Providing Better Financial Services in an Era of Transition: The G20 and Aging

Keynote speech by Toshihide Endo
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Good afternoon, everyone. It is a great honor for me to have the opportunity to deliver a keynote address to you in this historic building which is a symbol of the City. I am also deeply moved that I am returning to the spot where I studied for a master's degree some 30 years ago.

G20 Priorities

This year, Japan holds the G20 Presidency. 10 years have passed since the global financial crisis, and the core elements of the regulatory reforms to address the root causes of the crisis have been put in place. We can now shift our focus from the past crisis towards the policy agenda of the future.

Given this critical juncture, under our Presidency the G20 financial sector agenda will center on three forward-looking topics. The first is addressing harmful market fragmentation from inconsistent, incompatible or duplicate cross-border regulation and supervision. I believe many UK market participants present today, ahead of Brexit, have a keen understanding of the importance of the G20's goal of maintaining an open and resilient financial system. During Japan's presidency, we would like to explore possible processes and approaches for regulators, supervisors and international standard-setting bodies to help prevent the future proliferation of fragmentation.

The second topic is technological innovation in the financial sector. G20 Leaders agreed to ensure that the potential benefits of technology in the financial sector can be realized while risks are mitigated. To address the risks of crypto-assets, we will, building on Japan's experience in this field, step up AML/CTF efforts. We will also begin a discussion on the issues of consumer and investor protection, as well as market integrity, at the G20 level. On the other hand, the underlying technology holds infinite possibilities. The JFSA would like to ensure that new decentralized financial technologies will achieve their full potential – adding value to the financial sector and the broader economy. In doing so, we are happy to draw upon the UK's experience with its own cutting-edge financial technologies.

The third topic is aging. In collaboration with the Ministry of Finance and Bank of Japan, we will examine in a comprehensive manner the implications of aging for fiscal and monetary policy, as well as for the financial sector.

I would like to spend the rest of today’s speech on issues of aging – how we think about them and our expectations for the financial industry.

Aging at a glance

Japan’s aging population is generally regarded by overseas investors as having long-term negative implications. So you may wonder why I'm raising this issue here. Well, I believe that when you face a challenge, solving it brings you growth and investment opportunities. For the financial industry, if they can recognize and meet the needs of an aging society, they may be able to convert the risks and challenges into business opportunities.

So, what kinds of issues does aging give rise to? While half of the children born in Japan in 2007 are expected to live to the age of 107[1], the net assets of elderly households have been nearly unchanged over the last 20 years. This implies that wealth formation is failing to keep pace with increased longevity. There is also a disparity in who is holding assets, with two thirds of household financial assets now owned by people 60 and over[2]. Other research forecasts that, by 2030, around 200 trillion yen of Japanese financial wealth will be in the hands of people with dementia[3].

That all said, there are some encouraging numbers, too. Studies show that the current generation of elderly are effectively younger than the elderly of the past. There is a concept called 'biological age,' which is the age at which your body functions compared to the average health level for your chronological age. One estimate suggests that a 77 year old in 2016 had the same biological age as a 65 year old in 1970[4]. Shakespeare describes the last stage of human life as "sans teeth, sans eyes, sans tastes, sans everything[5]."

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1 "The 100-Year Life: Living and Working in an Age of Longevity" Gratton, Lynda and Andrew Scott, Bloomsbury Information Ltd, 2016

2 "*Korei shakai ni okeru kinyu sa-bisu no arikata (chukanteki na torimatome)*" Japan FSA, July 3, 2018

3 Economic Trends, Dai-Ichi Life Research Institute, August 28, 2018

4 Presentation by Mr. Toshitaka Sekine, Director General for the Research and Statistics Department, Bank of Japan, at the G20 Symposium "For a Better Future: Demographic Changes and Macroeconomic Challenges" on January 17, 2019

5 "As you like it" Act II, Scene VII, William Shakespeare

But the average number of teeth for people 75-79 in 2016 was 18 - the same number as those 65-69 ten years ago[6]. These data imply that we should not need to be too pessimistic when discussing chronological age.

Financial services in an aging society

Against this background, how should financial institutions adapt to help solve the problems of an aging society, while generating new business opportunities?

First, consumer and investor protection should be in line with age-related declines in physical and cognitive functions. This could be done by incorporating expertise gained from financial gerontology. Encouragingly, some UK financial institutions analyze past transaction data to identify the attributes of elderly customers susceptible to fraud. These financial institutions can then provide information to proactively help vulnerable seniors. Others meanwhile provide a service that sends transaction notifications to designated third parties of the elderly, such as family members[7]. These examples are valuable inputs for Japan's financial businesses.

Second, financial institutions are expected to shift from a business-to-consumer model to a consumer-to-business model. While older people are healthier than ever, the number of people needing nursing care and those with dementia is also increasing. Employment, income, assets, health status and family connections also vary among the elderly. In "*The 100-Year Life*," a best-selling

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[6] See footnote 4 for reference.
[7] See, for example, *Kinyu bijinesu Kinyu IT* (August 2, 2018), Daiwa Institute of Research Group

book in Japan, professors from the London Business School stress the limitations of the traditional three-stage life cycle of education, work and retirement. In the book they outline the various choices and options people will face in an era of 100-year-lives. To meet the diversified needs of their customers, financial institutions have to shift away from one-size-fits-all standardized products. Instead, they will be expected to use technological innovation to provide bespoke products that account for a customer’s specific needs.

Third, the importance of wealth formation increases in an aging society, both before and after retirement. For a long time, in Japan, the majority of household financial assets were held in cash and bank deposits. This resulted in poor performance compared to the portfolios of UK and US households, which tended to invest more in stocks and mutual funds.

Tax incentives have been a key driver for steady saving and investment by households. Modelled on the UK’s Individual Savings Account, or ISA, Japan introduced the Nippon Individual Savings Account, or NISA, in 2014. Last year, we added a new type of NISA in which people can invest in low-cost investment trust funds that have been approved for longer-term asset accumulation, with regular contributions. In this new NISA scheme, a tax-free holding period is extended from 5 years under the original NISA to 20 years. There has been strong demand for these products, with 1 million new NISA accounts at the one-year mark. Although NISA schemes are currently a temporary program and the new NISA is slated to end in 2037, we aim to make it permanent given that the pressures from aging will only grow with time.

Behavioral economics can also be used to promote wealth formation by individuals. Whereas classical economics assumes rational economic actors, behavioral economics incorporates psychological factors that help explain irrational decision-making. The UK's National Employment Savings Trust, or NEST, takes advantage of nudge techniques. For example, its automatic enrollment keeps employees in the program unless they chose to opt-out. Investment in *Retirement Date Fund* is set by default for new members, which uses a target date fund approach that manages money in different ways depending both on the members' age and the economic and market outlook, while keeping down the investment cost. To meet the diverse needs of members, NEST offers other options, such as a *Higher Risk Fund* and *Lower Growth Fund*, which are clearly named so that the members can be sure that they know what's happening with their money[8]. As a result, the NEST opt-out rate remains as low as 8%[9] and 99% of participants select default products[10].

The flexibility of the UK's defined contribution pension plans and tax-free investment saving accounts, together with authorities' continuous efforts to improve them, is helping adapt UK savings and pension schemes to an aging society. These may be powerful examples for Japan when setting our own policies.

Fourth, let me turn to the asset management industry. We would like to see more of the UK's world-leading asset managers enter the Japanese market. Their sophisticated investment skills would help our households make better saving and investment decisions. The

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8 Advisers guide to NEST, NEST Corporation

9 Fact Sheet April 2017, NEST Corporation

10 "How the UK Saves 2018" Vanguard and NEST Insights, June 2018

JFSA has launched a *Financial Market Entry Consultation Desk* to support the faster entry of overseas fund managers into the Japanese market. Our vision is to transform Tokyo to a global financial center like the City of London, one that attracts businesses, people, funding and information from all over the world.

In this way, I hope we can address the challenges posed by an aging society by encouraging financial institutions to put in place customer-first solutions, and by revitalizing Japan's financial and capital markets – both of these are important policies which the JFSA has made a strong effort to advance over the past few years.

Conclusion

Let me conclude my remarks by highlighting that aging is not just a problem for Japan. According to a United Nations estimate[11], the global population of people 60 and over will be more than two billion by 2050. This is around 20% of the world's total population. Also by 2050, it is forecast that the shortfall in retirement savings in major countries will amount to around 400 trillion dollars[12], and the number of people with dementia globally will exceed 150 million[13].

Prioritizing aging for Japan's G20 Presidency reflects the universal nature of these challenges. However, as I noted before, the greater the challenge, the greater the opportunity from overcoming it.

As a global front-runner in the world of aging, Japan will, by taking stock of the UK's experiences, lead international discussions on how

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[11] World Population Prospects, United Nations, 2017 revision
[12] "We'll Live to 100 – How Can We Afford It?" World Economic Forum White Paper, May 2017
[13] World Alzheimer Report 2018, Alzheimer's Disease International, September 2018

financial services can respond and ensure financial inclusion. In June this year, Japanese government and Nikkei Newspaper will co-hosts a high-level symposium on aging and financial inclusion in Tokyo, with the Financial Times as a media partner. Professor Lynda Gratton, an author of "*The 100-Year Life,*" will be one of the many interesting participants.

So to wrap-up: it is a challenging task for everyone to have a good end of life. If I may again refer to the greatest playwright of this country, and borrow a few titles from some of his plays: I would not wish to be "*King Lear,*" who failed miserably when deciding his daughters' early inheritance; rather, I would like to go out along the lines of "*All's well that ends well*."

Thank you for your kind attention.

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