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Bank of Japan

Financial Inclusion in an Aging Society

Keynote Speech at the G20 High-Level Symposium on Aging and Financial Inclusion (GPFI Forum) in Tokyo

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Introduction

It is a great honor for me to speak at the G20 High-Level Symposium on Aging and Financial Inclusion (GPFI Forum) today.[1]

This year, I co-chair the G20 Finance Ministers and Central Bank Governors Meetings with Minister Aso. One of the priorities for G20 Finance Track in 2019 is "aging and its policy implications," and this is related to the theme of today's forum, "Aging and Financial Inclusion." I trust the outcome of this symposium will contribute significantly to the discussions at the G20 meetings.

Japan is one of the most aged countries in the world. Sooner or later, other countries will face a similar situation. Today, I would like to talk about the current situation in Japan and the challenges it faces, focusing on financial inclusion in an aging society, with respect to personal finance and financial literacy in particular.

I. Aging Society and Financial Literacy

Japan's average life expectancy in 2017 was 81 years for men and 87 years for women. Over the past 50 years, longevity has risen dramatically, by 13 years for men and 14 years for women. Aging itself is something to be welcomed in that people have always wished for a longer life.

Meanwhile, issues surrounding the aging society have been brought into the spotlight. From a financial perspective, household finance management after retirement is particularly important. How to make ends meet in later life is an issue many people face. In terms of personal finance, in Japan, public pensions are generally the main source of income after retirement. However, given life's uncertainties, public pensions alone may not always be sufficient. When expenditure exceeds income, people commonly offset the gap by withdrawing the financial assets they had been saving until then.

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[1] Global Partnership for Financial Inclusion (GPFI) is an inclusive platform for all G20 countries, interested non-G20 countries, and relevant stakeholders to carry forward work on financial inclusion, including implementation of the G20 Financial Inclusion Action Plan, endorsed at the G20 Summit in Seoul in 2010.

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According to a survey conducted in 2018 by the Central Council for Financial Services Information (CCFSI) in Japan, the average amount outstanding of financial products held by households with two or more people was 14.3 million yen.[2] Looking at the results by age, the amount outstanding held by those in their twenties was about 2.5 million yen, while for those in their sixties, the figure was about 18.5 million yen. It could be said that, overall, senior citizens in Japan already hold a substantial amount of financial assets.

Nevertheless, people in their sixties need to learn how to extend the life of the assets they have accumulated, especially as they can now expect to live another 20 to 30 years, or even more as we look ahead to a normal life span of 100 years. Meanwhile, for the younger generation, it is important to accumulate assets steadily over time, as they look forward to living a long life. On this point, long-term personal asset formation finds policy support in Japan through the expansion of tax benefit systems. One example is Japan's individual savings account for the long-term, diversified, and periodic investment of a small fixed amount with tax exemption, or the *Tsumitate* NISA. Another example is individual-type defined contribution private pension plan with various tax benefits, or the iDeCo.

As life expectancy increases, people need to find ways to extend the life of their financial assets. This means that everyone has to plan for their lives after retirement and acquire financial literacy -- that is, to obtain the knowledge necessary to manage their money effectively. The importance of financial education was discussed at the G20 Los Cabos Summit in 2012, and was emphasized in the Leaders Declaration.[3]

In relation to financial education, I would like to briefly touch upon the aforementioned CCFSI. The CCFSI has its secretariat at the head office of the Bank of Japan. It promotes the advancement of financial knowledge under the following two principles: to provide financial and economic information, and to disseminate pecuniary education. It has a nation-wide network with local committees in all 47 prefectures in Japan. In cooperation with the head office, branches, and local offices of the Bank of Japan, as well as the government, local public bodies, private entities, and others, the CCFSI works to enhance citizens' financial literacy from a neutral and fair position.

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[2] CCFSI, *Survey of Household Finances*, November 2018 (available only in Japanese).

[3] G20, *G20 Leaders Declaration*, June 2012.

II. Financial Inclusion for Senior Citizens

Next, I would like to elaborate on financial inclusion for senior citizens. The concept of financial inclusion holds that no one should be left behind in having access to and benefiting from financial services. This is closely related to the United Nations' Sustainable Development Goals (SDGs).[4]

As we get older, we all become physically weaker. Declining mobility means we can no longer take it for granted that we can easily visit bank branches. Deteriorating eyesight and hearing ability may impair our capacity to fill out a form or understand a face-to-face explanation. Declining cognitive ability may create difficulty in making financial decisions. Moreover, there is the risk that senior citizens will become victims of financial crime. In 2018, among all recorded cases of so-called special fraud in Japan -- such as telephone-based identity deception -- 78 percent of the victims were aged 65 and over.[5]

Financial inclusion is therefore an extremely important social agenda in an aging society, as it ensures that senior citizens -- who may have difficulty in visiting banks or making financial transactions due to age-related decline -- can continue to use financial services with confidence and benefit as much as possible from these services. In the field of what is known as "financial gerontology," there has been discussion about ways to make the adult guardianship system more effective in order to protect the rights of senior citizens with cognitive decline. The use of innovative digital technologies has also been considered. For example, using biometric technology for identity verification and mobile payments will enable senior citizens to have secured access to financial services without actually visiting bank premises. Moreover, the use of speech recognition technology will enable financial transactions to be made without the need for physical writing or keyboard skills. Advances

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[4] The SDGs are global development goals set by the United Nations in 2015. They are made up of 17 goals with 169 associated targets to be achieved by 2030.

[5] See the National Police Agency, *Situation of Special Fraud Cases Known to the Police and of Those Cleared Up for 2018 (Provisional Values)* (available only in Japanese), February 2019. Special fraud refers to a type of fraud or extortion offense in which the offender deceives their victim, over the phone or by other means, such as into transferring money to a designated account. For reference, the total amount outstanding of loss arising from special fraud for 2018 is reported to be 35.68 billion yen.

in technology may create increasingly comprehensive financial services that are better tailored to the needs of the individual senior citizen.

These new financial services for senior citizens can also be a great business opportunity for financial institutions. On the other hand, as technology advances, the risk of technology abuse will increase, and vigilance is therefore essential to maintain security. I will be following with great interest how technological innovations in finance -- so-called fintech -- will contribute to financial inclusion for senior citizens.

Concluding Remarks

One realistic option to ensure a comfortable living in later life is to continue working as long as possible.[6] Professor Lynda Gratton,[7] who is here today as a speaker in the next session, argues that we can now look forward to a 100-year life, living and working much longer. In such a society, the idea of a traditional three-stage work-life model -- first education, then work, and finally retirement -- will become outdated, and a multi-stage model -- undergoing many life and career transitions -- will become the new standard. In this regard, the Japanese government is promoting working-style reforms that also take longevity into consideration.

In light of these changes and challenges, the Bank of Japan is working to support the development of sound financial services by, for example, improving financial literacy through the activities of the CCFSI, and promoting fintech, so that everyone can use financial services with confidence, even in an aging society.

Thank you for your kind attention.

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6 According to the *Annual Report on the Ageing Society: 2018* released by the Cabinet Office, about 40 percent of working people aged 60 or over answered that they would like to work "till anytime as long as I can work." When adding those who answered they would like to work "till almost 70," "till almost 75," and "till almost 80," about 80 percent of the respondents were very eager to work even in their old age.

7 Professor of Management Practice at London Business School. Co-author of: Lynda Gratton and Andrew Scott, "*The 100-Year Life -- Living and Working in an Age of Longevity*." (London: Bloomsbury Publishing, 2016).