

# Digital Payments in Japan

In the early 2000's Japan was a leader in digital payments. Sony developed a digital payment platform called "FeliCa" in 2001. Japan Rail then introduced "Suica" which is a prepaid card system based on the Sony FeliCa platform. However, despite this early lead, today Japan is lagging behind other countries in the development and adoption of digital payments. In this article we will examine the current environment for digital payments in Japan. We will show why, despite the traditional Japanese love of cash, there is an unavoidable revolution in digital payments coming to Japan.

## Chapter 1. The Digital Payment Environment in Japan

Japan has various payment infrastructures, and Japanese people have already used many different payment tools.

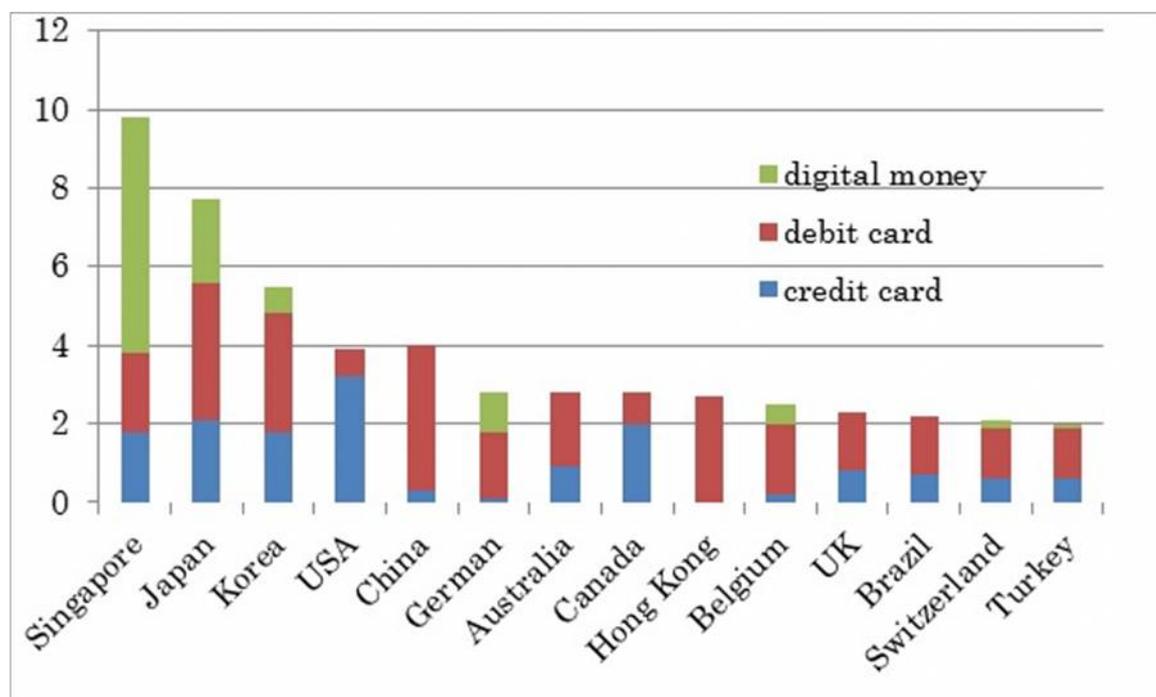


Figure 1 How many cards do people have? (Year 2015)

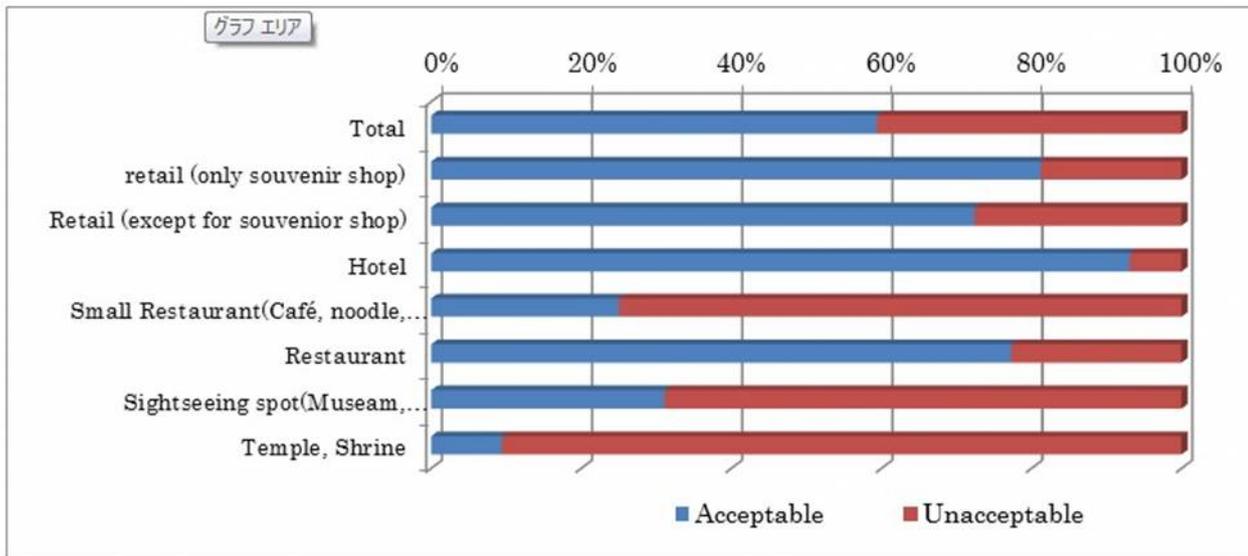
※ Digital money = prepaid card

Source: BIS 「Statistics on payment, clearing and settlement systems in the CPMI countries –Figures for 2016」

<https://www.bis.org/cpmi/publ/d171.htm>

Figure 1 shows Japanese people have 7.7 cards (includes credit card, debit card, and prepaid card) on average per capita. This is the second highest per capita figure in the world. Not only Sony FeliCa, but also various other digital payment systems are accepted in Japan. Figure 2 shows over half of all merchants accept credit cards in Japan. Figure 3 shows over 78% Japanese have used digital payments at least one time in 2017.

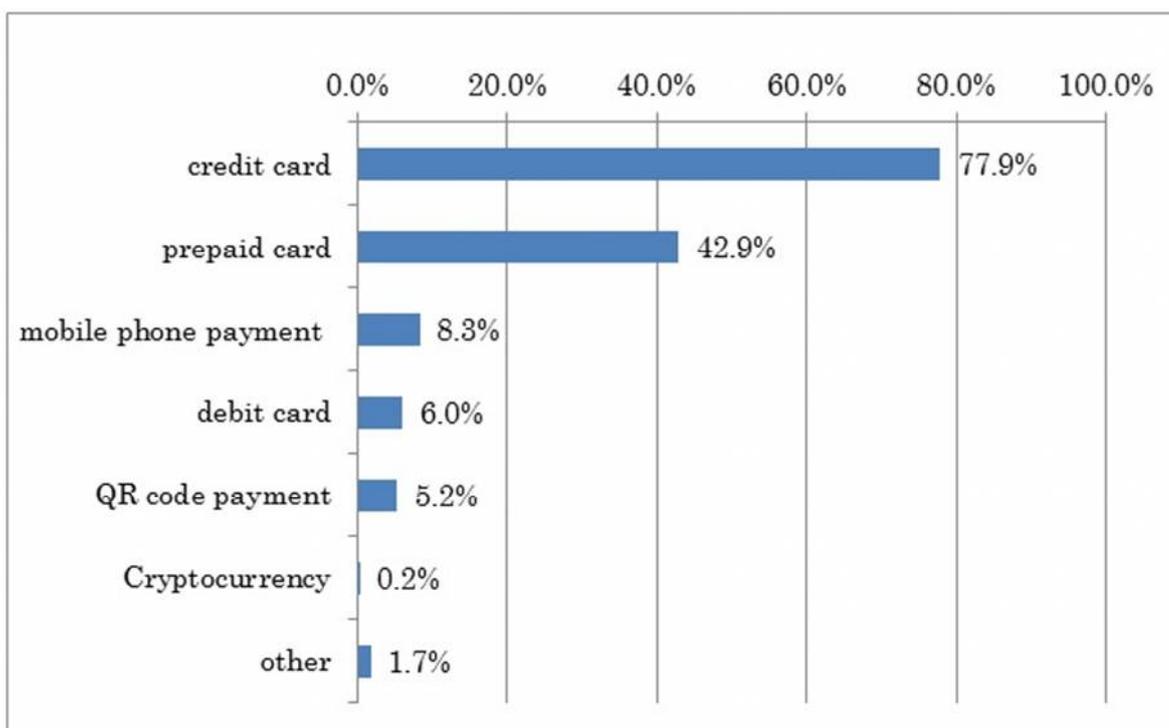
The Japanese infrastructure for digital payment is clearly well-developed. Japanese people have significant experience and knowledge about using digital payments.



**Figure 2 Credit card acceptance in Japan**

Source: Ministry of Economy, Trade and Industry 2017 経済産業省「観光地におけるキャッシュレス決済の普及状況に関する実態調査」(2017.2)

[http://www.meti.go.jp/medi\\_lib/report/H28FY/000162.pdf](http://www.meti.go.jp/medi_lib/report/H28FY/000162.pdf)



**Figure 3 What payment methods did you use last year?**

Source: MUFJ Research & Consulting 2018 キャッシュレス決済の多様化の動向整理

[https://www.caa.go.jp/policies/policy/consumer\\_policy/policy\\_coordination/internet\\_committee/pdf/internet\\_committee\\_180706\\_0002.pdf](https://www.caa.go.jp/policies/policy/consumer_policy/policy_coordination/internet_committee/pdf/internet_committee_180706_0002.pdf)

## Chapter 2. Japanese people love Cash, and fear a cashless society.

Although Japan has a sophisticated digital payment infrastructure, and Japanese people have various

digital payment options available to them, Japanese people still love cash.

Figure 4 shows 80% of total payments in Japan are paid by cash! Around 14% are paid by credit card, and digital payments were less than 2% in 2016.

Why do Japanese love cash? According to Ministry of Economy, Trade and Industry

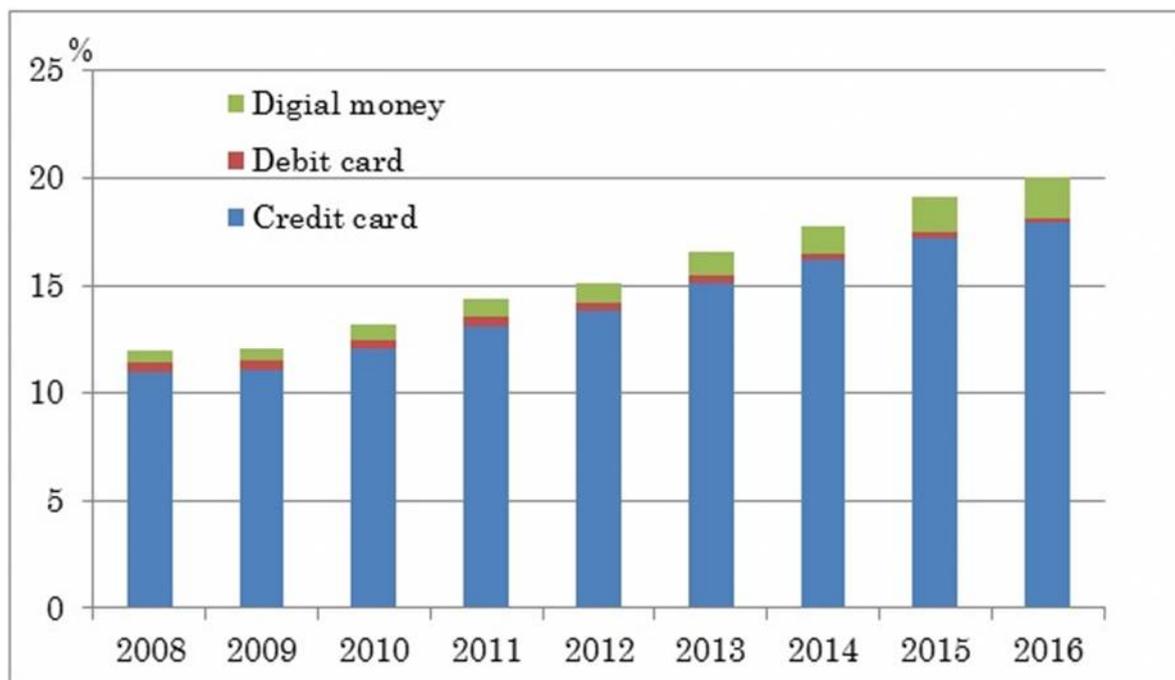
- Japan is safe, there is extremely low risk to carry any amount of cash.
- There are no fake bills, no counterfeit problems; cash is perfectly reliable.
- Many shops have high performance register machines and POS system.
- There are a lot of ATM all over the country and it is easy to get cash.

The volume of currency in circulation (circulating cash) is extremely high, much higher than other countries.

What is more, Japanese people are afraid of a cashless society.

Research shows that nearly half of Japanese have anxieties about using cashless payments, (41% of males and 61% of females). Their prime concern is extravagancy. Many people say “if I usually use digital payments, I may spend too much money”

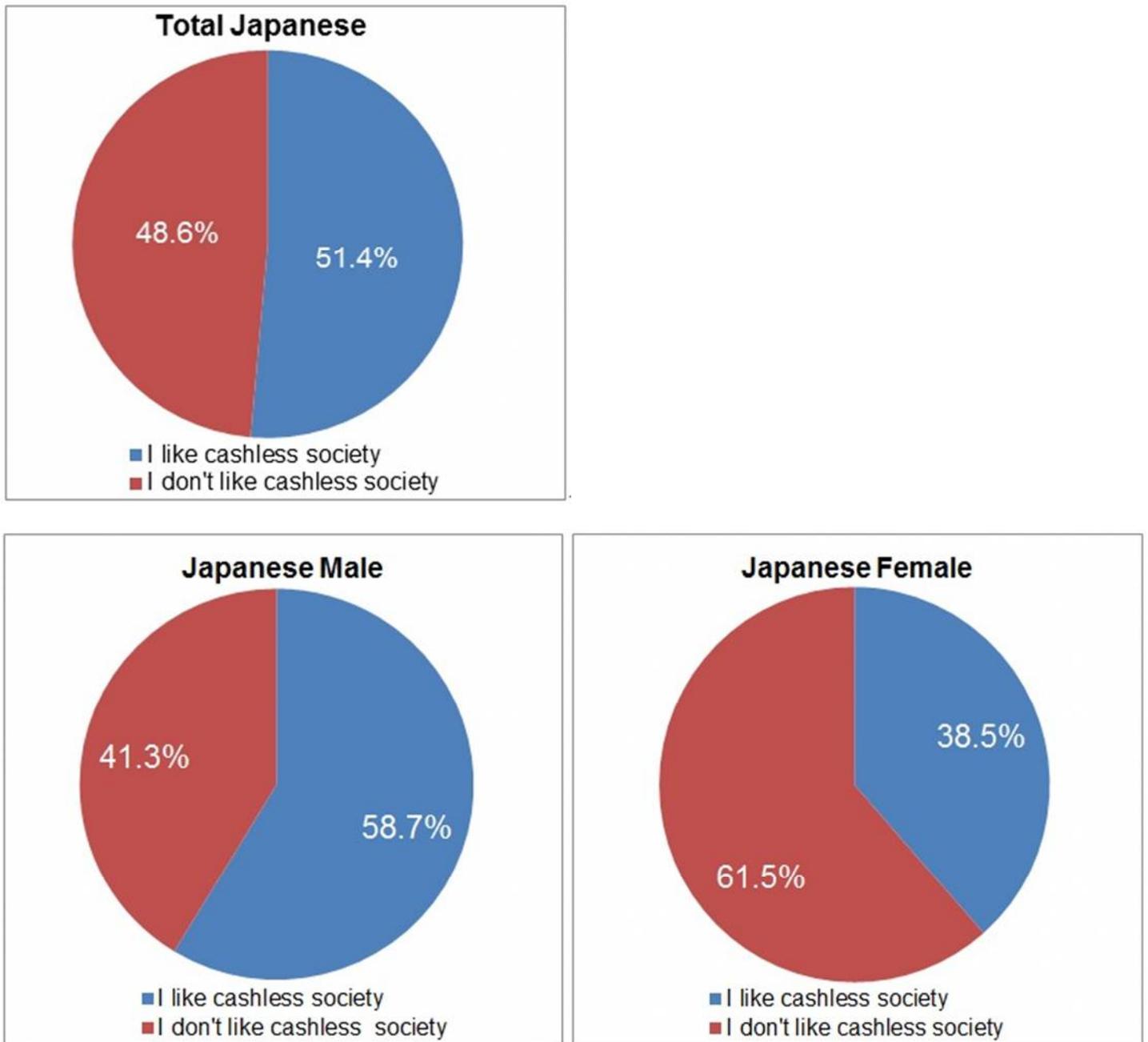
The high reliability of fiat keeps Japanese people satisfied with the current situation, and the fear of digital payments hinders the progress toward a cashless society. Those are the main reasons why cashless payments have not enjoyed wide-spread adoption in Japan.



**Figure 4 Total amount of cashless payments and ratio of total payments**

Source: Ministry of Economy, Trade and Industry 2017 Cashless vision.

<https://www.meti.go.jp/press/2018/04/20180411001/20180411001-1.pdf>



**Figure 5 Do you like cashless society?**

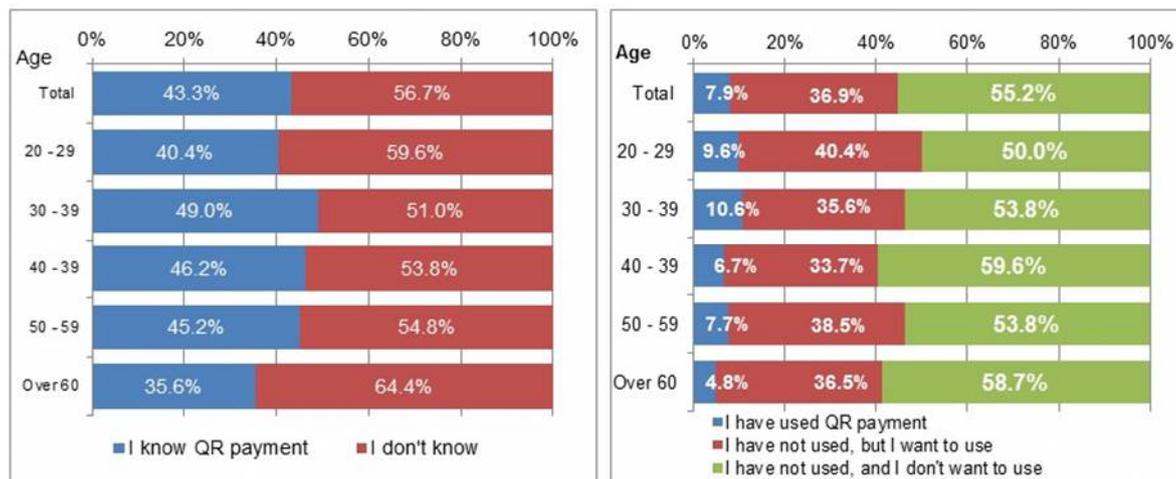
Source: Hakuodo Institute of Life & Living 2017 博報堂生活総合研究所「お金に関する生活者意識調査 2017」

<https://www.hakuodo.co.jp/uploads/2017/12/20171215.pdf>

### Chapter 3: Cashless payments have been growing gradually.

The environment for digital payments has been changing gradually.

Figure 4 shows the change of cashless payment ratio. From 2008 to 2016 it has doubled.



**Figure 6 Awareness of QR code payment and user experiences**

Source: MUFJ Research & Consulting 2018 キャッシュレス決済の多様化の動向整理

[https://www.caa.go.jp/policies/policy/consumer\\_policy/policy\\_coordination/internet\\_committee/pdf/internet\\_committee\\_180706\\_0002.pdf](https://www.caa.go.jp/policies/policy/consumer_policy/policy_coordination/internet_committee/pdf/internet_committee_180706_0002.pdf)

Recently, QR code payments have spread rapidly among young people.

Figure 6 shows overall, 43% of Japanese know about the QR payment system, and half of 30's know it. The awareness of QR code payments has increased rather quickly.

There are 4 famous QR code payment services in Japan: Line Pay, Rakuten Pay, Origami Pay, and dPay. The pioneer of QR payments in Japan is Line Pay. They started the service in 2014. In 2018 Line conducted a big and successful campaign to increase awareness. We can say that QR code payments have huge potential and will increase dramatically in the next few years. Among young people who are digital natives and are clearly potential users of QR code payments, only 10% of them have used QR payments at this time. What is more, the number of shops where people can use QR will increase, not only because of Line, but also because of competition from Rakuten, NTT Docomo, and many companies joining the market as of 2018, like Amazon pay (Amazon Japan), PayPay (Softbank and Yahoo), Lawson Smartphone Pay (Lawson Japan), and EPOS Pay (Marui group).

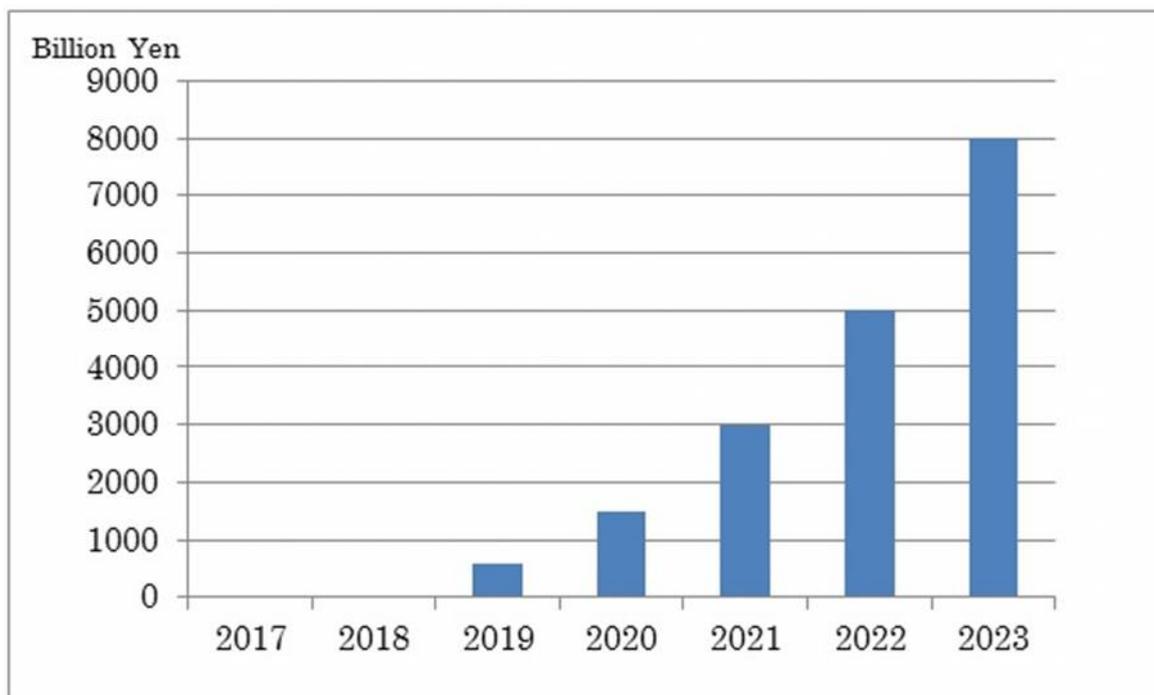
What is more, Japanese government has a policy "Cashless Vision", intended to double cashless payments by 40% before 2025. The government wants to double the number of foreign tourists by 2030. The total number of tourists who visited Japan was 31million in 2018, so the intent is to double it to 60 million by 2030. The widespread adoption of a cashless infrastructure is important to attract tourists.

Japan has the Rugby World Cup in 2019, Olympics in 2020, Osaka Expo in 2025. These international events are making the acceptance of cashless payments an urgent matter for the government and for the market alike. That is why the Ministry of Economy, Trade and Industry is providing subsidies to increase cashless payments. For example, people who use cashless payment can get a refund 2 – 5%, etc. If small & medium size enterprises install a cashless payment device, the government will bear up to 66% of the expense.

## Chapter 4: Expectations

It looks like 2019 and 2020 will mark the crucial turning point for the Japanese digital payment market. The government's support, competition between the servicers, and the Olympics in 2020, are some of the factors accelerating this progress.

JMA Research Inc. expects that the QR code payment market will increase dramatically by 2023, bringing the total amount of QE payments to 8 Trillion JPY (\$71billion USD).



**Figure 7: QR code market size (expectation)**

Source: JMA Research Inc. Research of QR code market 日本能率協会総合研究所 日本国内のQRコード決済市場調査結果 2018  
<http://search01.jmar.co.jp/mdbds/>

People living in Tokyo are seeing this activity since last year. We see more advertisements every day, restaurants and stores where you can use QR are increasing day by day. The Japanese QR payment market is clearly set for rapid expansion.

Of course, there will be some difficulties that servicers need to overcome.

They need to increase stores where users can use QR code, but they need to decrease their fees to stay competitive. Their cost will increase and their profit will deteriorate from excessive competition.

In addition, they need to continue advertising to increase recognition of QR payments, and especially build awareness among middle age people, but that will be costly.

After 3 years, around 2021, some companies will be the losers in this competition. Then we can expect more M&A activity, and the Japanese digital money environment will be dramatically different.