

# **Financial Education and Financial Inclusion**

**Naoyuki Yoshino**

**Director, Financial Institute, J-FSA**

**Keio University**

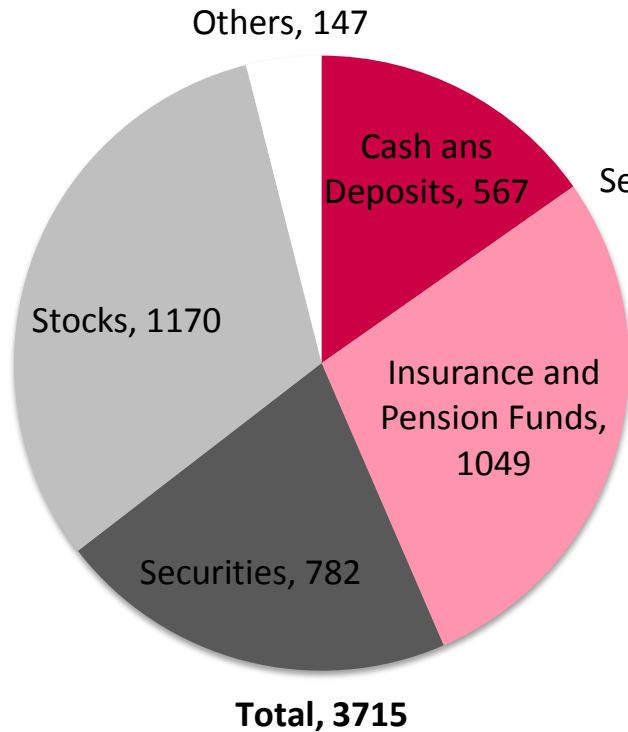
**yoshino@econ.keio.ac.jp**

**2014 January 27**

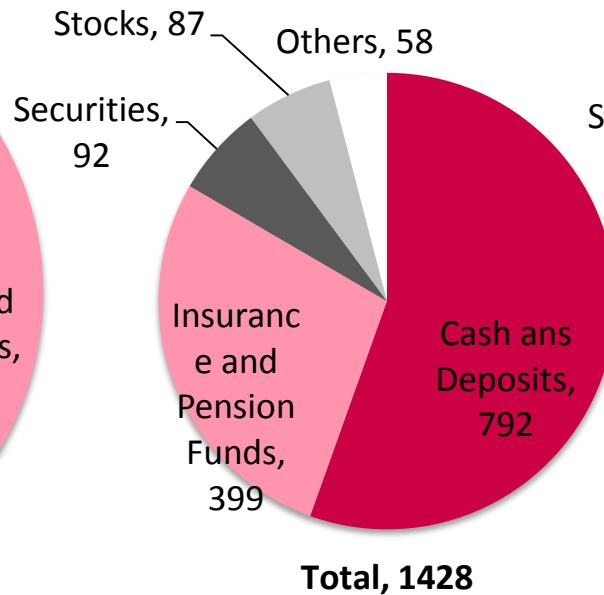
# Households' Asset Allocation

Hometown Investment Trust Funds, 2013, Yoshino and Kaji, Springer

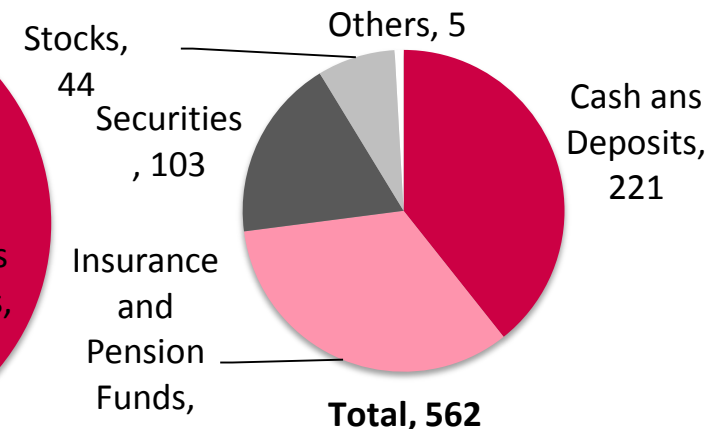
## USA



## Japan



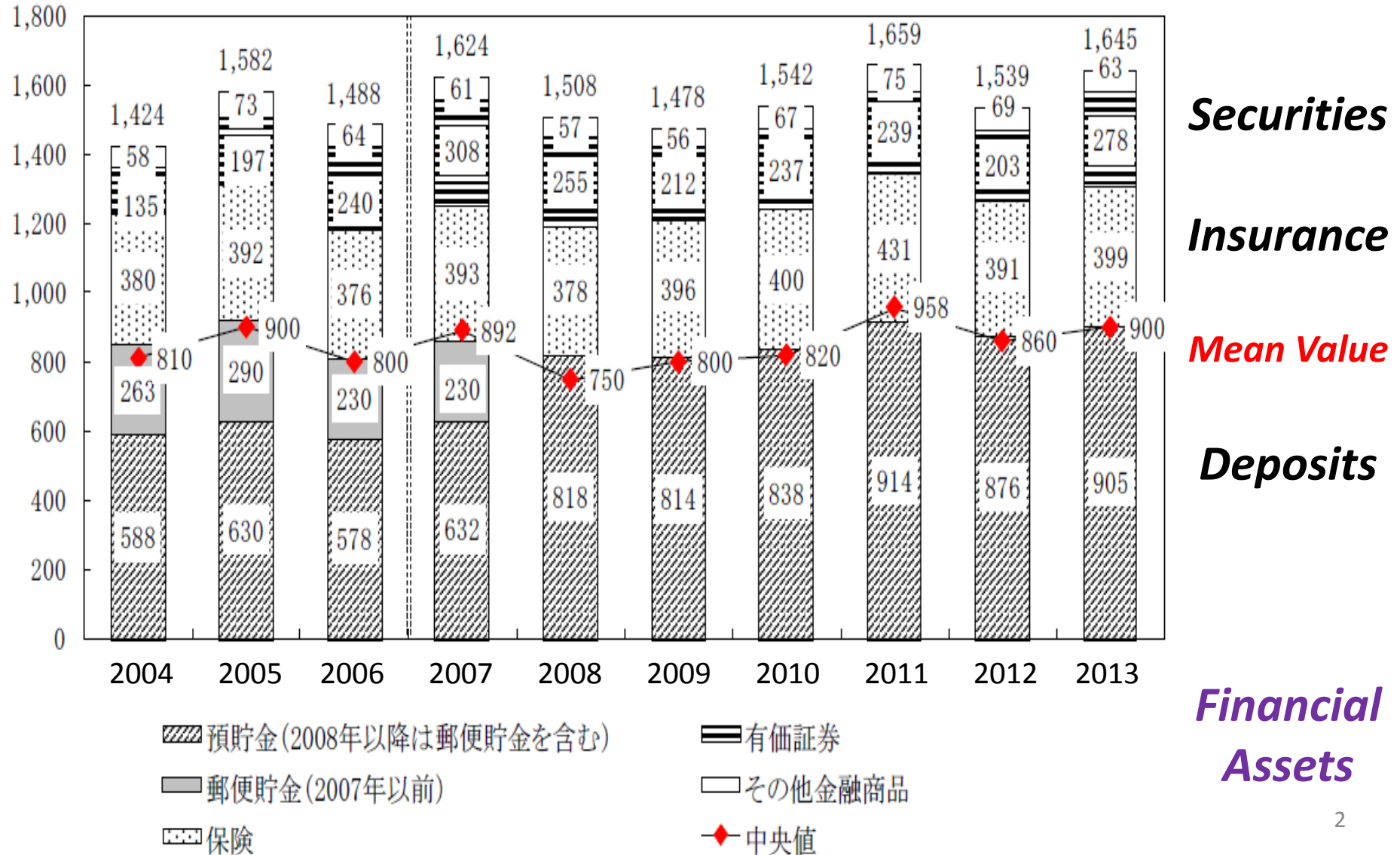
## Germany



# Allocation of Households Financial Assets

100 US Dollar

(万円)



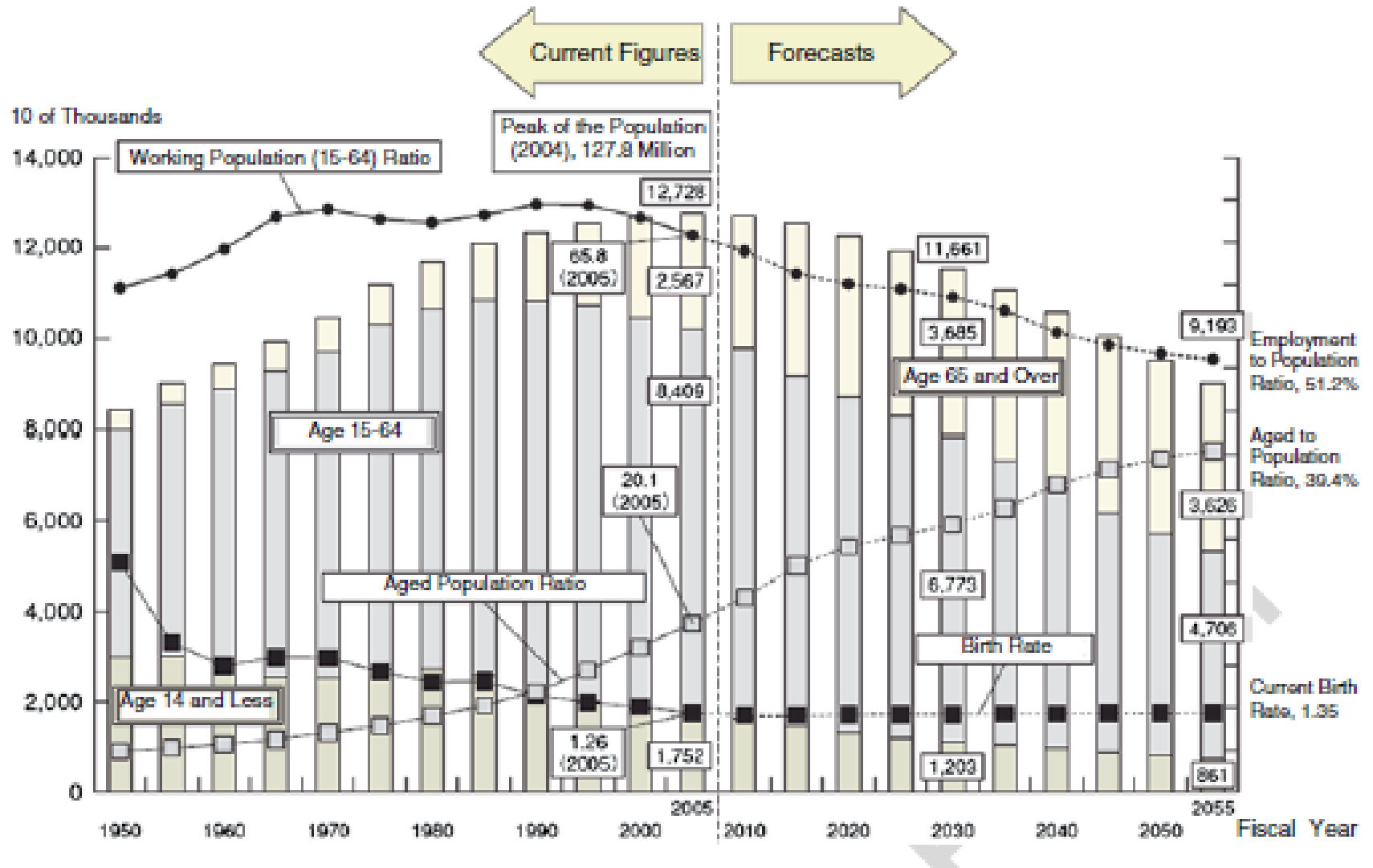
# Households Financial Assets' Allocation

	2010	2011	2012	2013
Deposits	54.2	55.2	56.9	55.0
Time Deposits	34.2	33.5	34.2	33.7
Trusts	1.0	0.9	1.2	0.5
Life Insurance	17.7	17.4	17.6	15.9
Casualty Insurance	2.7	2.7	2.2	2.4
Private Pension	5.5	5.8	5.7	6.0
Securities	15.4	14.3	13.2	16.9
Bonds	3.7	3.0	2.4	3.0
Stocks	6.7	6.6	5.6	8.3
Investment Trusts	5.0	4.8	5.1	5.6

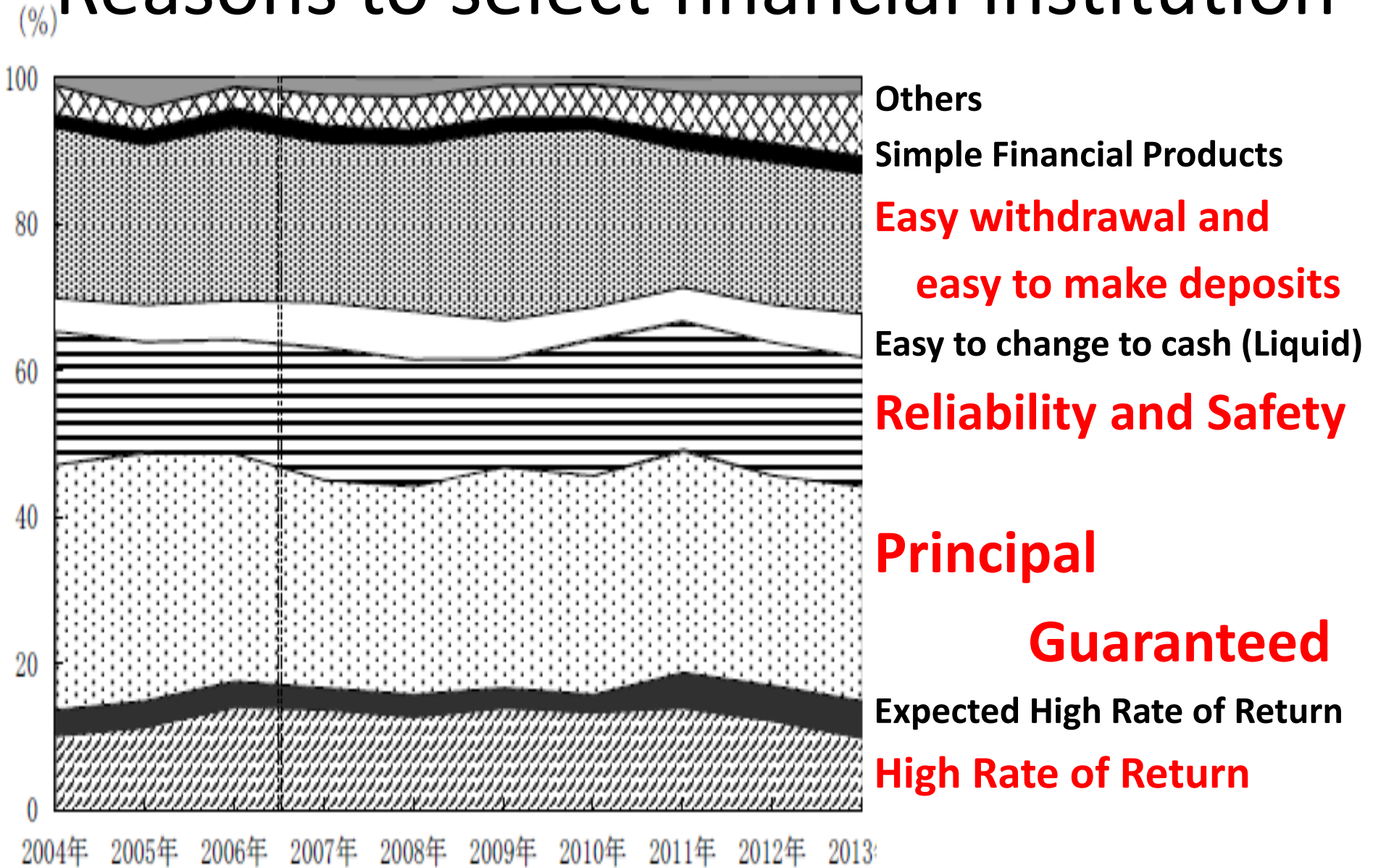
# Financial Assets by Age

	Deposits	Insurance	Securities	Others	Total
<b>Average</b>	<b>635</b>	<b>303</b>	<b>179</b>	<b>52</b>	<b>1169</b>
<b>20years</b>	<b>266</b>	<b>26</b>	<b>40</b>	<b>10</b>	<b>342</b>
<b>30years</b>	<b>298</b>	<b>122</b>	<b>77</b>	<b>40</b>	<b>537</b>
<b>40years</b>	<b>355</b>	<b>241</b>	<b>85</b>	<b>62</b>	<b>743</b>
<b>50years</b>	<b>533</b>	<b>344</b>	<b>126</b>	<b>65</b>	<b>1068</b>
<b>60years</b>	<b>811</b>	<b>409</b>	<b>276</b>	<b>43</b>	<b>1539</b>
<b>70years</b>	<b>1035</b>	<b>333</b>	<b>287</b>	<b>52</b>	<b>1707</b>

# Population Ageing of Japan

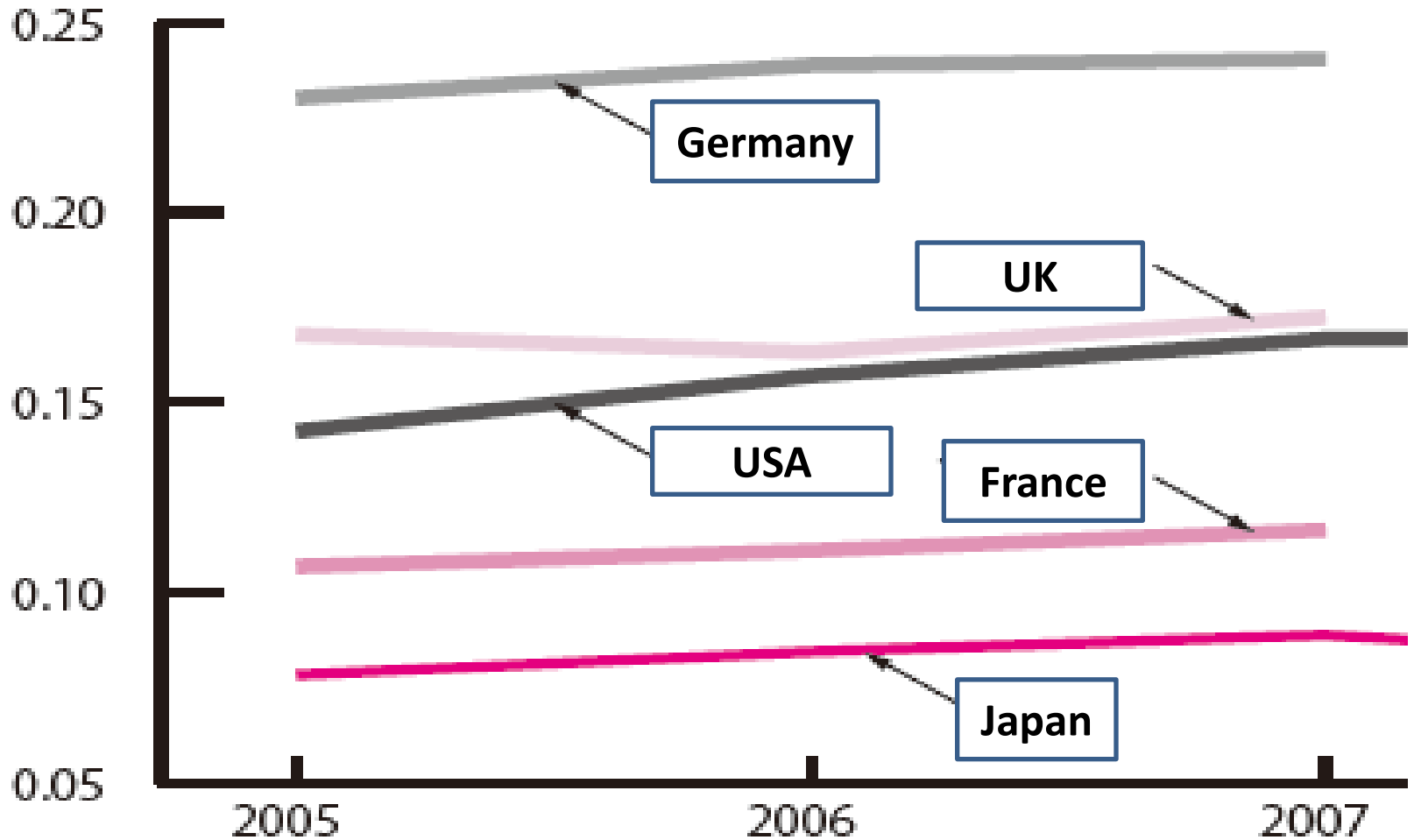


# Reasons to select financial institution



# (Dividends & Interest receipt)/(Income)

Yoshino & Kaji (2013) *Hometown Investment Trust Funds*, Springer

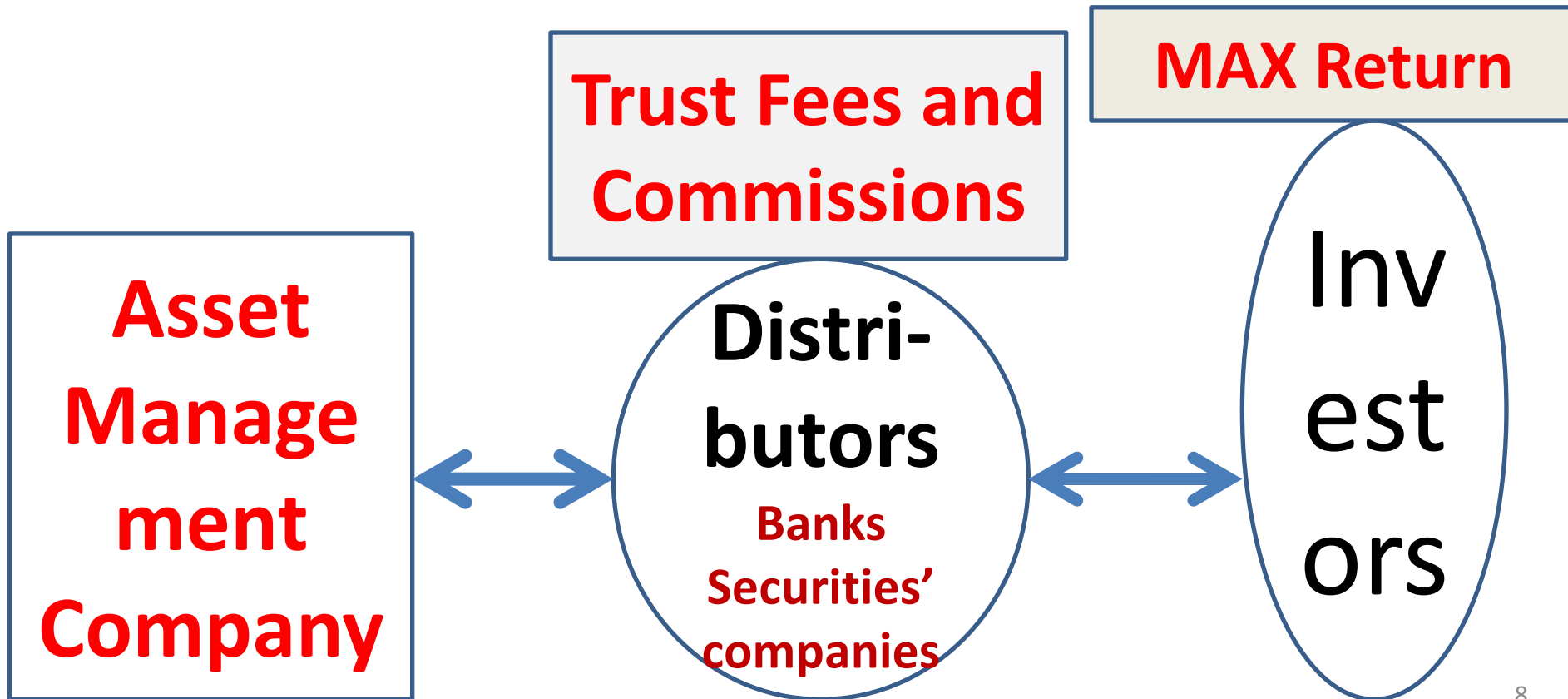




# Fees and Commissions of Distributors

1 Maximize Fee and Commissions (**Distributors**)

2 Trust Fees & Commissions =  $\alpha$  (Principal + Dividend)



# **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

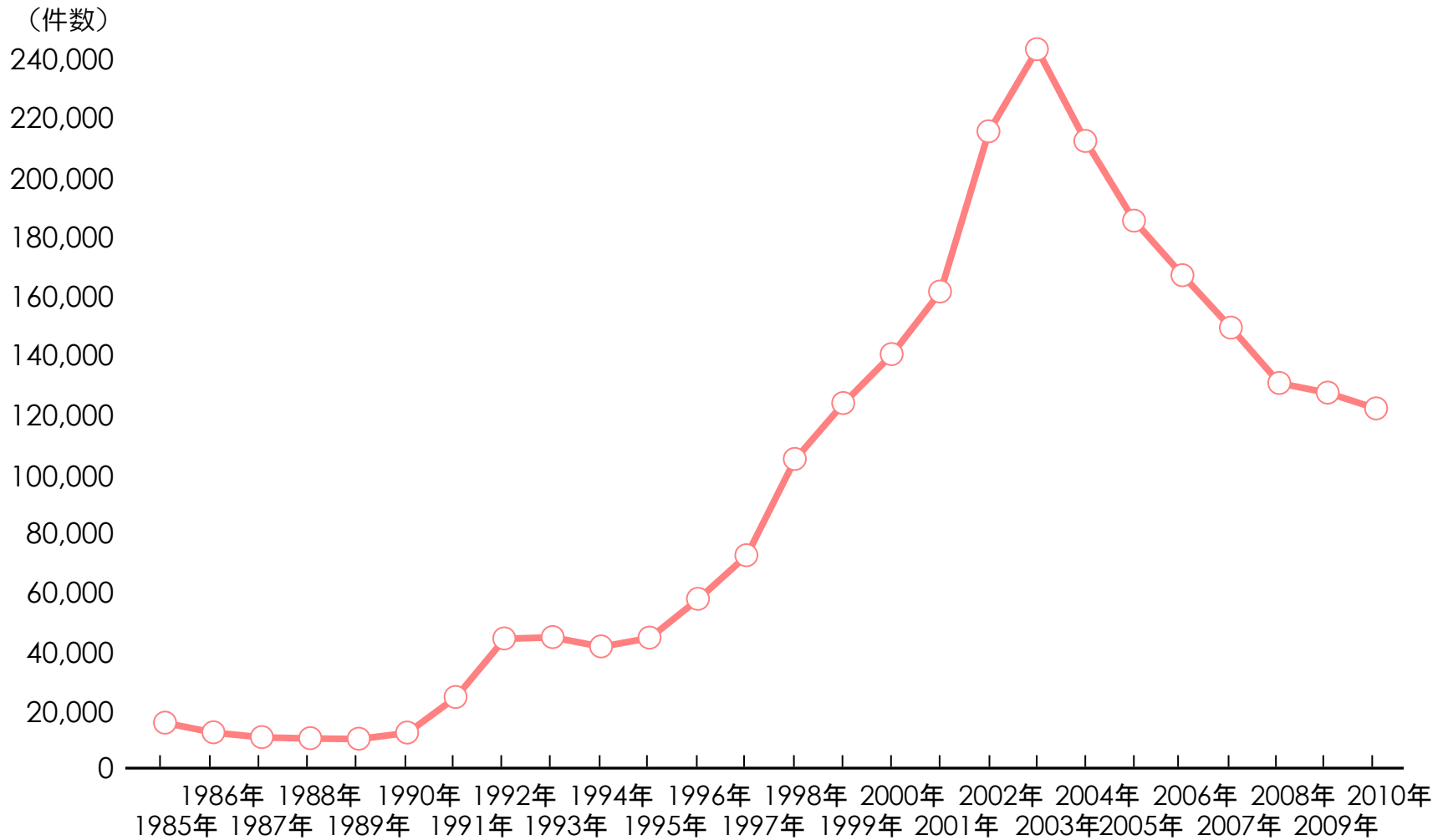
# Financial Education of Japan

- 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 making money**  
by financial investments.
- 5, Retiree from financial institutions could teach**  
financial economics to pupils.

# Households' Borrowings in Japan



# Number of Households' Default



# **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**

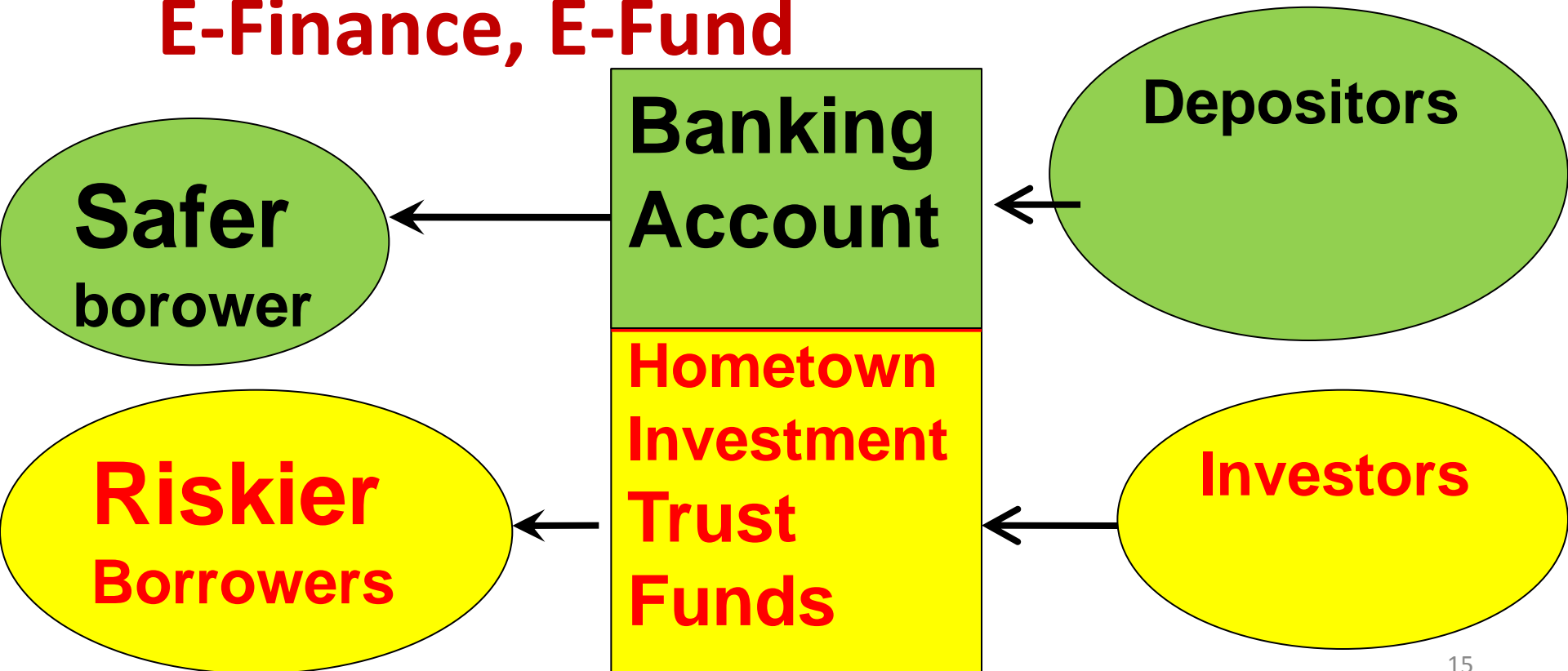
# Bank based SME financing and

## Regional financing to Riskier Borrowers

1, Bank Loans to relatively safer borrowers

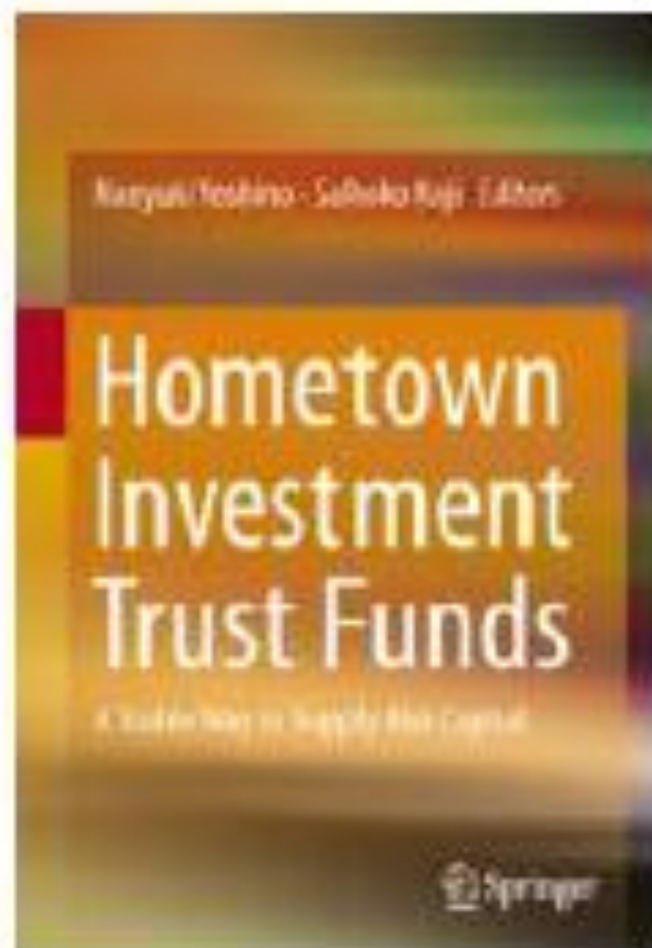
2, Hometown Investment Trust Funds

### E-Finance, E-Fund









---

## 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

# Investors

## Community Type Infrastructure

Wind power Generator Funds

Japanese Wine Fund

SME Hometown Trust Fund

Local Airport

Agricultural Sector

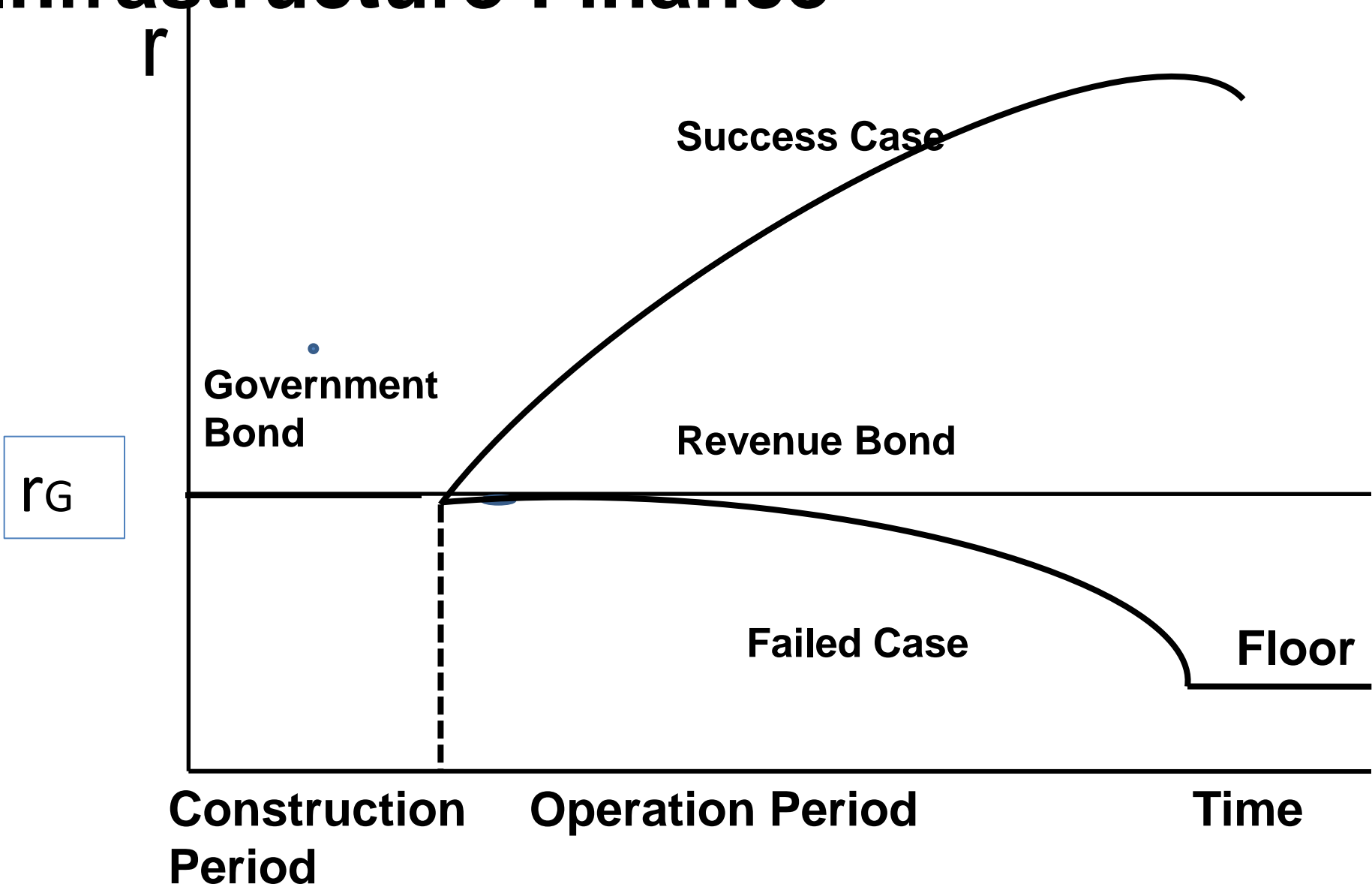
## Large Projects and Professional Investors

Pension Funds

Insurance companies

Mutual Funds

# Infrastructure Finance



# Private Sector Green Trust Fund

## **(1) Brown Field**

Construction by the government  
introduce private sector funds afterwards

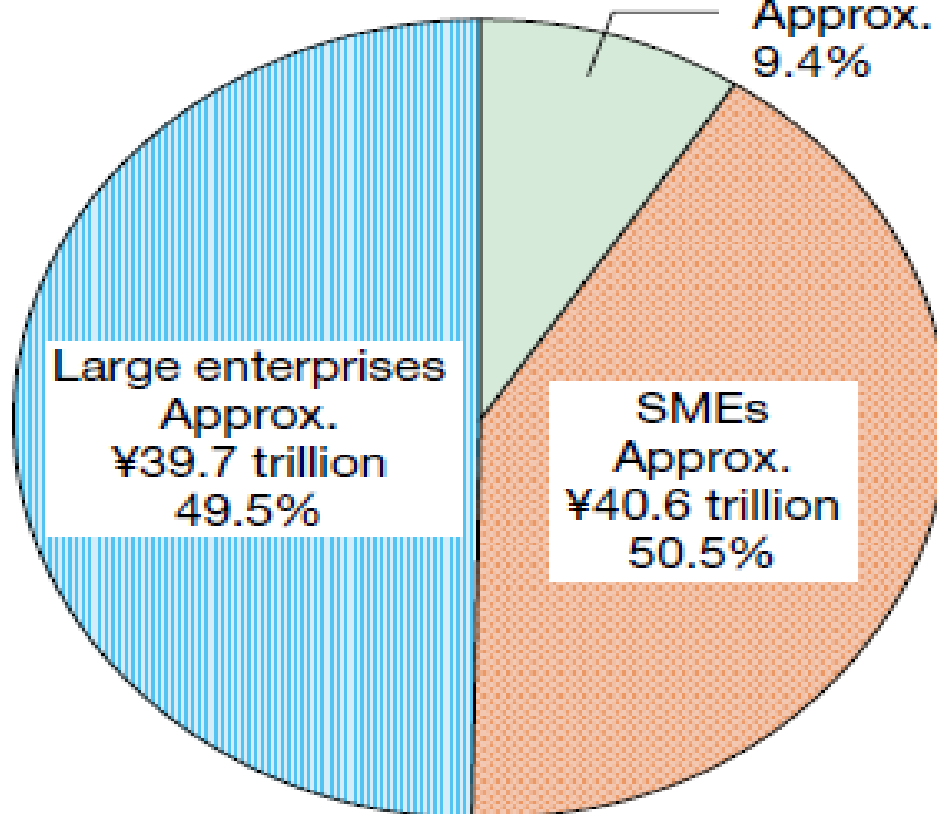
## **(2) New Projects (Green filed)**

Riskier  
good to be based on market basis

# Manufacturing value added by enterprise size

Manufacturing value added  
(¥80.3 trillion in 2009)

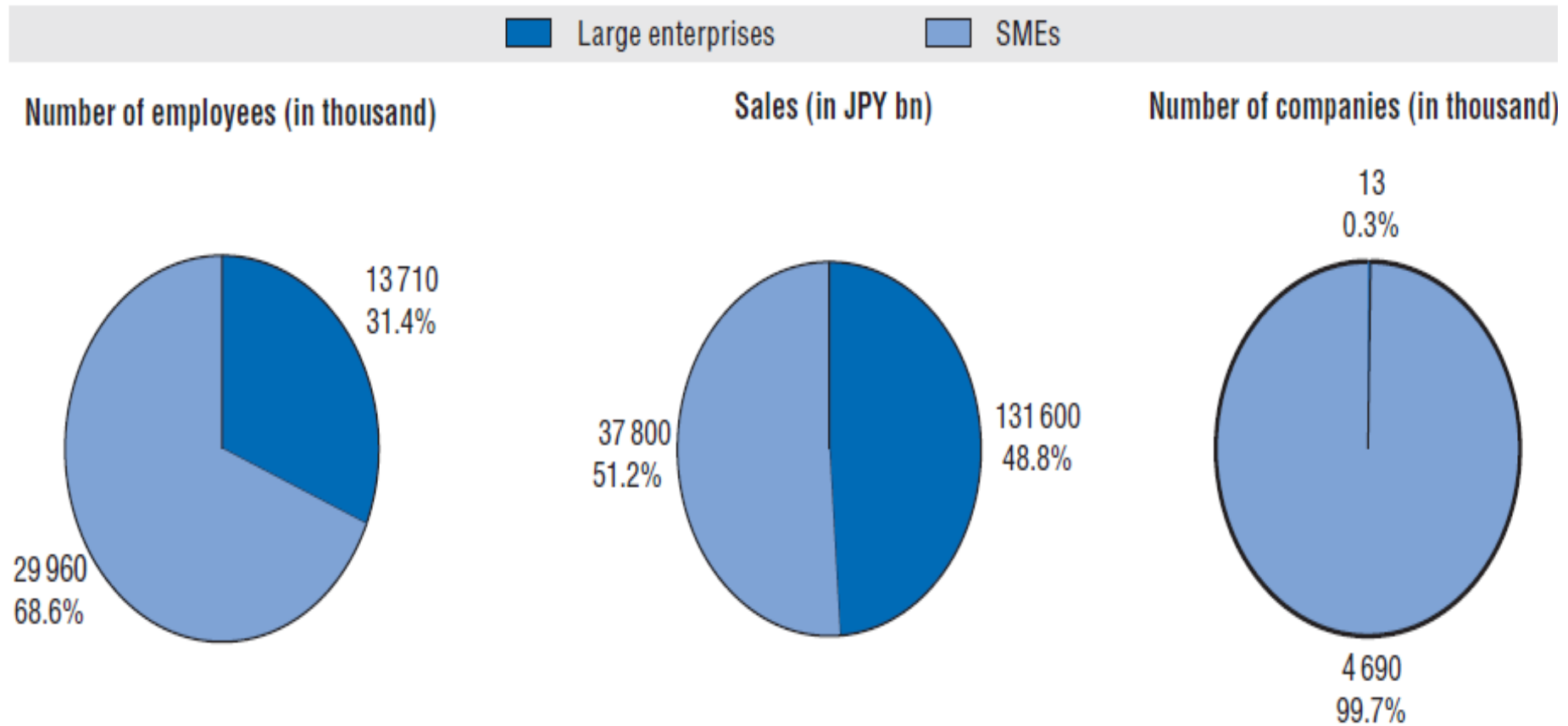
Of which small enterprises  
Approx. ¥7.5 trillion  
9.4%



# SMEs in Japan

(Light Blue Mark is SMEs' share)

## Share of SMEs in Japan

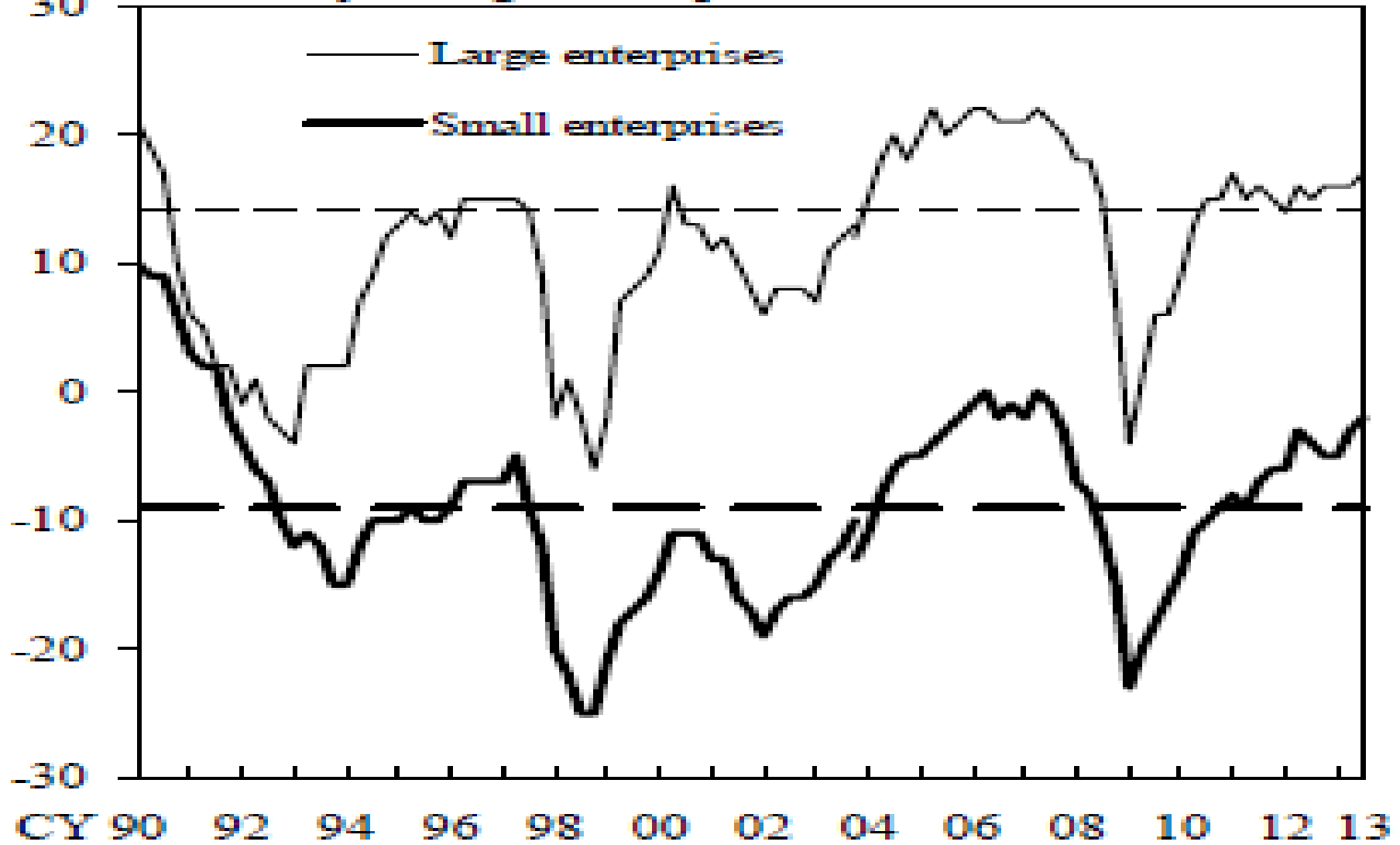


Source: White paper on SMEs, Japanese government, METI, 2011.

## (2) Financial Position

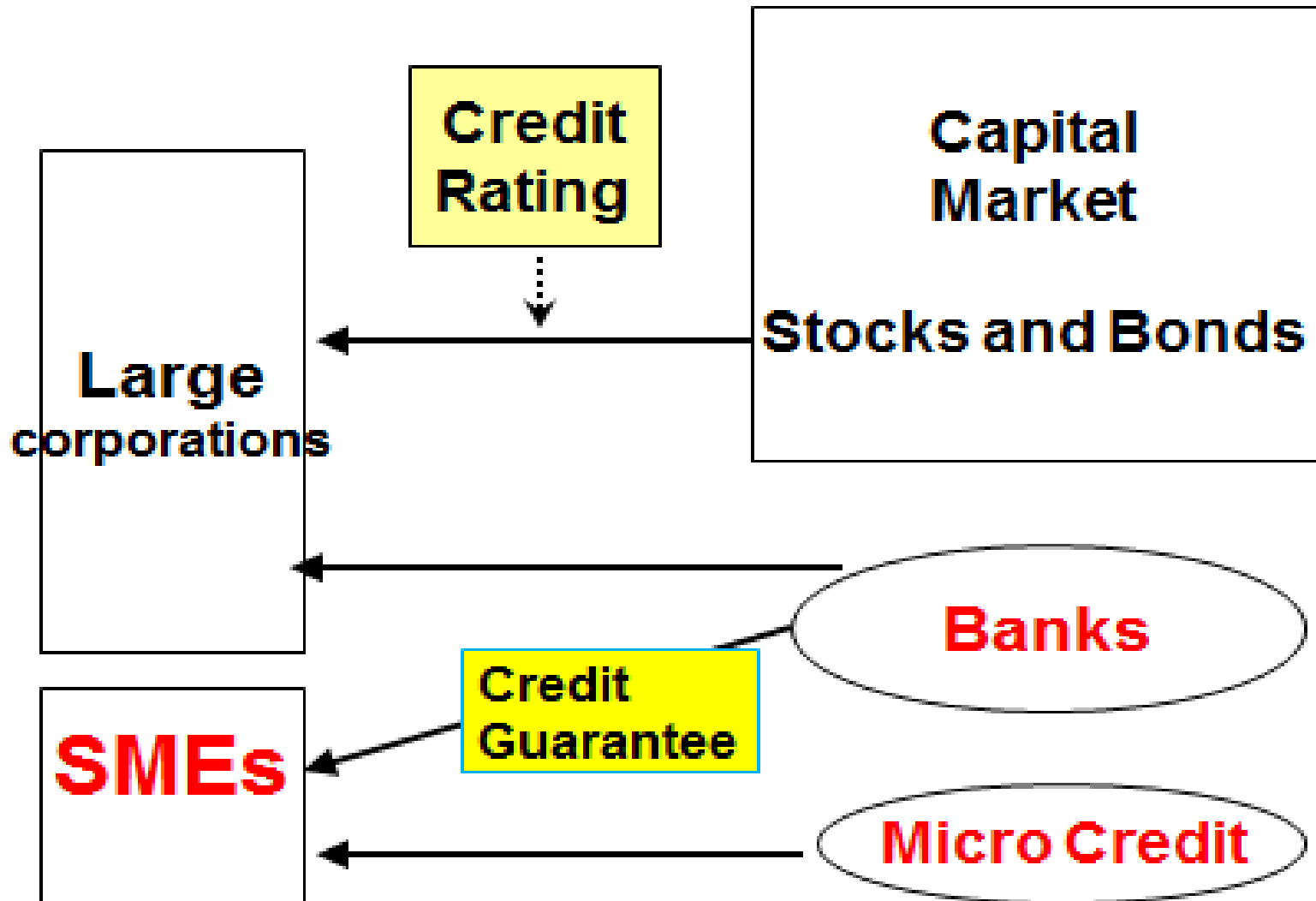
### (a) *Tankan*<sup>1</sup>

DI ("easy" - "tight"), % points

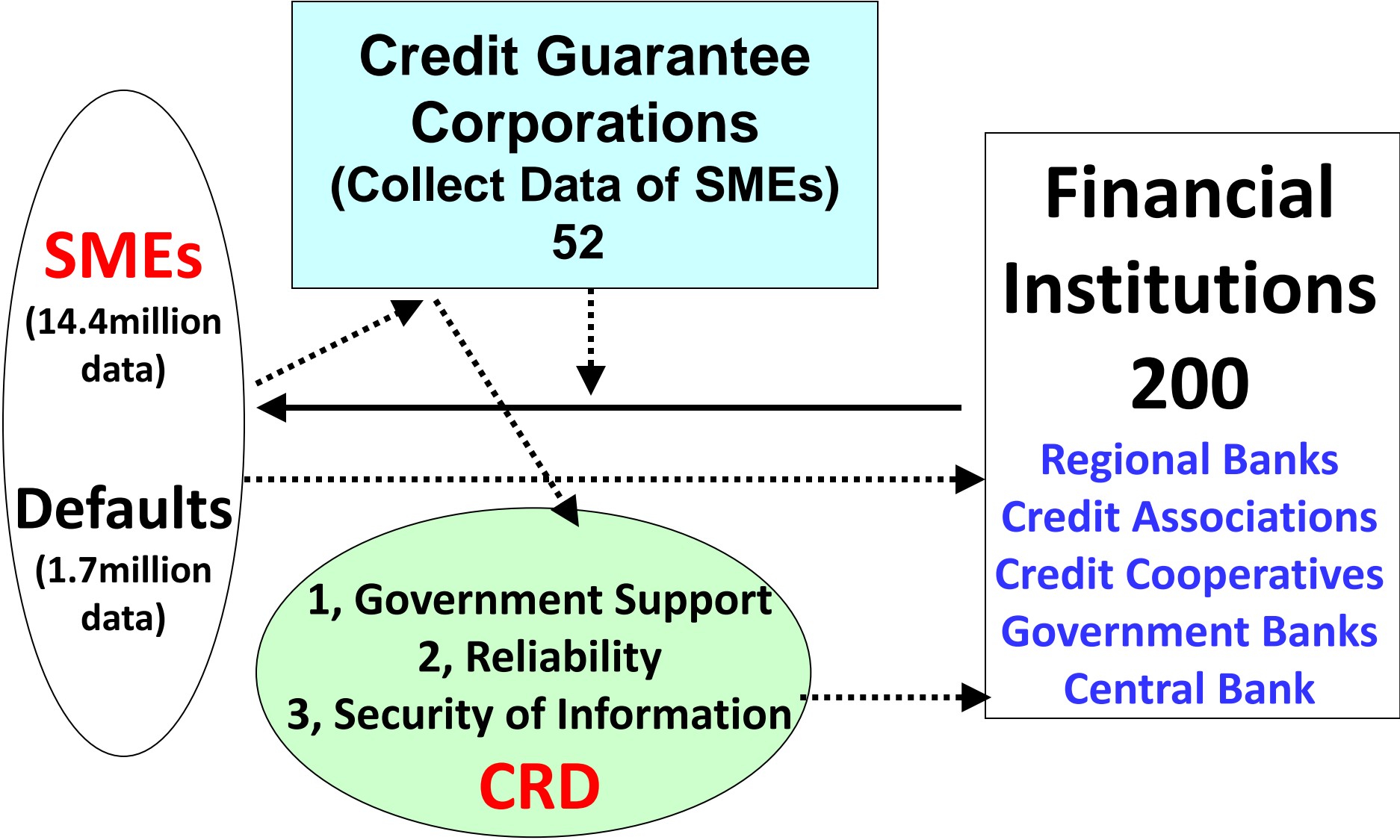




# Lack of Data for SMEs



# SME Data base (CRD Data base)



# **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, Book Keeping**
- 2, Daily revenue and expenses**
- 3, Long term thinking**
- 4, Accurate reporting of their business**
- 5, Reduce default loan losses**
- 6, Reduce information asymmetry**

# Early Warning Macroeconomics Indicators

## 1, Monetary Policy

Interest rate

Growth rate of money supply

## 2, Bank Loans to real estate and housing sector

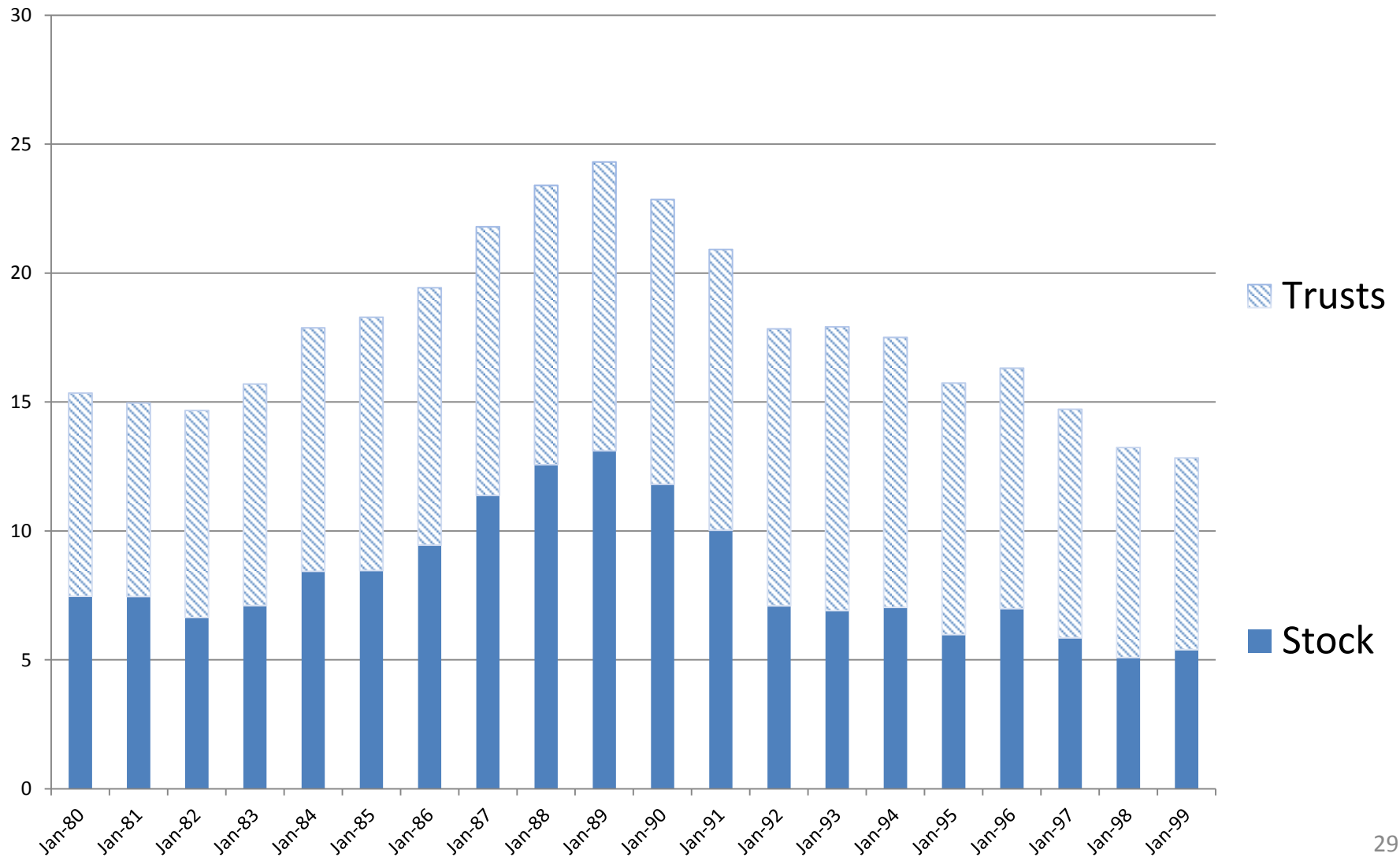
## 3, Growth rate of bank loans / Economic growth rate

## 4, Housing affordability (Housing Price / Income)

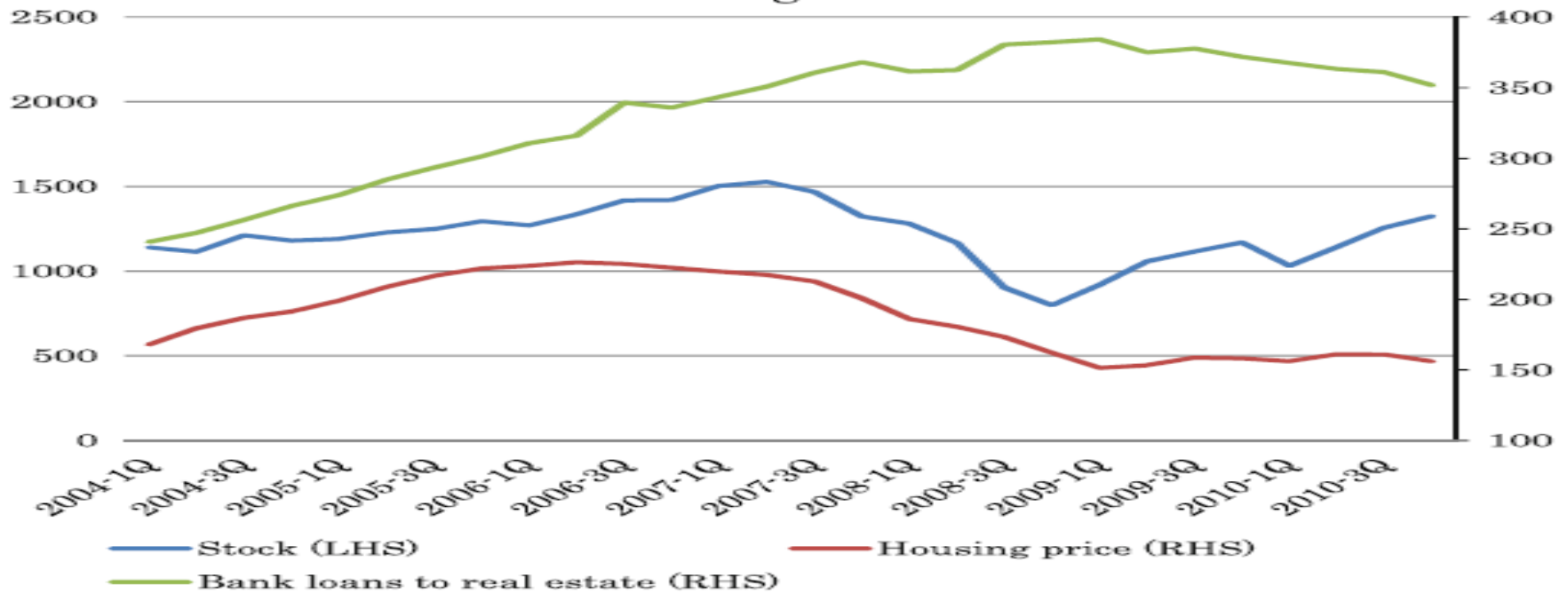
## 5, Stock Investment by Un-professional investors

## 6, Turnover ratio of Stock market increases

# Households' investment in Stocks

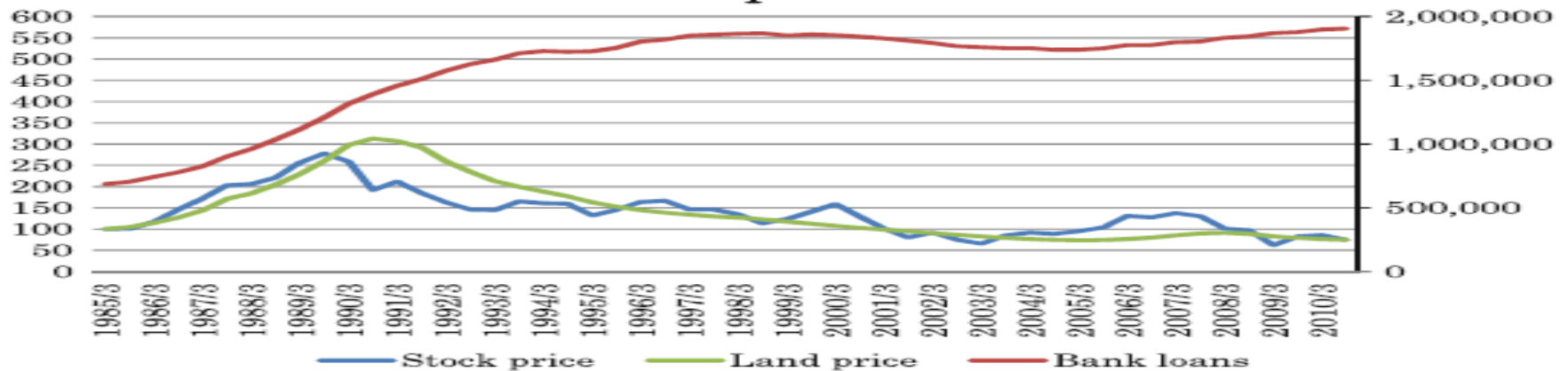


### US Bank Loans, Stock Price and Housing Price



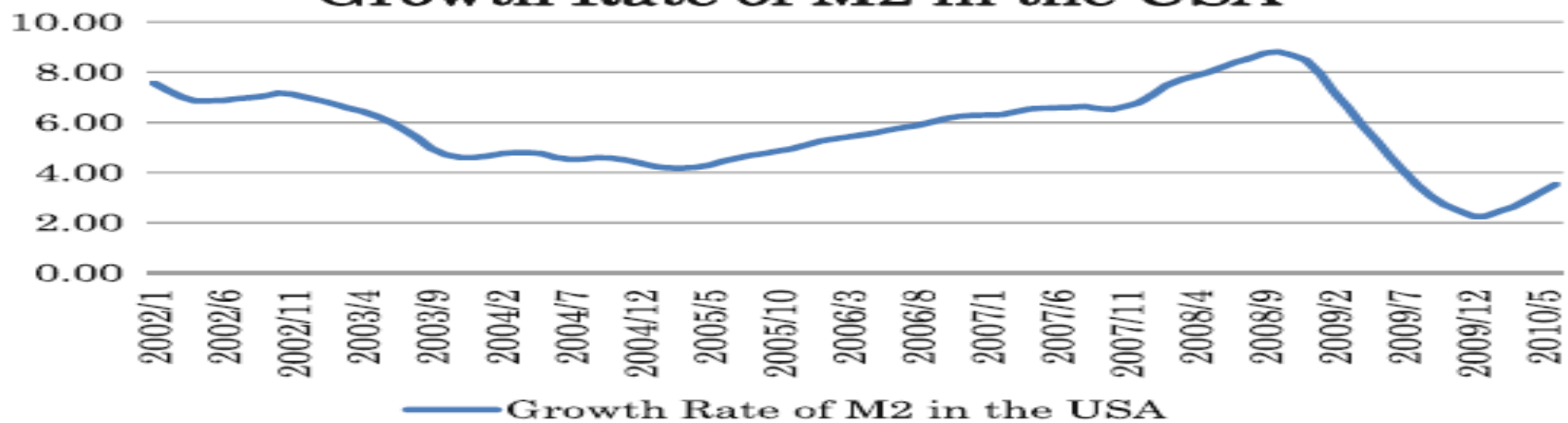
**Fig. 4** US bank loans, stock price, and housing price

### Japan's bank loans, stock price and land price

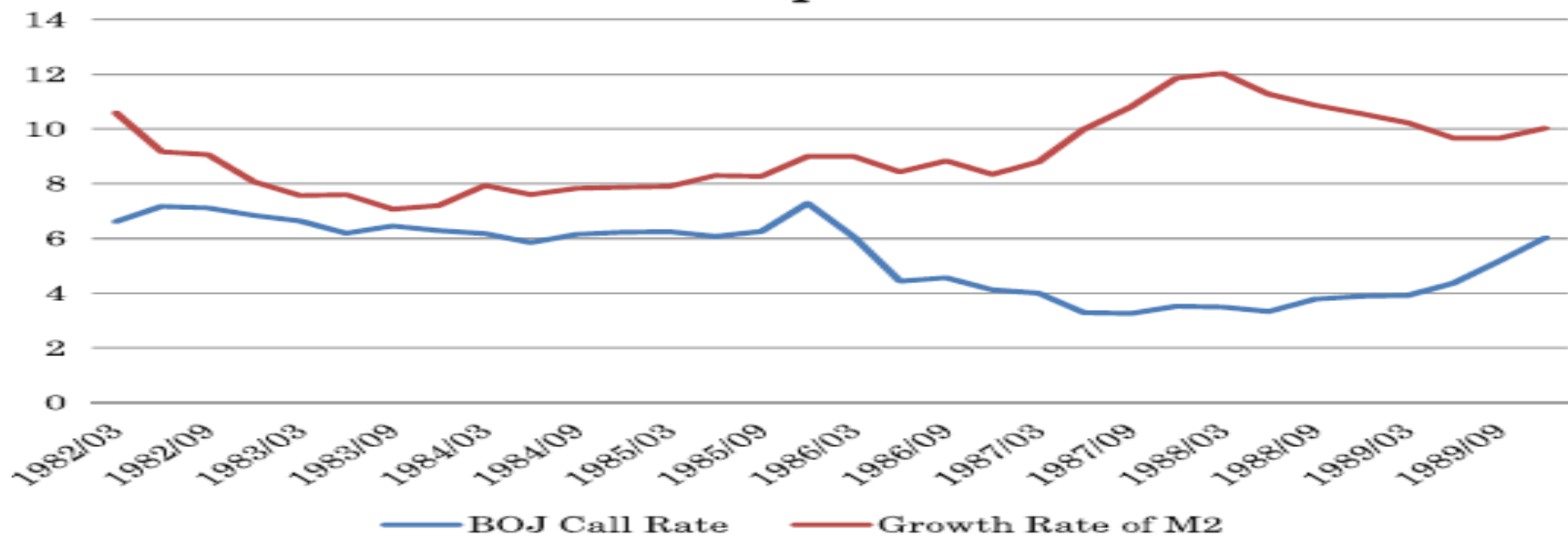


**Fig. 5** Japan's bank loans, stock price, and land price

### Growth Rate of M2 in the USA



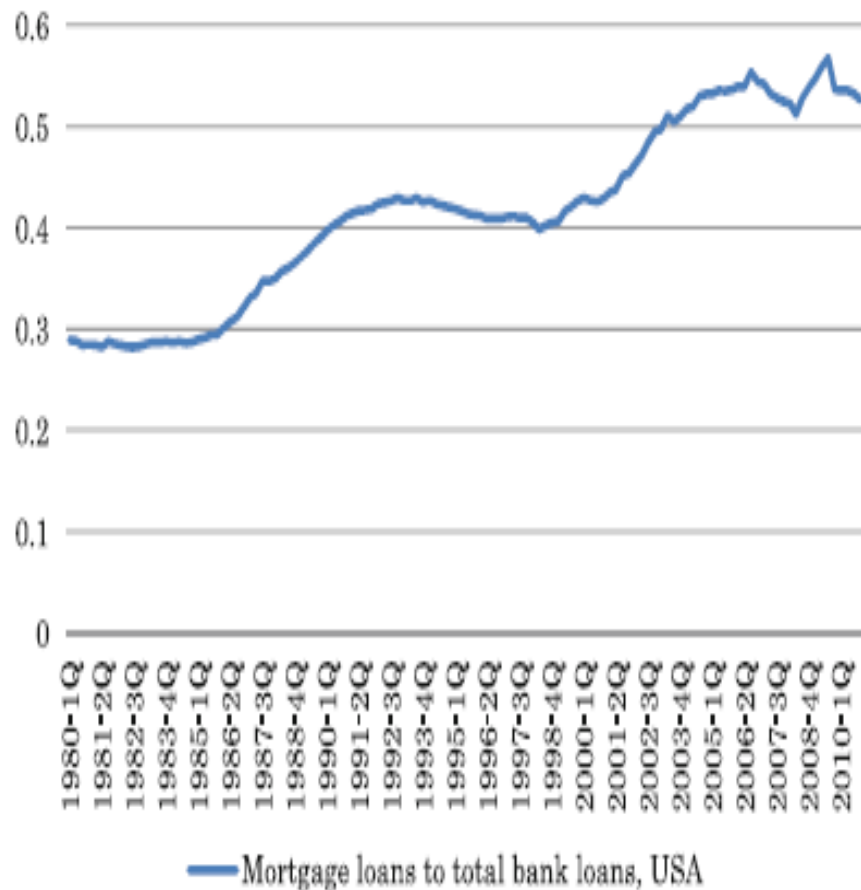
### Interest Rate and Money Supply of Japan



**Fig. 3** Japan's growth rate of money supply and decline in overnight call rate

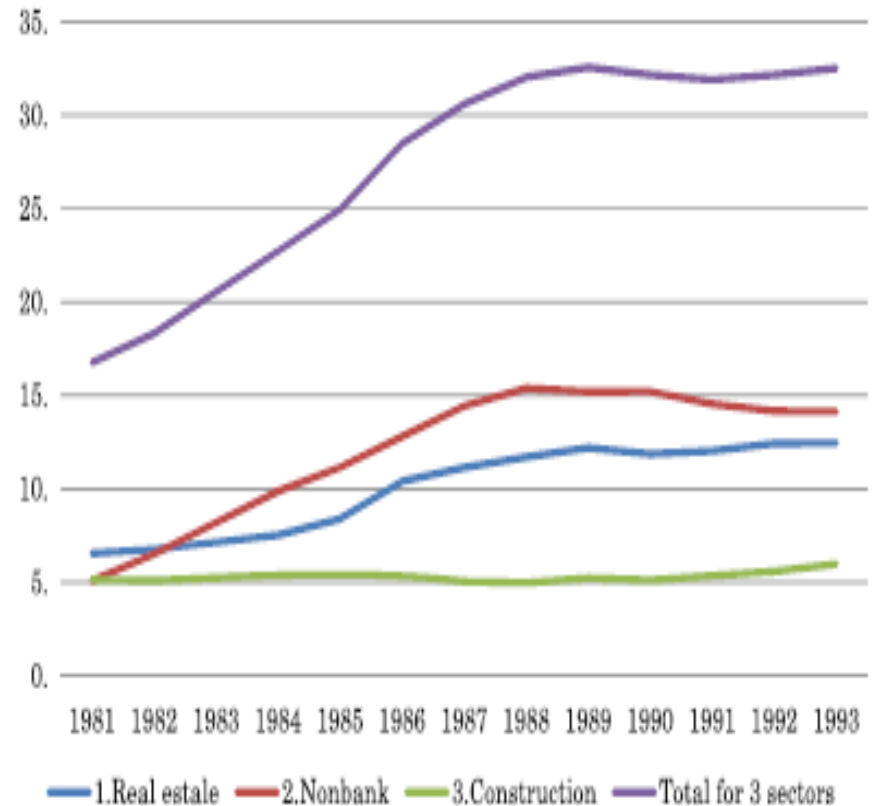


**Mortgage loans to total bank loans, USA**



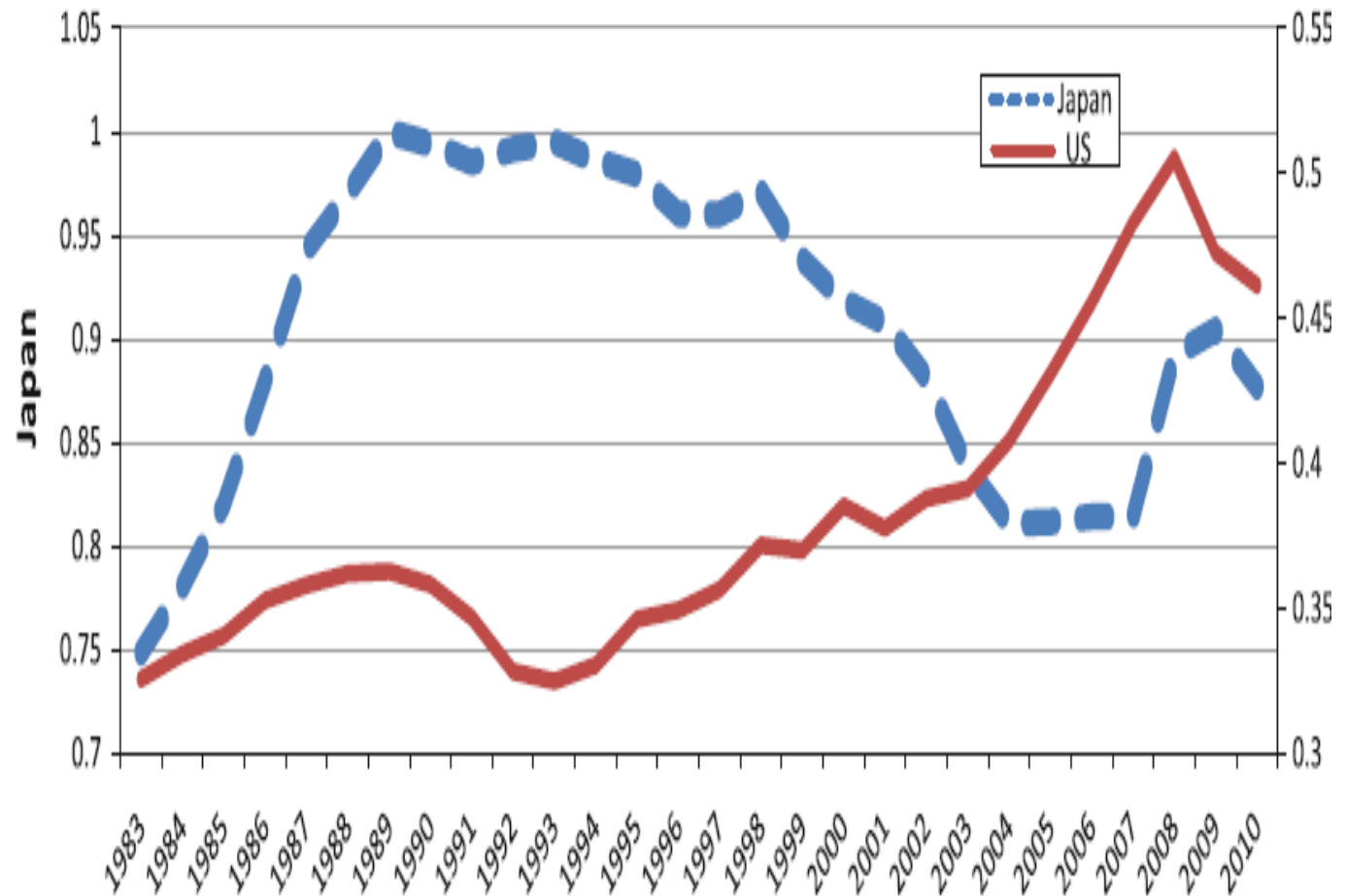
**Fig. 6** Mortgage loans to total banks loans in the United States

**Share of loans to different sectors in Japan**



**Fig. 7** Growth rate of real estate loans in comparison with total loans in Japan

Fig. 8 Real estate loans/GDP ratio



Naoyuki Yoshino, Tomoya Nakamura & Yoshitaka Sakai

*International comparison of bubbles and bubble indicators*

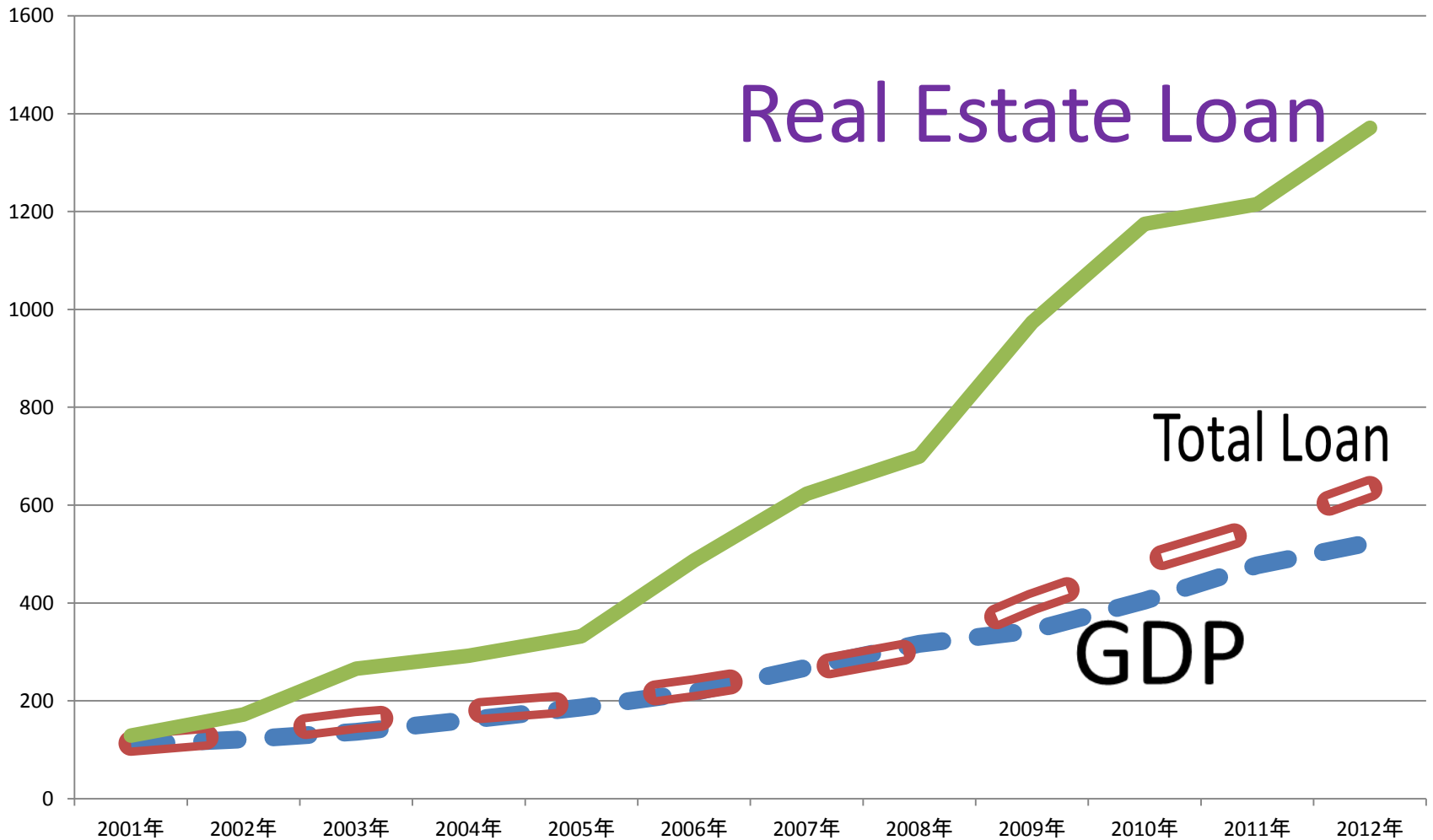
AI & SOCIETY

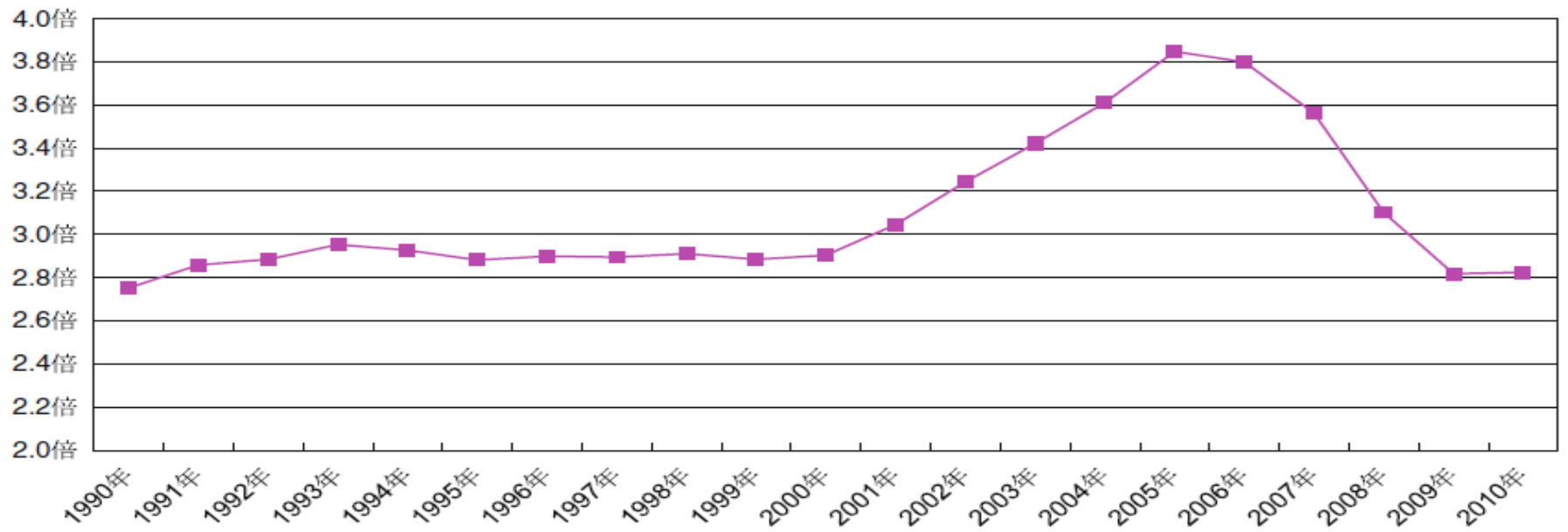
Journal of Knowledge, Culture and Communication



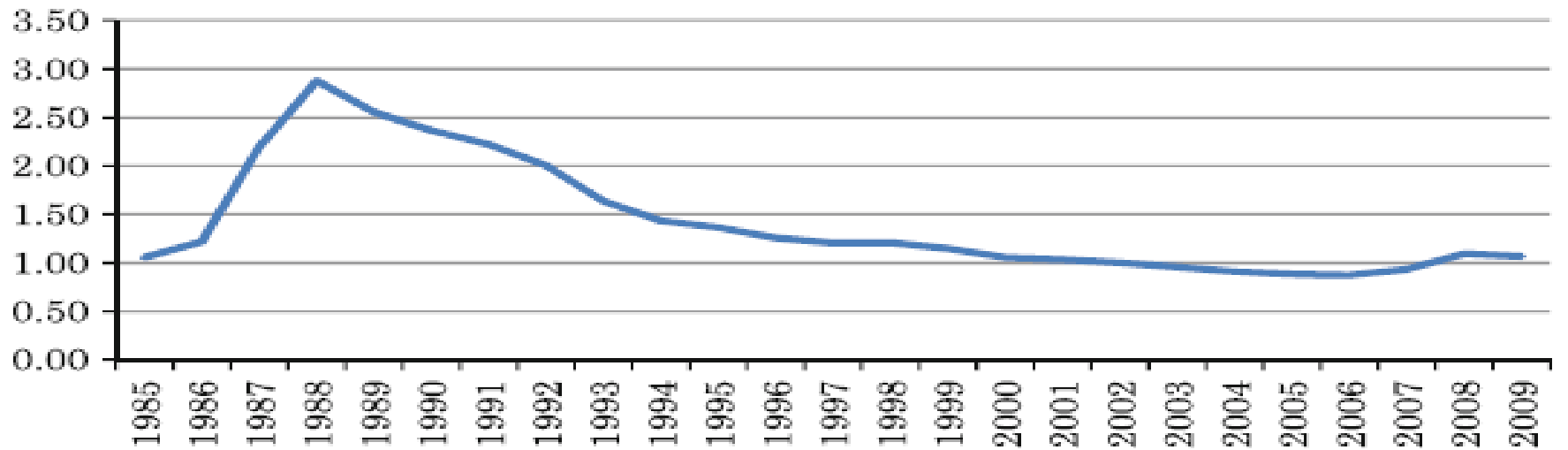
Springer

# Real estate Loan, Total Loan, GDP (Base year=2000) CHINA-Beijin



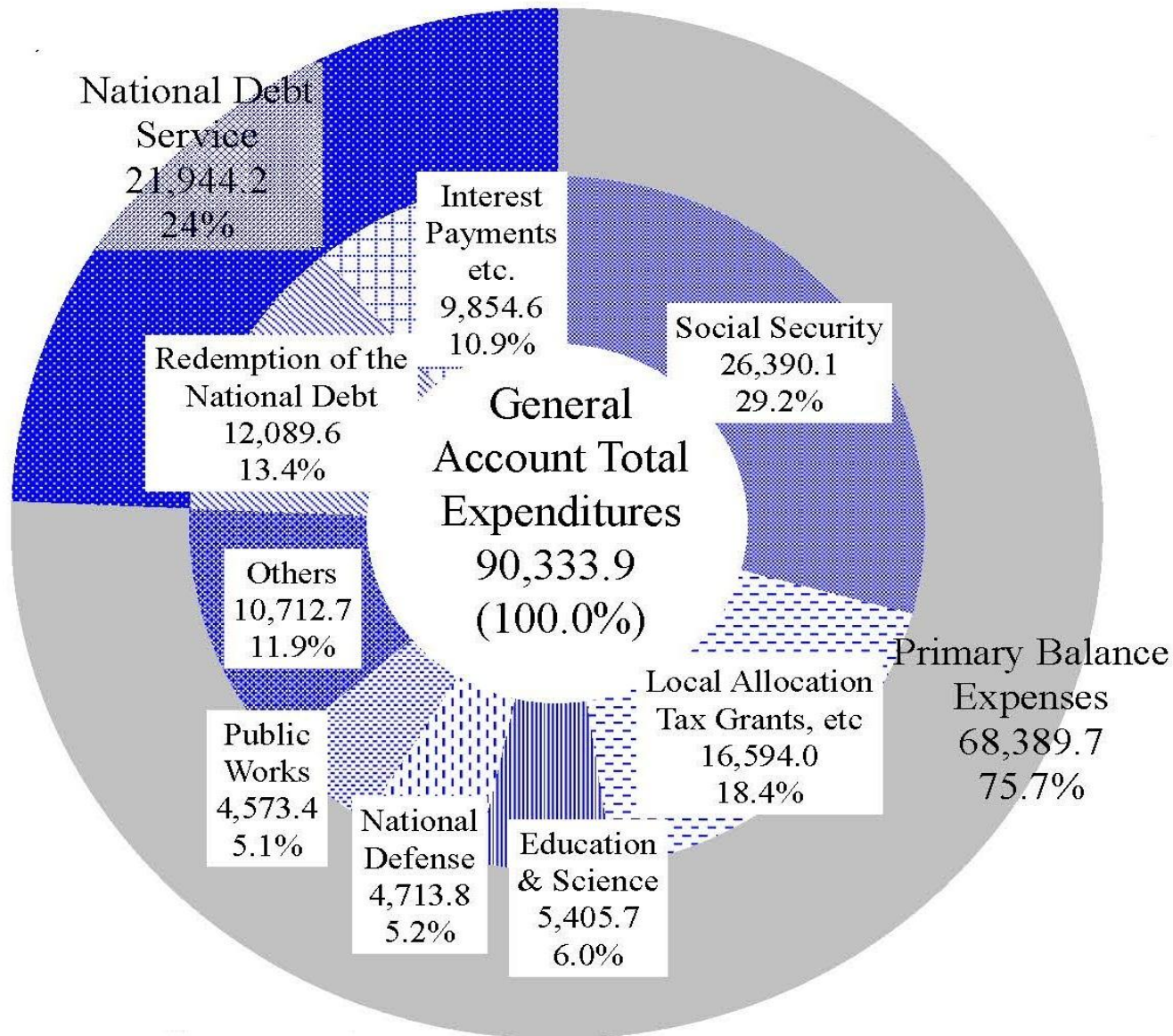


price/income ratio of USA



**Fig. 9** Housing price/income ratio of Japan

# FY 2012 Initial Budget (Japan)



Source: MOF

## References

**Yoshino, Suzuki, Maehara and Abe (2009) Development of Corporate Credit Information Database and Credit Guarantee System, ASEAN Secretariat, Feb. 2009.**

**Yoshino, N. (2010) “Financing Transport Infrastructure Development in Southeast Asia” OECD, Southeast Asian Economic Outlook, 2010, Nov., Chapter 6, OECD, Paris.**

**Yoshino N. (2012) “The Global Imbalance and the Development of Capital Flows among Asian Countries”, OECD Journal: Financial Market Trends, Volume 1, 2012**

**Yoshino N. Kaji, S. and Asonuma T. (2012) “Choices of Optimal Monetary Policy Instruments Under the Floating and the Basket-Peg Regimes”, Singapore Economic Review, December 2012.**

**Yoshino N. Kaji, S. (2013) Hometown Investment Trust Funds, Springer, March 2013**