

# 2024

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**Japan Edition**

# The Embedded Lending Opportunity

**VISA**



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# What is embedded lending?

Embedded lending describes any credit tool or capability integrated directly into the merchant or provider's platform wherein borrowers can apply for credit when paying for a product or service. For instance, during an online retail checkout, consumers could be offered the option to apply for a new credit card, an installment on an existing credit card, or a buy now, pay later (BNPL) service — and can immediately use it to pay for part or all of the bill. Popular examples in Japan include shopping loans, which enable consumers to access credit within the process of making a purchase or securing a service, such as for education, housing or medical expenses.

Other examples of embedded lending include dedicated apps or financial services platforms that provide cash advances or instant loans. Forms of lending that are not embedded include credit options such as charging the expense on an existing credit card or using money from an existing personal loan. Embedded lending is a subset of embedded finance, and though the terms are related, they are not the same.



Read more in  
**The Embedded Lending Opportunity: U.S. Edition**  
[Click here to download](#)

The Embedded Lending Opportunity: Japan Edition was commissioned by Visa, and PYMNTS Intelligence conducted the research and produced the report. [PYMNTS Intelligence](#) retains full editorial control over the following content, findings, methodology and data analysis.

2024

## The Embedded Lending Opportunity

 **Japan Edition**



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# What's **at stake**

**E**mbedded lending helps consumers and businesses simplify their financing activities by providing access to lending without leaving the checkout process or changing platforms to complete separate credit applications or other steps. For lenders, embedded lending's potential simplicity offers a way to better reach customers and expand revenue streams. However, our analysis of markets around the globe finds that embedded lending remains at a nascent stage in Japan compared to other developed markets such as the United States and Australia.

# 8%

Share of **consumers in Japan**  
**who used embedded lending**  
in the last three months

PYMNTS Intelligence's latest report reveals that less than 1 in 10 consumers and only 5.3% of microbusinesses and small businesses (MSBs) in Japan have recently used embedded lending.<sup>1</sup> However, substantially higher shares of both segments indicate strong interest in switching to providers that offer embedded lending. Some of the key obstacles keeping use from growing more widespread include friction in the application process and concerns about cost.

These are just some of the findings detailed in The Embedded Lending Opportunity: Japan Edition, a PYMNTS Intelligence and Visa collaboration. This report explores the state of embedded lending for both the consumer and MSB segments in Japan. It draws on a 360-degree study of lenders and end users (consumers as well as MSBs) conducted between Jan. 13 and March 15.

## **This is what we learned.**

<sup>1</sup> In this study, "microbusinesses" are defined as businesses generating less than ¥50 million in annual revenue and "small businesses" are defined as those generating between ¥50 million and ¥1.5 billion in annual revenue. This report deliberately uses MSB to abbreviate these two types of firms to avoid confusion with the common abbreviation for small to mid-sized business.

# Embedded lending has started to gain traction in Japan, especially among consumers with irregular cash flows.

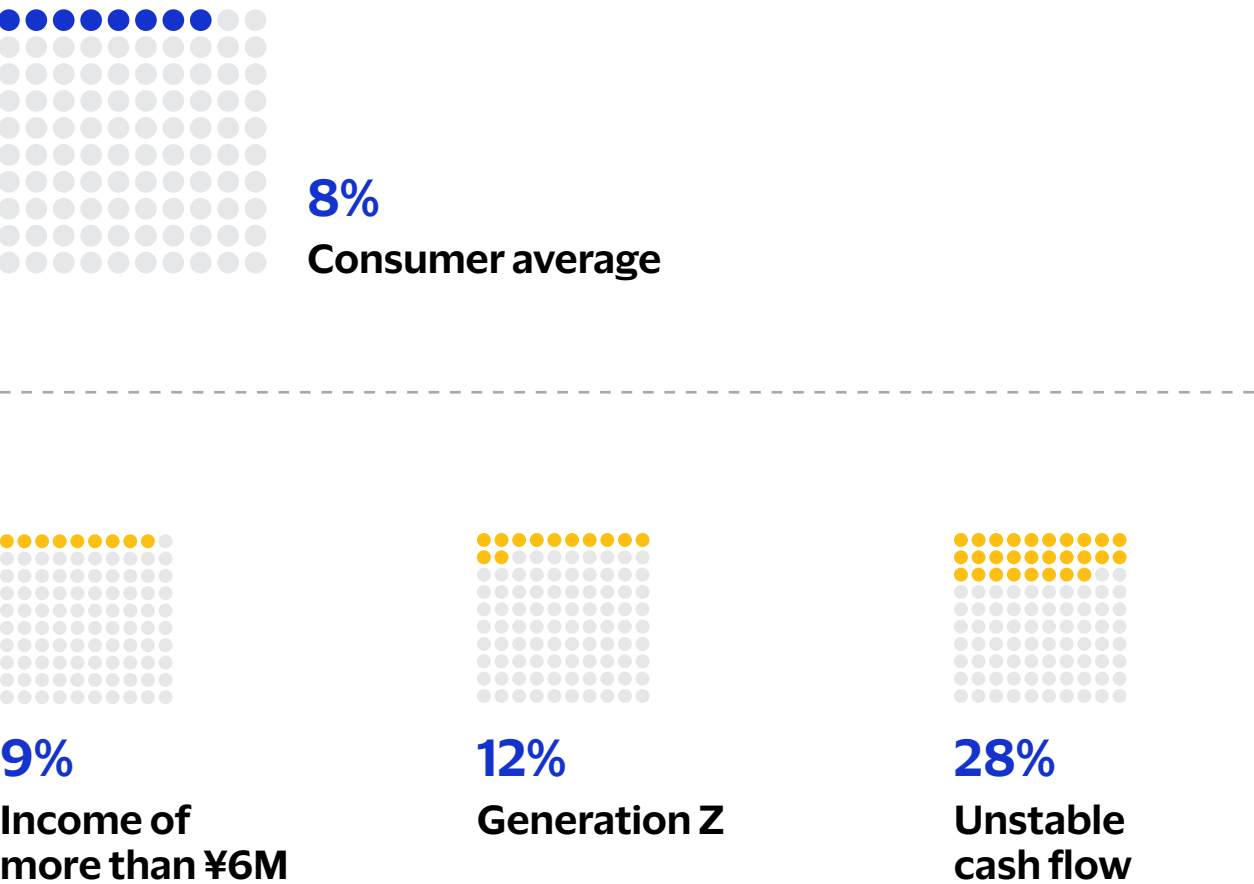
The embedded lending market in Japan remains at a nascent stage compared with those in other major economies. Just 8.1% of the country’s consumers have used embedded lending in the last three months, and only 5.3% of its MSBs have done so in the last year. In both cases, these are the lowest rates across the six countries studied.<sup>2</sup>

That said, the data confirms that embedded lending has begun to make waves in Japan, a market known for conservative financial attitudes and hesitancy to use credit. In fact, 56% of consumers in Japan did not use any lending in the last three months. Even more notable, 83% of MSBs operated for the last year without using any credit. Since just 17% of these businesses used any credit, the reality that 5.3% used embedded lending means about one-third of credit-using MSBs in Japan leveraged an embedded solution.

<sup>1</sup> The six countries studied in this report series are Japan, Germany, Australia, India, the United States and the United Kingdom.



Figure 1:  
**Which consumer personas are more likely to use embedded lending?**  
Share of consumers in Japan who used embedded lending



Source: PYMNTS Intelligence  
**The Embedded Lending Opportunity: Japan Edition, August 2024**  
N = 2,212: Complete consumer responses for Japan, fielded Jan. 22, 2024 – Feb. 13, 2024





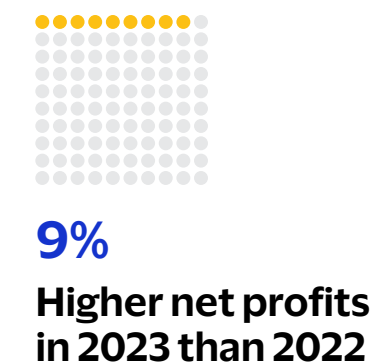
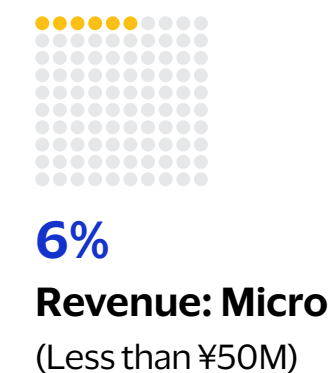
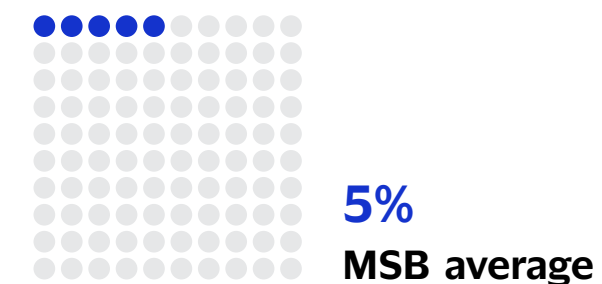
# 28%

Share of **consumers with unstable cash flows** who used embedded lending in the last three months

Across the markets in the study, cash flow stability plays a central role in the use of embedded finance, and Japan is no exception. This is due, at least in large part, to the ability of embedded lending products to smooth out bumpy cash flows, allowing financing for specific purchases as needed without separate credit applications. Twenty-eight percent of consumers in Japan with unstable cash flows used embedded lending in the last 90 days — more than three times the sample average. Younger consumers and those with higher incomes were also somewhat more likely than others to use embedded lending. On the MSB side, those with rising profits were nearly twice as likely to have used embedded lending in the last year. A version of this pattern, in which MSBs with rising profits are preferring embedded lending, extends around the globe; India was the only country we studied that did not exhibit this behavior.

Figure 2:

**Which MSB personas are more likely to use embedded lending?**  
Share of MSBs in Japan that used embedded lending



Source: PYMNTS Intelligence  
**The Embedded Lending Opportunity: Japan Edition, August 2024**  
N = 626: Complete Japan MSB responses, fielded Jan. 19, 2024 – Feb. 26, 2024



## Lending costs and frustrations with the application process are the most reported pain points for embedded lending users in Japan.

Across the six countries studied, embedded lending users report greater friction than those using other types of lending. In Japan, about 6 in 10 consumers who used embedded lending experienced at least one pain point, slightly less than the 72% average for all countries studied. This contrasts with 44% who used other types of lending. Consumers using embedded lending most frequently encountered issues with cost, at 23%, irrelevant offers, at 19%, and problems with repayment or the application process, both at 16%. It is likely that the process of acquiring embedded lending is less familiar to end borrowers than that of more traditional lending products, and the fact that it is embedded within a purchase or payment may increase borrowers' expectation of speedy approval.

# 86%

Share of MSBs using embedded lending in Japan that **experienced friction with the process**

MSBs in Japan are even more likely to run into issues with embedded lending than consumers, with 86% experiencing at least one type of friction. That said, 78% of MSBs using other types of lending had problems too, indicating that lenders in Japan do a poor job serving MSBs in general. Nearly half of MSB embedded lending users cite application process frustrations. Other common pain points for MSBs using embedded lending include cost, at 35%, irrelevant offers, at 28%, and concerns about overspending and repayment issues, both at 24%.

The high rates of both consumers and MSBs in Japan reporting friction with embedded lending calls for close review from the country's lenders. In particular, the high frequencies of problems with the application process, especially for MSBs, suggests fundamental issues with embedded lending implementation, considering that embedded lending technology should greatly streamline and ease application issues, not increase them.

**Figure 3:**  
**Issues consumers face related to credit**  
Share of consumers citing select issues they experienced related to using or applying for credit products in the last 90 days, by type of lending used

	Sample	Used embedded lending	Used other types of lending
Cost	16.6%	22.5%	16.0%
Offers are not relevant	16.3%	19.0%	15.0%
Application process	13.8%	15.5%	13.6%
Repayment issues	10.4%	15.7%	7.4%
Concerned about data security	4.3%	4.1%	3.9%
Personal issues related to debt	3.5%	5.3%	2.6%
Credit option availability	2.2%	2.9%	1.9%
No frictions experienced	52.8%	41.1%	56.5%

Source: PYMNTS Intelligence  
**The Embedded Lending Opportunity: Japan Edition, August 2024**  
N = 2,212: Complete consumer responses for Japan, fielded Jan. 22, 2024 – Feb. 13, 2024

**Figure 4:**  
**Issues businesses face related to credit**  
Share of MSBs citing select issues they experienced related to using or applying for credit products in the last 12 months, by type of lending used

	Sample	Used embedded lending	Used other types of lending
Cost	21.8%	34.5%	29.9%
Application process	21.2%	48.3%	38.8%
Worry about overspending/too much debt	16.7%	24.1%	25.4%
Repayment issues	11.1%	24.1%	20.9%
Offers are not relevant	8.3%	27.6%	22.4%
Credit option availability	7.3%	13.8%	11.9%
Worry about lowering business’s credit score	2.2%	6.9%	10.4%
Concerned about the security of our data	1.8%	13.8%	4.5%
No frictions experienced	43.6%	13.8%	22.4%

Source: PYMNTS Intelligence  
**The Embedded Lending Opportunity: Japan Edition, August 2024**  
N = 626: Complete Japan MSB responses, fielded Jan. 19, 2024 – Feb. 26, 2024

## Consumers and MSBs that have used embedded lending before show the highest interest in switching to providers that offer it.

Sizable shares of consumers and MSBs in Japan indicate interest in using embedded lending relative to the low current adoption rates. The trend is strongest on the consumer side: 20% of individuals would be very or extremely likely to switch to a lending provider that offers embedded lending — about 2.5 times the share that used embedded lending in the last 90 days. Among MSBs, 8.7% would be highly likely to switch, compared with 5.3% that used embedded lending in the last year. Again, it is important to note that these figures are much lower than the corresponding figures in other countries studied — which makes sense, given Japan's generally conservative views toward credit use.

As we found with other countries, familiarity with embedded lending makes both consumers and MSBs in Japan much more likely to consider choosing providers to specifically access embedded lending. Thirty-one percent of consumers who recently used embedded lending say they would be highly likely to switch to providers offering it, and 35% of MSBs say the same. The latter is particularly high relative to the 8.9% level for the overall MSB sample. MSBs with improving profits also exhibit heightened interest, at 18%. This highlights that businesses with improving financial conditions appreciate the ability to access lending as needed to simplify financing activities and support further growth.

# 20%

Share of consumers in Japan who would be **highly likely to switch to a provider** that offers embedded lending





**Figure 5A:**  
**Willingness to switch**  
Share of consumers very or extremely likely to switch to a provider that offers embedded lending options

Source: PYMNTS Intelligence  
**The Embedded Lending Opportunity: Japan Edition, August 2024**  
N = 2,212: Complete consumer responses for Japan, fielded Jan. 22, 2024 — Feb. 13, 2024

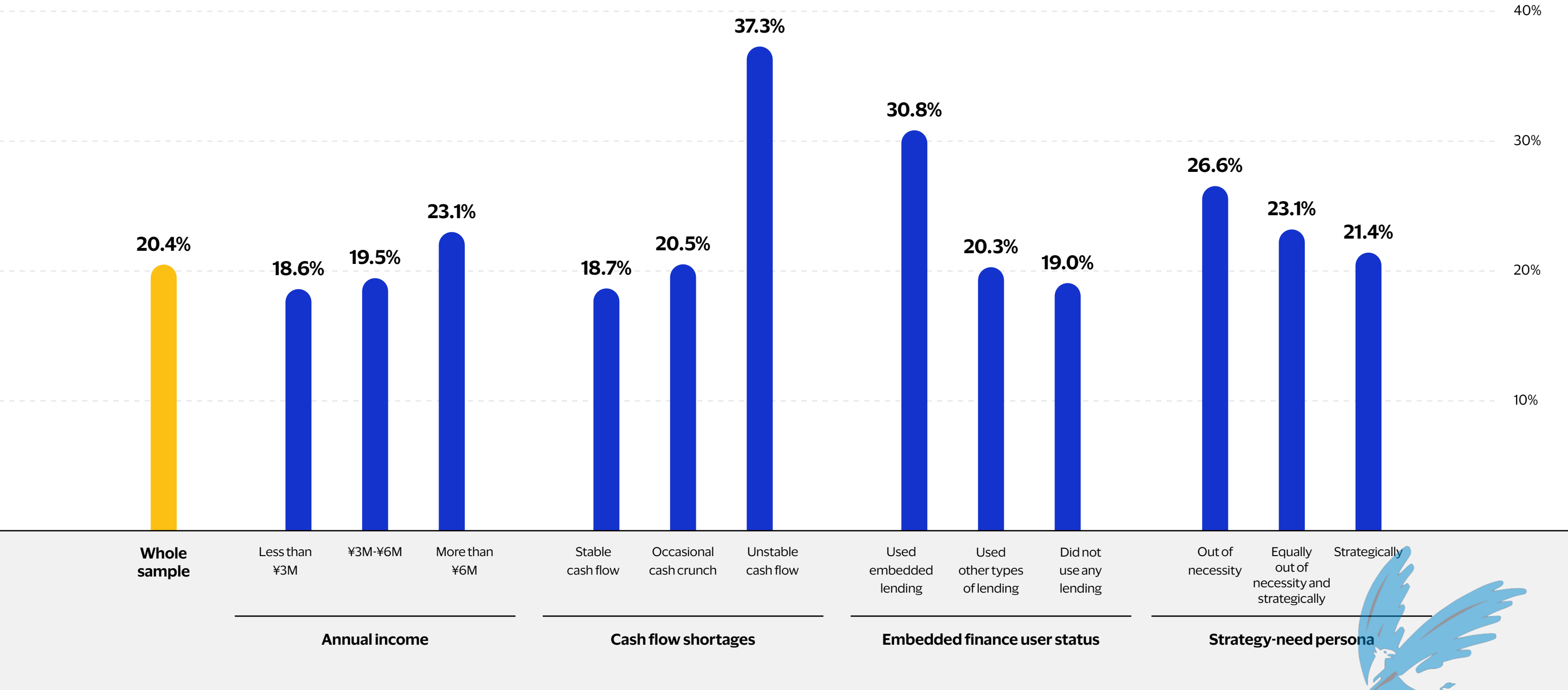


Figure 5B:

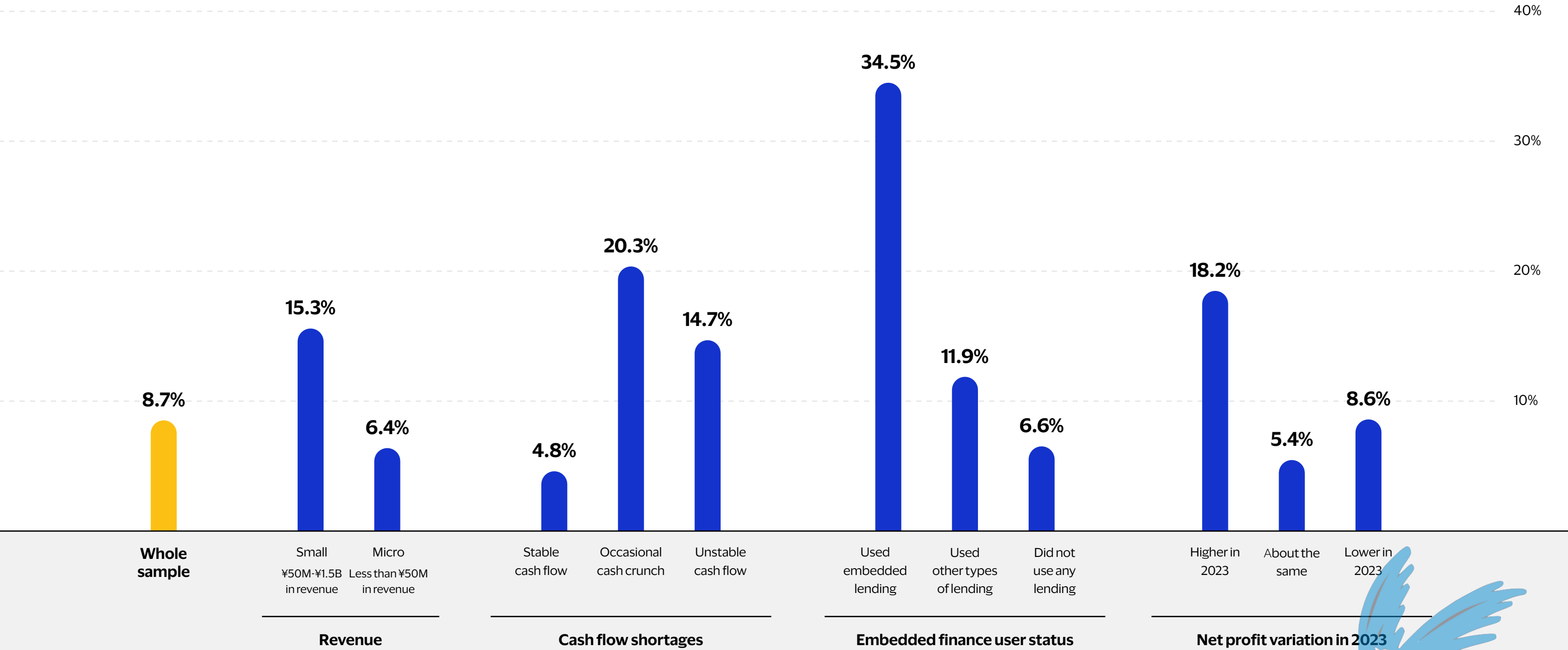
Willingness to switch

Share of MSBs very or extremely likely to switch to a provider that offers embedded lending options

Source: PYMNTS Intelligence

The Embedded Lending Opportunity: Japan Edition, August 2024

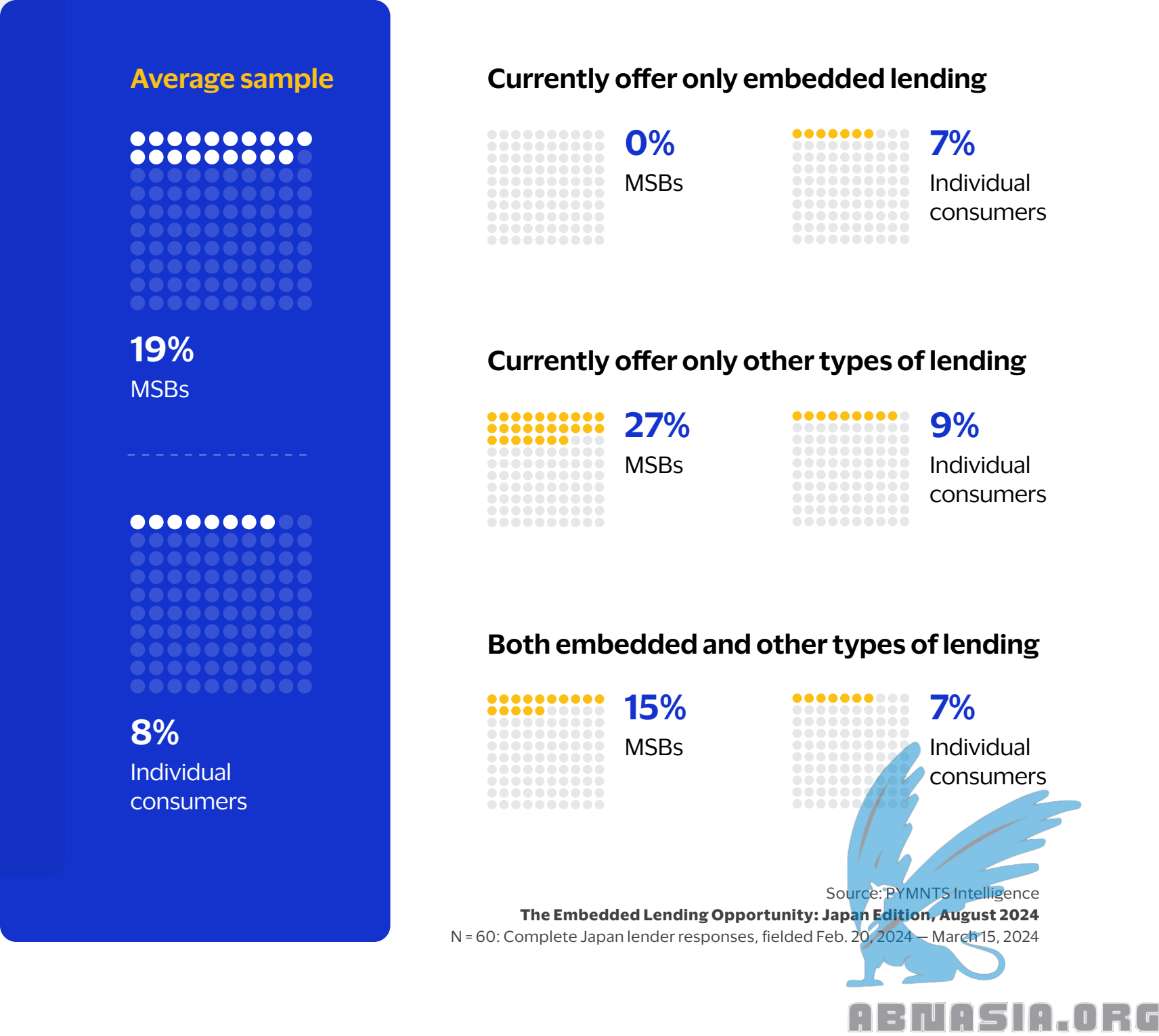
N = 626: Complete Japan MSB responses, fielded Jan. 19, 2024 – Feb. 26, 2024



# Lenders in Japan have little interest in offering new embedded lending products, with many citing technology, liquidity, and regulatory limitations.

Lack of interest from lenders in Japan appears to be a key factor in the slow adoption of embedded lending by consumers and MSBs. Although 73% of lenders in Japan offer at least one embedded lending product, very few are interested in rolling out new embedded lending products. This is especially true on the consumer side: 7.5% of lenders said they are very or extremely interested in offering new embedded lending products to consumers in the next two years. For MSBs, this rises to 19% — still a low share, with the global average 22%. The strongest interest comes from lenders that do not currently offer embedded lending products for MSBs but are highly interested in beginning to do so, at 27%.

**Figure 6:**  
**Lenders’ interest in embedded lending innovation for consumers and MSBs**  
Share of lenders that are very or extremely interested in offering new embedded lending products to consumers or MSBs in the next two years



Lenders that do not currently offer embedded lending cite a range of issues deterring them from them doing so. Half of them name technological or infrastructure-related hurdles as their biggest obstacle. Other key challenges include risk management and credit assessment, at 25%, and operational and scalability issues, at 13%.

“**Developing a strong technical infrastructure** capable of managing the complexities of comprehensive lending operations.”

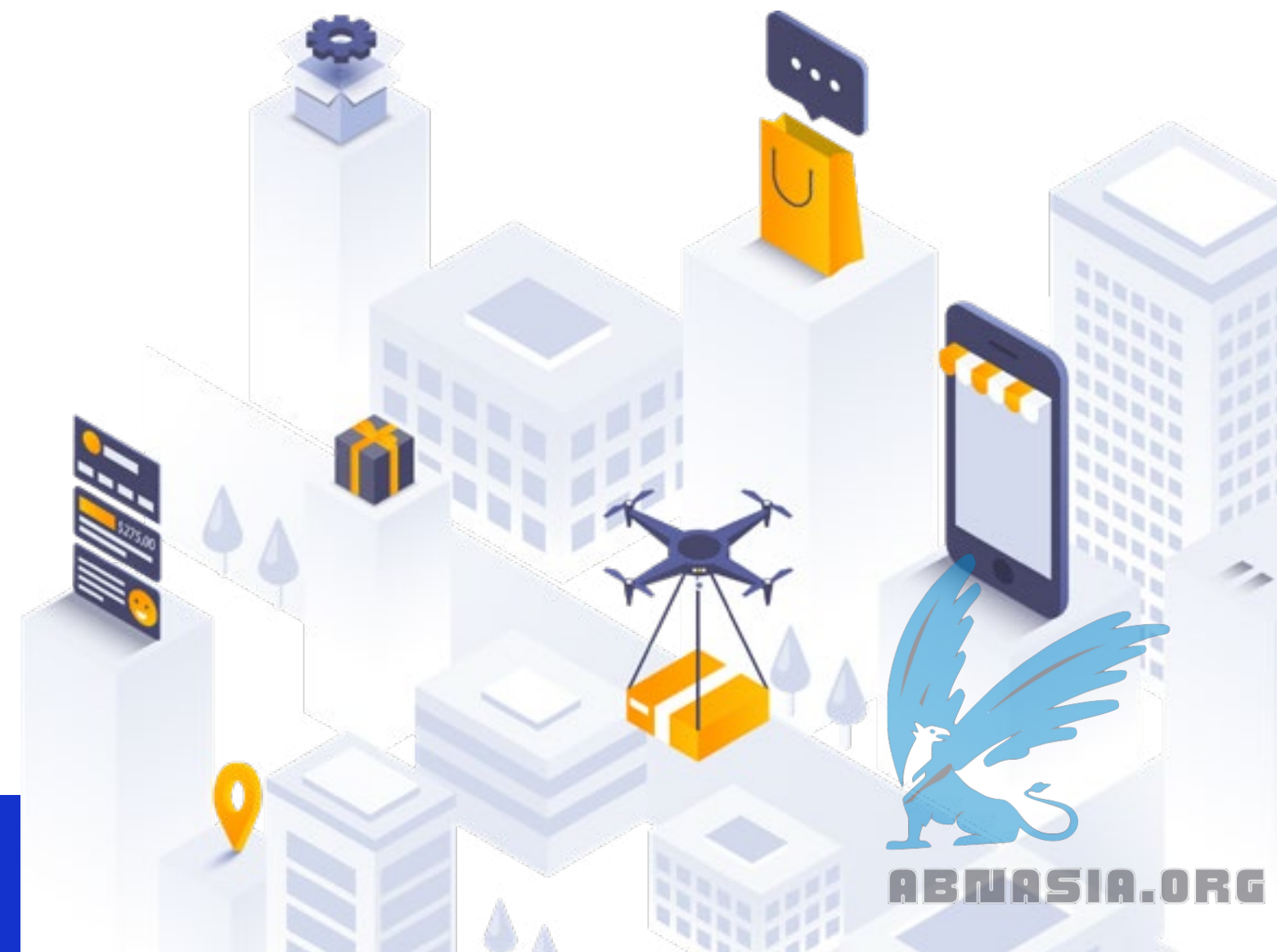
— Executive from a FinTech generating between \$1 million and \$10 million in annual revenue.

“**Adapting to complex legal and regulatory frameworks.**”

— Executive from a large international bank with \$100 billion to \$500 billion in assets.

“**Attention to liquidity risk** associated with embedded lending products.”

— Executive from a large national bank with \$100 billion to \$500 billion in assets.





# Conclusion

In Japan, embedded lending is at a relatively nascent stage, with significantly lower adoption than seen in other major economies. Nevertheless, this study finds clear growth potential. Sizable shares of consumers and MSBs in the country have begun to use embedded lending, and larger segments express strong interest in switching to providers that offer embedded lending options.

To encourage further adoption, lenders and embedded lending solutions providers in Japan must address the frictions that so many consumers and MSBs encounter — particularly in the application process. In addition, the large share of lenders that are currently disinterested in offering new embedded lending products should reconsider their positions given the upward trends in use and interest across both consumer and MSB segments in Japan, as well as the significantly higher adoption of embedded lending in other countries.




# Methodology

The Embedded Lending Opportunity: Japan Edition is based on a 360-degree study of lenders (FinTechs, financial institutions) and end users (consumers as well as MSBs), who are the targets of embedded finance products as part of their purchasing experiences.

The lenders analysis is based on 60 responses from banks and FinTechs operating in the lending space in Japan, conducted from Feb. 20 to March 15. For consumers, we draw on a census-balanced survey of 2,212 consumers in Japan conducted from Jan. 22 to Feb. 13. On the MSB side, the analysis is based on a survey of 626 MSBs in Japan conducted between Jan. 19 and Feb. 26 across multiple industries, including technology, construction and building materials, retail, financial services and manufacturing.

Figure A1:  
Number of businesses surveyed  
With revenue band definitions

	N	Revenue bracket
• Microbusiness	482	Less than ¥50M
• Small business	144	¥50M-¥1.5B

Source: PYMNTS Intelligence  
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