



STHIGISMI

Why Regional Banks Need to Transform

— Local Economic Change and the Growing Loss of Visibility into Commerce Flows —
(Part 1)

Regional banks in Japan face structural challenges: shrinking local economies driven by population decline, prolonged pressure on interest margins, and declining visibility into commerce flows as payments and customer touchpoints shift to external platforms. Traditional banking models reliant on financial statements and ex-post transaction data are increasingly unable to capture real-time local dynamics or provide practical, high-value client support.

One potential lever is the combination of BNPL (Buy Now, Pay Later) services and advanced data analytics. This paper examines local economic contraction and the information-infrastructure constraints facing regional banks, with particular attention to the structural problem of limited commerce-flow visibility.

I. Local Economies and Regional Banks at a Structural Turning Point

■ Scope of this paper

This paper focuses on local economies outside Japan's three major metropolitan areas—Tokyo, Osaka, and Nagoya—and on the regional banks serving those areas.

While metropolitan areas continue to attract a certain level of inward migration, population decline is accelerating across many other regions. According to population estimates by Japan's Statistics Bureau, Japan's total population peaked at approximately 128.08 million in 2008 and has since begun to decline, declining to approximately 123 million as of December 1, 2025. In particular, the working-age population ages from 15 to 64 peaked at around 87 million in 1995 and continues to decline, reaching approximately 73 million as of the same date. This trend is expected to continue, making the environment surrounding local economies increasingly severe over the medium to long term. Population decline is not merely a "headcount" issue

Population is a fundamental driver of demand,

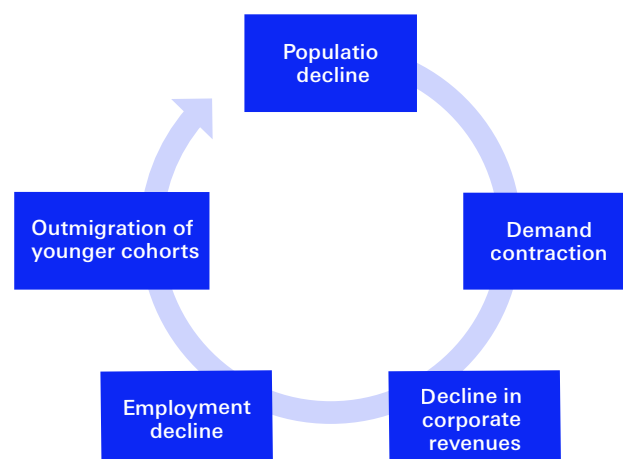
and demand underpins business activity. When a region's population decreases, consumption markets shrink and local businesses face revenue pressure. Declining revenues lead to job losses, which in turn push younger people to move to urban areas for employment opportunities. This cycle can be conceptualized as a model (see [Figure 1](#)) and has the effect of accelerating the contraction of local economies.

Importantly, this cycle is fundamentally different from short-term business fluctuations. Temporary subsidies or one-off financial support cannot solve a problem whose underlying structure has changed. As the underlying structure changes, the approach to supporting local economies must also be reconsidered.

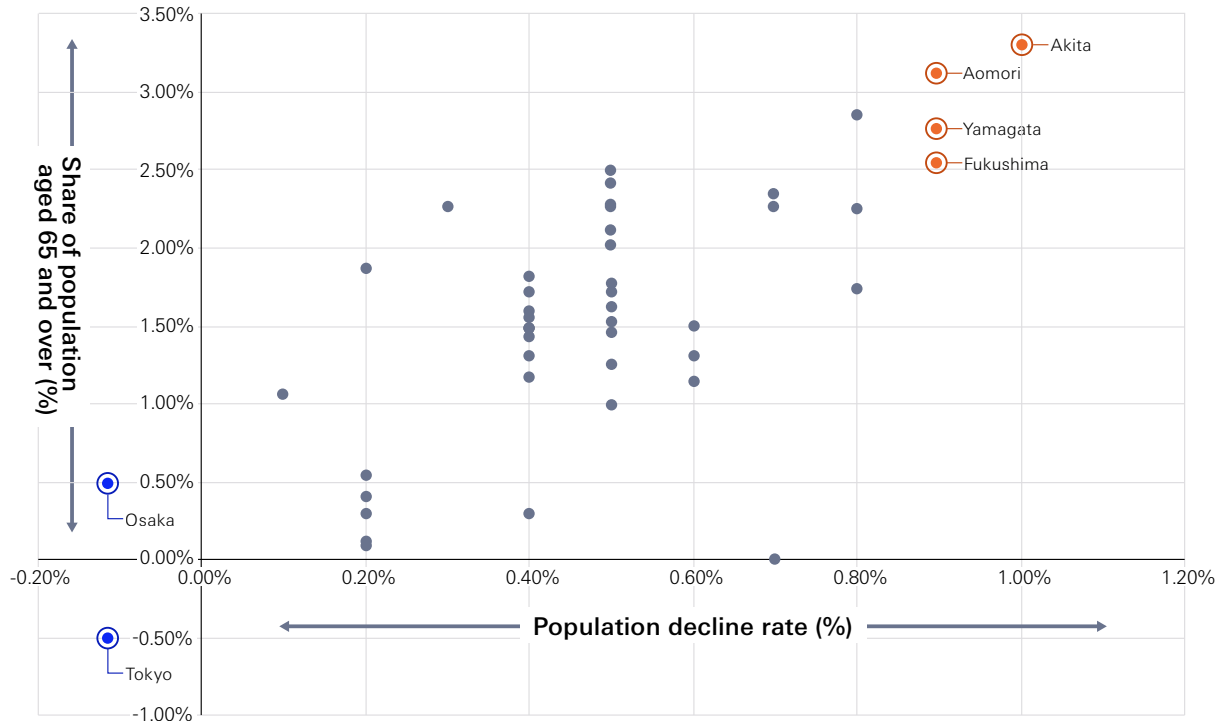
Why this matters directly to regional banks

These changes have direct implications for regional banks. Regional banks have historically been closely connected to local economies through lending to local businesses. However, as local economies shrink, loan demand also declines. In addition, under the Bank of Japan's long-standing monetary easing, lending rates have remained low and interest margins have been compressed. The sustainability of the traditional banking model, centered on the spread

Figure1 Circular Model of Regional Economic Decline



Source: Compiled by the authors based on METI, MHLW, and other sources.

Figure2 Population Decline and Aging across Japanese Prefectures (2021–2023)


Source: Authors' calculations based on the Statistics Bureau of Japan, Population Estimates and related prefectural statistics.

between deposit and lending rates, is increasingly being called into question, and regional banks are being forced to fundamentally transform their revenue structures.

The contraction of local economies and the profit squeeze on regional banks are two sides of the same structural change. Therefore, the question “Why must regional banks change?” is inseparable from “How should local economies be revitalized?” This paper addresses both questions simultaneously to identify the direction of change.

II. The Structural Contraction of Local Economies and Its Realities

■ Demographic change and regional disparities

The severity of population decline varies by region. As shown in Figure 2, prefectures such as Akita, Aomori, Yamagata, and Fukushima have

experienced population declines greater than the national average and also exhibit pronounced youth outmigration and rising aging rates. Population decline reduces the market size itself, while aging changes the composition of demand. Consumption tends to shift toward medical services and daily necessities, and spending in high-growth categories becomes more limited. Businesses that cannot adapt to these changes in both the scale and composition of demand risk losing competitiveness.

■ Vulnerability of SMEs and the risk of business closures

Small and medium-sized enterprises (SMEs) form the backbone of local economies. According to the SME White Paper, the share of firms lacking a clear successor remains high. This is particularly pronounced among small-scale businesses, where aging owners and delayed business succession are leading to an increasing number

of closures.

Closures do not merely mean the disappearance of individual firms; they can also sever transaction networks and product flows. Local supply chains are tightly interlinked, and the closure of one firm can trigger cascading effects—job losses, income decline, and reduced local consumption.

Preventing a chain of closures is therefore essential for maintaining local economic stability, which requires early and continuous intervention based on a clear understanding of actual business conditions.

■ Visualizing local economies—and its limitations

One widely used public tool for analyzing local economies is the Cabinet Office’s Regional Economy and Society Analyzing System, known as RESAS. RESAS visualizes population dynamics, industrial structure, tourism trends, and more. It supports analyses such as “regional economic circulation” and “inbound

consumption,” and is positioned as a foundation for regional revitalization policy.

However, RESAS is based on aggregated statistics and involves inherent time lags in updates. It is not designed to capture real-time changes in demand.

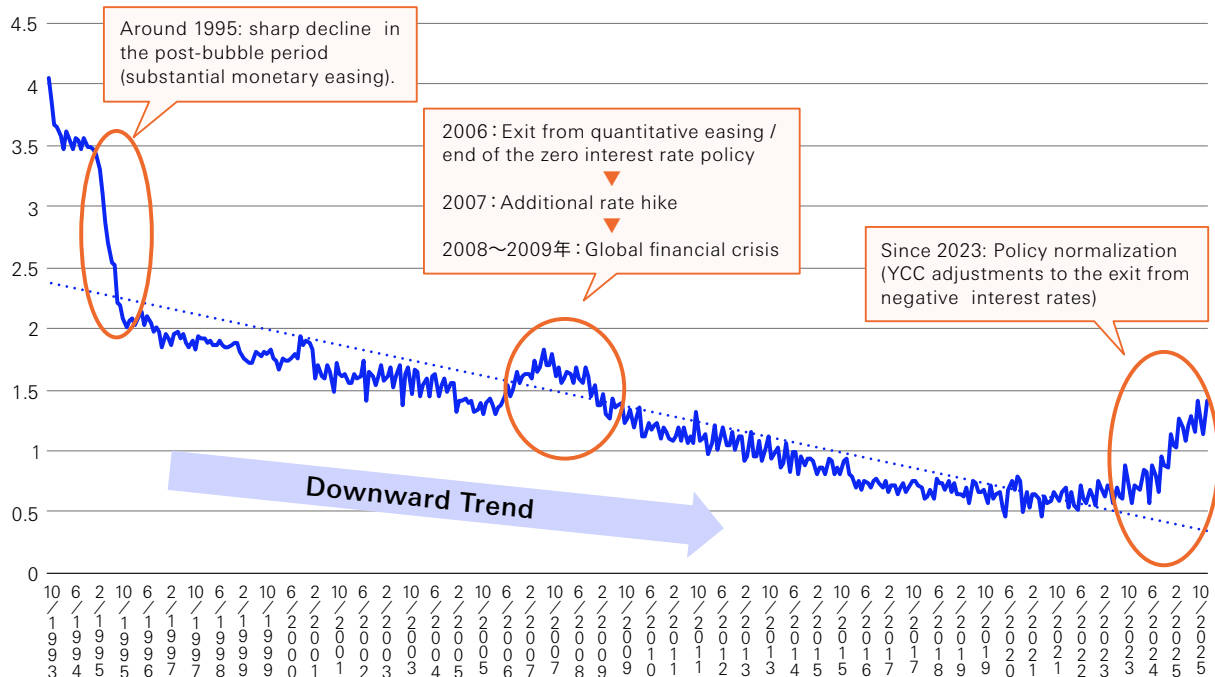
In practice, local stakeholders routinely ask questions such as:

- Which industries are actually growing right now?
- Which products are starting to sell?
- What are tourists spending money on?
- Through which channels are younger generations consuming?

These questions are difficult to capture adequately through macro statistics.

When local economies were stable and growing, policies and financial support based on macro statistics could still be effective. In a phase of shrinking demand and increasingly fragmented consumption, however, higher-resolution and higher-frequency data become essential. In other

Figure3 Long-term Trends in Contracted Lending Rates



Source: Authors' calculations based on the Bank of Japan, Average Contracted Interest Rates on Loans and Discounts.

words, current tools may reveal the “structure” of local economies, but not their real-time “dynamics.” This gap is the core challenge in visualizing local economies. If regional banks are to remain key players in local economies, they must make the “invisible parts” visible.

III. Structural Limits of the Regional Bank Model and Environmental Change

■ The transformation of relationship banking

Regional banks grew alongside local economies. During Japan’s period of high economic growth, local funding demand was strong and relationship banking—lending funded by deposits, supported by long-term relationships and qualitative information gathered through ongoing dialogue—functioned effectively. Banks played comprehensive roles including cash-flow support and turnaround assistance.

This structure is often explained as Japan’s “main bank system,” one of the features of the Japanese financial system. In periods of regional expansion, relationship banking remained stable: as firms grew and revenues rose, repayment capacity increased, banks expanded loan balances, and interest margins could be maintained.

However, since the bursting of the bubble economy and the entrenchment of a low-interest-rate environment, this structure has gradually changed. As lending rates continued to decline from the 1990s onward (see [Figure 3](#)), interest margins compressed. Even increasing loan balances no longer guaranteed sufficient profitability.

Relationship banking, once premised on regional economic growth, is being forced to operate in a shrinking economy, where the emphasis shifts from supporting expansion to maintaining existing businesses. At the same time, alternative financing options—corporate bonds, venture capital, leasing, etc.—have expanded, and growth companies in particular have become less dependent on bank lending.

The traditional model of regional banks was premised on the assumption that regional

economies would continue to expand. With that premise broken, redesigning the business model has become urgent.

■ The shift to fee-based income—and its barriers

Japan’s Financial Services Agency has urged regional banks to expand non-interest income. In response, many banks have pursued advisory businesses such as corporate consulting, M&A intermediation, and business succession support. Yet this transition is not straightforward.

Key barriers include:

1. Talent constraints: There are limited personnel capable of high-level advisory work, and talent outflow to metropolitan areas is a challenge.
2. Scale constraints: The customer base of regional banks is geographically limited, restricting the scalability of advisory services.
3. The most critical barrier—customer touchpoints: limited customer touchpoints: Advisory work requires a deep understanding of clients’ business realities. Without visibility into client transaction behavior, recommendations tend to remain generic.

A crucial point is that while regional banks can access clients’ financial statements, account balances, and lending histories, they often lack commerce-flow data—such as what is actually selling, which customer segments are purchasing, and what factors are driving sales. This problem is not unique to regional banks; it also applies to mega banks. Why, then, are megabanks still able to generate substantial fee income? Megabanks expand fee income through capital markets business and global operations, compensating for the lack of commerce-flow data via scale and business diversification. They can sustain business lines that are less dependent on commerce-flow data.

In contrast, regional banks’ strongest competitive advantage lies in long-term relationships with local SMEs and individuals. However, advisory services that should leverage this advantage require high-resolution commerce-flow data to understand clients’ real-time business dynamics.

Without access to such data, regional banks cannot fully translate their relationship advantage into differentiated value.

IV. The Structural Problem of Commerce-Flow Invisibility

■ Institutional change and the shift in credit monitoring

The government-led phase-out of promissory notes and checks represents a major practical turning point for regional banks. With the digitization and planned discontinuation of promissory notes, the transition to electronically recorded monetary claims (Densai) has been promoted. Densai provides a standardized framework for electronically managing monetary claims and preventing duplicate assignments. However, its purpose is primarily the management of transactions that have already been executed; it does not provide contextual information such as “what sold” or “why it sold.” More importantly, changes in payment instruments are transforming the structure of credit monitoring itself. Under note-based transactions, banks could infer cash-flow conditions directly via due dates. Payment delays and dishonors served as early warning signals of

deteriorating credit status, enabling banks to respond quickly.

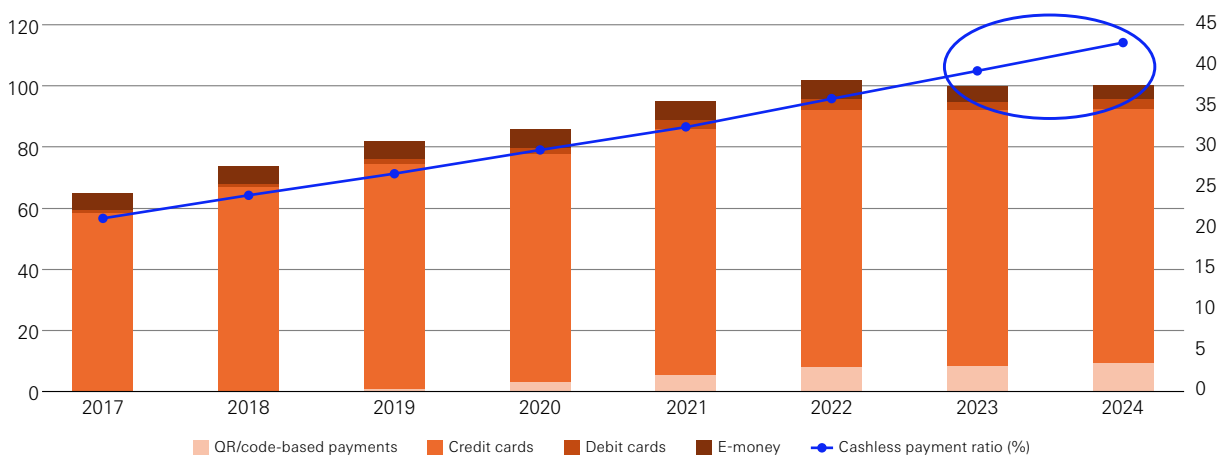
Today, with the advancement of digital payments, banks can mostly observe only post-transaction information—such as increases and decreases in account balances. Banks may see the movement of funds, but it has become more difficult to directly detect changes in a borrower’s creditworthiness or settlement risk. The essence of the change is the loss of early warning signals about whether transactions will be settled as expected.

As a result, credit assessment is shifting from “early detection based on due dates” to “ex-post detection based on results,” which structurally increases time lags and reduces precision. This weakens regional banks’ ability to support businesses proactively.

■ Externalization of touchpoints and loss of commerce-flow data

According to materials published by the Ministry of Economy, Trade and Industry, Japan’s cashless payment ratio exceeded 40% from FY2023 onward (see Figure 4). Consumers increasingly transact through credit cards, QR code payments, and e-money—via e-commerce platforms and payment apps rather than bank channels. From

Figure4 Trends in Domestic Cashless Payment Ratio in B2C Transactions



Source: Authors' calculations based on the Ministry of Economy, Trade and Industry (METI), Cashless Payment Ratio.

the perspective of regional banks, customer touchpoints are increasingly shifting to external platforms.

Banks can see account balance changes, but contextual information— “where, what, and why someone bought” —is held externally. Historically, banks indirectly understood business realities through corporate cash-flow management. Today, banks remain a funds-transfer infrastructure, yet they are no longer the primary entity managing purchase behavior data.

This structural change goes beyond a mere channel shift; it represents an erosion of the information base on which banks have traditionally relied. Without commerce-flow data, business assessments and credit decisions inevitably become ex-post. The ability to grasp what is truly happening in a borrower’s business weakness, undermining regional banks’ capacity for practical business support.

■ “Uncaptured demand” in local economies

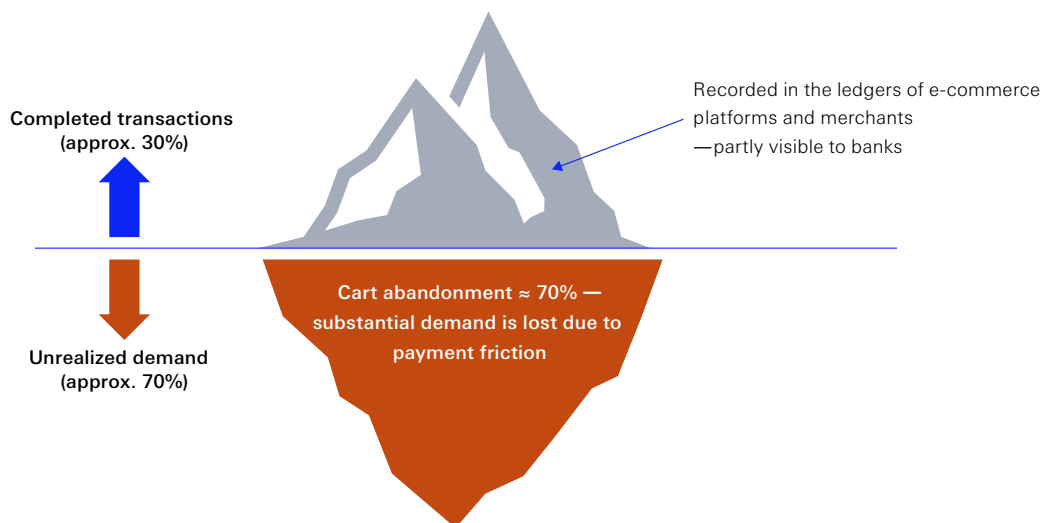
The invisible portion of economic activity is also expanding within local economies.

In e-commerce markets, the global average cart

abandonment rate is said to be around 70%, with estimates in Japan ranging roughly from 65% to 80%. According to Baymard Institute, major reasons for cart abandonment include “extra costs revealed” (about 48%) and “forced account creation” (about 24%). This is not merely a pricing issue; it reflects “friction” in the payment process and user experience.

Crucially, such unrealized demand is not reflected in statistics. Economic statistics typically cover only complete transactions; demand that existed but did not materialize remains invisible. In regional industrial promotion and financial support, understanding this unrealized demand is important for improving the effectiveness of regional industrial policy and financial support. In a period of population decline, demand does not simply decrease — it becomes dispersed, fragmented, and localized. Demand may concentrate in specific segments, products, or time windows, such as tourism spikes or shifts in consumption due to youth outmigration. Such micro-movements are not sufficiently captured by macro statistics. As illustrated conceptually in Figure 5, the “unseen portion” of local economies

Figure5 Lost Sales in the E-Commerce Market



Source: Baymard Institute (cart abandonment benchmarks) and industry reports; figure prepared by the authors.

is becoming increasingly significant relative to the “seen portion.”

■ Limited visibility into commerce flows as a shared structural challenge

In summary, both regional banks and local economies face the same structural problem: limited visibility into commerce flows.

Banks can access “financial information of completed transactions,” “account balances,” and “lending histories,” but cannot sufficiently access “unrealized demand,” “purchase context,” or “subtle changes in demand.” Meanwhile, institutions manage completed transactions, and statistics provide historical aggregates; systems to capture real-time demand dynamics at high resolution remain inadequate.

If this structure is left unaddressed, banks’ support will remain reactive, and local economies will be managed in a constant state of “after-the-fact response.” Visualizing commerce flows is the starting point of transformation for both regional banks and local economies.

V. Redefining the Institutional Role of Regional Banks

■ What the loss of visibility into commerce flows really means

The limited visibility into commerce flows discussed above is not a simple data shortage; it is a structural problem rooted in the same forces driving local economic contraction.

■ Redefining the role regional banks should play

Who should hold commerce-flow data—megabanks, fintech firms, or e-commerce platform companies? This paper argues that it should be regional banks, for two reasons: (1) the economic sphere and (2) their institutional position.

1. Economic sphere: In metropolitan areas, transactions are often mediated by large platforms, allowing e-commerce and payment providers to effectively control commerce-flow

data. In contrast, in local regions, consumption and corporate activities are not fully centralized on a single platform; commerce flows are distributed. In such an environment, it is difficult for any single platform to capture regional commerce comprehensively. Regional banks—having long-term relationships with both firms and individuals—are often the closest entity to understanding the region’s overall picture.

2. Institutional position: Regional banks have accumulated credit-related data through long-term relationships with local SMEs, household account bases, and credit provision. This position is not easily substitutable by other players. While platform companies may capture commerce-flow data at the level of individual merchants, the ability to translate it into regional context and connect it to credit provision, funds circulation, and business support is limited to a small number of actors.

By maintaining continuous relationships with both individuals and businesses, regional banks are well positioned to understand both sides of the local economy: consumption and production, or demand and supply. Commerce-flow data alone does not create value; it becomes meaningful only when integrated, interpreted, and connected to decision-making. In this sense, regional banks should be positioned not as competitors to platforms, but as integrators of dispersed commerce flows and as entities that return insights to the local economy.

Regaining access to commerce-flow data would allow regional banks to evolve from mere providers of capital into information hubs for local economies.

VI. BNPL: A Practical Entry Point to Regain Commerce Flows

■ Why BNPL can serve as an entry point

BNPL is not the only way for regional banks to regain access to commerce-flow data. However, BNPL has three practical advantages. In this paper, BNPL refers to payment services that

separate the timing of purchase from the timing of payment, including consumer BNPL services used in e-commerce and invoice-based deferred payment services for businesses.

1. Low implementation barriers: BNPL can be connected relatively easily to existing e-commerce and POS systems, allowing adoption without large-scale infrastructure investment — making it realistic even for small local merchants.
2. Scalability from B2C to B2B: B2B BNPL can be applied to corporate transactions and can provide a foundation for regional banks to capture and integrate commerce-flow data across local supply chains.
3. High affinity with banking operations: BNPL is, in effect, a form of small-value, short-term credit and is closely aligned with banks' traditional credit provision function. Combining banks' accumulated credit databases with BNPL transaction data can improve credit decision accuracy.

BNPL is not a complete solution. The key is that it can serve as an “entry point” through which

banks can acquire commerce-flow data that they could not previously access. The question then becomes: who holds this data and how is it returned to local economies? Data held by BNPL operators does not automatically benefit local economies; an institution is needed to translate that data into credit provision, funds circulation, and practical business support.

Part 2 will present a detailed vision of how regional banks can incorporate commerce-flow data into institutional frameworks and return it to local economies—covering BNPL mechanisms, comparisons with other payment methods, a roadmap for business model reconstruction centered on BNPL, and the institutional and practical conditions for regional banks to function as “information hubs” for local economies.

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