

BEYOND SWIPE AND TAP: REWRITING THE RULES

Can account-to-account (A2A) payments
revolutionise Japan's financial ecosystem?

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Executive Summary

The roundtable discussion on “Beyond swipe and tap: Rewriting the rules - Can account-to-account payments revolutionise Japan’s financial ecosystem?” brought together leading experts from banking, FinTech, technology and regulatory backgrounds to explore the current state and future potential of account-to-account (A2A) payments in Japan. The wide-ranging discussion surfaced several key insights and themes that will shape the trajectory of A2A in the years ahead. Compared to markets like China and India where A2A payments via mobile apps have become ubiquitous, Japan has seen slower adoption. During the panel, legacy banking infrastructure, regulatory constraints, limited use cases beyond P2P payments, and a highly fragmented payments landscape were all cited as factors tempering growth. However, the confluence of recent FinTech innovations, changing consumer behaviours, and emerging open banking frameworks is creating new tailwinds for A2A.

Realising A2A’s potential in Japan will require addressing several enablers. Regulatory clarity around issues like liability for unauthorised transactions, appropriate transaction limits, pricing controls to keep transfer fees reasonable, and standardised API specifications can provide a stronger foundation for A2A innovations. Technologically, banks must accelerate the modernisation of core banking systems to enable real-time processing and API-based access to accounts. FinTechs and payment providers will also need to collaborate on interoperability standards to facilitate seamless money movement across proprietary wallets. Commercially, creative business models that link A2A payments to lending, commerce, and subscription services can create new revenue streams beyond transaction fees.



Despite these challenges, the roundtable expressed optimism for A2A given its potential to expand financial access. In particular, A2A payment solutions that leverage alternative data for credit underwriting, intuitive mobile interfaces, and hybrid online-offline agent networks could be powerful tools for reaching underserved SMEs and rural populations. As digital payments further penetrate microenterprise and last-mile commerce, A2A has the potential to broaden the addressable market significantly.

Looking ahead, the roundtable envisioned a future where A2A has redefined the payments value chain in Japan. Banks may increasingly operate as utilities providing the core infrastructural “rails” that FinTechs and consumer tech platforms leverage to embed payments in their offerings. APIs, open banking, and Bank-as-a-Service models will be key enablers of this shift. At the same time, A2A will support the ongoing blurring of lines between financial services and commerce, with payments becoming more invisibly integrated into digital shopping journeys.



Sam Pemberton Ahmed, Founder & CEO, Smartpay

Realising this vision will require unprecedented collaboration across industry stakeholders. Regulators must balance promoting responsible innovation with safeguarding stability. Banks and Fintechs need to establish partnership models that equitably divide both risks and economics. Merchants should identify use cases where A2A can drive operating efficiencies and improved customer experience. Perhaps most importantly, end users must be equipped with the awareness and tools to embrace A2A payments in their daily lives confidently.

While the exact trajectory remains to be seen, it is clear that A2A payments will be a driving force shaping Japan's financial future over the next decade. Industry participants who invest boldly but responsibly to enable seamless, secure A2A experiences will be best positioned to lead this transformation. The insights surfaced by this roundtable discussion provide a valuable roadmap for navigating the challenges and opportunities ahead. With thoughtful collaboration and alignment, A2A has the potential to fundamentally redefine how individuals and businesses send, spend, and save money in Japan. Though the journey will be complex, the destination of a more efficient, inclusive, and innovative financial ecosystem is surely one worth pursuing.

Key Takeaways

1

A2A payments adoption remains low in Japan compared to markets like India and China due to legacy infrastructure, regulatory constraints, and limited use cases. However, recent FinTech innovations and emerging open banking frameworks provide growth opportunities.

2

Regulatory clarity is needed around liability, fees, transaction limits and data-sharing to incentivise development. Regulators must balance innovation with stability and consumer protection as A2A expands.

3

Modernising core banking systems, promoting interoperability, and enabling real-time capabilities will be crucial technology enablers. APIs can expose bank capabilities externally, but many institutions have yet to prioritise the investment.

4

The economics of A2A, especially lowering merchant acceptance costs compared to cards, remain challenging given banks' reliance on payment revenue. Creative products linking payments to lending or subscription models may unlock value.

5

A2A can drive financial inclusion for underserved SMEs and rural areas, but solutions must account for lower digital/financial literacy in these segments. Intuitive UX and hybrid online/offline agent models will be important.

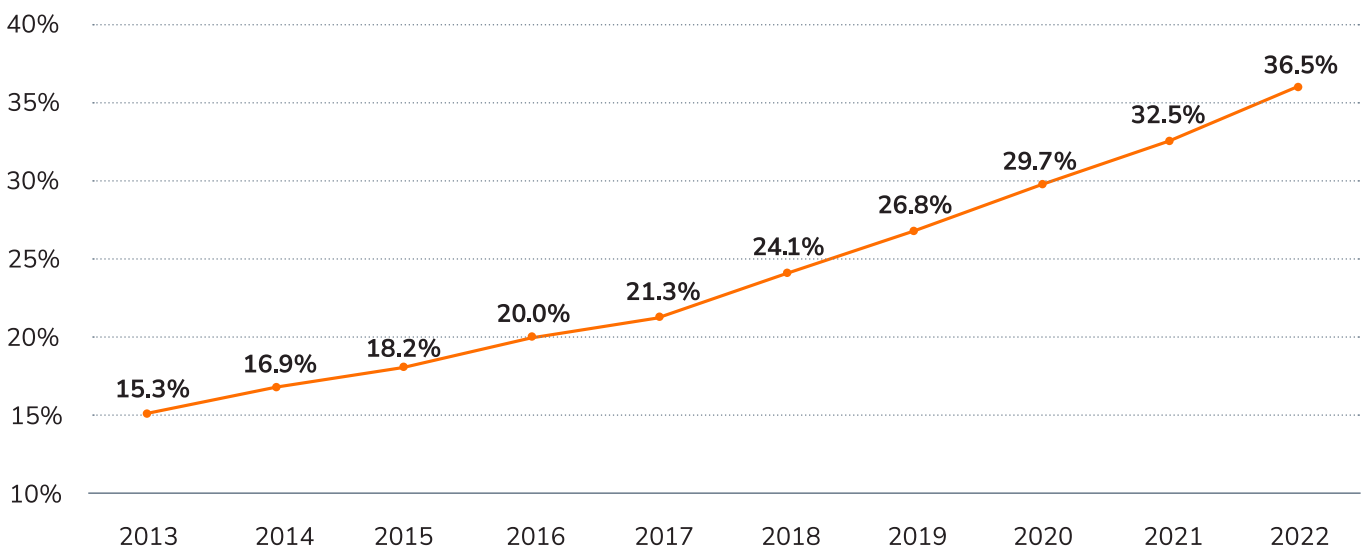


Miki Kuzuha, Head of Operations, Japan, PayPal

Current A2A Landscape in Japan

Account-to-account (A2A) payments, which enable the direct transfer of funds between bank accounts without intermediaries like card networks, are seeing rapid growth globally on the back of open banking regulations, real-time payment infrastructures, and changing consumer preferences for digital payments. However, the adoption of A2A payments remains nascent in Japan compared to the widespread usage of apps like WeChat Pay and UPI in China and India, respectively.

Figure 1: Percentage of cashless payments in Japan from 2013-2022





Several factors contribute to Japan's slow uptake of A2A to date. First, Japan's banking system, while highly developed, relies on batch-based transfers between accounts that take days to clear and carry high fees, especially for low-value transactions.

Second, open banking APIs to facilitate A2A remain limited. Another participant observed, "While amendments to the Banking Act have required Japanese banks to open up account access to licensed third parties, the number of institutions offering APIs remains low. Technical specifications and commercial terms also vary across banks, posing integration hurdles for FinTechs."

Third, A2A's primary use case in Japan centers on P2P payments rather than consumer-to-business payments as widely seen in China or India. "Low adoption of J-Debit, the local A2A scheme enabling direct account payments at the point-of-sale, [can be attributed to] limited marketing and merchant acceptance," one speaker explained. "With high credit card penetration, many consumers see little reason to switch payment methods, while small merchants often find the technical integration and cash flow implications of A2A a barrier compared to cash."

Still, there are encouraging signs for A2A. "FinTechs like PayPay have built closed-loop A2A solutions covering 60M+ users by subsidising merchant acceptance and incentivising consumers through rebates," shared a participant. "While loss-making, such propositions are driving digital payment habituation. Banks are also increasingly embracing API-based models to offer A2A. MUFG recently announced plans to white-label its core banking systems to hundreds of smaller institutions, enabling them to expose account functionality to third parties more easily."



Regulatory Considerations

As A2A volumes grow, regulatory guidance will be critical to mitigate risks and instill trust. The roundtable highlighted several areas where clearer regulation could accelerate adoption while safeguarding the ecosystem. FinTechs enabling A2A payments worry that bilateral contracts leave too much discretion to banks to suspend API access, creating business continuity risk. “Regulators should specify conditions under which banks can deny API access and mandate dispute resolution mechanisms to avoid unilateral disconnection,” a participant noted.

Current transaction caps on non-banks (e.g. 1 million yen under the Type 2 fund transfer license) restrict A2A’s applicability for higher-value use cases like B2B payments. “While some limits are needed to manage fraud and security risks, a review of thresholds could expand A2A to more revenue-generating segments,” a speaker cautioned.

The high fees banks charge each other for Zengin transfers (up to 117 yen per transaction) limit A2A uptake, as these costs ultimately pass through to merchants and consumers. “Regulators could consider pricing controls to keep fees reasonable, though banks argue such revenues are needed to maintain payment infrastructures,” explained a participant.

Japan’s open banking guidelines stop short of specifying common API standards, leading to fragmentation across banks. “Regulators are considering more standardised API specifications and data schemas to reduce integration friction but must balance this against preserving security/privacy safeguards,” said a participant.

As more players enable A2A flows, regulators must ensure funds remain safe and dispute resolution clear. “Extending deposit insurance to A2A balances held in FinTech wallets, mandating identity verification, and clarifying liability for unauthorised transactions can boost comfort,” urged a speaker.

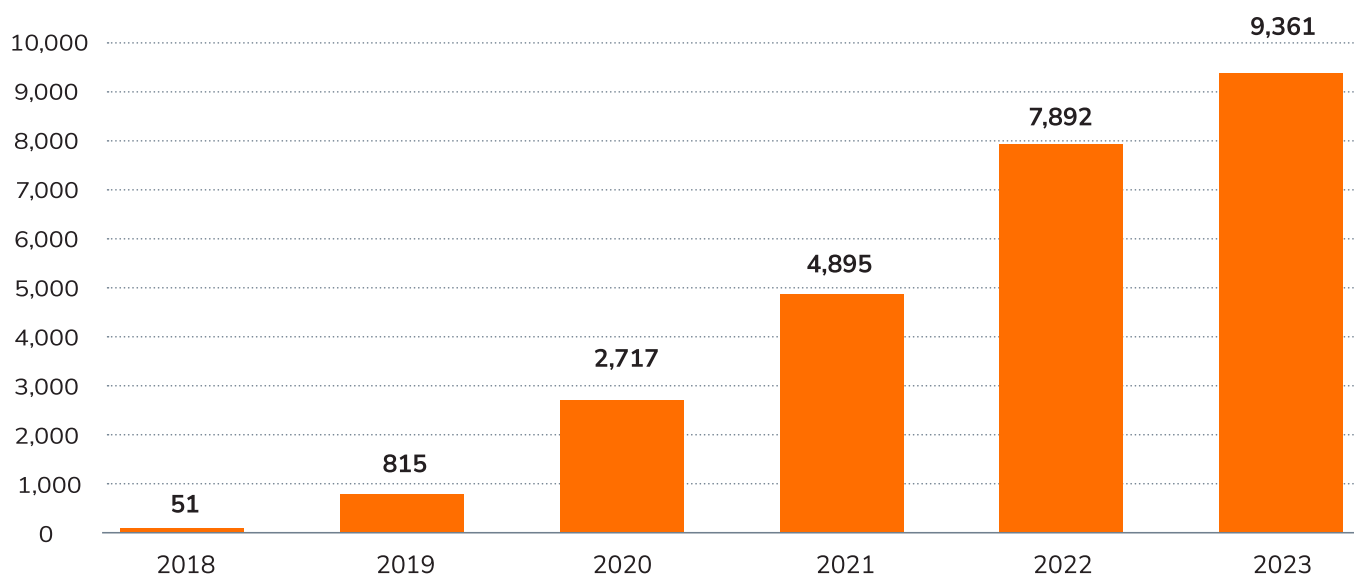
While regulatory intervention should be thoughtful to avoid unintended consequences, roundtable participants agreed Japan’s regulators are taking productive steps by engaging diverse stakeholders. Recent amendments to the PSA allow non-banks to access accounts and initiate payments, subject to user consent - laying essential groundwork for A2A competition. “Regulators are also coordinating across ministries through venues like the Payments Council to align priorities,” applauded a participant. Still, the measured pace of regulatory change may require FinTechs to build solutions around current constraints in the near-term creatively.

Technology Enablers and Challenges

Realising A2A's potential in Japan will require overcoming several technological hurdles. Many Japanese banks still run batch-based core systems designed decades ago. These systems lack APIs to interface with FinTechs and real-time processing capabilities to enable A2A use cases like instant merchant settlement. "The risks and costs of core modernisation lead many institutions to postpone upgrades, though forward-looking players like MUFG are starting to decouple legacy cores to support API layers," explained one participant. Even where real-time payment networks exist (e.g. Zengin More), inconsistent data standards limit transactions between wallets of different providers. "Systems like India's UPI mandate common data fields and communication protocols to facilitate interoperability. Similar standards could allow A2A payments to flow seamlessly across both bank and fintech accounts in Japan," noted a participant.

New A2A use cases introduce more third parties into transaction flows, raising authentication and fraud risks. "While SMS OTP remains common, banks and FinTechs are exploring biometrics and risk-based authentication to reduce friction while detecting suspicious activity. Striking the right balance between security and convenience is key," cautioned a security expert. QR codes, while ubiquitous in China, have seen mixed adoption by Japanese merchants and consumers. "Lack of common QR standards across payment schemes leads to friction when users must pull up different apps to pay. Ongoing industry collaboration to align QR protocols and reduce fragmentation could accelerate merchant acceptance," observed a participant.

Figure 2: Number of retail QR code payments in Japan from 2018-2023 (millions)



The roundtable noted that cloud and API technologies can help overcome many of these challenges. Several Japanese banks are partnering with global cloud providers to launch Banking-as-a-Service platforms to more rapidly build and monetise APIs for A2A payments and data-sharing. "API middleware players are also emerging to standardise data flows between banks and FinTechs, reducing bespoke integrations," shared a participant.

AI/ML will be another key enabler as A2A expands. Solutions like AML transaction monitoring, credit decisioning for BNPL propositions, and personalised customer offers can all benefit from pattern recognition on large payments datasets. “However, algorithmic fairness and transparency must be addressed,” suggested a data scientist. Participants also expressed optimism about distributed ledger technologies (DLT) in reducing A2A settlement times and automating reconciliation between parties, though scalability and privacy challenges remain.

Business Models and Economics

Perhaps the biggest question surrounding A2A is whether compelling business models exist for banks and FinTechs to profitably offer such services, especially as revenues from merchant transaction fees face pressure. The roundtable surfaced several perspectives. A2A may allow merchants who traditionally only accepted cash (e.g. small food stalls) to accept digital payments in a cost-effective way. “If A2A can sustainably serve thin-margin micro-enterprises, the incremental digital payment volumes may offset pressure on per-transaction revenues,” said a participant. FinTechs are bundling payments with services like lending, invoicing, and loyalty programs to monetise SMEs. “For example, A2A transaction data can inform real-time credit offers to merchants at point-of-sale. B2B payments automation also remains a major pain point where A2A data could streamline reconciliation. The shift from one-time payment fees to recurring SaaS models could prove accretive,” noted a software executive.

Some banks view A2A as a way to efficiently acquire new customers and deepen wallet share. “While payments may be loss-making, they serve as a beachhead to cross-sell lending, insurance, and wealth management products over time. Banks must rigorously measure customer lifetime value to justify the near-term investment,” shared a speaker. As digital payments grow, providing the back-end “plumbing” for A2A could be lucrative. “Payment gateways, fraud detection services, and compliance platforms could all see rising demand. While not consumer-facing, such B2B models benefit from high operating leverage,” suggested a participant. The roundtable also noted the importance of hybrid online-offline approaches to serving Japan’s large cash-based economy. “Enabling cash-in/cash-out A2A services at convenience stores or via agent networks could accelerate adoption among unbanked or digital-hesitant segments,” proposed a roundtable participant.



Anubhav Sharma, Deputy Chief: International Business Development, NPCI International Payments Limited
Paul Chapman, Founder & CEO, Moneytree

Financial Inclusion Opportunities

A2A has the potential to drive financial inclusion for Japan's underserved SMEs and rural populations. The roundtable highlighted several opportunities and considerations. A2A can streamline digital merchant acquisition by eliminating the need for SMEs to maintain expensive POS systems and integrations with multiple payment schemes. "Allowing small merchants to accept payments via bank-linked QR codes could accelerate acceptance, especially outside urban centers," explained a participant.

Thin-file SMEs often struggle to access bank credit due to limited financials or collateral. "A2A transaction histories can provide a real-time lens into cash flows to support alternative underwriting approaches. For example, an izakaya's daily A2A sales data could inform shortterm working capital offers to smooth lumpy cash flow," noted a participant.

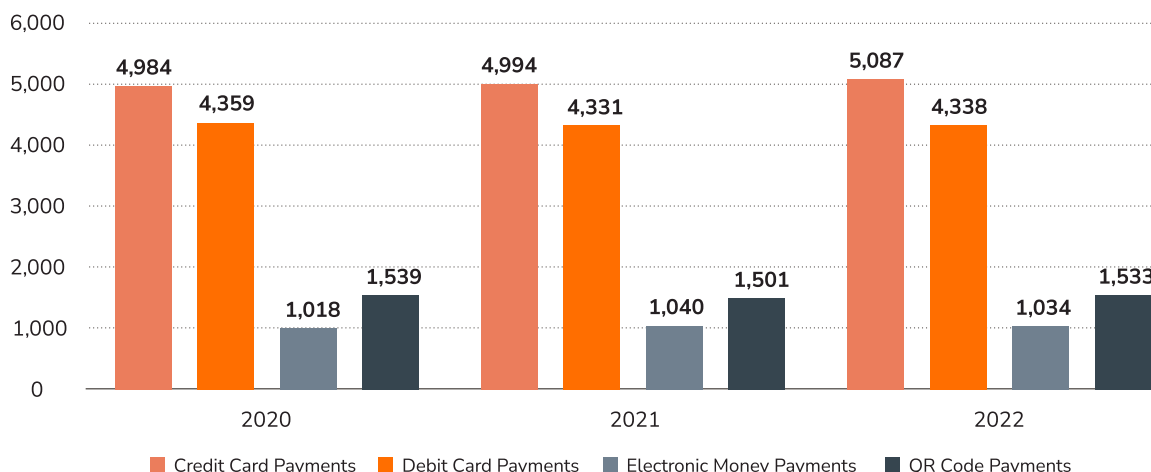
Supporting A2A for government-to-person payments like pensions and person-to-government flows like utility bills could drive adoption in rural areas with higher concentrations of seniors and limited internet access. "Enabling offline A2A via feature phones for such use cases will be key," suggested a participant.

As A2A mainstreams, efforts to educate unbanked and underserved users on the benefits, risks, and safeguards of such payments will be needed. "Dedicated call centers, online FAQs, and training sessions delivered via agent networks could boost trust. Intuitive UX/UI design will also be critical, given many new A2A users have limited experience with digital money management," urged a speaker.

A2A's inclusion potential can be amplified by linking payments to universal ID systems that facilitate streamlined KYC. "India's Aadhaar biometric ID has enabled hundreds of millions of A2A sign-ups simply by allowing consumers to use their ID number as a financial address. Japan is exploring a similar digital ID system to support financial and government services access," proposed a speaker.

While A2A holds inclusion potential, the roundtable urged innovators to recognise that serving marginalised segments may require different approaches than digital-native youth - including voice-based interfaces, human agent touchpoints, and tiered KYC to support basic account opening.

Figure 3: Average cashless transaction value in Japan from 2020 to 2022 by method (Japanese Yen)





Looking Ahead

As we look to the future, A2A has the potential to fundamentally rearchitect Japan's payments and financial services ecosystem in several ways. A2A could reduce traditional payment intermediaries in favour of direct bank-to-bank connectivity. "This may pressure fee margins but also creates opportunities for new value-added services leveraging payment data. We may see industry consolidation as subscale players struggle with the technology investments required," predicted a participant.

A2A's growth is deeply linked to the wider trend of banks exposing core capabilities to third parties via API. "As FinTechs, retailers and tech platforms embed A2A into their offerings, banking may increasingly become invisible, with banks shifting to supplying wholesale banking infrastructure vs. owning the end-user relationship," noted a speaker.

A2A enables payments to integrate with digital shopping journeys more seamlessly. "Innovations like one-click checkout, BNPL, and contextualised rewards programs could all accelerate. Payment flows will also become more intelligent, with AI/ML models predicting user behaviours to proactively surface offers," said a participant.

Bilateral A2A linkages between countries could reduce the cost and friction of international payments. "Japan and Singapore recently launched a real-time cross-border transfer service to facilitate trade. As such corridors proliferate, A2A could unlock a range of use cases from wholesale FX to migratory remittances," suggested a speaker.

While the exact trajectory remains to be seen, it's clear A2A will be a driving force shaping Japan's financial future over the next decade. Industry participants that invest boldly but responsibly to enable seamless, secure A2A experiences will be best positioned to lead this transformation. Doing so will require unprecedented collaboration between incumbents and insurgents, informed by a nuanced view of shifting consumer behaviours.

No doubt challenges lie ahead, from evolving legacy systems to navigating regulatory flux to driving mass market adoption. But if stakeholders can come together to thoughtfully address these barriers, A2A could redefine assumptions of how individuals and businesses send, spend and save money in Japan. "The seeds are already being planted," reflected one roundtable participant. "It's now on the industry's collective shoulders to nurture their growth in the years ahead."