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Electronic money trends as revealed by a consumer survey

Nomura Research Institute, Ltd.

Electronic money is gaining prevalence as a means of payment. With e-money ownership and usage rising in Japan's five largest metropolitan areas, the keys to further growth in usage are capturing women users and pairing e-money with other types of cards.

Electronic money has gained mass prevalence

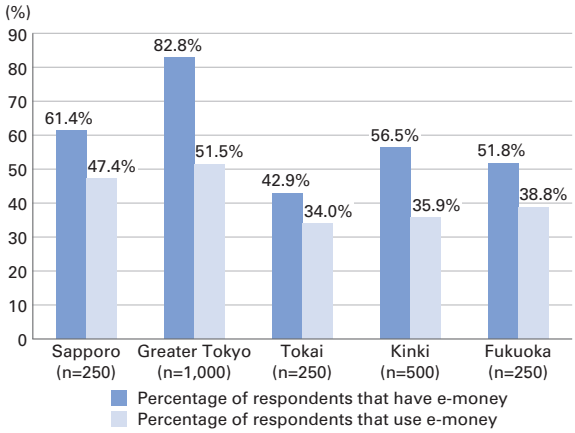
Electronic money enables Japanese consumers to purchase goods and services using a mobile phone or non-contact smartcard (e.g., Edy, Suica). With over 100 million such cards now issued, e-money is said to have achieved universal acceptance. According to a Bank of Japan survey published in July 2009 (Developments in Electronic Money in Japan During Fiscal 2008), over 100 million e-money transactions with an aggregate value of some ¥800 billion took place in fiscal 2008. Fiscal 2008 transaction volume increased 40% from fiscal 2007 in both unit and value terms.

Against such a backdrop of growth in e-money usage, NRI conducted its third Electronic Money[1] Survey. Specifically, we surveyed 2,250 adult (aged 18 or older) residents of five major metropolitan areas (Sapporo, Greater Tokyo, Tokai, Kinki, and Fukuoka Prefecture)[2].

Electronic money ownership and usage frequency have risen

In Greater Tokyo, 82.8% of survey respondents have a card (or mobile phone) with e-money functionality, as do more than half of the respondents in Kinki (56.5%) and Fukuoka (51.8%). In Tokai, the corresponding percentage was 42.9%, a 6.9 point increase from the year-earlier survey. In Sapporo, which was surveyed for the first time this year, respondents' e-money ownership rate was 61.4%. The percentage of respondents in Greater Tokyo that own e-money and use it for purchases[3] was 51.1%, above 50% for the first time since the survey's inception. This usage rate increased in all four metropolitan areas for which year-earlier data were available, suggesting that e-money is gaining prevalence as a means of payment (Exhibit 1).

Exhibit 1. Electronic money ownership and usage rates



Source: NRI's Third Electronic Money Survey

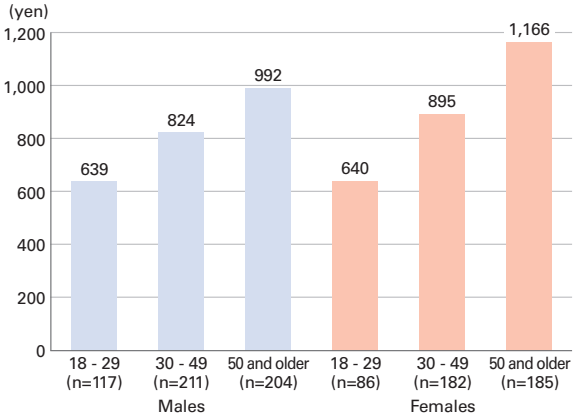
Sharp increase in average expenditure per "main e-money" transaction

Survey respondents with e-money cards have an average of 2.4 such cards. The survey queried respondents with e-money about their usage of their "main e-money" (i.e., the e-money brand that they use most frequently for routine purchases). We found that the average e-money user makes 7.0 e-money purchases per month with an average value of ¥900 per purchase[4]. Average usage frequency was nearly unchanged from last year's average of 7.2 times per month, but the average expenditure per transaction rose 19% from approximately ¥750 last year, partly by virtue of increased acceptance of e-money among merchants and growth in issuance of retailer-affiliated e-money cards.

Key to growth is capturing female users and dual functionality

Analysis of e-money usage by users' demographic attributes revealed that average expenditure per "main e-money" transaction was higher for female users than male users and increased with age among both males and females (Exhibit 2).

Exhibit 2. Average expenditure per "main e-money" transaction by gender and age group



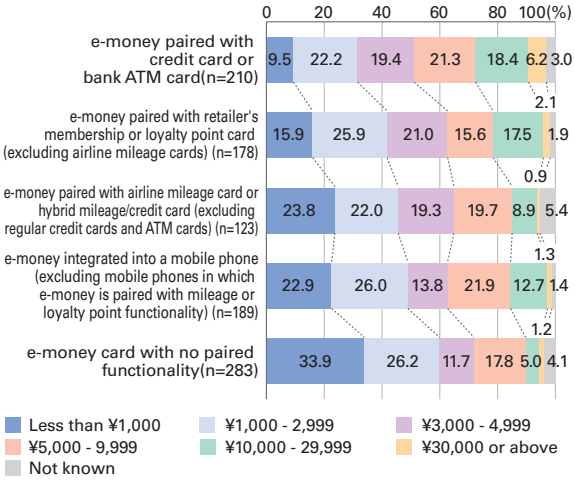
Source: NRI's Third Electronic Money Survey

With growth in usage frequency stagnating, capturing the support of female users with their higher average expenditure per transaction is the key to market growth.

Additionally, analysis of e-money usage by type of "main e-money" revealed that the type of e-money with the highest average monthly expenditures is e-money integrated with a credit card or financial institution's ATM card. Conversely, the type with the lowest average monthly expenditures is simplex e-money not paired with any other function (Exhibit 3).

We surmise that combining e-money with another function (e.g., credit card, Airline mileage) is an effective means of promoting e-money usage.

Exhibit 3. Average monthly expenditures by type of "main e-money" classified by paired functionality



Source: NRI's Third Electronic Money Survey

Infrastructure sharing is the way to profitability

Now that e-money has gained prominence as a means of payment, the total e-money transaction volume is projected to surpass ¥1 trillion in fiscal 2009. Despite the market's growth, earnings per e-money brand are still meager. A number of issues remain to be resolved for e-money to emerge as a profitable business on a stand-alone basis.

The immediate issue is how to increase usership by enhancing convenience, boosting recognition, and/or expanding the network of merchants that accept e-money. From a medium- to long-term perspective, sharing of infrastructure is essential. Currently, there are several standards in use for the terminals that process e-money transactions. This diversity imposes a heavy hardware cost burden on e-money issuers. Meanwhile, point-of-sale adaptation, terminal installation, and the hassle of processing e-money transactions are impediments to cultivating a merchant network. To resolve these difficulties, e-money issuers need to share terminals and networks. Issuers' progress toward establishing e-money as a mass-market cashless payment technology will continue to bear close monitoring.

Note

1) The survey covered the following 18 brands of electronic money: Edy, Suica, PASMO, ICOCA, PiTaPa, TOICA, nimoca, SUGOCA, Kitaka, SAPICA, nanaco, WAON, iD, QUICPay, Smartplus/VisaTouch, PayPass, JAL IC Coupon, and taspo/Pidel.

2) NRI's Third Electronic Money Survey was conducted on June 12 –16, 2009. A total of 2,250 adult (age 18 and older) residents of the five regions named below were surveyed using NRI's TrueNavi Internet research service (survey responses were tabulated by gender and decennary age brackets). Numbers of survey respondents by region were as follows: 250 from Sapporo (Sapporo City), 1,000 from Greater Tokyo (Tokyo Metropolis, Kanagawa Prefecture, Chiba Prefecture, and Saitama Prefecture), 250 from Tokai (Aichi Prefecture, Mie Prefecture, and Gifu Prefecture), 500 from Kinki (Osaka Prefecture, Kyoto Prefecture, Hyogo Prefecture, and Nara Prefecture, and 250 from Fukuoka (Fukuoka Prefecture).

3) Usage as a commuter pass or to pay train/bus fare was not counted as a purchase. In Exhibit 1, usage rates were calculated by dividing the number of active users by the total number of respondents in each region, including respondents that do not posses e-money.

4) For average expenditure per transaction, response tallies were adjusted by weighting them so that the samples collected from the surveyed metropolitan areas coincided with the metropolitan areas' respective population distributions by gender and decennary age bracket based on the 2005 National Census.

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