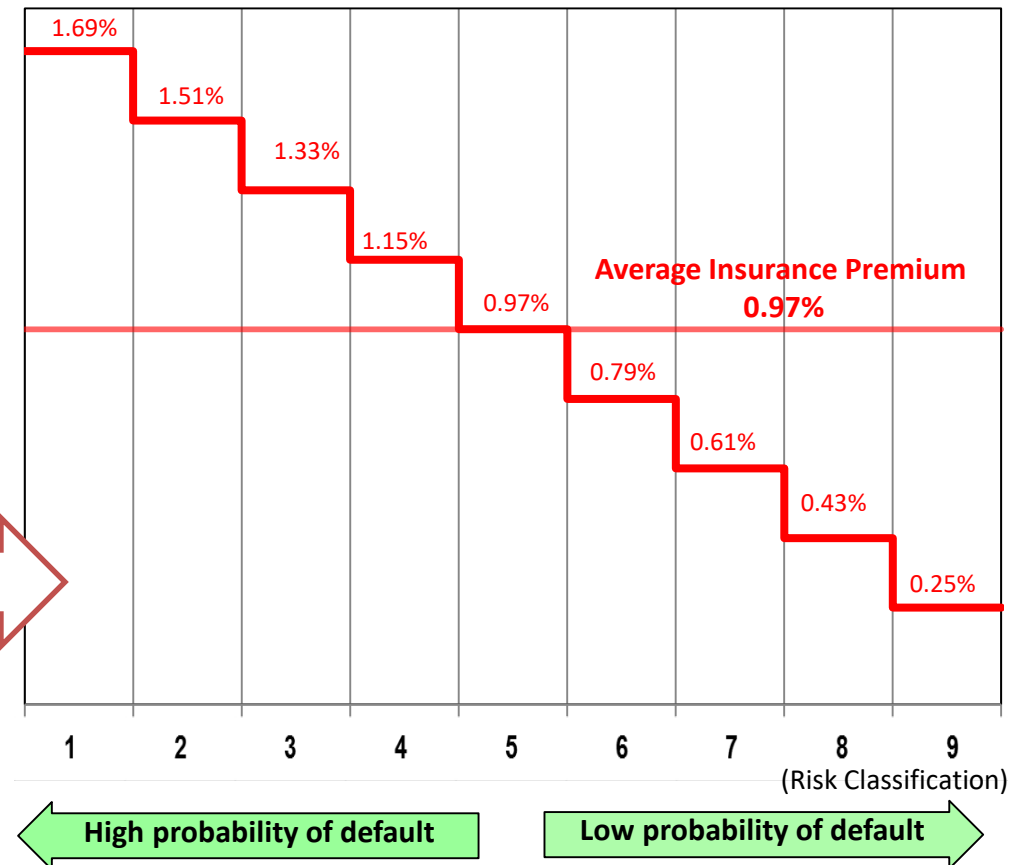
1. Supplement insufficient creditworthiness of SMEs
2. Respond to economic crises / natural disasters
3. Support strategic areas of growth
(including business startup support)

General Insurance System

The flexible rate structure of 9 categories considering the credit risk of SMEs for Ordinary Insurance and No-collateral Insurance, etc.

	Ordinary Insurance	No-collateral Insurance
Eligible Funds	Business funds	Business funds (unsecured)
Maximum Amount of Insurance	200 million JPY	80 million JPY
Insurance Premium Rate (p.a.)	0.25%-1.69%	

The flexible rate structure depending on credit risks



Insurance System Targeting Specific Usage

Preferable insurance conditions are applied compared other insurances in general (Ordinary Insurance and No-collateral Insurance).

For micro businesses

Respond to economic crises / natural disasters

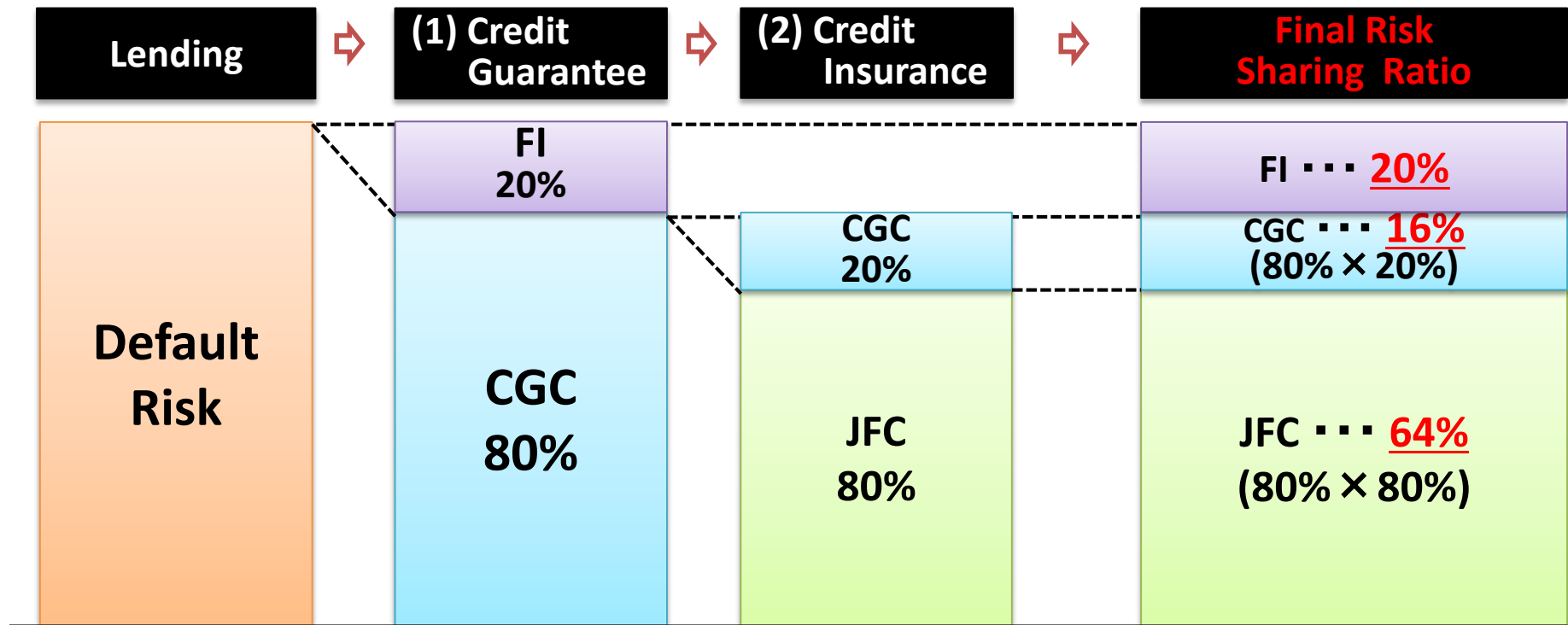
Area of strategic growth

	Special Small Sum Insurance	Special Treatment of Insurance Related to Business Stability	Special Treatment of Insurance Related to Great East Japan Earthquake Recovery Emergency	Special Treatment of Insurance Related to Business Startups
Eligible Funds	Business funds	Business stabilization funds <i>Additional ceiling is set</i>	Funds for reconstruction, other business stabilization	Business Startups funds
Maximum Amount of Insurance	12.5 million JPY <i>Low insurance premium rate</i>	Ordinary Insurance: +200 million JPY No-collateral Insurance: +80 million JPY	Ordinary Insurance: +200 million JPY No-collateral Insurance: +80 million JPY	10 million JPY for No-collateral Insurance
Insurance Premium rate (p.a.)	0.40%	0.41%	0.41%	0.29%

Risk Sharing among Concerned Parties (General Insurance)

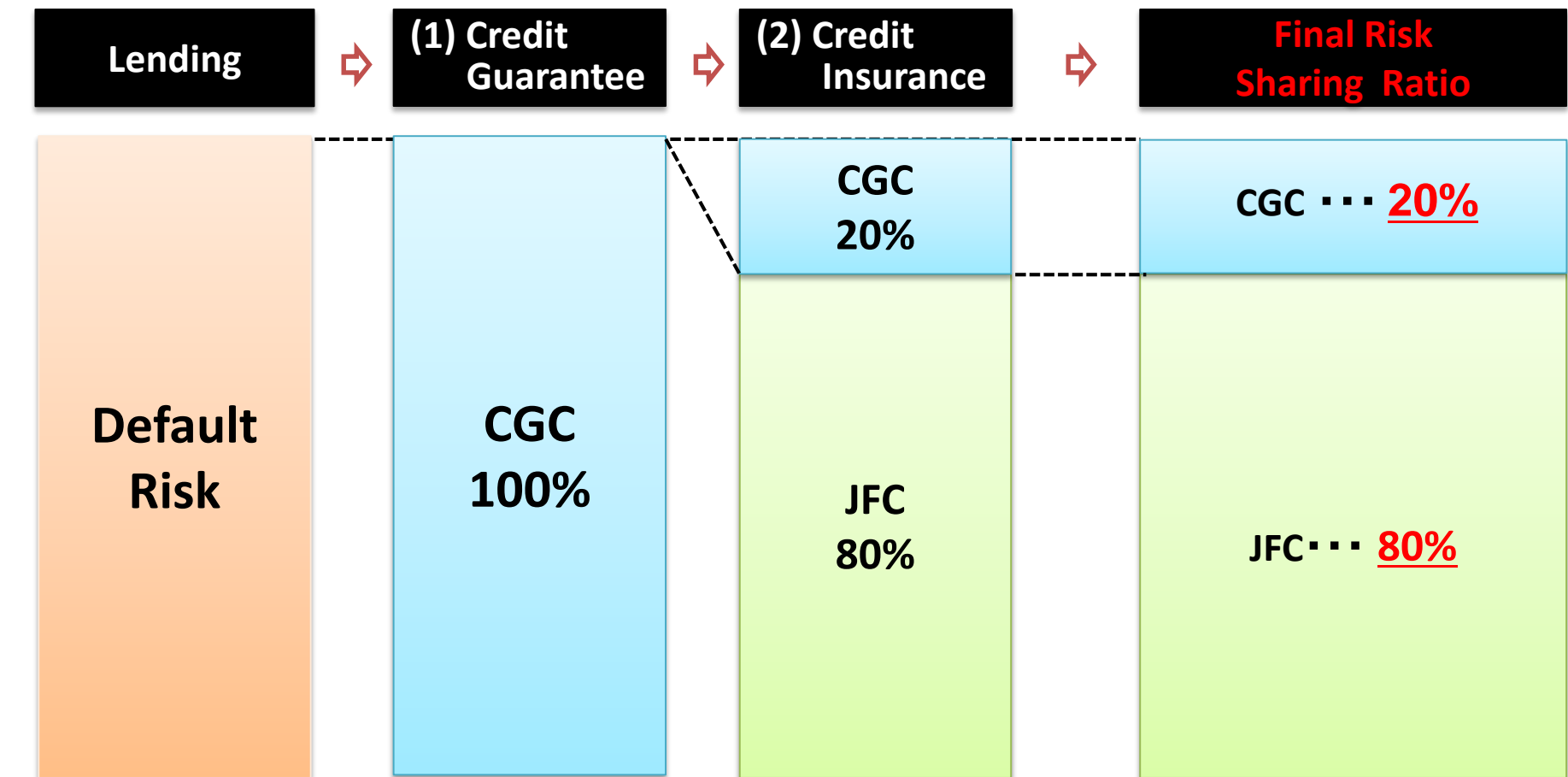
JFC, CGC and Financial Institution (FI) share the risks.

- I. Credit Guarantee (Risk Sharing between FI and CGC)
 - In case of a default where the SME cannot repay their guaranteed loan to the bank, the CGC makes a subrogated payment (guarantee coverage ratio is 80% in principle).
 - II. Credit Insurance (Risk Sharing between CGC and JFC)
 - Depending on the types of insurance, JFC pays 70% to 90% of the subrogated amount to the CGC.
- ⇒ **Final risk sharing ratio is 20% for financial institution, 16% for CGC, and 64% for JFC.**



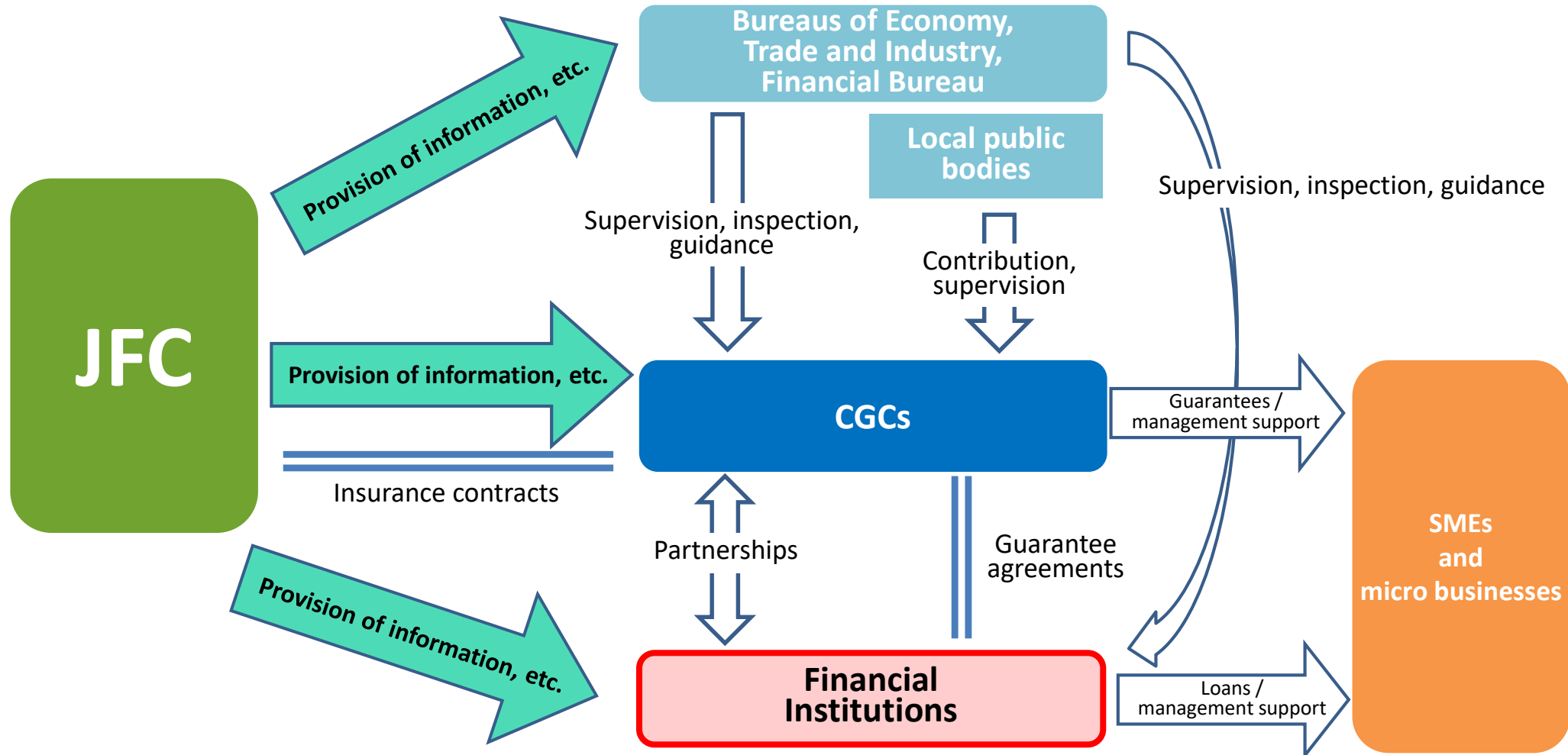
Risk Sharing among Concerned Parties (Insurance Targeting Specific Usage)

In fields with strong policy initiatives such as response to crisis and area of strategic growth, 100% guarantee is adopted.

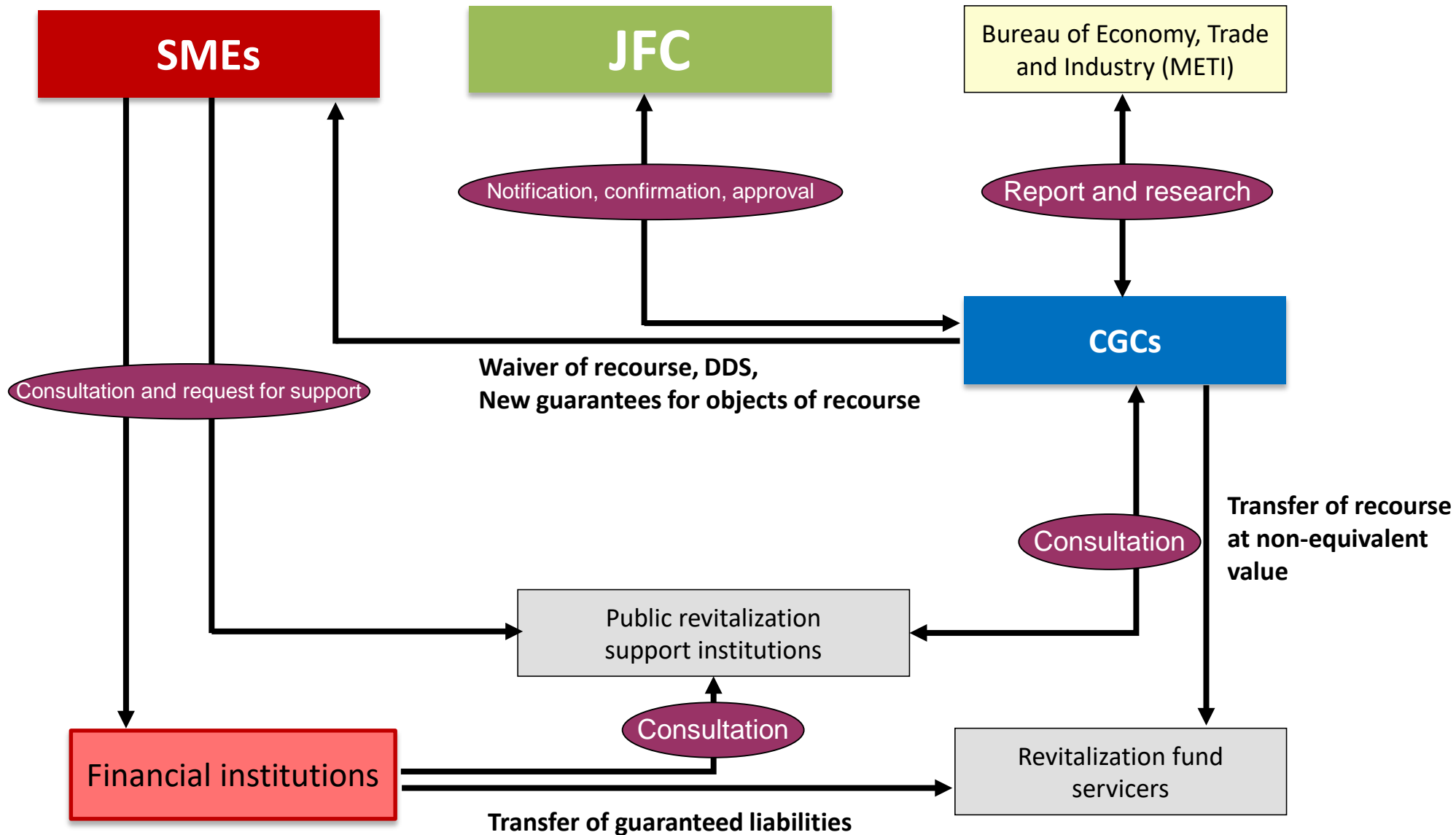


Strengthening Partnerships with CGCs for a Sustainable Operational Basis of the Credit Supplementation System

- ◆ JFC promotes the sound operation of the system while building close relationships with other institutions such as CGCs and Bureaus of Economy, Trade and Industry, through measures such as the provision of information and exchange of opinions.



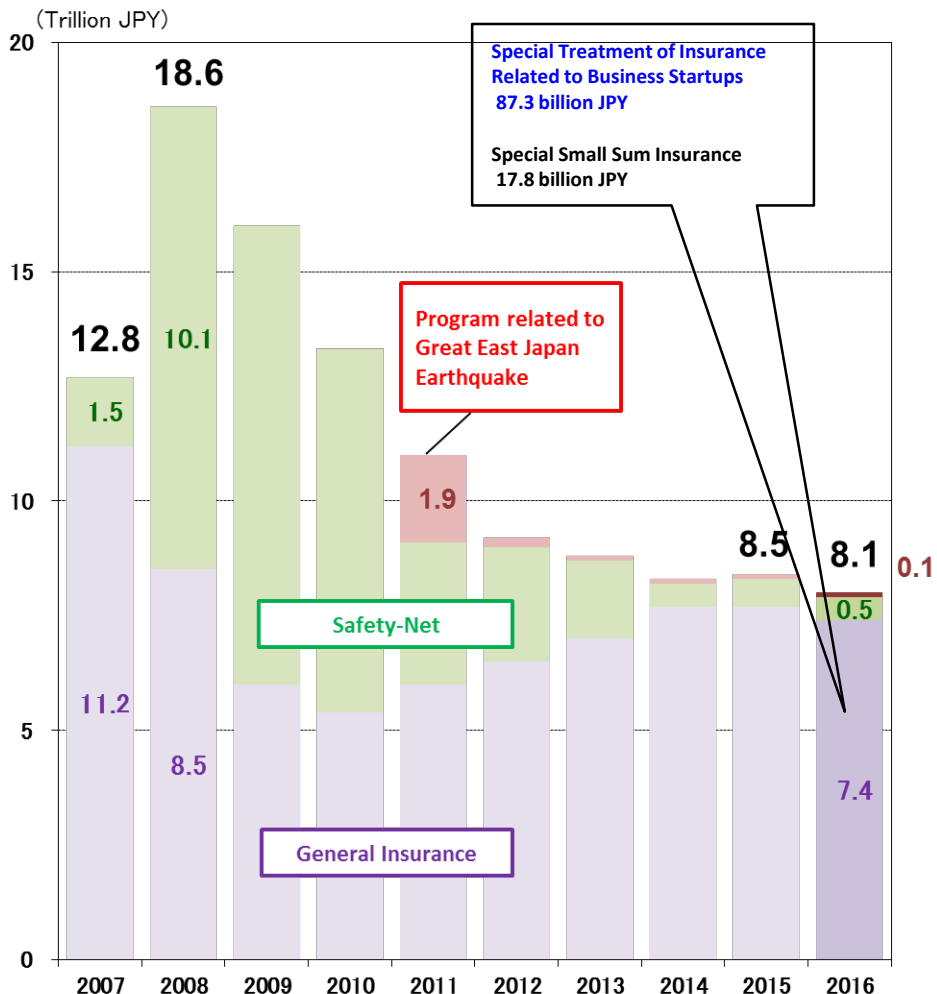
Promotion of Efforts toward Business Revitalization



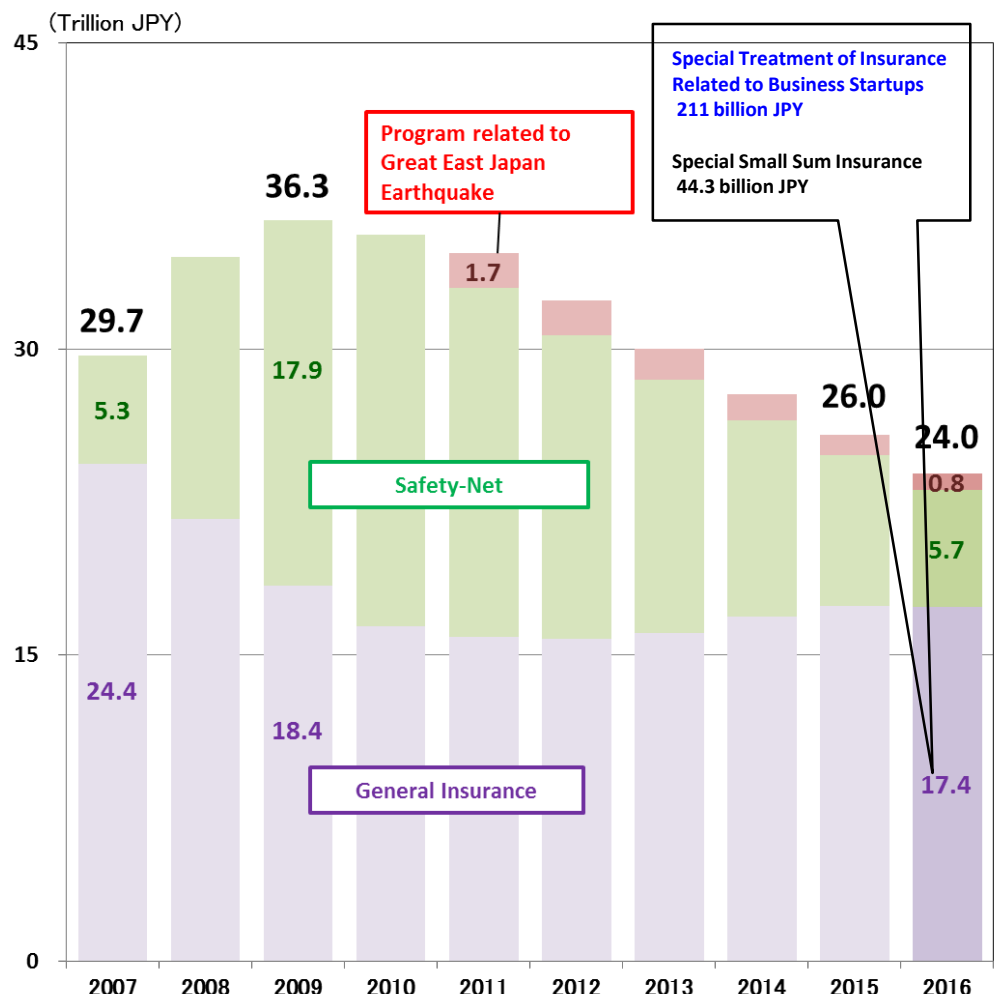
Results of Credit Supplementation System (1)

- The amounts of insurance acceptance for fiscal 2016 decreased by 0.4 trillion JPY from the previous fiscal year to 8.1 trillion JPY (94.6% of the previous fiscal year)
- The outstanding amounts of insurance at the end of fiscal 2016 was 24.0 trillion JPY (92.6% of the same) and has decreased for the 7 consecutive years.

(1) Changes in the Amounts of Insurance Acceptance

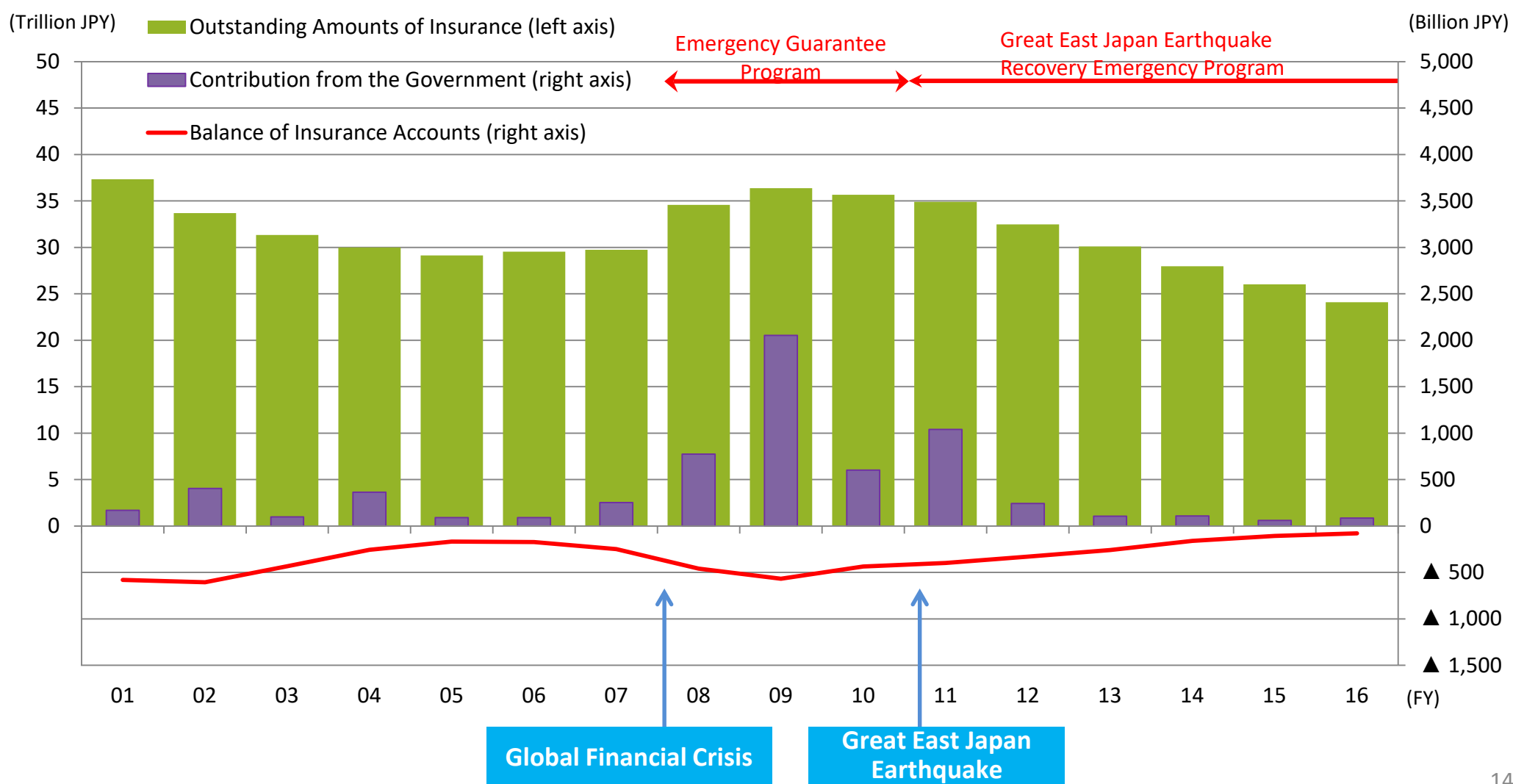


(2) Changes in the Outstanding Amounts of Insurance



Results of Credit Supplementation System (2)

◆ Changes in the Outstanding Amounts of Insurance, the Balance of Insurance Accounts and Contribution from the Government





Future

2 Toward further enhancement of Credit Supplementation System

Further Enhancement of Credit Supplementation System

Significance of the Credit Supplementation System and Background of Review

- Japan's Credit Supplementation System functions as a lifeline for micro businesses in order to obtain loans from financial institution (FI) and has contributed greatly to the prevention of SMEs' bankruptcies. However, the deterioration in the balance of insurance accounts resulted in a public burden for compensating for the deficit.
- A gradual shift to risk sharing between FI and CGC was made, and a major revision was taken place in 2005 to further exercise the consultation functions.
- In 2006, flexible guarantee fee structure (9 categories) based on financial standing of SMEs by utilizing the Credit Risk Database (CRD) was introduced. In 2007, the Responsibility-Sharing System based on risk sharing was introduced and 20% of loan amount was borne by FI. These reviews are the basis of the current Credit Supplementation System.
- Since 2007, when responding to a crisis (Global Financial Crisis, Great East Japan Earthquake), full guarantee was provided once again, avoiding the Japanese economy fall into a great confusion. As a result, many bankruptcies were prevented and employment was maintained, however, again, full guarantee shared the majority.



Future Initiatives to Establish a Sustainable Credit Supplementation System

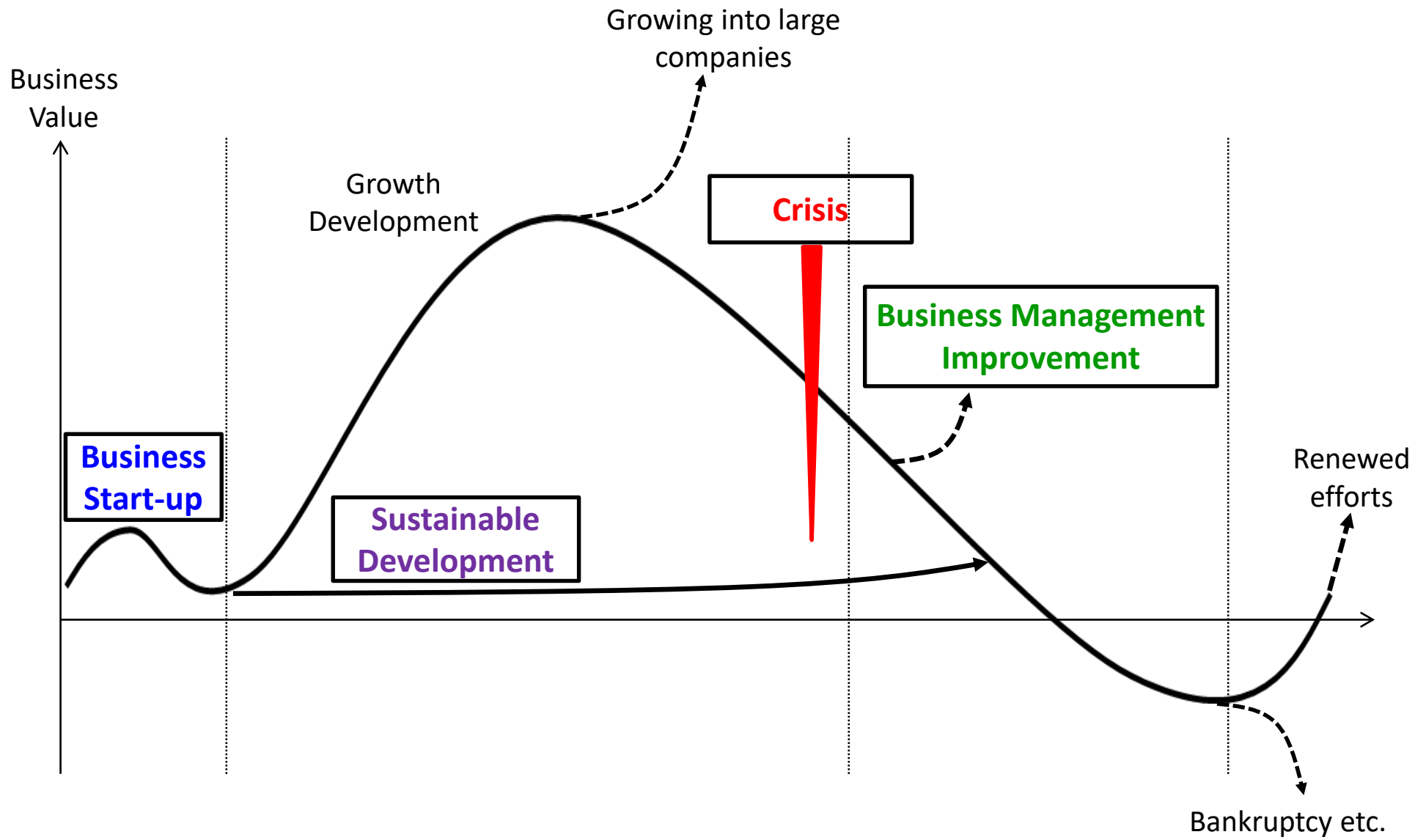
- SMEs cannot raise sufficient funds in a phase with high risk such as at the time of business founding. Therefore, smooth flow of funds, business development and furthermore, the revitalization of the regional economy cannot be met just by leaving it to the market. For this reason, it is important to provide sufficient support based on SMEs' various phase of life stage through the Credit Supplementation System.
- Meanwhile, it is necessary for financial institutions not to excessively rely on credit guarantee and to offer loans based on business evaluation and provide appropriate business management support afterwards in order to establish a structure that would lead to the improvement of business management / productivity of SMEs.



- With the government playing a central role, measures towards the enhancement of the Credit Supplementation System focusing on SME's various phase of life stage were summarized (December 2016).
- Partial revision of "Small and Medium-sized Enterprise Credit Insurance Act" and the "Credit Guarantee Corporation Law" was enacted and is to be enforced.

(Note) Quoted from the paper on "Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses" summarized by the Financial Working Group established within the SME Policy Board.

Enhancement of Supportive Measures based on SMEs' Various Phase of Life Stage (1)

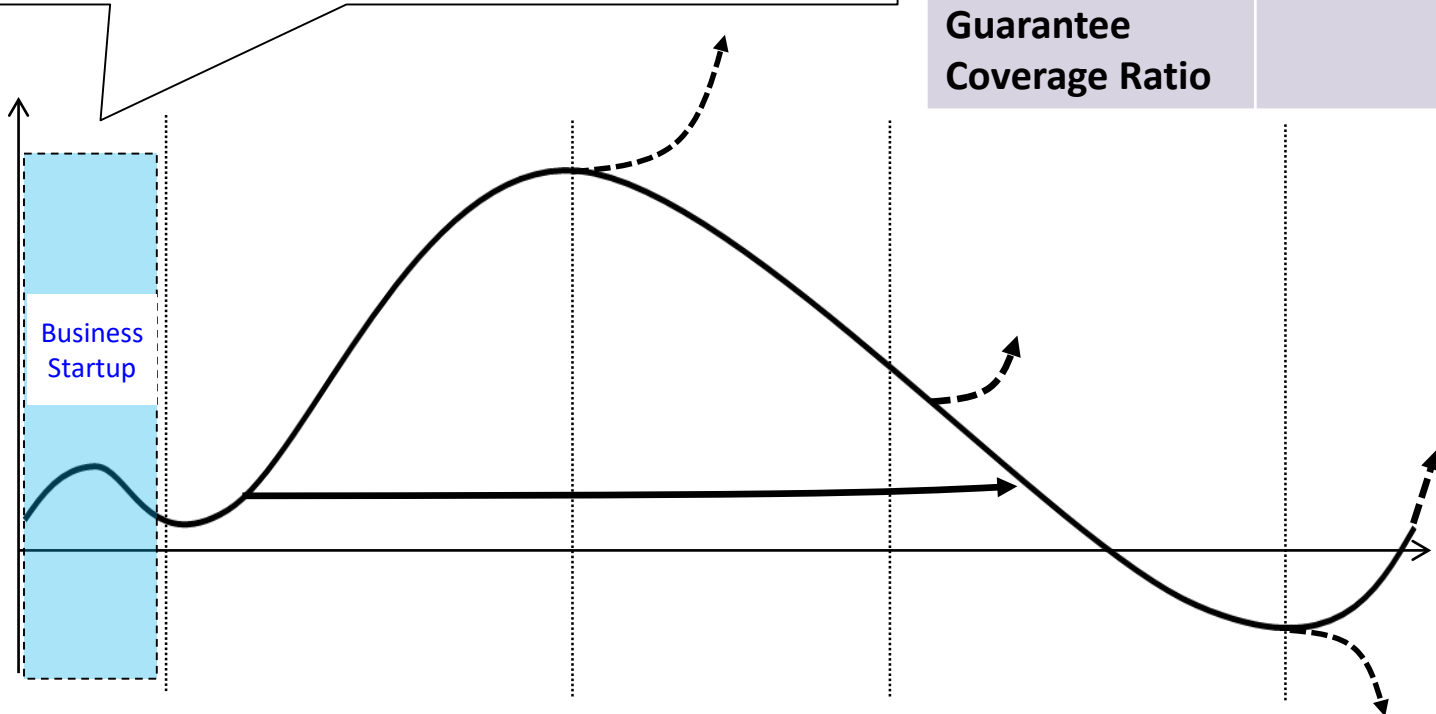


(Note) Quoted from the paper on "Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses" summarized by the Financial Working Group established within the SME Policy Board.

Enhancement of Supportive Measures based on SMEs' Various Phase of Life Stage (2)

【 Enhancement of founding support 】

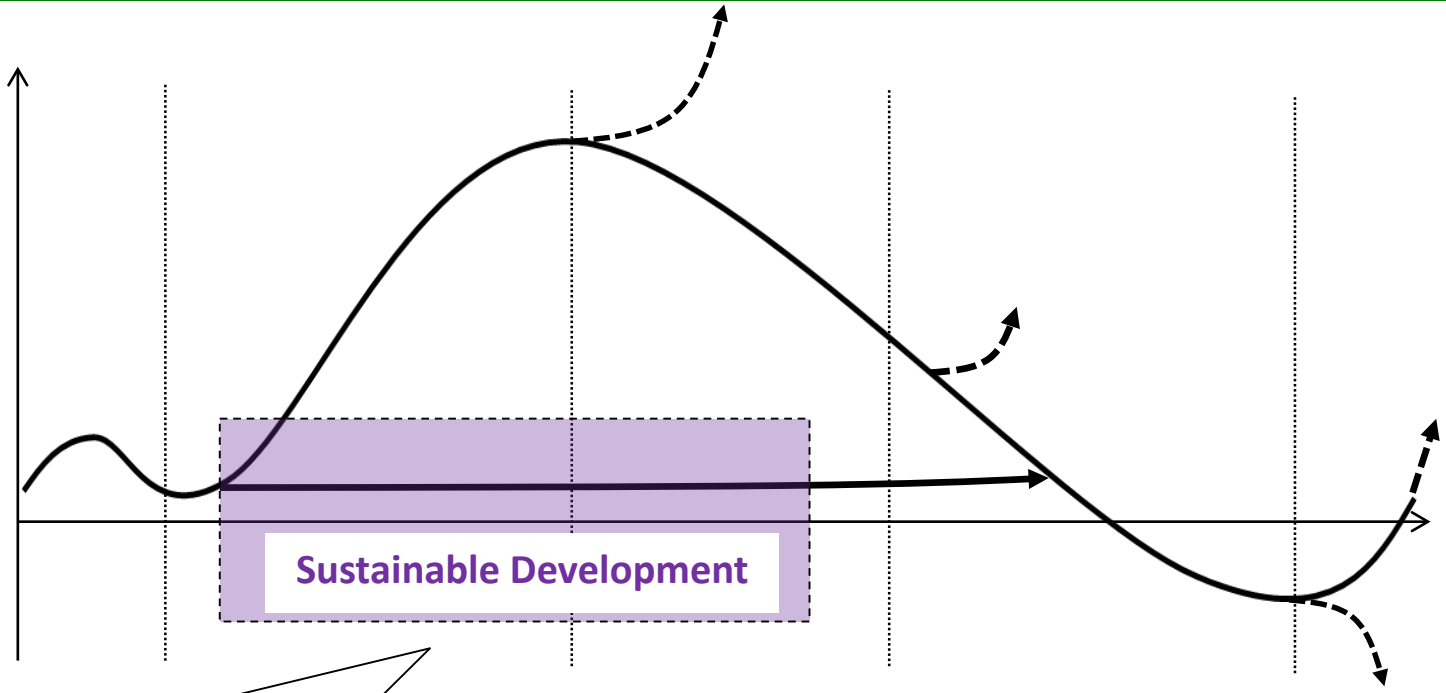
At the start-up stage, makes it possible to supply funds even though it is difficult to judge risks due to the lack of basic information and expand the system to allow business founder to receive full guarantee without any cash reserves in order to further encourage founding challenges.



	Special Treatment of Insurance Related to Business Startups
Eligible Funds	Business startup funds
Maximum Amount of Insurance	10 million JPY for no-collateral insurance → To be increased to 20 million JPY
Guarantee Coverage Ratio	100%

(Note) Quoted from the paper on "Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses" summarized by the Financial Working Group established within the SME Policy Board.

Enhancement of Supportive Measures based on SMEs' Various Phase of Life Stage (3)



【 Expansion of financial support for micro businesses 】
 Expand the system to provide full guarantee for small sum loans in order to support the sustainable development of micro businesses with poor financial strength and vulnerable management base.

	Special Small Sum Insurance
Eligible Funds	Business funds (unsecured/no guarantee)
Maximum Amount of Insurance	12.5 million JPY →To be increase to 20 million JPY
Guarantee Coverage Ratio	100%

(Note) Quoted from the paper on "Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses" summarized by the Financial Working Group established within the SME Policy Board.

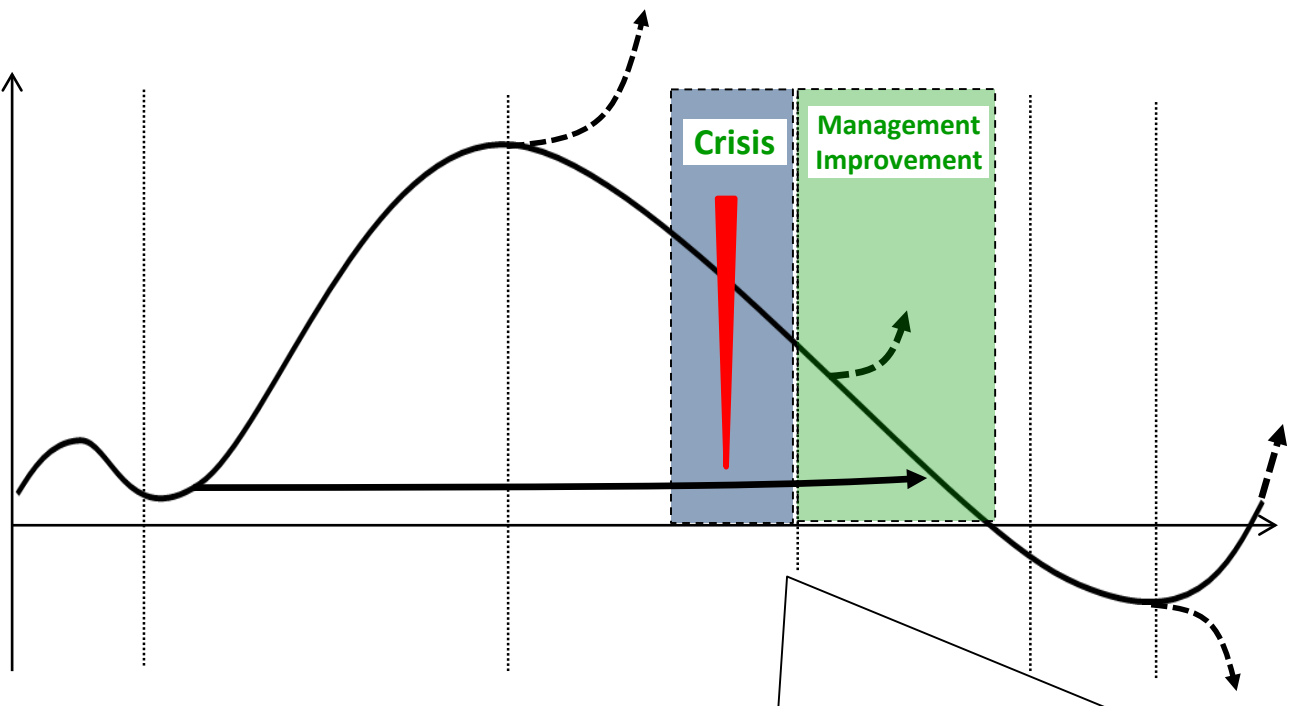
Enhancement of Supportive Measures based on SMEs' Various Phase of Life Stage (4)

(Newly established)

At the Time of Crisis	Special Treatment of Insurance Related to Crisis
Eligible Funds	Business stabilization funds
Maximum Amount of Insurance	Ordinary insurance: +200 million JPY No-collateral insurance: +80 million JPY
Guarantee Coverage Ratio	100%

(Revised)

Management Improvement	Special Treatment of Insurance Related to Business Stability (Depressed Industries)
Eligible Funds	Business stabilization funds
Maximum Amount of Insurance	Ordinary insurance: +200 million JPY No-collateral insurance: +80 million JPY
Guarantee Coverage Ratio	100% → 80%



【Suppression of side effects due to Safety Net Guarantee and preparation for large-scale economic crisis】

- Establishment of a new Special Treatment of Insurance Related to Crisis which can be activated promptly in case of a large-scale economic crisis by limiting the applicable period (1 year in principle) in advance (Additional ceiling, full guarantee).
- For the existing Special Treatment of Insurance Related to Business Stability (Depressed Industries), the guarantee coverage ratio (100%) will be uniformly revised to 80% so that management improvement and business transformation, etc. are encouraged under the support of financial institutions.

(Note) Quoted from the paper on “Towards the establishment of a sustainable Credit Supplementation System to support the business expansion of SMEs and micro businesses” summarized by the Financial Working Group established within the SME Policy Board.

Functional Enhancement of Credit Guarantee Corporation

(1) Collaboration between Credit Guarantee Corporation (CGC) and Financial Institution (FI), etc.

- Management assistance for SMEs is to be added to the business operations of the CGC, and they will cooperate in working with financial institutions.

(2) Expansion of the scope of investment funds at CGC

- In order for CGCs to further contribute to the regional revitalization, makes it possible to invest not only in business revitalization funds, but also for funds aimed at supporting business start-up and management improvement of SMEs.

(Note) Small and Medium Enterprise Agency HP

→ CGCs will not only provide guarantees to SMEs, but also further enhance its support towards business management etc., aimed to enhance the business management improvements / productivities of SMEs.

Q & A

JFEC

Thank you for your attention!