

## Background - Purpose

- In recent years, fintech companies are entering the financial field in which banks have mainly provided services.

### Household Accounting Services - Accounting services

Electronic payment service provider providing household accounting services or accounting services using information on savings accounts kept by banks are entering the financial field.

### Cashless payment with QR code and barcode

Fund transfer service providers which provide payment service in manner of reading QR codes by smartphone are entering the financial field.

Encouraging innovation and improving convenience for users by promoting new entry and developing fair and open competitive environment

Efficient asset management by consumers  
Improvement in productivity of small and medium-sized enterprises

Achieving low-cost and convenient payment

## Conducting of survey (summary)

### Method of survey

- Interviews held with banks, electronic payment service providers and System vendors
- Questionnaire of above businesses (205 businesses in total)
- Questionnaire of two thousand consumers using household accounting services (2,000 consumers)

- Interviews held with banks, fund transfer service providers and retail payment infrastructure providers
- Questionnaire of above business operators (206 operators in total)
- Questionnaire of code payment users (4,000 consumers)

## Consideration in light of Competition Policies and Antimonopoly Act

### Connection with banks from the viewpoint of electronic payment service providers

- Banks and electronic payment service providers have gradually reached an agreement on contracts, at present. **However in such case where a bank holds a superior position to an electronic payment service provider in transactions, if the bank inflicts unreasonable disadvantage in light of normal business practices on the electronic payment service provider as a result of reviews of the contract, the action would be problematic under the Antimonopoly Act (AMA).**
- From the viewpoint of competition policies, **it is necessary to adequately secure the access to information on savings accounts currently kept by banks.**

### Banks procure systems related to the API connection infrastructure

- It is desirable **to secure sufficient competitiveness in the way of procurement.**
- In this case, it would be problematic under the AMA **if an existing vendor refuses to disclose the specifications to an outside vendor without reasonable grounds or otherwise unjustly interferes with an outside vendor to receive from the bank entrustment of development of the API connection infrastructure.**

### Charge from bank account to fund transfer service provider's account (flow for depositing)

- Acts by banks that themselves provide code payment of **refusing charging** with fund transfer service providers **could cause the regal issues with the Antimonopoly Act (AMA).**
- It would be desirable for payment infrastructure usage fees which is essential to charge from bank account **to be set appropriately through negotiation with user businesses.**

### Deposit transfer from fund transfer service provider's account to bank account (flow for disbursement)

- Interbank fees which make impacts on transfer fees have **been fixed for more than 40 years.** It needs **to be rectified that the current situation under which interbank fees have been maintained.**
- From the perspective of an equal footing in competitive conditions, it would be desirable for **Zengin System to consider toward opening up access to fund transfer service providers.** It needs for Zengin System **to enhance a governance structure and secure transparency,** for securing efficiency.

## Background of Transactions in Field of Household Accounting Services

- Due to Amendment of the Banking Act in 2017, electronic payment service providers are supposed to use, as a rule, technology called **APIs** when acquiring account information necessary for the provision of household accounting services. 【Text P6 onward】
- The Act Amending the Banking Act requires businesses that have provided household accounting services before the amendment of the Banking Act, in order to continue their services, **to conclude contracts** with banks concerning electronic payment services **by May 31, 2020**.※ 【Text P10】

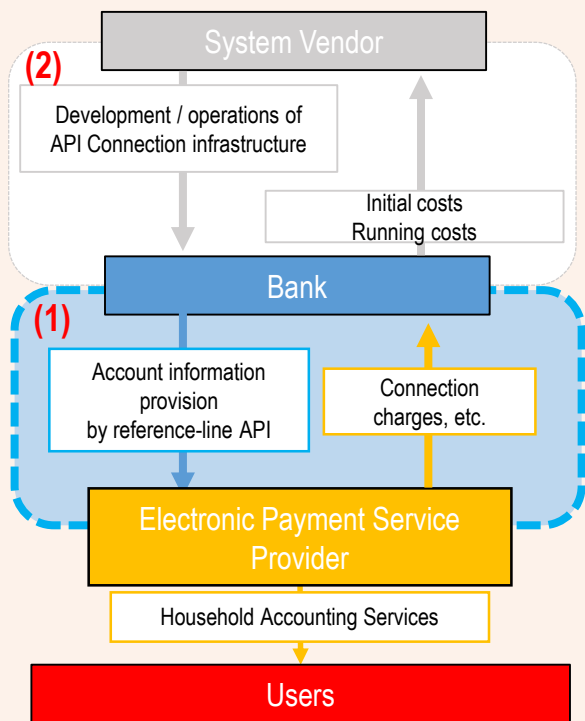
※ The Financial Services Agency announced on April 14, 2020, that the time limit for conclusion of contracts would be put off to September 30, 2020, in that case, despite manifestation of an intent by both of them to conclude contracts by May 31, 2020, that could not actually conclude contracts by the date because of the spread of COVID-19 infection.

## Situation of Transactions in Field of Household Accounting Services

- At the beginning of this survey (October 2020), when contract negotiations faced rough going, concerns were expressed by both banks and electronic payment service providers regarding contract negotiations. 【Text P29】
- As negotiations have been advanced, concerns have almost been resolved. **Contracts could be concluded with the necessary banks for continuation of household accounting services by the time limit for conclusion.** 【Text P42】

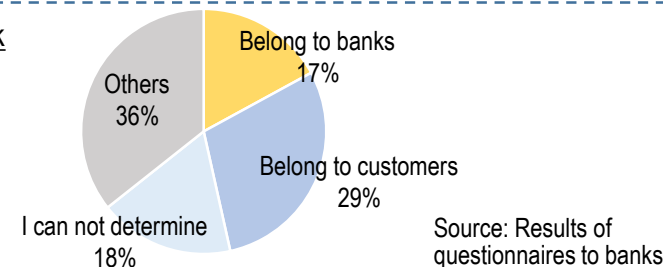
### (1) Transactions between Banks and Electronic Payment Service Providers

#### Transaction structure for household accounting services

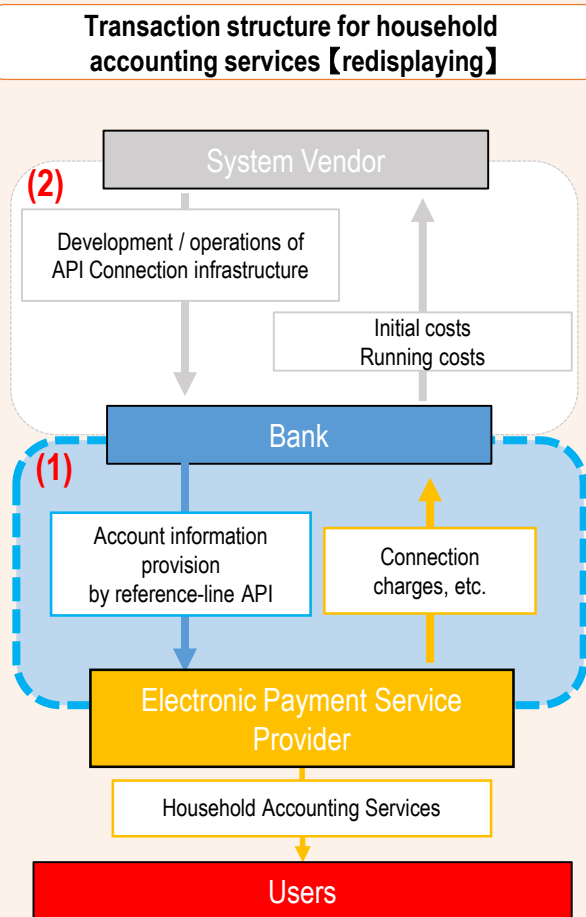


- It is indispensable for an electronic payment service provider to access the bank in engaging in the services, Hence, if an electronic payment service provider fails to reach an agreement on contractual terms with a bank, the provider would not be able to acquire account information from that bank. 【Text P24】
  - Banking Act does not provide the scope of information provided through the API connection, so that some banks had developed the API connection infrastructure by limiting it to the minimum functions necessary as a tentative measure to save on costs for the development and operation of the API connection infrastructure. 【Text P36 onward】
  - Some banks recognize that the account information belongs to the banks※1 (Text at the foot of this page), and, for the secondary use of account information※2, required electronic payment service providers to obtain the banks' advance consent to the recipient of the information and its contents. 【Text P38 onward】
- ※2 Some electronic payment service providers provide services where they create data from account information acquired from banks and provide them to the banks and other enterprises, complying with the personal information protection legislation as the premise for business, including in terms of the acquisition of depositors' consent.
- As the contracts are to be renewed yearly, some electronic payment service providers were suggested by many banks that the current terms were provisional ones premised on the above time limit, and that the contents of the contracts might be reviewed in negotiations for contract renewal. So, it is expected that banks and electronic payment service providers will continue to negotiate contracts to review them. 【Text P44】

#### ※1 What banks think about attribution of bank account information kept by them



## (1) Transactions between Banks and Electronic Payment Service Providers



### 《Consideration in light of Competition Policies》 【Text P45 onward】

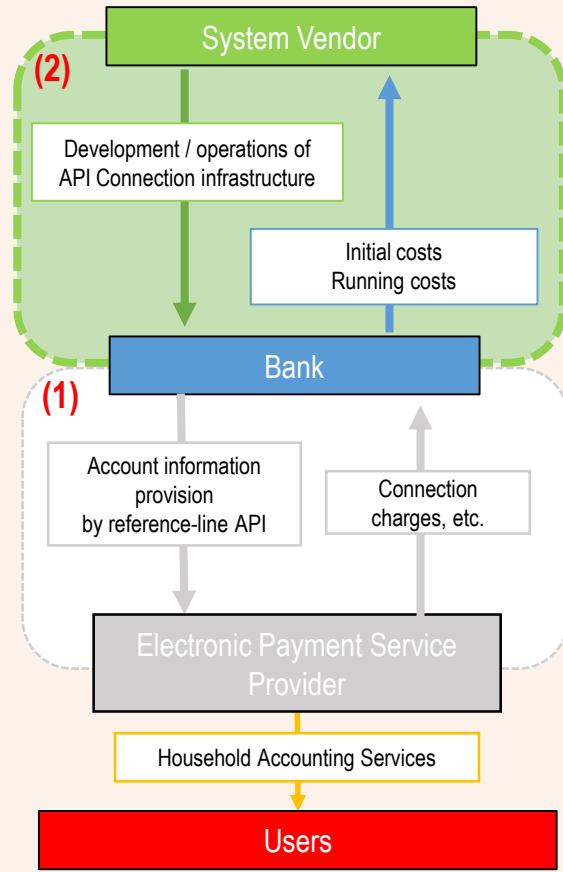
- It is expected at present, that the access to information on savings accounts in the household accounting services is secured through contracts between banks and electronic payment service providers under the Banking Act. However, if any issue arises in the future in transactions between both sides, necessary measures for securing the access to information on savings accounts may be considered when needed.
- It is desirable that banks will expand, on an as-needed basis, the scope of information acquired with the API connection by taking into consideration needs of users and burden of costs.

### 《Consideration in light of AMA》 【Text P46 onward】

- In such case where a bank holds a superior position to an electronic payment service provider in transactions, if the bank inflicts unreasonable disadvantage in light of normal business practices on the electronic payment service provider as a result of reviews of the contract, the action would be problematic under the AMA. (**abuse of superior bargaining position**)
- When banks start providing household accounting services in the future, it would be problematic under the AMA if an influential bank in the market refuses to have transactions with an electronic payment service provider or raises the level of connection charges to such an extent that it is practically equivalent to refusal, or limits the handling of information acquired from the bank as a means to exclude competitors from the market or otherwise achieve unjust purposes under the AMA. (**primary refusals to deal by a single enterprise, interference with a competitor's transaction**)
- If an influential bank in the market gives, without reasonable grounds, discriminative treatment to limited electronic payment service providers regarding the price for the same service or other transaction terms, including those requiring them to connect for a higher level of connection charges compared to other electronic payment service providers or limiting their handling of information acquired from the bank, these actions would be problematic under the AMA. (**discriminatory pricing, discriminatory treatment**)

## (2) Transactions between Banks and System Vendors

Transaction structure for household accounting services



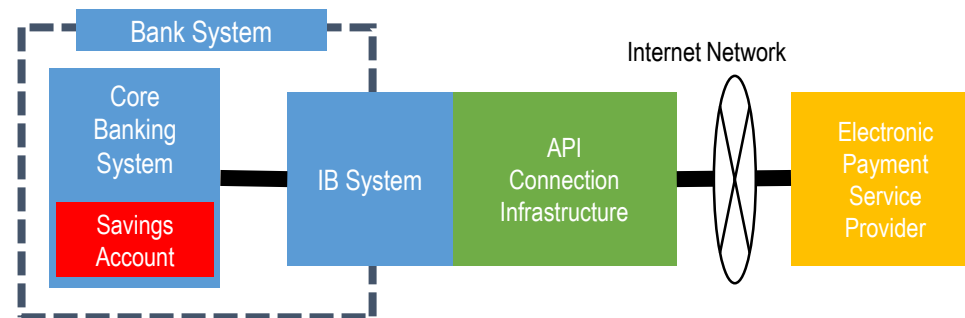
- Banks pay initial costs and running costs to system vendors to conduct the development and operation of the API connection infrastructure. 【Text P10-18 onward】 Based on those costs a bank should bear, the bank decides on the level of connection charges claimed from an electronic payment service provider. 【Text P30 onward】
- Approximately 70% of the banks in fact considered more than one system vendor, including outside vendors※ to entrust system development. However, only approximately 20% of the banks actually entrusted the development of the API connection infrastructure to outside vendors. 【Text P21 onward】
- When entrusting development of the API connection infrastructure to an outside vendor, it is indispensable to get cooperation of the existing vendor※ for disclosure of specifications. 【Text P23】 There were opinions from system vendors to the effect that they cannot receive orders for new cases because they cannot get cooperation from an existing vendor. 【Text P34】

※ Existing vendor means the vendor who has developed the core banking system or IB System to which the API connection infrastructure is to be connected. Outside vendor means the vendor other than existing vendor.

- Some banks state opinions regarding negotiations with system vendors over fees that due to the lack of system personnel with sufficient knowledge of their own system, they could not sufficiently examine estimates and had difficulty in negotiating with system vendors on an equal footing. 【Text P35 onward】

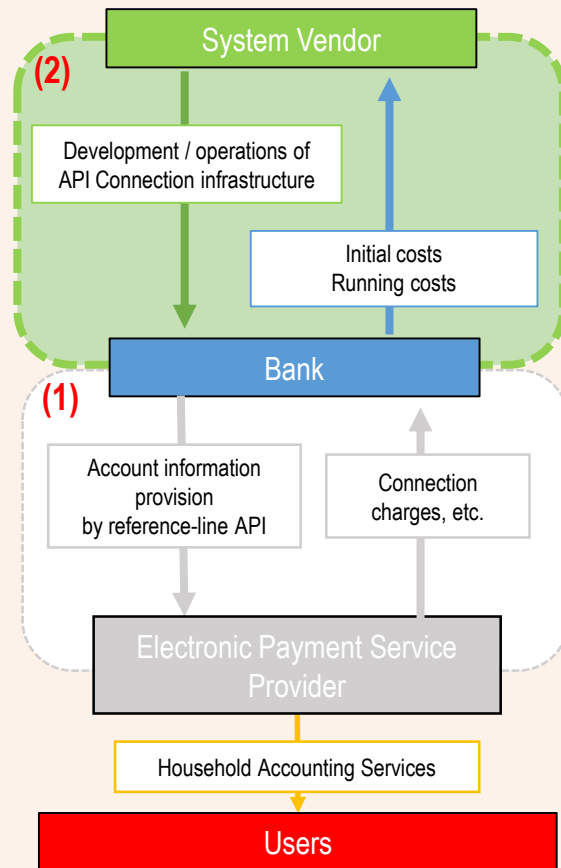
### [reference] outline of API Connection

- The majority of banks uses internet banking system (below :“IB system”) to connect the API connection infrastructure to the core banking system that manages account information.
- There is a scheme that connect the API connection infrastructure to the core banking system, by which both are directly connected.



## (2) Transactions between Banks and System Vendors

### Transaction structure for household accounting services 【redisplaying】



### 《 Consideration in light of Competition Policies 》 【Text P47 onward】

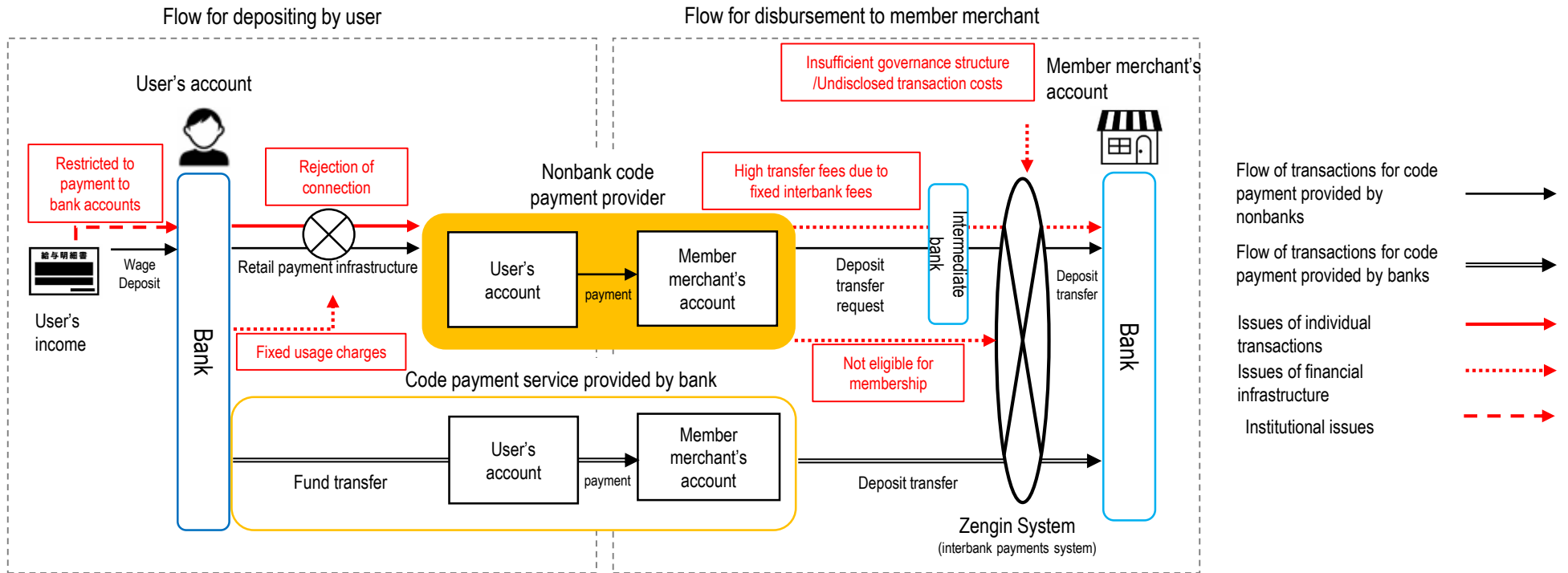
- When banks in the future develop a new API connection infrastructure or review the existing API connection infrastructure, or otherwise procure systems related to the API connection infrastructure, it is desirable to secure sufficient competitiveness in the way of procurement. For example, the bank gets estimates from multiple system vendors, not only an existing vendor but also outside.
- To negotiate with system vendors on an equal footing to appropriately procure systems, a bank may work to eliminate information asymmetry, that is, a gap in the knowledge of systems between the bank and system vendors. For example, the bank may strive to secure insight and expertise for systems, including through securing and fostering talented personnel.

### 《 Consideration in light of AMA 》 【Text P48】

- It would be problematic under the AMA if an existing vendor in the market refuses to disclose the specifications to an outside vendor without reasonable grounds or otherwise unjustly interferes with an outside vendor to receive from the bank entrustment of development of the API connection infrastructure. (**interference with a competitor's transaction**)
- It would be problematic under the AMA if an existing vendor, being influential in the market of development of core banking systems or IB systems, raises the price for or discontinues accepting entrustment for the existing IB system or other bank systems of a bank intending to entrust development of the API connection infrastructure to an outside vendor or suggests such action to force the bank into getting development of the API connection infrastructure from the existing vendor, unjustly precluding the bank from entrusting outside vendors. (**tie-in sales, trade with exclusive condition, etc.**)

## Points of survey

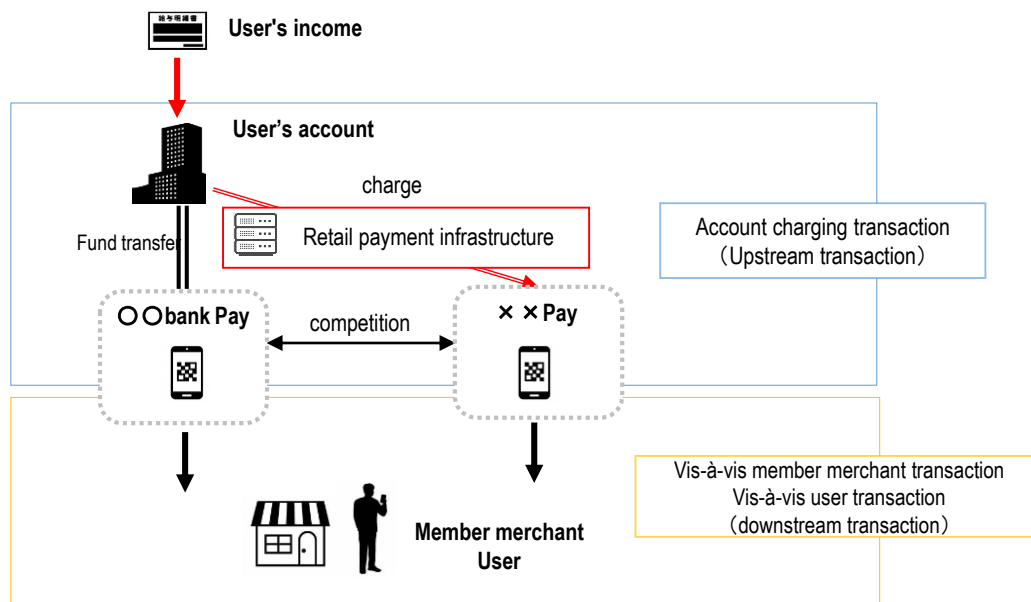
- The main subject of this survey is an option known as Code payments, a payment mode by which someone uses a smartphone-based payment app to read QR code or barcode and make a payment, rapidly spreading in the field of cashless payments at the moment.
- The flow of transactions for code payments addressed by this survey and issues concerning the AMA and competition policy are as follows.



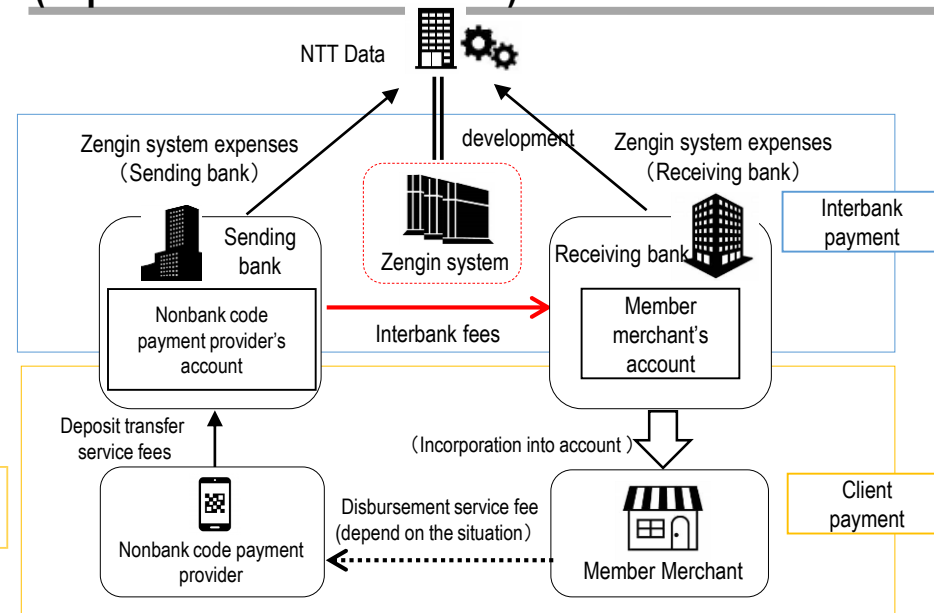
There are differences in competitive conditions between nonbank code payment providers and banks which provide code payment service.  
 Not securing an equal footing may prevent achieving low-cost and convenient payment.



## I . Flow for depositing by user (account charging transaction)



## II . Flow for disbursement to member merchant (deposit transfer transaction)



- A bank provides a user to code payment service by using the user's bank account that have been opened with the bank. 【Text P11】
- Since the user's wages that are the source of charges are transferred to his or her bank account, nonbank code payment provider needs to access user's bank account. 【Text P12】
- The following relationship have formed between banks and nonbank code payment providers, 【Text P26 onward】
  - (i) A vertical business relationship (upstream-downstream relationship) in which no means of payment can be secured unless the nonbank code payment service provider links to the user's bank account;
  - (ii) A horizontal competitive relationship in transactions vis-à-vis users and member merchants
- CAFIS provided by NTT Data has effectively become an indispensable retail payment infrastructure for the provision of any service for account charging undertaken from bank accounts by nonbank code payment providers. 【Text P42】

- The method of disbursement to member merchant by nonbank code payment provider is deposit transfer. 【Text P9 onward】
- In an interbank deposit transfer, funds shall be moved between a client (payer, payee) and a bank (client payment) and between a sending bank and a receiving bank (interbank payment). 【Text P49】
- In deposit transfers for carrying out interbank deposit transfers, the Domestic Funds Transfer System operated by Zengin-net is utilized. In addition, Zengin System is utilized as an interbank network system for operating the aforementioned fund payment system. 【Text P49】
- Since the Domestic Funds Transfer System has network externalities, and economies of scale and natural monopoly, it is virtually indispensable for disbursement to member merchant using interbank deposit transfers. 【Text P51】

## I . Issues and recommendations concerning flow for depositing by user (Account charging transaction) 1

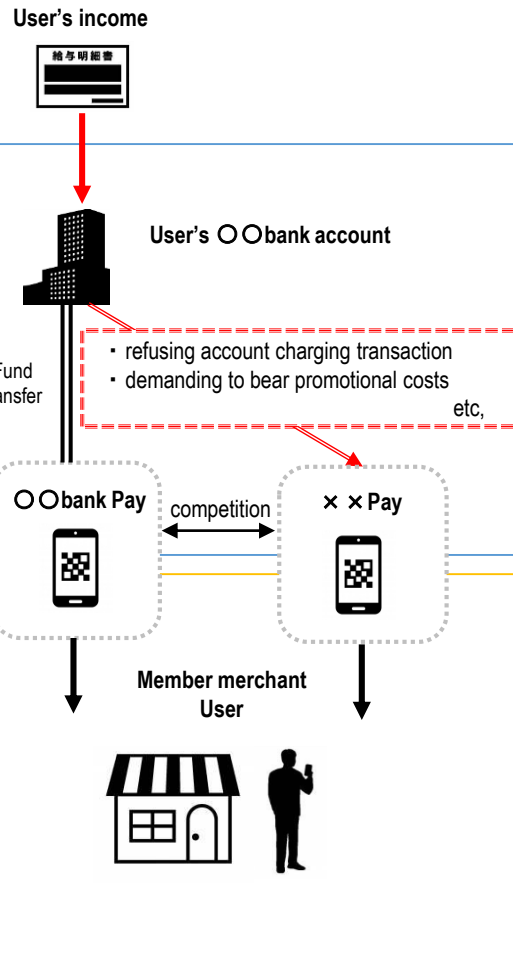
### A. Issues of transactions between banks and nonbank code payment providers

- The undertaking such as account charging from bank accounts constitutes **a method of account charging that is exceedingly important** for nonbank code payment providers, because account charging using credit card or with cash from an ATM **are inferior as compared with it from bank account in terms of cost and convenience.** 【Text P28 onward】
- A bank that provides its own code payment services can **facilitate the generation of incentives to enhance the competitiveness of its own code payment services** and **to reject nonbank code payment providers** for downstream transactions. 【Text P30】
- **For nonbank code payment providers, the difficulty of continuing transactions with banks could substantially impede business management**, considering circumstances such as **carrying out a mandate to conduct a check at the time a transaction is undertaken** in account charging transaction, **a large share of all account charging from bank accounts, an initial cost which is difficult to recover** and **consumer behavior.** 【Text P30 onward】

#### 《Consideration in light of the AMA》 【Text P66 onward】

The following acts in account charging from bank accounts could cause the regal issues with the AMA.

- Acts that a bank with a powerful position in the market of account charging from bank accounts refuses charging with a nonbank code payment provider or rises the fees charged a nonbank code payment provider for connection to bank accounts to a degree that effectively would be a same as refusing transactions, for purposes of eliminating them from market as competitors. (**primary refusals to deal by a single enterprise or interference with a competitor's transaction**)
- Acts that a bank in an advantageous position compared to a nonbank code payment provider in a transaction, qualifies as imposition of an improper disadvantage in light of proper business practices, by (i) forcing the nonbank code payment providers to develop member merchants , (ii) demanding to bear promotional costs, (iii) forcing the nonbank code payment provider to provide its payment data unilaterally. (**abuse of superior bargaining position**)





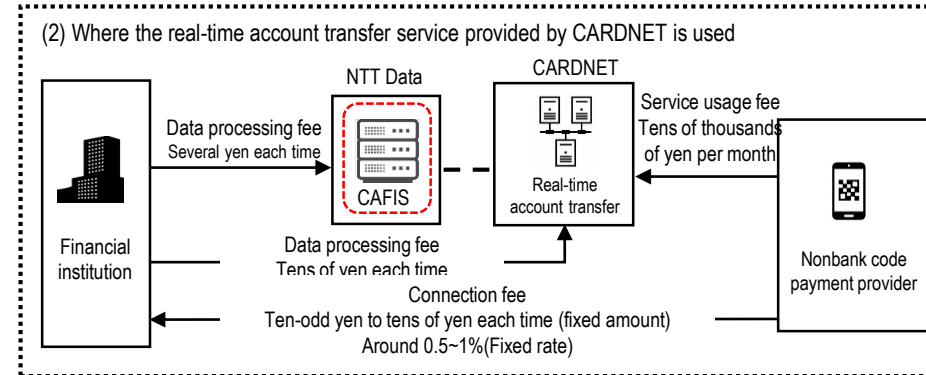
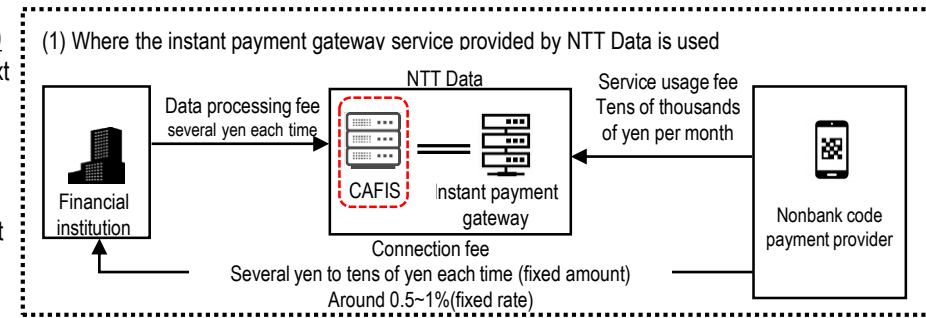
## I . Issues and recommendations concerning flow for depositing by user (Account charging transaction) 2

### B. Use of APIs to set and update retail payment infrastructure (CAFIS) usage charges

- CAFIS is a practically essential retail payment infrastructure when nonbank code payment providers provide users to account charging from banks. 【Text P42】
- **Metered fees** set in the terms and condition of the agreement for CAFIS **have been fixed for more than 10 years**, whereas transaction volumes of the retail payment infrastructure have increased considerably. 【Text P47 onward】
- The state of the operating profit on sales for CAFIS service is in the range of ten to twenty percent. 【Text P47】
- According to interviews with banks, CAFIS usage fees are covered by costs paid by nonbank code payment providers to banks when they provide users to account charging from banks. 【Text P17】

#### 《Consideration in light of competition policy》 【Text P70 onward】

- The rigidity of CAFIS usage charges could lead the costs related to account charging from bank account to rise and by extension leading to high fee rates.
- In light of considerations of the fact that CAFIS effectively is essential infrastructure to account charges, it would be desirable for CAFIS usage charges to be set appropriately through negotiation with user businesses.
- It would be desirable, in order to increase competitive pressure on retail payment infrastructure, for individual banks to consider to develop an environment in which it would be easy for nonbank code payment providers to use read/write APIs.



### C. The impact of payment of wages to nonbank code payment providers' accounts on an equal footing under competitive conditions

- A questionnaire administered to consumers revealed that approximately **forty percent of users** would consider depositing a portion of their wages into an account for code payment services that they personally use. 【Text P26】
- If nonbank code payment providers were able to receive users' wages directly, then they would be **able to provide users with code payment without connecting to bank accounts**. 【Text P73】

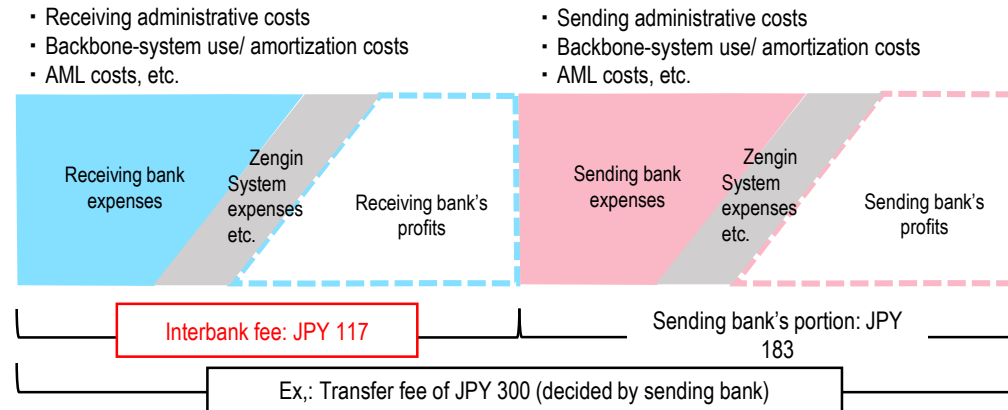
#### 《Consideration in light of competition policy》 【Text P73】

- It can be considered that permitting payment of wages to fund transfer service providers' accounts would have a desirable effect on securing an equal footing in competition conditions between banks and nonbank code payment providers.

## II . Issues and recommendations concerning flow for disbursement to member merchant (Deposit transfer transaction) 1

### A. Review of transaction practices related to interbank fees

Ex.: cost structure of interbank deposit transfer fees (for a transfer of less than 30,000 yen submitted using an internet banking service)



- While interbank fees are to be determined through mutual negotiations between banks, **the interbank fees set by all banks were 117 yen (tax excluded) for transfers of less than 30,000 yen and 162 yen (tax excluded) for transfers of 30,000 yen or more.** Banks consider that these levels are **much higher than the actual administrative costs arising.** 【Text P54 onward】
- Individual banks set going interbank fees by reference to the levels that Zengin-net's predecessor, the Organization for Management of Domestic Fund Transfers sent in history, and the fees have **been fixed for more than 40 years.** **It could not be confirmed any cases of the banks negotiating to change levels of interbank fees** until the start of this survey. 【Text P54 onward】
- Since interbank fees have remained fixed virtually for many years, competition in transfer transactions have been **affected in the shape of levels of transfer fees for interbank deposit transfer and refusing use of intrabank deposit transfers.** 【Text P58 onward】
- In this survey, we were **unable to identify any fees that correspond to Japan's interbank fees in other countries' transfer transactions.** 【Text P60】

#### 《Consideration in light of competition policy》 【Text P71】

- Individual banks should make efforts to rectify the current situation under which interbank fees have been maintained at levels greatly exceeding the actual administrative costs incurred by considering whether or not interbank fees truly are necessary and fulfilling suitable accountability requirements with regard to the levels at which they are set and the grounds thereof.

## II . Issues and recommendations concerning flow for disbursement to member merchant (Deposit transfer transaction) 2

### B. Enhancing the Zengin-Net governance structure and securing transparency in transactions

- Regarding to administering the Domestic Fund Transfer System, (i) it would be difficult to propose a system based on awareness of the issues of individual banks (View by banks), (ii) the Zengin-net Advisory Committee as a venue to collect information on the needs of consumers and general businesses is **not necessarily functioning as a venue for sufficient discussions**. (View by experts) 【Text P60】
- Transaction costs of use of fund transfer system are **not disclosed in Japan**, while disclosed in other countries. 【Text P60】
- There is a possibility that lacks of governance structure and transaction transparency has resulted **in limited opportunities to demand improvements regarding the cost structure** of the Domestic Fund Transfer System which has an essential natural monopoly. 【Text P72】

#### 《Consideration in light of competition policy》 【Text P72】

- It would be desirable for Zengin-net to develop and enhance a governance structure capable of fully reflecting the needs of end users of the system.
- It would be desirable for Zengin-net to secure transparency in transactions conducted using it.

### C. Studies toward opening up access to fund payment system to funds transfer service providers

- Fund transfer service providers which are able to engage in exchange transactions similar to banks **are not authorized** to become members of the Domestic Fund Transfer System. 【Text P61 onward】
- **If fund transfer service providers were able to connect to the Zengin System directly, the costs** arising from accounts charging from bank accounts in flow for depositing by users and **the costs** of transfer request in flow for disbursement to member merchant **could be reduced**. 【Text P62】
- In the questionnaire, **more than 65 percent of respondent fund transfer service providers** indicated that if it were possible to use fund transfer system, they **would consider such use proactively**. 【Text P63】

#### 《Consideration in light of competition policy》 【Text P72 onward】

- It would be desirable for Zengin-net to consider developing standards to connect to the Zengin system and opening up access to fund transfer service providers that satisfy these standards.