

Strengthening Payment Systems in Asia

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

Small Payment Business in Japan

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Abstract

Small payment tools such as so-called "e-money" have achieved widespread use in Japan. There are benefits for enterprises that combine small payment services with their core businesses. This paper provides an overview of these instruments and explores their potential for the future.

Currently, the Japanese small payment market is seeing an increase in use of contactless IC payment instruments that are represented as e-money. Between 2007 and 2008, e-money usage increased from 5 to 7 average transactions per month, and average transaction values increased from approximately 700 yen to 750 yen. Monthly average usage values for e-money (aggregate) also increased from 4,500 to 5,600 yen. The combined prepaid e-money and postpaid electronic payment markets (= contactless IC payment market) are expected to exceed 1 trillion yen in transaction volumes this fiscal year. The number of outstanding e-money cards is also approaching 100 million. One of the most significant factors in the spread of e-money payments has been the synergy with point/mileage programs. Points and mileage are awarded for the use of e-money and, in many cases, points and mileage can be exchanged for e-money. These point/mileage programs also provide opportunities to expand corporate alliances.

There are several legal frameworks governing small payments such as e-money, but at the current point in time, they differ from form to form (server-based etc.). The Financial Services Agency (FSA) and Ministry of Economy, Trade and Industry (METI) are studying improvements. The working group on payments and settlements of the Financial System Council has very recently provided direction.

Within the small payment business, businesses making use of "Osaifu-keitai" functions have made significant advances in Japan. "Osaifu-keitai" is a combination of a cellular phone and a contactless IC. Osaifu-keitai function is already standard equipment in the most of handsets sold by Japanese carriers (docomo, KDDI and SoftBank) and there are already in excess of 50 million handsets in existence. Effective use of Osaifu-keitai has transformed the CRM (Customer Relationship Management) workflow into "something valuable."

This paper concludes with a discussion of future potentials:

- Potential for international e-money alliances, including transportation-related IC cards and credit cards.
- There are cases in which uniform technical standards like OpenID are used to link payments and settlements in Japan. We consider whether OpenID could provide new uses and encourage international alliances.