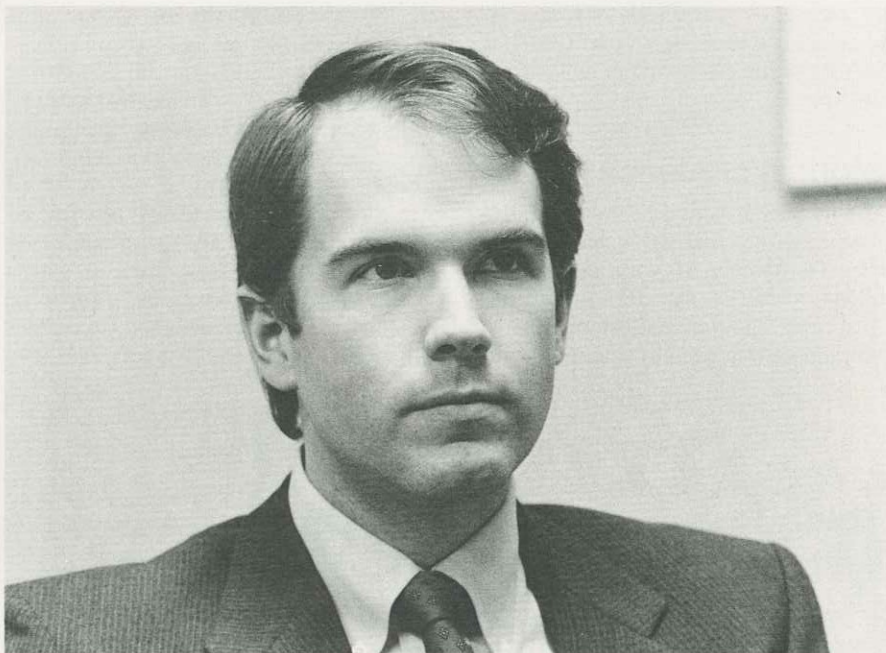


The Japanese Craving for Plastic Money

By Glenn Davis

One could still call Japan a cash society since most transactions involve the use of paper money instead of the personal check, which has never developed as a financial means in this country. That traditional attitude toward money, however, has undergone some fundamental changes in the past few years along with the slow Japanese drift toward the use of credit. It would now be unthinkable for most Japanese consumers not to consider the use of credit for such major purchases as consumer durables, although this avenue was basically closed to them as late as the mid-1960s. Credit cards entered the scene even later and it was not until 1980 that the Japanese discovered plastic money in a big way. As a matter of fact, they did not really discover the international credit card system. It was introduced to them by one of America's pioneers in the field of plastic currency, American Express Company. One of the persons who has been working in Japan for American Express for several years to develop the card business and expand the informed use of plastic currency is Mr. James Firestone, the new president of the company's operation in Japan. Mr. Firestone is unlike his predecessor in many ways; he is under 40 and is somewhat of a Japanophile having gone through high school and a year of college in Japan. Instead of listing his statements in the usual interview fashion, we have interspersed them in the text. All the quotes herein are from the new American Express president in Japan.



James Firestone, the new president of American Express Co. in Japan

The Japanese market for plastic

The Japanese credit card market is certainly one of the largest in the world in spite of its rather late start. Estimates have placed its size at anywhere from ¥2 trillion (about US\$8 billion) to 14 trillion. One survey showed that Japanese held 57 million cards in 1983, up from 23.6 million in 1979. Mastercard International issued its 10 millionth card in May 1984 although the corresponding number for

four years prior to that was only 100,000. The zeal of the Japanese to attain plastic is not always matched by full information for its use, however. Some 85% of the Japanese households recently interviewed in Tokyo by the Citizens and Cultural Affairs Bureau answered that they owned at least one credit card but 60% added that they used their cards only once per month or not at all.

"Credit cards are often given out in Japan in association with opening a bank account. When it is so easy to get such a card, you tend to value it less and often

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just put it away. With the American Express charge cards (Personal and Gold) you have to pay a fee so we know that our users have made a conscious decision to use our cards before they ever receive them. I think there is much confusion in the Japanese market because of this overabundance of companies issuing new and different types of cards. The company that shines through this haze with a consistent service will be successful here. American Express is that type of company."

It was, in fact, American Express's move to introduce the Gold Card in the Japanese market in 1980 that started this gold rush to the use of plastic. Before that date, the Japanese were using only localized cards that had no currency abroad and the Japanese traveler had few options except to go abroad loaded down with a wad of either traveler's checks or cash. (American Express had a special arrangement with the Japan Credit Bureau.) The credit-card naive Japanese were pleasantly surprised to find that they could use their new Gold Cards in New York or most other cities as easily as in Tokyo.

Historical presence

"We have maintained a presence in the Japanese market that dates back to well before World War II with our Travel Services. We followed up with the issuing of Travelers Cheques and then starting signing up service establishments for the

use of our charge cards, by travelers to Japan in the late 1960s. Since introducing the Gold Card in 1980 and the Personal Card three years later, we have dramatically increased and expanded our presence and investments here, which are specifically tailored for the Japanese businessman who travels a lot. We had taken a long look at Japan in the early 1970s when we began issuing our yen-denominated Travelers Cheques. But then the oil shocks came along and changed the course of the yen's internationalization. We also had to fight tough Japanese government monetary restrictions on the use of the yen and that hampered our efforts at first."

Financial analysts report that nations develop into credit societies in four stages: cash, paper such as checks, plastic media and finally into electronic media, such as electronic banking. Japan certainly did not follow this model and seems to have completely skipped the paper stage by focusing in on plastic and electronic methodology right away. This is not too surprising since the Japanese never developed the financial medium of the personal check, which allowed Americans to ease into a cashless society long before credit cards came in in a big way. That gradual movement also allowed Americans the opportunity to promulgate laws in conjunction with consumer credit but Japan did not come up with a law to protect its consumers until 1983.

"The passing of Japan's Consumer Finance Law was the first stab at ration-

alizing the industry. There were two major aspects to the law: bringing usurious interest rates down to a reasonable level and modifying credit collection practices which had previously been considered unsavory. The biggest impact of its promulgation was on the small- and medium-sized consumer finance companies which had numbered some 70-90,000. Their number quickly dropped to less than 2,000 after it became mandatory to register as such a company with the government."

Fraud on the rise

Japan's rapid movement toward the use of plastic money has produced myriad problems, not the least of which is the lack of any centralized credit information agency. Most card companies have to use the services of three or four information agencies that can provide only partial information on a particular person. The Tokyo-based Credit Control Union (CCC) estimates that the delinquency rate in card use in Japan approximates 10%, compared to 3.6% for Visa International's world average. Credit card fraud is an increasing problem in Japan's *tetsuke* system where buyers and customers can simply hand over their name cards as "collateral." How has American Express dealt with this problem in Japan?

"American Express cards do not have preset spending limits like the competitors' cards. This means that we have to be



In a TV commercial golfer Jack Nicklaus warns people not to leave home without their Gold Card.

very careful in approving applications and in fact must decline nearly 40% of our applicants. We necessarily have to monitor spending habits more closely than other companies but our tracking system allows us to be more flexible in our credit control over individuals. Pooling credit information on an industry-wide basis would be to everyone's advantage in Japan, where some two million spenders support outstanding loans of some one trillion yen. What this means is that one spender is going to multiple locations to borrow and that is a concern for the whole industry. Information exchange could provide a wide range of protection."

Promising market

In spite of these problems, many international credit companies believe that the Japanese card market is a most promising area in which to invest. One recent report issued by a Japanese trading company showed that the rate of consumer credit to disposable income is still only about 13% compared to 20% in the American market, leaving much room for future expansion.

Another leading manager at American Express has called the Japanese market the "largest growth area in the world" and believes that Japan's market could approximate America's by half by the end of the 1980s. American Express, in fact, is the only foreign card company that has tried to go it alone in the Japanese market while all the others have tied up with Japanese banks which have issued their cards. Up until only recently, Japanese banks have had few incentives to get into card businesses since the government prohibited them from offering any sort of installment plans. That has changed and the *sarakin* loan sharks have been laid low by the recent passing of the Consumer Finance Law. The credit card world in Tokyo was really rocked in October 1984 by Nippon Shinpan's decision to start issuing a new card that combines NS's services and those of the post-office savings. The move had been opposed in many quarters on claims that it would exacerbate the already overheated "credit card war."

But for foreign companies trying to penetrate the Japanese market, the bringing in of new technology is not only suited to their traditional role of introducer of new techniques but is also a must for improving business in this competitive, but lucrative, market. "A foreign firm has nothing to offer the Japanese market unless it brings in something new. The successful firms here start off with a



American Express's 24-hour computerized card authorization office

new idea and then continue to deliver on it. When we first introduced our Gold Card in 1980, most of the local credit cards were only good in Japan but ours was good worldwide. You saw the industry here adapt quickly. We introduced the first 'premium card' here and scored again in 1983 with the Personal Card which offered its holders a more personalized choice of services. We became the first company here to offer no-extra-cost insurance to purchasers of air tickets simply if they used our cards. In January 1985 we came out here with the 'Express Pack', Travelers Cheques packaged and color-coded by denomination, and we have just introduced our Travel Management Services Program which features Japan's first corporate card and corporate hotel rate programs. We feel that we are being good corporate citizens of this country by continuing to provide new services to our Japanese clientele."

Long way to go

Japan still has a long way to go toward becoming a cashless society but surveys have shown that the credit revolution here is being led by the baby boomer generation (35-40) whose values are greatly different from their parents who depended on cash. Card companies in Japan aim their commercials at this age segment by featuring well-known sports figures. In an American Express commercial, Jack Nicklaus warns people not to ever leave on a trip without a Gold Card. American Express also contributed over ¥30 million (\$120,000) to the Japanese Olympic Committee this year for the same reasons.

Another factor mitigating in favor of

the credit card companies is the fact that the Japanese traveler's check business has already been saturated with over 45 companies, naturally making the card seem more appealing for trips. Although cards are mostly used for purchasing consumer durables at present, it is likely that their use will expand to diverse fields from now on. Even grocery shopping will be done with smart cards in the future. As the baby boomers grow older they will no doubt carry their card habits to the clinics and hospitals when they apply for medical treatment.

Japanese companies are also turning their attention to "smart cards" (with built-in microchips to handle more information) which will eventually replace today's cards with magnetic stripes.

Since smart cards cannot be faked, credit card crimes will probably decrease as well. Japan will eventually work out more sophisticated credit rating systems making risk much lower for all card companies in the future.

Unlike Japanese credit card companies still trying to work out their systems, American Express's strategy in Japan all along has been to aim for quality and not quantity; it now has some 150,000 card holders in the Japanese market. Although the company has only 17 million card holders worldwide compared to 100 million each for Visa and Master Charge, their strategy is to search the world out for reliable users. "Our essential service is to offer a credit card on a worldwide basis which means that we are providing a service in one country that is actually delivered in another. It's the quality of delivering a service on a consistent basis that makes American Express what it is." ●