

Japanese Fintech Market: Banking (Payment/Remittance/Loan)

a. Payment

In Japanese Fintech market, Banking sector (Payment/Remittance/Loan) has the largest market size, which is 1,400 million US dollars in 2019. This report analyzes subsegments of Banking sector Fintech into Payment, Remittance and Loan, and refer to the market size and recent trends of each subsegment.

a. Payment

The cashless payment market in Japan continues to grow at an average annual rate of 10%, backed by the government support. In addition to existing credit card payments, cashless payments are expected to expand in the future with the spread of electronic money and QR code payments.

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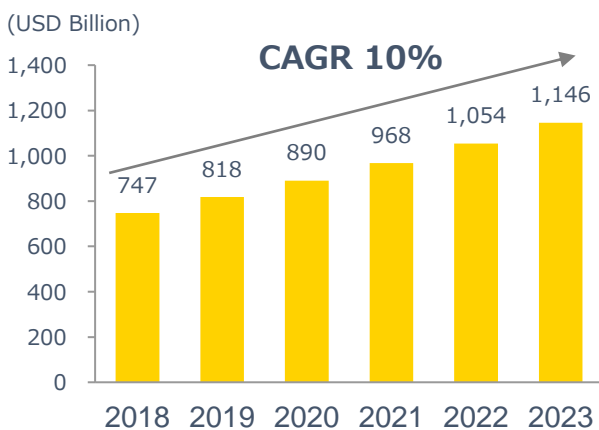
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a-1. Market Size and Growth Projections

In recent years, cashless payments have become popular in Japan. In FY2018, the domestic cashless payment market reached approximately 747 billion USD (82 trillion yen). The market is projected to grow continuously at an average annual growth rate of about 10%.

Forecast of the cashless payment market



Source: Yano Research Institute, *Conduct the Survey on the Domestic Cashless Market*, Jul. 23, 2019

Credit card payments account for about 80% of the domestic cashless payment market, but the markets for electronic money and QR codes are also expanding.

Mostly, QR code payments have seen rapid growth in recent years. The domestic QR code payment market is projected to grow to approximately 19 billion USD (2 trillion yen).

a-2. Recent trends in Each Sector

As stated so far, the cashless payment market is rapidly expanding. Among others, QR payment services are growing quickly.

The leading players in the Japanese cashless market include PayPay, Rakuten Pay, Line Pay, and Merpay. Specifically, PayPay carried out these retention measures, and as a result, acquired 10 million users in less than a year after the launch of the service.



(<https://paypay.ne.jp/>)



(<https://pay.rakuten.co.jp/>)

In preparation for the 2020 Tokyo Olympics and Paralympics, the development of a payment infrastructure is underway to enable foreign visitors to make cashless payments for Japan's goods and services.

Response to the contactless payment system, which is gaining popularity overseas, is rapidly progressing through the unification of international standards for contactless IC standards, a credit card authentication system.

※Conversion rate: Based on the rate of August 24, 2020, converted at 105.98 yen to 1 US dollar

a. Payment

a-3. Business Opportunities Created by Government Initiatives

Japan lags other countries in terms of the cashless payment ratio. The government has been investing a tremendous amount of money in promoting cashless payments with the public and private sectors' cooperation.

With the goal of boosting the Japan's cashless payment ratio from 21.3% in 2017 to 40% by 2025, the government began an initiative costing 775 billion yen in the last fiscal year to support the point rewards programs for consumers and to help SMEs to install payment terminals. The amount of eligible payments in about six months amounted to about 7.2 trillion yen and the amount of rewards totaled about 298 billion yen.

This fiscal year, the *Maina* (My Number) Point program has been launched with a project cost of approximately 250 billion yen to stimulate consumption and build a public-private cashless payment infrastructure. The project is a government-led point rewards program using the My Number Card and is being implemented as part of policies with the goal of supporting the overall economy rather than merely developing industries.

Amid the growing need for cashless payments, these initiatives create more business opportunities for payment service providers. Further business opportunities are expected, especially for SMEs and other customer segments where cashless payments have yet to be penetrated.



CASHLESS

Logo of the cashless point reward program

(Left: <https://cashless.go.jp/>)

(Right: <https://mynumbercard.point.soumu.go.jp/>)



Logo of the *Maina* Point Program

a-4. Successful Cases of Foreign Companies Entering the Japanese Market

Square (USA)

Square is a mobile payments service provider founded in San Francisco, USA, in 2009. The company's leading service is to provide a payment service using a payment terminal called Square Reader.

Square entered Japan in 2013 in partnership with Sumitomo Mitsui Financial Group (Sumitomo Mitsui Card). The company enjoys its popularity for the fast transaction speed and stylish design of the terminal, and the number of member stores exceeded 100,000 within two years since its entry into Japan.

Currently, the company supports the electronic money of transportation companies, such as Suica, as well as Quickpay and ID, and provides excellent support in Japanese. Square has achieved success in the strategy that captures the needs of the Japanese market.



(<https://squareup.com/jp/ja>)

b. Remittance

b. Remittance

The remittance market in Japan is growing due to the increase in remittances via smartphones and the Internet. Deregulation will help improve the environment for Fintech companies, which offer remittance services, creating more business opportunities.

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b. Remittance

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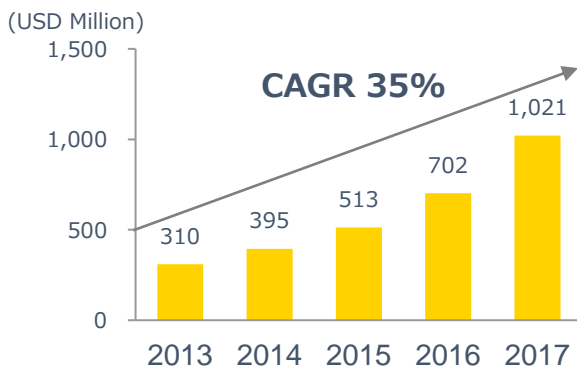
b-1. Market Size and Growth Projections

The remittance sector in Japan is expanding significantly in terms of market size fueled by the increase in remittances via smartphones and the Internet.

The annual transaction value of the funds transfer service operators skyrocketed nearly 80 times from approximately 310 million USD (33 billion yen) in 2013 to around 1 billion USD (1.1 trillion yen) in 2017.

With the deregulation of remittance services, etc., the number of fund transfer service operators is expected to increase further, leading to an expansion of the market size.

Trends in the remittance market size



Source: FSA, Trends in the Performance of the Funds Transfer Service, Mar. 2018

b-2. Recent trends in Each Sector

The initiatives, including legal amendments, to deregulate the Funds Transfer Service are underway.

In addition, the Japanese Bankers Association (JBA) has agreed on the policy of opening up the bank-to-bank remittance systems to Fintech companies in an effort to end the monopoly of banks, etc. and to realize the fair competition conditions.

b-3. Business Opportunities Created by Government Initiatives

In the remittance sector, efforts are underway to revise the complicated regulatory system that acts as a barrier to new entrants.

The maximum amount of remittance service that could be offered by fund transfer service operators other than banks was limited to 1 million yen; but now they can handle large amount of remittances of more than 1 million yen, which will enhance convenience in business-to-business fund settlement, etc.

In addition, for small remittances of up to tens of thousands of yen, the operators are exempted from the obligation to prepare an amount equal to the amount of money deposited by users, reducing the risk to the operators as a result. Accordingly, further business opportunities are expected.

b-4. Successful Cases of Foreign Companies Entering the Japanese Market

World Remit

World Remit is a UK (London)-based online overseas remittance company established in 2010 to support migrant workers, etc. The company decided to expand into Japan because of the size of the economy and the environment, as well as the legal system in place to support financial services in Japan. (Source: JETRO website)



(<https://www.worldremit.com/>)

c. Loan

In the Japanese loan market, loan methods and technologies, such as AI scoring, crowdfunding, and transaction lending, are expanding due to the development of information and communication technology and AI technology. However, the penetration rate of these loan methods and technologies is lower than that in the US, the UK, and China, and there is room for foreign companies to enter the market.

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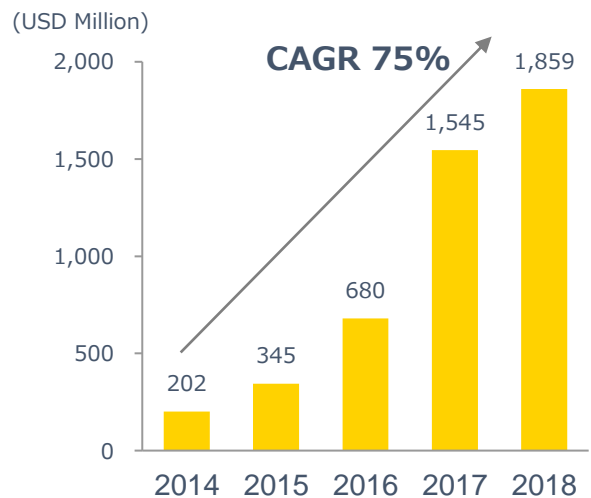
c-1. Market Size and Growth Projections

In the loan sector, loans leveraging the technologies, such as AI scoring and transaction lending, have increased in recent years.

In 2017, the market for personal loans was approximately 58.2 billion USD (6.1 trillion yen). Expedient lending through AI scoring etc. has been launched to meet the needs of consumers who prefer small and quick loans.

In 2017, corporate loans' market size was approximately 196.3 billion USD (20 trillion yen). The methods, such as transaction lending and social lending, have been advanced mainly for SMEs' loans.

(Reference) Trends in the domestic social lending market size



Source: Yano Research Institute, *Market Trends of the Domestic Crowd-Funding Market of 2018*, Nov. 6, 2018

c-2. Recent trends in Each Sector

Traditionally, the most common loan method was to receive loans from banks or other financial institutions.

In recent years, transactional lending and social lending using the Internet have been on the rise.

However, the Japanese market is immature compared to other countries with well-developed lending services, such as the United States, the United Kingdom, and China.

When comparing the loan-based social lending in Japan with those overseas in 2017, the U.S. market was worth about 3.4 billion USD (371.4 billion yen), the U.K. market was worth about 4.8 billion USD (516.7 billion yen), and the Chinese market was worth about 10.3 billion USD (11 trillion yen), while the Japanese market was worth only about 1.4 billion USD (153.4 billion yen).

The lending services using technologies are expected to increase also in the Japanese loan market.