公正取引委員会
Japan Fair Trade Commission

Tentative Translation
(Only the Japanese version is authentic.)

# Survey on Credit Card Market
# (Summary)

March 2019

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# Purpose, Subjects and Methods of Survey

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## Purpose of Survey

- At present, <u>the majority of the amounts of cashless payments in Japan utilize credit cards</u>. <u>The amounts of payments using credit cards are growing</u>.
- *Growth Strategy 2017* and *Growth Strategy 2018* include the target of "<u>doubling the cashless payment settlement ratio</u>, to <u>about 40%</u> within the next 10 years (by June 2027)."

⇒ It is expected that **<u>the amounts of payments using credit cards will continue to increase in the future</u>**.

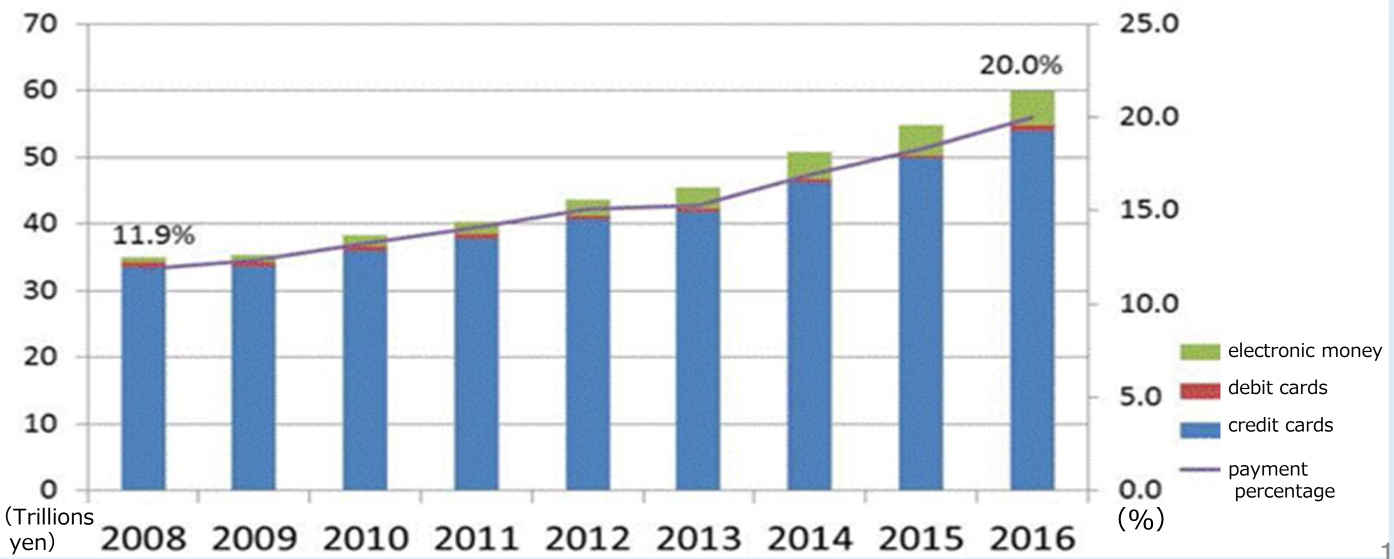
Under these conditions, the Japan Fair Trade Commission (JFTC) has initiated a survey on the credit card market in order to **<u>identify whether or not there are trade practices in the credit card market which are likely to be problematic under the Antimonopoly Act (AMA) and competition policy</u>**.

## Survey Subjects and Methods

- Subjects: the credit card market
- Period: February 2018 – February 2019

| Subject | Written survey | Interview |
|---|---|---|
| Payment network operators | 5<br>(Response rate 100%) | 5 |
| Credit card companies | 258<br>(Response rate approx. 88%) | 14 |
| Shops | 2,000<br>(Response rate approx. 36%) | 8 |
| Consumers | 2,000<br>* Internet survey | — |
| Experts, etc. | — | 14 |

## Trends in Credit Card Payments




Source: *Cashless Vision* by the Ministry of Economy, Trade and Industry, modified in part by the JFTC

# Overview of Transactions Related to Credit Cards

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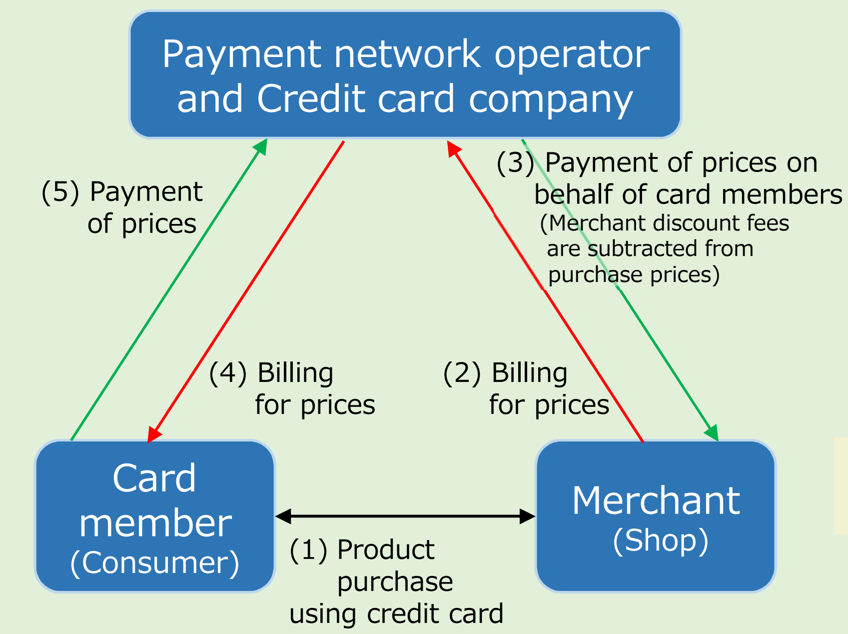
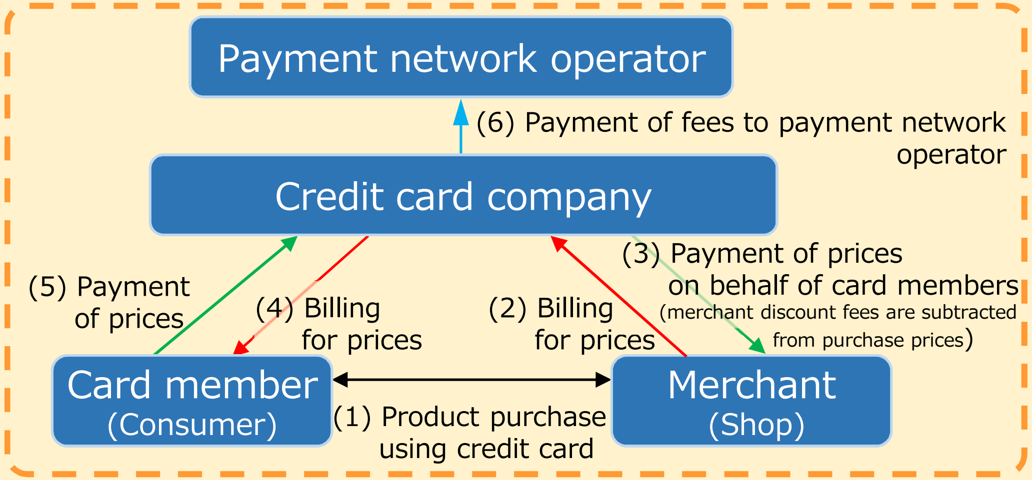
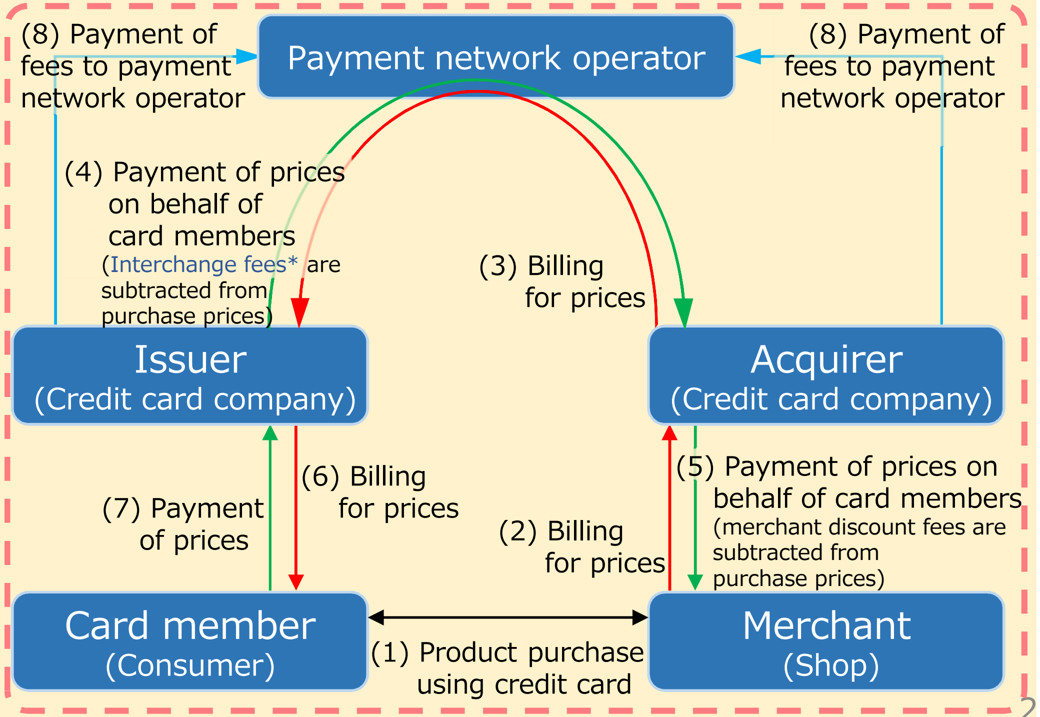
## Cases in which Payment Network Operator Itself Conducts Card Issuing Business and Merchant Acquiring Business




## Cases in which Payment Network Operator does not Itself Conduct Card Issuing Business and Merchant Acquiring Business




### *What is Interchange Fee?

- Merchant discount fees are the main revenue for credit card companies.
- But in a transaction where a credit card company (issuer) that conducts card issuing business and one (acquirer) that conducts merchant acquiring business are different, the issuer cannot receive the merchant discount fees, so the funds for acquiring card members would be insufficient.

▶ **Interchange fees compensate for the shortage.**

Source: The survey results

# Overview of Credit Card Market

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## Payment network operator

Transaction volume share of top 3 card brands

**90%**

## Credit card company

Having a selection of multiple card brands

**77%**

## Merchant

Focusing on merchant discount rates when signing contracts with credit card companies

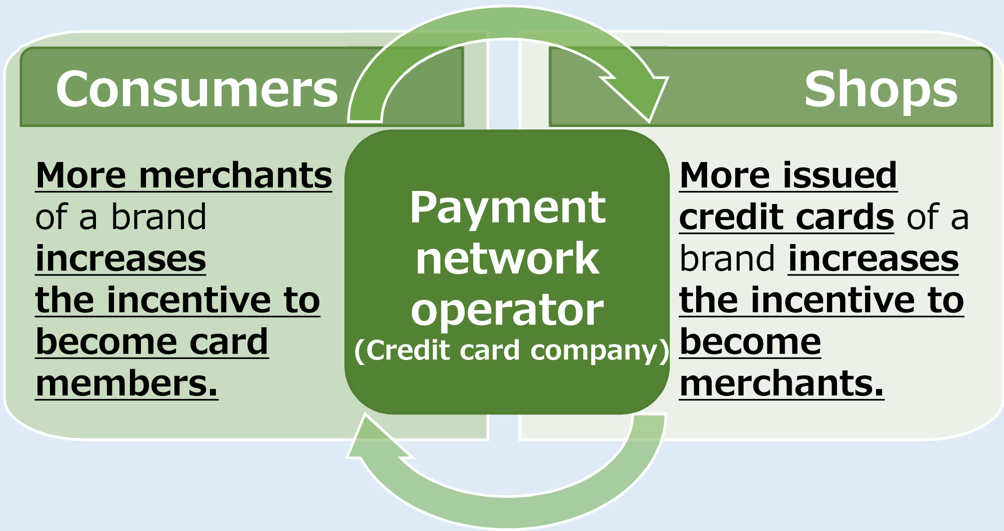
**83%**

## Card member

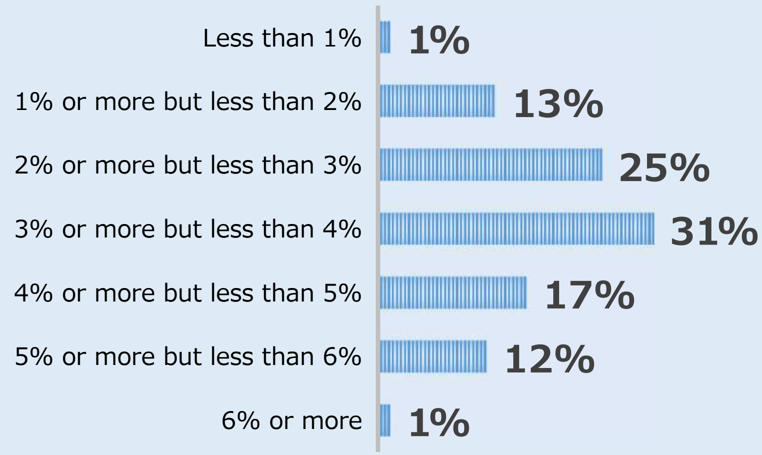
Focusing on annual membership fees when applying for a new credit card

**76%**

## Indirect Network Effect in Two-sided Market




## Merchant Discount Rates




**Average rate 3.2%**
**(Weighted average rate 1.7%)**

Source: The survey results

# Bargaining Position of Payment Network Operators

## Current Conditions

### Conditions of Credit Card Companies

A particular card brand constitutes 60% or more of the transaction volume
**73%**

Changing the payment network operator would be difficult or impracticable
**84%**

Has terminated a contract with a payment network operator because its contract conditions were disadvantageous for oneself
**0%**

### Reasons Why Changing Payment Network Operator would be Difficult or Impracticable (multiple responses permitted)

| | |
|---|---|
| If the contract was terminated, the credit card numbers of the existing card members would have to be changed, causing inconvenience to the members | **84%** |
| The current card brand has extremely strong brand power over the customers | **59%** |
| The transaction volume with the current card brand is high | **41%** |

### Main Opinions from Credit Card Companies

- Has a considerable number of card members and changing the counterparty payment network operator is impractical.
- Changing the counterparty payment network operator is not something that can be done easily, as it would require changing card member numbers and making system modifications.
- In the merchant acquiring business, not having a selection of a particular card brand means the shops will not choose us as a counterparty, so terminating transactions with a particular payment network operator is not an option.

Source: The survey results

## Superior Bargaining Position of Payment Network Operators

In cases where **a payment network operator makes a request that is substantially disadvantageous** for the credit card company, and the credit card company is **unable to avoid accepting** such a request, on the grounds that **the termination of the contract** with the payment network operator brings about **significant problem to the credit card company's business**, **the payment network operator** is considered to be **in a superior bargaining position**.

| | |
|---|---|
| **Element to be Considered** | The degree of dependence by the credit card company on the transactions with the payment network operator, the position of the payment network operator in the market, the possibility of changing the counterpart, and other **concrete facts are comprehensively considered**. |

Based on the current conditions,
there is **a strong probability that particular payment network operators are in a superior bargaining position over the credit card companies**.

# Proposal (1): Unilateral Revision of Contract Contents

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## Current Conditions

### Unilateral Revisions of Contract Contents

**43%** Credit card companies which responded that the contract contents had been unilaterally revised

### Main Opinions about Unilateral Revisions of Contract Contents

**〈Payment network operators〉**

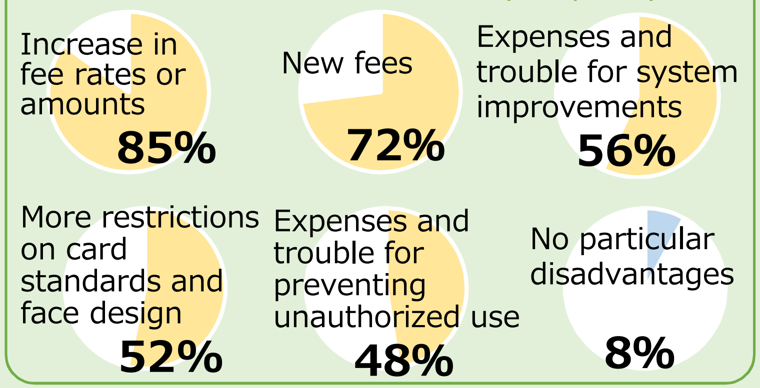
- The consent from the credit card companies to <u>the possibility of future revisions of rules</u> and <u>to observing the revised rules</u> is obtained when the contract is concluded.

**〈Credit card companies〉**

- Revision of the fees is <u>considered to be non-negotiable</u>.
- Unilateral revision of contract contents <u>cannot be foreseen</u>.
- Some payment network operators have rules to <u>force the use of a service which a credit card company does not require</u> and <u>collect a fee</u>.

### Possible Disadvantages Suffered by Credit Card Companies as Result of Unilateral Revisions of Contract Contents

(multiple responses permitted)




Source: The survey results

## Considerations related to the AMA and Competition Policy

If the payment network operator in a superior bargaining position **<u>makes a unilateral revision of the contract contents without fully considering</u>** the opinions of the credit card company, and **<u>the credit card company suffers disadvantage</u>** as a result of this revision, then this is likely to be in violation of the AMA (Unfair Trade Practices: Abuse of a Superior Bargaining Position).

✓ The payment network operator, when revising a contract, should keep in mind:

(1) Whether or not the payment network operator <u>includes the volume of transactions unrelated to the services</u> provided by the payment network operator <u>in the transaction volume generating fees</u>,

(2) Whether or not the payment network operator <u>forces</u> the credit card companies <u>to use the services that are of no benefit</u> to them and <u>to pay a price</u> for such services,

(3) Whether or not the payment network operator <u>requires</u> the credit card companies <u>to pay fees or to bear expenses that are significantly unbalanced</u> when comparing the services provided by the payment network operator and the benefits received by the credit card company.

✓ The payment network operator should **<u>fully explain, with grounds, the reasons, etc. for the contract revision</u>**, and when receiving **<u>opinions from the credit card company</u>**, should **<u>take the opinions into consideration whenever possible</u>**.

# Proposal (2): Bearing of Expenses Involved with Mandatory Embedding of Contactless Payment Chips

## Current Conditions

### Mandatory Embedding of Contactless Payment Chips

**30%** Credit card companies which have received a notice of mandatory embedding of contactless payment chips

### Additional Annual Expenses and Benefits to Credit Card Companies

| | |
|---|---|
| 1 yen or more but less than 10 million yen | **37%** |
| 10 million yen or more but less than 100 million yen | **34%** |
| 100 million yen or more but less than 500 million yen | **6%** |

Not balanced now and not expected to be balanced in the future **36%**

### Main Opinions about Bearing of Expenses

**<Payment network operators>**

- In general, expenses for issuing cards should be borne by a credit card company.
- The payment network operator is making efforts to reduce the burden on credit card companies.

**<Credit card companies>**

- Payment terminals where contactless payment can be used are virtually unavailable in Japan, so mandatory embedding is something that has no rational explanation from a cost-benefit perspective.

Source: The survey results

## Understanding from Perspective of the AMA and Competition Policy

If a payment network operator in a superior bargaining position requires a credit card company to embed contactless payment chips provided by the payment network operator in the credit cards, when there are many credit card companies which assert **that the expenses of such embedding outweigh the benefits**,
if the payment network operator conducts such as **unilaterally requiring a credit card company to bear all the expenses required for embedding without giving full consideration to the opinions**, and such conduct **causes disadvantage to the credit card company**, then this is likely to be in violation of the AMA
(Unfair Trade Practices: Abuse of a Superior Bargaining Position).

It is necessary to keep in mind that such conduct of the payment network operator is **not automatically justified** simply because **credit card companies are supposed to bear the expenses for issuing cards in the currently existing trade practices**.

# Proposal (3): Prohibitions against Embedding Multiple Contactless Payment Chips

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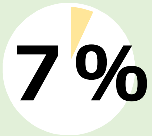
## Current Conditions

### Prohibitions by Payment Network Operators against Embedding Other Contactless Payment Chips (e.g., Electronic Money) and Actions by Credit Card Companies




Credit card companies which have been prohibited from embedding or have received notice of prohibition

| | | |
|---|---|---|
| Action | Will not embed other contactless payment chips | 53% |
| | Will get granted a temporary exemption and will continue to embed electronic money, etc. | 29% |

### Main Opinions about Embedding Other Contactless Payment Chips

**<Payment network operators>**

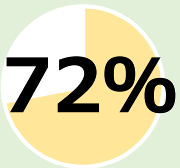
- In general other payment chips provided by competitors should not be embedded in the same credit card. However, the additional embedding of electronic money is handled flexibly when an exceptional action is appropriate.

**<Credit card companies>**

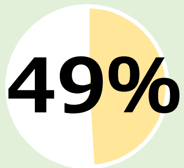
- The additional embedding of electronic money is at present only admitted as an exception, and we do not know whether or not the exception will continue to be admitted.

### Reasons Why Credit Card Companies Embed Electronic Money, etc.

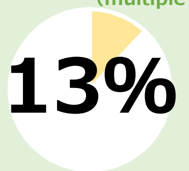
(multiple responses permitted)




Embedding multiple payment chips will increase the credit card value




The payment chip is provided by our company or our group company




Income from fees is expected

Source: The survey results

## Understanding from Perspective of the AMA and Competition Policy

Conduct by a payment network operator of **prohibiting from embedding electronic money that is not provided by a competitor card brand** in credit cards where the contactless payment chip of the first payment network operator is embedded, **reduces the opportunities** for agencies using electronic money **to provide their services to consumers** through transactions with the credit card company.

If such conduct produces **market foreclosure effects**, then this is likely to be in violation of the AMA (Unfair Trade Practices: Trading on Exclusive Terms, etc.).

# Proposal (4): Most Favored Nation Clauses



## Current Conditions

### MFN（Most Favored Nation）Clause in Credit Card Market

In contracts between a payment network operator and a credit card company, it is a clause to insist that if a credit card company also deals with other card brands, then <u>the terms and conditions of transaction for the first card brand must be equal to or more favorable than those for the other card brands</u>.

### Important Competition Means in Card Issuing Business (multiple responses permitted)

- Benefits according to amount of payments: **76%**
- Annual membership fees: **67%**
- Benefits upon initial enrollment: **63%**

### Setting MFN Clauses and Specific Details of Prohibitions (multiple responses permitted)

Credit card companies that responded “MFN clause included” **6%**

- **64%** A particular card brand must not get special treatment in member recruitment pages or advertisements
- **29%** Points granted upon initial enrollment must not be treated differently among card brands
- **29%** Points granted according to the amounts of payments must not be treated differently among card brands

Source: The survey results

### Main Opinions about MFN Clauses

**〈Payment network operators〉**

- Restricting certain actions by credit card companies in order to protect the brand image <u>may in some cases be beneficial to both the payment network operator and the credit card companies</u>.
- Although not a MFN clause, we <u>restrict credit card companies from providing service that is deliberately inferior in comparison with other card brands for reasons of maintaining the minimum necessary level of service</u>.

**〈Credit card companies〉**

- The payment network operator requires that its brand and other brands be treated equally. If this <u>restriction did not exist, we would like to conduct campaigns that boost points only for a particular card brand</u>.

## Understanding from Perspective of the AMA and Competition Policy

A MFN clause **<u>may restrain procompetitive conduct such as a campaign that boosts points only for a particular card brand and may impede competition through the credit companies between card brands, as well as within the card brand itself.</u>**

**<u>If market foreclosure effects or price maintenance effects occur</u>**, then this is likely to be in violation of the AMA (Unfair Trade Practices: Trading on Restrictive Terms).

# Proposal (5): Dynamic Currency Conversion Services

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## Current Conditions

### What is Dynamic Currency Conversion Service?

When using a credit card to purchase a product in a foreign country, a card member using the service can confirm purchase prices in card members' home currency (when not using, confirmed in the foreign currency). A credit card company conducts currency conversion through collaboration with a foreign exchange company and charges the card member a fee.

**31%** Credit card companies providing the services

### Main Opinions about Dynamic Currency Conversion Services

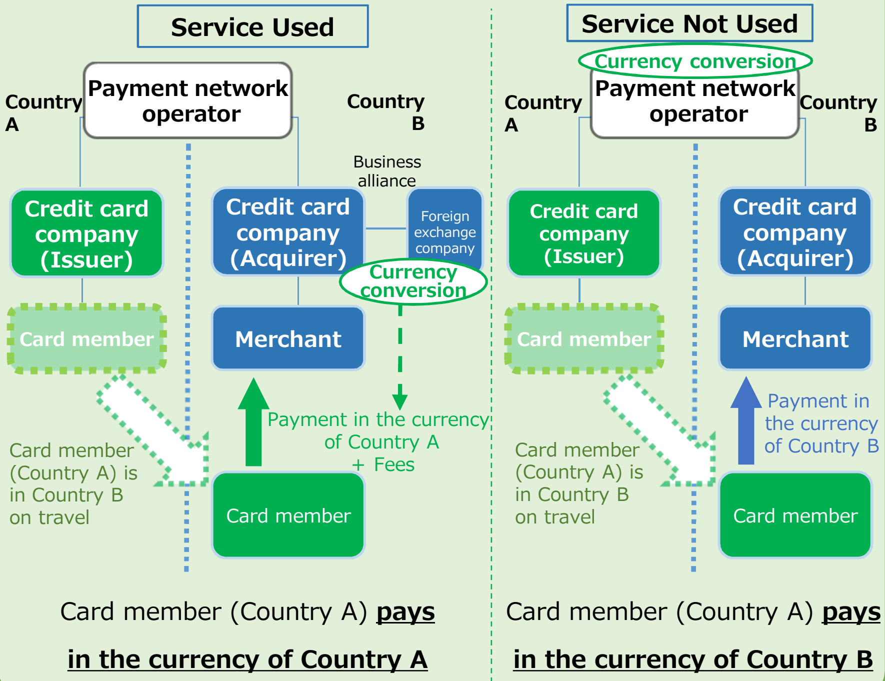
**〈Credit card companies〉**

- No explanation has been provided of the reason why the fee according to transaction volume paid to the payment network operator is higher when a dynamic currency conversion service is used than when not used, and this is not understandable.

**〈Payment network operators〉**

- The payment network operator makes a number of back-end system adjustments to ensure that the subsequent payment process precisely reflects the choice to use the service made by the card member.
- Provision of the service is possible by using the payment network of the payment network operators, and that means the payment network has the added value. The credit card company and the merchant in many cases make a profit by providing the service.

### Diagram of Dynamic Currency Conversion Service




Source: The survey results

## Understanding from Perspective of the AMA and Competition Policy

✓ If a payment network operator requires the credit card companies providing dynamic currency conversion services **to pay certain fees higher than when the service is not used**, the payment network operator should **keep in mind not to require fees, etc. significantly unbalanced between the level of fees for the services provided by the payment network operator and the benefits received by the credit card company, fully explain, with grounds, the reasons, etc.**, and **take the credit card companies' opinions into consideration whenever possible.**

If a payment network operator **takes action such as setting significantly higher fees for a credit card company providing the service, which abandons the provision of the service**, then this is likely to be in violation of the AMA (Unfair Trade Practices: Refusal to Trade, etc. ).

# Proposal (6): Interchange Fees



## Current Conditions

### Default Interchange Rate

Some payment network operators themselves set the default interchange rates.
The default interchange rate is used when an interchange rate is not set bilaterally between an issuer and an acquirer.

Bilateral interchange fees **0 %** No bilateral interchange fee was confirmed.

- ◆ The default interchange rate is not disclosed in Japan.

Source: The survey results

### Main Opinions about Interchange Fees

**〈Payment network operators〉**

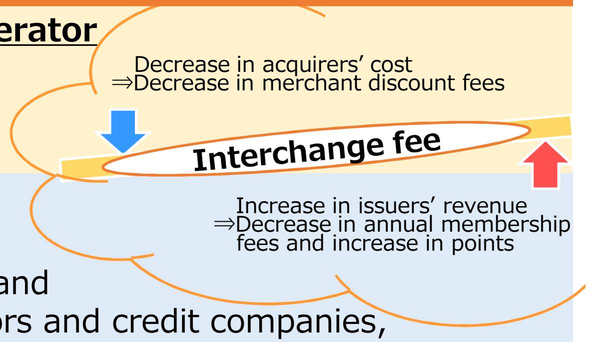
- ■ The default interchange rate is independently set by the payment network operator.
- ■ The default interchange rate is confidential and not suitable for disclosure.
- ■ It would be possible to disclose the default interchange rate in the same way as in other markets around the world.

**〈Credit card companies〉**

- ■ In general, merchant discount fees are set within a range that will not result in a loss, using the interchange rates as a reference.
- ■ Because interchange fees are the cost of conducting merchant acquiring business, disclosure of the default interchange rate is not an idea that can be easily accepted. On the other hand, if there are merchants that are in a loss on transactions, it would be possible to negotiate for raising merchant discount fees based on the disclosed rates, so there are also some good aspects.
- ■ Because different rates are set for different industries, if the default interchange rate is disclosed, dissatisfaction could be expected in some industries.

## Understanding from Perspective of the AMA and Competition Policy

If **the default interchange rate is decided jointly by the payment network operator and credit card companies**, or if **multiple credit card companies jointly agree to use the default interchange rate set by the payment network operator**, then this is likely to be in violation of the AMA (Unreasonable Restraint of Trade).




At present, it is **not possible for the card members and the merchants to know the default interchange rate** in Japan.
Disclosure of the default interchange rate would **improve market transparency**, and there would be some changes in consumers' selection of payment network operators and credit companies, and merchants' attitude toward negotiation on merchant discount fees with credit card companies.
Such changes would make more vigorous competition in the market.

Through affecting the setting of default rate, that would result in **more appropriate default interchange rate**.
▶**Disclosing the default interchange rate** by the payment network operators is considered preferable.

# Future Plans of the JFTC

- The JFTC hopes that payment network operators and credit card companies will utilize this report to **prevent violations of the AMA** and take **steps for procompetitive practices**, and that these actions will **promote competition in the credit card market** and **improve benefits to consumers**.

- The JFTC will **continue to pay close attention to trends in the credit card market** and **take strict actions against AMA violations**.