

Strengthening Payment Systems in Asia

Session II :The Sophisticated Payment Systems, Technologies and Associated Regulatory Issues

Initiatives for the Electronically Recorded Monetary claims Business

Using the creditworthiness of blue chips to provide fundraising vehicles for small and medium-sized enterprises

Takashi Uehara

Director, Planning Division

Japan Electronic Monetary Claim Organization (JEMCO, Bank of Tokyo-Mitsubishi UFJ)

Abstract

Preface

We conducted a three-year marketing feasibility study before deciding to enter the electronically recorded monetary claims business. On June 24, 2008, we established Japan Electronic Monetary Claim Organization (JEMCO) as a wholly-owned subsidiary in this segment. This is very much a business that is based on the needs and opinions of our customers, and in this report I would like to discuss with you the status of our operations and the tasks to be addressed in the future.

Legislative initiatives for electronically recorded monetary claims

There has been a decline in bill transactions, particularly among larger companies, because of the costs involved in storing paper media and the risk of loss and theft. This has necessarily meant a reduction in bill discounts, which have traditionally been a primary means of fund-raising for small and medium-sized enterprises. This system was begun as an attempt to facilitate fundraising by small and medium-sized enterprises in this new environment, and our approach was to help them make their accounts receivable visible.

One of the main features of this system is that all that is required is electronic registration in order to be able to easily stipulate rights while also guaranteeing safety and liquidity. In addition, it is easy to divide up credits, something that is impossible with conventional bill transactions, which we expect to be used as a more dynamic means of both payment and fund-raising.

Commercialization initiatives

Over the last several years, the fund-raising environment has taken a significant turn for the worse where small and medium-sized enterprises are concerned. We considered urgent that we create a framework for facilitating their fundraising, which is why we decided to make use of this system and to enter this market on our own.

Our concept for commercialization was to create an environment in which the user enjoys the convenience of the service without shouldering the burden of expert-level recording procedures, and to accomplish this we position the bank as the intermediary between the user and JEMCO. What this means in specific terms is that the recipient of the credit, usually a small or medium enterprise, uses a personal computer or facsimile to transmit to JEMCO through the bank the minimum required information on "amount," "assignee" and "execution date." Having done this, the user is able to make use of the system's payment services and can also liquidate the credit in advance. There are no specific procedures that must be taken on the payment deadline; funds are automatically transferred from the obligor and deposited to a pre-designated payment account. The system even creates a record of the extinguishment of the credit/debt relationship.

We plan to make use of our existing customer base of large enterprises to spread this mechanism as quickly as possible. Our estimates indicate that even if we narrow our scope to just the leading companies in Japan there is a potential funds purchase market of about 20 trillion yen in size. This mechanism makes use of the creditworthiness of major companies, something that is not fully utilized at the moment. We hope that in some way it will contribute to the improvement of fund-raising for small and medium-sized enterprises.