

**Japan Buy Now Pay Later Market Assessment, By Channel [Online, POS], By Enterprise [Large Enterprises, Small and Medium Enterprises], By Demographic [Generation X, Generation Y, Generation Z], By End-use [BFSI, Retail, Healthcare, Leisure and Entertainment, Travel and Tourism, Others], By Region, Opportunities and Forecast, FY2018-FY2032F**

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**Report description:**

Japan buy now pay later market is projected to witness a CAGR of 13.95% during the forecast period FY2025-FY2032, growing from USD 16.56 billion in FY2024 to USD 47.07 billion in FY2032. Japan BNPL market is growing through changes in consumer preference, combined with technological advancement. As millennials and Gen Z are more inclined toward online shopping, their demand to facilitate their transaction modes has changed their retail landscape. These digital natives love the ease and immediacy of online transactions. Hence, buy now pay later (BNPL) is an attractive option to handle purchases without immediate financial outlay. The use of BNPL services is, therefore, driven by comfort with technology and a basic desire from this demographic for seamless and frictionless shopping. Moreover, AI technology is playing a pivotal role in the market's expansion. AI technology acts to enhance the BNPL experience through more personalized financing solutions that make the approval process smoother and better risk management due to fraud detection algorithms that are increasingly sophisticated. The synergy between the emergence of consumer behaviors and advanced technological capabilities is, therefore, building a BNPL market in Japan that is dynamic and fast-growing, with a focus on serving the requirements of a technologically savvy audience seeking convenience.

The buy now pay later mode considers the preference of today's consumer for convenience and flexibility in their finances, as it gives them access to products instantly but with deferred payments. According to the Ministry of Trade, Economy, and Industry, in 2023, the cashless payment ratio increased steadily to 39.3%, reaching a steady increase with the goal of around 40% by 2025. Growing Preferences for Online Shopping Among Millennials and Gen Z Drives Market Growth

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Among the fastest-growing sectors, buy now pay later is the biggest contributor, driven by millennials and Generation Z, looking for financial flexibility and alternative methods over conventional credit cards. Current economic stressors, including increasing student debt and rising living expenses, allow installments without accrued interest, leading to market growth. In April 2024, Smartpay launched fully digital in-store payments with free automated installments in Japan. The company's development of new technology means merchants can set up in-store Smartpay with installments in 30 seconds at no integration cost. In two years, it wants to grow to 2 million consumers and, within three years, to 30,000 merchants.

Besides, millennials and Generation Z grew up with technology, it has been second nature to buy online. Therefore, BNPL services have been tailor-made to complement the existing digital platforms. The appeal of transparent, interest-free installment plans fits well with their values of prudent spending and digital convenience. As BNPL services tap into these needs, they meet the financial expectations of millennials and Gen Z and fit seamlessly into the currently established online buying habits. This way, BNPL providers who could successfully appeal to the preferences and behaviors of millennials and Gen Z have been positioned to capture a substantial share of their growing market.

#### Integrating Artificial Intelligence to Fuel Market Expansion

Including AI in credit scoring for BNPL creates a new frontier in assessing consumer creditworthiness. This innovative method uses a broad set of data sources, integrating traditional credit histories with unconventional indicators of online shopping habits, social media patterns, and other digital behaviors. Such diversified data enables AI-driven algorithms to give a complete and more precise outlook of the individual's financial behavior and repayment capability. In January 2024, PayPal Holdings Inc. announced six new innovations to revolutionize commerce through AI-driven personalization for merchants and consumers. The newest innovations include a reimagined PayPal checkout experience, Fastlane by PayPal, Smart Receipts, PayPal advanced offers platform, a reinvented PayPal consumer app, and Venmo's enhanced business profiles.

It is in this full-spectrum fashion that the providers of BNPL can execute their credit checks far more precisely in a timelier manner, hence giving higher approval rates for those consumers who are financially responsible but perhaps don't have as extensive a traditional credit history. Besides, AI algorithms are constantly improving and learning from changing consumer trends and market conditions to achieve greater accuracy and relevance in credit assessments. This dynamic capability can thus improve risk management and provide an avenue for creating more flexible and personalized financing options. Hence, AI in BNPL credit scoring processes strengthens the overall effectiveness of risk assessment and enriches the customer experience toward greater alignment of financial services with individual needs and behaviors.

#### Online Segment to Dominate the Market Share

The online segment has driven the growth of Japan BNPL market. Such a shift is primarily led by the growth in e-commerce and consumers, especially millennials and Gen Z, wanting to conduct digital transactions. The convenience of online shopping, along with embedded BNPL options in online retail platforms, is driving consumers toward easy facilitation of such payment solutions in day-to-day lifestyle transactions. BNPL services online enjoy seamless integrations with e-commerce, allowing users to access flexible payment options instantly and at the point of shopping. This digital convenience, together with the growth in mobile and online shopping, places the online BNPL segment in a good position to be at the forefront of the market in Japan.

BNPL services are extended offline, but they do not enjoy the same level of access and growth as their online counterparts. In July 2024, Money Forward, Inc. and Sumitomo Mitsui Card Company, Limited reached a basic agreement regarding the capital and business alliance, such as establishing a joint venture for retail business. The partners aimed to resolve the financial issues of a bigger pool of customers by maximizing the values of Money Forward's various B2C financial services.

#### Kanto to Dominate the Japan BNPL Market

The buy now, pay later market in Japan has been majorly buoyed by Kanto, primarily including Tokyo and Yokohama. This prominence can be attributed to the fact that this area is the country's economic and financial hub. Similarly, Tokyo's status as the capital contributes to this dominance due to its enormous economic influence, high population density, and wide reach of digital infrastructure. In Kanto, retail is at an advanced stage, with many stores and online outlets already integrated with BNPL services in their mode of payment.

The increasing rate of internet penetration and technological development in Kanto contributes significantly to adopting BNPL solutions, addressing a technology-savvy clientele that seeks flexibility and convenience enabled by these services. The fact that many e-commerce platforms and fintech companies exist in the region contributes favorably to an environment where innovative

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financial services can be created. In this regard, Kanto dominates the market in volume and the standard of BNPL growth throughout the country. Kanto's economy, technological infrastructure, and consumer demand influence the country's BNPL market growth.

#### Future Market Scenario (FY2025 - FY2032F)

- Buy now pay later services will create a positive trend in the market due to a faster foray into online sales, increasing the share of such solutions from BNPL as consumers seek more credit for financial elasticity at such times.
- With the tech-savviness of Japan's population and high digital engagement, BNPL providers are likely to see continued adoption, especially from a young consumer base that values the convenience and financial flexibility by BNPL.
- Regulatory evolution is expected to lead to more standardized practices and a clearer framework from BNPL operations that might challenge providers with ensuring fair practices, but at the same time may help attract more customers who seek secure and reliable financial services.

#### Key Players Landscape and Outlook

BNPL has become increasingly popular with consumers seeking more flexibility and interest-free instalments. As more customers seek out BNPL solutions for their purchases, BNPL services are being integrated by retailers to give their offering more enthusiasm and appeal to a wider customer base. This trend, though gradually growing, promises enormous opportunities for BNPL providers. Due to this, BNPL providers have started considering strategic collaborations, partnerships, and merger and acquisition deals accordingly. A well-fitted strategy will enable BNPL firms to further expand into additional market verticals, integrate their solutions onto the major retail platforms, and get access to the advanced technologies, thus positioning them strongly in a highly competitive market segment. It means that BNPL will continue its growth in Japan, as witnessed by higher adoption across different retail segments and innovations that will keep driving the evolution of this market.

In June 2024, Atome Financial, Southeast Asia's leading digital financial technology platform and a key business in the Advance Intelligence Group, has obtained a three-year term loan facility from EvolutionX Debt Capital, EvolutionX and is, in parallel, working with a syndicate of investors to fully exercise the accordion feature of the facility, which can top up the total amount up to USD 100 million.

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\*Companies mentioned above DO NOT hold any order as per market share and can be changed as per information available during research work.

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