

Consumer Credit in Japan

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Classifying consumer credit

Consumer credit in Japan can be broadly classified into two categories: sales credit and financing credit (Fig. 1). The sales credit system centers on shopping credit, and as a key method for selling merchandise has played an important role in the growth of Japan's consumer economy. At the same time, other consumer credit such as the credit card and tie-up loans have been developed to respond to the changing needs of consumers.

Emergence of credit cards

In the United States and Europe, the credit card has become the principal form of consumer credit. In Japan, too, the use of credit cards spread rapidly among consumers beginning in the 1970s. It is now estimated that as many as 120 million credit cards have already been issued.

In the West, consumer payment instruments have gone from cash to personal check and then to plastic money. In Japan, however, there was no intermediate step, as the market shifted straight from cash to credit cards.

In the early days, credit card ownership was a potent status symbol. But as the number of credit card holders has increased, especially among young people, and as banks, post offices, and other institutions issue ever more cash cards for depositing and withdrawing funds, plastic money has become an integral part of people's lives. Tomorrow's so-called card society is already abuilding in Japan.

Japan's unique credit

However, it would be a mistake to assume that the card society reaches all corners of the country. Japan is geographically a small nation where peace and order prevail. These conditions are conducive to human relationships founded on intangible mutual trust, and have spurred the widespread custom of providing credit without the backing of



Most Japanese hold only two or three cards; competition is fierce among card companies.

instruments such as credit cards. This custom lives on even today. For instance, many stores in provincial areas still follow the custom of "payment at mid-summer *Bon* and year-end," in which cash is transferred, not each time a sale is made, but twice a year at midsummer and year-end. "Payment at harvest" is another common system which enables farmers to buy on the understanding that they will pay when they cash in their crops. Because of such time-honored customs, rare in other parts of the world, there is less need for a credit card system in Japan.

In the above instances, the "face" of the purchaser himself is his credit card. Yet even in cities, the relationship of intangible trust still operates. If a customer's face is familiar enough to a shopowner, he can make purchases without showing a credit card or signing his name. Periodically, the shopowner will submit an invoice which the customer unhesitatingly pays, fully trusting that the particulars are correct.

Today, however, the development of information networks and improved transportation is rapidly shortening the distance between cities and rural areas, and inviting brisk and frequent interchange between the two. This is gradually breaking down the custom of depending on "face" as a credit instrument, and is bringing wider awareness of the need for credit cards.

Credit cards and administrative control

Credit cards in Japan today can be roughly classified into four types:

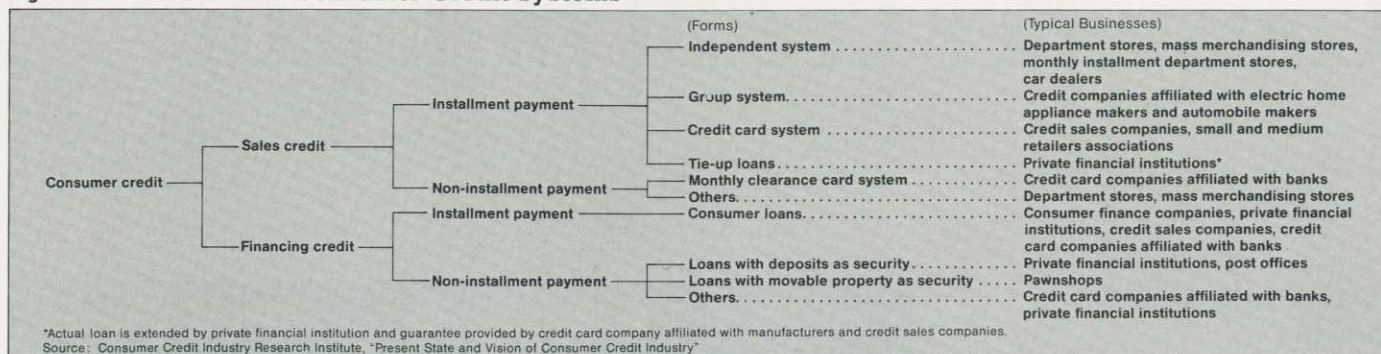
1. Bank cards (monthly clearance cards);
2. Credit sales association cards (installment payment and revolving payment cards);
3. Store cards (valid only at issuing store);
4. Cards issued by small- and medium-sized coupon-issuing organizations (issued by associations of specialty stores).

These cards are subject to strict government regulation in order to protect consumers' interests by ensuring fair transactions and the sound development of the industry. There are also restrictions on the scope of cards to prevent cross-overs, thereby protecting small- and medium-sized credit card companies. Cards issued by banks, for example, cannot be used for installment payments and revolving payment purchases, while the use of credit sales association cards for installment payments at superstores requires the agreement of local retail shops and coupon-issuing organizations.

The "credit card war"

It is only natural that shopping credit, once a common method of selling merchandise, will be replaced eventually by the credit card, which can be used over

Fig. 1 Classification of Consumer Credit Systems



and over again. At the same time, the mass issuance of credit cards and the expansion of the fields in which they can be used have taught consumers the convenience of plastic money. Credit cards are evolving beyond an account settlement system incidental to merchandise sales into instruments which themselves can provide a wide range of services.

Given current slumping merchandise sales, the distribution industry and others are actively trying to organize customers and upgrade service. Credit cards are being issued vigorously as a means to this end.

Moreover, in order to tide over the easy-money era, banks and financial institutions have begun to push personal financing aggressively, and once again the credit card is a key weapon in their arsenal.

Credit cards are increasingly perceived as the nucleus of the consumer credit industry. Issuing companies are employing every conceivable means to solicit subscribers, touching off a so-called credit card war. Card-issuing companies are putting their all into the battle in the realization that their very survival will be threatened should they lose.

Credit cards and consumer needs

If the functions of a credit card are limited to paying for shopping and small-key cashing services, it does not make much difference to the consumer which company's card he holds. A company issuing cards with only these two functions has no advantage over its competitors.

As a result of the recent mass issuance of credit cards, however, consumers have become more selective, and now carefully choose cards which are most convenient for them personally. It has become essential for card-issuing companies to anticipate consumers' needs in advance.

Unlike in Western countries, where consumers hold a great variety of cards

Fig. 2 Credit Card

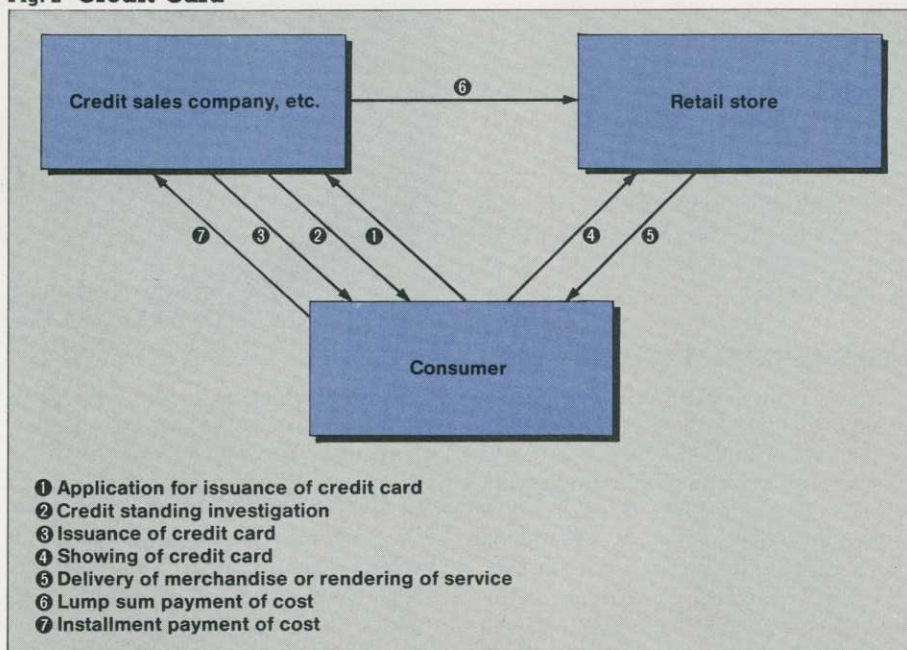
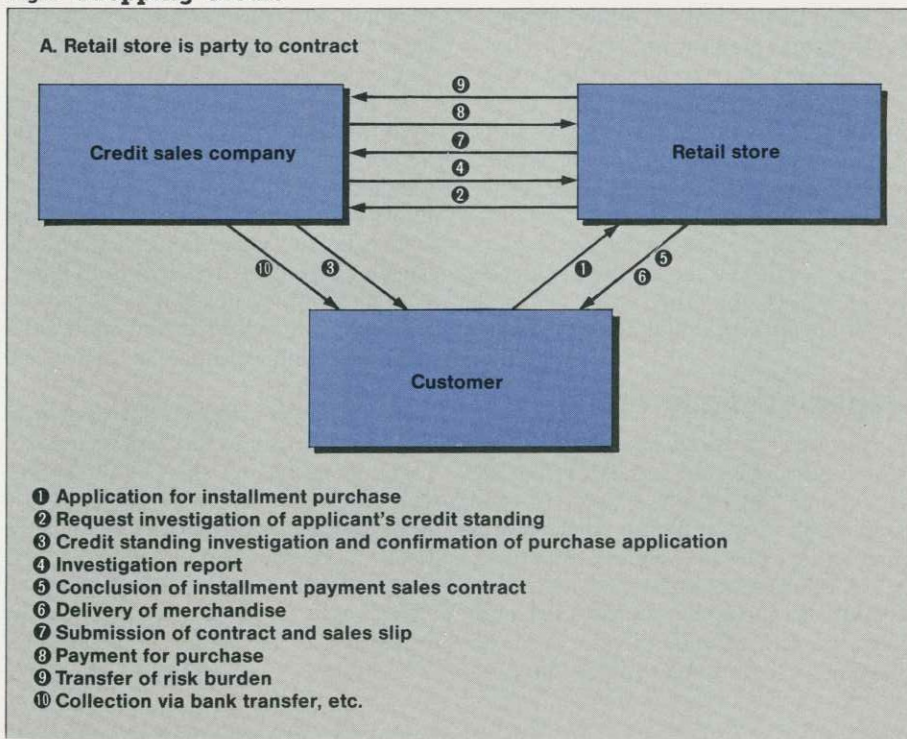


Fig. 3 Shopping Credit



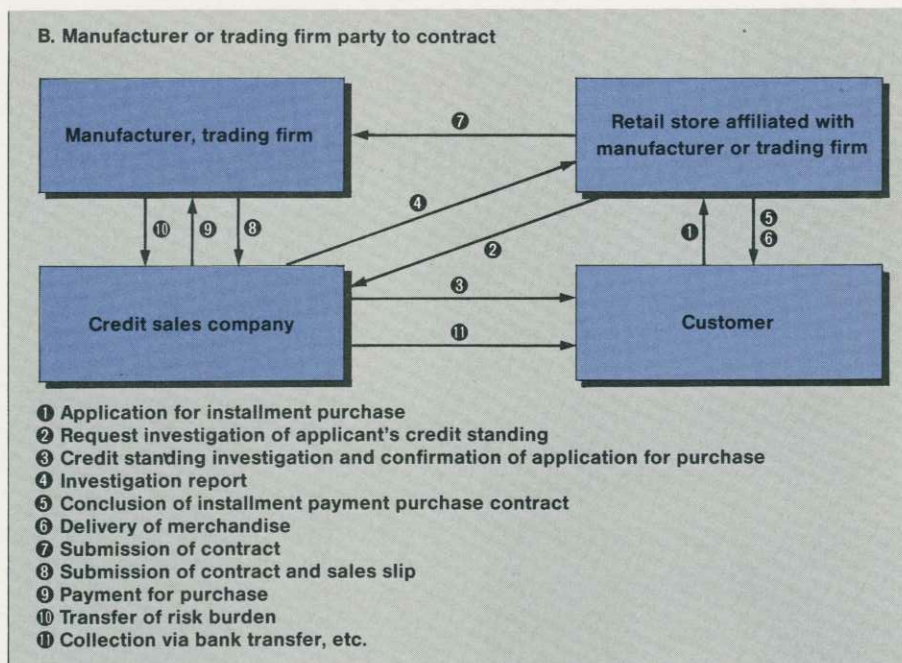


Fig. 4 Tie-up Loans

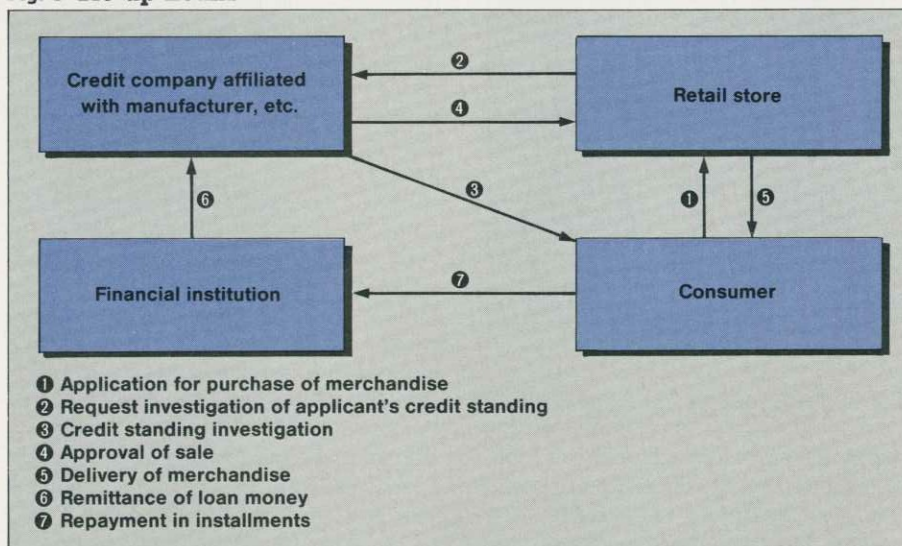
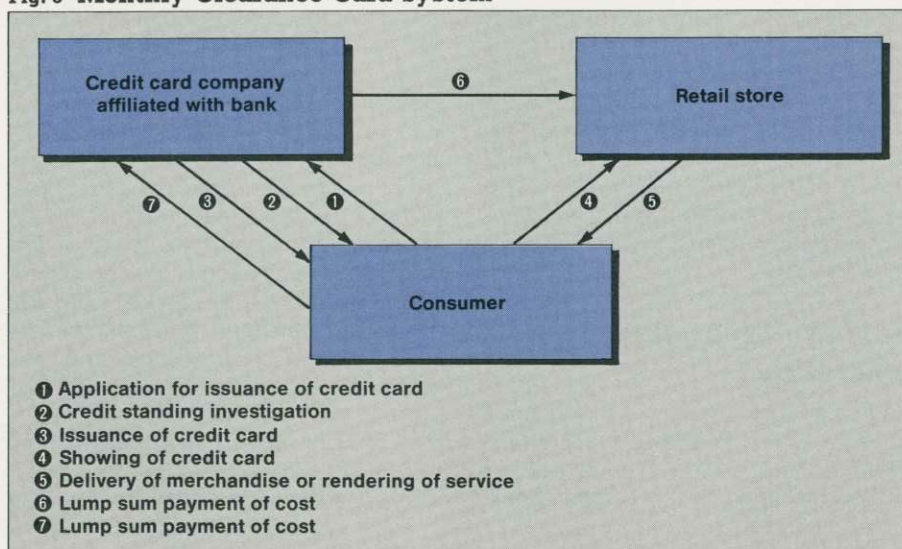


Fig. 5 Monthly Clearance Card System



for different purposes, Japanese consumers still keep at most two or three credit cards. Card-issuing companies are competing to develop new services that will ensure that their cards are among the two or three chosen by a consumer. The credit card war now being fought in Japan is, in essence, a race to devise new service functions.

Among cards which have won the favor of consumers in Japan are the tie-up cards issued by Nippon Shinpan Co., the country's largest credit card company. These include the "Postal Savings Tie-up Card," the "Securities Tie-up Card" and the "Insurance Tie-up Card." The Postal Savings Tie-up Card is issued in conjunction with the Ministry of Posts and Telecommunications and can be used for depositing and withdrawing funds from postal savings accounts through cash dispensers at post offices. The Securities Tie-up Card integrates in one card the credit cards and I.D. cards issued by securities firms. The postal, securities and insurance tie-up cards all have added a savings function to their conventional roles in shopping and borrowing. Not coincidentally, the savings function is at present one of the services most strongly desired by consumers.

Future prospects

The credit card of the future will be a "multi-purpose card" possessing functions needed by consumers to plan for long-term goals, in addition to the conventional functions of shopping and borrowing. Because conventional credit card systems cannot perform these roles, a new card system linked to computers will be essential. Moreover, because the system will include large numbers of companies and vast volumes of information, the card itself will change greatly. The IC chip card and the laser card are already under study. This trend is not limited to Japan but is taking place throughout the world, making it imperative to standardize international card specifications.

The emergence of such futuristic credit cards will probably change the form of card-issuing companies. The consumer credit industry is expected to evolve into an information and equipment industry requiring huge investment in computer systems and terminals. Companies which cannot afford the outlays could eventually be weeded out in a process of natural selection. The consumer credit industry in Japan is in transition, and its harried planners and managers cannot afford to pause for even a moment's respite.