

Japan Digitalization: Journey from 'Hankos' to eSignatures

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Our presenters today



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Agenda

This webinar will provide you with a comprehensive introduction to digital contracts and eSignatures in Japan.

Webinar Agenda



30 mins	The Japanese landscape
20 mins	Successful Japanese use cases
10 mins	Q&A

1. The Japanese landscape

Why change now?

What is a digital contract?

A digital contract is an electronic document used to represent an agreement between partner organizations carrying out business; it describes the details of the supply and the consumption of services within a business process. In order to verify and authenticate a digital contract there is a need to replace the traditional 'hankos' with eSignatures.

Traditional contract vs Digital contract

		Traditional Contract	Digital Contract
Verification	Type	<ul style="list-style-type: none"> Paper document 	<ul style="list-style-type: none"> Electric document
	Signature	<ul style="list-style-type: none"> Hanko 	<ul style="list-style-type: none"> eSignature (individual)* Digital signature (individual)*¹ E-seal (organization)*²
	Identification	<ul style="list-style-type: none"> Certification of hanko 	<ul style="list-style-type: none"> Certificate of digital signature*³
Admin	Security	<ul style="list-style-type: none"> Hanko 	<ul style="list-style-type: none"> Timestamp*³
	Remittance	<ul style="list-style-type: none"> Sending mail Direct delivery 	<ul style="list-style-type: none"> Network system
	Storage	<ul style="list-style-type: none"> Document warehouse 	<ul style="list-style-type: none"> Server
	Stamp	<ul style="list-style-type: none"> Required 	<ul style="list-style-type: none"> Not required

*: Contract verified and confirmed by signers themselves

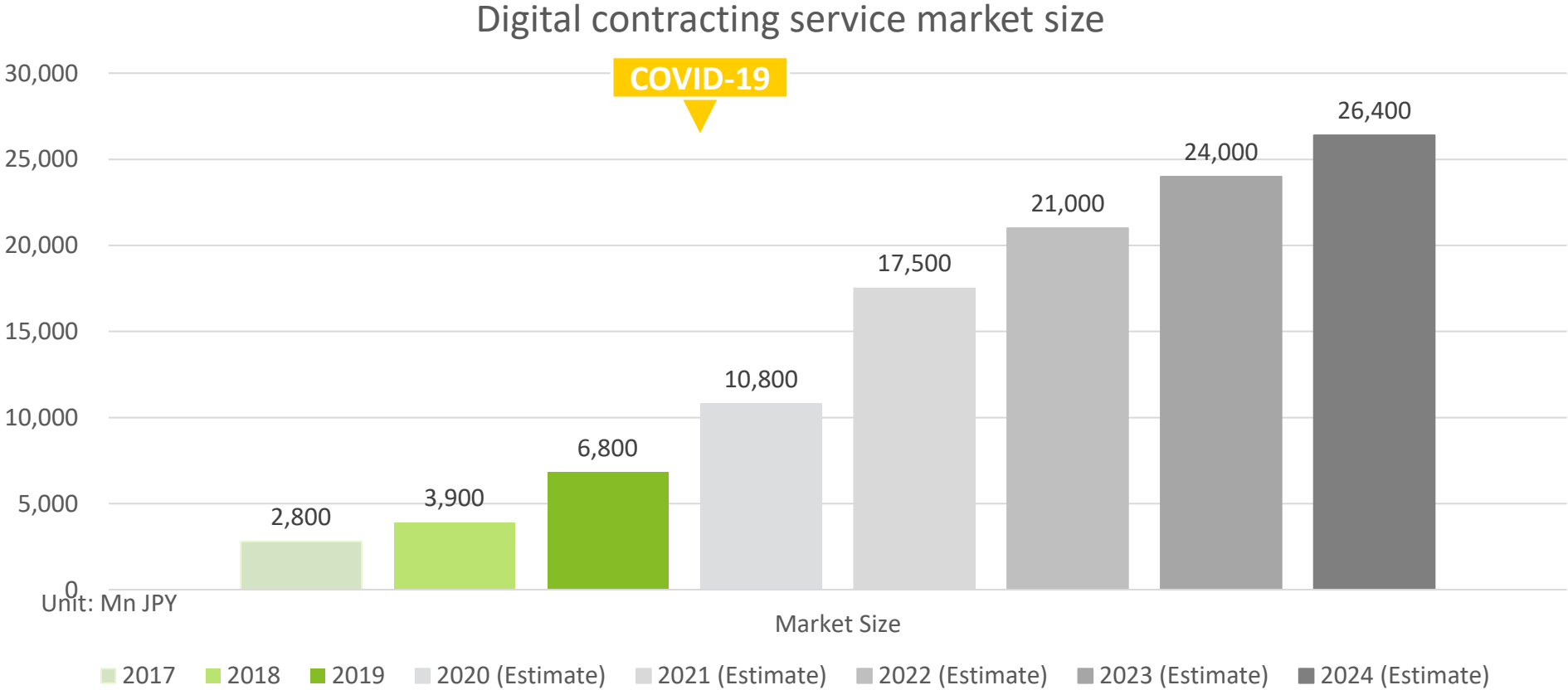
*1: Uses public key cryptography to enable the detection of document tampering and certified by 3rd

*2: E-seals for organizations (currently not available in Japan)

*3: Only for digital signatures

How is the market changing?

Early adopters had already started utilizing digital contracting services in order to increase efficiency prior to COVID-19.

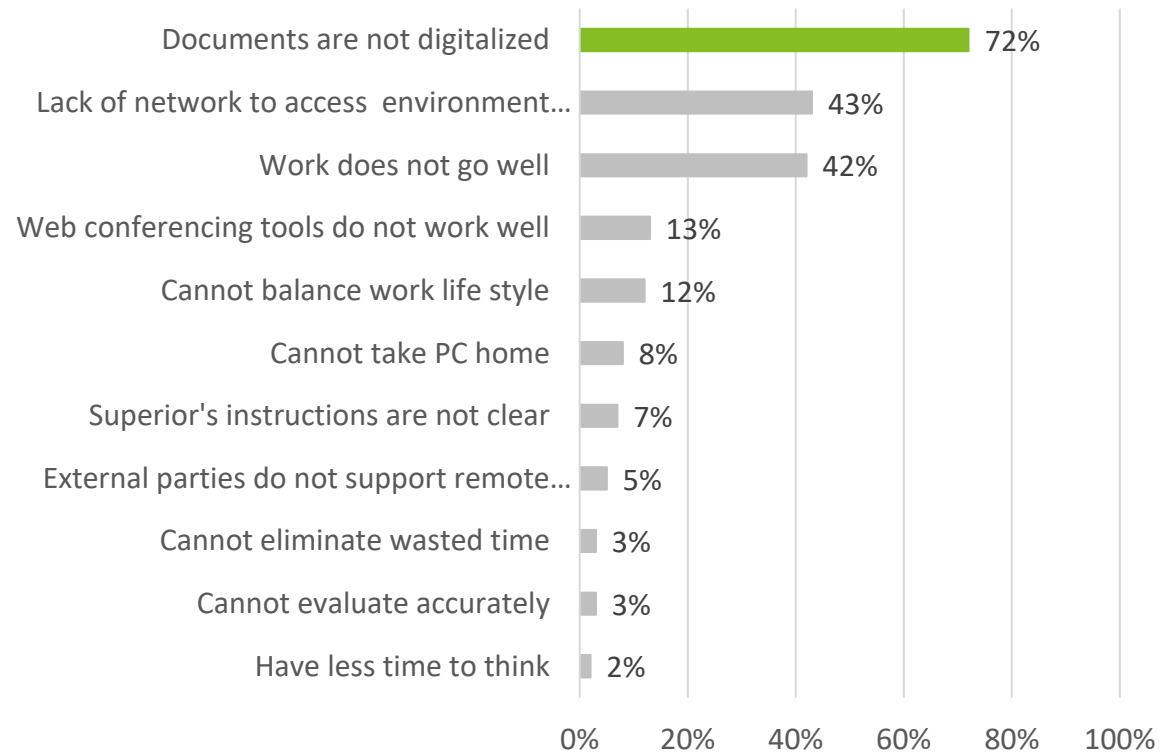


Reference: https://www.vano.co.jp/press-release/show/press_id/2582

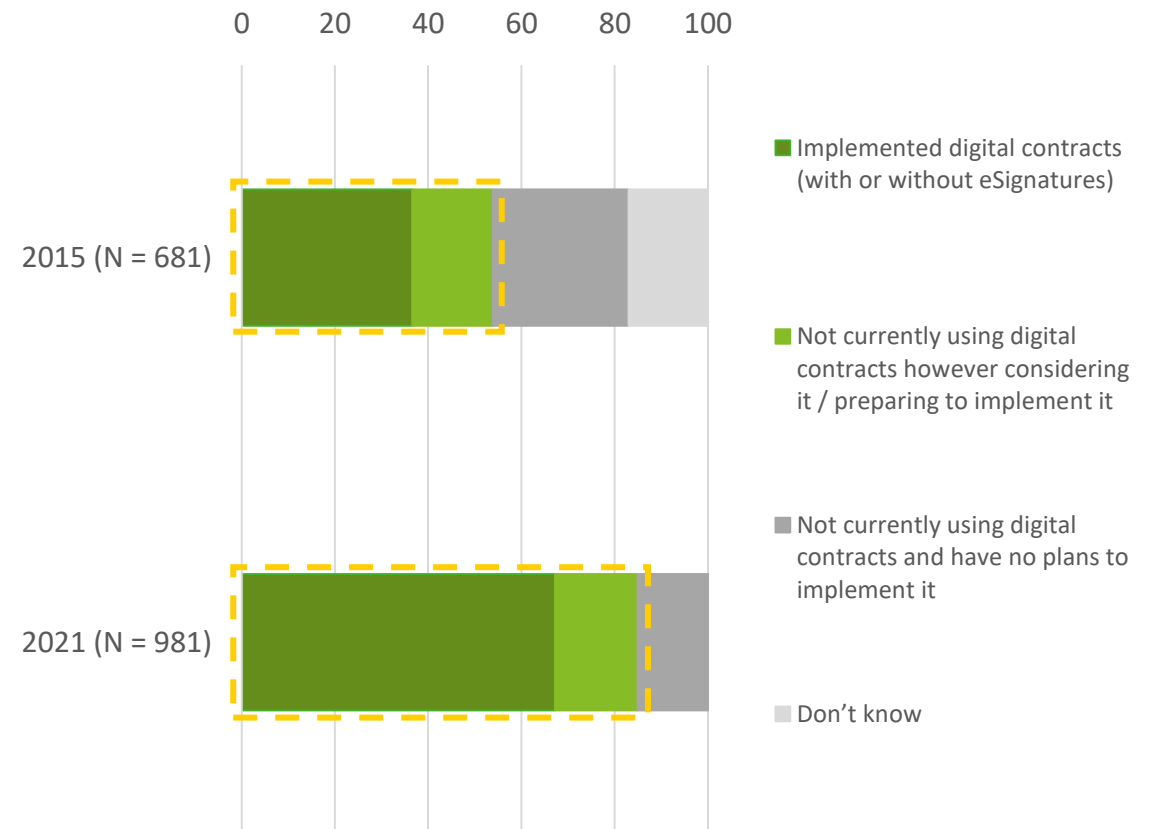
Why change now?

COVID-19 has had a significant impact on the push for paperless and more flexible working environments. The #1 barrier to remote working was the lack of digitalized documentation including contracts. This situation is rapidly changing.

Limitations to remote working



Usage of electronic contracts (2015 vs 2021)



Reference:
Japan Association for Chief Financial Officers 「Investigation on the impact of the new coronavirus on accounting and finance operations」 (2020/04/15)
<https://www.iipdec.or.jp/archives/publications/J0005167>

A brief history of 'hanko'

The unique stamp that is used in place of the western signature is often been deemed as an inefficient custom. It has persisted throughout as a result of its deeply engrained history in the Japanese culture; thus the current shift to change the regulations around the 'hanko' can be an emotional topic for some Japanese individuals.

~220

(Post Hans period)



Introduction into Japan

Introduced into Japan via China through the silk road. Used only as an artistic artefact.

~750

(Late Nara Period)



Used by aristocracy

Aristocrats started using hankos for purposes similar to current day

~1185

(Kamakura Period)



Used by samurai

Samurai ranked individuals started using hankos as well

~1868

(Meiji Period)



Used by general population

Hankos started being widely used by the general population as well

Purpose

1. To confirm integrity and ones will
2. As a seal of authentication

1. The Japanese landscape

How is government behavior shifting?

Government direction

In 2020, as a result of COVID-19, the Japanese government has announced administrative reform to push contract digitalization.

Abe to remove biggest obstacle to remote working: seal-stamping

Japanese custom seen hampering target of reducing human contact by 80%



Stamps have carried more weight than hand-written signatures in Japan.

SHUNSUKE SHIGETA, Nikkei staff writer
April 25, 2020 20:17 JST • Updated on April 26, 2020 01:50 JST

TOKYO -- Prime Minister Shinzo Abe is planning to overhaul rules that require signatures using traditional seals -- cited as a major obstacle in increasing teleworking

Japan to drop seal requirement in 99% of administrative procedures

Administrative reform minister Kono pushes for more digitalization in government



Taro Kono, minister in charge of administrative reform, said, "With the abolishment of unregistered seals, there's no need for physical documents or in-person meetings. Now we can work on moving core procedures online."

DAISHI ABE, Nikkei staff writer
November 13, 2020 15:55 JST

TOKYO -- Administrative reform minister Taro Kono announced at a news conference on Friday that he would abolish nearly all requirements for people to use seals in getting

Japan investors swoop for 'digital hanko' stocks

Government wants to scrap almost 15,000 procedures that require a seal



Prime Minister Yoshihide Suga wants to digitize administrative processes.

JADA NAGUMO, Nikkei staff writer
April 6, 2021 19:40 JST

TOKYO -- Retail investors in Japan have snapped up shares in companies providing digital authentication of documents, betting that the country will make progress in updating age-old business practices for an online era.

Reference:
<https://asia.nikkei.com/Spotlight/Coronavirus/Abe-to-remove-biggest-obstacle-to-remote-working-seal-stamping>
<https://asia.nikkei.com/Politics/Japan-to-drop-seal-requirement-in-99-of-administrative-procedures>
<https://www3.nhk.or.jp/nhkworld/en/news/backstories/1219/>

Current laws and regulations in Japan

As long as requirements are met, digital contracts and eSignatures are as legally effective as paper contracts; eSignatures are now widely recognized in Japan and used for many transactions.

eSignature act



- It is presumed that an electromagnetic record created to represent information is genuinely established when **digitally signed by the person**
- This act stipulates that digital contracts signed electronically are as **legally effective** as paper stamped / signed documents as long as one can prove the following:
 1. **Proof of identity** (certifying that the electronic document was created by the signer)
 2. **Proof of non-tampering** (certifying that the electronic document has not been tampered since it was signed)

Electronic books maintenance act



- This act stipulates that for tax purposes etc. contracts must be stored for **7 years**. To do this electronically, one must ensure:
 1. **Continuous access** to the information
 2. Clear **documentation outlining the overview of the system** in which the contract is stored
 3. **Searchability** of the contractual information

Contracts that can be digitalized



- Basic sales contract
- Assignment transfer contract
- Business consignment contract
- Agency contract
- Purchase documents for equipment and giveaways- Nondisclosure agreement
- Construction contract
- employment agreement
- Rental contract
- Worker dispatch contract
- Delegation contract
- Delivery note (delivery confirmation)
- Certificate of acceptance
- Application form
- Adviser contract
- Purchase order (purchase order)
- Order (order confirmation)
- Memorandum of Exclusion of Antisocial Forces
- Memorandum of Understanding on Change of Agreement
- Business alliance agreement

Contracts that cannot be digitalized



- Litigation related documents
- Lease agreements
- Tenant agreements

Japan tax reform (January 2022)

The 2021 Japanese tax reform includes a number of items intended to further promote digitalization.

Before

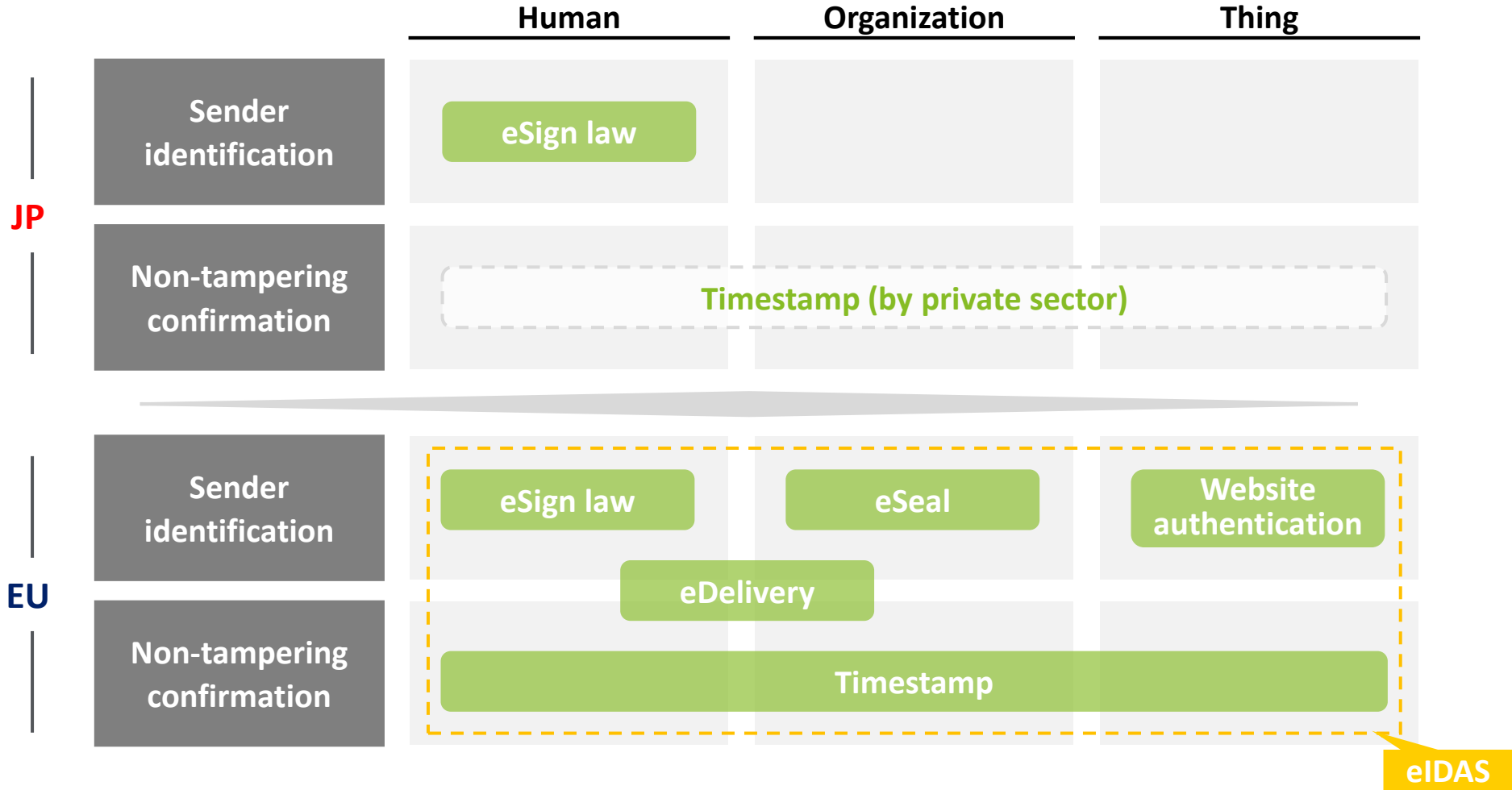
- Must generally be stored in **hard copy** and retained for at least **10 years** under the current record retention rules, unless certain conditions are met
- In particular, electronically stored documents are required to:
 - **Meet authenticity requirements** (e.g., timestamps, retaining revision/deletion history, preparing manuals, etc.)
 - **Meet visibility requirements** (e.g., ensuring readability, meeting specified search function criteria, etc.).
 - (Except for electronic transaction records such as PO, invoices etc.) Taxpayer is required to submit an application to the local tax office and **receive prior approval** before storing documents electronically

After

- All electronic transaction records **must be stored electronically**. Failure to do so may result in the revocation of approval for tax consolidation etc.
- Certain requirements related to the **search function, authenticity, and timestamping** were eased
- Taxpayers **no longer need to apply and receive approval** from the tax office to begin storing documents electronically

The future for digital contracts & eSignatures

The Japanese government has launched a working group to discuss and envision a trust services; they recognize the need for e-seal, e-delivery & timestamps and are working towards providing a holistic structure similar to that of the EU.



1. The Japanese landscape

What are the benefits?

The benefits for implementing digital contracts & eSignatures

Although there are specific pain points associated with digitalization, benefits in terms of governance, cost and efficiency can be expected as a result of implemented digital contracts & eSignatures.



Pain Points

Internal coordination difficulties

- Changes in contracting **process flow**
- Changes in **organization structure** for managing contracts

External coordination difficulties

- Need for **external coordination with partners, clients and / or vendors**

Changes in laws & regulations

- The **scope of contracts** that can be digitalized are still **changing**

Risk of cyber attack

- The **servers** in which the **contracts are stored** need to be secured against **external threats**



Governance improvement

Strengthen business continuity plan

- **Digital contracts can elevate BCP**, as there are no longer paper contractual documents that may be damaged in fires etc.

Increase in compliance and error prevention measures

- Cannot easily **duplicate** electronic signatures and time stamps
- The **process of signing a contract is visualized**, which reduces the risk of contract omissions or renewal / cancellation issues
- Can easily **restrict the access** to the electronic contracts reducing the likelihood of security breaches



Cost reduction

Stamp duty reduction

- Paper-based contracts **require revenue stamps** which are not required for digital contracts

Labor cost reduction

- **Reduce the labor cost** for preparing paper-based contracts (printing, mailing, binding, filing, searching etc.)

Delivery and storage cost reductions

- **Paper contracts incur costs** such as printing, binding, and mailing
- **Require storage space** such as a warehouse etc. to store the contract



Efficiency gains

Streamlining contract operations

- **Minimize the contract procedure and progress** with other party
- **Contract updated timely** without delays via post

Value added analytics

- Allows for **advanced analytics on business terms & conditions (NLG, NLP etc.)**

Develop better remote work environment 'paperless office'

- Expense application / approval / payment **process is completed remotely**
- **Minimize the frequency** to collect / deliver receipts

1. The Japanese landscape

Who can help?

Main providers

There are 3 major digital contracts and eSignature providers in the Japanese market. Deloitte has an alliance with 2 out of the 3 major providers.

DocuSign

Overview

- Service platform with the highest global market share due to its user-friendly interface and security qualifications

Features

- Easy to implement (it is possible to start using the platform in minutes)
- Able to use the tool with existing applications, services and devices
- Equipped with highly secure cryptographic standards that has a complete audit trail

Implemented organizations

- Olympus, Astra Zeneca etc.



Adobe Sign

Overview

- A fast and secure signing workflow, anywhere and on any device

Features

- Signers can view documents in a browser or mobile app and sign quickly without the need for new software
- Documents such as contracts are stored in secure cloud storage, and signatures and history can be managed

Implemented organizations

- Hewlett Packard, Diners Club etc.



CLOUDSIGN

Overview

- Service platform specializing in the adherence to local regulations in terms of its development & ongoing support

Features

- Includes a document import function
- Documentation details can be automatically inputted by AI
- Function development was supervised by a lawyer

Implemented organizations

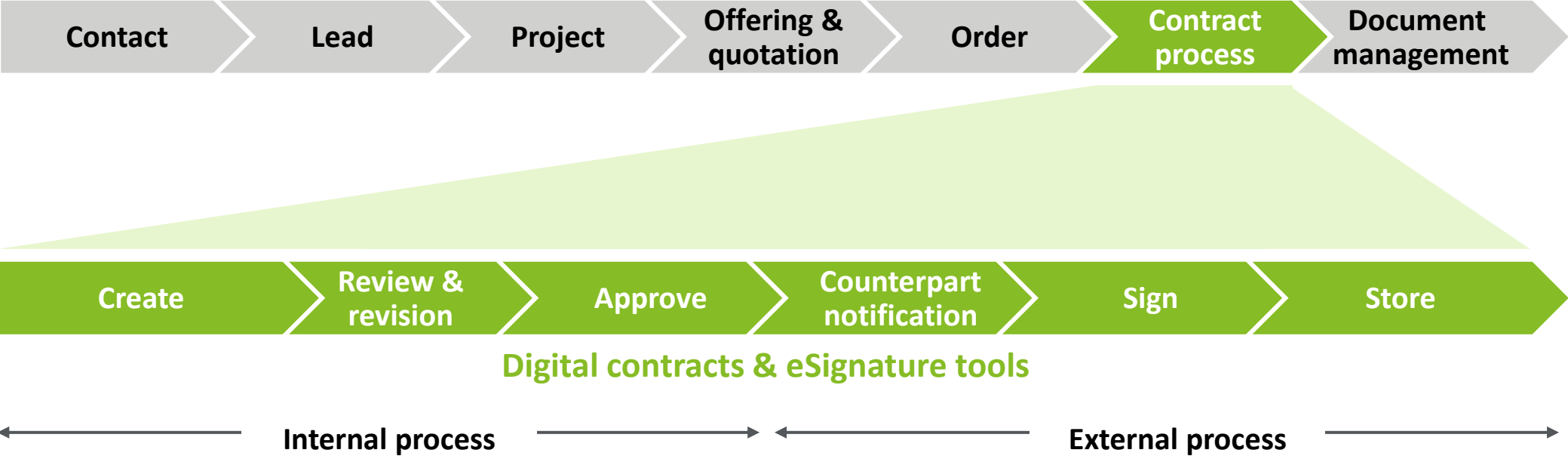
- Sony, Nomura etc.

Legend:  Deloitte alliance

Digitalization of the contract process

Digital contracts and eSignature tools can streamline most of the contract process especially if integrated with other existing systems, workflows and master data.

E2E Contract Process Flow

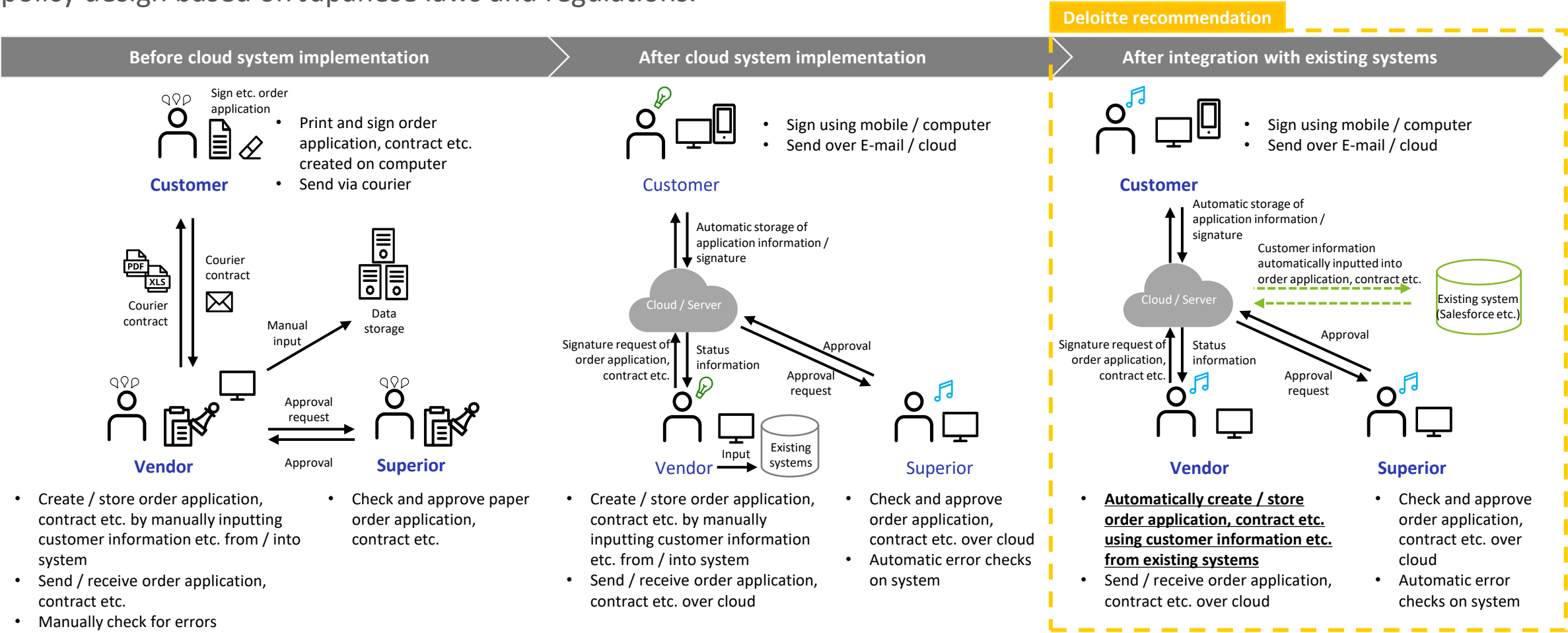


2. Successful Japanese use cases

How can it be done?

Solution implementation process (1/2)

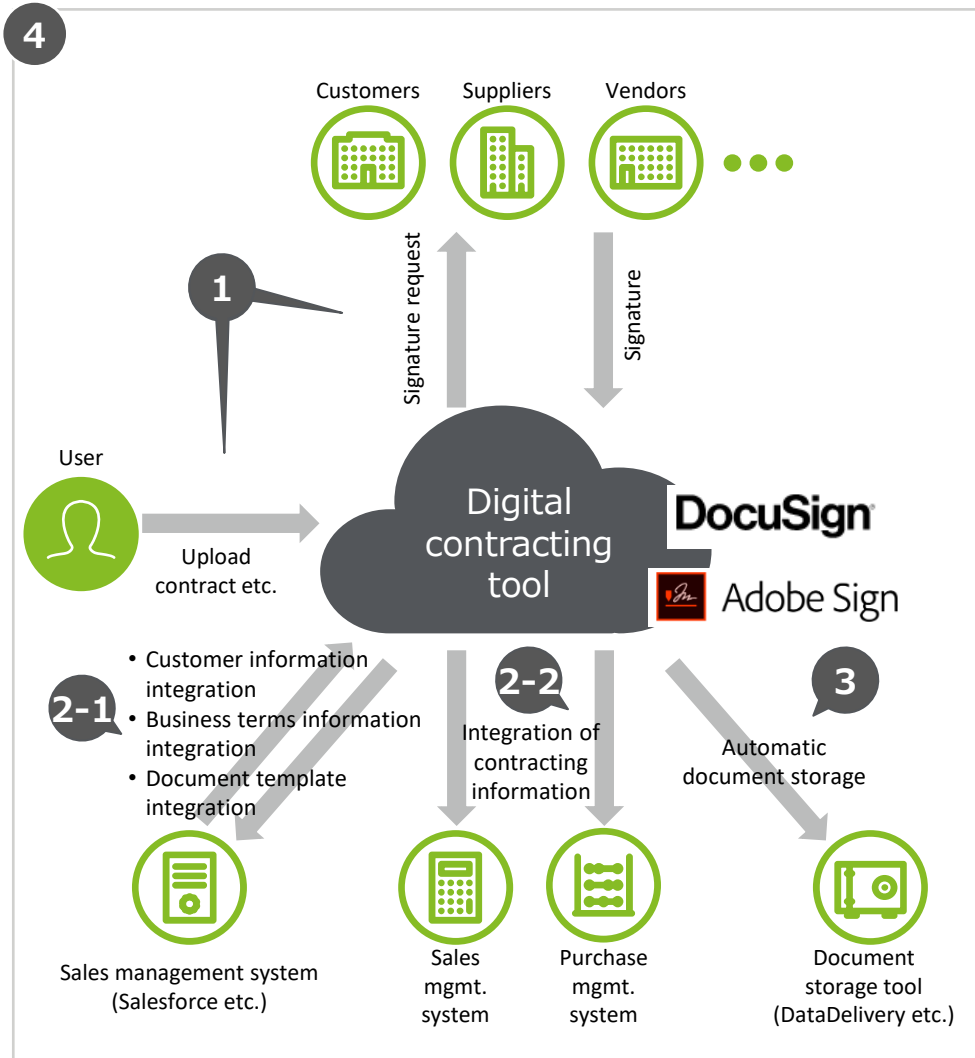
Deloitte offers holistic, end to end support from system / tool selection to implementation. This also includes process and policy design based on Japanese laws and regulations.



Deloitte recommended solution: To digitalize both the ordering and contracting processes to enable enhanced customer management by integrating your sales management systems to the digital contracting platform

Solution implementation process (2/2)

Deloitte is able to tailor our approach, support scope depending on your needs.

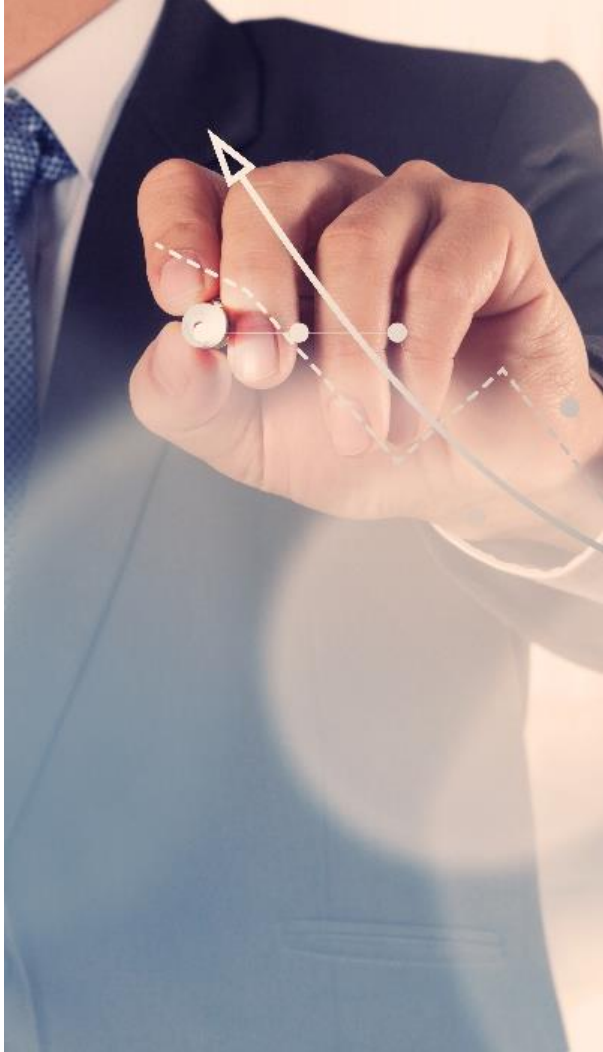


Issue	Service overview
<p>1</p> <p>Implementation of digital contracting solutions</p>	<ul style="list-style-type: none"> Determine the scope for contract digitalization based on laws and regulation but increase of process efficiency Determine policy for using eSignature vs digital signatures*
<p>2</p> <p>Integration with existing systems (incl. master data)</p>	<p>2-1</p> <ul style="list-style-type: none"> Design and set up integration with existing sales management systems to automatically enable the use of existing contract formats, integration of customer data / business terms etc. <p>2-2</p> <ul style="list-style-type: none"> Design and set up integration with existing sales / purchase management systems and its relevant master data (e.g. customer master data) This can include determining which data needs to be integrated, integrating contractual information for P/L forecasting and / or supplier management
<p>3</p> <p>Efficient document storage and searching solutions</p>	<ul style="list-style-type: none"> Design and set up of document storage tools This can include the enablement of automatic document storage, management of all documents including existing documentation, automatic tagging of documents using machine learning etc.
<p>4</p> <p>Overall project management</p>	<ul style="list-style-type: none"> From initial creation to tracking of overall project plan, schedule, deliverable quality etc. This should include change management (e.g. appropriate vendor & employee communication) to ensure adoption

*: Uses public key cryptography to enable the detection of document tampering

Use case: eSignatures

Implementation of electronic contracting processes in a major Japanese telecommunications company



ISSUE

A large Japanese telecommunications company was struggling to create a paper-free end to end digital contracting solution to further streamline their remote working environment. One of the key factors found to impede efficiency was the requirement for 'hanko'.

SOLUTION

Engagement spanned from:

- Understanding the **as-is current state**
- Designing the **to-be processes** in accordance to the Japanese regulations
- Assessing the market and **evaluating potential partners**
- **Implementing the selected tools** provided by the selected partners

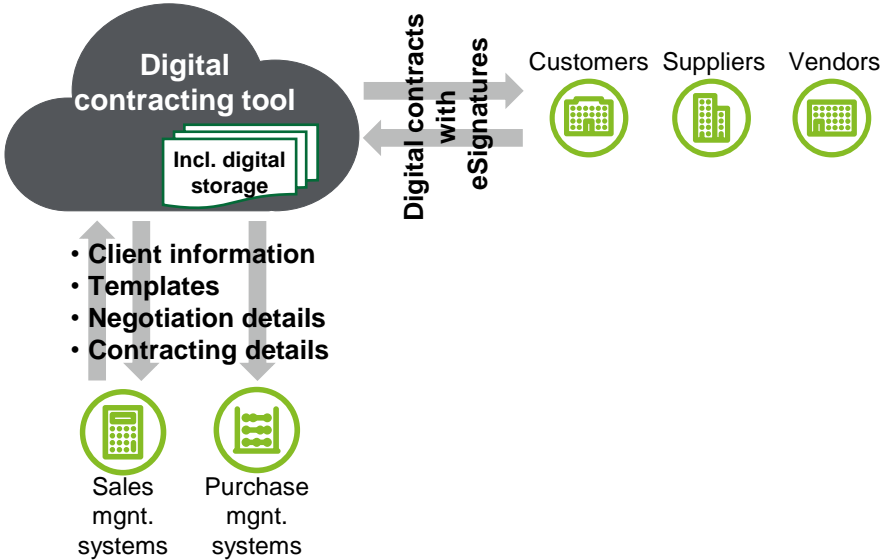
IMPACT

Achieved cost and time efficiencies by removing: 1. The use of paper 2. The tasks related to sending / receiving paper documents 3. The tasks related to obtaining a physical 'hanko' 4. The space required for storing paper documents

Improved employee satisfaction as a result of limiting the amount of times required to go on-site which empowered employees to manage work life balance

Time savings due to decreased lead times as all documents were exchanged digitally over a system

Improved document searching capabilities, by transferring and storing contracts digitally on a single platform



Thank you.

We appreciate your honest feedback!



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