

Signs of Change in Cash-oriented Society

Japan Marks 50th Anniversary of Credit Cards

By *Katsuhiko SAKAI*

March 2010 marks the 50th anniversary of Japan's introduction of credit cards in March 1960. The Japan Consumer Credit Association estimates the number of valid credit cards outstanding in Japan at some 320 million, or three per adult aged 20 or more. Sales on credit through 26 major credit card firms in Japan in September 2009 rose 2.5% from a year earlier to 2,360.4 billion yen, posting the 138th straight month of year-on-year gain. Annual sales by credit card in Japan have been expanding year by year and are estimated to have topped 40 trillion yen.

Given the half-a-century history and Japan's economic size, the sales level reached by the credit card industry is not necessarily sufficient. Shopping by credit card exceeded 10% of household disposable income only five years ago. As debit cards have failed to diffuse sufficiently, 85% of transactions are still settled in cash, even now.

Japan is a rare cash-oriented society among industrial countries. Overseas guidebooks for travelers to Japan contain a remark saying, "Have at least some yen cash with you whenever possible, and in particular never expect to buy a train ticket with a credit card." When checking out after a family meal at a restaurant in a Tokyo suburb on a recent day, I turned white at finding a "cash only" sign.

Historical/Cultural Climate Delays Credit Card Diffusion

Japan's credit card industry remained in the midst of an uphill struggle in the first half of its half-a-century history. Its first credit card survey in December 1974 found the number of outstanding credit cards in Japan at 12.29 million. It was in the second half of the 1980s that the number exceeded 100 million to surpass Japan's population and reach the numerical level of one card per capita.

A safe society where citizens can carry massive cash with them and Japanese people's consumption conservatism are frequently cited as factors behind the long time span that credit cards have required to take root in Japan. When credit cards were introduced in Japan, its rapid economic growth was gaining momentum. Then, however, respect for an income-matching lifestyle and what was viewed as a good practice of "saving before buying" remained in every nook and corner of society.

Even before the credit card introduction, Japan had the traditional installment sales system continuing since the days before World War II, as represented by monthly installment payments for durable goods purchases. In addition, there were still other old commercial practices allowing consumers to buy goods under agreements to make payments later, such as *tsuke* and *kakegai* (both meaning purchase on credit) as well as *bon-kure barai* (paying at the seasonal

junctions of the *bon* midsummer Buddhist festival and the *kure* year-end). "Citizens initially thought in general they had no problem without credit cards, although they are a convenient settlement tool if available," said Shinichi Kazama, who has worked in the credit sales industry for nearly 40 years and now serves as senior adviser for public relations at Credit Information Center Corp., the biggest consumer credit information organization in Japan.

In the United States where credit cards were initiated and have spread fast, these cards have reportedly played a major role as ID cards guaranteeing income and creditworthiness as well as a convenient bill-clearing tool. In Japan, however, hotel guests go fine without credit cards, neither viewed as dubious nor asked to pay a deposit.

Revolving Payment System Fails to Spread As Most Consumers Opt to Pay by Lump Sums

Japan is also different from other countries in final settlements through credit cards. In the United States, most final settlements are revolving payments that allow consumers to make payments in multiple installments with interest imposed. In Japan, however, revolving payments account for less than 10% of credit card sales, meaning that more than 90% of final settlements take the form of single-installment payment in the following month without interest. It may be more appropriate to call cards used by Japanese consumers charge cards rather than credit cards.

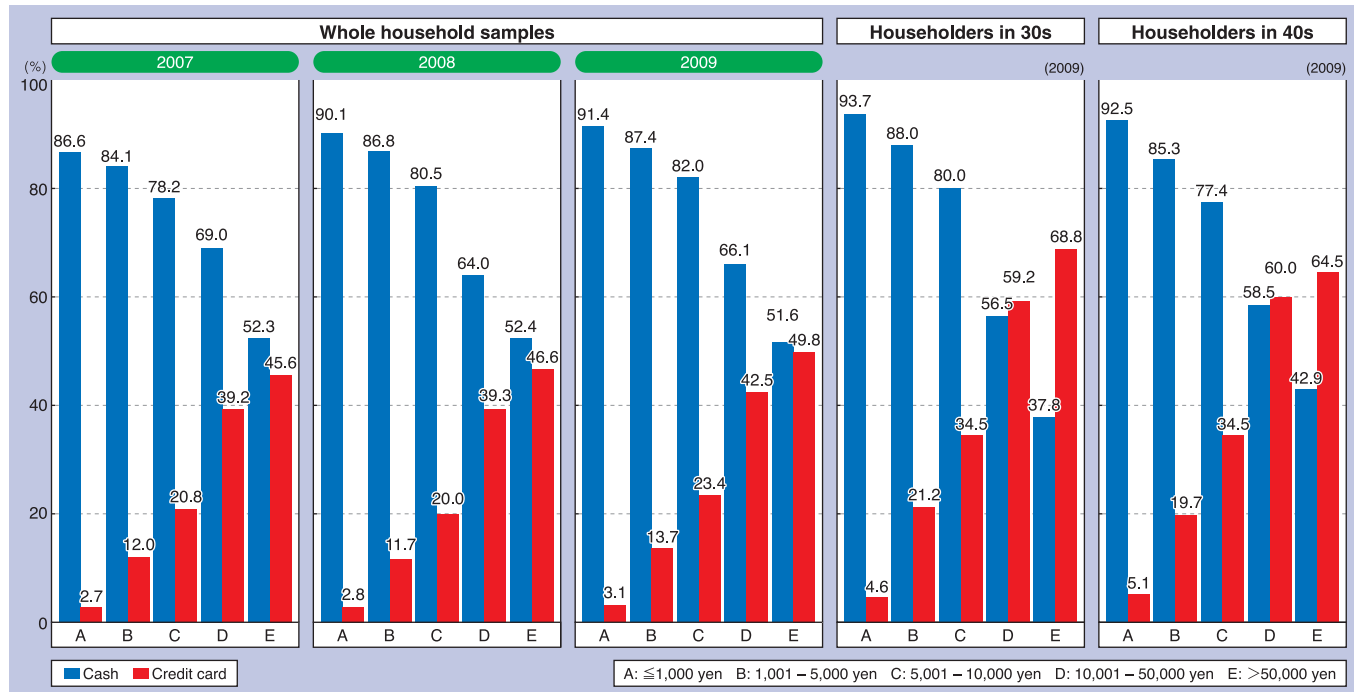
One factor behind the unpopular revolving payment system has been a delay in government deregulation. Bank-affiliated credit card companies, which account for the largest share of outstanding credit cards issued in Japan, had been barred from providing the revolving service until June 1992. Holders of bank-affiliated credit cards have thus been accustomed to single-installment payments. "This process still has a lingering effect on consumer behavior," says Kazuhiko Okamoto, representative director of Visa Worldwide (Japan).

Another factor is that the concept of interest-including revolving payments has failed to attract consumers in Japan. As indicated by various polls, people reluctant to borrow money are dominant in Japan. "Traditional installment sales are acceptable for Japanese consumers because they are limited to certain goods with the month of final payment fixed," Okamoto says. "But Japanese are reluctant to allow all payments, including those for lunch, to be mixed up for revolving credit, indicating their fastidious money sense."

Japanese credit card companies, which cannot expect to benefit from the interest-generating revolving service that should be a main-

CHART

Tools used to settle daily payments, including those for shopping



Note: Covered are multiple-member households. Respondents were asked to select up to two choices.
Source: "Poll on Households' Financial Behavior," Central Council for Financial Services Information

stay service for them, have long depended on high-interest loans to cardholders. But a revised moneylender law, promulgated in December 2006, lowered the maximum interest rate sharply from 29.2% to 20% per annum to deteriorate earnings for credit card companies, triggering a wave of realignment and elimination in the industry.

Positive Changes in Cardholders' Awareness

The low percentage of credit card sales means that credit card shopping has room to expand in the future. Polls by Mitsubishi UFJ NICOS Co. on the awareness of credit cards indicate that the share of cardholders who feel shy of using cards for payments for some reason or other declined from 41% in 1997 to 24% in 2005. Instead, the share rose from 51% to 72% for those who view buying by credit card as smarter than by cash.

In 1997, 38% viewed credit cards as a belt-tightening tool if used wisely while 62% saw credit cards as adding fuel to consumption. In the next eight years, this ratio was completely reversed. Even though cardholders may still stick to single-installment payments rather than revolving payments, a dominant number of people in Japan now accept credit cards positively and are less hesitant to use them frequently. One reason for the change may be that credit cards have been made available for a wider range of payments such as those for tax, Internet shopping and hospital bills. Another reason may be that credit card companies' special benefit programs includ-

ing credit point and mileage accumulation and discount services have gained support.

Changes in cardholders' consciousness have emerged in their behavior. In a poll of multiple-member households in June and July 2009 where respondents were asked to choose up to two tools for settling debt for each payment amount range, the percentage share of those choosing credit cards increased from the previous year for each range. At families led by householders in their 30s and 40s, credit cards are used more frequently than cash for payments above 10,000 yen. The poll by the Central Council for Financial Services Information based at the Bank of Japan covered 8,000 households, of which 50.3% made valid responses. (Chart)

The share of credit card holders in Japan has remained stable in an 80%-90% range over the recent years. The ownership of credit cards appears to have neared a saturation point. In a bid to maximize the advantage of special benefits, each cardholder has tended to focus on a single card while limiting the use of other cards. "At a time when the range of areas where cards are used is expanding, it is difficult to see any impact of the economic slump on sales by credit card," says an industry source, indicating a harsh view of the future course. "We may reach a crucial stage after the introduction of credit cards for such areas as hospital bills and utility charges has its run course to leave no unexploited fields." **JS**

Katsuhiko Sakai is a senior staff writer and deputy editor at Economic News Desk, Jiji Press.