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# Research Report on Consumer Issues Related to Credit Card Transactions and Outline of Recommendations

The Consumer Commission  
August 2014

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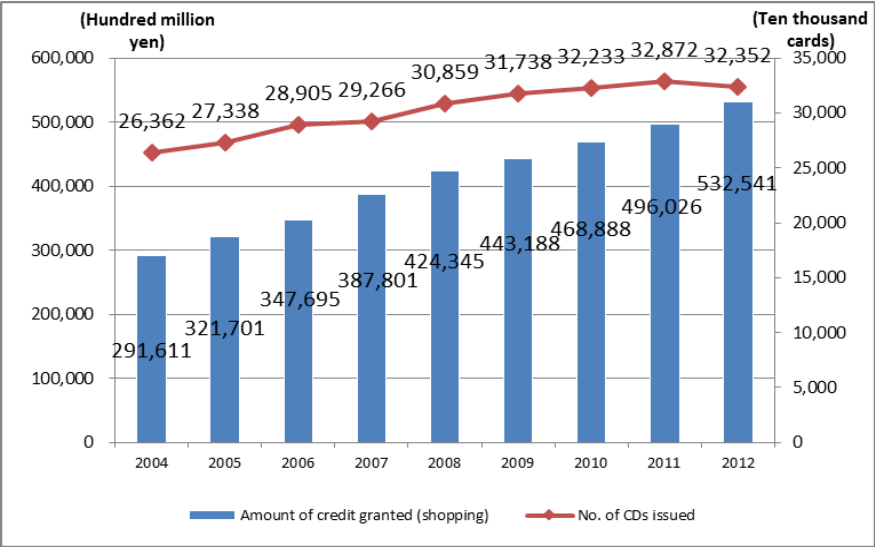
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# 1. Background of issues

## (1) Expansion of credit card (CD) transactions

- The number of CDs issued exceeded 300 million in 2008 and each adult possesses 3 or more CDs on average.
- The amount of credit granted in CD transactions increased by approx. 1.8 times between 2004 and 2012, exceeding 50 trillion yen.

Trends in the number of CDs issued and the amount of credit granted in CD transactions

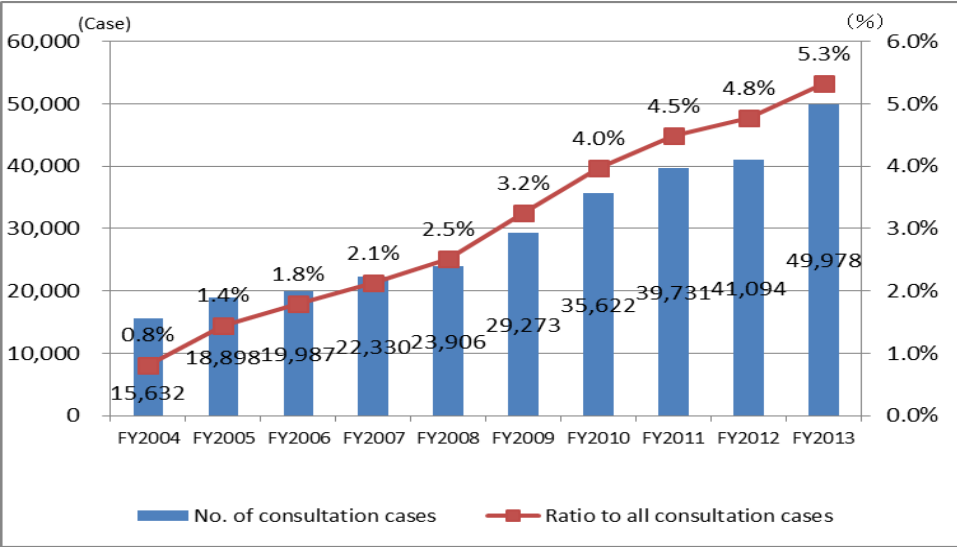


(Note) Compiled using “Consumer Credit Statistics of Japan FY2014 Edition” by the Japan Consumer Credit Association.

## (2) Increase in the number of consultation cases for CD transactions

- The number of consultation cases for CD transactions increased by approx. 3.2 times between FY2004 and FY2013 (approx. 2.6 times between FY2004 and FY2012).
- The rate of increase in the number of consultation cases for CD transactions significantly surpasses the rate of increase of the number of CDs issued and the number of CD transactions.
- The ratio of consultation cases for CD transactions to all of consultation cases also increases year after year and accounted for 5.3% of all in FY2013.

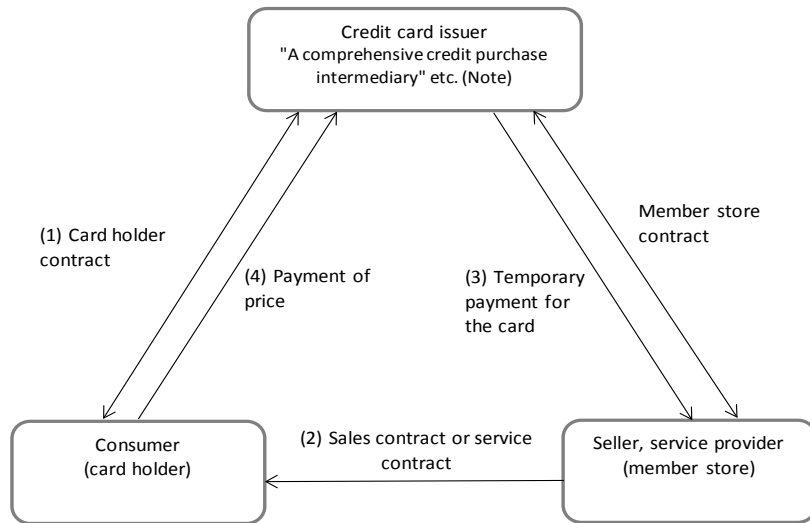
Trends in the number of consultation cases for CD transactions



(Notes) 1. Compiled by the Commission using PIO-NET data. The data registered by July 31, 2014 was used.  
2. PIO-NET (Practical Living Information Online Network System) is a system to connect the National Consumer Affairs Center of Japan and regional Consumer Affairs Centers, etc. across Japan via online networks and to store data on consumer affairs.  
3. As for the number of consultation cases for CD transactions recorded in the PIO-NET and shown in this material, CD transactions falling under credit sales that involve intermediation of comprehensive credit purchases provided for in Article 2, Paragraph 3 of the Installment Sales Act and whose credit period is less than 2 months were used. As for data in FY2009 and earlier, the number of the cases falling under “comprehensive installments” and “lump-sum payment one month after the purchase/at the time of bonus payout” is shown.

### (3) More complicated and layered credit card transactions

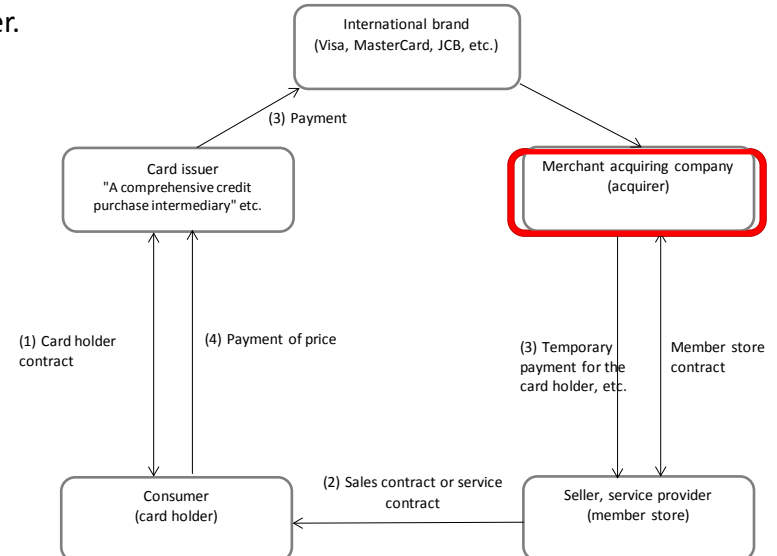
#### [1] A card issuer enters into a contract with a member store



(Note) A comprehensive credit purchase intermediary and a person who performs intermediation of two months installment purchases as his/her business.

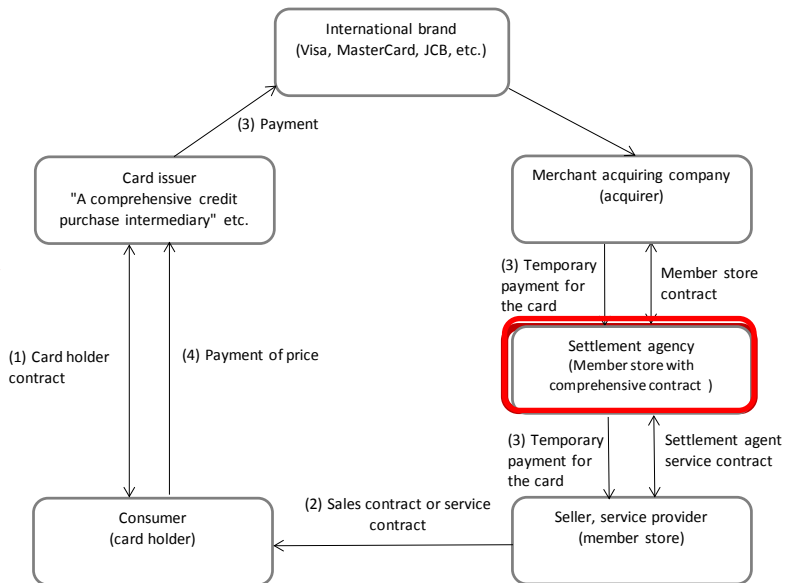
#### [2] The card issuer and the **merchant acquiring company (acquirer)** are different business operators

A card holder can use his/her card even at a store which is not a member store of an issuer of his/her card but which is a member store of an issuer which has entered into a membership contract with the same international brand card issuer as for the former issuer.

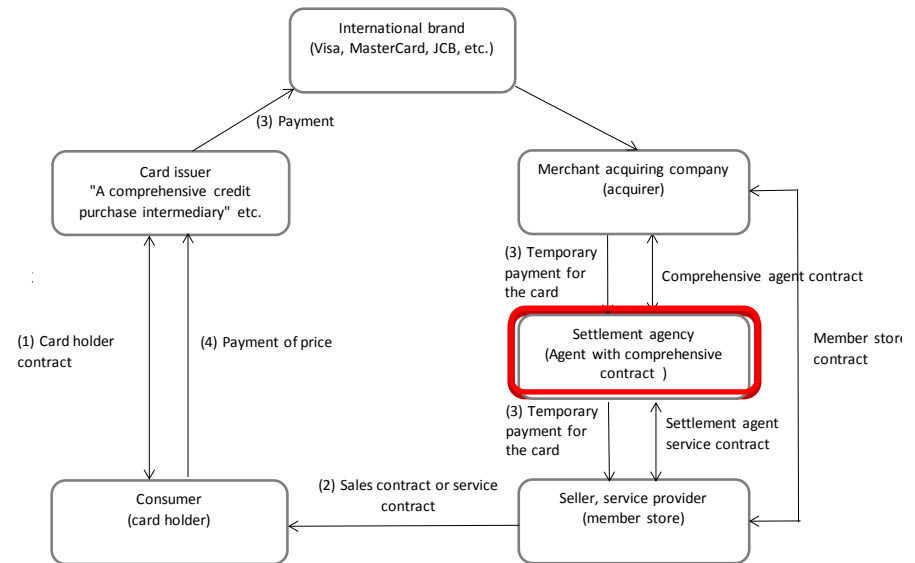


[3] A **settlement agency** which conducts activities such as temporary payment for card holders intervenes between a merchant acquiring company (acquirer) and a seller, etc.

(i) Comprehensive contract member store method



(ii) Comprehensive agent method



## 2. Damage arising from malicious acts by member stores

### (1) Content of consultation requests from consumers

The content of consultations for CD transactions relates to “Signing/termination of contract” and “Sales method” in many cases.

**No. of consultation cases for CD transactions by the content of consultation (FY2013)**

Content	No. of cases
Signing/termination of contract	43,902
Sales method	26,950
Price/charge	8,823
Customer services	8,399
Product quality/function, service quality	6,287
Information presented, advertisement	4,651
Laws, regulations and standards	978
Health and safety	945
Measurement and weight	61
Packaging and container	59
No response (no information entered)	42
Facilities and equipment	33

(Note) Compiled by the Commission using PIO-NET data. Data registered by July 31, 2014 were used. Multiple-answer question.

Looking closely at the categories “Signing/termination of contract” and “Sales method,” there are many consultation cases about “Cannot get a connection,” “Unfair billing,” “Insufficient explanation,” “Fraud,” “Breach of undertaking,” “False explanation,” “Strong-arm and forceful approach,” “Sales practices offering no charges,” “Goods not arrived,” etc. Thus there are **many complaint cases that seem to arise from malicious acts by sellers, etc.**

**Of consultation cases for CD transactions, No. of major consultation cases falling under the category “Signing/termination of contract” or “Sales method” by the content of consultation (FY2013)**

	Content	No. of cases
1	E-commerce	25,789
2	Credit card	20,860
3	Cancellation	20,446
4	Refund	10,505
5	Cannot get a connection	5,345
6	Unfair billing	4,494
7	Contract form/descriptions	4,211
8	Insufficient explanation	4,183
9	Fraud	3,684
10	Contract	3,555
11	Contract by a minor	2,805
12	Breach of undertaking	2,630
13	False explanation	2,506
14	Unauthorized use of name	2,484
15	Strong-arm and forceful approach	2,454
16	Cooling-off	2,438
17	Sales practices offering no charges	2,305
18	Cancellation fee	2,064
19	Goods have not arrived	2,055
20	Contract without consent	1,875

(Note 1) Compiled by the Commission using PIO-NET data. Data registered by July 31, 2014 were used. Multiple-answer question.

(Note 2) “Unfair billing” includes “False billing” and “One-click billing.” “Contract form/descriptions” includes “Form not delivered,” “Falsification of form,” and “Errors in form.”

(Note 3) Top 20 frequently used key words in the content of consultation about “Signing/termination of contract” and “Sales method” are shown in the descending order.

[Case example] A half year ago, I placed an order for imported furniture and paid the price by credit card but the product was not delivered and the price has not been refunded although I gave a cancellation notice.

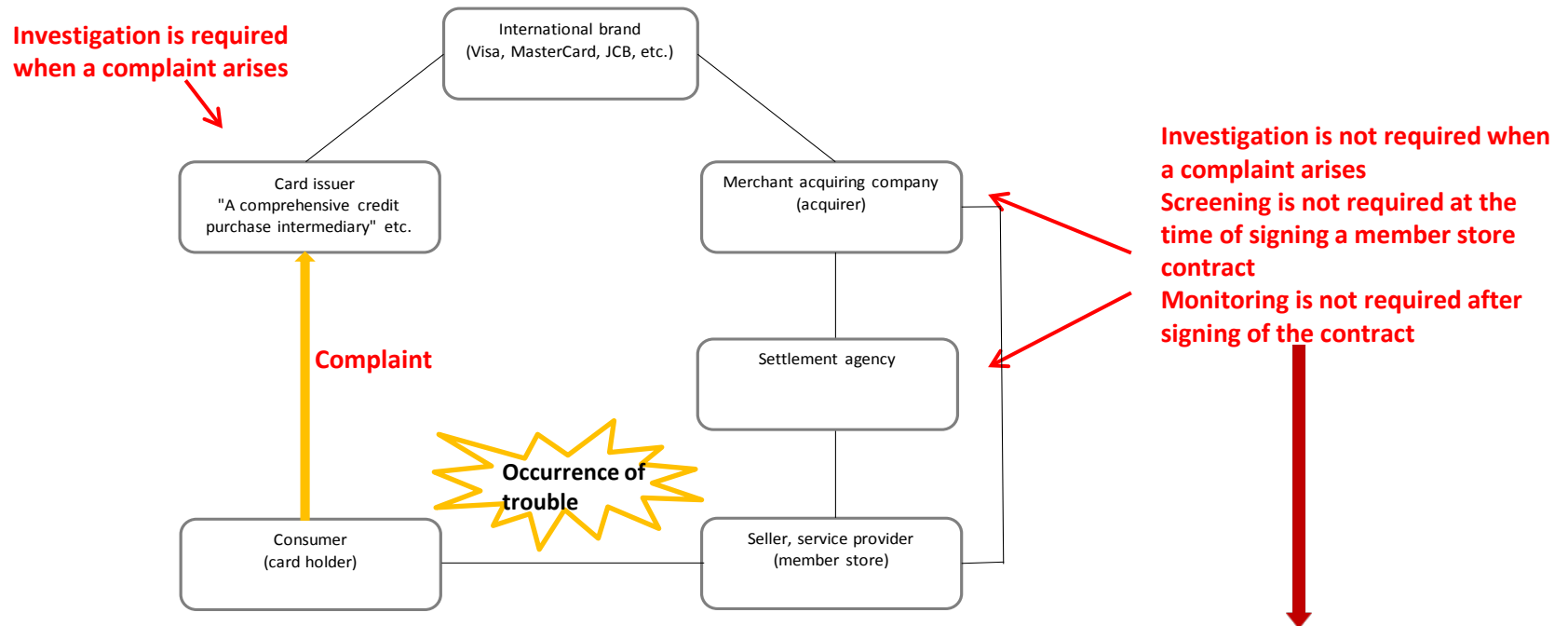
[Case example] I registered with a side business website that advertises it offers opportunities to earn money by responding to a consultation request. After that, I received an e-mail from a man who requested me to give him advice. I made a reply to him and he said “I want to pay you remuneration. Follow my instructions.” I input information according to his instructions and submitted the information but I was told “The numbers you input are wrong or garbled so you need to deposit money.” I transferred 100,000 yen to their bank account and then paid 400,000 yen by credit card. But I could not input information successfully although I tried many times. Then, I felt suspicious and decided to stop. I want the money to be paid back.

(Note) The above two examples were excerpts from consultation cases registered in PIO-NET.

## (2) Investigation of member stores by credit card company, etc.

Under the Installment Sales Act, acquirers and settlement agencies are not required to investigate complaints that arise in connection with installment sales.

In addition, there are no provisions on the obligation of screening at the time of signing a member store contract and the obligation of monitoring after signing of the contract.



An issuer has no direct contractual relationship with a seller, etc. and there are cases where sufficient investigations and surveys, etc. are not conducted in regard to malicious sellers, etc.

[Case example] I received a solicitation for drop-shipping business (sales practice where a person posts information about a product on his/her website and if the person receives an offer to buy the product, the manufacturer or wholesaler ships the product directly to the person who made the offer). I entered into a service contract concerning website development, etc. and paid the service fees by credit card (in installments). However, it seemed like there was no possibility to earn profits from this arrangement so I gave the seller a cancellation notice concerning the business opportunity related sales transaction during the cooling-off period. Although the issuer decided to stop billing me, it took no further action other than telling me to consult with the seller and solve the problem.

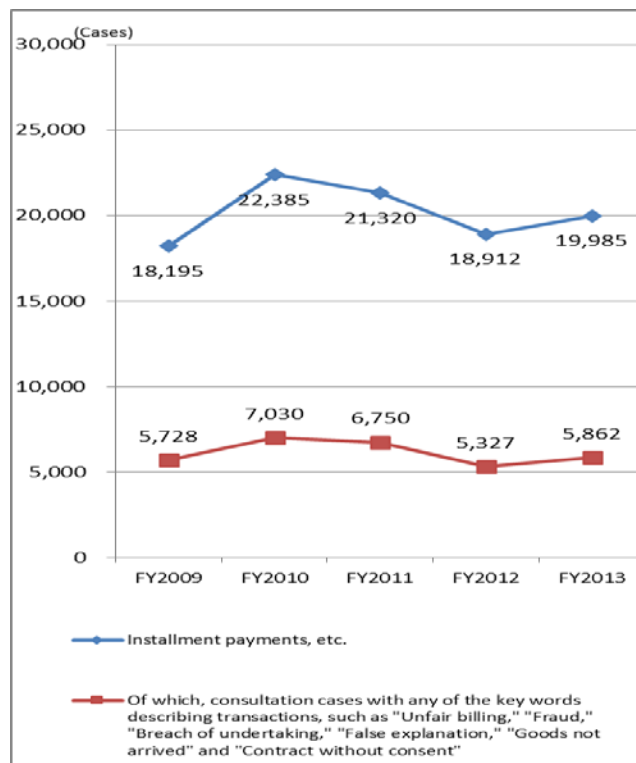
### 3. Damage arising from transactions in which a lump-sum payment is made one month after the purchase (monthly clear card transactions)

#### (1) Situation of consumer troubles

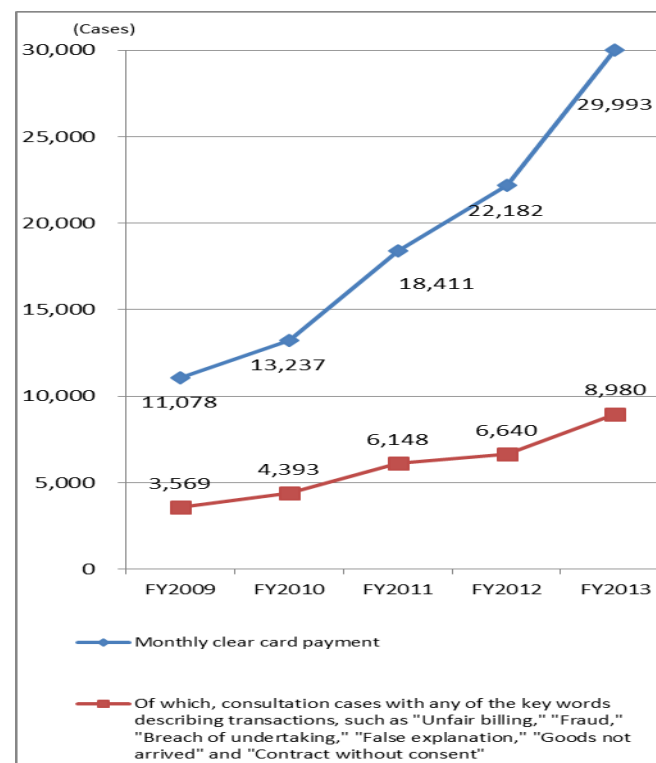
The number of consultation cases for transactions in which a lump-sum payment is made one month after the purchase (monthly clear card transactions) has increased rapidly and, since fiscal 2012, exceeded the number of consultation cases for installment payments, etc., reaching approx. 30,000 in fiscal 2013. As for installment payments, etc., the number of consultation cases falling under any of the categories "Unfair billing," "Fraud," "Breach of undertaking," "False explanation," "Goods not arrived" and "Contract without consent" has moved sideways. On the other hand, as for monthly clear card payments, the number of such cases increased rapidly.

#### Trends in number of consultation cases by payment method

Installment payments



Monthly clear card payment



(Notes) 1. Compiled by the Commission using PIO-NET data. Data registered by July 31, 2014 were used.

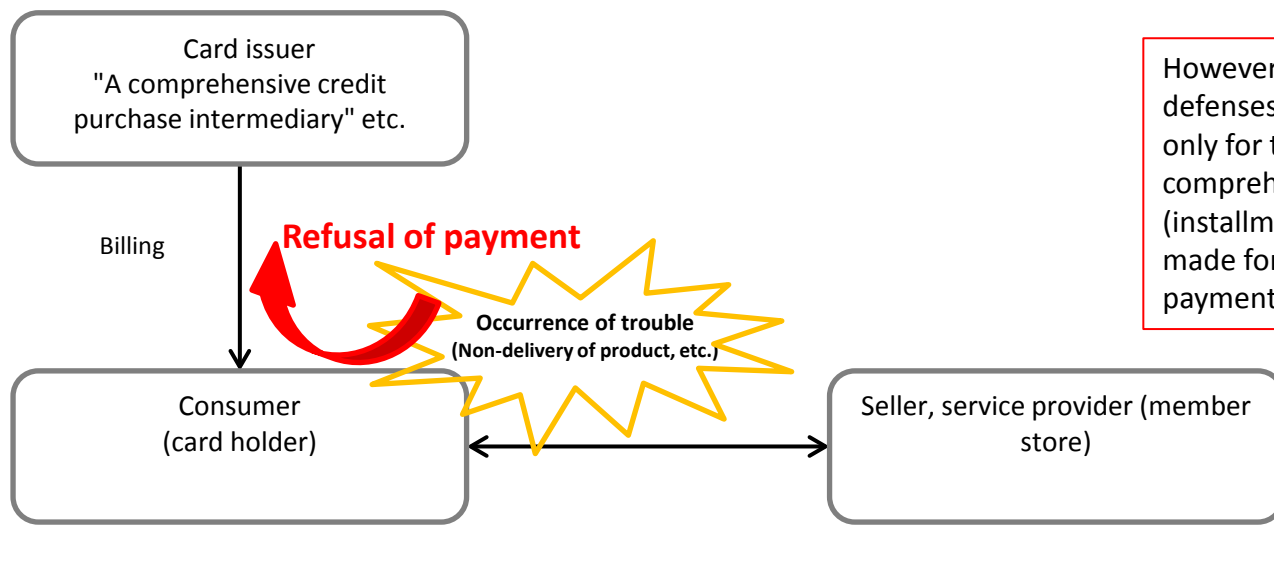
2. "Installment payments, etc." means "intermediation of comprehensive credit purchases" as provided for in Article 2, Paragraph 3 of the Installment Sales Act. As for data in FY2009 and earlier, the number of the cases falling under "comprehensive installments" is shown. Note that in line with the revision of the Installment Sales Act, data in FY2010 and later includes the number of cases falling under "lump-sum payment at the time of bonus payout."

3. Data for "Monthly clear card payments" in FY2009 and earlier shows the number of cases falling under "lump-sum payment one month after the purchase/at the time of bonus payout." As for such data in FY2010 and later, the number of cases falling under credit sales whose credit period is less than 2 months is shown and the number of cases falling under "lump-sum payment at the time of bonus payout" is included in data of "installment payments, etc."



## (2) Defense for suspension of payment

The Installment Sales Act stipulates that in cases such as non-delivery of the product from the seller, etc., the consumer may assert against the comprehensive credit purchase intermediary who demands payment based on the grounds that have arisen with the seller, etc. (what is called “**assertion of defenses against a credit provider based on ground for defenses asserted against a seller**” or “**assertion against a credit provider of defenses asserted against a seller**”) (In the cases of installment payments, this applies to transactions where the total amount of payment is at least 40,000 yen.



However, “assertion against a credit provider of defenses asserted against a seller” may be made only for the case of intermediation of comprehensive credit purchase transactions (installment payments, etc.) and may not be made for the case of monthly clear card payments.

When a complaint arises, the issuer may voluntarily take measures to temporarily suspend the demand for payment, but the issuer demands the consumer to directly negotiate with the acquirer, settlement agency, seller, etc. If the negotiation does not lead to resolution of the problem within a period specified by the issuer, the issuer starts to demand the payment again and the consumer has to make the payment.

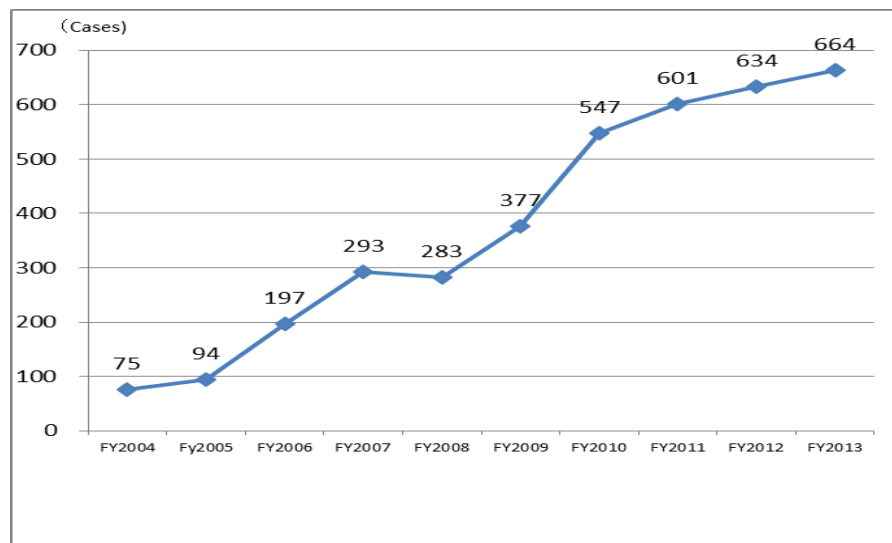
[Case example] I clicked on “18 or older” on an adult site and I was registered with the site as a result. I said “I had no intention of becoming a member” but they said “if you do not pay 98,000 yen, you cannot withdraw.” I said “I cannot pay such big bucks,” and they said “10,000 yen is enough.” They asked for my credit card number and I told the number by telephone. I checked billing statements online the next day and found I was charged with 100,000 yen in total. I want the charge to be cancelled. I conducted negotiations at the consumer affairs center multiple times and the credit card company said to me “we will temporarily stop billing for 2 months and conduct investigation.” After that, the company answered “the settlement agency has a contract with an overseas bank but the contact information of the agency is unknown. If the settlement agency does not cancel the charge, we as a credit card company have no choice but to demand the payment from you.”

## 4. Consumer education and information provision in relation to credit card transactions

The number of consultation cases for repayment of revolving loans (revolving repayment) increases year after year but there are not many cases where information on revolving repayment is provided to consumers.

There are few cases where information deemed to be useful for consumers to prevent the expansion of damage and to recover from damage is provided in an easy-to-understand manner.

No. of consultation cases for repayment of revolving loans (revolving repayment)



(Notes) 1. Compiled by the Commission using PIO-NET data. Data registered by July 31, 2014 were used.

2. The number of consultation cases for revolving repayment consists of the number of cases for which it is found that the revolving repayment method is or will be used for shopping by credit card and which are described with words such as "Interest rate/interest" "Commission fee" (including "the commission fee for revolving repayments is high"), "Insufficient explanation" (including "explanation about revolving repayment is insufficient") and "Multiple debts" that consumers face difficulty repaying. (Multiple-answer question)

Revolving repayment is to repay a fixed amount of money every month regardless of the amount of loan and the number of loans. Revolving repayment has the following problems.

- In the case of revolving repayment, the amount of payment is fixed however much money is used for shopping, and therefore the larger the amount of commission fees becomes, the longer the repayment period is. Further, the rate for commission fees is set at approx. 10 to 20% on an annual basis in many cases and if the consumer continues to use revolving loans while being not aware of such rate, the amount of debt may become surprisingly large.
- There are cases where at the time of application for card membership, a consumer is not aware that the card is exclusively for revolving repayment and uses the card without knowing such fact. It is not until the fixed monthly amount of payment is exceeded that the consumer becomes aware that the card is only for revolving repayment.
- For some cards exclusively for revolving repayment, the revolving repayment method is automatically selected even if the customer chooses a "lump-sum payment" at the time of shopping, or a commission fee is incurred for the balance of payments which does not reach the monthly amount to be paid.

(Note) Based on "The shop clerk encouraged me to save lots of money by reward points so I became a card holder but it's only for revolving repayment" published by the National Consumer Affairs Center (March 27, 2014)

[Case example] I became a credit card member as the shop clerk encouraged me to do so. At a later date, when I checked the invoice, I realized that the card was only for revolving repayment. If I was aware of that, I would not make the credit card.

Even if the conditions of chargeback rules (\*Note) are satisfied, there are cases where the issuer does not make an application willingly and in some cases the person in charge at the issuer has no knowledge about the chargeback rules.

(Note) Charge-back rules were established by the international brands (Visa, Mastercard, JCB, etc.) and under such rules, if the issuer return funds to a card holder in response to a complaint made by the holder and if such complaint satisfies the conditions specified by the international brands, the issuer may collect the refunded amount from the acquirer. Chargeback reasons include the signature of the card holder being not given at the time of use of the credit card (theft, etc.), duplicate billing, overcharging and cancellation due to non-arrival of products.

## 5. Recommendations

### Issues identified in the light of actual damages

- There are many cases of damages arising from malicious acts by member stores.
- The number of troubles in transactions in which a lump-sum payment is made one month after the purchase is increasing rapidly.
- There are few cases where information deemed to be useful for consumers to prevent the expansion of damage and to recover from damage is provided in an easy-to-understand manner.
- Chargeback rules are not applied properly in some cases.
- The number of troubles related to revolving repayment is increasing.

## Recommendations

### 1 Development of systems for strictly managing member stores

It is recommended that the Ministry of Economy, Trade and Industry (METI) take measures to develop the following systems.

- (1) Take measures to increase the effectiveness of controlling member stores, including imposing obligations on merchant acquiring companies (acquirers) and settlement agencies under the Installment Sales Act.
- (2) Obligate the above acquirers and settlement agencies to register with the administrative agency and set out the authority of the administrative agency to conduct investigation.

### 2 Development of systems for, among others, assertion against a credit provider of defenses asserted against a seller in the case of monthly clear card transactions

As for intermediation of two months installment purchases (transactions in which a lump-sum payment is made one month after the purchase (monthly clear card transactions)), it is recommended that the METI take measures to develop systems for, among others, the same right to assert against a credit provider of defenses asserted against a seller as for intermediation of comprehensive credit purchase transactions.

### 3 Consumer education and information provision in relation to credit card (CD) transactions

It is recommended that the Consumer Affairs Agency (CAA) and the METI take the following measures.

- (1) The CAA and the METI should further promote the active provision of education and information to consumers in regard to use of CDs. At that time, information prepared in an easy-to-follow manner and deemed to be useful for consumers to prevent the expansion of damage and to recover from damage should be disseminated.
- (2) The METI should request CD industry groups to apply chargeback rules properly.
- (3) The METI should request CD issuers to provide information on the structure and risks of revolving repayment to consumers in an easier-to-understand fashion at the time of providing documents to consumers upon issuance or use of cards.