Financial Inclusion and Financial Education----Japan’s Experience and Its Lessons to Asian Countries

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Households’ Asset Allocation in Japan (1)

USA
- Cash and Deposits: 567
- Insurance and Pension Funds: 1049
- Securities: 782
- Stocks: 1170

Total: 3715

Japan
- Cash and Deposits: 792
- Insurance and Pension Funds: 399
- Securities: 92
- Stocks: 87

Total: 1428

Germany
- Cash and Deposits: 221
- Insurance and Pension Funds: 189
- Securities: 103
- Stocks: 44
- Others: 5

Total: 562

* The size of each pie chart shows the total amount of personal-sector financial assets

“In Japan, cash and deposits are nearly 60% of assets managed. The amount of marketable securities and shares is extremely small.”

Around 80% of households financial assets go to safe assets.

Source: Bank of Japan
Around 50% choose financial institutions for safety, not for high rate of return.

Reasons behind customers’ choice of financial institution

- **Reliability and Safety of Financial Institution**
- **Principal Guaranteed**
- **Expected High Rate of Return**
- **Simple Financial Products**
- **Easy withdrawal and easy to make deposits**
- **Easy to change to cash (Liquidity)**
- **Others**

Post Office Network 24500 branches
Life Insurance, Sales Ladies (widows)
1884 Hisoka Maejima introduced postal savings (UK)
  Widows of WWII, Sales ladies for life insurance
Nationwide network of post office (Deposit, Insurance)
  Children (School savings)
High Savings rate of Japan 24% (1974)
  (i) Population growth, number of children
  (ii) Economic growth, income growth
  (iii) to purchase housing, target wealth hypothesis
Households’ Savings Ratio

Fig. 1.5 Households’ savings rate Korea, Italy, Japan, Germany, France and USA
Need for a change in the way of thinking (from saving to investment)

For a long time, Japanese were taught to work harder, rather than to think about investment. There has been education at home, schools and work places that values hard earned money while easy money was considered unworthy.
Japan’s Aging Population (1)
~Challenges for younger generations in the future~

Population structure of Japan

Source: Ministry of Internal Affairs and Communications.
# Financial Assets by Age

<table>
<thead>
<tr>
<th>Age</th>
<th>Deposits</th>
<th>Insurance</th>
<th>Securities</th>
<th>Others</th>
<th>Total</th>
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<td>26</td>
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<td>409</td>
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<tr>
<td>70years</td>
<td>1035</td>
<td>333</td>
<td>287</td>
<td>52</td>
<td>1707</td>
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</tbody>
</table>
1. Secondary School and High School taught in the courses of “Geography and History” Many teachers are not graduated from economics

2. Financial education in Japan’s primary school are taught at “Home making courses”.

3. Very few hours are allocated to financial education

4. It is regarded as a shame to make money by financial investments.

5. Retiree from financial institutions could teach financial economics to pupils.
Development of Financial Education in Japan


○ Financial literacy that should be attained

(1) Emphasis on behavioral aspects
(2) Common minimum level of financial literacy to be attained

✓ 4 categories with 15 items

← Shared it among related parties and implement educational activities focusing on such minimum requirements

(3) Establishment of standards for systematic educational content

Establish more detailed standards, formulated in a systematic fashion, for the content of educational content by age and category

○ Recipients of financial education:

Greater focus on working adults and senior citizens as well as students
### 1. Family budget management

1. (Making a habit of proper income/expenditure management (eliminating debts and staying in the black)

### 2. Life planning

2. Articulating life plans and understanding the need to secure the funds required for life plans

### 3. Understanding of financial knowledge and financial/economic circumstances, and selection/use of appropriate financial products

#### [Knowledge of the basics of financial transactions]

3. Making a habit of assuming a fundamentally careful attitude toward contracts

4. Making a habit of confirming the reliability of information sources and contract counterparties

5. Understanding that Internet transactions are convenient but require some precautions different from face-to-face transactions

[Common to all categories of finance]

6. Understanding key concepts constituting the foundations of financial education (interest (simple interest, compound interest), inflation, deflation, exchange rates, risk-return, etc.), and the selection/use of financial products suited to financial and economic circumstances

7. Understanding the importance of ascertaining the actual cost (price) of a transaction

#### [Insurance products]

8. Understanding for which contingencies (death, illness, fire, etc.) one should seek insurance coverage

9. Understanding the amount of economic security required should a covered contingency occur

#### [Loans/credit]

10. Understanding basic precautions when arranging a home loan

   ① Importance of setting a reasonable loan limit and putting together a repayment plan

   ② Importance of preparing for the possibility of circumstances that could make repayment difficult

11. Making a habit of avoiding thoughtless/reckless use of credit cards and credit card loans

#### [Wealth-building products]

12. Understanding that seeking higher returns will entail assuming higher risks, although risk tolerance varies from person to person

13. Understanding the effectiveness of diversification in wealth building (diversifying investment assets and investment start times)

14. Understanding the effectiveness of long-term investments in building wealth

### 4. Appropriate use of outside expertise

15. Understanding the importance of appropriately employing outside experts when selecting/using financial products
Financial Education Scheme of Japan

- Enterprises
  - SMEs, Large companies

- Financial intermediaries
  - Banks
  - Broker-dealers
  - Insurance companies
  - Asset managers
  - Exchanges

- Associations

- Household
  - Senior people
  - Working people
    - junior workers
    - senior workers
  - University Students
    - Elementary, junior and high school students

- Financial education

- Consumer Affairs Agency

- BOJ
  - Central Council for Financial Services Information

- Collaboration

- JFSA
  - ① Ensure financial stability
  - ② Protect depositors
  - ③ Facilitate financing

“Committee for the Promotion of Financial Education”
Fees and Commissions of Distributors

1. Maximize Fee and Commissions (Distributors)
2. Trust Fees & Commissions = $\alpha \left( \text{Principal} + \text{Dividend} \right)$

Diagram:
- Asset Management Company
- Distributors (Banks, Securities' companies)
- Trust Fees and Commissions
- MAX Return
- Investors
Pension Funds’ Asset Allocation in Japan
Long-term Investment & Self Responsibility

1. Lack of long term asset management rotates every 2-3 years
   Lack of corporate bond market

2. Life Insurance and Pension funds
   Defined Benefits of Japanese Public Pension
   Few ratio of 401 K
   Self Responsibility for Asset Allocation

3. Mainly Invest into Government Bonds
   Safety and Principal Guaranteed
Compensation & Bonus System of Japan

Conservative Asset Management

1. Even if earnings would be very high
   → bonus is small

2. Fail in Asset management compared with others
   → Criticized

3. If everybody performs poorly, no punishment
   → Avoid Risks
   → Refer to Benchmark
   → Does not seek for higher rate of return

4. Performance based salary → US case
Households’ Borrowings in Japan

- Housing Loan
- Auto Loan
- Education Loan

Number of Households’ Default

(件数)

New Law – Microcredit Regulation

consumer education

1, Total Amount of Borrowing < 1/3 of Income

2, Ceiling Interest Rate = 20%
   more than 100% → 29% → 20%

3, Borrowers Information
   Aggregated total individual borrowings

4, Paper examination to be a lender

5, Minimum capital requirement

6, Consumer complaints and advices
Hometown Investment Trust Funds
Regional financing to Riskier Borrowers

1. Bank Loans to relatively safer borrower
2. Hometown Investment Trust Funds to riskier SME

E-Finance, E-Fund

Banking Account

- Safer projects
- Riskier Borrowers
- Hometown Trust Funds
- Depositors
- Investors
Hometown Investment

A Stable Way to Supply Risk Capital
Yoshino, Naoyuki; Kaji, Sahoko (Eds.)
2013, IX, 98 p. 41 illus., 20 illus. in color.

Available Formats:

- eBook
- Hardcover (gross) price
Donation and Investment to community
Investors

Community Type Infrastructure
Wind power Generator Funds
Japanese Wine Fund
SME Hometown Trust Fund
Local Airport
Agricultural Sector

Large Projects and Professional Investors
Pension Funds
Insurance companies
Mutual Funds
Manufacturing value added by enterprise size

Manufacturing value added
(¥80.3 trillion in 2009)

- Large enterprises
  Approx. ¥39.7 trillion
  49.5%
- SMEs
  Approx. ¥40.6 trillion
  50.5%

Of which small enterprises
Approx. ¥7.5 trillion
9.4%
SMEs in China
(Red Mark is SMEs’ share)

Source: Department of SMEs. China National Development and Reform Commission. June, 2004
SME in Japan = 4 accounts

1. Account to show Bankers
2. Account to show Tax authority
3. Account of his own
4. Account to show to his wife
SME Data base (CRD Data base)

Credit Guarantee Corporations  
(Collect Data of SMEs)  
52

SMEs  
(14.4 million data)

Defaults 
(1.7 million data)

Financial Institutions 
200

Regional Banks 
Credit Associations 
Credit Cooperatives 
Government Banks 
Central Bank

Credit Guarantee Corporations (Collect Data of SMEs) 52

1. Government Support 
2. Reliability 
3. Security of Information

CRD
CRD database for SMEs

1. Huge number of SME database
2. Nationwide balanced data
3. Default risk ratio can be computed
4. Continuous improvement of default estimates
5. CRD is a private company
6. Venture capital market is not easy to develop in Asian countries
Financial Education for SMEs

1. Keep books every day
2. Cash flow of his business
3. Long term perspectives
4. Can compare with other region
5. Even large banks use CRD data
6. Banks can collect their own data
7. CRD data is nationwide and unbiased data
Early Warning Macroeconomics Indicators

1. Monetary Policy
   - Interest rate
   - Growth rate of money supply

2. Bank Loans to real estate and housing sector

3. Growth rate of bank loans / Economic growth rate

4. Housing affordability (Housing Price / Income)

5. Increasing share of Unsophisticated individuals

6. Increase in turn over of stock transaction
NISA (Nippon Individual Savings Account)

NISA is an appropriate arrangement for reduction of risks associated with investment through diversification and medium to long-term holding.

(1) Investment of 1 million JPY every year (diversification in investment period)

(2) Dividends and capital gains are tax free for five years, but if assets are sold before that period ends, the tax free benefit cannot be reused again for this 5-year facility (appropriate for medium to long-term asset holding)
References


