FINANCIAL PAYMENT INNOVATION IN JAPAN

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Abstract

Japan had a long economic depression through 1990's. They called Japanese bubble economy mainly caused by over lending or bad debts by many banks or financial institutions in the later 1980's, and successive 1990's they called " the lost 10 years in Japan". Almost the same time, Japanese financial payment style was changed tremendously. This paper tries to analyze the Japanese payment shift from drafts or checks into remittance or open account. The payment shift made better financial cost savings and daily cash management or effective financial bookkeeping.

Introduction

Over 100 years from the dawning of modernized Japan, commercial financial settlement or payment was mainly done by drawing drafts, promissory notes or checks through the financial clearing houses in Japan. After the 1980's the traditional payment style gradually shifted into remittance or open account settlement. The term of the early 1980's was the beginning of introduction of electronic banking such as bank POS or home banking by using PC or networks. There was a big volume of daily job of amount matching of collecting A/R (account receivables) from customers in the financial section of the firm. The collecting job is to identify the right paid remitted amount from the daily total remitted amounts. So far as big business concerned, monthly total remitted amounts are generally over 10,000 cases or more. It is not so easy to identify the right collecting amount of each customers bill from remitted amounts altogether into the corporate specified account. This routine work was named A/R matching and was time consuming and hard work. After this matching processing they can start journalizing or bookkeeping. So traditionally they received by promissory notes or checks to keep away from the remittance account matching.

Decreased payment style in Japan

They decreased cleared house notes or checks in Japan gradually from the beginning of 1980's. In 1987, for the first time, total exchanged notes balance were less than 400 million and after then the exchanged aggregate numbers were constantly decreasing. In the year of 2003 the exchanged aggregate decreased to 170 million. The exchanged bills numbers decreased over 57%. This means big settlements shift happened in the payment style in Japan.

Figure-1 Aggregate cleared drafts balance of clearing houses in Japan（number in millions）

http://www.zenginkyo.or.jp/stat/payment/data/nenpo1501.xls
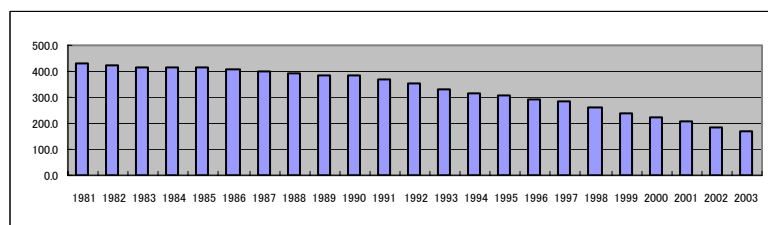
Improved matching of Account Receivables

The next figure shows the total cleared amount of clearing house in Japan from 1981 to 2003. Ｔhey increased the amount from 1981 to 1990. After 1990 they decreased yearly towards 2003 constantly.

Figure-2 Aggregate amount of clearing house by drafts in Japan (amount in billions)
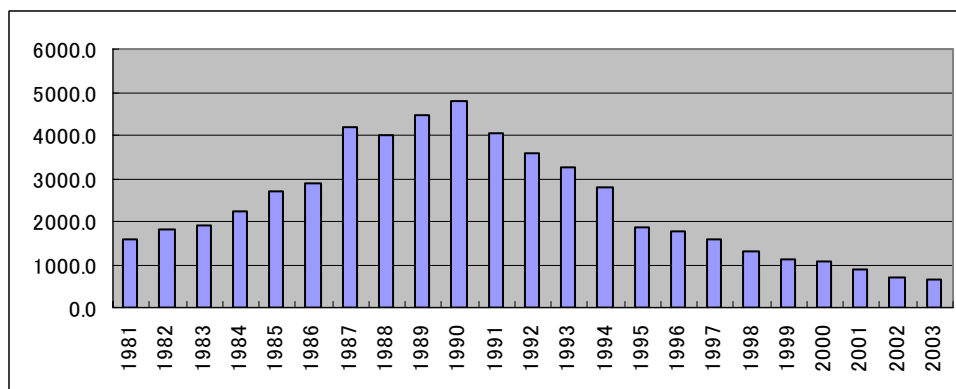
Two figures show some indications to analyze more about the cleared balance and amounts. The maximum exchanged amount was 4,797 billions in 1990. The next figure shows a bill cleared balance.

Figure-3 Cleared amount per draft (1981-2003) (amount in thousands)

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year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
average amoun	3.675	4.234	4.576	5.405	6.516	7.135	10.531	10.118	11.696	12.535
year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
average amoun	10.998	10.177	9.949	8.707	6.034	5.895	5.594	4.983	4.758	4.658
year	2001	2002	2003							
average amoun	4.199	3.771	3.682							

These amount shows increasing trend from 1981 to 1990. And after 1990 the trend shows decreasing trend to 2003. From 1987 to 1992 was called bubble economy in Japan. Apparently another settlement style has been introduced in the area of financial payments. There have to be alternative settlement style involved from the later 1980's to understand the decreasing trend.

Increased payment style in Japan

This figure-4 shows the yearly total amount of interbank remittance amount from 1987 to 2003. They increased gradually from 1 trillion yen to over 2 trillion yen during the term. They increased the amount more than double. After 1995 they keep the aggregate amount over 2 trillion yen. This amount does not include the in-house remittance amount between branches. Also merger or acquisition of financial institutions were done through major banks in Japan in 1990's or 200's. It means outstanding remittance amount is bigger. From the end of 1980's Japan started to shift the payment style from paying by drafts to the payment of interbank style. They increased interbank remittance again from 1993 to 1997 up to 2 trillion. After 1997 they keep the 2 trillion level constantly.

Figure-4 Aggregate interbank remittance amount (in millions)

http://www.zenginkyo.or.jp/stat/payment/data/nenpo1504.xls
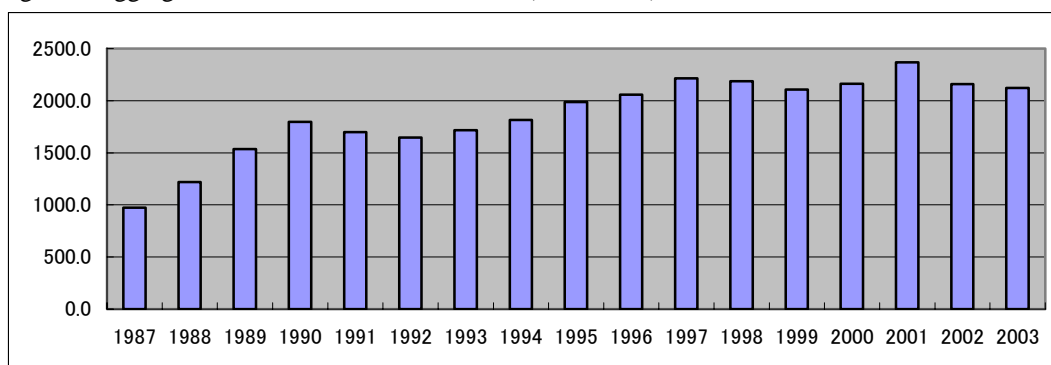
The next step we should compare the relation of the total amount between drafts settlements and interbank settlements.

Figure-5 Clearing house settlements by bills or checks versus Settlement by Interbanks remittance (in billions)

	1987年	2003年
手形交換	4172	633
テレ為替	972	2122
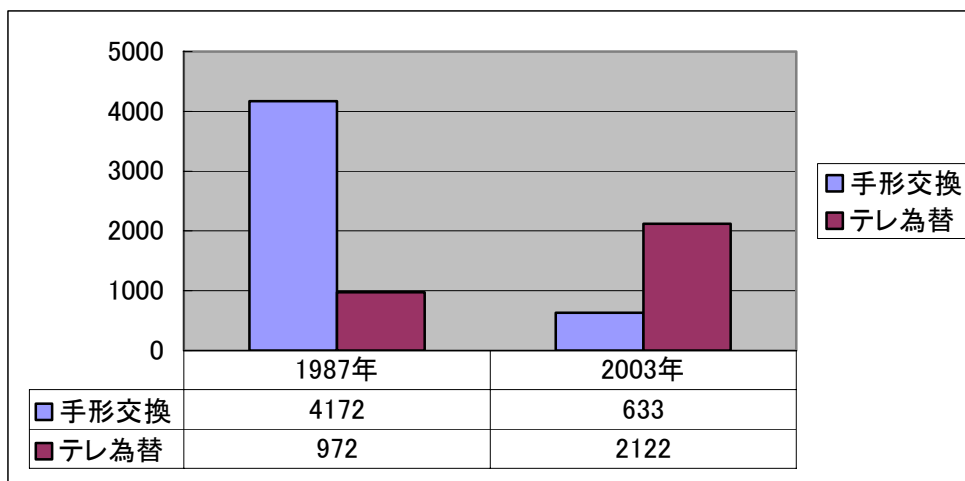
This figure shows major part was clearing house settlements by bills or checks in 1987. However, they changed the major part into interbanks settlements towards 2003. Major part was drastically switched from drafts settlements into interbank settlement.(1)

The reasons of the shift of payment style in Japan

1. Introduction of effective software package to identify matching A/R

   Traditional matching style by drafts were took over by remittance because of the 2 reasons. For the first time, it is very easy to identify the remitted amount by using the excel function of ascending or descending by amount basis or matching. In the age of PC with networks using the up to date software is essential for effective financial management. Secondly, the issued drafts have to be paid on the presented day by the issuers and to be confirmed the next day to the creditors. They need 2 days to confirm the good fund between creditors and debtors. It is not so easy to make cash management in the day of electro banking age to use drafts payment. To distinguish between the good fund or not is impossible in the daily transactions for controllers.

2. Reducing costs

   They need stamp duty to issue payment drafts in Japan. The amount of stamp duty goes with the draft amount. Under the draft amount yen 100,000, the stamp duty is free. Stamp duty yen 200 is under 1 million yen, yen 400 is under 2million yen, and yen 1,000 is under 5million yen and so on. On the other hand, remittance fee is at most 840 yen per remittance. It does not go by the remittance amount. In the case of remittance the remitted amount is ready to use the day. It is not only cost saving but also time saving. The controller can make cash management after the confirmation of the credit into the account. This system was called zengin system and the electronic system became very familiar with the corporate financial section. One of the system is payroll system to bring in the paper or digital data details to banks before 4 or 5 days before the payday. To have payroll cash through CD or ATM is ordinary style in Japan. People get used to handle cash machines.

3. From corporation to Consumers

   Automated payment style is expanding in Japan. People are familiar with cashing machine and credit cards. Recently, they pay commuting fares by non-contact IC cards at the gates named Suica or Icoca. The gate machine calculates the fare and debits the right amount simultaneously in the short time of only 0.1 second. This system contributes the saving for cash cost to the transportation company and time saving for passengers.

Comments

All over the world e commerce is expanding rapidly in the age of the internet. Three dimensions are required for convenience e-commerce. One is good worldwide transportation physical distribution system via air, sea or land. The next is the internet web system for information. The third is cash collection electronic settlement system. E-commerce started from B to B, and then B to C and next phase will be C to C. Consumer to Consumer e-commerce will require not only consumer credit card but also non-contact IC card or others.

Reference

(1) Kanji Sahara, "IT Matching functions effective settlement for physical distribution" p35 proceeding of yearly conference of Japan Logistics Society in 2005 September