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Competition in Mobile Payment Services – Note by Japan

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1. Overview

1. In the financial sector, where services had traditionally been provided primarily by banks, fintech operators have entered the market, introducing new financial services and enhancing user convenience. To identify challenges regarding competition policy in the fintech-based service sector, the Japan Fair Trade Commission (JFTC) conducted a survey and published the "Survey on Cashless Payment with QR Code and Barcode" in April 2020[1]. The report outlined the following perspectives on competition policy and the Antimonopoly Act (AMA):

    1. Acts to refuse charging transactions with fund transfer service providers (FTSPs) by banks that themselves provide code payment service could raise problems under the AMA.
    2. It would be desirable for the usage fees of infrastructure which is essential for account charging from bank account to be appropriately determined through negotiation with users.
    3. Interbank fees, which impact the level of transfer fees, have remained unchanged for more than 40 years. It is necessary to rectify the current situation in which these interbank fees have been maintained.

2. From the perspective of ensuring equal footing in competitive conditions, it would be desirable for Zengin System to consider opening access to FTSPs. Additionally, to ensure efficiency, it is necessary for Zengin System to enhance its governance structure and secure transparency. Since the publication of the survey report in 2020, user convenience has been improved through efforts made by related business operators regarding transaction practices, such as access to banks and interbank fees. To further enhance the competitive environment, promote innovation, and improve user convenience in the fintech-based service sector, the JFTC conducted a follow-up survey on the recommendations of the report and published its findings in March 2023.

3. This contribution paper introduces the summaries of the reports published in 2020 and 2023[2].

2. 2020 Report

4. An option known as code payments is rapidly spreading in the field of cashless payments. This is a payment mode by which someone uses a smartphone-based payment app to read a QR code or barcode and make a payment. We see not just banks but also business operators other than deposit-handling financial institutions (hereinafter referred to as “nonbanks”) entering the area of code payments, which encompasses new payment services. A variety of entities are thus providing services in this area.

[1] The JFTC also released the "Survey Report on Household Accounting Services, etc." related to fintech on the same day.

[2] Unless otherwise stated, the information is as of the time of the report's creation, and the situation may have changed.

5. In April 2020, the JFTC published a report "Survey on Cashless Payments with QR Code and barcode (hereinafter referred to as 2020 Report")." The 2020 Report examined the status of the following transactions related to QR code payments and organized issues from the perspective of competition policy and the AMA.

- Transactions related to "charging" and "linking"[3] in the deposition flow, where funds are transferred from the user's bank account to the QR code payment operator's user account.
- Transfer transactions used in the disbursement flow, where the sales revenue of merchants settled via QR code payments is transferred from the QR code payment operator's merchant account to the merchant's bank account.

2.1. Targets and Methods

6. From October 2019 to March 2020, the JFTC conducted questionnaire-based surveys and interviews with banks, fund transfer service providers (FTSPs)[4], and payment infrastructure provider[5], alongside questionnaire-based surveys targeting consumers who use QR code payments.

2.2. Scale of Code Payment Transactions

7. The size of the market for Japanese domestic code payments is estimated to grow from 0.5 trillion yen in 2019 to 9.7 trillion yen in 2025. This figure is expected to continue increasing in the years to come.

8. In addition, questionnaire-based surveys to consumers revealed that 99 percent of code payment users most frequently use code payment services provided by business operators who have registered as FTSPs.

2.3. Flow of Code Payment Transactions

1. The user increases his or her own account balance on the code payment provider's payment app from own bank or credit card company through this app.
2. The user purchases a product or service from a member merchant.
3. The user uses a code to issue a payment instruction to the member merchant.
4. The code payment provider, in accordance with the user's payment instruction, deducts from the user's account balance and disburses payment of the cost of the product (sales proceeds) to be paid by the user to the member merchant to settle the account between the user and the member merchant. (Sales proceeds are managed with the code payment provider account opened by the member merchant.)

[3] "Linking" refers to cases where the user instructs a payment using a code, resulting in a direct debit from the user's bank account, or cases where it is treated as the use of a credit card or similar ways, as a payment method that does not use the account balance.

[4] "Fund transfer service providers" refers to business operators other than banks who are registered with the Prime Minister under the Payment Services Act to conduct exchange transactions amounting to 1 million yen or less as business operators.

[5] "Payment infrastructure providers" refers to business operators that provide services connecting code payment apps with user's bank accounts when users perform actions such as charging account balance for code payments from their bank account.

5. The code payment provider, in accordance with the frequency of disbursements agreed between the provider and the member merchant, requests the bank to make a deposit transfer to the member merchant's bank account in order to pay sales proceeds amassed by the member merchant through payments as described in (iv).

6. The bank receiving the deposit transfer request (hereinafter referred to as "intermediate bank") disburses funds to the member merchant's bank account through a deposit transfer.

2.4. Actual Transactions of Deposition Flow by Users

2.4.1. Relationship between Banks and Nonbank Code Payment Providers

9. Since a bank provides deposit services to users, in the case that the bank provides code payment services, the bank undertakes account charging from or establishes a link with a user's bank account held at the bank (hereinafter collectively referred to as "account charging"), and can utilize these actions as payment methods for code payment services.

10. At the same time, a nonbank code payment provider organizes payment methods for code payment services by offering options for account charging through bank accounts, credit cards, cash and other means.

11. Since the user's wages or other sources of income are basically deposited into their bank account, making a payment with a code payment service involves a withdrawal of the usage amount or deposited funds from the user's bank account, even if account charging is conducted via a credit card, cash, or other methods. For this reason, a nonbank code payment provider needs to transfer funds from the user's bank account in order to secure a payment method for a code payment service.

12. Among the methods by which account charging are undertaken, the method most used by consumers is account charging from a bank account, as revealed by questionnaire-based surveys to consumers.

13. It is also revealed that approximately 40 percent of users would consider depositing a portion of their wages into an account for code payment services that they personally use if such an option is available.

14. In light of the above, it is understood that the following relationships have been formed between code payment service-providing banks and nonbank code payment providers:

- A vertical business relationship (upstream-downstream relationship) in which no payment means can be secured unless the nonbank code payment provider links to the user's bank account; and
- A horizontal competitive relationship in transactions vis-à-vis users and transactions vis-à-vis member merchants.

15. Given that a user's wages and other types of income are typically deposited into bank accounts, charging from bank accounts is a highly important method for nonbank code payment providers.

16. Therefore, it is generally conceivable that, under the transaction structure, a bank that provides its own code payment services could have incentives to enhance the competitiveness of its own code payment services and exclude nonbank code payment providers in downstream transactions through the following actions:

- making it impossible for users with deposit accounts at the bank to undertake account charging to nonbank code payment providers by blocking the nonbank code payment providers from connecting to the user's deposit accounts in upstream transactions;
- Raising account charging service fees to increase costs incurred by nonbank code payment providers that are in a competitive relationship with the bank.

2.4.2. Connection to Bank's Core System

17. To enable users to perform account charging from their bank accounts, a nonbank code payment provider must transmit the instructions received from users via its payment app to the bank's core system. However, due to security concerns, the bank's core system imposes restrictions on connection methods from external sources. As a result, the nonbank code payment provider transmits information either through a service offered by a retail payment infrastructure operator or via the bank's Read/Write API[6] or proprietary system."

18. There are two retail payment infrastructure providers that provide services for connecting to a banks' core system as follows:

- NTT Data Corporation (NTT Data), which provides the Instant Payment Gateway Service for transmitting account transfer information as a service that utilizes a system known as the Credit and Finance Information Switching (CAFIS)[7] system; and
- Japan Card Network Co., Ltd. (CARDNET), which provides the Real-Time Account Transfer Service for transmitting account transfer information as a service that utilizes a system known as CARDNET.

19. However, either of these services, the CAFIS system as provided by NTT Data will be used to connect to the bank.

20. Additionally, in the interviews with nonbank code payment providers, they pointed out that the lack of full standardization of connection specifications in Read/Write APIs among banks results in duplication of investment. This has been cited as a reason why the use of CAFIS is effectively essential for account charging from bank accounts.

21. Among the services provided by CAFIS, the funds transfer operation services used for purposes such as account charging from a bank account involve economies of scope, network externalities, and economies of scale. As a result, it is conceivable that the market mechanism does not tend to function in their usage charge setting. In fact, while the transaction volume of the CAFIS service as a whole, as well as the transaction volume of the Instant Payment Gateway service used as a means of connection for account charging from bank accounts, have both been increasing—likely resulting in lower costs per transaction—it has been more than a decade since CAFIS' metered fees per data processing were last revised.

[6] Application Programming Interface: A connection method for security using the functionality and data of other systems. APIs at banks include "Read-only APIs" that allow external services to connect to the bank's system and retrieve account information, such as balance inquiries, "Read/Write APIs" that allow funds to be transferred at the request of the user.

[7] CAFIS is a credit card information inquiry service originally developed by the former Nippon Telegraph and Telephone Public Corporation, now provided by NTT Data. This service is also used as a means of connecting to the core systems of banks for account charging from bank accounts for code payments.

2.5. Disbursement Flow to Merchants

22. A nonbank code payment provider disburses sales proceeds into the bank account of a member merchant by submitting a deposit transfer request to an intermediate bank. If the member merchant has an account with the intermediate bank to which the request was submitted by the nonbank code payment provider, the disbursement of sales proceeds will be fulfilled when the bank moves funds between the accounts of the nonbank code payment provider and the member merchant.

23. On the other hand, if a member merchant has an account with a bank that is different from the intermediate bank to which a deposit transfer request was submitted by a nonbank code payment provider, funds will need to be transferred between the intermediate bank to which the request was submitted by the nonbank code payment provider and the member merchant's bank (hereinafter referred to as "interbank deposit transfer").

24. In deposit transfers for carrying out interbank deposit transfers, the Domestic Funds Transfer System operated by the Japanese Banks' Payment Clearing Network (hereinafter referred to as "Zengin-Net") is utilized as the fund payment system[8]. In addition, a national banking data communications system operated by Zengin-Net (hereinafter referred to as the "Zengin System") is utilized as an interbank network system for operating the aforementioned fund payment system.
Since the Domestic Funds Transfer System can be used by domestic financial institutions belonging to Zengin-Net and harnessed for interbank deposit transfers involving affiliated financial institutions, it will likely become more convenient as a fund payment system by increasing the number of remittees in the event that the number of affiliated financial institutions rises (network externalities).

25. The construction of the Zengin System that is used for interbank payment processes has incurred fixed costs of tens of billions of yen. As we have seen in other industrial sectors in which equipment and systems requiring huge upfront investments are used, it seems that the concept of economies of scale would also apply to the Domestic Funds Transfer System in that the greater volume of transactions are carried out, the more average costs will decline (economies of scale).

26. In general, it is possible to use, in addition to a method utilizing the Domestic Funds Transfer System, a clearing house system used in the clearance of cheques or business operators providing remittance services between certain banks in order to carry out interbank deposit transfers. On the other hand, since network externalities and economies of scale apply to interbank payments accompanying interbank deposit transfers, the option of remitting based on the use of the Zengin System is easier to select given considerations of comprehensiveness and efficiency, and could naturally develop monopolistic tendencies (natural monopoly) in interbank deposit transfers. Most interbank deposit transfers in the country are in fact undertaken through the Domestic Funds Transfer System.

2.6. Consideration in light of Competition Policy and the AMA 1(Issues and Recommendation on Deposition Flow by Users)

27. A. Issues of Transactions between Banks and Nonbank Code Payment Providers

[8] "Fund payment system" collectively refers to the transaction rules, system infrastructure (such as computers and networks), and risk management systems established to facilitate smooth interbank settlements in cross-bank remittances.

28. The relationships between banks and nonbank code payment providers providing code payment take the following two forms:

1. Vertical (upstream/downstream) business relationships in which nonbank code payment providers must connect to users' bank accounts in order to secure sources of funds for payment; and
2. Horizontal competitive relationships in transactions with users and with member merchants.

29. In addition, considering the possibility that difficulties in continuing transactions with banks could pose significant obstacles to the business operations of nonbank code payment providers, it is conceivable that banks could hold superior bargaining positions over nonbank code payment providers in account charging and other transactions.

30. Based on such relationships, the actual state of account charging between banks and nonbank code payment providers, as well as the perspective under the AMA, is outlined below.

2.6.1. Rejection of Transactions

31. There is a possibility that acts by banks that provide their own code payment services and hold influential positions in upstream markets (where the banks provide connection services related to actions such as account charging from bank accounts to code payment providers) could raise problems under the AMA. Such acts might include refusing to engage in account charging transactions with nonbank code payment providers with the intent of eliminating them as competitors from the market, or raising the fees charged to nonbank code payment providers for connecting to bank accounts to a level that effectively constitutes a refusal to transact. Additionally, acts of improper discriminatory treatment by a bank with a dominant position in upstream markets concerning the conditions or implementation of account charging—regardless of whether the bank itself provides code payment services—could also raise problems under the AMA (refusal to deal by a single enterprise, interference with a competitor's transaction[9], etc.)

2.6.2. Demands for Development of Member Merchants, Covering Promotional Costs, Providing Payment Data, etc.

32. It could raise problems under the AMA if a bank in a dominant position relative to a nonbank code payment provider in a transaction were to compel the nonbank code payment provider to develop member merchants in a way that benefits only the code payment services offered by the bank, to require it to bear promotional costs that do not directly benefit the nonbank code payment provider, or to unilaterally force it to provide payment data. If such acts unjustly impose disadvantages on the nonbank code payment provider in light of normal business practices, they could potentially violate the AMA (abuse of superior bargaining position).

[9] I if an influential business operator in an upstream market were to reject transactions as a means of achieving purposes that are improper under the AMA, such as exclusion of a competitor from a downstream market or impeding a competitor's business activities, and as a result of such rejection, the victim might be unable to carry out its normal business activities, or the upstream business were improperly to impede transactions by a competitor and its trading partners through means of raising the prices of products and services provided to an extent that effectively would be equivalent to a refusal to engage in transactions, then it causes the problems with the AMA .

2.6.3. Setting of CAFIS Usage Charges and Usage of Read/Write APIs

33. The rigidity of payment infrastructure charges, which effectively are indispensable to account charging conducted from bank accounts, also could lead the costs related to such transactions to rise and by extension leading to high fee rates charged to member merchants, which is an issue affecting the spread of cashless payments. In light of considerations of the fact that CAFIS effectively is essential infrastructure to account charging and other transactions and the volume of such transactions is increasing, it would be desirable, from a competition-policy perspective, for these to be set appropriately through negotiation with user business operators.

34. Furthermore, from the perspective of competition policy, it would be desirable to promote efforts to develop an environment in which it would be easy for nonbank code payment providers to use Read/Write APIs considering the cost burden necessary for the development of such Read/Write APIs through standardization of the Read/Write APIs' connection specifications among banks and studying the development of a common infrastructure in which connection specifications are standardized. That is because these efforts could lead to increase competitive pressure on retail payment infrastructure connected to bank systems.

2.6.4. Impact of Payment of Wages to FTSPs Accounts on an Equal Footing under Competitive Conditions for Code Payment

35. Since the Government of Japan is considering permitting payment of wages to FTSPs, from a competition policy perspective, it can be considered that permitting payment of wages to accounts of FTSPs would have a desirable effect on securing an equal footing in competitive conditions between banks that provide code payment services and nonbank code payment providers.

2.7. Consideration in light of Competition Policy and the AMA 2(Issues and Recommendation on Disbursement Flow to Merchants)

2.7.1. Review of Transaction Practices related to Interbank Fees

36. The Domestic Funds Transfer System used in interbank payment has the nature of a natural monopoly. Moreover, it is an essential fund settlement system for conducting interbank deposit transfers. Additionally, the cost structure associated with interbank payments can be understood as one where the burden of stated transfer fees is passed on to customers.

37. While domestic fund transfer regulations stipulate that interbank fees—which constitute one of the costs arising in interbank payment—are to be determined through mutual negotiation between the sending bank and the receiving bank, since February 1979 at the latest, their amounts have been fixed at levels[10] much higher than the actual administrative costs.

38. Maintenance of interbank fees at fixed levels in this manner is not only could serve as an impediment to reducing withdrawal costs of nonbank code payment providers and member merchants but also could lead to circumstances detrimental to the convenience of member merchants by keeping down the frequency of withdrawals from cashless payment providers' accounts to those of member merchants.

[10] The fee without tax is uniformly set at 117 yen for a transfer of less than 30,000 yen and 162 yen for a transfer of 30,000 yen or more.

39. On the other hand, in various other countries, there are not fees corresponding to interbank fees. This fact would also imply, from the perspective of competition policy, that efforts should be made to rectify the current situation under which interbank fees have been maintained for many years at levels greatly exceeding the actual administrative costs incurred by individual banks 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.

2.7.2. Review of Transaction Practices related to Interbank Fees

40. The current structure appears to be one where transaction costs arising from interbank remittances, such as interbank fees, are passed on to the deposit transfer fees paid by end users, including code payment providers, consumers, and general businesses. However, banks lack sufficient incentives to raise issues concerning the cost structure of using the Domestic Funds Transfer System, and opportunities to reflect the needs of end users of interbank deposit transfers are also inadequate. For this reason, under the current circumstances, it would be difficult to say that the governance system in place is sufficient to address structural issues in the costs of the Domestic Funds Transfer System.

41. In some other countries, costs such as usage charges for fund payment systems, which influence the fees per deposit transfer, are publicly disclosed. However, in the case of the Domestic Funds Transfer System, this cost structure is not disclosed to end users, resulting in a lack of transparency. This lack of transparency in transactions within the Domestic Funds Transfer System may have limited opportunities for external stakeholders to demand improvements to its cost structure.

42. Therefore, from a competition-policy perspective, considering the essential natural monopoly and indispensable nature of the Domestic Funds Transfer System, and its impact on deposit transfers used by end users, it would be desirable for Zengin-Net to establish and strengthen a governance structure that adequately reflects the needs of end users. Furthermore, ensuring transparency in transactions conducted through the system would also be important.

2.7.3. Studies toward Opening Access to Fund Payment System to FTSPs

43. Even though major nonbank code payment providers do, through registration as funds transfer service providers either themselves or by their subsidiaries, conduct exchange transactions similar to those of banks, they are not permitted to join the Domestic Funds Transfer System.

44. For this reason, in providing code payment nonbank code payment providers incur costs such as the following:

- Costs of negotiation with multiple banks on connection, in order to provide methods of conducting transactions such as account charging from bank accounts, in the flow for depositing of funds by users; and
- Intermediate costs of deposit transfer requests to relaying banks in the flow for withdrawal of funds to member merchants.

45. As such, in terms of competitive conditions, an equal footing is not secured between banks, which are able to join the Domestic Funds Transfer System, and nonbank code payment providers, which can connect to it only through banks.

46. For this reason, from a competition-policy perspective, it would be desirable for Zengin-Net to consider developing business requirements (legal qualifications), security

standards, and conditions on the financial standing for businesses to join the Domestic Funds Transfer System and opening up access to FTSPs that satisfy these standards.

3. Follow-up Report

47. The JFTC conducted a follow-up survey on the fintech-based service sector to further improve the competitive environment, promote innovation, and enhance user convenience. In March 2023, it published the follow-up survey report[11] (hereinafter referred to as "Follow-up Report".)

48. This survey took into account of developments since the publication of the 2020 Report, including reductions in CAFIS usage fees, the abolition of interbank fees, and the establishment of domestic exchange system operating costs. The Follow-up Report covered the following matters, among others, and also examined and considered the presence of other competition policy issues.

Recommendations made by the 2020 Report	Issues examined in this survey
Set appropriate retail payment infrastructure fees and use Read/Write APIs	Whether changes in retail payment infrastructure fees have led to changes in the costs that non-bank code payment providers pay to banks
Review transaction practices in relation to interbank fees	Whether the review of transaction practices in relation to interbank fees has led to changes in transfer fees
Strengthen the governance structure of Zengin-Net and ensure transparency of transactions	Progress in exploring ways to strengthen the governance structure of Zengin-Net and ensure transparency of transactions
Explore ways to open up access to the fund payment system to fund transfer service providers (FTSPs)	Progress in exploring ways to open up access to the Zengin System to FTSPs

3.1. Targets and Methods

49. From March 2022 to February 2023, the JFTC conducted questionnaire-based surveys and interviews with banks, fund transfer service providers[12], payment infrastructure providers, and others as part of the investigation.

3.2. Scale of transactions and usage

50. According to "Cashless Roadmap 2022" published by the Payments Japan Association in August 2022 (hereinafter referred to as "Roadmap 2022,"), cashless payments accounted for 32.5% of private final consumption expenditure in 2021. Of this, code payments accounted for 5.6%, a sharp increase of 66.3% year on year.

51. The number of code payment transactions seems to be growing rapidly. According to Roadmap 2022, the number of code payment transactions accounted for 19.4% of the total number of cashless transactions in 2021, an increase of 80.1% from the previous year.

[11] The Follow-up Report also includes a follow-up survey on the recommendations from the investigation report concerning household bookkeeping services.

[12] With the enforcement of the revised Payment Services Act in May 2021, new categories of fund transfer services were introduced: "Type 1 Fund Transfer Service," "Type 2 Fund Transfer Service," and "Type 3 Fund Transfer Service." However, non-bank QR code payment providers have registered under the "Type 2 Fund Transfer Service," which closely aligns with the previous regulations for "Fund Transfer Service." Therefore, in this context, fund transfer service providers registered under "Type 2 Fund Transfer Service" are referred to as "fund transfer service providers."

3.3. Consideration in light of Competition Policy 1(Deposition Flow by Users)

3.3.1. Pricing of Retail Payment Infrastructure Fees

52. Among retail payment infrastructure providers offering services to connect with banks' core banking systems, two companies, NTT Data and CARDNET, have traditionally provided services utilizing CAFIS. Since the 2020 Report, 2 additional companies have newly begun offering services similar to retail payment infrastructure. Furthermore, it is expected that account balance top-ups from bank accounts will also become possible without passing through CAFIS, such as by using the Zengin System. However, at present, CAFIS remains a de facto essential infrastructure.

53. In October 2020, NTT Data reduced CAFIS fees from a maximum of 3.15 yen per transaction to 1 yen, citing the increasing volume of account charging or linking via CAFIS. Reduced CAFIS fees can be seen as a contribution to the promotion of cashless payments

54. Meanwhile, it appears that some banks have not yet reduced the connection fees they charge to non-bank code payment providers by the amount of the CAFIS fees reduction. This is largely due to the increases in Anti-Money Laundering (AML) and security costs incurred by banks.

55. It also appears that non-bank code payment providers believe that banks that do not accept a reduction in connection fees are not adequately explaining the costs incurred by banks in connection with account fees and other transactions. Therefore, if a bank is to reflect the costs it incurs in transactions with non-bank code payment providers in the connection fees it charges, it should preferably explain to them the rationale for charging connection fees.

3.3.2. Effective Use of Read/Write APIs

56. There is a significant need for Read/Write APIs for two main reasons. First, they allow for lower development costs than CAFIS. Second, they can result in a shorter development time if a one-time development makes it possible to connect to two or more banks.

57. However, Read/Write API connections are not widely used for two main reasons. First, the specifications of Read/Write APIs are not uniform, creating a huge burden of having to deal with each API. Second, the features of Read/Write APIs that banks have in place are not always consistent with what non-bank code payment and other providers need.

58. This state of affairs points to the need to develop an enabling environment for non-bank code payment and other providers to readily use Read/Write APIs, thereby increase competitive pressure on retail payment infrastructure. In order to address this need, a number of measures should preferably be taken. These include:

1. establishing a forum to unify the specifications of Read/Write APIs with the participation of the relevant organizations;
2. disclosing the set of Read/Write APIs that banks themselves have in place;
3. identifying the division responsible for Read/Write API connections at each bank;
4. identifying what non-bank code payment and other providers want from Read/Write APIs; and
5. developing and using a mechanism to match the needs of banks with those of non-bank code payment and other providers.

3.3.3. Wage Deposits into FTSP Account

59. On November 28, 2022, the Ministry of Health, Labour and Welfare issued the Ministerial Order Partially Amending the Ordinance for Enforcement of the Labor Standards Act, which allows for users' wages to be deposited into the account of FTSPs. The Ministerial Order took effect on April 1, 2023.

60. A significant percentage of users prefer to have their wages deposited into an FTSP's account. The Ministerial Order amending the Ordinance for Enforcement of the Labor Standards Act allows wages to be deposited into the account of FTSPs, this will have a positive impact on improving user convenience.

61. Therefore, it is desirable for non-bank code payment providers to consider what can be done to ensure interoperability, taking into account user needs.

3.4. Consideration in light of Competition Policies 2 (Disbursement Flow to Merchants)

62. On October 1, 2021, Zengin-Net replaced the interbank fee with the "Domestic Funds Transfer System Operational Costs," a fee of 62 yen per transfer, of which 50 yen reflect the cost incurred by the receiving bank (receiver's operational cost) and the remaining 12 yen corresponds to the profit margin for funds transfer business.

63. Most banks reduced transfer fees as a result of interbank fees had being replaced by Domestic Funds Transfer System Operational Costs. The amount of reduction seems to reflect the difference between interbank fees and Domestic Funds Transfer System Operational Costs.

64. Thus, it is safe to say that Zengin-Net and many banks have made easily made progress in their efforts to facilitate cashless payment, as suggested in the 2020 Report (Recommendation: Review transaction practices in relation to interbank fees).

65. However, some banks continue to charge different transfer fees even after transfer fee was uniformly set at 62 yen as Domestic Funds Transfer System Operational Costs. They give three main reasons. First, they say they follow the convention of maintaining differentiated transfer fees as they were when interbank fees were applied. Second, they argue that converging transfer fees would entail huge system costs. Third, they claim that convergence of interbank fees will not necessarily lead to their reduction and might even push them up.

66. In this regard, maintaining the differential fees from the time of the interbank fees without careful consideration can keep transfer fees high and prevent non-bank code payment providers and member merchants from reducing their disbursement costs.

67. Therefore, banks that, without reasonable reason, maintain differential transfer fees as a continuation of the practice when interbank fees were applied should consider the possibility of changing this practice, while giving due consideration to the implications of standardizing transfer fees, including the cost of system remediation and the impact on their customers.

3.5. Consideration in light of Competition Policy 3 (Initiatives Taken by Zengin-Net)

3.5.1. Strengthen the governance structure of Zengin-Net and ensure transparency of transactions

68. The JFTC concludes that Zengin-Net has undertaken a number of actions to strengthen its governance structure and ensure the transparency of its transactions, as suggested in the 2020 Report (Recommendation: Strengthen the governance structure of Zengin-Net and ensure transparency of transactions). These measures include:

- strengthening dialogue with various stakeholders;
- improving information dissemination by external communicating information as the amount of the "Domestic Funds Transfer System Operational Cost" and how it is calculated; and
- strengthening cooperation with Zengin System participants.

69. The JFTC hopes that Zengin-Net will continue its efforts to maintain such a governance structure and ensure transaction transparency.

3.5.2. Exploring ways to open up access to the Zengin System to FTSPs

70. As suggested in the 2020 Report (Recommendation: Explore ways to open up access to the fund payment system to FTSPs), Zengin-Net has been studying how to open up access to the API gateway. The JFTC will continue to monitor the situation.