

2009 la^kkyara

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ID business and settlement

With a plethora of various IDs in use in Japan, businesses that utilize IDs have started to gain notice. Following is a discussion of such ID businesses' diversity and the future outlook for inter-ID settlement services sanctioned by the new Payment Services Act.

ID businesses

"ID" has a number of meanings in common parlance. The first that generally comes to mind is human ID, such as user IDs or customer or member numbers assigned to people. Goods and other things (e.g., banknotes) are also assigned IDs in the form of serial numbers. Businesses can utilize these IDs and information registered to them. Below we discuss businesses that utilize IDs (ID businesses), particularly IDs associated with individuals.

ID businesses can be categorized based on the purpose for which they utilize IDs. Some businesses utilize IDs in pursuit of earnings. They operate by directly approaching consumers with IDs or providing individuals' IDs to other companies (customer referral¹⁾). Examples of such businesses include online portal sites such as Yahoo! and e-commerce companies such as Rakuten. Other entities utilize IDs in the aim of making their services more convenient. Examples include banks that issue ATM cards, transit systems that issue smartcard transit passes, and municipalities that issue resident ID cards. There are also companies that provide IT systems and support services for such ID utilization.

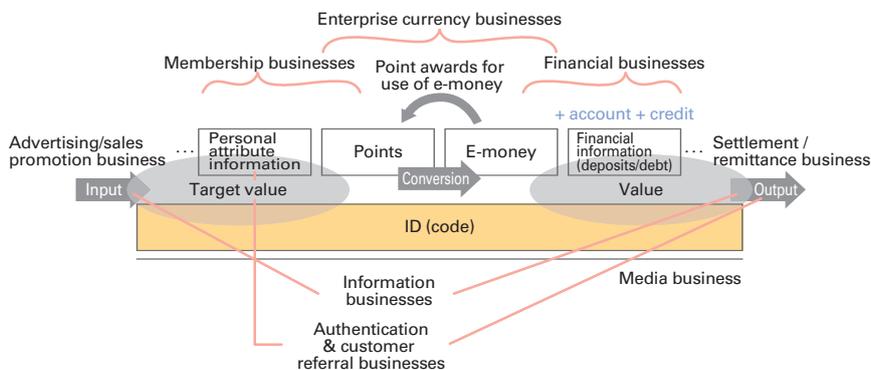
The significance of registering information to IDs is depicted in Exhibit 1. It shows various types of information (e.g., personal attributes, points, electronic money, real money) embedded in an ID code. Such information can be utilized by various businesses.

ID utilization in ID-intensive Japan

IDs abound in Japan to a much greater extent than in most countries, even other developed countries. Japan can accordingly be called an ID-intensive country. According to an NRI survey²⁾, 30–39 year-old men, the demographic cohort with the most online IDs, have an average of 8.5 ID types (industry categories)³⁾ while 30–39 year-old women, the cohort with the most real IDs (cards), have an average of 9.2 types. The actual number of IDs possessed is even higher, likely well in excess of 20.

Businesses that issue IDs attempt to increase ID issuance (number of members) through various means because growth in IDs helps enhance the business's value. As the number of IDs increases, the quality of the information registered to the IDs should improve (depending of course

Exhibit 1. ID-related information and businesses



Source: NRI

on the information's content) and the reliability of customer information analysis should increase. If the results of this analysis are used in management decision-making, the decision-making success rate presumably should also improve.

Some companies not only issue their own IDs but also partner with other companies in the aim of gaining access to the partners' IDs. Additionally, companies are increasingly utilizing the customer information registered to these IDs to do targeted advertising or make recommendations⁴⁾ and also to cooperate with their ID-sharing partners through such means as cross-authentication or customer referrals. As a historical rule of thumb, a company becomes highly attractive as an ID-sharing partner once it accumulates roughly 10 million IDs. Japan Airlines (JAL), for example, with over 20 million mileage club members, is an extremely attractive partner.

The necessity of ID federation

If consumers had only one ID per person, such a unified system would enhance convenience for both individuals and companies. It would also reduce societal costs, provided that personal information and privacy are adequately safeguarded. Japan, however, does not have unified ID numbers for its citizenry. The only form of publicly issued personal identification is the aforementioned resident ID card, but only 3,625,000 such cards (equivalent to about 2.8% of Japan's population) have been issued as of June 30, 2009. Such being the case, attempting to compulsorily unify the various public and private IDs already in existence would be ill-advised. A cooperative approach that utilizes existing IDs is necessary.

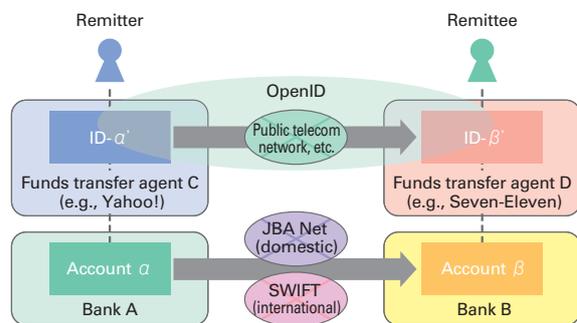
Standards that facilitate sharing of different businesses' ID information (including monetary values) have recently been developed. One such standard is OpenID⁵⁾. Compliance with the OpenID standard enables sharing of OpenID logins (authentication) and other information between OpenID issuers and other OpenID-compatible sites. With OpenID, companies can freely utilize information associated with not only IDs they have issued themselves but also IDs issued by other companies if they have

permission to do so.

After ID federation comes inter-ID settlement

The Payment Services Act (PSA) was passed in June 2009. Once it takes effect in fiscal 2010, companies will be able to offer funds transfer services if they register as a funds transfer agent. Previously only financial institutions licensed pursuant to the Banking Act have been permitted to perform funds transfers, but the PSA will allow ID businesses to also do so, as illustrated in Exhibit 2. Settlement transactions have hitherto been permitted only between bank accounts ($\alpha \rightarrow \beta$ at the bottom of Exhibit 2). Once the PSA goes into effect, settlement between ID accounts will also be permitted ($\alpha' \rightarrow \beta'$ at the top of Exhibit 2). For example, a consumer would be able to cash in Yahoo! points and pick up the cash at a Seven-Eleven store.

Exhibit 2. Inter-ID settlement



Source: NRI

However, if there are multiple standards for information exchange between IDs, deregulation would end up driving up costs due to the need to process transactions individually. Under such circumstances, inter-ID settlement services may not be a viable business. For information exchange, it is desirable to have a universal standard such as OpenID. To study such issues, the OpenID Foundation Japan⁶⁾, which promotes widespread adoption of OpenID, has recently established a Settlement Working Group.

Because the PSA will repeal the existing prohibition against non-banks providing funds transfer services, foreign companies such as PayPal and Western Union also will

be able to enter the Japanese market. In the future, the nonbank settlement business may spread internationally also. How ID businesses evolve their business models in this new environment will be a key focal point.

Note

- 1) Businesses with customer drawing power refer users (customers) through such means as online affiliates (pay-per-click advertising) and distributor alliances.
- 2) ID Questionnaire Survey conducted in August 2008.
- 3) The survey asked about the respondents' personal ID cards and IDs by industry (e.g., consumer electronics, supermarket, bank). The actual number of IDs is presumably much higher than the number reported.
- 4) For example, providing information such as "consumers that purchased product A have also purchased product B."
- 5) OpenID is a standard that enables Internet users to access multiple services with a single user profile. Once users register at an OpenID-compatible site, they can log on to other OpenID-compatible sites with the same ID without registering anew at those sites. Users' registration information (e.g., name, address, card number) is shared among sites with the user's permission. Globally, over 50,000 sites are already OpenID-compatible. Over 1.5 billion OpenID-compatible IDs have been issued.
- 6) OpenID Foundation Japan is an organization officially sanctioned by the OpenID Foundation of the US. Its mission is to promote widespread adoption of OpenID technology in Japan, support OpenID technology's internationalization, and translate specifications into Japanese.

Author's Profile

Hikomichi Yasuoka, Ph.D.

Financial Business Consulting Department I
Senior Consultant

E-mail : kyara@nri.co.jp

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Inquiries to : Department of Financial Markets and Technology Studies
Nomura Research Institute, Ltd.
Marunouchi Kitaguchi Bldg.
1-6-5 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan
E-mail : kyara@nri.co.jp

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