

Kikuo Iwata: Financial education in Japan – challenges presented by the aging population and declining birthrate

Special address by Mr Kikuo Iwata, Deputy Governor of the Bank of Japan, at the ADBI-Japan-OECD High-Level Global Symposium, Tokyo, 23 January 2015.

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Introduction

Good morning, ladies and gentlemen. I am Kikuo Iwata from the Bank of Japan. I am most pleased to have all of you here in Tokyo, to discuss financial education. I believe that sharing the insight and knowledge gained by some countries will benefit participants from other ones. I would like to thank the organizers and all involved.

The Bank of Japan serves as the secretariat of the Central Council for Financial Services Information, which promotes financial education in Japan. As a member of the council, I feel that financial education has become increasingly important worldwide, particularly after the recent global financial crisis. I also think that country-specific factors and historical background have had considerable influence.

Today, I would like to talk about financial literacy in Japan, including the current situation, challenges, and issues in promoting financial education. The country has been undergoing demographic changes, particularly of the aging population and declining birthrate. Indeed, it is aging more rapidly than most countries. I hope that our experience with addressing these financial literacy matters will offer you some insight.

I. Need for financial literacy arising from demographic changes

An aging population and declining birthrate represent the greatest social and economic issues in Japan. The average life expectancy is 80 years for men and 86 years for women, and the population's longevity is one of the highest in the world. Over the past six decades, life expectancy has increased by more than 20 years for both men and women. While we should welcome the increase, maintaining one's living standard over a longer retirement period has become a crucial issue. In addition, with the declining birthrate, the proportion of people aged 65 years and older is expected to rise to nearly 30 percent by 2020. Considering the large burden borne by the working-age generations, the role of public pensions will become smaller.

In other words, each individual's efforts to achieve financial independence in their retirement period have become more important. Encouraging elderly people to work longer is one important factor, but so is improving financial literacy. Starting lifetime planning while still young and reserving assets for retirement will help.

II. Changes in financial behavior and challenges presented by the aging population and declining birthrate

The need for improved financial literacy is gradually taking hold in Japan. In the council's survey, we ask about the "purpose of holding financial assets." The reply chosen most often had long been "preparation for illness and unexpected emergency." But in 2013, this changed for the first time in its 60-year history to "funds for life during my retirement period." This is symbolic for Japan, which has a well-developed public pension system.

The financial behavior of Japanese people has changed accordingly. Households' financial assets¹ have increased by around 20 percent over the last decade; that is, the period before and after the global financial crisis. Notably, the amount held by people aged 60 years and older has reached 25 million yen per household. This is almost the same level as the "target amount of funds you regard as necessary" in the survey. Financial assets are being accumulated to ensure a stable living standard over an individual's retirement period.

However, there are worrisome signs that financial literacy associated with lifetime planning has been undermined.

As I mentioned earlier, households' financial assets have been growing. However, at the same time, the number of households that do not have such assets has been increasing recently. This trend has been observed in a wide range of income groups, including the high-income group. The backgrounds to this are varied, and problems related to financial literacy represent one of the factors. One example is a weaker awareness of the importance of lifetime planning.

There are various concerns regarding children as well. In this affluent society that is undergoing demographic changes and rapid progress in technology, children could lose their sense of the value of money. For example, we have the so-called "six pocket problem." This refers to a phenomenon in which a child is indulged with money given by the parents and grandparents of both the father and mother. Another is the "invisible money problem"; that is, a situation in which a child does not feel that they actually paid a price for something, given the increasing use of electronic money. In both cases, children have fewer opportunities to realize, through the first-hand experience of using physical money, that there are limits to the money we can spend.

We must keep up with these developments, as lifestyles and values have become diverse and everyday life is more dependent on and convenient with technology. However, we still need to understand that there are limits to the goods we can own and the money we can spend, so as to make sure that we make appropriate choices on daily consumption, financial transactions, and lifetime planning. We need to be aware of significant financial literacy factors – namely, the scarcity of money and resources as well as lifetime planning. Creating such awareness through financial education is challenging, but we cannot avoid this task.

Another issue that warrants attention is the rapid increase in financial fraud targeted at elderly people. I feel very sorry for the victims of such crimes. At the same time, the increase in financial fraud suggests that we need to strengthen the financial literacy of elderly people. The victims of financial fraud might have been caught off-guard. If they had had a little more financial literacy, they might not have been deceived. On the basis of our survey, we deem that elderly people generally have more confidence in their own financial literacy compared to other age groups. But in fact, they tend to have insufficient literacy. We should close the gap between high confidence and low literacy.

We need to check and control daily payments, manage portfolios in line with lifetime plans, and always confirm the points to check when concluding a contract. Enhancing financial literacy in this way will be effective in guarding against financial fraud and, at the same time, for developing efficient asset formation.

III. Initiatives taken in Japan

In 2013, Japan's Financial Services Agency compiled a report that showed the future direction of financial education, drawing on the experience of the global financial crisis. It proposed to emphasize literacy for financial behavior and focus on the basics of financial

¹ The financial assets here are financial instruments, including bank deposits and postal savings, that are held for investment or reserved for future use. Funds held for business purposes and daily use are excluded.

literacy to make it easier to learn. Based on this report, our council has been working to set standards and specify the contents of financial education by age group, and has formulated the Financial Literacy Map.²

The council also provides easy-to-understand teaching materials, pamphlets, and DVDs in cooperation with financial industry groups and other relevant organizations. In particular, we have pamphlets for middle-aged and elderly people, who must consider how to maintain their living standard over their retirement period as an immediate, practical issue. In cooperation with relevant organizations, the council also gives lectures to university students that place emphasis on fostering decision-making ability. Through these activities, it has been promoting more effective financial education for working-age generations to prepare them for later years.

In fiscal 2005, our council launched a campaign that aims to improve financial education at schools. It has developed the contents of such financial education by age group. The council also provides various teaching materials, including practical teaching cases for school children.

Indeed, to promote financial education activities more effectively, it is important to provide necessary information to people who are not interested in lifetime planning. It is also necessary to devise ways of encouraging them to take appropriate actions so as to maintain lifetime financial independence. These are difficult tasks, but it is vital to make people understand, through easy-to-understand and accessible means, that financial literacy reduces risks in their future lives. It is also essential to communicate to the public in a more effective manner by using behavioral economics insights.

Conclusion

The Bank of Japan will continue to promote financial education through the activities of the council. We will maintain close cooperation with the Financial Services Agency and relevant organizations. Through our efforts, we hope that Japanese people can continue to live stable, affluent lives despite the aging population and declining birthrate.

I would like to conclude my speech by expressing our commitment to stronger cooperation with those of you who have gathered here today from the OECD and various countries around the world.

Thank you for your kind attention.

² Available only in Japanese.