

Banks No Longer Necessary? Convenience Stores Turning Banking Points

By *Katsuhiko SAKAI*

For Dr. Gavin Whitelaw, assistant professor for sociocultural anthropology at International Christian University in Tokyo, it was a discovery that determined his fate when he stayed in a small town in the Shonai region of Yamagata Prefecture, north-eastern Japan, for three years from 1993. In his early 20s then, Whitelaw from Massachusetts was serving as assistant English teacher at a junior high school under the government-sponsored Japan Exchange and Teaching Program. Attracting his attention then were an increasing number of *konbini* convenience stores open 24 hours a day and 365 days a year in the pastoral countryside. Introduced in Japan in the early 1970s, the American business model had already changed itself substantially.

"I thought it would be very interesting to look at a piece of American culture that has come to Japan and then been adapted and changed by Japanese culture," Whitelaw says. "I wanted to understand that through *konbini*."

Riding on Crest of Change in Japanese Society for Fast Growth

An average convenience store measures some 100 square meters. In a glass-fronted, over-lit store, as many as 3,000 hot-selling products are shelved, ranging from box lunches, *onigiri* rice balls and other fresh foods and beverages to sundries and magazines. Convenience store chains take advantage of point-of-sale and extremely efficient distribution systems to meet consumer needs in a fine-tuned manner. Stores not only sell goods but also offer services with copiers having facsimile and digital photo-printing functions, and automated teller machines. They even accept payments for telephone, power, gas, water and other utility bills, payments for online credit purchases, parcel delivery orders and movie ticket reservations.

"American convenience stores are not very convenient," Whitelaw says. "But in Japan they truly are the pinnacle of convenience. They are supporting people's lifestyles that are often broken up by doing several different jobs, by working late at night or working early in the morning. They are really reflecting a social shift going on in contemporary Japan towards more individualistic, fractured time usage."

When personal consumption slumped on the burst of economic bubbles in the 1990s, convenience store chains in Japan continued constant growth. Eleven major member chains alone of the Japan Franchise Association had 41,714 stores at the end of 2008. Their annual sales have reached ¥7.8 trillion, surpassing Japan's total department store sales.

Contributing to Boosting Tax Collection Rates

Along with sales of goods, agency payment services have grown fast at convenience stores. Seven-Eleven Japan Co. initiated the service in 1987, handling electricity bill payments for Tokyo Electric Power Co. Bar-coded bills were adopted to allow convenience stores to promptly process bill payments in the same way as for payments for *onigiri* purchases. The breakthrough service led to massive agency payment service deals brought to convenience store chains. Income of fees from agency payment services is limited to less than ¥100 per payment. "But consumers make purchases on the occasion of their bill payments," says Yayoi Sugihara, a spokeswoman for Lawson Inc. "We cannot ignore this advantage accompanying the agency payment services."

The service attracted attention from the Tokyo Metropolitan Government Bureau of Taxation. According to Midori Suzuki, manager of the bureau's Tax Collection Guidance Section, the bureau had repeatedly requested the central government to allow entities other than financial institutions to accept tax payments. As a result, the Enforcement Order of the Local Autonomy Law was revised to this effect in 2003, prompting the Metropolitan Government to become the first local government in Japan to utilize convenience stores for collecting automobile tax in April 2004. This had a great impact. The bureau's auto tax collection rate rose from 96.7% in fiscal 2004 to a record 98.0% in fiscal 2007. Auto tax payments through convenience stores now account for 40% of the total. Finding that many consumers were using convenience stores for tax payments even when banks were open, the Metropolitan Government expanded the range of taxes subject to the convenience store service to cover municipal property and individual enterprise taxes. Other local governments as well as the National Tax Agency have followed suit.

At four major Japanese convenience store chains – Seven-Eleven, Lawson, FamilyMart Co. and Circle K Sunkus Co. – agency payment service revenues have already surpassed sales of goods. The four chains process some 700 million payments annually. Convenience stores are not only retailers but also payment points that can compete with bank branches.

Konbini Bank Outperforms Other Banks

While most Japanese banks posted sharp profit drops or losses on the global financial crisis in the six months to September 2008, a *konbini*-based bank boosted net profit by 45% from a year earlier to ¥9 billion. That is Seven Bank with

Photo: author



Lights of convenience stores illuminate a street at night. It is rare to see such a battleground as this scene, where outlets of the three largest convenience store chains – Lawson (left front side), Seven-Eleven (opposite) and Family Mart (right) – occupy three of the four corners of the same intersection.

an ATM network comprising machines mainly at Seven-Eleven convenience stores.

Founded in 2001, the bank now has 636,000 individual deposit accounts, with outstanding deposits exceeding ¥100 billion. Without providing lending or investment services, Seven Bank depends on ATM fee payments from correspondent financial institutions for 96% of its total operating income. It is an unprecedented business model. Its revenues are almost limited to fees paid by customers who use Seven Bank ATMs for withdrawing deposits from accounts at other banks or for borrowing or repaying card loans from other companies. Without loans or investment securities outstanding, the bank has no bad assets. It has been insulated from the global financial crisis.

“The bank was created by convenience store customers,” says Kenichi Yamamoto, assistant general manager of Seven Bank’s Planning Division. Seven-Eleven Japan’s annual poll of 10,000 customers began to indicate in the early 1990s that the most frequently cited request called for ATMs at stores.

Seven-Eleven Japan launched the banking unit to provide customers with more satisfactory financial services, while other major convenience store chains only installed ATMs for financial institutions. Shrugging off doubts about such a business model, Seven Bank turned profitable in its third year, swept away cumulative losses in its fifth year and made an initial public offering in the seventh year, or 2007. Its correspondent financial institutions number 560, including securities firms, insurers and nonbank lenders. With more than 13,000 ATMs installed nationwide, Seven Bank boasts of a daily average of 114 transactions per ATM, or an annual average of 550 million transactions. “However widely electronic money diffuses, demand for ATMs will never diminish in cash-based Japanese society,” says Seven Bank President Takashi Anzai.

The diffusion of *konbini* banking services has turned around

the way consumers use ATMs. “In the past, people had to withdraw massive amounts of money from banks before making trips,” says Yamamoto. “Now, people can withdraw money at any time at convenience stores during trips. For young people, particularly, convenience stores have effectively become purses.”

Banks: Mixed Feelings about *Konbini* Stores

Since convenience stores have conducted some banking services, traditional banks have been freed from the burdensome development of their own ATM networks. Installation of an ATM at an unmanned branch costs a bank at least ¥10 million. In addition, maintenance and security costs are required. Acceptance of utility bill and tax payments forces banks to employ relevant personnel while earning relatively less fees. Nevertheless, the banking industry has mixed feelings about banking services by convenience stores, as an industry source puts it: “We are concerned that our presence as payment infrastructure is declining in the minds of people.”

Convenience stores have prospered by picking minor consumers shunned by department stores and banks. *Konbini* stores filled with functions required for daily lives are as comfortable as small shopping streets that had supported regional communities in Japan in the past, Whitelaw says. He describes this sort of comfortableness as *konbinitiy* combining convenience and community. While Japan has seemingly lost social ties amid rapid changes of the times, people visit convenience stores to do something night and day in search of some comfort. “So now where I see *konbini* is being like a glue holding people together,” says Whitelaw. **JS**

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